



TURKISH INDUSTRIALISTS' AND BUSINESSMEN'S ASSOCIATION

TURKISH  
*economy*  
'96



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# Foreword

*“Turkish Economy ‘96” is the 20th consecutive Annual Report published in English by “TÜSIAD”, The Turkish Industrialists’ and Businessmen’s Association. This report is now accepted throughout the business world as an authoritative work of reference on the Turkish Economy.*

*The main sources in the preparation of this Report were the various publications of the State Planning Organisation, the Ministries, the Central Bank, the State Institute of Statistics, the Treasury, Capital Markets Board, Istanbul Stock Exchange, the Anka Agency.*

*This report was prepared by the TÜSIAD Economic Research Department.*



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Main Economic Indicators-I		1991	1992	1993	1994	1995
	Units					
Population (mid-year)	1000 people	57,305	58,401	59,491	60,576	61,644
Growth						
GNP Growth (at 1987 prices)	%	8.5	6.4	8.1	-6.1	8.1
Agriculture		-1.2	4.3	-1.3	-0.7	2.6
Industry		2.7	5.9	8.2	-5.7	12.1
Services		-0.1	6.5	9.5	-4.0	6.4
GNP Per Capita	USD	2,655	2,708	3,056	2,184	2,795
Expenditure	%					
Gross Fixed Capital Investment Growth (at 1987 prices)		1.2	4.3	24.9	-15.9	8.3
Public		1.8	4.3	3.4	-34.8	-16.9
Private		0.9	4.3	35.0	-9.1	14.9
	%					
Final Consumption Growth (at 1987 prices)						
Public		4.5	3.8	5.4	-3.5	6.7
Private		1.9	3.3	8.4	-5.4	7.6
GNP Deflator	%	59.2	63.5	67.4	107.3	81.9
Unemployment Rate	%					
General		8.4	8.0	8.0	7.9	6.6
Urban		12.3	12.0	12.0	11.1	10.0
Rural		5.5	4.9	4.5	5.1	3.9
Public Sector Balance/GNP	%					
Public sector deficit		10.2	10.6	12.2	8.1	6.5
Budget deficit		5.3	4.3	6.7	3.9	4.2
SEE's deficit		3.1	3.3	2.4	1.4	0.6
Others		1.8	3.0	3.1	2.8	1.7
Consolidated Budget	TL thousand bn.					
Revenue		97	174	351	753	1,404
Expenditure		130	222	485	899	1,721
Deficit		34	47	134	146	317
Outstanding Domestic Debt	TL thousand bn.					
Government Bonds		33	86	190	239	512
Treasury Bills		18	42	65	304	631
Government Debt Securities		52	129	254	544	1,143
CB Advances		16	31	70	122	192
Parity Difference		32	35	32	133	26
Total		99	195	357	799	1,361

Sources : SPO, CB, SIS, UT



Main Economic Indicators-II		1991	1992	1993	1994	1995
	Unit					
Inflation	%					
Wholesale Prices (annual avg.)		55.3	62.1	58.4	120.7	88.5
Wholesale Prices (year-on-year)		59.2	61.4	60.3	149.6	64.9
Consumer Prices (annual avg.)		66.0	70.1	66.1	106.3	93.6
Consumer Prices (year-on-year)		71.1	66.0	71.1	125.5	78.9
Interest Rates (simple annual)	%					
G-Bonds		72.1	75.4	86.3	117.0	106.2
Treasury Bills (3 month)		68.4	74.4	69.8	101.3	95.0
Foreign Exchange Rates	%					
(% change of average exchange rate)						
USD		59.9	64.7	59.7	170.6	54.0
DM		54.9	76.0	50.0	178.8	72.9
Monetary Aggregates	%					
(% change over the end of previous year)						
Money in circulation		51	73	71	91	86
M1		48	67	72	84	76
M2		61	61	50	125	101
M2Y		79	82	78	138	101
FX deposits/M2Y		29	37	47	50	50
Total TL deposits		67	65	46	131	101
Deposit-bank credits		53	79	94	80	139
Foreign Trade	USD Billion					
Export		14	15	15	18	22
Import		21	23	29	23	36
Trade deficit		7	8	14	5	14
Balance of Payments	USD Billion					
Foreign Trade balance		-7.3	-8.2	-14.2	-4.2	-13.2
Invisible balance		7.6	7.3	7.8	6.8	10.9
Current account balance		0.3	-0.9	-6.4	2.6	-2.3
Current account balance/GNP	%	0.2	-0.5	-3.6	2.0	-1.4
Capital Account (Excluding Reserves)	USD Billion					
Direct investment		0.8	0.8	0.6	0.6	0.8
Portfolio investment		0.6	2.4	3.9	1.2	1.7
Other long-term capital		-0.8	-0.9	1.4	-0.8	-0.1
Short-term capital		-3.0	1.4	3.1	-5.1	2.3
International Reserves	USD Billion					
CB reserves		5	6	6	7	12
Commercial bank reserves		6	8	10	8	10
Total		12	15	18	17	24
Outstanding External Debt	USD Billion					
Medium-long term		41	43	49	54	58
Short-term		9	13	19	11	16
Total		50	56	67	66	73
Outstanding External Debt/GNP	%					
Medium-long term		27	27	27	41	34
Short-term		6	8	10	9	9
Total		33	35	37	50	44

\* Programme

Sources: SPO, CB, SIS, UT

## Summary and Conclusions

Government's main policy objectives for 1995 focused on public sector deficit reduction which subsequently would alleviate inflationary pressures. Implementation would rely on tight fiscal and monetary policies initiated in 1994 which would be complemented by major structural reforms, thus restoring macro-economic balances and achieving stability in financial markets. In fact, economic growth as opposed to the significant contraction in 1994, resumed much faster than anticipated, reaching 8.1%, while public sector borrowing requirement and inflation declined, albeit slightly, and stability in the financial markets was restored. However, macroeconomic imbalances continued to prevail as growth, the public sector deficit, and inflation remained well above the Annual Economic Programme targets.

**Economic growth much faster than anticipated in 1995**

Indeed, the Programme forecast the Turkish economy to grow at 3% in real terms in 1995. Rapid revival in domestic demand, after a period of constraining fiscal and monetary policies in 1994, gave a significant boost to economic activity early in the second quarter of 1995 triggering production and imports. With rebuilt confidence abroad, external borrowing by the private sector provided the resources for growth in aggregate demand.

**Rapid revival in domestic demand: the main factor behind growth**

Political developments paved the way for the early general elections in the last quarter of the year which aroused political uncertainty and aggravated inflationary pressures. Although, the annual rise in wholesale and consumer prices dropped, respectively, from 126% and 150% in 1994 to 65% and 79% in 1995, they still remained considerably higher than the Programme target of 40%. Populist policies during the election rally, granting subsidies and salary increases in the public sector compounded with delays in public sector price adjustments, fuelled inflation in the months ahead.

**Despite a significant drop, inflation stood at high level again**

The deficit in the consolidated budget for 1995 was targeted to decline in real terms compared to 1994 where budget performance had been successful through one-time-only taxes and considerable reduction in public expenditure. Budget deficit was estimated at TL198 trillion, and the primary surplus was expected to rise to TL190 trillion from TL152 trillion in 1994, representing 6 % of GNP against 3.8% the year before.

**Budget performance contained within limits in the first three quarters of 1995**

Budget performance in the first nine months of the year remained within the limits set by the Annual Economic Programme. In the January-September period, the actual deficit recorded TL158 trillion, well below the target set at TL266 trillion. Conversely, however, expenditure were well above the Programme targets in the last quarter of the year, due to rising interest rates, shortening maturities, the increase in current spending in the wake of the general elections. Lower than expected privatisation revenue was another major factor adversely affecting the budget performance. As a result of these developments, a Supplementary Budget was prepared with an in-built deficit of TL110 trillion. Consolidated budget deficit, thus, reached TL317 trillion, up 117% from last year.

**Conditions in the last quarter required a Supplementary Budget**

Government's monetary policy was basically geared to controlling monetary expansion, reducing inflation, and attaining stability in the value of the domestic currency. In this context, limitations on certain items of the Central Bank balance sheet, i.e. net domestic and foreign assets, became the main policy tool.

In response to the high real interest rates, investors' preference shifted towards TL denominated assets in early 1995, inflow of foreign exchange accelerated, causing reserves to rise considerably and TL to appreciate until the end of October. Accordingly, Central Bank money grew much faster than expected, supporting growth in domestic demand and, creating further inflationary pressures. In this period, Central Bank reserves registered an all-time high of \$16.7bn in October, which compares with \$7.1bn at the end of 1994.

In the last two months of 1995, however, worsening economic conditions resulting from political uncertainties hindered Central Bank's monetary policy performance. Net domestic assets, mainly composed of Central Bank credits to public sector, as opposed to 22% decline in the first ten months rose 29%, while net foreign assets contracted 51% and official reserves declined to \$12.4bn.

Economic growth, exceeding the 1995 Programme target, adversely affected the foreign trade balance where the deficit was up 172% from \$5.2bn in 1994 to \$14.1bn against the Programme forecast of \$7.5bn foreign trade deficit. Despite the higher than expected invisibles revenue, the Current Account deficit reached \$2.3bn against \$2.6bn surplus the year before. As a matter of fact, the largest contributor to Current Account Balance besides tourism revenue and workers' remittances was other invisibles revenue at \$6.3bn, the size of which combined with net errors and omissions item, \$2.3bn, imply the substantial foreign currency revenue generated by the Turkish economy.

Similarly, in the Capital Account Balance, foreign capital inflow amounted to \$4.7bn in 1995, of which \$2.3bn was in the form of short-term capital which compares with an outflow of \$4.2bn the year before.

Developments in the political arena occupied the agenda in the first half of 1996 when general elections held at the end of the previous year failed to produce a majority government, paving the way for yet another era of coalition governments. However, the ANAP-DYP coalition, formed in February, had a much shorter life span than expected and broke up in just four months. Consequently, in the first half of the year, government has not been able to take structural measures in order to remedy the growing macroeconomic imbalances. Indeed, the 1996 budget, approved by Parliament only in April, estimates the deficit to grow 172% over the previous year to TL861 trillion, while it assumes that the GNP deflator will be 65%, and growth will equal 4.5%.

However, Turkish economy continued its expansion in 1996 as rapidly rising domestic demand led real GNP growth to reach 10.3% in the first half of 1996 compared to the same period last year. The monthly industrial production index, on the other hand, was up 6.9% in the first six months of 1996 over the same peri-

**Limits on the Central Bank balance sheet items in order to control monetary policy**

**Investors' portfolio preference shifted towards TL denominated assets in the first ten months of 1995**

**Political developments in the last quarter restricted Central Bank performance**

**Foreign trade deficit in 1995 sharply rose to \$14.1bn**

**Foreign capital inflow amounted to \$4.7bn in 1995**

**Political uncertainties disabled structural reform measures in 1996**

**The 1996 budget finally approved in April**

**First half GNP growth in 1996 at 10.3%**

od of the previous year, signalling that growth will continue in the remaining quarters of the year.

The very 'short-term' nature of the domestic debt, averaging less than six months maturity, spiralling transfer payments from the budget to social security institutions, and the insufficient fiscal discipline in the public sector have been the major factors adversely affecting the consolidated budget performance in 1996. Rising subsidies to agriculture and considerable wage increase in the public sector are also likely to take their toll on the already unhealthy budget balances in the remaining part of the year.

**Loose fiscal discipline widens budget deficit**

Under these conditions, the consolidated budget deficit in the first six months of the year reached nearly 60% of the estimated annual deficit which amounted to TL475 trillion, up 320% from TL113 trillion in June 1995. While total expenditure rose 123% so far in 1996, total revenue grew only 84%, as a result of which budget and cash deficits rose 317% and 294% from the same period in 1995, while short-term domestic borrowing through T-Bills have been the major sources of deficit financing.

**Budget deficit rose to TL429 trillion as of June 1996**

Accordingly, the domestic debt stock rose TL722.3 trillion, or by 53% in the first five months of the year to TL2,083 trillion whereas the share of T-Bills in total soared to 65% from 47% in 1995, indicating short-term nature of domestic debt. Indeed, in the first half of the year, T-Bill average maturity was 145 days with average compounded interest rate as high as 147.7%.

**Domestic debt rose \$3.8bn to \$26.7bn in five months**

Inflation, meanwhile, followed a higher than expected path so far in 1996 with both the consumer and wholesale prices surpassing the respective 1995 levels. Price increases in the public goods, which were postponed in the second half of 1995 due to approaching elections, rising borrowing costs, and higher TL depreciation were the main causes of accelerating inflation in the first half of the year when wholesale and consumer prices rose 43.7% and 36.6%, respectively, bringing year-on year inflation to 76.2% and 82.9%.

**Inflation in 1996 remained high**

TL depreciation against USD and DM amounted to 39% and 29%, respectively, in the first six months of 1996, and to 86% and 70% over the preceding 12 months. Notwithstanding investor preference for TL denominated assets triggered by high real interest rates and the rising short-term capital inflows, Central Bank, by way of foreign exchange purchases, controlled TL depreciation nearly to the tune of inflation, thus aiming at reducing the pressure on imports in the aftermath of the customs union while aiming to give a boost to lagging exports. Consequently, Central Bank was able to meet the liquidity requirements of the markets as well as to strengthen its reserve position which rose to \$16bn at the end of June 1996.

**TL depreciated 39% against USD and 29% against DM in the first half of 1996**

In the first half of 1996, Treasury's reduced reliance on Central Bank resources has been a great support to Central Bank monetary policy in bringing stability to the markets. Indeed, in this period, while net foreign assets rose 189% to TL515 trillion (\$6.3bn), net domestic assets declined 11% to TL437 trillion (\$5.4bn), mainly due to the 38% decline in Central bank advances to Treasury.

**Treasury's lesser reliance on Central Bank helped on bring stability to money markets**

Foreign trade figures have finally been released by SIS in July 1996 yet solely on the first month of 1996. In line with expectations, imports grew at a high rate of 44%, whereas growth in exports remained moderate at 12%. According to unofficial figures, imports rose to \$20bn whereas exports remained at \$12bn in the first half of the year, resulting in \$8bn foreign trade deficit, which compares with \$15bn targeted for the entire year. Rapidly expanding domestic demand, combined with dismantled trade barriers with European Union and TL appreciating against major currencies, has been the main reason augmenting the import bill.

**According to unofficial data trade deficit widened to \$8bn in the first half of 1996**

Despite current estimates on widening trade deficit, foreign exchange markets have shown no sign of tightness so far in 1996, suggesting that capital supply remained adequate, while Central Bank continued to build foreign currency reserves. Yet its short term nature and high volatility increases the possibility of substantial capital flight in case of adverse developments in politics or in the economy, which, in turn, would further deteriorate the fragile macroeconomic balances.

Prospects for the Turkish economy, particularly the performance in the second half of this year, greatly depend on the political stability and economic policies of the present coalition government which, so far, have not been systematically disclosed. Indeed, the ways and means of rolling over domestic debt in the second half of this year, extending the maturity structure of new borrowing, financing the spiralling foreign trade deficit, and controlling inflation are definitely of crucial importance.

**No further improvement expected in the second half of 1996**

The new government's rather loose spending policy is an indication that the budget deficit forecast is likely to be exceeded. The rise in PSBR which will follow, compounded by the short-term nature of the maturity structure are likely to exert pressure on the markets, and drive interest rates upwards. In the event that government chooses to tap Central Bank resources to finance public spending, the weak monetary balance would deteriorate, high real interest rates would apply, inflation attaining three digit figures.

**Policies of crucial importance need to be identified and defined**

Under these circumstances, TÜSIAD expects GNP growth at 8% and average yearly inflation at 80.5%. The budget deficit and PSBR are anticipated respectively at about 9% and 11% of GNP. Subsequently, the foreign trade deficit is likely to exceed \$19bn, while the deficit on current account could reach \$6.7bn.

Recent developments seem to suggest that 1996 will not differ much from the past, and that pending economic and financial problems will continue well into 1997, however, unresolved. Timely and adequate solution to the chronic problems of the Turkish economy are needed to avoid undesirable economic disturbances. Therefore it is recommended that the following measures be taken without delay: to make the finances of the public sector transparent, to impose mandatory economic constraints on the governments, such as upper limits on budget deficits; to discipline the financing of the public sector deficit, to introduce three-year budgets; to make Central Bank autonomous, to deepen the financial system; to make a tax reform that would increase tax revenues, expand the tax base and reduce

**Chronic economic problems likely to remain unsolved in 1996**

the tax burden on wage-earners while not obstructing production and employment, and not promoting the black economy, to redress the social security system which everyone accepts has gone bankrupt, to speed up privatisation; and to render the built-operate-transfer system operational.



# CHAPTER

## ECONOMIC GROWTH



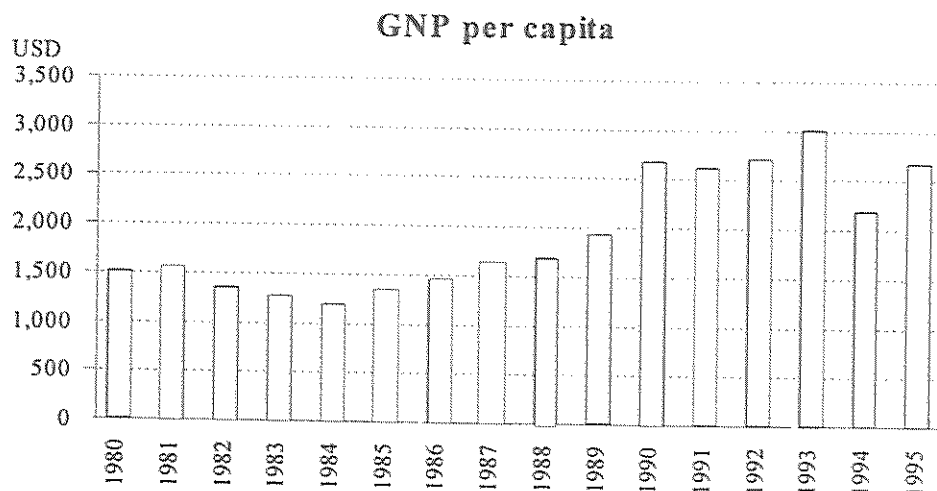


## Supply and Use of Resources

Turkish economy, contrary to 6.1% contraction in GNP in 1994, was back again on the growth path in 1995 when the growth rate reached 8.1% in real terms. GNP per capita rose 26.3% to \$2,759 in 1995 from \$2,184 the year before when it declined from \$3,056 in 1993. In current prices, GNP reached TL7,664 trillion, or \$167bn, while GDP amounted to TL7,554 trillion, or \$165bn in 1995.

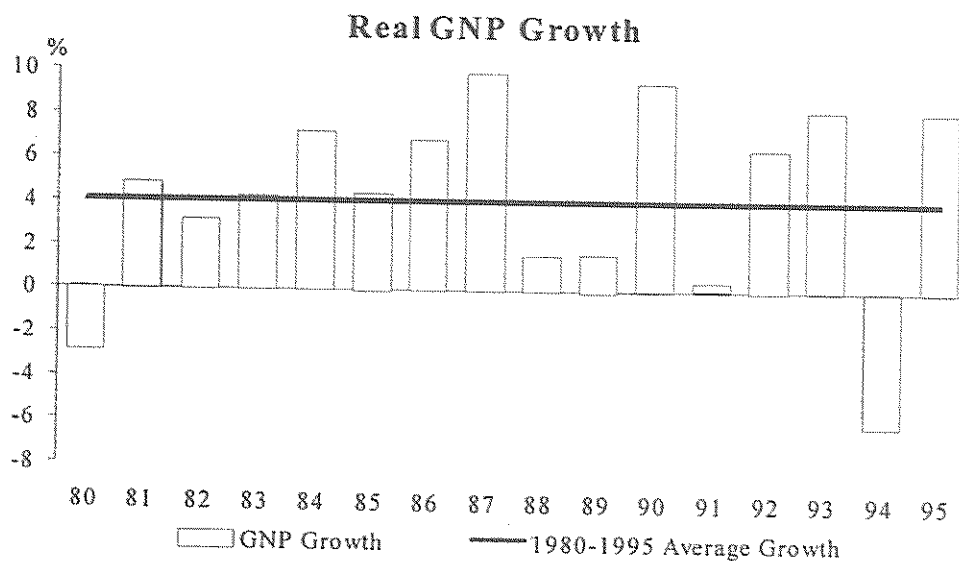
**GNP growth reached 8.1% in 1995**

**Per capita income rose 24% in USD terms in 1995 and reached \$2,759**



Government objectives for the economy in 1995 were identified as stability in the markets, restoration of confidence in the economy, reduced inflation, and growth at a rate sustainable over the years. Market reaction to the Programme emphasised the inadequacy of available resources to fulfil these objectives simultaneously. However, while the annual average increase in wholesale and consumer prices declined respectively to 88.5% and 93.6% in 1995 from 120.7% and 125.5% in 1994, economic activity recovered in a fairly short period of time.

**Stability in the markets, reduced inflation, and sustainable growth were main policy objectives**



Financial backing for the strong growth drive in 1995 came from external sources which, once again, became available as the Turkish economy regained foreign investor confidence disrupted during the financial crisis of 1994. Thus, net capital inflow reached \$4.7bn which compares favourably with an outflow of \$4.2bn in 1994.

**Rising foreign funding supported the robust growth**

#### GNP by Source & Utilisation (1994 Prices, %)

	1993		1994		1995	
	Change	Share	Change	Share	Change	Share
Gross National Product	8.1	94.5	-6.1	101.5	8.1	97.9
Foreign Funds	--	5.5	--	-1.5	--	2.1
Total Funds	13.4	100.0	-12.6	100.0	12.0	100.0
Total Investment <sup>1</sup>	29.0	27.3	-30.2	21.8	29.1	25.1
Public	18.7	7.8	-58.7	3.7	19.5	3.9
Private	33.6	19.5	-18.8	18.1	31.0	21.1
Total Consumption	8.5	72.7	-5.9	78.2	7.3	74.9
Public	5.3	10.1	-5.6	10.9	4.7	10.2
Private	9.0	62.6	-6.0	67.3	7.7	64.7

(1) Includes changes in stocks, Source: State Planning Organisation

Rising fixed capital investment by the private sector and aggregate consumption were the main factors behind the GNP growth in 1995. Indeed, based on 1987 prices, investment spending grew by 8.3%, notwithstanding the 16.9% drop in public sector investment, which, however, was more than compensated by 14.9% rise in the private sector investment. As a result of these developments, the share of private sector investment in both total investment and GNP rose, respectively, to 84.2% and 22.1% in 1995 from 79.4% and 20.8% the year before.

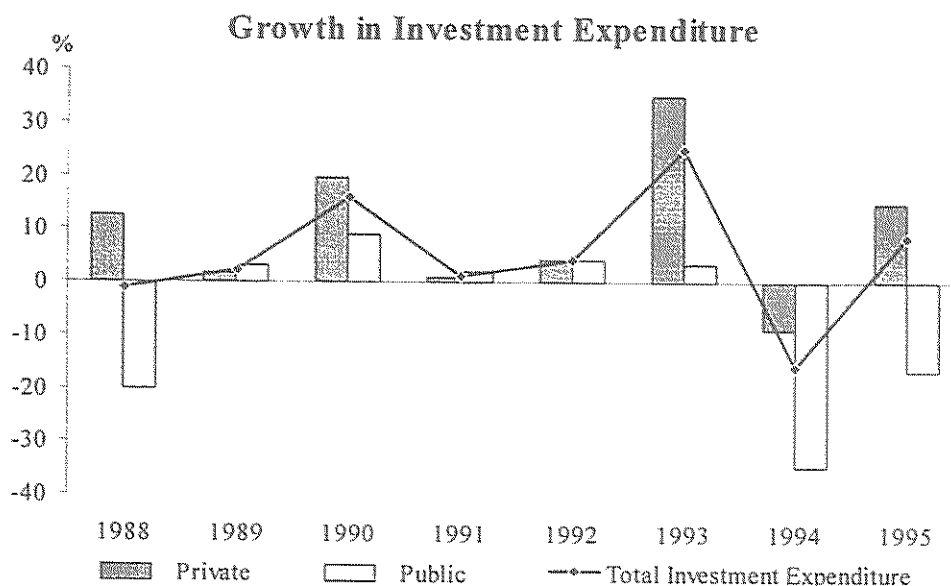
**Private investment and consumption main factors behind the robust growth**

**Private investment grew 14.9% whereas public investment dropped 16.9%**

#### GNP Growth (in 1987 Prices, %)

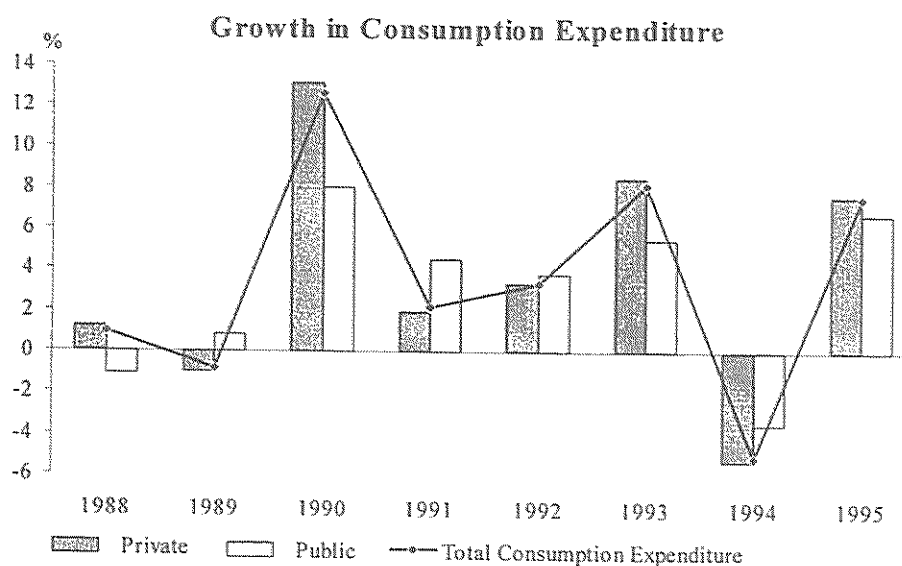
	1993		1994		1995	
	Growth	Share	Growth	Share	Growth	Share
Consumption	8.1	75.0	-5.1	75.7	7.5	75.3
Public	5.4	7.4	-3.5	7.6	6.7	7.5
Private	8.4	67.6	-5.4	68.1	7.6	67.8
Investment <sup>1</sup>	24.9	29.3	-15.9	26.2	8.3	26.3
Public	3.4	7.8	-34.8	5.4	-16.9	4.2
Private	35.0	21.5	-9.1	20.8	14.9	22.1
Exports	7.7	17.9	15.2	22.0	6.7	22.1
Imports	35.8	26.3	-21.9	21.9	30.0	26.3
GNP	8.1	100.0	-6.1	100.0	8.1	100.0

(1) Excludes changes in stocks, Source: State Institute of Statistics



Aggregate consumption expenditure, on the other hand, grew 7.5% in 1995, which compares favourably with 5.1% contraction the year before. Private consumption was up by 7.6% in real terms as a result of rising demand for durable and non-durable goods amounting to 20% and 12%, respectively, while government consumption growth followed at 6.7%. The latter reflected a mere 2.5% real increase in the compensation of civil servants which constitutes 60% of total public consumption. Meanwhile, the share of total consumption in GNP in 1987 prices remained unchanged at 75% in 1995.

**Private consumption grew sharply by 7.6% in 1995 after 5.3% contraction in 1994**



A quarterly review of GNP growth figures indicates that the economy has reflected the contractionary effects of the 1994 crisis in the first quarter, yet it was fairly quick to recover as growth in both consumption and investment picked up strongly in the second and third quarters, accounting also for the demand deferred in 1994.

**Economic activity picked up in the second quarter onwards**

In the last quarter, consumption lost its speed yet remained notably at high level the entire year. Overall, growth performance of the Turkish economy turned out to be quite impressive in 1995.

