

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
JOINT STOCK COMPANY

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FOR THE SEVENTY-THIRD ACCOUNTING YEAR

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This is the English version of the 2004 Central Bank Annual Report
excluding the section on the Administration, Personnel and Administrative Affairs
and the section on Adjustments in Legal and Administrative Regulations.

The Central Bank of the Republic of Turkey

As of December 31, 2004

CENTRAL BANK OF THE REPUBLIC OF TURKEY

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ABBREVIATIONS

AMA	Automotive Manufacturers Association
BRSA	Banking Regulation and Supervision Agency
CBRT	Central Bank of the Republic of Turkey
CIA	Certified Internal Auditor
CIS	Commonwealth of Independent States
CISA	Certified Information System Auditor
CMB	Capital Markets Board
CPI	Consumer Price Index
CSA	Compulsory Saving Account
EU	European Union
ECB	European Central Bank
EFTA	European Free Trade Association
EMBI	Emerging Markets Bond Index
FDI	Foreign Direct Investment
FED	Federal Reserve Bank of USA
FOMC	Federal Open Market Committee
FX	Foreign Exchange
GDP	Gross Domestic Product
GNP	Gross National Product
HLF	Household Labor Force
IFS	International Financial Statistics
IFRS	International Financial Reporting Standards
IL	Intraday Limit
IMF	International Monetary Fund
IMM	Interbank Money Market
ISE	Istanbul Stock Exchange
ISIC	International Standart Industrial Classification
LIBOR	London Interbank Offered Rate
NATO	The North Atlantic Treaty Organization
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NIR	Net International Reserves
OECD	Organisation for Economic Co-Operation and Development
O/N	Overnight
OMO	Open Market Operations

OPEC	Organization of the Petroleum Exporting Countries
PCT	Private Consumption Tax
PSBR	Public Sector Borrowing Requirement
RUSF	Resource Utilization Support Fund
SEE	State Economic Enterprises
SDIF	Saving Deposits Insurance Fund
SDR	Special Drawing Rights
SIS	State Institute of Statistics
SME	Small and Medium Sized Enterprises
SPO	State Planning Organization
STD	Short-term Debt
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TBIT	Tax on Bank and Insurance Transactions
TDF	Turkish Defense Fund
TL	Turkish Lira
TPC	Turkish Penal Code
UNCTAD	United Nations Conference of Trade and Development
USA	United States of America
UT	Undersecretariat of Treasury
WPI	Wholesale Price Index

**REPORT PREPARED BY THE BOARD
FOR THE SEVENTY-THIRD FISCAL YEAR
2004**

Dear Shareholders,

Before dealing with the Central Bank's activities, we consider it necessary to review the economic developments in Turkey and in the world during the year 2004. Our report, therefore, contains a detailed study of those international economic developments which relate to similar economic developments in Turkey.

In the first section, economic trends in the main developed countries and in emerging markets are analyzed. Developments in international financial markets are also reviewed.

The second section is devoted to the Turkish economy. Macroeconomic developments such as the general equilibrium, employment, public finance, the balance of payments and inflation are analyzed.

The third section is devoted to the Central Bank's monetary and foreign exchange policy implementation. Furthermore, the balance sheet of the Central Bank is analyzed in detail.

The developments in the financial markets in 2004 make up the fourth section. Firstly, Central Bank credit is examined. This is followed by a review of developments in the banking sector, as well as legal and administrative regulations. Developments in the securities market are also discussed in this section.

The Balance Sheet and the Profit and Loss Statement for 2004 are given in the fifth section. The last section of this report provides statistical tables concerning the Turkish economy.

We submit, herewith, for your examination and approval the Balance Sheet and the Profit and Loss Statement for 2004 and welcome you to the annual meeting.

I

DEVELOPMENTS IN THE WORLD ECONOMY

I.1. THE WORLD ECONOMY

High growth rates experienced in the world economy in 2003 also continued as of the first quarter of 2004. The United States' (USA) economy led global growth, while China and other Asian economies contributed significantly to world economic growth. As oil prices entered an increasing pace in the second quarter of the year, a slowdown was observed in growth rates. However, current account deficits persisted in the USA, the United Kingdom and emerging European countries throughout the year. In this framework, with the Federal Reserve Bank of USA (FED) as a pioneer, central banks started to raise interest rates gradually. The world economy, which grew by 3.9 percent in 2003, is estimated to have grown by 5 percent in 2004 (Table I.1.1).

Global growth that continued in the first quarter of 2004, slowed down from the second quarter as oil prices hiked.

Parallel to the revival in economies in 2004, increases were observed in consumer price inflations. In addition to the increase in demand, supply side factors led by oil prices resulted in pressure on global prices throughout the year. Inflation rates are estimated to be 2.1 percent in developed countries and 6 percent in developing countries.

The main factor driving the developments in international financial markets has been expectations on the scale and timing of the USA's tightening of monetary policy. In fact, the FED started to increase interest rates gradually as of June, as a result of the high growth rate and inflationary pressures. Spreads, which have been on a downward course since 2002, started to widen in the second half of April, due to higher expectations in international interest rates parallel to the FED's future policies. As indicators relating growth in the USA were lower than predicted, expectations of the USA's monetary policy turned to be rather moderate, while this development again led spreads to revert to a downward tendency.

TABLE I.1.1
WORLD ECONOMIC INDICATORS
(Annual Percentage Change)

	2002	2003	2004 ⁽¹⁾
PRODUCTION			
World	3.0	3.9	5.0
Industrial countries	1.6	2.1	3.6
USA	1.9	3.0	4.3
Euro area	0.8	0.5	2.2
Japan	-0.3	2.5	4.4
Developing countries	4.8	6.1	6.6
Middle and East Europe	4.4	4.5	5.5
CIS	5.4	7.8	8.0
Developing Asia	6.6	7.7	7.6
WORLD TRADE VOLUME	3.3	5.1	8.8
Imports			
Developed countries	2.6	3.7	7.6
Developing countries	6.0	11.1	12.8
Exports			
Developed countries	2.2	2.6	8.1
Developing countries	6.6	10.9	10.8
CONSUMER PRICES			
Developed countries	1.5	1.8	2.1
Developing countries	6.0	6.1	6.0
SIX-MONTH LIBOR⁽²⁾ (%)			
US dollar	1.9	1.2	1.6
Euro	3.3	2.3	2.2
Japanese yen	0.1	0.1	0.1

Source: IMF "World Economic Outlook", September 2004.

(1) IMF Estimate.

(2) London Interbank Offered Rate.

I.1.1. Industrial Countries

In 2004, the US economy pioneered growth in industrial countries. While acceleration was also observed in the Japanese economy, euro area growth remained under the average of other industrial countries. In spite of high growth rates in industrial countries, the fall in unemployment rates was limited, while consumer prices increased in general.

The US economy, which grew by 4 percent in the third quarter of 2004, is estimated to have grown by 4.4 percent in 2004 as a whole. The US economy recorded a high growth rate in the third quarter after lower than expected growth in the second quarter. While private consumption expenditures directed growth, net exports affected it negatively. Due to the widening trade deficit, the US economy yields a high level of current account deficit. The current account to gross domestic product (GDP) ratio, which was 4.8 percent in 2003, is estimated to have reached 5.4 percent in 2004. Besides, the budget deficit, which grew by 9.4 in 2004, is estimated to be 4.9 percent of the GDP. The unemployment rate of 6 percent in 2003 fell to 5.4 percent as of end-2004. Consumer price inflation, on the other hand, is estimated to have risen from 2.3 percent to 3 percent in this period. The FED, considering growth rates and forward-looking inflation developments, gradually increased interest rates from the second half of the year. The FED federal funds rates, which were lastly reduced to 1 percent in June 2003, reached 2.25 percent with the increase in December.

US central bank FED, started to raise interest rates since mid-2004.

The euro area growth rate remained below the world average in 2004. The area, which grew by 2.3 percent in the first three quarters of the year compared to the same period of the previous year, is estimated to have grown by 2.2 percent in 2004. As the decomposition of the GDP is analyzed, net exports are observed to contribute positively to growth, while the contribution turned out to be negative. Also, private consumption expenditures receded parallel with the surge in oil prices. On the other hand, investment expenditures and stock accumulation were observed to accelerate in the third quarter of the year. Consumer prices in the euro area increased by 2 percent on the average in the first eleven months of 2004, compared to the same period of the previous year. Analyzing by country, domestic demand remained especially weak in Germany, while external demand constituted the main source of growth. The mentioned development in Germany resulted from a low rate of growth in household income. In France and Spain, on the other hand, domestic demand progressed fairly strongly. Consumer prices inflation, which slowed down in the first months of the year, again exceeded 2 percent during the rest of the year, due to the increase in energy prices, indirect taxes, and administered prices. Nevertheless, the European Central Bank (ECB) did not change interest rates in 2004.

Growth in euro area accelerated in 2004 compared to 2003.

In the United Kingdom, contrary to Continental Europe, high growth rates were observed throughout 2004. Annual growth of the GDP became 3.1 percent. In spite of the increase in oil prices, private consumption expenditures remained high, while the rise in dispensable income was a factor supporting growth. However, employment growth remained rather weak. Aiming at preventing inflationary pressures resulting from growth, the Bank of England raised interest rates four

times in 2004, which brought lending interest rates from 3.75 at the end of 2003 to 4.75 at the end of 2004.

Growth in Japan gained pace in 2004 compared to 2003.

Growth in Japan gained pace in 2004 compared to 2003. Japan is estimated to have grown by 4.4 percent in this period. The said growth resulted mainly from exports and fixed investment expenditures. By means of ongoing growth and an improvement in the labor market, along with increasing consumer confidence, private consumption expenditures contributed positively to growth. A slowdown has been observed in deflationary pressure in recent years. Nevertheless, the Japanese Central Bank did not change its discount rate in 2004, which has stayed at 1 percent since 2001.

I.1.2. Developing Countries

The recovery in developing economies, which started in 2003, gained pace in 2004 with higher growth rates than the world average. The global recovery and the higher than expected growth rates in Asian economies were the main determinants of strong growth performance of developing countries, despite the adverse effect of the sharp rise in oil prices.

In Asia, GDP growth is estimated to be 7.6 percent with the information technology sector revival, competitive exchange rates and strong domestic demand growth (Table I.1.2). The economic rebound in this region was led by the rapid expansion of China, which has continued in 2004, despite the slowdown in the second quarter. The cheap labor force and large market possibilities in China attracted US\$ 48 billion of foreign direct investment. In addition, foreign exchange (FX) reserves increased to US\$ 562 billion as of year-end due to high capital inflows. In China, where both investment and consumption expenditures remained high, trade volume increased by 36.7 percent in the first three quarters. China, becoming the biggest exporter and importer, has increased its share in world trade. As the primary supplier of Japan, the second supplier of the EU and US imports, the Chinese economy, grew by 9.5 percent in 2004. Whereas, increasing consumption expenditures and production costs raised inflation rates.

The rapid growth of China fed through other Asian economies; the economies of Singapore and Hong Kong economies performed especially well with a solid domestic demand and export-led growth in 2004. India is another significant economy in the region. Attracting a large amount of capital inflows, the Indian economy is estimated to have grown by 6.4 percent.

Latin American economies increased their trade volume by global expansion and grew by 4.6 percent, which is the highest growth rate observed since 1997. Despite their inflationary pressures, higher oil and other commodity prices benefited oil and metals exporters in the region. The Argentinean economy continued to recover and grew by 7 percent. Although the structural reforms were delayed, the public sector performed well. With some favorable developments, increasing domestic demand and strong export growth in 2004 boosted the Brazilian economy. Current account surpluses reached US\$ 11.7 billion. Inflation showed a downward trend. Due to the depreciation of the Brazilian real, oil and public price increases, consumer prices realized above the central target of 5.5 percent but still within the target band. The Mexican economy, following a slowdown since 2001, started to recover in 2004. It grew by 4 percent, underpinned by the export growth due to high US domestic demand. Besides export performance, increasing oil prices helped to narrow the Mexican current account deficit. With the increase in foreign direct investment, this deficit was comfortably financed. Despite tight monetary policy, inflation overshot the target in 2004. In the other Latin American countries, the economic rebound also gained pace. However, the public sector still remains fragile in some countries, such as Venezuela and Colombia.

In the Middle East, economic growth is estimated as 5.1 percent in 2004. With oil production close to capacity, economic expansion slowed down compared with 2003, even though the high oil prices benefited countries in the region. Along with global expansion, non-oil exports also supported growth and especially growth in Iran remained strong owing to a buoyant non-oil sector.

TABLE I.1.2
REAL GDP and INFLATION
(Annual Percentage Change)

	GDP		CPI	
	2003	2004 ⁽¹⁾	2003	2004 ⁽¹⁾
Developing Countries	6.1	6.6	6.1	6.0
Developing EU	3.9	4.9	3.8	5.3
Middle East	6.0	5.1	8.0	9.2
Asia	7.7	7.6	2.6	4.5
Latin America	1.8	4.6	10.6	6.5
Commonwealth of Independent States	7.9	8.0	12.0	9.9

Source: IMF World Economic Outlook (September 2004).

(1) IMF Estimates.

I.1.3. Emerging Europe and the Commonwealth of Independent States

In the Commonwealth of Independent States (CIS) the economic rebound gathered strength owing to high oil prices and demand in 2004. The boosted domestic demand due to real wage increases supported growth in Russia, which is the biggest economy in the region. Therefore, it is estimated that the Russian economy grew by 7.3 percent in 2004. However, the upward trend in inflation continued due to increasing demand and developments in world commodity prices.

It is estimated that in emerging European countries, excluding Turkey, an export-led growth of 4.9 percent was realized in 2004. The revival in their major trade partner, the EU, was the main factor in this growth. On May 1, 2004, ten countries in the region joined the EU and three will begin accession negotiations in 2005. With these favorable developments, foreign capital inflows, which remained high during the last three years, continued in 2004 and reached US\$ 53 billion. Nevertheless, oil price increases and higher production led to inflationary pressures and widening current account deficits.

In Poland, export-led growth continued in 2004 with real depreciation. However, several unsolved problems such as the rising fiscal deficit and the high unemployment rate remained as risk factors. During the EU-transition period, indirect tax increases and the customs union caused inflation to rise, overshooting the year-end target. The Hungarian economy is estimated to grow by 3.5 percent in 2004. The widening current account and fiscal deficits are the main threats to the economy. Moreover, the inflation rate in Hungary realized above the region average. Economic growth in the Czech Republic was slower than the other new EU countries. Private consumption expenditures were restricted owing to various tax increases; the growth is led by investment expenditures and exports. Foreign direct investment supported this growth significantly. Among central European countries, the Czech Republic received the highest foreign direct investment per capita.

I.1.4. World Trade

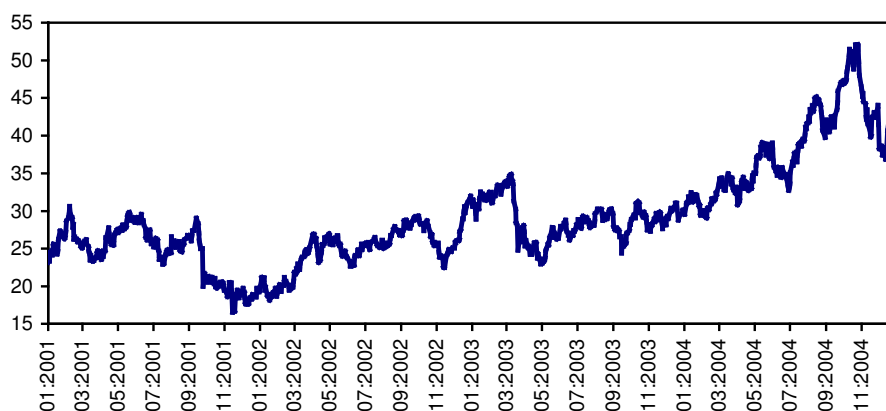
World trade volume, increasing by 5.1 percent in 2003, stayed below its performance of the 1990's. However, it is estimated to grow by 8.8 percent in 2004, underpinned by the global recovery. Moreover, world commodity prices and exchange rate developments supported trade growth in terms of the US dollar.

Growth rates of the total trade volume of developing countries were higher than those of industrial countries. Especially, the exports of Asia and Latin

America rose at a higher rate than the world average. The export and import volume of developing countries is estimated to increase by 10.8 and 12.8 percent, respectively. The high growth performance of EU countries and Japan and the rapid surge of US imports in the first half of the year underpin the relatively higher trade volume of industrialized countries compared to 2003. Therefore, the export and import volume of industrialized countries is estimated to increase by 8.1 and 7.6 percent, respectively.

World commodity prices increased due to the global recovery in 2004. The general commodity price index rose by 27 percent in the first eight month. With the increase in demand, energy, raw material and metal prices augmented substantially. Crude oil prices exhibited a volatile trend and reached record levels in 2004. The rise in crude oil prices mainly stemmed from China's increased demand for oil by 15 percent and the announcement of the Organization of the Petroleum Exporting Countries (OPEC) about their production decrease in February, although they continued to produce above their official quotas. Supply side fears continued in August and September even though OPEC countries had increased their official quotas. Also, in Venezuela and Iraq oil production continued at low levels. According to these developments, crude oil prices increased by 32.7 percent and reached US\$ 39.6 per barrel in 2004 (Figure I.1.1).

FIGURE I.1.1
CRUDE OIL PRICES
(Brent, US dollar/barrel)



Source: US Ministry of Energy.

World non-oil commodity prices increased by 8 percent in 2004. The upward trend in metal prices started in 2003 continued at a slower pace and rose by 15

percent in 2004, underpinned by low metal stocks and global recovery. Owing to favorable weather conditions, food prices increased at relatively lower rates.

I.2. INTERNATIONAL FINANCIAL MARKETS

The interest rate policy of the FED and the reaction of global financial markets to this policy earmarked the world financial system in 2004.

The gradual increases in the FED's federal funds rate within the framework of tightening monetary policy, the reaction of global financial markets to the above-mentioned policy and the volatile pace in crude oil prices earmarked the world financial system in 2004.

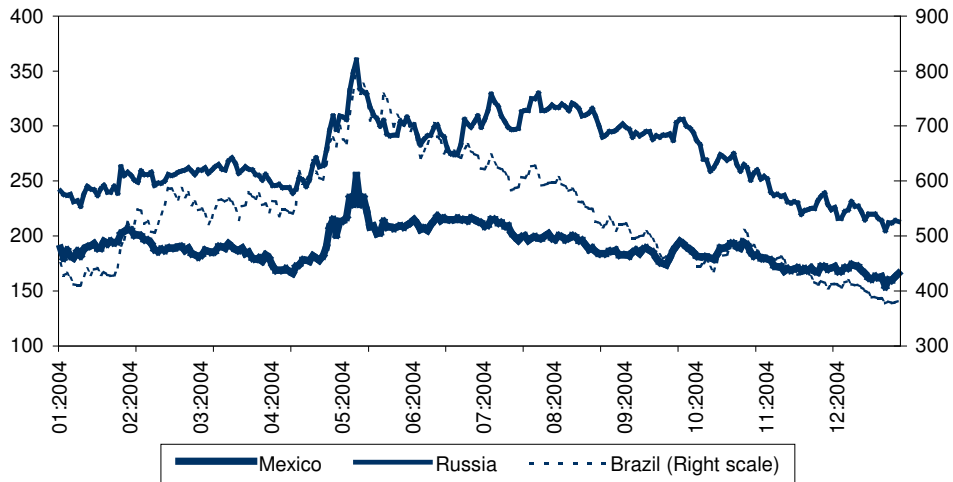
In the first quarter of 2004, low interest rates, abundant global liquidity and low inflation created incentives for international investors to invest in emerging market securities, which nestles high risks and returns by its nature. However, a change in the language used by the FED in its statement in March regarding implicit signals about possible upswings in federal funds rate led to a change in the risk perception towards emerging markets and the said markets experienced a significant reduction in foreign flows. Hence, following these developments, the emerging markets bond spreads rose substantially. In the second half of the year, both the sound macro economic policies implemented in emerging markets and the FED's announcements, which stated that interest rates would increase at a measured pace, curbed the outflow from emerging markets. Although the FED raised interest rates four times in the second half of the year, global financial markets did not experienced any disturbances.

Despite hikes in March and April, the spread on the EMBI+ index, which displays the difference between the returns on emerging markets bonds and US Treasury bonds continued to narrow and remained at a ten-year low throughout 2004 (Figure I.2.1). The fall in spreads facilitated emerging market primary issuance at a relatively low cost and long maturity in 2004.

The developed equity markets rebounded sharply throughout 2004.

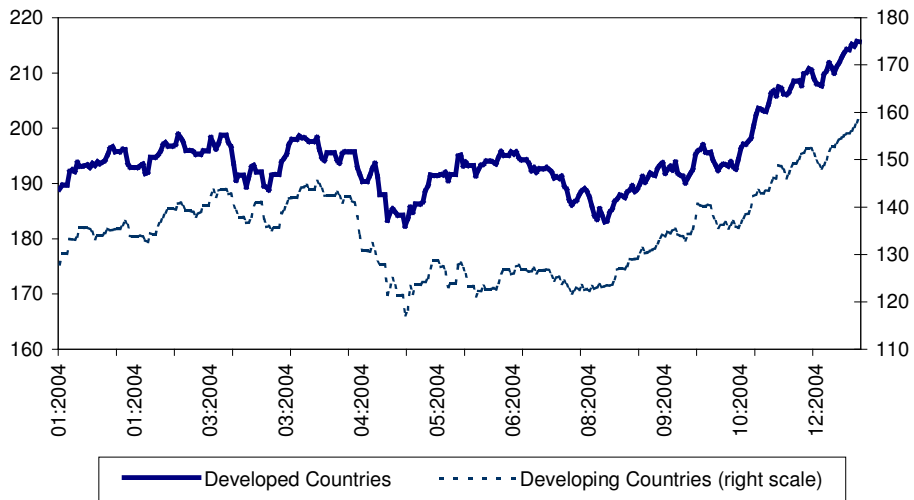
The developed equity markets rebounded sharply throughout 2004, broadly spurred by both increasing corporate earnings and strengthening of their balance sheets (Figure I.2.2). The emerging markets equity index also indicated the above-mentioned tendency. Due to low interest rates, corporate sectors could easily roll over their debt service and lengthen the average maturity of their liabilities. The mentioned development improved the health of the balance sheet of corporate sectors. Therefore, the bankruptcy rate dropped significantly both in developed and emerging markets. Moreover, the number of upgrades by credit rating agencies was higher than downgrades.

FIGURE I.2.1
SPREADS OF SELECTED COUNTRIES
(Base Points)



Source: JPMorgan.

FIGURE I.2.2
EQUITY PRICE INDICES



Source: JPMorgan.

The soundness in the balance sheets of the corporate sector has positively affected the balance sheet structure of banks in developed and developing

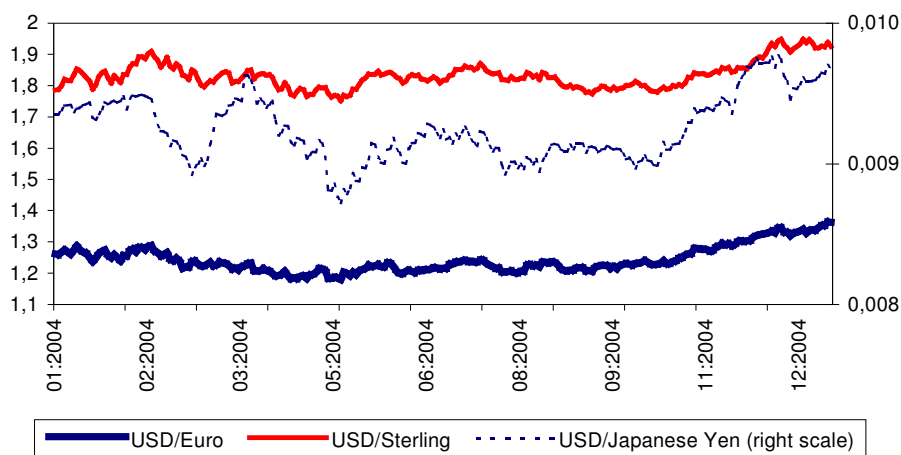
countries. The emerging markets banking system, which was dominated by Asian countries, continued to recover in 2004, with declining non-performing loan ratios and increasing capital ratios. Besides, in the framework of global supervision standards in the financial sectors of countries, central bank governors and the heads of bank supervisory authorities in the Group of Ten (G10) countries endorsed the Basel Accord, the new capital adequacy framework, commonly known as Basel II. The Basel II framework basically emphasizes the risk structure of financial sectors and concentrates on the risk-focused supervision approach.

An analysis of the developments in the foreign exchange markets indicates the depreciation of the US dollar against major currencies.

An analysis of the developments in the foreign exchange markets indicates the depreciation of the US dollar against major currencies (Figure I.2.3). The historically high level of current account and budget deficit in the USA reflect the structural factors that led depreciation, despite the FED's high interest rate policy in order to cool down inflationary pressure. Furthermore, the fact that central banks in Asian countries convert a portion of their official reserves from US dollar into euro created supplementary pressure on the US dollar.

The euro appreciated by 9.9 percent on average against the US dollar. The euro, which depreciated in real terms in the first half of the year, gained accelerating momentum against the US dollar in the second half of the year owing to both buoyant twin deficits in the USA and the ECB's fixed interest rate policy.

FIGURE I.2.3
PARITY OF SELECTED CURRENCIES



Source: CBRT.

TABLE I.2.1
FINANCIAL ACCOUNTS ⁽¹⁾
(US\$ billion)

	2001	2002	2003	2004 ⁽²⁾
Developing Countries (Total)	-49.7	-134.2	-271.4	-299.5
Net Capital Flows	63.5	62.9	95.6	50.6
Private	47.8	61.2	120.4	81.6
Direct Investment	191.2	143.5	147.6	166.9
Portfolio Investment	-91.3	-99.6	-11.0	-21.3
Other Investment	-52.0	17.3	-16.2	-64.0
Official	15.7	1.7	-24.8	-31.0
Reserve Assets ⁽³⁾	-113.2	-197.1	-367.0	-350.1
Latin America	53.6	21.8	-13.0	-8.2
Net Capital Flows	48.7	23.4	22.7	4.5
Private	22.2	1.4	0.0	-3.3
Direct Investment	70.2	41.7	31.8	38.0
Portfolio Investment	-9.4	-17.1	-1.7	-2.8
Other Investment	-38.6	-23.2	-30.1	-38.5
Official	26.5	22.0	22.7	7.8
Reserve Assets ⁽³⁾	4.9	-1.6	-35.7	-12.7
Developing Asia	-83.1	-134.8	-197.7	-159.7
Net Capital Flows	7.8	23.6	36.5	72.9
Private	9.6	25.4	52.8	79.8
Direct Investment	60.5	53.8	70.0	77.2
Portfolio Investment	-56.9	-59.6	5.5	12.0
Other Investment	6.0	31.2	-22.8	-9.4
Official	-1.8	-1.8	-16.3	-6.9
Reserve Assets ⁽³⁾	-90.9	-158.4	-234.2	-232.6
Central and Eastern Europe⁽⁴⁾	23.4	33.3	32.4	37.2
Net Capital Flows	17.6	47.7	37.9	46.6
Private	12.1	55.3	51.5	53.2
Direct Investment	24.2	25.1	14.9	22.7
Portfolio Investment	0.5	1.5	7.0	9.2
Other Investment	-12.6	28.7	29.6	21.2
Official	5.5	-7.6	-5.5	-6.6
Reserve Assets ⁽³⁾	5.8	-14.4	-13.6	-9.4

Source: IMF "World Economic Outlook", September 2004.

(1) Prepared according to IMF Balance of Payments Manual (1993). Within this framework, the financial account is calculated as the sum of net capital flows and reserve assets items.

(2) IMF estimates.

(3) (-) Indicates increase.

(4) Includes ten new EU member countries and Turkey.

In 2004, while portfolio equity investments generated capital outflows, foreign direct investment (FDI), in Asia in particular, generated capital inflows in emerging markets. The main source of capital inflows stemmed from private flows. Besides, official outflows were observed in emerging market economies other than Latin America (Table I.2.1). Within this framework, the total reserve of emerging markets was estimated to have increased to US\$ 350 billion. A large portion of the said reserve build up mainly stemmed from Asian economies.

TABLE I.2.2
FOREIGN DIRECT INVESTMENTS
(US\$ billion)

	2002	2003	2004 ⁽¹⁾
TOTAL	681	580	612
DEVELOPED COUNTRIES	490	380	321
European Union	374	308	165
France	49	47	35
Germany	36	13	-49
United Kingdom	28	21	55
Luxembourg	117	92	52
Australia	14	8	5
Canada	21	7	12
Japan	9	6	7
USA	63	30	121
DEVELOPING COUNTRIES	159	173	255
Africa	12	15	20
Latin America and the Caribbean	53	51	69
Brazil	17	10	16
Chile	2	3	6
Mexico	15	11	18
Asia and the Pacific	94	107	166
China	53	54	62
Hong Kong	10	14	33
Singapore	6	11	21
Central and Eastern Europe ⁽²⁾	31	27	36
Czech Republic	8	3	5
Poland	4	4	5
Russia	3	7	10

Source: UNCTAD.

(1) UNCTAD estimates. 2004 estimates were calculated by annualizing the first three quarter's figures of 101 countries.

(2) Includes eight new EU member countries (Czech Republic, Poland, Hungary, Slovakia, Slovenia, Lithuania, Latvia and Estonia) and Russia.

In 2004, the total FDI worldwide was estimated to have increased 5.5 percent compared to previous year.

In 2004, the total FDI worldwide was estimated to have increased 5.5 percent compared to the previous year (Table I.2.2). FDI figures in 2003 and 2004 were well below 2001 and 2002 levels.

FDI inflows into emerging markets were projected to have risen 47 percent in 2004 compared to 2003, driven by a surge in the FDI in Asian countries. Hence, the share of the total FDI inflows to Asian countries increased. The FDI inflows to China were estimated to have reached US\$ 62 billion in 2003, which in particular marked another historical record. Strong growth in the region, relatively low labor costs; broad market facilities and an increase in multi-national firm's expenditures in the region were the driving forces that enhanced FDI inflows.

II

DEVELOPMENTS IN THE TURKISH ECONOMY

INTRODUCTION

Following an era of high and chronic inflation, the stabilization program which started to be implemented in 2001, has been successful in reducing inflation. Consumer prices inflation was realized below 10 percent at the end of 2004. While the inflation rate has decreased during 2002-2004 period, the Gross National Product (GNP) has grown above the previous years' average. Although improvements in macroeconomic indicators induced positive expectations, there still are structural risks in the economy. The main objectives of the stabilization program for 2004 were to achieve a high growth rate; to reduce consumer price inflation to the targeted level and to achieve the primary surplus target, thus reducing public sector debt stock which creates pressure on the macroeconomic equilibrium. To attain these objectives, fiscal, monetary and income policies were effectively used. In this regard, monetary and fiscal discipline has been attained; the increases in real wages have remained behind productivity gains; the real wages of public sector employees decreased and the increase in salaries was very limited. The Central Bank of the Republic of Turkey (henceforth CBRT), whose primary objective is price stability, implemented monetary policy focusing on future inflation in 2004, within the framework of a floating exchange rate regime. To reach its goal, the CBRT has utilized a short-term interest rate as the main policy tool. Furthermore, the CBRT took necessary measures to maintain stability in the financial sector in line with its main policy objective. As a matter of fact, within the framework of the stand-by agreement with the International Monetary Fund (IMF) and the economic program, the CBRT carried out its contractionary policy through monitoring monetary performance criteria and indicative targets. As a result, performance criteria for Base Money and Net International Reserves set for end-December 2004 have been achieved.

The CBRT has conducted its monetary policy within the framework of an “implicit inflation targeting strategy”, in order to achieve the inflation target that has been set by the CBRT and the Government together in 2004, as was the case in 2002 and 2003. The CBRT utilized short-term interest rates as the main policy

instrument in line with prospective developments in future inflation. In addition, the Government has set public sector prices, wages and salaries of public sector employees as well as tax rates in accordance with the inflation target. Appreciation of the Turkish lira during the same period has also contributed to achieving the inflation target as it reduced the cost of imported inputs. Due to the fact that productivity gains are above real wage increases, there have been limited cost-driven pressures on consumer prices. An increase in domestic demand has helped to close the production gap that emerged in 2001 but this was low enough not to jeopardize the inflation target. However, services price inflation has realized above commodity price inflation mainly due to the inertia in rents. It may create a risk factor for the inflation target of 2005, should this tendency continue throughout the year. Although the rapid increase in oil and agricultural prices has limited the decline in wholesale price inflation, it did not prevent the achievement of the consumer price inflation target.

Parallel to the decline in inflation, the CBRT set short-term interest rates taking into consideration developments in domestic and external demand that may cause inflationary pressures and risks associated with costs. Thus, throughout the year the CBRT cut interest rates four times. Overnight (O/N) interest rates applied on the CBRT Interbank Money Market and on the Istanbul Stock Exchange (ISE) Repo-Reverse Repo Market, were cut to 18 percent at the end of the year from 26 percent at the beginning of 2004. However, this sharp reduction in short-term rates is not followed by the interest rates in the domestic borrowing auctions of the Treasury. This is mainly the result of the high risk perception of market participants. The average auction rate that was 25.5 percent in January continued to decline in the first four months of the year. However, the referendum in Cyprus in April together with the expectations regarding the Federal Reserve's (FED) interest rate increase pushed up interest rates in May. After May, interest rates tended to decline and average auction rates were realized as 23.1 percent at the end of the year. The high risk premium due to high public sector debt stock as well as other structural problems, continued to limit the correlation between CBRT rates and secondary market rates during 2004. Thus, real interest rates remained very high throughout the year. In spite of high real interest rates, the targeted primary surplus level of 6.5 percent of the GNP is expected to be achieved. However, high real interest rates continue to be a threat to the economic program. As a matter of fact, high real interest rates make it difficult to reduce public sector debt stock, which may prevent the achievement of the inflation target and sustainable growth.

Both consumer and investor confidence has risen as a result of the policy measures of the economic program implemented after the economic crisis in 2001.

Thus, inflation inertia has been significantly removed and a high growth tendency is achieved. In the first half of 2004, the GNP has grown 14.4 percent. In the third quarter, however, there was a slowdown in growth and the GNP increased by only 4.7 percent per annum. Hence, the GNP grew 9.7 percent annually in the first nine months of the year. Due to tight fiscal policy, public consumption and investment expenditures have declined 4.8 percent and 10.7 percent, respectively. In contrast, private consumption expenditures increased 10.8 percent. Private investment expenditures also rose to 54,6 percent due to a sharp increase in machinery-equipment investments. High growth rates in the first half of the year mainly stemmed from drastic increases in private expenditures, namely durable consumer goods and machinery-equipment investment. The increase in consumer confidence as a result of the favorable macroeconomic environment is accompanied by declining interest rates on consumer credits and longer-term installments. Thus, postponed consumer expenditures on durable and semi-durable goods are realized. This process was also supported by the appreciation of the Turkish lira that caused an increase in imports. The rise in investor confidence, together with cheap imported inputs, led to a rapid increase in machinery-equipment investment expenditures.

Nevertheless, along with the precautions to curb domestic demand, such as limiting of consumer credits by public banks, the increase of the Resource Utilization Support Fund (RUSF) by the government, the decrease in scrap discount by 50 percent; the uncertainty brought by the rise in crude oil prices in international markets negatively influenced consumption demand and caused a slowdown in credit use. Moreover, loss of pace in domestic automobile sales arising from the increase in the Private Consumption Tax (PCT) in November and recent industrial developments, show that the slowdown in consumption demand has continued in the last quarter of the year.

Although the economy has witnessed a slowdown recently, favorable expectations concerning a new stand-by agreement with the IMF and starting negotiations with the EU on October the 3rd, 2005, support the optimistic views on the sustainability of macroeconomic stability.

Exports increased rapidly by 32.8 percent in 2004. The boost in productivity exceeded increases in real wages, leading to a continuation of the decrease in unit real wages. This, in turn, helped firms to maintain their competitiveness in foreign markets and paved the way for an increase in exports.

Imports increased faster than exports at 40.1 percent in the same period. The greatest contribution to the rise in imports came from imports of intermediary

goods in line with the increases in production and exports. The overvalued Turkish lira has also contributed the increase in imports. On the other hand, the rate of increase in imports of consumption goods decelerated in the second half of the year compared to the first half. In this framework, the rate of increase in private consumption expenditures have lost pace in the second half of 2004 compared to the first half.

In the light of current data, the current account deficit is expected to realize as 5.2 percent of the GNP by the end of 2004. A high trade deficit has been the main reason for the current account deficit even though services income has increased substantially due to tourism revenues. The increase in employment was limited in spite of the high output growth. According to the State Institute of Statistics (SIS) Household Labor Survey, the total employment has increased by 5.1 percent annually in the last quarter of 2004. The increase in total employment stemmed mainly from the rise in formal employment in the private sector. The economic program aimed at tight fiscal policy and efficiency gains in public sector, thus public sector employment has declined 6.4 percent. The unemployment rate has gone up due to the limited increase in employment and the rise in labor supply.

II.1. GENERAL EQUILIBRIUM

The growth process, which the Turkish Economy entered in 2002 and 2003, accelerated in 2004 (Table II.1.1). During this period, economic fundamentals further strengthened due to the continuation of the economic program with determination. In the resulting confidence outlook, the strengthening of the Turkish lira (TL) against foreign currencies, the decline in interest rates and positive expectations of the achievement of macroeconomic targets brought about a high rate of growth.

The success of the economic program in achieving the macroeconomic targets affected the expectations of economic agents favorably at the beginning of 2004. During the year, the realization of inflation in line with the target contributed to the increased confidence in economic policies. With the significant elimination of uncertainties in the economy, interest rates dropped in line with the disinflation process. Besides, strengthened economic fundamentals led to the appreciation of the Turkish lira against foreign currencies. Easing of credit facilities due to the strong position of the Turkish lira and optimistic expectations regarding the economic outlook, created a favorable environment conducive to the realization of deferred consumption and investment expenditures. These developments led to a rapid increase in credit use and private consumption expenditures during the first

half of 2004. On the other hand, due to the reduced cost of credits and optimistic expectations, private firms utilized domestic and foreign resources more extensively and speeded up their investment expenditures. In 2004, while productivity gains and low levels of unit wages maintained high export performance, domestic demand conditions contributed to economic growth at a greater extent. In this respect, the GNP increased by 9.7 percent in the first nine months of 2004 compared to the same period of the previous year (Table II.1.2).

**TABLE II.1.1
MAIN ECONOMIC INDICATORS**

	2001	2002	2003	2004
GNP (TL Trillion, Current Prices)	176,484	275,032	356,681	424,129 ⁽¹⁾
Growth Rate, GDP (Percent)	-7.5	7.9	5.8	9.6 ⁽¹⁾
Growth Rate, GNP (Percent)	-9.5	7.9	5.9	10.0 ⁽¹⁾
Population ⁽²⁾ (Millions, Mid-Year)	68.4	69.4	70.4	71.3 ⁽¹⁾
Employment ⁽³⁾ (Millions)	21.5	21.4	21.1	21.7 ⁽⁴⁾
Exports (Billions US\$, FOB)	31.3	36.1	47.3	63.0
Imports (Billions US\$, CIF)	41.4	51.6	69.3	97.3
Current Account Balance (Billions US\$)	3.4	-1.5	-8.0	-15.5
Current Account Balance/GNP ⁽⁵⁾	2.3	-0.8	-3.3	-5.2 ⁽⁶⁾
External Debt Stock/GNP (Percent)	79.1	71.4	61.0	53.9 ⁽⁷⁾
Public Sector Borrowing Requirement/GNP (Percent)	16.4	12.7	9.4	5.0 ⁽⁶⁾
Domestic Debt Stock/GNP (Percent)	69.2	54.5	54.5	52.9 ⁽⁶⁾
Total Gross Public Debt Stock ⁽⁸⁾ /GNP (Percent)	101.3	89.4	84.0	79.0 ⁽⁷⁾
Primary Balance/GNP ⁽⁹⁾ (Percent)	5.8	4.6	6.6	6.5 ⁽¹⁰⁾
Tax Revenue/GNP (Percent)	22.5	21.8	23.6	23.5 ⁽¹⁾
Wholesale Price Index ⁽¹¹⁾	88.6	30.8	13.9	13.8
Consumer Price Index ⁽¹¹⁾	68.5	29.7	18.4	9.3

Source: SIS, State Planning Organization (SPO), Undersecretariat of the Treasury (UT), CBRT.

(1) SPO estimate.

(2) Estimated by making use of SIS 2000 General Census results.

(3) Household Labor Statistics.

(4) Calculated by taking four-quarter average of Household Labor Survey data.

(5) Annual average of US dollar buying rate is used in calculations.

(6) Realization estimate.

(7) As of September 2004.

(8) Total public debt stock is composed of consolidated budget domestic debt stock and total public external debt stock. Annual average of the US dollar buying rate is used in converting external debt stock into Turkish lira.

(9) SPO, IMF definition.

(10) End year target.

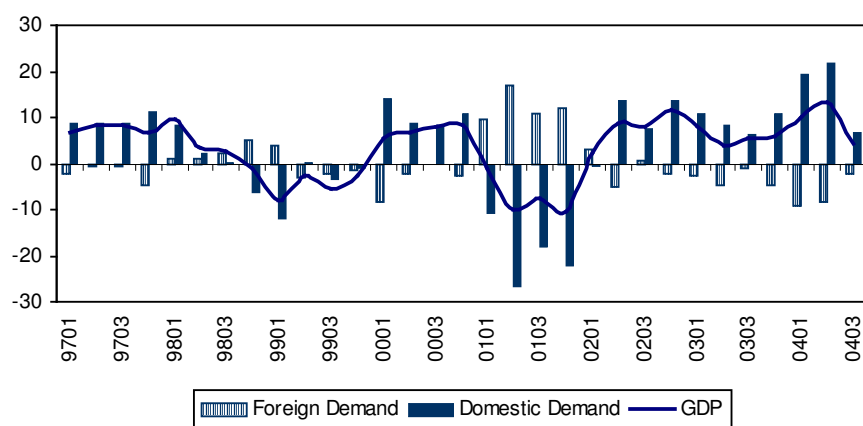
(11) Annual percentage change, 1994=100.

When the growth of the economy is analyzed from the demand side, it can be observed that private expenditures made the highest contribution to GDP growth in the first nine months of 2004. As in 2002 and 2003, stock accumulation made a positive contribution to growth in the first nine months of 2004, whereas net

In 2004, in spite of the restricting effect of contracting public consumption and investment expenditures, the recovery of domestic demand accelerated compared to the year 2003.

exports made a negative contribution in this period (Figure II.1.1). Total domestic demand and total final domestic demand increased by 15.3 percent and 15.7 percent, respectively in the same period. In 2004, in spite of the restricting effect of reduced public consumption and investment expenditures due to the tight fiscal policy implementation, the recovery of domestic demand accelerated compared to 2003.

**FIGURE II.1.1
CONTRIBUTIONS TO GDP GROWTH**



Source: SIS.

**TABLE II.1.2
ANNUAL GROWTH IN GROSS DOMESTIC PRODUCT AND
ITS MAIN SECTORS⁽¹⁾
(Percent)**

	2002	2003					2004			
		I	II	III	IV	Total	I	II	III	Total ⁽²⁾
GNP	7.9	7.4	3.6	5.6	7.2	5.9	12.4	14.4	4.7	9.7
GDP	7.9	8.1	3.9	5.5	6.1	5.8	10.1	13.4	4.5	8.7
Agriculture	6.9	2.0	-0.8	-0.6	-9.6	-2.5	-7.5	3.4	-1.6	-1.2
Industry	9.4	8.8	4.2	9.1	9.2	7.8	10.3	14.9	6.6	10.5
Manufacturing Industry	10.4	10.4	4.9	9.5	10.0	8.6	11.3	16.1	7.0	11.4
Services	6.0	7.0	3.0	4.7	6.4	5.2	8.7	11.8	4.6	8.0
Trade	11.0	10.6	5.8	7.4	9.2	8.1	16.3	19.1	7.1	13.3
Construction	-5.6	-13.8	-12.7	-12.3	1.3	-9.0	2.9	0.2	-1.0	0.4
Transportation & Telecommunication	6.0	13.1	5.2	8.1	7.5	8.4	4.3	10.7	3.8	6.1
Import Tax	24.7	19.0	20.0	26.8	23.7	22.6	33.8	33.2	20.0	28.4

Source: SIS.

(1) According to 1987 producer prices.

(2) First nine months.

Private consumption expenditures increased by 10.8 percent in the first nine months of 2004 compared to the same period of the previous year (Table II.1.3). When the sub-items are analyzed, it can be observed that along with consumer durables, the expenditures towards semi-durable and non-durable goods increased at very high rates. However, the contraction in food expenditures compared to the same period of the previous year, implies an unbalanced distribution of domestic demand among consumer groups. The implementation of a tight incomes policy had been effective in achieving the revival in private consumption expenditures spread over a limited group of goods.

The implementation of tight incomes policy had been effective in that, the revival in private consumption expenditures spread over a limited group of goods.

TABLE II.1.3
MAIN EXPENDITURE ITEMS
(1987 Prices, Annual Percentage Change)

	2002	2003	2004			Total ⁽¹⁾
			I	II	III	
Consumption Expenditures	2.5	5.6	9.9	13.6	5.4	9.3
Public	5.4	-2.4	2.4	-7.9	-7.1	-4.8
Private	2.1	6.6	10.6	16.4	6.7	10.8
Consumer Durables	2.1	24.0	49.7	61.7	29.3	46.1
Fixed Capital Investment	-0.9	10.0	52.6	51.7	23.5	41.1
Public	8.8	-11.5	-11.3	-9.1	-11.8	-10.7
Private	-5.3	20.3	60.6	68.7	35.8	54.6
Machinery-Equipment	4.4	46.1	89.6	97.6	54.8	81.0
Construction	-14.3	-11.4	5.1	6.2	7.0	6.2
Stock Changes ⁽²⁾	7.1	3.0	3.1	1.4	-1.1	0.9
Exports of Goods and Services	11.1	16.0	10.3	15.7	7.8	11.0
Imports of Goods and Services	15.8	27.1	31.2	32.7	16.0	26.5
Total Domestic Demand	9.3	9.3	19.1	21.1	7.3	15.3
Total Final Domestic Demand	1.8	6.5	17.5	22.5	9.0	15.7
GDP (Expenditures)	7.8	5.8	10.1	13.4	4.5	8.7

Source: SIS.

(1) First nine months.

(2) Contribution to GDP growth, percentage points.

Public consumption and investment expenditures contracted by 4.8 percent and 10.7 percent, respectively, in the first nine months of 2004 compared to the same period of the previous year, and thereby restrained economic growth. Increased saving measures to attain the primary budget surplus target, which was determined in the context of tight fiscal policy, in effect, caused public sector consumption and investment expenditures to remain at low levels. In this respect, the contribution of public expenditures to GDP growth in the first nine months of the year was realized at -0.7 points.

The implementation of the macroeconomic program with resolution maintained a decline in interest rates by reducing the uncertainties and risk premium. Along with the fall in interest rates, the appreciation of the Turkish lira against foreign currencies in the period of stability observed in financial markets, created a favorable environment for investments to be realized. Therefore, private investment expenditures increased by 54.6 percent in the first nine months of 2004 compared to the same period the previous year due to the high rated rise in machinery-equipment investment. The increase in investment expenditures led to a rise in the capital-labor ratio, which caused productivity gains to be sustained and production costs to remain at favorable levels. Besides, the increase in investments, which raise the potential output level, prevented any pressure on prices that might have stemmed from the high-rated economic growth. Investments, which have crucial importance for stable and sustainable growth, reflect favorable expectations of forthcoming periods.

TABLE II.1.4
PRICES
(Average Year to Year Percentage Change, 1994=100)

	1999	2000	2001	2002	2003	2004
Consumer Price Index	65.0	54.6	54.4	45.0	25.3	10.6
Wholesale Price Index	53.2	51.1	61.6	50.1	25.5	11.1
Agriculture Price Index	41.8	37.9	42.2	56.4	33.9	13.6
Manufacturing Industry Price Index	57.4	55.7	66.7	48.3	23.8	11.1
Farmer's Net Price Index	52.2	42.6	40.9	54.3	36.6	12.0

Source: SIS.

Exports of goods and services increased by 11 percent in the first nine months of 2004 compared to the same period last year and contributed to the growth of the economy. During this period, the maintenance of the low levels in unit wages brought about productivity gains, had a positive impact on the firms' international competitiveness and had been a major determinant of high export performance. In addition to considerable export performance, the recovery in domestic demand gave rise to a high-rated increase in industrial production and thus imports of intermediate goods and raw materials. The appreciation of the Turkish lira against foreign currencies also increased the demand for imported goods in 2004. Therefore, imports of goods and services rose by 26.5 percent in the first nine months of the year compared to the same period of the previous year.

In 2004, the fact that the high-rated growth in private consumption expenditures spread over a limited group of goods, prevented a demand-oriented pressure on consumer prices. Along with the improvements in productivity,

favorable developments in production costs such as energy prices, the real exchange rate and unit wages, contributed to the realization of consumer price inflation under the target level (Table II.1.4). Moreover, relative price movements were in favor of farmers in 2004, as was the case in the preceding two years.

In 2004, the fact that the high-rated growth in private consumption expenditures spread over a limited group of goods, prevented a demand-oriented pressure on consumer prices.

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

II.1.1.A. Production Performance in Sectors

a. Agriculture

The agriculture sector value added, which had shown a 2.5 percent yearly total decrease in 2003, contracted by 1.2 percent in the first three quarters of 2004 compared to the same period of the previous year (Table II.1.5). In 2004, the decrease in agriculture sector value added stemmed from the contraction in agriculture and livestock sector production.

The agriculture sector value added contracted by 1.2 percent in the first three quarters of 2004 compared to the same period of the previous year.

