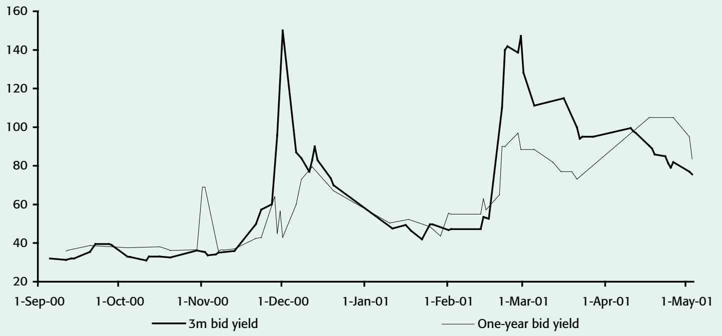
# Macroeconomics: Turkey

**EME strategy** | **May 15, 2001**

## No repeat of '98 Russia

- **The IMF is expected to approve a financial rescue package of US$14.3bn for Turkey today.**
- **The government faces two immediate challenges: rolling-over the short-term debt and turning around a deteriorating budgetary situation. The twin challenges are strikingly similar to those present in Russia before the summer of 1998.**
- **Despite this similarity, the lingering concern that Turkey will fall into an irreversible debt trap like Russia's in 1998 appears overdone and, at the very least, premature.**
- **The country can count on a considerably deeper local financial market, a flexible exchange rate regime and a dynamic, resilient private sector.**
- **Additionally, our scenario analysis shows that, with the IMF/WB disbursements, the fiscal cash flow situation should be manageable in the near-term largely regardless of market sentiment.**

Turkey: yields on government paper (simple bid yield)




Source: Reuters

**Turkey: key macroeconomic indicators**

| | 1997A | 1998A | 1999A | 2000A | 2001F | 2002F |
|---|---|---|---|---|---|---|
| Growth (%) | 8.0 | 3.8 | -5.0 | 6.5 | -3.0 | 5.0 |
| CPI (%, e-o-p) | 99.1 | 69.7 | 68.8 | 39.0 | 55.0 | 25.0 |
| Current acc. (% of GDP) | -1.5 | 1.0 | -0.5 | -4.9 | 0.0 | -1.1 |
| TL million/US$ (avg.) | 0.157 | 0.262 | 0.421 | 0.625 | 1.090 | 1.360 |
| GDP (US$ bn) | 193 | 200 | 195 | 201 | 170 | 190 |

Source: State Institute of Statistics, ABN AMRO forecasts



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# Assessment of near-term debt-service ability

**The IMF is expected to approve a financial rescue package of US$14.3bn today. Two immediate challenges facing the Turkish government are rolling-over its short-term debt and turning around a deteriorating budgetary situation. The twin challenges, which were aggravated by two recent bouts of financial instability (last November and this past February), are strikingly similar to those present in Russia before the summer of 1998.**

**Despite this similarity, the lingering concern that Turkey will fall into an irreversible debt trap like Russia's appears overdone and, at the very least, premature. The country can count on a considerably deeper local financial market, a flexible exchange rate regime and a dynamic, resilient private sector. These factors can help avert a liquidity crunch and possible debt default, especially given progress on the revised stabilisation programme and backing from the IMF and other official sources of finance.**

**Our scenario analysis later in the report shows that market sentiment, as reflected in the maturity and cost of rolling-over Treasury debt, will be an important factor affecting the cost of the revised stabilisation programme but, on its own, is unlikely to determine the fate of the new programme. A decisive factor will be the authorities' willingness and ability to improve the fiscal stance and implement structural reforms, as well as the size and timing of external financing.**

## Near-term twin challenges

*The IMF's approval of a financial support package of US$14.3bn might not necessarily calm the markets*

The International Monetary Fund is expected to approve an ambitious anti-crisis programme for the Turkish government today. The programme aims to restore price and currency stability and establish a sustainable fiscal stance through sound macroeconomic policy and ambitious structural reforms (see details in the appendix). The programme will also be supported by financial assistance of US$14.3bn, including a fresh loan of US$8.5bn from the IMF, an outstanding commitment of US$4.3bn in the previous IMF programme and US$1.5bn from the World Bank. However, for those who recall the stream of events before the 1998 Russian crisis, the IMF's financial rescue package, which is already the third one of its sort, might be seen as a last chance to escape from the Turkish markets. More worryingly, this doomsday stance could become a self-fulfilling prophecy if others follow on fears that largely disregard the strength and credibility of the re-launched economic reform programme.

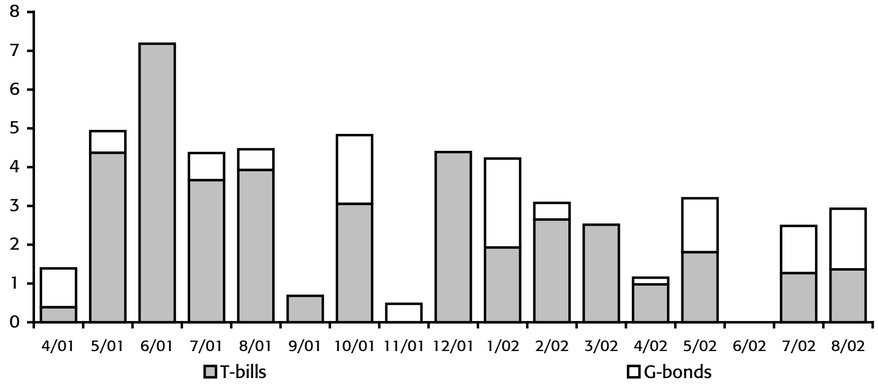
*The short-term debt-service burden has increased dramatically*

Indeed, the Turkish government faces a mounting short-term debt-service burden in this and the next several months. The main reason is that, because of the crises of last November and February, the government was forced to refinance maturing domestic obligations at very short maturities in order to avoid locking-in punitively expensive interest rates. Consequently, there has been a sharp decline in the average maturity of domestic debt: as of the end of March, the average maturity of Treasury bills (the lira equivalent of some US$7bn outstanding) was less than three months, and the average maturity of government bonds (the equivalent of about US$22bn) was eight-and-a-half months.

*We estimate that domestic debt service on existing debt alone is about US$44-47bn for this year*

We estimate that the domestic debt-service burden for tradable securities alone amounts to the lira equivalent of about US$5.2bn this month, US$7.7bn in June, US$4.8bn in July and US$4.9bn in August, under assumptions of the currency's gradual depreciation and a steady yet slow reduction in yields. For 2001 as a whole, we estimate that the Turkish government must come up with and/or roll-over the equivalent of about US$44bn-47bn on the *existing* domestic tradable debt, including principal and interest payments, let alone service the new debt to be issued in the months to come.

Figure 1: Turkey: projected debt service on the existing stock of domestic tradable securities* (US$ bn)

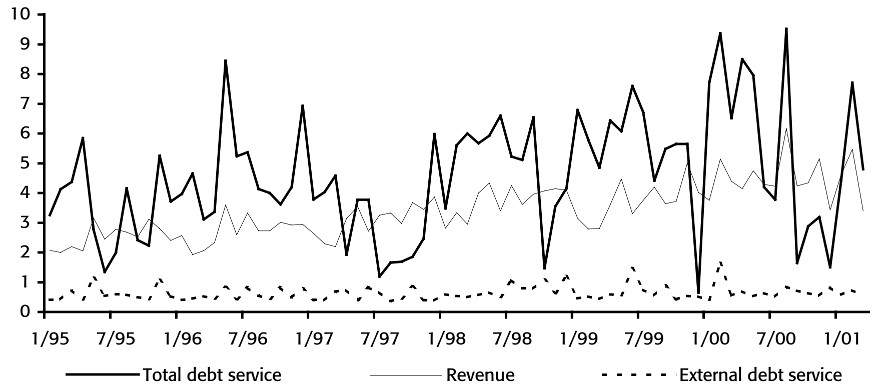



*Assuming a gradual depreciation of the currency and a gradual reduction in short-term interest rates and incorporating the four auctions to be held in May
Source: Central Bank of Turkey, ABN AMRO

*Consolidated fiscal revenues are falling short of domestic debt service...*

This heavy short-term debt-service burden dwarfs central government revenues, raising concerns over the possibility of a liquidity crunch or the repetition of an involuntary domestic debt restructuring, as happened in Russia nearly three years ago. The latest Treasury data show that consolidated central government revenues hovered around US$3bn-5bn per month before the February crisis, compared with total government debt service of US$4bn-8bn per month.

Figure 2: Turkey: debt service and central government revenues (US$ bn)

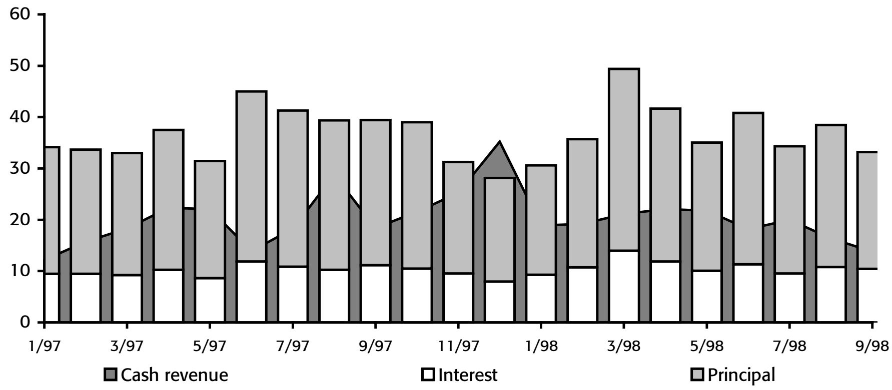



Source: Turkish Treasury

*...in a striking similarity to the situation seen in pre-crisis Russia*

This shaky fiscal stance relative to the heavy short-term debt burden is strikingly similar to the situation seen in pre-crisis Russia. Before August 1998, the federal government there collected cash revenues at a paltry level of 9-11% of GDP, which was not enough to cover its debt-service obligations, including the redemption of GKOs, let alone wages and social benefits. The revenue/debt-service ratio in Russia had fallen sharply from more than 300% in 1994 to under 60% in 1997-98, driven by poor cash revenue collections and an increasing mountain of short-term paper to cover the gap. In comparison, the revenue/debt-service ratio of the Turkish government also fell, from 100% in 1997 to 67% in 1999, before recovering to 81% last year, thanks to the IMF-supported stabilisation programme of December 1999. However, with the ambitious programme off-track in the wake of political turmoil and the subsequent devaluation in February, we expect the ratio to have fallen sharply to 40-60% in this and the coming months. These levels are close to what investors had observed in Russia only a couple of months before the August 1998 default.

