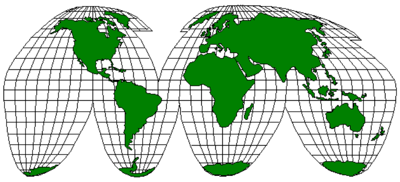


I

INTERNATIONAL ECONOMIC DEVELOPMENTS(1)

I.1. WORLD ECONOMY

The 1997 growth rate of the real gross domestic product (GDP) throughout the world was above the average of the last 25 years. It is expected that this trend will continue during the next 10 years. The growth rate of real GDP is expected to be around 4.25 percent in 1997 and 1998. These expectations are due to optimism in the business environment, commitments to progress towards price stability, the reduced fiscal imbalances and the medium-term expectations related to exchange rates in the industrial countries. Moreover, the economic recovery seen in both the former centrally planned economies and the developing countries is counted as one of the factors that accelerates the economic growth around the world.

There has been moderate economic growth and price stability in industrial countries in 1997. The developments in both the United States and the United Kingdom can be given as an example of the trend in industrial countries. The growth rate and consumer price inflation was 3.7 and 2.4 percent in the United States, 3.3 and 2.6 percent in England. The Maastricht inflation criteria was achieved in the European Union countries in 1997, except for Greece. The economic growth was due to the rise in exports in 1996 and 1997. The economic recovery was broadened in the western European countries. A substantial part of the exports of these countries was directed to the developing Asian and middle European countries in 1996.

The strong economic growth seen in the developing countries in 1996 continued in 1997 except in the Southeast Asian countries. Despite the negative effects on economic growth resulting from the financial crisis in Southeast Asian countries, there has been strong growth in China and other Asian countries.

The real GDP of the former centrally planned economies increased substantially in 1997 compared to 1996. These countries have taken important steps in implementing comprehensive stabilization and reform policies and in integrating their economies to the international economic and financial system.

TABLE I.1.1

MAIN WORLD ECONOMIC INDICATORS

(Annual percent change)

	1995	1996	1997(1)	1998(1)
OUTPUT				
World	3.7	4.1	4.2	4.3
Industrial Countries	2.1	2.4	2.8	2.6
European Union	2.5	1.7	2.5	2.8
Developing Countries	6.0	6.5	6.2	6.2
Countries in Transition	-0.8	0.1	1.8	4.1
WORLD TRADE VOLUME	9.5	6.3	7.7	6.8
Imports				
Industrial Countries	8.9	6.1	7.1	6.4
Developing Countries	11.4	8.7	8.4	7.8
Countries in Transition	17.0	6.7	9.5	8.5
Exports				
Industrial Countries	8.8	5.5	8.2	6.6
Developing Countries	10.5	8.6	7.5	7.0
Countries in Transition	14.9	4.3	5.3	7.1
CONSUMER PRICES				
Industrial Countries	2.3	2.2	2.1	2.1
Developing Countries	22.7	13.2	10.0	8.9
Countries in Transition	119.2	40.4	32.3	14.1
SIX-MONTH LIBOR (%)(2)				
US dollar	6.1	5.6	5.9	6.3
Japanese yen	1.3	0.7	0.7	1.1
German mark	4.6	3.3	3.3	4.0

Source: IMF, World Economic Outlook, October 1997.

(1) Estimate

(2) London Interbank Offer Rate (LIBOR)

I.1.1. Industrial Countries

It is expected that in industrial countries the GDP on the average increased 2.8 percent in 1997. Price stability continued in these countries in 1997 as well. The average rise in consumer prices is expected to decline from 2.2 percent to 2.1 percent. The industrial countries showed parallel developments in achieving price stability but different developments in production and employment.

There have been various developments in labor market in the last few years. While there was stable growth and a rise in employment in the United States, the United Kingdom and some other industrial countries, there were high rates of unemployment in Germany, France and Italy, caused by economic sluggishness which was due to internal factors. The stable macroeconomic policies, the dynamic private sector and the labor market coordinated with the private sector in the United States resulted in low inflation, a decrease in budget deficits, and a rise in both output and employment. Despite the economic growth and increase in employment, there was no inflationary pressure in 1996 due to the rise of productivity in the manufacturing and services sectors. Moreover, as there was no rise in wages, private consumption did not increase in 1996. Wage income increased in 1997, however, so private consumption contributed to economic growth. Despite the tight monetary policies implemented by the Federal Reserve, the rise in prices on the stock exchange and the high confidence level in both the consumer and business environments indicate the continuing risk of overheating in the economy. This development brings with it the possibility of greater tightening in the monetary policy. The positive developments in reducing the budget deficits between 1992 and 1996 continued in 1997 as well. The increase in income from taxes due to strong economic activities, contributed to the decrease in budget deficits. The annual unemployment rate fell below 5 percent in the second quarter of 1997. The increase rate in consumer prices is expected to be 2.4 percent in 1997, decreasing with respect to 1996.

The increase in domestic demand and exports resulted in economic recovery in Japan. The acceleration observed at the end of 1996 continued during the first months of 1997 but afterwards slowed down due to the increase in consumption taxes. In addition, the financial crisis in Southeast Asia is expected to affect the exports and economic growth of Japan in a negative way. The real GDP is expected to rise by 1.1 percent in 1997.

The economic growth in Germany, France and Italy was relatively weak due to inadequate domestic demand. Because of the recovery in exports, the growth rate entered an increasing trend in 1997 after a weak performance in 1995 and 1996. Because of the strong export performance and successful monetary policies, economic recovery in Germany and France accelerated and confidence in the markets increased. The real GDP's in Germany and France are expected to rise by 2.3 and 2.2 percent in 1997.

The economic growth in Italy was a bit weak in 1997 because of efforts to reduce the fiscal imbalances. The growth rate of the real GDP is expected to rise by 1.2 percent, a lower level than in the other industrial countries. The inflation rate is expected to be 1.75 percent at the end of 1997.

The economic growth in England brought output close to the potential level and reduced unemployment. The real GDP is expected to rise 3.3 percent in 1997. The increase in domestic demand, which offsets the negative effects of the appreciation of the English sterling, contributed to this development. The ratio of the budget deficits to the GDP is expected be 4 percent in 1997 and 1998.

I.1.2. Developing Countries

The strong economic growth in the developing countries observed in 1996 continued in 1997 except in the developing Asian countries. There were differences in the economic growth performances of the developing countries in 1996. While there was economic recovery in the Latin American countries after the Mexican crisis, the economic growth rate slowed down in the East Asian countries due to the weakening of exports. The rising capital inflows were used in the finance of current account deficits and this affected growth positively. The financial crisis in Southeast Asia caused growth to slow down in Asia in 1997. The decrease in inflation rates and the tight monetary policies implemented in many of the developing countries reduced the economic risks which can result from political instability. Nevertheless, external imbalances and the weak banking sector affected the investors confidence in a negative way. The real GDP is expected to increase above 6 percent and consumer prices are expected to increase by 10 percent in 1997.

Many Latin American countries were not successful in achieving competitive exchange rates, growth and price stability all at the same time in 1996. There was an attempt to take the inflation rate under control by achieving the nominal exchange rate stability. The rise of capital inflows and the strong economic growth increased the current account deficits in the Latin American countries. Economic growth continued in 1997. The recovery in investments and increase in intra-trade contributed to growth. The real GDP is expected to rise by 4.1 percent and the annual increase rate of consumer prices is expected to fall from 20.5 percent to 13.5 percent in 1997.

Argentina and Mexico were leading the economic recovery seen in 1996 in Latin American countries. There was export-oriented growth in both of these countries. Devaluation was effective in increasing exports in Mexico. The rise in the real exchange rate in Brazil affected the exports of Argentina in a positive way. The economic recovery continued in Mexico and Argentina in 1997. Argentina was more successful than the other Latin American countries in achieving price stability. The growth rate of Brazil had slowed down in 1996. A tight monetary policy was implemented in order to take control of domestic demand. The inflation rate is expected to decrease below 8 percent and the real GDP is expected to increase by 3.5 percent in 1997 in Brazil. The total demand in Chile had increased due to the rise in real wages in 1996. Tight fiscal and monetary policies were implemented in order to control this development. Growth and inflation slowed down in Chile in 1997 due to the measures taken to prevent the overheating of the economy.

In Columbia, the slowdown in the activities of the construction and manufacturing sectors and political instability caused the weakening of economic growth in 1997. The real GDP is expected to rise 2 percent annually. The economic growth in Venezuela is expected to rise 3.7 percent. Inflation has been chronically high.

Developing Asian countries have shown rapid growth in the last few years, but there was financial instability in these countries due to several factors in the second half of 1997. The pegging of the national currencies to the appreciating US dollars caused instability in the financial markets. Thailand, which has a weak banking sector, was affected by the crisis first. The crisis in Thailand affected the other Southeast Asian countries like the Philippines, Indonesia and Malaysia. Like the domino effect, these countries devaluated their currencies and had losses in real growth in 1997. In the first half of 1997, the exports of the Philippines, Indonesia and Malaysia increased due to the recovery of the activities in industry and due to the increase in trade around the world, but slowed down in the second half of 1997. After the crisis in the foreign exchange markets and the slow down in economic growth, Thailand targeted the reduction of current account deficits by implementing the structural measures indicated by the macroeconomic policies. Following the depreciation of their national currencies, Malaysia, Indonesia and the Philippines aimed to reduce the increased current account deficits and increase their exports.

Inflationary pressures in China decreased. It is expected that the annual increase in the consumer prices decreased to 4.5 percent. The improvement is obvious when it is compared with the inflation rate in 1994 which was 22 percent. The economic growth is expected to be above 9 percent.

The economic growth in the African countries is expected to decrease from 5.2 percent to 3.7 percent due to drought, civil war and political turmoil.

The Middle East countries continued to show improvements in economic growth. The average growth rate is expected to be between 4 and 5 percent in 1997 and 1998 despite the 5 percent decrease in oil prices in the OPEC countries in September, 1997 with respect to the end of 1996.

I.1.3. The Former Centrally Planned European Economies and the Commonwealth of Independent States

There was positive economic growth in most of these countries in 1997. It is expected that the real GDP rose by 1.8 percent in 1997.

There was moderate inflation and relatively slow growth in Poland, the Baltic Countries, the Czech and Slovak Republics, Hungary and Slovenia as they implemented comprehensive stabilization and reform policies. Furthermore, they took important steps in integrating themselves to the international economic and financial environment.

It is expected that the economic growth slowed in the Czech and Slovak Republics in 1997 due to pressures in the foreign exchange markets. Furthermore, the ratio of the current account deficits to the GDP was 8 percent in these countries because of the strong import demand and the appreciated national currencies.

The economic growth in Poland was annually above 7 percent in the first half of 1997 due to increased domestic demand. Because of the demand for the capital goods, imports increased and there was a current account deficit. The capital inflow to Poland in 1997 was mainly in the form of direct investments.

The economic activities in Russia started to recover in 1997. Russia was successful in its fight against inflation. The twelve-month inflation rate fell below 15 percent in mid-1997. The annual increase in consumer prices, which was 48 percent in 1996, is expected to be 16 percent at the end of 1997.

The real GDP in Albania is expected to decrease by 10 percent in 1997 although it had increased by 8.9 and 8.2 percent in 1995 and 1996, respectively.

Most of the old Soviet Union countries, which implemented tight fiscal policies and structural reforms, were successful in their fight against inflation. Armenia, Azerbaijan, Georgia, Kazakhstan and the Kyrgyz Republic had stable growth and low inflation in 1997. The twelve-month inflation rate fell to one digit in Armenia and Azerbaijan in the mid of 1997. While it was 15 percent in Georgia and Russia, it was between 20-25 percent in Kazakhstan and Ukraine. Turkmenistan and Uzbekistan were not successful in the fight against inflation because of their loose fiscal policies.

The economic growth in Hungary recovered in 1997 in contrast to 1996 and the inflation rate entered a decreasing trend.

Output fell in Bulgaria, where some measures were taken in order to achieve macroeconomic stability. The economy was affected negatively by the crisis in the banking sector in 1996 and the beginning of 1997. The Currency Board was established under the stability program which was first implemented in February 1997. 1000 leva was equivalent to 1 German mark on the first of July, 1997. Confidence in the leva increased and monthly inflation fell to 12.7 percent in March and then to 4 percent in July.

The fiscal austerity, price liberalization, banking reforms and the restructuring in the industry sector were effective in reducing inflation in Romania. Monthly inflation in July 1997 fell to below 1 percent from 31 percent.

I.1.4. World Trade

World trade grew by 3.3 percent in the first nine months of 1997 as compared to the same period of 1996, when world exports had grown by 3.6 percent and imports by 3 percent.

The total volume of trade for the industrialized countries' decreased by 0.2 percent and their share in world trade decreased from 67 to 66 percent. The volume of trade for developing countries increased by 6 percent while their share in the world trade increased from 33 to 34 percent.

The demand squeeze, generated by the crises in the Southeast Asian countries, will probably affect the external positions of the countries that have a high volume of trade with the region in the last quarter of 1997. It is expected that the countries in the region, by devaluating their currencies, may have an advantage in world trade in the fourth quarter of 1997 and in 1998.

I.1.5. International Financial Markets

Developing countries' share in the world market increased in 1997. It is observed that capital flows to these markets were also increased.

The most important development of the year in the currency market, is the strengthening of the Japanese yen and the appreciation of the US dollar against all currencies except for the Japanese yen. Towards April, the US dollar Japanese yen exchange parity increased to a level of 127, followed by an appreciation of the Japanese yen and a return to the 110 level by June. Parity then increased to the 130 level after the effects of the Southeast Asian financial crisis were felt.

US dollar – German mark parity stayed around the 1.70 level in the first days of 1997. However, due to stable growth in the US economy, German mark began to depreciate against the US dollar afterwards. By the end of the year, parity had passed over the 1.80 level.

As the growth performance reached by the US economy in 1996 continued in 1997, the interest differential between US and Japan increased to 4.8 percent by April in favor of US economy. However, as the Japanese trade surplus increased by mid-year, the interest differential fell to the 4.0 percent level.

International financial demand was covered mostly through stock markets and syndicated credits. The volume of trade in shares increased from 567.6 billion US dollars in 1996 to 725.9 billion US dollars in 1997, and syndicated credits from 255.2 billion US dollars to 289.0 billion US dollars in the same period.

The effects of the Southeast Asian crisis were not seen in the international financial markets until September. International bond and credit markets widened due to the rise of positive growth expectations in Europe and the increased efforts of the European Union members to move on to the third stage. International bond issue, which was 528.2 billion US dollars in the first nine months of 1996, increased to 672.3 billion US dollars in the same period of 1997. The USA with 141.9 billion US dollars, Germany with 124.7 billion US dollars and the UK with 40.5 billion US dollars became the top three bond issuers throughout the year. 33.6 percent of the total bond issue was through government bonds and 47 percent of these bonds were issued in US dollars (Table I.1.5.1).

The credit demand increased due to low long-term interest rates. In this respect, the total bond sales increased from 30.0 percent in 1996 to 33.6 percent in 1997.

In the currency distribution of bond offers, the share of US dollars increased from 42.7 percent in 1996 to 45.1 percent in 1997. In addition, the use of ECU as bank money increased due to the convergence of European Union interest rates.

The share of private sector bonds in the total bond issue increased from 28.9 percent in 1996 to 34.6 percent in 1997. As the private sectors borrowing through the banking sector decreased, borrowing through private sector bonds increased. In this respect, the classic definition of borrowing has been changing.

I.1.6. Emerging Markets

Capital flows to emerging markets increased after the effects of Mexican financial crisis disappeared. Along with the establishment of economic reforms and a safer environment, the high real interest rates were the most important factors that encouraged capital and foreign investment in the emerging markets. The liberalization of the capital account of the balance of payments and financial system also helped to increase the capital inflow to the region. In this respect, the capital inflow to South America increased from 31.2 billion US dollars in the first nine months of 1996 to 53.9 billion US dollars in the same period of 1997. In Eastern Asia, it went from 50.8 billion US dollars to 56.7 billion US dollars and in Middle and Eastern Europe from 2.3 billion US dollars to 3.8 billion US dollars (Table I.1.6.1).

TABLE I.1.5.1

INTERNATIONAL BOND ISSUE AND THE HIGHEST BORROWERS

(US $ Billion)

				January - September	
	1994	1995	1996	1996	1997
Total Bond Issue	428.6	467.3	708.8	528.2	672.3
USA	45.6	73.5	129.0	95.4	141.9
UK	32.8	26.7	53.4	37.8	40.5
Germany	45.9	71.9	111.5	82.9	124.7

Source: OECD "Financial Market Trends", November 1997

It was hard for the Southeast Asian countries to maintain parity due to the decrease in the growth rate of capital inflow to the region beginning in the late 1996 and the appreciation of the US dollar throughout 1997. The fact that the current account deficit reached 10 percent of the GDP is also an indication that foreign indebtedness has become chronic in the countries of this region. In addition, the high velocity of growth, the increase in debts of companies and the rise in speculative behavior are also factors that forced the crisis.

TABLE I.1.6.1

FOREIGN INVESTMENT IN EMERGING CAPITAL MARKETS

(US $ Billion)

				January - September	
	1994	1995	1996	1996	1997
South America	17.5	28.8	45.3	31.2	53.9
Bonds	10.1	14.6	31.8	21.1	38.4
Loans	1.0	3.4	3.8	2.4	7.9
Shares	2.8	2.1	3.2	2.0	3.7
Others	3.6	8.7	6.5	5.7	3.9
Eastern Asia(1)	46.2	39.7	55.1	50.8	56.7
Bonds	19.9	9.3	21.4	24.3	21.0
Loans	17.3	20.8	18.2	13.5	18.3
Shares	6.6	6.8	9.6	7.9	10.4
Others	2.4	2.8	5.9	5.1	7.0
Central and Eastern Europe (2)	0.4	0.9	3.5	2.3	3.8
Bonds	0.2	0.2	1.7	1.4	1.9
Loans	0.2	0.7	1.6	0.7	1.7
Shares	-	-	0.2	0.2	0.1
Others	-	-	-	-	0.1

Source: OECD "Financial Market Trends", November 1997

(1) China, Chinese Taipei, Hong Kong, Indonesia, Macao, Malaysia, Papua New Guinea, Philippines, Singapore, Thailand, Vietnamese Democratic Republic.

(2) Croatia, Estonia, Latvia, Lithuania, Romania, Slovak Republic, Slovenia.

I.1.7. Southeast Asian Financial Crisis

I.1.7.1. Before the Crisis

Investments by multinational corporations in the emerging markets increased due to the liberalization of the balance of payments and the facilitation of foreign investment, thus causing capital inflows to accelerate. These corporations' priority was to move their production facilities to regions where the labor cost was low. The volume of foreign investment increased at an annual average of 37 percent in the 1991-1995 period. The foreign direct investment, with a 45 percent share amounting 105.9 billion US dollars, had the highest share within the total foreign capital flows and the other 55 percent of capital flows amounted to 129.3 billion US dollars as of 1996.

The private capital inflow to the emerging markets increased from 192.8 billion US dollars in 1995 to 235.2 billion US dollars in 1996. Some reasons for the increase are the high interest differential between the emerging and developed markets and the decrease in credit risks, as the economic performance of the emerging markets increases. Corporate investors' search for portfolio investment opportunities in these markets, the contribution of innovations in the financial markets to risk management, the liberalization of capital and financial accounts and the increase in the quality and availability of information constituted the other reasons for increased capital inflow.

I.1.7.2. Sources of the Crisis

Capital inflow to Latin American countries increased in 1996 as a result of high growth performance, the easing of inflationary pressures and reforms in the banking system. In this respect, the velocity of capital flows to Southeast Asian countries decreased at the beginning of 1997 as compared to previous years. Moreover, economic growth at an annual average of 8-10 percent since 1990 and the overvaluation of the national currencies resulted in current account deficits reaching 10 percent of the GDP.

Since 1990, these countries financed their construction investments by borrowing on the Japanese yen. Appreciation of the currency, growing current account deficits and short term debt as a source of finance made the countries even more sensitive to external shocks, so international investors became suspicious about the economies from then on. Thus, the insufficient supervision of the banking system, the relative weakness of the financial system, the weak credibility of constituent corporations as well as inharmonious monetary and exchange policies resulted in the crisis.

I.1.7.3. Evolution of the Crisis

Speculative attacks began as the velocity of capital inflow to Asian markets decreased. The concentration of these activities in certain areas first distressed the Thailand bath in mid-May 1997.

As a result of the speculative attacks on the currency, Thailand, whose currency basket contains a high percentage of US dollars, was forced to devaluate its currency, which in turn caused speculative activity in other countries of the region. At first, the monetary authorities attempted to intervene in the exchange rate market and increase the interest rates in order to maintain parity. At the beginning of July, the Thailand baht immediately followed by the Philippine peso began to float. Pressures led to sudden drops in the Malaysian ringit and the Indonesian rupiah in July and August, eventually resulting in the removal of the floating bands on Malaysian ringit in mid-August. Korea's monetary unit, the won, depreciated against US dollars from the 840 level to 900 and then to 1000 in November. The crisis peaked in November with the bankruptcy of Yamaichi, one of Japan's biggest brokerage firms.

The effect of the crisis on stock markets was a decrease in the value of shares of the companies with payment problems and thus the increase in uncertainties in the markets.

The central banks of these countries approached the crisis by increasing local interest rates in order to maintain the fixed exchange rate of US dollars.

I.1.7.4. Post Crisis

It is expected that the countries exporting to the region will have some problems after the crisis. It is also expected that the fall in the stock markets will decrease the net financial wealth, decrease the consumption demand of the consumer, and eventually result in a low level of production and employment. The high volume of credit provided by the USA, Japan and Europe indicates the scope of the crisis.

Recession is expected in Asian economies in 1998. An unutilized capacity will emerge and the high interest rates set by the authorities in order to keep the value of the currency will result in a domestic demand squeeze.

It is also expected that the devaluation made by the Southeast Asian countries will result in a deterioration of the external positions of the trade partners of the region and decrease the pace of growth. If the trade volumes of the USA and Europe are compared, the external position of the USA will deteriorate more than Europe due to the USA's high volume of trade with the region, where the current account deficit will exceed the 2 percent level of the GDP. However, a price decrease in goods exported from the region may limit the effect.

The possibility of a decrease in world growth brings deflationary expectations into consideration. The crisis' effects on Turkey's financial markets began to be felt by the end of October. But the effects on the real sector could not be observed in 1997. Thus, the conduct of monetary policy should be directed accordingly.

I.1.8. Towards the Economic Union

As the interest rates converge in the European Union, it is thought that the financial markets will carry out the European Monetary Union on January 1, 1999 as planned. A delay in the dates may diverge the direction of capital. Thus, interest rate differentials may increase and some nations' currencies may be overvalued. It is also obvious that the fiscal policies are still an obstacle to the transition process.

It is expected that the European Monetary Union will bring changes to the international monetary system. At first, the convergence and the drop in long and short-term interest rates and the achievement of stability in exchange rates are the most important developments. As a result, high interest rates and monetary uncertainty that constrain growth and employment will be removed.

In the European Union in 1997, the average long-term interest rates and the average inflation rate were realized as 6.3 and 1.9 percent respectively. The public deficit of the countries other than Greece came under 3 percent of the GDP. The criteria that the public debt cannot exceed 60 percent of the GDP was fulfilled by France, the UK, Finland and Luxembourg. The inflation reference value and long term interest rates were realized as 2.7 and 8.0 percent respectively in 1997.

EFFECTS OF THE EUROPEAN UNION AND EURO ON TURKISH FINANCIAL SYSTEM

The European Union Economy is expected to be one of the strongest economies in the world after the achievement of the European Economic and Monetary Union. It is also expected that the European single currency Euro will be one of the strongest currencies. The Monetary Union is expected to strengthen the integration of financial markets and decrease the cost of using funds. It is expected that these developments and the monetary policies aimed at achieving Maastricht criteria will help decrease interest rates throughout the Europe.

Taking into account that at present more than 50 percent of Turkey's trade is with the Euro-area and that this trade is constantly on the rise along with finance and credit relations, thus, it will be necessary for the Turkish financial sector to renew and develop itself in 1998 if it wants to be able to compete and increase its relations with the European financial sector, which got steadily stronger in 1997. The low interest rates and the deeper and more liquid financial markets characteristic of the transition to the EMU, may enable Turkey to use credit from Europe at lower costs. During this period, Turkey may also experience integration in the financial sector so as to increase its competitiveness just as like it happens in Europe.

The TARGET (Trans-European Automated Real-Time Gross Settlement Express Transfer) project, which plans to integrate the European financial markets, is a kind of credit system which will lower the transaction costs of the banking sector in the European Union countries. It is expected that Turkish banks will have to adapt themselves to the new financial system and this competitive environment and the new financial instruments are expected to enable Turkish financial sector to attain higher standards.

As of 1999, the Central Bank of Turkey, which has intensive trade relations with Europe, must have a stock of Euro currency in reserves. It is expected that the Euro will replace the German mark which constitutes an important share of the reserves of the Central Bank of Turkey. In order to achieve this and taking into consideration that the European Monetary Union is an organization of central banks, the Central Bank of Turkey started researching the Turkish banking system in 1997. This will enable the Turkish economy and the financial system to prepare for the effects of European Monetary Union and the Euro.

TABLE I.1.8.1

THE SITUATION OF THE EUROPEAN UNION COUNTRIES IN 1997 RELATED TO THE ACHIEVEMENT OF THE MAASTRICHT TREATY ECONOMIC CONVERGENCE CRITERIA

			1996	1997	1996	1997		
Germany	1.5	5.7	-3.4	-2.9	60.4	61.6	yes	no
France	1.3	5.6	-4.1	-3.0	55.7	57.0	yes	yes
Italy	1.9	6.8	-6.8	-2.9	123.8	123.0	yes	no
UK	1.9	7.0	-4.9	-2.5	55.4	52.9	no	yes
Belgium	1.5	5.8	-3.2	-2.3	126.9	123.0	yes	no
Denmark	2.0	6.2	-0.8	1.0	71.6	67.0	yes	no
Greece	5.4	9.3	-7.6	-4.2	112.6	108.9	no	no
Ireland	1.2	6.3	-0.4	-0.6	72.7	65.8	yes	no
Luxembourg	1.4	5.7	2.6	1.6	6.6	6.7	yes	yes
The Netherlands	1.9	5.6	-2.3	-2.0	77.2	73.4	yes	no
Portugal	1.9	6.4	-3.2	-2.9	65.6	64.5	yes	no

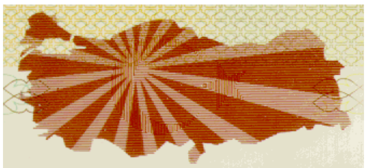
Spain	1.9	6.4	-4.7	-2.8	70.1	68.1	yes	no
Austria	1.2	5.7	-3.8	-3.0	69.5	66.1	yes	no
Finland	1.2	5.9	-3.1	-1.4	58.0	59.0	yes	yes
Sweden	1.9	6.6	-3.7	-1.5	77.8	77.2	no	no
EU Average	1.9	6.3	-3.3	-2.0	73.6	71.6		
Criteria[2]	**2.7**	**8.0**	**-3.0**	**-3.0**	**60.0**	**60.0**		

Sources: Dresdner Bank, Economic Research Department, February 1998

Countries with a higher chance of joining the European Monetary Union by the end of April 1998 are shown in blue.

(1) 10 year government bond interest rate, annual average

(2) A high degree of price stability will result from achieving a rate of inflation that does not exceed the average rates of the three best performing countries by more than 1.5 points. The sustainable nature of the convergence achieved by member states will be measured by the level of their nominal long-term interest rates, which must not exceed the average rate of the three best performing countries by more than two points. The Public Deficit / GDP must be less than 3.0 percent and the Public debt / GDP must be less than 60 percent.



II

DEVELOPMENTS IN THE TURKISH ECONOMY AND MONETARY POLICY

INTRODUCTION

The GNP increased by 6.2 percent in the first nine months of the year, stemming mainly from a rapid increase in industrial production. Domestic demand was active in the first nine months of the year but it is expected to decline in the last quarter of 1997.

Although the primary surplus of the budget decreased noticeably, the current account deficit was sustained and the short term capital flows related to the interest rate parity were intensive enough to provide a sound balance of payments during the year. The growth cycle which began in 1995, continued in 1997 and resulted in a rise in imports. Compared to imports the growth rate of exports, excluding shuttle trade, accelerated in 1997 mainly due to the rise in foreign demand for domestic products. Consequently, the growth rate of foreign trade deficit declined considerably.

In the first half of the year demand pull, and in the second half of the year cost push inflation was observed in the economy. High price increases in petroleum products was the main source of the cost push inflation in the second half of the year. The public sector increased its product and service prices more than the private sector did in 1997. By increasing petroleum products prices, the government tried to create an additional revenue to reduce the increasing budget deficit which had been increasing since the beginning of the year. This caused compulsory price increases.

In 1997, monetary policy was not so different compared as to previous years. The insufficient willingness on the part of the government to fight inflation and the expansionary fiscal policy forced the Central Bank to aim its monetary target policy at financial market stability as the monetary policy target as it had in 1996.

The Central Bank had tried to achieve financial market stability by decreasing the volatility in both exchange and Turkish lira markets. Exchange rates were conducted in line with the expected inflation. This policy ensured not only real effective exchange rate stability but competitiveness in the export sector and a sustainable current account deficit as well. The lender of the last resort function of the Central Bank was ensured by keeping the short-term interest rates of the Bank higher than the Treasury rates which were effective in primary and secondary markets of the bills and bonds. The Central Bank was thus able to keep the market liquidity under control. This policy slowed down the reserve money expansion and decreased the balance sheet of the Central Bank in real terms.

The difference in the new government's economic policy was mainly on the fiscal side. In the first half of the year, the "Public Common Account" and "Tax Free Import" were put into practice in order to decrease the Treasury interest rates. These rates fell for a while with the help of these funds but the increasing budget deficit brought the Treasury rates back up to the previous level. Although 1997 was a convenient year for the payments of the Treasury, and a balanced budget was targeted, the budget deficit increased in the very first month of the year and the primary surplus of the budget decreased considerably compared to previous years. Budget expenditures, excluding interest payments, increased considerably in 1997. For the first time, Consumer Price Indexed Bonds were sold to finance the budget deficit and the maturity of the debt stock lengthened from 4 months to one year. Thus, the burden of interest payments was postponed to the first months of 1998. The Southeast Asian economic crisis, which began in the last months of 1997, limited the foreign debt facilities of Turkey and the position of the country to repay its foreign debt did not change in 1997.

II.1. GENERAL EQUILIBRIUM

Following the recession in 1994, the economy has witnessed a stable and high growth era in conjunction with the rapid increase in domestic demand since the second half of 1995. The growth rate of the GNP continued in 1997 even though it slowed down gradually and realized at 6.2 percent in the first nine months of the year.

On the supply side of the economy, while the trade and industrial value added increased substantially and constituted the main source of the high growth rate of the GNP, agricultural value added declined in the first nine months of 1997.

On the demand side, the high growth of consumption and investment expenditures in the first half of the year and high production growth rate in the metal products and machinery-equipment industries, including durable consumption and investment goods, in the private manufacturing industry imply that the growth of the GNP stemmed from both consumption and investment expenditures.

In addition to the income effect mainly resulting from high public borrowing, and thus high real interest rates and increasing financial savings, along with expansionary monetary and fiscal policies, especially in the first half of the year, constituted the main source of domestic demand buoyancy in the first nine months of the year. Current and investment expenditures of the public sector usually grew slower than interest expenditures during the 1994-1996 period. The increase in the primary balance was fast in the beginning, but it slowed down later and resulted in a substantial surplus in the same period, while the budget deficit continued to increase. In contrast to previous years, the primary surplus decreased sharply and the ratio of the budget deficit to the GNP came down in 1997 with respect to the previous year. The ratio of the public sector borrowing requirement to the GNP is expected to decline and realize at 8 percent for 1997.

Imports declined by 20.9 percent as a result of the contraction in domestic demand in 1994. Due to domestic demand buoyancy in 1995 and recession in 1994, imports grew by 53.5 percent in 1995. Since the Custom Union led to additional import demands, imports continued to grow by 22.2 percent in 1996. The export growth rate slowed down and declined from 19.5 to 7.3 percent in 1996. In contrast, the exports growth rate realized higher than the imports growth rate, which slowed down in 1997. While imports increased 11.5 percent, exports grew 13 percent in the same year. Therefore, although it was limited, the ratio of exports to imports increased, and the increase in the foreign trade deficit slowed down significantly. However, the crisis that occurred in the Southeast Asian countries is expected to have a negative influence on export performance in the near future. Consumer goods imports increased faster relative to other goods categories in 1997. The increasing trend in the share of consumer goods in total imports which appeared with the liberalization of foreign trade continued in 1997. In the first half of the year, on the average, export prices and imports prices decreased 3.8 percent and 5.2 percent respectively compared to the same period of 1996. This implies that the terms of trade improved in favor of Turkey in the first half of the year.

While private sector savings-investments balance did not change significantly during the last two years, parallel to the persistently high public deficits resulting mainly from the sharp increase in non-interest expenditures and the increase in the domestic demand, the current account deficit increased and the need for external finance arose. In addition, the decline in shuttle trade relative to previous years effected a rise in the current account deficit. Because of these factors, the current account deficit increased 12.8 percent in 1997 (Table II.1.1).

The Central Bank's positive efforts of towards the stabilization of financial markets continued in 1997. Although the real exchange rate appreciated more or less, high public borrowing and political uncertainties imposed considerable pressure on interest rate and prices. As a result, by the end of the year, the compound domestic borrowing rate excluding taxes and the increase in the consumer prices reached 122.5 and 99 percent respectively.

The increase in consumer prices continued along the expected path during the first nine months of the year, but a rapid increase in the prices of petroleum products and food prices due to reduced agricultural output caused the increase in consumer prices to accelerate in the last quarter of the year. In addition, although domestic demand decreased more or less in the last quarter of the year, the ambiguity in the economic policies that cope with high inflation caused the inflation expectation to rise again and this, in turn, caused price increase to accelerate. As a result, the average consumer prices realized at 85.8 percent, which is five points higher than the previous year.

The rate of increase in consumer prices persisted in the 30 percent range between 1981-1987, in the 60 percent range between 1989-1993, in the 80's after 1995 and it had increased to 90 percent range by the end of 1997. The inflation rate in Turkey has persisted at a certain level for a long time. Exogenous demand and supply shocks sometimes raise this level and it has been observed that these cyclical periods shorten over time.

TABLE II.1.1

MAIN ECONOMIC INDICATORS

	1995	1996	1997(1)
GNP (Trillion TL, Current Prices)	7 854.9	14 978.1	29 054.5
GSMH (Trillion TL, 1987 Producer Prices)	99.0	106.1	112.5
GROWTH RATE, GDP (Percent)	7.2	7.0	6.3
GROWTH RATE, GNP (Percent)	8.0	7.1	6.0
POPULATION (Million)	61.6	62.7	63.7
EMPLOYMENT (2)(Million)	21.4	21.7	21.2
EXPORT (Billion US Dollar, FOB)	21.6	23.2	26.2
IMPORT (Billion US Dollar, CIF)	35.7	43.6	48.7
CURRENT ACCOUNT BALANCE(3) (Billion US Dollar)	-2.3	-2.4	-2.8
EXTERNAL DEBT STOCK /GNP(4) (Percent)	42.7	43.2	44.0(6)
PUBLIC SECTOR BORROWING REQ./GNP (Percent)	5.2	9.0	8.0
DOMESTIC DEBT STOCK/GNP (Percent)	17.3	21.0	21.6
Wholesale Price Index(5) (Annual Av., Percentage Change)	86.0	76.0	81.8

Consumer Price Index(5) ((Annual Av., Percentage Change)	88.0	80.4	85.8

Source: State Institute of Statistics (SIS), State Planning Organization, Central Bank

(1) Provisional

(2) SIS, April

(3) Export figures include shuttle trade for the years 1996 and 1997.

(4) The annual average exchange rate was used in converting US dollar based foreign debt stock into Turkish lira.

(5) 1994 = 100

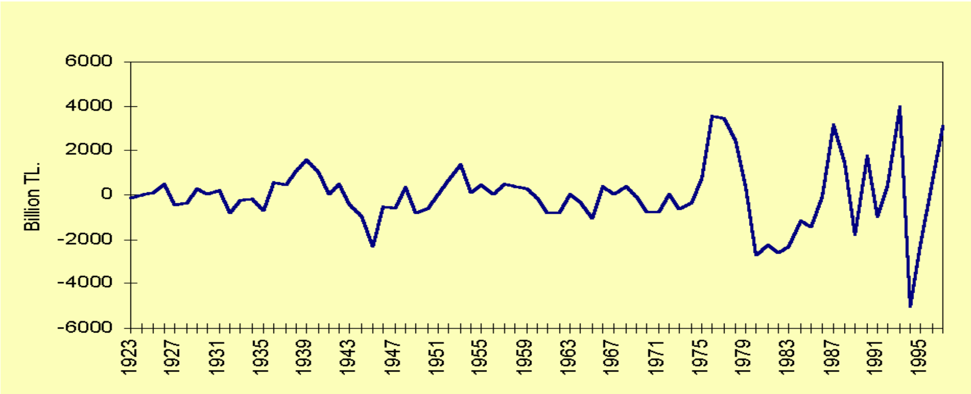
(6) Annual rate as of September 1997

POTENTIAL OUTPUT AND OUTPUT GAP IN TURKEY

Potential output implies the output level in which factors of production (labor and capital) are fully employed in the economy. The ratio of actual output to potential output is known as *output gap*. The structure and magnitude of the output gap give an idea about the balance between demand and supply effects and thus inflationary pressures. In other words, the level of potential output plays a crucial role in constructing policies that would lower the inflation rate. While additional output above the potential output increases inflationary pressure, inflationary pressure lessens when the output is below the potential output level. In addition, better estimation of potential labor, capital stock and their productivity make it possible to assess better the aggregate productive capacity that provides sustainable growth in production and employment at low inflation rates.

Potential output series can be estimated by using the Hodrick-Prescott filter based on the real GDP series in the period of 1923-1997. The difference between estimated potential output and actual real GDP series is derived in the figure and these differences and their shares in the GDP after 1990 are shown in the table below. Both the positive and the negative difference between estimated potential output (HPTREND) and the actual real GDP series showed an increase. Especially after the oil crisis in 1974 and with outward oriented policies in Turkey during the 1980s, the fluctuation in these differences continued increasingly. The share of difference between potential production and the GDP which reached an average of 3 percent in the last two years implies the existence of inflationary pressure.

DIFFERENCE BETWEEN REAL GDP AND HODRICK-PRESCOTT TREND



REAL GDP AND HODRICK-PRESCOTT TREND

(in trillion TL)

	1990	1991	1992	1993	1994	1995	1996	1997(1)
Real GDP(1)	83.6	84.4	89.4	96.6	91.3	97.9	106.9	111.0
HPTREND(2)	81.8	85.3	88.9	92.5	96.1	99.7	103.4	107.9
Difference (1-2)	1.8	-1.0	0.5	4.1	-4.8	-1.9	3.5	3.1
Difference /GDP(%)	2.1	-1.2	0.6	4.3	-5.2	-1.9	3.2	2.8

(1) Growth rate of GDP is taken as 6 percent.

TABLE II.1.2

GROSS NATIONAL PRODUCT(1)

	1995	1996					1997			
	Total	I	II	III	IV	Total	I	II	III	Total(2)
GNP	8.0	9.5	8.2	5.1	7.0	7.1	5.6	6.4	5.6	6.2
GDP	7.2	8.7	8.1	5.3	7.0	7.0	6.6	6.6	5.4	6.1
Agriculture	2.0	-2.0	5.0	2.1	13.3	4.4	-2.3	-1.1	-1.1	-1.2
Industry	12.1	8.8	7.4	5.5	7.1	7.1	9.5	10.6	11.5	10.6
Manufacturing	13.9	8.6	7.4	5.1	7.7	7.1	10.0	12.3	12.8	11.8
Services	6.3	9.6	9.0	6.8	5.8	7.6	5.9	6.0	5.8	5.9

Source: State Institute of Statistics

1. At 1987 producer prices, percentage change with respect to previous year.
2. First nine months of 1997.

II.1.1. Supply Side of the Economy: Production in the Sectors and Imports

II.1.1.A. Production Performance in Sectors

a. Agriculture

Production growth in the agricultural sector has realized at lower rates in recent years. While agricultural value added grew 2 percent in 1995 and 4.4 percent in 1996, it decreased 1.2 percent in the first nine months of 1997. The decline in the agricultural value added during this period stemmed mainly from the forestry sector, whose value added declined 6.3 percent. Fishing value added rose 8 percent in the same period. A reduction in agricultural production caused the increase in the agricultural prices to accelerate.

The agriculture sector has grown generally slower than industry and services since the early 1960s, so the share of agricultural value added in the GNP has been dropping steadily. It dropped on the average from 33 percent in the 1970-1979 period to 21 and 16 percent in the 1980-1989 and 1990-1997 periods respectively. While the agricultural value added grew on the average 1.5 percent annually during 1990-1997, industrial value added rose 6 percent in the same period. As a result of these factors, the prices of agricultural products increased 23 fold more than the prices of industrial products in the 1987-1997 period. Agricultural prices increased faster than wholesale prices in 1997. The increase in the prices of agricultural products remained low relative to the farmer's net prices, which reflect the income of farmers in the same year (Table II.1.3).

TABLE II.1.3

PRICES

(Percentage Change, Annual Average)

	1992(1)	1993(1)	1994(1)	1995(2)	1996(2)	1997(2)
Wholesale Prices Index	62.1	58.4	120.7	86.0	75.9	81.8
Agriculture Price Index	62.7	62.2	97.8	107.8	86.5	86.9
Manufacturing Price Index	59.7	56.6	129.4	81.0	70.4	80.6
Farmer's Net Price Index	75.8	64.3	88.2	109.8	83.2	89.5

Source: State Institute of Statistics

(1) 1987=100

(2) 1994=100

b. Industry

The decrease in industrial production that began in 1994, continued in the first quarter of 1995. However, industrial production has increased significantly as a result of disappearing uncertainties in the economy and expansion in the domestic demand since the second quarter of 1995. On the basis of State Institute of

Statistics data, industrial value added, which increased over 9 percent annually in the 1995-1997 period, constituted the main source of the high overall growth. The decline in imports costs due to the Customs Union and buoyancy in domestic demand led to an increase in the industrial value added in 1997, just as it had in 1996. The total industrial value added grew 10 percent in the first quarter of the year relative to same period of the previous year, followed by 12.3 percent and 12.8 percent in the second and third quarters respectively (Table II.1.2).

The sub-sectors of manufacturing, metal products, machinery-equipment, paper products, printing and publishing played an important role in the rapid growth of industrial production in 1997. The production of metal products, machinery and equipment which includes capital and durable consumer goods rose 43.8 percent on the average. The production increase in the machinery-equipment industry constituted the main aspect of the economic growth in 1997. In addition to domestic demand, external demand has also been effective in production increase in this sector. The exports of motor vehicles and electrical machinery and apparatus, which are grouped in this category increased 51 and 26.8 percent, respectively, in the first ten months of the year. Moreover, the decrease in the cost of imports after the Customs Union and the high investment tendency in the sector were effective in increasing production in this sector.

While production in the private manufacturing industry increased 14.1 percent, the production increase in the public sector remained at a low level, 4 percent. The gradual decline in the share of public sector manufacturing investments in total public sector investments since 1980, ultimately reaching an insignificant magnitude, has played a major role in gradual increase of production in the public sector manufacturing industry. While production in other industries, textiles and food declined in the first nine months of the year, the production of all sub-sectors increased in private manufacturing sector.

The capacity utilization rate of output-weighted manufacturing industry rose in terms of monthly average from 79.2 percent in 1996 to 80.9 percent in 1997. This rate was not subject to fluctuation throughout the year. Although there was a rapid increase in industrial production, the average capacity utilization rate in 1997 showed a limited increase with respect to the previous year. The main reason for this was expansion in production capacity caused by rising investments.

While the value added of the mining sector of industry increased 7.1 percent in 1996, it increased only 3.7 percent in the first nine months of 1997. The value added of manufacturing increased in the first and third quarters even though it decreased in the second quarter of the year. On the other hand, energy value added increased 4.5 percent.

c. Services

Value added in the services sector increased 5.9 percent in the first nine months of 1997 (Table II.1.2). Trade value added and import taxes are the main components in services that grew rapidly. With the impact of Custom Union, import taxes increased 28.5 percent in the first nine months of 1996, but they rose only 8.4 percent in the same period of 1997.

II.1.1.B. Imports

With the contraction of domestic demand, imports declined substantially in 1994, but imports increased 53.5 percent as a result of increasing domestic demand in 1995. While imports increased by 22.2 percent in 1996, the effects of the additional import demand that stemmed from Customs Union ended. Contraction in domestic demand in the last quarter of the year caused import growth to slow down in 1997. Imports grew 11.5 percent and reached 48.7 billion US dollars in 1997.

Of all the main goods groups, intermediate goods imports had the highest share in 1996, the shares of investment and consumer goods came in second and third respectively. This order did not change in 1997 and the import of intermediate goods constituted 65.7 percent of total imports. Import of consumer, intermediate and investment goods increased 25.1, 11.2 and 6.8 percent respectively in 1997.

Among the main industries, the imports of manufacturing industry, which constituted 84.2 percent of total imports, grew on the average 12.7 percent in 1997. In the same period, mining and agricultural imports increased 1.9 and 11.5, respectively, compared to previous the year.

The imports of industrial inputs grew faster in 1996, when Turkey jointed the Customs Union, than in 1997. However, relatively cheap imported inputs were effective in increasing domestic industrial production in 1997, as it had in 1996.

II.1.2. Demand Side of the Economy: Domestic Demand and Exports

II.1.2.A. Domestic Demand: Investment and Consumption

GNP data in terms of expenditures have been published only for the first half of the year. According to the data, while the private consumption expenditures increased 8.1 percent, public sector consumption expenditures decreased 1.6 percent in the first half of the 1997 relative to the same period of the previous year. During the period, the total fixed capital investments increased 11.2 percent. Public and private investments rose 25 and 9.2 percent, respectively in the same period.

The consumption of durable goods especially contributed to the increase in private consumption expenditures at this level and this led to the rapid growth of manufacturing production. Furthermore, the raise in machinery-equipment investments played an important role in the increase in total investments and this also supported the production increase in the manufacturing industry. In the first half of the year, the wage and salary expenditures of the public sector remained more or less at the same level with respect to the previous year, the wage and salary adjustments in July led to increased wages and salaries in real terms. Private sector investment and consumption expenditures and public sector investment expenditures rather than public consumption expenditures formed the main source of domestic demand in the first half of the year.

TABLE II.1.4

INVESTMENTS AND CONSUMPTION

(At Constant Prices, Percentage Change)

	1995	1996	1997(1)
Consumption Expend.			
Public	6.8	8.6	-1.6
Private	4.8	9.3	8.1
Fixed Cap. Investments			
Public	-18.8	24.4	25.0
Private	16.9	11.4	9.2

Source: SIS, State Planning Organizasiton

(1): January-June period

II.1.2.B. Exports

Foreign demand led to export growth in 1997. Exports increased by 7.3 percent in 1996 and 13 percent in 1997, reaching 26.2 billion US dollars. Excluding 1997, the slow increase in the export sector was mainly the result of insufficient efforts to increase exports rather than the low foreign demand. Basically, the Turkish export sector depends mainly on labor intensive and conventional technology products rather than on products of high technology and science. This and the insufficient variety of consumer products which make up more than half of Turkish exports were responsible for the low export performance.

According to the United Nations Wide Economic Categories Criterion (BEC), the export of consumer products, which comprise more than half of the exports, increased by 12.4 and investments goods, which make up 5 percent of the exports increased by 18.9 percent. If the rise in the investment goods export continues at this level, the export performance of the Turkish economy is expected to be better in the coming years. Taking into consideration the main sectors of the economy, the increases in exports were 9.1 percent in the agricultural sector, 9.8 percent in the mining sector and 13.5 percent in the manufacturing sector in 1997. To sum up, on a parallel with the liberalization of the foreign trade, the share of the manufacturing industry products in the total exports had increased and this tendency continued in 1997.

With a 20 percent share of total exports, Germany was Turkey's leading trade partner. With 7.9 percent and 7.6 percent shares of the total exports, Russia and the USA followed Germany in 1997. Compared to the previous year, Germany's share in the total exports declined while the shares of Russia and the USA increased. Taking into consideration the country groups, exports to the Black Sea Economic Cooperation, the Federation of Independent States and European countries increased compared to the previous year. The decline in shuttle trade realized with to the Black Sea countries and the Independent States Assembly meant that this trade was substituted by the registered one.

II.1.3. Employment

The total employment was 21.7 million in October, 1996 and it declined to 21.2 million in April, 1997 according to the Survey of Households Labor Force, which was conducted by the SIS. The decline in total employment arose from the decline in agricultural sector employment. The share of urban and rural areas in total employment were 44 percent and 56 percent respectively. The civilian labor force and employment in Turkey lessened in April, 1997 compared to the same period of the previous year. Due to the decline in labor force supply, unemployment seemed to decline 6.3 percent to 5.9 percent.

The rural and urban area unemployment rates were 3.2 and 9.2 percent respectively in April, 1997. The migration from rural areas to urban areas has been continuing in Turkey, thus the unemployment rate is increasing in urban areas. The low qualifications of the migrants causes them difficulty in finding jobs in industrial and services sectors. Underemployment decreased to 5.1 percent with respect to previous year. Under-employment is as important as unemployment in those countries who do not have unemployment insurance and many of the workers work as unpaid family labor. The idle labor force, which can be determined by adding the under-employment rate to the unemployment rate declined to 11 percent compared to previous year.

If the sectoral breakdown of employment is taken into consideration, the agricultural sector leads all of the other sectors in total employment. Unpaid family laborors who are 12 or more years old are included in the employment rate, so in agricultural sector there seems to be a higher total employment rate and thus the unemployment rate appears to be low. However, the tendency of the agricultural sector's share of total employment to decrease continues. The share of the industrial sector has not changed for years, so the decreasing share of the agricultural sector in the total employment had been replaced by the increasing share of the services sector.

The growth rate in total employment remained considerably behind the economic growth rate of Turkey. The industrial value added increased by 6 percent on the average between 1990 and 1997 while the growth rate in employment was only 2 percent. This means that in the industrial sector, which has been the driving force of economic growth, an increase in the productivity of the labor force depends on the advances made in technology and the quality of the labor force.