TABLE II.1.5
AGRICULTURAL SECTOR VALUE ADDED
(Percentage Change, according to 1987 Producer Prices)

	9-Month		2004 ⁽¹⁾		
	2003	2004	I	II	III
Value Added of Agricultural & Livestock Productions	-0.2	-2.0	-9.0	0.6	-1.9
Forestry Sector Value Added	-4.9	11.6	-4.6	35.0	8.0
Fishery Sector Value Added	3.5	6.6	2.0	14.1	5.3
Agricultural Sector Value Added	-0.4	-1.2	-7.5	3.4	-1.6

Source: SIS.

(1) Provisional.

The agriculture and livestock sector value added decreased by 9 percent in the first quarter, increased by 0.6 percent in the second quarter and decreased by 1.9 percent in the third quarters of 2004. The total agriculture and livestock sector value added decreased by 2 percent in the first nine months of the year.

During the first nine months of 2004, the value added of the forestry sector increased by 11.6 percent compared to the same period of the previous year, meanwhile, the value added of the fishing sector increased by 6.6 percent.

b. Industry

The value added of the industrial sector increased by 10.5 percent in the first three quarters of 2004 compared to previous year's same period.

The industrial sector value added, which had increased by 7.8 percent in 2003, rose by 10.5 percent in the first three quarters of 2004 compared to the same period of the previous year (Table II.1.2). During this period, along with the high performance in exports, the acceleration in domestic demand, especially in the second quarter of the year, played an important role in the rising industrial sector valued added.

According to the SIS Monthly Industrial Production Index, total industry production increased by 9.8 percent in 2004 compared to the previous year. When examined by sub-sectors, the mining sector, the manufacturing sector and electricity-gas-water production increased by 4 percent, 10.4 percent and 6.8 percent, respectively in 2004. During this period, when examined by sub-sectors, the production of all manufacturing industry sectors increased except food, textile and petroleum products industries (Table II.1.6).

TABLE II.1.6
INDUSTRIAL PRODUCTION
(Percentage Changes with Respect to the Same Period of the Previous Year)

	2002	2003	2004				Annual
			I	II	III	IV	
TOTAL INDUSTRY	9.5	8.7	10.6	16.2	8.5	4.4	9.8
MINING	-8.3	-3.4	-9.8	10.1	6.9	7.7	4.0
MANUFACTURING							
INDUSTRY	10.9	9.3	12.0	17.2	8.7	4.2	10.4
Food Industry	2.9	7.6	-2.4	2.6	-0.2	-2.1	-0.4
Textile Industry	12.5	2.1	1.6	-1.4	-1.4	-4.6	-1.4
Petroleum Productions							
Industry	9.1	3.1	0.3	4.3	-13.6	-8.0	-4.6
Chemical Industry	14.2	8.8	9.1	27.9	19.2	8.2	16.1
Basic Metal Industry	10.1	11.9	12.6	11.9	12.5	9.7	11.6
Machinery-Equipment							
Industry	21.4	22.4	36.5	46.6	26.1	18.0	31.0
Motor Vehicles Industry	27.1	47.6	74.1	84.2	58.1	15.8	53.3
PUBLIC MANU. INDUSTRY	4.7	2.1	1.1	1.7	-3.8	-0.5	-0.4
PRIVATE MANU. INDUSTRY	12.4	11.0	14.4	20.5	11.4	5.2	12.7
ENERGY	5.4	8.5	6.5	8.4	7.0	5.6	6.8

Source: SIS, Quarterly Industrial Production Indices, 1997=100.

According to the SIS Three Monthly Industrial Production Index, motor vehicles industry production increased by 53.3 percent in 2004 compared to the previous year. The rapid production expansion in this sector, the revival in domestic demand along with the high export performance had been effective. Besides, in line with the improvement in the investment tendency of private firms,

basic metal and machinery equipment production rose by 11.6 percent and 31 percent, respectively in 2004. Moreover, during the same period, food sector production decreased by 0.4 percent compared to the same period of the previous year.

c. Services

The value added of the services sector increased by 8 percent in the first nine months of 2004 compared to the same period of the previous year (Table II.1.2). The favorable developments in industrial production and imports caused a rise in the value added of the services sector, primarily the wholesale-retail trade, and transportation-communication sectors. During this period, the value added increased in all sub-sectors of the services sector, compared to the previous year.

The value added of the services sector increased by 8 percent in the first nine months of 2004 compared to previous year's same period.

The value added of the construction sector increased slightly by 0.4 percent in the first nine months of 2004 compared to the same period of the previous year. According to construction statistics published by the SIS, building licenses increased by the high rate of 43.3 percent while building permits decreased by 0.6 percent in the first nine months of 2004. In line with the tight fiscal policy implementation, the ongoing contraction in public investments adversely affected the construction sector and led to a delay in the recovery in this sector.

II.1.1.B. Imports of Goods and Services

The fact that industrial production increased at a high rate, along with the slight recovery in domestic demand, led to the continuation of the rise in imports of goods and services in the first nine months of 2004 after the year 2003. Total imports of goods and services with fixed prices increased by 26.5 percent in the first nine months of 2004 (Table II.1.7).

Total imports of goods and services increased by 26.5 percent in real terms in the first nine months of 2004 compared to previous year's same period.

TABLE II.1.7
IMPORTS OF GOODS AND SERVICES
(US\$ billion)

	2002	2003	2004				Total
			I	II	III	IV	
Imports (CIF)	51.6	69.3	20.9	24.4	25.1	27.0	97.3
Tourism Expenditures	1.9	2.1	0.6	0.6	0.7	0.6	2.5
Other Service Expenditures ⁽¹⁾	6.9	8.5	2.3	2.6	3.1	3.3	11.3
TOTAL	60.3	80.0	23.7	27.6	28.9	30.8	111.1
Import of Goods & Services (%) ⁽²⁾	15.8	27.1	31.2	32.7	16.0	-	26.5 ⁽³⁾

Sources: CBRT, SIS.

(1) Excluding profit transfers.

(2) SIS, percentage changes with 1987 prices.

(3) As of the January-September period.

Among the main sectors, imports of the manufacturing industry, which constituted 83 percent of total imports, increased by 44.2 percent in 2004 compared to the previous year, while agriculture-forestry and mining imports increased by 7.4 percent and 21.7 percent, respectively.

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

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

The Turkish economy continued to grow in the first nine months of 2004.

The Turkish economy continued to grow in the first nine months of 2004 following expansion in 2002 and 2003. As a result of the economic program implemented following the crisis in 2001, inflation declined, confidence in economic developments improved and the revival of domestic demand accelerated.

In the first nine months of 2004, public consumption expenditures decreased by 4.8 percent as a result of tight fiscal policy. In this period, the items “wages and salaries” of public expenditures increased by 1.2 per cent, whereas “other current” expenditures declined by 13.6 percent (Table II.1.8).

TABLE II.1.8
DEVELOPMENTS IN TOTAL CONSUMPTION EXPENDITURES
(Percentage Change with Respect to the Same Period of the Previous Year)
(1987=100)

	2002	2003	2004			
			I	II	III	9-Months
Total Consumption	2.5	5.6	9.9	13.6	5.4	9.3
Government Total Consumption Expenditures	5.4	-2.4	2.4	-7.9	-7.1	-4.8
Salaries-Wages	0.7	0.8	1.4	1.0	1.1	1.2
Other Current Expenditures	10.8	-5.9	5.3	-19.0	-16.1	-13.6
Private Total Consumption Expenditures	2.1	6.6	10.6	16.4	6.7	10.8
Food	1.1	4.1	0.9	0.3	-1.2	-0.2
Durable Goods	2.1	24.0	49.7	61.7	29.3	46.1
Semi-Durable & Non-Durable Goods	3.0	2.1	4.9	31.2	18.3	16.8
Energy, Transportation, Telecommunication	-0.2	2.2	-3.3	2.5	-0.7	-0.5
Services	8.5	7.5	10.1	14.3	5.5	9.4
House Ownership	1.8	1.4	1.9	1.4	1.3	1.6

Source: SIS.

Total private consumption expenditures increased by 10.8 percent in the first nine months of 2004. When we examine private consumption expenditures by sub-sectors, with the exception of food and energy-transportation and communication,

expenditures on all items increased in this period. The highest rate of increase is observed in the expenditures for durable goods (Table II.1.8).

As a result of fiscal discipline, public investment expenditures declined by 10.7 percent in the first nine months of 2004. In the same period, private investment expenditures and private sector machinery and equipment investment increased by 54.6 percent and 81 percent, respectively. The decline in interest rates as a result of stability in financial markets provided enhancing confidence and hence a rapid rise in machinery and equipment investment. Moreover, while public construction investment declined by 32.6 percent, private construction investment rose by 6.2 percent in the first nine months of 2004.

II.1.2.B. Exports of Goods and Services

In the first nine months of 2004, exports of goods and services increased by 11 percent (Table II.1.9). Following 2002 and 2003, exports continued to grow and contributed to economic growth in 2004. The rise in productivity and low level of unit wages in the manufacturing sector helped the increase in exports to continue in 2004. According to the 12-month average figures, export prices and the export quantity index increased by 15.9 percent and 15.1 percent, respectively.

Exports of goods and services increased by 11 percent in the first nine months of 2004.

TABLE II.1.9
EXPORTS OF GOODS AND SERVICES
(US\$ billion)

	2002	2003	2004				Annual
			I	II	III	IV	
Exports	36.1	47.3	13.5	15.5	16.0	18.0	63.0
Shuttle Trade	4.1	4.0	0.9	1.0	1.0	1.0	3.9
Tourism Revenues	8.5	13.2	1.7	3.3	7.7	3.2	15.9
Other Services Revenues ⁽¹⁾	14.8	19.0	3.2	5.2	9.8	5.8	24.0
TOTAL	63.4	83.4	19.3	25.0	34.4	28.1	106.8
Exp. of Goods & Services (%) ⁽²⁾	11.1	16.0	10.3	15.7	7.8	-	11.0 ⁽³⁾

Sources: CBRT, SIS.

(1) Excluding tourism revenues.

(2) SIS, percentage changes in 1987 prices

(3) As of the January-September period.

II.1.3. Employment

In the last quarter of 2004, the unemployment rate decreased to 10 percent.

According to the Survey of Household Labor Force (HLF) conducted by the SIS, total employment, which was 20,811 thousand persons in the last quarter of 2003, increased by 5.1 percent and reached 21,870 thousand persons in the last quarter of 2004, as a result of a partial reflection of the expansion of the labor market. Total employment increased in urban areas by 4.4 percent and in rural areas by 5.9 percent. During this period, 54.7 percent of total employment occurred in urban areas while 45.3 percent of total employment was realized in rural areas. The total labor force increased by 4.7 percent in the last quarter of 2004 compared to the same period of the previous year. Therefore, the unemployment rate decreased by 0.3 points and realized at 10 percent (Table II.1.10).

The underemployment rate, defined as people who are employed but seeking a job or can work more hours on their job or on another job, realized at 3.1 percent in the last quarter of 2004, declined by 1.9 points compared to the same period of the previous year. Therefore, the inactive labor force rate, which is the sum of the underemployment and unemployment rates, realized at 13.1 percent during the same period. The labor force participation rate, another important indicator of the labor force, realized at 48.4 percent in the last quarter of 2004, which was 1.3 points higher than its 2003 level. Compared to the previous year, while the labor force participation rate of females remained at the same level, that of males increased by 2.6 points (Table II.1.10).

While the urban area unemployment rate was 12.5 percent in the last quarter of 2003, this rate was realized as 13.3 percent in the same quarter of 2004. In contrast, the rural area unemployment rate decreased from 7.5 percent to 5.9 percent in the last quarter of 2004. The number of unemployed increased by thirty two thousand to reach 2,428 thousand people. During this period, 48.3 percent of the total unemployed in Turkey (478 thousand) lost their jobs while 16.8 percent of the total unemployed (408 thousand) left their jobs and 25.1 percent of total unemployed (610 thousand) were first time job seekers.

When the sectoral breakdown of employment is taken into consideration, the share of the agricultural sector realized at 32.9 percent in the last quarter of 2004. In the same period, the share of industry was 18.2 percent, whereas the share of services was 43.8 percent. Non-agricultural employment increased by 4.7 percent compared to the same period of the previous year. The rate of increase in non-agricultural employment in urban areas and rural areas were 2.7 percent and 11.9

percent, respectively (Table II.1.11). As a result of economic growth, employment increased in all sectors compared to the same period of the previous year. Employment in agriculture and industry grew by 5.9 percent and 3.7 percent, respectively. The increase in employment in services and construction were 4.6 percent and 9.2 percent, respectively.

TABLE II.1.10
LABOR FORCE AND EMPLOYMENT
(Thousand Persons Aged 15+)

	2002	2003	2003	2004			
	Mid Year	Mid Year	IV	I	II	III	IV
Population aged 15 and 15+	48,041	48,912	49,250	49,482	49,694	49,944	50,189
Labor Force	23,818	23,640	23,206	22,732	24,457	25,265	24,297
Female Labor Force/Labor Force (Percent)	28.4	27.7	26.9	24.6	26.6	27.6	26.1
Labor Force Participation Rate (Percent)	49.6	48.3	47.1	45.9	49.2	50.6	48.4
Male	71.6	70.4	69.5	69.8	72.8	73.8	72.1
Female	27.9	26.6	25.1	22.5	26.0	27.7	25.1
Employment	21,354	21,147	20,811	19,902	22,188	22,874	21,870
Urban (Percent)	52.0	53.4	55.1	55.4	53.1	53.0	54.7
Rural (Percent)	48.0	46.6	44.9	44.6	46.9	47.0	45.3
Female Employment/ Total Employment (Percent)	28.7	27.9	27.2	25.0	26.9	27.6	26.1
Number of Unemployed	2,464	2,493	2,396	2,830	2,269	2,390	2,428
Unemployment Rate (Percent)	10.3	10.5	10.3	12.4	9.3	9.5	10.0
Urban	14.2	13.8	12.5	15.6	12.8	13.2	13.3
Rural	5.7	6.5	7.5	8.2	4.9	4.8	5.6
Underemployment/Employment (Percent)	5.4	4.8	5.0	5.2	4.1	4.0	3.1
Inactive Labor Force (Percent)	15.8	15.4	15.3	17.6	13.4	13.5	13.1

Source: SIS Household Labor Force Survey.

TABLE II.1.11
EMPLOYMENT BY SECTORS
(Thousand Persons Aged 15+)

	2002	2003	2003	2004			
	Mid Year	Mid Year	IV	I	II	III	IV
TOTAL	21,354	21,147	20,811	19,902	22,188	22,874	21,870
Agriculture	7,458	7,165	6,799	6,412	7,820	8,222	7,201
Industry	3,954	3,846	3,836	3,844	3,961	4,035	3,978
Services	8,984	9,170	9,150	8,924	9,334	9,434	9,571
Construction	958	965	1,026	723	1,073	1,184	1,120
URBAN	11,111	11,287	11,461	11,017	11,773	12,121	11,965
Agriculture	484	478	471	531	746	837	679
Industry	3,066	3,119	3,200	3,085	3,181	3,253	3,209
Services	6,853	7,007	7,052	6,879	7,106	7,213	7,290
Construction	708	693	738	522	741	818	787
RURAL	10,243	9,890	9,349	8,885	10,414	10,753	9,905
Agriculture	6,973	6,687	6,328	5,881	7,074	7,385	6,521
Industry	888	727	636	759	780	782	770
Services	2,132	2,043	2,097	2,045	2,228	2,220	2,280
Construction	250	282	288	200	332	366	333

Source: SIS Household Labor Force Survey.

In the last quarter of 2004, almost 52.2 percent of total employment in Turkey was made up of workers getting salaries or daily wages. In the same period, the share of self-employed people was 24.1 percent, while the share of unpaid family workers was 18.7 percent. While the share of unpaid family workers and self-employed people declined, the share of paid workers increased compared to the same period of the previous year. Additionally, almost 61.5 percent of the 1,059 thousand increase in the total employment in the last quarter of 2004 was composed of workers getting salaries or daily wages.

While production in manufacturing industry grew rapidly in the first nine months of 2004, decrease in public sector employment limited rise in employment.

Although production in the manufacturing industry rose rapidly, employment in the sector grew slowly in 2004, as was the case in 2002 and 2003. According to the quarterly index of industrial production (SIS), production in the private manufacturing industry grew by 14.6, whereas production in the public manufacturing industry declined by 0.3 percent in the first nine months of 2004 compared to the same period of the previous year. In this period, while the index of workers in the private manufacturing industry increased by 3.4 percent, that of the public manufacturing sector decreased by 11.3 percent as a result of the decline in production and hence effected employment negatively (Table II.1.12).

TABLE II.1.12
INDEX FOR WORKERS IN THE MANUFACTURING INDUSTRY
(Annual Percentage Change)

	2002	2003	2003 Nine- months	2003			Nine- months
				I	II	III	
Manufacturing Industry	0.6	1.8	2.7	0.9	2.7	1.8	1.8
Public	-9.1	-6.8	-5.3	-13.6	-11.0	-9.6	-11.3
Private	2.3	3.1	3.9	2.6	4.5	3.2	3.4
Food	1.6	0.0	-0.2	1.3	5.9	4.3	3.9
Textiles	7.2	0.1	1.8	-4.2	-2.5	-4.4	-3.7
Wearing Apparel	11.8	0.1	2.8	-9.2	-8.2	-11.9	-9.7
Petroleum Products	-7.5	3.0	2.4	19.7	15.9	12.2	16.0
Chemicals	-0.5	-0.3	-1.1	2.2	2.6	2.7	2.5
Non-metallic Products	-0.4	3.4	2.7	8.7	8.5	7.7	8.3
Basic Metal Industry	-4.7	5.9	5.4	9.6	11.1	9.9	10.2
Machinery-Equipment	-1.8	13.8	14.7	13.8	17.4	16.6	16.0
Transport Vehicles	-6.0	15.7	14.7	17.6	19.2	21.2	19.4

Source: SIS Index for Workers in the Manufacturing Industry, 1997=100.

II.1.4. Wages and Salaries

Net average wages of public sector workers increased by 5.8 percent in 2004. As a result of this, net average real wages of public workers decreased by 4.4 percent (Table II.1.13).

The net average real wages of public workers decreased by 4.4 percent in 2004.

Within the framework of the targeted Consumer Prices Index (CPI) inflation, civil servants' net average salaries increased by 6 percent in the first and second half of 2004. Consequently, net average salaries of civil servants increased by 2.6 percent in real terms in 2004. The average real minimum wage, which increased by 37.5, rose by 24.3 percent in real terms in 2004. Similarly, it is estimated that all pensions rose in real terms in 2004.

After two years of decline in 2002 and 2003, hourly real wages in the manufacturing industry increased in both public and private sectors in the first nine months of 2004 (Table II.1.14). The hourly real wages increased in all sectors except in chemicals, machinery-equipment and transport vehicles.

Productivity per hour in the manufacturing industry increased by 9.2 percent in the first nine months of 2004. During this period, productivity per hour in the private manufacturing industry rose by 10.1 percent (Table II.1.15). The rise in productivity in the manufacturing industry was due to the fact that its production increase was higher than its employment growth. The fact that productivity increased more than real wages caused real unit wages to decline and thus helped to maintain high rates of rises in exports.

TABLE II.1.13
REAL WAGES INDEXES
(1994=100)⁽¹⁾

	1996	1997	1998	1999	2000	2001	2002	2003	2004 ⁽²⁾
Net Labor Wage ⁽³⁾									
Public	62.2	74.1	73.1	103.8	111.1	98.2	89.2	90.4	86.5
Private	93.4	90.6	105.9	118.2	119.4	95.3	94.3	93.9	-
Net Salary of a Civil Servant	102.5	119.3	117.8	123.1	108.9	104.8	110.8	109.9	112.7
Annual Average Minimum									
Wage ⁽⁴⁾	110.6	121.2	115.2	154.9	132.6	113.9	123.0	127.6	158.6
Pensions ⁽⁵⁾									
The Pension Fund	113.0	121.0	114.0	118.0	104.0	100.0	104.0	113.0	119.0
Social Security Institution	118.0	134.0	124.0	127.0	110.0	107.0	109.0	124.0	130.0
Bağ-Kur ⁽⁶⁾	160.0	204.0	189.0	194.0	185.0	184.0	185.0	250.0	261.0

Source: SPO.

(1) In realizations, SIS - CPI (1994=100) is used.

(2) Figures for pensions are the forecasts carried out by the SPO.

(3) The calculations were made by the SPO using data of the Turkish Employer Union and Public Sector Employer Union.

(4) Annual average minimum wage for ages 16 and over in industry and services.

(5) The average pension for retired civil servants at third degree level one, for retired workers normal indicator table first-degree level nine and for retired people from Bağ-Kur at sixth degree.

(6) The Social Security Organization of craftsmen and other self-employed people.

TABLE II.1.14
REAL WAGES PER HOUR IN THE MANUFACTURING INDUSTRY
(Percentage Change)

	2002	2003	2003 Nine- months	2004			Nine- months
				I	II	III	
Manufacturing Industry	-5.4	-1.9	-3.3	0.4	5.2	3.0	2.8
Public	1.4	-5.3	-6.6	2.9	7.7	5.5	5.3
Private	-4.2	0.6	-1.0	2.8	7.7	4.8	5.0
Food	1.2	-3.0	-3.5	8.2	12.9	5.2	8.7
Textiles	0.9	-2.1	-3.1	6.4	8.9	11.4	8.8
Wearing Apparel	-4.7	4.8	5.8	5.5	14.7	16.3	12.1
Petroleum Products	9.0	-10.8	-10.4	4.4	16.3	32.7	16.8
Chemicals	-4.5	1.3	-0.1	-4.5	3.4	-2.0	-1.1
Non-metallic Products	-15.1	-3.6	-6.0	-1.7	7.7	5.1	3.5
Basic Metal Industry	-6.6	-1.5	-4.3	0.7	4.5	0.2	1.7
Machinery-Equipment	-0.4	-0.6	-2.5	-6.0	2.3	-4.4	-2.7
Transport Vehicles	1.6	-0.4	-1.3	-11.9	-3.9	-12.3	-9.5

Source: SIS, Quarterly Index of Wages Per Production Worked Hour, 1997=100.

TABLE II.1.15
PRODUCTIVITY PER HOUR IN THE MANUFACTURING INDUSTRY
(Percentage Change)

	2002	2003	2003 Nine- months	2004			Nine- months
				I	II	III	
Manufacturing Industry	8.6	7.2	5.8	8.8	13.0	5.9	9.2
Public	16.4	8.1	7.1	14.8	13.1	6.1	11.3
Private	7.8	7.9	6.3	9.3	14.3	6.9	10.1
Food	3.7	10.0	11.0	-0.3	-3.8	-3.7	-2.7
Textiles	4.1	3.3	2.5	3.8	-1.9	-0.5	0.4
Wearing Apparel	-9.1	2.3	-1.8	5.4	10.5	23.7	13.2
Petroleum Products	16.5	-2.0	-8.1	-16.4	27.1	-58.1	-20.3
Chemicals	12.9	12.0	11.1	6.2	22.9	11.9	13.7
Non-metallic Products	7.0	5.6	4.3	7.6	0.8	-2.5	1.4
Basic Metal Industry	19.3	3.7	4.8	2.6	1.7	3.2	2.5
Machinery-Equipment	22.5	8.9	8.6	15.1	24.5	5.4	14.6
Transport Vehicles	26.1	21.9	23.0	36.4	48.7	31.2	38.8

Source: SIS, Quarterly Index of Partial Productivity Per Production Worked Hour, 1997=100.

II.2. PUBLIC FINANCE AND DOMESTIC BORROWING

II.2.1. Public Finance

Due to fiscal discipline, which resulted from the economic program, the public sector borrowing requirement is expected to realize at 5 percent of the GNP in 2004 by decreasing 4.4 percentage points with respect to the previous year. (Table II.2.1, Figure II.2.1). This decrease in the PSBR mainly results from the improved performance of the financial balances of the consolidated budget in 2004 compared to 2003.

The PSBR is expected to have decreased in 2004 compared to 2003.

The borrowing requirement of 'other public', which consists of local administration, social security organizations and revolving funds is expected to realize at -0.3 percent of the GNP in 2004. The PSBR excluding the interest payments, which realized at -7.7 percent of the GNP in 2003, is estimated at -8.8 percent of the GNP in 2004.

TABLE II.2.1
THE RATIO OF THE PUBLIC SECTOR BORROWING REQUIREMENT TO
THE GROSS NATIONAL PRODUCT⁽¹⁾
(Percent)

	2002	2003	Estimate 2004
Consolidated Budget	14.8	11.3	7.1
SEEs	-1.0	-0.7	-0.4
Unemployment Insurance Fund	-1.0	-1.1	-1.1
Funds	0.0	-0.1	-0.4
Other Public ⁽²⁾	-0.1	0.2	-0.3
TOTAL BORROWING REQUIREMENT	12.7	9.4	5.0
PSBR EXCLUDING INTEREST PAYMENTS	-7.0	-7.7	-8.8
GNP (quadrillion TL)	275.0	356.7	424.1

Source: SPO.

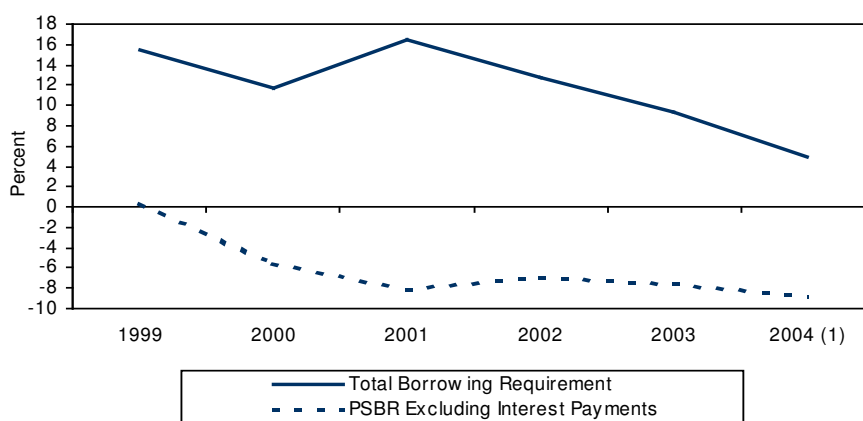
(1) Minus sign (-) indicates a surplus.

(2) The items consist of local administrations, revolving funds and social security organizations.

The consolidated budget deficit as a share of the GNP is estimated to decrease to 7.1 percent in 2004 from 11.3 percent in 2003 (Figure II.2.2). Low levels of interest rates and interest burden on the budget in 2004 compared to 2003 have played an important role in this development. While consolidated budget revenue in 2004 is estimated at 28.2 percent of the GNP, non-interest consolidated budget expenditures are expected to decrease to 22 percent of the GNP, decreasing from 22.9 percent of the GNP in 2003. This situation has mainly resulted from the decrease in non-interest transfers, investment and other current expenditures due to the tight fiscal policy. The consolidated budget tax revenues as a share of the GNP are estimated to be 23.5 percent indicating a 0.1 percentage point decrease compared to 2003 (Table II.2.2).

In December 2003, a law was enacted which provided for inflation adjusted accounting. In 2004, in the framework of this law, inflation adjusted accounting was implemented, becoming operative in the second advance tax period. Moreover, in February 2004, a law was enacted which aims to increase investment and employment by implementing tax and insurance incentives in some cities and providing energy support and free land for investment.

FIGURE II.2.1
PUBLIC BALANCE EXCLUDING INTEREST PAYMENTS AND THE
PUBLIC SECTOR BORROWING REQUIREMENT/GNP



Source: SPO.

(1) The 2004 GNP is the estimate of the SPO.

TABLE II.2.2
THE CONSOLIDATED BUDGET⁽¹⁾

	Current Prices (Quadrillion TL)		Shares in GNP (Percent)	
	2003	2004	2003	2004 ⁽²⁾
EXPENDITURES	140.5	149.8	39.4	35.3
Non-Interest Expenditures	81.8	93.2	22.9	22.0
Current	38.5	44.8	10.8	10.6
Personnel	30.2	36.6	8.5	8.6
Other Current	8.3	8.1	2.3	1.9
Investment	7.2	7.5	2.0	1.8
Non-Interest Transfers	36.2	40.9	10.1	9.6
Interest Payments	58.6	56.6	16.4	13.3
REVENUES	100.3	119.4	28.1	28.2
Tax Revenues	84.3	99.5	23.6	23.5
Non-Tax Revenues	10.2	16.4	2.9	3.9
Special Revenue Funds	4.0	1.8	1.1	0.4
Annexed Budget	1.7	1.8	0.5	0.4
BUDGET BALANCE	-40.2	-30.3	-11.3	-7.1
PRIMARY BUDGET BALANCE	18.4	26.3	5.2	6.2

Source: SPO, Ministry of Finance.

(1) In order to compare previous years, the budget figures for 2004 were calculated by taking into account the program budget code system instead of the analytical budget code system. However, some main expenditure items are not fully compared to previous years due to technical problems. Moreover, it is assumed that TL 1.6 quadrillion of special expense allowances was realized in 2004.

(2) The 2004 GNP is the estimate of the SPO.

In January 2004, minimum wages were increased by 38.2 percent. In order to limit the increase in the cost of minimum wage increases for employers by 20 percent, the government undertook to pay a portion of the premium. Moreover, pensions (SSK/Bağ-Kur) were raised by 10 percent in both the first and second halves of the year. In order to achieve the primary surplus target, a 13 percent cut was made in some expenditure items and the special consumption tax on some items was increased.

In 2004, the economic recovery and the increase in imports positively affected the performance of the tax revenues. However, special consumption tax from petroleum and natural gas showed a negative performance in 2004 due to the high level of world petroleum prices that limited the increase in special consumption tax from petroleum and natural gas.

The coverage of consolidated budget tax revenues in expenditures rose to 66.4 percent in 2004 compared to 60 percent in 2003. Moreover, the coverage of tax revenues in non-interest expenditures increased to 106.7 percent in 2004 compared to 103 percent in 2003 (Table II.2.3).

TABLE II.2.3
CONSOLIDATED BUDGET INDICATORS ⁽¹⁾
(Percent)

	2003	2004
REVENUE INDICATORS		
Total Revenues/Total Expenditures	71.4	79.8
Total Revenues/Non-Interest Expenditures	122.5	128.2
Tax Revenues/Total Revenues	84.1	83.3
Non-Tax Revenues / Total Revenues	10.2	13.7
Tax Revenues/Total Expenditures	60.0	66.4
Tax Revenues/Non-Interest Expenditures	103.0	106.7
EXPENDITURE INDICATORS		
Interest Payments/Tax Revenues	69.5	56.9
Interest Payments/Total Expenditures	41.7	37.8
Non-Interest Expenditures/Total Expenditures	58.3	62.2
Personnel Expenditures/Total Expenditures	21.5	24.4
Investment Expenditures/Total Expenditures	5.1	5.0
Non-Interest Transfers/Total Expenditures	25.7	27.3

Source: SPO, Ministry of Finance.

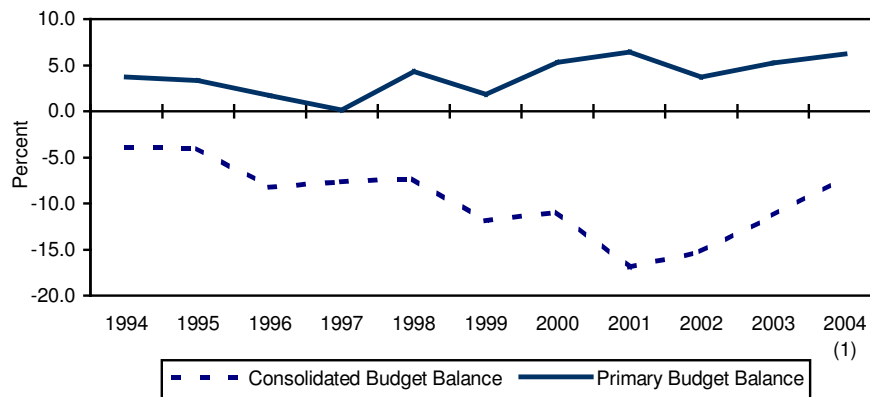
(1) In order to compare the previous years, the budget figures for 2004 were calculated by taking into account the program budget code system instead of the analytical budget code system. Moreover, it is assumed that TL 1.6 quadrillion special expense allowances were realized in 2004.

While the share of non-tax revenues in the GNP was 2.9 percent in 2003, it is expected to increase to 3.9 percent in 2004. The transfer (dividend) in 2004 of TL 1.1 quadrillion to the consolidated budget from the state banks has played an important role in this situation.

The share of consolidated budget expenditures in the GNP is expected to be 35.3 percent in 2004 by decreasing 4.1 percentage points compared to the previous year, mainly due to the decrease in interest payments.

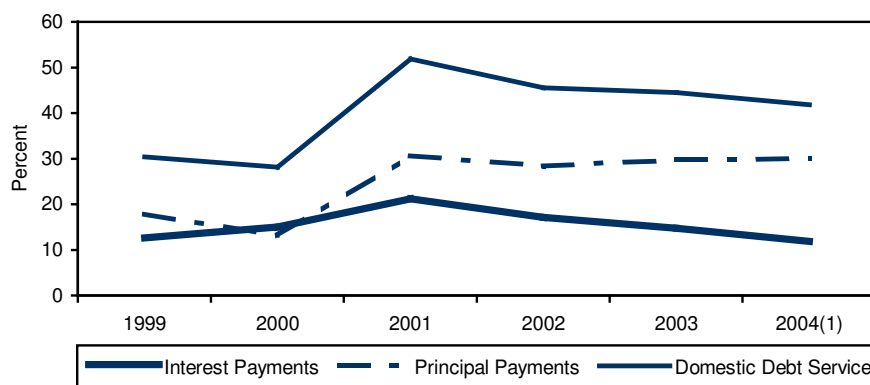
The primary budget balance, which ran a surplus of 5.2 percent of the GNP in 2003, is estimated to run a surplus of 6.2 percent of the GNP in 2004. Because of the decrease in the share of domestic interest payments in the GNP, the share of domestic debt service in the GNP is expected to be 41.9 percent in 2004 (Figure II.2.3).

FIGURE II.2.2
BUDGET BALANCES/GNP



Source: SPO, Ministry of Finance.
(1) The 2004 GNP is the estimate of the SPO.

FIGURE II.2.3
CONSOLIDATED BUDGET DOMESTIC DEBT SERVICE/GNP



Source: SPO and Turkish Treasury.
(1) The 2004 GNP is the estimate of the SPO.

II.2.2. Domestic Debt Stock

In 2004, the total domestic debt stock increased by 15.5 percent in nominal terms compared to 2003 and reached TL 224.5 quadrillion.

In 2004, total domestic debt stock increased by 15.5 percent in nominal terms compared to 2003 and reached TL 224.5 quadrillion. Borrowing net of amortization payments, which denotes the change in debt stock, has decreased compared to the previous years. The decline in the borrowing cost of the Treasury, increase in the borrowing maturity and high primary surplus obtained under fiscal discipline were the factors that cut down net borrowing in 2004. At the end of the year 2004 the ratio of domestic debt stock to GNP is anticipated to decline to 52.9 from 54.5 at the end of 2003, given the expectation of a 10 percent GNP growth rate. The high GNP growth rate and reduced borrowing requirement stemming from improved borrowing conditions have been influential in the downward trend of the domestic debt to GNP ratio.

In 2004, the major portion of the increase in domestic debt stock emanated from cash borrowing, a type of borrowing that generates cash flow for the Treasury. The amount of non-cash borrowing remained limited compared to the previous years (Table II.2.4). Most of the non-cash borrowing was accounted for Pamukbank T.A.Ş.'s merger with Türkiye Halk Bankası A.Ş. Within this framework, special type government securities of TL 2.3 quadrillion were issued to the Saving Deposits Insurance Fund (SDIF) by private placement on-lent in October.

Political stability and enhanced confidence regarding the continuance of the economic program improved borrowing conditions in year 2003. Favorable conditions also continued in 2004, accordingly the borrowing maturity increased and interest rates decreased, enabling the Treasury to carry out active debt management.

The borrowing strategy for the year 2004 was set to accomplish the objective of borrowing at minimum cost, at a prudent level of risk. At the beginning of the year 2004, in order to increase transparency, the major components of the borrowing strategy were disclosed to the public by the Treasury. Within this framework, the borrowing strategy asserted borrowing to be mainly in TL denominated fixed rate securities and that the average maturity of domestic borrowing to extend over a year. Along with the aforementioned strategy, intended to decrease the vulnerability of debt stock to fluctuations in the interest rate and the exchange rate, another practice was to maintain an adequate amount of reserves throughout the year against the risk of not being able to finance maturing debt service.

Within the framework of the abovementioned borrowing strategy, a significant share of Treasury borrowing in 2004 comprised cash borrowing through auction and direct sale methods. The share of cash borrowing in total borrowing realized as 96.1 in 2004 compared to 90.5 in 2003 (Table II.2.4). The structure of cash borrowing reveals that a significant portion of borrowing was concentrated in TL denominated fixed rate securities as anticipated by the borrowing strategy (Table II.2.5).

TABLE II.2.4
THE COMPOSITION OF DOMESTIC BORROWING

	2002		2003		2004	
	Share (%)	Maturity (months)	Share (%)	Maturity (months)	Share (%)	Maturity (months)
Total Borrowing	100.0	20.6	100.0	18.1	100.0	17.3
Cash	80.4	11.1	90.5	14.7	96.1	15.0
T-Bill	52.9	6.7	35.2	6.2	37.6	6.2
Bond	27.4	19.7	55.3	20.1	58.5	20.6
Non Cash	19.6	59.5	9.5	50.4	3.9	73.9
Total Stock	100.0	32.1	100.0	25.1	100.0	20.6
Cash	59.6	12.8	67.1	12.4	73.8	11.8
Non Cash	40.4	60.4	32.9	51.2	26.2	45.5

Source: Treasury.

The average maturity of cash borrowing realized as 15 months in 2004, compared to 14.7 months in 2003 (Table II.2.4). The increase in the share of fixed

Average maturity of cash borrowing realized as 15 months in 2004, compared to 14.7 months in 2003.

rate TL denominated securities, which have a shorter maturity compared to flexible rate securities, limited the increase in the average maturity of cash borrowing. Moreover, the three-year CPI-indexed securities issued in April to the Compulsory Saving Account (CSA) had a significant role in increasing the average maturity of cash borrowing in 2003. In 2004, the maturity of cash debt stock decreased from 12.4 months to 11.8 months. Furthermore, the average time to maturity of non-cash debt stock has declined along with its share within the total domestic debt stock. Consequently, the average maturity of total domestic debt stock was shortened by approximately four months with respect to 2003 and realized as 20.6 months.

In 2002, the maturity of non-cash domestic debt stock had increased as securities in the portfolio of State Banks were replaced with securities having higher maturities. In the period following the abovementioned swap operation, the average maturity of non-cash debt stock declined as a consequence of the decrease in the amount of non-cash borrowing. In 2004, the maturity of the limited amount of non-cash borrowing realized as 73.9 months. This mainly stemmed from the securities issued with a maturity range of 8-11 years to the SDIF in October on account of the merger of Pamukbank TAŞ with Halk Bank TAŞ. In 2004, the maturity of non-cash debt stock decreased by 5.7 months compared to the previous year and realized as 45.5 months, as a consequence of the decrease in the amount of non-cash borrowing (Table II.2.4).

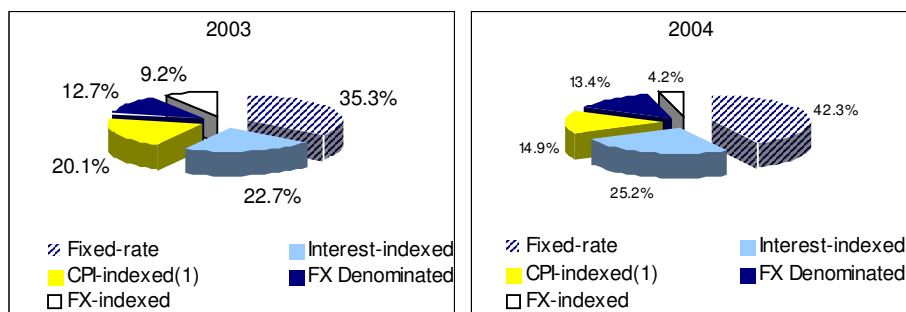
TABLE II.2.5
THE COMPOSITION OF CASH BORROWING
(TL trillion)⁽¹⁾

	2003		2004	
		Share (%)		Share (%)
Auction, TAP, Public Offers, Direct Sales	117,704	82.9	148,623	95.8
Fixed rate	110,642	77.9	124,843	80.5
Flexible rate	7,062	5.0	23,780	15.3
TL denominated	102,638	72.3	134,206	86.5
FX denominated	15,066	10.6	14,416	9.3
Compulsory Savings Account	17,064	12.0	0	0.0
Other	7,250	5.1	6,470	4.2
Total	142,018	100.0	155,093	100.0

Source: Treasury.

(1) Displays cash borrowing excluding exchange rate differences. In connection with the depreciation of the TL, foreign exchange denominated/ indexed securities are revalued at the end of the year and during their coupon payments. This change in the value of the securities is recorded as borrowing.

FIGURE II.2.4
THE COMPOSITION OF DOMESTIC DEBT STOCK
(Share in Total)



Source: Treasury.

(1) A significant portion of this item comprises non-cash securities in the CBRT portfolio, cash securities issued to the CSA in April 2003 and non-cash securities issued to the SDIF in January 2004.

In 2004, the share of cash debt stock within total debt stock increased by 6.7 points from 67.1 to 73.8 percent. As a consequence of the increase in borrowing from the markets in the form of discounted securities, the share of fixed rate securities in total debt stock increased. On the contrary, as a consequence of the absence of CPI-indexed security issues, share of CPI-indexed debt stock declined. Concurrently, foreign exchange denominated debt stock increased while foreign exchange indexed debt stock declined. As a result, decrease in the total share of foreign exchange indexed and denominated debt stock remained limited. Consequently in 2004, the portion of debt stock indexed to interest rates increased by 2.5 points to 25.2, the foreign exchange indexed portion decreased by 5 points to 4.2, and the foreign exchange denominated portion increased by 0.7 points to 13.4 percent compared to 2003 (Figure II.2.4, Table II.2.6).

The structure of the domestic debt stock with respect to the borrowing instruments changed in 2004 compared to 2003.

In 2004, the decomposition of domestic debt stock by lenders changed. A significant portion of borrowing in 2004 took place via auctions, hence the share of the market in total domestic debt stock increased by approximately 10 points to 62.9 percent. The domestic debt stock of the Treasury owned by the market increased to TL quadrillion 141.1 in 2004 from its level of TL quadrillion 101.8 in 2003 (Table II.2.7).

TABLE II.2.6
STRUCTURE OF THE DOMESTIC DEBT STOCK
(TL trillion)

	2002		2003		2004	
	Share in Total (%)	Share in Total (%)	Share in Total (%)	Share in Total (%)	Share in Total (%)	Share in Total (%)
Cash	89,271	59.6	130,484	67.1	165,579	73.8
Fixed-rate	37,576	25.1	68,614	35.3	94,930	42.3
Floating-rate	17,384	11.6	29,080	15.0	36,309	16.2
Interest rate indexed	17,384	11.6	15,089	7.8	26,186	11.7
CPI-indexed ⁽¹⁾	-	-	13,991	7.2	10,123	4.5
FX Denominated	16,513	11.0	16,839	8.7	26,608	11.9
FX-indexed	17,799	11.9	15,951	8.2	7,732	3.4
IMF Credit	9,685	6.5	8,473	4.4	3,692	1.6
Swap	7,649	5.1	7,478	3.8	4,041	1.8
Public Sales	466	0.3	-	-	-	-
Non Cash	60,599	40.4	63,903	32.9	58,904	26.2
Fixed-rate	-	-	-	-	-	-
Floating-rate	46,734	31.2	54,096	27.8	53,781	24.0
Interest rate indexed	25,270	16.9	28,972	14.9	30,435	13.6
CPI-indexed ⁽²⁾	21,464	14.3	25,124	12.9	23,346	10.4
FX Denominated	11,891	7.9	7,881	4.1	3,413	1.5
FX-indexed	1,973	1.3	1,926	1.0	1,709	0.8
Total Stock	149,870	100.0	194,387	100.0	224,483	100.0
Fixed-rate	37,576	25.1	68,614	35.3	94,930	42.3
Floating-rate	64,118	42.8	83,175	42.8	90,090	40.1
Interest rate indexed	42,654	28.5	44,060	22.7	56,621	25.2
CPI-indexed	21,464	14.3	39,115	20.1	33,469	14.9
FX Denominated	28,404	19.0	24,720	12.7	30,021	13.4
FX-indexed	19,772	13.2	17,877	9.2	9,441	4.2

Source: Treasury, CBRT.

(1) CPI-indexed securities in the CSA.

(2) A significant portion of this item comprises non-cash securities in the CBRT portfolio and securities issued to the SDIF in January 2004. Securities issued to the SDIF were included in the debt stock of the year 2003.

TABLE II.2.7
THE DECOMPOSITION OF DOMESTIC DEBT STOCK BY LENDERS
(TL trillion)

	2003		2004	
	(percent)	(percent)	(percent)	(percent)
1. PUBLIC SECTOR	92,626	47.7	83,335	37.1
a. Central Bank	26,900	13.8	22,119	9.9
b. State Banks	27,239	14.0	27,451	12.2
c. SDIF Banks	15,056	7.7	8,317	3.7
d. Other Public Sector	23,431	12.1	25,449	11.3
2. MARKET	101,760	52.3	141,148	62.9
TOTAL (1+2)	194,387	100.0	224,483	100.0

Source: Treasury.

II.2.2.A. Cash Domestic Debt Stock

In 2004, cash domestic debt stock nominally increased by 26.9 percent due to the increase in fixed rate, interest-rate indexed and foreign exchange denominated securities and reached TL 165.6 quadrillion (Table II.2.6).

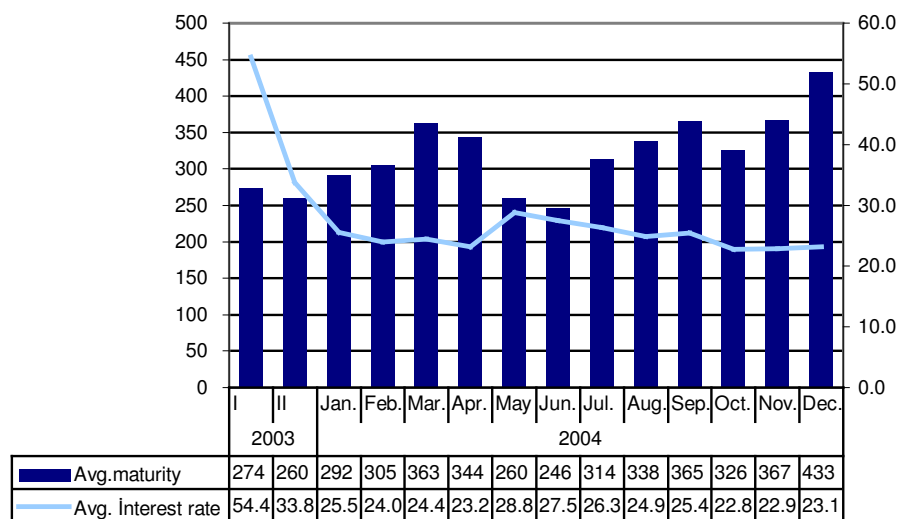
In 2004, the cash domestic debt stock increased by 26.9 percent.

In 2003, borrowing conditions improved and interest rates decreased significantly as political stability was established following the general election and the monetary and fiscal policies were implemented in line with the program targets. The decrease in the borrowing cost continued in 2004, although at a slower pace. Uncertainties regarding the political process experienced in Cyprus in April and May 2004, expectations of an interest rate increase by the Federal Reserve as well as anticipations of a current account deficit figure above forecasts for the first quarter of the year led to an interest rate increase by 5 points in May compared to the previous month. Although having adopted a downward trend in June, interest rates fell to levels prevailed in April by the end of the year. In the second half of the year, interest rates rose moderately in September because of the debates on the Turkish Penal Code. Meanwhile, interest rates in the secondary market started to fall in the second half of December, on account of the EU Council decision to initiate membership talks with Turkey and the Central Bank's interest rate cut based on anticipation that risks regarding inflation were reduced. However, the effects of the decline were not reflected in Treasury auction interest rates in December as the Treasury auctions were held in the first half of the month (Figure II.2.5).

Borrowing conditions continued to improve in 2004.

In 2004, compared to 2003, along with the interest rate on TL denominated borrowing instruments, the interest rate on foreign exchange denominated debt instruments also declined (Table II.2.8). The year average of the compound interest rate on US dollar denominated debt instruments fell to 4.5 percent in 2004 from 5.5 percent in 2003. Alongside the decline in the borrowing cost, the borrowing maturity has been lengthened. In 2004, the maturities of discounted securities, which constitute a significant portion of cash borrowing, were lengthened. Moreover, the Treasury issued three-year TL denominated securities with semi-annual fixed coupon payments for the first time after a long period. Concurrently three-year, foreign exchange denominated securities with semi-annual coupon payments were issued via the auction method. Furthermore, in order to reduce the debt service of foreign exchange indexed securities in June the Treasury carried out switching auctions in January, March and May. Consequently, the debt service of June was deferred to year 2005 and 2006.

FIGURE II.2.5
AVERAGE BORROWING MATURITY AND COMPOUND INTEREST RATES
IN 2004⁽¹⁾



Source: Treasury, CBRT.

(1) Comprises TL denominated discounted auctions.

TABLE II.2.8
AUCTION INTEREST RATES IN 2004⁽¹⁾

	TL Denominated Discounted Securities Rate	TL Denominated Floating Securities Coupon Rate	Fixed Couponed TL Denominated Securities Coupon Rate	FX Denominated Discounted Securities
January	25.5	33.1	22.2	4.1
February	24.0	32.8	-	-
March	24.4	29.5	-	-
April	23.2	29.6	-	-
May	28.8	32.1	-	-
June	27.5	35.4	-	-
July	26.3	35.8	-	-
August	24.9	-	-	-
September	25.4	29.5	-	4.6
October	22.8	-	21.1	4.8
November	22.9	-	-	-
December	23.1	-	-	-

Source: Treasury.