Figure 3: Russia: federal cash revenues and debt service (RUB bn)




Source: Finance Ministry of the Russian Federation, IMF

Figure 4: Turkey and Russia: revenue/debt-service ratio (%)


Sources: Turkish Treasury, Finance Ministry of the Russian Federation, IMF, ABN AMRO

## Strong mitigating factors

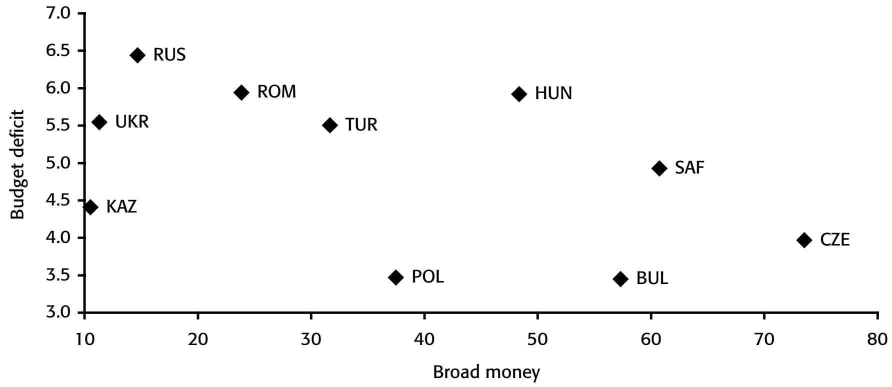
*Despite the similarity, the concern that Turkey might repeat the Russian crisis is overdone and, at the very least, premature*

Despite the similarity in the short-term fiscal stance, we believe that the concern that Turkey might fall into an irreversible debt trap, like Russia did, is overdone and, at the very least, premature. There are several mitigating factors in favour of Turkey.

*Turkey has far deeper local financial markets than Russia*

First, the country has far deeper local financial markets than did Russia. The M2/GDP ratio in Turkey is over 25%, compared with a mere 15% of GDP at the time in Russia. A broader measure of money, including foreign-currency-denominated deposits, reaches almost half of GDP in Turkey, compared with only 18% of GDP in pre-crisis Russia. This local financial depth has been financing the large fiscal imbalances in Turkey for a long time, and the banking system is likely to continue to be a reliable funding source for the government, especially during this year's recession, when there is little appetite to increase exposure to the private sector. For the same reason, the detrimental effect of crowding-out the private sector is also likely to be far less than in the case of Russia. In addition, a good track record in terms of sovereign-debt service in Turkey is expected to help ease concerns about a unilateral, domestic debt restructuring even in a worst-case scenario, thereby helping to facilitate a voluntary roll-over. The government has already signalled its intention to continue to provide attractive returns to those willing to hold its paper: in recent auctions the average yields were set at 85-100% p.a. compared with underlying inflation of 45-65%.

Figure 5: Budget deficits and broad money (% of GDP, 1994-98 average)




Sources: Statistical agencies of respective national authorities, ABN AMRO

*Turkey has already moved to a flexible exchange rate regime*

Second, Turkey has already moved to a flexible exchange rate regime which is expected to protect its international reserves and maintain sovereign solvency if investors stampede out, as was the case in Russia. The flexibility has, of course, not been achieved without cost. Consumer prices rose by a total of 16% or 48% year-on-year in the first two months after the devaluation of some 45% in February. The banking system became insolvent, adding a multi-billion-dollar bail-out burden to the already weak budget. Nonetheless, the worst of the post-devaluation symptoms appear to be over and Turkey seems to have avoided falling into a liquidity crunch or a vicious cycle of hyperinflation and devaluation. The new economic programme, which is supported by the IMF, aims to limit inflation to 50-60% for the whole year through tight monetary and fiscal policy. In the meantime, the competitive exchange rate is likely to help improve the external balance and lead to export-oriented economic growth. A traditionally strong tourism sector is expected to benefit the most from the competitive currency.

*Turkey has a dynamic private sector*

Third, and probably most important, Turkey has a dynamic private sector. For decades it has shown remarkable resilience to economic shocks, including past episodes of devaluation and high inflation. In contrast, at the time of the August 1998 crisis, Russia was still struggling with the legacy of the Soviet system, with its embryonic private sector and underdeveloped market and social infrastructures. In addition, well before the crisis the Russian economy had already entered an economic downturn in the wake of falling world commodity prices.

## Scenario analysis

*Will market sentiment be an overriding factor in Turkey?*

Emerging markets crises have shown time and again that what matters at critical times is market sentiment rather than economic fundamentals. Negative market sentiment has often led to a self-fulfilling prophecy whereby a country loses access to the capital markets, precipitating speculation on the currency and the financial assets of the perceived 'problem country.' We have thus run a scenario analysis to determine the extent of Turkey's vulnerability to erratic market sentiment.

*Baseline scenario assumes full external financing, yet no significant extension of T-bill maturities and no sharp tightening in interest rate*

**Baseline scenario:** We assume that the Turkish government achieves a primary (namely, non-interest) fiscal surplus of 5.7% of GDP for the consolidated budget this year, in line with a target agreed with the IMF. Gross external financing available for budget purposes is estimated to reach some US$17.3bn from the IMF, World Bank and various other official creditors, plus US$2bn from new Eurobond issuance at some point later this year (on top of the US$700m raised from the markets in Q1). We assume that the short-term interest rate for government borrowing will be around 90% on an annual compounded basis and will gradually decline. Furthermore, we assume that new paper to be issued in the remainder of this year will have a maturity structure similar to that announced for the T-bill auctions this month.

**Figure 6: 2001 baseline scenario (monthly assumptions, %)**

| | May | June | July | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|
| Spot rates (simple) | | | | | | | | |
| 3 month | 74 | 74 | 72 | 70 | 70 | 70 | 65 | 60 |
| 6 month | 75 | 75 | 73 | 72 | 70 | 70 | 70 | 70 |
| 9 month | 80 | 80 | 75 | 73 | 72 | 70 | 70 | 70 |
| Spot rates (compound) | | | | | | | | |
| 3 month | 97 | 97 | 94 | 91 | 91 | 91 | 83 | 75 |
| 6 month | 89 | 89 | 86 | 85 | 82 | 82 | 82 | 82 |
| 9 month* | 87 | 87 | 81 | 79 | 78 | 76 | 76 | 76 |
| Maturity structure of new paper (% of total issuance) | | | | | | | | |
| 3 month | 15.2 | 15 | 15 | 15 | 15 | 15 | 15 | 15 |
| 6 month | 41.4 | 35 | 35 | 35 | 35 | 35 | 35 | 35 |
| 9 month | 43.4 | 50 | 50 | 50 | 50 | 50 | 50 | 50 |

*The latest auction, on 8 May, produced an 89.91% compound rate for 10-month bills and a bid-cover ratio of 1.4.
Source: ABN AMRO

*Our optimistic scenario assumes a substantial extension of T-bill maturities*

**Optimistic scenario:** All parameters are the same as in the baseline scenario, except for the maturity of new domestic debt. Here we assume that it is lengthened beyond this year, either through regular auctions or successful debt swaps. The purpose of this scenario is to quantify the extent of additional borrowing requirements in case of a failure to lengthen maturities.

*Our pessimistic scenario assumes temporary slippage in implementation of the IMF programme*

**Pessimistic scenario:** The revised IMF programme gets underway but there is a hiccup after its launch. For example, the needed reforms are not passed, other policy actions fail to be taken, or the primary fiscal surplus is lower than targeted due to expenditure overruns or revenue shortfalls. Turkey thus fails to obtain one or two tranches due to the slippage but comes back into compliance after another, albeit brief, bout of financial instability.

*Exchange rate projections remain unchanged in each scenario*

In each of the three scenarios we maintain our exchange rate projections unchanged, as the exchange rate is not central to this exercise and any change in the rate can be assimilated by such other variables as a shortfall in the primary fiscal surplus.

## Key findings

*Any failure to extend maturities should not threaten the country's fiscal viability*

First, any failure to extend maturities should not threaten the country's fiscal viability as long as external funding is secured through strict adherence to the programme. The extra borrowing requirements, as shown in the difference between those in the baseline and optimistic scenarios, are limited to US$7bn for the remainder of this year. Provided that the government obtains the first IMF/World Bank tranche of some US$6bn due this month and maintains a primary surplus of some US$700m per month, a liquidity crunch is unlikely even if the authorities fail to extend the local debt maturity further from what has already been planned.

**Figure 7: Scenario analysis: 2001 domestic borrowing requirements**

| | Baseline | Optimistic | Pessimistic |
|---|---|---|---|
| Gross external financing (US$ bn) | [1]20 | [1]20 | 18 |
| Primary surplus[2] (% of GDP) | 5.7 | 5.7 | 4.0 |
| Interest rate[3] (%) | 70 (90) | 70 (90 ) | 100 (144) |
| Maturity structure of new paper | As in Figure 5 | Over 7 months | As in Figure 5 |
| Domestic borrowing requirement (US$ bn)[4] | 43.5 (29.5) | 37 (23) | 58 (44) |
| *Memorandum item:* | | | |
| Average exchange rate | TL1.12m/US$ | TL1.12m/US$ | TL1.12m/US$ |

1. Including US$0.7bn received in Q1, US$14.3bn from WB/IMF, US$3bn from bilateral creditors and US$2bn from new eurobonds.
2. Including privatisation proceeds as revenues in line with the national definition.
3. Effective annual simple interest rate for government debt since end-March 2001. Equivalent compound three-month rates noted in parentheses.
4. Including about US$14bn already borrowed in the first four months of this year. The projected borrowing requirement for the remainder of this year is in parentheses.