#### **GDP Growth by Source (Annual Percentage Change in 1987 Prices)**

	Q1-94	Q2-94	Q3-94	Q4-94	Q1-95	Q2-95	Q3-95	Q4-95
Consumption	5.4	-9.7	-6.9	-7.5	-3.6	11.9	12.1	8.5
Public	5.9	-10.2	-7.5	-7.5	7.1	9.6	2.3	7.8
Private	0.8	-4.5	-0.4	-7.6	-4.6	12.2	13.0	8.4
Investment <sup>1</sup>	8.2	-20.1	-18.7	-25.3	-15.1	14.2	11.1	22.1
Public	-7.9	-47.1	-38.9	-31.6	-37.5	-1.4	-15.2	-17.3
Private	11.4	-10.7	-10.8	-22.2	-11.4	17.4	18.1	38.8
Exports	6.1	10.1	26.7	15.4	19.9	12.2	2.3	-1.8
Imports	7.5	-34.0	-31.9	-22.4	-2.6	37.7	41.4	48.0
GDP	5.1	-10.6	-7.6	-5.4	-1.5	13.5	9.6	6.4
GNP	4.0	-9.7	-8.6	-6.8	-0.3	12.6	10.7	7.7

(1) Excludes changes in stocks, Source: State Institute of Statistics

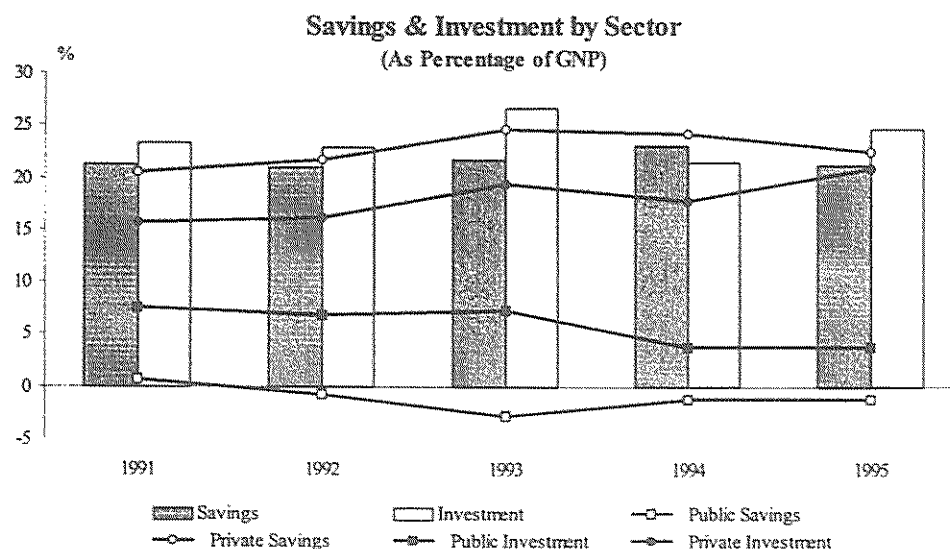
On the savings side, public sector savings in terms of GNP remained unchanged at the same negative level in 1995, while private sector savings declined from 24.2% of GNP in 1994 to 22.4%, reflecting the rapid rise in aggregate private demand. As the share of private investment in GNP grew in 1995, private sector's savings surplus fell sharply to 1.5% of GNP from 6.3% the year before, while that of public sector stayed around minus 5%. Thus, overall savings-investment balance reached minus 3.5% of GNP which was offset by foreign savings in 1995.

**Private sector savings surplus dropped to 1.5% of GNP in 1995 from 6.4% the year before**

#### **Savings and Investment (Current Prices, As Percentage of GNP)**

	1991	1992	1993	1994	1995
Savings	21.2	20.9	21.8	22.9	21.1
Public	0.7	-0.8	-2.8	-1.2	-1.2
Private	20.5	21.7	24.6	24.2	22.4
Investment <sup>1</sup>	23.3	22.9	26.6	21.5	24.7
Public	7.6	6.8	7.3	3.6	3.7
Private	15.7	16.2	19.3	17.8	20.9
Savings-Investment	-2.1	-2.0	-4.9	1.5	-3.5
Public	-6.9	-7.6	-10.1	-4.9	-5.0
Private	4.8	5.6	5.3	6.3	1.5

(1) Includes changes in stocks, Source: State Planning Organisation



### GNP Growth by Sectors

In terms of sectoral contribution to economic growth, the industry sector provided the highest contribution to GNP growth, followed by the services sector. In fact, industry grew by 12% whereas services were up by 6.5%.

**Industry provided the highest support to GNP growth with 12%**

### GNP by Origin (Annual Percentage Change in 1987 Prices)

	1993		1994		1995	
	Growth	Share	Growth	Share	Growth	Share
Agriculture	-1.3	14.8	-0.3	15.7	2.6	14.9
Industry	8.2	26.9	-5.7	27.0	12.1	28.0
Mining	-6.4	1.6	8.0	1.8	-6.9	1.5
Manufacturing	9.3	22.7	-7.6	22.3	13.9	23.5
Energy	8.9	2.6	3.4	2.9	9.6	2.9
Services	9.5	47.0	-4.0	48.0	6.4	47.2
Construction	7.9	6.4	-2.0	6.7	-4.7	5.9
Trade	11.6	20.5	-7.5	20.1	11.6	20.8
Transport & Comm.	10.8	12.4	-2.0	12.9	5.9	12.6
Financial Institutions	-0.4	2.5	-1.5	2.6	0.4	2.4
Imp.Inc.on Residences	2.8	5.1	2.8	5.6	2.1	5.3
Business & Pers.Serv.	6.9	2.2	-4.2	2.3	7.5	2.3
Gross Domestic Product	8.0	98.9	-5.5	99.6	7.3	98.9
Gross National Product	8.1	100.0	-6.0	100.0	8.1	100.0

Source: State Institute of Statistics

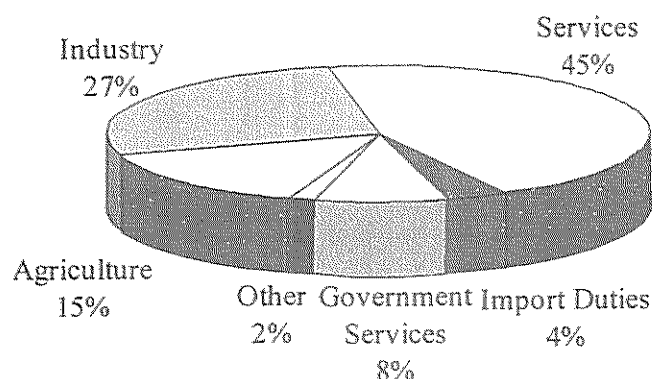
The driving force in industry was the growth in manufacturing which was up 13.9%. While growth in the energy sector more than doubled, the mining sector contracted by 6.9% as opposed to 8% growth in 1994. On the other hand, trade

**Manufacturing recorded the highest contribution to growth in industry**

has been the major source of growth in the services sector, registering a rise of 11.6% against 7.5% contraction in 1994. Notwithstanding the strong economic recovery, construction activity contracted at a rate exceeding the 1994 level.

Meanwhile, the composition of GNP by sectors in 1995 remained almost unchanged from the year before. Share of services sector in GNP was 45% whereas that of industry and agriculture remained at 27% and 15%, respectively.

### Composition of GNP (in Current Prices) in 1995



### Growth Prospects in 1996

According to SPO, in 1996, the Turkish economy is expected to move closer to its long-term average growth, and expand by 4.5% in real terms. While growth in industry and the services sector is forecast to drop respectively to 4.8% and 4.5%, growth in agriculture is anticipated at 3%. The share of services in GDP is expected to remain unchanged at 45% against 27% for industry and 15% for agriculture.

**Economic Programme for 1996 forecast slowdown in GNP growth**

However, notwithstanding the Annual Programme target of reducing economic growth in 1996, economic performance in the first half significantly exceeded official forecasts and reached 10.3%, scoring 12.2% in the first and 8.6% in the second quarters. According to first half figures, industry grew a hefty 8.1%, mainly led by energy and manufacturing sub-sectors, growing 12% and 8%, respectively, while the growth in agriculture remained relatively low at 1.7%. The services sector, on the other hand, grew 9.5% with trade registering the highest growth at 13.1%, followed by transportation and communication with 12%. In light of the robust increase in the GNP growth in the first half of the year and signals of continuing strong domestic demand, TUSIAD forecasts an 8 percent growth rate in the economy in 1996.

**However, in the first half, GNP growth higher than expected**

### GNP Growth by Sectors (Year-on-Year Percentage Change)

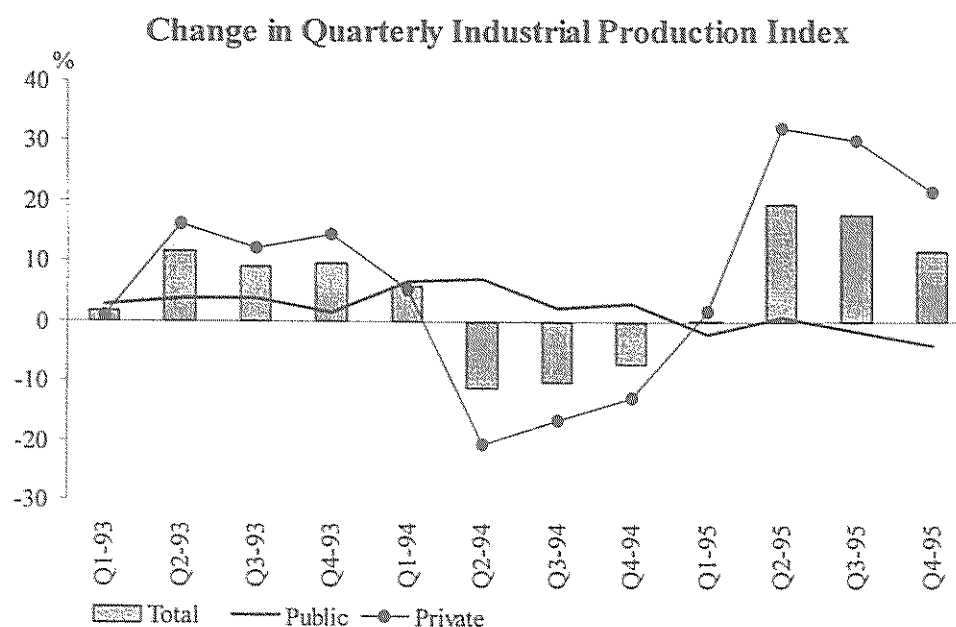
	Q1-96	Q2-96	H1-96
Agriculture	-1.3	3.2	1.7
Industry	8.8	7.4	8.1
Mining & Quarrying	0.6	3.2	1.4
Manufacturing	8.6	7.4	8.0
Energy	14.4	9.6	12.0
Services	10.8	8.4	9.5
Construction	-1.4	1.2	0.0
Trade	15.3	11.5	13.1
Transportation & Communication	14.4	9.8	12.0
Financial Institutions	0.8	3.5	1.6
Imputed Income on Residences	2.4	2.4	2.4
Business & Personal Services	9.0	7.4	8.1
Gross Domestic Product	10.3	8.2	9.1
Gross National Product	12.2	8.6	10.3

Source: State Institute of Statistics

### Industrial Production

Parallel to soaring aggregate demand, industrial production, as measured with the quarterly production index, rose 12.2% in 1995 after witnessing a 6.2% contraction in 1994. While public sector industrial output declined in almost all lines of production, robust growth in private sector industrial output has been the driving force behind this performance. Among the sectors, manufacturing recorded the highest growth with 13%, followed by 9.9% rise in energy.

**Industrial output rose 12.2% in 1995 mainly led by private sector production**





Among manufacturing sub-sectors, machinery emerged as the best performer scoring 20% growth, followed by textiles and chemicals with 16% each. Food and metals were one of the relatively slow growing sub-sectors with growth remaining around 4.5%.

**Machinery sub-sector scored 21% growth in 1995**

Energy output which declined slightly in the public sector was more than offset by considerable growth in private sector energy production, albeit much smaller in size, raising total energy output by 9.9% in 1995.

The growth in industrial production slowed down in the first quarter of 1996, but remained significantly higher than its growth in the first quarter of 1995. Quarterly industrial production index rose 8.4% in this period over the first quarter of 1995 when its growth was recorded at 1%. Output growth in energy sector outpaced others with 13% despite the 4.3% contraction in public sector energy production. Output in manufacturing, on the other hand, grew 7.9% with machinery continuing to deliver the highest growth performance among manufacturing sub-sectors, scoring 23%, followed by food and chemicals with respective growth rates of 8.1% and 7.4%. Growth in mining sector also declined, mainly due to the 4% contraction in private sector mining activity.

**Industrial production in first quarter of 1996 remained above the same period of 1995**

#### Quarterly Industrial Production Index by Sectors (Compared to the Same Period of the Previous Year, % Change)

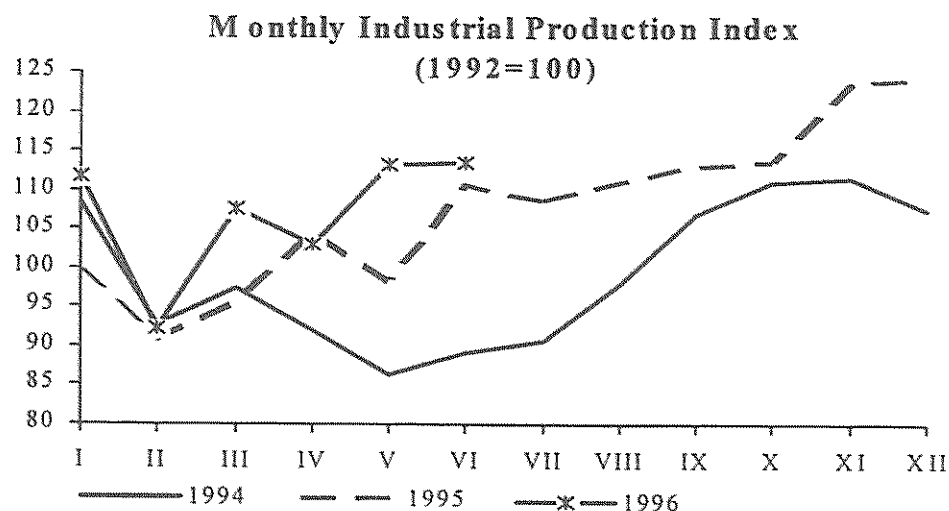
	1994			1995			Q1-96		
	Total	Public	Private	Total	Public	Private	Total	Public	Private
Total Industrial Output	-6.2	4.6	-11.8	12.2	-1.8	20.9	8.4	1.4	12.1
Mining	8.1	9.9	1.7	3.1	-8.4	51.4	2.5	4.3	-4.5
Energy	6.1	7.1	-4.9	9.9	-0.3	126.7	13.3	-4.3	177.1
Manufacturing	-8.3	2.6	-12.1	13.0	-1.3	18.9	7.9	4.0	9.3
Food	2.6	4.6	1.3	4.5	-13.1	17.0	8.1	14.1	5.2
Textile	-4.1	-23.7	-3.0	15.7	-18.9	17.3	2.1	-35.9	2.9
Wood	-13.3	-30.2	-10.1	13.6	5.9	14.7	-6.0	-53.4	-0.3
Paper & Printing	-11.9	15.9	-14.5	9.2	6.9	9.6	3.5	-29.8	8.7
Chemicals	-4.4	4.9	-13.2	15.5	8.5	23.6	7.4	4.0	10.7
Earthenware	-4.3	-32.6	-1.7	11.5	1.0	12.1	1.9	-23.9	3.6
Metals	-4.2	5.7	-9.6	4.4	-21.4	20.8	-3.6	0.6	-5.6
Machinery	-25.7	-5.8	-26.7	20.4	5.5	21.3	22.5	8.3	23.2

Source: State Institute of Statistics

In terms of monthly industrial production index, industrial production remained stronger than anticipated in the first six months of 1996 with an average growth of 6.9% which compares favourably with 5.9% increase in the same period in 1995. Notwithstanding the fact that monthly industrial production index covers less items than its quarterly counterpart, hindering a healthy comparison, the six-month average growth falling below the first quarter growth could imply a relative slow down in the economy during the second quarter, following the solid growth in the

**Industrial production remained strong in the second quarter of 1996, but stayed below the first quarter growth**

first quarter, or an increase in imports of industrial goods as expected after lifting trade barriers with EU.



**Energy production continued to grow in 1996**

According to June monthly production index data, the highest average increase in output was achieved in the energy sector which rose 11.1% in the first half of 1996 over the same period in 1995, followed by the manufacturing sector with 6.5%, and mining with 3.6%. Further growth is expected in the energy sector due to the bunching of investment projects with a view to avoiding potential power shortages in the coming years.

Among manufacturing sub-sectors, growth in machinery output rose at a considerably high rate of 27% in the first six months of 1996, while paper & printing rebounded sharply as it contracted 34% in the first half of 1995 due to decreasing prices in the international markets, triggering imports. Growth in textiles output, on the other hand, bounced up and rose 6.2% in the first half of this year against 2.1% contraction in the respective period the year before.

**Monthly Industrial Production Index**  
(Compared to the Same Period of the Previous Year, % Change)

	January-June Average	
	1995	1996
Total Industry	5.9	6.9
Mining	-3.4	3.6
Energy	9.6	11.1
Manufacturing	6.0	6.5
Food	1.3	2.9
Textiles	-2.1	6.2
Paper & Printing	40.8	-33.8
Chemicals	7.6	2.2
Earthenware	9.4	6.3
Metals	12.5	3.0
Machinery	5.1	26.7

Source: State Institute of Statistics

## Capacity Utilisation

Average capacity utilisation rose substantially to 78.7% in 1995 from 73.1% the year before, in line with 12.2% growth in industrial production. After having scored 75% in the first quarter of 1995, it rose to 80% in the remaining quarters.

**Average capacity utilisation rose to 80% in 1995**

The highest increase in capacity utilisation rate originated in the machinery sub-sector which rose to 72.2%, followed by paper & printing and chemicals, both reaching 82%. Capacity utilisation declined in metals to 77.8%.

Average capacity utilisation rate slightly declined to 77.3% in the first half of 1996. The highest increase in capacity utilisation was recorded in metals which reached 84.1%, and the highest decline in paper & printing which was down to 74.6%.

**Capacity utilisation slightly declined to 77.3% in the first half of 1996**

### Average Capacity Utilisation Rate (%)

	1994			1995			H1-1996		
	Total	Public	Private	Total	Public	Private	Total	Public	Private
Manufacturing	73.1	78.4	70.8	78.7	80.5	77.9	77.3	81.5	75.7
Food	71.4	73.2	70.3	71.8	70.2	72.6	71.0	69.1	71.8
Textiles	78.3	61.7	80.0	82.3	63.4	83.5	82.8	62.6	83.9
Paper & Printing	74.4	73.2	74.8	82.2	83.6	81.3	74.6	64.0	80.3
Chemicals	75.2	79.6	69.9	82.3	85.8	77.9	79.9	83.9	74.8
Earthenware	84.4	76.8	85.0	86.7	71.9	87.5	83.2	70.5	83.9
Metals	82.0	90.7	76.3	77.8	79.2	76.3	84.1	93.5	79.0
Machinery	61.0	58.5	61.1	72.2	56.3	73.0	69.9	75.7	69.6

Source: State Institute of Statistics

## Employment

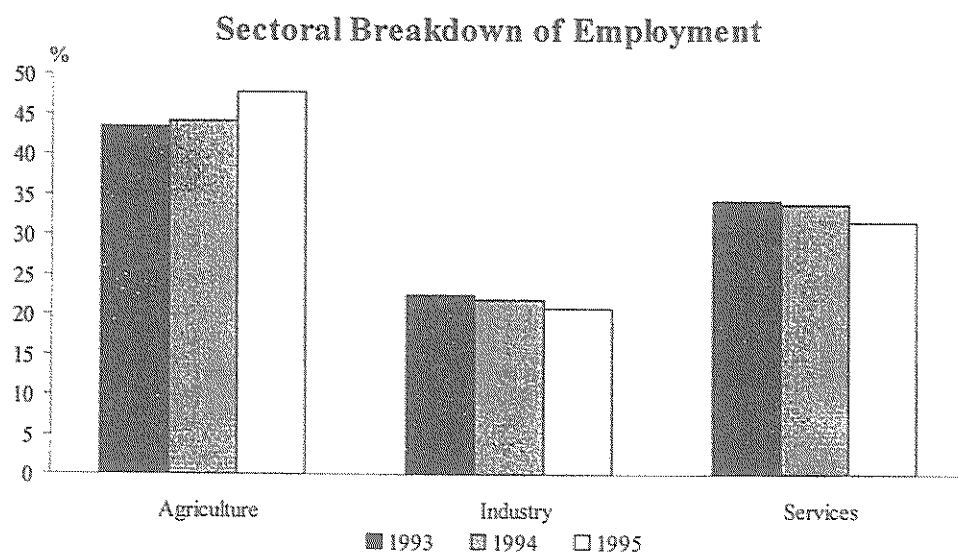
Parallel to the rapidly rising level of economic activity, unemployment rate, according to SIS data, dropped to 6.6% in October 1995 from its high level of 8% in the same month of the previous year. Labour force, on the other hand, grew 3.6% in 1995 and reached 23m.

**Unemployment rate dropped to 6.9% in 1995**



The sectoral breakdown of the labour force shows that the share of agriculture in total rose to 48% in 1995 from 44% the year before, while the respective shares of industry and services stand at 21% and 31%, compared to 22% and 34% in 1994. Given 12% output rise in industry in 1995 against a slight reduction in the share of employment, industrial production is likely to have benefited from productivity growth.

Share of agriculture in total employment rose to 48%





# CHAPTER 2

## PUBLIC FINANCE



## Public Finance

In recent years, difficulties faced in public sector deficit reduction and the spiraling financing requirements have clearly focused attention on the urgent need to implement structural changes in order to gradually achieve balance in public finances. One-time-only measures implemented in the wake of the 1994 financial crisis have been instrumental in reducing the public sector deficit to 8.1% of GNP from 12.2% in 1993. This favourable development continued in 1995 when the ratio of the public sector deficit to GNP dropped considerably to 6.5%.

PSBR, in GNP terms, although still very high, displayed a declining pattern in 1994 and 1995

### Public Sector Borrowing Requirements (TL Trillion)

	1993	1994	1995	Change in 1995(%)	
				Nominal	USD Adj.
Consolidated Budget	134	152	319	110	36
SEEs	49	55	43	-22	-49
Local Administrations	19	23	39	69	9
Social Security Institutions	12	23	51	124	45
Other	31	61	43	-30	-55
Revolving Funds	0	0	2	552	321
Funds	17	35	54	54	-1
SEEs Under Privatization	14	26	-13	-149	-132
Public Sector Deficit (Surplus -)	245	314	495	58	2
Excluding Interest Payments	128	16	-81	-608	-428
Excluding Priv. Revenue	251	331	517	56	1
Excluding Int.Pay.& Priv.Rev.	134	32	-60	-284	-219

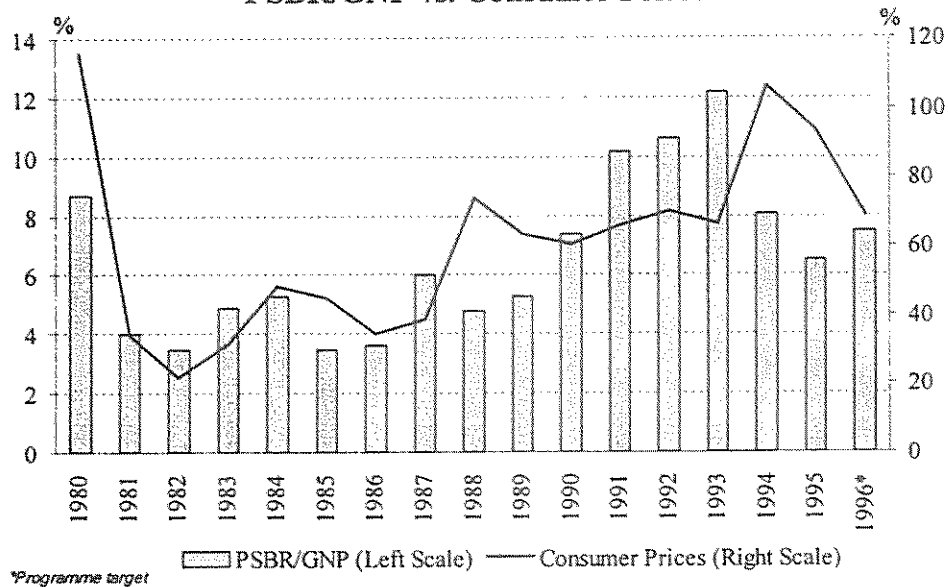
Source: Treasury

Among reasons behind the drop in the ratio of the public sector deficit to GNP, notwithstanding the substantial rise in the budget deficit, were the higher than expected growth in GNP coupled with the notable drop in the borrowing requirements of SEEs. The decreasing trend in the borrowing requirement of SEEs of the last five years continued in 1995 and it dropped to 0.6% of GNP in 1995 from 1.4% the year before. The main reason leading to the relative improvement in SEE performance has been the limited increase in public sector wages, drop in the level of agricultural subsidies and in the volume of fixed capital investment, as well as the rise in profits due to hefty price increases exercised in line with international commodity prices.

High rise in GNP and the decline in the borrowing requirement of SEEs were main reasons behind the drop in PSBR



### PSBR/GNP vs. Consumer Prices



### Ratio of PSBR and Its Components to GNP (%)

	1990	1991	1992	1993	1994	1995
PSBR	7.4	10.2	10.6	12.2	8.1	6.5
Consolidated Budget	3.0	5.3	4.3	6.7	3.9	4.2
SEEs	3.8	3.1	3.3	2.4	1.4	0.6
Local Authorities	0.0	0.3	0.8	1.0	0.6	0.5
Social Security System	-0.3	0.1	0.2	0.6	0.6	0.7
Others	0.8	1.3	2.0	1.6	1.6	0.6

Source: State Planning Organisation

### Consolidated Budget

Government's main fiscal policy objective in 1995 has been the reduction of inflation through decreasing public sector borrowing requirements, in particular of its major component, the consolidated budget deficit. Government's budget deficit target for 1995 was first estimated at TL198 trillion, but later revised several times before it was estimated at TL306 trillion in September during the adoption of the Supplementary Budget in the Parliament.

However, the year-end consolidated budget deficit finally recorded TL317 trillion, representing 4.2% of GNP, up from 3.9% in 1994. The primary balance was in surplus once again amounting to 3.4% of GNP, down from 3.9% in 1994.

**Tight fiscal policy  
foreseen in 1995  
Economic Programme**

**Consolidated budget  
deficit rose to 4.2% of  
GNP in 1995**

<b>Consolidated Budget (TL Trillion)</b>				
			<b>Change (%)</b>	
	<b>1994</b>	<b>1995</b>	<b>Nominal</b>	<b>WPI Adj.</b>
Revenue	753	1,404	86	0
Tax Revenue	588	1,085	85	-1
Direct Tax	284	442	56	-16
Indirect Tax	304	644	112	14
Non-Tax Revenue	165	319	93	4
Expenditure	899	1,721	91	3
Non-Interest Expenditure	601	1,145	90	3
Personnel	273	503	84	-1
Investment	77	102	33	-28
Other Current	73	143	94	5
Transfers (Exc. Interest Exp.)	178	397	123	20
Interest Expenditure	298	576	93	4
Foreign Debt	65	101	54	-17
Domestic Debt	233	476	104	10
Primary Balance	152	260	70	-8
Budget Balance	-146	-317	117	17
Cash Balance	-146	-294	102	9

*Source: Treasury*

In the first nine months of 1995, budgetary performance was better than Government's programme targets, when the deficit remained within set limits. Indirect tax revenues exceeded expectations due to rapid economic growth. Treasury was able to borrow for relatively longer periods, up to 12 months, somewhat easing debt servicing obligations within this period. Accordingly, the cumulative budget deficit in this period was up 26% to TL86 trillion (down 29% in real terms) from the same period in 1994. However, this result was partly illusory as the cash deficit was considerably higher at TL158 trillion, since part of the interest payments was recognised directly in cash balance as advances, because of the fact that the pre-allocated budgetary expenditure limit for the entire year was already reached. Meanwhile, the primary balance (budget balance excluding interest payments) was up 122% (26% in real terms) to TL241 trillion.

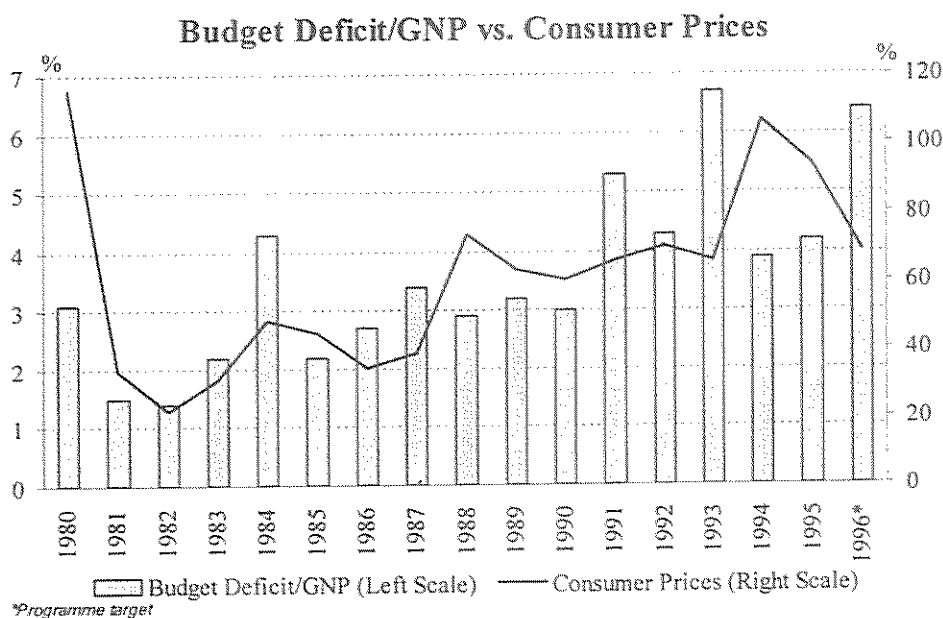
**Budget performance in the first three quarters of 1995 seemed better than expected**

During the last three months of the year, however, the budget performance was significantly different. Lower than anticipated revenue on privatisation which stood at \$573m against the initial \$2bn target, populist policies fuelled by approaching general elections such as substantial rise in public sector wages in November adversely affected the budget performance, and created a need to request a Supplementary Budget to cover the rest of the year where the additional deficit was estimated at TL108 trillion. According to the Supplementary Budget, 76% of total revenue, TL210 trillion, was to come from taxes, while 14% would accrue from the privatisation proceeds of Turk Telecom. On the expenditure side, 81% of total was allocated to interest payments, pay-roll, and transfers to social security institutions.