TABLE II.1.5

LABOR FORCE AND UNEMPLOYMENT

(Out of 1000, aged 12 +)

	1995	1996	1997[1]
Labor Force	22 901	23 030	22 537
Woman/L. Force (Percent)	30.4	29.6	29.1
Employment	21 378	21 698	21 201
Unemployed Person	1 522	1 332	1 336
Unemployment Rate	6.6	5.8	5.9
Urban (Percent)	10.0	9.3	9.2
Rural (Percent)	3.9	2.9	3.2
Underemployment (Percent)	6.3	6.2	5.1
Inactive Labor (Percent)	13.0	12.0	11.0

Source: State Institute of Statistics

(1) April 1997

TABLE II.1.6

EMPLOYMENT BY SECTORS (Percent)

	1995	1996	1997[1]
Agriculture	47.8	45.9	45.3
Industry	20.7	21.8	21.6
Services	31.5	32.3	33.1

Source: State Institute of Statistics

1. April 1997

II.1.4. Wages and Salaries

The economic recession in 1994 resulted in a considerable decline in real wages and salaries. Although there has been a high economic growth in the economy in last three years, real wages could not reach the 1994 levels. Excluding the minimum wages, the real lost in the civil servants salaries was minimum compared to other wages between 1993 and 1997. The real wage loss of those who work in the private sector and are included in the collective bargaining procedure was over 30 percent and the real loss of the civil servants salaries was only 7.3 percent in the same period. At the same time the real loss in wages of those who work for the public and are included in the collective bargaining procedure was less than that of the private sector workers. In the same period, there was no considerable change in the real minimum wage.

The government tried to employ a monthly "Echelle Mobile" (sliding scale) system in the public sector collective bargaining procedure in 1997. Thus, wages increased by the realized inflation in the second half of the year. Civil servants salaries increased three times in January, April and July. According to the estimates of the SPO, real wages in the public sector and civil servants salaries increased by 37 and 16.5 percent, respectively. The real wage earnings those who work in the private sector and are included in the collective bargaining procedure was 1.8 percent in 1997 and the real wages of the private sector manufacturing industry declined 1.5 percent in the third quarter of 1997 compared to the same period of the previous year (Table II.1.7).

FIGURE II.1.1

DEVELOPMENT IN REAL WAGES

(1992=100)

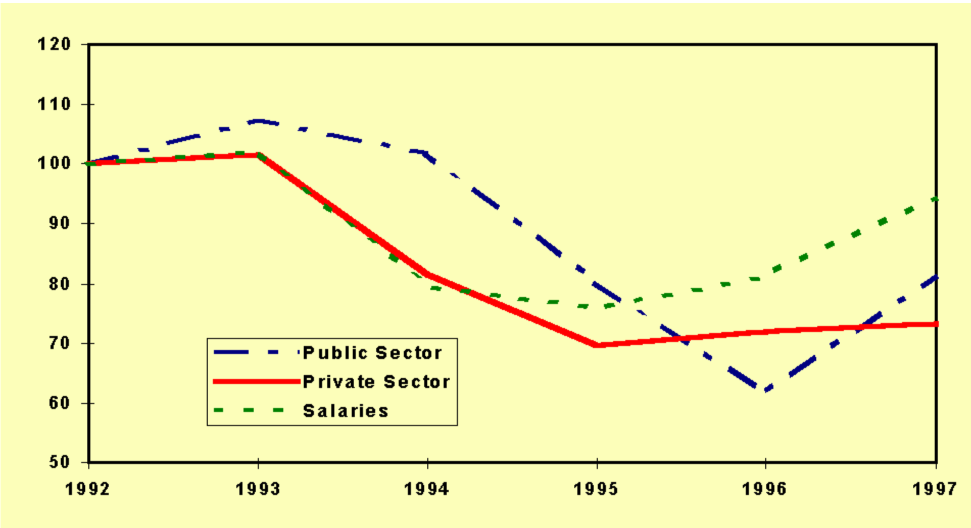


TABLE II.1.7

DEVELOPMENT IN REAL WAGES[(1)]

(Percentage Change)

	1992	1993	1994	1995	1996	1997[(2)]
Labor Cost (3)						
Public	4.4	7.6	-5.0	-24.7	-23.4	36.8
Private	-1.2	1.7	-21.4	-19.0	3.1	1.8
Gross Wage (3)						
Public	6.0	7.5	-5.2	-21.3	-23.3	32.2
Private	3.1	1.8	-20.0	-14.4	3.3	1.8
Manufacturing Wages (4)	4.4	3.9	-19.2	-14.4	-0.8	0.8
Public	16.9	3.7	-14.1	-18.0	-4.5	13.7
Private	-1.5	5.0	-21.7	-8.9	2.3	-1.5
Net Salary of Civil Servants	13.7	2.1	-22.0	-4.7	7.0	16.5
Civil Servants Salary Cost	7.0	0.6	-25.8	-5.4	11.2	13.4
Average Minimum Wage (5)	10.1	5.6	-21.3	-5.1	18.8	12.8
Pension (6)						
The Pension Fund	1.7	-1.7	-22.2	-11.0	22.2	10.1
The Social Insurance Inst.	-0.9	-4.8	-22.0	-3.8	20.0	14.4
Bağ-Kur (7)	44.8	-3.6	-21.6	-1.0	57.7	29.3

Source: State Planning Organization, State Institute of Statistics

(1) SIS Urban Areas Consumer Price Index was used in calculating real changes.

(2) State Planning Organization estimation

(3) The calculations are carried out by State Planning Organization by using the data of Turkey Employer Union and Public Sector Employer Union.

(4) SIS figures based on the per hour wages of employees of manufacturing industry. January-

September figures for 1997.

(5) Annual average minimum wage for workers aged 16 and over in industry and services.

(6) Average monthly pension for retired civil servant degree at degree 3/1, for retired workers at

8955 level and for retired persons from Bağ-Kur at sixth degree.

(7) The social security organization of craftsmen and tradesmen and other self employed people.

II.2. PUBLIC FINANCE AND DOMESTIC BORROWING

II.2.1. Public Finance

The public sector in Turkey consists of consolidated budget, financial and non-financial State Economic Enterprises (SEEs), local administrations, revolving funds, social security organizations and extra-budgetary funds.

The share of the public expenditures in the GNP increased to 30.8 percent in 1996 while this ratio was 26.1 percent in 1995. The share of the public sector income in the GNP increased to 21.8 percent from 20.9 percent within the same years. The ratio of the public sector cash financing requirement to GNP increased to 9.1 percent in 1996 from 5.1 percent in 1995 stemming from the rapid growth of public expenditures.

In the Program, the public sector income and expenditures were targetted to realize at 27.4 and 27.8 respectively. However, since the expected increase in the public sector income could not be realized throughout 1997, the share of the public sector income in the GNP is estimated to realize at 21.8 percent, remaining constant with respect to the previous year. The share of the public expenditure in the GNP is expected to be 31.3 percent in 1997 increasing 0.5 percent compared to 1996. The increase in the public expenditures was mostly due to the extension of interest payments to 1998 and 1999 rather than taking expenditures under discipline. Hence, it is seen that the share of the public expenditures excluding interest payments in the GNP increased rapidly in 1997, and the ratio is expected to rise to 23.5 percent in 1997 from 20.8 percent in 1996. The share of the public sector cash financing requirement in the GNP is estimated to decrease by 1.1 percent with respect to the previous year and realize at 8.0 percent in 1997. Nevertheless, this ratio is well above the 1997 Program target of 0.4 percent (Table II.2.1).

The ratio of the cash financing requirement of the consolidated budget to the GNP was planned to realize at 0 percent in the 1997 Program due to the balanced budget prediction for 1997. However, this ratio is estimated to be 7.4 percent by the end of 1997, declining only 1 percentage point with respect to the previous year. The share of the financing requirement of the non-financial SEEs in the GNP is estimated to result in a deficit of 1 percent in 1997 due to the deterioration of the financial balance of these enterprises while the financial requirement of the category listed as Other Public, which includes financial SEEs, local administrations, revolving funds and social security organizations is expected to be a surplus of 0.8 percent. The 1 percentage point decline in the public sector cash financing requirement in 1997 with respect to the previous year seems to stem mainly from the decrease in the cash financing requirement of the consolidated budget and the category listed as Other Public, although there was an increase in the financing requirement of the SEEs (Table II.2.1).

The share of the cash financing requirement of the Funds in the GNP is estimated to result in a deficit of 0.2 percent at the end of 1997 while in the Program, this ratio was predicted to be a surplus of 0.2 percent. The financing requirement of the Funds had declined by 65 percent in 1996 with respect to 1995, however, this ratio is estimated to increase by 202.2 percent in 1997, reaching TL 56.1 trillion (Table II.2.1).

It is expected that at current prices the public sector cash financing requirement will increase by 67.9 percent to TL 2302.2 trillion in 1997. Considering the 91 percentage point increase in WPI at the end of 1997, the public sector cash financing requirement is estimated to decrease in real terms at the end of the year.

TABLE II.2.1

THE RATIO OF THE PUBLIC SECTOR CASH FINANCING REQUIREMENT TO THE GROSS NATIONAL PRODUCT(1)

(Percent)

					Program	
	1993	1994	1995	1996	1997	1997 (5)
Consolidated Budget(2)	6.3	3.9	3.7	8.4	0.0	7.4
SEEs(3)	3.5	1.9	-0.7	0.1	0.2	1.0
Funds	0.9	0.9	0.6	0.1	-0.2	0.2
Other Public(4)	1.0	1.2	1.5	0.5	0.4	-0.8
Average Cash Financing Requirement	11.6	7.9	5.1	9.1	0.4	8.0

Source: State Planning Organization, Undersecretariat of the Treasury

(1) Minus sign (-) indicates surplus

(2) The ratio of the Consolidated Budget cash financing requirement to the GNP

(3) Non-financial SEEs subject to privatization included

(4) Financial SEEs, local administrations, revolving funds and social security organizations

(5) Estimates

FIGURE II.2.1

PUBLIC SECTOR BORROWING REQUIREMENT / GNP

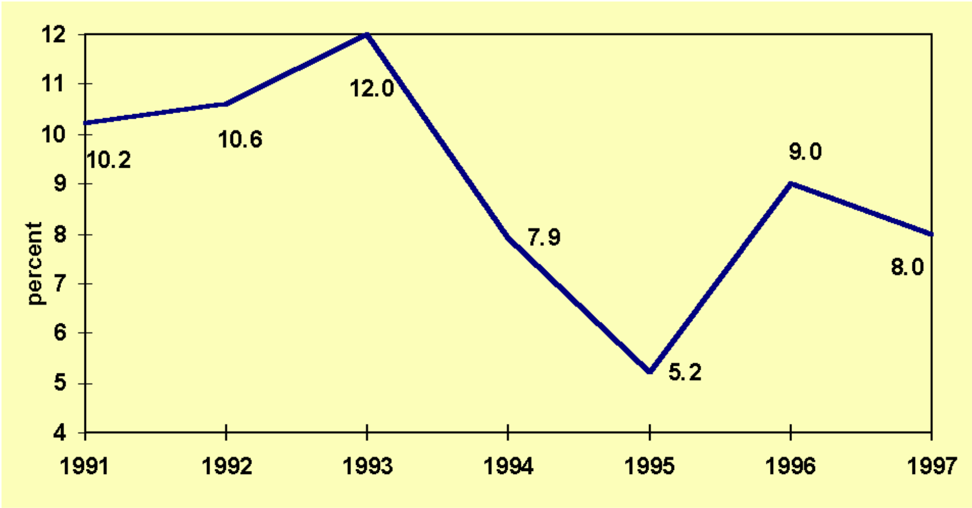


TABLE II.2.2

PUBLIC SECTOR CASH BALANCE AND FINANCING

(at current prices, TL trillion)

					Program	
	1993	1994	1995	1996	1997	1997(4)
Cash Balance	-200.2	-204.5	-315.5	-1192.2	98.2	-1945.7
Revaluation of Stocks	-31.8	-100.9	-87.8	-171.6	-203.1	-356.5
Financing(1)	232.0	305.4	403.3	1370.8	104.9	2302.2
Cash and Bank Accounts	-27.4	-91.3	-191.8	-322.8	-685.2	-465.4
Foreign Borrowing (net)	27.7	-68.3	-67.9	-183.8	-193.2	-221.5
Consolidated Budget	21.1	-67.2	-81.2	-134.0	-193.3	-452.6
SEEs(2)	-1.3	-4.8	-13.5	-58.9	-43.6	50.9
Funds	-0.9	3.1	13.7	18.8	23.8	99.0
Other Public(3)	8.9	0.5	13.2	-9.7	19.9	81.2
Domestic Borrowing (net)	231.8	465.0	662.9	1877.4	983.3	2989.1
Consolidated Budget	105.0	219.1	375.5	1402.0	193.3	2613.2
Central Bank Advances	53.0	51.9	94.7	229.0	135.6	0
Bonds	30.1	-70.3	85.7	274.0	1412.1	1484.8
T-Bills	22.2	244.2	197.2	792.0	-1354.4	1020.7
Other Financing	-0.4	-6.6	-2.1	107.0	0	107.7

SEEs(2)	79.8	111.6	51.7	195.5	551.4	428.5
Central Bank	8.4	-11.8	0.2	0	0	0
Commercial Banks	19.5	-7.2	7.8	-35.3	153.7	157.4
Eximbank	-0.1	1.2	-0.5	0	0	0
Bonds	14.7	13.9	6.2	0	0	0
Net Deferred Payments	37.2	115.5	38.0	230.8	397.7	271.1
Funds	22.9	28.4	41.2	39.7	-66.2	-48.8
Other Public(3)	24.1	105.9	194.5	240.2	304.8	-3.8

Source: State Planning Organization, Undersecretariat of the Treasury

(1) The sum of the consolidated budget cash financing requirement and deficits of other institutions

(2) Non-financial SEEs subject to privatization included

(3) Including financial SEEs, local administrations, revolving funds and social security organizations

(4) Estimates

According to the Budget Program, a “balanced budget” was planned and therefore contraction of expenditures in real terms and expansion of the budget revenues were targeted. Non-tax revenues, which comprise sales and rental revenues from the real estate property of the government and the profits of State Economic Enterprises, were the main sources of foreseen budget revenues. The target was TL 1.4 quadrillion in non-tax revenues, TL 1.1 quadrillion of which was revenues from privatization and asset sales.

Tax revenues realized above the program target in 1997. Since the structural and legal framework could not be completed, expected revenues from privatization and the “source packet” were not received. Only 463.4 million US dollars had been obtained as privatization revenue as of November 1997.

Contrary to the Program, the budget deficit was realized as TL 2.2 trillion by the end of 1997 due to the inability to cut the expenditures in real terms and inability to reach the expected level of non-tax revenues.

Especially in the second half of 1997, insufficient expenditure items in the budget were met from the advances. Therefore, the cash balance, which is composed of the budget deficit, deferred payments and advances, increased sharply whereas budget deficit remained almost in the same level and even declined in October and

November due to the reason stated above. A “Supplementary Budget” was put into effect on November 28, 1997 following the publication of the Official Gazette and TL 1.8 quadrillion in additional appropriations was obtained. Most of the appropriations were allocated to interest payments, personnel expenditures, and Social Security Institutions -TL 427, 370, 250 quadrillion respectively. Moreover, it was stated that the appropriations could be used for agricultural support, current expenditures, fund expenses, investments and other expenditures. The ratio of the supplementary budget to the GNP rose from 3 percent to 6.3 percent in 1997 compared to 1996 due to the limitations in appropriations set up according to “balanced budget” foresight.

With the activation of the supplementary budget, the items recorded in the appropriations were transferred as budgetary items by the end of December, and the consolidated budget deficit reached TL 2.181 trillion for 1997. The cash balance, which showed a sharp increase during the year, remained TL 2.161 trillion parallel to the developments in December. In proportion to the GNP, the consolidated budget deficit and cash deficit were realized at 7.5 and 7.4 percent respectively (Table II.2.5 and Graph II.2.2).

FIGURE II.2.2

BUDGET BALANCES / GNP

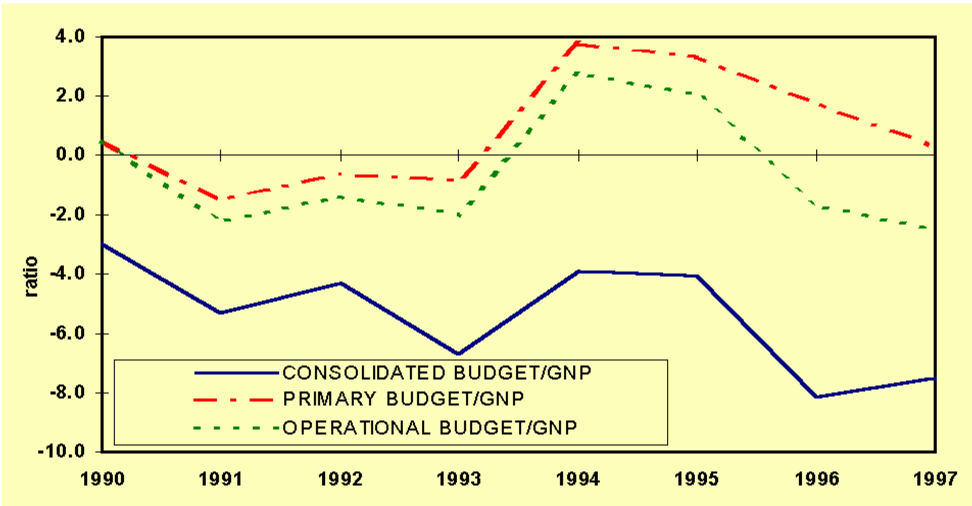


TABLE II.2.3

CONSOLIDATED BUDGET REVENUES

(Percent)

	1993	1994	1995	1996	1997

Total Revenues/GNP[1]	17.6	19.2	17.7	18.3	20.1
Tax Revenues/GNP[1]	13.2	15.1	13.8	15.2	16.3
Indirect Taxes/GNP[1]	6.8	7.8	7.9	9.2	9.7
Direct Taxes/GNP[1]	6.4	7.3	5.9	5.9	6.7
Tax Revenues/Total Expenditures	54.5	65.5	63.4	56.8	59.1
Total Revenues/Total Expenditures	72.3	83.0	81.4	68.6	72.9
Tax Revenues/Primary Expenditures	71.7	98.1	94.8	91.5	82.5
Indirect Taxes/Total Tax Revenues	51.4	51.7	57.5	60.6	59.3
Direct Taxes/Total Tax Revenues	48.6	48.3	42.5	39.4	40.7

Source: Undersecretariat of Treasury

(1) GNP is the forecast of State Planning Organization.

The primary budget balance was foreseen as a surplus of 7.5 percent of the GNP according to the Budget Program. The primary balance which has been in surplus since 1994, showed a surplus of TL 97 trillion in 1997 and its ratio to the GNP was realized as 0.03 percent. The decline in the primary surplus in 1997 was mainly due to the increase in the non-interest expenditures. The ratio of non-interest expenditures to the GNP rose from 16.3 percent to 19.8 percent in 1997, compared to 1996.

Tax revenues in the consolidated budget were realized above the Program target. The share of tax revenues in the GNP rose to 16.3 percent in 1997, compared to 15 percent in 1996 (Table II.2.3).

The share of indirect tax revenues in the total declined almost one percentage point to 59.3 percent whereas the share of direct taxes in the total rose to 40.7 percent in 1997. Moreover, the share of the direct and indirect taxes in the total tax revenues increased due to the increase in tax revenues. The ratio of indirect taxes to the GNP rose to 9.7 percent in 1997 from 9.2 percent in 1996 and the ratio of direct taxes to the GNP rose to 6.7 from 5.9 in 1996.

The coverage of the revenues in expenditures of the consolidated budget rose to 73 percent in 1997, compared to 69 percent in 1996 (Table II.2.3).

The share of expenditures in the consolidated budget rose to 27.7 percent. In particular, the share of primary expenditures in the total expenditures exhibited a sharp increase and reached 71.6 percent in 1997, compared to 62 percent in 1996. Parallel to these developments, the share of domestic and foreign interest payments declined from 38 percent to 28.3 percent in 1997 (Table II.2.4). Although the financing of the budget was carried out with domestic borrowing in 1997, the reason for the significant decline in the share of domestic interest payments in total expenditures was the domestic borrowing strategy that had been followed starting from the end of 1996. Principal and interest payments were postponed predominantly to the first quarter of 1998 by lengthening the maturity in domestic borrowing. Thus, the interest burden of domestic borrowing on the consolidated budget was postponed to 1998 and the share of domestic interest payments in total expenditures declined from 8.8 percent to 6.8 percent in 1997, compared to 1996.

Personnel and other transfers that make up transfers to the Social Security Institutions, were the other highest shares in the consolidated budget expenditures. The share of personnel expenditures in the total rose to 25.8 percent in 1997 from 24.6 in 1996. The increase in wages and its effects on other mass wage contracts led to an increase in personnel expenditures. The share of personnel expenditures in the GNP rose to 7.1 percent in 1997, compared to 6.4 percent in 1996 (Table II.2.4). The share of "other transfers" in total expenditures had been rising since 1995, parallel to the financing requirement of social security institutions. The share of other transfers in total expenditures rose to 27.5 percent and the ratio to the GNP reached 7.6 percent (Table II.2.4).

The transfers to SEE's remained at the same ratio to the GNP. The share of investments in the GNP rose 2.2 percent in 1997 compared to 1.5 percent in 1996.

TABLE II.2.4

CONSOLIDATED BUDGET EXPENDITURES

(Percent)

	1993	1994	1995	1996	1997
Total Expenditures/GNP(1)	24.3	23.1	21.8	26.2	27.7
Primary Expenditures/GNP(1)	18.5	15.4	14.6	16.3	19.8
Interest Payments on Dom. Debt/GNP(1)	4.6	6.0	6.1	8.8	6.8
Personnel Expendituresı/GSMH(1)	9.3	7.6	6.4	6.5	7.1
Other Transfers/GSMH(1)	4.3	4.1	4.5	5,7	7.6
Primary Expenditures/Total Expenditures	76.0	66.8	66.9	62.2	71.6
Interest Pay.on Dom. Debt/Total Expend. Harcamalar	19.1	26.0	27.8	33.6	24.6
Personnel Expendituresı/Total Expenditures	34.9	30.4	29.4	24.6	25.8
Other Transfers/Total Expenditures	17.5	17.7	20.5	21.9	27.5

Source: Undersecretariat of the Treasury

(1) GNP is the forecast of State Planning Organization.

TABLE II.2.5

QUARTERLY REALIZATION OF THE CONSOLIDATED BUDGET

CASH FINANCING REQUIREMENT AND FINANCING IN 1997

(TL Trillion, cumulative)

		1997			
	Program	I	II	III	IV
Budget Deficit	0	-411.8	-681.7	-768.4	-2 180.8
Deferred Payments and Advances	-	-56.7	-90.7	-382.2	20.2
Cash Deficit	0	-468.5	-772.5	-1 150.6	-2 160.6
Financing	0	468.5	502.4	1 150.6	2 160.6
Foreign Borrowing (net)	-193.3	-68.6	-143.0	-285.3	-452.6
Government Bonds (net)	1412.1	778.1	1 480.4	1495.1	1 484.8
Treasury Bills (net)	-1354.4	-294.9	699.0	205.3	1 020.6
CB Advances (net)	135.6	100.1	83.1	0	0
Other[(1)]	0	46.2	50.9	-264.5	107.7

Source: Undersecretariat of the Treasury

(1) Net changes in the deferred payments, bank accounts, etc. A negative sign (-) indicates a net increase, a positive sign (+) indicates a net decrease in assets.

Along with the cash financing requirement of the consolidated budget, TL 2.2 quadrillion, a financing requirement of TL 452.6 trillion for the repayment of the foreign loans arose. The total TL 2.161 trillion financing requirement was met by net domestic borrowing, TL 2.5 quadrillion, and other financing, TL 107 trillion (Table II.2.6), (Graph II.2.3).

During 1997, the financing of the consolidated budget was sustained by domestic borrowing. In contrast to short term borrowing strategy in 1996, budget financing was met mainly by the issue of government bonds. Except for some auctions in

February and June, redemption dates were postponed to 1998. Moreover, starting from March of 1997, the redemption dates of consumer price indexed-bonds, with 730 days maturity were forwarded to 1999. TL 1.5 quadrillion of the consolidated budget financing was met by government bonds, TL 2.1 quadrillion of the financing was domestic borrowing, and TL 584 trillion was redemption. The share of government bonds in budget financing the GNP rose to 5.1 percent in 1997, compared to 1.9 percent in 1996 (Table II.2.6).

During January-July period of 1997, net repayment was realized more by redemption than by borrowing in Treasury bonds. Starting from July, borrowing with Treasury bonds gained importance and by the end of 1997, total domestic borrowing through Treasury bonds was realized as TL 2.9 quadrillion. With the redemption of TL 1.9 quadrillion, net financing with Treasury bonds was TL 1 quadrillion (Table II.2.5), (Graph II.2.3). The share of net Treasury bond financing in the GNP declined to 3.5 percent in 1997, compared to 5.4 percent in 1996.

The short-term advances to the Treasury were determined as 6 percent of the difference between the "common" appropriations of the previous and current years, TL 133.9 trillion in 1997. The total amount of short-term advances for the period 1994-1997 was TL 504 trillion by April. The required amount to be transferred to the Treasury as part of the Central Bank's profits, TL 33 trillion, accounted for the Treasury's debt, and the total short-term advance limit of 1994-1997 declined to TL 471.6 trillion. Until July, short-term advances were used according to the financing requirement of the Treasury. According to the Protocol signed between the Central Bank and the Treasury in July, the Treasury would adjust all monetary relations harmoniously with the Central Bank in the second half of 1997 and 1998, by not disturbing the "Monetary Program" that will be followed in 1998, and by giving information in advance. Consistent with the Protocol, the Treasury did not use short-term advances in the second half of the year (Table II.2.5). With the "Supplementary Budget" effective in November, the Treasury had the right to an additional advance of TL 110 trillion, but did not demand this amount. The share of short-term advances in the GNP declined to zero percent in 1997, compared 1.5 percent in 1996 (Table II.2.6) .

In the cash financing requirement of the consolidated budget, as in the last two years, net repayment of the foreign loans was realized in 1997. While, foreign borrowing was realized as TL 238 trillion, the amount of repayment was TL 691 trillion. Thus, the share of net repayment of foreign loans to the GNP was realized as 1.6 percent (Table II.2.6), (Graph II.2.3).

The financial position of the SEEs improved in 1995 and resulted in a surplus of 0.7 percent, while the share of the financial balance of the SEEs to the GNP resulted in a deficit of 0.1 percent in 1996 due to the deterioration of their financial position. The financial deficit of the SEEs is expected to increase and reach 1 percent in 1997.

The figure for the aggregate operating deficit of the non-financial SEEs, which also include SEEs subject to privatization, is estimated to be TL 402.4 trillion net after duty losses and subsidies, and their cash financing requirement is estimated to be TL 304.7 trillion in 1997. These figures were targetted to realize at TL 225.2 trillion and TL 45.5 trillion in the 1997 Program respectively. It is expected that the interest payments of these enterprises will be TL 197.4 trillion, and the cash financing requirement excluding interest payments will result in a deficit of TL 107.2 trillion in 1997.

TABLE II.2.6

THE CONSOLIDATED BUDGET BALANCE AND FINANCING INDICATORS

					Program	
	1993	1994	1995	1996	1997	1997
	(TL Trillion)					
Budget Balance(1)	-134.0	-152.0	-316.6	-1 238.0	0	-2 180.8
Cash Balance(1)	-126.1	-151.9	-294.3	-1 268.0	0	-2 160.6
Primary Balance(1)	-17.0	146.0	259.0	259.0	1 864.0	97.1
Primary Cash Balance(1)	-9.6	146.1	281.8	229.4	1 864.0	117.3
	(Percent)(2)					
Budget Balance /GNP	-6.7	-3.9	-4.0	-8.3	0	-7.5
Cash Balance/GNP	-6.3	-3.9	-3.7	-8.4	0	-7.4
Primary Balance /GNP	-0.9	3.8	3.3	1.7	7.3	0.3
Primary Cash Balan../GNP	-0.5	3.8	3.6	1.5	7.3	0.4
ForeignBorrowing(net)/GNP	1.1	1.7	-1.0	-0.9	-0.8	-1.6
Govt. Bonds (net)/GNP	1.5	-1.8	1.1	1.9	5.6	5.1
Treasury Bills (net)/GNP	1.1	6.3	2.5	5.4	-5.3	3.5
ST. Adv. To Treasury/GNP	2.7	1.3	1.2	1.5	0.5	0
Other Financing/GNP	-0.02	-0.2	-0.03	0.6	0	0.4

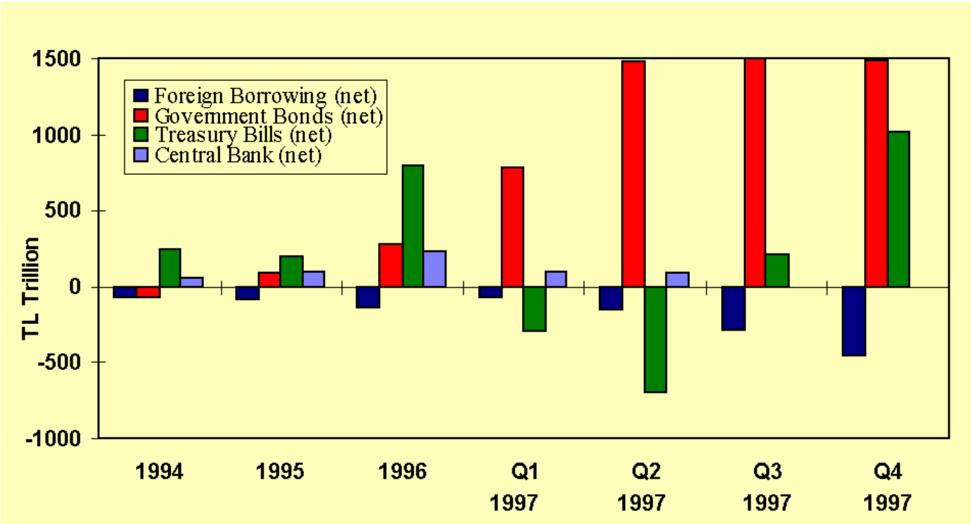
(1) A negative sign (-) indicates deficit, a positive sign (+) indicates surplus.

(2) GNP is the forecast of State Planning Organization.

FIGURE II.2.3

CONSOLIDATED BUDGET FINANCING

(Cumulative)



It is predicted that the borrowing requirement of the important non-financial SEEs such as Soil Products Office (SPO), State Monopolies of Tobacco and Alcoholic Beverages (TEKEL), Turkish Sugar Factories (TSF), Turkish Coal Corporation (TCC), Turkish Iron and Steel Works (TISW), and the Turkish Railway System (TRS) will increase by 151.8 percent to TL 378.4 trillion in 1997 from TL 150.3 trillion in 1996. While the share of the borrowing requirement of SPO, TEKEL, TSF, TCC, TISW and TRS to the borrowing requirement of non-financial SEEs was 2.4 fold in 1996, this ratio is expected to be 2.2 fold in 1997 little change with respect to the previous year. The budget transfers to these SEEs are expected to increase by 120.1 percent to TL 95.3 trillion in 1997 and the shares of these transfers in the total transfers to non-financial SEEs is expected to decrease to 75.1 percent in 1997 from 85.2 percent in 1996.

The assets of the non-financial SEEs such as cash and bank accounts are estimated to decrease by TL 164.9 trillion in 1997 while the cash financing requirement of that SEEs which totaled TL 172.2 trillion is expected to be financed through net foreign loans of TL 65.4 trillion and a net domestic debt of TL 271.8 trillion. It is estimated that the end of period profit of these enterprises will be TL 428.7 trillion and the factor incomes will be TL 668.5 trillion in 1997.

The cash balance of the financial SEEs was projected to be a surplus of TL 5.8 trillion in the 1997 Program. However, it is predicted that their cash balance will result in a surplus of TL 337.6 trillion which is well above the program target. This improvement in the cash balance of the financial SSEs stems mainly from the increase in the budget transfers to these enterprises which arose from the capital increase and operating losses of the public banks. The assets of these enterprises such as cash and bank accounts is expected to increase by TL 278.8 trillion while it is estimated that their net foreign debt repayments will amount to TL 65.3 trillion in 1997.

The category called Funds, which appears in the public sector balance, consists of eleven funds, revenues and allocations for the education-health expenditures provided by Law No.3418 and the tax levied on petroleum consumption which is distributed by the relevant institutions according to Law No.3074. The financing balance of the Funds, which was projected to be a surplus of TL 43.3 trillion in the 1997 Program, is expected to result in a deficit of TL 56.1 trillion. One of the factors which contributed to the deterioration of the financial balance of the Funds was the increase in the amount of transfers from the extra-budgetary funds to the budget. Fund expenditures in which the revenue share payments of the Public Participation Fund and the expenditures of the Defence Fund have high shares are expected to realize TL 165.3 trillion more than the Program projections. The financing requirement and the net decrease in the domestic liabilities of Funds of TL 42.9 trillion were financed through net foreign borrowing of TL 99 trillion.

The aggregate cash financing requirement of the local administrations, revolving funds and social security organizations was projected to be TL 106.2 trillion in the 1997 Program. The financing requirement of these institutions in 1997 is estimated to reach TL 118.3 trillion, increasing by 39 percent. The financing requirement of the local administrations is expected to be TL 127.9 trillion, which is TL 63.3 trillion more than the program target, and the financing requirement of the social security organizations is expected to be TL 47.6 trillion less than the program target, resulting in a surplus of TL 3.4 trillion.

The financial balance of the social security organizations improved due to the large increase in the budget transfers to these institutions and the rise in their incomes. The share of the budget transfers to social security organizations in the GNP is estimated to be 2.2 percent in 1997 while this ratio was 1.4 percent in 1996. The main factor that made the financing deficit of the local administrations increase in 1997 was the rapid growth of the expenditures of these institutions. One of the other factors that contributed to the deterioration of the financing balance was the failure to enhance factor incomes to the projected level.

A total of TL 127.9 trillion was required by local administrations, TL 15.8 trillion of which was financed through net foreign borrowing, TL 38.4 trillion through net domestic borrowing and TL 69.7 through a net increase in their assets such as cash and bank accounts. The assets of the social security organizations such as cash and bank accounts increased TL 83 trillion and a financement of TL 79.6 trillion was provided by domestic loans.

II.2.2. Domestic Borrowing

The total stock of the domestic debt, whose share in the GNP is 21.6 percent, increased by 99.6 percent in 1997 compared to 1996 and reached TL 6.3 quadrillion. The principal and the interest payments of the total stock of domestic debt increased by 139.3 percent reaching to TL 11.8 quadrillion. The share of the principal and interest payments stock in the GNP increased to 41 percent in 1997 from 32 percent in the previous year.

The share of the principal stock of the treasury cash bills and government cash bonds in the total stock of the domestic debt increased 13 percentage points with respect to the previous year and reached 73.9 percent in 1997 while the share of the principal stock of non-cash treasury bills and government bonds in the total stock of domestic debt declined to 20.7 percent in 1997 from 27.2 percent in 1996. When the cash debt of the Treasury to the domestic market is observed in terms of US dollars, it can be observed that this amount has increased to US dollars 22.7 billion in 1997 from US dollars 18 billion in 1996.

The share of the principal stock of treasury bills in the total stock of the domestic debt reached 39.9 percent in 1997 by declining 8 percentage points with respect to 1996. The share of the government bonds in the total stock increased 20 percentage points and reached 42.1 percent in 1997 while the share of the other bonds - comprising consolidated debt bonds, extra budgetary bonds, special issue bonds, accounts held by banks against their profits, and the accounts of authorized exchange agencies- declined to 19 percent in 1997, a decrease of 12 percentage points (Table II.2.7). 88.5 percent of the treasury bills and bonds issued in the last month of 1997 were sold to the banking sector, while 3.9 percent were sold to public institutions and 7.7 percent were sold to the private sector.

The compound borrowing rates, which are weighted by the maturity and the amount of sales in the

auctions, had begun to decrease beginning from the first month of 1997. The borrowing rates declined to 94.2 percent in January of 1997 from 126 percent in the last month of 1996. In February, the borrowing rates realised at 91.7 percent which was the lowest value of 1997. In the second quarter of the year, the borrowing rates tended to increase, being influenced by the political ambiguity which emerged in June and rose to 119.5 percent in August. The borrowing rates maintained that level until the end of the year but reached 122.5 percent in December, which was the highest value in 1997. High inflation expectations at the end of the year, the uncertainty arising from the fruitless IMF negotiations and the expectations that a tax would be levied on the revenues from securities within the tax reform program were the main factors that made the borrowing rates increase so high and shortened the maturity. The withholding tax of twelve percent from the interest revenues of treasury bills and government bonds was reduced to six percent and the decision to collect a withholding tax of six percent from the repo revenues was made by the

Ministers' Cabinet Decree authorized by the Official Gazette dated December 31, 1997.

The maturity of domestic borrowing exceeded one year in the first quarter of 1997 while it was 9.3 months in the last quarter of 1996. In the second quarter of the year, with the auctions of CPI indexed government bonds which have maturity of 730 days, the maturity of the domestic borrowing lengthened and reached two years in April and May. However, the maturity of domestic borrowing began to shorten starting from June and declined to 8.4 months in December of 1997. When the maturity of domestic borrowing is observed throughout the whole year, it is seen that the maturity exceeded one year and reached 13.3 months in 1997 while it was 6.1 months in 1996. The auctions of CPI indexed government bonds with maturities of 2 years which were started in March of 1997, the use of the duty free import account which has two stages totalling DM 2 billion, DM 1.8 billion of which is in the first stage and DM 273 million in the second stage, and the Treasury's use of the Centralized Cash Management Account contributed significantly to the extension of the maturity of domestic borrowing in 1997.

The ratio of the outstanding debt stock to the GNP, which is an indicator of the size of domestic borrowing in the economy, increased 2 percentage points from 1996 to 1997 and reached 20.5 percent. The ratio of the principal and interest payments stock to the GNP, which is an indicator of the debt service burden, increased about 8 percentage points and realized at 40.5 percent in 1997 (Table II.2.8).

To measure the size of the outstanding debt stock relative to the financial system, four alternative financial system indicators were used: Broad money, M2; broad money including foreign exchange deposits, M2Y; the Turkish lira liabilities of the banks excluding their shareholders' equities; and the total liabilities of the banks excluding their shareholders' equities (Table II.2.8). The ratios of the principal stock to the alternative financial system indicators increased significantly in 1997. The ratios of principal and interest payment stock to the alternative financial system indicators rose substantially in 1997 due to the increase in interest payments in that year. This situation caused the principal and interest payment stock to create repression on financial markets.

INDICATORS OF CASH AND NON-CASH DOMESTIC DEBT STOCK

	1993	1994	1995	1996	1997
Level, (TL Trillion)					
Treasury Bills	64	305	631	1 528	2 375
Cash	64	298	512	1 320	2 375

Non-Cash	0	7	119	208	0
Government Bonds	191	239	512	1 250	3 569
Cash	73	34	221	603	2 267
Non-Cash	118	205	291	647	1 302
Total Cash	137	332	733	1 923	4 642
Total Non-Cash	118	212	410	855	1 302
Domestic Debt Stock	357	799	1 361	3 149	6 283
Ratio to GNP, (Percent)					
Treasury Bills	3.2	7.8	8.0	10.2	8.2
Cash	3.2	7.7	6.5	8.8	8.2
Non-Cash	0.0	0.2	1.5	1.4	0.0
Government Bonds	9.6	6.1	6.5	8.3	12.3
Cash	3.7	0.9	2.8	4.0	7.8
Non-Cash	5.9	5.3	3.7	4.3	4.5
Total Cash	6.9	8.5	9.3	12.8	16.0
Total Non-Cash	5.9	5.5	5.2	5.7	4.5
Domestic Debt Stock	7.9	20.6	17.3	21.0	21.6
Share in Domestic Debt Stock, (Percent)					
Treasury Bills	17.9	38.2	46.4	48.5	37.8
Cash	17.9	37.3	37.6	41.9	37.8
Non-Cash	0.0	0.9	8.7	6.6	0.0
Government Bonds	53.5	29.9	37.6	39.7	56.8
Cash	20.4	4.3	16.2	19.1	36.1
Non-Cash	33.1	25.7	21.4	20.5	20.7
Total Cash	38.4	41.6	53.9	61.1	73.9
Total Non-Cash	33.1	26.5	30.1	27.2	20.7
Level (Billion US Dollar, with CBRT End of year FX Buying Rate)					
Treasury Bills	4.4	7.9	10.3	14.2	11.6
Cash	4.4	7.8	8.4	12.3	11.6
Non-Cash	0.0	0.2	1.9	1.9	0.0
Government Bonds	12.3	6.2	8.4	11.6	17.4
Cash	5.0	0.9	3.6	5.6	11.1
Non-Cash	8.2	5.3	4.8	6.0	6.4
Total Cash	9.5	8.6	12.8	17.9	22.7
Total Non-Cash	8.2	5.5	6.7	8.0	6.4
Domestic Debt Stock	24.7	20.8	22.3	29.3	30.7

The table indicates (a) cash requirements, (b) maturity differentiation of the domestic borrowing for the period 1993-1997:

a) Analysis of the decomposition of domestic debt stock as Cash and Non-Cash indicates that the share of "cash" stock has increased gradually since 1994, while the share of "non-cash" stock which includes Special Type Bonds, Consolidated Debt Bonds, Extra Budgetary Bonds and Exchange Rate Difference of FX Indexed Bonds, has declined in total domestic debt stock. In 1997, the share of cash stock in domestic debt, which is the indicator of the Treasury's cash debt to the domestic markets, rose 36 points compared to 1993. (b) Domestic borrowing with Treasury bills was heavily used between 1994-1996 and this led to a sharp increase in cash domestic debt stock. The maturity structure of the domestic debt stock was widened and government bonds were used heavily in 1997. While the share of non-cash bonds was high in government bonds between the period of 1993-1996, cash type bonds gain importance in 1997.

TABLE II.2.7

THE MATURITY COMPOSITION OF OUTSTANDING BONDS AND BILLS

(TL Trillion)

	1996	Percent	1997	Percent
Total Bills	1321.2	47.6	2375.0	39.9
3 Month	14.9	0.5	0.0	0.0
6 Month	207.5	7.5	237.1	4.0
9 Month	104.7	3.4	171.0	2.9
Public Sales	0.0	0.0	0.0	0.0
(3, 6 and 9 Month)				
Irregular Maturity	994.1	35.8	1966.9	33.1
Bonds	631.3	22.7	2503.3	42.1
1 Year(1)	249.3	9.0	374.7	6.3
Irregular Maturity	136.6	4.9	726.6	12.2
1.5-5 Years	218.1	7.9	1341.2	22.6
Consignments	0.0	0.0	0.0	0.0
Other Bonds(2)	852.7	30.7	1128.3	19.0
Total Stock	2778.0	100.0	5945.8	100.0

Source: Undersecretariat of the Treasury

(1) The bonds sold to the public are also included

(2) Consolidated Debt Bonds, Extra-budgetary Bonds, Special Issue Bonds, Accounts held by banks against their profits and accounts of authorized Exchange Agencies

TABLE II.2.8

THE PRINCIPAL STOCK OF BONDS AND BILLS IN COMPARISON TO THE GNP AND MONETARY AGGREGATES

(Percent)

	1993	1994	1995	1996	1997
Principal/GNP(1)	12.7	14.0	14.6	18.5	20.5
Principal/M2	87.1	84.6	90.0	99.2	112.9
Principal/M2Y	46.6	42.8	43.5	50.5	54.9
Principal/TL Liabilities(2)	53.3	60.1	64.5	71.5	82.4(3)
Principal/Total Liabilities(2)	26.8	29.4	30.3	34.1	36.6(3)
Principal+Interest/GNP	21.9	22.2	23.7	32.8	40.5
Principal+Interest/M2	149.8	134.6	146.6	175.6	223.6
Principal+Interest/M2Y	80.3	68.0	70.9	89.4	108.7

Principal+Interest/TL Liabilities(2)	91.6	95.6	105.0	126.5	163.1(3)
Principal+Interest/Total Liabilities(2)	46.0	46.7	49.8	60.3	72.6(3)

Source: Undersecretariat of the Treasury, Central Bankof Turkey

(1) The GNP is the estimation of the State Planning Organization for the end of 1997

(2) Shareholders' equity and Turkish lira liabilities were excluded from the total liabilities of the banks

(3) End of November liability figures were used

FINANCIAL DEEPENING AND REPRESSION IN THE TURKISH FINANCIAL MARKETS: A COMPARISON

Some traditional measures such as M2/GNP, M2Y/GNP and SFA (Stock of Financial Assets)/GNP are used to assess the financial deepening. A general comparison of the financial deepening and financial repression in Turkey and some OECD countries is possible by making use of ratios such as broad money (M) to Gross Domestic Product (GDP) and Public Sector Borrowing Requirement (PSBR) to M. However, it should be mentioned that the content of M differs from country to country.

CRITERIA FOR FINANCIAL DEEPENING AND

REPRESSION FOR SOME COUNTRIES

	PSBR/GDP	M/GDP	PSBR/M
USA(1996)	1,5	59,5	2,6
UK(1995)	5,3	104,2	5,1
France(1995)	6,4	67,8	9,5
Germany(1995)	1,9	63,5	2,9
Italy(1991)	10,5	65,2	16,0
Argentina(1994)	0,7	19,0	3,5
Greece(1994)	21,3	46,7	45,5
Israel(1995)	5,0	78,2	6,4
Turkey(1996)	9,0(*)	38,1	25,2

Source: IFS

(*) The PSBR for Turkey is State Planning Organization 's figure.

An increase in M/GDP indicates financial deepening while an increase in PSBR/M indicates financial repression. When M/GDP is compared between Turkey and developed OECD countries, it can be seen in the table above that this ratio is nearly half of that of the developed OECD countries. In the light of this criterion, it is observed that the Turkish financial markets have not deepened enough yet.

It can also be seen that the PSBR/M ratio for Turkey is rather high when compared to developed, even developing OECD countries, except Greece. Persistent high public sector deficits and the increasing financing of this deficit through domestic borrowing exerts repression on the already thin financial markets in Turkey. This situation causes the market interest rates to rise. Given the amount of available credit, the cost of the private sector's credit exploitation from the financial markets increases.

II.2.3. Agricultural Support

Within the framework of the agricultural support policy, cereals, sugar beats and tobacco were purchased in 1997. It is expected that the amount paid to producers within the support purchase program, which was TL 103.5 trillion in 1996, will increase by 220 percent and reach TL 330 trillion in 1997. While the average rate of increase in agricultural support purchase prices was 107.2 percent in 1996, the average rate of increase is expected to be 94.8 percent in 1997. The payments for wheat, sugar beats and tobacco make up 60 percent of the total payments to producers in 1997. The ratio of the payments in the support purchase program to the GNP increased to 1.5 percent in 1997 from 1.1 percent in 1996.

The budget transfers to the SEEs which is responsible for implementing the agricultural support program have been gradually declining after 1993. While there were no budget transfers to SPO, TSF and TEKEL in 1995, TL 4.8 trillion was transferred to SPO and TSF in 1996 and TL 21.8 trillion was transferred to TSF only in 1997. It is expected that the financing requirement of the non-financial SEEs will be TL 304.7 trillion in 1997 while the financing requirement of SPO, TSF and TEKEL is expected to realize at TL 299.1 trillion. It is predicted that the financing requirement of SPO, TSF and TEKEL will be approximately equal to the financing requirement of the non-financial SEEs in 1997 while the financing requirement of these enterprises was 7.3 fold of the financial requirement of the non-financial SEEs in 1996. (Table II.2.9).

The share of the Central Bank's agricultural credit in the total domestic credit extended by the Central Bank declined to 0.2 percent in 1997 from 3.2 percent in 1996. The Central Bank did not extend agricultural credit to SPO and TSF in 1997. The agricultural credit extended by the Central Bank to the private sector via agricultural credit cooperatives realized at TL 7.1 trillion in 1997, remaining constant with respect to the previous year. At the end of 1997, the credit extended to the private sector by the Central Bank via Ţekerbank remained the same as in 1996, TL 55 billion (Table II.2.10).

TABLE II.2.9

FINANCIAL INDICATORS OF SPO, TSF AND TEKEL

(Percent)

	1995	1996	1997(1)
SEEs' share in PSBR	-14.5	0.9	13.1
Cash Financing Requirement of SPO, TSF and TEKEL / Cash Financing Requirement of SEEs	0.05	7.34	0.98
The Sare of SPO, TSF and TEKEL in PSBR	0.8	-6.5	-12.8
Ratios to the GNP			
Cash Financing Requirement of SEEs / GNP	-0.7	0.1	1.0
Cash Financing Requirement of SPO, TSF and TEKEL / GNP	0.04	-0.6	-1.0
Budget Transfers to SPO, TSF and TEKEL / GNP	0.0	0.03	0.08

(1) State Planning Organization’s estimation.

TABLE II.2.10

THE AGRICULTURAL CREDIT OF THE CENTRAL BANK

(TL Billion)

	1995	Change	1996	Change	1997	Change
Publis Sector						
SPO	0.0	-100.0	0.0	-	0.0	-
TSF	0.0	0.0	0.0	-	0.0	-
Share of Public Sector Credit	-	-	-	-	-	-
Private Sector						

Agricul. Credit Cooperatives	11 647.6	0.0	7 147.6	-38.6	7 147.6	0.0
Other	55.0	0.0	55.0	0.0	55.0	0.0
Share of Private Sector	95.5	0.0	95.5	0.0	95.5	0.0
Grand Total	11 702.6	-68.2	7 202.6	-38.5	7 202.6	0.0
Share of Central Bank Credit	5.7	-	3.2	-	0.2	-

Source: Central Bank

II.3. THE BALANCE OF PAYMENTS AND EXTERNAL DEBT

II.3.1. The Balance of Payments

Starting from the second quarter of 1995, Turkish economy entered an expansionary period and this trend continued during 1996 and in the first nine months of 1997. The source of the high GNP growth in the first nine months of 1997 is by trade and industrial value addeds on the supply side, and private consumption and investment expenditures on the demand side. As a consequence of these factors, the private sector saving-investment balance did not change significantly, but the current account deficit expanded parallel to the increase in aggregate demand and high public sector deficit.

On the other hand, expansion in imports continued whereas increase in exports declined after the Customs Union was put into practice. Parallel to the growth rate in 1997, the rate of increase in imports slowed down, but as the shuttle trade realized below the expected value, the foreign trade deficit expanded by 46 percent

compared to 1996. In 1997, the foreign trade deficit was mostly compensated by the net revenues from invisibles and the current account deficit realized at a level of 2.8 billion US dollars. In this period, the net inflow of capital was 8.6 billion US dollars and the increase in official reserves amounted to 3.3 billion US dollars (Table II.3.1).