Source: ABN AMRO

**Figure 8. Scenario analysis: 2001 budgetary stance (US$ bn, except where noted)[1]**

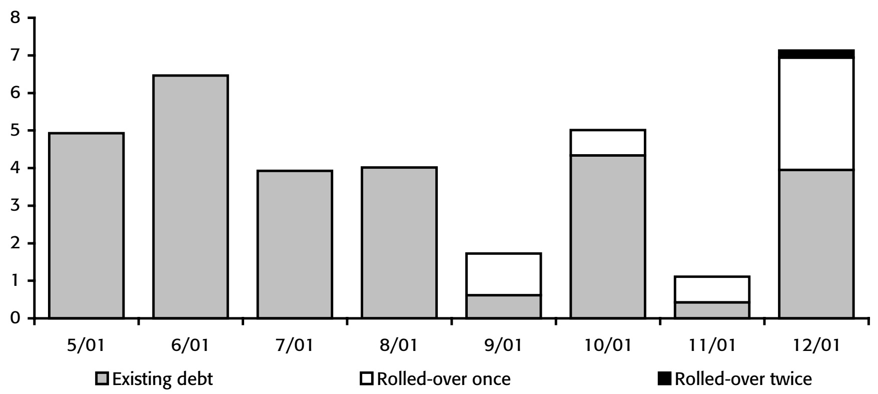
| | 1995A | 1996A | 1997A | 1998A | 1999A | 2000A | 2001F | 2001F | 2001F |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | Base | Opt | Pess |
| Primary budget surplus | 5.7 | 3.2 | 0.2 | 9.5 | 4.0 | 12.1 | 9.3 | 9.3 | 6.5 |
| External debt service | 7.4 | 7.1 | 6.5 | 9.1 | 7.7 | 8.4 | 10.4 | 10.4 | 10.4 |
| External financing | 3.5 | 3.4 | 1.6 | 3.1 | 6.7 | 10.1 | 20.0 | 20.0 | 18.0 |
| Domestic debt service | 34.1 | 50.5 | 29.8 | 49.7 | 56.8 | 56.0 | 62.3 | 55.8 | 72.3 |
| Interest[2] | 10.4 | 16.3 | 13.0 | 21.5 | 23.4 | 29.8 | 26.9 | 26.9 | 34.1 |
| Principal | 23.7 | 34.2 | 16.8 | 28.2 | 33.4 | 26.2 | 35.5 | 29.0 | 38.2 |
| Domestic borrowing | 32.4 | 51.1 | 34.5 | 46.3 | 53.8 | 42.3 | 43.3 | 36.8 | 58.2 |
| T-bills | 25.1 | 40.1 | 19.7 | 35.0 | 16.3 | 8.9 | ... | ... | ... |
| Government bonds | 4.9 | 7.2 | 13.6 | 10.7 | 40.3 | 31.2 | ... | ... | ... |
| Other | 2.5 | 3.8 | 1.2 | 0.5 | -2.8 | 2.2 | ... | ... | ... |
| **Memorandum item:** | | | | | | | | | |
| Domestic borrowing/domestic debt service (%) | 95 | 101 | 116 | 93 | 95 | 76 | 70 | 66 | 80 |
| Domestic debt service for cash securities[1] | ... | ... | ... | ... | ... | ... | 50.6 | 44.1 | 55.6 |
| Domestic borrowing[1] (%) | ... | ... | ... | ... | ... | ... | 85 | 83 | 105 |

1. Following the same assumptions as in Figure 7.
2. Including floating-rate, quarterly interest payments for non-cash securities of TL25,000trn issued for state banks.
Source: Turkish Treasury, ABN AMRO

*The roll-over requirement for domestic debt is less than 100% under our baseline scenario*

Second, under our baseline scenario, the government does not need to roll over 100% of domestic Treasury bills falling due in the remainder of this year. We estimate that the total domestic debt service for the stock of tradable government paper this year is US$44bn at the period's average exchange rate. Taking into account the actual debt service for the first four months of this year (the equivalent of US$16bn) and non-domestic financing sources, we estimate that about 90% is the threshold roll-over rate needed to close the country's financing needs, including servicing newly issued short-term debt.

Figure 9: Baseline scenario: domestic debt issuance projection* (US$ bn)




* Based on the baseline scenario in Figures 6 and 7.
Sources: Central Bank of Turkey, ABN AMRO

*Slippage in the implementation of the IMF programme would materially damage fiscal viability*

Third, failure in the implementation of the IMF programme would be far more damaging to fiscal viability than is indicated by the immediate loss in the scheduled IMF funding. The slippage would be likely to move up the government yield curve and thus increase the domestic borrowing cost and shorten the maturity of new government paper. Under our pessimistic scenario, the extra borrowing requirement compared with the baseline scenario is as much as US$21bn, of which the majority comes from the extra interest cost (US9.7bn) and the extra roll-over requirement (US$6.5bn).

## Conclusion

*The twin challenges are similar to those seen in pre-crisis Russia*

Turkey faces the immediate challenges of a mounting short-term debt-service burden and a deteriorating budgetary stance. These twin challenges are strikingly similar to those seen in pre-crisis Russia three years ago.

*However, Turkey is unlikely to follow in Russia's footsteps in 1998*

However, despite the apparent similarity in the short-term debt burden and the dire fiscal stance, Turkey is unlikely—thanks to strong mitigating factors—to follow Russia's fatal footsteps into domestic debt default in 1998. These mitigating factors include a considerably deeper local financial market accounting for an overwhelming share of public debt, the less-negative impact of the lira's devaluation and a more dynamic and resilient private sector. If combined with multilateral external financing and reasonable progress under the revised economic programme, these factors can help avert a liquidity crunch and avoid a domestic debt default, at least in the short term.

*An overriding factor for the success of the IMF programme in Turkey will be credible efforts by the authorities to implement the programme, rather than market sentiment*

Our scenario analysis shows that market sentiment will be an important factor affecting the fiscal costs of the programme but, on its own, is unlikely to determine its fate. With the financial support of the IMF and World Bank, the cash flow situation should be manageable and the roll-over requirement does not seem to be overly burdensome. A more decisive factor affecting the course of events will be the authorities' willingness and ability to improve the fiscal stance and implement structural reforms.

## Events and data to watch

| Date | Key events |
|---|---|
| 16 May | Redemption of government T-bills of TL1,645trn |
| 22 May | Auctions of 6-10 month T-bills of TL3,100trn |
| 23 May | Redemption of government T-bills of TL3,382trn |
| Week of May 28 | Release of external trade figures for March and BOP figures for February |
| | Release by Finance Ministry of final budget out-turn figures for April |
| 29 May | Auction of 392-day T-bills |
| 31 May | Treasury announces June borrowing programme |
| 3 June | Release of May WPI and CPI |
| 5-6 June | OPEC meeting |
| 8 June | Release of April industrial production data |
| Week of June 4 | Release by Treasury of cash budget out-turn figures for May |
| Week of June 18 | Release of capacity utilisation figures for May |
| 20 June | Redemption of TL3,804trn |
| 27 June | US FOMC meeting |
| 27 June | Redemption of TL3,921trn |
| Week of June 25 | Release of external trade figures for April and BOP figures for March |
| | Release by Finance Ministry of final budget out-turn figures for May |
| 30 June | Treasury announces July borrowing programme |
| July | IMF mission likely to visit Ankara to review end-June programme outcomes |

Source: Reuters, IMF, ABN AMRO

**Annex Figure 1: Key macroeconomic indicators under a new IMF programme**

| | 1999A | 2000A | 2001E | 2002F |
|---|---|---|---|---|
| GDP growth | -6.1 | 6.1 | -3.0 | 5.0 |
| WPI (year end, %) | 62.9 | 32.7 | 57.6 | 16.6 |
| CPI (year end, %) | 68.8 | 39.0 | 52.5 | 20.0 |
| **Primary balance/GNP (%)** | | | | |
| Total public* | -1.9 | 2.8 | 5.5 | 6.5 |
| Consolidated budget* | 1.5 | 4.6 | 5.1 | 5.6 |
| State economic enterprises (SEE) | -1.5 | -1.5 | 0.1 | 0.5 |
| Other public | -1.9 | -0.3 | 0.3 | 0.4 |
| **Consolidated budget/GNP (%)** | | | | |
| Revenues | 23.9 | 25.9 | 25.5 | ... |
| Tax revenues | 18.9 | 21.0 | 20.5 | ... |
| Direct taxes | 8.6 | 8.6 | 7.3 | ... |
| Indirect taxes | 10.3 | 12.4 | 13.3 | ... |
| Non-tax revenues | 5.0 | 4.8 | 5.0 | ... |
| Primary expenditures | 21.8 | 20.5 | 19.7 | ... |
| Personnel | 8.8 | 7.9 | 7.8 | ... |
| Other current | 2.8 | 2.8 | 2.6 | ... |
| Investment | 1.8 | 1.8 | 2.1 | ... |
| Transfers | 8.4 | 7.9 | 7.4 | ... |
| Transfers to SEE | 0.7 | 0.9 | 0.5 | ... |
| Interest subsidies to state banks | 0.0 | 0.1 | 0.2 | ... |
| Agricultural support | 0.3 | 0.3 | 0.6 | ... |
| Transfers to funds | 1.3 | 1.6 | 0.5 | ... |
| Social security | 3.5 | 2.6 | 2.8 | ... |
| Tax rebates | 1.5 | 1.3 | 1.1 | ... |
| Other | 1.1 | 1.1 | 1.6 | ... |
| Primary balance | 2.1 | 5.4 | 5.6 | ... |
| Primary balance* | 1.5 | 4.6 | 5.1 | ... |

* Excluding privatisation, interest receipts, and central bank profits
Source: Turkish Treasury