**Early general elections in the last quarter adversely affected budget performance**

Financing of the deficit entailed a relatively high cost for Treasury, as it had to raise the rates to the level anticipated by the markets, which was quite high due to the aroused uncertainties before the general elections.

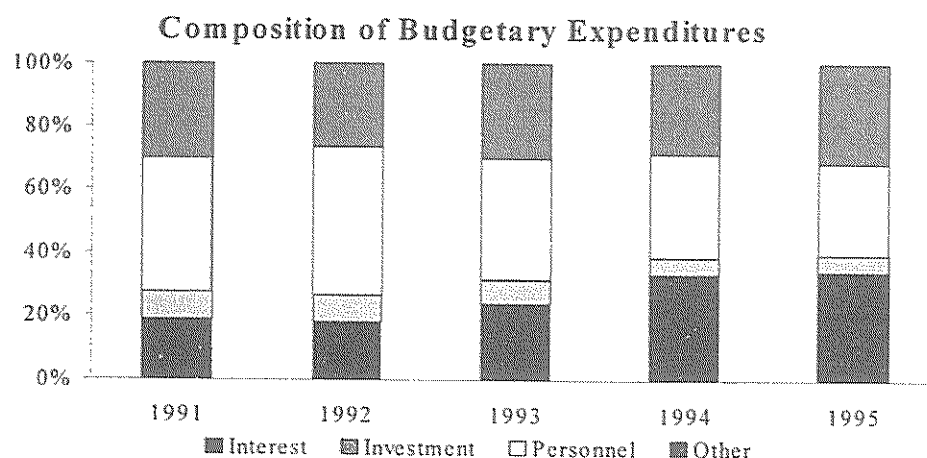
**Supplementary Budget needed in the last quarter of 1995**



An overall analysis of the consolidated budget for the entire year reveals that composition of the revenue side of the budget changed slightly as share of tax revenue in total revenue dropped to 77% from 78% the year before. Share of direct tax revenue in total tax revenue, on the other hand, fell down to 41% as opposed to 48% in 1994. Decreasing share of direct tax revenue in total tax revenue clearly reveals that an urgent rehabilitation of the tax system is necessary.

**Share of tax revenue in total revenue dropped to 77% in 1995 from 78% in 1994**

On the spending side, major change was observed in transfer payments (excluding interest expenditure, consisting of payments to social security institutions), as its share in total expenditure rose to 23% in 1995 from 20% the year before. The share of personnel expenditure in total expenditure slightly declined to 29% in 1995 from 30% the year before, while the share of interest payments in total expenditure remained steady at 33%.



Financing of the deficit, in the early months of 1995, relied mainly on short-term borrowing, i.e., Treasury Bills and advances from Central Bank. However, unlike in 1994, Government could borrow for relatively longer periods in the form of Government Bonds easing the repayments schedule of Treasury. Annually compounded rates on T-Bills declined steadily from 170% in January to 95% in August as foreign borrowing became available once again in this period. However, rates began to soar in September, reaching the annually compounded rate of 205% in December, mainly due to political uncertainty induced by general elections. A 6% tax levied on foreign private borrowing in a move to curb the inflow of ěhot moneyí was another factor raising rates in the last two months of the year, as it magnified cost of funding and eventually was reflected on interest rates.

**Financing of the budget deficit relied mainly on T-Bills**

#### Financing of the Budget Deficit (TL Trillion)

	1994	1995	Change (%)	
			Nominal	WPI Adj.
Financing	146	294	102	9
Foreign Debt	-69	-81	19	-36
Government Bond	-70	86	--	--
Short-Term Debt	296	292	-1	-47
Central Bank Advances	52	95	83	-2
Treasury Bills	244	197	-19	-57
Other	-12	-2	-82	-90

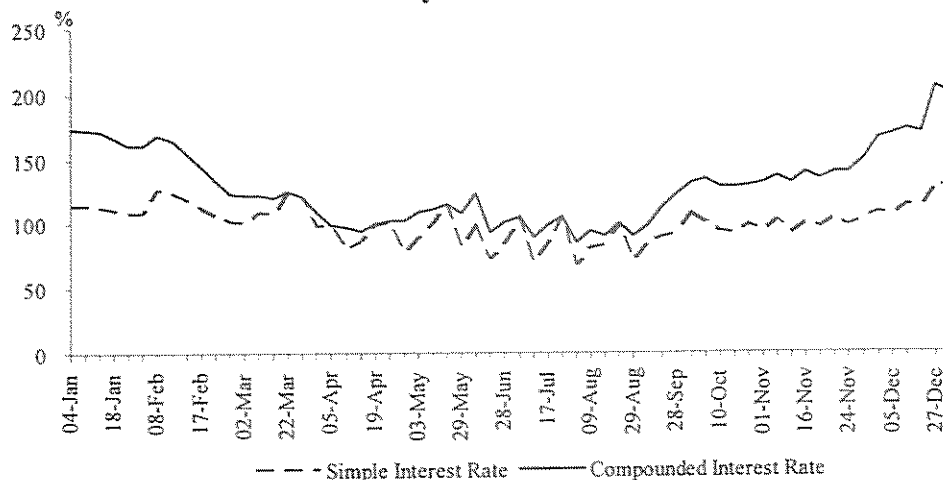
Source: Treasury

In 1995, Treasury followed quite a successful borrowing policy, accepting to pay the high interest rates demanded by markets, while extending the average maturity of new borrowings which rose from 3-months at the end of 1994 to 9 months in the middle of the year. With the easing of the markets, there has been a significant decline in interest rates. In the July-August period, Treasury successfully concluded three T-Bill auctions where the compounded rate was 100% and the maturity one year. However, as the country rolled into political uncertainties in the last qu-

**Despite T-Bill maturities lengthened to one year in mid-1995, average maturity stood at 6 months in 1995**

arter of the year, interest rates began to rise while borrowing maturity shortened significantly to below 3 months.

### Treasury Auctions in 1995

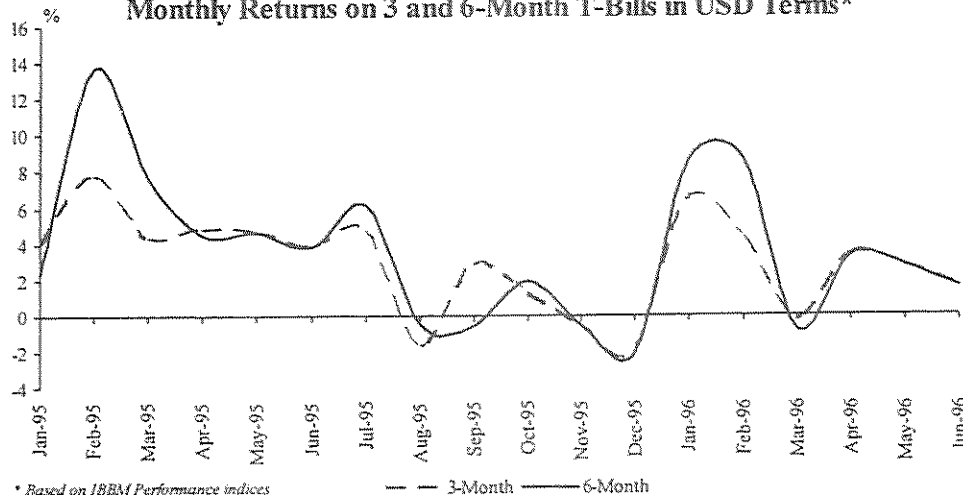


With the appreciation of TL against major hard currencies, the return on fixed income government securities remained high in USD terms for all maturities in the first 7 months of 1995. Yields on T-Bills, however, displayed a more volatile pattern in the remaining part of the year when TL depreciated significantly. In November-December period, although rates on T-Bills rose considerably, due to Treasury's heavy borrowing requirements fuelled by extra expenditures caused by the approaching general elections and the rising repayments on domestic debt, a 17% depreciation of TL against USD led to negative yields on T-Bills.

**T-Bills posted positive returns in USD terms in the first half of 1995**

**USD Yields on T-Bills declined due to TL depreciation in the second half of 1995**

### Monthly Returns on 3 and 6-Month T-Bills in USD Terms\*



\* Based on IBBM Performance indices

In the meantime, total domestic borrowing increased 41% from TL1,304 trillion in 1994 to TL1,833 trillion in 1995 which implied 15% decline in real terms. Share of T-Bills in total domestic borrowing rose to 71% in 1995 from 49% the year before, indicating deepening short-term nature of domestic debt.

**Domestic borrowing down 15% in real terms in 1995**

On the repayments side, total repayments was recorded at TL1,744 trillion in 1995, up 60% from TL1,092 trillion in 1994, while monthly average domestic debt servicing rose to TL145 trillion. Interest payments constituted 27.1% of total servicing in 1995 as opposed to 21.1% the year before. The increased share of interest payments in total servicing was the result of the heavy reliance on T-Bill borrowing in 1995.

**Domestic debt servicing up 60% in real terms in 1995**

#### Domestic Borrowing and Servicing in 1995

	1994		1995		Change(%)	
	TL Trillion	Share(%)	TL Trillion	Share(%)	Nominal	WPI Adj.
Borrowing	1,303.5	100.0	1,833.1	100.0	40.6	-15.1
G-Bond	206.1	15.8	366.9	20.0	78.0	78.0
T-Bills	638.7	49.0	1,298.6	70.8	103.3	103.3
CD Advances	325.3	25.0	141.7	7.7	-56.5	-56.5
Others	133.4	10.2	25.9	1.4	-80.6	-80.6
Servicing	1,091.5	100.0	1,744.2	100.0	59.8	59.8
Principal	861.6	78.9	1,271.4	72.9	47.6	47.6
Interest	229.9	21.1	472.8	27.1	105.6	105.6

Source: Treasury

The outstanding domestic debt, on the other hand, amounted to TL1,361 trillion (\$22.9bn) at the end of 1995, up 70% in nominal terms, or 10% in USD terms, from TL799 trillion (\$20.8bn) in the previous year. Its ratio to GNP declined to 17.8% from 20.5% in 1994 as a result of the high increase in the primary surplus and GNP in 1995. Treasury's success in borrowing for longer periods in the first nine months of 1995 pushed the average maturity of domestic debt slightly upwards to 185 days against 111 days in 1994, which, however, remained below the 215 day average attained in 1993. Another indication depicting the short-term nature of the domestic debt at present is the growing share of T-Bills in the total debt stock which reached 46% against 38% the year before.

**Domestic debt rose 10% to \$23bn at year-end 1995**

**The share of T-Bills in total domestic debt stock rose to 46% in 1995**

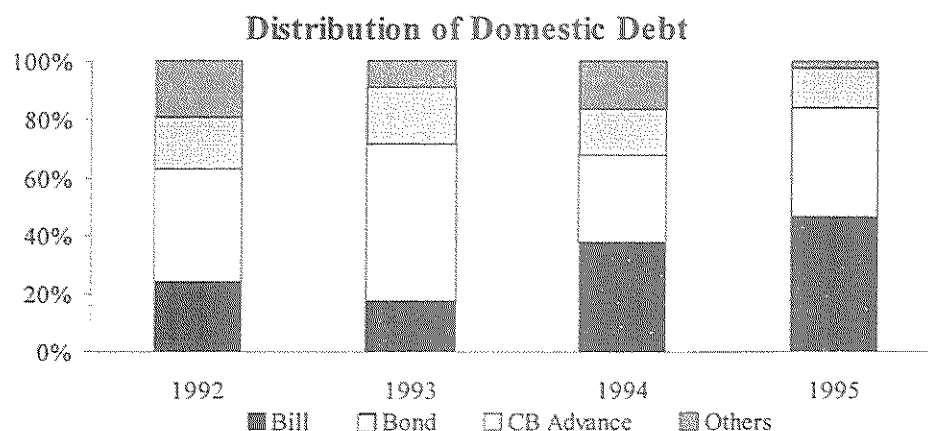
#### Domestic Debt Stock (TL Trillion and Percentage)

	1992		1993		1994		1995	
	Amount	Share	Amount	Share	Amount	Share	Amount	Share
Total	194	100	357	100	799	100	1,361	100
T-Bill	42	22	65	18	304	38	631	46
G-Bond	86	44	191	53	239	30	512	38
CB Adv.	31	16	70	20	122	15	192	14
Other	35	18	32	9	133	17	26	2

Source: Treasury

Indeed, the problem with the domestic debt stock in Turkey is not so much its magnitude, but its maturity structure. In most developed countries, while the ratio of domestic debt to GNP is much higher than in Turkey, average maturity expressed in years is significantly longer. The short-term nature of debt creates a spiralling interest payments effect on the budget, and requires Treasury to borrow more frequently, and at relatively high real rates.

**Shrinking maturity, the real problem with domestic debt**



A further problem related to the Turkish domestic debt is its size compared to the entire financial system. The ratio of the domestic debt stock to M2 (money in circulation plus TL deposits) amounted to 90% in 1995, significantly exceeding levels in major developed economies.

**Turkish domestic debt compared to financial system significantly higher than developed economies**

#### Domestic Debt Stock (%)

	1991	1992	1993	1994	1995
Principal / GNP	8.1	11.7	12.7	14.0	15.0
Principal / M2	45.5	70.3	87.1	84.6	90.0
Principal / M2Y	32.2	44.4	46.6	42.8	43.5
Principal + Interest / GNP	11.5	15.5	21.9	22.2	24.4
Principal + Interest / M2	64.4	93.4	149.8	134.6	146.6
Principal + Interest / M2Y	45.6	59.0	80.3	68.0	70.9

Source: Central Bank

Structural reforms and readjustments delayed so far due to insufficient political will inevitably led to rising budget deficits and PSBR, pushing interest rates upward and creating 'crowding out' effect against the private sector by reducing its funding capability. Indeed, the share of Government securities in total outstanding securities rose to 80% in 1995 from 61% in 1990. The largest increase in public sector securities originated in Treasury Bills which climbed from 13% of total in 1990 to 42% in 1995.

**Heavy borrowing requirement of the public sector hinders private sector expansion**

**Outstanding Securities (in 1987 Prices)**

	1990	1991	1992	1993	1994	1995
Total	8,203.0	9,849.1	14,032.5	18,840.4	14,025.8	17,483.0
Private Sector	3,192.2	4,294.0	4,673.9	5,523.8	2,518.8	3,448.7
Public Sector	5,017.8	5,555.1	9,358.6	13,316.6	11,507.0	14,034.3

Source: Capital Markets Board

**Budget Performance in 1996**

Budget performance of the Turkish economy significantly worsened in the first half of 1996, as the rise in expenditure considerably exceeded the rise in revenue, and the resulting consolidated cash deficit equalled almost 60% of the estimated annual budget deficit, amounting to TL502 trillion, up 309% from TL123 trillion in the same period in 1995. As a result of heavy domestic borrowing, the share of interest payments in total expenditure rose to 46% in the first half of 1996 from 39% in the same period of 1995.

**Consolidated budget deficit rose to TL502 trillion in the first half of 1996**

The budget deficit is expected to reach TL1,350 trillion at the end of this year or even exceed this amount in the case of continuing expansionary policies in the second half of the year. Although the Economic Programme for 1996 foresees 30% wage increase for both public sector workers and civil servants, 50% increase in wages of civil servants necessitated an extra funding of TL125 trillion, widening the deficit.

**Budget performance likely to worsen in the coming months**

**Consolidated Budget (January-June, TL Trillion)**

	1995	1996	Change (%)	
			Nominal	USD Adj.
Revenue	583	1,074	84.2	9.5
Tax Revenue	454	881	94.0	15.4
Non-Tax Revenue	129	193	49.8	-10.9
Expenditure	696	1,549	122.6	32.4
Non-Interest Expenditure	450	850	88.8	12.3
Interest Expenditure	246	700	184.4	69.1
Primary Balance	133	224	68.6	0.3
Budget Balance	-113	-475	320.6	150.1
Cash Balance	-123	-502	309.0	143.2

Source: Treasury

Short-term borrowing continued to be the main source of financing the budget deficit in the first half of 1996. Uncertainties in the regulatory framework concerning the taxation of interest income adversely affected borrowing with maturities in 1997. Repayments on G-Bonds and foreign debt exceeded total new borrowing, as Treasury was unable to raise long-term domestic financing, while foreign borrowing remained low. The high volume of T-Bill borrowing in this period will inevitably lead to heavy interest payment obligations in the remainder of this year, arising expectations on interest rates to climb higher.

**Short-term borrowing, main source of financing the budget deficit in the first half of 1996**



### Financing of the Budget Deficit (January-June, TL Trillion)

	1995	1996	Change (%)	
			Nominal	USD Adj.
Financing	123	502	309.0	143.2
Foreign Debt	-76	-26	-65.7	-79.6
Government Bond	73	-161	--	--
Short-Term Debt	143	738	412.9	205.0
- Central Bank Advances	9	-1	--	--
- Treasury Bills	135	739	446.1	224.7
Other	-18	-48	172.5	62.0

Source: Treasury

### State Economic Enterprises

According to provisional Treasury figures, the borrowing requirements of State Economic Enterprises declined by 20% in nominal terms, or 48% in USD terms, in 1995. The ratio of SEE deficit to GNP thus dropped to 0.6% in 1995 from 1.4% the year before.

**SEE borrowing requirement dropped 20% in nominal terms**

Factors behind the drop in SEEs' borrowing requirements in 1995 have been the positive effects of international price movements on public sector price adjustments and the decline in total subsidy payments for agricultural produce due to lower than expected harvest.

**International price movements positively affected SEEs**

### SEE Borrowing Requirements and Financing (TL Trillion)

	1994	1995	Change (%)	
			Nominal	USD Adj.
Total Revenue	682	947	39	-10
Operating Revenue	557	791	42	-8
Depreciation & Provisions	103	110	7	-31
Transfers from Budget	21	46	114	39
Total Expenditure	729	985	35	-12
Operating Expenditure	639	837	31	-15
Investment	46	66	43	-7
Change in Stocks	34	38	10	-28
Other Expenditure	10	44	348	191
SEE Borrowing Requirement	-47	-38	-20	-48
Financing	47	38	-20	-48
Change in Cash Balances	-12	-6	-48	-67
Domestic Borrowing	64	60	-6	-39
Foreign Borrowing	-5	-17	231	115

Source: State Planning Organisation

The reduced borrowing requirement led to a decrease in the total debt stock of SEEs in real terms, particularly in foreign credit. Indeed, the outstanding foreign

**SEE debt stock declined in real terms in 1995**

debt was down by 50% in nominal terms (3% in USD terms). According to provisional figures, total debt stock rose 40% in nominal terms, but declined 9% in USD terms.

### Debt Stock of SEEs (TL Trillion)

	1994	1995	Change (%)	
			Nominal	USD Adj.
Total Debt Stock	714	1,001	40	-9
Domestic Debt	402	532	32	-14
Tax	103	161	55	0
SEEs	42	58	38	-11
Public Agencies	59	79	33	-14
Private Investors	23	32	42	-8
Treasury	89	115	30	-16
Producers	9	16	74	13
Commercial Banks	40	51	29	-17
Rediscount Credits	25	0	-100	-100
Social Security Institutions	12	20	67	8
Foreign Debt	312	469	50	-3
Revolving	102	152	49	-4
Guaranteed	106	150	42	-8
Others	105	166	59	3

Source: Treasury

In the 1995 Economic Programme, a total of \$2bn was to be collected from the privatisation of 20 SEEs with an estimated privatisation revenue of \$5bn. However, performance in the first half of 1995 was insignificant when only \$70m could be realised. Accordingly, the target was revised down to \$1.3bn, but realisation remained at \$573m, generating \$379m in cash proceeds. The companies to be privatised in the first instance included the iron & steel giant Ereğli Demir Çelik, the petroleum distribution company Petrol Ofisi, the petrochemicals producer Petkim, the petroleum refinery Tüpraş, the national airlines company Türk Hava Yolları, and the textiles giant Sümer Holding.

**Privatisation revenue remained far behind the programme target in 1995**

### Social Security Institutions

The imbalance between the numbers of actively and passively insured persons, discrepancy between premiums received and pensions paid, considerable lags in premium collection, bad management of collected funds are among main reasons worsening the financial structures of the social security institutions (SSI) which ranked second in the constitution of the PSBR in 1995. SSI borrowing requirement rose 124% in nominal terms, or 46% in USD terms, representing 0.7% in GNP in 1995 against 0.6% the year before.

**SSI borrowing requirement rose substantially in 1995**

**SSI Borrowing Requirements (TL Trillion)**

	1994	1995	Change (%)	
			Nominal	USD Adj.
Revenue	165	290	76	14
Premium Collected	128	238	86	21
Expenditure	206	411	99	29
Insurance Claims Paid	148	282	91	24
Revenue-Expenditure Gap	-42	-121	192	89
SSK	-30	-82	172	77
Bağkur	-10	-26	154	65
Emekli Sandığı	-1	-14	872	531
Transfers from Budget	19	71	271	141
Borrowing Requirements	-23	-51	124	46

*Source: Treasury*

# CHAPTER 3

## MONETARY POLICY



# Monetary Policy

Central Bank's monetary policy followed two distinct courses during the year. In the first ten months, it remained geared to controlling and reducing inflation while sustaining stability in the financial markets, pursuing the guidelines set in the annual Economic Programme. In compliance with the Stand-By Agreement with IMF, an upper limit was set for net domestic assets, mainly composed of CB credits to the public sector, and Central Bank money growth was to expand concurrently with net foreign assets which, in fact, was not anticipated to grow significantly. Thus, reserve money was estimated to expand by 41% in nominal terms, assuming 37% inflation. Net foreign assets, however, grew at a much faster pace in the first ten months due changing portfolio preferences of investors, shifting towards TL denominated assets, while net domestic assets declined in real terms.

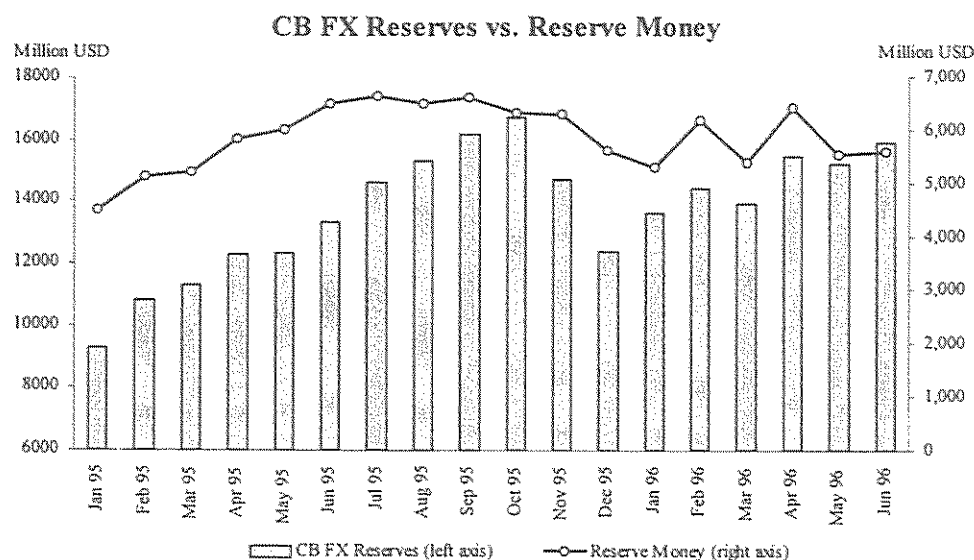
**Monetary performance successful in 1995**

**Limits set to control monetary expansion**

Central Bank has been quite successful in the design and implementation of monetary policies in the first ten months of 1995 when net foreign assets rose from minus TL8,201bn (minus \$203m) at the end of 1994 to TL362,900bn (\$7,187m) at the end of October 1995, while concurrently net domestic assets rose by 22% to TL382,400bn (\$7,573m). The resulting 72% increase in reserve money was actually financed through the increases in Central Bank foreign exchange reserves which amounted to \$16.7bn, up 135% from \$7.1bn at the end of 1994.

A major policy instrument in this area, possibly leading to exchange rate stability, has been the 'nominal anchor' based on a foreign exchange basket composed of 1 USD and 1.5 DM. However, in the last two months of the year, this policy was abolished due to high demand for foreign exchange and TL depreciated in line with the target inflation.

**Nominal anchor policy applied in the first ten months**



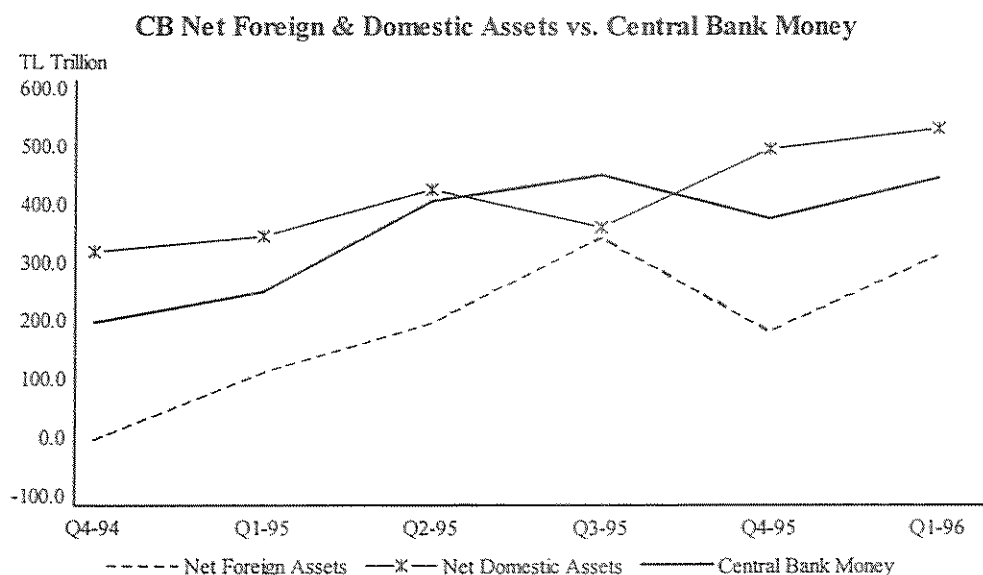
Indeed, the availability of foreign borrowing coupled with rising tourism revenue and workers' remittances, and the return to the financial system of gold and foreign currency hoarded during the crisis period considerably eased the pressure on domestic markets, thus demand for TL increased substantially and Central Bank reserves registered an all-time high of \$16,730m in October 1995, up 135% from \$7,112m in December 1994. During this period, net foreign assets amounted to TL362,900bn (\$7,187m), rising from minus TL8,201bn (minus \$203m), due to changing portfolio preferences of investors shifting towards TL denominated assets. Notwithstanding Central Bank's open market operations to absorb excess liquidity, reserve money increased 72% in nominal terms (31% in USD terms) during this period, mainly due to foreign currency purchases of the Central Bank.

**Official reserves reached all-time high at \$16.7bn in October 1995**

**Central Bank Balance Sheet: Selected Items (TL Trillion)**

	Q4-94	Q1-95	Q2-95	Q3-95	Q4-95	Q1-96	Q2-96
Net Foreign Assets	-8.2	108.9	194.2	339.0	178.0	310.2	515.2
USD Eq. (bn)	-0.2	2.6	4.4	6.9	2.9	4.4	6.3
Net Domestic Assets	313.8	341.7	421.6	356.2	492.2	526.8	437.0
Reserve Money	185.7	219.0	286.4	323.1	343.5	381.6	455.9
Monetary Base	186.9	240.0	393.4	437.5	359.4	427.8	482.0
Central Bank Money	193.1	246.7	401.7	447.4	372.8	442.5	498.7

Source: Central Bank



However, the significant amount of foreign capital inflow in the first ten months of the year, coupled with the rapid rise in domestic demand began to have adverse effects on monetary aggregates in September, which led Central Bank to take measures in order to curb the monetary growth and cool down the economy. While the 'anchoring' policy was discontinued in the remaining part of the year and TL

**Measures taken to slow down economic growth in the last two months of 1995**

depreciated by 17% against USD, a surcharge of 6% was imposed on foreign loans secured by the private sector.

With the approaching early general elections, Central Bank focused more on off-setting the possible adverse effects of the election rally on the financial markets than concentrating on economic stability. Treasury's heavy reliance on Central Bank resources severely hampered the Bank's efforts to control net domestic assets which rose to TL492,230bn in December. Rising foreign exchange demand fuelled by banks wishing to end their short foreign exchange positions as well as investor preference reversing towards foreign currencies significantly reduced Central Bank's foreign exchange reserves and, in turn, net foreign assets. At the end of December 1995, official foreign exchange reserves and net foreign assets declined substantially to \$12.4bn and TL177,972bn, respectively.