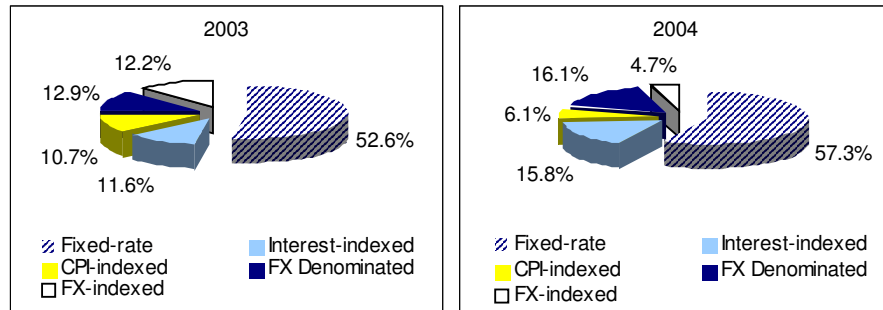
(1) Annual compound interest rate weighted with net sales.

In accordance with the borrowing policy, a significant portion of borrowing was concentrated in TL denominated fixed rate securities. Accordingly in 2004, the share of fixed rate debt stock within the cash debt stock increased compared to 2003. Moreover in 2004, the share of interest rate indexed and foreign exchange denominated securities within the cash debt stock increased, whereas the share of CPI and foreign exchange indexed securities declined. In 2004, the share of fixed rate securities in the cash domestic debt stock increased by 4.7 points to 57.3, the share of foreign exchange denominated securities increased by 3.2 points to 16.1, the share of interest-rate indexed securities increased by 4.2 points to 15.8 percent. On the other hand, the share of foreign exchange indexed securities decreased by 7.5 points to 4.7, the share of CPI-indexed securities decreased by 4.6 percent to 6.1 percent (Figure II.2.6, Table II.2.9).

In 2004, the share of fixed-rate, interest rate indexed and foreign exchange denominated securities within cash debt stock increased, whereas the share of CPI and foreign exchange indexed securities decreased.

In 2004, the maturity of cash debt stock was slightly shortened. Nevertheless, the change in the average maturity from 2003 to 2004 varies among the sub-items of cash debt stock. In 2004, along with the increase in the share of interest-rate indexed, foreign exchange denominated and fixed rate securities within cash debt stock their average maturity has lengthened. On the other hand, due to the absence of CPI and foreign exchange indexed security issues, the maturity of these securities declined significantly (Table II.2.9).

FIGURE II.2.6
THE COMPOSITION OF CASH DOMESTIC DEBT STOCK
(Share in Total)



Source: Treasury.

TABLE II.2.9
THE MATURITY STRUCTURE OF CASH DOMESTIC DEBT STOCK
(Months)

	2003			2004		
	Amount (TL trillion)	Average Maturity	Share (%)	Amount (TL trillion)	Average Maturity	Share (%)
Cash	130,484	12.4	100.0	165,579	11.8	100.0
Fixed-income	68,614	6.8	52.6	94,930	8.7	57.3
Floating-rate	29,080	20.0	22.3	36,309	15.7	21.9
Interest rate-indexed	15,112	11.3	11.6	26,186	15.2	15.8
CPI-indexed	13,991	29.4	10.7	10,123	17.2	6.1
FX Denominated	16,839	15.8	12.9	26,608	17.0	16.1
FX-indexed	15,951	18.8	12.2	7,732	13.3	4.7
IMF Credit	8,473	18.9	6.5	3,692	8.5	2.2
Swap	7,478	18.7	5.7	4,041	17.7	2.4

Source: Treasury, CBRT.

In 2004, the Treasury carried out the bulk of cash borrowing through the auction method. Furthermore, the Treasury also issued US \$ 1,121 million, euro 550 million and TL 1,730 trillion worth of securities through direct sales. In 2004, no borrowing took place through public sales and the TAP method (Table II.2.10).

TABLE II.2.10
NON-AUCTION CASH BORROWING IN 2004
(TL billion, EURO million, US\$ million)

Maturity (months)	Issue Date	Maturity Date	Coupon Rate (percent)	Denomination	Sales (Nominal)
58 ⁽¹⁾	21.01.2004	15.10.2008	Indexed to Auction	TL Denominated	274,039
24 ⁽¹⁾	28.01.2004	18.01.2006	Indexed to Auction	TL Denominated	500,000
58 ⁽¹⁾	18.02.2004	12.11.2008	Indexed to Auction	TL Denominated	214,046
58 ⁽¹⁾	17.03.2004	10.12.2008	Indexed to Auction	TL Denominated	256,971
67 ⁽¹⁾	14.04.2004	07.10.2009	Indexed to Auction	TL Denominated	182,517
67 ⁽¹⁾	12.05.2004	04.11.2009	Indexed to Auction	TL Denominated	172,053
13	21.05.2004	22.06.2005	6.51 (percent) ⁽²⁾	US \$	121
67 ⁽¹⁾	02.06.2004	25.11.2009	Indexed to Auction	TL Denominated	130,184
49 ⁽³⁾	09.06.2004	04.06.2008	3.35 (percent)	EURO	150
73 ⁽³⁾	09.06.2004	02.06.2010	3.95 (percent)	EURO	150
36 ⁽⁴⁾	27.10.2004	24.10.2007	1.00 (percent)	US \$	1,000
49 ⁽³⁾	27.10.2004	22.10.2008	2.75 (percent)	EURO	250

Source: Treasury.

- (1) 3-month floating coupon payments.
- (2) Term interest rate.
- (3) 6-month fixed coupon payments.
- (4) 3-month fixed coupon payments.

II.2.2.B. Non-cash Domestic Debt Stock

Non-cash debt stock consists of securities issued by the Treasury to cover the liabilities of public institutions for each other, without the acquisition of any cash inflows. Mainly owing to the repayments during the year, non-cash debt stock dropped by nearly 8 percent to TL 58.9 quadrillion by the end of 2004 from TL 63.9 quadrillion by the end of 2003.

The ratio of the total domestic debt stock to GNP, an indicator of domestic debt stock relative to the size of the economy, is expected to drop to 52.9 percent in 2004 declining by 1.6 percentage points with respect to the previous year. As a result of the Treasury's higher borrowing from the markets with regard to capital redemption, the ratio of cash domestic debt stock to GNP increased by nearly 2.5 percentage points to 39 percent in 2004. The ratio of total domestic debt stock to M2X decreased to 121.1 percent mainly owing to the reduction in non-cash domestic debt stock, which indicates that the pressure of domestic borrowing on internal markets was relatively relieved in 2004. Nevertheless, the ratio of cash domestic debt stock to M2X increased slightly to 89.3 percent in the same year (Table II.2.11).

TABLE II.2.11
THE COMPARISON OF DOMESTIC DEBT STOCK WITH SOME
ECONOMIC AND MONETARY AGGREGATES
(Percent)

	2001	2002	2003	2004
Total Dom. Debt Stock/GNP	69.2	54.5	54.5	52.9 ⁽¹⁾
Cash Dom. Debt Stock/GNP	33.1	32.5	36.6	39.0 ⁽¹⁾
Total Dom. Debt Stock/M2	263.6	243.2	235.2	205.3 ⁽²⁾
Cash Dom. Debt Stock/M2	125.9	144.9	157.9	151.4 ⁽²⁾
Total Dom. Debt Stock/M2X	117.6	111.5	128.6	121.1 ⁽²⁾
Cash Dom. Debt Stock/M2X	56.2	66.4	86.3	89.3 ⁽²⁾
Total Dom. Debt Stock/TL Liabilities ⁽³⁾	160.8	142.1	137.2	124.9 ⁽⁴⁾
Cash Dom. Debt Stock/TL Liabilities ⁽³⁾	76.8	84.7	92.1	92.1 ⁽⁴⁾
Total Dom. Debt Stock/Total Liabilities ⁽³⁾	71.2	70.5	77.8	74.0 ⁽⁴⁾
Cash Dom. Debt Stock/Total Liabilities ⁽³⁾	34.0	42.0	52.3	54.6 ⁽⁴⁾

Source: Undersecretariat of the Treasury, CBRT.

(1) The GNP figure for 2004 is the SPO's estimate.

(2) M2 and M2X figures for 2004 are provisional.

(3) TL and total liabilities are the liabilities of deposit banks, excluding shareholder's equities.

(4) Calculated using liabilities as of November 2004.

II.3. THE BALANCE OF PAYMENTS AND EXTERNAL DEBT

II.3.1. Balance of Payments

The export oriented trend in growth during the post-crisis period also continued in 2003. At the beginning of the year the Iraq war came to an end and the financial markets re-stabilized, both of which resulted in an easing of interest rates and appreciation of the Turkish lira. Consequently, domestic demand revived in the second half of the year and led to an increase in consumption goods imports, intermediate and capital goods imports. The higher growth rate of imports than exports contributed to the widening foreign trade deficit and despite the rise in tourism revenues, the current account deficit amounted to US\$ 8 billion in 2003. In addition, the build-up of confidence in the post-Iraq war period paved the way for improved foreign borrowing opportunities of the Treasury and long-term credit usage of the non-bank private sector. Finance needs were restricted to some extent by a positive US\$ 5 billion net errors and omissions, resulting in a net capital inflow of US\$ 3 billion in 2003. Official reserves rose by US\$ 4 billion during the same period (Table II.3.1).

TABLE II.3.1
BALANCE OF PAYMENTS
(US\$ million)

	2002	2003	2004	2004-I	2004-II	2004-III	2004-IV
CURRENT ACCOUNT	-1,522	-8,037	-15,451	-5,351	-4,522	-649	-4,929
Foreign Trade Balance	-7,283	-14,010	-23,830	-5,033	-6,017	-6,429	-6,351
Exports (FOB)	36,059	47,253	63,016	13,488	15,519	15,968	18,041
Shuttle Trade	4,065	3,953	3,880	877	1,043	973	987
Imports (CIF) ⁽¹⁾	-51,554	-69,340	-97,341	-20,883	-24,391	-25,098	-26,969
Services Balance	7,879	10,505	12,768	942	2,571	6,734	2,521
Services Revenues	14,783	19,025	24,026	3,229	5,208	9,808	5,781
Travel Revenues	8,479	13,203	15,888	1,713	3,270	7,662	3,243
Services Expenditures	-6,904	-8,520	-11,258	-2,287	-2,637	-3,074	-3,260
Income Balance	-4,554	-5,559	-5,516	-1,486	-1,372	-1,302	-1,356
Interest Payments	-4,417	-4,586	-4,346	-941	-991	-1,169	-1,245
Current Transfers	2,436	1,027	1,127	226	296	348	257
Workers' Remittances	1,936	729	804	193	181	237	193
CAPITAL ACCOUNT	1,373	2,994	12,469	5,916	1,616	1,427	3,510
Reserves	-6,153	-4,047	-824	214	-1,061	-618	641
NET ERRORS AND OMISSIONS	149	5,043	2,982	-565	2,906	-778	1,419

Source: CBRT.

(1) Including gold imports.

Recovery in domestic consumption was evident and the real appreciation trend continued in 2004. In line with these developments, consumption goods imports together with intermediate and capital goods imports grew significantly. However, import growth decelerated due to the slowdown in the growth rate, realization of the postponed consumption and the base effect. While intermediate and capital goods imports increased by 81.4 and 86.5 percent, respectively, during the first half of the year, the respective growth rates were 35 and 33 percent in the second half. As a consequence of the decline in unit labor cost, the rise in productivity, the increase in export prices and strong foreign demand, the export performance of 2003 also continued in 2004. While tourism revenues rose, interest payments contracted during the same period. The current account deficit, mostly owing to the foreign trade deficit, was US\$ 15.5 billion. Net capital inflows in 2004 were US\$ 12.5 billion and reserves increased by US\$ 824 million.

II.3.2. Current Account

Exports grew by 33.4 percent in 2004 compared to the previous year and the growth rate of imports was 40.4 percent during the same period (Table II.3.2). The ratio of exports to imports declined to 64.7 percent. The current account deficit expanded to US\$ 15.5 billion.

TABLE II.3.2
DISTRIBUTION OF IMPORTS AND EXPORTS ACCORDING TO MAIN
PRODUCT GROUPS
(US\$ million)

	2003	% Share	2004	% Share	% Change
Total Imports (CIF)	69,340	100.0	97,341	100.0	40.4
Capital Goods	11,326	16.3	17,379	17.9	53.4
Intermediate Goods	49,735	72.1	67,373	67.3	35.5
Consumption Goods	7,813	10.9	12,096	14.3	54.8
Other	466	0.7	493	0.5	5.8
Total Exports	47,253	100.0	63,017	100.0	33.4
Agriculture and Forestry	2,121	5.2	2,532	4.7	19.4
Fishing	81	0.2	101	0.2	24.7
Mining and Quarrying	469	1.0	648	1.0	38.0
Manufacturing	44,378	93.1	59,443	93.5	33.9
Other	204	0.5	294	0.6	44.1

Source: SIS.

The expansion in industrial production and domestic consumption together with the rapid rise in investment expenditures, contributed to the import growth in

2004. Yet, the precautionary measures taken in the second half of the year, regarding automobiles, caused a slowdown in the rising trend of import growth by July onwards. Furthermore, the realization of postponed consumption and base effect are other reasons that can be attributed to the slow-down in this growth rate.

The imports of automobiles and parts augmented by 90.2 percent in 2004. The growth of this individual item, accounts for 7 percentage points of total import growth. Automotive Manufacturers Association (AMA) data shows that total automotive imports to the total automotive production ratio increased by 2 percentage points compared to 2003 and reached 58 percent in 2004. Besides, imports of boilers, machinery and mechanical equipment, electrical machinery and equipment, iron and steel and mineral fuels and oils, including crude oil, were the other items that contributed most to import growth.

Mounting crude oil prices in international markets affected the increase in imports in 2004. While, the Brent type crude oil price was US\$ 29.8 per barrel in 2003, it started to rise in 2004 and exceeded US\$ 50 in October. After that, it fell back to an average of US\$ 39.6 in December 2004.

TABLE II.3.3
EXPORTS OF SELECTED ITEMS
(US\$ million)

	2003	2004	% Change	% Contribution to Export Growth
Total Exports	47,253	63,017	33.4	-
Apparel and Clothing, Knitted	5,733	6,258	9.2	1.1
Apparel and Clothing, Not Knitted	3,814	4,535	18.9	1.5
Automobiles and Parts	5,272	8,288	57.2	6.4
Electrical Machinery and Equipment	3,475	4,786	37.8	2.8
Boilers, Machinery, Mechanical Equipment	2,993	4,123	37.8	2.4
Iron and Steel	2,969	5,286	78.0	4.9
Sub Total	24,255	33,277	37.2	19.1
Other	22,998	29,740	29.3	14.3

Source: SIS.

As real wages lagged behind productivity increases, the declining trend in unit labor cost also continued in 2004. In addition, the growing world economy and rising export prices, augmented exports. Therefore, the cost-push effects of the accelerating prices of oil and oil products, natural gas, electric and water were limited. Hence, 2004 exports amounted to US\$ 63 billion.

Regarding the specific categories, automobiles and parts made the biggest contribution to export growth (Table II.3.3). The categories referred to grew by 52 percent in 2004 compared to the previous year. The demand recovery observed in 2004 is evident in AMA data. Accordingly, the ratio of automotive exports to its production, though staying at a considerably high level, dropped by 4 percentage points to 60 percent. Other contributing categories of exports in 2004 are iron and steel, electrical machinery and equipment, boilers, and machinery and mechanical equipment. The contribution of the four categories considered above makes up 16.5 percentage points of total export growth.

While export prices rose by 15.9 percent on average in 2004, import prices rose by 12.5 percent, thereby the terms of trade shifted in favor of export. The appreciation of the euro against the US dollar also continued in 2004. The euro/US dollar parity, which was 1.2502 by the end of 2003, soared to 1.3611. The parity movements that widened the foreign trade deficit of 2003 by US\$ 582 million, effected 2004 trade figures, as well, depending on the currency composition of the foreign trade. The parity effect on the US dollar value of exports and imports was very close in 2004 and the foreign trade deficit narrowed by only US\$ 9.8 million.

TABLE II.3.4
DISTRIBUTION OF IMPORTS AND EXPORTS ACCORDING TO COUNTRY
GROUPS
(US\$ million)

	2003	% share	2004	% share	% change
TOTAL IMPORTS	69,340	100.0	97,341	100.0	40.1
OECD Countries	43,899	63.3	59,563	61.2	35.5
(EU Countries) ⁽¹⁾	33,495	48.3	45,428	46.7	35.5
Other European Countries ⁽²⁾	11,987	17.3	18,348	18.8	52.6
African Countries	3,338	4.8	4,781	4.9	43.2
American Countries	4,922	7.1	6,543	6.7	32.7
Middle East Countries	4,455	6.3	5,577	5.3	17.9
Other Asian Countries	9,644	14.5	15,483	16.3	58.2
Other	909	0.9	368	0.4	-41.9
TOTAL EXPORTS	47,253	100.0	63,017	100.0	32.8
OECD Countries	30,425	64.4	40,425	64.3	32.6
(EU Countries) ⁽¹⁾	25,899	54.8	34,399	54.7	32.5
Other European Countries ⁽²⁾	4,857	10.3	6,605	10.5	35.3
African Countries	2,131	4.5	2,963	4.7	38.5
American Countries	4,269	9.0	5,698	9.1	33.3
Middle East Countries	5,465	10.9	7,900	11.5	41.0
Other Asian Countries	2,348	6.0	2,543	5.0	11.2
Other	355	0.5	348	0.6	59.3

Source: SIS.

(1) 25 EU countries are included in 2004.

(2) CIS countries, previously reported in this group, are included in Other Asian Countries.

As a consequence of the widening foreign trade deficit and the news of probable interest rate increases by the FED in May, the Turkish lira depreciated by 11 percent in nominal terms against the currency basket of 1 US dollar and 0.77 euro. Yet, the said effect was temporary and short lived and the Turkish lira preserved its strong position when evaluated year-on-year. The average real appreciation of the Turkish lira was 4.4 percent in terms of the real exchange rate index computed by using the wholesale price index (WPI) for both domestic and foreign inflation and 5.1 percent in terms of the index using CPI for the respective inflation rates (Table II.3.5).

TABLE II.3.5
REAL EFFECTIVE EXCHANGE RATE INDEX⁽¹⁾
(1995 annual average=100)

(1995 annual average=100)

	CPI Based Index	WPI Based Index
1995	103.1	97.0
1996	101.7	100.1
1997	115.9	110.7
1998	120.9	107.9
1999	127.3	108.8
2000	147.6	118.3
2001	116.3	107.3
2002	125.4	117.1
2003 I	123.5	118.5
II	140.6	130.3
III	151.5	137.5
IV	140.6	126.3
2004 I	154.2	143.3
II	137.5	127.8
III ⁽²⁾	138.1	126.8
IV ⁽²⁾	143.2	131.0

Source: CBRT, SIS, IFS.

(1) The figures are end-of-period. The weights for 19 countries (Germany, USA, Italy, France, UK, Japan, the Netherlands, Belgium, Switzerland, Austria, Spain, Canada, Korea, Sweden, Taiwan, Iran, Brazil, China and Greece) constructed by the IMF are used in the computation of the CPI based index. Regarding the WPI based index, the weights of 17 countries, excluding Taiwan and China, are used. Calculations are based on monthly average figures for the respective exchange rates.

(2) Provisional.

The expanding foreign trade deficit was the main factor behind the widening of the current account deficit in 2004. Besides, the appreciation process of the euro against the US dollar pushed up gold demand and thereby gold prices. Hence, gold imports rose by 34.6 percent in 2004.

The greatest positive contribution to the current account balance was the growth in tourism revenues. Tourism revenues from foreign visitors increased by 25.3 percent in 2004 compared to the previous year and became US\$ 12.1 billion. While the number of foreign tourist departures went up 25.5 percent, average spending per person was US\$ 705.

TABLE II.3.6
TOURISM STATISTICS⁽¹⁾

	2000	2001	2002	2003	2004
Tourism Revenue (US\$ million)	7,636	8,090	8,479	9,676	12,124
Average Spending (US\$ million)	764	718	656	706	705
Number of Tourist Departures (Thousand)	9,991	11,275	12,927	13,701	17,202
Number of Tourist Arrivals (Thousand)	10,428	11,619	13,247	13,958	17,517
EU (Thousand)	5,551	6,648	7,708	7,460	9,594
CIS (Thousand)	1,383	1,430	1,661	1,973	2,792

Source: CBRT, Ministry of Tourism.

(1) Revenue solely from foreign visitors is reported.

The main reasons for the US\$ 5.5 billion deficit in income balance were portfolio investment expenditures and interest payments. Interest payments were cut compared to the previous year to the reduction in interest rates. Central Bank, General Government and non-bank sector interest payments were especially important in this development.

II.3.3. Capital Account

The capital account generated inflows throughout 2004. The financial account, which consists of capital flows and official reserves, yielded a surplus of US\$ 12.5 billion in 2004. Excluding International Monetary Fund loans and official reserve changes, capital inflow was recorded as US\$ 16.8 billion in this period.

The capital account generated inflows throughout 2004.

In 2004, the dynamics in the capital account is quite different compared to 2003. Unlike 2003, an increase in long-term capital inflow was recorded in 2004. On the other hand short-term capital inflow, which was the determining factor of net capital flows in 2003, remained constant in 2004 (Table II.3.7). Long-term credits used by non-bank private sectors became the determining factor in long-term capital flows, while short-term credits used by banks was the dominant item in short-term capital flows.

In 2004, while net inflow from foreign direct investments accelerated remarkably, portfolio investments, which yielded an inflow of US\$ 2.6 billion in 2003, kept its upward trend. Capital inflow through other investments has

increased, despite mighty loan repayments of IMF credits. Net errors and omissions continued their increasing pace of 2003. As a consequence of these developments, the official reserves soared in 2004.

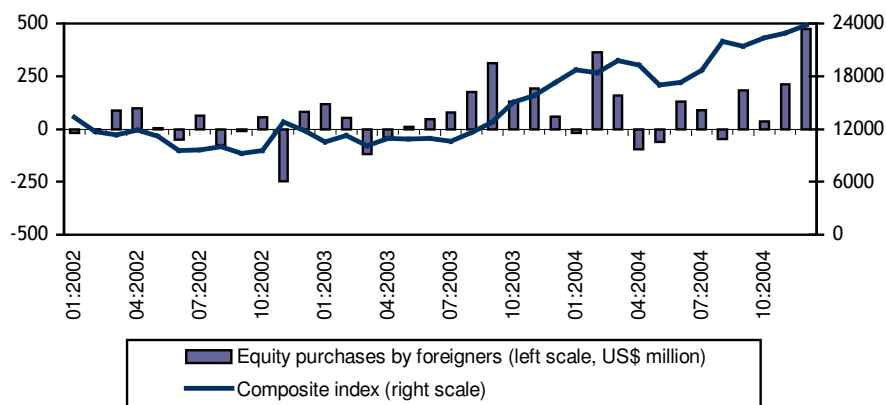
TABLE II.3.7
SELECTED ITEMS FROM THE CAPITAL ACCOUNT
(US\$ million)

	2003	2004
Capital and Finance Account	2,994	12,469
Finance Account	2,994	12,469
Direct Investment	1,195	1,711
Portfolio Investment	2,569	8,070
Other Investment	3,277	3,512
Reserves Assets	-4,047	-824
Net Errors and Omissions	5,043	2,982
<i>Memorandum items:</i>		
Short-Term	3,559	6,758
Long-Term	-956	6,121
IMF Credits	-50	-3,518

Source: CBRT.

Direct investments, which realized as US\$ 1.7 billion, originated mainly from non-residents' capital investments and real estate purchases. Meanwhile, net direct investments residents made abroad increased by 71.7 percent compared to the previous year and reached US\$ 857 million. Besides, long-term credits extended to foreign companies by their affiliates abroad, which are registered under other capital items and considered as direct capital investment, became net US\$ 265 million.

FIGURE II.3.1
ISTANBUL STOCK EXCHANGE EQUITY PRICES AND NET PURCHASES
BY FOREIGNERS



Source: ISE.

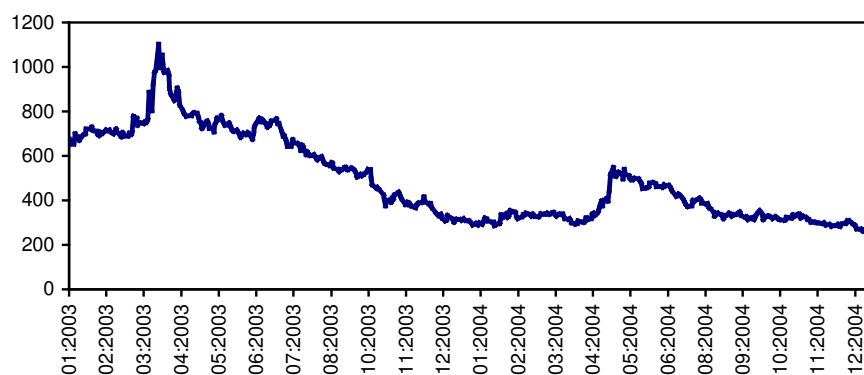
In 2004, the non-resident's brisk demand on Turkish securities continued owing to both ongoing macroeconomic stability and the higher return of TL denominated assets compared with FX denominated assets. Government securities and equity stocks, which are the dominant items of portfolio investments, signify this tendency. These purchases were mainly composed of government securities. Non-residents' net purchases of equities in the Istanbul Stock Exchange and net purchases of government securities are realized as US\$ 1.4 billion and US\$ 5.8 billion, respectively.

In 2004, non-resident's brisk demand on Turkish securities continued.

The value of Turkish bonds rose throughout 2004, as regards the positive external environment for the Turkish economy. In line with these favorable developments, the Treasury had the chance to borrow from foreign markets through six bond auctions at a historically low cost. Moreover, upon seeing the steps taken by the government for budget discipline and the confidence in fulfilling macro economic targets, the spreads of Turkish bonds narrowed to an historical level (Figure II.3.2).

The value of Turkish bonds rose throughout 2004, as regards the positive external environment for the Turkish economy.

FIGURE II.3.2
SECONDARY MARKETS BOND SPREADS
(Basis Points)



Source: CBRT.

The Treasury issued US\$ 5.8 billion worth of new bonds during 2004, while repaying US\$ 3.8 billion.

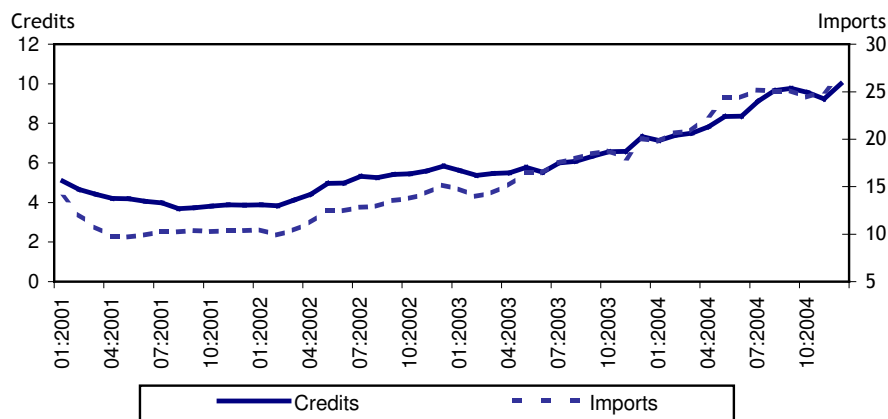
Despite its volatile course throughout the year, the FX-holdings item composed of current and deposit accounts that are held by banks with their correspondent banks abroad increased in the May-December period. In 2004, FX

Rapid growth in foreign trade volume stimulated both commercial credit utilization and commercial credit extended as well.

assets of banks rose by net US\$ 5.8 billion leading to a capital outflow of the same amount.

Rapid growth in foreign trade volume stimulated both commercial credit utilization and commercial credit extended. In 2004, the volume of exports increased by 33.4 percent, while the volume of commercial credits extended abroad expanded by 33.2 percent. Similarly, commercial credit utilization was boosted by 44.8 percent in the same period, while imports grew by 40.4 percent (Figure II.3.3).

FIGURE II.3.3
PRIVATE SECTOR COMMERCIAL CREDIT UTILIZATION AND IMPORTS
(Three-month, US\$ billion)



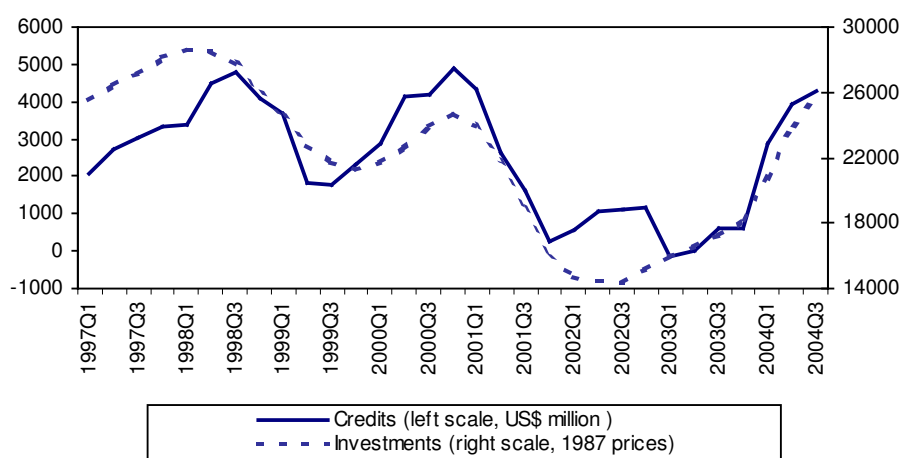
Source: CBRT.

Syndicated loans of the banking sector expanded in 2004. The driving forces behind this expansion are brisk credit demands by individuals and corporations and financing exports. Although the banking sector maintained its ongoing tendency to meet its financing needs through short-term credits in 2004, financing through long-term credits increased significantly with the amelioration in the banking sector. US\$ 2.3 billion of the US\$ 5.6 billion worth of credit used in 2004 belonged to long-term credits while US\$ 3.3 billion of it was of short-term nature.

The determined implementation of the macroeconomic program created a favorable and confident environment along with smoothing out the uncertainties and risk premium. Within this framework, long-term external credits used by the non-bank private sector eased in line with ample growth in domestic investments.

While long-term credit utilization rose by 38.2 percent in 2004, private sector investment expenditures widened by 54.6 percent in the first three quarters of the year compared to the same period previous year (Figure II.3.4).

FIGURE II.3.4
LONG-TERM CREDIT UTILIZATION AND
INVESTMENT EXPENDITURES
(Private Sector)



Source: CBRT, SIS.

Long-term FX deposit accounts with credit letters and super FX accounts held with the Central Bank by Turkish citizens working abroad have displayed an outflow trend in 2004. The interest rate cut-down operations in 2003 are considered to be the primary factor in this outflow.

The Central Bank reserves, which were US\$ 33.6 billion by the end of 2003, increased to US\$ 36 billion by the end of 2004.

In 2004, the external financing requirement, which is defined as the sum of the current account balance and the net errors and omissions item, rose by US\$ 9.5 billion and became US\$ 12.5 billion (Table II. 3.8). During this period, despite the rise in the current account deficit, the external financing requirements remained limited due to US\$ 3 billion surplus in net errors and omissions.

Considering the financing requirement, 2004 have different characteristics comparing with 2003. While the external financing requirement in 2003 was dominantly covered by short-term capital flows and portfolio investments, share of

Despite the rise in the current account deficit, external financing requirement remain limited thanks to the US\$ 3 billion surplus in the net errors and omissions.

long-term sources besides portfolio investments in total financing rose significantly in 2004. The long-term capital flows and portfolio investments were mostly composed of long-term credit utilization of private sector and security purchases of non-residents. As the capital inflows surpassed the external financing requirement, the total reserves, consisting of Central Bank and banks' reserves, increased by US\$ 6.7 billion.

TABLE II.3.8
EXTERNAL FINANCING REQUIREMENT AND SOURCES OF FINANCE
(US\$ million)

	2003	2004
1. Current Account Balance	-8,037	-15,451
2. Net Errors and Omissions	5,043	2,982
I. Total Financing Requirement (=1+2)	-2,994	-12,469
II. Total Financing (=1+2+3)	2,994	12,469
1. Capital Flows (net)	6,367	22,745
Direct Investment (net)	1,195	1,711
Portfolio Investment (net)	2,569	8,070
General Government Bond Issues	1,509	1,959
Foreigners' Buying of Securities in Turkey	2,623	7,250
Residents' Buying of Securities Abroad	-1,386	-1,139
Credits (excl. IMF credits)	2,837	13,775
General Government	-2,194	-1,163
Banks	1,975	5,642
Long-Term	-40	2,295
Short-Term	2,015	3,347
Other Sectors	3,056	9,296
Long-Term	587	4,787
Short-Term	288	341
Trade Credits	2,181	4,168
Deposits	1,368	393
Other	-1,602	-1,289
2. IMF Credits	-50	-3,518
General Government		
3. Change in Reserves (- increase)	-3,323	-6,673
Banks' FX Holdings	724	-5,849
Official Reserves	-4,047	-824

Source: CBRT.

II.3.4. External Debt

External debt stock increased by 5 percent in the first nine months of 2004 compared to the year-end 2003.

External debt stock, which was US\$ 145.8 billion at the end of 2003, became US\$ 153.2 billion as of end-September 2004, increasing by 5 percent. In this period, medium and long-term debt increased by 0.9 percent, while short-term debt (STD) increased by 27.4 percent (Table II.3.9). According to the balance of payments definition, US\$ 6.1 billion of long-term capital inflows were realized.

However, since long-term debt stock, in definition, also includes IMF credit repayments, the increase in long-term debt stock remained limited.

TABLE II.3.9
EXTERNAL DEBT STOCK AND THE TERM STRUCTURE
(US\$ billion)

	2001	2002	2003	2004-I	2004-II	2004-III
External Debt Stock	113.9	130.4	145.8	145.2	148.1	153.2
Medium-Long Term Debt	97.5	113.9	122.8	121.2	122.0	123.8
Public Sector	46.4	64.0	70.3	69.3	70.0	71.4
CBRT	23.6	20.3	21.5	20.0	18.8	17.8
Private Sector	27.5	29.6	31.0	31.9	33.2	34.7
Financial	4.8	4.6	5.0	5.1	5.6	6.0
Non-Financial	22.7	25.0	26.0	26.7	27.6	28.6
Short Term Debt	16.4	16.4	23.0	24.0	26.1	29.3
General Government	0.0	0.0	0.0	0.0	0.0	0.0
CBRT	0.8	1.7	2.9	2.9	2.9	3.0
Commercial Banks	8.0	6.3	9.7	10.0	11.1	12.7
Other Sectors	7.7	8.4	10.5	11.1	12.1	13.6
External Debt Stock / GNP	79.1	71.4	61.0	55.8	53.9	53.9

Source: CBRT, UT.

Medium and long term external debt stock reached US\$ 123 billion at the end of September 2004. The non-financial private sector's long term credit net drawings and bond issues of the Treasury were effective in this increase. On the other hand, the credit net repayment of US\$ 3.3 billion to the IMF by the CBRT slowed down the increase in medium and long term debt stock. The external debt stock of the public sector including the CBRT, recessed by 2.9 percent as of September compared to the year-end, while the private sector's medium and long term external debt stock increased by 11.9 percent. Meanwhile, short term external debt stock reached US\$ 31.9 billion as of end-2004, resulting from the commercial banks short term borrowings and trade credits net drawings of the private sector.

The currency composition of the external debt stock differs in term-disaggregation. While medium and long term consists of 46.9 percent US dollars and 31.7 percent euro denominated debt, short term debt stock consists of 63.3 percent US dollars and 34.1 percent euro denominated debt. Besides, Special Drawing Rights (SDR) also constitutes a significant part, especially in medium and long term debt stock.

TABLE II.3.10
THE PARITY EFFECT ON EXTERNAL DEBT STOCK
BY CURRENCY COMPOSITION⁽¹⁾
(US\$ million)

	2003 External Debt Stock		2004 Sept		Nominal Movement	Movement with Parity Effect deducted (E-D=F)
	2003	2004	2004	Exch. rate		
	End-year Exch. rate (A)	End-Sept. Exch. rate (B)	End-Sept. Exch. rate (C)	Diff. (B-A=D)		
US dollars	66,545	66,545	76,687	0	10,142	10,142
Euro	48,587	47,876	49,315	-711	728	1,439
SDR	24,012	23,824	21,510	-188	-2,501	-2,313
Swiss frank	884	876	915	-8	31	39
Pounds sterling	654	666	659	12	5	-7
Japanese yen	4,517	4,353	3,277	-164	-1,240	-1,076
Other (US dollars)	606	604	795	-1	189	191
TOTAL	145,805	144,744	153,160	-1060	7,355	8,415

Source: CBRT, UT.

(1) (A) The end of 2003 external debt stock calculated using the 2003 end-of-year exchange rates; (B) The end of 2003 debt stock calculated using the end of September 2004 exchange rate; (C) The external debt stock of Sept. 2004 calculated using the Sept. 2004 end-of-period exchange rate; (D) The difference between the 2003 end-of-year debt stock calculated using the Sept. 2004 exchange rates and the 2003 end-of-year exchange rates; (E) The difference between the debt stock of 2003 and that of Sept. 2004; (F) The difference between the nominal movement and exchange rate differential.

As the total lessening parity effect of US\$ 1.1 billion is taken out, the increase in total external debt stock is observed to be US\$ 8.4 billion.

Depending on the currency composition and the relative volumes, cross rates influence the US dollar value of external debt stock. As of end-September, the euro depreciated by 1.5 percent against the US dollar. Hence, the parity effect reduced the US dollar value of the debt stock by US\$ 711 million. Likewise, cross rates in all other foreign currencies changed, reducing the US dollar value of the external debt. As the total lessening parity effect of US\$ 1.1 billion is net out, the increase in total external debt stock is observed to be US\$ 8.4 billion instead of US\$ 7.3 billion (Table II.3.10). The above-mentioned cross rate impact is US\$ 133 million in short term debt and US\$ 927 million in medium and long term debt.

The debt service ratio calculated as the ratio of principal and interest payments of the external debt to foreign exchange revenues, which is an important indicator of a country's capacity for repayment, fell in 2004 as a result of the increase in exports and tourism revenues. Accordingly, the debt service ratio that was 37.8 percent at the end of 2003 became 32.2 percent at the end-2004 (Table II.3.11).

TABLE II.3.11
DEBT SERVICE RATIO
(US\$ million)

	2001	2002	2003	2004
Debt Service	24,623	28,852	27,811	30,487
Principal ⁽¹⁾	17,489	22,450	20,823	23,342
Interest	7,134	6,402	6,988	7,145
Total Foreign Exch. Revenues	56,149	59,829	73,504	94,700
Total Goods Exports ⁽²⁾	34,373	40,124	51,206	66,896
Services Income	16,030	14,783	19,025	24,026
Investment Income	2,753	2,486	2,246	2,651
Current Transfers	2,993	2,436	1,027	1,127
Debt Service Ratio (percent)	43.9	48.2	37.8	32.2

Source: CBRT, UT.

(1) Including Eurobonds and IMF credit repayments.

(2) Including shuttle trade.

The surplus of gross foreign exchange reserves over short-term debt stock, which is one of the main indicators of the liquidity position, increased in the second and third quarters of 2004 after decreasing in the first quarter. The increase in Central Bank and banks' foreign exchange reserves was the main determinant of the increase in this indicator, despite the excessive short-term external borrowing of banks (Table II.3.12).

TABLE II.3.12
THE SURPLUS OF GROSS RESERVES OVER SHORT-TERM DEBT
STOCK⁽¹⁾
(US\$ million)

	2001	2002	2003	2004-I	2004-II	2004-III
Gross FX Reserves – STD	12,777	20,363	20,397	17,589	17,862	18,903
CBRT	18,035	25,152	30,756	30,039	30,915	31,677
Banks	2,395	3,636	103	-1,344	-965	851
Other Sectors ⁽²⁾	-7,654	-8,425	-10,461	-11,105	-12,088	-13,625
Gross Reserves ⁽³⁾ – STD	13,809	21,642	21,955	19,170	19,335	20,448

Source: CBRT.

(1) (-) indicates a deficit.

(2) Figures indicate the short-term external debt of other sectors. Data on foreign currency reserves and the claims of these sectors are not available.

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

II.4. PRICES

II.4.1. Developments in Prices

The year-end inflation rate, realized as 9.32 percent in the CPI and 13.84 percent in the WPI.

The downward trend in inflation, which started in 2002, accelerated in 2004. Thus, the year-end inflation target has been met for the third time in a row. By December 2004, CPI inflation dropped to 9.32 percent, staying below the year-end inflation target of 12 percent. The annual rate of increase in the WPI was realized as 13.84 percent (Table II.4.1).

Although, there has been a rapid rise in the exchange rates in the April-May period due to foreign economic conditions, the effects of this rise, especially on CPI inflation, have remained rather limited. The structural change in the relationship between the exchange rate and inflation has been effective in this development. The upward and downward movements in exchange rates that have been observed with the adoption of the floating exchange rate regime, have weakened the mechanism, whereby changes in exchange rates were indexed to prices in the short-term. Besides, the monetary and fiscal discipline that has been maintained for three years, together with falling inflation and increasing competition, contributed to the fall in the exchange rate pass-through, through their effects on the pricing behavior of firms and expectations.

In the CPI, rises in administered prices excluding fuel-oil, have been consistent with the general inflation trend.

On the other hand, another important cost factor, imported commodity prices, had an unfavorable effect on inflation in 2004. While the rises in international metal commodity prices had more effect on public manufacturing industry prices under the WPI, those in crude oil prices led to significant increases in administered prices under both the CPI and the WPI. By the end of the year, the rates of increase in administered prices under the WPI and the CPI (19.5 and 11.7 percent, respectively) remained quite above the rates of increase in the general indices (Table II.4.1). In the CPI, rises in administered prices, excluding fuel-oil, have been consistent with the general inflation trend.

Meanwhile, although the economic revival continued in 2004, no significant demand-pressure was observed on prices, as in 2003. This outcome prevented the relatively high rates of increase in the WPI from reflecting fully on the CPI.

TABLE II.4.1
INFLATION⁽¹⁾
(Annual Percentage Change)

	2001	2002	2003	2004
WPI	88.6	30.8	13.9	13.8
WPI (Public)	99.7	32.4	11.4	19.5
WPI (Private)	84.6	30.3	14.9	11.7
WPI (Excluding Agricultural Prices)	96.3	29.6	12.1	13.8
CPI	68.5	29.7	18.4	9.3
CPI (Tradable)	78.1	30.1	14.5	5.3
CPI (Non-Tradable)	59.4	29.4	22.5	13.3
CPI (Goods)	80.9	29.7	15.5	6.1
CPI (Services)	48.2	29.8	24.0	15.3
CPI (Administered)	92.0	31.3	17.6	11.7
CPI (Non-Administered)	62.1	29.2	18.6	8.5
CPI (Durable Goods)	65.6	45.0	6.4	-3.2
CPI (Excluding Food Prices)	65.6	31.5	17.9	10.4
CPI (Excluding Housing Prices)	72.9	30.1	18.2	7.0
Export Price Index	-5.0	4.9	13.1	16.3
Import Price Index	-5.8	9.6	6.0	16.0

Source: SIS.

(1) By the end of the year.

TABLE II.4.2
QUARTERLY INFLATION
(Percent)

	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2003	2004	2003	2004	2003	2004	2003	2004
WPI	12.4	6.5	-0.8	1.5	-0.7	1.1	2.9	4.1
WPI (Private)	13.4	4.0	-3.9	4.8	1.7	5.3	0.5	4.0
WPI (Public)	12.0	7.4	0.4	0.3	-1.6	-0.5	3.9	4.2
WPI (Excluding Agricultural Prices)	9.4	2.4	-0.7	4.6	1.6	3.4	1.7	2.7
CPI	8.2	2.2	3.5	0.8	1.7	1.7	4.0	4.3

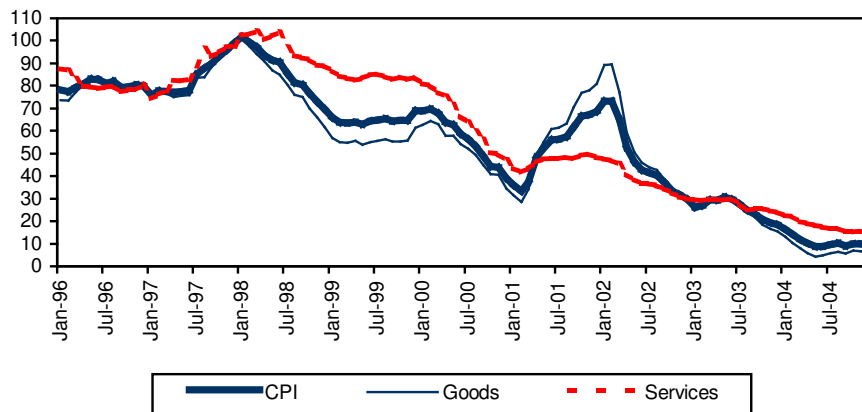
Source: CBRT, SIS.

II.4.2. Developments in Consumer Prices

The strengthening of the Turkish lira and the improvement of expectations, led consumer price inflation of the first quarter to be well below that of the same period in 2003; therefore leading to a rapid decline in the annual rate of inflation. Compared to the first half of the year, the downward trend in annual inflation rates slowed down in the third quarter of the year, due to the increase in crude oil prices, besides the lagged effects of the high rate of increase in the exchange rate in the

April-May period. In the last quarter, an increase in the annual rate of inflation was observed due to the delayed seasonal increases in food and clothing prices as well as the increase in fuel oil prices (Table II.4.2). However, with the disappearance of external and temporary factors leading to an upward trend in prices; the annual rate of inflation again significantly slowed down in December.

FIGURE II.4.1
GOODS - SERVICES (1996-2004)
(Annual Percentage Change)



Source: SIS.

One of the most striking developments regarding the CPI was that the difference between the goods and services sector prices became more pronounced.

One of the most striking developments in 2004 was that the difference between goods and services sector prices became more pronounced. Price increases in the goods and services sectors, which were 15.5 percent and 24 percent, respectively by the end of 2003, were 6.1 percent and 15.3 percent by the end of 2004 (Figure II.4.1).

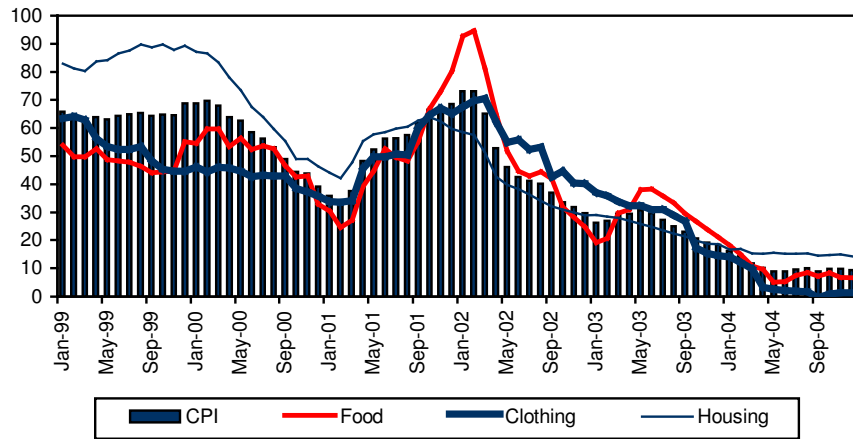
When the sub-groups are considered, it can be seen that prices in housing, transportation, education and restaurants-hotels increased at rates above the inflation target.

With the exception of the transportation sector, all of the above sub-groups are dominated by the services sector. On the other hand, entertainment-culture, furnishings, and clothing-footwear have been the CPI sub-groups that displayed the lowest rates of increase, respectively.

It was observed that the annual rate of increase in the prices of the food, beverages and tobacco sector was 6.5 percent and that the relative contribution of this sector to the CPI in 2004 was not as high as its contribution in 2003. Food prices, which rose by 5.6 percent, supported the downward trend in inflation. The cigarette and tobacco group prices, which rose by 8.9 percent, have been in line with CPI inflation, but the rise in the prices of beverages were realized at 6 points above CPI inflation.

The rate of increase in prices of the clothing and footwear sub-group remained 8 points below the rate of increase in the general CPI, with a rate of 1.3 percent. In this sub-group, the tendency of price increases, which was favourably affected by the course of the exchange rate, slowed down significantly compared to the previous years.

FIGURE II.4.2
THE CPI AND MAIN SUB-ITEMS (2000-2004)
(Annual Percentage Change)



Source: SIS.

The price increase in the housing group was realized at 5.1 points above the rise in the CPI. By the end of 2003, the increase in prices of the housing group was only 0.2 points above the realized rate of inflation. While rent was the main determinant of the housing group prices, with a 19 percent rate of annual increase, the annual inflation rates of the other sub-items in this group were below the realized rate of inflation in the CPI (Table II.4.3).

The price increase in the housing group was realized at 5.1 points above the rise in the CPI.

The two sub-groups of CPI, entertainment-culture and furnishing, in which durable consumption goods are dominant, displayed the lowest price increases in 2004.

Year-end rates of price increase in the entertainment-culture and furnishings sub-groups, in which durable consumption goods are dominant, were realized at -0.9 percent and 0.2 percent, respectively. As in 2003, these two sub-groups of the CPI displayed the lowest rates of price increase in 2004. In the furnishings group, while the prices of furniture and floor coverings increased by 17 percent, the prices of electrical and non-electrical furnishings decreased by 18.7 percent playing a stabilizing role. This decline was mainly due to the appreciation of the Turkish lira.

