



ECONOMIC REPORT

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INTRODUCTION

The two economic crises experienced in 2000 and 2001 in Turkey paved the way for severe damages in the economy. Turkey experienced the largest shrinkage in the history of the Republic, excluding the war years. The Turkish private sector, which we represent, just like the other sectors of the society, felt the effects of the economic crisis from all aspects and reached the point of losing all of the gains obtained at the end of long efforts.

The stability programs supported by the International Monetary Fund were implemented in response to these crises experienced. Thanks to the measures taken, the economy entered into a period of rapid recovery. Important successes were obtained between 2002-2006 with the contribution of the positive atmosphere in the international markets.

A high growth rate was attained, which stemmed from the increases in private sector investments and productivity. Inflation regressed to single-digit numbers. The public sector deficits were taken under control to a great extent and a balanced budget implementation was almost reached. Thanks to the rapidly increasing private sector investments, new areas of employment started to be formed through the private sector. There were considerable increases in exports. There were inflows of direct international capital in significant amounts.

Despite these positive developments, the fact that exports gradually became more dependent on imports, the deterioration in the balance of current transactions and not being able to provide a significant improvement in the rate of unemployment were in the forefront as our weak points economically in the five year period.

The economic slowing down that became obvious in 2006, became more obvious in 2007. The growth rate regressed to 4.5 percent, which was the lowest level during the past six years. It remained below the targeted value for first time since 2002. It is a fact that the growth rate realized in 2007 is insufficient for Turkey.

Inflation regressed to its lowest level in recent years in 2005. It surpassed the envisaged target and started to rise in 2006. Along with an improvement in 2007 compared to the previous year, it was realized for the second time at the level of 8.39 percent, which was rather above the target. Inflation could not be decreased to the targeted levels with the effects of its showing a rigidity at the level of 8-10 percent and with factors sourced from abroad.

Despite the fact that a balanced budget was reached in 2006 by showing a tremendous improvement in the tight monetary policies implemented and the centralized administration budget, there was a relative deterioration in the budget balance in 2007 due to the relative slackening of the financial discipline.

Exports continued to increase in 2007 and for the first time rose above one hundred billion US dollars. This level attained in exports is an important success. However, it is also necessary not to overlook the increase realized in imports. The dependence on the imports of intermediary goods for production and exports of the manufacturing industry forms a pressure on the total imports and paves the way for an increase in the foreign trade deficit. The increase in the imports of intermediary goods is causing difficulties for the producers of domestic intermediary goods and forces them outside of the real economy.

Another negativity experienced economically in Turkey is the fact that the deterioration, which started in the balance of current transactions in 2002, also continued in 2007. Although no problems were experienced up until the present-day in the current deficit, it should be taken into consideration that the developments emerging in Turkey and abroad could negatively influence the financing of the current deficit.

The fluctuations experienced in the international markets, the uncertainties related to elections, the high temperatures, which were above the seasonal norms, the drought experienced connected to this, the delay in the structural reforms and their shifting to the lower levels on the agenda of the economy were the basic reasons for the stagnation in the Turkish economy in 2007.

When the developments occurring economically in 2007 are compared with Turkey's long-term data and when we evaluate them by taking into consideration the difficulties experienced in the international markets, it is impossible to evaluate them in a negative manner. However, when the developments experienced since 2002, the successes obtained and the targets and expectations set forth are taken into consideration, it is emerging that the economic performance should have been better.

When the international economic developments are taken into account, it has become mandatory to institutionalize the financial discipline, to complete the micro reforms that would lower the input costs of the company groups and to make arrangements that would increase the quality of the public sector administration management.

Our belief is complete that the period of improvement in the Turkish economy would continue in case the developments in the national and international arena are followed well and in case the appropriate policies are developed.

With these thoughts, I hope that our economic report will be useful for our business community and those who are interested.

M. Rifat Hisarcıkliođlu
Chairman

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ABBREVIATIONS

INTERNATIONAL ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BSEC	Black Sea Economic Cooperation Organization
CIS	Commonwealth of Independent States
DIS	Direct Income Support
ECO	Economic Cooperation Organization
EFTA	European Free Trade Association
EU	European Union
FC	Foreign Currency
FED	Federal Reserve Bank (United States)
FOB	Free on Board
GDP	Gross Domestic Product
IF	Investment Fund
IMF	International Monetary Fund
NCE	Not Classified Elsewhere
OECD	Organization for Economic Cooperation and Development
OIC	Organization of the Islamic Conference
SBIF	Stocks and Bonds Investment Fund
SDR	Special Drawing Rights
USA	United States of America

TURKISH ABBREVIATIONS

ADNKS	Population Registration System Based on Addresses
BOTAŞ	Pipeline and Petroleum Transport Corporation
ÇSGB	Ministry of Labor and Social Security
DPT	State Planning Organization (SPO)
DTH	Foreign Exchange Deposit Account
HM	Undersecretariat of the Treasury
İMKB	İstanbul Stock Exchange (İSE)
KİT	State Economic Enterprise (SEE)
MB	Ministry of Finance
ÖİB	Privatization Administration Chairmanship
SPK	Capital Markets Board (CMB) of Turkey
TBB	Union of Turkish Banks
TCMB	Central Bank of the Republic of Turkey (CBRT)
TEFE	Wholesale Goods Price Index
THY	Turkish Airlines
TİSK	Turkish Confederation of Employers' Unions
TKB	Development Bank of Turkey (DBT)
TMSF	Savings Deposit Insurance Fund (SDIF)
TOBB	Union of Chambers of Commerce and Commodity Exchanges of Turkey (UCCET)
TÜFE	Consumer Prices Index
TÜİK	Turkish Institute of Statistics (TIS)
ÜFE	Producer Prices Index
YTL	New Turkish Lira