**Early general elections adversely affected monetary performance**

**Official reserves dropped to \$12.4bn at the end of 1995**

#### **Central Bank FX Assets and Liabilities (TL Trillion/USD Billion)**

	Q4-94		Q1-95		Q2-95		Q3-95		Q4-95		Q1-96		Q2-96	
	TL	USD	TL	USD	TL	USD	TL	USD	TL	USD	TL	USD	TL	USD
Fx Assets	369	9.6	580	13.9	702	16.0	915	18.7	912	15.3	1,167	16.5	1,501	18.5
Fx Reserves	273	7.1	473	11.3	585	13.4	791	16.2	737	12.4	982	13.9	1,290	15.9
Fx Liabilities	500	13.0	679	16.2	728	16.6	833	17.0	1,048	17.6	1,270	18.0	1,468	18.1
Foreign	390	10.2	486	11.6	534	12.2	610	12.5	776	13.0	904	12.8	1,039	12.8
Domestic	110	2.9	193	4.6	194	4.4	223	4.6	273	4.6	366	5.2	429	5.3
Fx Position	-131	-3.4	-99	-2.4	-27	-0.6	82	1.7	-137	-2.3	-103	-1.5	32	0.4

*Source: Central Bank*

Monetary performance of the economy in the first half of 1996 has been quite successful, despite the rising foreign trade deficit fuelled by the Customs Union with EU. As Treasury had to step up interest rates sharply to the level anticipated by the market which was overwhelmed by the political uncertainties at the beginning of the year, investor preference shifted once again towards TL denominated assets, allowing Central Bank to recover much of its lost foreign exchange reserves. With improving market sentiment, interest rates on T-Bills gradually declined in the first three months of the year and TL started to appreciate in real terms. At the end of June 1996, Central Bank was able to raise net foreign assets by 189% in nominal terms, or 118% in USD terms, in the first half of the year. In the meantime, net domestic assets decreased by 11% in nominal terms, or 33% in USD terms.

**Monetary aggregates behaved positively in the first half of 1996**

However, developments at the political front at the end of second quarter once again paved way to changes in monetary balances. Political uncertainties led to interest rate increases while demand at Treasury auctions remained much below than the expected level.

**Another political crisis towards the end of second quarter hampered monetary balances**



It seems likely that Treasury will have to rely more on CB resources, given the extra burden on the budget brought about by the new government's loose spending which includes wage hikes in the public sector, amounting to TL 125 trillion, and higher than programme target subsidies on agricultural produce. Likely difficulties in domestic borrowing could further prompt Government to resort more to Central Bank resources. However, as of June 1996, Central Bank is well endowed with some \$16bn foreign exchange reserves and TL372 trillion worth of government debt securities to offset any undesirable movement in the money markets.

**Treasury had to resort to Central Bank resources as it failed to raise funds in the markets**

## Monetary Aggregates

Parallel to high GNP growth, the economy experienced considerable monetary expansion in 1995. Broad money supply M2 (M1 plus time deposits) and M2Y (M2 plus foreign exchange deposits) showed real growth as respective increases reached 19% and 25% in real terms (WPI adjusted). The rapid increase in M2Y was mainly due to the return to the financial system of foreign exchange hoarded during the 1994 crisis situation. Accordingly, foreign exchange deposits grew 30% in real terms. Narrow money supply M1 (currency in circulation plus sight deposits) remained unchanged in real terms in 1995.

**Broad money supply M2Y rose 25% in real terms in 1995**

As a result of real TL appreciation in the first quarter of 1996, there has been a slow down in the growth of M2Y while M2 continued to expand. In the second quarter, however, in line with growing political uncertainty, foreign exchange deposits began to rise, thus increasing the growth in M2Y. Overall, monetary aggregates contracted in real terms in the first half of 1996 when M1 declined 10% in real terms, while M2 displayed no real change. M2Y, on the other hand, contracted 5%, mainly due to 9% decline in foreign exchange deposits.

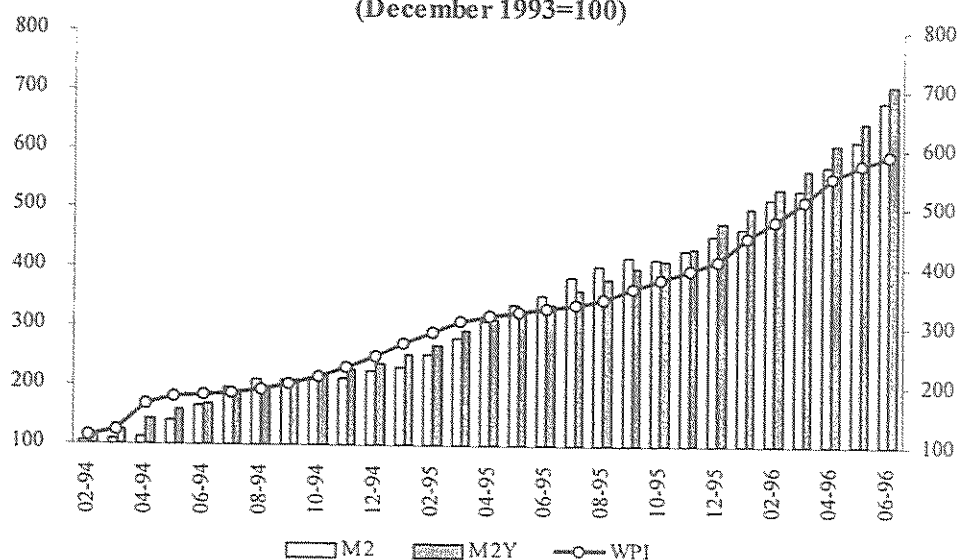
**Monetary aggregates contracted in the first half of 1996**

### M1, M2 and M2Y (TL Billion)

	M1	M2	FX Deposits	M2Y
Q4-94	238,981	642,490	628,711	1,271,201
Q1-95	234,180	765,592	720,856	1,486,448
Q2-95	314,250	979,810	771,567	1,751,317
Q3-95	372,786	1,126,714	915,273	2,041,987
Q4-95	396,047	1,270,423	1,355,094	2,625,517
Q1-96	421,299	1,435,626	1,505,596	2,941,222
Q2-96	511,326	1,825,307	1,771,252	3,596,559

Source: Central Bank

### Monetary Aggregates vs. WPI (December 1993=100)



Concurrently with the strong revival of the economy in 1995, bank loans as well as deposits increased in real terms. Foreign capital flowing into the banking system also contributed banks to increase the volume of lending which was up 143% in nominal terms, 47% in real terms (WPI adjusted), while deposits grew 109% in nominal terms, 26% in real terms. Due to increased lending, the loan-to-deposit ratio rose to 56% at year-end 1995 from 48% in 1994.

**Bank lending rose 47% in real terms in 1995 while the growth in deposits remained at 26%**

Parallel to the high economic growth scoring 9.9% in the first quarter of 1996 compared to the first quarter of 1995, total loans rose 141% in nominal terms, 45% in real terms, while growth in total deposits remained at 101% in nominal, 21% in real terms, mainly due to slow down in TL deposits possibly reflecting weakened investor confidence early this year. However, in the second quarter, year-on-year growth in total lending declined to 130% in nominal, 31% in real terms, that of total deposits, on the other hand, rose around 111% in nominal, 20% in real terms. The rise in foreign exchange deposits was higher, reaching 128% in nominal, 30% in real terms, compared to 95% in nominal, 11% in real terms, respectively, in TL deposits.

**Year-on-year growth in bank lending slowed down in the first half of 1996**

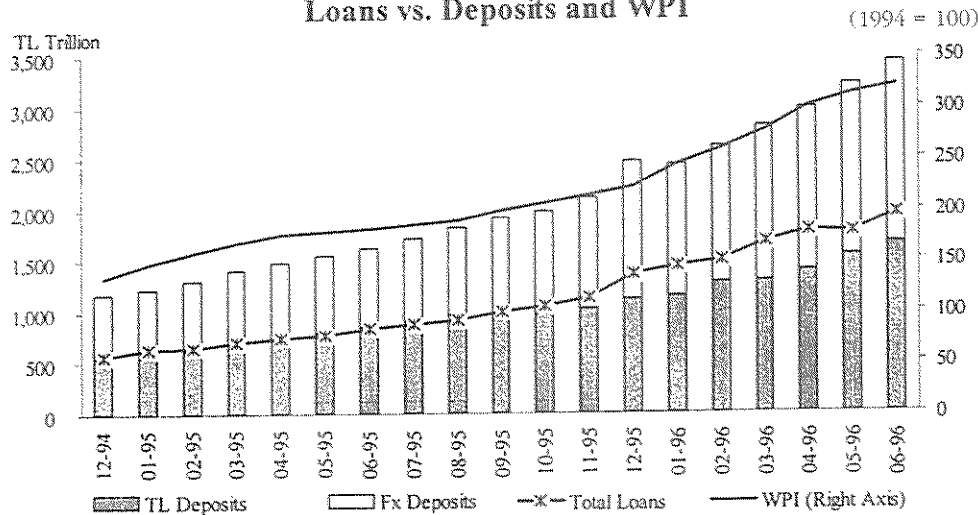
#### Total Loans and Total Deposits (TL Trillion)

	Q4-94	Q1-95	Q2-95	Q3-95	Q4-95	Q1-96	Q2-96
Total Loans	566	699	845	1,003	1,374	1,684	1,947
Total Deposits	1,186	1,402	1,624	1,900	2,475	2,814	3,437
TL Deposits	557	681	853	985	1,120	1,308	1,665
FX Deposits	629	721	772	915	1,355	1,506	1,771
USD Eq. (bn)	16.2	17.2	17.6	18.8	22.1	21.3	21.8
Loan/Deposit	0.48	0.50	0.52	0.53	0.56	0.60	0.57

Source: Central Bank

On the other hand, at the end of the first half of 1996, bank lending and deposits seem expanded modestly since the beginning of the year with respective growth rates of 42% and 40% in nominal terms which translate into 1.4% and 3.4% contractions in real terms.

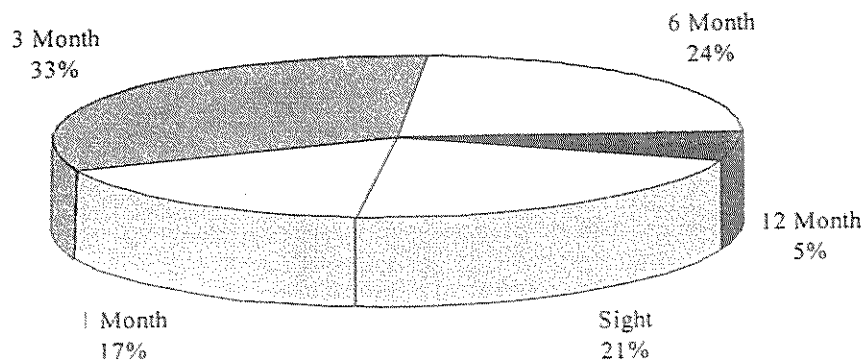
### Loans vs. Deposits and WPI



In terms of the maturity structure of TL deposits in 1995, the share of time deposits in total rose to 79% from 73% the year before and 63% in 1993. Of the total time deposits, 32% were contracted for 3 months and 24% for 6 months. However, the share of 12 month time deposits declined significantly to 5% of total from 6% the year before and 8% in 1993, reflecting the extreme short-term structure, at present, of the Turkish monetary system.

**TL deposit maturities shortened in 1995**

### Maturity Composition of TL Deposits in 1995



Meanwhile, the banking system which faced a serious crisis in 1994 reaped the benefits of the rapid economic growth in 1995. Indeed, net earnings of banks operating in Turkey rose 222% in nominal terms, or 95% in real terms, compared favourably with 54% real contraction in 1994. The consolidated balance sheet of banks also grew 106.2% in nominal terms, 25% in real terms, to TL3,955 trillion from TL1,918 trillion the year before. Rising credit demand, fuelled by rapid growth, investors preference shifting to TL denominated assets, accessibility of foreign reso-

**Banks' consolidated balance sheet for 1995 grew 25% in real terms**

urces, and the return to the financial system of gold and foreign currency hoarded during the crisis period have been the main factors behind the growth in banking activity. Huge volume of Treasury's domestic borrowing which provided high real returns also has contributed positively to bank's earnings.

#### Consolidated Liabilities of Banks (TL Trillion)

	1993	1994	1995	Chg.(%)-Nom.		Chg.(%)-WPI	
				1994	1995	1994	1995
Deposits	522	1,192	2,500	128.3	109.7	-8.7	27.1
TL	266	584	1,196	119.6	104.8	-12.2	24.1
FX	256	608	1,304	137.4	114.3	-5.1	29.9
Borrowed Funds	284	352	614	23.7	74.6	-50.5	5.8
TL	143	254	384	36.6	33.5	-29.0	-8.4
FX1	41	98	230	16.1	102.9	-72.2	42.2
Other Liabilities	124	218	480	75.8	120.6	-29.7	33.7
Shareholders' Equity	69	123	247	79.3	100.6	-28.3	21.6
Profit	28	43	114	54.5	162.5	-38.2	59.1
Total Liabilities	1,027	1,918	3,955	86.8	106.2	-25.3	25.0

Source: Treasury

In addition to economic developments, regulatory changes also greatly affected the course of the banking system in 1995. While the limit on the short position was set at 50% of a bank's capital base, liquidity and reserve requirements were modified so as to effectively control monetary expansion. In this context, the reserve requirement ratio for TL and foreign exchange deposits were raised to 9% and 13% from 8% and 10%, respectively. Similarly, the liquidity requirement on TL and foreign exchange liabilities, other than deposits, were increased to 9% and 12% from 8% and 9%, respectively.

**Limits on open foreign exchange position of banks**

#### Share of FX in Banks' Consolidated Balance Sheet(%)

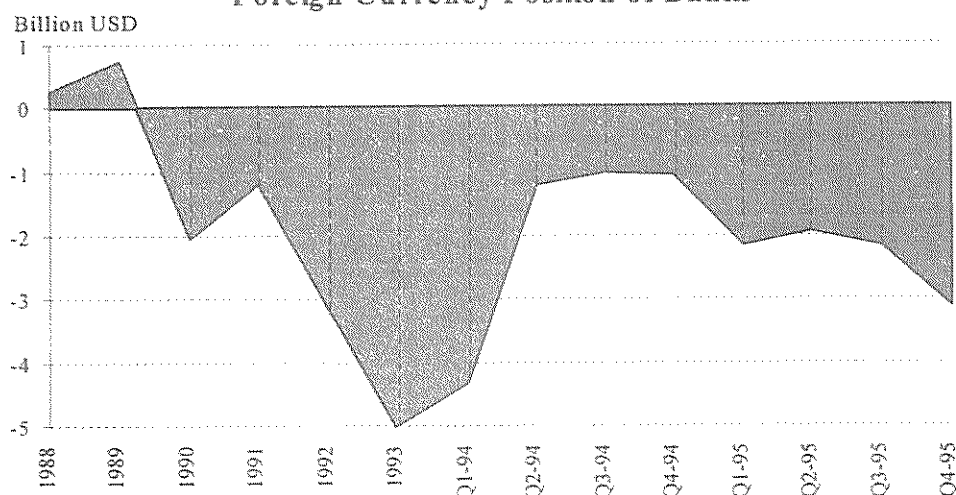
	1988	1989	1990	1991	1992	1993	1994	1995
Assets	26	25	23	29	32	37	45	43
Liabilities	24	24	26	31	37	43	47	48

Source: Banks' Association of Turkey

While the share of foreign exchange in banks' liabilities continued to rise in 1995, reaching 48% of total against 47% in 1994 and 43% in 1993, the share of foreign exchange in total assets declined to 43% from 45% the year before, and hence, short position of banks reached \$3.1bn at the end of 1995 from \$800m in 1994.

**Open foreign exchange position of banks widened in 1995**

### Foreign Currency Position of Banks



### Istanbul Stock Exchange (ISE)

Developments favourably affecting the financial sector have also had positive effects on the performance of the real sector. The corporate sector, having successfully passed the survival test in 1994, gained efficiency and increased net earnings by 63% in USD terms under the stable economic environment in 1995.

A comparison of 1995 financial results with 1993, the best year in terms of earnings performance before the economic crisis of 1994, reveals that the real sector has been successful in increasing earnings more than 30% in USD terms. Improved operating margins and better management of the working capital coupled with significantly declining real interest rates, particularly on foreign exchange loans due to lower depreciation of TL, have been the major factors raising profitability. Indeed, the ratio of financial expenses to operating profits, which stood at 44% at the end 1993, dropped to 34% in 1995.

**Net profits of ISE-listed companies soared 63% in USD terms in 1995**

**Improved operating margins and better working capital management positively affected the real sector**

### Net Profits of ISE-Listed Companies (Million USD)

	1994	1995	Change (%)
Automotive	301	283	-6
Building	23	40	75
Cables	22	26	20
Cement	170	141	-17
Chemicals	44	443	898
Electric/Electronics	151	238	58
Finance	867	1,587	83
Food & Beverage	150	165	10
Glass & Earthenware	74	102	38
Holdings	170	155	-9

(Continued)

	1994	1995	Change (%)
Iron & Steel	135	229	71
Leisure	6	15	146
Machinery	13	22	70
Media	-16	50	
Miscellaneous	82	149	81
Non-ferrous Metals	22	14	-36
Pulp & Paper	54	100	85
Textiles	184	191	4
Utilities	7	62	760
Non Financial Sector	1,59	2,425	52
Total	2,459	4,012	63

The impact of the recovery in the economic environment showed wide variations among sectors. In terms of sectoral performance, chemicals led the list with 898% earnings growth to \$443m, owing to Petkim's, state petrochemicals giant, impressive performance. Utilities followed with 760% growth, pulp & paper with 85% and financials with 83%. The textiles sector has been under-performing with only 4% growth. Automotive and cement sectors were poor performers, incurring 6% and 17% declines in earnings, respectively. Meanwhile, the media sector attained \$50m of earnings which compares with \$16m loss in the previous year.

**Chemicals and utilities achieved the highest growth in earnings**

Notwithstanding the favourable earnings performance of the corporate sector, equity investors registered a loss of 5% in USD terms in 1995 due to political uncertainty, depressing the market sentiment and leading to volatility. Indeed the bourse had displayed an outstanding performance in early 1995 in responding to strong company earnings, coupled with relative ease in the monetary policy and the Customs Union agreement.

**ISE index dropped 5% in USD terms despite the revival in economic growth**

Weak returns on alternative financial instruments, in particular, the overvalued TL exchange rate and Treasury's success in extending the maturity structure of domestic borrowing, arousing expectations of a downward trend in interest rates, have supported the upward trend in the bourse. ISE-100 in USD terms reached 746 points as of April 21, 1995, delivering a return of 80% over the end of 1994.

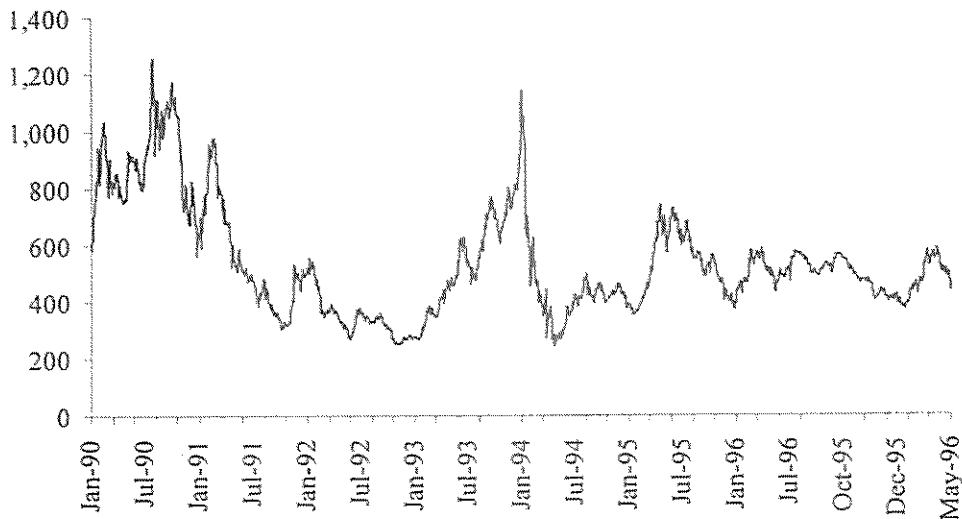
**ISE index reached its highest level in April 1995 at 746 points**

However, the rally was interrupted in late April due to uncertainty regarding the future of the coalition government. The negative market mood continued to prevail in the remaining part of the year, as political uncertainties over-shadowed financial markets. The bearish mood in the bourse was further aggravated at the approach of general elections on December 24, as investors moved away from TL denominated assets in favour of foreign currency. ISE-100 ended the year at 391 points, in USD terms, registering 5% decline over the depressed 1994 while the compounded T-Bill rate exceeded 200%.

**ISE index ended 1995 at 391 points due to political developments in the last quarter of the year**

(Jan 86 = 100)

### ISE Index in USD terms



Bearish trend of the ISE reversed to a short term rally in early February 1996 when equity investors were relieved of the nine-month political gridlock ahead of the formation of a coalition government between Motherland and True Path parties. The upward trend in the bourse was also supported by low valuation ratios compared to other emerging markets as well as the declining yield of alternative financial instruments. Indeed, return on T-Bills dropped to 120% compounded rate in the first quarter of 1996, while TL remained slightly over valued against foreign currencies.

The equity market could not sustain its upward trend, however, as the confrontation between the two parties' leaders prepared for the collapse of the coalition government. Despite strong company fundamentals and cheap valuation measures, the direction of the ISE in the remaining part of the 1996 will very much depend on political stability and the prospects of the recently formed 'Refah-Yol' coalition government.

**Stock market rallied in the first three months of 1996**

**Performance in stock market in the coming months very much depend on political environment**

# CHAPTER 4

## INFLATION



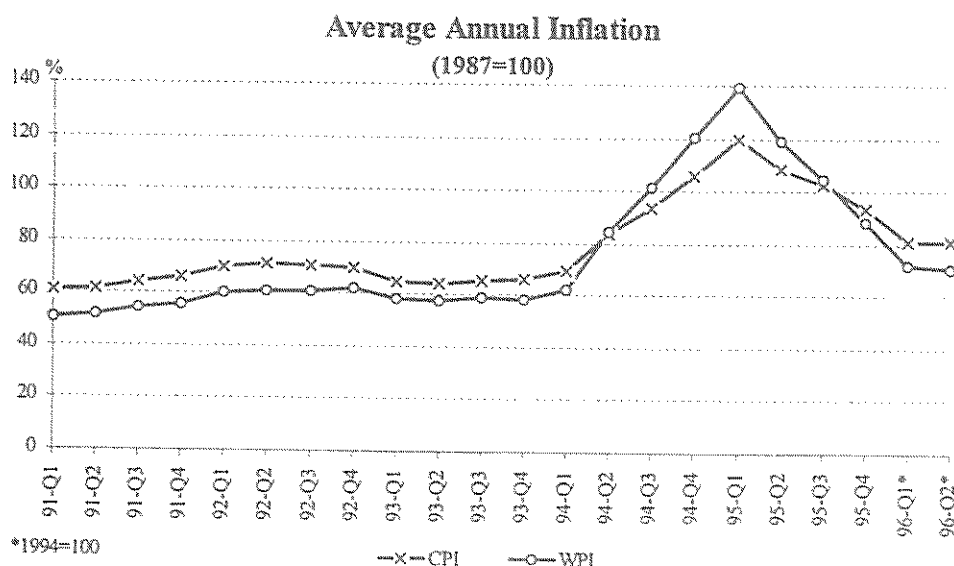


# Inflation

Government policy to tackle inflation in 1995 has been through decreasing public sector borrowing requirement and controlling monetary expansion. Certain limits set on Central Bank balance sheet was supposed to leave domestic borrowing the only way to meet PSBR. It was assumed that any increase in the budget deficit would raise domestic borrowing and subsequently interest rates, thus curbing domestic demand and slowing down the economy. In actual fact, while rising budget deficits indeed increased interest rates, domestic demand, mainly financed by private sector foreign borrowing, continued to grow, retaining inflation at high levels.

Nevertheless, inflation dropped sharply in 1995 compared to 1994, but remained above the 1993 pre-crisis level. According to year-end price indices (1987=100) published by the State Institute of Statistics, wholesale and consumer prices rose 64.9% and 78.9%, respectively, following the respective rises of 149.6% and 125.5% in 1994. The annual average increase reached 88.5% and 93.6%, respectively, in the wholesale and consumer price indices.

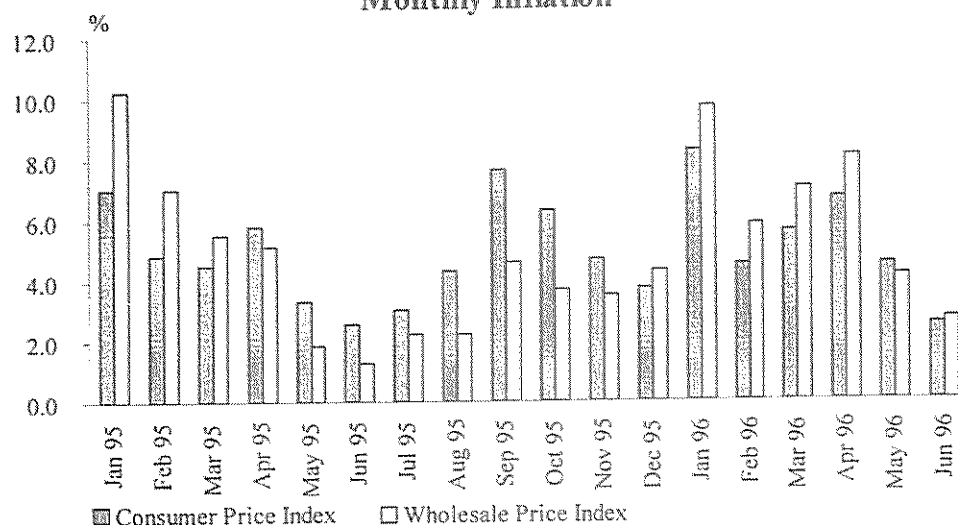
**Inflation came down sharply in 1995, but remained higher than the pre-crisis level in 1993**



Lower than expected depreciation of TL against major foreign currencies, sizeable output growth, and postponed price adjustments in the public sector have contributed towards curbing inflation in 1995 from 1994 level. The slow down in wholesale prices observed from April onwards, continued in the last months of the year as Government has been reluctant to make price adjustments when general elections were so imminent. The rise in consumer prices remained above the rise in wholesale prices in 1995 due to rising domestic demand coupled with monetary expansion and real appreciation of TL.

**Delayed public sector price adjustments contributed positively to the drop in inflation**

### Monthly Inflation



On a sectoral basis, wholesale price inflation was the highest in the agricultural sector with 118.7%, reflecting the effects of lower than expected harvest and the fall in live animal raising in 1995. The manufacturing sector followed with 83.5%, while price increase in the mining sector remained below the average with 76.6%. Energy sector, where prices are determined by the public sector, recorded the lowest increase with 47.8%, indicating lagged price adjustment. Among the manufacturing sub-sectors, paper & printing recorded the highest price increase with 106.5% due to rising pulp prices in the international markets, followed by machinery and textiles. The lowest price increase occurred in the earthenware with 55.6%.

**Inflation was highest in agriculture and lowest in energy**

### Inflation by Sectors (12-Month Average Change, 1987=100)

	1993	1994	1995
Overall	58.4	120.7	88.5
Agriculture	62.2	97.8	118.7
Mining	57.9	132.8	76.6
Energy	67.8	102.3	47.8
Manufacturing	56.6	129.4	83.5
Food	59.9	128.6	82.2
Textiles	54.1	131.1	88.9
Wood	77.5	89.1	80.7
Paper & Printing	90.8	113.0	106.5
Chemicals	48.5	142.1	81.9
Earthenware	58.1	109.6	55.6
Metals	71.6	149.0	80.2
Machinery	49.2	111.3	89.3
Other Industry	67.7	168.7	85.2

Source: State Institute of Statistics

In the first six months of 1996, however, inflation accelerated whereby wholesale and consumer price indices gained 43.7% and 36.7%, respectively, due to public sector price adjustments postponed so far with concern over the outcome of elections. During this period, price increases in the public sector reached 55% against 41% in the private sector. Consequently, year-on-year inflation in June rose slightly to 76.2% in terms of wholesale, and 82.9% in terms of consumer prices.

**By the end of June 1996, annual inflation was 76.2% in terms of WPI and 82.9% in terms of CPI**

**Changes in WPI and CPI by Periods (1994=100, %)**

	<b>CPI</b>	<b>WPI</b>
June 1996	2.5	2.7
June 1995	2.6	1.3
Dec.1995 - June 1996	36.7	43.7
Dec.1994 - June 1995	31.6	35.1
May 1995 - June 1996	82.9	76.2
May 1994 - June 1995	80.9	78.1

*Source: State Institute of Statistics*

The pace of inflation in the rest of the year will very much depend on the financing of the public sector deficit. Notwithstanding the Economic Programme target, the new coalition Government agreed to 50% across the board salary increase for civil servants, creating an additional TL125 trillion burden on the budget. Financial resources required to cover this additional burden have yet to be identified and secured.



# CHAPTER 5

## FOREIGN ECONOMIC RELATION



# Foreign Trade

Rapid economic growth, reduced import duties, and the overvalued TL led to a soaring trade deficit, especially in the second half of 1995, reaching \$14.1bn, or 8.4% of GNP. This compares with 63.3% decline in 1994 to \$5.2bn, representing 4% of GNP. Imports soared to \$35.7bn (21% of GNP) in 1995, reflecting 53.5% increase from \$23.3bn in 1994, while exports reached \$21.6bn (13% of GNP), up 19.5% from \$18.1bn. Accordingly, the export/import coverage ratio dropped sharply to 60.6% from 77.8% in the previous year.