THE METHOD OF CALCULATING SHUTTLE TRADE

A survey was conducted by the Central Bank of the Republic of Turkey with the aim of capturing the value of the shuttle trade which has become a recordable income in the Turkish economy during recent years so that it can be reflected in the statistics of the Balance of Payments. The study is based on a questionnaire filled in by the foreigners coming to Turkey to buy goods and sell them abroad. The studies were done in different spots of the areas where the shuttle trade activities are most common. During 1997, the survey was carried out three times. The extent of the shuttle trade was determined by correlating the number of foreigners coming for this activity with the average amount spent by each. The determined value is reflected in the statistics of Balance of Payments as stated below:

- The value of shuttle trade, which is not included in the export expenditures published by the State Institute of Statistics, is added to the item of exports using an adjustment component in the balance of payments,
- The amount of revenues from shuttle trade that was recorded previously under the item of Other Goods and Services Income is deducted to prevent "double counting",
- In addition, the amount of revenues from shuttle trade that is not recorded in the banking system or the revenue holdings of residents is added as an increase of assets under the item of Deposit Money Banks'Foreign Exchange Holdings and Other Assets, which is a component of Short-term Capital,
- The differences in the listings of current and capital account items that are mentioned above are also reflected in the Net Errors and Omissions.

TABLE II.3.1

THE BALANCE OF PAYMENTS

(US $ Million)

	1995	1996	1997
Current Account	-2 339	-2 437	-2 750
Foreign Trade Deficit	-13 212	-10 582	-15 466
(Shuttle Trade)	-	(8 842)	(5 849)
Invisible Items	10 873	8 145	12 716
Capital Account			
(Excluding Reserves)	4 643	8 763	8 616
Net Errors and Omissions	2 354	-1 781	-2 522
Official Reserves (Change)	-5 005	-4 545	-3 316

Source: Central Bank

II.3.1.A. The Current Account

Due to the Customs Union becoming operational as of the beginning of 1996, quotas on industrial products imported from European Union member countries have been removed totally, and the Common Customs Tariff levied by European

Union against imports from third countries has also been implemented. As a consequence, import expenditures increased by 22.2 percent in 1996 and this trend continued but at a decreasing rate during 1997. Excluding shuttle trade, the increase in export revenues realized as 13 percent. The rapid expansion in production and high domestic demand are other important factors in determining import growth. In addition, real appreciation of the Turkish lira as of the end of 1996 helped to motivate the expansion in imports (Table II.3.2).

Examining the distribution of imports according to main product groups, it can be observed that, in 1997, the share of capital and intermediate goods imports in the total decreased while the share of consumer goods increased. During the period, consumer goods imports increased by 25.1 percent while capital and intermediate goods imports increased by 6.8 percent and 11.2 percent, respectively. Changes according to the main product groups also verify the effects of domestic demand and expanding production (Table II.3.3).

The share of OECD countries in Turkey's foreign trade volume is at a determining level. It has been observed that exports to country groups other than OECD countries increased considerably in 1997. During this continual period, the expansion of exports, despite the appreciation of Turkish lira in real terms, shows that the sensitivity of export revenues to the changes in the real effective exchange rate is low, while developments in foreign demand have a determining character (Table II.3.4).

TABLE II.3.2

REAL EFFECTIVE EXCHANGE RATE (1)

	(1987=100)	**(1990=100)**
1987	100.0	131.3
1988	96.4	126.5
1989	90.3	118.6
1990	76.2	100.0
1991	74.7	98.1
1992	77.3	101.4
1993	75.3	98.8
1994	101.9	133.8
1995	88.1	115.6
1996 Q1	84.8	111.3
Q2	86.2	113.2

Q3	88.8	116.6
Q4	85.8	112.6
1997 Q1	87.3	114.6
Q2	84.9	111.5
Q3	85.9	112.8
Q4[2]	80.8	106.0

Source: Central Bank, State Institute of Statistics and International Financial Statistics

(1) Calculations are based on monthly average figures of the Central Bank's buying rates for US dollars and German marks, and consumer prices in Turkey and in foreign countries. Related countries are equally weighted. The decline in the index value indicates the real appreciation of the Turkish lira against related currencies.

(2) Estimation

TABLE II.3.3

THE DISTRIBUTION OF IMPORTS ACCORDING TO MAIN PRODUCT GROUPS

(US $ Million)

	1996	% Share	1997	% Share	% Change
Total Imports (CIF)	43 627	100.0	48 657	100.0	11.5
Capital Goods	10 366	23.8	11 073	22.8	6.8
Intermediate Goods	28 737	65.9	31 946	65.7	11.2
Consumer Goods	4 266	9.8	5 338	11.0	25.1
Others	258	0.6	301	0.6	16.7

Source: State Institute of Statistics

Shuttle trade, defined as the purchase of Turkish goods by foreigners with the aim of selling them abroad, started to develop after the collapse of the Soviet Union and reached a recordable level. As a result of the survey determining the magnitude of this trade, the revenues from shuttle trade are estimated to be 8.8 billion US dollars in 1996, and it is estimated to decrease by 33.8 percent and became 5.8 billion US dollars in 1997.

The foreign trade deficit, which realized at a level of 15.5 billion US dollars, was partially offset by net revenues of invisible items in 1997 and current account deficit amounted to 2.8 billion US dollars. Parallel to the increase in the number of tourists and the average expenditure per capita, tourism revenues increased by 23.9 percent and reached 7 billion US dollars. Interest income expanded by 20.5 percent, the "other" item consisting of revenues from freight, transportation, construction services, and other private and official services increased by 67.2 percent. Among the expenditure items, interest payments on external debt increased by 9.2 percent, tourism expenditures increased by 35.7 percent, "other" expenditures consisting of freight, transportation, profit transfers and other private and official services increased by 30.3 percent.

Net revenues from unrequited transfers increased by 9.4 percent in 1997 compared to 1996 and workers' remittances amounted to 4.2 billion US dollars, increasing by 17.8 percent.

TABLE II.3.4

THE DISTRIBUTION OF IMPORTS AND EXPORTS ACCORDING TO COUNTRY GROUPS

(US $ Million)

	1996	% Share	1997	% Share	% Change
Total Imports	43 627	100.0	48 657	100.0	11.5
OECD Countries	31 092	71.3	33 838	69.5	8.8
European Countries	4 102	9.4	4 518	9.5	10.1
African Countries	1 993	4.6	2 255	4.6	13.1
American Countries	644	1.5	766	1.6	18.9
Middle Eastern Countries	3 241	7.4	2 723	5.6	-16.0
Other Asian Countries	2 229	5.1	3 632	7.5	62.9
Other Countries	326	0.7	825	1.7	153.1
Total Exports	23 226	100.0	26 246	100.0	13.0
OECD Countries	14 427	62.1	15 495	59.0	7.4
European Countries	3 646	15.7	4 696	17.9	28.8
African Countries	1 159	5.0	1 233	4.7	6.4
American Countries	140	0.6	219	0.8	56.4
Middle Eastern Countries	2 173	9.4	2 295	8.7	5.6
Other Asian Countries	1 215	5.2	1 304	5.0	7.3

Other Countries	466	2.0	1 004	3.8	115.5

Source: State Institute of Statistics

II.3.1.B. Capital Account

The finance of the current account deficit was met by capital inflows. Compared to the current account deficit of 2.8 billion US dollars, net capital inflows realized at 8.6 billion US dollars and official reserves increased by 3.3 billion US dollars. Long-term inflows amounted to 6.9 billion US dollars and short-term inflows amounted to 1.8 billion US dollars.

Net direct investments were the source of long term capital inflows amounting to 554 million US dollars. Portfolio investments realized at a net inflow of 1.6 billion US dollars. During 1997, credit received by issuing bonds consisted of the following: 1.7 billion US dollars provided by the Treasury from the Euromark bond market, 1 billion US dollars from the Eurodollar bond market, 177 million US dollars from the banking association with the mediation of the Chase Manhattan Bank, 147 million US dollars procured by Halkbank, 236 million US dollars received by Emlakbank, credit amounting to 200 million US dollars received by Eximbank. Moreover, there was a net outflow of capital amounting to 140 million US dollars due to the bond trading of residents and non-residents. Other long-term capital accounts realized at a net inflow of 4.7 billion US dollars. The foreign exchange credit for the private sector increased considerably, reaching 9.8 billion US dollars. Repayments amounted to 6.1 billion US dollars and there was a net increase of 978 million US dollars in the Dresdner account including a net inflow of 839 million US dollars belonging to the Super Foreign Currency Account.

In 1997, there was a net increase of 1.8 billion US dollars in the short-term capital account. On the liabilities side, 2.1 billion US dollars of the net increase of 3.5 billion US dollars was foreign currency credit obtained in order to finance foreign trade. Credit received by banks and other institutions increased by 1.3 billion US dollars whereas deposits decreased by 102 million US dollars. On the assets side, there was an increase of 1.8 billion US dollars.

II.3.2. The External Debt

Due to the restructuring of the external debt stock data base, the 1997 external debt stock figures have not been published by the Undersecretariat of the Treasury yet. Therefore, the figures quoted date from the end of 1996. Compared to 1995, the external debt stock had increased by 8.8 percent to 79.7 billion US dollars by the end of 1996. In particular, short-term debt stock had increased significantly within the year. Medium and long-term external debt stock had increased by 2.9 percent to 59.2 billion US dollars while short-term external debt stock had expanded by 30.7 percent to 20.5 billion US dollars. After all these developments the share of the short-term external debt stock in the total external debt stock had risen to 25.7 percent.

When the effects of the cross exchange rate on the external debt stock are examined, it can be observed that the currency having a significant share in debt stock, US dollar had appreciated against the Japanese yen and the German mark and this had a decreasing effect of 4.4 billion US dollars on the Turkish external debt stock. As a result of this positive development in the cross exchange rates, the extenal debt stock had increased by only 6.5 billion US dollars (Table II.3.5). **T**he US dollar continued to appreciate against the Japanese yen and the German mark in 1997. Therefore, the positive effect of cross exchange movements on the external debt stock continued in this period as well.

When the currency composition of the external debt stock is examined, it can be observed that the currency having the largest share is the US dollar, whose share had increased from 34 percent to 38.4 percent. In contrast to the US dollar, the share of the German marks and the Japanese yen had decreased. The share of the German mark had decreased from 34.8 percent to 34.5 percent and the share of the Japanese yen had declined from 19.2 percent to 16.1 percent (Table II.3.6).

FIGURE II.3.1

EXTERNAL DEBT STOCK AND DIVISION BY MATURITY COMPONENTS

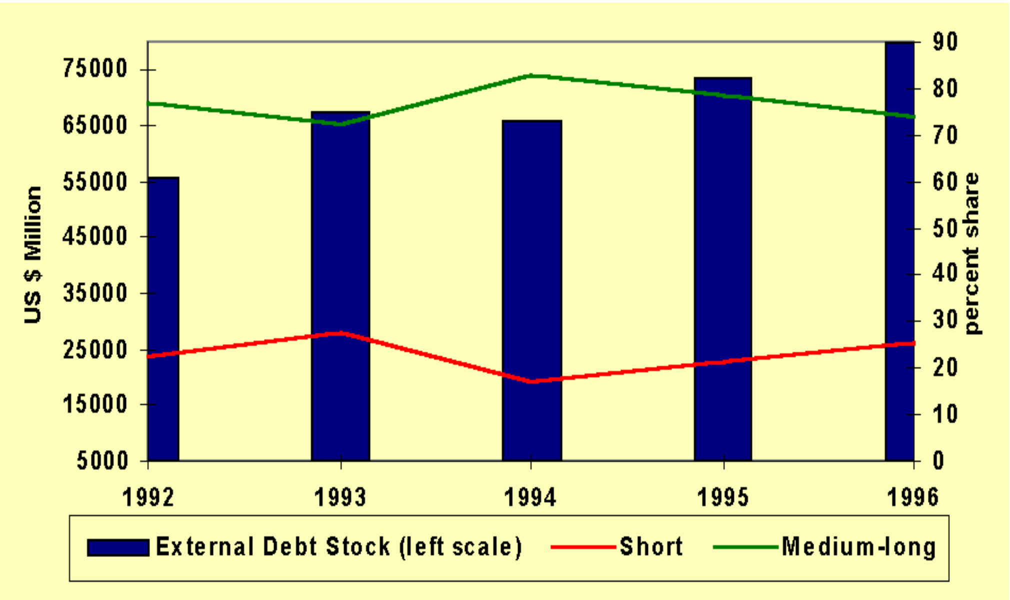


TABLE II.3.5

THE IMPACT OF EXCHANGE RATES ON THE EXTERNAL DEBT STOCK IN TERMS OF YEAR-END FIGURES[1]

(US $ Million)

	EXTERNAL DEBT STOCK				
	End of Year Exch. Rate	Previous Year's Exch. Rate	Exch. Rate Differential (A)	Nominal Movement (B)	Real Movement (C)
1989	41 751	42 058	-307	1 029	1 336
1990	49 035	45 913	3 123	7 284	4 161
1991	50 489	50 345	144	1 454	1 310
1992	55 592	56 975	-1 383	5 103	6 486
1993	67 356	67 892	-536	11 764	12 300
1994	65 601	61 300	4 301	-1 755	-6 056
1995	73 278	71 308	1 970	7 677	5 707
1996	79 748	84 158	-4 409	6 470	10 879

Source: Central Bank, Undersecretariat of the Treasury

(1) (A) The difference between the debt stock calculated according to the exchange rate at the end of the specified period and the previous year's end of year exchange rate, (B) The difference between the debt stock figures of the previous year and the specified year, (C) Nominal movement - exchange rate differential.

TABLE II.3.6

THE IMPACT OF EXCHANGE FLUCTUATIONS ON THE VALUE OF THE EXTERNAL DEBT STOCK[1]

(US $ Million)

	1995	1996				
	End of Year Exch. Rate (A)	Previous Year's Exch. Rate(B)	End of Year Exch. Rate(C)	Exch. Rate Diff. (C-B=D)	Nominal Movement (C-A=E)	Real Movement (E-D=F)
US dollars	24 917	30 632	30 632	0	5 715	5 715
German marks	25 533	29 902	27 527	-2 375	1 994	4 369
S. D. Rights	582	696	672	-24	90	114
Swiss francs	2 388	1 994	1 696	-298	-693	-394

Pounds sterling	787	805	876	71	89	18
Japanese yen	14 062	14 479	12 879	-1 600	-1 183	417
French franc	1 314	1 443	1 347	-96	33	129
Neth. florins	1 064	1 071	984	-87	-80	7
Other (US dollars)	2 631	3 135	3 135	0	504	504
TOTAL	73 278	84 157	79 748	-4 409	6 470	10 879

Source: Central Bank, Undersecretariat of the Treasury

(1) (A) End of 1995 external debt stock calculated using the 1995 end of year exchange rates; (B) External debt stock of 1996 calculated using the 1995 end of year exchange rates; (C) External debt stock of 1996 calculated using the 1996 end of year exchange rates; (D) The difference between the debt stock calculated by the end of 1996 exchange rates and the previous year's end of year exchange rates; (E) The difference between the debt stock of 1995 and that of 1996 ; (F) Nominal movement - exchange rate differential.

In 1997, the debt service ratio, which is the ratio of the external debt principal and interest payments to foreign exchange revenues, declined to 21 percent by decreasing one point from its 1996 figure. It was observed that foreign exchange revenues increased more than the external debt principal and interest payments. The main cause of the rise in the foreign exchange revenues was the increase in the other good and service revenues (Table II.3.7).

TABLE II.3.7

DEBT SERVICE RATIO

(US $ Million)

Source : Central Bank

(1) Including shuttle trade.

II.3.2.A. Medium and Long-Term Debts

Medium and long-term debts mainly consist of project and program credit, international money market credit, debts by issuing bonds and private credit.

At the end of 1996, medium and long-term external debts had increased by 1.7 billion US dollars and their share in the total external debt stock had fallen to 74.3 percent due to the changes in the cross exchange rates. Moreover, the public sector debt including the Central Bank, had declined by 1.1 billion US dollars while private sector debt had increased by 2.8 billion US dollars.

In contrast to the increase in the total medium and long-term external debt, credit from international institutions had declined by 933 million US dollars. The sources of the increase in the external debts were a 1.7 billion US dollars increase in bilateral agreements and a 594 million US dollars increase in credit obtained by issuing bonds. In terms of credit type, while project and program credit declined by 6.3 percent, the total medium and long-term external debt stock increased due to the 14.9 percent rise in private credit and the 4.2 percent increase in bond issue.

II.3.2.B. Short-Term Debts

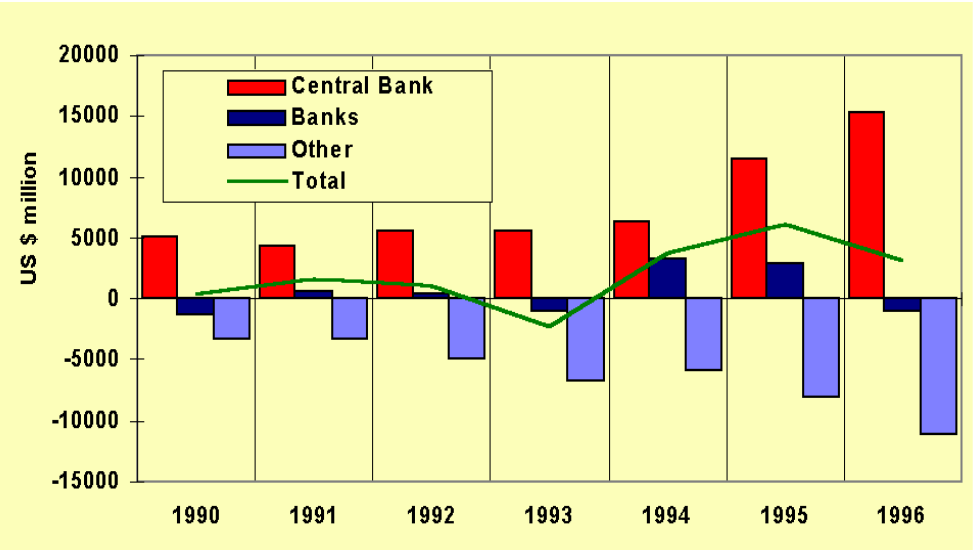
The short-term debt stock consists of the debts of commercial banks, private and public institutions, and the Central Bank. The short-term debt of private and public institutions consists of acceptance credit, pre-export financing and foreign exchange credit. Short-term borrowing by commercial banks includes foreign deposit accounts and corresponding accounts. The Foreign Exchange Deposit with Letters of Credit has the largest share in the Central Bank short-term debt stock.

By the end of 1996, short-term external debts had increased by 4.8 billion US dollars due to a 1.8 billion US dollars increase in commercial banks' debts and 3.1 billion US dollars rise in the debts of other sectors. When the sources of the increase in the short-term debts are analized, it can be seen that short-term debts for financing imports increased by 57.5 percent. Other areas which increased were foreign deposit accounts with a 30.9 percent rise and foreign exchange credits obtained by banks with a 21.5 percent increase.

At the end of 1996, the short-term debt of commercial banks was 8.4 billion US dollars with a 26.4 percent increase and the short-term debts of other sectors totalled was 11.1 billion US dollars with a 38.1 percent rise. The short-term debt of the Central Bank, on the other hand, kept its previous level of around 1 billion US dollars.

FIGURE II.3.2

THE SURPLUS OF GROSS FOREIGN EXCHANGE RESERVES OVER SHORT-TERM DEBT STOCK



In 1996, while the short-term debts of the commercial banks were increasing, international reserves declined by 2.2 billion US dollars compared to 1995. Following these developments, the 2.9 billion US dollars surplus of commercial banks' foreign exchange reserves over their short-term debts turned into a deficit of 1.1 billion US dollars in 1996. Even though there was no significant change in the Central Bank's short-term debts, its foreign exchange reserves had increased by 3.9 billion US dollars. As a consequence, the surplus of the Central Bank's foreign exchange reserves over its short-term external debts increased by 34.1 percent to 15.3 billion US dollars. A look at the whole economy shows that the positive difference between international reserves and short-term debts had declined by 41.2 percent to 4.5 billion US dollars, especially due to the increase in the banks' and other sectors' short-term external borrowing. Gold reserves had preserved the previous year's 1.4 billion US dollars level and its share in the gross reserves reached 5.5 percent at the end of 1996 (Table II.3.8).

FIGURE II.3.3

THE SURPLUS OF GROSS RESERVES OVER SHORT-TERM DEBT STOCK

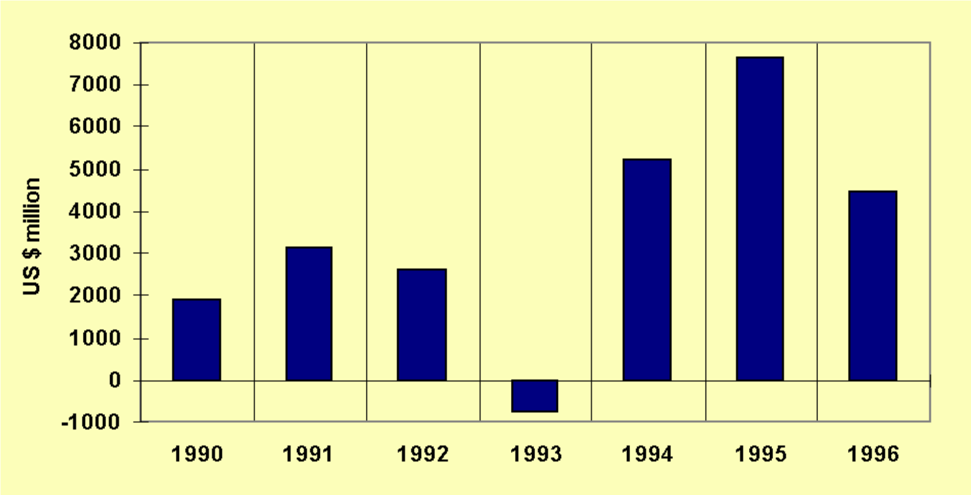


TABLE II.3.8

THE SURPLUS OF GROSS RESERVES OVER SHORT-TERM DEBT STOCK (STD)(1)

(US $ Million)

	1990	1991	1992	1993	1994	1995	1996
Gross FX Res.-STD	442.9	1 643.1	1 100.0	-2 259.0	3 799.1	6 252.3	3 107.5
Central Bank	5 117.3	4 361.1	5 544.0	5 546.2	6 284.1	11 397.6	15 288.6
Banks	-1 402.4	6 26.0	487.0	-1 066.2	3 313.0	2 903.7	-1 067.1
Other(2)	-3 272.0	-3 344.0	-4 931.0	-6 739.0	-5 798.0	-8 049.0	-11 114.0
Gross Res.(3)-STD	1 911.1	3 136.4	2 593.7	-770.9	5 209.1	7 635.4	4 490.6

Source: Central Bank

(1) (-) indicates a deficit.

(2) Figures indicate the sector's short-term external debt because the foreign currency reserves and claims of this sector are not available .

(3) Gross reserves are the sum of gold and foreign exchange reserves.

II. 4. MONETARY POLICY

The monetary policies implemented in 1997, just as in 1996, aimed basically at stabilizing the financial markets. The Central Bank's goals of stability can be summarized under two headings. The first is to prevent rapid short-term price fluctuations in the markets, and the second is to reduce uncertainties in the markets.

The Central Bank tried to prevent rapid price fluctuations in both the short-term Turkish lira and foreign currency markets by observing the consistency between the prices in these markets and the general balances of the economy which also helped the smooth functioning of the real sector in the economy. During this period, exchange rates moved in parallel with the expected inflation rate and the fluctuations in interest rates on the money markets subsided, a reflection of the implementation of policies aiming at stability.

The second aspect of the stability goal was to eliminate the market uncertainties created by high inflation and thereby to avoid the risk that these uncertainties would cause losses to the economy. Therefore, the Central Bank announced every six months its inflation forecasts and its intention of basing the implementation of its

monetary policy on those forecasts. This realistic approach on the part of the Central Bank had the desired effect on the markets' inflationary expectations and reduced the degree of uncertainty about the future of the economy.

The stability goal was reflected in the Central Bank's balance sheet by a decrease in domestic assets, a strong foreign currency position of the Central Bank, and a restriction of increases in reserve money to net foreign assets.

Reserve money can be considered as the operational target of the monetary policy. The Central Bank tried to control the growth rate of the reserve money and targeted the source of this growth to be net foreign asset growth.

The slowdown in the rate of increase of the Central Bank's net domestic assets, has been constant over the last two years. As of the end of 1997, the growth rate of the net domestic assets was significantly below the inflation rate. As a consequence of the development in the economic conjecture in the last quarter of 1997, the funding of the Central Bank through the open market operation also contributed the reserve money growth.

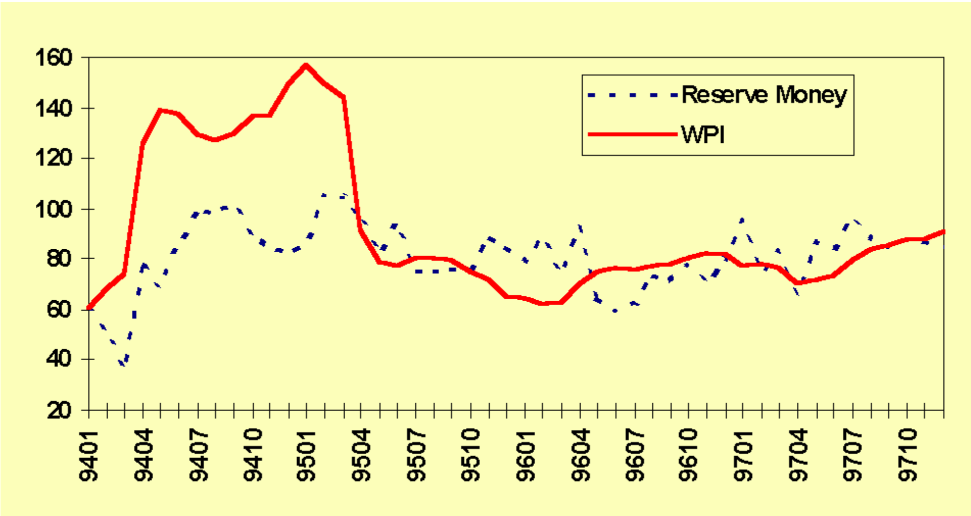
RESERVE MONEY DEVELOPMENTS

It is generally accepted that central banks can keep increases in the monetary aggregates of the economy under control by monitoring the increase of reserve money. The control of monetary aggregates is expected to have an inflation-reducing effect, based on the assumption that it will limit nominal demand via interest and loans. The problem with this approach in practice is the difficulty of controlling the reserve money growth, which is also the case in Turkey. The most important factor that reduces the ability of the Central Bank to control the reserve money growth in Turkey, is the rapid increase in the domestic debt stock and the managing of this stock over time. The increase budget deficits and the financing of these deficits through domestic borrowing by paying high interest rates resulted in a domestic debt that is increasing exponentially. This in turn results in an increase in monetary aggregates according to which it is necessary to manage this debt stock. This is an important factor that restrains the Central Bank's control over the reserve money.

The source of the reserve money increase is as important as controlling it. To the extent that the increase in reserve money results from loans provided to the public sector, it will have a stronger effect on inflation than a reserve money increase resulting from an increase in foreign exchange operations. Therefore while keeping the increase in reserve money under control, the Central Bank also changed the composition of the sources of that increase.

RESERVE MONEY AND WPI

(Annual Percentage Change)



The exchange rate policy of the Central Bank depends on the stability of real exchange rates. For this reason, the Central Bank by keeping a constant watch on the increase in the exchange rates wants to maintain a parallel movement between exchange rates and the expected inflation rate. In 1997, exchange rate policy became a determinant of the current account balance. Stable exchange rates enabled the foreign sector to remain competitive and to predict future developments well enough to enter long-term contracts.

Increasing budget deficits and the need to finance them by increasing the amount of domestic borrowing obliged the Treasury to put supply pressures on the auctions of government securities, causing the interest rates fixed in these auctions and the secondary markets to substantially exceed the expected inflation rate. Real interest rates rise when political uncertainties increase. Under these circumstances, short-term interest rates rise following the movements in the primary and secondary markets where government securities are traded. In this connection, the Central Bank observes two rules. First, in view of its lender of last resort function, interest rates determined when the Central Bank is supplying liquidity through the short-term Turkish lira markets should be kept higher than the interest rates attached to long-term Turkish lira transactions. Second, fluctuations in short term Turkish lira money markets should be reduced. To this end, the Central Bank initiated new types of transactions, such as the Tomorrow/Next of T/N transactions (next-day value: overnight transaction) and Tomorrow/Week or T/W transactions (next-day value: one week's maturity), in interbank money markets, which are under the auspices of the Central Bank, to reduce uncertainties as a part of its aim to maintain stability in markets.

THE DEFINITION, AIM AND IMPLICATION
OF MONETARY PROGRAM

Monetary program can be defined as a program which central banks follow to reach the final target in parallel with determined monetary policy. This target which gets made public, is basically "a declaration of determination" of the Central Bank and related with its credibility. Consequently, monetary policies aim at reaching a final target by using some instruments whereas monetary programs are constructed to explain a concrete approach which is to define the procedure to reach this final target.

In recent years, both economists and economic policy makers share the view that fundamental aim of a monetary policy of the central bank is price stability. There are two strategies of central banks to fulfill this aim. First, to determine monetary policy on an "intermediate target" by controlling a monetary aggregate. Here, central bank uses its policy instrument to manipulate growth rate of targeted monetary aggregate. Second, to determine monetary policy directly on the "final target." Central banks use some operational targets so as to reach them. In so doing, there must be a correlation between final target (inflation rate) and operational target. Additionally, it can also be mentioned that this variable is one of the leading indicators of inflation.

The Central Bank of Turkey have implemented monetary programs for 1996 and 1997 the details of which were not made public. Monetary policy implemented in the last two years aimed basically at stabilizing the financial markets. The Central Bank's goals of stability can be summarized under two headings. The first is to prevent rapid short-term price fluctuations in the markets, and the second is to reduce uncertainties in the markets. The Central Bank of Turkey has followed a real exchange rate policy in the last two years. Reserve money has been taken as the operational target of the monetary policy, monetary expansion has been controlled not to be over the liquidity demand, and fluctuations in interest rates have been reduced to a minimum level. The stability goal was reflected in the Central Bank's Balance Sheet by a decrease in domestic assets, a strong foreign currency position of the Central Bank, and a restriction of increases in reserve money to net foreign assets.

II. 4. 1. Analytical Balance Sheet of the Central Bank

The foreign assets of the Central Bank followed an increasing trend in 1997. The foreign assets increased by 116 percent in 1997 in TL terms, In terms of US Dollars, this corresponds to an increase of 13 percent. Stable movements in the foreign exchange rates together with the high level of TL interest rates encouraged a reverse currency substitution throughout the year. Parallel to this, the financable level of the current account deficit supported the increasing trend of foreign reserves in 1997. Surrender requirements were the main source of increase of the Central Bank reserves in 1997. As a consequence of the crisis in Southeast Asia, the demand for foreign exchange increased in the last quarter of the year but the Central Bank, without changing its exchange rate policy, satisfied this demand by selling foreign exchange to the markets. The foreign assets of the Central Bank increased more than its foreign liabilities in 1997. As a result of this, the foreign exchange risk ratio, which is defined as the ratio of foreign assets to foreign liabilities, improved by 4.5 percentage points and reached 107.8.

The growth rate of domestic assets has slowed down gradually since 1994 and in 1997 the domestic assets of the Central Bank declined by 48 percent in nominal terms. This slowdown resulted mainly from the imposition of annual ceilings at lower rates on short-term advances, which represent the major portion of domestic assets within the credit to the public sector. In fact, the short term advance facility totally closed down in the second half of 1997 as a result of the agreement signed between the Treasury and the Central Bank in July 1997. The Central Bank's discontinuation of loans to the other public institutions also contributed to the decline of the domestic assets. The total Central Bank credits to the public sector declined by 1 percent in 1997.

Another important factor that contributed to the decline of domestic assets is the decline in the revaluation accounts. Improvements in the foreign currency position of the Central Bank caused the revaluation account, which reflects the loss from the open foreign currency position, to shift from positive (reflecting loss) to negative (reflecting profit) by the end of 1996. This improvement in the foreign currency position and the decrease in the revaluation account continued in 1997. The revaluation account declined by 238.2 trillion TL and reached -241.8 trillion TL in 1997.

As a result of the "closed discount window" policy of the Central Bank in recent years, credit to the banking sector continued to decline in 1997. The rate of decline in this item was 1 percent and its share in the balance sheet total of the Central Bank approached zero.

TABLE II.4.1

CENTRAL BANK ANALYTICAL BALANCE SHEET

(As of last day of month, TL trillion)

	1996	1997 March	1997 June	1997 Sept.	1997 Dec
ASSETS	**2,681.8**	**3,019.0**	**3,435.8**	**4,483.5**	**4,737.7**
1-Foreign Assets	2,041.5	2,318.6	2,781.1	4,021.6	4,407.5
2-Demistic Assets	640.3	700.4	654.6	461.9	330.2
a-Cash Operations	643.9	720.5	713.9	603.8	572.0
aa- Cash Credit to the Public Sector	821.3	863.3	843.9	762.8	814.6
ab- Cash Credit to the Banking Sector	7.7	6.9	7.2	7.7	7.6
ac- Other Items	-185.1	-149.7	-137.1	-166.6	-250.2
b- Evaluation Account	-3.6	-20.1	-59.3	-141.9	-241.8
LIABILITIES	**2,681.8**	**3,019.0**	**3,435.8**	**4,483.5**	**4,737.7**
1- Total FX Liabilities	1,975.7	2,198.6	2,578.9	3,240.7	4,087.9
a- Foreign Liabilities	1,409.3	1,580.6	1,800.9	2,158.2	2,592.6
b- Domestic Liabilities	566.4	617.9	778.1	1,082.5	1,495.3
ba-FX Deposits of Non-Banks	212.9	195.1	270.6	440.5	701.1
bb- FX Deposits of the Banking Sector	353.4	422.9	507.5	641.9	794.2
2- Central Bank Money	706.1	820.4	856.8	1,242.8	649.8
A- Reserve Money	621.5	719.4	882.3	1,061.0	1,184.2
a- Currency Issued	382.2	459.4	567.3	702.3	719.3
b- Banking Sector Deposits	228.2	241.5	289.7	332.5	379.3
ba- Required Reserves	175.5	208.8	246.8	287.7	336.5
bb- Free Deposits	52.7	32.7	42.9	44.7	42.8
c-Deposits of Public Funds	6.5	16.4	21.7	21.4	38.4
d- Deposits of Non-Bank Private Sector	4.5	2.1	3.7	4.7	5.1

B- Other Central Bank Money	84.6	100.9	-25.6	181.8	-492.3
a-Open Market Operations (Net)	51.4	85.4	-54.1	-127.6	-741.3
b- Public Sector Deposits	33.2	15.5	28.5	309.4	248.9
TOTAL DOMESTIC LIABILITIES					
(Central Bank Money + Domestic FX Liabilities)					
	1,272.5	1,438.4	1,634.9	2,325.3	2,145.1

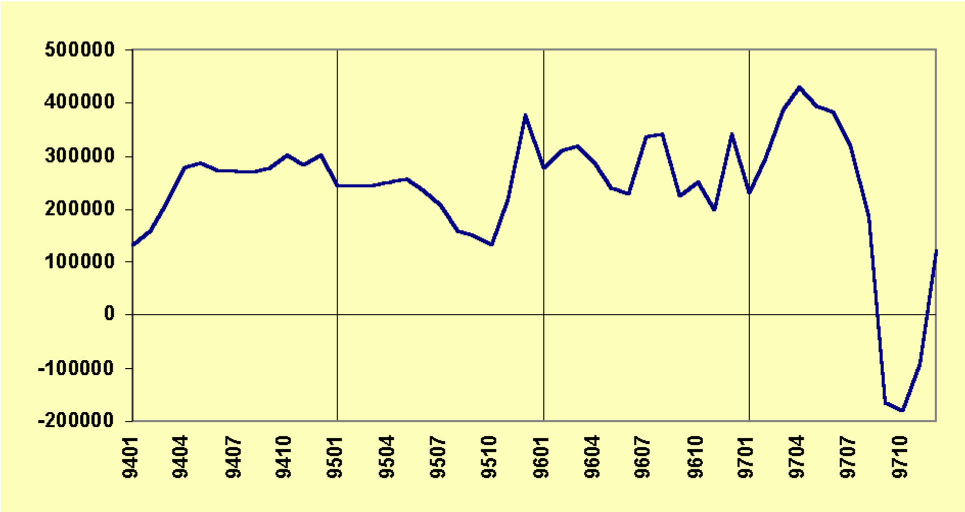
Source: Central Bank of Turkey

DEFINITION OF NET DOMESTIC ASSET

Some of the items on the liability side of the balance sheet reflect the credit relationships that the Central Bank has with public institutions and other banks. In this context, of all the liabilities on the analytical balance sheet, the foreign currency deposits of the non-banking sector, representing foreign currency deposited with the Central Bank by the public sector, and the Turkish lira denominated deposits of the public sector, can be considered as loans extended by the public sector to the Central Bank. If an open market operation item carries a plus sign, it can be regarded as a loan by the banks to the Central Bank. If it has a minus sign, it can be regarded as a loan from the Central Bank to the banks. Subtracting these three items (the foreign currency deposits of the non-banking sector, public deposits, and open market operations), which are on the liabilities side of the analytical balance sheet, from the total domestic assets listed on the assets side, will give the net loan relationship between the Central Bank and the markets. Developments in the net domestic assets of the Central Bank, calculated as described here, are shown in the figure below. It should be noted that net domestic assets have shown a slight increase in the last two years.

DEVELOPMENTS IN NET DOMESTIC ASSET

(Trillion TL)



The last item in the domestic assets of the Central Bank is the "other items", which basically reflect the profit and loss position of the Central Bank. A negative sign represents a profit for the Central Bank and the decline of this account represents an increase in the profit of the Central Bank. This account decreased by 35 percent in 1997 and contributed to the decline of the domestic assets.

On the liability side of the Central Bank analytical balance sheet, foreign liabilities, which is part of the total foreign exchange liabilities that represent the foreign exchange liabilities of the Central Bank to non-residents, increased by 84 percent. An important part of foreign liabilities consists of the letter of credit account of the Turkish citizens who reside abroad. In DM terms foreign liabilities increased by 11 percent in 1997.

The other two items that constitute the total foreign exchange liabilities of the Central Bank are the FX deposits made by banks and the non-banking sector to the Central Bank. This latter account is mostly the FX deposits made by the public sector to the Central Bank. The FX deposits of the banks increased by 125 percent in TL terms and 18 percent in US dollar terms in 1997. The same increases for the non-banking sector deposits were 229 percent, and 73 percent respectively. This large increase for the non-banking sector was mainly the result of the increase in the foreign borrowing of the Treasury during the last months of 1997, the money being deposited to this account in the Central Bank for future foreign debt payment use.

Regarding the development of the domestic liabilities of the Central Bank, it was observed that the reserve money, which represents the monetary base, moved parallel to the inflation rate in 1997. The change of the reserve money was 85 percent in annual terms. The two important sub-items of reserve money, currency and the bank deposits, the rates of increase were 88 percent and 66 percent respectively.

The total domestic liabilities of the Central Bank, called central bank money (CBM) and defined as the total of reserve money, public TL deposits and open market operation items, declined by 8 percent in nominal terms in 1997.

The increased level of domestic borrowing in the second half of the year by the Treasury resulted in a tight liquidity level in the TL markets. The development of the crisis in Southeast Asia in the last months of the year had a further increasing effect on the liquidity demand of the markets. The Central Bank supplied the necessary liquidity to the market through open market operations (OMO) at that time. This increase in the OMO stock of the Central Bank was the main reason for the 8 percent decline of in the CBM in 1997 since by definition supply of liquidity by the Central Bank has a negative sign in the OMO account.

Another item in the CBM is the TL deposit of the public sector in the Central Bank. This account showed a rapid increase, especially in the months of August and November. This was the result of placing some of the money obtained through domestic borrowing into this account for future use by the Treasury. The end of year increase in this account was 649 percent in 1997.

II.4.2. Money-Credit Stock

The narrowly defined money supply M1, as well as the broadly defined money supply M2, contracted in real terms in 1997. The contraction in M1 was much greater than in M2. Broader monetary aggregates M2X and M3X, which include Foreign Exchange Denominated Deposit Accounts (FEDDA), grew in real terms due to the increase in the FEDDAs in 1997 (Figure II.4.1). Monetary aggregates, M1 and M2, which contracted in real terms at the end of the year, increased in real terms relative to the M2X and M3X monetary aggregates in the first six months of the year, especially due to the increase in the sight deposits. This trend was reversed in the second half of the year and because of the declining of the demand deposits in real terms, M1 and M2 monetary aggregates contracted much more in real terms in comparison to the monetary aggregates which include FEDDAs (Figure II.4.1 and Table II.4.2). The Prime Ministry issued a Circular, dated 31 October 1996, concerning the establishment of a “Unified Public Account”. After the enactment of this circular, the volume of demand deposits increased in the last two months of the year 1996 and this trend continued during the first half of 1997. After the implementation of the circular ended in 12 July 1997, a movement from this account to the public account occurred and this caused the volume of the demand deposits to decrease in the second half of 1997.

The increase in money supply supported the economic recovery which began in 1995 and continued in 1997. Throughout the year, the increase in total credits extended by the deposit money banks indicates that positive expectations go hand in hand in the banking sector with economic recovery.

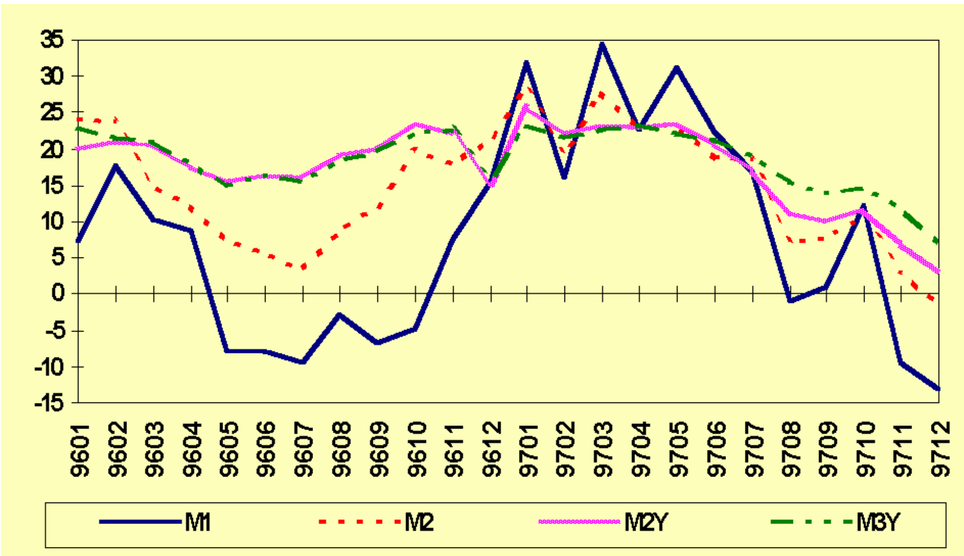
DEVELOPMENTS IN THE REPO MARKET

Repo transactions are made on treasury bills and government bonds. Large public deficits lead to high interest rates on government bonds and this causes repo rates to stay high. On the other hand, the exemption of repo transactions from liquidity and reserve requirements, while deposits are subject to them, make repo a cheaper financing instrument for banks compared to deposits. From the point of view of the depositors, the exemption of the repo transactions from income tax, while deposits are not, makes repo more attractive. As a result, for both banks and depositors, the advantages of repo transactions caused a movement from deposits to repo. However, the imposition of income tax on repo transactions beginning from January 1998 may affect this situation.

Repo transactions increased at a very high rate in 1997 compared to the previous year and reached 2600 trillion Turkish lira. Repo transactions increased by 291 percent in nominal terms and 105 percent in real terms on an annual basis compared to the previous year. The ratio of repo transactions to total deposits increased to 51 percent at the end of the 1997 while it was 26 percent at the end of 1996. When examined according to the maturity structure, 47 percent of the total repo transactions are concentrated on daily maturity and remaining are concentrated between one day and one month period.

FIGURE II.4.1

REAL MONEY SUPPLIES



The monetary policy conducted by the Central Bank in 1997 was based on maintaining stability in financial markets. Within this context, the Central Bank tried to conduct policies that aimed at price stability in both Turkish lira and foreign exchange markets. Throughout the year, the parallel movement of the rate of increase in exchange rates and the inflation rate along with the stability of the real exchange rates proved to be positive results of these policies. Monetary policy in 1997 can be summarized as follows: the increase in reserve money consisted of a decrease in the contribution of domestic assets and an increase in the share of foreign assets. As a result, reserve money increased by 84.7 percent it in nominal terms by the years' end, which means contracted in real terms (Table II.4.2). In order to overcome the liquidity squeeze in the markets, the Central Bank especially beginning in late August, funded the markets through open market operations. The rapid increase in the volume of open market operations (OMO) contracted obtained adding the open market operations item, to the reserve money, by 35.4 percent in nominal terms by the end of the year. The Treasury by over-borrowing kept the excess in the deposits of the Central Bank after August. In this way, the Central Bank Money, which is obtained by summing base money and public deposits and constituting the Turkish Lira liability of the Central Bank, increased by 1.2 percent compared to the previous year (Table II.4.2). In general, the Central Bank controlled the money supply by increases in net foreign assets and OMO.

The currency in circulation (CC) did not show a significant increase in the first half of the year, but then the velocity of CC increased and stayed under the inflation figures until the end of the year. The opposite trend is observed on sight (demand) deposits (Table II.4.3). The rate of increase of the time deposits decelerated in real terms in comparison with the previous year’s figures. The drop in real time deposit interest rates compared to 1996 is the main reason behind such a development. FEDDAs grew parallel to the appreciation of the US dollar after July. The rate of increase in FEDDAs in terms of US dollars realized at 8.2 percent in 1997 whereas it was 14.2 percent in 1996. This development might be the result of the control over the exchange rates and relatively high rate of return on Turkish lira denominated assets.

TABLE II.4.2

BASIC MONETARY INDICATORS[1]

(Percentage Change)[2]

	1993	1994	1995	1996	1997[3]
Reserve Money	68.7	82.6	84.9	80.0	84.7

Monetary Base	51.0	51.2	92.3	72.8	-35.4
Central Bank Money	45.5	50.8	93.0	72.2	1.2
Total Domestic Liabilities (TDL)	48.5	73.4	113.1	94.5	70.9
Balance Sheet	59.7	142.5	105.1	88.5	76.9
M1	87.6	80.6	65.7	109.9	65.8
M2	59.6	120.0	97.7	120.5	87.9
M2X	88.2	133.2	106.5	109.7	96.7
M3X	86.0	133.1	106.8	111.2	103.9
Deposits	56.7	122.0	100.9	132.7	97.6
Credit	99.4	85.3	149.9	114.0	130.0
TDL/GNP(2)	0.10	0.07	0.08	0.09	0.07
TDL/M2X(2)	0.32	0.25	0.25	0.23	0.20
Wholesale Price Index(4)	60.2	149.5	65.6	84.9	91.0

Source: Central Bank

(1) Reserve Money = Currency Issued + Required Reserves of Banks + Free Deposits of Banks

+ Fund Accounts + Deposits of Non-Bank Sector

Monetary Base = Reserve Money + Debts Arising From Open Market Operations

Central Bank Money = Monetary Base + Public Sector Deposits

Total Domestic Liabilities = Central Bank Money + Deposits in Terms of Foreign Currency

+ Foreign Exchange Deposits of Banks

M1 = Currency in Circulation + Sight Deposits with the Banks

+ Deposits with the Central Bank

M2 = M1 + Time Deposits with the Banks

M2X = M2 + Foreign Exchange Deposits (TL)

M3X = M2 + Official Deposits + Other Deposits with the Central Bank + Foreign Exchange

Deposits (TL).

(2) Ratio.

(3) December 27, 1996-December 26, 1997; provisional.

(4) State Institute of Statistics, Wholesale Price Index (1987 = 100), year's end.

In the first ten months of 1995, the reserve money multiplier, which had begun to rise in the second half of the 1994, remained stable around the high level that it had reached. In the last two months of 1995 and in January 1996, it started to increase again and followed a fluctuating trend, parallel to the movements observed in currency in circulation.

The reserve money multiplier in 1997 remained stable around 4 and did not fluctuate very much as a result of the control over the reserve money increase and the relatively low increase observed in time deposits (Figure II.4.2).

TABLE II.4.3.