TABLE II.4.3
CONTRIBUTION OF SUB-ITEMS TO THE WPI AND THE CPI
(Percent)

	Weight (A)	2003		2004	
		Annual Change (B)	Contribution (A*B)	Annual Change (B)	Contribution (A*B)
CPI	100	18.4	-	9.3	-
Food	31.1	21.2	6.6	6.5	2.0
Clothing	9.7	14.5	1.4	1.3	0.1
Housing	25.8	18.6	4.8	14.4	3.7
Furnishings	9.4	12.1	1.1	0.2	0.0
Health	2.8	21.8	0.6	8.5	0.2
Transportatio	9.3	14.2	1.3	14.9	1.4
Cultural Act.	3.0	10.0	0.3	-0.9	0.0
Education	1.6	22.0	0.4	13.0	0.2
Restaurants	3.1	32.2	1.0	14.6	0.5
Other	4.4	17.5	0.8	7.2	0.3
WPI	100	13.9	-	13.8	-
Agriculture	22.2	20.0	4.4	14.1	3.1
Mining	2.5	15.9	0.4	9.2	0.2
Manufacturin	-	12.6	-	14.8	-
Public	16.5	13.2	2.2	24.3	4.0
Private	54.6	12.3	6.7	10.6	5.8
Energy	4.2	3.2	0.1	-0.6	0.0

Source: SIS.

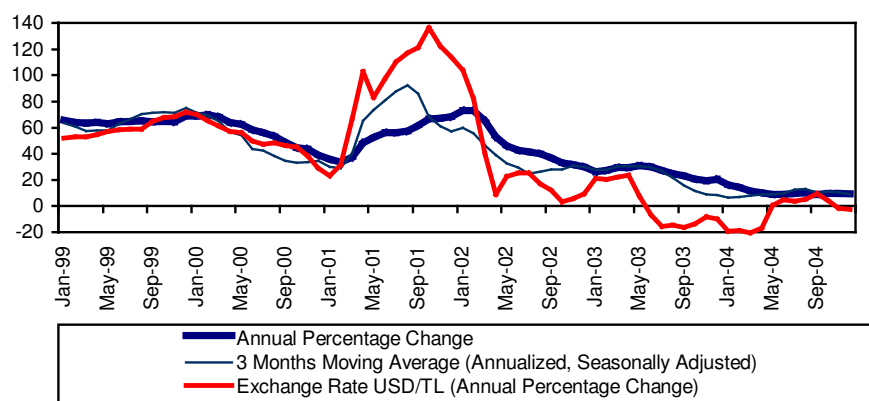
The maintenance and repairs component of private transportation vehicles, which includes fuel prices, played a determining role on the transportation group, with an annual inflation of 24.5 percent. This was affected by world crude oil prices, which started to rise in the second half of the year. Although, throughout the year, developments in exchange rates have restricted price increases in private transportation vehicles to a significant extent, annual inflation in this group was realized at 9.3 percent due to the tax arrangements which were made in the last quarter of the year. Thus, by the end of the year, inflation in the transportation sector was realized at 14.9 percent.

In the health sector, while the prices of medicine and the medical products did not rise, hospital services and non-hospital medical services displayed a price increase of 16.9 percent and 10.1 percent, respectively. Although the Value Added Tax arrangements, which were related to exchange rate developments and the prices of medicine, prevented prices of goods in this sector from rising; the services component of the sector led to annual inflation of 8.5 percent in the health sector.

Inflation in the education sector, which was 2 points above the year-end target with an increase of 22 percent in 2003, once again overshoot the target in 2004, with an increase of 13 percent.

The restaurants, cafes and hotels sector was the sub-group of the CPI, which displayed the highest price increase with 14.6 percent. Price rigidities are continuously being observed in this group, which consist solely of the services sector.

FIGURE II.4.3
CONSUMER PRICE INDEX (2000-2004)



Sources: SIS, CBRT.

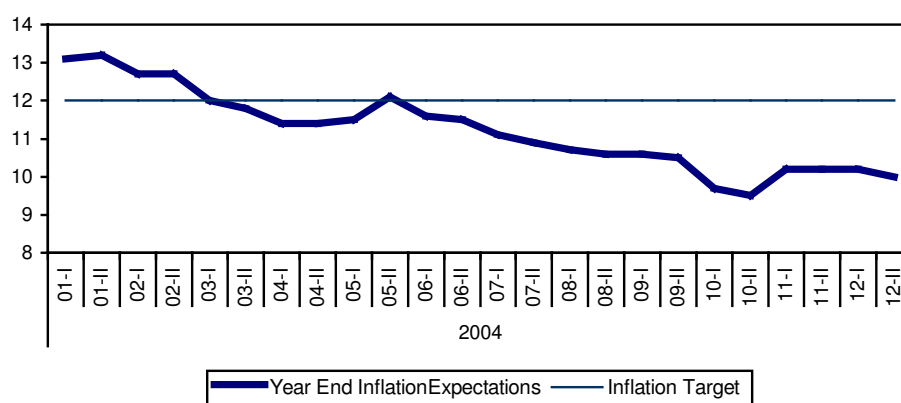
Although the success of the economic program in decreasing the rate of inflation was remarkable, the general rigidity in the services sector points to the fact that relative prices have changed in favour of the services.

According to the results of the Central Bank Expectation Survey, although year-end inflation expectations deviated from the target in the first three months of 2004, they have followed a declining course below the target rate of 12 percent in the following months. Considering that the process of expectations coming in line

Although the success of the economic program in decreasing the rate of inflation was significant, the rigidity in the services sector points out to the fact that relative prices have been changing in favour of the services.

with the year end target spread out over a period of 9 months in 2003, the expectations were observed to display a more rapid convergence to the target in 2004, falling even below the target rate of inflation starting from May (Figure II.4.4).

FIGURE II.4.4
CBRT EXPECTATION SURVEY
(Year End Consumer Inflation Expectations)



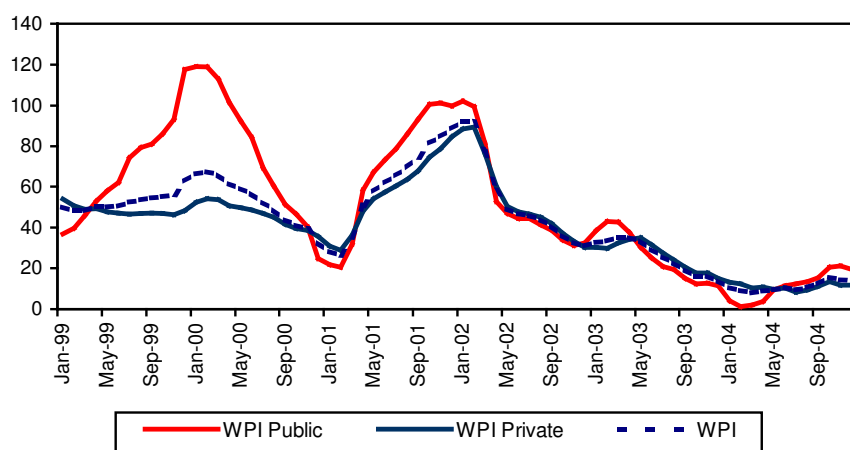
Source: CBRT.

II.4.3. Developments in Wholesale Prices

2004 end-year WPI inflation rate is 13.8 percent.

In 2004, the average monthly WPI inflation rate was 1.1 percent, maintaining its value in 2003. In this way, the annual rate of increase in wholesale prices became 13.8 percent, whereas it was 13.9 percent in 2003 (Figure II.4.5). Prices in the public manufacturing industry played a significant role in the acceleration of WPI inflation in the first quarter of 2004. In addition, sharp increases in agricultural prices over the January-April episode had an adverse impact on the WPI. The second hike of agricultural prices, by the end of summer 2004, gave way to another sizable increase in WPI inflation in September and October.

FIGURE II.4.5
THE WPI (1999-2004)
(Annual Percentage Change)



Source: SIS.

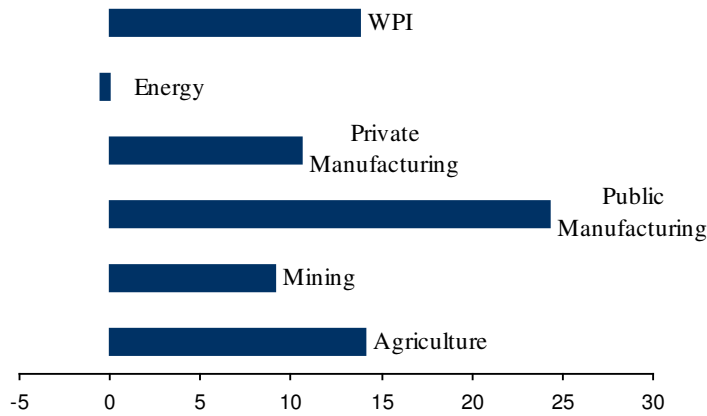
Agricultural prices, which are susceptible to seasonal developments and supply conditions, increased noticeably more than the total WPI during the January-April period of 2004. However, starting in May 2004, it was one of the sub-groups that supported the declining trend of WPI inflation. Agricultural prices, which showed an increase of 27.6 percent, above the total WPI (9.3 percent), over the January-April period, declined by 10.6 percent during the May-December period. Nevertheless, year-end agricultural sector inflation (14.1 percent) exceeded the rate of change of the WPI by only 0.3 percentage points.

Agriculture, starting in May 2004, was one of the sub-groups that supported the declining trend of WPI inflation.

Prices of the private manufacturing industry, which is one of the most sensitive sub-groups to changes in exchange rates and expectations, were affected favorably, during the first quarter of 2004, due to continued appreciation of the Turkish lira after April 2003. However, the adverse effects of the depreciation of the Turkish lira during the April-May period on private manufacturing industry prices were clearly observed until the end of June. In August and October, private manufacturing industry prices were mainly determined by exchange rate developments. On the other hand, the appreciation of the Turkish lira and the decline in international crude oil prices helped private manufacturing prices fall in November. To summarize, the inflation rate in the private manufacturing sector became 10.6 percent by the end of 2004, which is lower than the previous year's figure of 12.3 percent.

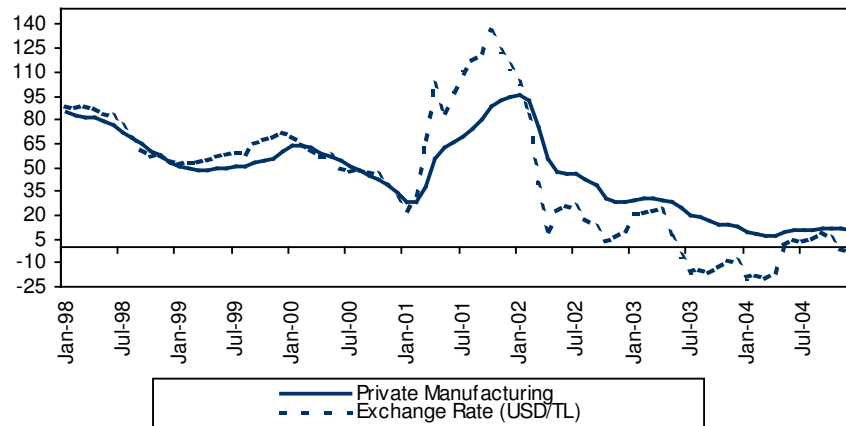
During the first quarter of 2004, the prices of the private manufacturing industry, were affected favorably due to the appreciation of the Turkish lira.

FIGURE II.4.6
WPI and SUB-ITEMS
(Annual Percentage Change)



Source: SIS.

FIGURE II.4.7
PRIVATE MANUFACTURING PRICES AND TL / US\$ EXCHANGE RATE
(Annual Percentage Change)



Source: SIS, CBRT.

Sub-sector level analysis reveals significant differences in annual inflation figures among sectors. The inflation rates of food-beverages and textiles, which have the highest weights in the private manufacturing industry, are 9.1 and 5.0 percent, respectively. On the other hand, petroleum products and the metal

industry, which are sensitive to increases in international prices, displayed respective inflation rates of 24.9 and 27.6 percent.

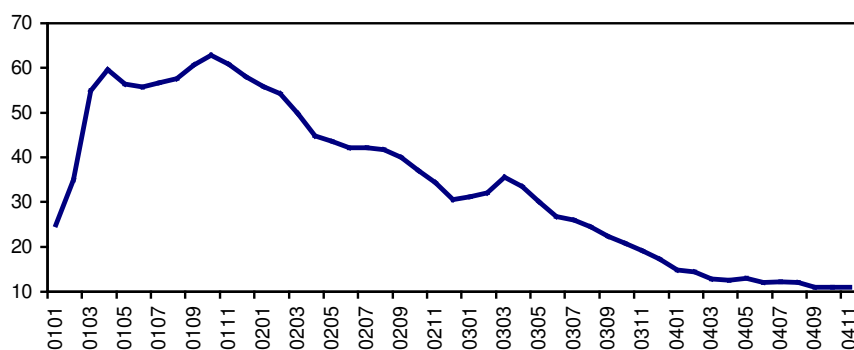
TABLE II.4.4
WPI AND SUB-ITEMS, 1994=100
(Annual Percentage Change)

SECTORS	PUBLIC			PRIVATE			TOTAL		
	2002	2003	2004	2002	2003	2004	2002	2003	2004
WPI	32.4	11.4	19.5	30.3	14.9	11.7	30.8	13.9	13.8
AGRICULTURE	-	-	-	35.2	20.0	14.1	35.2	20.0	14.1
Agriculture, Hunting	-	-	-	35.3	17.6	14.8	35.3	17.6	14.8
Forestry	-	-	-	46.5	70.5	7.5	46.5	70.5	7.5
Fishing	-	-	-	18.2	52.0	-0.1	18.2	52.0	-0.1
MINING	31.7	11.4	10.0	58.5	27.2	7.3	38.4	15.9	9.2
Coal Mines	26.2	17.7	8.8	68.9	29.5	-2.1	38.3	21.8	4.8
Crude Oil, Natural Gas	47.5	12.2	10.3	36.5	15.0	32.1	46.8	12.4	11.7
Metal Ore	12.1	-11.5	16.9	49.7	21.4	36.7	20.9	-2.0	24.1
Quarry	14.2	-3.5	3.6	47.2	28.0	10.5	36.2	19.2	9.0
MANUFACTURING	34.3	13.2	24.3	27.7	12.3	10.6	29.7	12.6	14.8
Food	50.2	15.7	9.6	23.3	17.4	9.1	27.7	17.1	9.2
Textiles	42.5	12.3	2.8	22.0	16.4	5.0	22.7	16.3	4.9
Clothing	45.6	1.2	-5.6	63.1	19.7	3.6	62.8	19.4	3.5
Leather	20.6	9.9	7.2	52.9	7.0	8.2	47.6	7.4	8.0
Paper	29.7	1.9	6.2	21.1	1.6	3.6	23.5	1.7	4.3
Oil Products	37.3	7.4	31.4	33.4	6.2	24.9	36.3	7.1	29.7
Chemical Products	23.3	5.5	38.4	14.6	5.5	4.4	16.1	5.5	10.6
Plastics and Rubber	-	-	-	17.1	7.1	10.0	17.1	7.1	10.0
Other Crude Minerals	10.7	17.3	13.6	21.6	11.5	12.1	20.8	11.9	12.2
Metal Industry	16.4	10.8	40.7	60.4	15.3	27.6	39.6	13.5	32.6
Metallic Goods	8.0	6.8	-6.2	26.9	11.9	8.7	26.9	11.9	8.7
Machinery and Equip.	31.7	23.2	15.1	36.1	17.8	4.1	36.1	17.9	4.2
Electrical Tools	24.3	4.4	1.0	21.7	4.5	23.2	21.7	4.5	22.7
Motor Vehicles	-	-	-	30.3	16.9	3.1	30.3	16.9	3.1
ENERGY	24.3	3.2	-0.6	-	-	-	24.3	3.2	-0.6
Electricity	18.5	-1.5	-2.2	-	-	-	18.5	-1.5	-2.2
Water	57.8	23.5	5.1	-	-	-	57.8	23.5	5.1

Source: SIS.

Energy prices declined annually by 0.6 percent, as of December 2004, and became the sub-group, which pulled down the WPI. At the sub-item level, electricity prices decreased by 2.2 percent annually as of December 2004; whereas water prices increased by 5.1 percent. This outcome relieved the possible pressure on production costs.

FIGURE II.4.8
THE CBRT BUSINESS TENDENCY SURVEY
(WPI Inflation Expectations for the Next 12 Months)



Source: CBRT.

Based on the CBRT Economic Tendency Survey, WPI expectations for the next 12 months have persistently declined during 2004. The inflation expectation of 14.9 percent in January fell to 10.7 percent in December (Figure II.4.8).

All in all, despite the fact that the economic program was implemented in a prudent manner, manufacturing industry prices adversely affected the inflation outlook over a large portion of the year, largely due to price fluctuations in international commodity markets. Furthermore, the variability of agricultural prices due to climatic conditions made the WPI follow a volatile course. On the other hand, the decline in energy prices, which is a key element of production costs, became one of the main factors limiting annual WPI inflation.

III

MONETARY POLICY AND MARKETS

III.1. MONETARY POLICY

The decisive implementation of the “Transition Program to A Strong Economy” which was introduced in 2001 enabled a decline in economic uncertainty and increased market confidence in 2004. During this period, the right decision of conducting monetary policies by an independent and credible CBRT has been confirmed by the positive development in inflation performance.

The CBRT continued to implement implicit inflation targeting under a free floating exchange rate regime, as mentioned in the announcement of the “General Framework of Monetary and Exchange Rate Policy in 2004” dated as January 2, 2004. In this framework, the CBRT continued to use short-term interest rates as the main policy instrument to fight inflation on the one hand, and monitored monetary performance criteria and indicative targets introduced in the context of the economic program conducted with the IMF, on the other hand. There has been no considerable change, as projected, in the strategy of liquidity management conducted in line with the price stability goal. The excess Turkish lira liquidity in the market was withdrawn by Turkish lira deposit buying auctions in the Interbank Money Market (IMM) and reverse repo transactions in the ISE Repo-Reverse Repo market within the framework of Open Market Operations (OMO). Turkish lira deposit buying auctions were ended as of October 2004 due to the relative decline in the level of Turkish lira liquidity. The amount of excess liquidity, withdrawn daily, fluctuated between 0.6 quadrillion and 11.6 quadrillion Turkish lira throughout the year.

In the 2004 monetary program, the targets for Base Money, Net International Reserves (NIR) and Net Domestic Assets (NDA) items, specified as the indicative targets, were set for the end of December 2004 by the Letter of Intent dated October 31, 2003 and the corresponding targets were revised in the Letter of Intent dated April 2, 2004. The targets for Base Money and Net Domestic Assets were

CBRT continued to implement implicit inflation targeting under a free-floating exchange rate regime. The right decision of conducting monetary policies by an independent and credible Central Bank of the Republic of Turkey (CBRT) has been confirmed by the positive development in inflation performance.

In the framework of the program signed with IMF, all the corresponding targets and criteria were achieved by the end of the year.

revised and the targets for Base Money and Net International Reserves were set as performance criteria in the Letter of Intent dated July 15, 2004. At the end of 2004, the performance criteria set for Base Money and NIR and the indicative targets set for NDA were achieved (Table III.1.1).

TABLE III.1.1
PERFORMANCE CRITERIA, INDICATIVE TARGETS AND
REALIZATIONS

	Money Base Ceiling (TL trillion)		Net Domestic Assets Ceiling (TL trillion)		Net International Reserves (Million US dollar)	
	Target ⁽¹⁾	Outcome	Target ⁽¹⁾	Outcome	Target ⁽²⁾	Outcome
	March 31, 2004	16,100 ^(P)	16,948	29,600 ^(G)	27,321	-2,000 ^(P)
April 30, 2004	17,500 ^(P)	17,508	31,600 ^(G)	26,076	-2,000 ^(P)	1,791
August 30, 2004	20,500 ^(P)	19,301	34,600 ^(G)	28,015	-2,000 ^(P)	1,629
December 31, 2004	20,900 ^(P)	19,190	35,000 ^(G)	30,121	-2,000 ^(P)	229

Source: CBRT.

(1) These ceilings are based on the average of the stocks prevailing during the five working days including and immediately preceding each of these dates.

(2) Floor.

(P): Performance criteria, (G): Indicative target.

CBRT set its short-term interest rates by taking into account the factors that influence future inflation in line with price stability goal.

The CBRT set its short-term interest rates as its main policy instrument by taking into account the factors that influence future inflation in line with the price stability goal. The indicators taken into account in interest rate decision-making are total supply and demand balance, indicators with respect to fiscal policy, developments in wages-employment- unit cost and productivity, pricing behavior in both the public and private sector, inflationary expectations, foreign exchange rates and factors affecting the rates, possible external shocks and all the inflation forecasts calculated in the CBRT. The following positive developments allowed the Central Bank to reduce the interest rates four times during the year: the lack of considerable demand pressure, the fall in inflation expectations, positive developments in the relations with the European Union and IMF, the assumptions that decisive maintenance of the economic program will continue, and the government's commitment with respect to fiscal discipline and structural reforms. Eventually, the overnight borrowing interest rate was reduced to 18 percent in December 20, 2004, which was 26 percent at the beginning of 2004 (Table III.1.2).

TABLE III.1.2
CBRT's INTEREST RATE DECISIONS

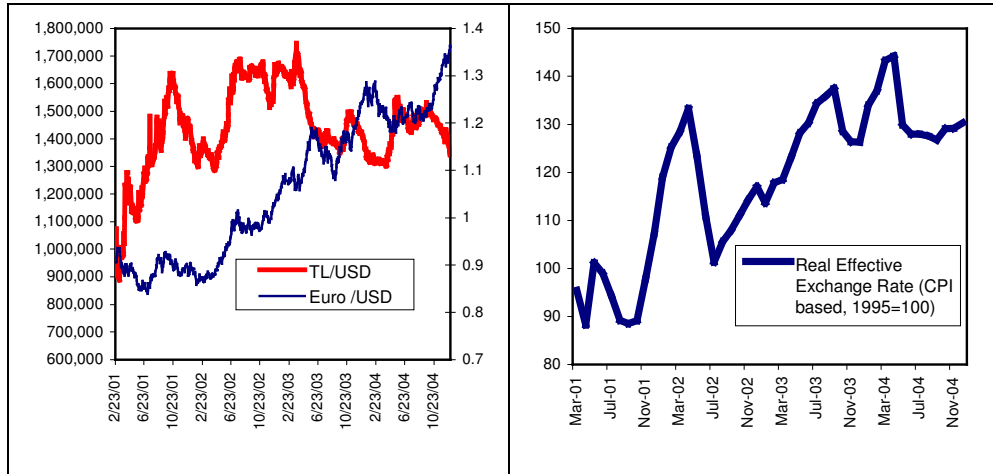
Maturity	Interest Corridor	October 15, 2003	February 5, 2004	March 17, 2004	September 8, 2004	December 20, 2004
Overnight	Borrowing	26	24	22	20	18
	Lending	31	29	27	24	22

Source: CBRT.

Within the framework of exchange rate policy, the CBRT declared that exchange rates would be determined by market dynamics and it could intervene in the exchange rate markets in cases where exchange rates display excessive fluctuation in both directions. Moreover, the CBRT announced that it would hold foreign exchange purchase auctions in order to increase foreign exchange reserves without distorting the long-run tendency and equilibrium value of the exchange rate. This policy framework has also been maintained in 2004.

Under the free floating exchange rate regime, despite the weakened pass through effect of foreign exchange rates to prices, developments in foreign exchange rates still have an important role in inflation. The Turkish Lira appreciated against the US dollar in the first quarter of 2004 due to the improvement in inflationary expectations and the finalization of the IMF 7. Review. The CBRT restarted daily foreign exchange purchase auctions in January 23, 2004 by taking into account the developments in foreign exchange supply. The volatility of the exchange rate increased due to the positive expectations about Cyprus talks and thus the CBRT carried out a purchase intervention in February 16, 2004. Afterwards, TL depreciated against the US dollar because of the expectations of a possible rise in interest rates in the US and uncertainty about Turkey's accession to the European Union and Cyprus talks. The amount set in purchase auctions were restated and decreased as of April 15 2004 due to the decrease in foreign exchange supply. The CBRT stopped holding purchase auctions as of April 27, 2004. The CBRT carried out a sale intervention as of May 11, 2004 as the excess volatility in exchange rates increased due to the aforementioned domestic and external developments and the decrease in foreign exchange supply. TL appreciated in the following days because of the tourism season, foreign exchange inflow and an improvement in expectations regarding economic performance. During August and September, debates on the finance of current account deficits and adverse developments in domestic politics with respect to Turkey's accession to the European Union increased the volatility of the exchange rate. The appreciation of the TL continued till the end of the year due to the improvement for euro in the euro/US dollar parity, strong economic indicators, increasing investors' interest for emerging markets, improvements about the 3-year IMF stand-by agreement that was expected to be signed and the positive expectations of Turkey's accession to the European Union. The total amount of foreign exchange purchased by the Bank during 2004 reached US\$ 5.4 billion (Figure III.1.1).

**FIGURE III.1.1
FOREIGN EXCHANGE DEVELOPMENTS**



Source: CBRT.

III.1.1. The Central Bank Balance Sheet

In the framework of the monetary policy implemented, the CBRT uses short-term interest rates as the main policy instrument and monitors the monetary performance criteria and indicative targets set as Base Money, NIR and NDA in 2004. All targets determined as of the end of December were reached (Table III.1.1).

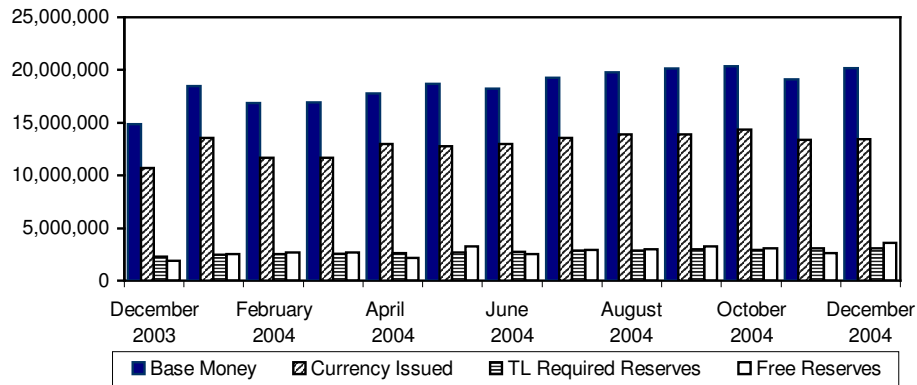
Reverse-currency substitution, decreasing inflation and improved market confidence caused an increase in money demand in addition to the financial deepening realized in 2004.

Base Money has been used as the additional anchor to shape the expectations of economic agents and the tendency of Base Money is carefully monitored by the CBRT. Base Money increased by 35.8 percent annually in 2004 compared to the end of the previous year. This increase is considerably higher than total inflation and the real growth rate realized in 2004. This situation shows that, decreasing inflation and improved market confidence caused an increase in money demand in addition to the financial deepening realized in 2004. The reverse-currency substitution seen in the first half of 2004 has contributed to the increase in money demand (Figure III.1.2).

The level of Base Money is mainly determined by developments in the volume of the currency issued. The currency issued increased by 26.1 percent annually in 2004 compared to the end of the previous year. The volume of currency issued, that indicates the amount of bank notes issued by the CBRT, is determined by the cash-demand of economic agents. Theoretically, the determinants of the cash demand

are the real economic activities and the rate of returns of alternative investment instruments. Improved market confidence and optimistic expectations, due to the monetary program implemented by a credible monetary authority, determine the economic agents' demand for domestic money. In this framework, in addition to the recovery in real economic activities, the steady decline in inflation and interest rates and improved expectations caused a considerable increase in money demand in the first half of 2004. In the second half of 2004, because of the end of reverse-dollarization and the relative slowdown in the growth rate, the increase in money demand was restricted. Base money was TL 19.19 quadrillion on average of the last five business days in December 2004 and was TL 1.7 quadrillion below the target value. This situation indicates that the main determinant of money demand will be real economic activity in the coming periods (Table III.1.1).

FIGURE III.1.2
BASE MONEY AND ITS SUB-ITEMS
(TL trillion)



Source: CBRT.

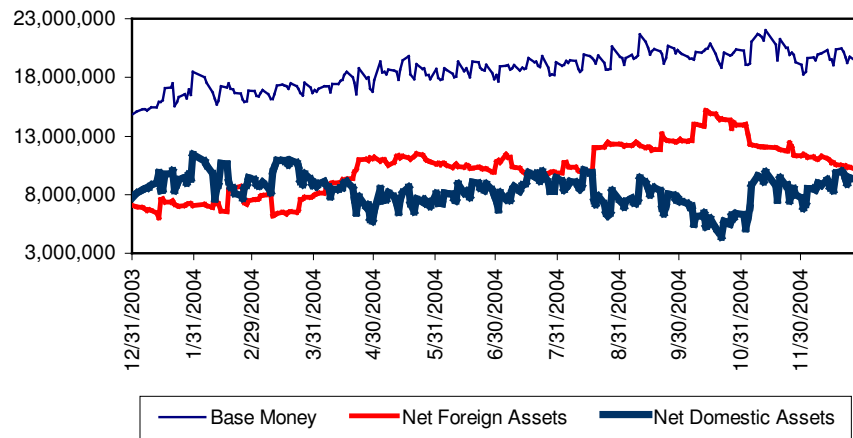
Free Deposits and Required Reserves constitute the other sub-items of Base Money. The Required Reserves increased annually by 36.1 percent while Free Deposits increased annually by 89.6 percent. Free Deposits, which the banks could maintain in an average of fourteen days, enable flexible liquidity management of the banks and contribute to the fluctuating pattern of the corresponding item.

The NDA is monitored as the indicative target by the CBRT in 2004. The main determinants of the NDA are the sub-items; the Treasury debt account, Public Sector Turkish lira and Foreign Exchange OMO and the Revaluations account. By the end of the year, the NDA increased annually by 34 percent and realized as 10.4 quadrillion Turkish lira.

The main determinants of the NDA are the sub-items; the Treasury debt account, Public Sector Turkish lira and Foreign Exchange Deposits, Open Market Operations and Revaluations account.

The Treasury debt account mainly includes Government debt instruments, indexed to the CPI and foreign exchange rate, which were taken into the CBRT's portfolio prior to November 5, 2001. The CBRT had a total of TL 1.8 quadrillion-coupon payments from the Treasury in 2004 due to government debt instruments indexed to the CPI and having coupon payments once in a year. The great part of these payments was realized in May. So, the Treasury debt account decreased. In addition to this, the corresponding item changed depending on the developments of inflation and the foreign exchange rate throughout the year and by the end of the year, decreased annually by 17 percent compared to the previous year. The decrease in the Treasury debt account was the main reason that restricted the increase in the NDA.

FIGURE III.1.3
BASE MONEY, NET DOMESTIC ASSETS, NET FOREIGN ASSETS
(TL trillion)



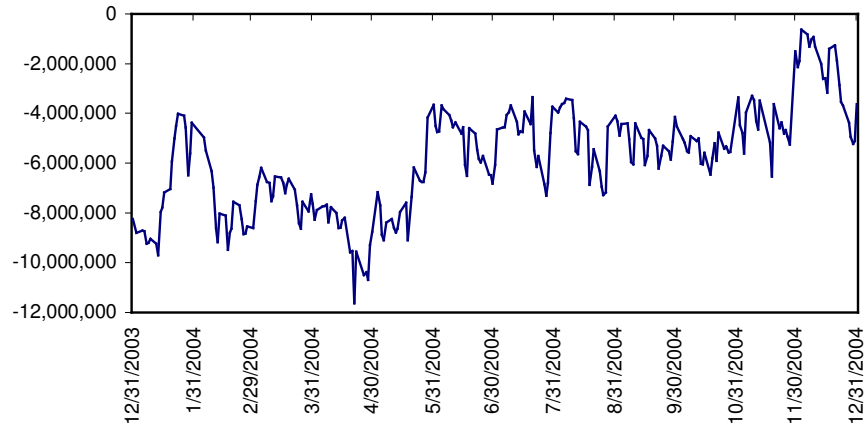
Source: CBRT.

The movements of Public Sector Turkish lira Deposits and the Public Sector Foreign Exchange Deposits were mainly determined by domestic and external borrowing, tax revenue collection, payment of debt and salaries. While Public Sector Turkish lira Deposits reached the highest level in May and fluctuated between 0.3 quadrillion and 5.5 quadrillion Turkish lira, Public Sector Foreign Exchange Deposits fluctuated between 4 quadrillion and 10.5 quadrillion Turkish lira in 2004.

The other important sub-item of the NDA is OMO. After the February 2001 crisis; the foreign exchange supply increased due to the Central Bank's purchase of

government securities of 14 quadrillion Turkish lira from banks under the SDIF, credits taken from IMF in 2002-2003, reverse dollarization and capital inflow. There has been excess liquidity because of the foreign exchange purchases in 2003-2004. The liquidity management of the CBRT is designed by the short-term interest rates set in accordance with the price stability goal and withdraw excess liquidity through OMO. The main share of the OMO constitutes Turkish lira deposit transactions in the Interbank Money Market and repo transactions in the ISE Repo-Reverse Repo Market. Both the interest payments due to excess liquidity withdrawn through OMO and the interest rates on required reserves were the determinants of increased excess liquidity. The CBRT stopped holding deposit buying auctions as of October in parallel to the decrease in excess Turkish lira liquidity because of the increase in money demand, The Treasury's net debt payments in foreign exchange and the coupon payments of the government debt instruments in the CBRT portfolio. The excess liquidity in the market decreased by 56 percent annually compared to the previous year and realized as TL 3.6 quadrillion by the end of 2004 (Figure III.1.4).

FIGURE III.1.4
OPEN MARKET OPERATIONS
(TL trillion)



Source: CBRT.

TABLE III.1.3
CENTRAL BANK BALANCE SHEET ITEMS
(TL trillion)

	31-Dec-03	31-Mar-04	30-Jun-04	30-Sep-04	31-Dec-04	31-Dec-04
	current	constant ⁽¹⁾	constant ⁽¹⁾	constant ⁽¹⁾	constant ⁽¹⁾	current
I-BASE MONEY (A+B+C)	14,867	16,945	18,227	20,111	20,189	20,189
A-Currency issued	10,676	11,644	13,007	13,878	13,465	13,465
B-Required reserves	2,289	2,588	2,731	2,956	3,115	3,115
C-Free reserves	1,903	2,714	2,489	3,276	3,608	3,608
II-NET FOREIGN ASSETS (A+B+C)	7,066	10,203	11,533	12,958	10,528	9,772
A-Net international reserves (1-2+3)	23,040	21,412	22,676	23,882	21,853	27,026
1-Gross foreign reserves	48,562	41,692	42,791	43,506	41,215	50,134
a-Gold	2,234	1,522	1,527	1,527	1,527	2,255
b-Foreign banknotes	983	421	413	268	366	427
c-Correspondent accounts	45,110	39,544	40,646	41,506	39,118	47,216
-Current accounts	1,652	2,160	3,186	2,110	2,815	3,305
-Portfolio accounts (Excluding TDF) ⁽²⁾	43,458	37,383	37,459	39,396	36,302	43,911
-Other accounts	0	0	0	0	0	0
d-Reserve tranche position	234	205	205	205	205	235
2-Gross international reserve liabilities	-25,521	-20,281	-20,114	-19,624	-19,362	-23,108
a-Overdrafts	-17	-16	-2	-3	-2	-2
b-Letters of credits	-838	-625	-617	-668	-1,022	-1,094
c-Short term credits	0	0	0	0	0	0
d-Dresdner account (1 year)	-4,037	-3,168	-3,204	-3,283	-3,265	-4,464
e-FX deposits of banking sector ⁽³⁾	-10,196	-8,739	-9,903	-10,627	-11,375	-13,276
f-IMF	-10,433	-7,733	-6,388	-5,043	-3,698	-4,273
-Use of credit	-10,200	-7,529	-6,184	-4,839	-3,495	-4,039
-SDR allocation	-233	-204	-204	-204	-204	-234
3-Net forward position	0	0	0	0	0	0
a-Swap	0	0	0	0	0	0
b-Forward options	0	0	0	0	0	0
B-Medium term FX credits (net)	1,929	1,971	1,976	1,959	1,964	1,829
C-Other	-17,904	-13,180	-13,119	-12,883	-13,290	-19,083
1-Dresdner account	-20,092	-14,975	-14,881	-14,827	-14,710	-20,503
a-2 year	-11,052	-8,022	-7,816	-7,460	-7,297	-10,216
b-3 year	-9,040	-6,953	-7,064	-7,367	-7,413	-10,287
2-TDF	595	531	476	476	476	444
3- Other (FX lending excluded)	1,593	1,264	1,285	1,468	944	976
III-NET DOMESTIC ASSETS	7,801	6,742	6,695	7,153	9,660	10,416
A-Treasury debt	28,024	26,131	24,396	22,995	22,756	23,239
a. CBRT's portfolio	28,079	26,175	24,435	23,051	22,807	23,292
aa. DİBS prior to Nov.5, 2001	28,079	26,175	24,435	23,051	22,807	23,292
ab. DİBS purchased from secondary market	0	0	0	0	0	0
b. Other	-55	-43	-39	-56	-51	-53
B-Public sector deposits(YTL)	-864	-1,381	-801	-1,920	-793	-793
C-Public sector deposits(FX)	-6,517	-5,797	-6,183	-6,521	-5,606	-6,099
D-Funds	-48	-145	-41	-113	-24	-24
E-Other public sector deposits	-95	-20	-23	-16	-115	-115
F-Credits to banking sector	7	314	314	314	310	310
G-Open market operations (net)	-8,260	-7,634	-6,833	-4,135	-3,622	-3,622
H-Other	-5,168	-4,581	-4,162	-3,749	-4,511	-4,511
I-Revaluation accounts	723	-145	27	298	1,265	2,032
J-IMF Emergency assistance (Treasury)	0	0	0	0	0	0
K-FX Lending	0	0	0	0	0	0
NDA (1)		6,742	6,695	7,153	9,660	
Treasury liabilities to the IMF (2)		20,334	20,867	21,605	21,524	
Treasury FX denominated borrowing with an original maturity of less than 1 year (3)		0	0	0	0	
NDA (program Definition) (1+2+3)		27,077	27,562	28,758	31,184	

Source: CBRT.

(1) Calculated using foreign exchange rates and cross rates in 31.12.2001 specified in the Letter of Intent dated July 15, 2004.

(2) Portfolio Account=Dresdner + Central Bank's position; TDF=Turkish Defense Fund

(3) FX Deposits of the Banking sector=Required Reserves+ Free reserves (=two-days notice + Foreign Exchange Deposits).

(4) FX Lending by the Central Bank was excluded from the NFA and included in the NDA.

Credits to the banking sector by the CBRT increased considerably in 2004 compared to the previous year. The main determinant of this increase was the credit provided to the SDIF by the CBRT in amount of TL 250 trillion in February.

The “Other” account, which includes the Central Bank’s profits and losses, is another sub-item of the NDA. The continued withdrawal of the excess liquidity through OMO in 2004 increased the interest cost of the CBRT and the return of government securities indexed to the CPI in the portfolio decreased as result of a steady decreasing trend in inflation. All these factors affected the profitability of the Central Bank in an adverse manner. The excess liquidity in the market decreased compared to 2003 due to the increased money demand and the Treasury’s debt payments in foreign exchange. As a result, the interest cost due to OMO transactions was lower in 2004 and so the loss of CBRT.

The revaluation account was another sub-item, determining the increase in the NDA, other than OMO. The revaluation account shows exchange rate differences arising from the revaluation of the Central Bank’s foreign assets and liabilities parallel to the changes in the value of the Turkish lira against foreign currency. The foreign assets of the CBRT are denominated in US dollar while foreign liabilities are denominated in euro. The revaluation account increased to TL 2 quadrillion in 2004 from TL 0.7 quadrillion in 2003. This change was the result of the loss in value of the US dollar against the euro.

Net Foreign Assets (NFA), calculated with constant exchange rates, decreased in 2004 because of the Treasury’s domestic/foreign debt payments in foreign exchange and principal and interest payment to the IMF. This item, on the other hand increased due to the CBRT’s foreign exchange buying auctions and the Treasury’s borrowing from international markets and credits taken from the IMF. In this framework, NFA increased by 1.2 billion and reached 7.3 billion US dollar. In the framework of the program implemented, the NIR, which is indicated as the performance criteria, increased to US\$ 0.2 billion in 2004 from US\$ -0.5 billion in 2003. The main determinant of this increase was the foreign exchange buying auctions and interventions in the amount of US\$ 5.4 billion.

III.1.2. Monetary Aggregates

In 2004, money supplies, defined as narrow and broad (M1 and M2), increased by 36.7 and 35.1 percent, respectively, on a nominal basis and by 25 and 23.6 percent on a real basis. The increase in sight deposits at a rate of 49 percent was the main reason of the observed increase in the M1 money supply. Time deposits,

which is one of the sub-items of M2 money supply, increased by 33 percent on a nominal basis and by 21.6 percent on a real basis, by the end of 2004 (Table III.1.4).

TABLE III.1.4
MONETARY AGGREGATES
(TL trillion)

	Dec. 2001	Dec. 2002	Dec. 2003	March 2004	June 2004	Sept. 2004	Dec. 2004
M1	11,073	14,259	21,564	22,555	25,911	28,127	29,469
Currency in Circulation	4,801	7,209	10,129	11,401	12,702	13,724	12,446
Sight Deposits	6,272	7,050	11,434	11,154	13,209	14,404	17,023
M2	46,986	61,195	80,923	91,936	97,811	103,270	109,344
Time Deposits	35,913	46,936	59,359	69,381	71,900	75,143	79,875
M2X	104,133	133,450	149,855	154,505	166,321	177,747	185,419
FX Deposits (TL)	57,147	72,255	68,932	62,569	68,510	74,477	76,074
M2XR	106,931	136,213	152,934	157,196	168,266	179,805	187,069
REPO	2,798	2,763	2,818	2,691	1,945	2,058	1,651
TL/US\$	1,433,199	1,633,732	1,412,533	1,319,127	1,482,897	1,493,864	1,342,100
TL/Euro	1,265,229	1,691,403	1,759,028	1,599,769	1,806,868	1,845,162	1,826,800
CPI (1994=100)	5,756	7,469	8,840	9,033	9,109	9,268	9,663

Source: CBRT.

The share of the foreign exchange deposits in total deposits had a declining trend.

The Turkish lira value of foreign exchange deposits increased by 10.4 percent and reached TL 76 quadrillion. The increase was due to the behavior of the Turkish lira against the euro when considering the composition of foreign exchange deposits. The share of foreign exchange deposits in total deposits had a declining trend and realized as 41.6 percent in 2004 while it was 46.8 percent in 2003. The M2X money supply, which consists of the sum of M2 and foreign exchange deposits, increased by 23.7 percent on a nominal basis and 13.2 percent on a real basis compared to the end of 2003 (Table III.1.4, Figure III.1.5).

The ratio of total volume of the repo transactions that banks carry out with their clients to the Turkish lira value of total deposits, declined compared to the previous year.

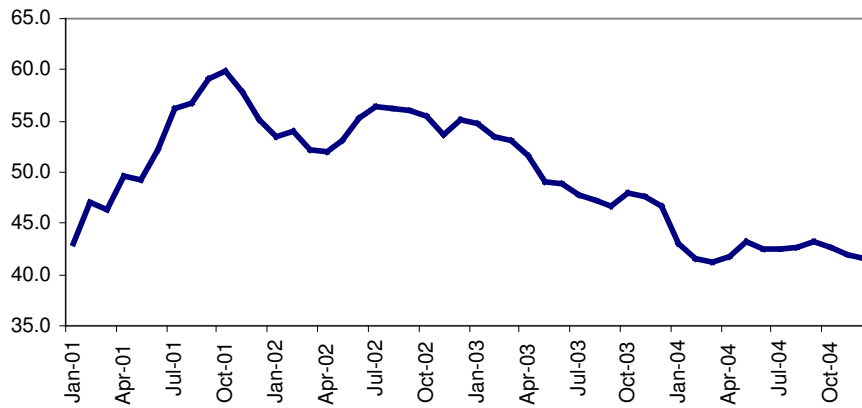
The M2XR money supply, which is the sum of M2X money supply and the repo transactions that banks carry out with their clients, increased by 22.5 percent on a nominal basis and by 12.1 percent on a real basis, was TL 187 quadrillion in 2004. The repo transactions decreased to TL 1.7 quadrillion by the end of 2004, while it was around TL 2.8 quadrillion by the end of 2003. The ratio of total repo transactions to the Turkish lira value of total deposits, declined by 2 points compared to the end of 2003, when it was 1.6 percent. This development was due to the improvement of confidence in the economy, the decrease in interest rates, and the corresponding demand towards long-term investment instruments (Figure III.1.6).

TABLO III.1.5
DEVELOPMENTS IN MAIN MONETARY AGGREGATES, EXCHANGE RATES
AND PRICES
(Cumulative Percentage Change Compared to the end of 2003)

	2004											
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
M1	10.3	2.0	4.6	12.7	11.3	20.2	21.2	25.4	30.4	30.2	29.0	36.7
Currency in Circulation	21.5	7.5	12.6	17.8	20.2	25.4	24.5	30.6	35.5	33.0	27.9	22.9
Sight Deposits	0.4	-2.9	-2.5	8.1	3.4	15.5	18.2	20.9	26.0	27.7	29.9	48.9
M2	11.4	10.6	13.6	17.4	17.6	20.9	21.4	24.5	27.6	29.3	31.4	35.1
Time Deposits	11.8	13.8	16.9	19.1	19.8	21.1	21.5	24.2	26.6	29.0	32.3	34.6
M2X	2.8	1.7	3.1	7.5	9.8	11.0	11.9	15.7	18.6	20.5	21.6	23.7
FX Deposits (TL)	-7.2	-8.7	-9.2	-4.1	0.8	-0.6	0.7	5.3	8.0	10.1	10.1	10.4
FX Deposits (US\$)	-1.7	-2.6	-2.8	-5.9	-5.7	-5.3	-3.1	-1.1	2.2	5.8	9.4	16.2
REPO	-0.4	3.2	-4.5	14.7	10.0	-31.0	-31.5	-33.6	-27.0	-24.2	-24.9	-41.4
TL/US\$	-5.6	-6.3	-6.6	2.0	6.9	5.0	3.9	6.4	5.8	4.1	0.6	-5.0
TL/Euro	-4.6	-5.6	-8.3	-2.4	4.4	3.5	1.3	3.8	5.7	7.6	7.8	4.7
CPI (1994=100)	0.7	1.3	2.2	2.8	3.2	3.1	3.3	3.9	4.8	7.2	8.8	9.3

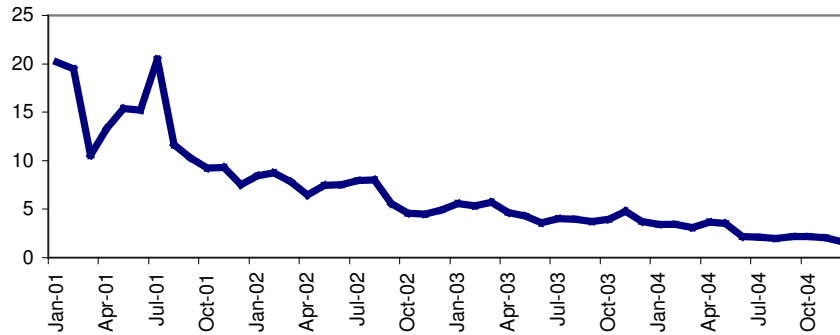
Source: CBRT.

FIGURE III.1.5
FOREIGN EXCHANGE DEPOSITS / TOTAL DEPOSITS
(Percent)



Source: CBRT.

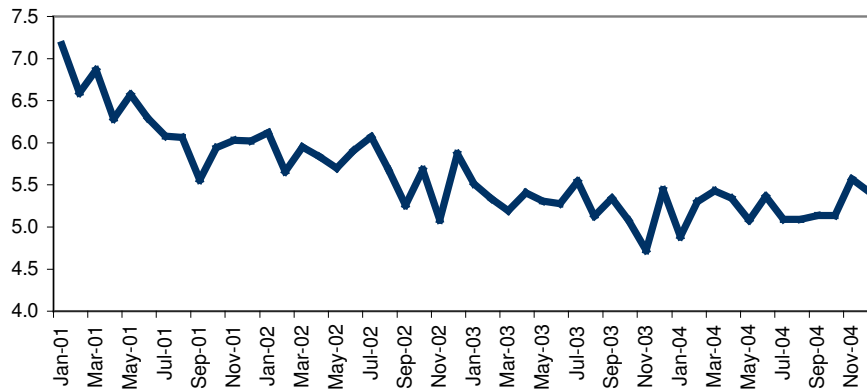
FIGURE III.1.6
REPO / TOTAL DEPOSITS



Source: CBRT.

The money multiplier, which is defined as the ratio M2 money supply to money base did not change considerably and was 5.4 percent by the end of the year, the same as the previous year (Figure III.1.7).

FIGURE III.1.7
MONEY MULTIPLIER
(M2 / MONEY BASE)



Source: CBRT.

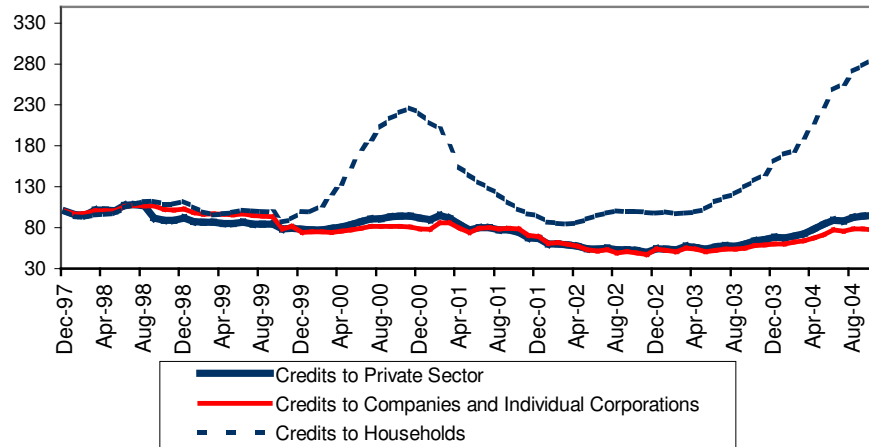
III.1.3. Developments in Credits

With the decline in macroeconomic uncertainty, interest rates on credits going down and the positive growth trend of the economy, the volume of credits followed an upward trend on both the demand and supply side. Most of the increase

occurred in credit cards, the credits extended to consumers and Small and Medium Sized Enterprises (SME).