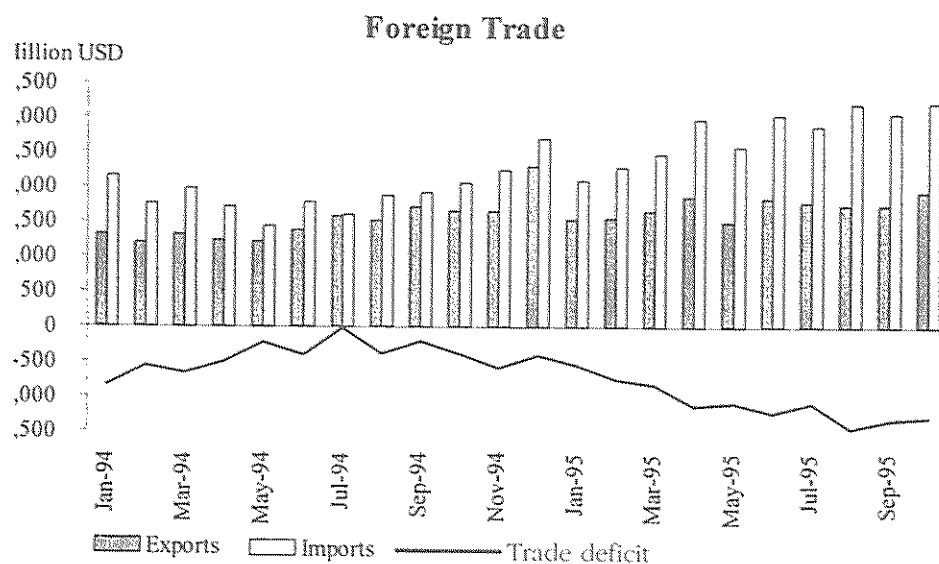
**Trade deficit sharply widened to \$ 14.1 bn in 1995**

**Export/import coverage ratio down to 61% from 78% in 1994**

## Foreign Trade

	1993		1994		1995	
	USD Bn.	Chg.(%)	USD Bn.	Chg.(%)	USD Bn.	Chg.(%)
Exports (FOB)	15.3	4.3	18.1	18.0	21.6	19.5
Imports (CIF)	29.4	28.7	23.3	-20.9	35.7	53.5
Trade Deficit	14.1	72.7	5.2	-63.3	14.1	172.5
Exp./Imp. (%)	52.1	77.8	60.6			
Trade Bal./GNP (%)	-7.8	-4.0	-8.4			

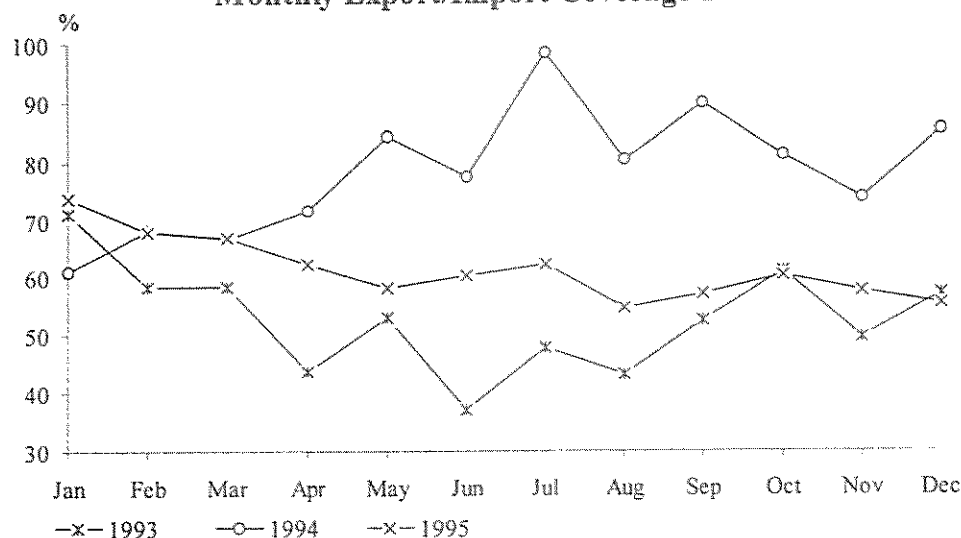
Source: State Institute of Statistics



Meanwhile, there has been an increase of 13.6% in the average price of exports in 1995 against 17.2% rise in imports, reducing the competitive edge of Turkish exports, whereas the average price of exports dropped 3.7% while the average price of imports rose 0.9% in 1994.



### Monthly Export/Import Coverage Ratio



Raw materials and investment goods continued to represent the largest share in total imports with 58.3% and 29.4%, respectively. Raw material imports increased by 53% in 1995, reflecting the considerable output growth in the manufacturing sector, the rise in international commodity prices, and the fall in the parity of USD against major currencies. Similarly, investment goods imports rose 52.1% in the same period, due to growing investment expenditure of the Turkish private sector, as well as the rise in foreign direct investment ahead of customs union with EU. The increase in consumer goods imports was the highest with 58.8%, increasing their share in total to 12.4 % from 11.9% in 1994.

**Raw material and investment goods imports increased 53% and 52%, respectively**

### Imports by Main Commodity Groups

	1994		1995		Change (%)
	M. USD	Shr.(%)	M. USD	Shr.(%)	
Investment Goods	6,894	29.6	10,488	29.4	52.1
Construction	745	3.2	946	2.6	26.9
Machinery	6,129	26.3	9,245	25.9	50.8
Consumer Goods	2,780	11.9	4,414	12.4	58.8
Raw materials	13,596	58.4	20,807	58.3	53.0
Total	23,270	100.0	35,709	100.0	53.5

Source: State Institute of Statistics

Consumer goods exports, representing 58.1% of total exports, experienced the highest growth performance in 1995 with 28.9%, while investment goods exports grew 12% and shared 16.3% of the total. The share of raw materials represented 25.6%, but growth was modest at 6.4%.

**Consumer goods exports increased 28.9%**

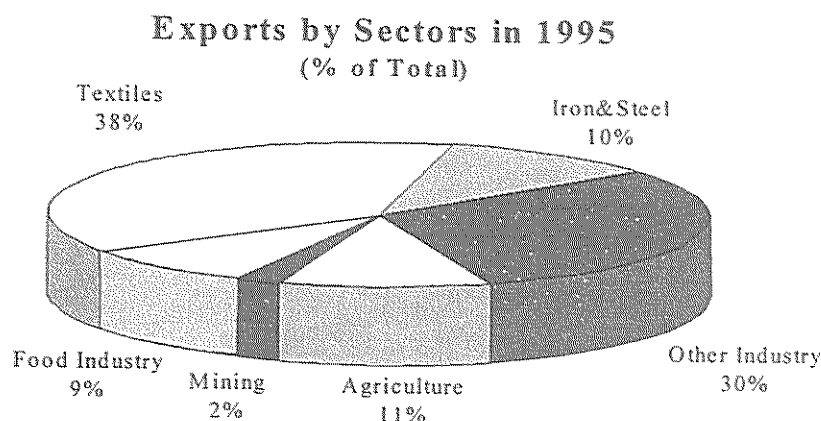
## Exports by Main Commodity Groups

	1994		1995		Change (%)
	M. USD	Shr.(%)	M. USD	Shr.(%)	
Investment Goods	3,141	17.3	3,518	16.3	12.0
Construction	1,739	9.6	1,918	8.9	10.3
Machinery	1,263	7.0	1,520	7.0	20.4
Consumer Goods	9,756	53.9	12,574	58.1	28.9
Raw material	5,208	28.8	5,543	25.6	6.4
Total	18,106	100.0	21,636	100.0	19.5

Source: State Institute of Statistics

In terms of sectoral breakdown, the composition of exports slightly changed in 1995 as the share of agriculture declined to 11% from 14% in 1994, and industry rose to 87% from 85%. The rise in industrial exports amounted to 23.1%, the highest increase being recorded in processed agricultural products with 26.3%, representing 11% of total industrial exports. This was followed by 22.9% rise in manufacturing, representing 87% of total industrial exports, where textiles and iron & steel occupied the highest shares. Agricultural product exports, on the other hand, experienced 6.3% contraction due to lower than expected harvest in 1995, while mining exports rose 49% to \$405m from \$272m the year before.

**Upward trend in industrial exports continued**



In terms of major destinations of foreign trade, OECD Member Countries continued to be the major trading partners representing 61.1% of total exports and 66.1% of total imports. Within the OECD group, EU countries took the highest share with 51.2% of exports and 47.2% of imports. In 1995, exports to EU countries grew 28.3%, against import growth of 54.5%. Meanwhile, imports from non-OECD European countries and Asian countries experienced the strongest increases with 75.9% and 97.4%, respectively, attaining respective shares of 12.8% and 7.1% in total imports.

**OECD Member Countries remained Turkey's major trading partners**

### Foreign Trade by Destination (Million USD)

	Exports			Imports		
	1994	1995	Chg.(%)	1994	1995	Chg.(%)
OECD Countries	10,758	13,223	22.9	15,334	23,595	53.9
EU	8,635	11,078	28.3	10,915	16,860	54.5
EFTA	277	294	6.1	563	892	58.4
Other OECD	1,846	1,851	0.3	3,856	5,843	51.5
Non-OECD Co.	7,348	8,413	14.5	7,936	12,114	52.6
European	2,437	3,567	46.4	2,590	4,555	75.9
Mid-East	2,050	2,050	0.0	2,529	2,688	6.3
Other	2,861	2,796	-2.3	2,817	4,871	72.9
Total	18,106	21,636	19.5	23,270	35,709	53.5

Source: State Institute of Statistics

Germany has been once again the largest trade partner of Turkey with 23.3% (21.7% in 1994) and 15.5% (15.7% in 1994) respective share in exports and imports, followed by USA with 7.0% and 10.4%. Italy ranked third with 6.7% share in exports and 8.9% in imports. In terms of countries' share in Turkey's trade deficit, USA ranked first with \$2.2bn followed by Italy and Japan with \$ 1.7bn and \$1.2bn respectively.

Highest trade volume again with Germany

### Foreign Trade by Individual Countries<sup>1</sup> (Million USD)

	Exports			Imports		
	1994	1995	Chg.(%)	1994	1995	Chg.(%)
Germany	3,934	5,036	28.0	3,646	5,547	52.1
USA	1,520	1,513	-0.5	2,429	3,723	53.3
Italy	1,034	1,457	40.9	2,009	3,193	58.9
UK	889	1,136	27.8	1,170	1,830	56.4
France	851	1,033	21.4	1,458	1,996	36.9
Russian Fed.	820	1,238	51.0	1,045	2,082	99.2
The Netherlands	621	737	18.7	740	1,084	46.5
Saudi Arabia	609	470	-22.8	1,229	1,384	12.6
Japan	186	180	-3.2	967	1,400	44.8

(1) Ranked according to 1995 exports, Source: State Institute of Statistics

Foreign trade figures have finally been released by SIS in July 1996 yet solely on the first month of 1996. As expected, dismantled trade barriers with the European Unity took its toll on the foreign trade in January 1996 as imports upsurged 44% from the same month in 1995 to \$3bn whereas exports rose only 12%, reaching \$1.7bn and resulting in a major drop in export-import coverage ratio to 57% from 74% in January 1995. Accordingly, foreign trade deficit rose 136% in the same period to \$1.3bn.

Foreign trade deficit significantly widened in January 1996

The highest export growth recorded in mining sector with 33%, while imports of agriculture ranked first in import growth due to lower than expected harvest in 1995. Shares of sectors remained unchanged both in exports and imports with industry sector residing 85% of exports and 83% of imports.

**Foreign Trade by Sectors (Million USD):**

	Exports			Imports		
	Jan-95	Jan-96	Chg.(%)	Jan-95	Jan-96	Chg.(%)
Total	1,550	1,733	11.8	2,097	3,023	44.2
Agriculture	191	237	24.6	142	236	66.5
Mining	21	28	33.0	247	281	13.7
Industry	1,338	1,467	9.7	1,708	2,506	46.7

Source: State Institute of Statistics

Raw materials and investment goods secured, once again, the largest share in total imports with 58% and 30%, respectively. Imports of investment goods rose 94% whereas the rise in raw material imports stood at 29%. The increase in consumer goods imports reached 39%, while its share in total remained unchanged at 13%.

**Foreign Trade by Commodity Groups (Million USD):**

	Exports			Imports		
	Jan-95	Jan-96	Chg.(%)	Jan-95	Jan-96	Chg.(%)
Total	1,550	1,733	11.8	2,097	3,023	44.2
Investment Goods	248	288	16.1	461	894	93.7
Consumer Goods	893	964	8.0	277	386	39.2
Raw Materials	408	480	17.6	1,358	1,743	28.3

Source: State Institute of Statistics

In the absence of official trade figures so far for 1996 except for the first month, unofficial estimates suggest that trade deficit widened sharply as a result of the continuing economic activity, and the real appreciation of TL. The dismantling of trade barriers with EU Countries is likely to add to the deficit, as demand for investment goods imports by Turkish private sector in order to strengthen its competitive position will be on the rise. Moreover, the slow down in some European economies and the real appreciation of TL will be encouraging European producers to raise their market share in Turkey.

**Trade deficit is expected to widen sharply in 1996**

Indeed, unofficial data for the first quarter of 1996 supports this argument. Imports rose 37.7% while exports grew by only 15%, widening the trade deficit by 86% from \$2.2bn to \$4.1bn. The trade deficit for the entire year is thus expected to reach \$19bn, considerably exceeding the government estimate of \$15.1bn unless a major slow down in economic activity occurs in the remaining part of 1996

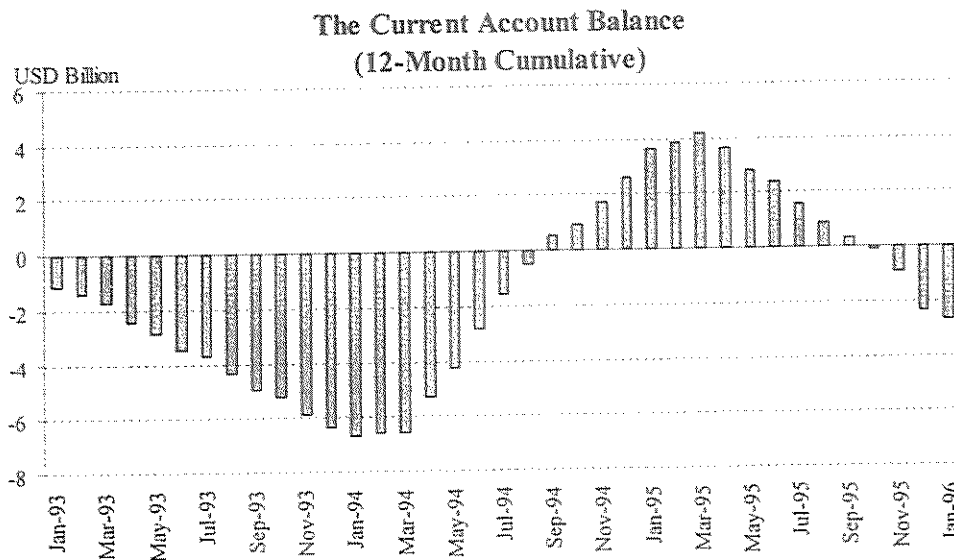
**Unofficial results indicate deficit at \$4.1bn while estimate for the year stands at \$19bn**

**Current Account**

The current account balance was once more in the red territory in 1995 with a modest \$2.3bn deficit (1.4% of GNP) after recording \$2.6bn of surplus (2% of GNP) in 1994, due to the substantial contraction in domestic demand that year.

**\$2.3bn current account deficit in 1995**

The record high current account deficit of \$ 6.4bn was registered in 1993 (3.6% of GNP).



The expansion in the current account deficit in 1995 originated mainly from the deterioration in the trade balance, while the decline in interest payments and the hefty rise in tourism revenue and workers' remittances partially offset the soaring deficit. Net interest payments declined \$218m, or 7.2%, to \$2.8bn, while net tourism revenue increased \$591m, or 17%, to \$4bn in line with the increase in the number of tourist arrivals. Furthermore, workers' remittances, which constitute an important source of invisibles income, increased \$701m, or 26.3%, to \$3.4bn. Meanwhile, other invisibles revenue experienced the highest contribution and rose \$2.5bn, or 67%, to \$6.3bn, the size of which, combined with net errors and omissions item, amounting to \$2.3bn, implies the substantial foreign currency inflow generated by Turkey's huge unregistered economy. \$1.1bn-aid from an international fund formed after the Gulf War to cover losses due to UN sanctions to Iraq also contributed positively to the current account balance.

**\$2.8bn net interest payments in 1994**

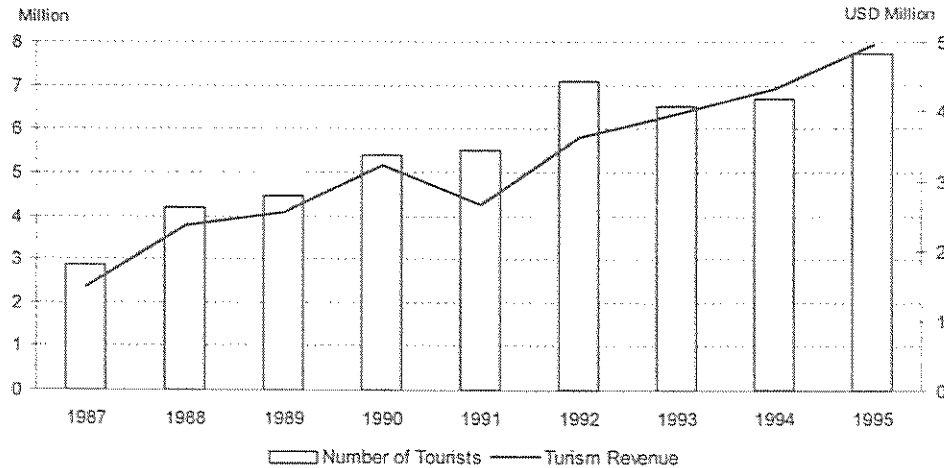
**Other invisibles at \$6.3bn the largest contributor**

According to January 1996 data, although negative effects of soaring foreign trade deficit on the current account balance was more than compensated by the surplus in invisibles balance, current account surplus declined 54% to \$277m in January 1996 from \$608m in the same month in 1995.

Current account deficit is targeted to reach \$3.8bn in the government programme. However, it is widely accepted that the deficit will exceed \$5-6bn in line with the growing trade deficit.

**Current account deficit likely to exceed \$5bn in 1996**

## Number of Tourists and Tourism Revenue

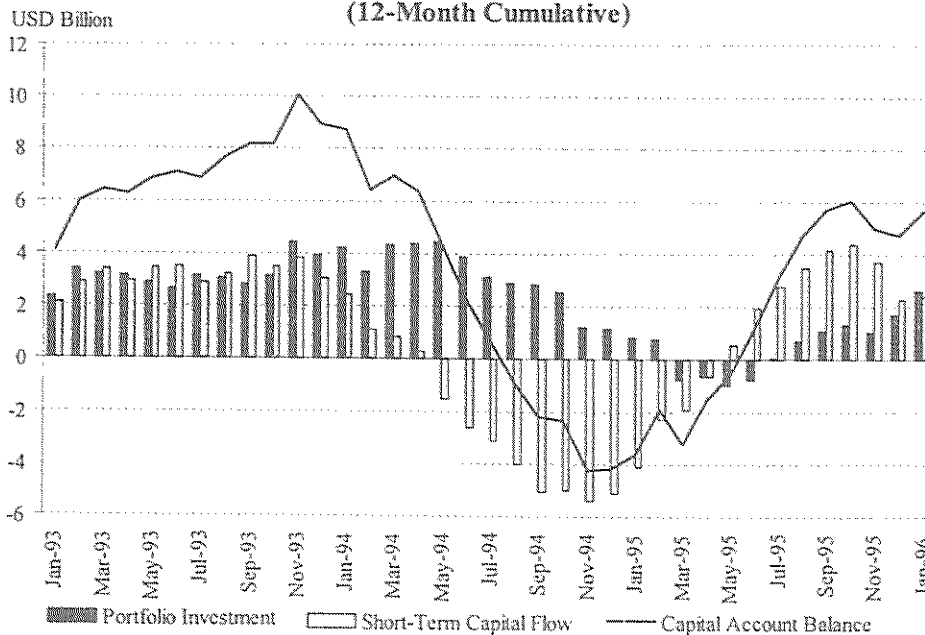


## Capital Account

Capital inflow expanded rapidly in 1995 in line with the improvements in foreign investor confidence to the Turkish economy. Total capital inflow amounted to \$4.7bn in 1995, contrary to the drastic outflow of \$4.2bn the year before, and has been the main source of the economic growth in 1995.

**\$4.7bn capital inflow in 1995**

## The Capital Account Balance (12-Month Cumulative)



Short-term capital inflow and portfolio investments constituted \$2.3bn and \$1.7bn, respectively. Besides the expansion in economic activity, real appreciation of domestic currency and hefty returns on government securities also contributed to the rise in the short term capital inflow. Foreign direct investment permits totalled

**Most of the capital inflow was short-term**

\$2.9bn, substantially higher than \$1.5bn in 1994, while the rise in actual investment was rather moderate, up \$298m to \$935m. Meanwhile, net errors and omission for 1995 increased to \$2.3bn, up from \$1.8bn, indicating the substantial contribution of unrecorded foreign exchange inflow.

In the first month of 1996, on the other hand, portfolio investments rose at record-breaking pace and was up from \$25m in January 1995 to \$925m in January 1996, of which \$93m was raised through Treasury's euroyen issue. Short-term capital inflow, on the other hand, rose 11% in the same period.

**\$925m foreign  
portfolio investment  
in January 1996**

Despite current estimates on widening current account deficit, fx markets have shown no sign of tightness so far in 1996, suggesting that capital supply remained adequate, while Central Bank continued to build foreign currency reserves. Yet its short term nature and high volatility increases the possibility of substantial capital flight in case of adverse developments in politics or in the economy, which, in turn, would further deteriorate the delicate macroeconomic balances.

#### Balance of Payments (Million USD)

	1994	1995	Jan-95	Jan-96	1996-Prog.
Current Account Balance	2,631	-2,339	608	277	-3,800
Foreign Trade Balance	-4,216	-13,212	-440	-1,163	-15,100
Exports (FOB)	18,390	21,975	1,569	1,768	25,400
Less Imports (FOB)	22,606	35,187	2,009	2,931	40,500
Invisibles Balance (Net)	6,847	10,873	1,048	1,440	11,300
Tourism	3,455	4,046	112	106	4,900
Workers' Remittance	2,664	3,365	229	427	3,350
Interest	-3,033	-2,815	-104	-90	-3,050
Other	3,761	6,277	811	997	6,100
Capital Account Balance (Net)	-4,194	4,727	803	1,735	6,300
Direct Investment	559	772	20	8	1,200
Portfolio Investment	1,158	1,729	25	925	3,180
Long-Term Capital	-784	-79	-72	-123	300
Short-Term Capital	-5,127	2,305	830	925	1,620
Net Error & Omissions	1,769	2,275	652	-403	
General Balance	206	4,658	2,063	1,609	

Source: Central Bank

#### External Debt

There has been a 12% increase in the outstanding foreign debt in 1995, reaching \$73,278m from \$65,601m in 1994, yet the ratio of external debt to GNP declined to 43.5% from 49.9% in the same period. 57% of the \$7,677m. increase in external debt, \$4.4bn, was in the form of short-term credits, mostly by private sector, whose share in the total rose to 21%. Borrowing by the private sector was the main so-

**\$73.3bn outstanding  
foreign debt**

urce of the increase. Public sector foreign debt (excluding state owned banks) increased slightly to \$50bn in 1995 from \$48.1bn in 1994 whereas private sector (including state owned banks) foreign debt rose \$5.8bn to \$23.3bn. However, \$1,970m of the increase in total outstanding foreign debt resulted from the depreciation of USD against the DM and the Japanese Yen.

The currency composition of the outstanding foreign debt, as of year-end 1995, is approximately 35% in USD, 35% in DM, 19% in Japanese Yen, and 12% in other currencies. Parity changes have, indeed, a significant bearing on the volume of foreign debt as it is denominated in USD. Similarly, the appreciation of USD against DM since the beginning of this year is likely to have a reverse effect, and reduce the outstanding total in USD terms.

### Outstanding Foreign Debt

	1994		1995	
	USD Million	Share(%)	USD Million	Share(%)
Total	65,601	100	73,278	100
Medium and Long Term	54,291	83	57,577	79
Public Sector	48,147	73	49,958	68
Private Sector	6,144	9	7,619	10
Short-Term	11,310	17	15,701	21
Parity Effect	4,301	7	1,970	3

Source: Central Bank

Foreign debt servicing, on the other hand, rose 19.1% in 1995 and reached \$11.9bn (7.1% of GNP) from \$10bn (7.6% of GNP) in 1994. 63.8% of the total servicing, \$7.6bn, was principal payments and the remaining 36.2%, \$4.3bn, was interest payments.

### Changes in Foreign Debt Servicing (%)

	1992		1993		1994		1995	
	Chg.	Shr.	Chg.	Shr.	Chg.	Shr.	Chg.	Shr.
Total	12.7	100.0	-3.3	100.0	21.5	100.0	19.1	100.0
Principal	28.5	62.2	-12.1	56.6	30.5	60.7	25.1	63.8
Interest	-6.2	37.8	11.1	43.4	9.8	39.3	9.7	36.2

Source: Treasury

According to Central Bank figures, total debt servicing amounted to \$4bn in the first half of 1996, while the total for the entire year stands at \$10.9bn. No difficulty is expected in this respect, given the foreign exchange reserves of the Central Bank currently equal to \$16bn.

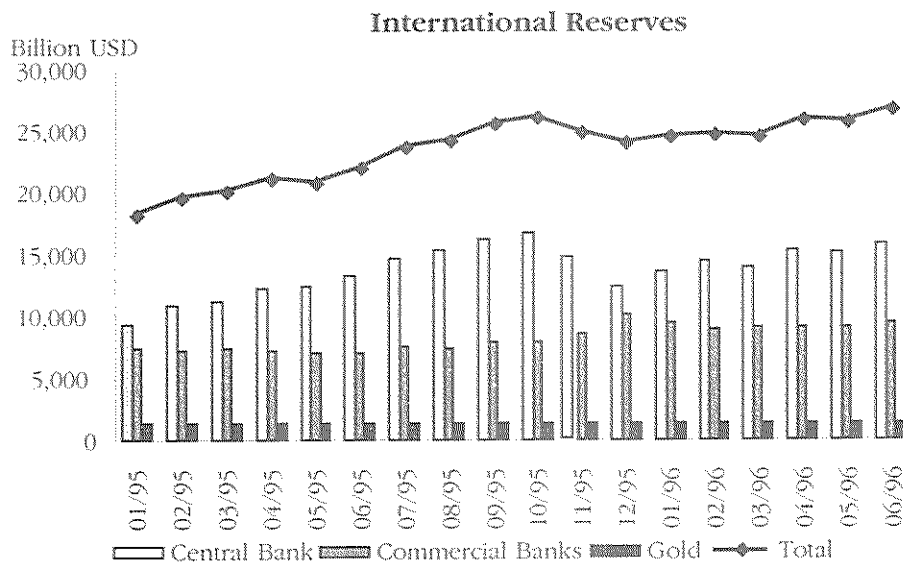
**Foreign debt servicing  
for 1996 totals \$10.9bn**



## International Reserves

International reserves composed of gold, and foreign exchange reserves of Central Bank and commercial banks increased substantially during 1995 amounting to \$26bn in October against \$16.5bn at the end of 1995, as a result of capital inflow and the return of foreign exchange hoarded back to financial system. Although Central Bank reserves declined sharply when banks, wishing to close their short positions ahead of the December 24 early elections, fuelled fx demand, the reserve position at the end of the year stood at \$24bn, up \$7.4bn from 1994 year-end.

**International reserves rose sharply in 1995**



Starting in early 1996, Central Bank recovered much of the fx reserve losses when Treasury raised T-bill rates in line with market expectations, which were notably high amid the political uncertainties prevailed after the general elections. Thus, investor preference shifted once again towards TL denominated assets, and international reserves reached a record high of \$26.7bn in June, up \$2.7bn from 1995 year-end. Improvement in foreign reserves at a time when the trade deficit is anticipated to exceed the 1993 level has been essentially the result of significant size of unregistered exports and presumably continuing capital inflow. Central Bank's successful control over money markets in co-ordination with Treasury has also helped building up fx reserves.