MONTHLY DEVELOPMENTS OF MAIN MONETARY AGGREGATES

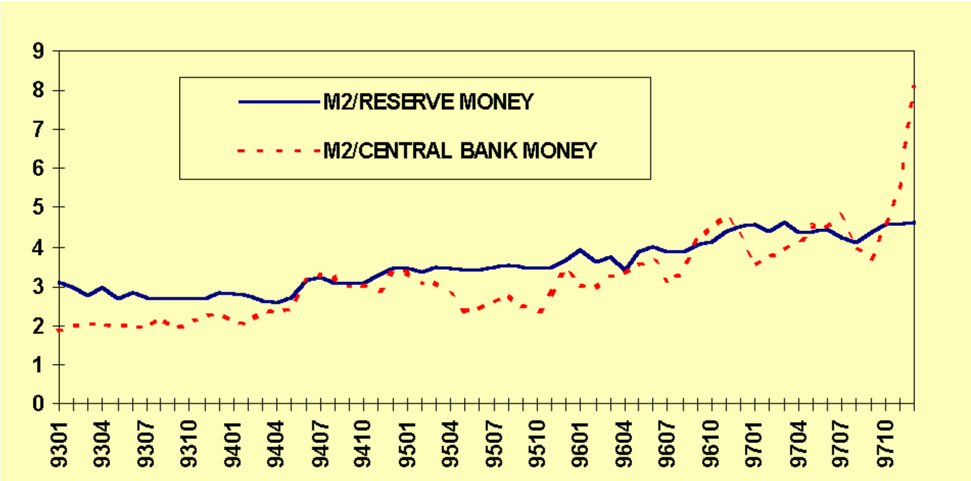
(Cumulative Percentage Change)

	31 Jan. 1997	28 Feb. 1997	28 Mar. 1997	25 Apr. 1997	30 May 1997	27 June. 1997	25 July 1997	29 Aug. 1997	26 Sept. 1997	31 Oct. 1997	28 Nov. 1997	26 Dec.a. 1997
M1	0.5	15.4	20.0	31.1	27.3	30.8	34.6	35.5	39.4	58.2	48.2	65.8
Currency in Circulation	-6.7	6.2	10.2	31.5	27.0	35.5	61.0	62.3	73.4	70.5	66.8	80.8
Demand Deposits	6.0	22.3	27.3	30.7	27.5	25.6	15.0	15.1	14.1	49.2	34.2	54.6
M2	4.3	9.8	15.4	22.8	27.8	35.4	44.4	50.0	60.0	76.0	75.2	87.9
Time Deposits	5.9	7.6	13.8	19.8	28.5	36.7	49.3	57.0	69.7	84.5	87.6	94.6
M2Y	4.4	9.8	16.0	22.7	29.3	36.9	45.2	54.3	63.2	77.8	84.2	96.7
Foreign Exc. Deposits (TL)	4.6	10.0	16.5	22.5	31.0	39.5	46.0	58.8	66.5	79.8	93.6	105.8
M3	5.5	9.9	15.4	21.9	26.3	36.1	48.5	61.5	71.6	85.5	92.3	102.3
M3Y	5.1	9.9	15.9	22.2	28.5	37.7	47.4	60.3	69.2	82.7	93.9	109.3

Source: Central Bank

FIGURE II.4.2

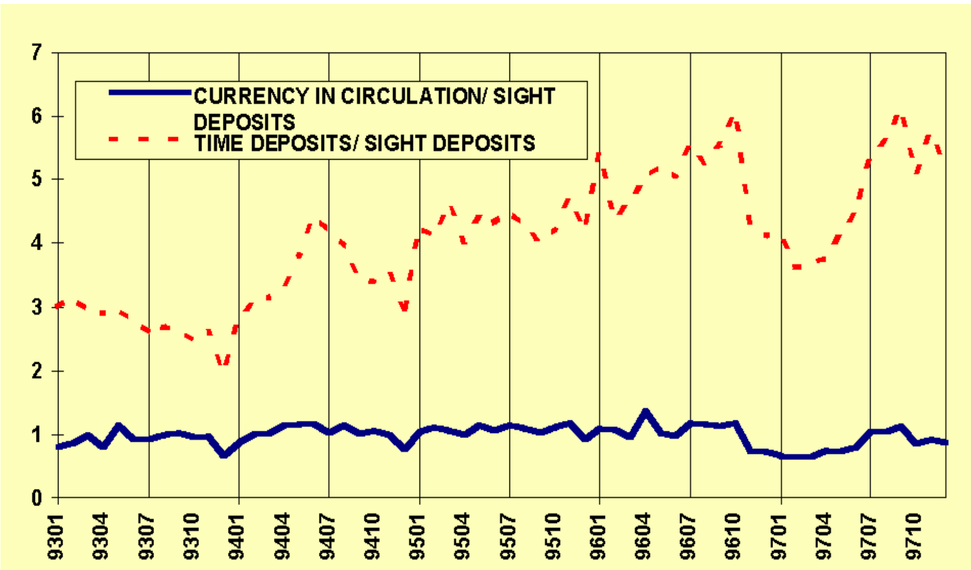
THE MONEY MULTIPLIER



The Central Bank money multiplier, defined as M2/MBP, indicator the effect of the expansion of the money created by the CB, called M2 and it fluctuated parallel to the changes in the OMOs. The multiplier, in the first eight months of 1997, expanded parallel to the increase in time deposits and narrowed in September and October. Due to the negative increase in the OMO, the multiplier also rose sharply in the last two months of the year (Figure II.4.3).

FIGURE II.4.3

COMPONENTS OF THE RESERVE MONEY MULTIPLIER



II.4.3. Interest Rates

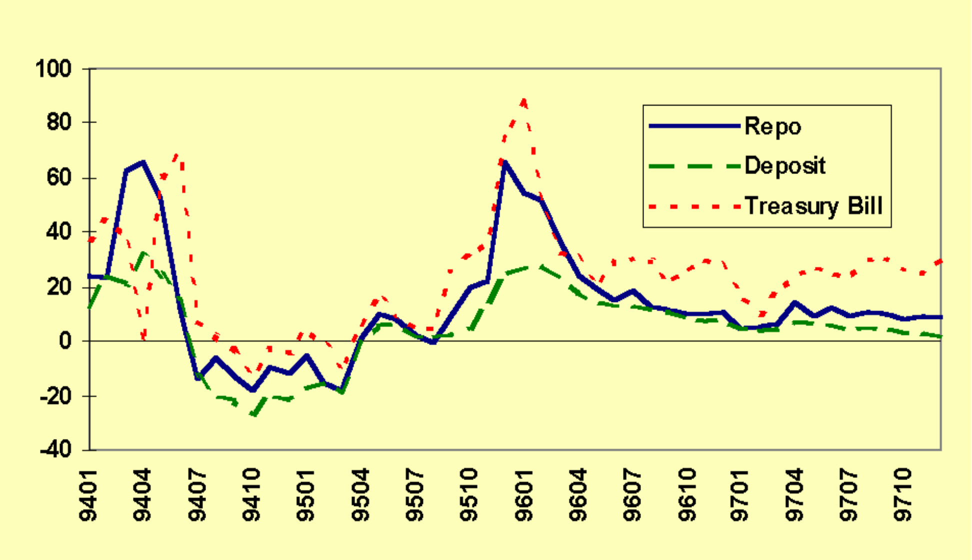
The increasing trend in the budget deficit continued in 1997 and was financed intensively by borrowing from the domestic market, except during the first few months. This financement is reflected in the interest rate of the Treasury bills. When the compound Treasury bill rates, which are weighted according to the sales and maturity, are examined, it can be observed that in the first months of the year when the Treasury was using Central Bank resources to finance its deficit, interest rates were low compared to the rest of the year. After this date, however, the Treasury began to borrow from domestic markets, which caused the interest rates to increase and reach their maximum level first in August and later in December.

After reaching their maximum level in January 1996, deposit interest rates began to decrease and this trend continued in 1997 as well. The fluctuations in Treasury bill rates had influenced deposit rates to a great extent in previous years, whereas in 1997 fluctuations in Treasury bill rates reflected deposit rates in a limited way. Real deposit rates were not affected by short term fluctuations and stayed stable after the middle of 1996 (Figure II.4.4.)

When the real interest rates on 3-month time deposits are compared with the rates on 3-month Repo, an alternative investment to deposits, it can be observed that the interest rate margin, which was in favor of Repo rates during the second half of 1995 and the January-April 1997 period, narrowed after May, 1996. This trend continued until February, 1997 and after that, it was parallel to the rise in withholding tax collected from deposits, and the interest rate margin started to increase in favor of the 3-month Repo. A parallel relationship is observed between the Repo rate and the Treasury bill rate. This parallelism was plain to see until the first half of 1996, but after that time it continued with an increasing margin. The fact that interest income from Repo is not subject to income tax while Treasury bills are been subject to income tax since the end of 1996 may have caused such a situation.

FIGURE II.4.4

3 MONTH REAL INTEREST RATES



II.4.4. Foreign Exchange Rates

The monetary policy conducted by the Central Bank in 1997 gave emphasis to achieving and sustaining stability in the financial markets. Within this framework, the exchange rate policy of the Bank aimed at minimizing fluctuations in the real exchange rates. According to the stand-by agreement signed with the IMF at the beginning of 1995, the increase in the foreign exchange basket defined as 1.5 German mark and 1 US dollar, was targeted to increase by as much as the monthly inflation rates that were also projected in this agreement. In the last two years, the rate of increase in exchange rate basket was parallel to the inflation rate and fluctuations in the real exchange rate index were kept at a limited level. In this context, as of the end of 1997, the depreciation of the Turkish lira against the US dollar and the German mark realized at 90.4 percent and 65.4 respectively. The exchange rate basket, on the other hand, increased by 78.1 percent.

To sum up, the limited fluctuation observed in the real foreign exchange rate index throughout 1997 indicates that the goal of the exchange rate policy was achieved to a great extent. Moreover, this may also denote the fact that Central Bank's exchange rate policy was evaluated as realistic by markets in general.

II.5. PRICES

Wholesale Price Inflation in Turkey, which had decreased to around 60 percent by the end of 1995 following the financial crisis in 1994, returned to an increasing trend in 1996 and this trend continued in 1997 with the WPI reaching 91 percent (Table II.5.1). Price increases in the first half of the year were due mainly to the domestic demand expansion whereas in the second half, it was determined by cost rises that stemmed from the high rate of price increases in petroleum products. One of the main reasons for the price increases was that, agricultural prices throughout the year were higher than the averages of previous years.

CPI increased by 19.3 percent compared to the figures of previous year and reached 99.1 percent on an annual basis. The main reasons for consumer price increase in 1997 were the 115.9 percent increase in food, beverages and tobacco sector -which is the main component of the CPI- and the 105.3 percent increase in the transport and communication sector. While the main reason for the increase in finished food prices was the slowdown in agricultural production, the source of price increases in transport and communication sector was high rate of price increases in petroleum products.

TABLE II.5.1

PRICES[1]

(Annual Percentage Change)

	1995	1996	1997
CPI	76.0	79.8	99.1
WPI	65.6	84.9	91.0
Private	70.8	80.5	89.0
Public	48.6	101.4	97.5
Agriculture	86.6	89.9	96.5
Mining	75.4	93.7	72.6
Energy	40.8	129.9	64.1
Manufacturing	60.0	80.6	91.2
Private	64.2	75.7	85.4
Public	47.5	96.7	108.5

Source: SIS

(1) CPI and WPI based on 1994=100.

The rate of increase in wholesale prices accelerated significantly in the first four months of 1996 since the public sector price adjustments, which had been delayed due to the early elections at the end of 1995, were put into effect at the beginning of the year. When situation lost its effect, WPI started declining in the first four months of 1997. Therefore, the average rate of increase in wholesale prices, which was 84.9 at the end of 1996, decreased to 72.8 percent in April. This tendency reversed in May however, because of the increasing inflationary expectations stemming from the expectation of early elections caused by increasing political uncertainties and because of the buoyancy in domestic demand caused by wage and salary increases in the first four months of the year. In May, both public and private sector manufacturing prices jumped to high levels compared to the previous months. The increase in agricultural prices became visible in June. Agricultural prices, which had slowed down every June since 1991 (except 1994), showed an increase in June 1997.

TABLE II.5.2

PRICES

(Annual Average Percentage Change)

	1993(1)	1994(1)	1995(2)	1996(2)	1997(2)
CPI	66.1	106.3	89.0	80.4	85.7
Food	63.5	110.0	92.3	72.2	92.5
Clothing	66.4	104.8	100.7	82.6	74.9
Furnishing	66.8	122.2	82.6	65.1	71.8
Health	68.4	113.1	75.5	94.0	87.3
Trans., Comm.	56.8	108.0	84.7	97.2	93.6
Cultural Activities	73.5	102.9	86.0	84.5	76.0
Housing	71.8	91.0	86.8	85.4	82.2
WPI	58.4	120.7	86.0	75.9	81.8
Agriculture	62.2	97.8	107.8	86.5	86.9
Mining	57.9	132.8	85.6	89.3	76.2
Energy	67.8	102.3	56.4	101.7	71.8
Manufacturing	56.6	129.4	81.0	70.4	80.6
Private	59.3	130.5	81.1	68.2	77.6
Public	50.7	126.9	80.7	77.1	89.7

Source: SIS

(1) CPI and WPI based on 1987=100.

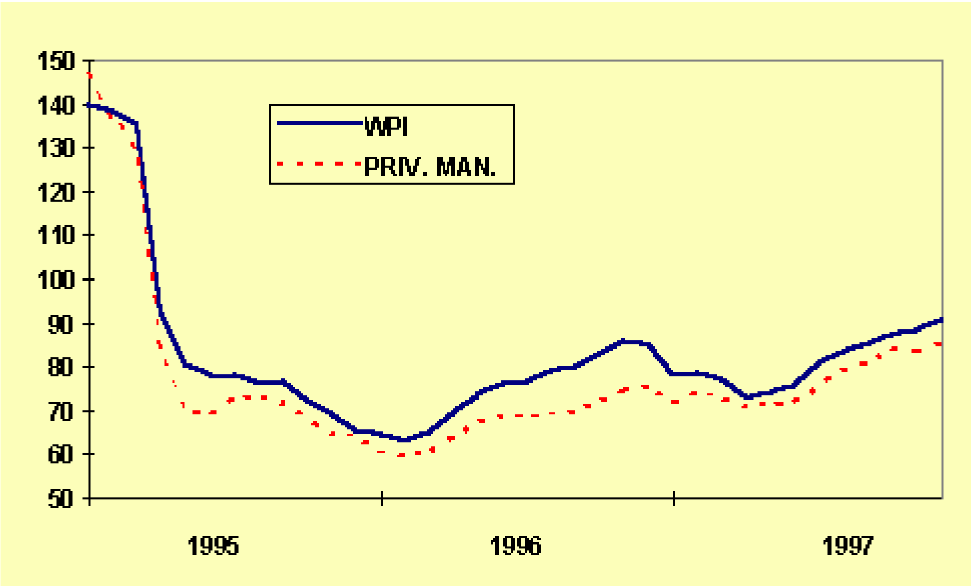
(2) CPI and WPI based on 1994=100.

The establishment of the new government in July and this government's decision to raise the prices of petroleum products by 30 percent caused prices to jump especially in the manufacturing sector. In July, public manufacturing sector prices increased by 15.2 percent and private sector prices increased by 6.3 percent. Thus, wholesale prices had reached an historically high level for July with the increase of 5.3 percent and the annual inflation, which was around 70 percent at the beginning of 1997, was set at a new level ranging between 80 and 90 percent (Table II.5.1). In the second half of the year, the price increase in petroleum products was 68.7 percent whereas in the first half, this rate was 25.9 percent. In the second half of the year, price increases in petroleum products, which are one of the most important inputs used in production, resulted in cost push effects in the economy. Although the contraction in domestic demand caused a rise in interest rates and a decline in real wages, the inflation rate maintained its increasing trend. This fact shows that there was a cost push inflation in the economy in this period.

FIGURE II.5.1

SIS-WHOLESALE AND PRIVATE MANUFACTURING PRICES

(1994=100, Annual Percentage Change)



While the rate of increase in public sector manufacturing prices realised at 108.5 percent, private sector manufacturing price increases stayed at 85.4 percent. The private sector manufacturing industry, which uses public sector raw material products as inputs, could not reflect cost increases in its prices. The main reason for this was a domestic demand contraction. Although there was such contraction, industrial production continued to increase, and this shows that long term concerns were taken into consideration while making production decisions and firms also increased their stocks of finished goods.

Agricultural prices increased faster than the wholesale prices at an annual basis, during the year. Besides, due to the high prices quoted for support purchases and the slow down in agricultural production, agricultural prices realised above the previous years' averages.

FIGURE II.5.2

SIS-WHOLESALE AND CONSUMER PRICES

(1994=100, Annual Percentage Change)

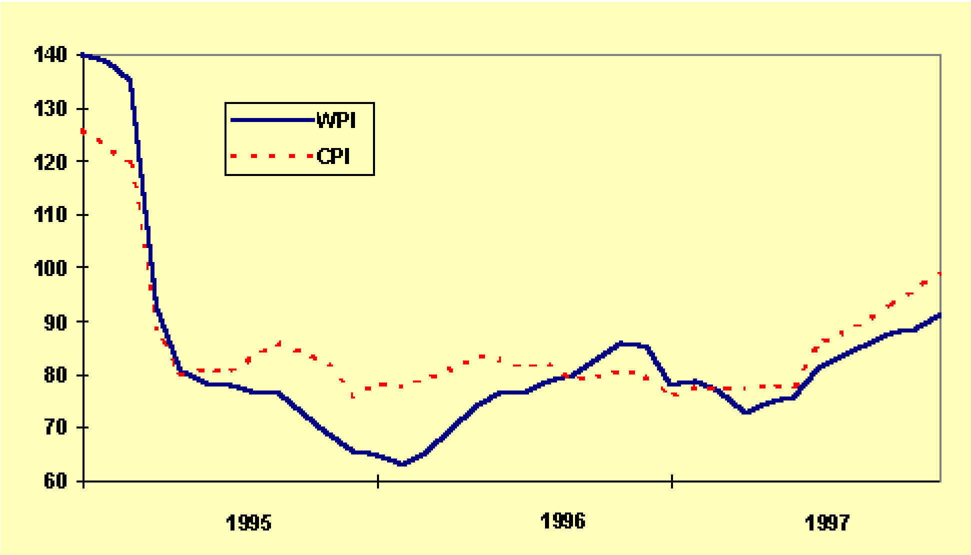


TABLE II.5.3

PRICES[1]

(Annual Average Percentage Change)

	1996					1997				
	I	II	III	IV	Annual	I	II	III	IV	Annual
CPI	78.3	82.2	80.7	79.9	80.4	76.9	77.6	87.7	96.1	85.7
WPI	64.3	73.2	78.4	84.4	75.9	77.8	74.4	83.2	89.0	81.8
Private	65.3	72.2	76.5	80.3	74.2	76.1	76.3	80.7	87.3	80.7
Public	61.2	76.9	85.0	99.4	81.9	83.9	67.8	91.7	94.7	85.5
Agriculture	75.7	82.5	92.0	93.0	86.5	81.5	85.6	84.7	93.4	86.9
Mining	75.9	81.6	95.2	99.2	89.3	89.1	70.4	76.8	72.0	76.2
Energy	76.6	98.6	104.5	120.4	101.7	92.7	70.9	63.6	66.9	71.8

Manufact.	59.3	68.1	71.8	79.0	70.4	75.1	70.2	84.2	89.3	80.6
Private	60.2	66.8	69.2	74.1	68.2	73.1	71.3	78.9	84.4	77.6
Public	56.4	72.1	80.0	95.1	77.1	81.3	66.9	99.9	104.0	89.7

Source: SIS

(1) CPI and WPI based on 1994=100.

TABLE II.5.4

SECTORAL PRICE INCREASES IN WPI[1]

(Annual Average Percentage Change)

	TOTAL		PUBLIC		PRIVATE	
SECTORS	1996	1997	1996	1997	1996	1997
GENERAL	75.9	81.8	81.9	85.5	74.3	80.7
AGRICULTURE	86.5	86.9	--	--	86.5	86.9
Agriculture, Hunting	84.5	90.2	--	--	84.5	90.2
Forestry	105.5	52.4	--	--	105.5	52.4
Fishery Products	119.3	47.8	--	--	119.3	47.8
MINING	89.3	76.2	88.1	77.8	92.4	72.0
Coal Mining	89.2	76.6	86.9	79.9	95.6	67.5
Crude Petroleum, Natural Gas	93.3	67.7	93.4	68.1	92.1	63.6
Metal Minerals	78.1	88.8	77.2	84.8	81.8	105.1
Non-Metal Mining	90.1	83.6	91.3	120.9	89.8	72.7
MANUFACTURING	70.4	80.6	77.1	89.7	68.2	77.6
Food	81.9	86.6	96.6	79.7	79.2	87.0
Textiles	53.5	49.9	52.4	77.6	53.5	72.4
Clothing	69.6	73.2	56.7	79.1	70.0	62.3
Leather	84.6	81.1	51.4	64.7	97.4	85.9
Paper Products	28.1	58.0	38.9	47.6	24.3	62.1
Petroleum Products	96.5	93.8	92.1	93.5	95.5	94.6
Chemical Products	57.2	78.7	33.6	75.5	64.8	79.6
Plastic and Rubber	60.9	68.3	--	--	60.9	68.3
Non-Metal Minerals	76.4	87.1	70.6	84.3	77.0	82.2
Metal Industry	57.8	88.3	56.5	87.5	58.9	89.0

Metal Products	58.1	73.6	49.1	89.0	58.2	73.5
Machinery-Vehicles	70.7	71.8	59.0	62.0	70.9	72.0
Electrical Equipment	55.7	67.6	78.7	51.6	55.0	68.1
Vehicles	71.5	72.2	--	--	71.5	72.2
ENERGY	101.7	71.8	101.7	71.8	--	--
Electricity	104.0	68.8	104.1	68.8	--	--
Water	90.9	86.2	91.1	86.2	--	--

Source: SIS

(1) Based on 1994=100.

III

FINANCIAL MARKETS

III.1. THE BANKING SECTOR AND CREDIT POLICY

III.1.1. The Central Bank of the Republic of Turkey

Central Bank loans consist of two main items: loans extended to the public sector and loans extended to the banking sector. Public sector loans are composed mainly of short-term advances to the Treasury while banking sector loans consist of industrial credit, agricultural credit and commercial credit. With respect to the end of the previous year the total Central Bank loans decreased in nominal terms by 8.8 percent in 1997, declining from its 1996 level of TL 378.6 trillion to TL 345.2 trillion.

The aforementioned decrease in the total Central Bank loans resulted mainly from the decrease in short-term advances to the Treasury. Because, the short-term advances to the Treasury, makeup almost the total volume of the Central Bank loans.

Developments in Central Bank Credit in 1997

Short-term advances to the Treasury

In accordance with the amendment to Article 50 of the Central Bank Law governing short-term advances to the Treasury, enacted by Law no. 3985, the upper limit of the advance to the Treasury was determined to be 6 percent of the sum exceeding the previous fiscal year's total budgetary allocations. According to this ratio, the total amount of the short-term advance to Treasury for the year 1997 was calculated to be TL 133.9 trillion. The Treasury paid the used part of the total advance in the first 8 months of the year back to the Central Bank, and no further use of short advance was observed in the remaining months of the year. The balance of the short term advance account transferred from the previous year was TL 370.9 trillion in 1997. In an agreement between the Treasury and the Central

Bank, Treasury's dividend from the 1997 profit of the Central bank, amounting to TL 33.3 trillion was subtracted from the Treasury's short-term advance balance. In this way, the short-term advance balance was reduced to TL 337.6 trillion. Consequently, the balance of the short-term advance to the Treasury has been reduced by 9 percent in nominal terms.

Agricultural Credit

a) The 1996 year-end balance of the agricultural rediscount credit, used by T.C. Ziraat Bankası, under the restricted limits introduced on September, 15 1996 and amounting to TL 7.1, trillion remained the same in 1997.

b) The balance of the loans extended to sugar beet producers via Ţekerbank for sugar beet purchases, which was TL 55 billion by the end of 1996, remained the same in 1997.

Industrial Credit

a) Artisan and Craftsmen Credits

The balance of the credit extended to the Halk Bankası to meet the working capital needs of artisans and craftsmen, which was TL 471.7 billion by the end of 1996, remained almost the same at TL 472.5 billion in 1997.

b) Medium Term Credit

The termination of medium term credit, which had started in the last several years, continued in 1997. The balance of these loans, which was TL 14.4 billion at the end of 1996, decreased further to TL 700 million by the end of 1997.

Commercial Loans

Credit extended in previous years to meet the liquidity needs of the banking sector through the rediscount of short term commercial bills was abolished in 1995. No such credit was extended in either 1996 or 1997.

Acceptance Loans

In order to finance the term receivables of the exporting firms, the Central Bank extended credit amounting to TL 1.9 trillion, based on the collateral of commercial bills, the face value of which are US dollar 12 million. The balance of these loans was US dollar 3 millions.

III.1.2 Banks

III.1.2.A. Developments in the Consolidated Balance Sheet and the Profit and Loss Account of the Banking Sector

a) Developments in the Consolidated Balance Sheet

The total assets of the banking sector grew by 99.1 percent in nominal and 9.9 in real terms with respect to the end of the previous year, reaching to TL 17 838 trillion by November, 1997. When the growth in total assets was analyzed in terms of US dollars, the total assets of the banking sector, which was US dollar 83.3 billion at the end of 1996, was observed to have increased to US dollar 92.2 billion. During the same period, the ratio of the total assets of the banking sector to the GNP was estimated to have risen to approximately 62 percent, from its 1996 level of 59.8 percent. This may be interpreted to mean that the financial deepening has intensified in recent years.

The growth in the total assets of the banking sector resulted mainly from growth in the loan portfolio, the share of which in the total assets is traditionally the highest. By November 1997, total loans extended by the sector had increased by 11 percent in real terms with respect to the end of the previous year[1]. When the increase in the loans was differentiated according to currency denomination, the Turkish lira equivalent of the foreign currency loans and the Turkish lira denominated loans were observed to have increased by 20.4 and 3.4 percent in real terms, respectively.

It has been observed that the continuation of the growth of production in the economy is the underlying factor behind the growth in bank loans. This is indicated by the real surge in export and commercial loans, both of which are extended by banks basically to finance the increase in the production of real goods and services. Export loans and commercial loans increased by 11.6 and 24 percent

in real terms, respectively, with respect to the end of the previous year.

The real decrease of 15 percent in the portfolio of securities, which has a significant share in the balance sheet total, restricted to some extent a further increase in total assets. The value of the total securities portfolio (excluding the securities used in repurchasing operations and including the securities held as collateral and restricted securities) of the sector, as priced by using the purchasing prices of the securities, had reached TL 2 271 trillion, and the share of the securities portfolio in the balance sheet total had decreased to 12.7 percent from its previous year end share of 15.6 percent. The decrease in the share of the securities portfolio may be explained by the decrease in the amount of securities issued by the other countries and purchased by the local banks to delay tax payments.

The 117 percent real increase in the interest-and-income accruals item was another significant contribution to the growth of the total assets of the sector. The share of this item, which was 6.4 percent in the 1996 balance sheet total, rose to 12.6 percent by the end of November 1997. This item, in which income accruals and interest discounts are recorded, comprises basically the accruals and rediscounts of loans and rediscounts of securities. The increase in the rediscounts of securities was resulted by the income rediscounts of the securities portfolio in the balance sheet and the securities used in the repos and recorded as off-balance sheet items.

The gross overdue loans of the sector increased by 7.5 percent in real terms and reached TL 168 trillions, by the end of November 1997. As a result of decrease in loan loss reserves by 14.5 percent in real terms, the net overdue loans increased by 46.6 percent in real terms, with respect to the end of 1996. Since the rate of increase in the net overdue loans is higher than the increase in the loan volume, the share of the net overdue loans in the balance sheet total rose from its previous year share of 0.3 percent to 0.5 percent.

The following developments were observed in the remaining items of the consolidated balance sheet. The share of the required reserves on deposits slightly decreased to 4.9 percent in November 1997, from 5.2 percent in December 1996. The reserve requirement burden of banks was alleviated, to some extent, by the elimination of the separation of deposits into fixed and flow parts by a communique of the Central Bank, introduced in July 1996. Thanks to this regulation, the effective reserve requirement on deposits which was 11.5 percent in November 1995, decreased to 9 percent in November 1996 and remained at this level in November 1997.

The most prominent developments in the liabilities side of the consolidated balance sheet can be summarized as follows: The share of total deposits, which was 63.1 percent in December 1996, declined 57.2 percent in November 1997. The underlying reason for the decline in the share of total deposits was the constancy of the real deposits, with respect to the end of 1996. Since the balance sheet total increased, and the deposits remained the same in real terms, the share of total deposits in the balance sheet total declined. When the total deposits were decomposed by currency denomination, it is observed that Lira equivalent of the foreign currency deposits increased by 3.8 percent in November 1997, with respect to the end of 1996. While the Turkish lira deposits decreased in real terms during the same period, and caused the share of total deposits in the balance sheet total to decrease.

The reasons for the decline in the Turkish lira deposits are various. First, the net real return on Turkish lira deposits decreased as the withholding tax on deposit rates of interest was increased from 5 percent to 12 percent, beginning from January 1997; and the rate of inflation increased in 1997. Second, funding behaviors of banks may also have been effective on the decline in total deposits. For example, banks may have inclined to finance the most of their loan portfolio through the available deposits, and thereby increasing the loans to deposits ratio, which indicates how much of total deposits was used to finance the loan portfolio. Such an inclination is reflected by the increase in this ratio to 69 percent in November 1997, from 62 percent in December 1996. Furthermore, the interest rates on Turkish lira deposits offered by the banks were also observed to remain fairly stable in the past two years, which may reflect the reluctance of banks to collect further Turkish lira deposits. The increase in the interest rates offered to foreign currency deposits, on the other hand, may reflect the banks' inclination to substitute the relatively cheaper foreign currency denominated funds for the Turkish lira deposits, which was relatively more costly in 1997, compared to foreign currency denominated funds, because of the appreciation of Turkish lira against major currencies. Finally, the shift of savers to alternative savings instruments (like repos) in search for higher returns on their funds, was more significant in 1997. The attractiveness of the repo operations for the savers was particularly significant, due to the superior tax and liquidity advantages of repos. Nevertheless, the newly imposed tax on the interest income from repo dealings may be expected to influence the attractiveness of repos in the near future.

The main developments in the other items of the liabilities side were summarized as follows: No significant change was observed in the share of reserves.

The share of net worth in the balance sheet total, which was 8.9 percent in December 1996, remained the same in November 1997. When the real increase observed in the total assets was considered, the unchanging share of the net worth reflected that the real net worth of the sector had grown by the same rate (10.6 percent) as the balance sheet total. The underlying factor behind the 10.6 percent real increase in the net worth was the 24.3 percent increase in the paid up capital of banks. It should be mentioned that the entrance of 3 banks (namely, Denizbank, Anadolu Bank, and ING Bank) into the banking market was also effective in the aforementioned increase in the paid up capital of banks.

The following developments were observed in the foreign currency assets and liabilities of the banking sector: According to the provisional data of December 12, 1997, the foreign currency assets of banks held abroad decreased by 4.2 percent in terms of US dollar, from US dollar 11.3 billion to US dollar 10.8 billion. The decrease was resulted by the decrease in the assets held in the correspondent accounts by 5.4 percent in terms of US dollar, with respect to the end of 1996. The foreign exchange assets held domestically, on the other hand, increased by 15.5 percent in terms of US dollar with respect to the end of 1996. The increase in reserve requirements with the Central Bank and the domestically extended foreign exchange loans were the determining factors for the mentioned increase in the domestically held foreign currency assets. The increase in the domestically extended foreign exchange loans (16.5 percent in US dollar terms, with respect to the end of 1996) was significantly high.

By December 1997, the total foreign currency liabilities of the banks increased by 10 percent in US dollar terms, with respect to the end of the previous year. The increase in the total liabilities of the sector resulted from the increases in both the medium and long term foreign exchange credit borrowed from the international financial markets and the foreign currency deposits of residents. As the available data indicates, short term loans borrowed by the banks had increased by 4.3 percent in US dollar terms, with respect to the end of the previous year. On the other hand, the medium and long term loans borrowed had increased by 42.5 percent in US dollar terms.

The increase in medium and long term credit may, at first glance, indicate that banks were able to borrow long term funds from the international financial markets easily. This may be interpreted as the endeavor of banks to circumvent the payment of the Resource Utilization Funds obligation imposed on loans from international financial markets for less than one year by borrowing for a maturity of slightly longer than one year. By December 12, 1997, the total credits borrowed by the banks from international financial markets increased by US dollar 1.3 billion.

The foreign exchange deposits which constitute the biggest part of foreign exchange liabilities of banks, increased by 10 percent in US dollar terms with respect to the end of 1996 and rose from US dollar 24.5 billion to US dollar 27.2 billion. The increase in the foreign exchange deposits held with the banks may be explained partly by the increase in the rates of return to these deposits offered by the banks.

As a result of the aforementioned developments in the foreign exchange assets and the liabilities of banks, open the position of banks increased by 65 percent in US dollar terms with respect to the end of the previous year and rose to an average of US dollar 4.1 billion from its past year average level of US dollar 3 to 3.5 billion. Despite the increase in the interest rates offered to foreign currency deposits, the reasonable trend of the cost of these deposits in terms of Turkish lira caused the demand for these deposits by the banks to increase and hence, the growth in the open position of banks in foreign currencies.

b) Developments in the Consolidated Profits and Loss Accounts

As of September 1997, the banking sector increased its after-tax profit by 352.2 percent in nominal and 146 percent in real terms and realized an after tax profit of TL 383.8 trillion. A detailed examination of the profit and loss account reveals that the profits of the sector were basically derived from the interest income from loans. Additionally, the non-interest income-expense balance resulted in a loss like the previous year.

The interest income from loans, which has the largest share in the total income of banks, had increased by 34 percent in real terms with respect to the previous year. During the same period, the interest income from the securities portfolio had increased by 101 percent and 8.6 percent in real terms. Consequently, the real increases in the interest income from both the loans and the securities portfolios resulted in a real increase of 32.7 percent in the total interest income.

By September 1997, the total interest expense of the sector had increased by 26.7 percent in real terms. Since the rate of increase in the interest expense of the sector was lower than that of the interest income, the sector enjoyed a significant cost advantage, stemming largely from the real constancy of the deposits. The constancy of total deposits in real terms enabled the banks' largest interest expense, namely the interest paid on deposits, at reasonable levels. Consequently, the real increase of 10 percent in the interest paid on deposits is significantly lower than the 30 percent increase observed between 1995 and 1996.

The above summarized developments indicate that the net interest incomes, which are the main source of income for the banks, had increased by 48.2 percent in real terms and rose from TL 380.5 trillion in September 1996 to TL 1 045.2 trillion in September 1997.

The non-interest incomes are the other significant sources of profit for the banks. As in the previous year, the non-interest income and expense balance was observed to yield a loss in 1997. When the non-interest income and expense items were examined in some detail, profits from the capital market operations were observed to decrease, while the foreign exchange losses increased. The mentioned developments in these two items caused the non-interest income and expense balance to turn into a loss despite the limited increases in both personnel and the other interest expenses.

Consequently, the above developments led the after tax profits of the sector to increase by 146 percent in real terms by September 1997 with respect to the same month of the previous year, and the sector realized a profit of TL 383.8 trillion.

c) Deposits

The total deposits of the banking sector, excluding interbank deposits, reached TL 10 quadrillion as of November 1997. This represents an increase of 89.2 percent in nominal and 4.3 percent in real terms with respect to the end of 1996. Compared to the previous year, the growth rate of Turkish lira deposits decelerated in 1997.

All deposit types other than the official, the foreign exchange and the other deposits categories decreased in real terms). Turkish lira deposits rose to TL 4,8 quadrillion as of November 1997, with a nominal increase of 84.8 percent and a real increase of 1.9 percent when compared to the end of 1996. During the same period, foreign exchange deposits rose to TL 5,1 quadrillion with a nominal increase of 93.6 percent and a real increase of 6.7 percent. The growth rate of foreign exchange deposits in terms of US dollars, which was 18 percent annually in 1996, realized at 6,7 percent as of November 1997 with respect to the end of 1996.

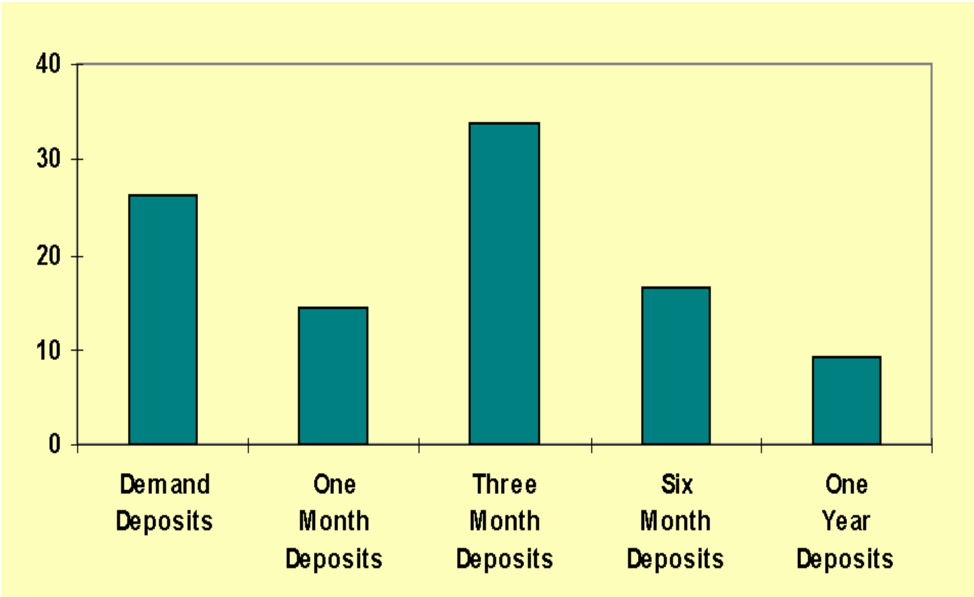
As has been the case in 1996, the breakdown of deposits by maturity reveals the fact that savings holders invested for relatively short periods of time in 1997. As of

November, the share of demand deposits in total deposits was 26.2 percent whereas the shares of one-month, three-month, six-month and one-year deposits were 14.4 percent, 33.8 percent, 16.5 percent, and 9.1 percent, respectively. It can be observed that most of the bank deposits had a maturity of three months or less (Figure III.1.1).

FIGURE III.1.1.

BREAKDOWN OF DEPOSITS BY MATURITY

(percent)



The growth rates of Turkish lira deposits according to type are given below. As of November, savings deposits increased by 73.7 percent, commercial deposits by 44.4 percent, official deposits by 215.6 percent, and other deposits by 129.8 percent in nominal terms with respect to the end of 1996. Since certificates of deposits were legally abandoned after January 30th, 1996, the volume of certificates of deposits decreased by 96.8 percent as of November. As has been the case in 1996, the highest increase was realized in official deposits, which only represent 5 percent of total deposits, during January-November. While the shares of foreign exchange deposits, official deposits and other deposits in total deposits increased slightly in 1997, those of savings deposits and commercial deposits declined (Table III.1.1)

TABLE III.1.1

THE SHARES OF TYPES OF DEPOSITS IN TOTAL DEPOSITS

(percent)

(Excluding Interbank Deposits)

	Foreign Exchange Deposits	Savings Deposits	Commercial Deposits	Official Deposits	Other Deposits and Certificates of Deposits
1991	34.0	37.0	12.0	3.0	14.0
1992 November	40.0	33.0	10.0	3.0	14.0
1993 November	45.0	29.0	10.0	4.0	12.0
1994 November	52.1	29.4	8.3	2.7	7.5
1995 November	49.2	32.7	8.0	2.3	7.8
1996 November	50.2	31.7	7.2	3.5	7.4
1997 November	51.5	29.3	5.8	5.1	8.3

Source: Central Bank

d) Credit

The total loans of the banking sector reached TL 7,1 quadrillion as of November 1997, with a nominal increase of 101.3 percent and a real increase of 11 percent with respect to the end of 1996. The loans to deposits ratio, which shows the amount of deposits channeled to credit, accelerated in 1997 when compared to the previous year and rose to 69.4 percent as of November. This was mainly due to the deceleration observed in the growth rate of deposits during the same period. The loans to assets ratio, on the other hand, declined to 39.7 percent (Table III.1.2.)

The share of private banks in the total loans of the banking sector was 60.1 percent as of November, while the share of public banks, development and investment banks, and foreign banks was realized as 31 percent, 5.6 percent and 3.5 percent, respectively. While the share of private and foreign banks increased, the shares of other banking groups decreased as of November 1997 when compared to the end of 1996. During the same period, the nominal increase in private bank loans was 136.4, whereas those of public banks, development and investment banks and foreign banks were 73.3 percent, 92 percent, and 232.5 percent, respectively. In real terms, these figures correspond to a 30.4 percent increase for private banks, 83.4 percent for foreign banks and 5.9 percent for development and investment banks whereas there is a 4.5 percent decrease for public banks (Figure III.1.2.).

TABLE III.1.2

DEVELOPMENTS IN BANK CREDIT

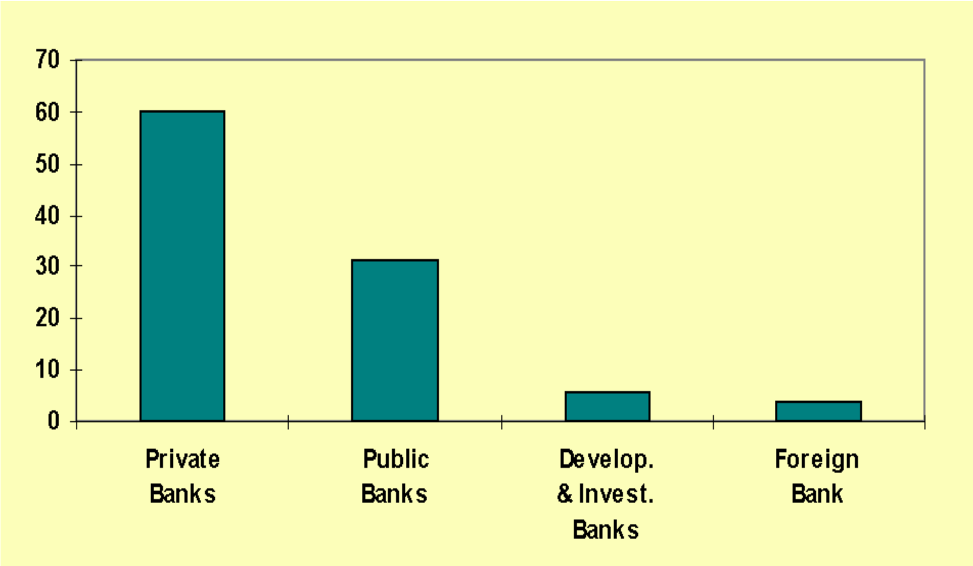
	Loans (percent increase)	Loans/Deposits (percent)	Loans/Total Assets (percent)
1991	59.7	73.9	42.3
1992 November	92.0	71.8	38.9
1993 November	103.9	88.8	42.6
1994 November	61.2	56.7	35.4
1995 November	118.4	62.0	39.4
1996 November	129.6	61.5	41.8
1997 November	101.3	69.4	39.7

Source: Central Bank

FIGURE III.1.2

BREAKDOWN OF LOANS BY BANK GROUPS

(percent)



As was the case in 1996, the majority of the loans was composed of commercial loans, export loans and special loans as of November 1997. Among the other types of loans, commercial loans was in first place with a 35 percent share of the total loans. The share of short term commercial loans and of total special loans was 30 percent and 19 percent, respectively. As of November 1997, while the share of commercial loans increased slightly when compared to the same period of the previous year, that of short term export loans remained the same and that of total special loans decreased. As to the other loan categories, the share of consumer loans was realized as 6 percent, import loans as 0.1 percent, financial loans as 5 percent, export guaranteed loans as 3 percent, and other investment loans as 2 percent. While the share of financial loans declined as of November 1997 when compared to the previous year, the share of export guaranteed loans increased, and the shares of other loan categories remained the same.

When the composition of loans is analyzed, it is observed that in 1997, a rise, though slightly, prevailed, in the share of foreign currency loans in total loans. The share of Turkish lira loans, which had been 55 percent at the end of 1996, declined to 51.2 percent in November, whereas that of foreign currency loans increased from 45 percent to 48.8 percent. During the same period, the nominal increase in foreign currency loans amounted to 118.3 percent

When the average maturity of loans is analyzed, it is observed that the share of short term loans was 83.2 percent and that of medium term loans was 16.8 percent as of November 1997. These figures were 82.3 percent and 17.7 percent respectively in the same period of the previous year. Thus, in 1997, there was no significant change in the average maturity of loans compared to 1996.

III.1.2.B. Legal and Administrative Regulations

The 1997 regulations related to banking are summarized as follows:

a) Changes in the Uniform Accounting Plan and Uniform Reporting Package

The Uniform Accounting Plan (UAP), which was put into practice in 1986, failed to keep pace with the rapid developments in banking practices and technology and with the requirements of the international arena. The UAP was revised in order to increase its effectiveness and to correct its deficiencies. The revisions were put into effect as of 1 January 1997 based on the authority invested by the Council of Ministers.

Accordingly, the Central Bank Monitoring Package, which was based on the UAP and has been in practice since 1986, was also revised. The revisions were made with a view to ensuring that the Monitoring Package included the new banking instruments, international accounting standards and other regulations on international banking, other information required by the Central Bank's monitoring system as well as the revisions to save time and labour. The new Monitoring Package became effective as of 1 January 1997.

b) The Legal Reserves on the Current and Participation Accounts of Special Finance Institutions

The 10th article of Central Bank Communique No.1 titled "Legal Reserves", which had been published in Official Gazette No.18348 dated 21 March 1984 and revised by several other Communiques on Special Finance Institutions since then, was replaced by Central Bank Communique No.5. The new communique was published in Official Gazette No.23182 dated 26 November 1997 and became effective starting with the legal reserves table of 28 November 1997. According to the new communique, regardless of the distinction between stock and flow funds, the ratio of required liquidity to be maintained at the cash and bank accounts was set as 6 percent and of legal reserves to be maintained with the Central Bank as 15 percent for the Turkish lira and foreign exchange current accounts, while the ratio of legal reserves with the Central Bank for the participant accounts was set as 6 percent. Moreover, the new communique established that for Turkish lira accounts, the required liquidity at the cash and bank accounts and the legal reserves with the Central Bank should be maintained in terms of Turkish lira; for US dollar, German mark, French franc, Netherlands guilder and Swiss franc accounts these requirements should be maintained in terms of the corresponding foreign currency; and for the remaining foreign exchange accounts, they should be maintained in terms of the US dollar.

c) Liquidity Requirements

The principles and conditions concerning the application of liquidity requirements was established by the Communique No. 96/1 published in Official Gazette No. 22704 dated 22 July 1996.

The deferred taxes, which had been considered as liquid commitments in Paragraph (b) of Article 2 of the old communique, were excluded from liquid commitments with the paragraph 13 annexed to Paragraph (b) by the Communique No. 97/1 published in Official Gazette No. 23182 dated 26 November 1997. Thereafter, banks were not required to maintain liquidity for the related account. Additionally, the one-year maturity condition for the Turkish lira bills were also removed by the revision of Article 4 of the old communique titled "Bills Considered As Liquid Assets". With the latter revision, the WPI condition requiring that bonds issued in Turkish lira by the Public Participation Fund and the Administration of Privatization be considered as liquid assets was removed. Meanwhile, some other borrowing instruments that had not been considered as liquid assets previously, were included among the liquid assets. These were the government bonds which are issued in Turkish lira and have a maturity of less than one year and the bonds which are issued by the Public Participation Fund or the Administration of Privatization and have a fixed or, except for the WPI indexed ones, flexible coupon rate.

d) Resource Utilization Support Fund

With Decision No. 96/9006 published in Official Gazette No. 22875 dated 12 January 1997 and with Communique No. 19 related to this Decision published in Official Gazette No. 22930 dated 11 March 1997, the following revisions were established:

1- A 10 percent deduction will be made on loans extended by finance companies for the Resource Utilization Support Fund (RUSP).

2- Concerning the imports based on an export incentive document together with a document of permission to process domestically and are financed in the form of either acceptance credits, a term-based letter

of credit, or cash against goods credit, upon the evidence that the commitments established by the related document are not fulfilled or partially fulfilled, the fund deduction together with its penalty charge will be collected by the customs administrations.

3- The penalty charge rate is reset as "three-fold of the legal interest rate". The penalty charge applies in the following cases: a) in cases where the fund deductions are not paid fully and on time by banks, special finance institutions and finance companies; b) concerning the loans that are subject to a fund deduction discount together with a tax and duty exception on imports, in cases where the export commitment or other commitments are not fulfilled or partially fulfilled; and, c) in cases where previously paid support premiums are contrary to decisions and communiques and therefore should be paid back.

With Decision No. 97/10043 published in Official Gazette dated 17 October 1997 and Communique No. 20 published in Official Gazette No. 23191 dated 5 December 1997, the decision stating that the funds raised by the export of stock exchange borrowing instruments abroad are considered as credits was abandoned.

With Communique No. 20, the loans that are used to finance imports of books were exempted from fund deduction.

e) Regulations Regarding Deposits

With Central Bank Communique published in Official Gazette No. 21914 dated April 24, 1994 related to Deposit Types and Categories, the two Communiques published in the Official Gazette No. 19926 dated September 11, 1988, related to the coverage of the types of deposits, and Central Bank Communique No 97/1 related to the types, coverage, and the categories of deposits published in the Official Gazette No. 22893 dated January 30, 1997, were combined in a single Communique. Furthermore, the category of Certificate of Deposit, mentioned in the aforementioned two Communiques, was removed.

In addition, Central Bank Communique No.1 related to Certificates of Deposits was changed several times by a sequence of Communiques, and removed in line with the Decree of the Board of Ministers No. 96/8443 related to the verification of customer identity, by Central bank Communique No. 97/1 published in Official

Gazette No. 22893 dated January 30, 1997. The reason why Central Bank Communique No.1 was repealed is that the transactions depicted in the Communique did not require customer identification.

III.1.2.C. Special Finance Institutions

As of October 1997, six special finance institutions (SFI) were actively operated in the financial markets.

By October 1997, the balance sheet total of the SFIs rose to TL 393.2 trillion from the previous year level of TL 198.7 trillion. By the end of October 1997, the annual increase in the balance sheet total was 97.9 percent in nominal and 15.3 percent in real terms. As calculated from the 1997 year end consolidated balance sheet of the SFIs, the largest share in the balance sheet total (68.6 percent) belonged to the loans extended under the name of current and participation accounts. The fixed assets and the item "banks" had the second and the third largest shares in the balance sheet total of the SFIs.

The share of the foreign currency assets in the balance sheet total, which was 73 percent in December 1996, declined slightly to 72.3 percent. During the same period, the share of the foreign currency liabilities in the balance sheet total rose to 76.5 percent from the previous year share of 72.6 percent. These developments led the net position of the SFIs in foreign currencies to turn into a short (open) position of TL 16.3 trillions in 1997 from a long position of TL 714 billion in December 1996.

By October 1997, the total net worth of the SFIs had increased by 68.8 percent in nominal terms and rose to TL 17.2 trillion, from the 1996 year end level of TL 10.2 trillion. The 65 percent increase in the total net worth resulted from the increase in paid up capital, while the 27.6 percent and 3.7 percent of the increase were the result of increases in the profits and revaluation fund items, respectively. Although the total net worth of the SFIs comprising 4.4 percent of their total sources of funds, increased in nominal terms, they declined by 1.7 percent in real terms as the rate of inflation rose in the second quarter of 1997.

The loans extended by the SFIs constituted 73 percent of their total assets in 1997. Between December 1996 and October 1997, the loans extended under the title of current and participation accounts had increased by 112.2 percent in nominal and 23.6 percent in real terms. As a result of this increase, the volume of loans rose to TL 269.7 trillion in October 1997 from TL 127 trillion in December 1996. The loans extended under the title of project loans had decreased by 9.1 percent in nominal and 47 percent in real terms. Consequently, the stock of project loans in the consolidated balance sheet of SFIs declined from TL 17.6 trillion to TL 15.9 trillion.