Regarding the institutional sector distribution of credit provided by Investment and Development Banks and Deposit Money Banks, credit to households, which were in a rapid decline after the crisis, increased by 219 percent on a real basis by the end of October in 2004. Similarly, by the end of October 2004, credits to the private sector increased by 80 percent on a real basis. Credits to companies and individual corporations increased by 69 percent on a real basis (Figure III.1.8).

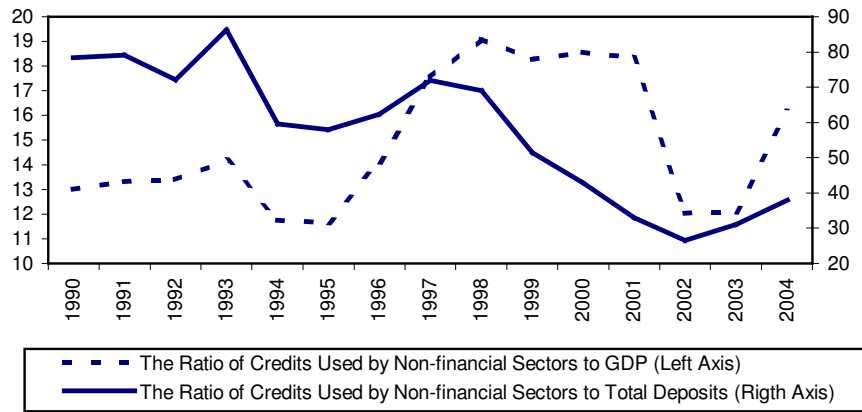
FIGURE III.1.8
INDEX OF REAL CREDIT VOLUME 1997=100



Source: CBRT.
(1) CPI was used.

While still at low levels compared to 2001, the ratio of credits to the GDP extended by Deposit Money Banks and Investment and Development Banks increased in 2004 compared to 2002 and 2003. The Credit/Deposit Volume ratio, an indicator of the banks' attitude regarding credit supply was realized at 38 percent by the end of October 2004 (Figure III.1.9).

FIGURE III.1.9
RATIO OF CREDIT EXTENDED BY DEPOSIT BANKS AND INVESTMENT AND DEVELOPMENT BANKS TO TOTAL DEPOSITS AND GDP
(Percent)



Source: CBRT.

Compared to 2002 and 2003, credits in Turkish lira increased considerably, while the increase of credits in foreign exchange was comparatively lower. Regarding the share of bank groups in total credits, despite the considerable share of private deposit money banks, it is worth mentioning the increase in the share of public deposit money banks (Table III.1.6).

TABLE III.1.6
DEVELOPMENTS IN CREDIT
(TL billion)

	2002	2003	2004			
	December	December	March	June	September	December
TL Credit ⁽¹⁾	17,409	31,727	38,085	46,073	50,671	60,223
FX Credit ⁽¹⁾	14,436	16,292	15,359	18,194	18,782	17,405
Total Credit ⁽¹⁾	31,845	48,019	53,444	64,267	69,452	77,628
Deposit Bank ⁽²⁾						
Commercial Credit	27,896	42,653	47,112	57,428	63,004	70,191
Special Credit	3,949	5,365	6,332	6,839	6,449	7,437
Share of Type of Banks in Total Credits (percent)						
State Deposit Banks	22.8	23.2	26.1	26.3	25.0	26.7
Private Deposit Banks	70.4	71.3	68.6	67.8	68.8	67.6
Foreign Deposit Banks	6.8	5.5	5.3	5.9	6.2	5.7

Source: Central Bank (Weekly Press Bulletin, provisional figures).

(1) Credit extended to the domestic, non-financial sector by deposit banks and investment and development banks.

(2) The sum of TL and FX value of credit extended to domestic economic agents by deposit banks.

III.2. CENTRAL BANK TRANSACTIONS

Central Bank transactions, within the context of monetary policy implementation of 2004, focused on achieving the end-year inflation target of 12 percent in accordance with the principal goal of price stability.

In 2004, the Central Bank transactions focused on achieving the end-year inflation target of 12 percent.

While the difference between the inflation target and the end-year inflation expectation obtained from the Central Bank Expectation Survey was 4.9 points at the beginning of 2003, it decreased to 1.1 points at the beginning of 2004. Such an improvement in credibility underpinned the expectations of the continuation of a downward trend in overnight borrowing rates throughout 2004, which decreased from 44 percent to 26 percent in 2003. The realizations matched the expectations, and Central Bank overnight borrowing rates decreased from 26 percent to 18 percent within the year. The last rate cut was undertaken in December 2004.

On February 5, the Central Bank undertook the first rate cut by decreasing the overnight rate from 26 percent to 24 percent. The priorities given to fiscal discipline and structural reforms, along with expenditure cutting and revenue generating measures without resorting to public sector originated price hikes, were declared as the reasons for the rate cut. At the end of 2004, the Central Bank announced to the public that it did not foresee any reason not to reach the 2004 end-year target barring major external shocks. This foresight was defined “conditional” on budgetary discipline and the continuation of structural reforms.

The second rate cut of the year was undertaken on March 17, and the overnight borrowing rate was decreased from 24 percent to 22 percent. In the explanation given, the importance of good governance and the rise in productivity were emphasized and it was stated that price stability concerning 2005 had started to be considered in the decision-making mechanisms.

The third rate cut of the year was on September 8 and the overnight borrowing rate was decreased from 22 percent to 20 percent. The “normalization” of the economy stood out in the rationale of the decision. The deterioration in the current account was indicated to be a natural result of a much higher growth rate compared to the projected rate within an internally consistent program.

As a result of the final rate cut of the year, the overnight borrowing rate was decreased from 20 percent to 18 percent on December 20. The reason for this decision indicated the finalization of the economic program that would be

implemented in the following three years. Furthermore, the resolution adopted in the European Union Summit, dated 17 December 2004, to start accession negotiations with Turkey is expected to underpin the continuity of structural reforms.

Due to the surge in foreign exchange supply resulting from positive expectations, the Central Bank decided to hold daily foreign exchange buying auctions on 23 January 2004. The auctions were suspended on 27 April 2004, following the decline in bid amounts and the rising volatility in foreign exchange markets. The daily foreign exchange buying auctions were restarted on 22 December 2004 in line with the foresight that expectations regarding the new three-year stand-by agreement with the IMF and positive developments about EU accession negotiations would improve both the reverse currency substitution process and the balance of payments.

Table III.2.1 demonstrates the weighted average compound interest rates of Outright Purchase and Sale, and Repo-Reverse Repo Market in the ISE Bonds and Bills Market, Treasury Auctions and the overnight transactions of Interbank Money Market. The interest rates in ISE Bonds and Bills Outright Purchase and Sale Market and in Treasury Auctions increased in May 2004 and could revert to the level preceding the rise only in October 2004.

TABLE III.2.1
INTEREST RATES
(Weighted Average Compound Interest Rates, Percentage)

	ISE Bonds and Bills Market Outright Purchase and Sale Market	ISE Bonds and Bills Market Repo-Reverse Repo Market (O/N)	Treasury Auctions	IMM (O/N)
2004				
January	25.1	30.0	25.5	29.7
February	24.3	27.1	24.0	27.1
March	23.7	25.9	24.4	25.8
April	22.8	24.6	23.2	24.6
May	27.3	24.6	28.8	24.6
June	26.9	24.6	27.5	24.6
July	26.0	24.6	26.3	24.6
August	25.0	24.7	24.9	24.6
September	24.2	22.7	25.4	22.7
October	23.0	22.2	22.8	22.1
November	22.5	22.2	22.9	22.1
December	22.1	21.7	23.1	20.5

Sources: CBRT, ISE.

III.2.1. Open Market Operations

The OMO Implementation Regulation, restructured to take effect as of 12 April 2004, captures both the changes in transaction pricing, and the increase of the amount of government securities delivered as collateral in repo transactions. The latter measure decreased the credit risk of the Central Bank receivables that are vulnerable to market price changes of government securities.

In 2004, OMO, one of the basic liquidity management instruments, continued to be actively used. The Central Bank's outright purchases of government securities issued by the Treasury to strengthen the financial structure of public banks and banks under SDIF within the scope of the 2001 Banking Operation, liquidity granted to the market due to foreign exchange interventions and auctions to counteract the increased foreign exchange supply stemming especially from reverse currency substitution and foreign exchange and foreign currency entrance from outside the system, caused the continuation of excess liquidity in the market in 2004. The reverse repo transactions in the ISE Repo-Reverse Repo Market and borrowing from IMM transactions were used to withdraw this excess liquidity from the market. On the other hand, the interest payments made to withdraw excess liquidity and for reserve requirements were other factors increasing excess liquidity in the market. Furthermore, temporary drops in excess liquidity and its asymmetric distribution among banks led the Central Bank to conduct a small number of repo transactions with some primary dealers.

In 2004, the monthly average of daily excess liquidity withdrawn via reverse repo transactions and borrowing from the Interbank Money Market transactions ranged between TL 2,535.6 trillion and TL 8,940.9 trillion. The annual average of daily excess liquidity withdrawn was TL 5,944.5 trillion.

The Treasury's coupon payments to the Central Bank, the increase in base money and especially the Treasury's foreign exchange denominated debt redemption were the factors decreasing excess liquidity in the market. Accordingly, as of the end of 2004, the excess liquidity in the market was TL 3,622.1 trillion.

The asymmetric distribution of liquidity among banks caused upward pressure on money market interest rates especially in January and December when excess liquidity tended to decline. But the liquidity facility ensured by the Central Bank to primary dealers prevented the excess volatility of interest rates. In that framework, the primary dealer banks were ensured a small amount of use of the repo facility by the Central Bank.

The Central Bank received TL 1,777.9 trillion from the Treasury in the form of coupon payments. These coupon payments stem from the scope of the 2001 Banking Operation, the Central Bank's outright purchases of government securities that were issued by the Treasury to strengthen the financial structure of public banks and banks under SDIF. These government securities are CPI indexed, their coupon payments are once a year and their maturity varies between the years 2006 and 2010.

In 2004, there was no outright purchase transaction from the primary and secondary markets into the OMO portfolio. Because of structural excess liquidity, the Central Bank focused on reverse repo transactions. The short duration of terms caused higher reverse repo maturity volumes. The tight volume of repo and reverse repo transactions occurred in January and December, when excess liquidity was relatively low (Table III.2.2).

TABLE III.2.2
OPEN MARKET OPERATIONS
(TL trillion)

2004	Outright Purchase (1)	Coupon Receipts from Treasury (2)	Reverse Repo (3)	Maturing Reverse Repo (4)	Repo (5)	Maturing Repo (6)	Net Effect ⁽¹⁾ (7) ⁽²⁾
January	-	-	12,455.5	12,188.5	420.0	420.3	-267.3
February	-	-	38,329.5	37,159.3	-	-	-1,170.2
March	-	-	46,916.0	47,338.9	-	-	422.9
April	-	-	52,515.0	51,510.8	-	-	-1,004.2
May	-	1,012.1	60,060.5	61,918.2	-	-	1,857.7
June	-	-	38,209.5	37,851.0	-	-	-358.5
July	-	237.2	17,262.5	18,448.2	-	-	1,185.7
August	-	-	25,732.0	25,177.2	-	-	-554.8
September	-	270.0	31,490.5	32,048.0	-	-	557.5
October	-	-	16,638.5	14,820.8	-	-	-1,817.7
November	-	-	25,769.0	27,662.4	-	-	1,893.4
December	-	258.6	8,495.0	8,372.3	300.0	300.5	-123.3
TOTAL	-	1,777.9	373,873.5	374,495.4	720.0	720.9	621.0

Source: CBRT.

(1) The Net Effect column does not include coupon receipts from the Treasury.

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

While the average simple interest rates of tight volume repo transactions were 30.14 percent in January, it declined to 22 percent in December. The simple interest rate of reverse repo transactions started the year at 26 percent, and declined to 18.56 percent at the end of the year by maintaining its downward trend in between (Table III.2.3).

TABLE III.2.3
AVERAGE INTEREST RATES IN REPO-REVERSE REPO TRANSACTIONS
WITHIN OMO
(Percentage)

2004	Repo		Reverse Repo	
	Simple	Compound	Simple	Compound
January	30.14	35.17	26.00	29.67
February	-	-	24.00	27.11
March	-	-	22.92	25.75
April	-	-	22.00	24.60
May	-	-	22.00	24.60
June	-	-	22.00	24.60
July	-	-	22.00	24.60
August	-	-	22.00	24.60
September	-	-	20.15	22.32
October	-	-	20.00	22.13
November	-	-	20.00	22.13
December	22.00	24.58	18.56	20.40

Source: CBRT.

III.2.2. Transactions in the Interbank Money Market

The IMM preserved its importance in the withdrawal of excess liquidity. In 2004, 24.6 percent of the excess liquidity was withdrawn via OMO, and 75.4 percent via IMM transactions.

In 2004, new regulations regarding IMM transactions were put into force. Accordingly, from 2 January 2004 on, barring Intraday Limit (IL) transactions, the Central Bank decided not to receive commission from transactions conducted by the Central Bank in the IMM, and to continue to charge the commission of 0.0048 percent of the principal in IL transactions. Furthermore, in IMM transactions, the Tax on Bank and Insurance Transactions (TBIT) ceased to be collected from the borrower and credited to the lender's account, whereby it was decided that TBIT would be assumed by the lender.

Upon considering the suspension of foreign exchange buying auctions on 27 April 2004 and the relative decline of the amount of Turkish lira in the market, the 2-week Turkish lira deposit purchase auctions, which were held on Mondays, were called off in June 2004. It was decided that the 4-week Turkish lira deposit purchase auctions, which were conducted on Wednesdays and Fridays would only be held on Wednesdays.

Parallel to the relative decline in the level of Turkish lira that led to the decrease in the amount of total bids submitted to the deposit purchase auctions, the latter were called off in October 2004.

In 2004, the amount of overnight borrowing transactions totaled TL 759,116 trillion. The highest and lowest transaction volumes were in April and in December, respectively. Lending via the late liquidity window, used only in December, and materialized at TL 114 trillion (Table III.2.4).

TABLE III.2.4
CENTRAL BANK TRANSACTIONS
IN THE INTERBANK MONEY MARKET
(TL trillion)

2004	O/N Borrowing	O/N Lending	Late Liquidity Window Lending	1-Week Borrowing	2-Week Deposit Purchase Auction	4-Week Deposit Purchase Auction	Total Net Borrowing ⁽¹⁾
January	46,418	-	-	5,649	634	2,001	54,702
February	57,157	-	-	4,124	265	1,037	62,583
March	59,841	-	-	5,547	465	1,543	67,396
April	81,801	-	-	3,784	365	1,450	87,400
May	61,323	-	-	1,647	165	431	63,565
June	62,770	-	-	1,280	-	364	64,414
July	75,495	-	-	1,098	-	458	77,051
August	66,007	-	-	1,251	-	452	67,710
September	72,284	-	-	905	-	184	73,373
October	76,974	-	-	2,235	-	-	79,209
November	54,758	-	-	1,476	-	-	56,234
December	44,287	-	114	856	-	-	45,029
TOTAL	759,116	-	114	29,852	1,894	7,920	798,668

Source: CBRT.

(1) Net borrowing amount is total borrowing less total lending.

The IMM transactions were conducted with 49 authorized banks and the average simple interest rates continued to exhibit a downward trend throughout the year (Table III.2.5). The average simple interest rate in the late liquidity window, used only in December, was 28 percent.

TABLE III.2.5
AVERAGE SIMPLE INTEREST RATES
IN THE INTERBANK MONEY MARKET

2004	O/N	1 Week	2 Week	4 Week	LON
January	26.00	26.00	26.08	26.09	-
February	24.00	24.00	24.17	24.22	-
March	22.98	23.10	23.57	23.37	-
April	22.00	22.00	22.31	22.33	-
May	22.00	22.00	22.39	22.38	-
June	22.00	22.00	-	22.39	-
July	22.00	22.00	-	22.38	-
August	22.00	22.00	-	22.39	-
September	20.44	20.00	-	20.91	-
October	20.00	20.00	-	-	-
November	20.00	20.00	-	-	-
December	18.69	19.81	-	-	28.00

Source: CBRT.

III.2.3. Foreign Exchange and Foreign Currency Transactions

While the US dollar/TL rate was 1,399,998 at the end of 2003, the Turkish Lira appreciated in the first three months of 2004, as a result of the completion of the 7th Review with the IMF and positive expectations regarding inflation. In this period, parallel to the developments in foreign exchange supply, foreign exchange buying auctions restarted and due to the increased volatility in February, the Central Bank intervened in the markets to buy foreign exchange. However, the expectations about the FED's rate increase, the referendum in Cyprus and uncertainties about Turkey's EU membership caused the foreign exchange rates to surge in April 2004. Due to the decline in foreign exchange supply, foreign exchange buying auctions were suspended during this period, and on May 2004, the Central Bank intervened in the markets to sell foreign currency. Positive expectations regarding both foreign exchange entry in summer and economic performance marked the start of an appreciation of the Turkish lira from mid May 2004. In August-September debates about the financing of the current account deficit and developments in internal politics that may have adversely affected the EU accession process, caused the rate to increase to some extent. However, especially during the last two months of the year, the movements in favor of the euro in the euro/US\$ parity, strong economic data, a higher investment appetite for Emerging Markets, expectations regarding the new three-year stand-by agreement with the IMF, and affirmative developments regarding the EU accession process encouraged the Turkish lira to appreciate, hence the US\$/TL rate closed in 2004 at the level of 1,342,700 Turkish lira.

When the total annual transaction volume in foreign exchange and foreign currency market is considered, the share of foreign exchange deposits led with 68.65 percent. This figure was followed by TL-foreign exchange transactions with 29.13 percent (Table III.2.6).

TABLE III.2.6
TRANSACTION VOLUME IN FOREIGN EXCHANGE-FOREIGN
CURRENCY MARKETS IN 2004
(US\$ million)

	Transactions in US\$	Transactions in other currencies	Total	Share in total transactions volume (percentage)
TL-FX	10,972.9	-	10,972.9	29.13
TL-Foreign Currency	-	-	-	-
FX-Foreign Currency	630.2	198.1	828.2	2.20
FX-FX	5.2	-	5.2	0.01
Foreign Currency- Foreign Currency	0.6	-	0.6	0.00
FX Deposits	21,216.0	4,640.3	25,856.3	68.65
Total	32,824.8	4,838.4	37,663.1	100.00

Source: CBRT.

The Turkish Lira appreciated in January 2004, and during the last week of the month, the US\$/TL rate reached the level of 1,320,000. Inflation data in December undershot the expectations and the inflation rate in 2003 was below the target, which underpinned the appreciation of the Turkish lira. In this month, the developments about Cyprus and Northern Iraq were closely monitored. The foreign exchange buying auctions, which were suspended on 22 October 2003, were restarted on 23 January 2004 due to the observed excess supply in the foreign exchange market and the foresight that this would continue.

The exchange rate level, which was 1,320,000 at the beginning of February, increased with the realization that the Cyprus negotiations would not continue. However, the exchange rate level started to decrease after the first meeting in the United Nations and came down to the level of 1,300,000 within a week. In order to take measures against volatility, the Central Bank intervened to buy foreign exchange. In March, the rate floated in a tight margin of 1,315,000 – 1,335,000.

The strengthening of expectations about a FED interest rate hike supported the US\$ in global markets, which led the international investors to exit from Emerging Markets. The US\$/TL exchange rate level, which was 1,313,000 at the beginning of April, exhibited an increasing trend during the month surpassing the 1,380,000 level due to uncertainties before the referendum in Cyprus and negative

declarations by the French Foreign Minister Barnier regarding Turkey's accession to the EU. Hence, the foreign exchange supply in the market decreased, which led to the suspension of foreign exchange buying auctions as of 27 April 2004.

The US\$/TL rate starting in May at 1,425,000 increased to 1,570,000 during the month, but declined after Central Bank intervention on May 11, and in the remainder of the month it floated at around 1,550,000. The expectations about the acceleration in FED policy rate hikes continued to adversely affect Turkey as in other Emerging Markets. The facts that the current account deficit exceeded expectations and the unease of open positions to be created due to payments of foreign exchange indexed bonds in June 2004, underpinned negative developments. Until May 11, the low level of liquidity emerged as another factor spurring the surge in foreign exchange. The volatility in Banks' foreign currency denominated assets supported the decline in foreign exchange liquidity, whereupon the Central Bank intervened on May 11 to sell foreign exchange. Furthermore, on the same date, the interest rate on the one-week maturity foreign exchange deposits facility provided to banks within their borrowing limit was cut to 6 percent from 10 percent.

Following the dissemination of US data at the beginning of June, the US\$, which was appreciating globally, also increased vis-à-vis the Turkish lira and reached the level of 1,524,000 on 3rd of June. Then the rate started a downward trend with the support of the lower-than-expected inflation data, and did not display any significant trend for the rest of the month. One of the main reasons for the decline was that non-farm payroll employment data, published on June 4, came below the expectations, which modified market expectations of a FED policy rate hike becoming 0.25 percent instead of 0.50 percent.

An inclination to preserve present positions until the Federal Open Market Committee (FOMC) meeting at the end of July was observed in the market, the main focus of which was international developments. The market participants, who focused on international developments, were inclined to hold their positions until the FOMC meeting at the end of June. After a 0.25 percent increase in policy rate and the declaration of a more prudent future policy, the US\$ depreciated in Turkey along with other markets. A seamless NATO Summit and positive declarations about our country supported the Turkish lira. July had been a month of foreign capital inflows that were met by domestic institutional investors. Accordingly, domestic banks closed their open positions that had been created previously, exploiting the decline in the rate.

The daily change of the TL was not only due to domestic developments and euro/US\$ parity, but also crude oil prices. At the end of June, an IMF committee was invited to Turkey in order to make a technical consultation about the medium term economic program. The declaration that the IMF had ratified the 8th Review caused the US\$/TL rate to decline to 1,457,000. Oil prices rose sharply due to the ongoing war in Iraq, the uncertainties about Yukos in Russia, the political turmoil in Venezuela, and the rapid growth of China resulting in an increase in oil demand. The rise of oil prices, which is an important external expenditure item, prevented further decline of the US\$/TL rate.

In September, the US\$/TL rate was volatile, similar to the case in August. At the beginning of the month, the rate was 1,501,000, which declined to 1,487,000 on the 9th and 10th of September, because of the expectations that the negotiations for EU accessions would commence in the first half of 2005. However, the debates regarding the Turkish Penal Code (TPC) increased the rate to 1,547,000.

Despite rising tension as the issuance of the EU Progress Report, scheduled on October 6, drew nearer, the assurance that the TPC would be delivered to parliament after the removal of proposals worrying the markets, the US\$/TL rate declined to 1,490,000. The effects of negative declarations stemming from political circles in EU countries stayed focused on the US\$/TL parity in October.

The release of the EU Progress Report on October 6, that matched market expectations, enabled the US\$/TL rate to decline gradually. However, the rise in oil prices in October, and the interruption of IMF talks on October 26, increased market tension.

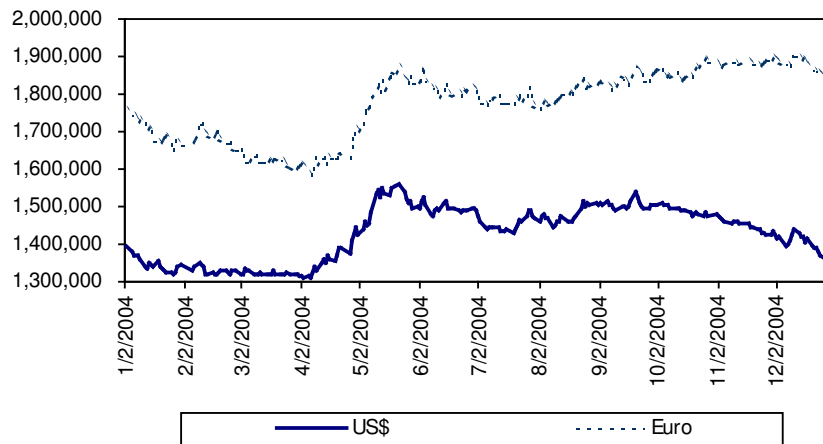
In November, the rate floated in the market based on the euro/US\$ parity. Due to the expectation that the parity would remain at the level of 1.30, downward movements in the parity were not reflected in the US\$/TL rate as much as upward movements, which along with positive sentiments in Emerging Markets, fed prospects regarding the continuation of foreign exchange inflows.

December started with foreign exchange sales of foreign investors at the level of 1,430,000, that aimed at benefiting from increased bond yields. The negative news about the EU and Turkey relations were considered by investors as a sale opportunity, and the reluctance of domestic banks to take position before December 17, underpinned the appreciation of the Turkish lira. The prospective three-year stand-by agreement with the IMF, including a credit of US\$ 10 billion, and the decision of the EU on December 17 to start negotiations with Turkey on

3 October 2005 were perceived positively by the market. The Central Bank declared the restart of foreign exchange buying auctions on 22 December 2004.

Taking the positive developments on the banks' foreign exchange liquidity conditions and efficient liquidity management into consideration, the interest rate on foreign exchange deposits was increased to 10 percent on 20 December 2004. The foreign exchange inflows continued because the amount of foreign exchange bought in the auctions by the Central Bank were not market disturbing, and positive developments with IMF and the EU relations continued. Accordingly, US\$/TL rate declined below 1,390,000 (Figure III.2.1).

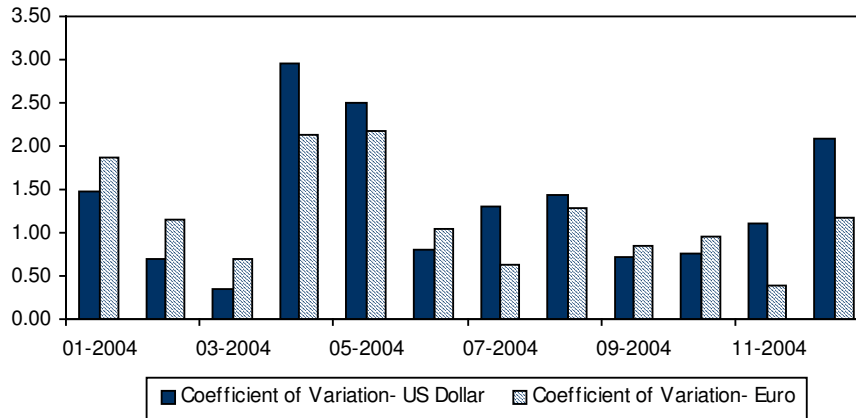
FIGURE III.2.1
EXCHANGE RATES
(US dollar and Euro)



Source: CBRT.

As shown in Figure III.2.2, the volatility in exchange rates fluctuated during the year. The highest volatility for euro/TL and US\$/TL exchange rates were observed in May and April, respectively.

FIGURE III.2.2
VOLATILITY IN EXCHANGE RATES
(US dollar and Euro, Coefficient of Variation, Percentage)



Source: CBRT.

During 2004, some changes in foreign exchange buying auction methods were put into effect. Between January 23 and February 27 daily amount to buy was specified as US\$ 30 million. Additionally, only institutions that are entitled to sell foreign exchange in the auction are granted the option to sell at the average price materialized in the auction. The maximum amount of the option was 100 percent of the foreign exchange sold by each participant. Hence, the foreign exchange bought was maximum US\$ 60 million, US\$ 30 million of which being bought at the auction and the remainder upon the exercise of option.

During March 1-31, the amount of foreign exchange bought in February was considered and the increase in the foreign exchange supply was foreseen to continue during March. Accordingly, the amount bought in the auction and the amount of the option were raised to US\$ 40 million each, resulting in a maximum amount to be purchased of US\$ 80 million.

During April 1-6, the amount bought in the auction and the amount of the option were raised to US\$ 50 million each, because the foreign exchange supply was expected to continue to rise in April as it did in March.

In April, both the average daily purchase and total amount of daily bids exceeded the figures observed in March. Upon the forecast of a further increase in foreign exchange supply stemming from positive expectations, from 6 April 2004

on, the amount of the auction and option were raised to US\$ 70 million each, for the remainder of April.

Due to the decrease of foreign exchange supply stemming from factors other than fundamental economic indicators, on 15 April 2004, the amount of the auction and option were decreased to US\$ 40 million each, for the remainder of April.

The decrease in the number of bids submitted to the auctions and the volatility in the foreign exchange market led the Central Bank to suspend the foreign exchange buying auctions on 27 April 2004.

The foreign exchange buying auctions were restarted on 22 December 2004 because of the prospective stand-by agreement with the IMF, and positive developments in the EU accession process were expected to positively affect both the reverse dollarization process, and the balance of payments. The daily amount of the auctions was set at US\$ 15 million. On the other hand, in contrast to previous auction programs, an annual program was declared in order to decrease the distorting effects of the buying auctions. It was decided that the program would not be changed, unless extraordinary differences were observed in the foreign exchange liquidity.

Only institutions that are entitled to sell foreign exchange in the auction are granted the option to sell at the average price materialized in the auction. The maximum amount of the option was 200 percent of the foreign exchange sold by each participant. Hence, the maximum amount of foreign exchange to be bought was US\$ 45 million, US\$ 15 million of which was to be bought at the auction and the remainder upon the exercise of option.

IV

FINANCIAL MARKETS

IV.1. THE BANKING SECTOR

IV.1.1. Developments in the Banking Sector

General Assessments

In 2004, the high growth rate of world economy, low international interest rates and increase in capital inflows to emerging markets, all led to the rapid growth of the balance sheet of the banking sector (Table IV.1.1). The increase in loanable funds of banks supported the intermediary institutions' capability of funding the real sector. However, the Fed's declarations in April and May that short-term interest rates would be increased gradually, as in the financial markets of emerging economies also raised macroeconomic uncertainty in our country. Nonetheless, the financial markets were more stable during the second half of the year. Both macroeconomic stability and EU expectations influenced the markets positively. Moreover, positive expectations of both consumers and producers encouraged the evolution of intermediation in this process. The negative impact of oil price increase was limited.

TABLE IV.1.1
NET CAPITAL INFLOWS TO EMERGING MARKETS
(US\$ billion)

	2000	2001	2002	2003	2004 ⁽¹⁾	2005 ⁽¹⁾
Total Capital Flows	18.9	63.5	62.9	95.6	50.6	5.4
Private Capital Flows	46.6	47.8	61.2	120.4	81.6	47.5
Direct Investments	177.1	191.2	143.5	147.6	166.9	175.2
Portfolio Investments	16.1	-91.3	-99.6	-11.0	-21.3	-23.4
Other Capital Flows	-146.6	-52.0	17.3	-16.2	-64.0	-104.4
Official Flows	-27.7	15.7	1.7	-24.8	-31.0	-42.1

Source: IMF World Economic Outlook (September 2004).

(1) Projections for 2004 and 2005 .

The number of banks in the Turkish Banking Sector decreased compared to the previous year due to the ongoing consolidation of banks in 2004. While the

total number of banks was 50 in 2003, it dropped to 48. During this period, while the number of deposit banks dropped from 36 to 35, the number of development and investment banks dropped from 14 to 13. Deposit banks consist of three public banks, 18 private banks, 13 foreign banks (six that were established in Turkey and seven with branches in Turkey) and also one SDIF bank. Bayındırbank, covered by the SDIF, was used as a “bridge bank” with an asset management function. Pamukbank covered by the SDIF in 2002 was merged with Halkbank on 17 November 2004.

Loans extended to the real sector by banks increased significantly. The stable course of foreign exchange and the appreciation of the Turkish lira increased credit demands of real sector firms via contributing to their financial statements. In addition, this also increased the credit supply of banks by strengthening their financial statements. During this period, the rapid growth of individual loans was a striking point.

Regarding The New Basel Accord (Basel II), published on 26 June 2004, the Banking Regulation and Supervision Agency (BRSA) continue to work with banks. It is expected that regulations coming from a new perspective will influence the activities and competitiveness of banks positively. During the transition period to Basel II, it is expected that potential costs such as investment for technology will appear as short-term risks for emerging economies. In the long-term, however, it will encourage banks to keep additional capital for risky items and it will increase market discipline via risk management. Hence, efficiency and productivity in the banking sector will to rise.

While important steps were taken in order to sustain the soundness and stability of the banking sector in recent years, the restructuring program has continued. In this framework, efforts were underway to diminish intermediation costs in the banking sector in order to sustain a more efficient and more stable structure. In this context, the average effective premium being paid by banks to the SDIF was decreased by the BRSA on 31 October 2003 by 50 percent. The stamp duties and fees levied on loans were abolished on 2 January 2004. The Special Transaction Tax taken from depositors was abrogated in 2004. The Resource Utilization and Support Funds levied on commercial loans as 3 percent were annulled on 29 July 2004. However, the RUSF levied on consumer loans as 10 percent was raised to 15 percent on 15 August 2004 in order to limit the rate of change in consumer loans.

While the total number of personnel in banks increased from 123,249 in 2003 to 126,970 in 2004, the number of branches increased from 5,966 to 6,050 (Table IV. 1.2). Since the restructuring process continued, the number of personnel and branches in public banks and SDIF banks decreased. Contrarily, the number of personnel and branches in private banks increased. While the number of personnel in foreign banks increased, their number of branches decreased in line with the decrease in the number of foreign banks.

TABLE IV.1.2
SHARES OF BANK GROUPS IN THE SECTOR
(Percent)

	Total Assets	Securities ⁽¹⁾	Loans	Non- Perf. Loans	Deposits	Employees ⁽²⁾	Branches ⁽²⁾
As of December, 2003							
Public Sector Banks	33.3	44.7	18.3	49.8	38.5	37,994	1,971
Private Sector Banks	57.0	48.2	69.1	37.1	56.8	70,614	3,594
SDIF Banks	2.8	4.6	1.1	9.6	2.7	4,518	175
Foreign Banks	2.8	1.5	4.1	1.4	2.0	5,481	209
Investment & Development Banks	4.1	1.0	7.5	2.1	0.0	4,642	19
Sector Total	100.0	100.0	100.0	100.0	100.0	-	-
(TL Quadrillion)	249.7	106.8	66.2	8.6	155.3	123,249	5,966
As of November, 2003							
Public Sector Banks	34.6	49.6	20.0	39.8	42.0	36,920	1,957
Private Sector Banks	57.6	45.8	69.8	52.8	55.5	75,540	3,692
SDIF Banks	0.6	1.2	0.0	2.0	0.0	4,201	174
Foreign Banks	3.5	1.0	4.9	2.4	2.5	5,733	208
Investment & Development Banks	3.6	1.0	5.3	2.9	0.0	4,576	19
Sector Total	100.0	100.0	100.0	100.0	100.0	-	-
(TL Quadrillion)	303.5	127.6	97.2	6.0	187.3	126,970	6,050

Source: CBRT.

(1) Government Securities.

(2) As of September, number of employees and branches.

IV.1.2. Developments in the Balance Sheet of the Banking Sector

The total assets of the banking sector increased by 12 percent in real terms and rose to TL 303.5 quadrillion as a result of the disinflationary trend, economic growth, capital inflows, and hence financial deepening as of November 2004, compared to the end of 2003. In the same period, it increased by 20 percent in US dollar terms and increased from US\$ 178.9 billion at the end of 2003 to US\$ 213.8 billion in November 2004 (Table IV.1.3).

The balance sheet size of the banking sector rose to US\$ 213.8 billion in November 2004.

TABLE IV.1.3
TOTAL ASSETS AND THEIR SHARES

	December 2003		November 2004	
	US\$ billion	Share (%)	US\$ billion	Share (%)
Total	178.9	100.0	213.8	100.0
State Banks	59.6	33.3	74.0	34.6
Private Banks	101.9	57.0	123.3	57.6
SDIF Banks	5.1	2.8	1.4	0.6
Foreign Banks	5.0	2.8	7.4	3.5
Investment & Development Banks	7.4	4.1	7.8	3.6

Source: CBRT.

In November 2004, while the shares of public banks, private banks and foreign banks increased, those of the SDIF banks and investment and development banks dropped compared to the end of the previous year. The share of SDIF banks dropped due to the continuation of the liquidation process of these banks.

When the consolidated balance sheet of the banking sector was analyzed in November 2004, Turkish lira denominated assets increased by 13 percent in real terms and foreign exchange denominated assets increased by 9 percent in real terms. Foreign exchange denominated assets also increased by 17 percent in US dollar terms compared to the end of the previous year. The Turkish lira denominated liabilities of the consolidated balance increased by 17 percent and foreign exchange denominated liabilities increased by 5 percent in real terms. During the same period, foreign exchange denominated liabilities increased by 13 percent in US dollar terms.

The highest increase in total assets of the banking sector, as in 2003, was observed in credit items (Table IV.1.4). Both credit supply and demand rose due to financial stability, low nominal interest rates of loans and economic growth. During this period, the highest increase in credit volume was observed in consumer loans and small and medium-size enterprises, which have relatively low non-performing probability. Moreover, economic growth, the drop in nominal interest rates, and the stable course of foreign exchange have contributed to the financial statements of firms, hence reducing non-performing loans significantly.

The total securities portfolio, which had the highest share in consolidated balance sheet assets, increased, but compared to credit its rate of change is limited. As a result of careful application of the economic program, banks extended loans to the private sector rather than the public sector due to positive developments in debt management and the increase in securities portfolios in the non-bank sector.

TABLE IV.1.4
SELECTED BALANCE SHEET ITEMS OF THE BANKING SECTOR
(TL trillion)

	December 2003				November 2004			
	K.B.	Ö.B.	Y.B.	Toplam	K.B.	Ö.B.	Y.B.	Toplam
TOTAL ASSETS	83,134	142,274	6,944	249,696	104,996	174,957	10,562	303,484
TL	61,583	77,440	3,898	154,827	79,417	96,814	6,621	190,834
FX	21,551	64,833	3,045	94,869	25,580	78,144	3,940	112,650
1- Claims on Banks	5,365	6,369	787	15,141	5,331	9,192	1,158	18,602
2- Total Securities Portfolios (Net) ⁽¹⁾	47,716	51,485	1,608	106,844	63,326	58,399	2,977	127,554
TL	35,999	27,670	904	69,994	49,477	30,348	2,271	84,511
FX	11,717	23,815	704	36,851	13,849	28,051	707	43,043
3- Credit	12,100	45,763	2,711	66,222	19,395	67,862	4,776	97,215
TL	10,232	21,741	1,423	36,176	16,259	38,996	3,049	60,996
FX	1,868	24,022	1,288	30,045	3,136	28,866	1,726	36,219
4- Past-Due Loans (Gross)	4,300	3,200	123	8,629	2,385	3,169	146	5,997
5- Interest & Income Accruals	4,490	7,417	191	12,687	3,544	6,167	281	10,453
6- Participations & Subsidiaries	938	7,959	70	9,154	1,062	10,134	104	11,517
7- Other Assets	1,643	1,907	362	4,204	2,220	2,238	300	4,921
TOTAL LIABILITIES	78,634	103,893	4,700	187,303	104,996	174,957	10,562	303,484
TL	56,370	44,090	1,394	101,878	77,127	88,080	6,253	179,748
FX	22,264	59,804	3,306	85,425	27,869	86,877	4,309	123,736
1- Deposits	59,862	88,180	3,137	155,312	83,134	142,274	6,944	249,696
TL	42,344	34,864	591	79,845	60,705	67,222	3,469	141,673
FX	17,518	53,315	2,546	75,467	22,429	75,052	3,474	108,023
2- Funds from Repo	1,018	8,103	20	11,241	2,404	10,698	642	13,910
3- Due to Banks	2,338	18,158	1,391	25,947	3,061	23,075	2,440	32,010
4- Interest & Expense Accruals	752	1,375	146	2,402	922	1,541	112	2,646
5- Owners Equity	9,574	20,961	1,668	35,542	9,745	26,716	2,022	44,810
Paid Up Capital	3,693	6,470	513	13,615	3,792	7,775	567	14,802
Legal and Provisional								
Reserves	164	1,109	295	21,528	559	2,231	384	22,879
Profit (Loss) for the Period	1,790	2,921	188	5,612	2,529	2,840	200	6,099
Profit (Loss) for Previous								
Years	0	-2,897	-119	-29,332	264	-535	35	-21,582
Selected Off-Balance Sheet Items	0	0	0	0	0	0	0	0
1- Contingencies	5,769	35,686	1,434	46,653	7,721	45,070	2,216	57,059
2- Commitments	6,126	68,013	10,944	87,567	8,170	110,007	13,251	133,750

Source: CBRT.

S.B.: state banks, P.B.: private banks, F.B.: foreign banks.

(1) Government Securities.

Claims on the Central Bank, one of the liquid assets of banks, increased on the consolidated balance sheet due to the excess liquidity of public banks in 2004. While claims on money markets dropped significantly, claims on banks raised on the consolidated balance sheet. The increase in claims on banks stemmed from the increase of claims of private banks from foreign banks.

The reserve requirement item in the consolidated balance sheet assets also rose parallel to the increase in deposit volume. While the Turkish lira denominated reserve requirement increased by 35 percent in real terms, the foreign exchange denominated reserve requirement increased by 9 percent in real terms. While the owner's equity item of banks showed an upward trend, the profitability of banks did not change in real terms.

Deposits, which have the highest share on the liability side of banks, increased. With the disinflation process and macroeconomic stability, the financial system has deepened. Although both Turkish lira and foreign currency denominated deposits rose, the increase in Turkish lira denominated deposits was higher. One of the factors that affected this was the fact that the main part of time deposits in Türkiye İmar Bankası T.A.Ş., which is still undergoing the liquidation process, were deposited in T.C. Ziraat Bankası A.Ş. as blocked time deposits in January 2004. Funds sustained from repo transactions, increased by 14 percent in real terms. Furthermore, loans to banks supplied by banks abroad increased significantly in 2004. Loans to public banks, private banks and foreign banks from banks abroad increased because of the macroeconomic stability and high liquidity in foreign markets.

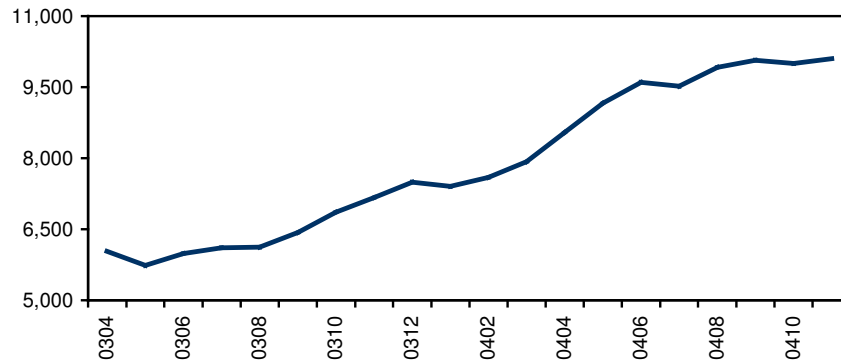
Another interesting point regarding the financial statements of banks was the fact that off-balance sheet activities increased quite rapidly with respect to balance sheet activities. While the contingencies item in the off-balance sheet items increased by 12 percent, the commitments item increased by 40 percent in real terms. While Turkish lira denominated commitments increased by 64 percent in real terms, foreign exchange denominated commitments increased by 7 percent in real terms.

IV.1.2.A. Credit

Credit volume increased on both the supply side and the demand side due to the decline in credit interest rates and upward trend in economic growth in 2004.

Intermediation acts grew significantly in 2004 as a result of the breakdown of the high inflationary process and the decline in macroeconomic uncertainty. Loans continued to increase on both the supply side and demand side due to the decline in credit interest rates and the upward trend in economic growth (Figure IV.1.1). While the rate of change of credit volume was high in the period of August 2003-April 2004, it was relatively low after June 2004. The increase in credit volume was observed in consumer loans, credit cards and small and medium-size enterprises since banks focused much more on individual banking. Total loans increased by 35 percent in real terms compared to the end of the previous year and amounted to 97.2 quadrillion Turkish liras. While Turkish lira denominated loans increased by 55 percent in real terms, foreign exchange denominated loans increased by 11 percent in real terms.

FIGURE IV.1.1
CREDIT VOLUME
(Constant Prices, TL billion)⁽¹⁾

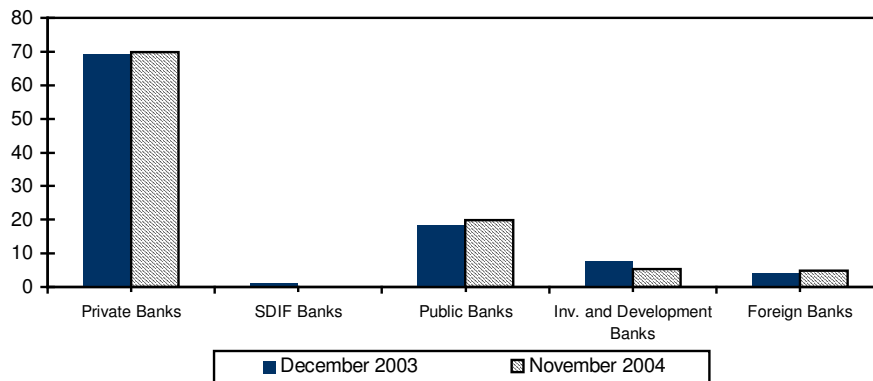


Source: CBRT.

(1) Discounted by CPI 1994=100.

When banking groups are analyzed, it can be seen that the increase in credit volume was led by public banks, private banks and foreign banks (Figure IV.1.2). While the loans extended by public banks increased by 47 percent in real terms, the loans extended by foreign banks increased by 62 percent in real terms. Also, the loans extended by private banks increased by 36 percent in real terms. During this period, loans extended by SDIF banks and Investment and development banks decreased in real terms.

FIGURE IV.1.2
BREAKDOWN OF LOANS BY BANK GROUPS
(Percent)



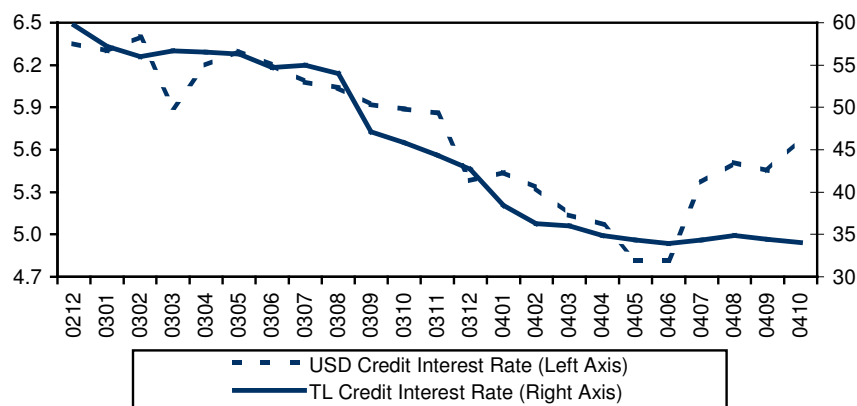
Source: CBRT.

Although the increase in credit volume appeared in both Turkish lira denominated loans and foreign currency denominated loans, the increase in Turkish lira denominated loans was higher. Because of the current exchange regime, there was more demand for Turkish lira denominated loans. While the share of foreign currency denominated loans in total loans was 48 percent in the end of the previous year, it dropped to 37.3 percent in November 2004. In this period, while foreign currency denominated loans increased by 19 percent in US dollar terms, foreign currency denominated loans in terms of Turkish lira increased by 11 percent in real terms.

While the share of non-performing loans in total loans was 13 percent at the end of 2003, it decreased 6.2 percent in November 2004. The decline in nominal interest rates and economic growth contributed to firms' capacity to repay their obligations. The decline in non-performing loans mainly stemmed from the reduction of non-performing loans of public banks. While the share of non-performing loans of public banks dropped from 36 percent to 12 percent, the share of non-performing loans of private banks dropped from 7 percent to 5 percent in November compared to the end of the previous year.

The decline in non-performing loans is also a result of the reduction in non-performing loans in textile and textile products sectors, manufacturing, wholesale and retail trading services. However, non-performing loans of sector of building, real estate, renting, management and non-metal ores industries increased.

FIGURE IV.1.3
INTEREST RATES ON CREDIT
(Percent)



Source: CBRT.

In 2004, the nominal interest rate of loans, in line with disinflation, continued to decrease, both in terms of the Turkish lira and foreign currency, as in 2003 (Figure IV.1.3). However, the volatility, which arose in the April-May period in the financial markets of emerging economies, led to an increase in interest rates of loans denominated in foreign currency.

IV.1.2.B. Total Securities Portfolio of the Banking Sector

The total securities portfolio of the banking sector showed a more limited increase compared to other items during the first eleven months of 2004. In 2004, banks funded the private sector rather than the public sector. In this period, the total securities portfolio increased by 10 percent in real terms and amounted to 128 quadrillion Turkish liras. While the securities portfolio denominated in Turkish lira increased by 11 percent in real terms, the securities portfolio denominated in foreign currency increased by 7 percent. Regarding the structure of the securities portfolio of banks, it can be seen that while the portfolio of public banks increased in terms of Turkish lira, the portfolio of private banks increased in terms of foreign currency (Table IV.1.5). The securities portfolio of SDIF banks, due to their ongoing liquidation process, decreased significantly. Moreover, the securities portfolio of foreign banks denominated in Turkish lira increased.

The total securities portfolio's upward trend was more limited in 2004 compared to loans.

TABLE IV.1.5
TOTAL SECURITIES OF THE BANKING SECTOR
(TL trillion)

December 2003	Public	Private	Foreign	SDIF	Total
Total Securities	47,716	51,485	1,608	4,964	106,844
TL	35,999	27,670	904	4,758	69,994
FX	11,717	23,815	704	206	36,851
November 2004	Public	Private	Foreign	SDIF	Total
Total Securities	63,326	58,399	2,977	1,514	127,554
TL	49,477	30,348	2,271	1,513	84,511
FX	13,849	28,051	707	2	43,043

Source: CBRT.