**International reserves at all-time high of \$27bn in June 1996**

## Foreign Exchange Rates

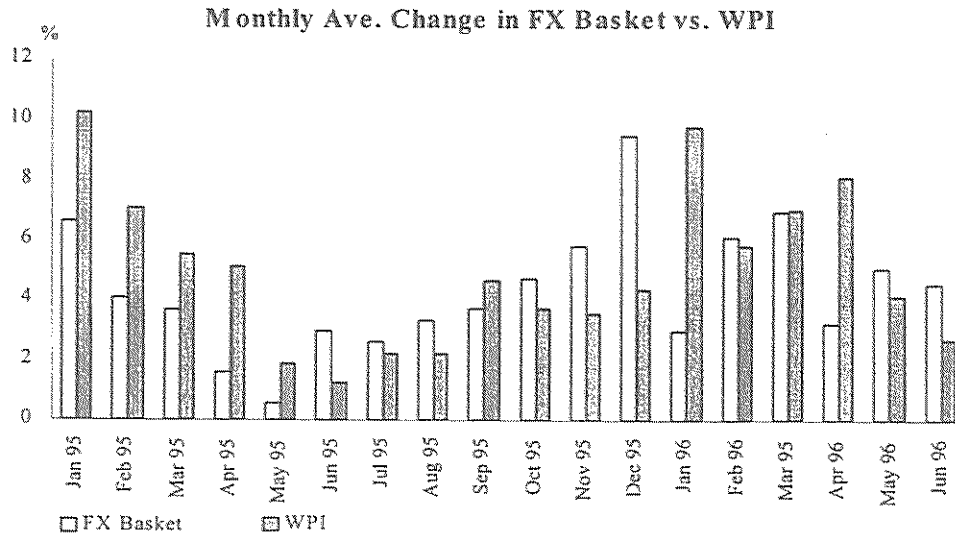
The change in the value of the fx basket (consisting of \$1 and DM1.5) remained below the change in the wholesale price index in 1995 when respective increases amounted to 61% and 66%. In 1995, in every month until July, appreciation in the value of the fx basket remained much below the change in wholesale price index. Respective increases in the value of fx basket and WPI amounted to 24% and 38%

**TL appreciated in real terms against fx basket in 1995**

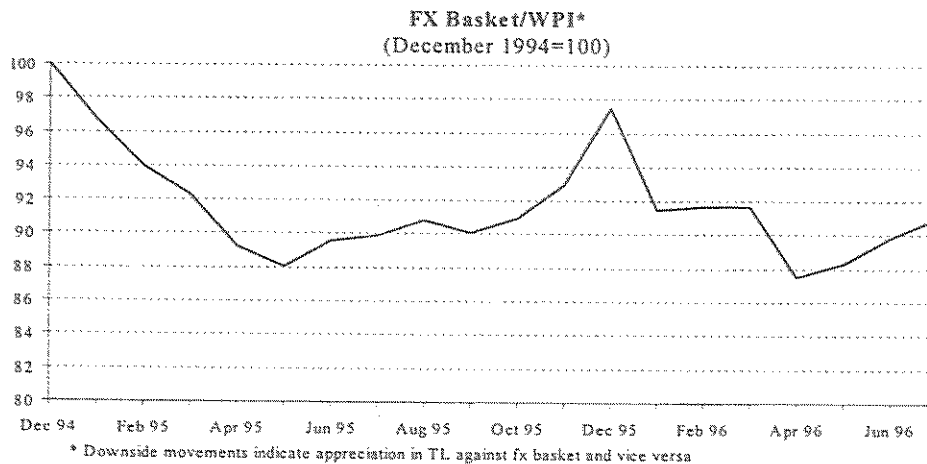
in this period. In the remaining months, however, this trend reversed and the value of the fx basket rose 30% against 20% increase in WPI.

In the first half of 1996, parallel to Treasury's stepping up interest rates to the level requested by markets, demand for fx has been weak. Accordingly, TL appreciated against the fx basket in this period, albeit in a lesser degree, as respective increases in WPI and the basket amounted to 44% and 32%.

**Real TL appreciation continued in 1996**



An overall analysis of the January 1995-June 1996 period reveals that TL became significantly overvalued against fx basket. In this period, WPI rose 138% whereas the value of the fx basket was up 114%, resulting in 10% overvaluation in TL.





## APPENDIX I



## Results of a Questionnaire on TÜSIAD Members' Future Expectations, JULY 1996

Since 1985, TÜSIAD has been preparing and distributing to all its members a questionnaire which is aimed at providing a survey of TÜSIAD members' opinions on economic developments in Turkey. The number of respondents increases year by year. 104 members answered the last questionnaire.

TÜSIAD members are optimistic about the future. In all, 70.4 per cent of the respondents expect that 1997-2001 period will be more successful than the previous half decade.

### **Expectations as Regards the Period 1997-2001 in Comparison with 1992-1996 (Per cent of respondents)**

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1997-2001 period will be more successful	70.4
1992-1996 period was more successful	29.6

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According to 33.0 per cent of TÜSIAD members, inflation is regarded as the leading problem of the Turkish economy in 1996, whereas 16.0 per cent point out public expenditures as the most important problem. 13.8 per cent of members ranked political instability as the most important problem. Outstanding domestic debt is ranked first as the major problem by 12.8 per cent of the members. Another 7.4 per cent ranked terrorism as the major problem. Education-health and income inequality are equally ranked by 4.3 per cent of respondents as the most important problem.

When asked which are the most important three problems of the Turkish economy, 65.8 per cent of respondents ranked inflation among the three major problems. Terrorism is ranked second with 40.2 per cent and domestic debt as third with 39.2 per cent.

TÜSIAD members foresee that social problems will gain importance in the year 2001. Income inequality is ranked first among the anticipated major problems of the Turkish economy in 2001 by 26.2 per cent. Another 21.4 per cent cite education-health as the major problem, whereas 13.6 per cent perceive inflation as the most important problem. Unemployment is perceived as the most important problem by the year 2001 by 11.7 per cent, while 7.8 per cent believe the most important problem will be domestic debt.

## THE MOST IMPORTANT PROBLEMS

	<u>1996</u>	<u>2001</u>
Inflation	33.0	13.6
Public expenditures	16.0	4.9
Political instability	13.8	1.9
Domestic debts	12.8	7.8
Terror	7.4	1.0
Income distribution	4.3	26.2
Education and health	4.3	21.4
Unemployment	3.2	11.7
High interest rates	3.2	0.0
Lack of technology	0.0	4.9
Growth rate	0.0	3.9
Foreign trade deficit	0.0	1.9
Bureaucracy	0.0	1.0

Questionnaire results indicate that economic performance in 1995 immediately started picking up after the crisis year of 1994. Production levels increased in 72.9 per cent of respondents, while capacity utilisation, fixed capital investment and domestic sales all increased in over 60 per cent of the respondents.

### Evaluation of Economic Performance in 1995 compared to 1994 (Per cent of Respondents)

	<u>Increase</u>	<u>No change</u>	<u>Decrease</u>	<u>No answer</u>
Production	72.9	12.5	10.4	4.2
Capacity utilisation	63.8	21.3	10.6	4.3
Fixed capital investments	66.3	14.7	12.6	6.3
Average stocks	24.4	38.9	28.9	7.8
Domestic sales	66.3	15.2	13.0	5.4
Exports	51.6	22.0	14.3	12.1

The questionnaire results of last year show that TÜSIAD members had expected 1996 to be a year where economic recovery would continue with increases in production, capacity utilisation and sales. A comparison of respondents' expectations in 1995 and evaluation of their stance in 1996 shows that respondents' expectations regarding capacity utilisation and fixed capital investments have been mainly fulfilled. On the other hand respondents' expectations of their production and sales performance were optimistic as realisation estimates for 1996 fall slightly short relative to their expectations.

Questionnaire results suggest that TÜSIAD members predict 1996 to be a successful year with respect to the productivity and sales performance of their firms. 66 per cent of the respondents anticipate an increase in their production in 1996 as compared to 1995. A fall in production levels is only predicted by 7.0 per cent of respondents. Furthermore 60.2 per cent of the members anticipate an increase in their capacity utilization. According to 54.1 per cent of the respondent firms fixed capital investments will increase. Both domestic sales and exports are estimated to increase in 57.3 per cent and 41.3 per cent of the members respectively. Together with the revival of the domestic economy, only 20.7 per cent predict an increase in stocks while 26.1 per cent expected a decrease.

**Evaluation of Anticipated Economic Performance in 1996 Compared to 1995**  
(Per cent of respondents)

	<u>Increase</u>	<u>No change</u>	<u>Decrease</u>	<u>No answer</u>
Production	66.0	23.0	7.0	4.0
Capacity utilisation	60.2	29.6	6.1	4.1
Fixed capital investments	54.1	25.5	14.3	6.1
Average stocks	20.7	44.6	26.1	8.7
Domestic sales	57.3	28.1	9.4	5.2
Exports	41.3	34.8	13.0	10.9

TÜSIAD members expect that their economic performance in 1997 will be similar to that of 1996. 61.1 per cent of the respondents expect an increase in production with respect to the previous year while only 2.2 per cent foresee a decline. Moreover 50.0 per cent forecast increases in exports, whereas merely 7.3 per cent predict a decrease. Domestic sales volume is expected to increase by 52.4 per cent of the respondents. Increase in fixed capital investments are planned by 42.7 per cent of respondents while 54.9 per cent expect no change in their average stock level.

**Expectations of Economic Performance in 1997 as Compared to 1996**  
(Per cent of respondents)

	<u>Increase</u>	<u>No change</u>	<u>Decrease</u>	<u>No answer</u>
Production	61.1	30.0	2.2	6.7
Capacity utilisation	53.4	36.4	2.3	8.0
Fixed capital investments	42.7	28.1	19.1	10.1
Average stocks	13.4	54.9	17.1	14.6
Domestic sales	52.4	31.0	6.0	10.7
Exports	50.0	24.4	7.3	18.3

As to the price adjustment behaviour of TÜSIAD members, only 10.9 per cent increased their prices relative to inflation rate, whereas, increase in prices remained below the rate of inflation in 53.3 per cent of the firms in 1995. In 1996, only 5.3 per cent of the firms estimate to compensate for the deterioration in their relative prices, while 40.0 per cent consider adjusting prices in relation to inflation



rate and 48.4 per cent consider that the price increase in their products will remain below the general price level increase. For 1997, 47.0 per cent expect to adjust prices in relation to inflation rate, but 7.2 per cent plan an increase above the rate of inflation.

**PRICE ADJUSTMENT**  
**(Per cent of respondents)**

	<u>1995</u>	<u>1996</u>	<u>1997</u>
Higher in relation to rate of inflation	10.9	5.3	7.2
Same as the rate of inflation	30.4	40.0	47.0
Lower than the rate of inflation	53.3	48.4	28.9
No answer	5.4	6.3	16.9

## APPENDIX II



**Macroeconomic Balance (TL billion, at current prices)**

					% Share		
					1994	1995*	1996**
	1993	1994	1995*	1996**			
I. 1. GNP	1,997,323	3,887,903	7,644,206	13,500,050	100.0	100.0	100.0
2. Foreign Deficit	96,906	-57,323	266,181	526,500	-1.5	3.5	3.9
3. Total Resources	2,094,229	3,830,580	7,910,387	14,026,550	98.5	103.5	103.9
4. Total Investment	531,497	834,284	1,884,904	3,395,644	21.5	24.7	25.2
5. Fixed Capital Investment	505,867	946,186	1,786,277	3,301,012	24.3	23.4	24.5
5.1 Public	144,133	192,242	320,433	661,551	4.9	4.2	4.9
5.2 Private	361,733	753,944	1,465,844	2,639,462	19.4	19.2	19.6
6. Change In Stock	25,630	-111,902	98,627	94,632	-2.9	1.3	0.7
6.1 Public	1,561	-50,632	-35,131	641	-1.3	-0.5	0.0
6.2 Private	24,070	-61,270	133,758	93,990	-1.6	1.7	0.7
7. Total Consumption	1,562,732	2,996,296	6,025,483	10,630,906	77.1	78.8	78.7
II. 8. Public Disposable Income	189,091	370,886	655,739	1,138,145	9.5	8.6	8.4
9. Public Consumption	245,710	418,750	751,195	1,430,328	10.8	9.8	10.0
10. Public Savings	-56,620	-47,864	-95,456	-292,184	-1.2	-1.2	-2.2
11. Public Investments	145,694	141,610	285,302	662,192	3.6	3.7	4.9
12. Public (Saving-Investment)	-202,314	-189,474	-380,758	-954,375	-4.9	-5.0	-7.1
III. 13. Private Disposable Income	1,808,232	3,517,016	6,988,467	12,361,905	90.5	91.4	91.6
14. Private Consumption	1,317,022	2,577,546	5,274,289	9,200,578	66.3	69.0	68.2
15. Private Savings	491,210	939,470	1,714,179	3,161,327	24.2	22.4	23.4
16. Private Investment	385,803	692,674	1,599,602	2,733,452	17.8	20.9	20.2
17. Private (Saving-Investment)	105,408	246,796	114,577	427,875	6.3	1.5	3.2
18. Private Savings Ratio	24.6	26.7	24.5	25.6			
19. Total Domestic Savings	434,591	891,606	1,618,723	2,869,144	22.9	21.2	21.3
20. F. Capital Invest./ GNP	25.3	24.3	23.4	24.5			
21. Domestic Saving / GNP	21.8	22.9	21.2	21.3			

**Macroeconomic Balance (TL billion, at 1994 prices)**

					% Change	
					1995*	1996**
	1993	1994	1995*	1996**		
I. 1. GNP	4,139,808	3,887,903	4,202,272	4,391,374	8.1	4.5
2. Foreign Deficit	240,663	-57,323	89,603	137,248	-3.8	-1.1
3. Total Resources	4,380,471	3,830,580	4,291,874	4,528,622	12.0	5.5
4. Total Investment	1,195,947	834,284	1,077,006	1,150,295	29.1	6.8
5. Fixed Capital Investment	1,139,381	946,186	1,024,685	1,120,589	8.3	9.4
5.1 Public	339,298	192,242	187,914	229,460	-2.3	22.1
5.2 Private	800,083	753,944	836,771	891,129	11.0	6.5
6. Change In Stock	56,566	-111,902	52,322	29,706	4.2	-0.5
6.1 Public	3,445	-50,632	-18,637	201	0.8	0.4
6.2 Private	53,121	-61,270	70,959	29,504	3.4	-1.0
7. Total Consumption	3,184,524	2,996,296	3,214,868	3,378,327	7.3	5.1
II. 8. Public Disposable Income	319,062	370,886	380,044	363,542	2.5	-4.3
9. Public Consumption	443,518	418,750	438,271	466,708	4.7	6.5
10. Public Savings	-124,457	-47,864	-58,227	-103,165		
11. Public Investments	342,742	141,610	169,276	229,662	19.5	35.7
12. Public (Saving-Investment)	-467,199	-189,474	-227,503	-332,827		
III. 13. Private Disposable Income	3,820,747	3,517,016	3,822,228	4,027,832	8.7	5.4
14. Private Consumption	2,741,006	2,577,546	2,776,598	2,911,620	7.7	4.9
15. Private Savings	1,079,741	939,470	1,045,631	1,116,212	11.3	6.8
16. Private Investment	853,205	692,674	907,730	920,633	31.0	1.4
17. Private (Saving-Investment)	226,536	246,796	137,901	195,579		
18. Private Savings Ratio	28.3	26.7	27.4	27.7		
19. Total Domestic Savings	955,284	891,606	987,404	1,013,047	10.7	2.6
20. F. Capital Invest./ GNP	27.5	24.3	24.4	25.5		
21. Domestic Saving / GNP	23.1	22.9	23.5	23.1		

\* SPO forecast

\*\*Annual Programme

Source: SPO

**Gross National Product  
(Annual % change, at 1987 prices)**

	1994				1995				1996			
	I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.
Agriculture	6.8	-0.9	4.3	-1.3	-0.7	2.6	-5.3	14.2	-0.2	3.4	4.7	-3.0
Industry	8.6	2.7	5.9	8.2	-11.9	12.1	-8.3	-7.3	-1.3	20.3	17.9	11.9
Mining	-2.5	4.5	0.3	-6.4	8.0	-6.9	6.3	2.1	-11.3	-7.6	-3.4	-6.1
Manufacturing	9.7	2.4	5.8	9.3	-15.4	13.9	-10.5	-9.1	-1.4	24.0	20.8	13.1
Energy	8.6	4.5	11.8	8.9	3.4	9.6	1.9	2.6	4.7	10.5	9.7	13.3
Construction	-1.1	1.1	6.2	7.9	-2.0	-4.7	-3.2	-9.3	-5.3	1.1	-3.5	-11.1
Trade	12.3	-0.7	6.9	11.6	-16.0	11.6	-9.6	-7.8	-1.6	19.6	14.3	12.5
Transportation and Communication	11.9	-0.4	8.1	10.8	-2.0	5.9	-1.8	-0.3	4.0	12.3	6.2	1.9
Financial Institutions	2.0	0.8	-2.1	-0.4	-1.5	0.4	-0.3	-0.3	-2.0	-0.1	1.2	2.2
Ownership Of Dwelling	2.5	2.4	2.5	2.8	2.8	2.1	3.0	2.4	2.2	2.0	2.0	2.3
Business and Personal Service	8.1	0.9	5.5	6.9	-4.3	7.5	-8.8	-6.6	-0.7	13.5	9.5	6.3
(-) Imputed Bank Service Charges	1.9	0.2	-2.3	-0.6	-1.8	0.1	-2.3	-3.0	-2.1	-0.3	0.9	1.9
Sectoral Total	8.3	0.7	5.9	7.2	-4.0	7.4	-6.1	-3.3	-0.5	13.7	9.4	6.0
Government Services	2.9	2.4	3.4	1.8	0.8	2.5	-0.6	-0.2	2.7	2.9	2.7	1.8
Private Non Profit Institutions	10.3	3.5	2.2	3.0	-2.5	-1.3	-1.9	0.5	2.7	-0.6	-3.3	-3.0
Import Duties	48.3	4.1	11.3	32.8	-35.2	11.8	-50.3	-48.1	-20.6	27.8	30.6	23.8
GDP (In Purchasers' Value)	9.3	0.9	6.0	8.0	-5.5	7.3	-10.7	-7.8	-1.5	13.5	9.6	6.4
Net Factor Income from the Rest of the World	19.3	-47.3	72.5	17.8	-62.0	173.4	-74.9	-157.3	-	-56.6	287.5	-218.9
GNP (In Purchasers' Value)	9.4	0.3	6.4	8.1	-6.1	8.1	-9.7	-6.9	-0.3	12.6	10.7	7.7

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**GNP by Origin**

(% share, at 1987 prices)

	1994				1995				1996			
	I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.
Agriculture	16.8	16.6	16.2	14.8	15.7	14.9	11.2	27.2	12.5	5.8	10.3	25.7
Industry	26.4	27.0	26.9	26.9	27.0	28.0	28.2	21.4	28.8	32.2	30.1	22.8
Mining	1.8	1.9	1.8	1.6	1.8	1.5	1.9	2.0	1.8	1.7	1.6	1.3
Manufacturing	22.1	22.6	22.5	22.7	22.3	23.5	27.1	17.6	23.9	26.8	25.5	19.2
Energy	2.4	2.5	2.6	2.6	2.9	2.9	3.5	3.0	3.1	3.7	3.0	2.3
Construction	6.4	6.4	6.4	6.4	6.7	5.9	6.5	7.3	6.7	6.2	6.6	5.5
Trade	19.9	19.7	19.8	20.4	20.1	20.8	20.5	19.9	20.6	20.2	21.2	20.2
Transportation and Communication	12.0	11.9	12.1	12.4	12.9	12.6	12.9	13.2	14.3	13.5	13.2	11.2
Financial Institutions	3.0	3.0	2.7	2.5	2.6	2.4	3.2	3.0	2.7	3.1	2.7	1.8
Ownership Of Dwelling	5.5	5.6	5.4	5.1	5.6	5.3	6.7	6.4	5.7	6.8	5.8	3.9
Business and Personal Service	2.3	2.3	2.3	2.2	2.3	2.3	2.2	2.2	2.3	2.2	2.3	2.3
(-) Imputed Bank Service Charges	2.6	2.6	2.3	2.2	2.3	2.1	2.7	2.6	2.3	2.7	2.3	1.5
Sectoral Total	89.6	89.9	89.4	88.6	90.6	90.1	87.7	88.9	91.3	87.5	89.8	92.0
Government Services	4.8	4.9	4.7	4.4	4.8	4.5	5.7	5.4	4.8	5.9	5.0	3.4
Private Non Profit Institutions	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.5	0.3	0.4	0.4	0.3
Import Duties	4.1	4.2	4.4	5.4	3.7	3.9	5.8	3.3	3.9	4.6	3.8	3.0
GDP (In Purchasers' Value)	98.8	99.4	99.0	98.9	99.6	98.9	99.7	98.2	99.6	98.4	99.0	98.7
Net Factor Income from the Rest of the World	1.2	0.6	1.0	1.1	0.4	1.1	0.3	1.8	0.4	1.6	1.0	1.3
GNP (In Purchasers' Value)	100.0	100.0	100.0	100.1	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source : SIS

**Growth of GDP**

(Annual % change, at 1987 prices)

	1990	1991	1992	1993	1994	1995	1993				1994				1995			
							I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.
Private Final Consumption Expenditure	13.1	1.9	3.3	8.4	-5.4	7.6	5.2	12.4	7.8	8.4	5.8	-10.2	-7.4	-7.4	-4.6	12.2	13.0	8.4
Food & Beverages	7.4	3.2	1.0	3.3	-0.7	7.4	3.6	5.3	1.5	3.7	4.9	-3.8	-2.2	0.0	-0.5	10.4	10.6	7.1
Durable Goods	48.1	3.3	9.4	23.2	-29.3	20.0	9.8	36.3	28.9	21.2	6.9	-44.9	-39.0	-36.0	-18.9	39.8	50.8	30.6
Semi-Durable & Non-Durable Goods	13.6	4.2	-3.0	7.0	-12.6	11.6	0.4	14.4	8.8	5.0	6.6	-18.9	-23.3	-12.4	-11.0	18.5	25.6	16.8
Energy, Transportation & Communication Services 13.2	13.7	-1.0	9.3	14.7	4.2	1.7	13.2	16.6	19.2	10.3	7.5	3.9	3.9	2.3	0.9	5.6	2.7	-1.9
Ownership of Dwelling	-5.6	10.2	8.6	5.2	2.7	5.3	12.5	4.8	12.6	7.0	-2.2	9.1	6.1	2.9	7.6	3.9	-3.3	
Government Final Consumption Expenditure	2.5	2.3	2.6	2.6	2.8	2.1	2.6	2.7	2.4	2.6	2.9	3.0	2.9	2.4	2.2	2.0	2.0	2.2
Compensation of Employees	8.0	4.5	3.8	5.4	-3.5	6.7	12.2	8.1	2.5	2.3	0.8	-4.5	-0.4	-7.6	7.1	9.6	2.3	7.8
Purchases of Goods and Services	2.9	2.4	3.4	1.8	0.8	2.5	1.6	0.3	2.4	3.0	2.0	2.0	-0.6	-0.2	2.7	2.9	2.7	1.8
Gross Fixed Capital Formation	18.3	8.1	4.4	11.4	-10.0	13.7	71.2	26.9	2.7	1.8	-3.1	-16.9	-0.1	-13.8	22.2	25.5	1.5	13.7
Public Sector	15.9	1.2	4.3	24.9	-15.9	8.3	10.5	25.0	29.0	31.9	8.2	-20.1	-18.7	-25.3	-15.1	14.2	11.1	22.1
Machinery Equipment	8.9	1.8	4.3	3.4	-34.8	-16.9	-28.8	4.5	12.3	12.1	-7.9	-47.1	-38.9	-31.6	-37.5	-1.4	-15.2	-17.3
Building Construction	3.9	4.9	9.2	3.7	-63.9	3.2	-27.7	3.0	34.3	-2.4	-41.0	-70.3	-72.3	-58.9	-21.8	4.7	3.5	17.4
Other Construction	13.3	-1.3	2.3	11.4	-35.7	4.2	-20.3	69.6	-5.2	6.6	-8.6	-64.1	-34.2	-19.7	-7.7	34.6	1.6	-2.2
Private Sector	11.3	0.8	1.2	0.1	-8.2	-30.5	-32.7	-15.0	2.4	26.9	25.3	-11.3	-4.9	-18.2	-53.8	-12.8	-26.1	-34.1
Machinery Equipment	19.4	0.9	4.3	35.0	-9.1	14.9	24.0	34.2	36.9	44.1	11.4	-10.7	-10.8	-22.2	-11.4	17.4	18.1	38.8
Building Construction	66.4	6.0	2.4	60.5	-22.5	28.1	35.2	59.6	81.1	68.1	14.9	-26.1	-32.3	-37.5	-23.8	33.3	45.1	73.8
Residential Building	-3.2	-3.2	6.1	12.8	7.6	2.1	12.8	12.4	12.9	13.0	7.1	7.9	8.0	7.3	2.1	2.1	2.1	2.1
Exports of Goods and Services	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Imports of Goods and Services	2.6	3.7	11.0	7.7	15.2	6.7	9.1	7.4	1.5	13.2	6.1	10.1	26.7	15.4	19.9	12.2	2.3	-1.8
Gross Domestic Product	33.0	-5.2	10.9	35.8	-21.9	30.0	21.4	41.8	41.8	36.6	7.5	-34.0	-31.9	-22.4	-2.6	37.7	41.4	48.0
Gross Domestic Product (by kind of activity)	9.2	0.8	5.0	7.7	-4.7	7.5	5.6	10.6	5.2	9.7	4.3	-9.6	-6.1	-5.4	-0.8	14.3	9.0	7.0
	9.3	0.9	6.0	8.0	-5.5	7.3	4.9	11.3	7.4	8.4	5.2	-10.7	-7.8	-5.5	-1.5	13.5	9.6	6.4

Source : SIS

**GDP by Origin**

(% share, at 1987 prices)

	1990				1991				1992				1993				1994				1995			
	I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.
Private Final Consumption Expenditure	69.3	70.1	68.9	69.5	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0	69.0
Food & Beverages	39.1	39.6	38.7	36.8	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6	38.6
Durable Goods	12.0	12.2	12.8	14.6	10.9	12.1	15.4	13.8	11.8	17.8	15.5	8.5	7.8	12.3	13.2	10.5	10.4	14.8						
Semi-Durable & Non-Durable Goods	17.6	18.0	16.9	16.7	15.4	16.0	18.3	17.1	15.4	16.6	18.5	15.5	12.8	15.7	17.2	16.3	14.2	16.9						
Energy, Transportation & Communication Services	13.2	12.8	13.5	14.3	15.7	14.9	13.7	14.5	13.0	16.0	14.0	16.8	14.7	17.6	14.8	15.8	13.3	16.0						
Ownership of Dwelling	9.4	8.7	9.3	9.3	10.3	9.9	7.8	9.8	10.3	8.9	7.9	10.7	12.1	10.2	8.5	10.2	11.1	9.1						
Government Final Consumption Expenditure	8.7	8.8	8.7	8.2	8.9	8.5	9.8	8.8	7.0	7.9	9.6	10.1	7.8	8.8	10.2	9.1	7.0	8.3						
Compensation of Employees	7.6	7.8	7.7	7.6	7.7	7.6	7.4	7.4	6.0	9.8	7.1	7.8	6.4	9.6	7.7	7.5	6.0	9.7						
Purchases of Goods and Services	63.8	62.6	62.4	60.2	62.9	60.5	76.8	65.7	62.2	45.7	77.7	70.2	62.0	49.3	74.5	65.9	62.3	46.6						
Gross Fixed Capital Formation	36.2	37.4	37.6	39.8	37.1	39.5	23.2	34.3	37.8	54.3	22.3	29.8	38.0	50.7	25.5	34.1	37.7	53.4						
Public Sector	26.0	26.1	25.9	30.1	26.5	26.7	28.2	32.5	27.0	32.9	29.3	28.7	23.4	26.0	25.1	28.7	23.9	29.7						
Machinery Equipment	31.9	32.1	32.1	26.6	20.6	15.8	16.5	25.8	28.0	32.5	14.1	17.0	21.1	29.8	10.4	14.7	16.1	20.2						
Building Construction	35.4	36.5	38.2	38.3	21.2	26.3	41.5	39.8	42.8	32.3	26.6	22.3	19.4	19.4	33.3	23.7	23.7	27.6						
Other Construction	18.5	18.0	17.6	19.0	18.7	23.5	16.9	23.4	17.3	18.0	16.8	15.9	18.7	21.1	24.8	21.7	22.4	25.0						
Private Sector	46.0	45.5	44.2	42.7	60.1	50.3	41.5	36.8	39.8	49.7	56.5	61.8	62.0	59.5	41.8	54.6	54.0	47.4						
Machinery Equipment	68.1	67.9	67.9	73.4	79.4	84.2	83.5	74.2	72.0	67.5	85.9	83.0	78.9	70.2	89.6	85.3	83.9	79.8						
Building Construction	45.3	47.5	46.6	55.4	47.2	52.7	54.6	54.8	46.7	65.9	56.3	45.3	35.4	52.9	48.5	51.5	43.5	66.3						
Residential Buildings	54.7	52.5	53.4	44.6	52.8	8.6	45.4	45.2	53.3	34.1	43.7	54.7	64.6	47.1	9.1	8.7	10.3	6.3						
Change In Stock	-	-	-	-	-	38.7	-	-	-	-	-	-	-	-	-	-	-	-						
Exports of Goods and Services	1.8	-1.1	0.5	1.6	-3.2	1.4	-0.2	1.5	8.9	-5.8	-1.5	-6.7	1.0	-6.7	0.2	-0.2	5.0	-0.5						
Imports of Goods and Services	16.9	17.4	18.4	18.4	22.2	22.1	19.7	18.4	15.7	20.6	20.0	22.4	21.2	25.1	24.2	22.0	19.9	23.1						
Gross Domestic Product	21.6	20.3	21.5	27.1	22.2	26.8	-27.8	-29.7	-23.9	-28.0	-28.6	-21.7	-17.3	-23.0	28.1	26.1	22.5	31.8						
	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0						

Source : SFS

## Gross Fixed Investment by Sectors (%)

### Total Investment

Sectors	1990	1991	1992	1993	1994	1995*	1996**
Agriculture	6.5	7.5	6.2	5.2	4.2	5.4	5.4
Mining	2.8	2.3	2.3	1.4	1.5	1.3	1.3
Manufacturing	18.9	17.3	16.9	17.8	20.9	23.4	22.5
Energy	10.0	8.6	7.3	3.9	2.8	2.9	4.5
Transportation & Communication	22.3	24.1	26.0	24.5	18.3	18.4	18.2
Tourism	3.8	4.0	3.4	2.2	2.3	2.5	2.5
Housing	23.6	23.0	23.2	32.8	39.0	36.1	34.4
Education	3.3	3.4	3.8	3.3	2.2	2.1	2.6
Health	1.7	1.9	2.2	2.1	2.1	1.6	1.7
Other Services	7.1	8.0	8.6	6.8	6.7	6.4	7.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