When the liability composition of the SFIs was examined in detail, it was observed that the SFIs financed 96 percent of their assets by borrowed funds, and 4 percent by their net worth. As of October 1997, 74.2 percent of the total borrowed funds was comprised of special current and participation accounts, and 4.2 was special project funds. Between December 1996 and October 1997, funds deposited in the current and participation accounts rose from TL 149.4 trillion to TL 291.7 trillion, increasing by 95.3 percent in nominal and 13.8 percent in real terms. By October 1997, the breakdown of the total assets and the liabilities of the SFIs by currency denomination was as follows: foreign currency and TL denominated funds comprised 88.6 percent and 11.4 percent of the total liabilities, respectively. While, the shares of the foreign currency and TL denominated assets were 79.3 percent, and 20.7 percent, respectively.

As of October 1997, the SFIs increased their after-tax profits by 193 percent in nominal and 56.3 percent in real terms. Therefore, the net profits of the SFIs rose to TL 5.2 trillion from its previous year end level of TL 2.5 trillion. During 1997, return on assets of the SFIs rose to 1.3 percent from 1.1 percent. The increase in the profitability of the SFIs was also reflected by the increase in the return on equity from 27.3 percent in December 1997 to 30.4 percent in October 1997.

As of October 1997, the market shares of the SFIs were as follows: Al Baraka Turk had the largest share in the market with 34 percent. While Ihlas Finans and Kuveyt Turk had the second and third largest market shares with 27 percent and 16 percent, respectively. The market shares of the remaining three SFIS, namely Anadolu Finans, Faisal Finans, and Asya Finans were less significant, and constituted 23 percent of the total.

When compared to the banking sector, the total assets of the SFIs constituted 2.3 percent of the total assets of the banking sector. Moreover, the total loans extended by the SFIs constituted 4 percent of the total bank loans. The total funds collected by the SFIs under the name of current and participation accounts constituted approximately 3 percent of the comparable total bank deposits. Finally, the total net worth and the profit of the SFIs each constituted 1.2 percent and 1.2 percent of the banking sector's net worth and profit, respectively.

III.2. THE MONEY MARKETS

In 1997, the Central Bank followed the program that has been applied since the second quarter of 1996. While implementing its policy, the composition of the growth of net foreign assets and net domestic assets were monitored. Thus, reserve money was monitored as the operational target of the Central Bank. The Central Bank aimed at keeping the reserve money within the program limits and minimizing fluctuations in exchange rates and interest rates, while adjusting the liquidity in such a way as to avoid disturbing the stability in the market. The

Central Bank made use of open market operations, the interbank money market and the foreign exchange market to maintain stability.

III.2.1 Government Securities

During the year, the Treasury had issued securities totaling TL 8 132 trillion, TL 7 496 trillion of which was sold through auctions, including option and average sales, as discounted and CPI-indexed securities with coupons. The remaining securities totaling TL 636 trillion were sold through public sale, long-term government securities with coupons and securities denominated in foreign exchange. Non-auction sales comprised 7.8 percent of the total sales. Since foreign exchange securities are denominated in various foreign currencies, they are sold at different interest rates. To be more precise, securities amounting to US dollars 18.1 million were sold at the rate of 7.04 percent, US dollars 6.8 million worth at 7.14 percent, another US dollars 50 million at 2.5 percent, US dollars 30 million at 2.65 percent, US dollars 20 million at 2.615 percent, 922.5 million German marks at 10 percent, 273.8 million German marks at 11.67 percent, 15 million German marks at 1.415 percent, 40 million German marks at 4.14 percent, 200 million French francs at 3.7 percent, 250 million French francs at 3.81 percent, 70 million Belgian francs at 3.50 percent, 100 million Belgian francs at 3.48 percent, 150 million Belgian francs at 3.97 percent, 180 million Austrian shillings at 3.70 percent, 200 million Austrian shillings at 3.8 percent and 100 million Netherlands Florins at 3.55 percent.

A different categorization would indicate that 59.3 percent of the total issue was composed of short-term bills including public sales, while the remaining 40.7 percent includes the government securities sold through auctions with a maturity of one year and more as well as non-auctioned long-term securities and the securities sold through public sale method. 62.7 percent of the auction sales consisted of short-term bonds while 37.3 percent of them were of long-term bills. The Treasury resorted to public sales once in May and sold securities totaling TL 39.7 trillion in 1997.

The 10 percent withholding tax applied as of November 1996 was increased to 12 percent at the beginning of 1997 by the December 29 1996 issue of the Official Gazette. During 1997, the 12 percent withholding tax continued to be applied. In addition to its auctions the Treasury started to sell CPI-indexed government securities having quarterly interest payments with 2 year maturities, of which the first auction was to be done on March 3, 1997.

Although it was lower in some auctions, the monthly weighted average compounded interest rate was around 94 percent at the beginning of 1997. It decreased in February, but the rates were increased by August and reached 119.5 percent. In the first quarter of the year, the compounded interest rate fell in the first auction of February where the maturity was shortened, then fell again in the first auction of March where maturity was lengthened although the rates were increased in between them. The Treasury preferred to borrow an amount close to its monthly domestic debt repayments or less than the repayment amount in the first half of the year except in April, and caused less liquidity squeeze compared to the second half of the year in the Turkish lira markets (Table III.2.1).

The longest term discounted auctions were carried out by the Treasury in January and March. However, in April and May, the Treasury preferred CPI-indexed auctions to discounted auctions and in May, the Treasury again borrowed from the markets by public sales.

In the CPI-indexed auctions carried out intensively in the March-June period, the real rate of returns were between 22 and 25 percent until the auction on the 13th of May and then they increased to 32 percent (Table III.2.2)

In addition, in order to lessen its intensive payment in December 1997, the Treasury made a reverse auction in August, during which the Treasury had its lowest debt repayment and in this way was able to withdraw TL 45.5 trillion with an average nominal 121.8 percent compounded interest rate. On September, the Treasury canceled the reverse auction.

The Treasury used short-term advances until August but especially in the first four months of the year. The short-term advance account was fixed at TL 337.6 trillion in August. In accordance with the agreement signed in July between the Treasury and the Central Bank, the Treasury did not use any short term advances for the rest of the year.

The Treasury borrowed more than the matured amount and as a part of its cash management strategy kept the excess amount in its deposit account in the Central Bank in the second half of the year except the last two months. The discounted auction interest rates, which were falling in September and October in monthly weighted terms, increased in the last two months and realized at 122.5 percent due to the intensive volume of domestic debt repayments and the lack of foreign debt inflow (Table III.2.1). The real rate of return on the last two CPI-indexed bonds at the end of the year realized at 26 and 32 percent (Table III.2.2.).

TABLE III.2.1

DISCOUNTED AUCTIONS

	Average Weighted Compound Interest Rate(1)	Nominal Volume of Sales (Billion TL)	Average Maturity (Monthly)(2)
January	94.15	601 156.1	9.0
February	91.73	. 720 144.7	9.4
March	96.35	965 957.5	10.8

April	-	-	11.7
May	-	-	13.9
June	100.99	76 233.2	15.5
July	106.07	824 770.2	14.6
August	119.52	984 835.9	14.3
September	116.36	580 172.2	13.8
October	109.34	753 358.3	12.7
November	114.68	429 838.4	12.8
December	122.53	584 227.1	12.4

Source: Central Bank

(1) The table was prepared according to auction dates. In cases where more than one auction was held in the same month, the realized compounded interest rates were calculated by weighting with the total volume of sales.

(2) Average maturity was calculated by weighting the net volume of sales in discounted and CPI-

indexed auctions

TABLE III.2.2

CPI- INDEXED AUCTIONS

Auction Dates	Total Volume of Sales (Billion TL)	Real Rate of Return (%)	Evaluation Rate
March 4, 1997	18 608.0	25.00	1.155
April 1, 1997	127 040.5	24.00	1.155
April 8, 1997	143 681.8	22.00	1.154
May 1, 1997	10 486.0	22.00	1.154
May 6, 1997	53 742.0	25.00	1.154
May 13, 1997	62 987.1	29.95	1.154
June 3 ,1997	269 059.0	32.00	1.154
June 17, 1997	3 050.0	32.00	1.154
November 25, 1997	140 151.9	26.00	1.179
December 23 ,1997	146 431.6	32.00	1.183

Source: Central Bank

III.2.2. Open Market Operations

The open market portfolio limit, which was increased to TL 650 trillion in March 1996, was not changed in 1997. In 1997, as in other years, the Central Bank used open market operations sometimes together with the interbank money market and the foreign exchange market and sometimes alone to manage the liquidity in the market in accordance with the implemented monetary policy and to preserve the stability of the markets.

The amount of the liquidity that was in relative excess at the beginning

of the year, fluctuated during the year due to the Treasury's use of short-term advances and the long religious holidays. In order to cope with these fluctuations, the overnight repo and reverse-repo transactions were carried out in the ISE Repo-Reverse-Repo market. However, a liquidity squeeze began due to the Treasury's strategy of borrowing domestically more than the maturing amount and not using short-term advances within the context of agreement that was signed between Treasury and the Central Bank in July. To reduce this squeeze, 7-day repo auctions and repo transactions in the ISE Repo-Reverse Repo market were carried out.

CPI-INDEXED GOVERNMENT SECURITIES

In the sale of CPI-indexed government securities, the participants in the auction declare the annual real rate of return and the nominal amount demanded.

While evaluating the auction results, the bids are arranged in descending order and the admitted rate is applied for all winning bids.

The first coupon interest rate, which will be based on the inflation evaluation rate, is calculated by taking the fourth root of the annual CPI rate, which is announced by SIS before the coupon term starts.

The variables in the formula are as follows;

R0 = Auction interest rate, annual, simple, real

Π = Annual inflation rate

π = Inflation evaluation rate

$$\pi = (1 + \Pi)^{1/4}$$

k = Coupon payment

KA = Inflation evaluation payment of the principal on the coupon payment date.

K = Total payment on coupon date

Formula:

$$k = 100000 \times (R0/4) \times \pi$$

$$KA = (100000 \times \pi) - 100000$$

$$K = k + KA$$

Considering the Treasury auction on April 1 1997 as an example:

Issue date April 2 1997

Issue price = TL 100 000

Annual real interest rate = R0 = %24

Annual CPI rate in February 1997 = Π = %77.7

Evaluation rate = π = $(1+0.777)^{1/4}$ = 1,155

Coupon payment as of July 2 1997 = k = 100 000 x (%24/4) x 1.155= TL 6 930

Difference payment resulting from the inflation evaluation as of July 2 1997 = KA = (100 000 x 1.155)-100 000 = TL 15 500

Total payment = K= 6 930 + 15 500 = TL 22 430

Subsequent coupon payments can be calculated in the same way.

Source: Istanbul Stock Exchange

Due to the increasing level of interest rates and the positive expectations about the economy, a huge foreign capital inflow was realized at the end of August and in September. The Central Bank increased the liquidity level by buying foreign exchange and thus the necessity of providing Turkish lira to the markets decreased. The excess liquidity was withdrawn by using reverse-repo transactions in ISE

Repo-Reverse Repo market due to the increasing level of liquidity at the end of September and the beginning of October.

The capital outflow observed after the financial crisis in the Southeast Asian countries was felt in the Turkish domestic market starting in the second half of October. This situation resulting in the Central Bank making intensive foreign exchange sales. The liquidity squeeze resulted from intensive foreign exchange interventions continued until the end of the year. To reduce the liquidity squeeze, repo transactions were carried out frequently in the last two months.

In this respect, repo transactions were conducted throughout the whole year. However, in order to reduce the liquidity squeeze in the markets, these transactions were done intensively in the July-October period due to the Treasury's policy of borrowing more than the maturing amounts and in November and December due to the Central Bank's intervention in the foreign exchange markets. In addition to the short-term repo auctions during the year, overnight repo transactions were carried out in the ISE to prevent the short term liquidity squeeze following tax and wage salary payments.

Reverse-repo transactions were carried out in January due to the excessive liquidity created by the salary increases of civil servants, in June when there was an excessive amount of reverse repo returns and at the beginning of October due to the heavy foreign capital inflows.

The injection of Turkish lira via open market operations increased in the last three months of the year, when the liquidity squeeze was the most intensive, whereas the most intensive withdrawals were carried out in January and September. The annual average interest rate on repo transactions was 77.3 percent but 69.4 percent on reverse repo transactions.

TABLE III.2.3

OPEN MARKET OPERATIONS

(Trillion TL)

	Direct Purchase (1)	Direct Sale (2)	Reverse Repo (3)	Reverse Repo Return (4)	Repo (5)	Repo Return (6)	CBRT(*) (7)	Net Effect(**) (8) (***)
January	0.0	39.8	193.4	88.2	39.1	57.4	39.2	(124.0)
February	26.5	58.8	91.1	103.5	280.5	273.7	44.2	31.1
March	26.5	95.5	75.2	98.5	46.2	40.5	65.9	25.9
April	0.0	20.8	77.2	112.0	462.8	399.2	18.9	96.5
May	0.3	15.9	82.3	162.8	377.5	458.7	14.1	(2.1)
June	37.0	41.8	107.4	147.4	159.1	159.9	2.9	37.4

July	0.01	3.0	75.4	81.5	734.1	678.6	0.0	58.6
August	0.0	0.4	0.4	0.4	1 033.1	947.9	0.0	84.8
September	0.0	9.6	69.4	69.6	532.1	645.5	0.0	(122.8)
October	3.6	0.02	211.4	212	970.1	749.9	1.0	225.3
November	2.3	28.0	0.0	0.0	3 906.1	3 690.4	39.3	229.2
December	6.5	10.7	0.0	0.0	6 499.1	6 332.6	24.2	186.6
Total	102.6	324.3	983	1 075.8	15 039.6	14 434.2	249.7	726.3

Source: Central Bank

(*) CBRT reimbursements

(**) The numbers in parentheses indicate withdrawals of TL from the market.

(***) (8)=(1) - (2) - (3) + (4) + (5) - (6) + (7)

III.2.3. Interbank Money Market

The number of banks dealing at the interbank money market in 1997 reached 73 with the participation of 4 new banks. In 1997, the one-sided transaction volume was realized as TL 15 638.9 trillion in this market and this figure represents 54 percent of the provisional GNP. This ratio was realized as 61.2 percent of GNP in 1996. The overnight transactions constituted 60.7 percent of the total transactions. In the first half of the year, the transaction volume was intense only in May; however, it gradually became more intense in the second half of the year. The largest transaction volume throughout the whole year was realized in August, when the Treasury caused a liquidity squeeze by borrowing more than the maturing amounts and in November and December, when the foreign exchange demand increased.

Especially in the second half of the year, in parallel to both the monetary policy implementation and the policy of lender of last resort, the Central Bank followed a short-term interest rate policy of staying over the secondary market interest rates, except in the period between the second half of the July and second half of the September. In this respect, the Central Bank preferred to inject liquidity to the markets at the end of day.

In order to regulate the liquidity in the market, the Central Bank was a net seller during the year except in January and met the liquidity need of the market. The largest injections of Turkish liras in overnight transactions occurred sequentially in December, November and August. As can be observed from table III.2.4., the interest rates rose gradually during the last two months, when the Central Bank did the largest volume of Turkish lira selling transactions.

In the interbank money market, the banks continued to use T/N (next day value; overnight transactions) and T/W (next day value; one week

maturity) transactions, which have been used since the beginning of December 1996, in the context of their cash-management plans for 1997. T/N and T/W transactions were realized mostly by the Central Bank as 96 percent and 98 percent respectively. The total transaction volume of the T/N and T/W transactions in which the Central Bank was a net seller during the year were realized as TL 5 247.2 trillion and TL 907 trillion respectively. The T/N transaction volume constituted 33.6 percent of the total transactions while the T/W transactions constituted 5.8 percent. The interest rates on the T/N transactions increased during the year except in October and February and the annual average simple interest rate was realized as 71.52 percent. There were not any T/W transactions in January and the annual average simple interest rate was realized as 72.57 percent on T/W transactions.

TABLE III.2.4

INTERBANK MONEY MARKET[(1)]

	TOTAL	O/N		T/N		T/W	
MONTHS	Average Transaction Volume	Average Transaction Volume	Average Interest Rate	Average Transaction Volume	Average Interest Rate	Average Transaction Volume	Average Interest Rate
	(Billion TL)	(Billion TL)		(Billion TL)		(Billion TL)	
January	42 082.8	36 217.8	61.48	5 865.0	70.71	-	-
February	50 153.9	35 041.7	66.29	12 528.9	66.91	2 583.3	67.94
March	54 220.3	29 633.9	65.12	21 485.0	67.00	3 101.4	68.00
April	63 098.7	32 485.3	68.52	25 443.2	67.00	5 169.7	68.00
May	65 739.6	28 038.0	66.30	31 743.4	67.00	5 958.3	68.00
June	56 298.3	28 996.0	70.53	21 178.9	68.74	6 123.4	70.10
July	60 557.1	40 527.3	69.00	15 768.9	72.06	4 260.9	72.28
August	72 319.0	39 347.2	73.93	26 621.1	73.53	6 350.7	74.50
September	63 705.5	32 421.5	75.23	25 399.0	75.00	5 885.0	76.00
October	59 612.3	48 442.4	71.57	10 195.0	74.98	974.9	76.03
November	73 394.8	48 333.6	77.87	23 688.5	76.99	1 372.8	78.00
December	81 772.3	49 926.0	78.04	30 155.9	78.34	1 690.4	79.40
TOTAL	61 912.9	37 450.9	70.32	20 839.4	71.52	3 622.6	72.57

Source: Central Bank

(1) Transaction volume is one sided

TABLE III.2.5

CENTRAL BANK OPERATIONS IN THE INTERBANK MONEY MARKETS

(Trillion TL)

	O/N					T/N	T/W
MONTHS	Purchase		Sale		Net [1]	Net	Net
	Amount	Aver. Int. Rate	Amount	Aver. Int. Rate			
January	168.2	55.12	52.6	75.67	115.6	(86.5)	-
February	24.9	52.00	102.9	72.00	(77.9)	(157.1)	(41.5)
March	59.1	52.00	116.7	72.00	(57.7)	(446.2)	(65.1)
April	39.1	52.00	227.3	72.00	(188.2)	(457.5)	(93.1)
May	68.7	52.00	206.4	72.00	(137.7)	(659.6)	(125.1)
June	16.2	52.00	254.1	72.00	(237.9)	(444.8)	(128.6)
July	65.0	52.00	397.8	72.82	(332.8)	(357.9)	(84.6)
August	13.9	54.00	594.0	74.41	(580.1)	(559.0)	(133.4)
September	1.7	56.00	392.0	76.00	(390.3)	(548.5)	(129.5)
October	70.3	56.26	358.4	76.00	(288.2)	(176.4)	(21.2)
November	-	-	657.3	78.00	(657.3)	(447.1)	(27.5)
December	38.7	60.00	781.6	78.96	(742.9)	(683.6)	(38.9)
TOTAL	565.7	53.94	4 141.1	74.32	(3 575.4)	(5 024.3)	(888.2)

Source: Central Bank

(1)Net purchases are calculated by subtracting total sales from total purchases. The numbers in parentheses indicate negative values, i.e. that sales are greater than purchases.

III.3. THE FOREIGN EXCHANGE AND FOREIGN CURRENCY MARKETS

As was the case in 1996, the largest volume of transactions in the foreign exchange and foreign currency markets was realized in the Turkish lira-foreign exchange market, with US dollars 19.6 billion representing 66.2 percent of the total transactions. In second and third place was the foreign exchange deposit market with US dollars 6.9 billion representing 23.3 percent and the Turkish lira-foreign currency market with US dollars 2.7 billion representing 9 percent of the total transactions. The volume of transactions in the Turkish lira-foreign

exchange market during the January-June period followed a balanced pattern except for a rise in February. The volume of transactions fell seasonally during the July-September period. The lowest volume of transaction was realized in September. Due to the reflection of the Southeast Asian crisis on the domestic foreign exchange markets as a foreign exchange demand in the last week of October, the transaction volume increased dramatically and the highest transaction volume of the year, US dollars 4.95 billion, was observed. Although the usual foreign exchange demand of banks in November and December caused a high transaction volume, it gradually decreased.

TABLE III.3.1

FOREIGN EXCHANGE-FOREIGN CURRENCY MARKET[(1)]

Transaction Volume

(US $ Million)

	TL FX	TL FC	FX FC	FX FX	FC FC	FX Deposit	Total
January	1 041.4	266	44.1	0.0	0.2	392.8	1744.50
February	1 701.1	565.4	35.8	0.0	0.0	489.7	2792.00
March	1 045.8	235.8	21.8	0.0	0.8	528.7	1832.90
April	1 338.0	268.3	24.3	0.0	0.5	537.6	2168.78
May	822.5	201.1	9.5	0.0	0.0	465.9	1499.08
June	1 044.9	212.6	14.0	0.0	0.5	611.1	1883.18
July	686.2	170.8	6.4	0.0	1.0	854.6	1719.04
August	806.9	128.7	17.2	0.0	6.3	540.8	1499.88
September	307.8	120.1	2.2	0.0	0.4	674.8	1105.26
October	4 954.1	123.4	29.7	0.0	0.7	568.6	5676.46
November	3 157.4	154.7	88.9	0.0	0.5	515.6	3917.12
December	2 720.6	211.0	167.8	0.0	0.5	726.7	3826.58
Total	19 626.8	2 657.9	461.7	0.0	11.3	6 907.0	29 664.8

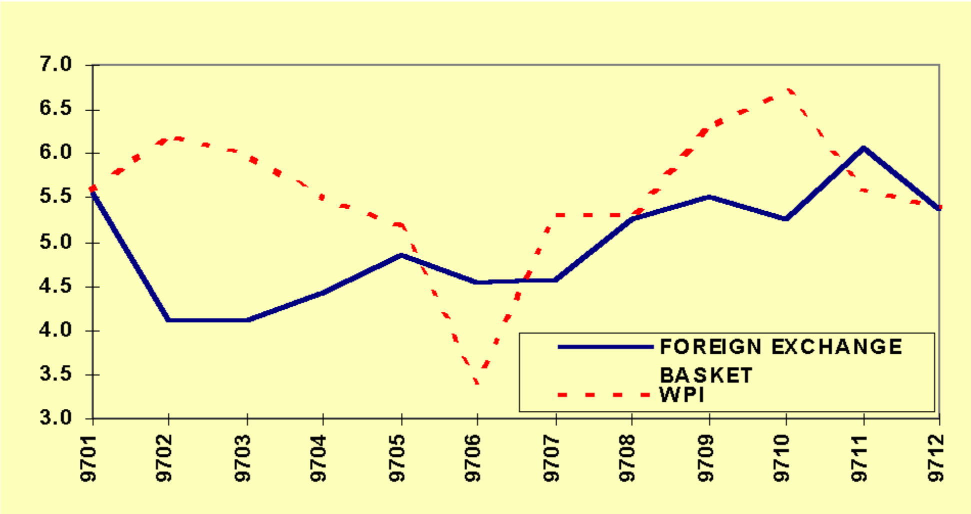
Source: Central Bank

(1) The transactions in the table are two-sided.

FIGURE III.3.1.

THE FOREIGN EXCHANGE BASKET AND THE WHOLESALE PRICE INDEX (1994=100)

(Monthly Percentage Change)



The Central Bank was a net seller in both the Turkish lira-foreign exchange and the Turkish lira-foreign currency markets throughout the whole year except in August and September. In order to prevent speculative movements due to rises in German mark/US dollar parity, the Central Bank intervened in those markets by selling foreign exchange until August. In June, German mark/US dollar parity reached 1.87, the maximum level of the last 7-8 years. Due to the liquidity squeeze created by tax payments and the Treasury's borrowing more than the maturing amount, the Central Bank's foreign exchange sales were realized at low levels and intensive foreign exchange compulsory transfers were observed. During August and September, the most intensive foreign exchange transfers of the year were realized due to the increasing level of capital inflow. This trend was reversed in the last week of October. In October, the largest volume of foreign exchange sales and purchases were aimed at intervening in foreign exchange and currency market. Starting especially in the last week of October, the banks demanded foreign exchange to reimburse foreign investors. In November and December, some banks demanded foreign exchange intensively in order to close their short positions as well.

When developments in the foreign exchange rates are examined for the year 1996, it can be observed that, except for the May-July and the November-December periods, the monthly increases in the average monthly foreign exchange rate basket were below the monthly increases in the wholesale price index. Whereas the minimum increase in the monthly average foreign exchange rate basket was realized in August with 3.5 percent, the maximum increase was realized in March with 6.3 percent. On the other hand, according to the “end of month” figures, the minimum increase in the foreign exchange rate basket was realized in January with

3 percent and the maximum increase again happening in March with 7 percent. According to the monthly averages, the annual depreciation of the Turkish lira against the US dollar and the German mark reached 84.1 percent and 70.8 percent, respectively. By the end of the year, the annual increase in the monthly average foreign exchange rate basket was realized as 77.3 percent, whereas the average annual increase in the wholesale price index was 75.9 percent

In 1997, the Central Bank continued to determine monthly nominal devaluation rates parallel to estimated inflation rate figures. Within the frame of this policy, the Central Bank concentrated on increasing the predictability of variations in monthly foreign exchange rate while trying not to affect the foreign trade balance negatively. As to developments in 1997, it was observed that, except for June and November, the monthly increases in the average foreign exchange rate basket were below the monthly increases in the WPI. Whereas the minimum increase in the monthly average foreign exchange rate basket was realized in March with 4.1 percent, the maximum increase was realized in November with 6.07 percent. On the other hand, according to the "end of month" figures, the minimum increase in the foreign exchange rate basket was realized in February with 4 percent and the maximum increase was realized in October and November with 5.7 percent. According to the monthly average figures, the annual depreciation of the Turkish Lira against the US dollar reached 90.8 percent. By the end of the year, the annual increase in the monthly average foreign exchange rate basket was 78.9 percent, whereas the average annual increase in the WPI was 81.8 percent.

III.4. THE SECURITIES MARKET

The outstanding securities whose biggest share belonged to the public sector, continued to increase for the January-October period, and reached a total of TL 6 223 trillion**.** This showed a 12.9 percent increase in constant prices when compared to 1996. Of this total, only 12.9 percent belonged to the private sector and 86.5 percent were public sector outstanding securities. Goverment bonds continued to be an important item in the public sector outstandings securities in 1997**.** Treasury bills were in a subordinate position with total of 39.5 percent. Outstanding foreign exchange indexed bond reached TL 23.2 trillion, increasing by 69.7 percent compared to TL 13.7 trillion in 1996. Shares played an important role with 97.3 percent in the total private sector outstanding securities. Corporate bonds, commercial bills, asset-backed securities, bank bills, profit-loss sharing certificates, and housing certificates represented only a small share of the total with 2.7 percent.

III.4.1. The Primary Market

III.4:1.A. The Public Sector

The issuances of public sector securities except for revenue sharing certificates and foreign exchange indexed bonds decreased from TL

4 969.9 trillion in 1996 to TL 4 732,2 trillion for the period January-October, 1997, a drop of 4.8 percent compared to the previous year as a result of the prevailing debth policy. The decrease in the issue of the treasury bills, which was 37.9 percent, had an important role in these developments. In contrast, the sale of government bonds increased by 93.9 percent. Due to the public sector borrowing requirement (PSBR), the public sector continued to use the biggest part of the funds in the capital market. This caused a pressure on market interest rate and resulted in a limitation on the resources for the private sector**.** Revenue sharing certificates were not issued in 1997**.** Privatization bonds, which had been issued in 1995 for the first time at a value of TL 25 trillion, reached TL 28.9 trillion in 1996, an increse of 15.6 percent. Then in 1997, it rapidly rose to TL 137.5 trillion, increasing by 3.8 fold.

The implementation of the privatization programme progressed slowly in 1997. It could not hit the target and the public concensus concerning the need for privatization has not been achieved throughout the eleven years the privatization programme has been implemented, this is due to the delay in arrangements of the necessary institutional regulations corresponding with Law no:4046 that was put into force in 1994 after the annulment of the basic rules of the privatization law by the Constitutional Court and also because of social problems and the inability to arrange other basic related regulations.

TABLE III.4.1

PRIVATIZATION IMPLEMENTATIONS (1986-1997)

(Million US $)

			Share in Total Percentage	
	1986-1996	1997(*)	1986-1996	1997
Block Sales	1492.9	251.1	48.8	54.2
Asset Sales	275.3	210.5	9.0	45.4
Public Offerings	433.2	-	14.2	-
International Offerings	330.0	-	10.8	-
ISE Sales	524.5	-	17.2	-
Incompleted Asset Sales	2.3	1.8	0.07	0.4
TOTAL	3058.3	463.4	100.0	100.0

Source: Republic of Turkey Prime Ministry Privatization Administration January 27, 1988 Bulletin

(*) December 31, 1997

The public shares in 13 firms including THY, TELEKOM, PETKİM, and ERDEMİR as well as some refineries belonging to TÜPRAŞ, 4 thermal power stations, 2 cement factories, 4 ceramic/brick firms and some other real estate, properties would have been prepared for auctions and targeted for privatization in 1997 either wholely or partially in 1997. Within this framework, a total revenue of US dollars 5.9 billion would have been obtained from the sale of the organisations on the privatization programme together with another US dollars 1 billion from TELEKOM GSM licence income. However, Hamitabat, Kemerköy, Soma and Yeniköy Elektrik Üretim ve Ticaret A.Ţ, which had been in the portfolio since 1995, were taken out of the portfolio and given back to the Ministry of Energy in August,1997. All the production and administration units of Yem Sanayii A.Ţ and SEK Süt Ürünleri A.Ţ were complately privatized and their corporate bodies were removed from the trade register. EBK was combined with the Et ve Balık Ürünleri A.Ş and it was liquidated in November,1997. Despite all these efforts, the revenue from privatization was well below the target only US dollars 463.4 million by December 31,1997.

The amounts raised from privatization are shown in table III.4.1. The total income from the privatization programme, together with dividend and other incomes, reached US dollars 4.2 billion by the end of the year,1996.

III.4.1.B. The Private Sector

In 1997, the total issuances of the private sector reached TL 351.3 trillion in the January-November period, increasing by 116.5 percent. This was a 29.4 percent in terms of constant prices.

With sales amounting to TL 294.1 trillion, shares showed an increas of 187.8 percent compared to 1996, making this item the most important in the private sector securities. The firms which prefer to issue shares considered this a better source of income than getting loan, so they continued to issue share to the public in 1997. Accordingly, the issuance of private sector corporate bonds declined by 41.4 percent. The issuance of commercial bills and asset backed securities showed 23.6 percent and 44.7 percent decreases, respectively. In terms of constant prices, these values were 51 percent for corporate bonds, 71.5 percent for asset backed securities and 56.8 percent for commercial bills.

Despite the reimbursement made for asset backed securities at a value of TL 100.4 trillion in 1996, on stock issue at only TL 23 trillion by October, 1997. The outstanding asset backed securities realized an increase of 78.9 percent in 1997, As for the mutual fund participation certificates (MF-PC), they continued to increase, reaching TL 29.5 trillion. Only TL 8.9 trillion worth was issued in 1996, so the increase was 230.2 percent. On the other hand, foreign mutual fund participation certificates (FMF-PC), which had been issued in July, 1997 for the first time, were registired with the Board at the value of TL 1.8 trillion. Bank bills, profit-loss sharing certificates and housing certificates were not issued in 1997.

III.4.2. The Secondary Market

The total volume of transactions on the secondary market realized at TL 123 quadrillion, increasing by 66.2 percent in the January-October period, compared to the previous year. The public sector continued to play an important role in the secondary market and its share in total transaction volume was 94.4 percent. The sales of government bonds and treasury bills had the biggest share in the total volume, TL 58.9 quadrillion and TL 57.1 quadrillion respectively.Foreign exchange indexed certificates reached TL 112.8 trillion. The transaction volume of government bonds increased by 356.7 percent while the volume of treasury bills and foreign exchange indexed certificates decreased by 0.2 percent and 74.4 percent, respectively.

Shares maintained their importance in the total transaction volume of the private sector. They amounted to TL 6 717.6 trillion, followed by corporate bonds with a value of TL 176.6 trillion. The transaction volume of asset backed securities fell to TL 3.2 billion. The total transaction volume for those assets was TL 6.9 quadrillion in 1997. This showed a 99.5 percent increase compared to the end of the previous year. All ratios are shown in the table III.4.2. in comparison with the January-October period 1996.

11.1 percent of all transactions on the market were realized by non-banking financial intermediaries and 88.9 percent were realized by banks. This value for banks was 93.6 percent in the previous year.

TABLE III.4.2

DEVELOPMENTS IN THE TRANSACTION VOLUME OF THE SECONDARY MARKET

(TL Trillion)

					Share in Total	
				Percentage	Percentage	
	1996	1996 (1)	1997 (2)	Change	1996 (1)	1997 (2)
PRIVATE SECTOR	3 456.4	2 639.6	6 894.3	161.2	5.0	5.6
Shares	3 039.6	2 268.5	6 717.6	196.1	4.3	5.5
Corporate Bonds	152.8	120.8	176.6	46.2	0.2	0.1
Bank Bills	25.1	25.1	-	-	-	-

Commercial Bills	-	0.0	-	-	-	-
Asset Backed Securities	238.8	225.2	0.003	-	0.6	-
PUBLIC SECTOR	70 523.7	50 317.7	116 079.9	130.7	95.0	94.4
Government Bonds	12 889.8	7 275.3	58 863.4	709.0	13.7	47.9
Treasury Bills	57 193.0	42 716.1	57 103.7	33.7	80.7	46.4
Revenue Sharing Certificates	-	0.0	-	-	-	-
Foreign Exchange Indexed Bonds	440.9	326.2	112.8	-65.4	0.6	0.1
Housing Certificates	0.1	0.1	-	-	-	-
TOTAL	73 980.1	52 957.3	122 974.1	132.2	100.0	100.0

Source: Capital Market Board, Monthly Bulletin, November, 1997

(1) and (2) The figures for 1996 and 1997 are for January to October.

PRIVATIZATION

In the late 1980s, privatization was pursued far more vigorously by developing countries than by developed countries, usually as part of broader programmes of stabilisation and structural reform. These programmes were often implemented with the support of the IMF and the World Bank. Several motives appeared to have played a role in this change of policy attitudes. They were as follows:

1. Policy makers and academics have slowly become convinced that state ownership tends to lower internal efficiency of companies in product markets.

2. In the general process of internationalization, economic integration of countries has made cross-border mergers and strategic alliances all the more important. In particular, this may be the case in some sectors where agreements have opened up scope for international competition. In this respect, relieved from the restraints of government budget financing, privatised companies may have more freedom to make new investments by tapping directly into the capital market and may be more willing onto take advantage of joint ventures.

3. One specific aim of most privatization programmes is to widen share ownership and to create a “ share holder” culture in the population at large. A closely connected motive is the further expansion of capital markets. In particular, large scale privatization should lead to increased capitalisation, to more liquid capital markets and to closer scrutiny of companies by the capital market.

4. Goverments are increasingly coming under budgetary strain. In this respect, the privatization of state companies is attractive as it removes the need to transfer resources to companies running deficits and generates revenues from the sale of the companies.

In 1985, the privatization programme was initiated in Turkey . Within the framework of this programme, a total of 164 companies were included in the privatization portfolio. Later, 15 of the companies were taken out of the portfolio for various reasons, and 102 companies were privatised by selling either shares or assetes. No state shares were left in any of them. At present, there are 45 companies and some real estate properties in the portfolio. The state owns more than 50 percent of the shares of these 35 companies

III.4.3. Istanbul Stock Exchange (ISE)

The Istanbul Stock Exchange composite index reached 3 451 at the end of 1997, an increase of 254 percent in nominal terms compared to the previous year (Table III.4.3). In the same period, the financial index and the industrial index increased by 394 and 154 percent, respectively.

The composite, financial and industrial indeces increased in real terms by 85, 159 and 33 percent, respectively. The increases in these three indices in terms of US dollars were realized 84, 157 and 32 percent, respectively.

According to the end of the month data, the highest increases in the composite index were realized in January, September and December. In January, the Istanbul Stock Exchange composite index increased 64 percent due to the decrease in interest rates on the government papers sold by auctions and also because of stable exchange rates. Due to the increase in political and economic uncertainities, the composite index showed no change in February and March. After decreasing 12 percent in April, the composite index went up over 10 percent in May and June. After increasing slightly in July and August, it increased 31 percent with the arrival of foreign investers in September. Although the composite index started with a high increase in September, the Istanbul Stock Exchange, effected negatively by the Southeast Asian financial crises just as all of the stock exchanges in the world were, thus causing the composite index to fall sharply. Seeing no important change in November, the composite index increased 20 percent in December, according to the end of the month data.

The monthly average of share prices at ISE increased 11 percent in 1997. The highest returns were observed in January and February (Table III.4.4). In the table, risk was defined as the standard deviation of daily returns. The highest risks were also observed in the same months. The relationship between risk and return was negatively realized in March and November. In these months, while the risk was higher, returns turned out to be negative. While August had the highest risk per unit of return in 1996, February and March had the highest risk in 1997.

The total trading volume and the total market capitalization of stock market companies increased 203 and 289 percent in 1997, respectively (Table III.4.5). In the same period, the total trading volume and the total market capitalization increased 56 and 102 percent in terms of US dollars, respectively. In addition to this, the number of companies at the ISE increased to 244 from 213 compared to the previous year. While the average price/earnings ratio increased 56 percent, the average dividend yield ratio decreased 28 percent in 1997.

TABLE III.4.3

ISE INDICES

	Composite	Financial	Industrial
1988	3.74(1)		
	120(2)		
1989	22.18		
	561		
1990	32.56	2.56	32.56
	643	643	643
1991	43.69	33.55	49.63
	501	385	570
1992	40.04	24.34	49.15
	273	166	335
1993	206.83	191.90	222.88
	833	773	898
1994	272.57	229.64	304.74
	413	348	462
1995	400.25	300.04	462.47
	383	287	442
1996	975.89	914.47	1 045.91

	534	500	572
1997	3 451	4 522	2 660
	982	1 287	757

Source: ISE Monthly Bulletins.

(1) According to closing prices in terms of Turkish lira. Composite index January 1986= 1.

(2) According to closing prices in terms of US dollars. Composite index January 1986= 100. All are end-of-year figures.

TABLE III.4.4

ISE COMPOSITE INDEX ACROSS MONTHS IN 1997

Months	Index (1)	Monthly Change(2)	Daily Change(3)	Daily Risk(4)	Coefficient of Variation(5)
January	1 277	37.2	2.38	4.45	1.87
February	1 583	24.0	0.05	2.49	46.12
March	1 536	-3.0	0.07	3.78	53.50
April	1 514	-1.4	-0.71	1.46	-2.07
May	1 476	-2.5	0.56	2.63	4.66
June	1 663	12.7	0.90	3.18	3.56
July	1 943	16.8	0.23	1.72	7.38
August	1 988	2.3	0.08	1.45	19.21
September	2 327	17.0	1.24	1.33	1.07
October	3 077	32.2	0.51	4.23	8.25
November	2 916	-5.2	0.14	4.09	29.63
December	3 057	4.8	0.82	2.51	3.06
All Months	2 030	11.2	0.52	2.78	14.69

(1) Monthly average of daily observations of ISE composite index; (2) Montly change according to monthly average data (percentage); (3) Average daily change (percentage); (4) Standard deviation of observations of average daily change (percentage); (5) Coefficient of variance, daily standard deviation divided by average daily change, shows risk per unit of return.

STOCK MARKETS AND BANKING SECTOR

In a study made by World Bank in 1996, it was observed that stock markets and banks can not substitute for each other. Nevertheless, improvements in these institutions go hand-in-hand with each other. Countries with better-developed stock markets have better-developed banks and countries with weak stock markets also tend to have weak banks.

In the same study, the relationship between stock market development and the financing choices of firms were also investigated. Improvements in the functioning of the stock market produces a higher debt-equity ratio in firms. While stock market development naturally implies greater use of equity markets in raising capital, it also stimulates greater use of bank finance, so corporate debt-to-equity ratios actually rise.

As a result, when a firm is making a choice concerning finance, stock markets and banks are not substitute for each other. However, stock market development tends to increase the quantity of bank loans.

TABLE III.4.5

ISE FIGURES

	Trading Volume(1)	Market Capitalization (2)	Number of Companies(3)	Price/Earnings Ratio(4)	Dividend Yield(5)
1986	9	709	80	5.1	9.2
	13	938		3.7	13.1
1987	105	3 182	82	15.9	2.8
	118	3 125		13.4	4.9
1988	149	2 048	79	5.0	10.5
	115	1 128		6.4	8.4
1989	1 736	15 553	76	15.7	3.4
	773	6 756		6.6	10.8
1990	15 313	55 238	110	24.0	2.6
	5 854	18 737		23.3	2.6
1991	35 487	78 907	134	15.9	4.0
	8 502	15 564		13.6	4.7
1992	56 339	84 809	145	11.4	6.4
	8 567	9 922		10.7	5.8
1993	255 222	546 316	160	25.8	1.7
	21 770	37 824		15.4	4.2
1994	650 864	836 118	176	24.8	2.8
	23 203	21 785		18.2	4.3

1995	2 371 832	1 251 797	193	9.2	3.6
	52 311	20 565		13.1	3.6
1996	2 940 865	3 225 269	213	12.2	2.9
	36 698	30 329		10.7	3.9
1997	8 907 402	12 545 684	244	24.4	1.6
	57 178	61 348		16.7	2.8

Source: ISE Monthly Bulletins.

(1) Total trading volume. The upper and lower figures are in terms of billion Turkish liras and million US dollars. respectively.

(2) The total market capitalization of companies whose common stocks were traded on the ISE. The upper and lower figures are in terms of billion Turkish Liras and million US dollars. respectively.

(3) The number of companies whose common stocks were traded on the ISE (year-end)

(4) Price/Earnings ratio. The upper and lower figures show year-end value and monthly average. respectively.

(5) Dividend value (percentage). The upper and lower figures show year-end value and monthly average. respectively.

III.4.4. Volatility at ISE

The average daily volatility at ISE was calculated for period between 1988 and 1997. Volatility was defined as the absolute value of daily returns. The ISE composite index showed high daily volatility in this period. (Table III.4.6).

TABLE III.4.6

VOLATILITY AT THE ISE

	Average(1)	Risk(2)	Coefficient of Variation(3)
1988	1.76	1.69	0.96
1989	2.22	2.02	0.91
1990	2.68	2.28	0.85
1991	2.54	2.36	0.93
1992	1.68	1.48	0.88
1993	2.13	1.69	0.79
1994	2.81	2.36	0.84
1995	1.98	1.71	0.86

1996	1.59	1.37	0.86
1997	2.22	2.13	0.96

(1) Average daily volatility of the ISE Composite index (percentage). Volatility has been defined as the absolute value of daily returns.

(2) Standard deviation of daily volatility observations of the ISE Composite index (percentage).

(3) Coefficient of variation. risk divided by average. shows the risk per unit of volatility.

Average daily volatility differs over the years (Table III.4.6). The highest year of average daily volatility was 1994. which saw financial crisis and lower economic growth in real terms. 1990 and 1991 experienced recession in the world economy and the gulf crisis. resulting in high volatility at ISE. While the domestic economy grew in 1997. the financial

crisis in Southeast Asian markets caused high volatility at ISE.

The highest years of volatility risk. defined as the standard deviation of daily volatility. were also 1990. 1991. 1994 and 1997. In this study. the relationship between the average daily volatility and the risk of volatility has moved in the same direction.

IV

CENTRAL BANK BALANCE SHEET

IV.1. ANALYSIS OF THE BALANCE SHEET

The major items on the 1997 Balance Sheet of the Central Bank are shown below:

Assets	1996	1997
1. Gold Holdings	152,873,102,467,000	236,683,063,842,500
2. Foreign Exchange Debtors	1,749,607,208,751,000	3,771,626,989,985,000
3. Coins	428,655,882,800	485,359,516,500
4. Domestic Correspondents	13,030,693,714,705	76,469,925,086,928
5. Securities Portfolio	427,972,560,490,000	1,315,312,839,433,000
6. Domestic Credit	380,884,358,918,500	346,875,211,855,340
7. Open Market Operations	99,725,164,122,000	746,851,732,177,500
8. Foreign Credit	124,699,849,043,500	247,977,598,427,000
9. Participations	533,520,990,000	940,174,050,000
10. R. Estate, Furniture and Fixtures	7,703,517,088,181	15,150,599,932,745
11. Claims in Prosecution	4,825,560,764	4,825,560,700
12. Accounts to be Redeemed		
and Activated Claims	39,738,646,000	-
13. Provisory Debtors	2,529,716,034,731	25,427,232,789,824
14. Other Assets	37,963,252,584,216	53,482,836,621,236
TL Assets	**2,997,996,164,293,397**	**6,837,288,389,278,273**
Regulating Accounts	**6,301,446,245,636,332**	**15,081,448,763,347,585**
Liabilities		
1. Banknotes in Circulation	382,242,902,193,970	758,878,047,072,800
2. Liabilities to Treasury	10,455,289,412,679	63,607,148,061,121
3. Claims in Foreign Exchange	8,834,516,269,500	10,873,126,501,000
4. Deposits	2,148,567,569,506,394	4,463,923,807,210,949

5. Open Market Operations	121,762,643,667,500	728,312,968,592,000
6. Foreign Credit	1,842,779,707,000	2,989,689,073,000
7. Claims from Letter of Credit,		
Import Guarantees and Deposits	33,322,474,171,996	56,191,172,444,896
8. Bills and Money Orders	634,012,398,500	913,458,677,000
to be Paid		
9. Capital	25,000,000,000	25,000,000,000
10. Reserve Funds	9,257,374,807,355	39,016,070,733,331
11. Reserves	1,921,126,952,300	1,933,842,687,800
12. Accounts to be Redeemed	49,973,610,172,000	290,796,387,281,000
13. Provisory Liabilities	3,315,373,776,186	9,059,891,339,186
14. Other Liabilities	140,483,012,904,618	279,395,264,631,006
15. Profit	85,358,478,353,399	131,372,514,973,184
TL Liabilities	**2,997,996,164,293,397**	**6,837,288,389,278,273**
Regulating Accounts	**6,301,446,245,636,332**	**15,081,448,763,347,585**

Assets:

1. Gold Holdings

The value of the gold stock on the balance sheet had been calculated on the basis of 1 ounce of gold = 369.14 US dollar since 1988. However, due to the decline in gold price on international markets, the value of the gold stock on the balance sheet is shown at the rate of 1 net gram of gold = TL 1,974,858.1349 calculated on the basis of, 1 ounce of gold = 289.20 US dollar of which 103.74 percent is 300 US dollar, fixed on the last day of 1997 to be used during the year.

At the end of 1997, the gold stock was 119,848,134.74 net grams, equivalent to TL 236,683,063,842,500. The gold stock consists of both international and non-international standards.

	Net Gram	Turkish Lira
International Standard	116,578,844.52	230,226,679,456,000
Non-International	3,269,290.22	6,456,384,386,500

Total	119,848,134.74	236,683,063,842,500

During 1997, the value of the international standard gold holdings showed an increase of TL 53,002,100,500 equal to gold holdings of 30,482.55 net grams. This is the balance resulting from a gold purchase of 154,694.94 net grams amounting 1,635,750.09 US dollar and gold sales of 124,212.39 net grams amounting 1,270,283.56 US dollar. Another net increase of TL 81,471,720,506,500 represents the balance between a positive exchange rate difference of TL 134,531,295,899, 500 due to the depreciation of Turkish lira against the US dollar and a negative exchange rate difference of TL 53,059,575,393,000 due to the revaluation of gold prices parallel to the international markets.

In 1997, compared to the previous year, the gold holdings of non-international standards increased by TL 2,285,080,857,500 in value, due to the gold income of 64.98 net grams amounting to TL 157,901,000 as well as to the exchange rate difference amounting to TL 1,487,981,387,000 caused by the revaluation of the gold price parallel to the international markets and the exchange rate difference amounting to TL 3,773,062,244,500 due to the depreciation of the Turkish lira against the US dollar.

2. Foreign Exchange Debtors

This item consists of the accounts opened by the Central Bank with foreign correspondents against convertible and non-convertible foreign exchange, and the foreign currencies available in the Bank's vaults. The balance of this account calculated at the year-end evaluation rates amounted to TL 3,771,626,989,985,000, of which TL 3,771,244,399,261,500 and TL 382,590,723,500 were the convertible and non-convertible amounts, respectively.

A) Convertible:

This item includes the convertible foreign exchange accumulated in the Foreign Correspondents Account amounting to TL 3,696,885,377,342,000 and the foreign currencies in the Bank's vaults amounting to TL 74,359,021,919,500 as of the end of the year.

B) Non-Convertible:

This item includes the Foreign Correspondents Account denominated in Agreement Dollars in accordance with bilateral agreements, and the non-convertible foreign currencies available in the vaults. TL 25,698,566,500 of this item was in the Foreign Correspondents Account, and TL 356,892,157,000 was in the Foreign Currency Vault.

3. Coins

This item consists of the coins available in the Central Bank's vaults, which totaled TL 485,359,516,500 at the end of the year.

4. Domestic Correspondents

This item consists of both Correspondent Accounts in Turkish lira opened in accordance with the Correspondent Agreement, which totaled TL 86,928, and the foreign exchange deposit accounts at domestic banks, which amounted to 76,469,925,000,000 at the end of the year.

5. Securities Portfolio

This item consists of the Government Debt Securities bought pursuant to Article No. 52 of Central Bank Law No. 1211 and Government Securities given by the Treasury in accordance with Article 61 and provisional Article 9 of the Central Bank Law to compensate for exchange rate differences arising from the revaluation of gold, foreign exchange and foreign currency assets and liabilities of the Bank and short-term advances. The Government Debt Securities replace the claims capitalized from the Treasury and other public institutions in accordance with Arbitration Laws No. 2974 and No. 3836. It also includes the Special Issue Government Debt Securities taken from the Treasury against the debt of the Agricultural Products Office to the Central Bank and the government debt securities taken in accordance with the 1996 Budget Law No. 34 and the 1997 Budget Law No. 31 against the interest rates of the aforementioned government debt securities, and the amount deposited to the Government Bonds Account by the Central Bank as the legal reserves requirement in accordance with Article No. 33 of Banking Law No. 3182. Government Securities and Government Bonds are traded at the purchasing cost pursuant to article 279 of the Law on Tax Procedure.

Due to the repurchase and reverse repurchase operations between the Central Bank and other banks, increases and decreases in this item must be evaluated along with the "Securities" portions of "The Debtors Brought Forward" and "The Creditors Brought Forward" items of the Open Market Operations on both the assets and the liabilities sides of the balance sheet. The balance of the Securities Portfolio was TL 1,315,312,839,433,000 at the end of the year.