IV.1.2.C. Deposits

Total deposits of the banks increased 11 percent in real terms, in November 2004, compared to the end of the previous year. During this period, while the deposits denominated in Turkish lira increased 17 percent in real terms, the deposits denominated in foreign currency increased 4 percent in terms of Turkish

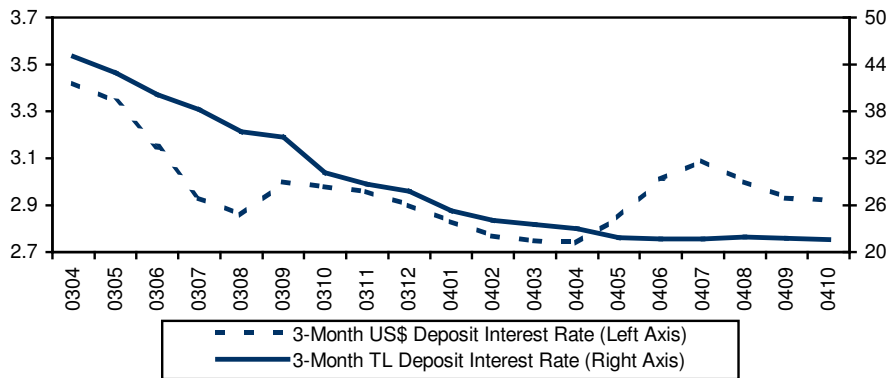
The deposit volume continued its upward trend in 2004.

lira. Also, deposits denominated in foreign currency increased 11 percent in terms of US dollars. One of the factors that caused deposits denominated in foreign currency to increase more than deposits denominated in Turkish lira was the fact that most of the time deposits in Türkiye İmar Bankası T.A.Ş., which was liquidated, were deposited in T.C. Ziraat Bankası A.Ş. as blocked time deposits denominated in Turkish lira in January 2004. Deposits denominated in foreign currency decreased up to May, but since then, they started an upward trend.

The banking groups, which had the highest increase in deposits, were public banks and foreign banks. The repayments to depositors of Türkiye İmar Bankası T.A.Ş. via T.C. Ziraat Bankası A.Ş. and as blocked time deposits for amounts above 10 billion gave rise to a higher rise in deposit volume of public banks than that of private banks. While the deposits of public banks denominated in Turkish lira increased 22 percent in real terms, their deposits denominated in foreign currency increased 17 percent in terms of foreign currency; as a result, total deposit volume increased 21 percent. The deposit volume of foreign banks, in line with the increase in the share of the sector, increased 38 percent in real terms. While the deposit volume of private banks increased 8 percent, the deposit volume of SDIF banks decreased due to their liquidation process.

The interest rates of deposits denominated in Turkish lira, in line with disinflation, continued to decline. Yet, the interest rates of deposits denominated in US dollars did not change much (Figure IV.1.4). However, even though the interest rates in terms of Turkish lira were not affected by the financial volatility in the period of April-May, interest rates increased in terms of US dollars.

FIGURE IV.1.4
DEPOSIT RATES
(Percent)

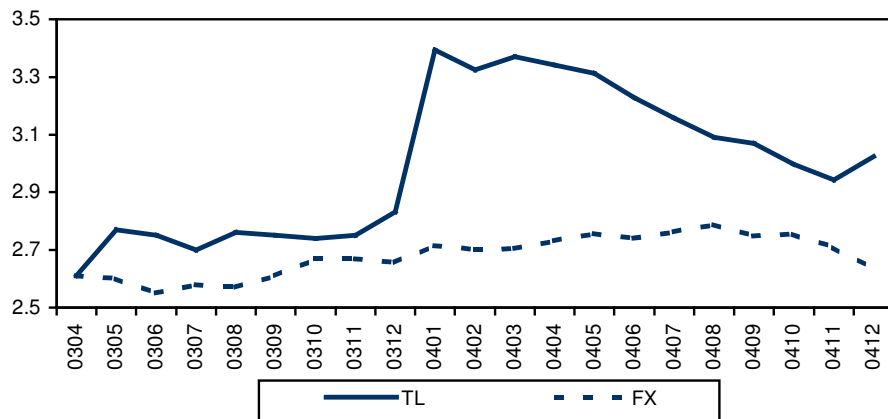


Source: CBRT.

At the end of 2004, while the average maturity of deposits denominated in Turkish lira was 3 months, that of deposits denominated in foreign currency was 2.6 months (Figure IV.1.5). The repayments to depositors of İmar Bankası T.A.Ş. by means of T.C. Ziraat Bankası A.Ş. as demand deposits for amounts below 10 billion Turkish liras and as time deposit ranging from 3 to 36 months for the amount above 10 billion Turkish liras started in January 2004. Since the deposits denominated in foreign currency, also deposited as blocked and in terms of Turkish lira, the average maturity of deposits denominated in Turkish lira seemed to be extended. However, in the following months, the average maturity of deposits denominated in Turkish lira decreased slightly and it converged at its previous level.

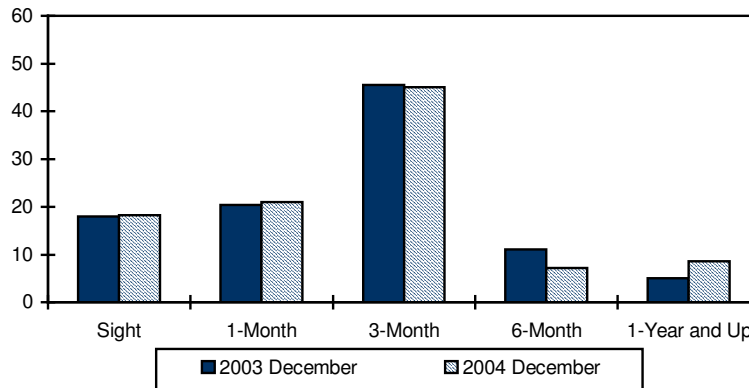
As in previous years, deposit volume was concentrated in sight deposits, 1-month deposits, and 3-month deposits in 2004 (Figure IV.1.6). However, it is observed that the maturity of 1-year and longer time deposits were prolonged partly due to the stability in financial markets.

FIGURE IV.1.5
AVERAGE MATURITY OF DEPOSITS
(In Months)



Source: CBRT.

FIGURE IV.1.6
BREAKDOWN OF DEPOSITS ACCORDING TO MATURITY
(In Months)



Source: CBRT.

IV.1.2.D. Owners Equity

Public banks continued to be the most profitable banks of the sector.

The total owners' equity of the banking sector, which was TL 35.5 quadrillion at the end of 2003, increased by 16 percent in real terms and reached TL quadrillion in November 2004. During this period, owners' equities of public banks decreased in real terms due to the decline in the capital reserves item, which stemmed from inflation accounting. Public banks as a whole were the only group, which increased their profits in real terms. The profitability of other bank groups declined in real terms compared to the end of the previous year.

IV.1.2.E. Due to Banks

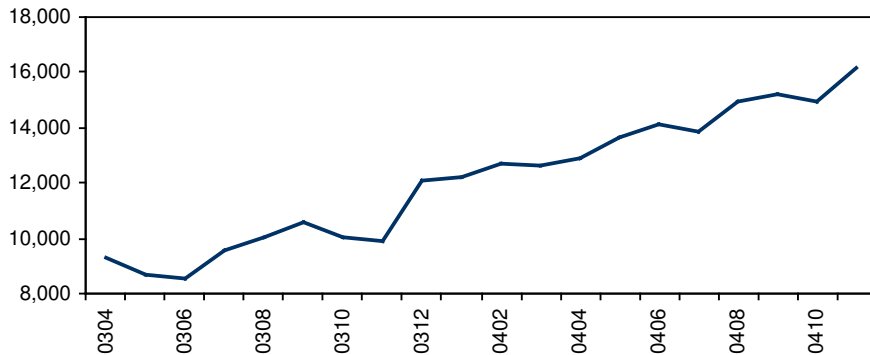
Foreign credits obtained by banks abroad increased significantly in 2004.

The "due to banks" item consists mainly of foreign credit received by banks from abroad. This item increased 13 percent in real terms compared to the end of the previous year and amounted to TL 32 quadrillion in November 2004. While the foreign exchange denominated "due to banks" items of foreign banks increased 61 percent in real terms, those of public banks and private banks increased 20 and 17 percent, respectively, in real terms.

The credit extended to banks from abroad rose to 16.2 billion US dollars in November 2004, while it was 12.1 billion US dollars in 2003 (Figure IV.1.7). The increase in these loans mainly stemmed from ongoing disinflation, the low level of interest rates in developed economies and the process of EU membership.

FIGURE IV.1.7
FOREIGN CREDIT USED BY THE BANKING SECTOR
(US\$ billion)

Source: CBRT.

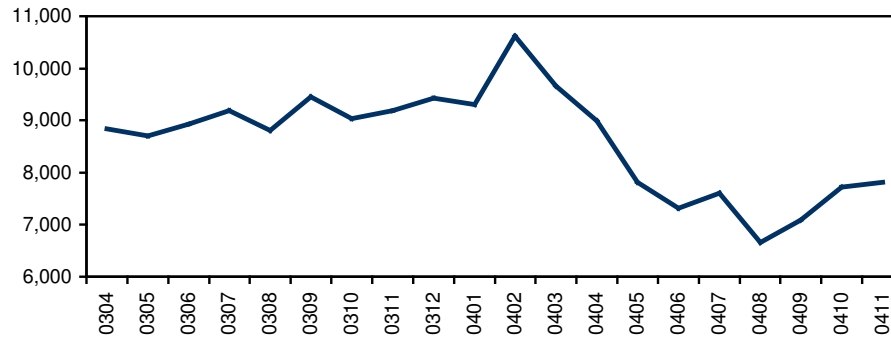


IV.1.2.F. The Foreign Currency Open Position of the Banking Sector

According to the in-balance sheet figures, the difference between the foreign exchange liabilities and assets, excluding items indexed to foreign currency, has shown a downward trend since March 2004 because the Fed declared to the public that it would increase short-term interest rates, a proxy for international interest rates, hence volatility appeared in international financial markets. Yet, after September, the open position calculated according to the in-balance sheet figures again increased due to positive expectations about the EU. While the open position calculated according to the in-balance sheet figures was 9.4 billion US dollars at the end of 2003, it dropped to 7.8 billion US dollars (Figure IV.1.8). In the same period, while the open position of public banks increased, that of private banks decreased. Public banks, private banks, SDIF banks, and foreign banks also had in-balance sheet open positions of US\$ 1.6 billion, US\$ 6.2 billion, US\$ 0.1 billion, and US\$ 0.3 billion, respectively. However, development and investment banks also had a positive foreign exchange position of US\$ 0.3 billion.

The open position of the banking sector has decreased since March 2004 significantly.

FIGURE IV.1.8
THE FOREIGN CURRENCY ASSET-LIABILITY DIFFERENCE IN THE
BANKING SECTOR
(US\$ million)

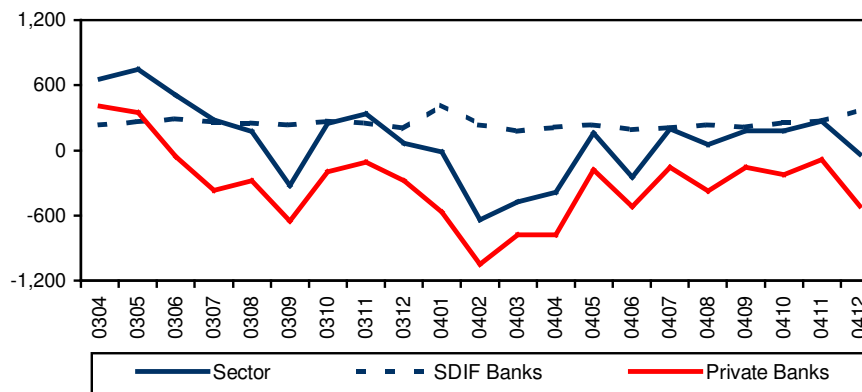


Source: CBRT.

The banking sector had a profit of TL 6.1 quadrillion in the first eleven months of 2004.

The foreign currency net general open position of the banking sector, which takes into account off-balance sheet items and items indexed to foreign currency, did not change significantly in 2004. While the foreign currency net general open position of the private banks was slightly open, public banks had a partially excess position (Figure IV.1.9).

FIGURE IV.1.9
THE NET POSITION OF THE BANKING SECTOR
(US\$ million)



Source: CBRT.

IV.1.3. Developments in the Income Statement of the Banking Sector

The banking sector had a TL 6.1 quadrillion profit as of November 2004, compared to the TL 5.6 quadrillion profit in 2003 (Table IV.1.6). In US dollar terms, while the banking sector had a profit of US\$ 4 billion in December 2003, it showed a profit of US\$ 4.3 billion in November 2004. All banking groups including the SDIF banks made a profit. Public banks, private banks, investment and development banks, SDIF banks and foreign banks made a profit of TL 2.5 quadrillion, TL 2.8 quadrillion, TL 316 trillion, TL 214 trillion and TL 200 trillion, respectively.

TABLE IV.1.6
CONSOLIDATED INCOME STATEMENT OF THE BANKING SECTOR
SELECTED ITEMS
(TL trillion)

	December 2003			November 2004		
	TL	FX	Total	TL	FX	Total
1. INTEREST INCOME	34,479	4,776	39,255	32,206	4,479	36,685
Interest Income on Loans	8,829	1,626	10,455	12,354	1,686	14,040
Interest Income on Banks	596	283	879	500	303	803
Interest Income on Interbank Market Transactions	2,557	73	2,630	968	13	981
Interest Income on Total Securities ⁽¹⁾	20,663	2,574	23,236	17,084	2,399	19,482
Other Interest Income	1,351	208	1,559	900	66	966
2. INTEREST EXPENSES	25,057	2,940	27,997	18,075	2,634	20,709
Interest Paid for Deposits	21,294	1,929	23,223	15,633	1,703	17,336
Interest Paid for Balances due to Banks	952	644	1,595	718	715	1,433
Interest Paid for Interbank Market Transactions	194	70	268	101	27	128
NET INTEREST INCOME (EXPENSES)	9,421	1,836	11,257	14,131	1,845	15,975
Provisions for Past Due Loans	2,522	100	2,622	1,068	15	1,083
NET INTEREST INCOME (EXPENSES) AFTER PROVISIONS	6,900	1,735	8,635	13,062	1,830	14,892
3. NON-INTEREST INCOME	6,430	758	7,188	6,383	724	7,107
Income from Banking Activities	2,872	221	3,093	3,478	223	3,701
4. NON-INTEREST EXPENSES	12,356	326	12,681	11,740	453	12,193
Personnel Expenses	4,001	29	4,030	4,162	28	4,190
Other Non-Interest Expenses	4,620	87	4,707	3,814	73	3,887
5. OTHER NON-INTEREST INCOME (EXPENSES)	2,859	2,066	4,925	-1,626	282	-1,344
Net Income (Expenses) from Capital Market Transactions	4,660	434	5,094	1,187	609	1,796
Net Income (Expenses) from FX Transactions	0	1,631	1,631	0	-327	-327
PROFIT (LOSS) BEFORE TAX	3,833	4,234	8,067	6,079	2,383	8,462
Provisions for Taxes	2,451	4	2,455	2,365	-1	2,364
PROFIT (LOSS) FOR THE PERIOD	1,382	4,230	5,612	3,714	2,385	6,099

Source: CBRT.

(1) Total securities include trading securities, securities available for sale and securities to be held till maturity

As of November 2004, net interest income increased and provisions for non-performing loans decreased in the banking sector. This led to an increase in net interest income of banks after provisions by 70 percent compared to the end of the previous year. There was an important drop in the item of other non-interest incomes and expenses. According to the analysis of expenses by sub-items, compared to December 2003, there was a decline in interest paid for deposits, and interest paid for Interbank Market transactions in November 2004. Especially, the decrease in interest paid for deposits is remarkable.

The analysis of income by sub-items shows that compared to the end of the previous year, there was a clear rise in interest income on loans. However, the interest income on Interbank Market transactions and that on total securities, in line with decreasing interest rates, decreased significantly in November 2004. When considering total interest income, year-end figures do not seem to be much different much from the previous year.

The profits from foreign exchange transactions, which had been perceived as the main source of profits of banks with profits from capital market transactions in 2003, appeared as a loss in November 2004. Moreover, profits from capital market transactions decreased significantly. The main reason for the lower profit from capital market transactions than that of the previous year was the fact that interest rates had dropped rapidly in 2003, while they dropped at a slower pace in 2004. Also, the reason for the loss from foreign exchange transactions was the nominal depreciation of the Turkish lira against the US dollar and euro.

Public banks made a profit of TL 1.8 quadrillion in November 2004, compared to a profit of TL 2.5 quadrillion in 2003. The declining interest rates due to cyclical developments affected the interest income and interest expenses of public banks, thus causing a considerable decrease in these items. Despite the fall in both interest income and non-interest income in 2003, the increase in interest income from raised loans and the decrease in non-performing loans caused an increase in the net profit for the period compared to the end of the previous year.

Private banks made a profit of TL 2.8 quadrillion in November 2004, compared to a profit of TL 2.9 quadrillion in 2003. It is projected that the year-end profits of private banks will be parallel to the previous year. On the other hand, while foreign exchange transaction profit turned to loss and the loss stemming from monetary position increased. Moreover, income from capital market transactions declined significantly due to the course of low interest rates.

SDIF banks made a profit of TL 272 trillion in November 2004, compared to a profit of TL 215 trillion in 2003. Development and investment banks made a profit of TL 316 trillion in November 2004 compared to a profit of TL 441 trillion in 2003. The fall in profit of development and investment banks mostly stemmed from the substantial decrease in both interest and non-interest income. On the other hand, the decline in both interest and non-interest expenses during the same period slightly limited the decline in profit of the mentioned banks.

Foreign banks made a profit of TL 200 trillion in November 2004 compared to a profit of TL 188 trillion in 2003. The more than offsetting decline in both interest and non-interest expenses despite the decrease in both interest and non-interest income, as well as the increase in capital market transactions profits, affected the increase in foreign bank profits in November 2004 compared to the previous year.

IV.1.4. Legal and Administrative Regulations

Required reserves held by banks with Central Banks are subject to interest payments, which contribute to the efficient and productive operation of banks via reduced intermediation costs of the banking system.

In principle, the interest rate applicable on required reserves established for Turkish lira deposits is set to be between 75 and 80 percent of the weighted average simple interest rate applied by banks on Turkish lira deposits. In this context, the said interest rate, which was set at 16 percent on 26 December 2003 in line with the downward trend in interest rates applied by banks on Turkish lira deposits, was cut to 14 percent on 22 March 2004 and to 12.5 percent as of 25 August 2004.

Interest rates applicable to required reserves established for foreign exchange deposits were set, on a weekly basis, at a rate equal to the interest rates applicable to 2-day notice-foreign exchange deposit accounts held freely by banks with the Central Bank.

With ‘The Communiqués on Required Reserves and Liquidity Requirements No.2004/1’ published in the Official Gazette No. 25347 dated 15 January 2004;

Required reserves established by special finance institutions have become subject to interest payments as of 16 January 2004. Moreover, the required reserve ratio applicable to Turkish lira denominated liabilities of these institutions was raised to 6 percent (at the same level with banks) starting from the list of liabilities dated 2 January 2004.

With the Council of Ministers Decree No.2003/6668, call deposit accounts opened by SDIF with T.C.Ziraat Bankası on behalf of the Türkiye İmar Bankası T.A.Ş., depositors and the amounts at time deposit accounts, as long as they are kept at these accounts, shall be exempt from required reserves and liquidity requirements.

With the Communiqué No.12004/1 Amending the Communiqué relating to ‘Law on Regulation of Check Payments and Protection of Check Bearers,’ published in the Official Gazette No., 2534719 dated 15 January 2004, the liability amount, which should be paid by the drawer bank to the check bearer other than the drawer against bad-checks or inadequate checks presented in due time, was set at ‘three hundred million Turkish lira’ as of 19 January 2004.

In accordance with ‘Law No.5035 Relating to Amendments to Certain Laws’ published in the repeated issue of the Official Gazette No.25334 dated 2 January 2004, stamp duty and charges imposed on credits were revoked.

With the ‘Regulation Amending the Regulations on the Establishment and Operation of Special Finance Institutions’ published in the Official Gazette No. 25441 dated 22 April 2004, the articles of the ‘Regulations on the Establishment and Operation of Special Finance Institutions’ titled ‘Acceptable Fund Types’ and General Terms for Acceptable Fund Types’ and ‘Principles on Consideration Ratios and Partnership Shares in Non-cash Credits and Derivatives Contracts and Other Similar Contracts’ published in the Official Gazette No.24529 dated 20 September 2001 were amended. Moreover, a number of amendments concerning special finance institutions were made in the ‘Regulation Amending the Regulations on the Establishment and Operation of Special Finance Institutions’ published in the Official Gazette No 25639 dated 10 November 2004, in line with the amendments to the ‘Regulation Amending the Regulations on the Establishment and Operation of Banks’ dated 10 November 2004.

The ‘Communiqué relating to the ‘Uniform Accounting Plan’ published in the repeated issue of Official Gazette No. 24793 dated 22 June 2002 was amended by the ‘Communiqué Amending Communiqué relating to the Uniform Accounting Plan’ published in the Official Gazette No. 25524 dated 16 July 2004. With this amendment, while new general lodger accounts and sub-accounts were opened, some annexes were made in notes section and some of the supplementary accounts were excluded. With the ‘Communiqué Amending the Communiqué relating to Uniform Accounting Plan’ published in the Official Gazette No 25608 dated 9 November 2004, amendments were made concerning consumer credits and credit cards.

With the Council of Ministers Decree No. 2004/7633 published in the Official Gazette No.25537 dated 29 July 2004, the resource utilization support fund cut on commercial and institutional credits extended by banks and financing companies was revoked.

With the ‘Regulation Amending the Regulations on the Establishment and Operation of Banks’ published in the Official Gazette No. 25537 dated 29 July 2004, the article of the ‘Regulations on the Establishment and Operation of Banks’ published in the Official Gazette No.24445 dated 27 July 2001, which was titled ‘Principles on Consideration Ratios and Partnership Shares in Non-cash Credits and Derivatives Contracts and Other Similar Contracts’, was amended by adding a new clause. Moreover, amendments were made in some articles of the ‘Regulation Amending the Regulations on the Establishment and Operation of Banks’ published in the Official Gazette No. 25639 dated 10 November 2004, which are titled ‘Opening of Branches or Representative Offices, Forming of a Partnership or Participating in Existing Partnerships Abroad by Banks Incorporated in Turkey’, ‘Statements Concerning General Managers, Assistant General Managers and Members of the Board of Directors’, ‘Principles on Consideration Ratios and Partnership Shares in Non-cash Credits and Derivatives Contracts and Other Similar Contracts’ and ‘Consideration Ratios of Transactions’. Furthermore, with the provisional article annexed to the Regulations, a transitory period for commitments relating to the spending limit on credit cards was granted and it was decided that the said rate would be considered by 50 percent until 30 June 2005. Moreover, the definition of ‘Offshore Banking Fields’ given in the annex of the Regulations was changed.

With the Council of Ministers Decree No. 2004/7735 published in the Official Gazette No.25554 dated 15 August 2004, the resource utilization fund cut on consumer credits was raised to 15 percent from 10 percent.

With the ‘Law Relating to the Transfer of Pamukbank T.A.Ş. to Türkiye Halk Bankası and Amendments to Certain Laws’ published in the Official Gazette No. 25539 dated 31 July 2004, the principles and procedures for the transfer of Pamukbank T.A.Ş, whose shares, management and supervision were taken over by SDIF, were established.

With the ‘Regulation Amending the Regulations on Accounting Practices’ published in the Official Gazette No. 25655 dated 29 November 2004, it was decided that the ‘Regulations on Accounting Practices’ published in the repeated issue of the Official Gazette No. 24793 dated 22 June 2002 would also be applicable to special finance institutions and that the Uniform Accounting Plan

and its Prospectus to be applied would be regulated by the BRSA. Within this framework, the ‘Communiqué relating to the Uniform Accounting Plan and its Prospectus to be applied by Special Finance Institutions’ was published and put into effect.

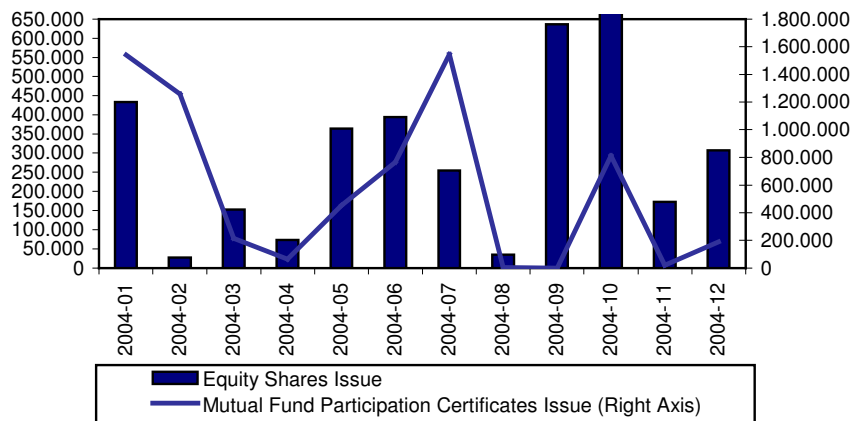
With the Communiqué No. 2004/2 Relating to Required Reserves published in the Official Gazette No. 25655 dated 29 November 2004, pursuant to Law No. 5230, the required reserve ratio for liabilities subject to required reserves, which were taken over by Türkiye Halk Bankası A.Ş. from Pamukbank T.A.Ş., was set at 0 percent until the list of liabilities dated 1 July 2005, 0.5 percent for Turkish lira denominated liabilities for the list of liabilities and 1 percent for foreign exchange denominated liabilities bearing this date. After 1 July 2005, the required reserve ratio will progressively be raised by 0.5 point for Turkish lira denominated liabilities and 1 point for foreign exchange denominated liabilities in both liability periods.

IV.2. SECURITIES MARKET

Total amount of securities registered to Capital Markets Board between January- December 2004 period was TL 10.7 quadrillion at current prices, increasing by 35.9 percent compared to the end-year in 2003.

The total amount of securities registered to the Capital Markets Board between January- December 2004 period was realized as TL 10.7 quadrillion at current prices, increasing by 35.9 percent compared to the end-year in 2003.

FIGURE IV.2.1
SECURITIES REGISTERED WITH THE
CAPITAL MARKETS BOARD
(TL billion)



Source: Capital Markets Board.

As of December 2004, a total of TL 3.8 quadrillion in equity shares and TL 6.9 quadrillion in mutual fund participation certificates were registered with the Board. While the issue of equity shares was mostly concentrated in January, September and October, the issue of mutual fund participation certificates was mainly concentrated in January and July during 2004 (Figure IV.2.1).

IV.2.1. Primary Markets

IV.2.1.A. Public Sector

As of December 2004, the total outstanding government securities of the public sector reached TL 200.7 quadrillion, increasing by 2 percent compared to the same period of the previous year (Table IV.2.1).

As of December 2004, total outstanding government securities of the public sector reached TL 200.7 quadrillion, increasing by 2 percent compared to the same period of the previous year.

TABLE IV.2.1
AMOUNTS OF OUTSTANDING PUBLIC AND PRIVATE SECTOR
SECURITIES
(TL trillion)

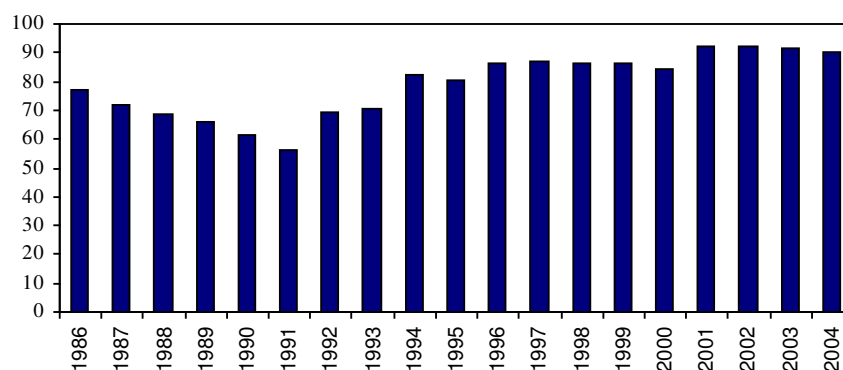
	Outstanding Government Securities	Share ⁽¹⁾	Government Bonds	Treasury Bills	Privatization Bills	Outstanding Private Sector Securities	Share ⁽¹⁾	Total Outstanding Securities
2003-12	196,004	91.6	168,974	25,413	1,617	18,008	8.4	214,012
2004-01	201,048	91.4	174,049	25,309	1,690	18,818	8.6	219,867
2004-02	202,162	91.3	178,214	22,257	1,690	19,188	8.7	221,350
2004-03	205,398	91.4	181,485	22,223	1,690	19,277	8.6	224,675
2004-04	207,827	91.4	185,286	20,939	1,602	19,521	8.6	227,347
2004-05	211,411	91.3	186,992	22,817	1,602	20,180	8.7	231,591
2004-06	210,721	90.8	185,190	23,929	1,602	21,411	9.2	232,131
2004-07	213,571	90.3	185,896	26,074	1,602	22,866	9.7	236,437
2004-08	215,879	90.2	183,962	30,315	1,602	23,365	9.8	239,244
2004-09	219,173	90.2	186,664	30,907	1,602	23,877	9.8	243,051
2004-10	228,713	90.3	192,362	33,220	3,131	24,665	9.7	253,378
2004-11	228,856	90.2	196,987	28,739	3,131	24,737	9.8	253,593
2004-12	227,415	90.0	194,211	30,272	2,932	25,186	10.0	252,601

Source: Capital Markets Board.

(1) Shares in total outstanding securities.

In the aforementioned period, government bonds, privatization bills and Treasury bills increased by 15 percent, 81 percent and 19 percent, respectively. The share of outstanding government securities in total outstanding securities decreased during 2004 compared to 2003. This decrease was predominated by the 40 percent decrease in the amount of outstanding private sector securities in 2004 (Figure IV.2.2).

FIGURE IV.2.2
THE SHARE OF OUTSTANDING GOVERNMENT SECURITIES IN
TOTAL OUTSTANDING SECURITIES
(Percent)



Source: Capital Markets Board.

IV.2.1.B. Privatization

During 2004, US\$ 1.3 billion privatization revenue was acquired while US\$ 171.6 million privatization revenue was acquired in 2003. Parallel to previous periods, privatization revenues in 2004 were mostly provided through block sales, assets sales and transfers (Table IV.2.2).

TABLE IV.2.2
PRIVATIZATION IMPLEMENTATIONS
(US\$ million)

	1986 - 2002	2003	2004	TOTAL
Block Sales	3,511	13	400	3,924
Assets Sales and Transfers	744	119	605	1,469
Public Offerings	1,642	0	65	1,708
International Offerings	1,026	0	126	1,152
ISE Sales	764	37	0	801
Incomplete Assets Sales	4	0	0	4
Paid-in Transfers	300	3	70	372
TOTAL	7,993	172	1,266	9,430

Source: Privatization Administration.

IV.2.1.C. Private Sector

As of December 2004, private sector securities, which are solely comprised of equity shares, reached TL 25.2 quadrillion, increasing by 40 percent compared to the end of 2003. The ratio of private sector securities to total outstanding securities was 10.0 percent as of December 2004 (Table IV.2.1). The salutary developments in 2004 have attributed to less dominance of the public sector borrowing requirement on the private sector.

As of December 2004, share of private sector securities in total outstanding securities has reached 11.2 percent.

As of December 2004, while the total portfolio value of type A mutual funds increased to TL 780.4 trillion with a 4.9 percent relative increase at the end of 2003, the total portfolio value of type B mutual funds increased to TL 23.7 quadrillion with a 24 percent increase. The total portfolio value of type A and type B mutual funds was TL 24.4 quadrillion, increasing by 23 percent (Table IV.2.3).

TABLE IV.2.3
2003 VE 2004 FIGURES OF PORTFOLIO ALLOCATION OF TYPE A AND
TYPE B MUTUAL FUNDS
(Percent)

	Type A		Type B		Type A and Type B	
	2003	2004	2003	2004	2003	2004
Government Bonds	17.57	20.44	68.90	68.71	66.98	67.17
Foreign Securities	0.12	0.39	0.09	0.00	0.09	0.02
Reverse Repo	18.36	10.87	30.97	28.32	30.50	27.77
Equity Shares	63.95	67.78	0.04	0.06	2.43	2.22
Foreign Equity Shares	0.00	0.00	0.00	0.00	0.00	2.83
Money Market	0.00	0.51	0.00	2.91	2.43	2.22
Total	100.00	100.00	100.00	100.00	100.00	100.00
Total Portfolio Value (TL trillion)	743.9	780.4	19,114.3	23,663.4	19,858.2	24,443.8

Source: Capital Markets Board.

IV.2.2. Secondary Markets

The cumulative monthly trading volume in secondary markets has increased by 20 times compared to the end of 2003, reaching TL 9,297 quadrillion as of year-end in 2004. The significant increase in secondary markets trading volume is attributable to the dramatic increase in the trading volume of public sector government bonds and Treasury bills starting from February (Table IV.2.4).

As of December 2004, the amount of private sector securities traded in secondary markets increased by 42 percent. Consequently, the secondary markets

trading volume of private sector securities, which are solely comprised of equity shares reached TL 208 quadrillion in 2004.

TABLE IV.2.4
GOVERNMENT SECURITIES SECONDARY MARKET TRADING VOLUME
(TL trillion)

	Government Bond		Treasury Bill		Total	
	2003	2004	2003	2004	2003	2004
January	11,409	38,777	6,021	8,577	17,430	47,354
February	13,626	945,528	4,161	106,352	17,786	1,051,880
March	27,788	1,876,173	6,401	250,037	34,188	2,126,210
April	16,747	1,362,539	6,520	274,810	23,267	1,637,348
May	20,504	528,387	4,969	12,606	25,472	540,993
June	18,560	673,969	7,746	7,318	26,307	681,287
July	15,309	696,101	5,895	10,859	21,204	706,960
August	14,995	541,555	3,558	8,247	18,553	549,803
September	12,650	655,773	1,949	8,785	14,599	664,558
October	71,042	632,136	3,283	26,381	74,324	658,517
November	108,096	358,085	36,734	12,707	144,831	370,793
December	34,060	224,737	6,960	36,928	41,020	261,665
Total	364,785	8,533,759	94,197	763,608	458,982	9,297,368
Average	30,398.7	711,146.6	7,849.7	63,634.0	38,248.5	774,780.6
Standard Deviation	29,473.2	497,534.0	9,254.8	97,037.7	37,301.7	583,647.7
Coefficient of Variation ⁽¹⁾	0.970	0.700	1.179	1.525	0.975	0.753
Volatility ⁽²⁾	0.485	0.329	0.582	0.699	0.487	0.362

Source: Capital Markets Board.

(1) Coefficient of Variation = Standard Deviation / Average.

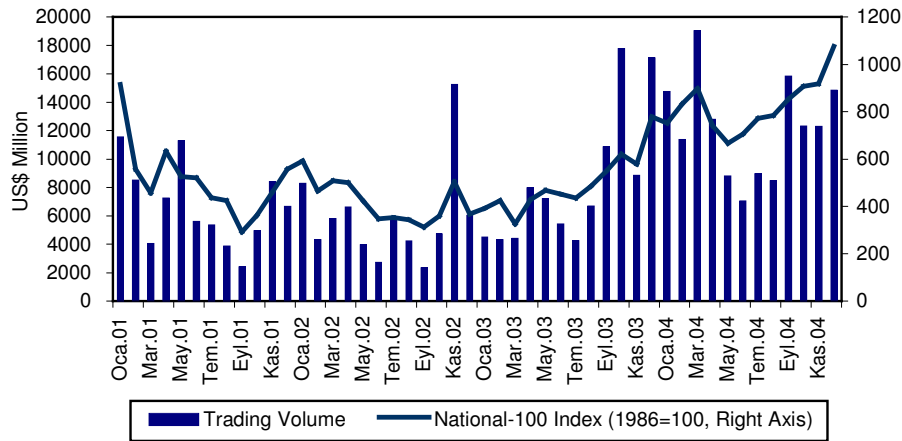
(2) Volatility = $1 - (\text{Average}^2 / (\text{Average}^2 + \text{Standard Deviation}^2))$.

IV.2.2.A. Stock Market

The ISE Stock Market experienced two public offerings in the form of capital increase in addition to 9 secondary public offerings during 2004.

As of December 2004, the total trading volume on the ISE Stock Market, National Market was US\$ 146.5 billion. On the other hand, the total trading volume in the aforementioned market during 2002 and 2003 was realized as US\$ 69.9 billion and US\$ 99.4 billion, respectively. Hence, the total trading volume on the ISE Stock Market, National Market when denominated in US\$ increased by 47 percent during 2004 compared to the previous year. The monthly average trading volume during 2004 was US\$ 12.2 billion. Throughout the year, trading was mostly concentrated in March, September and January, respectively, whereas June witnessed the minimum trading volume (Figure IV.2.3).

FIGURE IV.2.3
ISE STOCK MARKET
MONTHLY TRADING VOLUME AND NATIONAL-100 INDEX



Source: ISE.

The National-100 Index in US\$ sustained its upward trend in 2003 throughout 2004. Hence, December 2004 witnessed the record level of the previous three years. As of year-end in 2004, National-100 index increased by 38 percent compared to the same period of the previous year. Compared to the year-end in 2002, the increase was by 192 percent.

National-100 Index has increased by 38 percent in 2004 compared to year-end in 2003.

The analysis of transactions on the ISE Stock Market realized on behalf of and to the account of foreign banks/brokerage houses or individuals demonstrates that the trading volume of foreign investors, which contracted dramatically in the previous years due to adverse developments in financial markets, increased significantly in 2004. As a result of the salutary developments in 2004, purchase transactions realized on behalf of and to the account of foreign banks/brokerage houses or individuals were US\$ 19.4 billion, while the same figure had been US\$ 6.4 billion and US\$ 9.2 billion in 2002 and 2003, respectively. Sale transactions realized on behalf of and to the account of foreign banks/brokerage houses or individuals were US\$ 18 billion in 2004, while the same figure had been US\$ 6.4 billion and US\$ 8.2 billion in 2002 and 2003, respectively. Consequently, foreign investors were net buyers in 2003 and 2004, whereas they had been net sellers during 2002 (Table IV.2.5).

TABLE IV.2.5
ISE STOCK MARKET
TRANSACTIONS REALIZED ON BEHALF AND TO THE ACCOUNT OF
FOREIGN BANKS/BROKERAGE HOUSES OR INDIVIDUALS
(US\$ million)

	Purchase	Sale	Net
2002 Total	6,427	6,442	-15
January 03	403.4	284.4	119.0
February 03	457.8	405.6	52.2
March 03	368.7	487.7	-119.0
April 03	438.7	482.0	-43.3
May 03	482.0	472.9	9.0
June 03	414.6	365.6	49.0
July 03	461.8	384.5	77.3
August 03	723.5	549.1	174.4
September 03	1,249.7	939.0	310.7
October 03	1,636.3	1,504.9	131.4
November 03	970.5	778.5	192.0
December 03	1,560.6	1,503.6	57.0
2003 Total	9,167.5	8,157.7	1,009.8
January 04	1,514.4	1,532.7	-18.3
February 04	1,696.4	1,331.9	364.4
March 04	2,064.4	1,907.5	156.9
April 04	1,594.4	1,690.4	-96.0
May 04	1,156.2	1,215.9	-59.7
June 04	1,038.1	907.4	130.7
July 04	1,332.9	1,243.4	89.5
August 04	1,020.1	1,064.6	-44.4
September 04	1,853.8	1,670.5	183.3
October 04	1,690.8	1,653.6	37.2
November 04	1,965.2	1,753.6	211.6
December 04	2,472.2	1,997.8	474.4
2004 Total	19,399.0	17,969.3	1,429.7

Source: ISE.

The National-100 index in TL, which followed a volatile trend during 2004, increased by 34 percent based on closing values when compared to the year-end in 2003. During the same period, based on year-end closing values, the industrial index and the financial index increased by 28 percent and 38 percent, respectively (Table IV.2.6).

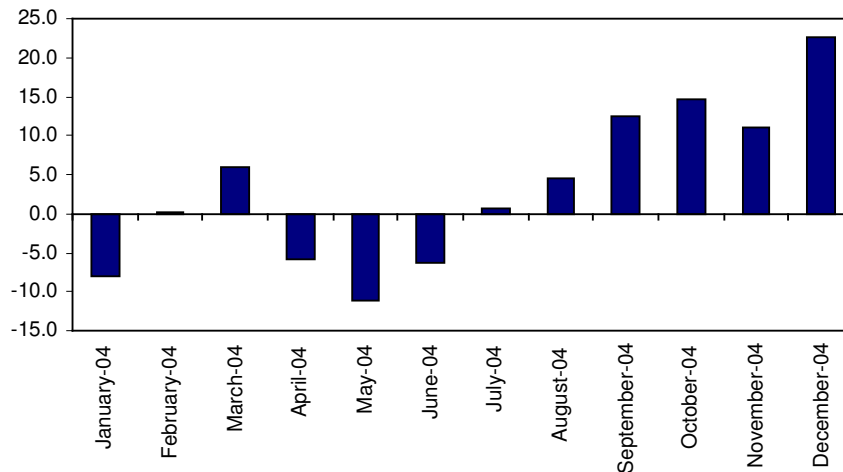
TABLE IV.2.6
ISE STOCK MARKET
CLOSING VALUES OF PRICE INDICES AND
MONTHLY PERCENTAGE CHANGES
(Year 2004)

	National-100		Industrial		Financial	
	Monthly		Monthly		Monthly	
	Index ⁽¹⁾	Percentage Change	Index ⁽¹⁾	Percentage Change	Index ⁽¹⁾	Percentage Change
January	17,259	7.9	15,339	6.3	23,521	8.8
February	18,889	9.4	16,491	7.5	25,957	10.4
March	20,191	6.9	18,049	9.4	27,260	5.0
April	18,023	-10.7	16,652	-7.7	24,277	-10.9
May	17,081	-5.2	15,630	-6.1	22,897	-5.7
June	17,968	5.2	15,592	-0.2	24,662	7.7
July	19,381	7.9	17,141	9.9	26,934	9.2
August	20,218	4.3	18,180	6.1	27,994	3.9
September	21,954	8.6	19,747	8.6	30,229	8.0
October	22,900	4.3	20,836	5.5	30,830	2.0
November	22,486	-1.8	20,163	-3.2	30,600	-0.7
December	24,972	11.1	20,885	3.6	35,488	16.0

Source: ISE.

(1) TL based (1986=1).

FIGURE IV.2.4
NATIONAL-100 RETURN INDEX
(Cumulative Real Return ⁽¹⁾)



Source: ISE, CBRT.

(1) Deflated by 1994-based consumer price index.

The shares of top 100 companies traded at National Market have increased on average by 22.6 percent in real terms during 2004.

The real returns of shares of the top 100 companies have been highly volatile throughout the year. Especially, in the first half of the year, the real return index was negative. In the second half of the year, the real return index experienced a significant increase. As of December 2004, compared to the same period of 2003, the National-100 return index increased by 22.6 percent (Figure IV.2.4).

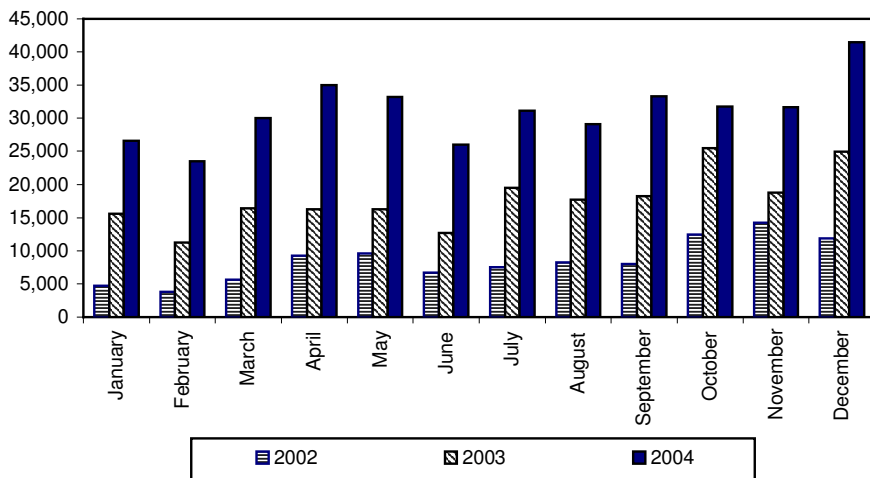
IV.2.2.B. Bonds and Bills Market

ISE Outright Purchases and Sales Market

The total monthly transaction volume on the Outright Purchases and Sales Market operating under ISE Bonds and Bills Market has stayed well above the 2002 and 2003 figures (Figure IV.2.5).

As of year-end 2004, the total transaction volume at the Outright Purchases and Sales Market increased by 75 percent compared to the end of 2003. Hence, as of December 2004, the total transaction volume at the Outright Purchases and Sales Market was TL 472.7 quadrillion. As of year-end, the total transaction volume on the Outright Purchases and Sales Market denominated in US\$ reached US\$ 262.6 billion with an increase of 82 percent compared to year-end 2003.

FIGURE IV.2.5
ISE BONDS AND BILLS MARKET
OUTRIGHT PURCHASES AND SALES MONTHLY TRADING VOLUME
(TL trillion)



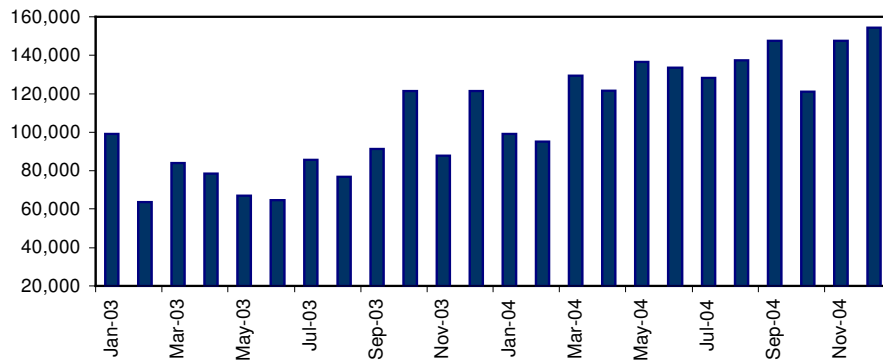
Source: ISE.

ISE Repo-Reverse Repo Market

The total transaction volume on the Repo-Reverse Repo Market operating under ISE Bonds and Bills Market reached TL 1,551.4 quadrillion in 2004 with an increase of 49 percent. The total transaction volume in the Repo-Reverse Repo Market denominated in US\$ was realized as US\$ 1.1 trillion by an increase of 55.4 percent in the aforementioned period.

The monthly analysis of the total transaction volume on the Repo-Reverse Repo Market shows an upward trend throughout 2004. During the year, trading was mostly concentrated in December and September while February and January witnessed the lowest trading volume of the year, respectively (Figure IV.2.6).

FIGURE IV.2.6
ISE BONDS AND BILLS MARKET
REPO-REVERSE REPO MARKET TRADING VOLUME
(TL trillion)



Source: ISE.

IV.2.2.C. International Bonds and Bills Market

The International Bonds and Bills Market operating under the ISE International Market hosted two US dollar denominated bond issues and one euro denominated bond issue in 2004.

International bonds issued in 2004 had a longer average maturity and lower cost.

The analysis of international bonds issued in 2004 demonstrates a significant change in maturity and cost structure compared to previous years. The total value of US\$ denominated bonds issued in 2004 was US\$ 2.25 billion with an average maturity of 19.5 years and average annual rate of 8.5 percent, whereas the value of euro denominated bond amounted to EUR 1 billion with 10 years maturity and 6.5 percent annual interest rate (Table IV.2.7).

TABLE IV.2.7
LISTED INTERNATIONAL BONDS ISSUED BY THE TURKISH REPUBLIC

Bond ID	Agreement Date	Principal Payment Date	Amount (million)	Maturity (year+month)	Interest Rate (Annual %)
I- US dollar					
140234US\$2TR8F	01.07.04	02.14.2034	1,500	30+1	8.000
150130US\$2TR11.87F	01.10.00	01.15.2030	1,500	30	11.875
150114US\$2TR9.5F	09.17.03	01.15.2014	1,250	10+4	9.500
140113US\$2TR11F	01.09.03	01.14.2013	1,500	10	11.000
230112US\$2TR11.5F	01.15.02	01.23.2012	1,000	10	11.500
300611US\$2TR9F	06.24.04	06.30.2011	750	9	9.000
150610US\$2TR11.75F	06.08.00	06.15.2010	1,500	10	11.750
150609US\$2TR12.37F	06.18.99	06.15.2009	1,250	10	12.375
151208US\$2TR12.00F	12.10.98	12.15.2008	600	10 (put 5)	12.000
190308US\$2TR9.87F	03.12.02	03.19.2008	1,350	6	9.875
130108US\$2TR10.5F	11.07.02	01.13.2008	1,100	5+2	10.500
190907US\$2TR10.00F	09.19.97	09.19.2007	600	10	10.000
271106US\$2TR11.37F	11.19.01	11.27.2006	1,000	5	11.375
060505US\$2TR3.00F	10.25.95	05.06.2005	263	9+6	3.000
230205US\$2TR9.87F	02.23.98	02.23.2005	500	7	9.875
TOTAL			15,663		
II- EURO					
100214EUR1TR6.5F	02.09.04	02.10.2014	1,000	10,0	6.500
180111EUR1TR9.5F	06.17.03	01.18.2011	750	7+7	9.500
090210EUR1TR9.25F	02.08.00	02.09.2010	1,000	10	9.250
240108EUR1TR9.87F	01.17.03	01.24.2008	500	5	9.875
221007EUR1TR8.12F	10.10.97	10.22.2007	1,500	7	8.125
080507EUR1TR9.75F	05.07.02	05.08.2007	750	5	9.750
301106EUR1TR9.62F	11.29.99	11.30.2006	750	7	9.625
250805EUR1TR9.62F	08.23.99	08.25.2005	400	6	9.625
140405EUR1TR7.75F	04.12.00	04.14.2005	600	5	7.750
070205EUR1TR11F	11.05.01	02.07.2005	800	3+3	11.000
TOTAL			8,050		
III- EURO (Issued as DM and converted to EURO as of 2002)					
200406DEM1TR10.5SD	04.15.98	04.20.2006	1,000	8	10.5-7.00
TOTAL			1,000		
IV- JPY					
160206JPY1TR7.20F	01.15.96	02.16.2006	10,000	10+1	7.200
TOTAL			10,000		

Source: ISE.