**Annex Figure 2: Status of 15 key reform bills**

| Items | Key contents | Status |
|---|---|---|
| Amendment to budget law | Spending cuts. Revision in line with new macro projections and new policy commitments. | Enacted (25/04/2001) |
| Economic & Social Council bill | In line with EU and ILO criteria. | Enacted (19/04/2001) |
| Civil aviation bill | Facilitate airline fare adjustments | Enacted (25/04/2001) |
| Sugar bill | Deregulation: eliminate state support prices; privatise state sugar factories. | Enacted (18/04/2001) |
| Natural gas bill | Remove an entry barrier for private companies | Enacted (1/05/2001) |
| Central bank bill | Ensure central bank independence | Enacted (4/05/2001) |
| Bill on land expropriation | Facilitate disposal of Treasury-owned real estate | Enacted (4/05/2001) |
| Amendments to banking law | Facilitate bank restructuring; accounting transparency in state bank operations | Passed on 11/05* |
| Telecoms bill | Allow full privatisation of Turk Telecom | Passed on 11/05* |
| Public borrowing bill | Transparency and reporting requirement<br>Regulation of government guarantee | To be submitted to PM's office next week |
| Bill regarding duty losses | Elimination of outstanding duty losses and full/immediate fiscal provision for future losses. | In progress |
| Bill on closure of 17 funds | Liquidate 15 budgetary & 2 extra-budgetary funds | In progress |
| Bill on public tenders | Promote transparency in line with EU practice | In progress |
| Employment protection bill | In line with EU National Programme | In progress |
| Tobacco bill | Deregulation. Abandon state purchases. Privatisation of Tekel. | In progress |

*To be signed by President
Source: Turkish Treasury, IMF, ABN AMRO

# Economic & market indicators

**Turkey: Economic and Market Indicators****

| | | 2000Q1 | 2000Q2 | 2000Q3 | 2000Q4 | 2001Q1 | Nov 2000 | Dec | Jan 2001 | Feb | Mar | Apr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Output** | | | | | | | | | | | | |
| GDP | y-o-y | 5.6 | 6.4 | 7.8 | 8.3 | n.a. | - | - | - | - | - | - |
| GNP | y-o-y | 4.2 | 4.9 | 7.2 | 7.6 | n.a. | - | - | - | - | - | - |
| Ind Prodn | y-o-y | 3.7 | 2.1 | 8.7 | 6.9 | -2.0 | 11.3 | -4.1 | 7.4 | -5.0 | -7.6 | n.a. |
| | p-o-p | -11.5 | 12.0 | 2.0 | 5.7 | -18.8 | 0.4 | -14.4 | -7.0 | -3.2 | -2.8 | n.a. |
| Capacity Utilisation | level | 73.7 | 76.9 | 75.0 | 78.7 | 71.4 | 79.8 | 74.5 | 71.8 | 70.2 | 72.2 | n.a. |
| **Prices** | | | | | | | | | | | | |
| CPI | y-o-y | 68.8 | 61.7 | 52.7 | 42.3 | 35.6 | 43.8 | 39.0 | 35.9 | 33.4 | 37.5 | 48.2 |
| | p-o-p | 14.2 | 7.3 | 6.0 | 9.5 | 8.9 | 3.7 | 2.5 | 2.5 | 1.8 | 6.1 | 10.3 |
| Housing (CPI) | y-o-y | 85.6 | 72.8 | 59.4 | 48.0 | 44.6 | 48.9 | 46.3 | 44.0 | 42.1 | 47.6 | 55.4 |
| | p-o-p | 14.2 | 7.6 | 9.1 | 10.4 | 11.6 | 3.6 | 4.2 | 3.3 | 2.6 | 6.2 | 7.7 |
| WPI | y-o-y | 66.6 | 59.1 | 48.3 | 37.6 | 30.1 | 39.1 | 32.7 | 28.3 | 26.5 | 35.1 | 50.9 |
| | p-o-p | 16.2 | 7.2 | 3.2 | 7.0 | 9.8 | 2.4 | 1.9 | 2.3 | 2.6 | 10.1 | 14.4 |
| Core Inflation (WPI) | y-o-y | 63.4 | 56.7 | 47.3 | 38.2 | 31.6 | 39.1 | 33.6 | 28.4 | 27.9 | 38.2 | 55.8 |
| | p-o-p | 14.3 | 7.1 | 6.1 | 6.4 | 8.8 | 1.9 | 1.4 | 1.7 | 2.5 | 10.8 | 14.9 |
| Exc Rate (TRL / US$) | e-o-p | 592,260 | 618,000 | 665,070 | 667,150 | 1,042,500 | 682,840 | 667,150 | 676,900 | 954,890 | 1,042,500 | 1,136,000 |
| | p-o-p | 11.7 | 7.3 | 5.8 | 4.0 | 31.6 | 0.1 | -2.3 | 1.5 | 41.1 | 9.2 | 9.0 |
| **External Trade** | | | | | | | | | | | | |
| Exports of Goods | US$ bn | 6.7 | 7.1 | 6.7 | 7.0 | n.a. | 2.5 | 2.4 | 2.2 | 2.4 | n.a. | n.a. |
| | y-o-y | 3.4 | 12.6 | 3.4 | -4.7 | n.a. | 0.1 | 5.9 | 2.2 | 5.0 | n.a. | n.a. |
| Imports of Goods | US$ bn | 11.3 | 14.2 | 14.0 | 14.7 | n.a. | 5.3 | 4.4 | 4.0 | 3.4 | n.a. | n.a. |
| | y-o-y | 40.5 | 36.8 | 33.9 | 24.1 | n.a. | 38.7 | 0.0 | 23.0 | -12.3 | n.a. | n.a. |
| Consumer goods imports | US$ bn | 1.3 | 2.0 | 1.9 | 2.0 | n.a. | 0.8 | 0.5 | 0.4 | 0.4 | n.a. | n.a. |
| | y-o-y | 32.0 | 53.3 | 57.9 | 26.9 | n.a. | 43.1 | -6.8 | 19.4 | -11.7 | n.a. | n.a. |
| Trade Balance | US$ bn | -4.6 | -7.1 | -7.3 | -7.7 | n.a. | -2.9 | -2.1 | -1.8 | -1.1 | n.a. | n.a. |
| **Monetary** | | | | | | | | | | | | |
| M2Y | p-o-p | 13.0 | 9.3 | 7.6 | 11.1 | 16.7 | 3.0 | 5.4 | -0.5 | 10.8 | 13.3 | n.a. |
| M2YR | p-o-p | 13.6 | 8.3 | 8.9 | 13.1 | 20.0 | 5.4 | 6.7 | -5.9 | 15.6 | 25.1 | n.a. |
| Reserve Money | p-o-p | 12.7 | 9.4 | 12.2 | 9.9 | 2.8 | 1.0 | 15.4 | -22.9 | 36.2 | -6.8 | n.a. |
| FX Deposits | US$ bn * e-o-p | 7.3 | 8.6 | 8.5 | 8.1 | 10.0 | 7.8 | 8.1 | 8.1 | 9.7 | 10.0 | n.a. |
| International Reserves | US$ bn e-o-p | 22.9 | 24.5 | 24.2 | 19.6 | 18.4 | 18.9 | 19.6 | 25.9 | 22.6 | 18.4 | n.a. |
| **Fiscal *** | | | | | | | | | | | | |
| Revenues | US$ bn * | 13.3 | 13.2 | 14.6 | 12.9 | 13.5 | 5.1 | 3.4 | 4.6 | 5.5 | 3.4 | n.a. |
| Expenditures | US$ bn * | 20.2 | 20.2 | 17.6 | 17.1 | 13.6 | 5.1 | 6.2 | 4.7 | 5.5 | 3.4 | n.a. |
| *:Interest Payments* | *US$ bn ** | *11.8* | *10.6* | *7.1* | *4.2* | *6.2* | *1.4* | *0.7* | *2.0* | *3.1* | *1.2* | *n.a.* |
| Budget Balance | US$ bn * | -7.0 | -7.0 | -3.0 | -4.2 | -0.1 | 0.0 | -2.7 | -0.1 | -0.1 | 0.0 | n.a. |
| Primary Balance | US$ bn * | 4.8 | 3.6 | 4.1 | 0.0 | 6.1 | 1.4 | -2.0 | 1.9 | 3.0 | 1.2 | n.a. |
| **Market Indicators** | | | | | | | | | | | | |
| ISE$ | e-o-p | 15920 | 14466 | 11350 | 9437 | 8023 | 8748 | 9437 | 10685 | 8792 | 8023 | 12367 |
| | p-o-p | 4.7 | -9.1 | -21.5 | -16.9 | -15.0 | -35.7 | 7.9 | 13.2 | -17.7 | -8.7 | 54.1 |
| EMBI+ Total Return Index | e-o-p | 109.2 | 113.2 | 114.8 | 104.7 | 96.1 | 99.4 | 104.7 | 111.5 | 100.7 | 96.1 | 103.6 |
| for Turkey | p-o-p | 2.5 | 3.7 | 1.4 | -8.8 | -8.2 | -9.8 | 5.4 | 6.4 | -9.7 | -4.6 | 7.8 |

* at average exchange rates

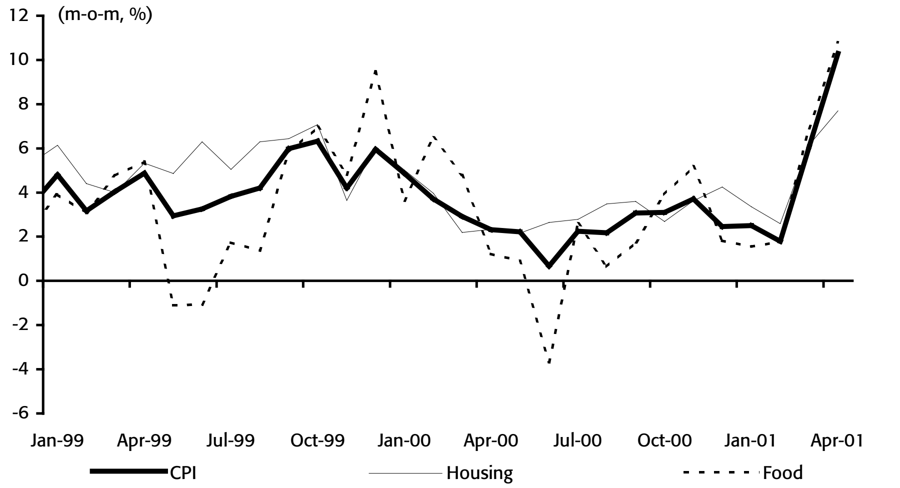
** Quarterly percentage figures are based on quarterly average of underlying monthly indices, which are not necessarily the same as the published quarterly percentage change figures