6. Domestic Credit

Domestic loans amounting to TL 380,884,358,918,500 in 1996, decreased by a total amount of TL 34,009,147,063,160 resulting from a decline of TL 33,996,283,271,160 in the public sector and a decrease of TL 12,863,792,000 in the banking sector, thus reaching TL 346,875,211,855,340 in 1997. The breakdown of the items is as follows:

	Turkish Lira
A) Public Sector:	339,199,404,798,340
a) The Treasury	
i- Short-term Advances to the Treasury	337,623,165,018,000
b) Public Economic Institutions	-
c) State Economic Enterprises	1,576,239,780,340
B) Banking Sector	7,675,807,057,000
a) Commercial	7,675,099,657,000
b) Agricultural	-
c) Industrial	707,400,000
d) Advances against Bonds	-
e) Other	-
	346,875,211,855,340

7. Open Market Operations

This item reached TL 746,851,732,177,500 at the end of the year, with an increase of TL 647,126,568,055,500 compared to the previous year. Of this total, TL 710,201,732,177,500 represents the debt arising from securities swap transactions of the banks to the Central Bank in cash. The cash debts of the banks due to money market operations was TL 36,650,000,000,000.

8. Foreign Credit

This account shows the credit extended in accordance with the Banking Agreements between the Central Bank of Turkey and the Central Banks of Iraq, Algeria and Sudan. It also includes the credit extended against the bills that were issued by the Vnescheconombank of the Russian Federation against the wheat exports made by the Soil Products Office to that country and bought by the Central Bank, as well as the credit extended by the banks against the bills indexed to foreign exchange and guaranteed by a bank abroad so as to finance the claims of exporters who sell in installments. At the end of the year, the balance of this account was TL 247,977,598,427,000, equal to 1,211,123,801.84 US dollar.

9. Participations

The balance of this account was TL 940,174,050,000 at the end of 1997.

In accordance with Article 3 of Central Bank Law No. 1211, this item consists of the Central Bank's accounts of 5,000,000 Swiss francs against gold in the Bank for International Settlements in Basle and the account in 385,000 Belgian francs in the Bank for Worldwide Interbank Financial Telecommunication (SWIFT). The value of these participations is calculated at the rate of 1 gold Swiss franc= TL 187,609 and 1 Belgian franc= TL 5,530.

10. Real Estate, Furniture and Fixtures

This item consists of the buildings, plots, furniture and fixtures owned by the Central Bank.

The total re-appreciated cost of the real estate of the Central Bank, except for the plots, was TL 14,613,051,235,014. After deducting the accumulated depreciation amounts over the cost value of the buildings and the accumulated depreciation amounts, which are subject to a yearly re-appreciation amounting to TL 1,046,607,317,114, the net value of the real estate was TL 13,566,443,917,900. This real estate is insured for TL 7,227,430,000,000.

After deducting the re-appreciated depreciation amount of TL 1,142,094,190,183 from the cost value of TL 2,726,250,205,028, including the re-appreciation made in previous years as of 1990, the net cost value of the fixed assets was TL 1,584,156,014,845 and they were insured for TL 1,621,400,070,904.

11. Claims in Prosecution

The balance of this account at the year's end was TL 4,825,560,700. This account shows the Claims in Prosecution arising from the debts of " Yapı Kredi Bankası" and "T. Bağcılar Bankası" to the Central Bank, whose bankruptcies became final on November 20, 1985 and March 12, 1986 respectively, together with the principal, interest and tax.

12. Accounts to be Redeemed and Activated Claims

This item was in balance, and its breakdown is shown below:

A- Claims Activated in Accordance with Law of Consolidation No. 3836:

This item was settled through Government Securities given by the Treasury in 1993.

B- The Evaluation Difference in Accordance with Article 61 of the Central Bank Law:

a) Included Accounts:

In accordance with the agreement with the Treasury, the amount of TL 39,738,646,000 which is the remainder of the negative exchange difference as of end of 1995, was liquidated against the positive exchange rate difference of 1996. Hence, the exchange rate difference was converted to a positive figure. Since the positive exchange rate difference is listed under the liabilities column, no balance could be observed.

b) Excluded Accounts:

The positive exchange rate difference is listed under the liabilities column since 1996 therefore no balance could be observed.

13. Provisory Debtors

This item, which shows the balance of the claims amounting to TL 25,427,232,789,824 at the end of the year, consists of the equivalent of TL 654,818,858,500 in foreign exchange, and TL 24,772,413,931,324, the breakdown of which is as follows:

- Bank Participation shares paid to the Central Bank Pension Fund Foundation and claimed from the Foundation in accordance with Decisions of the Board Nos. 7004/16603 and 7039/16638 dated November 1, 1995 and December 21, 1995, respectively, and kept in the Provisory Debtors item until it gets claimed.	1,717,160,608,650
- Paid in accordance with Decision of the Board No. 6809/16408 dated January 24, 1995.	(1,500,000,000,000)
- Monthly Bank Participation Shares paid in accordance with the Foundation Promissory	(217,160,608,650)
- Advances and Deposits	115,955,269,019
- Temporary Tax and Income Tax and Fund Share	22,736,827,542,800
- Other	202,470,510,855
TOTAL	24,772,413,931,324

14. Other Assets

This item shows various claims of the Bank, amounts to a balance of TL 53,482,836,621,236 at the year's end, and consists of TL 51,114,288,669,236 and the equivalent of TL 2,368,547,952,000 in foreign exchange. The breakdown is as follows:

	TL Accounts in TL	Foreign Exchange Accounts in TL	Total TL
a) Convertible TL Debtors	15,822,900	-	15,822,900
b) Transitory Debtors Accounts	51,114,272,846,336	2,368,547,952,000	53,482,820,798,336
	51,114,288,669,236	2,368,547,952,000	53,482,836,621,236

LIABILITIES:

1. Banknotes in Circulation:

The year-end balance of banknotes in circulation, issued in accordance with Article 36 of the Central Bank Law, amounted to TL 758,878,047,072,800.

2. Liabilities to Treasury

A- Gold :

The gold claims of the Treasury, 345,574.68 net grams, amounted to TL 682,460,968,000, an increase of TL 241,548,456,000 compared to last year. This increase is due to the devaluation of the Turkish lira against the US dollar, amounting to TL 398,832,960,000, and the revaluation of gold price in parallel to international markets, amounting to TL 157,284,504,000.

B- Other:

This item, which shows the liabilities to the Treasury, amounted to TL 62,924,687,093,121 at the end of 1997.

3. Claims in Foreign Exchange

This account represents the sum of TL 10,873,126,501,000 calculated at the year-end evaluation rates. It denotes the Central Bank's debt to Correspondents abroad and consists of TL 6,181,705,403,000 in convertible rates and TL 4,691,421,098,000 in non-convertible rates.

A- Convertible:

Convertible foreign exchange liabilities reached TL 6,181,705,403,000, increasing by TL 1,697,559,862,000 compared to the year before and consisting of the accounts of the foreign correspondents with the Central Bank.

B- Non-Convertible:

This is the total of the credit balances of the foreign correspondents' accounts opened in Agreement dollars in accordance with the bilateral agreements. It amounted to TL 4,691,421,098,000 at the year's end, the equivalent of 22,912,923.56 US dollar. The nostro accounts amounted to TL 4,182,071,474,500, the equivalent of 20,425,257.51 US dollar, and the loro accounts amounted to TL 509,349,623,500, the equivalent of 2,487,666.05 US dollar.

4. Deposits

The breakdown of this account, which showed a balance of TL 4,463,923,807,210,949 at the year's end, is as follows:

	Turkish Lira	Foreign Exchange
A) Public Sector	187,688,870.578,060	573,764,918,949,500
a) Treasury, General and Annexed		
Budget Administrations	181,457,854,504,722	573,167,148,680,000
i) Treasury	(105,647,890,655,993)	(388,611,864,392,000)
ii) Gen. Budget Adm.	(15,357,244,669,567)	(184,325,963,106,500)
iii) Annexed Budget Adm.	(60,452,719,179,162)	(229,321,181,500)
b) SEE's	439,951,547,509	-
c) Public Economic Enterprises	21,163,668,288	572,589,896,000
d) Other	5,769,900,857,541	25,180,373,500
B) Banking Sector:	370,758,700,172,851	803,479,043,843,000
a) Domestic Banks	34,405,210,578,488	222,824,383,891,500
b) Banks abroad	1,363	-
c) Cash Reserve Requirements (Article 40 of the Central Bank Law)	336,353,489,593,000	580,654,659,951,500
i) Cash	(336,353,489,593,000)	(580,654,659,951,500)

ii) Gold (Net gram)	-	-
d) Other (Value dated)	-	-
C) Miscellaneous	1,229,631,477,961	2,343,599,774,276,000
a) Dresdner Accounts	-	2,326,013,722,383,000
b) Other	1,229,631,477,961	17,586,051,893,000
D) International Institutions	21,071,623,456,786	-
E) Funds	49,721,885,517,791	112,609,358,939,000
a) Savings Deposits Insurance Fund	4,139,284,000	106,350,900,927,000
b) Other	49,717,746,233,791	6,258,458,012,000
Total	630,470,711,203,449	3,833,453,096,007,500

5. Open Market Operations

The balance of this account, which represents the debt of the Central Bank to the banks arising from money and securities market transactions, reached TL 728,312,968,592,000 at the year's end. TL 701,799,968,592,000 of this was due to securities transactions, and TL 26,513,000,000,000 to interbank money market transactions. Compared with the previous year, there is an increase of TL 57,048,143,685,500 in cash, TL 683,799,968,610,000 in securities swap transactions, and there is a decrease of TL 20,201,500,000,000 in money market transactions, the total of which is TL 606,550,324,924,500.

6. Foreign Credit

This account shows the Central Bank's debits consisting of the short, medium and long-term debts obtained from foreign sources in accordance with credit agreements and the convertible Turkish lira deposit accounts which were transferred into the Central Bank's liabilities. It amounted to TL 2,989,689,073,000 at the end of the year.

7. Claims from Letters of Credit, Import Guarantees and Deposits

The balance of this item was TL 56,191,172,444,896 at the end of the year. Of this total, TL 11,547,744,396 represents the goods, equivalents and guarantees deposited at the Bank pursuant to import regulations. The equivalent of the credit transactions of foreign exchange sales amounted to TL 56,179,624,700,500.

8. Bills and Money Orders to be Paid

The balance of this account amounted to TL 913,458,677,000 at the year's end. It consists of payment orders to be paid to beneficiaries and amounts to TL

25,493,647,000 in Turkish lira, TL 883,670,117,500 in convertible, and TL 4,294,912,500 in non-convertible foreign exchange.

9. Capital

Under Article 5 of Central Bank Law No. 1211, the capital consists of 250,000 shares, each with a nominal value of TL 100,000. The breakdown of the stocks is as follows:

Category	Number of Shares	% of Total	Total TL
A	136,832	54,73	13,683,200,000
B	58,089	23,24	5,808,900,000
C	6,833	2,73	683,300,000
D	48,246	19,30	4,824,600,000
	250,000	100,00	25,000,000,000

10. Reserve Funds

The total of the reserve funds retained in accordance with the relevant laws amounted to TL 39,016,070,733,331, and the breakdown is as follows:

A. Ordinary Reserve Fund (Article 60 of Law No. 1211)	19,013,158,111,800
B. Extraordinary Reserve Fund (Article 60 of Law No. 1211)	7,605,915,222,200
C. Special Reserve Fund (Article 59 of Law No. 1211)	8,756,311,685
D. Reserve Fund for Probable Future Losses (Article 32 of Banking Law No. 3182)	25,000,000,000
E Valuation Adjustment Fund (Laws No. 2791 and 3094).	12,331,499,463,106
F. Cost Adjustment Fund (General Communiqu_ on Corporation Tax No. 49)	
	31,741,624,540
	39,016,070,733,331

11. Reserves

Reserves are retained out of the Bank's gross profits to meet various risks, and this account amounted to TL 1,933,842,687,800.

A. Provisions for the decrement of bonds	11,936,200
B. Provisions for the Transport Insurance of Valuables such as banknotes, foreign exchange, etc.	1,928,755,037,100
C. Provisions for contingencies due to the year-end exchange adjustments of Foreign Exchange Holdings	250,153,800
D. Provisions for bad and doubtful debts	4,825,560,700
	1,933,842,687,800

12. Accounts to be Redeemed

The balance of this account amounted to TL 290,796,387,281,000 at the end of the year.

A- Revaluation Difference in Accordance with Article 61 of the Central Banks Law:

a) Included Accounts :

This item is settled as of the end of the year.

b) Excluded Accounts

The beneficiary exchange rate difference of TL 290,796,387,281,000 which is due to the revaluation of gold, foreign exchange and foreign currency assets and liabilities of the Bank in 1997 will be liquidated in accordance with Article 61 of Central Bank Law No. 1211.

13. Provisory Liabilities

This account amounted to 9,059,891,339,186 at the end of the year and consists of the Central Bank's debts of TL 1,633,634,794,186 in Turkish lira and TL 7,426,256,545,000 in foreign exchange.

14. Other Liabilities

This item amounted to TL 279,395,264,631,006 at the end of the year, consisting of the Central Bank's debts of TL 259,951,729,395,006 in Turkish lira and TL 19,443,535,236,000 in foreign currency.

IV.2. PROFITS FOR THE 1997 ACCOUNTING YEAR AND THEIR DISTRIBUTION

The net profit of the Central Bank for 1997 was TL 131,372,514,973,184. The distribution of this profit, pursuant to Article of the Central Bank Law No. 1211, is specified as follows:

DISTRIBUTION OF THE 1997 PROFIT

Net Profit of 1997		131,372,514,973,184
A. Reserve Funds		
Ordinary Reserve Fund	26,274,502,994,600	
Extraordinary Reserve Fund	10,509,651,197,900	(-) 36,784,154,192,500
B. Shareholders		
First Dividends	1,500,000,000	
Second Dividends	1,500,000,000	(-) 3,000,000,000
C. Bonus to Personnel	510,360,000,000	(-) 510,360,000,000
D. Taxes and Funds		
Corporation Tax	25,614,421,720,000	
Income Tax	13,381,506,687,000	
I.T. Fund Share	3,899,592,840,000	(-) 42,895,521,247,000
Remainder		51,179,479,533,684

Each share has a nominal value of TL 12,000, derived by dividing the total dividends of TL 3,000,000,000 by the number of allotments, 250,000.

We hereby present this report to the General Meeting of the Central Bank and submit for your approval the distribution of the profit to the shareholders in conformity with the framework outlined above as of April 28, 1998 and also request the authorization of the Board to determine the method and the date of payment for bonuses to be accorded to the personnel. As a final remark, we deem it our duty to express our gratitude to all of the personnel of the Central Bank for their successful performance.

THE REPORT OF THE AUDITORS COMMITTEE FOR THE 1997 SIXTY-SIXTH ACCOUNTING YEAR OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Auditors Committee has thoroughly examined the activities and the resulting statements of the 1997 Accounting Year of the Central Bank of the Republic of Turkey, within the framework of the provisions of the related legislation and concluded that:

1- The cash, gold holdings, effective stock and securities in the service and reserve vaults of the Head Office and Branches, which were inspected at random, are in conformity with the records, and the legal books and these values are kept and administered in accordance with the regulations,

2- The legal books and the books subject to declaration related to the Bank's accounts are in good order and in conformity with the law as well as the main contract,

3- The direct and indirect domestic loans extended by the Bank are kept within the limits set forth,

4- The Balance Sheet and the Profit and Loss Statement as of December 31, 1997 are designed to give comprehensive and correct information in conformity with the honest and systematic principals of accounting and the rules of assessment stated in the Law; classification, registration and the summary of the financial transactions, operations and fiscal tables are in conformity with widely accepted rules and standards of accounting; the accounts are true and explicit so as to satisfy evaluations having various views and purposes,

5- The table related to Net Profit Distribution is prepared in accordance with Article 60 of Law No. 1211,

6- The Bank has performed its duty and authority as mentioned by the laws and as economic conditions deem necessary,

7- Legal actions regarding liabilities which were referred to courts by the Bank have not yet been concluded,

In conclusion, we hereby submit the Balance Sheet and the Profit and Loss Statement, arranged according to the principles and procedures upon which we have mutually agreed with the Board of Directors, for the approval of the General Assembly.

Auditors Committee Member Auditors Committee Member

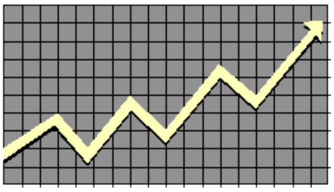
Necati Güven Hilmi Okçu

Auditors Committee Member Auditors Committee Member

Mete Ökte M. Saim Uysal

BALANCE SHEET,

PROFIT AND LOSS ACCOUNT



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STATISTICAL TABLES

TABLE 1

Macro Balance (at current prices)

(in Billions of TL)

	1993	1994	1995	1996	1997(1)
GNP	1 997 322.6	3 887 902.9	7 854 887.2	14 978 067.3	29 054 454.9
Foreign resources	96 906.1	-57 322.7	253 729.5	672 526.6	1 517 466.7
Total resources	2 094 228.7	3 830 580.2	8 108 616.6	15 650 593.9	30 571 921.6
Total investment	551 136.4	839 694.7	1 988 499.6	3 672 126.8	7 368 401.5
Public	145 538.3	141 420.2	300 200.6	794 616.1	1 738 937.6
Private	405 598.1	698 274.5	1 688 299.1	2 877 510.7	5 629 463.9
Fixed capital investment	525 506.1	952 322.1	1 882 225.2	3 743 233.2	7 359 769.0
Public	143 977.4	192 052.5	330 140.3	762 067.0	1 671 929.2
Private	381 528.6	760 269.6	1 552 084.9	2 981 166.2	5 687 839.8
Changes in stocks	25 630.3	-112 627.4	106 274.4	-71 106.3	8 632.5
Public	1 560.8	-50 632.3	-29 939.8	32 549.2	67 008.5
Private	24 069.5	-61 995.1	136 214.2	-103 655.5	-58 375.9
Total consumption	1 543 092.3	2 990 885.6	6 120 117.0	11 978 467.0	23 203 520.0
Public disposable income	191 329.7	372 154.1	741 747.4	1 187 250.7	2 760 737.8
Public consumption	244 925.9	414 743.4	747 574.3	1 470 908.0	3 248 768.0
Public savings	-53 596.2	-42 589.3	-5 826.9	-283 657.3	-488 030.2

Public investments	145 538.3	141 420.2	300 200.6	794 616.1	1 738 937.6
Public (S-I)	-199 134.4	-184 009.4	-306 027.5	-1 078 273.4	-2 226 967.8
Private disposable income	1 805 992.9	3 515 748.8	7 113 139.8	13 790 816.6	26 293 717.1
Private consumption	1 298 166.4	2 576 142.2	5 372 542.7	10 507 559.0	19 954 752.0
Private savings	507 826.4	939 606.6	1 740 597.1	3 283 257.5	6 338 965.1
Private investments	405 598.1	698 274.5	1 688 299.1	2 877 510.7	5 629 463.9
Private (S-I)	102 228.3	241 332.1	52 298.0	405 746.8	709 501.2
Private savings ratio	28.1	26.7	24.5	23.8	24.1
Total domestic savings	454 230.3	897 017.3	1 734 770.2	2 999 600.2	5 850 934.9
Fixed capital invest./ GNP	26.3	24.5	24.0	25.0	25.3
Domestic savings / GNP	22.7	23.1	22.1	20.0	20.1

Source: State Planning Organization

(1) Estimate

TABLE 2

MACRO BALANCE (at 1994 PRICES)

(in Billions of TL)

	1993	1994	1995	1996	1997(1)
GNP	4 139 808.4	3 887 902.9	4 197 095.3	4 495 959.4	4 765 717.0
Foreign resources	240 660.5	-57 322.7	75 260.0	66 952.9	92 529.6
Total resources	4 380 468.9	3 830 580.2	4 272 355.3	4 562 912.3	4 858 246.6
Total investment	1 182 235.6	839 694.7	1 094 933.9	1 141 224.6	1 256 195.7
Public	329 549.2	141 420.2	175 171.5	254 409.5	299 115.2
Private	852 686.5	698 274.5	919 762.5	886 815.0	957 080.5
Fixed capital investment	1 125 670.2	952 322.1	1 037 805.9	1 162 954.7	1 254 734.9
Public	326 104.5	192 052.5	191 265.7	244 462.5	287 776.4
Private	799 565.7	760 269.6	846 540.2	918 492.3	966 958.5
Changes in stocks	56 565.5	-112 627.4	57 128.1	-21 730.2	1 460.8
Public	3 444.7	-50 632.3	-16 094.2	9 947.1	11 338.8
Private	53 120.8	-61 995.1	73 222.3	-31 677.2	-9 878.0
Total consumption	3 198 233.2	2 990 885.6	3 177 421.4	3 421 687.7	3 602 051.0
Public disposable income	331 304.8	372 154.1	419 809.8	341 149.3	370 547.3
Public consumption	442 404.4	414 743.4	423 234.8	442 737.8	467 609.4
Public savings	-111 099.6	-42 589.3	-3 425.0	-101 588.5	-97 062.1
Public investments	329 549.2	141 420.2	175 171.5	254 409.5	299 115.2
Public (S-I)	-440 648.8	-184 009.4	-178 596.5	-355 998.1	-396 177.3
Private disposable income	3 808 503.6	3 515 748.8	3 777 285.6	4 154 810.1	4 395 169.7
Private consumption	2 755 828.8	2 576 142.2	2 754 186.6	2 978 949.9	3 134 441.5
Private savings	1 052 674.8	939 606.6	1 023 098.9	1 175 860.2	1 260 728.1
Private investments	852 686.5	698 274.5	919 762.5	886 815.0	957 080.5
Private (S-I)	199 988.3	241 332.1	103 336.5	289 045.2	303 647.7
Private savings ratio	27.6	26.7	27.1	28.3	28.7
Total domestic savings	941 575.2	897 017.3	1 019 674.0	1 074 271.7	1 163 666.0

Fixed capital invest./ GNP	27.2	24.5	24.7	25.9	26.3
Domestic savings / GNP	22.7	23.1	24.3	23.9	24.4

Source: State Planning Organization

(1) Estimate

TABLE 3

Gross National Product (at current producer prices)

(in Billions of TL)

	1993	1994	1995	1996	1997 (1)
Agriculture	305 524.9	598 168.8	1 218 178.1	2 489 773.6	3 495 007. 4
Industry	485 672.1	1 019 767.4	2 042 394.8	3 716 528.4	4 731 170 .0
Construction	145 833.5	263 719.8	426 214.9	857 761.8	1 157 450 .6
Commerce	368 384.6	760 918.7	1 587 690.8	3 022 314.5	3 990 838 .8
Transportation	236 860.0	514 110.0	981 069.9	1 941 574.2	2 579 682 .4
Financial institutions	84 453.0	115 011.4	322 589.9	732 340.1	1 041 659.2
Home ownership	68 178.1	127 918.0	249 169.5	442 934.8	578 866 .1
Professions and services	71 449.2	142 794.6	287 000.2	554 079.6	737 347 .1
(-) Imputed bank services	75 654.1	163 471.2	270 343.6	709 234.7	1 033 169 .0
Government services	203 921.6	344 529.6	619 784.7	1 238 527.3	1 815 935 .0
Non-profit private services	6 015.0	9 069.9	14 576.7	26 922.4	20 273.5
Import tax	81 229.1	135 892.0	284 130.0	458 588.4	632 069.6
GDP	1 981 867.1	3 868 429.2	7 762 456.1	14 772 110.2	19 747 130.8
Net foreign income	15 455.5	19 473.7	92 431.1	205 957.1	303 931.7
GNP	1 997 322.6	3 887 902.9	7 854 887.2	14 978 067.3	20 050 462.5

Source: State Institute of Statistics

(1) Provisional (as of the end of September, 1997)

TABLE 4

Gross National Product (at 1987 producer prices)

(in Billions of TL)

	1993	1994	1995	1996	1997 (1)
Agriculture	14 463.0	14 358.2	14 640.2	15 284.4	11 951 .7
Industry	26 259.8	24 775.0	27 765.9	29 743.5	24 198 .8
Construction	6 271.8	6 144.4	5 857.5	6 200.1	4 738 .0
Commerce	19 974.7	18 455.2	20 586.7	22 412.9	18 258.5
Transportation	12 080.6	11 835.1	12 511.0	13 458.1	10 492.0
Financial institutions	2 453.4	2 416.8	2 424.2	2 476.3	1 884.3
Home ownership	4 975.5	5 116.7	5 224.2	5 351.9	4 091.9

Professions and services	2 192.5	2 098.4	2 251.9	2 398.7	1 907.1
(-) Imputed bank services	2 103.1	2 066.1	2 059.5	2 072.6	1 548.8
Government services	4 336.2	4 370.9	4 481.5	4 468.7	3 355.6
Non-profit private services	397.5	387.7	382.8	386.3	286.7
Import tax	5 288.6	3 428.6	3 821.5	4 636.8	3 786.1
GDP	96 590.4	91 320.7	97 887.8	104 745.2	83 401.8
Net foreign income	1 086.2	412.3	1 140.4	1 334.6	1 305.5
GNP	97 676.6	91 733.0	99 028.2	106 079.8	84 707.4

Source: State Institute of Statistics

(1) Provisional (as of the end of September, 1997)

TABLE 5

Fixed Capital Investment by Sectors (at current prices)

(in Billions of TL)

	1996			1997(1)		
	Public	Private	Total	Public	Private	Total
Agriculture	80 061	140 625	220 686	183 657	257 551	441 208
Mining	11 403	32 269	43 672	32 518	61 681	94 199
Manufacturing	30 943	785 448	816 391	48 717	1 394 212	1 442 929
Energy	98 710	54 056	152 766	218 200	228 627	446 826
Transportation	261 000	520 572	781 572	549 342	1 001 769	1 551 111
Tourism	10 729	69 434	80 163	15 166	136 785	151 951
Housing	12 359	1 171 229	1 183 589	29 044	2 169 020	2 198 064
Education	71 854	33 202	105 056	186 724	70 986	257 710
Health	33 819	54 928	88 748	60 738	141 241	201 979
Other services	151 188	119 402	270 590	347 823	225 968	573 791
TOTAL	762 067	2 981 166	3 743 233	1 671 929	5 687 840	7 359 769

Source : State Planning Organization

(1) Estimate

TABLE 6

Fixed Capital Investment by Sectors (at 1994 prices)

(in Billions of TL)

	1996			1997(1)		
	Public	Private	Total	Public	Private	Total
Agriculture	25 924	42 278	68 202	30 518	44 011	74 529
Mining	3 640	10 011	13 651	5 253	10 352	15 604
Manufacturing	9 958	234 345	244 303	7 917	236 454	244 371
Energy	31 203	16 391	47 594	36 014	38 633	74 648

Transportation	83 320	154 002	237 323	92 397	172 021	264 418
Tourism	3 528	21 278	24 806	2 734	22 980	25 714
Housing	4 209	377 434	381 642	5 212	368 375	373 587
Education	23 422	10 107	33 530	33 708	11 967	45 675
Health	11 216	16 951	28 167	10 891	23 579	34 470
Other services	48 042	35 696	83 738	63 132	38 587	101 720
TOTAL	244 462	918 492	1 162 955	287 776	966 959	1 254 735

Source: State Planning Organization

(1) Estimate

TABLE 7

PRODUCTION OF SELECTED INDUSTRIAL GOODS

	1993	1994	1995	1996	1997
MINING					
Hard coal (1) (thousand tons)	2 722	2 839	2 248	2 424	2 082
Lignite (1) (thousand tons)	45 957	48 838	51 945	52 503	41 990
Crude oil (thousand tons)	3 892	3 686	3 514	3 499	2 857
MANUFACTURING INDUSTRY					
Cotton yarn (2) (tons)	43 744	35 066	32 305	26 019	25 056
Woolen yarn (2) (tons)	5 425	4 784	3 360	3 671	2 286
Filter cigarettes (tons)	69 803	77 938	75 382	70 736	57 296
Raki and Beer (thousand lt.)	620	666	740	763	697
Newsprint (thousand tons)	94	110	138	74	40
Kraft paper (thousand tons)	72	78	74	57	48
Sulfuric acid(2) (thousand tons)	757	730	630	623	636
Polyethylene (tons)	270 772	282 964	301 087	299 457	241 780
PVC+PCC Compound (tons)	159 294	156 942	181 036	202 562	162 248
LPG (thousand tons)	707	733	486	452	660
Naphtha (thousand tons)	1 249	1 266	1 473	1 609	1 371
Gasoline (thousand tons)	3 215	3 339	3 554	3 373	2 826
Diesel oil (thousand tons)	7 252	7 399	7 983	7 485	6 199
Fuel oil (thousand tons)	8 701	7 588	7 786	7 408	5 993
Glass (thousand tons)	437	440	506	603	608
Molten iron (thousand tons)	4 355	4 604	4 363	5 263	4 574
Steel ingots (thousand tons)	11 519	12 179	12 798	13 382	11 096
Blister copper (tons)	33 453	30 437	24 416	30 341	24 486
Alumina (thousand tons)	141 550	155 299	171 978	159 298	139 449
Cement (thousand tons)	31 311	29 493	33 153	35 214	30 609
Tractors (units)	33 294	24 249	38 295	45 656	41 036
Automobiles (units)	343 481	208 531	222 145	196 176	191 352
Trucks (units)	29 739	11 235	19 172	29 516	35 056

Buses and Vans (units)	21 585	8 791	12 424	18 612	19 977
ENERGY					
Electrical Energy (Million Kwh)	73 734	78 261	86 291	95 373	84 308
INDUSTRIAL VALUE ADDED (3)					
(at 1987 prices) (TL Billions)	26 260	24 775	27 766	29 743	24 199

Source: State Planning Organization - State Institute of Statistics.

(1) Pithead production

(2) Public Sector

(3) From January to September, 1997

TABLE 8

ENERGY BALANCE (AS EQUIVALENT OF MILLION TONS OF PETROLEUM "EMTP") (1)

	1993		1994		1995		1996		1997(2)	
	EMTP	%	EMTP	%	EMTP	%	EMTP	%	EMTP	%
CONSUMPTION	59.8	100.0	58.7	100.0	63.2	100.0	66.8	100.0	71.1	100.0
Commercial	52.7	88.1	51.6	87.9	56.1	88.8	59.8	89.5	64.1	90.2
Petroleum	28.4	47.5	27.1	46.2	29.3	46.4	30.9	46.3	32.0	45.0
Lignite	9.9	16.6	10.3	17.5	10.6	16.8	11.2	16.8	12.4	17.4
Hard coal (3)	6.7	11.2	6.4	10.9	6.7	10.6	6.8	10.2	6.0	8.4
Asphaltite	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Hydroelectricity(4)	3.1	5.2	2.8	4.8	3.2	5.1	3.7	5.5	3.4	4.8
Net Import electricity	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.2	0.3
Natural gas	4.6	7.7	4.9	8.3	6.3	10.0	7.2	10.8	10.0	14.1
Non-commercial	7.1	11.9	7.1	12.1	7.1	11.2	7.0	10.5	7.0	9.8
Wood	5.4	9.0	5.5	9.4	5.5	8.7	5.5	8.2	5.5	7.7
Wastes	1.7	2.8	1.6	2.7	1.6	2.5	1.5	2.2	1.5	2.1
SUPPLY	59.8	100.0	58.7	100.0	63.2	100.0	66.8	100.0	71.1	100.0
Domestic products	26.0	43.5	26.1	44.5	26.2	41.5	26.9	40.3	28.9	40.6
Petroleum	4.1	6.9	3.9	6.6	3.7	5.9	3.7	5.5	3.4	4.8
Lignite	9.8	16.4	10.5	17.9	10.7	16.9	10.9	16.3	12.4	17.4
Hard coal (3)	1.7	2.8	1.6	2.7	1.3	2.1	1.4	2.1	2.2	3.1
Asphaltite	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Hydroelectricity (4)	3.1	5.2	2.8	4.8	3.2	5.1	3.7	5.5	3.4	4.8
Wood	5.4	9.0	5.5	9.4	5.5	8.7	5.5	8.2	5.5	7.7
Wastes	1.7	2.8	1.6	2.7	1.6	2.5	1.5	2.2	1.5	2.1
Natural gas	0.2	0.3	0.2	0.3	0.2	0.3	0.2	0.3	0.4	0.6
Imports	36.1	60.4	35.4	60.3	39.8	63.0	41.8	62.6	42.2	59.4
Petroleum	26.8	44.8	25.7	43.8	28.4	44.9	29.5	44.2	28.6	40.2
Hard coal (3)	4.8	8.0	4.8	8.2	5.2	8.2	5.2	7.8	3.8	5.3
Electricity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.3
Natural gas	4.5	7.5	4.9	8.3	6.2	9.8	7.1	10.6	9.6	13.5

Exports	2.3	3.8	2.3	3.9	1.9	3.0	1.9	2.8	0.0	0.0
Petroleum	2.2	3.7	2.2	3.7	1.9	3.0	1.9	2.8	0.0	0.0
Electricity	0.1	0.2	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Marine bunkers	0.3	0.5	0.4	0.7	0.5	0.8	0.5	0.7	0.0	0.0
Change in stocks	0.2	0.3	-0.1	-0.2	-0.2	-0.3	0.4	0.6	0.0	0.0
Statistical error	0.1	0.2	0.0	0.0	-0.2	-0.3	0.1	0.1	0.0	0.0

Source: Ministry of Energy and Natural Resources

(1) Electricity calorie unit is taken as 860 KCal/Kwh.

(2) Provisional

(3) Secondary coal, coke and petrocoke are included.

(4) Geothermal, solar energy, etc. are included.

TABLE 9

Selected Agricultural Products

(thousand metric tons)

	1993	1994	1995	1996(1)	1997(2)
CEREALS					
Wheat	21 000	17 500	18 000	18 500	18 650
Barley	7 500	7 000	7 500	8 000	8 200
Rye	235	195	240	245	235
Oats	245	230	250	275	280
Maize	2 500	1 850	1 900	2 000	2 080
Rice	135	120	150	168	171
Other	44	39	44	43	40
PULSES					
For food	1 746	1 498	1 675	1 660	1 578
For fodder	200	81	174	172	171
FRUIT AND NUTS					
Grapes	3 700	3 450	3 550	3 700	3 650
Figs (fresh)	270	279	300	290	270
Apples	2 080	2 095	2 100	2 200	2 350
Peaches	370	375	340	360	340
Oranges	840	920	842	890	745
Other	2 390	2 656	2 461	2 507	2 258
Hazelnuts	305	490	455	446	420
Pistachio nuts	50	40	36	60	60
Other unshelled nuts	243	243	224	223	208
MISCELLANEOUS PRODUCTS					
Sugar beets	15 621	12 944	11 171	14 543	16 135
Potatoes	4 650	4 350	4 750	4 950	5 100
Onions	1 650	1 800	2 850	1 900	2 100
OIL SEEDS					
Sunflower	815	740	900	780	900
Sesame	30	34	30	30	28

Peanut	70	70	70	80	82
Soybean	63	70	75	50	40
Olive	550	1 400	515	1 800	450
TOBACCO, TEA, etc.					
Tobacco	339	187	204	230 (1)	227
Tea (leaves)	579	654	523	600	628
Poppy pods (tons)	3	12	25	5	11
TEXTILE RAW MATERIALS					
Mohair, fleece, hair	61	58	55	54	(3)
Cotton (raw)	1 561	1 620	2 224	2 083	1 975
Silk cocoons	1	0.4	0.2	0.2	(3)
HIDES (thousands)					
Cattle	2 346	2 527	2 037	2 013	(3)
Sheep and goat	8 547	9 331	6 903	6 849	(3)
LIVESTOCK (thousands)					
Sheep	37 541	35 646	33 791	33 072	(3)
Goats	9 192	8 767	8 397	8 242	(3)
Angora goats	941	797	714	709	(3)
Cattle	11 910	11 901	11 789	11 886	(3)
Water buffalo	316	305	255	235	(3)
Poultry	184 460	190 033	135 251	158 757	(3)
Silk worms (egg/box)	25 884	17 953	9 702	7 529	(3)
ANIMAL FOOD PRODUCTS					
Meat	432	466	415	417	(3)
Milk	10 406	10 561	10 602	10 761	(3)
Eggs (Millions)	10 006	9 845	10 269	9 787	(3)
Honey	59	55	69	63	(3)
Marine products	556	601	649	550	(3)
FORESTRY PRODUCTS (Th. m3)					
Timber	3 177	2 939	3 578	(3)	(3)
Fire wood	4 305	3 351	3 816	(3)	(3)

Source: State Institute of Statistics

(1) Provisional

(2) Estimate

(3) Not available

TABLE 10

New Buildings According to Building Permits Issued by Municipalities

	1993	1994	1995	1996 (1)	1997(1)
Value (in Millions of TL))					
Houses	31 308 294	59 562 882	102 766 653	163 751 616	188 702 062
Apartment buildings	145 660 701	277 209 985	490 140 312	758 221 670	891 439 360
Commercial buildings	23 216 453	44 022 279	75 277 048	147 875 401	179 502 089
Industrial buildings	11 680 503	20 789 625	49 907 791	119 606 072	117 945 884
Cultural buildings	3 949 218	9 101 146	14 697 749	28 123 225	37 986 422

Other buildings	5 160 151	7 125 424	12 388 414	20 347 279	19 016 628
T O T A L	220 975 320	417 811 341	745 177 967	1 237 925 263	1 434 592 445
Repairs and Alterations	7 548 366	---	---	---	
Floor Area (thousand sq.m.)					
Houses	12 053	11 938	11 769	10 666	6 988
Apartment buildings	55 573	53 446	54 756	47 731	31 471
Commercial buildings	9 472	9 145	9 000	9 615	6 802
Industrial buildings	4 398	3 945	5 435	7 329	4 275
Cultural buildings	1 507	1 787	1 593	1 796	1 330
Other buildings	2 077	1 456	1 405	1 341	727
T O T A L	85 081	81 716	83 957	78 478	51 593

Source: State Institute of Statistics

(1) Provisional (as of September, 1997)

TABLE 11

Extensions and Partly Finished Buildings According to Occupancy Permits Issued by Municipalities

	1993	1994	1995	1996	1997 (1)
Value (in Millions of TL)					
Houses	12 290 890	24 020 563	40 698 680	83 438 462	80 323 422
Apartment buildings	65 583 225	116 320 460	214 590 740	417 694 419	444 186 656
Commercial buildings	12 780 042	26 213 201	42 200 325	94 339 388	106 254 665
Industrial buildings	5 449 901	9 743 691	24 139 489	44 954 650	48 656 129
cultural buildings	1 201 612	3 600 413	3 494 294	10 129 484	8 769 242
Other buildings	1 666 158	3 260 893	5 181 452	8 518 741	8 766 289
T O T A L	98 971 828	183 159 221	330 304 980	659 075 144	696 956 403
Floor Area (thousand sq.m.))					
Houses	4 938	5 109	4 664	5 267	3 006
Apartment buildings	25 549	23 014	24 205	26 292	16 134
Commercial buildings	5 373	5 722	5 073	6 340	4 185
Industrial buildings	2 161	1 846	2 579	2 700	1 801
Cultural buildings	448	697	380	608	314
Other buildings	684	666	609	558	320
T O T A L	39 153	37 054	37 510	41 765	25 760

Source: State Institute of Statistics

(1) Provisional (as of September, 1997)

TABLE 12

Transportation Services

	1993	1994	1995	1996	1997(1)
LAND TRANSPORTATION					
Passengers (Million)	540	543	603	623	682
Amount of freight (Million tons)	279	271	321	353	398
Passenger trans. (Million passengers x km)	146 029	140 743	155 202	167 871	183 769
Freight trans. (Million tons x km)	97 843	95 020	112 515	135 781	153 090
Vehicles (Million vehicles x km)	30 807	31 251	34 833	41 015	48 294
VEHICLES (2)					
Cars	2 619 852	2 861 640	3 058 511	3 274 156	3 529 291
Trucks, pick-ups	659 801	688 244	719 164	776 057	868 383
Buses-vans	244 154	253 969	263 248	277 672	296 717
STATE AND PROVINCIAL ROADS					
Asphalt, concrete, stone (km)	49 693	50 381	50 805	51 819	52 929
Stabilized, macadam, rough grade and crude roads (km)	10 077	9 451	9 194	8 406	7 914
RAILWAY TRANSPORTATION					
Passengers (M.)	146	120	105	98	109
Amount of freight (M. tons)	16	15	16	16	17
Passenger trans.(M. pass. x km.)	7 147	6 335	5 797	5 229	6 039
Freight trans.(M. tons x km)	8 517	8 338	8 632	9 018	9 592
ROLLING STOCK					
Tractive vehicles:					
Steam engines	58	58	50	50	50
Trunk-line engines	556	553	545	529	526
Maneuvering engines	91	89	81	76	78
Electrical engines	59	59	59	59	61
Total engines	764	759	735	714	715
Diesel trains	57	68	60	56	58
Electrical trains	100	99	98	98	97
Tracked vehicles:					
Passenger carriages	1 094	1 100	1 100	1 082	1 069
Freight carriages	19 513	19 132	18 532	17 442	17 410
Wagon (passenger + freight)	440	439	425	406	404
Other carriages	4 304	4 043	3 632	3 598	3 448
MARITIME TRANSPORTATION					
Passengers (Million)	96	85	85	86	90
Amount of freight (Million tons)	-	-	-	-	-
Passenger trans. (Million pass. x km)	720	662	672	696	740
Freight trans. (Million ton x km)	-	-	-	-	-
MARITIME FLEET					
Cargo ships (gross tons)					
Passenger ships (gross tons)	119 735	115 250	119 382	118 867	113 603
Tankers (gross tons)	-	-	-	-	
AIR TRANSPORTATION					

Passengers (thousand)	6 099	7 274	8 599	9 281	10 405
Amount of freight (tons) (Pass. + cargo plane)	70 004	85 111	90 846	91 688	109 242
AIR FLEET					
Airplanes	58	59	64	65	66

Source: Related Institutions

(1) Provisional

(2) Source: State Institute of Statistics

TABLE 13

Communications Services

(thousands)

	1993	1994	1995	1996	1997 (1)
MAIL (x 1000)	1 633 722	1 425 010	1 482 090	1 485 452	1 620 000
Domestic	1 278 536	1 127 472	1 160 067	1 153 003	1 243 970
Foreign	355 186	297 538	322 023	332 449	376 030
Incoming	174 941	192 492	220 789	232 728	270 435
Outgoing	180 245	105 046	101 234	99 721	105 595
CABLES (x 1000)	4 972	4 510	4 471	4 734	4 614
Domestic	4 886	4 431	4 405	4 684	4 560
Foreign	86	79	66	50	54
Incoming	45	42	30	23	24
Outgoing	41	37	36	27	30
TELEPHONE CALLS (x 1000)					
Number of revolutions billed (2)	49 443 814	52 407 064	64 057 245	81 247 812	100 000 000
Number of Trunk calls (manual)	14 336	8 424	7 932	7 254	6 000
International calls (outgoing, minutes)	264 556	287 076	373 561	473 433	519 000
NUMBER OF SUBSCRIBERS	11 019 710	12 393 908	13 664 834	15 098 204	17 421 238
Automatic switchboards	10 892 970	12 194 542	13 215 682	14 286 478	15 786 478
Manual switchboards	42 553	24 587	12 022	7 166	3 600
Mobile phones	84 187	93 503	103 833	113 560	131 160
Cellular phones	-	81 276	333 297	691 000	1 500 000
NUMBER OF PTT OFFICES (1)	40 124	34 692	31 222	24 860	19 611
Main offices	1 145	1 137	1 154	1 152	1 146
Branches	2 885	2 872	2 856	2 658	2 624
Sub-branches	36 094	30 683	27 212	21 050	15 841

Sources: General Directorate of Postal Services - Turkish Telecommunication Inc.

(1) Provisional

(2) Includes urban, trunk and international calls.

TABLE 14

Job Applicants and Vacancies

(number of people)

	1993	1994	1995	1996	1997 (1)
New Applicants	546 604	362 666	335 787	411 170	468 070
Total Applicants	1 794 131	1 311 350	1 018 182	990 872	1 058 837
New Vacancies	278 715	251 017	272 707	267 060	238 539
Unfilled Vacancies	302 892	282 383	303 982	291 815	277 800
Unemployed	609 119	469 345	401 292	416 795	463 323
Vacancies filled during the year	267 088	242 466	264 111	243 280	220 615

Source: Public Employment Services

(1) Provisional

TABLE 15

Workers Sent Abroad

(NUMBER Of people)

	1993	1994	1995	1996	1997(1)
The United States of America	119	106	294	278	302
Australia	166	139	248	97	21
Austria	82	10	16	5	1
Belgium	2	1	1	2	2
Denmark	75	46	50	39	12
Germany	1 999	2 032	2 246	2 443	1 800
France	8	17	13	16	9
The Netherlands	12	12	13	5	2
The United Kingdom	18	59	43	36	29
Switzerland	32	13	18	31	13
Libya	2 549	1 869	1 753	2 063	1 833
Saudi Arabia	35 826	13 050	14 529	5 635	7 657
Other	22 356	43 791	40 259	30 047	21 640
T O T A L	63 244	61 145	59 483	40 697	33 321

Source: Public Employment Services

(1) Provisional

TABLE 16

Collective Labor Contracts

	1993	1994	1995	1996	1997
COLLECTIVE LABOR CONTRACTS	3 809	1 513	2 357	1 871	2 056
Public	879	675	969	861	1 010
Private	2 930	838	1 388	1 010	1 046
WORKERS COVERED BY CONTRACTS	1 068 289	227 880	765 928	515 840	841 518
Public	733 832	85 937	508 696	281 190	625 670
Private	334 457	141 943	257 232	234 650	215 848
ESTABLISHMENTS COVERED BY CONTRACTS	16 699	6 770	11 274	10 290	12 966
Public	12 340	3 682	8 480	6 971	10 778
Private	4 359	3 088	2 794	3 319	2 188

Source: Ministry of Labor and Social Security

TABLE 17

Strikes and Lock-outs

	1993	1994	1995	1996	1997
STRIKES					
Number of strikes	49	36	120	38	37
Number of participants	6 908	4 782	199 867	5 461	7 045
Workdays lost in strikes	574 741	242 589	4 838 241	274 322	181 913
LOCK-OUTS					
Number of lock-outs	9	4	5	3	4
Number of participants	1 437	552	4 047	3 761	4 083
Workdays lost in lock-outs	286 789	104 869	162 512	160 368	62 236

Source: Ministry of Labor and Social Security

TABLE 18

Price Indices

	1993	1994	1995	1996	1997
ANNUAL AVERAGE					
WHOLESALE PRICES					
(1987=100) (1)					

General	1 698	3 747	7 065	12 337	22 336
Agriculture	1 680	3 324	7 267	12 925	23 170
Mining	1 664	3 873	6 842	12 557	22 608
Manufacturing	1 673	3 838	7 041	12 084	22 061
Energy	2 167	4 383	6 479	12 842	21 327
(1968=100) (2)					
General	268 110	591 138	1 111 281	1 906 838	3 402 083
CONSUMER PRICES					
(1987=100) (1)					
General	2 131	4 396	8 512	15 271	28 249
Istanbul Wage Earners					
(1985=100) (2)					
General	5 244	10 818	21 182	41 323	79 014
<u>END OF YEAR</u>					
WHOLESALE PRICES					
(1987=100) (1)					
General	2 082	5 196	8 567	15 582	29 698
Agriculture	2 083	4 874	9 314	15 968	30 493
Mining	2 109	5 151	8 696	16 299	29 402
Manufacturing	2 041	5 288	8 404	15 356	29 590
Energy	2 674	5 372	7 292	16 304	26 048
(1968=100) (2)					
General	325 830	828 807	1 330 489	2 361 023	4 441 945
CONSUMER PRICES					
(1987=100) (1)					
General	2 717	6 127	10 962	19 345	38 536
Istanbul Wage Earners					
(1985=100) (2)					
General	6 590	14 845	28 255	53 798	106 468

Source: (1) State Institute of Statistics

(2) Istanbul Chamber of Commerce

TABLE 19

Gold Prices

(Thousand TL)

	1993	1994	1995	1996	1997
<u>ANNUAL AVERAGE</u>					

Reţat (each)	987	2 536	4 028	7 125	11 525
Cumhuriyet (each)	892	2 460	3 908	6 957	10 987
Bullion (gram)	130	366	571	1 018	1 614
<u>END OF YEAR</u>					
Reţat (each)	1 255	3 140	5 130	8 850	13 175
Cumhuriyet (each)	1 198	3 064	4 990	8 500	12 675
Bullion (gram)	176	459	719	1 251	1 860

Source : Central Bank

TABLE 20

monthly prIce IndIces

1997	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov..	Dec.	Annual Average
<u>WHOLESALE PRICES</u>													
(1987=100) (1)													
General	16 423	17 426	18 364	19 329	20 312	20 970	22 166	23 524	24 960	26 655	28 206	29 698	22 336
Agriculture	16 680	18 028	20 268	22 272	22 829	22 726	21 921	22 574	24 118	26 821	29 314	30 493	23 170
Mining	17 459	18 296	18 155	18 331	19 463	21 204	22 729	24 361	26 238	26 981	28 675	29 402	22 608
Manufacturing	16 187	17 104	17 682	18 365	19 509	20 387	22 235	23 851	25 257	26 670	27 891	29 590	22 061
Energy	17 742	18 282	18 790	19 328	19 835	20 355	20 998	21 686	22 766	24 192	25 902	26 048	21 327
(1968=100) (2)													
General	2 496 440	2 623 917	2 723 367	2 877 353	3 061 231	3 176 597	3 372 882	3 555 725	3 801 029	4 088 520	4 267 221	4 441 945	3 402 083
<u>CONSUMER PRICES</u>													
Turkey Consumer Prices (1987=100) (1)													
General	20 404	21 603	22 818	24 586	25 614	26 193	27 535	29 129	31 382	34 413	36 779	38 536	28 249
Istanbul Wage Earners (1985=100) (2)													
General	57 062	58 332	61 996	67 635	73 381	75 738	77 731	82 021	86 536	98 125	103 139	106 468	79 014

Source: (1) State Institute of Statistics

(2) Istanbul Chamber of Commerce

TABLE 21

GOLD PRICES (Monthly Averages)

(Thousand TL)

1997	Jan.	Feb.	March	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Annual Average
Reţat (each)	8 940	9 388	10 225	10 650	11 000	11 225	11 813	12 220	12 750	13 420	13 500	13 175	11 525
Cumhuriyet (each)	8 720	9 213	9 763	9 950	10 350	10 863	10 963	11 690	12 188	12 780	12 688	12 675	10 987
Bullion (gram)	1 285	1 360	1 425	1 469	1 531	1 599	1 607	1 714	1 786	1 876	1 861	1 860	1 614

Source : Central Bank

TABLE 22

Support Purchase Prices of Agricultural Products

(TL/Kg)

PRODUCTS	1993	1994	1995	1996	1997
Wheat (1) (*) (**)	1 843	3 532	7 433	22 093	35 125
Barley (1) (*)	1 615	2 729	5 423	15 115	25 484
Rye (1) (*)	1 517	2 754	5 414	13 460	26 788
Maize (1) (*)	1 600	2 974	6 769	16 862	29 314
Oat (1) (*)	1 185	2 744	-	14 094	26 985
Cotton (2)	6 095	25 427	40 440	68 158	134 643
Tobacco (3) (*)	32 615	53 093	100 963	188 619	385 648
Sugar beets (4) (*)	556	1 032	2 750	4 775	12 100
Sunflower seeds	4 000	9 529	18 001	37 969	70 000
Hazelnuts (5)	14 200	56 284	81 800	206 248	430 000
Dried figs (6)	12 519	26 504	64 200	84 770	210 000
Raisins (seedless) (7)	9 500	21 352	38 502	81 311	160 000
Olive oil (8)	21 500	62 411	148 621	-	-
Mohair (9)	40 000	67 745	-	221 346	460 000
Pistachios (10)	40 017	82 086	-	293 871	450 000
Soy beans	4 161	9 497	15 001	41 395	65 000
Poppy seeds (1) (*)	9 000	18 683	24 485	73 718	157 667
Rice (1) (*)	4 719	-	24 232	43 548	90 725
Green lentils (1)	2 975	-	-	-	-
Peanuts (11)	17 700	19 071	38 493	63 413	-
Silk cocoons	34 900	71 927	198 896	382 571	772 735
Red peppers	14 874	21 994	-	210 227	-
Olives (12)	29 000	44 503	94 259	154 052	-
Rose oil	3 701	15 001	35 014	84 019	120 023
Red lentils	4 523	7 944	24 148	-	-

Source: State Planning Organization

(*)Products within the scope of State Support Purchases between 1995-1997

(**) The low increase in the average price of wheat in 1997 is due to the fact that in 1996 mainly durum wheat for macaroni was purchased by the Soil Products Office.