CENTRAL BANK BALANCE SHEET

V.1. ANALYSIS OF THE BALANCE SHEET

The major items on the 2004 balance sheet of the Central Bank are shown below.

Assets	2003 (TL Million)	2004 (TL Million)
1. Gold	2.234.170.898	2.254.793.278
2. Foreign Exchange	46.922.503.744	48.327.454.952
3. Coins	7.377.912	2.931.769
4. Domestic Correspondents	1.758.775.474	1.144.224.101
5. Securities Portfolio	27.645.805.802	23.164.478.819
6. Domestic Credit	6.556.133	309.977.715
7. Open Market Operations	432.999.998	127.999.999
8. Foreign Credit	166.346.625	113.274.082
9. Share Participations	20.786.547	20.904.100
10. Fixed Assets	257.792.337	289.588.841
11. Claims under Legal Proceedings (Net)		
A. Claims under Legal Proceedings	1.774.972.635	1.728.113.901
B. Provision for Past-Due Receivables	-1.774.972.635	-1.728.113.901
12. Treasury Liabilities Due to SDR Allocation	233.218.176	234.485.785
13. Revaluation	723.478.393	2.032.526.096
14. Accrued Interest and Income	7.346.510	74.275.476
15. Miscellaneous Receivables	33.981.289	5.563.075
16. Other Assets	19.824.646	19.714.747
17. Loss	1.548.363.435	509.726.063
18. Losses from Previous Years	3.912.749.921	
Total Assets	85.932.077.840	78.631.918.898
Memorandum Accounts	400.112.786.330	498.607.709.562
Liabilities	2003 (TL Million)	2004 (TL Million)
1. Currency Issued	10.675.527.631	13.465.236.966
2. Liabilities to Treasury	294.029.190	291.421.840
3. Foreign Correspondents	85.411.923	41.404.207
4. Deposits	56.260.799.995	56.044.673.836
5. Open Market Operations	8.260.095.369	3.622.089.369
6. Foreign Credit	12.093.985	12.158.192
7. Advances, Collateral and Deposits Collected against Letters of Credit and Import	837.448.514	1.096.905.436
8. Notes and Remittances Payable	12.818.666	19.783.353
9. SDR Allocation	233.218.176	234.485.785
10. Capital	40.612.613	46.233.524
11. Reserves	6.588.141.748	1.283.130.781
12. Provisions	76.810.833	92.522.327
13. Revaluation Account		
14. Accrued Interest and Expense	2.429.838.953	2.215.887.190
15. Miscellaneous Payables	82.929.824	103.800.422
16. Other Liabilities	42.300.420	62.185.668
Total Liabilities	85.932.077.840	78.631.918.898
Memorandum Accounts	400.112.786.330	498.607.709.562

THE ARRANGEMENTS FOR BALANCE SHEET ITEMS IN 2004

As per Law No. 5024, which became effective after being published in Official Gazette No. 25332 on 30 December 2003, all taxpayers should apply an inflation adjustment to their financial statements and depreciate their assets, which are subject to depreciation, by ratios defined and announced by the Ministry of Finance, beginning on 1 January 2004. Moreover, the valuation adjustment fund and cost adjustment fund cease to be effective.

Within this framework, the procedures for an inflation adjustment to be made as per the provisional Article 25 of the Tax Law, were explained in the General Communique No. 328 of the Tax Law, which was published in the Official Gazette No. 25387 on February 28th, 2003. Inflation adjustments were made for buildings, fixtures, intangible assets, land and also the depreciation thereof, for capital and reserves on the balance sheet as of 31.12.2003.

Moreover, as the requirements for inflation adjustments were in effect as per the provisions of Law No. 5024, inflation adjustments were made in the second and third provisional tax periods (30.06.2004 and 30.09.2004), as well as on 31.12.2004.

Within this framework, in order to assure the presentation of the effects of inflation adjustments on the Balance Sheet;

1. In the Liabilities, "X- Capital" item is re-arranged as:

"X- Capital

A. Paid-in Capital

B. Inflation Adjustment for Capital"

2. As the Cost Adjustment Fund and Valuation Adjustment Fund are no longer applicable, from the "Reserves" item in the liabilities, the sub-items;

"C. Valuation Adjustment Fund (Law No. 2791 and 3094)

D. Cost Adjustment Fund"

have been removed. The "Reserves" item is re-arranged as:

" XI- Reserves

A. Ordinary and Extraordinary Reserves

B. Special Reserves (Central Bank's Law Art.59)

C. Inflation Adjustments for Reserves"

3. In order to present the profit/loss for the period separately from the previous years' profit/loss, the following arrangements were made;

i- In the assets,

" XVII- Loss " was changed to

" XVII- Loss of the Period "

ii- In the liabilities, " XVII- Profit " was changed to

" XVII- Profit of the Period "

Moreover,

i- For loss, in the assets;

" XVIII- Previous Years' Losses"

ii- For profit in the liabilities;

" XVIII- Previous Years' Profits"

were introduced.

ASSETS:

1. Gold

The gold reserves on the balance sheet are valued using 1 net gram of gold = TL 18,899,474.3357, calculated as 1 ounce of gold = 438.00 US dollars based on the prices quoted on the London stock exchange as of December 31, 2004. The value of the international standard and non-international standard gold holdings reached TL 2,254,793,278 million, equivalent to 119,304,549.88 net grams.

	Net Grams	TL Million
International Standard	116,103,752.76	2,194,299,896
Non-International Standard	<u>3,200,797.12</u>	<u>60,493,383</u>
Total	<u>119,304,549.88</u>	<u>2,254,793,278</u>

The gold holdings of international standards reached TL 2,194,299,896 million, equivalent to 116,103,752.76 net grams. Although there was a depreciation of the US dollar against the Turkish lira, the increase of TL 20,260,424 million in value arose from the rise of the US dollar equivalent of 1 ounce of gold quoted in the London Stock Exchange from US\$ 417.25 as of December 31, 2003 to US\$ 438.00 as of December 31, 2004.

33,670,645.06 net grams of the gold holdings of international standards are stored in the Head Office's vaults, whereas 82,433,107.70 net grams are held with foreign correspondents.

The gold holdings of non-international standards decreased by 10,5 kg due to the medals made as gifts to employees who had worked at the Bank for 20 years. An increase of TL 361,956 million in value was due to the increase in the US dollar equivalent of 1 ounce of gold as compared to the previous year.

2. Foreign Exchange

This item consists of the accounts opened by the Central Bank with foreign correspondents against convertible and non-convertible foreign exchange, the Reserve Tranche Position held with the IMF, as well as the foreign currencies available in the Bank's vaults. The balance of this account, evaluated at year-end buying rates, amounted to TL 48,327,454,952 million, of which TL 48,327,454,115 million and TL 837 million 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 47,664,867,295 million, the Reserve Tranche Position amounting to TL 235,462,923 million, and the foreign currencies in the Bank's vaults amounting to TL 427,123,897 million as of the end of the year.

B) Non-Convertible:

This item includes the TL 837 million of non-convertible foreign currencies available in the vaults.

3. Coins

This item consists of the coins available in the Central Bank's vaults, which totaled TL 2,931,769 million at the end of the year.

4. Domestic Correspondents

This item reached TL 1,144,224,101 million at the end of the year. It consists of both the Correspondent Accounts, which were opened with T.C. Ziraat Bankası in accordance with the Correspondent Agreement and totaled TL 1 million, and the foreign exchange deposit accounts in domestic banks, which amounted to TL 1,144,224,100 million at the end of the year.

5. Securities Portfolio

The Government Debt Securities, which amounted to TL 27,645,805,802 million as of the end of 2003, include government securities bought from state and fund banks (which were later exchanged for long term securities), FX indexed securities issued by the Treasury. In 2004 due to the sale of the securities held under reverse repo operations equivalent to TL 119,408,285 million, redemption of FX indexed securities amounting to SDR 2,312 million; the Government Domestic "Debt Securities amounted to TL 23,164,478,819 million at the end of the year.

TL securities (including those sold under reverse repo operations) in the Central Bank portfolio were evaluated at their market prices on December 31,

2004, and FX indexed securities were evaluated by adding the accrued interest up to December 31, 2004.

Due to reverse repurchase operations, the item Open Market Operations “Repurchase Agreements / Securities” in the assets, should also be taken into account in order to assess the changes in the Securities Portfolio.

6. Domestic Credit

Domestic credit and credit extended to the Savings Deposit Insurance Fund amounted to TL 309,977,715 million as of the end of 2004.

The balance of rediscount credit extended against FX securities amounted to TL 7.677.722 million as at the end of 2004.

The total advance extended to the Savings Deposit Insurance Fund, collateralized by Treasury-issued securities was TL 302,299,993 million. Of this total, TL 257,017,720 was extended on February 19, 2004 and the remaining TL 45,282,273 million was extended on March 15, 2004.

	TL Million
A) Banking Sector	7,677,722
a) Rediscount Credit	7,677,722
b) As per Art. 40/1-c of Law No: 1211	-
c) Other	-
B) Credit to Savings Deposit Insurance Fund	302,299,993
TOTAL	309,977,715

7. Open Market Operations

This item was TL 127,999,999 million at the end of the year with a decrease of 304,999,999 in value and represents the claims in securities arising from Open Market Operations.

8. Foreign Credit

This item consists of credit extended in accordance with the Banking Agreement between the Central Bank of the Republic of Turkey and the Central Bank of Sudan and the credit extended against the bills bought by the Central Bank, which were issued by the Vnesheconombank of the Russian Federation

against the wheat exports made by the Soil Products Office of that country. It also includes the credit extended in accordance with the Banking Agreement concerning claims on non-performing loans due to the Banking Regulation terminated on December 31, 1990 between the Central Bank of the Republic of Turkey and the Central Bank of Albania. At the end of 2004, the balance of this account was TL 113,274,082 million, equal to US\$ 84,400,627.62.

9. Share Participations

The balance of this account was TL 20,904,100 million as at the end of 2004. In accordance with Article 3 of Central Bank Law No. 1211, this item consists of the Central Bank's accounts of 10,000,000 SDR with the Bank for International Settlements in Basle and 13,740 euros held with the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The value of these participations is calculated at the rate of 1 SDR = TL 2,087,900 and 1 euro = TL 1,826,800.

10. Fixed Assets

This item consists of the net values of buildings, plots, furniture and fixtures owned by the Central Bank adjusted for inflation less their allowance for depreciation.

The net value of buildings and plots is TL 274,383,706 million after deducting depreciation based on the adjusted values of the real estate and the adjusted accumulated depreciation totaling TL 33,591,927 million from the adjusted value of the real estate totaling TL 307,975,633. The value of the real estate of the Central Bank adjusted for inflation, which was TL 269,029,580 million in the previous year, reached TL 307,975,633 million after an increase of TL 38,946,053 million. The real estate is insured for TL 193,679,217 million.

The net value of furniture and fixtures is TL 15,205,135 million after deducting the allowance for depreciation based on the adjusted values of furniture and fixtures and the adjustment for accumulated depreciation totaling TL 44,053,163 million from the adjusted value of furniture and fixtures totaling TL 59,258,298. The value of the furniture and fixtures adjusted for inflation increased by TL 13,709,692 million. The furniture and fixtures are insured for TL 44,405,128 million.

11. Claims under Legal Proceedings

This account shows the claims on the Central Bank of Iraq, which was TL 1,603,869,697 million (equivalent of US\$ 1,195,044,852.97) as well as the claims arising from the credit amounting to TL 124,244,204 million (equivalent of US\$ 92,574,475.48) which was extended against the bills bought by the Central Bank from Enka Construction and Industry Joint Stock Company regarding the Iraq Bekhme Dam project. As the provision of TL 1,728,113,901 million was set for these claims as an offsetting item, this account has no balance as of the end of the year.

12. Treasury Liabilities Due to SDR Allocation

This item consists of the allocation of SDR 112,307,000 (equivalent to TL 234,485,785 million), which was allocated by the IMF to Turkey and used by the Treasury. It is recorded reciprocally with the “SDR Allocation” on the liability side.

13. Revaluation Account

This item consists of unrealized losses arising from the revaluation of gold and foreign exchange on both the assets and liabilities sides, pursuant to Article 61 of the CBRT Law as amended by Law No. 4651 on April 25, 2001. The year-end balance of this account is TL 2,032,526,096 million.

14. Accrued Interest and Income

The accrued interest and income as of the end of the year 2004 is TL 74,275,476 million.

15. Miscellaneous Receivables

This item, which shows a balance of claims amounting to TL 5,563,075 million at the end of the year, consists of TL 3,037,580 million in Turkish lira and TL 2,525,495 million in foreign currencies, the breakdown of which is as follows:

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	TL million
- Advances and Deposits	904,032
- Temporary Tax, Income Tax and Funds Deducted From The Corporation Tax Payable	195,728
- Letters of Credit of the Banknote Printing Plants	1,070,364
- TL Deposits Accounts with National Banks Abroad	500,511
- Banknotes Sent Abroad for the Test of Cash Counter Machines which are to be Imported	344,985
- Other	21,960
TOTAL	3,037,580

16. Other Assets

This item shows various claims of the Bank, amounting to a balance of TL 19,714,747 million at the year-end and consists of TL 18,857,414 million in Turkish Lira and TL 857,333 million in foreign currencies.

17. Loss of the Period

The balance of this account is TL 509,726,063 million at the end of 2004 and results from the net between interest income, non-interest income and income from share participation totaling TL 4.780.514.448 million and interest expense, non-interest expense and other expenses totaling TL 5.290.240.511 million. The detailed explanation about the net loss of the Central Bank for the year 2004 appears under the heading "VI.2.PROFIT LOSS ACCOUNT FOR THE YEAR 2004"

18. Losses From Previous Years

Since the ordinary and extraordinary reserves were used to cover the loss in 2003, amounting to TL 1,548,863,435 million, and the accumulated loss of TL 4,277,199,286 million stemming from the inflation adjustments which were offset by the "Reserves Inflation Adjustment Differences" item according to the Board decision of December 9, 2004, this item has no balance as of the end of the year.

LIABILITIES:

1. Currency Issued

The year-end balance of currency issued in accordance with Article 36 of Central Bank Law No. 1211, amounted to TL 13,465,236,966 million, increasing by TL 2,789,709,335 million compared to last year.

2. Liabilities to the Treasury

The year-end balance of liabilities to the Treasury amounted to TL 291,421,840 million, decreasing by TL 2,607,350 million compared to last year.

A- Gold

The gold claims of the Treasury, 345,574.68 net grams, amounted to TL 6,531,180 million as of the end of the year. Although the Turkish lira revalued against the US dollar in 2004, the account resulted in an increase of TL 60,304 million compared to last year due to the increase in the value of 1 ounce of gold against the US dollar.

B- Reserve Tranche Means

Due to the portion of Turkey's IMF quota of SDR 964 million, which was paid as gold and foreign exchange, the Treasury has a Reserve Tranche Means of SDR 112,775,000. Presented reciprocally with a "Reserve Tranche Position" in the assets, the year-end balance of this item is TL 235,462,923.

C- Other

This item, which shows the net liabilities to the Treasury, amounted to TL 49,427,738 million at the end of 2004.

3. Foreign Correspondents

This account represents the sum of TL 41,404,207 million, evaluated at year-end buying rates. It denotes the Central Bank's debt to correspondents abroad and consists of TL 1,184,975 million in convertible foreign exchange and TL 40,219,233 million in non-convertible foreign exchange.

A- Convertible

Convertible foreign exchange liabilities amounted to TL 1,184,974 million, decreasing by TL 13,992,989 million compared to 2003, and consist of the

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accounts of the correspondents abroad and accounts of foreign central banks with the Central Bank.

B- Non-Convertible

The nostro accounts amounted to TL 40,219,233 million at the end of the year, the equivalent of US\$ 29,967,388.95 were opened in accordance with bilateral agreements

4. Deposits

The year-end balance of this account is TL 56,044,673,836 million, the breakdown of which is as follows:

	Turkish Currency TL million	Foreign Currency TL million
A) Public Sector	<u>901,598,466</u>	<u>5,198,661,815</u>
a) Treasury, General and Annexed Budget Administrations	793,033,833	5,149,352,990
i) Treasury	403,643,479	3,884,450,885
ii) General Budget Administrations	188,843,523	1,264,902,104
iii) Annexed Budget Administrations	200,546,831	
b) Public Economic Institutions	348,000	-
c) State Economic Enterprises	7,388	49,308,825
d) Other	108,209,246	-
B) Banking Sector	<u>6,723,267,462</u>	<u>13,275,953,393</u>
a) Free Deposits of Domestic Banks	3,606,762,681	4,522,507,982
b) Foreign Banks	1,000,380	-
c) Required Reserves (Article 40 of the Central Bank Law)	3,115,294,000	8,753,445,411
i) Cash	3,115,294,000	8,753,445,411
ii) Gold (Net grams)	-	-
d) Other	210,401	-
C) Miscellaneous	<u>3,418,149</u>	<u>25,057,375,437</u>
a) Foreign Exchange Deposits by Citizens Abroad	-	24,978,894,739
b) Other	3,418,149	78,480,698
D) International Institutions	<u>4,038,731,131</u>	-
E) Extra-budgetary Funds	<u>24,371,584</u>	<u>821,296,399</u>
a) Savings Deposit Insurance Fund	1,038,345	24,830,217
b) Other	<u>23,333,239</u>	<u>796,466,181</u>
Total	<u>11,691,386,792</u>	<u>44,353,287,044</u>

5. Open Market Operations

The balance of this item reached TL 3,622,089,369 million at the end of the year. TL 128,189,369 million represents the debt in cash arising from Open Market Operations and TL 3,493,900,000 million represents the cash claims of the banks due to Interbank Money Market Operations.

6. Foreign Credit

This account shows the non-guaranteed trade arrears, which were transferred to the Central Bank's liabilities. It amounted to TL 12,158,192 million at the end of the year.

7. Advances, Collateral and Deposits Collected against Letters of Credit and Import

The balance of this item was TL 1,096,905,436 million at the end of the year. Of this total, TL 3,365,562 million 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 1,093,539,874 million.

8. Notes and Remittances Payable

The year-end balance of this account amounted to TL 19,783,353 million. It consists of payment orders to be made to beneficiaries amounting to TL 19,783,162 million in convertible and TL 191 million in non-convertible foreign currencies.

9. SDR Allocation

This account, presented reciprocally with the "Treasury's Liability due to SDR Allocation" in the assets, shows the liability to the IMF amounting to TL 234,485,785 million, the equivalent of SDR 112,307,000 allocated to Turkey by the IMF and used by the Treasury.

10. Capital

Capital is composed of a paid-in capital of amount TL 25,000 million, which consists of 250,000 shares, each with a nominal value of TL 100,000, under Article 5 of Central Bank Law No. 1211; and an inflation adjustment of paid-in capital, of TL 46.208.524 million, as per the decrees of Law No. 5024.

The composition of shares according to their class is presented below:

Category	Number of Shares	Percent of Total	(TL million) Total Amount
A	136,800	54,72	13,680
B	64,049	25,62	6,404
C	625	0,25	62
D (*)	48,526	19,41	4,854
Paid-in capital	250,000	100,00	25,000
Inflation adjustment for paid-in capital			46,208,524
TOTAL			46,233,524

(*) 53 shares, transferred to the Treasury due to the Civil Law, are in category D.

11. Reserves

This item includes both reserve funds retained in accordance with Articles No. 59 and 60 of Central Bank Law No. 1211, and inflation adjustment differences as per Law No. 5024, which came into effect after being published in the Official Gazette No. 25332 on December 30, 2003. The year-end figure of this item was TL 1,283,130,781 million.

	TL million
A. Ordinary Reserves (Article 60 of Law No. 1211)	929,583,307
B. Extraordinary Reserves (Article 60 of Law No. 1211)	
C. Special Reserves (Article 59 of Law No. 1211)	174,997
D. Inflation Adjustment Difference for Reserves	353,372,477
TOTAL	1,283,130,781

As per the Board Resolution adopted within the framework of Article 22/h of Central Bank Law No. 1211, the loss of 2004 amounting to TL 509,726,063 will be offset with Ordinary Reserves.

12. Provisions

The year-end balance of this item was TL 92,522,327 million. Pursuant to Article 59 of Central Bank Law No. 1211, provisions are retained out of the Bank's gross profit to meet various risks, for the transport insurance of valuables, and for pension commitments.

	TL million
A. Provisions for Pension Commitments	58,567,813
B. Other Provisions	33,954,514
TOTAL	92,522,327

13. Revaluation Account

This item consists of unrealized gains arising from the revaluation of gold and foreign exchange on both the assets and liabilities sides. As exchange differences are on the asset side as of the end of 2004, this item shows no balance.

14. Interest and Expense Accruals

The year-end balance of this item was TL 2,215,887,190 million, mainly comprising interest accruals due to Foreign Exchange Deposits by Citizens Abroad.

15. Miscellaneous Payables

This account amounted to TL 103,800,422 million at the end of the year and consists of the Central Bank's debt of TL 1,233,711 million in Turkish liras and TL 102,566,712 million in foreign currencies.

16. Other Liabilities

This item amounted to TL 62,185,668 million at the end of the year, consisting of the Central Bank's debt of TL 29,718,469 million in Turkish liras and TL 32,467,199 million in foreign currencies.

V.2. PROFIT AND LOSS ACCOUNT FOR THE 2004 ACCOUNTING YEAR

The loss of the Central Bank as of 2004 amounted to TL 509,726,063 million, decreasing by TL 1,038,637,373 compared to 2003.

PROFIT AND LOSS ACCOUNT OF THE CENTRAL BANK (TL Million)	31.12.2003	31.12.2004
I- NET PROFIT / (LOSS) FROM TL TRANSACTIONS	(238,749,586)	395,234,870
1- Net Profit / (Loss) from TL Securities Portfolio	4,211,209,878	3,040,849,272
2- Net Profit / (Loss) from Open Market Operations and Interbank Money Market Operations	(3,622,558,838)	(1,465,943,355)
a- Net Profit / (Loss) from Open Market Operations	(1,077,409,934)	(483,215,733)
b- Net Profit / (Loss) from Interbank Money Market Operations	(2,545,148,904)	(982,727,622)
3- Interest Paid to TL Required Reserves	(889,739,525)	(756,802,030)
4- Other	62,338,899	(422,869,017)
a – Interest received from Domestic Credits	173,312,560	64,982,582
b – Provision for Past-Due Receivables	279,193,895	46,858,734
c – Inflation Adjustment Loss		(125,861,306)
d – Expenses	(334,216,699)	(348,805,921)
e – Other	(55,950,857)	(60,043,106)
II- NET PROFIT / (LOSS) FROM FX TRANSACTIONS	(1,309,613,849)	(904,960,933)
1- Net Profit / (Loss) from FX Reserves	(930,204,555)	(669,381,722)
a- FX Portfolio and Deposir Revenues	755,969,247	834,829,066
b- Interest paid to FX Deposits by Citizens Abroad	(1,825,189,274)	(1,645,088,720)
c- Interest Paid to FX Deposit and Required Reserves	(53,380,810)	(90,677,810)
d- Gold and FX Net Profit	192,396,282	231,555,742
2- IMF Use of Fund Credit and Charges	(379,409,294)	(235,579,211)
III- NET PROFIT (LOSS) (I + II)	(1,548,363,435)	(509,726,063)

The net profit of the Central Bank from TL transactions was TL 395,234,870 million as of the year-end. As of the end of 2004, the Central Bank gained an interest income of TL 3,040,849,272 million from its Turkish lira government domestic borrowing securities portfolio. The net loss from open market operations and money market operations was TL 1,465,943,355 million, and interest of TL 756,802,030 million was paid to the required Turkish lira reserves.

On the other hand, the Central Bank incurred a net loss of TL 904,960,933 million for foreign currency operations. While a revenue of TL 834,829,066 million was gained from foreign currency portfolio and deposit accounts, and TL

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231,555,742 million from gold and foreign exchange operations; interest of TL 1,645,088,720 million was incurred for foreign currency deposits by citizens abroad, of TL 90,677,810 million for foreign currency deposits and required reserves, and of TL 235,579,211 million for the resources from the IMF.

The distribution of general expenses, taking place among Turkish lira transactions, incurred for the operational activities of the Bank in the last two years is shown below on the basis of the expenditure items at 1994 prices:

TL million			
At 1994 prices	2003	2004	03-04 % change
I- Personnel Expenses	2,885,666	2,653,303	-8
II- Other Expenses	553,413	453,377	-18
III-Banknote Printing Expenses	552,873	660,777	20
TOTAL	3,991,952	3,767,457	-6

In 2004, a decrease was observed in personnel and other expenses, and an increase in banknote printing expenses, compared to 2003.

- ✓ **Personnel expenses** cover salaries, fringe benefits, social security, health and education expenses, and travel allowances.

Within the framework of the policy of decreasing personnel expenses by increasing efficiency through utilizing qualified human capital by employing a small number of employees with higher qualifications as well as implementing the most up-to-date technology, the number of personnel decreased by 38 percent from 7,687 in 1993 to 4,770 in 2003. In 2004, despite the employment of additional personnel as required in the process of the redenomination of the Turkish lira, the number of the personnel decreased by 0,3 percent to 4,755 in 2004.

As compared to the previous year, there was a decrease of 8 percent in personnel expenses, and 6 percent in salaries and fringe benefits. In 2004, the amount of gross salaries paid to the members of the Board, Executive Committee and Auditing Committee of the Bank was TL billion 1,859. This amount accounted for 0.8 percent of the total of salaries and fringe benefits paid to personnel in 2004.

- ✓ **In other expenses;** The 18 percent decrease in 2004 as compared to the previous year was due to the non-realization of the estimated foreign banknote circulation as a result of extraordinary conditions, and lower than expected

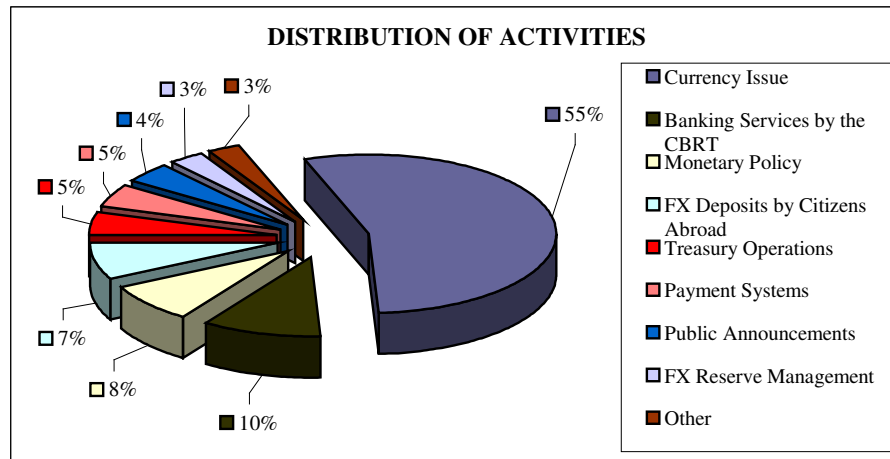
increase in prices and exchange rates and due to the decrease in rental expenses as the Education Center was transferred to our own building.

There were no significant changes in other expenditure items.

- ✓ **The increase in banknote printing expenses;** The 20 percent increase in banknote printing expenses in 2004, as compared to the previous year, was due to the increase in banknote printing expenses as a result of the change in the banknote printing program arising from conversion to the New Turkish lira.

The Central Bank prepares its budget, acting with due diligence to maximize savings in general and investment expenditures, in the light of the duties assigned by its Law, such as determining monetary policy, maintaining price stability and managing the foreign exchange reserves of the country, as well as not falling behind improvements in technology.

The share of the primary activities of the Central Bank in its 2004 budget expenses was as follows: currency issue, 55 percent; banking services supplied by the Central Bank 10 percent; monetary policy 8 percent; management of foreign exchange reserves 3 percent.



The loss incurred in 2004 emanated from the structure of the Central Bank balance sheet and from the economic program in force. Within the framework of the program being implemented, to incur a loss is inevitable if the shares of currency issued in the liabilities and Turkish lira securities portfolio in the assets

are too low, and the shares of foreign currency denominated assets and liabilities in the balance sheet are too high. The ideal case is that price stability is achieved and the Central Bank makes a profit. However, if the aim of price stability contradicts making a profit in the future, the Central Bank will favor price stability, which is the main duty of the Central Bank.

We hereby present this report to the General Assembly of the Central Bank and we deem it our duty to express our gratitude to all of the personnel of the Central Bank for their successful performance.

**BALANCE SHEET,
PROFIT AND LOSS STATEMENT**

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
BALANCE SHEET AS OF DECEMBER 31, 2004 (TL Million)

	Amount in Turkish Currency Accounts (in TL)	Amount in Foreign Currency Accounts (in TL)	Total in Turkish Currency Accounts (in TL)	Total in Foreign Currency Accounts (in TL)	TOTAL (in TL)
A S S E T S					
I- Gold					
A- International Standard (Net Grams) 116,103,752.76				2,194,299,896	
B- Non-International Standard (Net Grams) 3,200,797.12			60,493,383		2,254,793,278
II- Foreign Exchange					
A- Convertible					
a- Foreign Banknotes.....		427,123,897			
b- Correspondent Accounts.....		47,664,867,295		48,327,454,115	
c- Reserve Tranche Position.....		235,462,923			
B- Non-Convertible					
a- Foreign Banknotes.....		837		837	48,327,454,952
b- Correspondent Accounts.....					
III- Coins					
			2,931,769		2,931,769
IV- Domestic Correspondents					
			1	1,144,224,100	1,144,224,101
V- Securities Portfolio					
A- Government Securities					
a- Bonds.....	19,449,162,623	3,715,316,196	19,449,162,623	3,715,316,196	
b- Treasury Bills.....					
B- Other.....					
					23,164,478,819
VI- Domestic Credit					
A- Banking Sector					
a- Rediscount.....		7,677,722			
b- As per Art. 40/c of Law No. 1211					
c- Other.....				7,677,722	
B- Credit to SDIF					
			302,299,993		309,977,715
VII- Open market Operations					
A- Repurchase Agreements.....					
a- Cash.....					
i- Foreign Exchange.....					
ii- Securities.....					
b- Securities.....	127,999,999		127,999,999		127,999,999
B- Other.....					
					113,274,082
VIII- Foreign Credit					
				20,904,100	20,904,100
IX- Share Participations					
X- Fixed Assets					
A- Buildings and Building Sites					
Buildings and Building Sites	307,975,633				
Depreciation Allowance for Real Estate (-)	-33,591,927		274,383,706		
B- Furniture and Fixtures					
Furniture and Fixtures	59,258,298				
Depreciation Allowance for Furniture and Fixtures (-)	-44,053,163		15,205,135		289,588,841
XI- Claims Under Legal Proceedings (Net)					
A- Claims Under Legal Proceedings					
B- Provision for Past-Due Receivables (-)					
			-1,728,113,901	1,728,113,901	
XII- Treasury Liabilities Due to SDR Allocation					
				234,485,785	234,485,785
XIII- Revaluation Account					
			2,032,526,096		2,032,526,096
XIV- accrued Interest and Income					
			74,275,476		74,275,476
XV- Miscellaneous Receivables					
			3,037,580	2,525,495	5,563,075
XVI- Other Assets					
			18,857,414	857,333	19,714,747
XVII- Loss of the Period					
			509,726,063		509,726,063
XVIII- Previous Years' Loss					
T O T A L.....			21,142,785,337	57,505,579,100	78,631,918,898
REGULATING ACCOUNTS					498,607,709,562

Buildings insured for TL 193,679,217,252,700.
Furniture and fixtures insured for TL 44,405,128,155,078.

Prevailing rediscount and advance rates :
Against bills to mature in maximum 3 months:
-Rediscount rate..... % 38.00
-Advance rate..... % 42.00

The Central Bank of the Republic of Turkey

**THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
BALANCE SHEET AS OF DECEMBER 31, 2004 (TL Million)**

	Amount in Turkish Currency Accounts (in TL)	Amount in Foreign Currency Accounts (in TL)	Total in Turkish Currency Accounts (in TL)	Total in Foreign Currency Accounts (in TL)	TOTAL (in TL)
LIABILITIES					
I. Currency Issued			13,465,236,966		13,465,236,966
II. Liabilities to Treasury					
A. Gold (Net Grams)..... 345,574.68			6,531,180		
B. Reserve Tranche Means				235,462,923	
C. Other (Net)			49,384,343	43,395	291,421,841
III. Foreign Correspondents					
A. Convertible.....				1,184,974	
B. Non-Convertible				40,219,233	41,404,207
IV. Deposits					
A. Public Sector					
a. Treasury, General and Annexed Budget Administrations...	793,033,833	5,149,352,990			
b. Public Economic institutions.....	348,000				
c. State Economic Enterprises.....	7,388	49,308,825			
d. Other	108,209,246		901,598,467	5,198,661,815	
B. Banking Sector					
a. Free Deposits of Domesic Banks	3,606,762,681	4,522,507,982			
b. Foreign Banks	1,000,380				
c. Required Reserves (Central Bank Law Art. 40)..					
i. Cash	3,115,294,000	8,753,445,411			
ii. Gold(Net Grams)					
d. Other	210,401		6,723,267,462	13,275,953,393	
C. Miscellaneous					
a. Foreign Exchange Deposits by Citizens Abroad.....		24,978,894,739			
b. Other.....	3,418,149	78,480,698	3,418,149	25,057,375,437	
D. International Institutions			4,038,731,131		
E. Extrabudgetary Funds					
a. Savings Deposit Insurance Fund	1,038,345	24,830,217			
b. Other	23,333,239	796,466,181	24,371,584	821,296,398	56,044,673,836
V. Open Market operations					
A. Repurchase Agreements					
a. Cash					
i. Foreign Exchange.....					
ii. Securities.....	128,189,369		128,189,369		
b. Securities.....					
Other			3,493,900,000		3,622,089,369
VI. Foreign Credit					
A. Short-term.....					
B. Medium and Long-term.....				12,158,192	12,158,192
VII. Advances, Collateral and Deposits Collected Against letters of Credit and Imports					
A. For Letters of Credit				1,093,539,874	
B. For Imports			3,365,562		1,096,905,436
VIII. Notes and Remittances Payable				19,783,353	19,783,353
IX. SDR Allocation				234,485,785	234,485,785
X. Capital					
A. Paid-in Capital			25,000		
B. Inflation Adjustment for Paid-in Capital			46,208,524		46,233,524
XI. Reserves					
A. Ordinary and Extraordinary Reserves			929,583,307		
B. Special reserves (CBRT Law Art. 59)			174,997		
C. Inflation Adjustment for Reserves			353,372,477		1,283,130,781
XII. Provisions					
A. Provisions for pension Commitments			58,567,813		
B. Provision for Taxes.....					
C. other Provisions.....			33,954,514		92,522,327
XIII. Revaluation Account					
XIV. Accrued Interest and Expenses			2,215,887,190		2,215,887,190
XV. Miscellaneous Payables			1,233,711	102,566,712	103,800,423
XVI. Other Liabilities			29,718,469	32,467,199	62,185,668
TOTAL.....			32,506,720,214	46,141,644,222	78,631,918,898
REGULATING ACCOUNTS					498,607,709,562

LOSSES AND EXPENSES **THE CENTRAL BANK OF THE
Profit and Loss Statement**

	Turkish Lira (million)	
Interest Paid	3,723,485,260	
Non-Interest Paid	1,217,949,330	
Personnel Expenses	245,653,200	
Other Expenses	103,152,721	
TOTAL	5,290,240,511	

The Central Bank of the Republic of Turkey

REPUBLIC OF TURKEY
As of December 31, 2004

PROFITS

	Turkish Lira (million)	
Interest Income	3,108,604,356	
Non-Interest Income	1,667,983,217	
Share Participations	3,926,875	
Loss	509,726,063	
TOTAL	5,290,240,511	

AUDIT AT THE CENTRAL BANK

The activities of the CBRT, which operates as a joint stock company, are audited both by the internal and external auditors in compliance with regulations of the Central Bank Law No. 1211.

Audit conducted by the internal organs of the Bank

In accordance with Article No. 15 of the Central Bank Law, the General Assembly examines the annual report submitted by the Board of the Bank and the report of the Auditing Committee. Moreover, the General Assembly examines the Balance Sheet and the Profit and Loss Statement and approves them. Every year, the General Assembly conducts an audit of the annual activities of the Bank in this way by releasing the members of the Board and the Auditing Committee.

In accordance with Article No. 24 of the Central Bank Law, the Auditing Committee supervises all operations and accounts of the Bank and submits a report on the operations and accounts to the General Assembly of the Bank at the end of each year. Within the framework of this power and liability entrusted with the Law, the General Assembly supervises all transactions and operations of the Bank. Moreover, the General Assembly submits its opinions in writing, in addition to the annual report, to the Auditing Committee and the Office of Prime Minister, when deemed necessary.

The Internal Auditing Department and Inspection Unit are entrusted with the duty and power of supervising the Bank's usual transactions in accordance with Articles No. 63 and 121 of Main Regulations on Organization and Duties of the Central Bank. These units carry out their auditing duty in compliance with their own regulations.

The Inspection Unit is entitled to inspect all transactions of Head Office Units and Branches of the Bank pursuant to Article No. 2 of the Regulations of the Inspection Unit.

With the aim of restructuring the Central Bank's internal auditing functions in line with internationally acceptable standards and best practices, the Internal Auditing Department was established at the end of 2002. The principal duty of the Internal Auditing Department is to perform an independent, objective assurance and consulting activity designed to add value and improve the operations of the Bank. The Department shall help the Bank achieve its goals by developing a

systematic, disciplined approach to evaluate and enhance the efficiency and productivity of risk management, internal control and governance processes. In this context, the Internal Auditing Department has developed a risk identification method within the framework of the method adopted by the ECB. The Department identified and weighted the risk factors in the Bank. Moreover, the Department specified the auditing priorities by rating the risk and controls of all transaction processes. It devised a risk-weighted auditing plan to be put into practice in 2004 and 2005 and started to conduct auditing in October. Besides, a COBIT-based project has been initiated for a technology audit. The Bank auditors have been offered the opportunity of attending international internal auditing certificate programs. As of the end of the year, the number of auditors holding the CISA (Certified Information System Auditor) certificate is two, while the number of auditors with CIA (Certified Internal Auditor) certificate has reached six. After making an evaluation, the Institute of Internal Auditors-IIA reported that the establishment and carrying out of internal auditing activities are in compliance with international standards.

The Regulations of the Control Group, which govern the working principles of controllers, who had worked in a different unit within the Bank organization until 2003 and now are employed under the Internal Auditing Department, was repealed. Today, daily auditing of Bank transactions in compliance with legislation and activities in joint custody are carried out pursuant to the instructions of the Internal Auditing Department.

Audit conducted by External Auditors:

Article No. 42 of the Central Bank Law constitutes the legal basis of external auditing with the Bank. Accordingly, Prime Minister may request the audit of the Bank's transactions and accounts.

In accordance with the 2nd paragraph of the same Article, the Bank may assign independent audit institutions to audit the balance sheet and profit and loss statement. Independent external audit practices, which are deemed to be one of the most effective tools of implementing transparency and accountability - vital elements of central banks operating on international standards, started in 2000. Independent audit reports, which are drawn up following the independent auditing conducted every year, are announced to the general public via the Bank's website.

**THE REPORT OF THE AUDITING COMMITTEE FOR 2004
THE SEVENTY-THIRD ACCOUNTING YEAR OF
THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**

The Auditing Committee has thoroughly examined the activities and the resulting statements of the 2004 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, foreign exchange banknotes 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 as well as the legal books and these values are kept and administered in accordance with the regulations,
2. The legal books and the books relating to the Bank's accounts that are subject to declaration are in good order and in conformity with the Central Bank Law and the Articles of Associations. Furthermore, the domestic loans extended by the Bank, either directly or indirectly, are within the limits set forth,
3. The Balance Sheet designed as of December 31, 2004 and the Profit and Loss Statement created for the period between 01.01.2004 and 31.12.2004 are in compliance with the systematic principles of accounting and the rules of assessment stipulated by the Turkish Commercial Code and the Central Bank Law;
4. Financial Tables are drawn up so as to present the financial situation of the Central Bank of the Republic of Turkey as of 31 December 2004 and the activity result relating to the year that has ended on the same date is in an accurate, correct, and clear manner pursuant to the legislation in force in Turkey and the Central Bank Law,
5. A lawsuit regarding the legal liability, which was filed by the Bank, has not concluded yet.

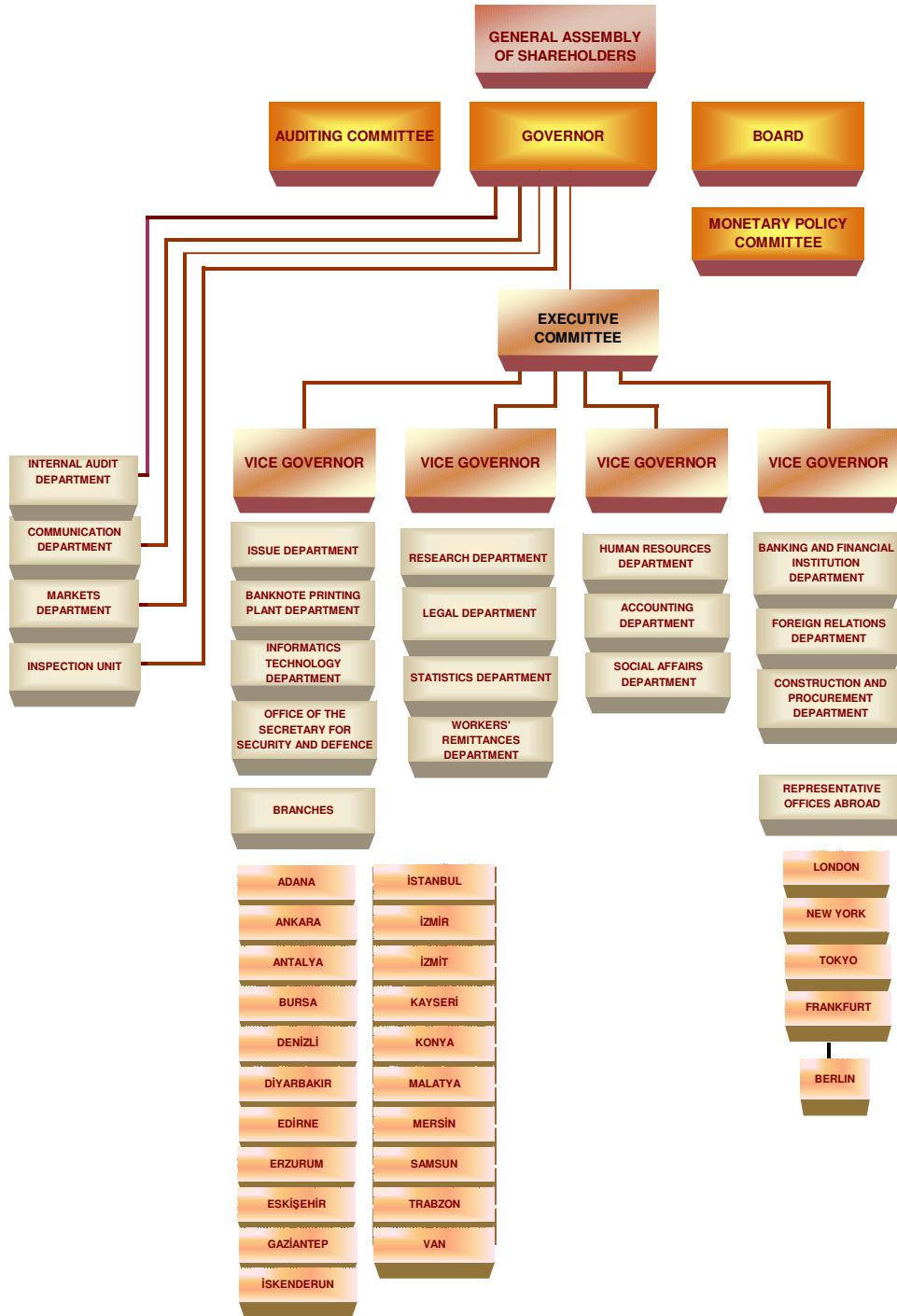
In conclusion, we hereby submit the Balance Sheet and the Profit and Loss Statement drawn up in compliance with the principles and procedures, upon which we have mutually agreed with the Board of the Bank, for the approval of the General Assembly.

Auditing Committee Member
Mustafa Saim Uysal

Auditing Committee Member
Bilal San

Auditing Committee Member
Prof. Necdet Şensoy

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
ORGANIZATIONAL CHART



EXTERNAL AUDITORS' REPORT

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

INDEPENDENT AUDITORS' REPORT
FOR THE PERIOD 1 JANUARY 2004 TO 31 DECEMBER 2004

To the Central Bank of the
Republic of Turkey
Ankara

1. We have audited the accompanying balance sheet of the Central Bank of the Republic of Turkey (the "Bank") as of 31 December 2004 and the related statement of income for the said year. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.
3. In our opinion, the attached financial statements fairly present the financial position of the Bank as of 31 December 2004 and the results of its operations for the said year in accordance with Turkish statutory accounting requirements and the Law of the Central Bank of the Republic of Turkey.
4. Without qualifying our opinion, we draw attention to the following matters:
 - a. The Bank prepared its financial statements for the first time in 2004 in accordance with Law No. 5024 published in the Official Gazette No. 25332 on December 30, 2003 which requires the application of inflation accounting,

therefore, accompanying financial statements have not been presented comparatively.

b. Since it is not enacted in the related law, the statement of income for the year ended 31 December 2004 has not been restated during the application of inflation accounting, except for the depreciation expense. This restatement does not have any effect on the net profit/(loss) of the period.

Istanbul, 04 March 2005

DRT DENETİM REVİZYON TASDİK
YEMİNLİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU**

Levent YAVEROĞLU

Zeki KURTÇU

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

INDEPENDENT AUDITORS' REPORT

To the Central Bank of the
Republic of Turkey
Ankara

1. We have audited the accompanying balance sheet of the Central Bank of the Republic of Turkey A.Ş. (the “Bank”) as of 31 December 2004, and the related statements of income, shareholders' equity and cash flows for the year then ended, all expressed in the equivalent purchasing power of Turkish lira as at 31 December 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

2. We conducted our audits in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of financial statement. We believe that our audits provide a reasonable basis for our opinion.

3. In our opinion, the financial statements referred to above fairly present, in all material respects, the financial position of the Bank as at 31 December 2004 and the results of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards.

DRT DENETİM REVİZYON TASDİK
YEMİNLİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU**

Levent YAVEROĞLU

Zeki KURTÇU

Istanbul, 11 March 2005

The Central Bank of the Republic of Turkey

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS
AS AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

<u>ASSETS</u>	<u>Note</u>	2004 <u>TL billion</u>	As Restated 2003 <u>TL billion</u>	Convenience Translation 2004 <u>US\$ million</u>	Convenience Translation 2003 <u>US\$ million</u>
Cash and amounts due from banks	4	1.026.886	1.862.426	765	1.388
Gold reserves	5	2.254.793	2.543.384	1.680	1.895
Placements with banks & financial institutions	6	3.859.725	3.150.121	2.876	2.347
Trading securities	7	67.645.920	82.114.634	50.403	61.184
Loans (net)	8	492.105	199.645	367	149
Available for sale investments	9	20.904	23.664	16	18
Premises & equipment (net)	10	231.582	234.316	173	175
Sundry debtors & other assets		29.731	64.915	22	47
TOTAL ASSETS		<u>75.561.646</u>	<u>90.193.105</u>	<u>56.302</u>	<u>67.203</u>

The accompanying notes form an integral part of these financial statements.

The Central Bank of the Republic of Turkey

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEETS
AS AT 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

<u>LIABILITIES</u>	<u>Note</u>	2004 <u>TL billion</u>	As Restated 2003 <u>TL billion</u>	Convenience Translation 2004 <u>US\$ million</u>	Convenience Translation 2003 <u>US\$ million</u>
Currency in circulation	11	13.465.237	12.153.046	10.033	9.055
Liabilities to Turkish Treasury	20	55.959	68.121	42	51
Due to banks & other financial institutions	12	23.755.138	25.686.027	17.700	19.139
Deposits by citizens abroad	13	26.897.221	29.807.096	20.041	22.209
Deposits by public sector		6.100.260	6.298.780	4.545	4.693
Deposits by other institutions		927.568	2.267.457	691	1.689
Liabilities for securities sold under repurchase agreements		128.189	493.662	96	368
Liabilities to International Monetary Fund	14	4.066.615	11.672.621	3.030	8.697
Corporate tax liability	18	-		-	-
Provisions	15	86.261	89.209	64	66
Sundry creditors & other liabilities		1.295.318	1.124.890	967	840
Deferred tax liability (net)	18	-		-	-
TOTAL LIABILITIES		<u>76.777.766</u>	<u>89.660.909</u>	<u>57.209</u>	<u>66.807</u>
<i>SHAREHOLDERS' EQUITY</i>					
Share capital	16	46.234	46.234	34	34
Accumulated profit/(loss)		(1.262.354)	485.962	(941)	362
TOTAL SHAREHOLDERS' EQUITY		<u>(1.216.120)</u>	<u>532.196</u>	<u>(907)</u>	<u>396</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>75.561.646</u>	<u>90.193.105</u>	<u>56.302</u>	<u>67.203</u>
COMMITMENTS AND CONTINGENCIES	21	260.602.266	254.295.711	194.175	189.476

The accompanying notes form an integral part of these financial statements.