Source: State Institue of Statistics, Central Bank of Turkey, Bloomberg

# Inflation

*CPI has surged to 14.4% m-o-m in March in the wake of the currency crisis in February*

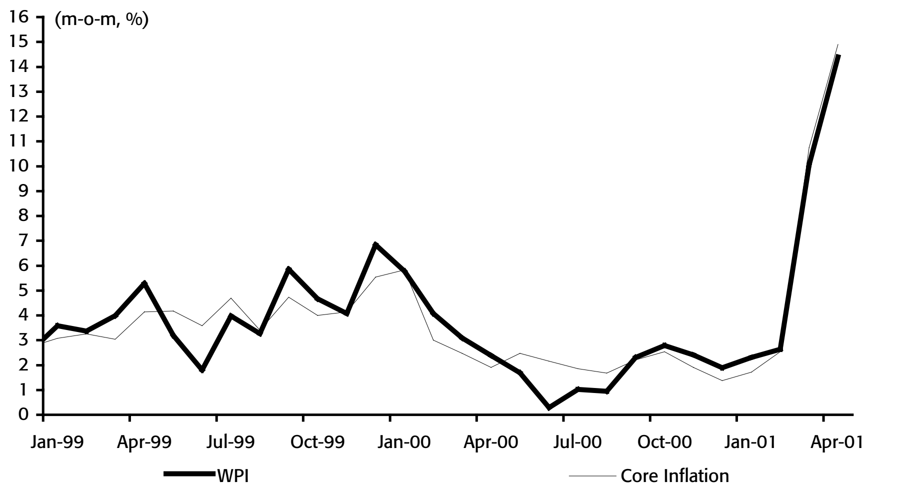
## Consumer price index




Source: State Institute of Statistics

*The sharp devaluation has raised the cost of imported raw materials, leading to a large surge in producer prices*

## WPI and core inflation




Source: State Institute of Statistics

## Wholesale price index and consumer price index changes (%)

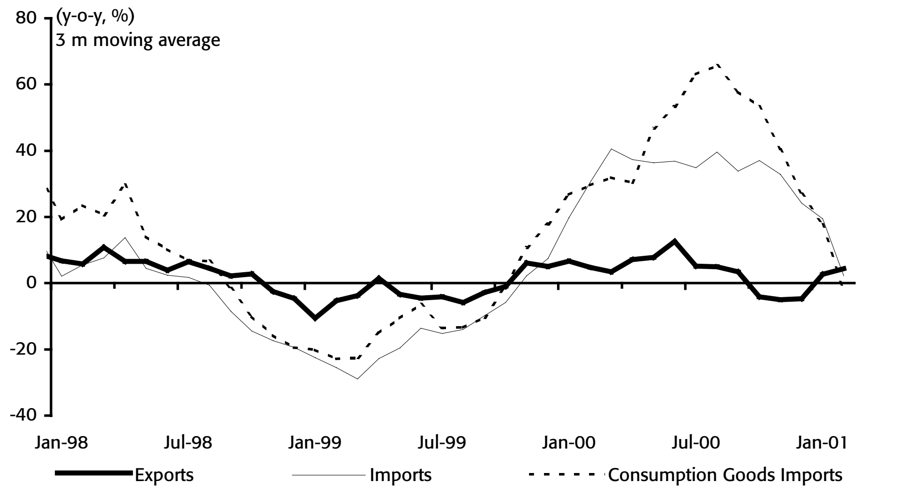
| End of | WPI | | Public | Private | Agric | Core | CPI | | Hous'g | Food |
|---|---|---|---|---|---|---|---|---|---|---|
| year | m-o-m | y-o-y | y-o-y | y-o-y | y-o-y | y-o-y | m-o-m | y-o-y | y-o-y | y-o-y |
| 1998 | - | 54.3 | 35.6 | 60.1 | 71.9 | 53.6 | - | 69.7 | 86.8 | 60.6 |
| 1999 | - | 62.9 | 117.7 | 48.4 | 30.0 | 59.7 | - | 68.8 | 89.3 | 55.0 |
| 2000 | - | 32.7 | 24.7 | 35.7 | 39.8 | 33.6 | - | 39.0 | 46.3 | 33.0 |
| **2000/2001** | | | **m-o-m** | **m-o-m** | **m-o-m** | **m-o-m** | | | **m-o-m** | **m-o-m** |
| Apr-00 | 2.4 | 61.5 | 1.1 | 2.9 | 4.7 | 1.9 | 2.3 | 63.8 | 2.3 | 1.2 |
| Jan-01 | 2.3 | 28.3 | 1.4 | 2.7 | 4.4 | 1.7 | 2.5 | 35.9 | 3.3 | 1.5 |
| Feb-01 | 2.6 | 26.5 | 1.8 | 2.9 | 3.7 | 2.5 | 1.8 | 33.4 | 2.6 | 1.8 |
| Mar-01 | 10.1 | 35.1 | 12.3 | 9.3 | 6.6 | 10.8 | 6.1 | 37.5 | 6.2 | 6.9 |
| Apr-01 | 14.4 | 50.9 | 21.5 | 11.8 | 5.9 | 14.9 | 10.3 | 48.2 | 7.7 | 10.8 |

Source: State Institute of Statistics

# External trade

*Consumer imports growth has slumped since the highs were reached in mid- and late-2000*

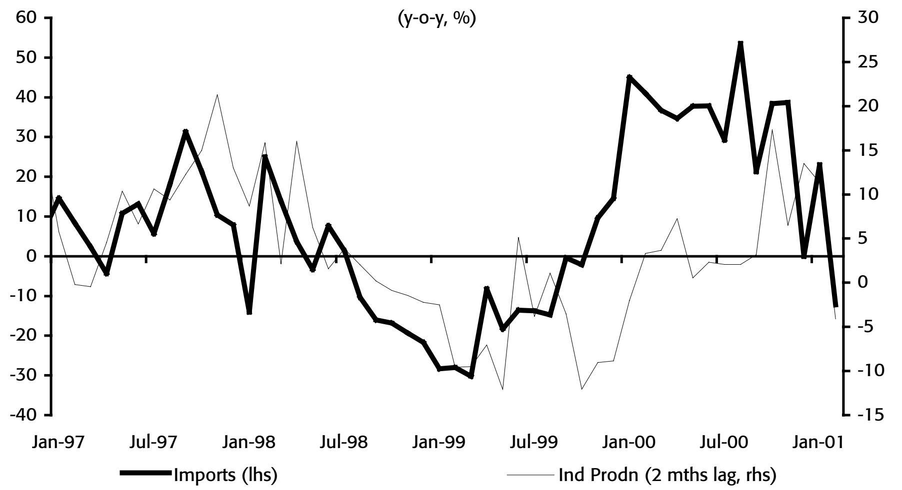
Imports, exports and consumption goods




Source: State Institute of Statistics

*Growth in imports and industrial production has turned negative after a surge in 2000*

Imports and lagged industrial production (excluding oil, 2 months lagged)




Source: State Institute of Statistics

**Foreign trade**

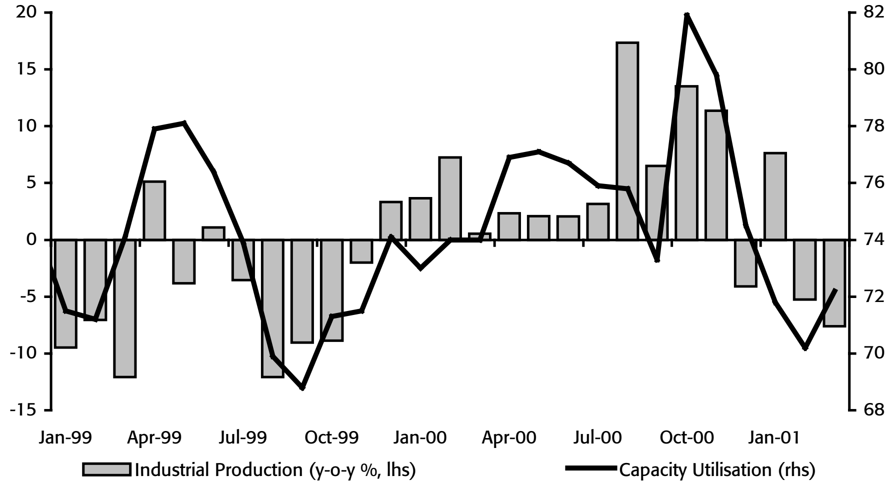
| End of Year | Deficit US$ bn | y-o-y,% | Exports US$ bn | y-o-y,% | 3m MA y-o-y,% | Imports US$ bn | y-o-y,% | 3m MA y-o-y,% |
|---|---|---|---|---|---|---|---|---|
| 1998 | 18.9 | -15.0 | 27.0 | 2.7 | - | 45.9 | -5.4 | - |
| 1999 | 14.1 | -25.6 | 26.6 | -1.4 | - | 40.7 | -11.4 | - |
| 2000 | 26.7 | 89.1 | 27.5 | 3.4 | - | 54.1 | 33.1 | - |
| **2000/2001** | | | | | | | | |
| Feb-00 | 1.67 | 181.0 | 2.26 | 3.1 | 4.8 | 3.93 | 41.0 | 30.5 |
| Nov-00 | 2.89 | 106.2 | 2.45 | 0.1 | -5.0 | 5.34 | 38.7 | 32.9 |
| Dec-00 | 2.07 | -6.0 | 2.36 | 5.9 | -4.7 | 4.43 | 0.0 | 24.1 |
| Jan-01 | 1.80 | 63.0 | 2.17 | 2.2 | 2.7 | 3.97 | 23.0 | 19.4 |
| Feb-01 | 1.07 | -35.7 | 2.38 | 5.0 | 4.4 | 3.45 | -12.3 | 2.2 |