(1) Average purchase price of the Gen. Dir. of the Soil Products Office. 1997 figures are estimates.

(2) Price for Aegean and Antalya regions for unginned standard 1 white cotton.

(3) Average purchase price of the Gen. Dir. of TEKEL. 1997 figure is an estimate.

(4) Average purchase price of the Gen. Dir. of Turkish Sugar Mills Co. Inc.; 1997 figure is an estimate.

(5) Price for hazelnuts with 50% yield.

(6) Price of 100 gr. of size 6/a dehydrated figs containing 53-56 figs per kg.

(7) Price of natural seedless raisins size 9.

(8) Price of limpid 5-acid olive oil.

(9) Price of first quality kid mohair.

(10) Price of 100% full pistachios.

(11) Purchase price for exportable peanuts with % 75 yield.

(12) Price for 220-calibre olives

TABLE 23

Consolidated Budget

(in Billions of TL)

	1993	1994	1995	1996	1997(1)
REVENUES	351 392	745 116	1 404 071	2 702 034	5 854 331
Taxes	264 273	587 760	1 085 415	2 244 094	4 750 451
Direct taxes	128 324	283 733	441 745	883 607	1 932 328
Indirect taxes	135 949	304 027	643 670	1 360 487	2 818 123
Non-tax revenues	82 165	151 248	289 365	430 074	1 009 783
Grants	1 597	942	7 404	1 832	1 692
Annexed budget	3 357	5 166	21 887	26 034	92 405
EXPENDITURES	485 249	897 297	1 720 647	3 940 162	8 035 178
NON-TAX EXPENDITURES	368 779	599 011	1 144 532	2 442 761	5 757 261
Personnel	169 511	273 062	502 724	974 148	2 072 753
Other current expenditures	35 318	73 407	142 768	308 571	712 299
Investments	53 161	72 788	102 354	238 085	638 660
Transfers to the SEEs	25 850	21 029	45 512	50 200	123 640
Other transfers	84 939	158 725	351 174	871 757	2 209 909
Interest payments	116 470	298 286	576 115	1 497 401	2 277 917
Foreign loans	23 952	65 117	100 596	168 314	299 950
Domestic loans	92 518	233 168	475 519	1 329 087	1 977 967

BUDGET BALANCE, EXC. INTER.	-17 387	146 105	259 539	259 273	97 070
BUDGET BALANCE	-133 857	-152 181	-316 576	-1 238 128	-2 180 847
DEFERRED PAYMENTS	10 905	20 092	52 057	16 325	139 740
ADVANCES	-3 151	-19 837	-29 737	-45 931	-119 518
CASH BALANCE	-126 103	-151 926	-294 256	-1 267 734	-2 160 625
FINANCING	126 103	151 926	294 256	1 267 734	2 160 625
FOREIGN LOANS (Net)	21 062	-67 174	-81 238	-134 411	-452 584
Receipts from loans	45 168	34 122	129 432	253 296	186 588
Receipts from On-lending	972	9 908	28 314	24 390	52 094
Repayments	-25 078	-111 204	-238 984	-412 097	- 691 266
DOMESTIC LOANS (Net)	52 377	173 877	282 875	1 066 229	2 505 517
Government Bonds (Net)	30 136	-70 339	85 657	274 040	1 484 843
Issues	64 820	24 858	222 453	583 276	2 068 523
Repayments	-34 684	-95 197	-136 796	-309 236	-583 679
Treasury bills, (Net)	22 241	244 216	197 218	792 189	1 020 674
Issues	171 155	624 169	1 147 241	3 266 449	2 981 644
Repayments	-148 913	-379 952	-950 023	-2 474 260	-1 960 970
SHORT-TERM ADVANCES (NET)	53 010	51 857	94 723	228 954	0
OTHERS	-345	-6 635	-2 105	106 962	107 692
Other deferred payments	9 715	-2 992	49	67 340	55 809
Change in cash	-9 996	-3 572	-2 384	39 558	51 883
Net errors	-64	-71	230	64	0

Source: Undersecretariat of the Treasury

(1) Provisional

TABLE 24

State Economic Enterprises Financing Requirement (1)

(in Billions of TL)

	1993	1994	1995	1996	1997(2)
FIXED INVESTMENTS	-38 266	-53 061	-78 589	-164 768	-369 609
CHANGE IN STOCKS	-33 117	-48 478	-56 241	-202 118	-423 713
CHANGE IN FIXED ASSETS	-1 963	-6 158	11 031	-17 850	-12 205
INCREASE IN MINORITY INTERESTS	-89	-705	-389	-3 580	-5 157
LEGAL OBLIGATIONS, FUNDS	-574	-828	-3 370	-10 368	-34 205
TOTAL FINANCING REQUIREMENT	-74 010	-109 230	-127 557	-398 684	-844 889

INTERNALLY GENERATED FUNDS	-26 159	11 090	131 158	325 237	408 945
Retained earnings	-65 927	-111 482	-30 685	89 049	45 987
Depreciation	21 364	44 242	100 110	147 156	280 082
Provisions	3 006	10 592	16 141	8 687	14 181
Provisions for exchange rate difference	15 145	67 738	45 592	80 345	68 695
Dividends other than treasury	253	0	0	0	0
FINANCING REQUIREMENT FROM EXTERNAL SOURCES	-100 169	-98 140	3 602	-73 447	-435 944
BUDGETARY TRANSFERS	30 858	24 744	54 874	61 320	131 268
Capital	26 594	24 346	54 325	52 111	127 573
Duty losses	3 880	0	0	8 297	2 050
Aid	385	398	549	912	1 645
SUPPORT AND DEVELOPMENT FUNDS	0	0	0	0	0
SEE LOAN REQUIREMENTS	-69 311	-73 396	58 476	-12 127	-304 675
Deferred payments	75 371	211 366	197 075	409 898	668 368
Advance payments	-38 198	-95 913	-159 041	-179 126	-397 271
Cash financing requirement	-32 138	42 057	96 510	218 644	-33 579
Financing	32 138	-42 057	-96 510	218 644	-33 580
Change in cash balances	-7 086	-18 055	-56 674	-177 449	-163 599
Securities and deposits	-2 035	-13 270	-40 073	33 043	-11 181
Domestic loans	27 868	-17 760	7 524	-35 284	157 417
Central Bank	8 416	-11 784	231	0	0
Commercial banks	19 497	-7 168	7 795	-35 284	157 417
Eximbank	-45	1 192	- 502	0	0
Foreign loans, net	-1 316	-6 823	-13 526	-58 920	50 943
Receipts	6 444	19 086	25 232	65 455	138 786
Payments	-7 760	-25 909	-38 759	-124 375	-87 844
Government Bonds	14 707	13 850	6 240	19 966	0
GNP	1 997 323	3 887 903	7 854 887	15 125 092	29 054 000
SEE BORROWING REQUIREMENT / GNP	-3.5	-1.9	0.7	-0.1	-1.1
SEE BORR. REQ. - BUDG.TRANSFERS / GNP	-5.0	-2.5	0.1	-0.5	-1.5

Source: Undersecretariat of the Treasury

(1) Including SEE's under privatization scheme

(2) Estimate

TABLE 25

Resources and Expenditures of Funds at current prices (1)
(In Billions of TL)

	1993	1994	1995	1996	1997(2)
RESOURCES	89 334	132 458	259 126	503 713	1 110 196
Taxes	57 029	69 822	135 049	217 952	526 621
Non-tax normal income	6 011	10 990	33 189	51 453	82 930
Factor income	4 964	7 932	11 200	30 425	38 204
Current transfers	6 123	11 047	32 984	146 144	323 780
Capital transfers	15 207	32 666	46 705	57 738	138 661
EXPENDITURES	106 317	167 507	308 668	521 236	1 166 312
Current expenditures	9 197	17 794	43 596	57 640	181 752
Tax expenditures	-	-	-	-	-
Non-tax normal expenditures	-	-	-	-	-
Factor expenditures	1 472	1 800	3 886	16 918	10 048
Current transfers	45 722	76 458	167 975	255 541	525 773
Capital investments	22 005	45 589	52 324	83 264	237 438
Fixed capital investments	27 921	25 866	40 886	107 873	211 300
RESOURCES - PAYMENTS	-16 984	-35 049	-49 542	-17 523	-56 117
FINANCING	16 984	35 049	49 542	17 523	56 117
Receipts from foreign debts	2 150	8 100	22 295	53 503	142 154
Foreign debt payments	-3 071	-5 008	-8 597	-34 700	-43 132
Domestic Debt - Domestic Lending (Net)	22 924	28 424	41 222	39 650	-48 847
Change in cash & banks	-5 019	3 533	-5 378	-40 929	5 941

Source: State Planning Organization

(1) Covers funds included in the public sector overall balance, as well as revenues allocated for education and health expenditures and their usage as foreseen in act no 3418. Enterprises subject to privatization are excluded.

(2) Estimate

TABLE 26

Consolidated Budget Appropriations,

Expenditures and Revenues

(in Billions of TL)

	1993	1994	1995	1996	1997 (1)
APPROPRIATIONS					
Initial	397 178	819 021	1 330 978	3 512 598	6 254 921
Year-end	507 888	957 573	1 808 465	4 095 073	8 365 924
Current Services					

Initial	176 748	322 890	550 891	1 046 791	2 125 237
Year-end	210 547	375 686	682 557	1 351 014	2 941 937
Investments					
Initial	46 222	84 786	85 032	236 007	495 287
Year-end	65 226	87 294	120 015	281 785	718 404
Transfers					
Initial	174 208	411 345	695 055	2 229 800	3 634 397
Year-end	232 115	494 593	1 005 893	2 462 274	4 705 583
EXPENDITURES	485 249	897 297	1 724 194	3 955 888	8 035 178
Current expenditures	204 829	346 469	645 945	1 284 883	2 785 052
Investment expenditures	53 161	72 788	102 989	255 244	638 660
Transfer expenditures	227 259	478 040	975 260	2 415 761	4 611 466
REVENUES	351 392	745 116	1 409 250	2 738 148	5 854 331
Taxes	264 273	587 760	1 084 350	2 248 420	4 750 451
Non-tax revenues	83 762	152 190	303 410	445 535	1 011 475
Revenues from annexed budget	3 357	5 166	21 490	44 193	92 405

Source: Undersecretariat of the Treasury

(1) Provisional

TABLE 27

Public Debt (Domestic)

(in Billions of TL)

	1993	1994	1995	1996	1997(2)
GENERAL BUDGET	286 926	677 031	1 169 006	2 778 032	5 945 801
Bonds (1)	190 505	239 385	511 769	1 250 154	3 570 811
Consolidated Debts	31 933	133 417	25 940	40	0
Bills	64 488	304 230	631 299	1 527 838	2 374 990
TREASURY GUARANTEED BONDS AND BILLS	12 217	25 127	8 424	13 037	180 907
Bills	12 180	25 096	0	0	167 876
Bonds	37	31	8 424	13 037	13 031

Source: Undersecretariat of the Treasury

(1) As of 1992, consolidated debt bonds are included.

(2) Provisional

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TABLE 28.A

MONETARY AUTHORITIES - SECTORAL ACCOUNTS

(TL Billions)

ASSETS	1993	1994	1995	1996	1997(1)
FOREIGN ASSETS	124 913.7	372 835.2	888 771.9	2 028 847.5	4 290 367.9
Gold: International Standard	21 515.5	54 548.9	82 294.5	148 702.0	267 790.3
Convertible Foreign Assets	88 374.9	277 049.7	740 456.3	1 754 680.0	3 787 755.0
Other Foreign Assets	15 023.3	41 236.6	6 6021.1	125 465.5	234 822.6
CLAIMS ON CENTRAL GOVERNMENT	141 744.3	349 777.4	598 000.5	867 775.2	654 678.8
Budgetary Institutions	109 811.9	216 360.6	572 060.7	917 709.1	970 396.9
Treasury Coin Issue	790.5	1 316.6	2 816.7	5 998.4	8 956.7
Treasury IMF Position	15 87.0	17 668.4	47 758.2	83 618.4	137 358.7
Short Term Advances to the Treasury	70 421.0	122 278.0	192 000.0	370 952.9	337 623.2
Government Securities (2)	37 013.4	75 097.6	329 167.8	457 139.4	486 458.3
Activated Claims in Accordance with Law Consolidation	0.0	0.0	0.0	0.0	0.0
Other Claims on the Treasury (net)	0.0	0.0	318.0	0.0	0.0
Revaluation Account	31 932.4	133 416.8	25 939.8	-49 933.9	-315 718.1
CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES (3)	12 515.2	25 929.8	1 203.3	2 242.8	1 328.8
CLAIMS ON DEPOSIT MONEY BANKS	16 866.2	20 502.8	28 677.0	73 111.7	673 250.7
Advances and Discounts	16 861.3	12 251.7	12 220.2	7 682.0	7 675.7
Commercial	16 699.2	12 157.6	12 174.2	7 674.3	7 675.1
Agricultural	0.0	0.0	0.0	0.0	0.0
Medium Term Industrial Credit, Banks	162.1	94.1	46.0	7.7	0.6
Advances Against Bonds	0.0	0.0	0.0	0.0	0.0
Credit to Non-Financial Public Enterprises through Banks	0.0	0.0	0.0	0.0	0.0
Other Claims	4.9	8 251.1	16 456.8	65 429.7	665 575.0
CLAIMS ON OTHER FINANCIAL INST.	1 995.9	70.6	29.0	6.7	1 016.2
Claims on Investment and Development Banks	1 995.9	70.6	29.0	6.7	1 016.2
Claims on Non-Bank Financial Institutions	0.0	0.0	0.0	0.0	0.0
UNCLASSIFIED ASSETS	8 958.1	9 224.7	23 579.1	70 379.8	537 805.8
T O T A L	306 993.4	778 340.5	1 540 260.8	3 042 363.7	6 158 448.2

Source: CBRT

(1) Provisional (as of the end of November, 1997)

(2) Securities are adjusted to include those sold but exclude those purchased under repurchase agreements. Counterpart adjustments are made in the accounts of the Deposit Money Banks.

(3) Direct Credit to the Non-Financial Public Enterprises is shown as a claim on public enterprises, while rediscounts by banks of NFPE bills have been reclassified as claims on Deposit Money Banks.

TABLE 28.L

MONETARY AUTHORITIES - SECTORAL ACCOUNTS

(TL Billions)

LIABILITIES	1993	1994	1995	1996	1997(1)
RESERVE MONEY	128 901.8	282 973.1	507 819.1	972 285.6	1 819 037.4
Currency and Coin in Circulation	63 820.2	121 442.8	226 477.1	387 812.6	705 295.5
Currency Outside Deposit Money Banks	51 364.3	101 401.1	188 505.9	315 893.1	584 706.0
Currency in Banks	12 455.9	20 041.7	37 971.2	71 919.5	120 589.5
Bank Deposits	63 979.9	160 368.2	278 885.7	580 425.7	1 110 291.6
Required Reserves	51 478.7	122 542.5	250 873.4	450 875.8	862 206.0
Free Reserves	12 501.2	37 825.7	28 012.3	129 549.9	248 085.6
Demand Deposits (TL)	1 101.7	1 162.1	2 456.3	4 047.3	3 450.3
Non-Financial Public Enterprises	298.4	44.2	29.6	27.0	41.0
Local Government Deposits	653.8	1 074.7	2 394.6	3 991.7	3 278.8
Private Sector Deposits	3.4	7.9	9.8	14.2	96.7
Other Financial Institutions	146.1	35.3	22.3	14.4	33.8
TIME AND SAVINGS DEPOSITS	2 941.6	6 773.2	12 425.1	33 304.5	43 221.4
FOREIGN EXCHANGE DEPOSITS	3 827.1	3 130.4	12 147.1	39 224.8	97 518.3
Non-Bank Financial Institutions	3 556.6	2 594.2	11 921.2	38 867.3	96 947.0
Non-Financial Public Enterprises	236.1	528.8	215.1	342.4	547.2
Local Governments	34.4	7.4	10.8	15.1	24.1
RESTRICTED DEPOSITS	11.3	12.2	15.3	22.0	30.7
FOREIGN LIABILITIES	108 401.0	398 134.8	769 307.1	1 395 231.3	2 384 953.4
Use of IMF Credit (UFC)	0.0	13 221.1	40 832.5	71 366.5	116 365.9
Foreign Credit	6 391.3	15 093.6	11 333.6	10 677.3	16 184.1
Deposits with Letter of Credit	100 844.2	356 895.2	687 737.8	1 284 555.2	2 210 424.2
Other Non-Residents' Deposits	691.1	11 437.4	27 062.6	25 390.8	36 078.2
Transitory Creditors (FE)	474.4	1 487.5	2 340.6	3 241.5	5 901.0
CENTRAL GOVERNMENT DEPOSITS	16 541.1	22 482.0	103 109.4	225 023.3	1 005 093.6
General and Annexed Budget Administration Deposits	6 163.5	10 236.3	88 034.2	188 271.9	941 551.8
Gen. Annex. Bud. Administ. Project Credit	7 961.6	7 237.8	11 407.7	17 256.8	15 927.9
Public Economic Institutes (Annexed Budget Organizations)	21.3	138.5	7.3	41.2	15.4
Social Security Funds (LC)	0.0	0.0	0.0	0.0	0.0
Reserves for Letters of Credit (Official Ent.)	3.4	15.7	16.3	13.5	8.5
Other Liabilities to Central Government	425.0	3 774.9	244.0	10 455.3	29 964.5
Extra-budgetary Institutions	1 966.3	1 078.8	3 399.9	8 984.6	17 625.5
CAPITAL AND RESERVES	8 781.8	13 708.7	19 191.7	113 966.9	64 793.4
UNCLASSIFIED LIABILITIES	37 587.7	51 126.1	116 246.0	263 305.3	743 800.0
TOTAL	306 993.4	778 340.5	1 540 260.8	3 042 363.7	6 158 448.2

Source: CBRT

(1) Provisional (as of the end of November, 1997)

TABLE 29

CENTRAL BANK - CREDIT

(TL Billions)

SECTORAL BREAKDOWN	1993	1994	1995	1996	1997(1)
CENTRAL GOVERNMENT	70 421.0	122 278.0	192 318.0	370 952.9	337 623.2
Short Term Advances to the Treasury	70 421.0	122 278.0	192 000.0	370 952.9	337 623.2
Other Claims on the Treasury (net)	0.0	0.0	318.0	0.0	0.0
NON-FINANCIAL PUBLIC ENTERPRISES	12 515.2	25 929.8	1 203.3	2 242.8	1 328.8
Treasury Guaranteed Bills	12 180.1	25 096.3	0.0	0.0	0.0
Short-term Discount of Bills, Soil Products Office (SPO)	0.0	0.0	0.0	0.0	0.0
SEEs' Other (Debts of SEEs Not Paid On Due Date)	335.1	833.5	1 203.3	2 242.8	1 328.8
SEEs, Commercial Bills	0.0	0.0	0.0	0.0	0.0
FINANCIAL INSTITUTIONS	17 691.5	12 322.3	12 249.2	7 688.7	7 676.3
Deposit Money Banks	16 861.3	12 251.7	12 220.2	7 682.0	7 675.7
Advances and Discounts	16 861.3	12 251.7	12 220.2	7 682.0	7 675.7
Commercial	16 699.2	12 157.6	12 174.2	7 674.3	7 675.1
Agricultural	0.0	0.0	0.0	0.0	0.0
Medium Term Industrial Credit, Banks	162.1	94.1	46.0	7.7	0.6
Advances Against Bonds	0.0	0.0	0.0	0.0	0.0
Claims on Public Economic Institutions	0.0	0.0	0.0	0.0	0.0
Other Credit	0.0	0.0	0.0	0.0	0.0
Investment and Development Banks	830.2	70.6	29.0	6.7	0.6
Export Advances and Discounts	0.0	0.0	0.0	0.0	0.0
Special Export Loans-Eximbank	0.0	0.0	0.0	0.0	0.0
Eximbank Credit, Foreign Trade Capital Corp.	0.0	0.0	0.0	0.0	0.0
Export Discount Credit	0.0	0.0	0.0	0.0	0.0
Other Commercial Credit, Inv. & Dev. Banks	707.2	4.3	0.0	0.0	0.0
Med. Term Credit, Inv. and Dev. Banks	123.0	66.3	29.0	6.7	0.6
Non-Bank Financial Institutions	0.0	0.0	0.0	0.0	0.0
Advances for Savings Protection Fund	0.0	0.0	0.0	0.0	0.0
TOTAL	100 627.7	160 530.1	205 770.5	380 884.4	346 628.3

Source: CBRT

(1) Provisional (as of the end of November 1997)

TABLE 30

CENTRAL BANK - DEPOSITS

(TL Billions)

SECTORAL BREAKDOWN	1993	1994	1995	1996	1997(1)
CENTRAL GOVERNMENT DEPOSITS	16 112.7	18 691.4	102 849.1	214 554.5	975 120.6
General and Annexed Budget Administration	6 163.5	10 236.3	88 034.2	188 271.9	941 551.8
TL	2 370.0	6 073.3	13 397.8	33 358.8	418 550.2
FE	3 793.5	4 163.0	74 636.4	154 913.1	523 001.6
General and Annexed Budget Administration Project Funds	7 961.6	7 237.8	11 407.7	17 256.8	15 927.9
TL	0.0	0.4	0.0	0.0	0.0
FE	7 961.6	7 237.4	11 407.7	17 256.8	15 927.9
Public Economic Institutions (Annexed Budget Organizations)	21.3	138.5	7.3	41.2	15.4
TL	5.2	124.9	7.3	41.2	15.4
FE	16.1	13.6	0.0	0.0	0.0
Social Security Organizations Est. by Law	0.0	0.0	0.0	0.0	0.0
Extra-budgetary Institutions	1 966.3	1 078.8	3 399.9	8 984.6	17 625.5
TL	1 350.3	642.9	3 086.8	6 549.3	9 321.4
FE	616.0	435.9	313.1	2 435.3	8 304.1
FINANCIAL INSTITUTIONS' DEPOSITS	67 755.2	163 058.3	290 921.2	619 654.4	1 207 379.5
Bank Deposits	63 979.9	160 368.2	278 885.7	580 425.7	1 110 291.6
Required Reserves	51 478.7	122 542.5	250 873.4	450 875.8	862 206.0
TL	30 341.3	57 509.2	106 549.3	175 512.1	323 191.8
FE	21 137.4	65 033.3	144 324.1	275 363.7	539 014.2
Free Reserves	12 501.2	37 825.7	28 012.3	129 549.9	248 085.6
Domestic Banks (FE)	6 510.7	31 711.5	20 790.2	76 876.3	209 616.8
Deposit Money Banks (Free Dep. TL)	5 990.5	6 114.2	7 222.1	52 673.6	38 468.8
Other Financial Institutions	3 775.3	2 690.1	12 035.5	39 228.7	97 087.9
Investment and Development Banks	120.7	842.5	476.2	1 212.7	5 151.6
TL	6.9	22.0	19.1	11.8	28.6
FE	113.8	820.5	457.1	1 200.9	5 123.0
Non-Bank Finan.Ins.(Ins. Fund. for Sav. Dep.)	3 582.0	1 787.0	11 467.3	37 669.0	91 829.2
TL (Sight)	139.2	13.3	3.2	2.6	5.2
FE	3 442.8	17 73.7	11 464.1	37 666.4	91 824.0
Financial Institutions (Private Finance Houses)	72.6	43.5	92.0	347.0	107.1
Authorized Foreign Currency Institutions	0.0	17.1	0.0	0.0	0.0
NON-FINANCIAL PUBLIC ENTERPRISES	534.5	573.0	244.7	369.4	588.2
State Economic Enterprises	534.5	573.0	244.7	369.4	588.2
TL (Sight)	298.4	44.2	29.6	27.0	41.0
FE	236.1	528.8	215.1	342.4	547.2
LOCAL GOVERNMENT	688.2	1 082.1	2 405.4	4 006.8	3 302.9
TL (Sight)	653.8	1 074.7	2 394.6	3 991.7	3 278.8
FE	34.4	7.4	10.8	15.1	24.1
PRIVATE SECTOR (TL)	3.4	7.9	9.8	14.2	96.7
RESTRICTED DEPOSITS	5.1	7.0	10.8	17.5	27.0
NON-RESIDENTS' DEPOSITS	101 535.3	368 332.6	714 800.4	1 309 946.0	2 246

					502.4
Deposits With Letter of Credit	100 844.2	356 895.2	687 737.8	1 284 555.2	2 210 424.2
Other Deposits (TL)	691.1	11 437.4	27 062.6	25 390.8	36 078.2
OTHER DEPOSITS	0.8	0.3	4.8	4.8	51.1
T O T A L	186 635.2	551 752.6	1 111 246.2	2 148 567.6	4 433 068.4

Source: CBRT

(1) Provisional (as of the end of November, 1997)

TABLE 31.A

DEPOSIT MONEY BANKS - SECTORAL ACCOUNTS

(TL Billions)

ASSETS	1993	1994	1995	1996	1997(1)
RESERVES	74 625.4	172 476.5	314 479.7	641 352.1	1 209 170.4
Currency	12 455.9	20 041.7	37 971.2	71 919.5	120 589.5
Deposits at Central Bank	62 169.5	152 434.8	276 508.5	569 432.6	1 088 580.9
Reserve Requirement	51 455.4	119 412.9	249 914.4	468 063.5	881 007.2
Free Reserves	10 714.1	33 021.9	26 594.1	101 369.1	207 573.7
OTHER CLAIMS ON CENTRAL BANK	14 396.1	8 449.1	19 497.4	46 485.3	133.7
Net Credit from CBRT under Swap and Repurchase Agreement	14 390.0	8 443.0	19 476.0	46 461.0	0.0
Other Claims	6.1	6.1	21.4	24.3	133.7
FOREIGN ASSETS	154 976.0	335 160.2	593 595.8	1 016 172.4	1 835 726.0
CLAIMS ON CENTRAL GOVERNMENT	100 522.6	224 793.0	413 346.7	1 405 806.7	2 453 260.6
Budgetary Institutions	96 619.5	203 152.8	385 467.2	1 293 916.6	2 427 107.5
Credit to Central Government	5 244.0	187.6	20 524.9	12 538.4	19 866.1
Bonds and Bills Issued by Central Government	76 943.6	146 232.9	252 821.9	874 679.3	1 421 181.6
Other Claims on Central Government	14 431.9	56 732.3	112 120.4	406 698.9	986 059.8
Extra-budgetary Institutions	3 903.1	21 640.2	27 879.5	111 890.1	26 153.1
Claims on Extra-budgetary Funds	3 903.1	21 640.2	27 879.5	111 890.1	26 153.1
CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES	24 051.5	65 819.6	40 288.7	49 210.9	116 650.9
Credit	23 698.7	64 582.0	37 637.0	46 777.5	115 052.4
Bonds	7.4	3.5	0.0	0.0	0.0
Equity Participation's	15.6	6.8	2.6	81.6	81.5
Other	329.8	1 227.3	2 649.1	2 351.8	1 517.0
CLAIMS ON LOCAL GOVERNMENT	0.0	2 756.4	4 745.6	6 420.6	7 688.0
CLAIMS ON OTHER FINANCIAL INSTITUTIONS	6 748.3	20 039.9	32 858.7	71 568.2	169 538.6
Claims on Investment and Development Banks	4 855.8	17 847.6	28 032.0	58 216.8	120 259.2
Claims on Non-Bank Financial Institutions	1 892.5	2 192.3	4 826.7	13 351.4	49 279.4
CLAIMS ON PRIVATE SECTOR	336 615.4	550 330.7	1 356 669.1	3 202 529.0	6 260 268.7

Credit to Private Sector	312 325.9	507 238.4	1 277 943.5	3 029 298.7	5 996 440.0
Bonds Issued by Private Enterprises	17.5	66.6	22.6	26 083.8	9 012.0
Participation's in Private Enterprises	16 343.0	27 416.5	50 578.0	74 722.5	131 724.0
Other Claims on Private Sector	7 929.0	15 609.2	28 125.0	72 424.0	123 092.7
DOMESTIC INTERBANK CLAIMS	81 682.5	47 366.7	143 585.4	367 859.3	683 469.6
UNCLASSIFIED ASSETS	168 592.9	361 502.3	777 198.8	1 336 625.7	3 402 459.8
T O T A L	962 210.7	1 788 694.4	3 696 265.9	8 144 030.2	16138 366.3

Source: CBRT

(1) Provisional (as of the end of November, 1997)

TABLE 31.L

DEPOSIT MONEY BANKS - SECTORAL ACCOUNTS

(TL Billions)

LIABILITIES	1993	1994	1995	1996	1997(1)
DEMAND DEPOSITS	73 401.7	125 849.6	193 428.5	562 351.4	557 195.1
Private Sector	59 928.8	102 813.3	155 340.0	367 984.7	451 422.1
Local Government	3 684.5	7 400.3	12 023.8	43 765.7	25 391.3
Non-financial Public Enterprises	8 329.5	13 088.9	20 438.9	138 945.6	63 646.8
Other Financial Institutions	1 458.9	2 547.1	5 625.8	11 655.4	16 734.9
TIME DEPOSITS (2)	183 910.3	434 517.9	959 240.8	2 097 901.1	3 831 131.0
Private Sector	177 175.1	418 004.8	914 329.3	2 053 427.0	3 696 357.6
Local Government	1 660.1	2 620.7	6 838.9	15 970.6	43 542.6
Non-financial Public Enterprises	3 361.8	8 886.7	32 206.4	6 229.6	49 476.4
Other Financial Institutions	1 713.3	5 005.7	5 866.2	22 273.9	41 754.4
RESIDENTS' FOREIGN EXCHANGE					
DEPOSITS	186 789.7	561 874.8	1145 818.7	2 409 590.8	4 403 277.8
CERTIFICATES OF DEPOSIT	3 063.7	4 633.4	6 918.9	11 208.2	410.1
BONDS	24 524.1	15 756.6	36 689.8	5 863.3	80 193.7
FOREIGN LIABILITIES	135 596.1	125 647.2	315 754.7	871 833.0	2 250 568.8
CENTRAL GOVERNMENT DEPOSITS	65 802.5	91 714.8	143 855.7	392 887.1	1 114 582.0
Deposit of Budgetary and Social Sec. Institutions	22 439.3	31 788.3	66 113.4	217 625.9	795 048.2
Deposits of Extra-budgetary Funds	43 363.2	59 926.5	77 742.3	175 261.2	319 533.8
CREDIT FROM CENTRAL BANK	17 902.8	12 661.2	12 586.3	14 470.9	59 622.0
Interbank Deposits, Central Bank	930.8	341.1	286.4	5 313.2	21 210.6
Credit From Central Bank	16 972.0	12 320.1	12 299.9	9 157.7	38 411.4
CAPITAL ACCOUNTS	99 670.4	182 053.1	383 838.6	869 243.2	1 713 336.9
DOMESTIC INTERBANK LIABILITIES	96 385.5	61 252.8	206 457.5	484 610.3	925 215.0
UNCLASSIFIED LIABILITIES	75 163.9	172 733.0	291 676.4	424 070.9	1 202 833.9
T O T A L	962 210.7	1 788 694.4	3 696 265.9	8 144 030.2	16 138 366.3

Source: CBRT

(1) Provisional (as of the end of November, 1997)

(2) Time deposits also comprise bank liabilities, such as miscellaneous receivable and transitory liability accounts which are not regarded as deposits legally. Therefore, the deposit figures of bank accounts revised with respect to institutional sectors are different from official deposit figures.

TABLE 32.A

DEPOSIT MONEY BANKS - DEPOSITS

(TL Billions)

SECTORAL BREAKDOWN	1993	1994	1995	1996	1997(1)
CENTRAL GOVERNMENT	27 001.3	45 749.8	70 835.7	227 608.8	642 348.0
Deposit of Budget and Soc. Sec. Institutions	16 417.7	23 388.3	46 118.5	177 577.5	568 709.5
Official Corporations	9 700.1	12 171.5	25 574.5	134 408.4	474 635.0
Other Corporations	6 717.6	11 216.8	20 544.0	43 169.1	94 074.5
Deposits of Extra-budgetary Funds	10 583.6	22 361.5	24 717.2	50 031.3	73 638.5
FINANCIAL INSTITUTIONS' DEPOSITS	75 415.4	43 522.1	178 967.8	463 113.7	1 046 253.3
Interbank Deposits	72 243.2	35 969.3	167 475.8	429 184.4	987 764.0
Interbank, Central Bank	930.8	341.1	286.4	5 313.2	21 210.6
Interbank, Banks Abroad	5 117.5	12 617.7	75 665.0	167 319.0	513 340.9
Domestic Interbank	66 194.9	23 010.5	91 524.4	256 552.2	453 212.5
Other Financial Institutions	3 172.2	7 552.8	11 492.0	33 929.3	58 489.3
Investment and Development Banks	1 783.6	5 181.8	5 117.5	18 895.6	33 933.8
Non-Bank Financial Institutions	1 388.6	2 371.0	6 374.5	15 033.7	24 555.5
NON-FINANCIAL PUBLIC ENTERPRISES	10 968.2	20 253.4	50 909.6	142 169.2	110 297.2
LOCAL GOVERNMENT	5 344.6	10 021.0	18862.7	59 736.3	68 933.9
PRIVATE SECTOR	392 243.4	1 045 792.0	2 114 760.1	4 761 773.5	8 384 979.3
Savings Deposits, Real Persons	122 268.2	325 200.0	682 572.7	1 728 529.7	2 899 919.2
Commercial Corporations	40 438.1	78 534.8	131 561.2	279 562.4	434 686.9
Other Corporations	39 683.7	75 549.0	147 888.6	332 882.4	646 685.3
Residents' Foreign Exchange Deposits	186 789.7	561 874.8	1 145 818.7	2 409 590.8	4 403 277.8
Certificates of Deposit	3 063.7	4 633.4	6 918.9	11 208.2	410.1
DEPOSITS ABROAD	11 526.9	37 811.0	109 450.8	221 725.9	552 817.2
TOTAL	522 499.8	1 203 149.3	2 543 786.7	5 876 127.4	10 805 628.9

Source: CBRT

(1) Provisional (as of the end of November, 1997)

TABLE 32.L

DEPOSIT MONEY BANKS - DEPOSITS

(TL Billions)

DEPOSIT TYPES	1993	1994	1995	1996	1997(1)
SAVINGS DEPOSITS	123 096.2	326 227.0	684 284.7	1 731 882.7	2 906 349.2
Sight	19 421.6	34 538.2	54 611.7	133 776.1	171 092.5
Time	103 674.6	291 688.8	629 673.0	1 598 106.6	2 735 256.7
COMMERCIAL CORPORATION DEPOSITS	56 845.9	108 459.6	202 023.7	474 389.7	610 963.5
Sight	47 823.4	79 828.3	120 677.4	376 397.3	335 961.9
Time	9 022.5	28 631.3	81 346.3	97 992.4	275 001.6
OTHER CORPORATION DEPOSITS	55 562.8	105 136.2	187 872.6	417 200.2	805 454.4

Sight	12 740.6	21 850.6	30 561.0	87 327.3	135 880.0
Time	42 822.2	83 285.6	157 311.6	329 872.9	669 574.4
of which: Extra-budgetary Funds (2)	8 078.8	16 613.7	13 980.8	28 894.0	43 312.5
OFFICIAL DEPOSITS	12 539.7	19 064.2	36 803.7	165 737.8	511 710.1
Sight	11 988.0	17 340.4	33 039.5	158 798.6	473 274.1
Time	551.7	1 723.8	3 764.2	6 939.2	38 436.0
CERTIFICATES OF DEPOSIT	3 063.7	4 633.4	6 918.9	11 208.2	410.1
Sight	25.5	34.2	26.8	53.7	65.6
Time	3 038.2	4 599.2	6 892.1	11 154.5	344.5
FOREIGN EXCHANGE DEPOSITS	197 364.7	598 477.8	1 253 289.7	2 627 628.8	4 949 043.8
Sight	52 553.2	172 546.1	364 908.2	705 978.4	1168 448.1
Time	144 811.5	425 931.7	888 381.5	1 921 650.4	3 780 595.7
DEPOSITS CONVERTIBLE TO FE	0.0	0.0	0.0	0.0	0.0
INTERBANK DEPOSITS	74 026.8	41 151.1	172 593.4	448 080.0	1 021 697.8
Central Bank	930.8	341.1	286.4	5 313.2	21 210.6
Public Deposit Bank	4 395.3	3 403.2	20 895.4	55 473.0	72 671.7
Private Deposit Bank	61 799.6	19 607.3	70 629.0	201 079.2	380 540.8
Investment and Development Banks	1 783.6	5 181.8	5 117.5	18 895.6	33 933.8
Banks Abroad	5 117.5	12 617.7	75 665.0	167 319.0	513 340.9
Institution Authorized to Accept Depo. by Special Law	0.0	0.0	0.1	0.0	0.0
T O T A L	522 499.8	1 203 149.3	2 543 786.7	5 876 127.4	10 805 628.9

Source: CBRT

(1) Provisional (as of the end of November, 1997)

(2) Extra-budgetary funds deposits in Other Deposits are not included in money supplies.

TABLE 33.A

INVESTMENT and DEVELOPMENT BANKS - SECTORAL ACCOUNT

(TL Billions)

ASSETS	1993	1994	1995	1996	1997(1)
RESERVES	19 738.2	52 327.0	84 105.6	147 364.7	257 060.3
Currency	17.5	21.5	35.8	49.9	19.6
Deposits at Central Bank	129.5	851.8	483.0	1 310.9	4 848.6
Claims on Deposit Money Banks	19 591.2	51 453.7	83 586.8	146 003.9	252 192.1
Securities Issued by Deposit Money Banks	0.4	0.0	0.0	0.0	0.0
Loans to Deposit Money Banks	19 590.8	51 453.7	83 586.8	146 003.9	252 192.1
OTHER CLAIMS ON CENTRAL BANK	-534.7	60.0	777.0	710.2	0.0
FOREIGN ASSETS	8 859.2	18 513.0	60 544.8	101 488.3	237 652.1
CLAIMS ON CENTRAL GOVERNMENT	2 622.6	4 579.1	7 079.0	16 766.6	28 581.6
Budgetary Institution	2 446.3	3 925.0	6 445.0	15 562.5	28 581.6
Loans to Central Government	0.0	0.0	0.0	0.0	0.0
Bonds and Bills Issued by Central Government	920.9	2 040.4	4 777.5	13 034.1	23 492.9
Other Claims on Central Government	1 525.4	1 884.6	1 667.5	2 528.4	5 088.7
Extra-budgetary Institution	176.3	654.1	634.0	1 204.1	0.0

Claims on Extra-budgetary Funds	176.3	654.1	634.0	1 204.1	0.0
CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES	1 712.5	1 272.2	9 222.3	6 567.8	16 320.4
Credit to SEE's	468.4	538.7	333.8	9.0	0.0
Bonds, Issued by SEEs	0.0	0.0	0.0	0.0	0.0
Equity Participation's in SEEs	12.8	11.9	12.0	70.5	70.6
Other Claims on SEEs	1 231.3	721.6	8 876.5	6 488.3	16 249.8
CLAIMS ON LOCAL GOVERNMENT	5 717.0	5 942.0	10 130.5	23 783.8	34 405.4
CLAIMS ON NON-BANK FINANCIAL INSTITUTIONS	709.8	229.6	136.4	605.5	4 191.5
CLAIMS ON PRIVATE SECTOR	22 562.4	45 136.6	78 313.9	169 682.7	287 603.8
Loans to Private Sector	22 035.3	43 943.3	76 291.3	164 283.0	282 859.3
Bonds Issued by Private Enterprises	0.0	0.0	0.0	0.0	0.0
Participation's in Private Enterprises	173.3	612.4	737.3	4 144.6	2 732.5
Other Claims on Private Sector	353.8	580.9	1 285.3	1 255.1	2 012.0
INTER-INVEST. AND DEVELOP. BANK CLAIMS	285.9	222.4	807.5	2 065.1	3 379.5
UNCLASSIFIED ASSETS	14 417.4	37 564.0	52 318.8	73 522.5	122 827.6
T O T A L	76 090.3	165 845.9	303 435.8	542 557.2	992 022.2

Source: CBRT

(1) Provisional (as of the end of November, 1997)

TABLE 33.L

INVESTMENT and DEVELOPMENT BANKS - SECTORAL ACCOUNT

(TL Billions)

LIABILITIES	1993	1994	1995	1996	1997(1)
TIME DEPOSITS (2)	1 663.9	1 826.7	2 896.6	2140.8	1 799.3
Private Sector	1 605.0	1 810.8	2 879.4	2 134.2	1 787.4
Non-Financial Public Enterprises	58.9	15.9	17.2	6.6	11.9
BONDS	16 545.3	39 255.3	50 758.3	69 820.6	129 427.9
FOREIGN LIABILITIES	13 558.4	30 961.3	48 672.0	90 421.0	226 228.5
CENTRAL GOVERNMENT DEPOSITS	13 201.7	23 549.8	44 215.3	66 624.8	109 787.4
Deposits of Budgetary and Social Security Institutions	7 103.3	12 151.3	31 964.8	51 144.6	90 751.2
Deposits of Extra-budgetary Funds	6 098.4	11 398.5	12 250.5	15 480.2	19 036.2
LIABILITIES TO THE MONETARY SECTOR	12 080.4	42 760.1	88 254.3	175 017.8	270 563.3
Credit from Central Bank	828.9	71.0	30.0	15 368.9	28 471.9
Liabilities to Deposit Money Banks	11 251.5	42 689.1	88 224.3	159 648.9	242 091.4
CAPITAL ACCOUNTS	12 057.7	13 173.7	33 009.5	86 268.1	152 875.0

UNCLASSIFIED LIABILITIES	6 982.9	14 319.0	35 629.8	52 264.1	101 340.8
T O T A L	76 090.3	165 785.9	303 435.8	542 557.2	992 022.2

Source: CBRT

(1) Provisional (as of the end of November, 1997)

(2) The liabilities of some banks, although they don't receive deposits, are classified as deposits just for Monetary Survey purposes.

TABLE 34

INVESTMENT and DEVELOPMENT BANKS - CREDITS

(TL Billions)

SECTORAL BREAKDOWN	1993	1994	1995	1996	1997(1)
CENTRAL GOVERNMENT	0.0	0.0	0.0	0.0	0.0
NON-FINANCIAL PUBLIC ENTERPRISES	468.4	538.7	333.8	9.0	0.0
LOCAL GOVERNMENT	5 717.0	5 942.0	10 130.5	23 783.8	34 405.4
FINANCIAL INSTITUTIONS	16 293.1	45 031.7	66 037.0	106 708.7	160 460.5
Deposit Money Banks	15 575.4	44 604.6	65 178.5	104 348.3	153 475.2
Investment and Development Banks	285.9	222.4	807.5	2 043.0	3 349.2
Eximbank	0.0	0.0	0.0	0.0	0.0
Other Investment and Development Banks	285.9	222.4	807.5	2 043.0	3 349.2
Non-Bank Financial Institutions	431.8	204.7	51.0	317.4	3 636.1
Special Finance Houses	74.8	0.0	0.0	0.0	0.0
Insurance Companies	19.9	0.0	0.0	0.0	0.0
Other Financial Institutions	337.1	204.7	51.0	317.4	3 636.1
PRIVATE SECTOR	22 035.3	43 943.3	76 291.3	164 283.0	282 859.3
Private Enterprises	15 965.1	34 585.2	63 628.3	139 914.6	247 373.3
Households	154.0	279.5	468.2	935.5	1 367.9
Other	5 916.2	9 078.6	12 194.8	23 432.9	34 118.1
CREDIT ABROAD	1 039.5	1 370.6	38 744.3	87 666.5	161 785.2
T O T A L	45 553.3	96 826.3	191 536.9	382 451.0	639 510.4

Source: CBRT

(1) Provisional (as of the end of November, 1997)

TABLE 35

DEPOSIT MONEY BANKS - CREDITS

(TL Billions)

SECTORAL BREAKDOWN	1993	1994	1995	1996	1997(1)
CENTRAL GOVERNMENT	5 244.0	187.6	20 524.9	12 538.4	19 866.1
NON-FINANCIAL PUBLIC ENTERPRISES	23 698.7	64 582.0	37 637.0	46 777.5	115 052.4
LOCAL GOVERNMENT	0.0	2 756.4	4 745.6	6 420.6	7 688.0

FINANCIAL INSTITUTIONS	17 060.4	35 488.9	69 718.4	117 376.9	201 465.5
Investment and Development Banks	4 430.3	17 069.4	26 257.9	50 854.9	94 561.0
Eximbank	741.6	5 155.4	3 627.1	10 591.2	29 583.7
Other Investment and Development Banks	3 688.7	11 914.0	22 630.8	40 263.7	64 977.3
Non-Bank Financial Institutions	913.4	342.5	1 480.7	4 141.9	15 970.5
Insurance Companies	0.0	0.0	0.0	0.2	2 882.3
Special Finance Houses	319.6	269.9	176.6	2 574.5	2 058.2
Other Financial Institutions	593.8	72.6	1 304.1	1 567.2	11 030.0
Domestic Interbank Credit	11 716.7	18 077.0	41 979.8	62 380.1	90 934.0
PRIVATE SECTOR	312 325.9	507 238.4	1 277 943.5	3 029 298.7	5 996 440.0
Private Enterprises	239 864.6	385 748.2	899 597.0	2 232 932.3	4 609 936.4
Households (2)	7 107.6	6 980.3	13 418.6	29 476.8	77 917.4
Other (3)	65 353.7	114 509.9	364 927.9	766 889.6	1 308 586.2
CREDIT ABROAD	4 697.2	20 329.9	22 551.8	49 513.4	123 887.4
TOTAL	363 026.2	630 583.2	1 433 121.2	3 261 925.5	6 464 399.4

(1) Provisional (as of the end of November, 1997)

(2) Credit extended by banks to their own personnel.

(3) Includes consumer credit and the credit extended to the Agricultural Credit and Sales Cooperatives.