### Public Sector

Sectors	1990	1991	1992	1993	1994	1995*	1996**
Agriculture	9.1	11.3	9.1	10.0	9.9	11.7	11.3
Mining	3.3	3.5	3.5	2.6	2.4	2.0	1.8
Manufacturing	4.5	5.1	5.5	3.3	3.0	5.6	3.4
Energy	21.6	17.0	14.9	12.5	11.5	13.3	17.4
Transportation & Communication	34.4	37.0	37.1	39.0	41.4	35.1	30.8
Tourism	1.3	1.5	1.5	1.9	2.1	2.4	2.0
Housing	3.8	2.1	2.5	2.4	1.7	1.5	0.9
Education	6.9	6.5	7.6	9.8	7.4	8.3	10.2
Health	2.8	2.5	3.2	4.0	4.0	3.6	4.0
Other Services	12.3	13.4	15.1	14.6	16.6	16.5	18.3
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

### Private Sector

Sectors	1990	1991	1992	1993	1994	1995*	1996**
Agriculture	4.7	4.3	3.8	3.2	2.7	4.0	3.9
Mining	1.2	1.3	1.2	0.9	1.2	1.1	1.1
Manufacturing	29.9	27.7	26.5	23.6	25.5	27.3	27.3
Energy	1.6	1.5	1.0	0.5	0.6	0.7	1.3
Transportation & Communication	13.4	13.1	16.7	18.8	12.4	14.8	15.0
Tourism	5.9	6.1	5.0	2.4	2.4	2.5	2.7
Housing	38.4	40.7	40.6	44.9	48.5	43.6	42.8
Education	0.6	0.7	0.7	0.8	0.8	0.7	0.7
Health	0.9	1.3	1.4	1.3	1.6	1.1	1.1
Other Services	3.4	3.4	3.1	3.7	4.2	4.2	4.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

\* SPO estimate

\*\* SPO programme

Source: SPO



### Sectoral Breakdown of Investment Incentive Certificates (%)

Sectors	1990	1991	1992	1993	1994	1995	1996*
Agriculture	10.6	1.7	1.3	1.1	1.1	0.4	2.6
Mining	2.7	4.0	2.9	2.9	2.1	0.6	1.2
Manufacturing	68.8	62.6	66.5	69.5	59.8	87.6	69.5
Food, Beverage and Tobacco	7.7	7.1	9.8	5.6	4.1	2.9	9.2
Textiles	30.8	20.1	25.1	28.1	23.8	71.9	27.9
Forestry Products	1.6	1.0	1.0	2.4	2.4	0.3	1.2
Paper	0.9	0.4	0.2	0.4	1.1	1.0	1.6
Leather & Leather Products	0.9	0.6	0.6	1.1	0.7	0.6	0.5
Rubber	1.4	1.0	1.3	0.6	0.5	0.6	1.9
Chemicals	3.3	10.1	5.2	3.1	7.5	2.4	1.8
Glass	0.4	0.6	0.8	0.6	0.5	0.4	1.3
Iron & Steel	3.8	1.6	1.4	0.7	1.1	0.8	1.6
Non-Ferrous Metals	0.2	1.3	0.5	0.4	0.2	0.4	0.7
Transport Vehicles	4.6	4.7	4.3	5.9	5.4	1.5	5.8
Metal Goods	2.7	2.8	4.2	5.8	2.3	0.6	3.1
Measuring Devices	0.2	0.3	0.2	0.4	0.3	0.1	0.1
Machinery	0.3	0.8	0.7	0.7	0.3	0.2	2.1
Electrical Machinery	1.4	1.1	1.7	3.6	0.2	0.5	1.1
Electronic	2.2	0.8	1.8	0.8	0.1	0.0	0.7
Cement	2.2	4.4	4.2	5.7	6.6	0.6	4.1
Clay and Cement Products	1.2	0.9	0.6	0.6	0.2	0.4	0.5
Ceramics	1.5	1.6	1.5	2.0	1.5	1.3	0.6
Others	1.5	1.4	1.4	0.8	1.1	1.2	3.7
Energy	2.0	4.3	2.2	5.6	5.0	2.4	5.6
Services	15.9	28.0	27.0	20.9	32.0	9.0	21.1
Transportation	2.7	9.0	10.2	11.0	14.3	6.2	13.5
Tourism	7.4	4.0	3.4	3.5	3.2	0.9	1.4
Other Services	5.7	15.0	13.4	6.4	14.5	1.9	6.2
Total	100.0	100.0	100.0	100.0	100.0	100.1	100.0
Amount of Investment (Billion TL)	22,683	38,175	51,393	229,248	214,032	2,187,011	1,035,463

\*January-July

Source : UT, SPO

Production of Major Industrial Commodities								
	Unit	1990	1991	1992	1993	1994	1995	January - June 1995 1996
Mining								
Hard coal	(1000 tons)	5,604	5,210	2,829	2,722	2,839	2,248	1,266 1,207
Lignite	(1000 tons)	45,826	44,511	49,847	45,957	48,838	51,943	23,744 22,526
Crude oil	(1000 tons)	3,720	4,520	4,296	3,892	3,686	3,514	1,738 1,759
Manufacturing								
Cotton yarn	(Tons)	44,858	47,366	47,177	43,744	35,066	32,305	16,449 12,319
Wool yarn	(Tons)	4,378	4,001	3,739	5,425	4,784	3,360	1,433 1,676
Filtered cigarette	(Tons)	56,480	67,740	63,773	69,803	77,938	75,382	34,858 34,587
Rak, & Beer	(Mill. Lts.)	432	480	543	620	666	740	335 312
Newsprint	(1000 tons)	166	96	119	94	110	138	73 42
Craft paper	(1000 tons)	103	88	88	72	78	74	39 30
Sulfuric acid	(1000 tons)	716	532	642	757	730	630	386 296
Polyethylene	(Tons)	235,599	256,001	260,571	270,772	282,964	301,087	145,717 147,538
PVC	(Tons)	136,655	131,638	150,453	159,294	156,942	181,036	87,964 98,636
LPG	(1000 tons)	692	709	709	707	733	792	387 415
Naphta	(1000 tons)	1,525	1,140	1,242	1,249	1,266	1,473	751 892
Gasoline	(1000 tons)	2,855	2,772	2,946	3,215	3,339	3,554	1,686 1,575
Gas oil	(1000 tons)	6,548	6,332	6,565	7,252	7,399	7,983	3,800 3,742
Fuel-Oil (5,6)	(1000 tons)	8,243	8,444	8,441	8,701	7,588	7,786	3,760 4,014
Bottles & Glass artic	(1000 tons)	377	358	422	437	440	506	490 574
Crude iron	(1000 tons)	4,827	4,594	4,508	4,355	4,604	4,363	2,357 2,563
Steel ingot	(1000 tons)	9,413	9,398	10,343	11,519	12,179	12,798	6,535 6,467
Blistered copper	(Tons)	18,840	28,380	26,092	33,453	30,437	24,416	16,859 18,515
Alumina	(Tons)	177,915	159,091	156,474	141,550	155,299	171,978	95,905 84,629
Cement	(1000 tons)	24,416	26,037	28,607	31,311	29,493	33,153	14,950 15,422
Tractor	(No.)	30,739	21,964	23,012	33,294	24,249	38,295	16,930 22,556
Automobile	(No.)	166,222	195,599	265,090	343,481	208,531	222,145	99,281 100,374
Truck	(No.)	16,679	16,906	20,743	29,739	11,235	19,172	7,418 12,232
Bus and Minibus	(No.)	14,331	15,584	19,302	21,585	8,791	12,424	4,832 7,905
Production of Major Durable Consumer Goods								
Refrigerator	(No.)	986,574	1,019,627	1,093,773	1,253,791	1,258,353	1,662,835	817,789 851,360
Washing machine	(No.)	743,957	836,986	870,890	979,717	780,015	865,747	382,654 532,109
Cooker (LPG)	(No.)	594,318	731,568	761,290	629,778	448,613	511,229	261,305 271,361
Vacuum cleaner, electric (No.)	(No.)	516,041	553,444	596,466	715,351	436,750	878,923	429,401 449,054
Sewing machine	(No.)	255,667	237,631	197,104	170,349	119,145	150,980	65,155 56,395
Television set (color)	(No.)	1,994,621	2,567,773	2,320,460	1,921,704	1,528,255	1,859,333	739,337 1,063,568
Video	(No.)	118,857	80,484	46,153	17,141	8,148	2,769	1,869 900
Hi-Fi Music system	(No.)	141,989	192,204	123,575	87,416	90,450	95,996	56,067 60,465
Energy								
Electric power	(Mill. Kwh)	57,542	60,220	66,983	73,734	78,261	85,983	40,955 45,522

Source : SIS

Monthly Industrial Production Index (1992=100)

	1990 Avg.	1991 Avg.	1992 Avg.	1993 Avg.	1994 Avg.	1995 Avg.	1993				1994				1995				1996				
							I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.	I.
Total Industry	92.1	95.0	100.0	105.9	99.3	107.8	97.3	101.17	107.23	118.1	99.5	89.2	98.4	109.9	95.4	104.5	110.9	120.4	103.9				
Mining	95.1	102.4	100.0	90.7	99.1	99.2	82.2	73.6	105.1	102.0	87.6	93.2	109.4	106.1	86.4	88.2	110.2	111.9	89.7				
Manufacturing Industry	93.3	95.7	100.0	106.4	97.2	105.9	97.0	102.9	106.6	119.1	98.3	86.9	95.3	108.4	92.6	103.6	108.3	119.0	100.4				
Food industry	87.4	95.6	100.0	101.1	99.6	101.8	87.5	83.1	101.3	132.2	89.9	76.7	92.3	139.3	74.6	94.1	100.0	138.6	85.0				
Textile industry	106.3	98.9	100.0	100.4	93.7	94.5	101.1	99.3	98.8	102.4	99.3	88.9	88.3	98.3	91.0	93.2	92.1	101.7	95.7				
Paper - printing industry	105.9	84.9	100.0	81.8	93.9	109.5	85.0	77.0	84.5	80.5	84.0	82.0	96.1	113.5	122.8	110.8	111.1	93.1	89.2				
Chemicals industry	99.5	97.5	100.0	109.2	108.1	117.7	102.9	106.0	113.0	114.8	106.5	100.9	115.7	109.4	108.1	114.9	126.0	121.7	112.2				
Soil products industry	89.1	92.6	100.0	107.0	101.8	112.7	70.8	119.5	129.4	108.2	85.8	103.2	121.5	96.7	84.7	122.1	133.8	110.2	84.5				
Basic metals industry	95.1	94.2	100.0	108.9	111.9	112.5	103.5	74.3	110.2	117.5	105.0	111.6	107.8	123.2	120.9	122.6	104.5	101.8	120.5				
Machinery industry	81.8	94.3	100.0	114.2	78.0	97.3	102.7	115.8	102.7	135.6	97.9	63.2	63.4	87.4	78.2	91.3	89.5	123.5	102.4				
Energy	85.7	89.0	100.0	109.7	116.5	127.9	106.8	100.2	113.7	118.2	116.0	106.4	119.1	124.4	123.7	120.0	132.9	136.9	140.1				

Capacity Utilization (weighted by production values, %)

	1990 Avg.	1991 Avg.	1992 Avg.	1993 Avg.	1994 Avg.	1995 Avg.	1993				1994				1995				1996	
							I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.
Manufacturing Industry	74.4	74.5	76.4	79.5	73.0	78.7	76.4	78.5	80.9	82.2	76.2	66.4	72.8	76.7	75.3	79.4	79.8	79.8	76.7	76.7
Food industry	69.0	75.5	70.6	73.4	71.5	72.0	71.1	72.5	76.5	73.4	70.4	67.6	74.4	73.7	68.1	70.6	73.9	75.6	69.8	69.8
Textile industry	79.3	76.4	79.3	81.4	78.7	82.2	80.1	80.6	82.2	82.7	81.9	74.7	76.6	81.5	80.7	81.1	82.7	84.3	83.4	83.4
Paper - printing industry	79.4	75.1	77.8	75.9	74.1	82.2	73.5	73.2	78.4	78.6	68.4	69.7	76.0	82.7	84.5	81.6	82.3	80.6	78.1	78.1
Chemicals industry	74.7	74.0	76.6	80.0	75.1	82.2	76.5	77.1	81.6	84.9	77.4	66.8	77.7	78.5	77.5	82.0	84.8	85.1	79.2	79.2
Soil products industry	83.0	76.9	86.0	89.9	84.4	87.0	81.8	90.9	94.1	92.8	84.6	84.0	84.5	84.5	81.0	92.7	92.8	79.9	79.4	79.4
Basic metals industry	69.6	78.6	80.8	84.5	79.9	77.5	83.3	85.3	83.6	85.9	78.8	82.1	79.8	85.9	81.5	81.0	75.5	76.1	81.6	81.6
Machinery industry	72.8	69.0	74.0	77.9	61.0	72.2	74.5	78.3	77.7	81.1	73.3	47.3	57.1	66.4	66.8	74.4	71.4	75.4	69.9	69.9

Source : SIS

## Electricity Production and Consumption

	Unit	1990	1991	1992	1993	1994	1995*	1996**
Primary Energy								
Production	BTEP	28,829	28,629	30,572	31,579	32,554	35,067	35,201
Consumption	BTEP	55,757	57,072	59,939	64,694	62,927	68,410	71,570
Per Capita	KEP	992	997	1,028	1,089	1,040	1,110	1,142
Electric Power								
Installed Capacity	MW	16,315	17,206	18,714	20,358	20,857	21,148	21,458
Thermal	MW	9,551	10,093	10,335	10,653	10,993	11,284	11,538
Hydraulic	MW	6,764	7,113	8,379	9,705	9,864	9,864	9,920
Production	GWH	57,543	60,246	67,342	73,727	78,322	86,341	91,700
Thermal	GWH	34,395	37,563	40,774	39,764	47,736	50,800	56,200
Hydraulic	GWH	23,148	22,683	26,568	33,963	30,586	35,541	35,500
Import (Export)	GWH	-731	253	-125	-376	-539	-636	-500
Consumption	GWH	56,812	60,499	67,217	73,351	77,783	85,645	91,200
Per Capita	KWH	1,011	1,057	1,153	1,235	1,285	1,389	1,456

\* SPO estimate

\*\*Annual Programme

## Sectoral Breakdown of Electricity Consumption (Annual % change)

Sectors	1990	1991	1992	1993	1994	1995
Cement	3.3	10.4	3.2	2.3	4.1	9.1
Fertilizer	-3.5	-11.4	2.9	-16.1	-16.0	14.2
Aluminum	1.5	-3.0	2.8	-6.4	4.5	-5.4
Copper and Zinc	1.9	-9.8	-1.9	-10.0	5.2	0.1
Metallurgy	-2.7	-8.0	9.4	14.2	2.4	-4
Iron - Steel	26.2	3.6	1.4	8.7	-1.4	2.2
Paper	9.7	-11.9	12.2	-8.4	3.5	1.2
Petro Chemicals	-7.8	-20.1	10.0	-1.7	-2.8	8.5
Rubber	-19.6	45.9	3.4	4.8	14.1	6.4
Organized Manufacturing Industry	10.2	16.7	20.3	12.6	-5.6	42.4
Glass	17.9	-3.6	3.2	-2.5	-3.7	6.5
Soil	-4.1	3.8	-0.4	2.3	2.1	20
Food - Beverages	-14.9	5.2	2.8	8.6	-3.4	8.5
Machinery	17.4	-0.8	4.8	9.5	-9.7	2.1
Coal Mining	1.8	-6.6	4.5	-3.8	-2.8	-9.4
Medicine & Chemical Industry	2.4	8.8	2.9	5.3	28.6	8.4
Textile	2.1	-8.4	5.4	-3.4	-5.1	7.5
Others	9.8	-3.9	7.8	-6.8	-1.8	5.1
Total Industry	3.9	-2.9	6.0	2.7	0.2	5.6
Total Urban Areas	8.9	7.9	13.5	11.4	5.6	13.2
Total	6.3	2.5	10.0	7.4	3.2	9.9

Source : SPO

Wholesale Prices (% Change)													
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Avg.
<b>1990</b>													
Monthly	4.4	4.5	4.3	2.4	1.5	1.5	1.7	4.4	5.8	4.6	2.8	2.5	3.4
Year-on-year	60.2	59.5	60.5	56.1	51.8	49.1	44.2	46.8	51.4	54.1	52.1	48.6	52.7
<b>1991</b>													
Monthly	4.6	4.9	5.2	5.4	2.9	1.4	2.2	4.7	4.4	3.5	3.9	4.4	4.0
Year-on-year	48.8	49.4	50.7	55.1	57.2	57.1	57.9	58.3	56.3	54.6	56.3	59.2	55.1
<b>1992</b>													
Monthly	11.1	5.2	4.3	2.2	0.7	0.2	1.8	4.8	6.3	5.6	3.5	3.6	4.1
Year-on-year	69.0	69.6	68.1	63.0	59.5	57.7	57.1	57.3	60.1	63.3	62.7	61.5	62.1
<b>1993</b>													
Monthly	5.0	5.2	4.8	2.6	2.9	2.3	4.7	3.8	4.0	3.6	6.4	2.7	4.0
Year-on-year	52.6	52.6	53.3	53.9	57.3	60.5	65.1	63.5	60.0	56.9	61.4	60.1	58.3
<b>1994</b>													
Monthly	5.4	10.1	8.5	32.8	8.9	1.9	0.9	2.7	5.4	6.9	6.4	8.3	8.2
Year-on-year	60.7	68.1	74.1	125.3	138.5	137.5	128.9	126.5	129.6	137.0	137.0	149.8	117.7
<b>1995</b>													
Monthly	8.4	7.0	6.1	3.9	1.7	1.3	2.4	2.9	4.8	4.4	4.3	4.1	4.3
Year-on-year	156.9	149.6	144.1	91.0	78.4	77.3	79.9	80.3	79.3	75.0	71.6	64.9	89.0
<b>1996</b>													
Monthly	9.8	5.8	7.0	8.1	4.1	2.7	2.4	3.8					
Year-on-year	65.0	63.0	65.3	70.9	73.7	76.1	76.3	79.0					
Consumer Prices (% Change)													
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII	Avg.
<b>1990</b>													
Monthly	3.8	4.4	5.2	6.6	3.1	1.4	-0.9	2.5	8.7	6.8	5.0	1.7	4.0
Year-on-year	60.0	59.5	62.8	63.5	63.6	62.6	56.3	54.8	59.3	60.3	61.3	60.4	60.4
<b>1991</b>													
Monthly	4.9	5.4	4.4	6.6	3.3	3.0	1.3	4.0	6.1	6.6	5.2	4.4	4.6
Year-on-year	62.0	63.5	62.3	61.1	62.5	64.9	68.6	71.0	66.9	66.5	66.8	71.2	65.7
<b>1992</b>													
Monthly	9.3	5.0	4.9	3.8	0.9	0.5	1.3	3.8	7.4	7.6	4.9	2.7	4.3
Year-on-year	78.5	77.8	78.7	74.1	69.6	65.8	65.8	65.5	67.7	69.2	68.6	65.9	70.1
<b>1993</b>													
Monthly	5.3	4.0	4.8	4.4	4.7	1.8	4.9	2.7	5.6	6.9	6.4	3.6	4.6
Year-on-year	59.8	58.2	58.1	59.0	65.1	57.2	73.1	71.3	68.4	67.3	69.7	71.2	106.0
<b>1994</b>													
Monthly	4.4	6.0	5.2	24.7	10.0	0.9	1.7	2.0	7.2	9.5	8.1	6.3	7.2
Year-on-year	69.7	73.0	73.7	107.4	117.9	116.0	109.4	108.0	111.1	116.3	119.7	125.5	104.0
<b>1995</b>													
Monthly	6.8	5.7	4.1	6.4	3.2	2.0	2.9	3.9	8.0	7.8	5.5	3.6	5.0
Year-on-year	130.6	130.0	127.6	94.2	82.2	84.2	86.3	89.8	91.2	88.3	83.7	79.1	93.6
<b>1996</b>													
Monthly	8.3	4.5	5.6	6.7	4.5	2.5	2.1	4.8					
Year-on-year	78.1	77.5	79.3	80.8	82.9	82.7	81.2	81.9					

Source : SIS

**Total Public Sector Revenue and Expenditure**  
(TL billion, at current prices)

	1992	1993	1994	1995*	1996**
Taxes	192,998	355,006	728,987	1,348,670	2,497,398
Direct	80,149	142,520	313,540	507,700	934,255
Indirect	110,780	208,831	403,352	826,159	1,537,564
Taxes on wealth	2,069	3,655	12,095	14,811	25,579
Non-Tax Revenue	14,563	29,486	58,135	96,163	120,546
Factor Income	-467	11,404	74,415	171,325	420,562
Social Funds	-4,913	-18,046	-48,012	-110,955	-240,673
 Total Revenue	 202,181	 377,850	 813,525	 1,505,203	 2,797,833
 Current Expenditure	 135,736	 245,710	 418,750	 751,195	 1,430,328
Investment	73,417	145,780	141,609	285,302	662,193
Fixed investment	80,069	144,219	192,241	320,433	661,551
Change in stocks	-6,652	1,561	-50,632	-35,131	642
Transfers	87,615	199,081	466,490	874,721	1,591,538
Stock Evaluation Fund	22,206	31,848	100,927	88,943	130,850
 Total Expenditure	 318,973	 622,418	 1,127,776	 2,000,160	 3,814,908
 Borrowing Requirement	 116,792	 244,570	 314,253	 494,959	 1,017,078
 Consolidated Budget	 47,434	 133,857	 152,180	 319,471	 861,000
SEEs	36,313	48,925	54,870	42,955	76,320
Non-Financial	41,541	55,261	47,254	37,626	109,154
Financial	-5,228	-6,296	7,616	5,329	-32,834
Local Administrations	8,788	19,132	23,183	39,129	71,093
Revolving Funds	78	86	261	1,701	1,355
Social Security Institutions	2,603	11,537	22,569	50,653	33,501
EBF's	13,876	16,984	35,049	53,962	-25,898
SEEs Under Privatization	7,701	14,049	26,142	-12,912	-294

\* SPO estimate

\*\* Annual programme

Source : SPO

**Consolidated Budget**  
(TL billion)

	1990	1991	1992	1993	1994	1995	1996*
Revenue	56,573	96,747	174,224	351,392	753,440	1,404,071	2,650,000
Tax revenue	45,399	78,643	141,602	264,273	588,091	1,085,415	2,073,000
Direct taxes	23,657	41,094	71,393	128,324	283,813	441,745	
Indirect taxes	21,742	37,549	70,209	135,949	304,278	643,670	
Non-tax revenue	8,032	8,723	29,542	82,165	155,046	289,365	280,000
Other revenue	3,142	9,381	3,080	4,954	10,303	29,291	297,000
Expenditure	68,527	130,263	221,658	485,249	899,375	1,720,647	3,511,000
Personnel	26,465	49,291	94,076	169,511	272,872	502,724	910,013
Other current	6,987	11,112	20,145	35,318	73,437	142,468	302,737
Investment	10,055	17,146	29,239	53,161	76,778	102,354	238,695
Interest payments	13,966	24,073	40,298	116,470	298,284	576,115	1,295,488
Foreign borrowing	4,353	7,132	9,753	23,952	65,117	100,596	
Domestic borrowing	9,613	16,941	30,545	92,518	233,167	475,519	
Transfers to SEEs	1,265	12,191	8,145	25,850	21,029	45,512	47,371
Other transfers	9,789	16,450	29,755	84,939	156,975	351,474	716,696
Budget Balance	-11,954	-33,516	-47,434	-133,857	-145,935	-316,576	-861,000
Deferred Payments	1,161	3,555	-778	10,905	20,092	52,057	
Advance Payments	-1,561	-3,465	-11,227	-3,151	-19,837	-29,737	
Cash Balance	-12,354	-33,426	-59,439	-126,103	-145,680	-294,256	-861,000
Financing	12,354	33,426	59,439	126,103	145,680	294,256	861,000
Foreign Borrowing (net)	41 1,921	4,038	21,062	-68,516	-81,238	-113,500	
Receipts from loans	4,834	9,891	18,835	45,168	32,781	129,432	291,900
Receipts from on-lending	655	998	883	972	9,908	28,314	
Payments on loans	-5,448	-8,968	-15,680	-25,078	-111,204	-238,984	-405,400
Domestic Borrowing (net)	7,942	2,279	15,408	30,135	-70,338	85,657	403,500
Receipts from loans	12,523	11,510	35,657	64,820	24,858	222,453	704,900
Payments on loans	-4,581	-9,231	-20,249	-34,685	-95,197	-136,796	-301,400
Short-term Borrowing	2,263	23,509	41,372	75,252	296,073	291,941	571,000
Central Bank (net)	331	10,719	17,394	53,010	51,857	94,723	179,000
Treasury bills (net)	1,932	12,790	23,978	22,242	244,216	197,218	392,000
Receipts	8,443	34,278	75,918	171,155	624,169	1,147,241	2,272,000
Payments	-6,511	-21,488	-51,940	-148,913	-379,952	-950,023	-1,880,000
Other	2,108	5,718	-1,380	-345	-11,539	-2,104	
Other deferred payments	3,542	5,590	3,148	9,715	-2,992	49	
Bank accounts	-1.133	47	-4,359	-9,996	-8,476	-2,384	
Errors & Omissions	-301	81	-169	-64	-71	231	

\* Annual programme

Source : Treasury

**Maturity Composition of Domestic Borrowing  
(TL billion)**

	1989	1990	1991	1992	1993	1994	1995*	1996**
<b>Maturity</b>								
1-year	3,691	2,861	8,351	28,680	62,899	15,648	195,040	20,503
1.5-years	0	0	0	0	0	0	1,083	0
2-years	3,085	4,734	1,469	1,924	187 0	6,375	370	
3-years	1,756	2,902	1,090	1,167	115 0	2,084	0	
4-years	205	588	0	0	0	0	0	0
5-years	1	1,108	37	0	0	0	48	0
Public Offering (1-year)	0	0	0	87	0	347	0	0
Other	245	266	564	876	1,619	3,746	5,805	2,192
FX Account	0	0	0	0	0	1,367	2,407	0
<b>Bonds Total</b>	8,984	12,458	11,510	32,734	64,820	21,107	212,842	23,066
1-month	683					38,222		
3-months	2,325	2,843	17,096	47,823	46,433	329,809	372,671	239
6-months	2,291	3,183	10,453	14,660	54,197	80,247	120,451	20,677
9-months	2,336	2,416	6,247	9,053	25,099	21,304	184,660 0	
Special Type (4-months)	0	0	240	0	0	0	0	0
Special Type (6-months)	0	0	240	0	0	0	0	0
Public Offering (3-months)	0	0	0	3,914	10,377	124,007	58,377	38,357
Public Offering (6-months)	0	0	0	477	32,568	10,370	41,011	18,601
Public Offering (9-months)	0	0	0	0	0	234	0	0
Irregular Maturity	0	0	0	0	2,476	6,580	370,646	562,413
Consignment	0	0	0	0	0	12,577	0	0
<b>T-Bills Total</b>	7,634	8,443	34,277	75,926	171,151	623,349	1,147,817	640,287
<b>Cash Sales</b>	16,618	20,901	45,788	108,660	235,971	644,457	1,360,658	663,352
<b>Non Cash Sales***</b>	2,077	3,301	9,949	41,029	94,062	196,943	304,845	136,724
<b>General Total</b>	18,695	24,202	55,737	149,689	330,033	841,400	1,665,504	800,076

**Maturity Composition of Outstanding Debt  
(Billion TL)**

	1989	1990	1991	1992	1993	1994	1995*	1996**
<b>Maturity</b>								
1-year	3,691	2,861	8,351	28,680	62,899	15,648	195,043	192,117
1.5-years	309	0	0	0	0	0	1,083	1,083
2-years	3,394	7,819	6,203	3,393	2,111	187	6,375	6,745
3-years	2,402	5,094	5,749	4,913	2,373	1,282	1,591	1,476
4-years	552	1,140	1,140	688	588	0	0	0
5-years	1	1,109	1,927	3,519	5,217	15,675	256	220
Public Offering (1-year)	0	0	0	87	0	347	0	0
Other	513	779	1,308	2,182	3,785	7,520	13,236	15,428
FX Account	0	0	0	0	0	1,347	3,371	0
Consignment	0	0	0	0	0	6,559	0	0
<b>Bonds Total</b>	10,863	18,801	24,678	43,462	76,973	48,565	220,955	217,070
3 Months	421	1,548	5,991	25,883	864	171,518	69,503	42,636
6 Months	1,357	2,244	7,431	7,735	24,920	77,981	0	32,455
9 Months	1,759	1,677	4,355	5,238	18,481	9,404	99,867	46,789
Special Type (4-months)	0	0	240	0	0	0	0	0
Special Type (6-months)	0	0	240	0	0	0	0	0
Public Offering (3-months)	0	0	0	2,915	0	36,201	28,604	57,034
Public Offering (6-months)	0	0	0	477	20,224	8,893	8,171	26,772
Public Offering (9-months)	0	0	0	0	0	234	0	0
Irregular Maturity	0	0	0	0	0	0	306,154	620,221
<b>T-Bills Total</b>	3,537	5,469	18,258	42,247	64,488	304,230	512,299	825,907
<b>Cash Sales</b>	14,400	24,270	42,936	85,708	141,461	352,795	733,254	1,042,976
<b>Non Cash Sales</b>	4,038	3,722	8,727	42,926	113,533	190,819	409,814	488,861
<b>General Total</b>	18,438	27,992	51,663	128,634	254,994	543,614	1,143,067	1,531,837