Source: State Institute of Statistics

# Industrial production

*Industrial production growth has slumped and turned negative in the wake of the currency crisis in February*

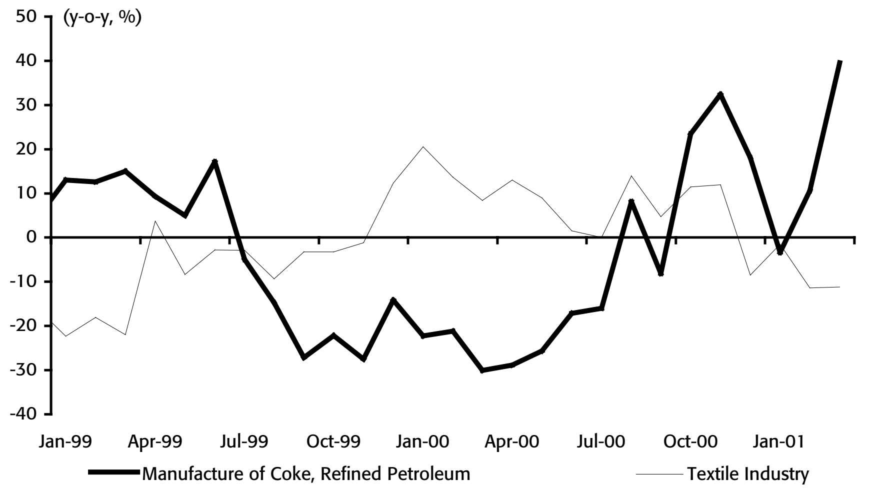
Industrial output and capacity utilisation (y-o-y, %)




Source: State Institute of Statistics

*Petroleum production continued to grow strongly over the last six months while textile production declined*

Industrial production components




Source: State Institute of Statistics

**Industrial production table (y-o-y, % change)**

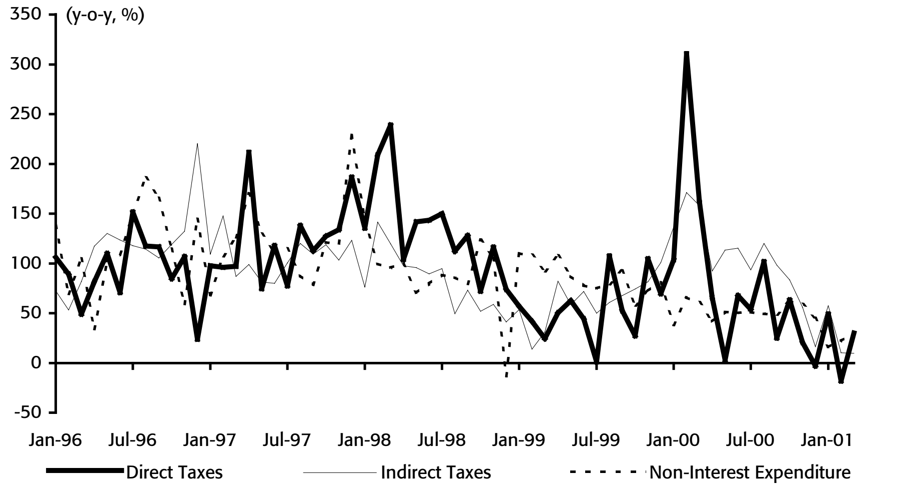
| | Total industry | Motor vehicles | Manufacturing Textiles | Manufacturing Petroleum | Mining | Elec, gas, water | Capacity utilisation |
|---|---|---|---|---|---|---|---|
| 1998 | 0.9 | -6.9 | -2.7 | 4.1 | 9.9 | 7.6 | - |
| 1999 | -5.0 | -22.8 | -6.6 | -4.2 | -8.6 | 4.9 | - |
| 2000 | 5.4 | 51.1 | 7.8 | -9.4 | -4.4 | 7.5 | - |
| **2000/2001** | | | | | | | |
| Mar-00 | 0.5 | 50.6 | 8.4 | -30.1 | 0.1 | 9.5 | 74.0 |
| Dec-00 | -4.1 | -14.8 | -8.5 | 18.1 | -10.0 | 0.2 | 74.5 |
| Jan-01 | 7.6 | 12.2 | -1.6 | -3.4 | 18.1 | 3.5 | 71.8 |
| Feb-01 | -5.3 | -16.8 | -11.4 | 10.6 | -9.9 | -5.2 | 70.2 |
| Mar-01 | -7.6 | -37.1 | -11.2 | 39.6 | -9.3 | -9.5 | 72.2 |

Source: State Institute of Statistics

# Fiscal

*Growth in tax revenue and non-interest expenditure has slowed down*

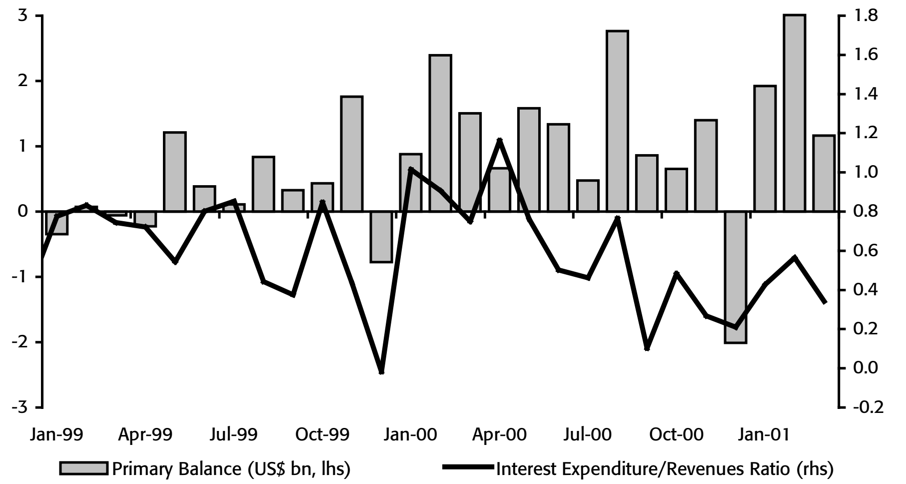
Tax revenue and non-interest expenditure




Source: State Institute of Statistics

*Primary balance continues to improve*

Primary balance and interest expenditure/revenue ratio




Source: State Institute of Statistics

## Consolidated central government budget

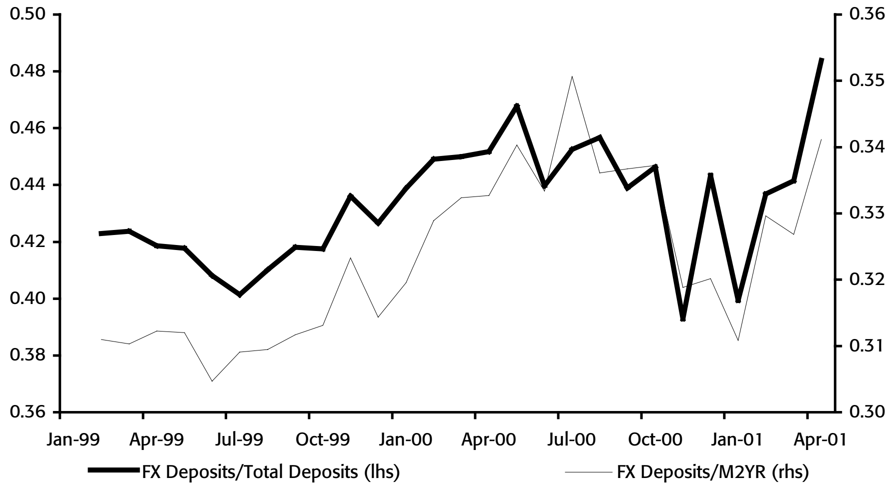
| | Mar-01 US$ bn | Jan-Mar 2001 US$ bn | Mar-00 US$ bn | Jan-Mar 2000 US$ bn |
|---|---|---|---|---|
| **Revenues** | **3.4** | **11.0** | **4.4** | **12.9** |
| Tax revenue | 2.3 | 7.3 | 3.2 | 10.3 |
| Other revenue | 1.1 | 3.6 | 1.1 | 3.6 |
| **Expenditures** | **3.4** | **11.1** | **6.2** | **19.6** |
| Interest | 1.2 | 5.0 | 3.3 | 11.4 |
| Non-interest | 2.2 | 6.1 | 2.2 | 6.1 |
| **Budget Balance** | **0.0** | **-0.1** | **-1.8** | **-6.7** |
| Primary balance | 1.2 | 4.9 | 1.5 | 4.7 |

Source: State Institute of Statistics

# Monetary

*FX deposit ratios rose sharply due to the February devaluation*

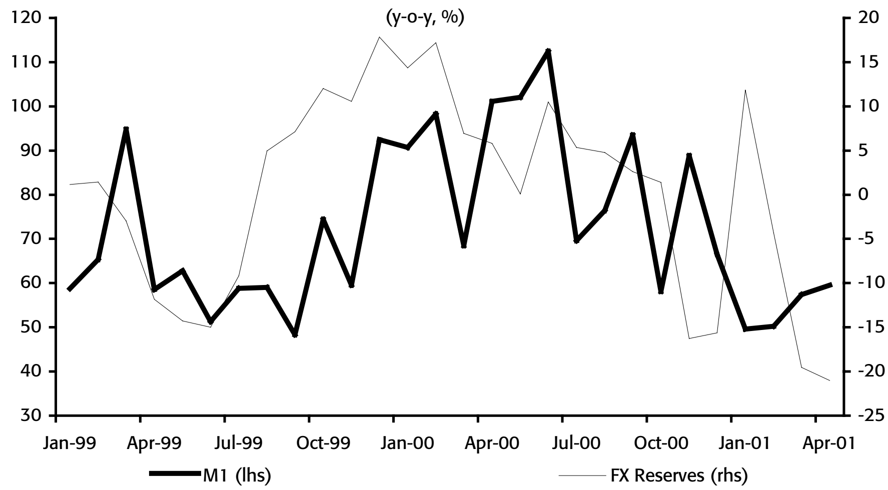
FX deposit ratios




Source: Central Bank of Turkey

*FX reserves and M1 growth declined due to a run to foreign currency during the currency crisis*