TABLE 36

BANKING SECTOR - CREDIT STOCK

(TL Billions)

	1993	1994	1995	1996	1997(1)
CENTRAL BANK (DIRECT)	82 936.2	148 207.8	193 521.3	373 195.7	338 952.0
Central Government	70 421.0	122 278.0	192 318.0	370 952.9	337 623.2
Non-Financial Public Administration	12 515.2	25 929.8	1 203.3	2 242.8	1 328.8
Non-Bank Financial Institutions	0.0	0.0	0.0	0.0	0.0
DEPOSIT BANKS	342 182.0	575 106.9	1 342 331.7	3 099 177.1	6 155 017.0
Central Government	5 244.0	187.6	20 524.9	12 538.4	19 866.1
Non-Financial Public Administration	23 698.7	64 582.0	37 637.0	46 777.5	115 052.4
Local Government	0.0	2 756.4	4 745.6	6 420.6	7 688.0
Non-Bank Financial Institutions	913.4	342.5	1 480.7	4 141.9	15 970.5
Private Sector	312 325.9	507 238.4	1 277 943.5	3 029 298.7	5 996 440.0
INVESTMENT AND DEVELOPMENT BANKS	28 652.5	50 628.7	86 806.6	188 393.2	320 900.8
Central Government	0.0	0.0	0.0	0.0	0.0
Non-Financial Public Administration	468.4	538.7	333.8	9.0	0.0
Local Government	5 717.0	5 942.0	10 130.5	23 783.8	34 405.4
Non-Bank Financial Institutions	431.8	204.7	51.0	317.4	3 636.1
Private Sector	22 035.3	43 943.3	76 291.3	164 283.0	282 859.3
TOTAL	453 770.7	773 943.4	1 622 659.6	3 660 766.0	6 814 869.8

Source: CBRT

(1) Provisional (as of the end of November, 1997)

TABLE 37

MONETARY SECTOR - ANALYTICAL BALANCE SHEET

M3Y Money Supply and Counterpart Items

(TL Billions)

	1993	1994	1995	1996	1997(1)
COUNTERPARTITEMS					
FOREIGN ASSETS (NET)	36 864.3	196 648.1	424 059.4	806 416.2	1 518 700.9
Foreign Assets	279 889.7	707 995.4	1 482 367.7	3 045 019.9	6 126 093.9
Foreign Liabilities	-243 025.4	-511 347.3	-1 058 308.3	-2 238 603.7	-4 607 393.0
DOMESTIC CREDIT	564 497.6	1 161 298.2	2 273 523.3	5 226 313.8	8 571 677.5
Claims on Central Government (Net)	182 571.3	496 351.2	837 728.9	1 894 335.6	2 015 186.3
Claims on Central Government	242 266.9	574 570.4	1 011 347.2	2 273 581.9	3 107 939.4
Less: Central Government Deposits	-59 695.6	-78 219.2	-173 618.3	-379 246.3	-1 092 753.1
Claims on Local Government	0.0	2 756.4	4 745.6	6 420.6	7 688.0
Claims on Non-Financial Public Enterprises	36 566.7	70 558.7	41 492.0	51 453.7	117 979.7
Claims on Private Sector	336 615.4	571 521.3	1 356 669.1	3 202 529.0	6 260 268.7
Claims on Investment and Development Banks	6 851.7	17 918.2	28 061.0	58 223.5	121 275.4
Claims on Non-Bank Financial Institutions	1 892.5	2 192.3	4 826.7	13 351.4	49 279.4
OTHER ITEMS (NET)	-111 145.0	-124 407.8	-202 399.4	-424 227.2	246 299.5
TOTAL	490 216.9	1 233 538.5	2 495 183.3	5 608 502.8	10 336 677.9
MONEYSUPPLIES					
M1	129 087.1	230 846.9	388 184.5	896 854.6	1 206 908.6
Currency Outside Banks	51 645.1	102 328.4	189 465.2	319 024.0	591 748.5
Demand Deposits	77 442.0	128 518.5	198 719.3	577 830.6	615 160.1
Monetary Authorities	307.0	177.1	47.2	82.5	153.8
Deposit Money Banks	77 135.0	128 341.4	198 672.1	577 748.1	615 006.3
M2	282 441.9	630 348.0	1 256 631.5	2 924 893.3	4 871 767.0
Time Deposits	153 354.8	399 501.1	868 447.0	2 028 038.7	3 664 858.4
Deposit Money Banks	153 354.8	399 501.1	868 447.0	2 028 038.7	3 664 858.4
M2Y	473 058.7	1 195 353.2	2 414 597.3	5 373 708.9	9 372 563.1
Residents' Foreign Exchange Deposits	190 616.8	565 005.2	1 157 965.8	2 448 815.6	4 500 796.1
Monetary Authorities	3 827.1	3 130.4	12 147.1	39 224.8	97 518.3
Deposit Money Banks	186 789.7	561 874.8	1 145 818.7	2 409 590.8	4 403 277.8
M3	299 600.1	668 533.3	1 337 217.5	3 159 687.2	5 835 881.8
Official Deposits (Time/Sight)	12 539.7	19 064.2	36 803.7	165 737.8	511 710.1
Other CB's Deposits	4 618.5	19 121.1	43 782.3	69 056.1	452 404.7
M3Y (M2Y+Official Dept.+ Other CB's Deposits)	490 216.9	1 233 538.5	2 495 183.3	5 608 502.8	10 336 677.9

Source: CBRT

(1) Provisional (as of the end of November, 1997)

TABLE 38

CENTRAL BANK - ANALYTICAL BALANCE SHEET

(TL Billions)

	1993	1994	1995	1996	1997
ASSETS					
FOREIGN ASSETS	128 126	368 701	911 817	2 041 524	4 392 221
DOMESTIC ASSETS	157 675	324 304	509 295	640 317	299 668
Cash Operations	125 751	190 499	464 283	643 891	545 752
Cash Credit to the Public Sector	108 482	214 161	466 496	821 261	891 857
Cash Credit to the Banking Sector	18 862	12 327	12 254	7 693	7 681
Other Items (net)	-1 593	-35 989	-14 467	-185 063	-353 786
Evaluation Account	31 924	133 805	45 012	-3 574	-246 084
T O T A L	285 801	693 005	1421 112	2 681 841	4 691 889
LIABILITIES					
TOTAL FE LIABILITIES	157 688	499 865	1048 318	1 975 747	4 046 109
Foreign Liabilities	111 133	390 084	775 667	1 409 326	2 539 137
Domestic Liabilities	46 555	109 781	272 651	566 421	1 506 972
FE Deposits of Non-Banks	16 692	14 237	102 802	212 984	703 493
FE Deposits of the Banking Sector	29 863	95 544	169 849	353 437	803 479
CENTRAL BANK MONEY	128 113	193 140	372 794	706 094	645 780
Currency Issued	63 104	120 212	223 934	382 243	758 878
Banking Sector Deposits	36 048	63 662	113 792	228 199	370 765
Required Reserves	30 341	57 510	106 549	175 512	336 353
Free Deposits	5 707	6 152	7 243	52 687	34 412
Other Central Bank Money	28 961	9 266	35 068	95 652	-483 863
Deposits of Public Funds	1 491	657	3 193	6 549	47 535
Deposits of Non-Bank Private Sector	1 078	1 207	2 565	4 492	7 034
Open Market Operations (net)	21 835	1 138	15 926	51 369	-720 337
Public Sector Deposits	4 557	6 264	13 384	33 242	181 905
T O T A L	285 801	693 005	1 421 112	2 681 841	4 691 889

Source: CBRT

Note: The difference between the total of the Analytical Balance Sheet and the Balance Sheet of the Central Bank published weekly in the Official Gazette of Republic of Turkey is due to the following:

A) The Credit available for the Treasury and IMF account is shown in the Analytical Balance Sheet but not in the Weekly Balance Sheet.

B) The difference between the sum of Coins, Domestic Correspondents, Real Estate, Temporary Claims, Other Assets on the assets side of the Weekly Balance Sheet and the sum of Bills and Transfers Payable, Capital Accounts, Precautionary Cash, Collateral, Temporary Liabilities and Other Liabilities is listed on the assets side of the Analytical Balance Sheet as other items.

C) The Gold Claims of the Treasury in the Weekly Balance Sheet is netted with the Other Liabilities of the Treasury in the Analytical Balance Sheets. Open Market Operations and Overnight Transactions are netted on the liabilities side.

D) Overnight transactions and cash receivable and payable due to the securities transactions in open market operations are netted on the liabilities side of Analytical Balance Sheet. Securities receivable and payable due to open market operations are netted on the assets side of Analytical Balance Sheet under the item of “Credit to Public Sector”.

TABLE 39

Securities Issued

(in billions of TL)

	1993	1994	1995	1996	1997
PUBLIC SECTOR (1)	329 241.1	834 345.1	1 439 666.4	4 969 897.0	4 732 224.0
Government bonds	150 090.2	186 593.0	343 345.4	1 247 869.0	2 419 197.0
Treasury bills	179 150.9	647 752.1	1 096 321.0	3 722 028.0	2 313 027.0
Revenue sharing certificates (RSC) (2)	-	20 380.2	12 418.6	4 456.9	0.0
Foreign exchange indexed bonds (2)	15 886.1	40 479.6	21 847.0	13 659.7	23 175.3
PRIVATE SECTOR (3)	71 993.0	84 727.6	174 526.2	161 961.4	351 311.4
Bonds	715.2	491.1	1 883.1	1 229.0	720.0
Equities(4)	9 573.4	37 553.0	51 332.6	102 202.4	294 099.2
Profit and loss sharing certificates	-	-	300.0	-	-
Bank bills	2 387.5	2 024.6	1 300.0	2 362.5	-
Commercial bills	1 205.5	156.5	1 533.0	2 880.0	2 200.0
Mutual Fund Participation. Certificates	5 355.0	2 203.0	4 249.0	8 945.0	29 535.0
Foreign Mutual Fund participating shares (5)	-	-	-	-	1 757.2
Asset based securities	52 756.4	42 299.4	113 928.5	41 628.5	23 000.0
Real Estate Certificates	-	-	-	2 713.8	-

Source: Capital Market Board.

(1) Provisional (as of the end of October, 1997)

(2) Stock figures

(3) Provisional (as of the end of November, 1997)

(4) Market value

(5) Foreign Mutual Funds are registered on the basis of the number of shares. The figure shows TL equivalent of the registered shares calculated on the basis of CBRT offer rates effective on the date of registry.

TABLE 40

International Reserves

(in millions of US$)

	1993	1994	1995	1996	1997
GOLD (1)	1 488	1 410	1 383	1 383	1 124
GROSS FOREIGN EXCHANGE RESERVES	16 274	15 109	21 954	23 625	26 044
Central Bank	6 213	7 112	12 391	16 273	18 419
Deposit Money Banks	10 061	7 997	9 563	7 352	7 625

GROSS INTERNATIONAL RESERVES (2)	17 762	16 519	23 337	25 008	27 168
Overdrafts	1	5	20	42	30
NET RESERVES (3)	17 761	16 514	23 317	24 966	27 138

Source: Central Bank

(1) Gold was valued at $369.1 per ounce between 1988 and 1996 and at $300 per ounce at the end of 1997.

(2) International reserves are gold plus gross foreign exchange reserves.

(3) Net reserves are gross international reserves minus overdrafts.

TABLE 41

Balance of Foreign Trade

	in Millions of TL			in Millions of US$		
			Volume of			Balance of
	Imports	Exports	Foreign Trade	Imports	Exports	Foreign Trade
1965	5 193	4 174	1 036	572	464	-108
1966	6 522	4 415	1 209	718	491	-227
1967	6 217	4 701	1 207	685	522	-163
1968	6 934	4 468	1 260	764	496	-268
1969	7 275	4 832	1 338	801	537	-264
1970	10 348	6 408	1 536	948	588	-360
1971	17 725	9 090	1 848	1 171	677	-494
1972	22 346	11 876	2 448	1 563	885	-678
1973	29 797	18 037	3 403	2 086	1 317	-769
1974	53 124	21 197	5 310	3 778	1 532	-2 246
1975	68 987	20 075	6 140	4 739	1 401	-3 338
1976	82 941	30 775	7 089	5 129	1 960	-3 169
1977	104 882	31 338	7 549	5 796	1 753	-4 043
1978	113 290	55 358	6 887	4 599	2 288	-2 311
1979	178 505	75 744	7 330	5 069	2 261	-2 808
1980	613 267	221 498	10 819	7 909	2 910	-4 999
1981	1 002 356	530 716	13 636	8 933	4 703	-4 230
1982	1 461 425	937 311	14 589	8 843	5 746	-3 097
1983	2 127 081	1 298 945	14 963	9 235	5 728	-3 507
1984	4 034 897	2 608 332	17 891	10 757	7 134	-3 623
1985	5 994 853	4 252 949	19 301	11 343	7 958	-3 385
1986	7 561 157	5 012 346	18 562	11 105	7 457	-3 648
1987	12 353 041	8 844 331	24 348	14 158	10 190	-3 968
1988	20 476 720	16 809 326	25 997	14 335	11 662	-2 673
1989	33 762 160	24 819 337	27 417	15 792	11 625	-4 167
1990	58 755 207	34 071 035	35 261	22 302	12 959	-9 343
1991	88 914 171	57 373 403	34 640	21 047	13 593	-7 454
1992	159 628 934	111 123 668	37 586	22 871	14 715	-8 156
1993	328 904 847	171 144 874	44 773	29 428	15 345	-14 083

1994	683 826 641	550 041 707	41 376	23 270	18 106	-5 164
1995	1 649 154 021	1 001 123 478	57 346	35 709	21 637	-14 072
1996	3 559 032 738	1 906 932 074	66 851	43 627	23 224	-20 403
1997(1)	7 435 895 062	4 036 212 557	74 903	48 657	26 246	-22 411

Source : State Institute of Statistics

(1) Provisional

TABLE 42

Sectoral Breakdown of Exports

(in millions of US$)

	1993	1994	1995	1996	1997 (1)
AGRICULTURE	2 381	2 470	2 314	2 708	2 947
CROPS	2 037	2 165	2 101	2 474	2 673
Cereals	311	151	73	28	77
Fruit	917	1 114	1 235	1 138	1 309
Vegetables	167	173	180	208	236
Other	642	727	613	1 100	1 051
ANIMAL PRODUCTS	294	245	155	170	195
Livestock	284	223	132	85	83
Wool, hair	2	7	4	10	19
Other	8	15	19	75	93
FISHING	44	53	54	59	71
FORESTRY	6	8	4	6	8
MINING & QUARRYING	238	272	406	389	424
QUARRYING	201	215	249	253	261
MINERAL ORES	32	50	144	118	148
FUELS	2	2	1	1	2
OTHER	3	5	12	17	13
MANUFACTURING INDUSTRY	12 731	15 364	18 917	20 127	22 875
AGRO-INDUSTRY	1 322	1 660	2 097	2 118	2 397
Food manufacturing	1 269	1 615	1 940	2 007	2 271
Other	53	45	157	111	126
PETROLEUM DERIVATIVES	172	235	277	274	189
OTHER	11 237	13 469	16 543	17 734	20 289
Cement	90	145	141	135	171
Chemicals	465	575	711	823	953
Hides and leather	534	530	538	434	512
Textiles	5 453	6 366	8 262	8 528	9 711
Glass and ceramic wares	368	416	530	621	736

Iron and steel products	1 999	2 356	2 248	2 256	2 599
Non-ferrous metal products	182	224	353	384	452
Machinery	352	542	685	806	982
Transport equipment	373	494	804	991	1 022
Other	1 421	1 821	2 271	2 756	3 151
	15 350	18 106	21 636	23 224	26 246

Source: State Institute of Statistics

(1) Provisional

TABLE 43

Sectoral Breakdown of Imports

(in millions of US$)

	1993	1994	1995	1996	1997(1)
AGRICULTURE	1 674	1 214	2 452	2 955	3 171
CROPS	926	679	1 369	1 769	2 213
Cereals and pulses	344	160	475	775	772
Oil seeds	72	75	204	250	259
Other	510	444	690	744	1 182
ANIMAL PRODUCTS	407	359	927	1 003	774
Wool, hair	80	282	100	132	145
Hides, skins	215	7	464	677	589
Other	112	70	363	194	40
FISHING	23	25	34	35	51
FORESTRY	318	150	122	148	133
MINING & QUARRYING	3 041	2 969	3 479	4 298	4 138
QUARRYING	84	77	113	116	160
MINERAL ORES	68	55	121	138	147
FUELS	2 887	2 834	3 240	4 039	3 821
OTHER	2	3	5	5	10
MANUFACTURING	24 715	19 087	29 778	36 374	41 348
AGRO-INDUSTRY	1 033	848	1 500	1 367	1 211
Food manufacturing	551	569	1 057	1 042	825
and by-products	111	462	640	483	-
Animal fats and vegetable oils (2)	440	107	417	559	-
Other (2)	114	53	257	137	156
Processed forestry products					
Processed fibers for fabrics	24	30	59	4	4
Other	344	196	127	184	226
PETROLEUM DERIVATIVES	1 075	974	1 374	1 871	2 319
OTHER	22 607	17 265	26 904	33 136	37 818
Chemicals	2 981	1 378	4 292	4 546	4 992
Fertilizers (2)	311	170	364	332	-

Dyes and pharmaceuticals (2)	464	598	614	1 056	-
Other (2)	2 206	610	3 314	3 158	-
Rubber and plastics	1 161	1 006	1 784	2 157	2 413
Textiles	1 279	1 307	2 125	2 535	2 825
Glass and ceramic wares	215	175	297	404	377
Iron and steel products	3 089	2 401	3 534	3 405	3 723
Non-ferrous metal products	472	444	823	943	1 114
Metal products	187	138	200	300	296
Machinery	5 202	3 723	5 666	8 463	9 149
Electrical and electronic	2 035	1 784	2 152	2 966	3 849
Transport equipment and parts	4 012	2 137	3 600	4 394	5 701
Other	1 974	2 772	2 431	3 023	3 379
	29 430	23 270	35 709	43 627	48 657

Source: State Institute of Statistics

(1) Provisional

(2) 1997 sub-details are not available.

TABLE 44

Direction of Trade

(in millions of US$)

	1993	1994	1995	1996	1997 (1)
<u>EXPORTS</u>					
EU	7 290	8 269	11 078	11 549	12 236
Germany	3 655	3 934	5 036	5 187	5 253
Italy	750	1 034	1 457	1 446	1 388
France	771	851	1 033	1 053	1 163
The United Kingdom	835	889	1 136	1 261	1 505
The Netherlands	517	621	737	770	779
Belgium-Luxembourg	295	371	452	493	564
Others	467	569	1 227	1 339	1 584
MIDDLE EAST AND N. AFRICA	2 705	2 986	2 970	3 180	3 301
Iraq	160	141	124	188	54
Libya	247	179	238	244	187
Iran	290	250	268	298	307
Saudi Arabia	652	609	470	431	535
Others	1 356	1 807	1 870	2 019	2 218
USA	986	1 520	1 514	1 639	2 020
Switzerland	216	239	238	276	318
Japan	159	187	180	168	144
Others	3 994	4 905	5 656	6 412	8 227

	15 350	18 106	21 636	23 224	26 246
IMPORTS					
EU	12 950	10 279	16 861	23 138	24 834
Germany	4 533	3 646	5 548	7 814	8 010
Italy	2 558	2 009	3 193	4 286	4 456
France	1 952	1 458	1 996	2 771	2 964
The United Kingdom	1 546	1 170	1 830	2 510	2 758
The Netherlands	870	740	1 084	1 449	1 483
Belgium-Luxembourg	683	532	912	1 129	1 216
Others	808	724	2 298	3 179	3 947
MIDDLE EAST AND N. AFRICA	3 518	3 179	3 846	4 865	4 599
Iraq	-	-	-	32	76
Iran	667	692	689	806	646
Saudi Arabia	1 500	1 229	1 385	1 708	1 017
Others	1 351	1 258	1 772	2 319	2 860
USA	3 351	2 430	3 724	3 516	4 345
Switzerland	651	473	816	1 015	1 097
Japan	1 621	968	1 400	1 422	2 040
Others	7 339	5 941	9 062	9 671	11 742
	29 430	23 270	35 709	43 627	48 657

Source: State Institute of Statistics

(1) Provisional

TABLE 45

Imports of ConsumER and Investment Goods and raw materlals

(in millions of US$)

	1993	1994	1995	1996	1997 (1)
INVESTMENT GOODS	9 566	6 894	10 488	13 647	15 854
Construction materials	955	745	946	1 259	1 786
Machinery and equipment	8 520	6 129	9 245	12 233	14 048
Livestock	91	20	297	154	21
CONSUMER GOODS	4 116	2 780	4 414	6 817	8 792
RAW MATERIALS	15 747	13 596	20 807	23 163	24 011
T O T A L	29 429	23 270	35 709	43 627	48 657

Source: State Institute of Statistics

(1) Provisional

TABLE 46

Imports by Type of Source

(in millions of US$)

	1993	1994	1995	1996 (1)	1997 (1)
Liberalization list	27 699	21 964	34 427	-	-
Fair allocation list	-	-	-	-	-
By permission	-	-	-	-	-
NATO infrastructure	85	84	58	-	-
Private foreign capital	6	11	0	-	-
Project credit	224	418	150	-	-
Surplus	-	-	-	-	-
Imports with waiver	326	82	95	-	-
Financial leasing	1089	528	751	-	-
Grants		183	228	-	-
Others	-	-	-	-	-
	29 429	23 270	35 709	-	-

Source: State Institute of Statistics

(1) As of 1996, this classification is not made.

TABLE 47

Balance of Payments

(in millions of US$)

	1993	1994	1995	1996	1997
A. CURRENT ACCOUNT					
Merchandise Exports FOB	15 611	18 390	21 975	32 446	32 631
Exports	15 345	18 106	21 636	23 225	26 245
Shuttle Trade				8 842	5 849
Transit trade	266	284	339	379	537
Merchandise Imports FOB	-29 771	-22 606	-35 187	-43 028	-48 097
Imports (CIF)	-29 428	-23 270	-35 709	-43 627	-48 657
Gold Imports	-1 881	-480	-1 322	-1 672	-1 867
Transit Trade	-229	-251	-301	-347	-492
Freight and Insurance	1 767	1 395	2 145	2 618	2 919
Trade Balance	-14 160	-4 216	-13 212	-10 582	-15 466
Other goods and services: credit	11 788	11 691	16 094	14 628	21 273
Travel	3 959	4 321	4 957	5 650	7 002
Interest	1 135	890	1 488	1 577	1 900
Others	6 694	6 480	9 649	7 401	12 371

Other goods and services: debit	-7 829	-7 936	-9 717	-10 930	-13 423
Travel	-934	-866	-911	-1 265	-1 716
Interest	-3 574	-3 923	-4 303	-4 200	-4 588
Others	-3 321	-3 147	-4 503	-5 465	-7 119
Total: goods, services and income	-10 201	-461	-6 835	-6 884	-7 616
Private unrequited transfers: credit	3 035	2 709	3 425	3 892	4 552
Workers' remittances	2 919	2 627	3 327	3 542	4 197
Other	116	82	98	350	355
Official unrequited transfers	733	383	1 071	555	314
Workers' remittances	44	37	38	48	32
Other	689	346	1 033	507	282
Current account balance	-6 433	2 631	-2 339	-2 437	-2 750
B. CAPITAL ACCOUNT	8 963	-4 194	4 643	8 763	8 616
(Excluding Reserves)					
Direct investments (net)	622	559	772	612	554
Portfolio investments	3 917	1 158	237	570	1 634
Other long-term capital	1 370	-784	-79	1 636	4 667
Drawings	4 857	3 349	4 126	6 048	9 784
Repayments	-4 412	-5 448	-5 667	-5 685	-6 095
Dresdner (net)	925	1 315	1 462	1 273	978
Short term capital	3 054	-5 127	3 713	5 945	1 761
Asset (net)	-3 291	2 423	383	331	-1 750
Loans extended	-289	-38	1 101	-125	-358
DMB's FX holdings	-2 894	2 451	-1 430	1 510	-678
Other assets	-108	10	-54	-1 054	-714
Liabilities (net)	6 345	-7 550	4 096	5 614	3 511
Loans received	5 681	-7 495	3 096	4 320	3 613
Deposits	664	-55	1 000	1 294	-102
C. NET ERRORS AND OMISSIONS	-2 222	1 769	2 354	-1 781	-2 522
Total overall balance	308	206	4 658	4 545	3 344
D. TOTAL CHANGE IN RESERVES	-308	-206	-4 658	-4 545	-3 344
IMF	0	340	347	0	-28
Official reserves	-308	-546	-5 005	-4 545	- 3 316

Source: Central Bank

Note: 1996 and 1997 figures include shuttle trade.

TABLE 48

Selected Items from the Capital Account

(in Millions of US$)

	1993	1994	1995	1996	1997
CURRENT ACCOUNT BALANCE	-6 433	2 631	-2 339	-2 437	-2 750

CAPITAL ACCOUNT, EXCLUDE. RESERVES	8 963	-4 194	4 643	8 763	8 616
Direct investments	622	559	772	612	554
Portfolio investments	3 917	1 158	237	570	1 634
(Credit received from capital markets)	(3 727)	(99)	(386)	(1 331)	(1 774)
OTHER LONG-TERM CAPITAL	1 370	-784	-79	1 636	4 667
Official sector (Central Bank incl.)	-930	-1 461	-537	-916	-480
Drawings	525	365	723	775	1 062
Dresdner	925	1 315	1 462	1 273	978
Repayments	-2 380	-3 141	-2 722	-2 964	-2 520
Deposit money banks	193	-282	273	1 046	1 660
Drawings	682	352	500	1 439	2 478
Repayments	-489	-634	-227	-393	-818
Other sectors (Private sector included)	2 107	959	185	1 506	3 487
Drawings	3 650	2 632	2 903	3 834	6 244
(Project credit)	(224)	(418)	(149)	0	0
(Financial leasing)	(1 089)	(716)	(775)	(601)	(427)
Repayments	-1 543	-1 673	-2 718	-2 328	-2 757
SHORT-TERM CAPITAL	3 054	-5 127	3 713	5 945	1 761
Assets	-3 291	2 423	-383	331	-1 750
Loans extended	-289	-38	1 101	-125	-358
FX reserves (dep. money banks)	-2 894	2 451	-1 430	1 510	678
Other assets	-108	10	-54	-1 054	-714
Liabilities	6 345	-7 550	4 096	5 614	3 511
Central Bank	193	168	279	188	269
Dresdner	144	115	101	63	49
CTLD's	0	0	0	0	0
Overdrafts	0	0	0	0	0
Bankers' credit	0	0	0	0	0
Other	49	53	178	125	220
Commercial banks	4 302	-6 771	1 700	2 000	572
FX. deposit accounts	520	-170	899	1 231	-152
FX. credit	3 782	-6 601	801	769	724
Other sectors	1 850	-947	2 117	3 426	2 670
Trade credit	2 244	-816	1 671	3 419	2 084
FX. credit	-394	-131	446	7	586
Other	0	0	0	0	0
COUNTERPART ITEMS	0	0	0	0	0
EXCEPTIONAL FINANCING	0	0	0	0	0
OFFICIAL RESERVES	-308	-546	-5 005	-4 545	-3 316
Foreign exchange reserves	-314	-625	-5 032	-4 545	-3 316
Monetary gold	6	79	27	0	0

Source: Central Bank

Note: 1996 and 1997 figures include shuttle trade.

TABLE 49

Outstanding External Debt (End of Period) (*)

(in millions of US$)

	1993	1994	1995	1996
	(by maturity)			
TOTAL	67 356	65 601	73 278	79 748
Medium and long term	48 823	54 291	57 577	59 231
Short term	18 533	11 310	15 701	20 517
	(by borrower)			
MEDIUM AND LONG TERM	48 823	54 291	57 577	59 231
Public sector (incl. SEE's)	36 237	39 550	39 472	38 087
Central Bank	6 618	8 597	10 486	10 728
(Dresdner Bank scheme)	(6 282)	(8 308)	(10 397)	(10 720)
Private sector	5968	6 144	7 619	10 416
SHORT TERM	18 533	11 310	15 701	20 517
Central Bank	667	828	993	984
(Dresdner Bank scheme)	(666)	(823)	(973)	(942)
Deposit Money Banks	11 127	4 684	6 659	8 419
Other sectors	6 739	5 798	8 049	11 114
	(by lender)			
MEDIUM AND LONG TERM	48 823	54 291	57 577	59 231
Multilateral agencies	8 674	9 183	9 081	8 148
IMF	0	344	573	663
IBRD, IDA, IFC	5 440	5 380	5 191	4 620
EIB	250	264	86	65
ERF	2 952	3 065	3 114	2 676
IDB	15	117	108	115
OPEC Fund	2	0	0	0
IFAD	15	13	9	9
Bilateral lenders	18 153	20 678	21 558	23 264
OECD countries	16 607	19 001	19 552	20 579
OPEC countries	317	236	247	195
Other countries	1 229	1 441	1 759	2 490
Commercial Banks	3 083	2 325	2 346	2 310
Bond issue	12 623	13 788	14 186	14 780
Private lenders	6 290	8 317	10 406	10 729
(Dresdner Bank scheme)	(6 282)	(8 308)	(10 397)	(10 720)
SHORT TERM	18 533	11 310	15 701	20 517
Commercial Banks	9 526	2 901	4 263	4 940
Private Lenders	9 007	8 409	11 438	15 557
	(by type of credit)			
MEDIUM AND LONG TERM	48 823	54 291	57 577	59 231
Project and program credit	21 760	25 219	23 598	22 099
Eurocurrency loans	3083	2 325	2 346	2 310
Bond issue	12 623	13 788	14 186	14 780
Rescheduled debts	8	9	9	9
CTLD's	0	0	0	0
Bankers' credit	0	0	0	0

NGTA's	8	9	9	9
Private credit	11 349	12 950	17 438	20 033
(Dresdner Bank scheme)	(6 282)	(8 308)	(10 397)	(10 720)
SHORT TERM	18 533	11 310	15 701	20 517
Credit	15 436	8 044	11 230	14 996
Bankers' credit	0	0	0	0
Overdrafts	1	5	20	42
Acceptance credit	4 762	3 772	5 361	8 442
Pre-export credit	1 148	1 371	1 606	1 614
FX. credit received	8 696	2 241	3 161	3 840
FX. credit by other sector	829	655	1 082	1 058
Other	0	0	0	0
Deposits	3 097	3 266	4 471	5 521
FX. deposit accounts	2 431	2 443	3 498	4 579
Dresdner Bank scheme	666	823	973	942
CTLD's	0	0	0	0

Source: Central Bank, Undersecretariat of the Treasury

(*) 1997 figures are not available.

TABLE 50

Foreign Debt Stock by Type of Foreign Exchange expressed in US $ at year-end rates

(in millions of US$) (*)

TYPE OF CURRENCY	1993	1994	1995	1996
German Marks	19 124	22 235	25 533	27 527
Swiss Francs	1 889	2 295	2 388	1 696
Pounds Sterling	760	792	787	876
Japanese Yens	10 177	13 481	14 062	12 879
French Francs	1 068	1 137	1 314	1 347
US Dollars	31 198	21 665	24 917	30 632
SDR	15	357	582	672
Netherlands Guilders	686	921	1 064	984
Others	2 439	2 718	2 631	3 135
T O T A L	67 356	65 601	73 278	79 748

Source : Central Bank, Undersecretariat of the Treasury

(*) 1997 figures are not available.

TABLE 51

Dresdner Bank Scheme

(in millions of US$)

	1993	1994	1995	1996	1997
TOTAL	6 975	9 225	11 558	11 949	11 360
Non-residents	6 948	9 131	11 370	11 662	11 126
Short term	666	823	973	942	859
Medium and long term	6 282	8 308	10 397	10 720	10 267
Residents	27	94	188	287	234
Currency composition of Dresdner Bank scheme					
(in millions of original currency)					
US Dollars	170	141	118	140	161
German Marks	11 050	13 311	15 526	17 445	19 066
French Francs	219	258	296	352	400
Netherlands Guilders	604	652	712	777	828
Swiss Francs	113	111	116	116	119
Pounds Sterling	0	0	0	1	2

Source: Central Bank

TABLE 52

Foreign Exchange Deposit Accounts

(in millions of US$)

	1993	1994	1995	1996	1997
Foreign exchange deposit accounts	19 105	18 643	25 561	28 675	32 807
Non-residents	2 431	2 443	3 498	4 579	4 156
Residents	16 674	16 200	22 063	24 096	28 651
Interbank	4 414	1 743	2 847	2 547	3 396
Other	12 260	14 457	19 216	21 549	25 255
Reserve Requirements on FX deposits	1 462	1 681	2 425	2 561	2 836
Currency composition of FX deposits (in millions of original currency)					
US Dollars	8 726	7 032	10 601	13 396	19 376
German Marks	14 901	15 426	18 442	20 530	20 618
French Francs	2 001	2 054	2 573	2 371	2 436
Netherlands Guilders	914	933	968	883	845
Swiss Francs	367	405	417	418	410
Japanese Yens	6 757	2 047	7 133	18 158	27 168
Pounds Sterling	309	121	147	193	229

Source: Central Bank

TABLE 53

Projected Debt Services

(by Borrower)

(in millions of US$)

	1998	1999	2000	2001+ (1)
TOTAL	14 048	10 087	8 385	33 452
Principal	10 974	7 666	6 377	27 248
Interest	3 074	2 421	2 008	6 204
Public sector				
Principal	7 776	6 170	5 285	23 406
Interest	2 513	2 064	1 667	5 253
Central Bank				
Principal	2	2	1	1
Interest	0	0	0	0
Private sector				
Principal	3 196	1 494	1 091	3 841
Interest	561	357	341	951

Source: Undersecretariat of the Treasury

(1) Covers the payments to be made in 2001 and the following years.

Note : NGTA and DRESDNER payments are not included.

Based on rates effective on 31.12.1996.

TABLE 54

Sectoral Breakdown of Companies with Foreign Capital

(as on December 31, 1997)

SECTORS	Number of Companies	Foreign Capital in Millions of TL	Percentage of Total Foreign Capital	Total Capital in Millions of TL	Foreign Capital as percentage of total Capital
AGRICULTURE	96	1 084 648	0.44	4 190 909	25.88
MINING	54	2 591 224	1.05	3 339 342	77.60
MANUFACTURING					
Food manufacturing	124	18 471 945	7.48	27 593 963	66.94
Beverage industries	6	76 084	0.03	148 843	51.12
Tobacco products	10	5 946 640	2.41	6 765 712	87.89
Wearing apparel	3	5 484	0.00	5 790	94.72
Textiles	49	2 723 526	1.10	8 508 456	32.01
Ready-made garments	135	2 471 496	1.00	10 869 301	22.74
Leather and leather products	15	133 492	0.05	289 685	46.08
Footwear	6	18 942	0.01	26 832	70.59
Forestry products	9	183 420	0.07	669 082	27.41
Furniture	9	20 600	0.01	27 331	75.37
Paper and printing industry	1	17 500	0.01	35 000	50.00
Paper	10	2 277 251	0.92	4 982 313	45.71
Printing	9	133 878	0.05	170 924	78.33

Chemicals	38	4 609 556	1.87	6 134 802	75.14
Industrial chemicals	31	2 620 983	1.06	4 287 495	61.13
Other chemical products	47	6 342 768	2.57	7 419 106	85.49
Other petroleum and coal products	6	540 812	0.22	756 539	71.49
Rubber	1	20 128	0.01	20 750	97.00
Plastics	41	2 051 925	0.83	3 448 488	59.50
Tires	6	2 662 038	1.08	4 794 778	55.52
Fertilizers	3	13 996	0.01	23 885	58.60
Non-metallic mineral products	2	166 549	0.07	166 600	99.97
Ceramics, clay, cement products	16	580 445	0.24	3 032 594	19.14
Glassware	10	963 786	0.39	23 128 374	4.17
Cement	7	3 568 506	1.45	8 311 651	42.93
Other Non-metallic minerals	1	2 700	0.00	4 500	60.00
Basic metal industries	4	124 831	0.05	417 616	29.89
Iron-steel	12	2 719 000	1.10	23 285 500	11.68
Non-ferrous metals	14	864 659	0.35	1 516 902	57.00
Machinery	13	105 236	0.04	221 684	47.47
Fabricated metal products	36	271 511	0.11	2 477 149	10.96
Non-electrical machinery	21	362 346	0.15	564 345	64.21
Electrical machinery	54	7 903 176	3.20	10 653 739	74.18
Electronics	49	5 052 578	2.05	7 797 200	64.80
Transport equipment	24	20 702 487	8.38	45 768 960	45.23
Transport related industries	77	9 010 529	3.65	18 723 986	48.12
Measuring and controlling equipment	13	143 442	0.06	267 753	53.57
Air transport equipment	2	539 158	0.22	1 120 930	48.10
Other industrial equipment	81	3 127 932	1.27	5 882 189	53.18
TOTAL	995	107 551 335	43.55	240 320 747	44.75
SERVICES					
Trade	1650	27 751 559	11.24	40 683 539	68.21
Restaurants	141	2 187 416	0.89	2 777 931	78.74
Hotels	273	10 086 035	4.08	19 114 242	52.77
Construction	106	1 758 017	0.71	4 044 699	43.46
Land transport	21	74 225	0.03	137 617	53.94
Marine transport	35	352 141	0.14	438 410	80.32
Air transport	44	139 056	0.06	252 396	55.09
Services related to transportation	74	621 411	0.25	863 786	71.94
Communication	4	1 383 422	0.56	4 437 700	31.17
Banking and other financial services	33	30 443 323	12.33	43 955 744	69.26
Financial institutions	31	13 072 306	5.29	22 120 287	59.10
Insurance	29	1 794 312	0.73	5 785 147	31.02
Leasing	4	200 110	0.08	216 500	92.43
Private education	10	22 205	0.01	25 900	85.73
Research and development activities	11	727 208	0.29	745 960	97.49
Health services	23	660 405	0.27	2 033 005	32.48
Other social services	155	32 157 740	13.02	49 040 662	65.57
Cinema and other entertainment	3	7 519	0.00	19 300	38.96
Laundry & dry cleaning services	2	3 000	0.00	16 600	18.07
Other personal services	8	95 614	0.04	110 000	86.92
Other activities	266	12 183 121	4.93	14 187 864	85.87
TOTAL	2923	135 720 145	54.96	211 007 289	64.32
GRAND TOTAL	4068	246 947 352	100.00	458 858 287	53.82

Source: Undersecretariat of the Treasury

TABLE 55

FOREIGN INVESTMENT APPROVALS BY YEARS

Years	Number of Companies	Amounts Approved (in Millions of US $)	Cumulative (in Millions of US$)
1982	147	167	602
1983	166	103	705
1984	235	271	976
1985	408	234	1 210
1986	619	364	1 574
1987	836	655	2 229
1988	1 172	821	3 050
1989	1 525	1 512	4 562
1990	1 856	1 861	6 423
1991	2 123	1 967	8 390
1992	2 330	1 820	10 210
1993	2 554	2 063	12 273
1994	2 830	1 478	13 751
1995	3 161	2 938	16 689
1996 (1)	3 582	3 837	20 526
1997	4 068	1 678	22 204

Source: Undersecretariat of the Treasury

(1) Foreign investment approvals in 1996 include an approval for $2.3 billion given for İstanbul-Silivri Grand Metropolitan Project, which French investors plan to undertake.

TABLE 56

Average Interest Rates of Auctioned Government Securities in 1997(1)

(in Percent)

Months	6 Months (up to 182 days)	9 Months (up to 273 days)	12 Months (273 days +)	2 Years (CPI Indexed) (730 days)
January			95.53	
February			83.23	
March			98.27	78.88
April				76.70
May				79.16
June	83.54			85.52
July		96.50	100.67	
August			118.48	

September	96.48		112.06	
October	85.66	89.92		
November		94.61		88.75
December	89.25			96.39

Source: Central Bank

(1) Interest rates are given according to auction dates. A simple arithmetic mean is taken if more than one auction was held within the same month for the same maturity.

TABLE 57

Government Securities Sold at Auctions in 1997 (1) (in Billions of TL)

	6 Months(2)	9 Months(2)	12 Months(2)	2 Years (CPI Indexed)(2)
Months	(up to 182 days)	(up to 273 days)	(273 days +)	(730 days)
January			601 156.1	
February			720 146.5	
March			965 957.5	18 608.0
April				270 722.3
May				127 215.1
June	76 233.2			272 109.0
July		313 652.2	511 117.9	
August			984 835.8	
September	324 278.4		255 893.8	
October	410 292.4	343 065.8		
November		429 838.4		140 151.9
December	584 227.1			146 431.6

Source: Central Bank

(1) The table is arranged according to auction dates and includes the amounts sold to non-competitive bidders and buy options granted to the highest bidders. The sales related to consolidated debt securities are not included.

(2) The amounts sold to non-competitive bidders and buy options granted to the highest bidders are included in these figures. The sales related to consolidated debt securities are not included.

TABLE 58

Interbank Money Market Transactions

(1997 Monthly Averages)

Months	Number of Daily Transactions (1)	Volume of Daily Transactions (in Billions of TL) (2)	Actual Overnight Interest (%)

			Minimum	Maximum	Average (3)
January	254	84 165.6	52.00	77.75	61.48
February	280	100 307.8	52.00	72.00	66.29
March	264	108 440.6	52.00	72.00	65.12
April	268	126 197.4	52.00	72.00	68.52
May	244	131 479.3	52.00	72.00	66.30
June	232	112 596.7	52.00	72.00	70.53
July	242	121 114.1	52.00	74.00	69.00
August	204	144 638.0	54.00	76.00	73.93
September	210	127 411.1	56.00	76.00	75.23
October	240	119 224.6	56.00	77.75	71.57
November	218	146 789.7	74.75	78.00	77.87
December	204	163 544.5	60.00	80.00	78.04

Source: Central Bank

(1) The monthly averages of the number of double-sided transactions.

(2) The monthly total of the volume of double-sided transactions.

(3) The monthly average of overnight interest rates.

TABLE 59

Foreign Exchange and Banknote Transactions

	Interbank Foreign Exchange Market Transactions (1)					Indicative FX Rates (TL/$) (2)		
Date	Total No.of Monthly Transactions	Total Volume of Monthly Transactions $ millions	Exchange. Rates (TL/$) Maximum Rate of the Month	Exchange. Rates (TL/$) Minimum Rate of the Month	Monthly Average no. of Institutions Participated	Max.	Min.	Monthly Averages of Indicative FX Rates (TL/$)
January -1996	5 796	5 229	62 845	58 902	67	62 817	59 193	61 005.0
February	2 530	2 957	66 610	66 070	45	66 117	62 898	64 507.5
March	3 420	2 223	70 990	66 360	50	70 929	66 421	68 675.0
April	2 036	1 216	74 670	71 300	39	74 608	71 328	72 968.0
May	3 036	2 177	78 470	75 090	44	78 478	75 177	76 827.5
June	2 870	1 696	81 760	78 320	45	81 718	78 367	80 042.5
July	3 466	2 481	83 680	81 920	41	83 551	81 943	82 747.0
August	1 760	891	86 290	83 420	30	86 382	83 451	84 916.5
September	3 298	2 286	91 770	86 760	44	91 787	86 760	89 273.5
October	2 782	1 879	96 150	91 900	39	96 113	91 875	93 994.0
November	4 366	3 617	101 860	96 430	54	101 830	96 471	99 150.5
December	4 370	3 445	108 290	102 420	50	108 045	102 483	105 264.0
January -1997	2 658	1 745	116 060	108 170	42	116 030	108 220	112 710.9
February	3 954	2 792	122 410	116 500	58	122 420	116 660	119 849.4
March	2 412	1 833	127 650	122 990	41	127 660	123 050	125 410.0

April	2 768	2 169	135 280	127 470	43	135 280	127 600	131 506.5
May	2 058	1 499	140 560	135 590	39	140 390	135 390	137 671.4
June	2 214	1 883	148 360	141 440	37	148 400	141 780	144 807.1
July	1 828	1 719	159 600	148 660	32	159 570	148 680	154 043.0
August	1 730	1 500	166 930	161 700	32	166 460	160 320	164 098.1
September	1 230	1 105	174 300	168 430	26	174 050	168 280	170 918.6
October	5 088	5 677	183 200	173 920	40	182 630	174 390	178 513.8
November	3 858	3 917	194 700	183 200	44	194 470	183 280	188 086.0
December	3 926	3826.6	206 180	195 820	43	206 100	195 880	200 521.3

Source: Central Bank

(1) Double sided transactions

(2) Based on rates effective on the date of publication

TABLE 60

TRADE WEIGHTED EFFECTIVE REAL EXCHANGE RATES

	Average Price(1)	Average Exchange Rate TL/$	Average Exchange Rate TL/DM	Cross Rate DM/$	Price Index USA IPP(2)	Price Index Germany IPP(2)	TWERER	Price Index USA IPP(3)	Price Index Germany IPP(3)	TWERER
12.1987	401.9	991.01	606.34	1.63	100.4	95.4	66.3	88.6	94.1	72.5
12.1988	663.9	1 796.44	1 023.62	1.75	104.2	97.2	60.6	91.8	95.3	66.7
12.1989	1 106.6	2 309.87	1 328.35	1.74	108.3	100.0	75.4	96.4	98.3	82.3
12.1990	1 607.8	2 871.15	1 914.72	1.50	114.6	101.5	78.5	100.0	100.0	86.5
12.1991	2 570.3	5 049.26	3 233.79	1.56	111.9	104.1	73.5	100.6	102.4	79.4
12.1992	4 302.3	8 343.24	5 274.90	1.58	113.7	104.6	73.9	101.4	103.8	80.1
12.1993	6 927.6	14 034.01	8 215.92	1.71	113.7	104.5	73.5	102.9	103.7	79.0
12.1994	17 267.6	37 402.77	23 764.64	1.57	-	-	-	105.8	105.0	69.3
12.1995	28 163.5	56 587.52	39 267.24	1.44	-	-	-	108.3	106.4	70.0
12.1996	51 935.9	104 297.52	67 229.52	1.55	-	-	-	110.4	103.8	72.9
12.1997	96 591.2	199 050.87	112 058.26	1.76	-	-	-	110.3	105.1	75.2
1.1995	18 671.5	40 156.90	26 176.59	1.53	-	-	-	106.9	105.6	68.3
2.	19 805.8	40 977.15	27 242.65	1.50	-	-	-	107.4	105.8	70.0
3.	20 706.6	41 671.19	29 644.38	1.41	-	-	-	107.6	105.9	69.4
4.	21 565.7	42 199.45	30 643.85	1.38	-	-	-	108.6	106.2	70.1
5.	21 895.0	42 839.00	30 592.36	1.40	-	-	-	109.1	106.2	70.5
6.	22 310.1	43 076.95	30 751.95	1.40	-	-	-	109.4	106.3	71.3
7.	23 015.2	44 347.95	31 919.24	1.39	-	-	-	109.1	106.2	71.3
8.	23 916.4	46 501.45	32 303.75	1.44	-	-	-	108.9	106.3	72.0
9.	25 028.8	47 653.24	32 557.00	1.46	-	-	-	108.7	106.4	74.3
10.	26 163.9	49 874.41	35 241.68	1.42	-	-	-	108.4	106.4	73.0
11.	27 115.2	52 254.95	36 911.18	1.42	-	-	-	108.3	106.4	72.3
12.	28 163.5	56 587.52	39 267.24	1.44	-	-	-	108.3	106.4	70.0
1.1996	30 783.9	60 291.32	41 341.05	1.46	-	-	-	109.2	105.5	71.9
2.	32 407.2	63 893.33	43 487.94	1.47	-	-	-	108.8	105.4	71.8

3.	34 620.4	68 105.29	46 096.67	1.48	-	-	-	109.2	105.4	72.2
4.	37 468.1	72 361.42	48 332.84	1.50	-	-	-	110.1	105.5	73.5
5.	38 587.5	76 534.95	49 894.64	1.53	-	-	-	110.3	105.5	72.5
6.	39 791.1	79 478.50	52 017.00	1.53	-	-	-	109.8	105.5	72.1
7.	40 751.2	82 495.09	54 752.09	1.51	-	-	-	109.6	103.5	70.7
8.	42 377.4	84 695.28	57 130.71	1.48	-	-	-	109.6	103.4	71.0
9.	44 806.6	88 624.57	58 918.91	1.50	-	-	-	109.7	103.6	72.3
10.	47 292.0	93 413.09	61 047.33	1.53	-	-	-	110.1	103.8	73.0
11.	49 865.6	98 233.57	65 001.24	1.51	-	-	-	110.4	103.8	72.7
12.	51 935.9	104 297.52	67 229.52	1.55	-	-	-	110.4	103.8	72.9
1.1997	55 286.8	111 651.19	69 845.43	1.60	-	-	-	112.6	103.8	72.0
2	58 101.6	118 906.67	71 071.56	1.67	-	-	-	111.4	103.8	73.2
3	60 753.5	124 559.04	83 464.86	1.70	-	-	-	109.8	103.8	74.1
4	63 984.8	130 590.00	76 401.05	1.71	-	-	-	109.5	104.4	75.0
5	67 339.4	136 766.67	80 176.05	1.71	-	-	-	109.7	104.4	75.2
6	69 278.3	143 732.86	83 311.90	1.73	-	-	-	109.9	104.4	73.9
7	72 769.0	152 826.09	85 457.91	1.79	-	-	-	109.7	104.7	74.4
8	76 969.3	162 989.05	88 475.86	1.84	-	-	-	109.9	104.8	74.7
9	81 890.8	169 744.09	94 828.36	1.79	-	-	-	110.3	105.0	75.0
10	87 429.6	177 478.18	100 808.41	1.76	-	-	-	110.3	105.0	76.0
11	92 235.7	186 572.00	107 764.00	1.73	-	-	-	110.3	105.1	75.6
12	96 591.2	199 050.87	112 058.26	1.76	-	-	-	110.3	105.1	75.2

(1) Average Wholesale Price Index has been weighted 60 % SIS and 40 % ICC since February 1988.

(2) 1985 = 100 Industrial Goods Price Index.

(3) 1990 = 100 Industrial Goods Price Index.

TABLE 61

Central Bank Personnel by Category

(as on December 31, 1997)

		Gen. Ad. Services		Technical Services		Legal Services		Health Services		Training Services		Auxiliary Services		Total		Employed on contractual basis		Grand
Branches	No.of cadres	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	Total
Head Office	3 830	1 113	991	102	323	9	5	18	6	7	1	48	387	1 297	1 713	56	88	3 154
Adana	207	73	70	-	5	-	-	1	-	2	-	9	10	85	85	-	5	175
Ankara	702	296	269	1	1	-	-	-	-	-	-	8	27	305	297	-	3	605
Antalya	123	57	39	-	1	-	-	-	-	-	-	4	10	61	50	-	2	113
Bursa	161	55	66	-	1	-	-	-	-	-	-	2	12	57	79	-	2	138
Denizli	111	26	54	-	1	-	-	-	-	-	-	1	8	27	63	-	2	92
Diyarbakır	89	15	42	-	1	-	-	-	-	-	-	2	7	17	50	-	5	72
Edirne	100	28	40	-	1	-	-	-	-	-	-	3	7	31	48	-	2	81
Erzurum	99	6	49	-	1	-	-	-	-	-	-	2	9	8	59	-	4	71
Eskiţehir	110	35	43	-	1	-	-	-	-	-	-	3	9	38	53	-		91

Gaziantep	104	33	42	-	1	-	-	-	-	-	-	1	10	34	53	-	3	90
İskenderun	109	30	40	-	2	-	-	-	-	-	-	3	12	33	54	-	1	88
İstanbul	1 070	396	292	7	13	1	2	7	1	-	-	41	102	452	410	-	9	871
İzmir	535	189	171	7	13	1		3	1	-	-	25	61	225	246	-		471
İzmit	141	42	57	-	4	-	-	1	-	-	-	8	11	51	72	-	2	125
Kayseri	112	16	57	-	1	-	-	-	-	-	-	4	11	20	69	-	2	91
Konya	111	19	54	-	1	-	-	-	-	-	-	4	10	23	65	-		88
Malatya	91	12	40	-	1	-	-	-	-	-	-	3	7	15	48	1	7	71
Mersin	140	58	46	-	2	-	-	-	-	-	-	6	8	64	56	-	2	122
Samsun	121	43	45	-		-	-	-	-	-	-	4	9	47	54	-	1	102
Trabzon	98	25	43	-	1	-	-	-	-	-	-	4	8	29	52	-	2	83
Van	92	6	35	-	1	-	-	-	-	-	-	3	9	9	45	-	17	71
Total	8 256	2 573	2 585	117	376	11	7	30	8	9	1	188	744	2 928	3 721	57	159	6 865

Source: Central Bank

Total Personnel 6 865

Banknote Printing Mill Labor 15

Total 6 880

Total Personnel on December 31, 1996 6 910

Net Change -30

TABLE 62

Offices of the Central Bank

	Year Established	Number of Personnel as at the end of 1996
BRANCHES		
Adana	1969	175
Ankara	1931	605
Antalya	1963	113
Bursa	1969	138
Denizli	1974	92
Diyarbakır	1955	72
Edirne	1963	81
Erzurum	1959	71
Eskiţehir	1954	91
Gaziantep	1956	90
İskenderun	1951	88
İstanbul	1931	871
İzmir	1932	471
İzmit	1983	125
Kayseri	1968	91
Konya	1974	88
Malatya	1977	71
Mersin	1933	122

Samsun	1933	102
Trabzon	1963	83
Van	1978	71

Representative Offices

Frankfurt	1976	7
Berlin	1982	2
London	1977	4
New York	1977	4
Tokyo	1997	1

Source : Central Bank

COMPARISON OF THE BALANCE SHEETS

1996 - 1997