\*Provisional

\*\*January-February

\*\*\* Others include Special Type Bonds, Extra Budgetary Bonds and Exchange Rate Difference on FX Indexed Bonds

Source: Treasury



# Monetary Aggregates

(TL billion, end of period)

	1990	1991	1992	1993	1994	1995-I	1995-II	1995-III	1995-IV	1996-I	1996-II
M1	27,374	40,565	67,677	116,366	214,193	241,763	302,526	364,970	376,288	419,518	484,085
Currency in circulation	12,209	18,564	31,373	53,933	105,418	129,259	164,543	193,452	196,072	220,540	253,947
Sight deposits	15,145	21,918	36,230	62,307	108,556	112,376	137,906	171,344	180,166	198,859	229,988
M2	68,765	111,016	179,161	268,063	604,136	753,909	945,864	1,118,361	1,216,321	1,428,754	1,758,967
Time deposits	41,391	70,451	111,484	151,697	389,943	512,146	643,338	753,391	840,033	1,009,236	1,274,882
M2Y	87,482	156,548	284,830	506,637	1,203,907	1,481,744	1,710,299	2,019,070	2,415,070	2,867,168	3,484,109
Foreign exchange deposits	18,717	45,532	105,669	238,574	599,771	727,835	764,435	900,709	1,198,749	1,438,414	1,725,142

# Total TL Deposits (According to type)

(TL billion, end of period)

	1990	1991	1992	1993	1994	1995-I	1995-II 1	995-III	1995-IV	1996-I	1996-II
Total Deposits	59,928	96,860	155,087	228,617	522,703	649,824	819,045	964,953	1,060,403	1,278,558	1,589,580
Public	3,392	4,490	7,373	14,614	24,208	25,301	37,802	40,219	40,204	70,463	4,712
Commercial	11,245	16,390	26,106	43,408	87,754	94,533	110,465	140,444	172,463	174,963	210,783
Savings	31,542	55,121	87,546	119,292	317,642	411,917	541,853	630,560	675,824	833,660 1	,049,101
Certificate of deposit	2,355	3,305	3,720	3,015	4,715	5,960	7,314	7,925	7,449	7,425	8,299
Other	11,394	17,554	30,342	48,289	88,385	112,113	121,611	145,806	164,463	192,047	236,685

# Total TL Deposits (According to maturity)

(TL billion, end of period)

	1990	1991	1992	1993	1994	1995-I	1995-II	1995-III	1995-IV	1996-I	1996-II
Total Deposits	59,928	96,860	155,087	228,617	522,703	649,824	819,045	964,953	1,060,403	1,278,558 1	,589,580
Time deposits	39,209	67,238	107,966	149,168	386,713	136,044	173,640	208,644	836,051	1,007,155	1,274,018
Sight deposits	18,364	26,317	43,401	76,434	131,276	507,820	638,092	748,384	216,903	263,979	307,264
Other	2,355	3,305	3,720	3,015	4,715	5,960	7,314	7,925	7,449	7,425	8,299

# Total Credit Stock

(TL billion, end of period)

	1990	1991	1992	1993	1994	1995-I	1995-II	1995-III	1995-IV	1996-I	1996-II
Credit Stock	58,843	102,633	188,396	369,803	661,481	829,911	912,644	1,078,205	1,386,814	1,824,611	2,017,072
Central Bank credits	3,977	15,589	36,577	79,507	135,125	154,802	111,539	122,511	163,237	240,097 1	75,591
Deposit Money Banks credits	50,185	76,938	137,695	266,772	480,602	621,606	743,335	892,956	1,149,305	1,489,414	1,727,521
Inv. & Dev. Banks credits	4,681	10,106	14,124	23,524	45,753	53,504	57,770	62,738	74,272	95,100	113,960

Source : Central Bank

Central Bank Balance Sheet  
(TL billion)

	1990	1991	1992	1993	1994				1995				1996	
					I.	II.	III.	IV.	I.	II.	III.	IV.	I.	II.
Net Foreign Assets	92	1,903	13,151	21,144	-28,822	-65,013	-23,587	-6,694	87,846	155,071	290,613	201,338	269,240	455,786.6
Total Domestic Credits	36,045	58,170	102,421	155,774	240,808	300,101	331,675	346,161	378,376	430,475	383,866	466,217	596,385	602,953
Credit to the public sector	30,889	52,920	92,709	137,027	223,199	283,219	318,822	333,783	366,184	418,208	371,709	533,991	584,158	907,408
Credit to the banking sector	5,156	5,251	9,713	18,747	17,609	6,882	12,854	12,378	12,193	2,267	12,157	2,226	12,227	122,125
Other Items (Net)	-1,492	-2,388	-1,184	-1,748	-6,363	-3,597	-26,260	-32,068	-26,474	-1,345	1,885	-7,802	-71,596	-102,279
Net Domestic Assets	34,553	55,782	101,237	154,026	234,445	296,504	305,416	314,093	351,902	385,750	458,415	521,788	500,674	
Total Assets	34,645	57,685	114,388	175,170	205,623	231,492	281,829	307,399	439,748	584,202	676,363	659,753	94,028	956,461
Reserve Money	23,376	36,097	60,495	99,607	114,682	145,692	183,018	183,569	221,518	276,704	323,770	341,529	382,890	449,001
Currency issued	13,905	21,401	35,741	61,862	73,627	90,417	118,631	117,086	144,136	181,185	211,858	221,311	247,824	287,715
Reserve balances of the banking sector	7,241	10,975	18,811	29,476	34,048	47,479	57,133	56,862	69,165	85,039	98,243	105,381	117,390	141,296
Banking sector deposits	1,487	2,226	3,450	4,748	4,153	4,198	4,554	5,828	3,525	4,853	5,671	6,962	7,473	113,285
Other items	744	1,495	2,493	3,520	2,854	3,598	2,700	3,792	4,692	5,628	7,998	7,928	10,204	9,205.3
Liabilities Due to Open Market Operations	-1,350	3,226	18,320	17,406	15,809	-1,300	1,087	6,012	21,222	107,115	100,309	46,589	47,43	0 58976.5
Monetary Base	22,027	39,323	78,814	117,013	130,492	144,393	184,105	189,581	242,741	383,820	424,079	388,177	430,321	507,978
Deposits of the Public Sector	1,260	2,964	7,407	4,113	3,328	3,458	3,831	5,152	8,631	8,849	9,863	10,246	13,342	175,38.8
Central Bank Money	23,287	42,287	86,221	121,126	133,819	147,850	187,936	194,733	251,372	392,669	433,942	398,423	441,663	525,517
Foreign Exchange Deposits of Non-banks	5,012	6,447	11,113	25,992	26,606	17,395	16,85	0 21,262	70,92	4 76,264	117,349	107,040	159,145	204,391
Foreign Exchange Deposits of Banks	6,347	8,952	17,054	28,051	45,198	66,246	77,043	91,403	117,452	115,269	125,07	2 154,290	191,32.1	226,553
Total Domestic Liabilities	34,645	57,685	114,388	175,170	205,623	231,492	281,829	307,399	439,748	584,202	676,363	659,753	794,028	956,461

Source : Central Bank

Interest & Exchange Rates		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
Deposit Rates (%)													
1990		47.00	46.70	46.70	46.70	46.80	46.90	47.00	47.00	47.10	48.00	50.60	50.70
3-months		57.00	56.70	56.70	56.70	56.90	56.80	56.90	56.90	57.00	57.90	60.20	59.40
12-months													
1991		54.92	53.36	59.31	60.81	61.96	61.40	62.10	63.79	68.50	69.62	69.79	69.60
3-months		59.84	61.20	64.39	64.46	66.04	61.91	62.46	64.20	71.09	72.46	72.84	72.70
12-months													
1992		68.67	68.08	68.00	69.20	69.40	69.70	69.40	68.40	68.10	68.00	68.80	69.10
3-months		72.24	71.71	71.70	74.00	74.50	74.70	74.70	74.10	73.90	73.80	74.20	74.20
12-months													
1993		69.10	66.40	63.70	63.80	64.00	64.00	64.00	64.00	64.00	64.00	64.00	64.00
3-months		74.20	74.50	74.00	74.00	74.60	74.60	74.50	74.60	74.50	74.60	74.70	74.80
12-months													
1994		67.71	85.41	87.05	131.40	131.80	121.68	79.28	67.54	67.29	62.52	74.50	77.31
3-months		78.07	94.98	96.90	117.18	131.31	125.29	116.05	96.90	98.07	96.05	95.25	95.56
12-months													
1995		86.98	87.43	78.68	73.72	73.07	73.13	69.11	68.83	69.11	69.42	78.21	83.92
3-months		100.90	100.68	95.97	91.51	90.81	91.09	86.79	86.44	86.48	86.55	90.25	92.32
12-months													
1996		85.48	84.83	82.71	79.74	79.44	79.11						
3-months		93.15	93.67	92.67	91.81	91.62	91.57						
12-months													
Interbank (Average, %)		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	X
1990		32.0	42.4	42.4	47.9	56.9	61.6	54.7	54.4	54.7	53.3	59.6	62
1991		63.5	68.1	104.3	107.7	77.1	71.6	66.2	64.5	62.8	61.8	61.7	55
1992		60.8	63.0	63.8	65.8	67.6	68.5	66.7	64.9	63.3	65.7	66.6	67
1993		65.2	59.3	66.8	62.6	62.4	59.5	59.5	58.0	57.5	57.5	75.6	67
1994		91.2	192.3	351.0	257.4	263.1	54.6	43.1	88.2	69.1	71.0	65.0	8
1995		87.4	67.0	66.0	68.7	76.6	57.8	48.2	59.0	73.2	75.0	77.8	9
1996		91.3	85.3	90.1	77.1	64.4	67.0						
Government Securities (%)		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	X
1990		10.0	10.2	10.1	10.1	10.1	10.2	10.7	11.3	11.8	12.0	12.6	
3-months		50.8	50.3	50.4	50.5	50.3	50.4	50.4	50.6	52.3	53.7	58.9	
12-months													
1991		13.6	14.9	16.1	17.0	17.9	16.9	16.9	16.7	17.1	18.1	18.8	
3-months		60.1	65.4	69.7	72.9	75.1	6	61.0	-	70.7	75.2	77.0	
12-months													
1992		16.9	16.9	16.9	17.1	18.0	18.7	19.2	18.9	18.6	18.6	18.7	
3-months		71.9	71.5	71.5	72.5	74.4	77.4	78.2	77.6	77.2	77.5	77.6	
12-months													
1993		18.7	17.4	16.3	16.5	16.8	16.7	16.7	16.4	16.2	15.8	87.9	
3-months		78.1	80.0	82.3	83.9	85.3	85.9	86.5	87.4	88.0	86.7		
12-months													
1994		-	24.8	24.8	126.6	222.5	40.8	25.2	23.4	22.1	19.9	22.7	
3-months		94.0	125.0	130.0	126.6	222.5	-	-	-	-	-	-	
12-months													
1995		28.0	-	-	19.3	20.2	18.0	17.3	17.1	17.1	-	-	
3-months		-	-	-	98.0	115.8	-	105.1	99.8	-	-	-	
12-months													
1996		31.4	-	-	-	20.6	-	-	-	-	-	-	
3-months		-	-	-	-	-	-	-	-	-	-	-	
12-months													
Exchange Rates (Year-on-year % chg.)		I	II	III	IV	V	VI	VII	VIII	IX	X	XI	X
1990		24.8	24.9	22.4	21.5	23.7	23.9	24.3	21.7	22.6	21.0	22.1	
TL/USD		39.0	34.3	36.2	34.6	48.0	44.6	45.4	52.3	46.1	45.1	45.1	
TL/DM													
1991		29.6	38.3	49.2	56.7	56.3	62.4	65.0	71.4	72.2	77.4	78.7	
TL/USD		45.1	52.9	49.3	50.2	53.8	51.1	52.5	52.5	59.9	60.9	64.7	
TL/DM													
1992		80.4	75.6	68.7	66.8	69.2	59.6	60.6	53.2	55.1	58.6	64.7	
TL/USD		69.0	63.6	73.6	78.8	78.0	88.3	88.0	90.4	82.7	75.4	65.7	
TL/DM													
1993		58.5	57.0	51.4	46.3	47.9	58.1	63.1	66.6	65.1	65.4	67.7	
TL/USD		62.0	57.6	53.2	53.9	50.0	42.1	39.7	40.5	46.6	51.2	5	
TL/DM													
1994		97.3	99.9	134.2	246.2	213.4	187.0	171.2	178.7	180.5	173.6	16	
TL/USD		80.6	90.0	127.1	225.4	206.3	207.5	197.2	201.7	196.3	205.8	15	
TL/DM													
1995		135.2	126.0	88.5	26.5	34.2	40.6	45.0	45.2	43.6	42.8		
TL/USD		168.9	164.9	129.1	53.6	59.3	60.6	65.1	56.4	56.5	53.1		
TL/DM													
1996		54.5	58.7	69.1	75.6	83.2	86.7						
TL/USD		56.8	59.6	58.5	58.4	65.6	69.7						
TL/DM													

Sources : Central Bank, SPO, Treasury

**Breakdown of Exports (sectoral basis)**  
(USD million)

	1990	1991	1992	1993	1994	1995
Total	12,959	13,594	14,718	15,345	18,105	21,636
Agriculture & livestock	2,347	2,683	2,203	2,365	2,457	2,307
Mining	327	286	264	238	272	406
Industrial products	10,285	10,625	12,251	12,744	15,376	18,924

**Breakdown of Exports (country groups basis)**  
(USD million)

	1990	1991	1992	1993	1994	1995
Total	12,959	13,594	14,718	15,345	18,105	21,636
I. OECD Countries	8,810	8,856	9,345	9,067	10,758	13,223
A. EU Countries	6,893	7,042	7,601	7,287	8,635	11,078
B. EFTA Countries	618	591	632	558	277	294
C. Other OECD Countries	1,300	1,223	1,112	1,221	1,846	1,851
II. Other European Countries	1,003	1,152	647	1,803	2,437	3,567
III. Other Countries	3,146	3,586	4,725	4,476	4,911	4,846

**Breakdown of Imports (type of goods basis)**  
(USD million)

	1990	1991	1992	1993	1994	1995
Total	22,302	21,047	22,870	29,428	23,270	35,708
Investment goods	5,919	6,154	6,866	9,671	6,962	10,609
Consumption goods	2,939	2,829	2,937	4,063	2,730	4,335
Raw Materials	13,444	12,064	13,068	15,696	13,578	20,763

**Breakdown of Imports (country groups basis)**  
(USD million)

	1990	1991	1992	1993	1994	1995
Total	22,302	21,047	22,870	29,428	23,270	35,708
I. OECD Countries	14,224	14,071	15,429	19,974	15,334	23,595
A. EU Countries	9,328	9,222	10,044	12,949	10,915	16,861
B. EFTA Countries	1,167	1,215	1,411	1,652	563	892
C. Other OECD Countries	3,729	3,634	3,975	5,373	3,856	5,843
II. Other European Countries	2,234	2,025	976	3,343	2,590	4,555
III. Other Countries	5,843	4,951	6,464	6,112	5,346	7,559

Source: SIS

**Balance of Payments**  
(USD million)

	1990	1991	1992	1993	1994	1995*	1996**
<b>A. Current Account</b>							
Merchandise Exports (FOB)	13,026	13,667	14,891	15,611	18,390	21,975	25,400
Export in trade returns	12,959	13,593	14,715	15,345	18,106	21,636	25,000
Transit trade	67	74	176	266	284	339	400
Merchandise Import (FOB)	-22,581	-21,007	-23,081	-29,771	-22,606	-35,187	-40,500
Imports (CIF)	-22,302	-21,047	-22,871	-29,428	-23,270	-35,709	-41,000
Gold imports	-1,532	-1,161	-1,430	-1,881	-480	-1,322	-1,600
Transit trade	-46	-64	-151	-229	-251	-301	-350
Freight and insurance on imports	1,299	1,265	1,371	1,767	1,395	2,145	2,450
Trade Balance	-9,555	-7,340	-8,190	-14,160	-4,216	-13,212	-15,100
Other Goods and Services (credit)	8,933	9,307	10,419	11,788	11,691	16,094	18,300
Travel	3,225	2,654	3,639	3,959	4,321	4,957	6,100
Interest	917	935	1,012	1,1	35 890	1,488	1,600
Other	4,791	5,718	5,768	6,694	6,480	9,649	10,600
Other Goods and Services (debit)	-6,496	-6,816	-7,262	-7,829	-7,936	-9,717	-11,150
Travel	-520	-592	-776	-934	-866	-911	-1,200
Interest	-3,264	-3,440	-3,439	-3,574	-3,923	-4,303	-4,650
Other	-2,712	-2,784	-3,047	-3,321	-3,147	-4,503	-5,300
Total Goods and Services	-7,118	-4,849	-5,033	-10,201	-461	-6,835	-7,950
Private Unrequited Transfers (credit)	3,374	2,879	3,147	3,035	2,709	3,425	3,380
Migrants' transfers	0	0	0	0	0	0	0
Workers' remittances	3,246	2,819	3,008	2,919	2,627	3,327	3,300
Other	128	60	139	116	82	98	80
Private Unrequited Transfers (debit)	-25	-25	0	0	0	0	0
Official Unrequited Transfers	1,144	2,245	912	733	383	1,071	770
Workers' transfers	79	82	66 44	37	37	38	50
Other	1,065	2,163	846	689	346	1,033	720
Current Account Balance	-2,625	250	-974	-6,433	2,631	-2,339	-3,800
<b>B. Capital Account (excluding reserves)</b>	4,037	-2,397	3,648	8,963	-4,194	4,722	6,300
Direct Investment	700	783	779	622	559	772	1,200
Portfolio Investment	547	623	2,411	3,917	1,158	1,724	3,180
Other Long-Term Capital	-210	-783	-938	1,370	-784	-79	300
Drawings	3,679	3,784	3,523	4,857	3,349	4,126	5,000
Repayment	-3,938	-4,070	-4,871	-4,412	-5,448	-5,667	-6,200
Dresdner (net)	49	-497	410	925	1,315	1,462	1,500
Short-Term Capital	3,000	-3,020	1,396	3,054	-5,127	2,305	1,620
Assets (net)	-409	-2,563	-2,438	-3,291	2,423	-1,791	-1,300
Credits extended	156	-811	-327	-289	-38	293	-300
Other assets	-565	-1,752	-2,111	-3,002	2,461	-2,084	-1,000
Liabilities (net)	3,409	-457	3,834	6,345	-7,550	4,096	2,920
Credits	2,520	590	4,091	5,681	-7,495	3,096	2,300
Deposits	889	-1,047	-257	664	-55	1,000	620
<b>C. Net Errors and Omissions</b>	-468	948	-1,190	-2,222	1,769	2,275	0
<b>D. Exceptional Financing</b>	0	0	0	0	0	0	0
<b>E. Counterpart Items</b>	364	170	0	0	0	0	0
Total Overall Balance	1,308	-1,029	1,484	308	206	4,658	2,500
<b>F. Total Change In Reserves</b>	-1,308	1,029	-1,484	-308	-206	-4,658	-2,500
IMF	-53	0	0	0	340	347	0
Official reserves	-1,255	1,029	-1,484	-308	-546	-5,005	-2,500

\*\* Provisional

\*\* Programme

Source : Central Bank

**Breakdown of Foreign Direct Investment Permits by Sectors**  
(USD million)

	1990	1991	1992	1993	1994	1995	1996*
Agriculture	65	21	34	31	29	32	35
Mining	46	38	19	12	6	61	4
Manufacturing	1,143	1,054	1,274	1,580	1,106	1,997	391
Food, Beverages & Tobacco	75	365	284	206	154	171	39
Cement	339	79	54	32	138	291	148
Chemicals	64	172	51	191	85	329	48
Fertilizers	0	0	0	0	0	0	0
Tire	19	0	6	46	34	39	0
Plastics	3	45	11	25	11	35	10
Forestry Products	0	2	17	1	0	1	1
Paper	19	2	8	5	7	7	1
Textiles	36	32	32	35	24	41	30
Clay cement products	4	2	5	1	7	2	0
Earthenware	9	4	1	3	1	7	0
Iron-Steel	45	62	98	47	35	2	8
Non-ferrous metals	8	40	40	29	15	46	0
Fabricated metal products	11	9	8	16	7	6	6
Machinery	1	0	0	1	10	3	0
Aeronautical	21	0	37	6	8	0	0
Electric & Electronic	100	81	128	167	79	221	17
Transport Vehicles	303	28	178	623	254	577	7
Transport related industries	50	43	46	47	35	119	28
Others	39	87	271	101	203	100	47
Services	531	797	493	502	343	850	320
Trade	45	149	97	77	98	114	62
Tourism	268	243	108	107	63	175	56
Banking	113	106	103	64	63	83	31
Land Transportation	1	1	0	1	6	4	1
Air Transportation	6	8	3	3	6	2	0
Marine Transportation	3	8	2	2	0	1	0
Investment Financing	18	15	19	53	6	19	60
Others	77	267	162	195	101	452	108
Grand Total	1,784	1,909	1,820	2,125	1,485	2,938	751

\*January-June

Source: Treasury

**Breakdown of Foreign Direct Investment Permits by Countries**  
(USD million)

	1990	1991	1992	1993	1994	1995	1996*
I. OECD Countries	1,608	1,743	1,614	2,043	1,373	2,759	651
A. EU Countries	1,249	1,025	1,120	1,176	971	1,873	528
Germany	138	188	203	158	224	392	88
Belgium-Luxemburg	21	39	45	33	61	98	64
Denmark	16	5	4	21	9	4	0
France	655	245	354	226	256	476	19
Netherlands	69	278	273	212	196	559	196
United Kingdom	280	69	109	115	51	161	123
Ireland	0	1	1	1	5	9	2
Italy	59	190	120	419	164	99	26
Greece	1	1	3	3	1	3	0
Spain	10	8	10	5	3	3	7
Austria	6	8	9	6	4	33	2
Portugal	0	0	0	0	0	0	0
Sweden	0	0	0	6	9	12	2
Others	0	0	0	0	0	25	0
B. Other OECD Countries	354	718	454	866	403	885	123
U.S.A	119	456	198	253	157	232	98
Japan	100	54	37	237	126	284	1
Switzerland	109	104	204	142	54	328	18
Others	32	104	17	234	65	42	6
C. Other European Countries	0	0	5	2	1	1	0
II. Islamic Countries	55	107	125	79	45	71	42
A. Middle East	43	89	113	74	42	55	41
Iran	5	3	7	6	4	6	2
Iraq	1	24	3	2	3	15	2
Saudi Arabia	5	26	34	15	8	12	8
Kuwait	1	3	2	1	1	2	0
Lebanon	9	5	5	2	1	1	5
Syria	11	3	1	3	2	2	1
Jordan	0	1	1	0	1	5	1
Bahrain	4	6	20	26	12	6	8
Qatar	5	5	0	8	4	0	0
Turkish Rep. of Northern Cyprus	2	5	10	6	5	4	10
Islam Development Bank	0	0	1	1	1	2	6
United Arab Emirates	0	7	0	3	0	0	0
Yemen	0	0	0	0	0	1	0
B. Northern African Countries	9	18	10	3	1	2	0
Libya	8	17	10	1	1	0	0
Egypt	0	0	1	0	0	0	0
Tunisia	0	0	0	0	3	2	1
C. Other Islamic Countries	4	1	1	1	65	108	59
III. Other Countries	121	52	77	1	1	2,938	751
Grand Total	1,784	1,909	1,820	2,125	1,485	2,938	751

\* January-June

Source: Treasury

**Outstanding External Debt**  
(USD million)

Outstanding External Debt (USD million)	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	I. Quarter		
											1995	19	
<b>By Maturity</b>													
<b>Total Outstanding Debt</b>	32,206	40,326	40,722	41,751	49,035	50,489	55,592	67,356	65,601	73,278	7	1,581	72
Medium-Long-term	25,857	32,703	34,305	36,006	39,535	41,372	42,932	48,823	54,291	57,577		58,415	56
Short-term	6,349	7,623	6,417	5,745	9,500	9,117	12,660	18,533	11,310	15,701		13,166	15
<b>By Borrower</b>													
<b>Medium-Long-term</b>	25,857	32,703	34,305	36,006	39,535	41,372	42,932	48,823	54,291	57,577		58,415	56
Public (SEEs included)	19,046	24,340	26,234	27,425	30,416	32,590	33,598	36,237	39,550	3	9,472	41,789	3
Central Bank	5,860	7,090	6,546	6,975	7,321	6,530	6,150	6,618	8,597	10,486		9,756	1
(Dresdner Bank Scheme)	-3,069	-4,569	-4,723	-5,500	-6,255	-5,713	-5,771	-6,282	-8,308	-10,397		-9,661	-1
Private Sector	951	1,273	1,525	1,606	1,798	2,252	3,184	5,968	6,144	7,619		6,870	
<b>Short-term</b>	6,349	7,623	6,417	5,745	9,500	9,117	12,660	18,533	11,310	15,701		13,166	
Central Bank	1,757	2,539	1,830	799	855	557	572	667	828	993		949	
(Dresdner Bank Scheme)	-730	-871	-747	-733	-695	-553	-569	-666	-823	-973		-942	
Commercial Banks	1,957	2,873	2,767	3,118	5,373	5,216	7,157	11,127	4,684	6,659		5,809	
Other Sectors	2,655	2,211	1,820	1,828	3,272	3,344	4,931	6,739	5,798	8,049		6,408	
<b>By Lender</b>													
<b>Medium-Long-term</b>	25,857	32,703	34,305	36,006	39,535	41,372	42,932	48,823	54,291	57,577		58,415	
Multilateral Agencies	7,827	9,778	9,192	8,740	9,564	10,069	9,160	8,674	9,183	9,081		9,908	
Bilateral Lenders	9,885	11,759	1	1,382	11,431	12,984	14,587	15,035	18,153	20,678		21,558	
Commercial Banks	4,630	5,722	5,570	5,043	4,843	4,309	3,640	3,083	2,325	2,346		2,386	
Bond Issues	217	712	3,321	5,226	5,877	6,683	9,316	12,623	13,788	14,186		14,159	
Private Lenders	3,298	4,732	4,840	5,566	6,267	5,724	5,781	6,290	8,317	10,406		9,670	1
<b>Short-term</b>	6,349	7,623	6,417	5,745	9,500	9,117	12,660	18,533	11,310	15,701		13,166	
Commercial Bank Credits	2,673	3,725	2,950	1,841	3,845	4,144	6,490	9,526	2,901	4,263		3,833	
Private Lender Credits	3,676	3,898	3,467	3,904	5,655	4,973	6,170	9,007	8,409	11,438		9,333	
<b>By Type Of Credit</b>													
<b>Medium-Long-term</b>	25,857	32,703	34,305	36,006	39,535	41,372	42,932	48,823	54,291	57,577		58,415	
Project and Program Credits	15,749	19,775	19,109	18,929	21,116	22,815	21,819	21,760	25,219	23,598		25,911	
Eurocurrency Loans	4,630	5,722	5,570	5,043	4,843	4,309	3,640	3,083	2,325	2,346		2,386	
Bond Issues	217	712	3,321	5,226	5,877	6,683	9,316	12,623	13,788	14,186		14,159	
Rescheduled Debt	1,624	1,139	503	66	12	11	10	8	9	9		9	
CTLDS	1,166	833	329	0	0	0	0	0	0	0		0	
Bankers' Credits	229	143	57	0	0	11	10	8	9	9		9	
NGTA	229	163	117	66	12	7,554	8,147	11,349	12,950	17,438		15,811	
Private Credits	3,637	5,355	5,802	6,742	7,687								
<b>Short-term</b>	6,349	7,623	6,417	5,745	9,500	9,117	12,660	18,533	11,310	15,701		13,166	
<b>Credits</b>	4,363	5,004	3,984	2,950	5,524	6,134	10,065	15,436	8,044	11,230		9,333	
Bankers' Credits	944	1,383	914	35	51	0	0	0	0	0		0	
Overdrafts	77	282	168	30	24	3	2	1	5	20		4	
Acceptance Credits	1,061	1,205	903	891	1,386	1,504	2,630	4,762	3,772	5,361		1,606	
Pre-Export Credits	629	74	131	218	146	486	945	1,148	1,371	1,606		1,606	
FX Credits Received By DMBs	687	1,128	1,082	1,057	2,093	2,787	5,132	8,696	2,241	3,161		3,161	
FX Credits Received By Other Sector	965	932	786	719	1,740	1,354	1,356	829	655	1,082		1,082	
Other	0	0	0	0	84	0	0	0	0	0		0	
<b>Deposits</b>	1,986	2,619	2,433	2,795	3,976	2,983	2,595	3,097	3,266	4,471			
FX Deposit Accounts	1,250	1,745	1,685	2,061	3,280	2,429	2,025	2,431	2,443	3,498			
Dresdner Bank Scheme	730	871	747	733	695	553	569	666	823	973			
CTLDS	6	3	1	1	1	1	1	1	0	0		0	

\* Provisional

Sources: Central Bank, Treasury