M1 and FX reserves




Source: Central Bank of Turkey

## Money and banking system

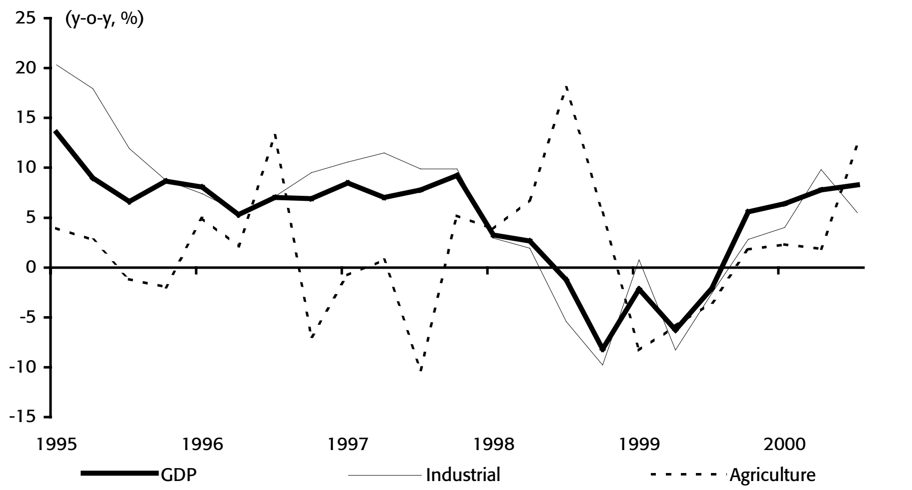
| | Loans (TL trn) | | | | | | Past due loans/ total loans ratio | |
|---|---|---|---|---|---|---|---|---|
| | Commer-cial | Special-ised | Agric-ulture | Trades-men | Housing | Other | Private | Public |
| **2000/2001** | | | | | | | | |
| Feb-00 | 71.0 | 29.7 | 20.5 | 4.67 | 3.31 | 1.23 | 0.13 | 0.13 |
| Mar-00 | 77.3 | 31.5 | 21.7 | 4.88 | 3.61 | 1.27 | 0.14 | 0.11 |
| Nov-00 | 132.6 | 40.0 | 27.2 | 6.57 | 4.75 | 1.44 | 0.11 | 0.13 |
| Dec-00 | 127.3 | 45.3 | 31.8 | 7.30 | 4.75 | 1.47 | 0.13 | 0.12 |
| Jan-01 | 130.1 | 46.0 | 32.7 | 7.34 | 4.34 | 1.64 | 0.13 | 0.12 |
| Feb-01 | 125.4 | 46.5 | 33.1 | 7.34 | 4.37 | 1.69 | 0.14 | 0.13 |
| Mar-01 | 121.5 | 46.2 | 32.6 | 7.23 | 4.48 | 1.86 | 0.15 | 0.13 |

Source: Central Bank of Turkey

# GDP

*GDP growth was strong in 2000, but is expected to decline sharply in 2001 due to the currency crisis*

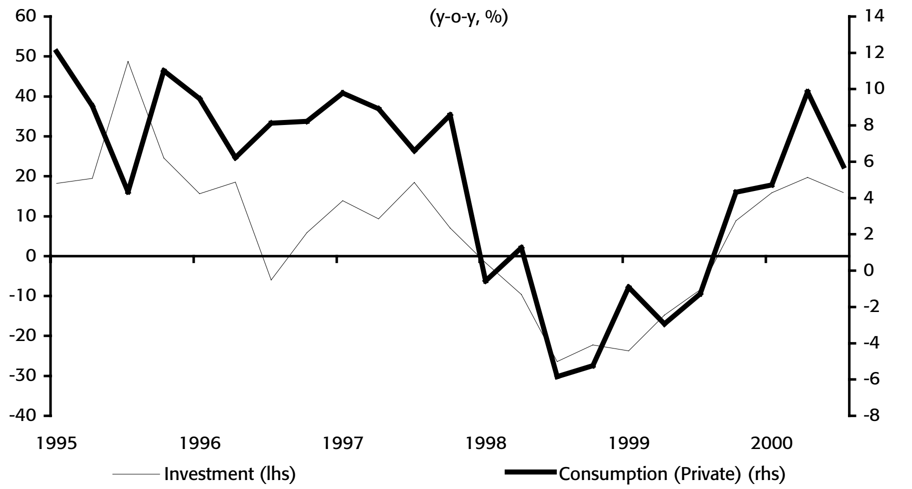
GDP and components




Source: State Institute of Statistics

*Investment and consumption were strong over 2000*

Private consumption and investment




Source: State Institute of Statistics

**GDP (y-o-y,%)**

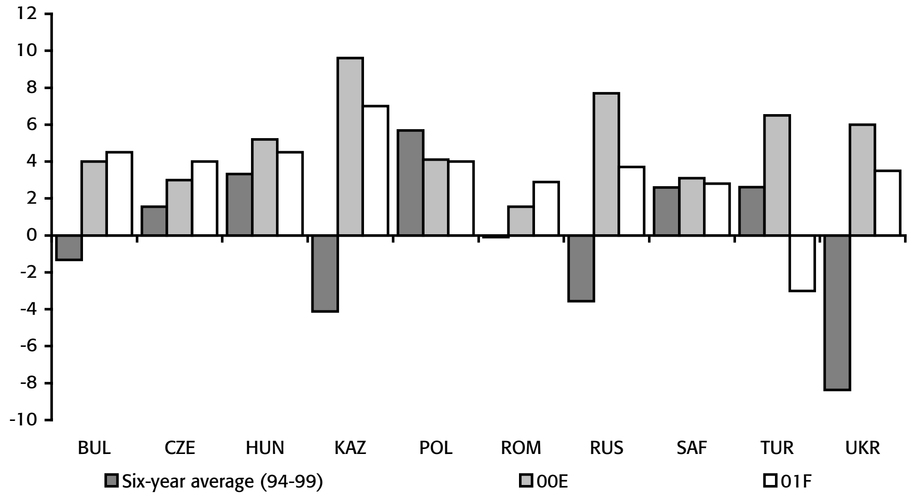
| | GDP | GNP | Industry | Constr'n | Agriculture | Investment | Consump'n |
|---|---|---|---|---|---|---|---|
| 1998 | 3.1 | 3.9 | 2.0 | 0.7 | 8.4 | -8.3 | 0.6 |
| 1999 | -4.7 | -6.1 | -5.0 | -12.5 | -5.0 | -17.8 | -2.6 |
| 2000 | 7.2 | 6.1 | 5.6 | 5.8 | 4.1 | 15.4 | 6.4 |
| **1999/2000** | | | | | | | |
| 99Q4 | -2.1 | -4.9 | -2.6 | -15.2 | -3.5 | -8.4 | -1.3 |
| 00Q1 | 5.6 | 4.2 | 2.8 | -1.3 | 1.8 | 8.9 | 4.3 |
| 00Q2 | 6.4 | 4.9 | 4.0 | 4.2 | 2.3 | 15.9 | 4.7 |
| 00Q3 | 7.8 | 7.2 | 9.8 | 11.1 | 1.9 | 19.7 | 9.9 |
| 00Q4 | 8.3 | 7.6 | 5.5 | 6.7 | 12.2 | 15.9 | 5.8 |

Source: State Institute of Statistics

# Regional comparison

*Turkey is expected to be the only major emerging Europe country to have negative growth this year*

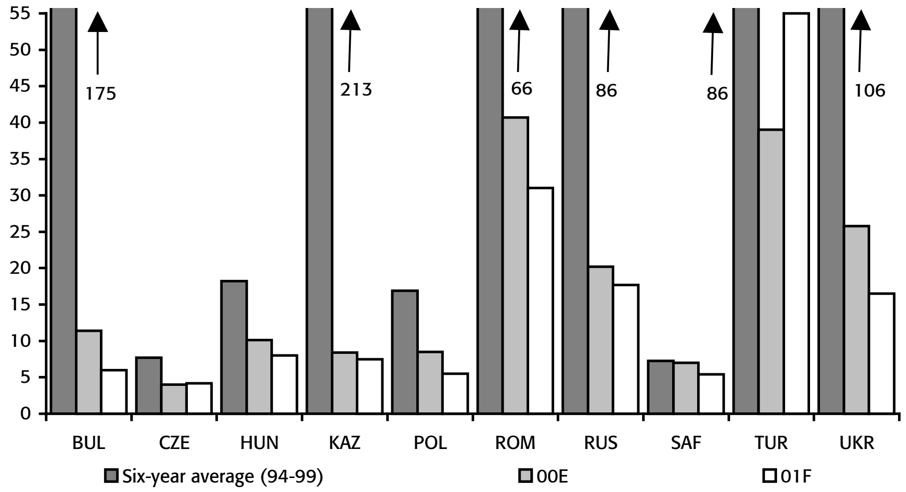
Real GDP growth (%)




Source: National statistical offices

*Inflation is likely to be highest in the region*

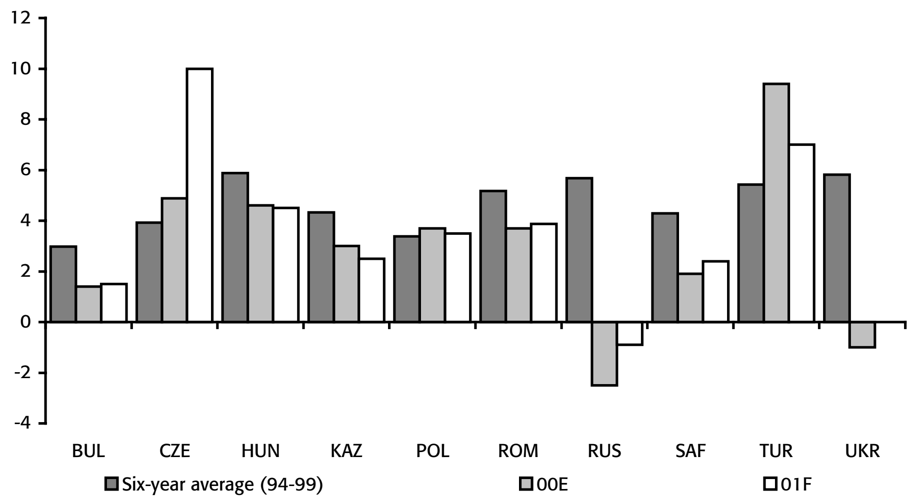
Inflation (%)




Source: National statistical offices

*Budget deficit is expected to decline this year, but still be amongst highest in the region*

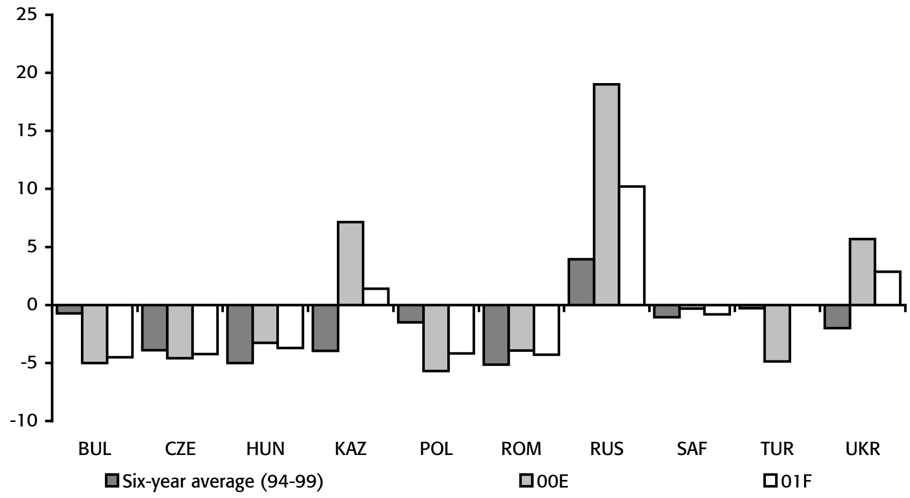
Budget deficit (% of GDP)




Source: National statistical offices

*Current account is expected to be in balance this year*

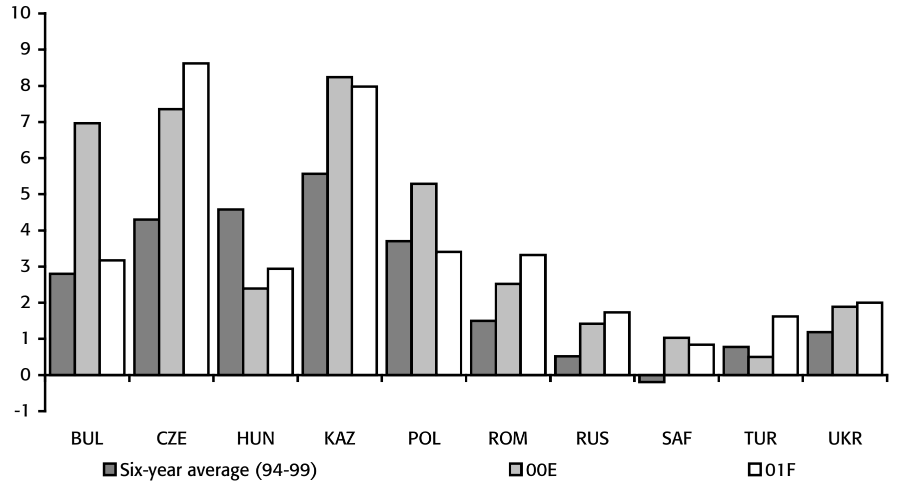
Current account (% of GDP)




Source: National statistical offices

*FDI remains small relative to GDP in comparison with other countries in the region*

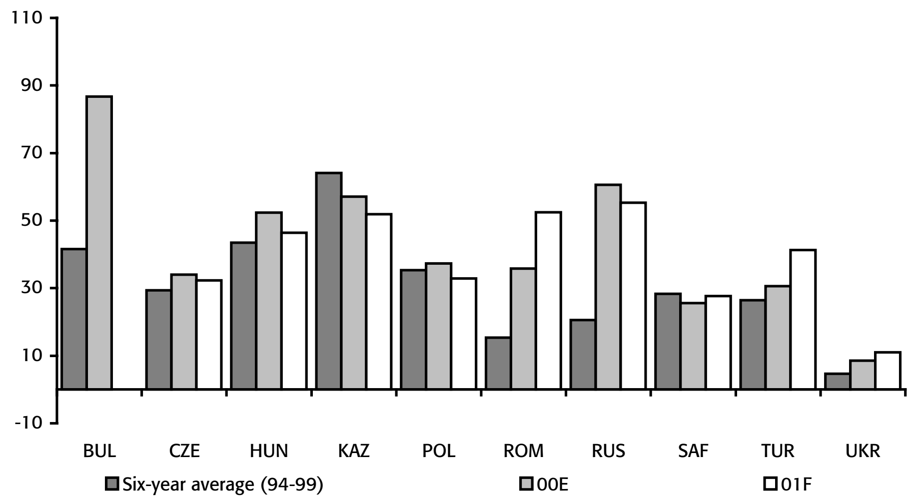
Foreign direct investment (% of GDP)




Source: National statistical offices

*The devaluation will increase the forex reserve to M2 ratio due to the valuation effect.*

FX reserves/M2 coverage (%)




Source: National statistical offices

# Market analytics

| | Credit ratings (Moody's/S&P) eop | Spread Turkey EMBI+ eop | Beta Turkey EMBI+ annual** | Beta Turkey ISI 100 annual** | Bond return Turkey EMBI+ annual | Equity return Turkey ISI 100 annual | Real growth annual*** | USD appreciation against TL annual*** | CPI Inflation annual*** |
|---|---|---|---|---|---|---|---|---|---|
| 1999 | B1/B | 411.7 | - | 0.3 | - | 485.4 | -5.0 | 72.7 | 64.9 |
| 2000 | B1/B+ | 800.0 | 0.1 | 0.4 | -1.7 | -38.0 | 6.5 | 22.6 | 54.9 |
| 2001* | B1/B- | 884.0 | 0.4 | 1.8 | -5.9 | 32.8 | -3.0 | 88.3 | 49.9 |

* As of 4 May unless otherwise specified.
** Based on weekly returns relative to S&P 500
*** ABN AMRO forecast for 2001.
Source: Bloomberg, ABN AMRO

# Macro indicators and forecasts

| Turkey | Unit | 1994A | 1995A | 1996A | 1997A | 1998A | 1999E | 2000F | 2001F | 2002F |
|---|---|---|---|---|---|---|---|---|---|---|
| **Real activity** | | | | | | | | | | |
| Real GDP growth | % YOY | -5.5 | 7.3 | 7.0 | 8.0 | 3.8 | -5.0 | 6.5 | -3.0 | 5.0 |
| Unemployment | % | 7.9 | 6.6 | 5.8 | 6.9 | 6.7 | 7.3 | 7.0 | 8.0 | 7.5 |
| Nominal GDP | US$ bn | 130.5 | 169.8 | 182.9 | 192.5 | 200.0 | 195.0 | 201.0 | 170.0 | 190.0 |
| **Fiscal and monetary policy** | | | | | | | | | | |
| Primary balance (GFS) | % GDP | 3.8 | 3.4 | 1.8 | 0.6 | 4.8 | 2.0 | 4.6 | 5.1 | 5.6 |
| Monetisation M3 | % GDP | 32.6 | 29.2 | 30.7 | 32.3 | 33.5 | 30.5 | 28.0 | 25.2 | 22.6 |
| Money supply growth M3 | % yoy | 124.3 | 100.4 | 120.8 | 101.5 | 80.6 | 60.0 | 48.2 | 35.0 | 20.0 |
| Interest rate (3m t-bill) | % | ... | ... | 100.0 | 100.0 | 140.0 | 85.0 | 35.0 | 60.0 | 30.0 |
| Consumer price index | % ave | 105.7 | 89.0 | 80.4 | 85.8 | 84.7 | 64.9 | 54.9 | 49.9 | 35.9 |
| Consumer price index | % eop | 125.4 | 76.0 | 79.8 | 99.1 | 69.7 | 68.8 | 39.0 | 55.0 | 25.0 |
| Whole sale price index | % eop | 129.1 | 65.6 | 84.9 | 91.0 | 54.3 | 62.9 | 32.7 | 58.0 | 26.3 |
| **External balance** | | | | | | | | | | |
| Exports (fob) | US$ bn | 18.1 | 22.0 | 32.4 | 32.6 | 31.2 | 29.3 | 31.2 | 31.0 | 34.0 |
| Imports (fob) | US$ bn | 23.3 | 35.7 | 43.6 | 48.6 | 45.9 | 40.7 | 54.0 | 40.0 | 45.0 |
| Current account balance | US$ bn | 2.6 | -2.3 | -2.4 | -2.6 | 2.0 | -1.4 | -9.8 | 0.0 | -2.0 |
| Current account balance | % GDP | 2.0 | -1.4 | -1.3 | -1.5 | 1.0 | -0.5 | -4.9 | 0.0 | -1.1 |
| FDI net inflows | US$ bn | 1.5 | 2.1 | 0.5 | 0.6 | 2.0 | 1.6 | 1.0 | 2.0 | 3.0 |
| Intl reserves (excl. gold) | US$ bn | 7.1 | 12.4 | 16.2 | 18.4 | 19.7 | 18.0 | 20.0 | 25.0 | 28.0 |
| Exchange rate: TL '000/US$ | e-o-p | 38.4 | 60.2 | 107.8 | 205.2 | 315.0 | 514.7 | 670.8 | 1,255.0 | 1,455.0 |
| Exchange rate: TL '000/US$ | avg. | 30.0 | 49.3 | 81.4 | 156.5 | 262.1 | 420.8 | 624.8 | 1,090.0 | 1,360.0 |

Source: Central Bank of Turkey, Ministry of Finance, State Institute of Statistics, ABN AMRO forecasts

# ABN AMRO
# Emerging Markets – Europe/Middle East/Africa – Equities Team

## Research team

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