The Central Bank of the Republic of Turkey

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

**INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003**

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

		As Restated	Convenience	Convenience
	2004	2003	Translation	Translation
Note	TL billion	TL billion	2004	2003
			US\$ million	US\$ million
INTEREST INCOME				
Interest income from bank placements	64.915	88.222	48	66
Interest income from marketable securities	3.058.054	5.547.150	2.279	4.133
Interest income from loans	94.058	31.611	70	24
Other interest income	74	94	0	0
	<u>3.217.101</u>	<u>5.667.077</u>	<u>2.397</u>	<u>4.223</u>
INTEREST EXPENSE				
Interest expense on deposits by citizens abroad	(1748.328)	(2.044.850)	(1.303)	(1.524)
Interest expense related to banks, financial institutions and other institutions	<u>(2.175.371)</u>	<u>(4.612.208)</u>	<u>(1.621)</u>	<u>(3.437)</u>
	<u>(3.923.699)</u>	<u>(6.657.058)</u>	<u>(2.924)</u>	<u>(4.961)</u>
NET INTEREST EXPENSE	<u>(706.598)</u>	<u>(989.981)</u>	<u>(527)</u>	<u>(738)</u>
NON-INTEREST INCOME				
Dividend received	4.101	3.655	3	3
	<u>4.101</u>	<u>3.655</u>	<u>3</u>	<u>3</u>
NON- INTEREST EXPENSE				
Expense from open market operations (net)	(516.428)	(1.186.252)	(385)	(884)
Foreign exchange losses (net)	(67.847)	(1.194.868)	(51)	(890)
Commission expense (net)	(76.193)	(51.155)	(57)	(38)
Other non-interest expense	<u>(19.496)</u>	<u>(32.005)</u>	<u>(15)</u>	<u>(24)</u>
	<u>(679.964)</u>	<u>(2.464.280)</u>	<u>(508)</u>	<u>(1.836)</u>
GENERAL ADMINISTRATIVE EXPENSE	17 (396.554)	(462.441)	(295)	(345)
INCOME/(EXPENSE) BEFORE MONETARY LOSS & TAXATION	<u>(1.779.015)</u>	<u>(3.913.047)</u>	<u>(1.327)</u>	<u>(2.916)</u>
INCOME/(LOSS) ON NET MONETARY POSITION	30.580	(426.777)	23	(318)
LOSS BEFORE TAXATION	<u>(1.748.435)</u>	<u>(4.339.824)</u>	<u>(1.304)</u>	<u>(3.234)</u>
TAXATION	-	431.752	-	322
NET LOSS	<u>(1.748.435)</u>	<u>(3.908.072)</u>	<u>(1.304)</u>	<u>(2.912)</u>

The accompanying notes form an integral part of these financial statements.

The Central Bank of the Republic of Turkey

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

	Share Capital <u>TL billion</u>	Accumulated Profit (Loss) <u>TL billion</u>	Total <u>TL billion</u>
At 1 January 2003-As previously reported	46.234	4.372.910	4.419.144
Restatement	-	34.988	34.988
Restated opening balance	46.234	4.407.898	4.454.132
Dividends paid	-	(13.864)	(13.864)
Loss for the year	-	(3.908.072)	(3.908.072)
At 31 December 2003	<u>46.234</u>	<u>485.962</u>	<u>532.196</u>
Dividends paid	-	-	-
Other	-	119	119
Loss for the year	-	(1.748.435)	(1.748.435)
At 31 December 2004	<u><u>46.234</u></u>	<u><u>(1.262.354)</u></u>	<u><u>(1.216.120)</u></u>

The accompanying notes form an integral part of these financial statements.

The Central Bank of the Republic of Turkey

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2004 AND 2003

(Amounts expressed in billions of Turkish lira (TL) in terms of the purchasing power of the TL at 31 December 2004 (note 2))

	2004	2003
		As Restated
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the year	(1.748.435)	(3.908.072)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12.695	11.745
Provisions for loan losses	24.721	34.479
Retirement pay provision and other provisions	10.254	37.912
CHANGES IN OPERATING ASSETS/LIABILITIES		
Gold reserves	288.591	244.609
Marketable securities	14.468.714	10.374.337
Placements with banks	(709.604)	1.893.342
Loans	(292.460)	689.776
Other assets	35.184	193.759
Other liabilities	(232.968)	95.628
Currency in circularization	1.312.310	2.248.706
Due to banks	(1.930.889)	(2.053.337)
Deposits	(4.448.284)	(4.454.901)
Corporate tax	-	-
Deferred tax	-	(491.949)
NET CASH PROVIDED FROM OPERATING ACTIVITIES	6.789.829	4.916.034
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in equity participations	2.760	(13.522)
Additions to tangible fixed assets (net)	(9.961)	(9.979)
NET CASH USED IN INVESTMENT ACTIVITIES	(7.201)	(23.501)
CASH FLOWS FROM FINANCING ACTIVITIES		
Receivables of Treasury	(12.162)	(70.662)
Liabilities to International Monetary Fund	(7.606.006)	(5.536.096)
Dividends paid	-	(13.863)
NET CASH USED IN FINANCING ACTIVITIES	(7.618.168)	(5.620.621)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(835.540)	(728.088)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	1.862.426	2.590.514
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	1.026.886	1.862.426

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
Report on Agreed-Upon Procedures

March 11, 2005

To The Central Bank of
The Republic of Turkey
Ankara

We have performed the procedures enumerated below, which were agreed to by the Central Bank of The Republic of Turkey (“the Bank”), solely to provide reasonable assurance that;

- a. Net International Reserves (NIR), Net Domestic Assets (NDA) and Base Money amounts as of December 31, 2004 were fairly stated in the Letter of Intent dated July 15, 2004,
- b. NIR, NDA and Base Money amounts as of December 31, 2004 were fairly stated in accordance with the definitions applicable at that time for NIR, NDA and Base Money,
- c. The full scope of audited and adjusted figures for International Financial Reporting Standards as of December 31, 2003 and December 31, 2004 reconcile with the data mentioned above in paragraph (a) and (b).

Any matters other than defined procedures are the responsibility of the users.

The procedures we have performed are as follows:

- 1) Read the Letter of Intent dated July 15, 2004.
- 2) Reconciled the amounts of NIR, NDA and Base Money prepared by the Bank in accordance with the definitions set out in Annex B of the Letter of Intent dated July 15, 2004.
- 3) Reconciled the data of NIR, NDA and Base Money prepared by the Bank with the audited IFRS (International Financial Reporting Standards) financials as of December 31, 2003 and December 31, 2004 which had been audited in accordance with International Standards on Auditing.

Findings:

- 1) During the reconciliation of the data with the audited financials, we have adjusted the data used by the Bank for the matters mentioned in the following paragraph:
 - a) We have reclassified the interest expense and income accruals to the related accounts, which had been classified in the interest and expense accruals and interest and income accruals by the Bank.
 - b) We have netted off the foreign loan with its provision amount, which is classified by the Bank in Net Domestic Assets.

Limitation:

The data for NIR, NDA and Base Money are being prepared as the averages of the last five days of the related period. Since we have only audited the data of 31 December 2003 and 31 December 2004, we do not express an opinion for the data for the remaining four days.

Subject to the findings and the limitation noted above, the performance of the procedures enumerated above did not bring to our attention any matters which would cause us to believe that the Bank's calculation of NIR, NDA and Base Money as at December 31, 2003 and December 31, 2004 are materially misstated.

DRT DENETİM REVİZYON TASDİK
YEMİNLİ MALİ MÜŞAVİRLİK A.Ş.

Member of **DELOITTE TOUCHE TOHMATSU**

Levent YAVEROĞLU

Zeki KURTÇU

Istanbul, March 11, 2005

Appendix A — NIR, NDA and Base Money as of 31 December 2003
Appendix B — NIR, NDA and Base Money as of 31 December 2004

The Central Bank of the Republic of Turkey

Appendix A — NIR, NDA and Base Money as of 31 December 2003

PERFORMANCE CONSTANT * 5 day average	Per Bank 31 December 2003 <u>Trillion TL</u>	Per Audited IFRS Financials 31 December 2003 **/** <u>Trillion TL</u>
Base Money	14,657	14,699
Net Foreign Assets	9,077	8,394
Net Domestic Assets	5,581	6,305
Net Domestic Assets (Program definition)	25,997	26,721

* 31 December 2001 foreign currency rates are used for the computation.

** Foreign currency denominated figures are expressed by their TL equivalents as at 31 December 2001, the TL denominated figures are expressed by the purchasing price index of 31 December 2003.

*** Since, in the calculation of audited figures, no adjustment has been booked to the data used in the averages of the remaining four days, we do not express an opinion of the data for those days.

	Per Bank 31 December 2003 <u>Million US\$</u>	Per Audited IFRS Financials 31 December 2003 <u>Million US\$</u>
Net International Reserves	13,646	13,427

The Central Bank of the Republic of Turkey

Appendix B — NIR, NDA and Base Money as of 31 December 2004

PERFORMANCE CONSTANT *	Per Bank 31 December 2004	Per Audited IAS Financials 31 December 2004 **
5 day average	<u>Trillion TL</u>	<u>Trillion TL</u>
<u>Base Money</u>	19,191	19,229
Currency issued	13,297	13,297
Banks' TL deposits	5,894	5,932
 <u>Net Foreign Assets</u>	 10,592	 9,949
Net international reserves	22,021	21,971
of which: Banks' FX deposits	(10,325)	(10,326)
Medium-term foreign exchange credit (net)	1,964	1,595
Other	(13,393)	(13,617)
 <u>Net Domestic Assets</u>	 8,597	 8,943
Net Domestic Assets (1)	8,597	8,943
Treasury Liabilities to the IMF (2)	21,524	21,524
Treasury FX denominated borrowing with an original maturity of less than 1 year (3)	-	-
 Net Domestic Assets (Program definition) (1+2+3)	 30,121	 30,467

* 31 December 2001 parity and 31 December 2001 foreign currency rates are used for computation.

** Since, in the calculation of audited figures, no adjustment has been booked to the data used in the averages of the remaining four days, we do not express an opinion for the data for those days.

The Central Bank of the Republic of Turkey

Appendix B — NIR, NDA and Base Money as of 31 December 2004 (cont'd)

	Per Bank 31 December 2004 <u>Million US\$</u>	Per Audited IFRS Financials 31 December 2004 * <u>Million US\$</u>
Net Foreign Assets	7,313	5,053
A-Net International Reserves (1-2+3)	15,180	14,985
1-Gross Foreign Reserves	28,630	28,630
2- Gross International Reserve Liabilities	(13,450)	(13,645)
a- FX deposits of Banking sector	(7,902)	(7,906)
b- IMF	(2,569)	(2,590)
c- Other liabilities	(2,979)	(3,149)
3- Net forward position	-	
B- Medium Term FX credits (net)	1,365	80
C- Other	(9,232)	(10,012)

* Since, in the calculation of audited figures, no adjustment has been booked to the data used in the averages of the remaining four days, we do not express an opinion for the data for those days.

TURKEY-IMF MONETARY RELATIONS

Turkey has been a member of the IMF since 1947. The Undersecretariat of the Treasury has been designated as the fiscal agent and the Central Bank of Turkey as the depository institution as regards the IMF.

Within this framework, the Treasury, as a fiscal agent, has the authority to carry out on behalf of Turkey all operations and transactions such as purchase and repurchase of SDR as well as payments of charges and other payments payable to the IMF. As a depository, it is the Central Bank's responsibility to ensure that these transactions are properly reflected in TL-denominated No.1 and No.2 Accounts and the Securities Account of the IMF with the Central Bank.

Turkey's quota in the IMF represents its capital subscription and amounts to SDR 964 million as of Dec. 31, 2004. SDR 112 million of the quota is Turkey's reserve tranche position, which is paid in cash as foreign exchange.

The Central Bank's liability to the IMF, which equaled SDR 4,912 million in 2003, decreased to SDR 1,934 million as of December 31, 2004, due to the redemption of the principal amounting to SDR 2,977 million. While the credit directly used by the Treasury from the IMF was SDR 11,301 million as of the end of 2003, it increased to SDR 11,914 million as of the end of 2004, by the new use of credit to the amount of SDR 794 million, despite the redemption of SDR 184 million in 2004. The details of the resources provided by the Fund in 2003 and 2004 are presented below:

(SDR)	2004	2003
Use of Credit	13,848,347,500	16,212,777,500
Emergency Assistance		180,750,000
Bank Reserve Purposes	1,934,347,500	4,911,827,500
Supplemental Reserve Facility		
Direct use of credit by the Treasury	11,914,000,000	11,120,200,000

As of December 31, 2004, the IMF's holdings of Turkish lira amount to TL 30,725 trillion, the equivalent of SDR 14,700 million.

The Central Bank of the Republic of Turkey

	TL million	SDR
Number 1 account	4,043,224,843	1,934,347,500
Number 2 account	6,993	3,346
Securities account	26,682,214,470	12,765,225,000
	30,725,446,306	14,699,575,846

The No.1 and No.2 accounts of the IMF are presented in Deposits as International Institutions in the liabilities of the Central Bank balance sheet. The securities account is kept on the off-balance sheet and includes non-negotiable, non-interest bearing securities issued by the Treasury in favor of the IMF, which are payable on demand. These securities are issued for that portion of the quota liability paid in domestic currency, for purchases of SDR, for budget financing purposes and for revaluations made by the IMF every year as of April 30.

Based on the Memorandum of Understanding signed between the Central Bank and the Treasury on May 6, 2002, in order to clarify the relationship between Turkey and the IMF, the revaluation differences arising from the changes in the TL/SDR parity are reflected by the Central Bank, at the end of each month, in the Fund's No.1 and No.2 accounts by either meeting from or transferring to the Revaluation Account, which shows the revaluation differences in accordance with Bank Law Article No.61.

Within the framework of the relations between Turkey and the IMF, Turkey incurs charges, which are payable quarterly, on outstanding purchases and on the difference between the SDR holdings and the SDR allocation. The IMF pays remuneration, after the close of each of the IMF's financial quarters, on Turkey's remunerated reserve tranche position.

STATISTICAL TABLES

VI

STATISTICAL TABLES

TABLE 1
MACRO BALANCE (AT CURRENT PRICES)
(TL billion)

	2000	2001	2002	2003	2004 (1)
GNP	125 596 129	176 483 953	275 032 366	356 680 888	424 129 000
Foreign Resources	8 312 875	-2 360 709	6 639 998	14 920 066	22 828 002
Total Resources	133 909 004	174 123 244	281 672 364	371 600 955	446 957 002
Total Investment	31 176 037	28 451 337	59 532 420	83 680 338	116 534 278
Public	8 667 274	9 835 398	17 222 805	17 039 282	20 197 358
Private	22 508 763	18 615 940	42 309 615	66 641 056	96 336 920
Fixed Capital Investment	28 573 893	33 470 391	47 482 293	57 423 184	81 339 934
Public	8 602 103	11 300 047	17 307 672	17 615 048	20 028 022
Private	19 971 790	22 170 344	30 174 621	39 808 136	61 311 912
Changes in Stocks	2 602 144	-5 019 054	12 050 127	26 257 154	35 194 344
Public	65 171	-1 464 649	-84 866	-575 766	169 336
Private	2 536 973	-3 554 404	12 134 994	26 832 921	35 025 008
Total Consumption	102 732 966	145 671 907	222 139 943	287 920 616	330 422 724
Public Disposable Income	9 764 227	5 958 512	17 641 338	24 733 878	42 505 301
Public Consumption	15 481 515	23 141 350	34 687 870	43 694 231	50 605 369
Public Savings	-5 717 288	-17 182 838	-17 046 532	-18 960 353	-8 100 068
Public Investments	8 667 274	9 835 398	17 222 805	17 039 282	20 197 358
Public (S-I)	-14 384 562	-27 018 236	-34 269 337	-35 999 635	-28 297 426
Private Disposable Income	115 831 901	170 525 441	257 391 028	331 947 010	381 623 699
Private Consumption	87 251 451	122 530 557	187 452 073	244 226 385	279 817 355
Private Savings	28 580 450	47 994 884	69 938 955	87 720 625	101 806 344
Private Investments	22 508 763	18 615 940	42 309 615	66 641 056	96 336 920
Private (S-I)	6 071 687	29 378 945	27 629 340	21 079 569	5 469 424
Private Savings Ratio	24.7	28.1	27.2	26.4	26.7
Total Domestic Savings	22 863 162	30 812 046	52 892 423	68 760 272	93 706 276
Fixed Capital Invest. / GNP	22.8	19.0	17.3	16.1	19.2
Domestic Savings / GNP	18.2	17.5	19.2	19.3	22.1

Source: SPO.

(1) Estimate.

TABLE 2
MACRO BALANCE (AT 1998 PRICES)
(TL billion)

	2000	2001	2002	2003	2004 (1)
GNP	53 447 165	48 350 537	52 188 038	55 250 734	60 775 808
Foreign Resources	3 246 572	-1 245 609	-696 023	734 450	2 148 446
Total Resources	56 693 737	47 104 928	51 492 015	55 985 184	62 924 254
Total Investment	13 998 619	7 545 221	10 694 708	13 184 182	16 743 592
Public	4 065 255	2 538 460	3 207 145	2 927 392	3 124 337
Private	9 933 365	5 006 761	7 487 564	10 256 790	13 619 256
Fixed Capital Investment	12 875 712	8 885 493	8 550 919	9 464 992	12 240 343
Public	4 037 131	2 929 576	3 222 243	3 008 947	3 102 670
Private	8 838 581	5 955 918	5 328 677	6 456 046	9 137 674
Changes in Stocks	1 122 907	-1 340 272	2 143 789	3 719 190	4 503 249
Public	28 124	-391 115	-15 098	-81 554	21 667
Private	1 094 783	-949 157	2 158 887	3 800 744	4 481 582
Total Consumption	42 695 118	39 559 707	40 797 307	42 801 002	46 180 662
Public Disposable Income	4 155 146	1 632 427	3 347 485	3 831 338	6 090 821
Public Consumption	6 447 236	6 340 079	6 451 998	6 370 377	6 509 115
Public Savings	-2 292 090	-4 707 652	-3 104 513	-2 539 040	-418 294
Public Investments	4 065 255	2 538 460	3 207 145	2 927 392	3 124 337
Public (S-I)	-6 357 344	-7 246 112	-6 311 658	-5 466 432	-3 542 631
Private Disposable Income	49 292 019	46 718 110	48 840 553	51 419 397	54 684 986
Private Consumption	36 247 882	33 219 628	34 345 308	36 430 624	39 671 546
Private Savings	13 044 137	13 498 482	14 495 244	14 988 772	15 013 440
Private Investments	9 933 365	5 006 761	7 487 564	10 256 790	13 619 256
Private (S-I)	3 110 772	8 491 721	7 007 681	4 731 982	1 394 184
Private Savings Ratio	26.5	28.9	29.7	29.2	27.5
Total Domestic Savings	10 752 047	8 790 830	11 390 731	12 449 733	14 595 146
Fixed Capital Investments/ GNP	24.1	18.4	16.4	17.1	20.1
Domestic Savings / GNP	20.1	18.2	21.8	22.5	24.0

Source: SPO.

(1) Estimate.

TABLE 3
GROSS NATIONAL PRODUCT (AT CURRENT PRODUCER PRICES)
(TL billion)

	2000	2001	2002	2003	2004 (1)
Agriculture	17 540 631	21 521 043	32 114 870	42 126 246	38 078 415
Industry	29 027 782	45 881 462	70 034 336	88 813 240	76 483 287
Construction	6 483 106	9 240 878	11 398 698	12 662 006	9 951 534
Commerce	24 906 513	37 403 001	55 935 190	71 329 760	63 747 484
Transportation	17 645 564	28 159 160	41 820 643	53 846 171	43 723 869
Financial Institutions	4 698 024	6 639 387	12 944 723	17 884 644	14 223 603
Home Ownership	5 772 955	8 491 898	11 637 781	14 653 025	13 156 149
Professions and Services	4 430 360	6 592 344	9 753 592	12 429 089	10 689 523
(-) Imputed Bank Services	4 097 693	11 534 431	8 095 559	7 911 747	7 576 977
Government Services	12 633 650	18 525 724	27 838 383	36 561 477	31 032 949
Non-profit Private Services	477 141	918 063	1 664 000	3 610 383	1 205 154
Import Tax	5 065 425	6 573 910	10 527 402	13 758 630	13 425 412
GDP	124 583 458	178 412 438	277 574 058	359 762 926	308 140 401
Net Foreign Income	1 012 671	-1 928 485	-2 541 692	-3 082 038	-1 496 989
GNP	125 596 129	176 483 953	275 032 366	356 680 888	306 643 412

Source: SIS.

(1) Provisional (as of end-September, 2004).

TABLE 4
GROSS NATIONAL PRODUCT (AT 1987 PRODUCER PRICES)
(TL billion)

	2000	2001	2002	2003	2004 (1)
Agriculture	15 962	14 923	15 948	15 549	12 063
Industry	33 738	31 207	34 142	36 794	30 570
Construction	5 991	5 662	5 346	4 866	3 412
Commerce	26 608	24 096	26 740	28 902	24 434
Transportation	15 655	14 820	15 715	17 028	13 374
Financial Institutions	2 958	2 666	2 477	2 319	1 755
Home Ownership	5 649	5 769	5 873	5 957	4 530
Professions and Services	2 688	2 484	2 669	2 808	2 272
(-) Imputed Bank Services	2 393	2 114	1 921	1 782	1 358
Government Services	4 965	5 045	5 082	5 125	3 868
Non-profit Private Services	411	412	415	410	297
Import Tax	6 558	4 914	6 127	7 509	7 044
GDP	118 789	109 885	118 612	125 485	102 261
Net Foreign Income	355	-2 102	-2 275	-2 320	-1 136
GNP	119 145	107 783	116 338	123 165	101 125

Source: SIS.

(1) Provisional (as of end-September, 2004).

TABLE 5
FIXED CAPITAL INVESTMENT BY SECTORS
(AT CURRENT PRICES)
(TL billion)

	2003			2004 (1)		
	Public	Private	Total	Public	Private	Total
Agriculture	1 364 232	1 067 092	2 431 324	1 597 084	2 090 860	3 687 945
Mining	167 487	894 421	1 061 908	339 079	1 177 756	1 516 835
Manufacturing	444 279	15 727 679	16 171 958	664 693	25 931 233	26 595 925
Energy	3 310 893	1 226 111	4 537 004	3 197 672	1 055 985	4 253 658
Transportation	4 597 922	6 749 815	11 347 737	6 260 401	12 899 307	19 159 707
Tourism	130 008	3 412 627	3 542 635	115 532	4 387 458	4 502 990
Housing	181 347	5 748 721	5 930 068	216 545	7 250 634	7 467 179
Education	2 463 023	632 310	3 095 333	2 305 739	842 844	3 148 582
Health	979 740	1 602 714	2 582 454	1 133 942	2 324 823	3 458 765
Other Services	3 976 117	2 746 645	6 722 763	4 197 335	3 351 013	7 548 348
TOTAL	17 615 048	39 808 136	57 423 184	20 028 022	61 311 912	81 339 934

Source: SPO.

(1) Estimate.

TABLE 6
FIXED CAPITAL INVESTMENT BY SECTORS
(AT 1998 PRICES)
(TL billion)

	2003			2004 (1)		
	Public	Private	Total	Public	Private	Total
Agriculture	246 085	169 723	415 808	253 162	305 501	558 663
Mining	28 929	147 936	176 865	53 010	177 523	230 534
Manufacturing	74 600	2 492 776	2 567 376	102 397	3 863 803	3 966 199
Energy	559 666	197 008	756 673	497 521	157 606	655 127
Transportation	794 926	1 054 519	1 849 445	977 859	1 898 134	2 875 993
Tourism	22 214	568 071	590 285	17 616	653 282	670 898
Housing	31 982	1 014 821	1 046 803	33 284	1 116 303	1 149 587
Education	418 254	103 937	522 191	351 558	124 724	476 282
Health	168 611	270 397	439 008	173 851	351 516	525 366
Other Services	663 679	436 859	1 100 537	642 412	489 282	1 131 693
TOTAL	3 008 947	6 456 046	9 464 992	3 102 670	9 137 674	12 240 343

Source: SPO.

(1) Estimate.

TABLE 7
CAPACITY UTILIZATION RATIO IN THE MANUFACTURING INDUSTRY
(ISIC R3)
(Production Value Weighted Annual Averages in Percentages)

	2000	2001	2002	2003	2004 (1)
Total	76.1	71.6	76.2	78.6	81.6
Public Sector	78.5	81.3	82.8	83.7	84.7
Private Sector	74.6	66.4	72.2	75.3	79.9

Source: SIS.

(1) Provisional.

TABLE 8
INDUSTRIAL PRODUCTION INDEX
(Annual Averages)
(1997=100)

	2000	2001	2002	2003	2004(1)
Total Industry	103.4	94.4	103.4	112.4	123.4
Public Sector	99.4	96.2	95.5	91.2	92.7
Private Sector	105.0	93.8	106.5	120.6	135.1
Mining and Quarrying	97.4	89.6	82.2	79.5	82.7
Crude Petroleum and Natural Gas	97.4	77.1	73.3	73.0	73.4
Manufacturing Industry	102.1	92.4	102.6	112.1	123.6
Food Products and Beverages	104.2	101.8	104.7	112.7	112.1
Textile Products	95.7	90.9	102.3	104.4	102.9
Clothing	108.7	105.3	108.7	110.7	114.6
Chemicals	110.9	97.0	110.7	120.5	139.9
Basic Metals	102.4	97.3	107.1	119.8	133.7
Manufacture of Machinery and Equipment	92.4	73.5	89.3	109.3	143.1
Electrical Machinery and Apparatus	90.3	75.6	84.3	86.6	82.6
Motor Vehicles and Trailers	116.0	63.4	80.8	119.3	182.6
Electricity, Gas and Water Supplies	121.2	119.0	125.4	136.0	145.3

Source: SIS.

(1) Provisional.

TABLE 9
PRODUCTION OF SELECTED INDUSTRIAL GOODS

	2000	2001	2002	2003	2004 (1)
MINING					
Hard Coal (Thousand Tons)	3 330	3 639	3 312	2 998	2 843
Lignite (Thousand Tons)	59 686	56 543	48 187	42 938	39 303
Crude Oil (Thousand Tons)	2 748	2 551	2 440	2 375	2 276
MANUFACTURING INDUSTRY					
Filter Cigarettes (Tons)	122 929	126 082	131 366	111 859	106 738
Raki	69	68	59	57	42
Beer (Million Liters)	690	697	736	784	825
Newsprint (Million Liters)	128	88	54	20	0
Kraft Paper (Thousand Tons)	41	43	37	15	0
Sulphuric Acid (Thousand Tons)	659	576	630	546	283
Polyethylene (Tons)	224 603	206 526	201 380	191 034	209 320
PVC+PCC Compound (Tons)	176 769	147 174	156 539	139 974	153 843
LPG (Thousand Tons)	712	732	758	774	775
Naphtha (Thousand Tons)	1 910	2 056	1 525	1 378	1 641
Gasoline (Thousand Tons)	2 758	3 027	3 831	3 725	3 575
Diesel Oil (Thousand Tons)	6 919	7 579	7 736	8 086	7 672
Fuel Oil (Thousand Tons)	6 532	7 250	6 835	6 888	6 966
Glass (Thousand Tons)	1 142	1 141	1 242	1 315	1 231
Molten Iron (Thousand Tons)	5 333	5 289	5 012	5 694	5 836
Steel Ingots (Thousand Tons)	13 581	14 382	16 046	17 644	19 868
Blister Copper (Tons)	29 951	24 792	19 375	14 425	7 611
Alumina (Tons)	161 228	145 993	152 869	162 174	169 991
Cement (Thousand Tons)	36 224	30 125	32 577	35 077	38 122
Tractors (Units)	35 908	15 054	10 371	29 288	39 020
Automobiles (Units)	305 603	226 795	259 812	425 409	607 790
Trucks (Units)	28 327	7 056	12 223	18 707	31 143
Buses and Vans (Units)	46 841	12 446	15 506	43 402	64 080
ENERGY					
Electrical Energy (Million Kwh)	124 849	123 018	129 367	140 284	148 753
INDUSTRIAL VALUE ADDED					
(At 1987 Prices) (TL billion)	33 738	31 207	34 142	-	-

Sources: SIS, SPO.

(1) Provisional.

TABLE 10
ENERGY BALANCE
(AS EQUIVALENT OF MILLION TONS OF PETROLEUM "EMTP")

	2000		2001		2002		2003		2004 (1)	
	EMTP	%	EMTP	%	EMTP	%	EMTP	%	EMTP	%
CONSUMPTION	81.3	100.0	76.0	100.0	78.7	100.0	83.8	100.0	92.1	100.0
Commercial	74.8	92.0	69.8	91.8	72.7	92.4	78.0	93.1	86.6	94.0
Petroleum	32.3	39.7	31.0	40.8	30.9	39.3	31.8	37.9	36.6	39.7
Lignite	13.2	16.2	11.9	15.7	10.8	13.7	9.7	11.6	11.1	12.1
Hard Coal (2)	11.7	14.4	8.5	11.2	10.6	13.5	12.8	15.3	12.3	13.4
Asphaltite	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Hydroelectricity	2.7	3.3	2.1	2.8	2.9	3.7	3.0	3.6	4.0	4.3
Net Imported Electricity	0.3	0.4	0.4	0.5	0.3	0.4	0.0	0.0	-0.1	-0.1
Natural Gas	13.7	16.9	14.9	19.6	16.1	20.5	19.5	23.3	21.3	23.1
Renewable	0.9	1.1	1.0	1.3	1.1	1.4	1.2	1.4	1.3	1.4
Non-commercial	6.5	8.0	6.2	8.2	6.0	7.6	5.8	6.9	5.5	6.0
Wood	5.1	6.3	4.9	6.4	4.7	6.0	4.5	5.4	4.3	4.7
Waste	1.4	1.7	1.3	1.7	1.3	1.7	1.3	1.6	1.2	1.3
SUPPLY	81.3	100.0	76.0	100.0	78.7	100.0	83.8	100.0	92.1	100.0
Domestic Products	26.9	33.1	25.2	33.2	24.7	31.4	23.8	28.4	26.1	28.3
Petroleum	2.9	3.6	2.7	3.6	2.5	3.2	2.5	3.0	2.4	2.6
Lignite	12.1	14.9	11.6	15.3	10.7	13.6	9.7	11.6	11.1	12.1
Hard Coal (2)	1.2	1.5	1.3	1.7	1.2	1.5	1.1	1.3	1.2	1.3
Asphaltite	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Hydroelectricity	2.7	3.3	2.1	2.8	2.9	3.7	3.0	3.6	4.0	4.3
Wood	5.1	6.3	4.9	6.4	4.7	6.0	4.5	5.4	4.3	4.7
Waste	1.4	1.7	1.3	1.7	1.3	1.7	1.3	1.6	1.2	1.3
Natural Gas	0.6	0.7	0.3	0.4	0.3	0.4	0.5	0.6	0.5	0.5
Renewable	0.9	1.1	1.0	1.3	1.1	1.4	1.2	1.4	1.3	1.4
Imports	56.3	69.2	52.7	69.4	58.6	74.5	65.2	77.8	66.0	71.7
Petroleum	32.0	39.4	30.7	40.4	32.9	41.8	34.0	40.6	34.2	37.1
Hard Coal (2)	10.5	12.9	6.7	8.9	9.6	12.2	12.1	14.4	11.1	12.1
Electricity	0.3	0.4	0.4	0.5	0.3	0.4	0.1	0.1	0.0	0.0
Natural Gas	13.5	16.6	14.9	19.6	15.8	20.1	19.0	22.7	20.7	22.5
Exports	1.6	2.0	2.6	3.4	3.2	4.1	4.0	4.8	0.1	0.1
Petroleum	1.6	2.0	2.6	3.4	3.1	3.9	4.0	4.8	0.1	0.1
Electricity	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Marine Bunkers	0.5	0.6	0.6	0.8	1.2	1.5	0.6	0.7	0.0	0.0
Change in Stocks	0.3	0.4	1.1	1.4	-1.0	-1.3	-0.5	-0.6	0.0	0.0
Statistical Error	-0.1	-0.1	0.2	0.2	0.8	1.0	-0.1	-0.1	0.1	0.1

Source: Ministry of Energy and Natural Resources.

(1) Provisional.

(2) Secondary coal, coke and petcoke are included.

TABLE II
SELECTED AGRICULTURAL PRODUCTS
(Thousand Metric Tons, unless otherwise Indicated)

	2000	2001	2002	2003(1)	2004 (2)
CEREALS					
Wheat	21 000	19 000	19 500	19 000	21 000
Barley	8 000	7 500	8 300	8 100	9 000
Rye	260	220	255	240	270
Oats	314	265	290	270	275
Maize	2 300	2 200	2 100	2 800	3 000
Rice	210	216	216	223	223
Other	25	26	26	25	24
PULSES					
For Food	1 179	1 325	1 508	1 435	1 461
For Fodder	138	130	132	123	142
FRUIT AND NUTS					
Grapes	3 600	3 250	3 500	3 600	3 450
Figs (Fresh)	240	235	250	280	275
Apples	2 400	2 450	2 200	2 600	2 200
Peaches	430	460	455	470	370
Oranges	1 070	1 250	1 250	1 250	1 200
Other	3 123	3 149	2 975	3 302	3 160
Hazelnuts	470	625	600	480	350
Pistachio Nuts	75	30	35	90	30
Other Unshelled Nuts	213	205	208	219	209
MISCELLANEOUS PRODUCTS					
Sugar Beets	18 821	12 633	16 523	12 623	13 531
Potatoes	5 370	5 000	5 200	5 300	4 800
Onions	2 200	2 150	2 050	1 750	2 000
OIL SEEDS					
Sunflower	800	650	850	800	900
Sesame	24	23	22	22	22
Peanut	78	72	90	85	80
Soya bean	45	50	75	85	50
Olive	1 800	600	1 800	850	1 600
TOBACCO, TEA, etc.					
Tobacco	200	145	153	112	157
Tea (Leaves)	758	825	792	869	1100
Poppy Pods (Tons)	12	21	18	48	16
TEXTILE RAW MATERIALS					
Cotton (Raw)	2 261	2 358	2 542	2 346	2 355

Sources: SIS.

(1) Provisional.

(2) Second estimation.

TABLE 12
NEW BUILDINGS ACCORDING TO BUILDING PERMITS ISSUED BY MUNICIPALITIES

	2000	2001	2002	2003	2004 (1)
<i>Value (in Billions of TL)</i>					
Houses	884 353	1 431 454	1 158 962	1 317 384	1 453 322
Apartment Buildings	4 423 712	5 915 906	4 523 773	7 153 593	8 634 351
Commercial Buildings	1 512 227	1 229 981	1 169 052	1 933 614	2 178 214
Industrial Buildings	434 625	1 038 395	842 758	1 204 052	1 347 404
Cultural Buildings	259 609	432 236	547 163	443 089	587 548
Other Buildings	143 835	216 386	252 732	290 346	214 050
TOTAL	7 658 360	10 264 358	8 494 440	12 342 077	14 414 889
<i>Floor Area (Thousand square meter)</i>					
Houses	7 860	8 088	4 985	4 758	4 562
Apartment Buildings	37 492	31 779	18 173	23 801	25 346
Commercial Buildings	9 030	7 130	4 717	6 448	6 403
Industrial Buildings	3 777	5 538	3 332	3 900	3 905
Cultural Buildings	2 257	2 309	2 217	1 469	1 738
Other Buildings	1 278	1 203	1 044	1 007	654
TOTAL	61 695	56 046	34 467	41 383	42 608

Source: SIS.

(1) Provisional (as of end-September 2004).

TABLE 13
EXTENSIONS AND PARTLY FINISHED BUILDINGS ACCORDING TO OCCUPANCY PERMITS ISSUED BY MUNICIPALITIES

	2000	2001	2002	2003	2004 (1)
<i>Value (in Billions of TL)</i>					
Houses	533 783	884 373	861 920	1 045 353	728 000
Apartment Buildings	3 128 984	4 719 711	4 119 545	5 090 476	3 705 433
Commercial Buildings	657 206	803 485	1 105 937	1 173 811	890 642
Industrial Buildings	390 553	471 110	883 011	638 880	608 126
Cultural Buildings	95 550	213 651	268 150	341 706	199 884
Other Buildings	73 900	135 461	132 790	155 146	105 590
TOTAL	4 879 977	7 227 792	7 371 352	8 445 370	6 237 675
<i>Floor Area (Thousand square meter)</i>					
Houses	4 748	5 065	3 770	3 747	2 391
Apartment Buildings	26 618	25 002	17 004	17 528	11 450
Commercial Buildings	6 123	4 753	4 661	4 019	2 724
Industrial Buildings	3 473	2 544	3 641	2 126	1 790
Cultural Buildings	844	1 118	1 056	1 151	583
Other Buildings	657	746	556	536	322
TOTAL	42 463	39 229	30 688	29 107	19 261

Source: SIS.

(1) Provisional (as of end-September, 2004).

TABLE 14
TRANSPORTATION SERVICES

	2000	2001	2002	2003	2004 (1)
LAND TRANSPORTATION					
Passengers (Million)	694	634	619	625	669
Amount of Freight (Million Tons)	455	425	422	424	454
Passenger Transportation (Million Passengers x km)	185 681	168 211	163 327	164 311	175 813
Freight Transportation (Million Tons x km)	161 552	151 421	150 912	152 163	162 814
Vehicles (Million Vehicles x km)	56 151	52 631	51 664	52 349	59 678
VEHICLES					
Cars	4 422 180	4 534 803	4 600 140	4 700 343	5 400 714
Trucks, Pick-ups	1 351 754	1 395 238	1 442 533	1 552 467	1 552 467
Buses, Vans	354 339	358 687	361 797	368 894	471 337
HIGHWAYS (Km)	1 774	1 845	1 851	1 886	1 892
STATE AND PROVINCIAL ROADS					
Asphalt, Concrete, Stone (Km)	55 900	56 619	56 946	57 280	57 627
Stabilized, Macadam, Rough Grade and Crude Roads (Km)	5 324	4 825	4 548	4 211	4 187
RAILWAY TRANSPORTATION					
Passengers (Million)	85	76	73	77	77.7
Amount of Freight (Million Tons)	19	14	14	16	17.4
Passenger Trans. (Million Passengers x km.)	5 832	5 568	5 204	5 878	5 419
Freight Trans. (Million Tons x km)	9 761	7 486	7 169	8 615	9 247
ROLLING STOCK					
<i>Tractive Vehicles:</i>					
Steam Engines	50	50	50	50	50
Trunk-line Engines	485	479	476	470	394
Manoeuvring Engines	87	89	85	74	68
Electrical Engines	80	78	78	74	73
Total Engines	702	696	689	668	585
Diesel Trains	54	50	50	49	49
Electrical Trains	93	92	90	88	87
<i>Tracked Vehicles:</i>					
Passenger Carriages	1 038	1 031	1 013	965	1 014
Freight Carriages	16 858	16 513	16 241	16 070	15 900
Wagons (Passenger + Freight)	310	300	307	300	266
Other Carriages	3 306	3 318	2 864	2 914	1 754
MARITIME TRANSPORTATION					
Passengers (Million) (2)	69	63	58	55	61
Passenger Freight (Million Persons x Miles)	290	261	224	197	216
MARITIME FLEET					
Passenger Ships (Gross Tons)	107 597	107 450	86 358	86 358	84 757
AIR TRANSPORTATION					
Passengers (Thousand)	34 973	33 620	33 625	34 267	44 789
Amount of Freight (Cargo + Post + Baggage) (Tons)	796 627	763 156	880 133	931 190	1 126 108
AIR FLEET					
Total Airplanes	127	145	151	150	188

Source: General Directorate of Highways, State Railways of Turkish Republic, Turkish Maritime Organization Inc., General Directorate of Civil Aviation, SIS.

(1) Provisional.

(2) Transportation on Urban Lines is included.

TABLE 15
COMMUNICATION SERVICES

	2000	2001	2002	2003	2004 (1)
MAIL (1000)	1 168 693	954 006	1 014 242	990 059	1 008 300
Domestic	966 604	806 939	903 024	881 669	917 500
Foreign	202 089	147 067	111 218	108 390	90 800
Incoming	143 730	95 816	72 471	76 593	63 800
Outgoing	58 359	51 251	38 747	31 797	27 000
CABLES (1000)	1 867	1 416	1 876	1 897	1 902
Domestic	1 855	1 410	1 870	1 893	1 899
Foreign	12	6	6	4	3
Incoming	6	4	3	2	2
Outgoing	6	2	3	2	1
TELEPHONE CALLS (1000)					
Number of Revolutions Billed (2)	125 549 106	115 291 520	109 894 441	101 188 411	94 899 400
Number of Trunk Calls (Manual) (3)	1 967	923	600	-	-
International Calls (Outgoing, Minutes)	731 789	675 675	649 828	639 249	715 066
NUMBER OF SUBSCRIBERS	33 457 915	37 203 055	42 289 221	46 841 730	53 959 611
Automatic Switchboards	18 395 171	18 904 486	18 914 857	18 916 721	19 125 163
Manual Switchboards	0	0	0	0	0
Mobile Phones	92 744	69 971	51 246	37 474	28 364
Cellular Phones	14 970 000	18 228 598	23 323 118	27 887 535	34 806 084
NUMBER OF PTT OFFICES	5 605	4 563	4 471	4 421	4 395
Main Offices	1 114	1 094	1 084	1 068	1 064
Branches	2 376	2 151	2 051	1 954	1 899
Sub-branches	2 115	1 318	1 336	1 399	1 432

Sources: General Directorate of Postal Services, Turkish Telecommunication Inc. and Ministry of Communications.

(1) Provisional.

(2) Includes urban, trunk and international calls.

(3) As of 2003, the number of trunk calls is not followed.

TABLE 16
JOB APPLICANTS AND VACANCIES
(Number of People)

	2000	2001	2002	2003	2004 (1)
New Applicants	768 386	327 417	324 760	557 092	495 576
Total Applicants (2)	2 443 290	2 770 707	3 095 467	3 652 559	4 148 135
New Vacancies	195 672	226 899	139 275	129 258	86 054
Unfilled Vacancies (2)	1 489 127	1 716 026	1 855 301	1 984 559	2 070 613
Unemployed	730 496	718 665	464 228	587 479	757 644
Vacancies Filled During the Year	185 610	213 998	125 071	65 398	58 941

Source: Public Employment Services.

(1) Provisional (as of end-September, 2004).

(2) Cumulative.

TABLE 17
MANUFACTURING INDUSTRY PRODUCTION WORKERS INDEX
(1997=100)

	2002(*)	2003(*)	2004/1	2004/2	2004/3	2004/4	2004(1)
Total	82.2	83.7	82.9	86.3	87.0		85.4
Public Sector	71.1	66.3	54.7	58.9	63.1		58.9
Private Sector	84.4	87.0	88.2	91.4	91.2		90.3

Source: SIS.

(*) Annual averages.

(1) Provisional (average as of end-September, 2004).

TABLE 18
NOMINAL WAGES INDEX PER PRODUCTION HOURS WORKED IN THE
MANUFACTURING INDUSTRY
(1997=100)

	2002(*)	2003(*)	2004/1	2004/2	2004/3	2004/4	2004(1)
Total	949.7	1167.8	1274.3	1289.4	1340.8		1301.5
Public Sector	1341.7	1592.2	1789.8	1811.3	1825.2		1808.8
Private Sector	900.9	1134.9	1267.2	1280.2	1332.9		1293.4

Source: SIS.

(*) Annual averages.

(1) Provisional (average as of end-September, 2004).

TABLE 19
REAL WAGES INDEX PER PRODUCTION HOURS WORKED IN THE
MANUFACTURING INDUSTRY
(1997=100)

	2002(*)	2003(*)	2004/1	2004/2	2004/3	2004/4	2004(1)
Total	90.0	88.3	89.6	89.2	91.9		90.2
Public Sector	127.1	120.4	125.8	125.3	125.1		125.4
Private Sector	85.4	85.8	89.1	88.6	91.3		89.7

Source: SIS.

(*) Annual averages.

(1) Provisional (average as of end-September, 2004).

TABLE 20
NUMBER OF WORKERS SENT ABROAD

	2000	2001	2002	2003	2004 (1)
The United States of America	46	104	168	87	54
Australia	4	5	11	4	0
Austria	1	5	2	11	17
Belgium	1	1	0	2	0
Denmark	3	5	5	7	1
Germany	2 135	2 437	3 367	3 366	1 736
France	87	202	341	422	325
The Netherlands	1	2	131	431	1
The United Kingdom	29	19	27	12	1
Switzerland	1	1	2	0	0
Libya	385	238	1037	2515	544
Saudi Arabia	1 862	4 657	6 399	6 064	897
Other	9 090	12 566	15 426	21 230	26 412
TOTAL	13 645	20 242	26 916	34 151	29 988

Source: Public Employment Services.

(1) Provisional (as of end-September, 2004).

TABLE 21
COLLECTIVE LABOR CONTRACTS

	2000	2001	2002	2003	2004
COLLECTIVE LABOR CONTRACTS	1 646	4 454	1 773	1 607	1 479
Public	985	1 193	1 113	793	847
Private	661	3 261	660	814	632
WORKERS COVERED BY CONTRACTS	208 595	775 478	255 059	629 240	325 189
Public	103 124	473 845	131 852	391 526	121 828
Private	105 471	301 633	123 207	237 714	203 361
ESTABLISHMENTS COVERED BY CONTRACTS	6 844	14 211	7 453	7 806	7 913
Public	2 173	9 578	4 741	5 800	3 085
Private	4 671	4 633	2 712	2 006	4 828

Source: Ministry of Labor and Social Security.

TABLE 22
STRIKES AND LOCK-OUTS

	2000	2001	2002	2003	2004
STRIKES					
Number of Strikes	52	35	27	23	30
Number of Participants	18 705	9 911	4 618	1 535	3 557
Work days Lost in Strikes	368 475	286 015	43 885	144 772	93 161
LOCK-OUTS					
Number of Lock-outs	2	-	-	2	1
Number of Participants	2 483	-	-	888	801
Work days Lost in Lock-outs	32 760	-	-	110 415	20 826

Source: Ministry of Labor and Social Security.

TABLE 23
PRICE INDICES

	2000	2001	2002	2003	2004
<u>ANNUAL AVERAGE</u>					
WHOLESALE PRICES					
(1987=100) (1)					
General	89 219	144 827	216 639	270 891	305 740
Agriculture	83 008	115 753	180 394	236 405	288 112
Mining	88 638	152 488	219 245	268 451	290 779
Manufacturing	90 724	151 614	224 542	279 669	311 437
Energy	90 167	170 246	256 894	284 182	282 695
(1994=100) (1)					
General	2 370	3 830	5 750	7 219	8 020
Agriculture	2 647	3 766	5 891	7 889	8 959
Mining	2 595	4 382	6 428	8 106	8 915
Manufacturing	2 278	3 796	5 631	6 972	7 740
Energy	2 330	4 421	6 619	7 349	7 276
(1968=100) (2)					
General	12 619 704	19 820 481	28 974 581	35 861 660	40 000 307
CONSUMER PRICES					
General (1987=100) (1)	130 803	201 348	291 580	365 190	402 685
General (1994=100) (1)	2 970	4 586	6 649	8 330	9 212
General (1995=100) (3)	1 599	2 460	3 583	4 471	4 946
<u>END OF YEAR</u>					
WHOLESALE PRICES					
(1987=100) (1)					
General	98 923	186 026	244 615	276 866	321 596
Agriculture	94 467	149 838	204 272	241 795	291 308
Mining	102 281	183 738	242 161	273 092	301 100
Manufacturing	99 493	194 607	254 277	286 180	332 079
Energy	103 333	222 764	278 288	287 308	285 388
(1994=100) (1)					
General	2 626	4 952	6 479	7 382	8 404
Agriculture	2 973	4 921	6 653	7 984	9 110
Mining	3 005	5 177	7 163	8 302	9 063
Manufacturing	2 502	4 905	6 360	7 161	8 221
Energy	2 675	5 774	7 177	7 409	7 368
(1968=100) (2)					
General	14 220 214	25 396 399	32 234 589	38 213 001	41 184 817
CONSUMER PRICES					
General (1987=100) (1)	151 026	253 618	328 469	388 496	422 179
General (1994=100) (1)	3 416	5 756	7 469	8 840	9 663
General (1995=100) (3)	1 870	3 141	4 058	4 807	5 163

Sources:

- (1) SIS.
- (2) The Istanbul Chamber of Commerce
- (3) Istanbul Wage Earners Index, The Istanbul Chamber of Commerce

TABLE 24
MONTHLY PRICE INDICES

2004	January	February	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
WHOLESALE PRICES												
<i>(1987=100) (1)</i>												
General	287 373	291 701	297 366	302 852	305 029	304 530	301 742	304 891	309 346	319 929	322 525	321 596
Agriculture	281 542	295 103	303 165	317 026	304 323	288 411	265 431	260 891	271 532	286 343	292 277	291 308
Mining	270 717	268 278	265 638	274 339	279 678	299 832	287 599	298 191	308 407	312 083	323 483	301 100
Manufacturing	288 267	290 140	295 518	298 830	305 783	309 524	313 400	318 923	321 315	331 144	332 321	332 079
Energy	285 994	284 343	284 201	279 453	280 752	280 843	281 020	281 188	282 032	282 818	284 310	285 388
<i>(1994=100) (1)</i>												
General	7 577	7 701	7 862	8 071	8 068	7 983	7 862	7 924	8 070	8 330	8 393	8 404
Agriculture	8 728	9 202	9 529	10 188	9 660	8 877	8 117	7 915	8 350	8 859	8 968	9 110
Mining	8 263	8 218	8 069	8 405	8 552	9 296	8 831	9 193	9 506	9 574	10 018	9 063
Manufacturing	7 205	7 237	7 368	7 450	7 604	7 702	7 785	7 922	7 980	8 183	8 219	8 221
Energy	7 368	7 300	7 296	7 177	7 221	7 226	7 232	7 241	7 265	7 286	7 339	7 368
<i>(1968=100) (2)</i>												
General	38 337	38 675 340	39 330 470	39 711 578	40 170	40 214 358	39 503 097	39 952 609	40 663	41 098 421	41 162 348	41 184
CONSUMER PRICES												
<i>(1987=100) (1)</i>												
General	390 177	391 833	394 761	397 412	399 122	398 460	398 696	400 825	404 769	413 882	420 107	422 179
<i>(1994=100) (1)</i>												
General	8 905	8 954	9 033	9 086	9 121	9 109	9 129	9 182	9 268	9 474	9 620	9 663
<i>(1995=100) (3)</i>												
General	4 781	4 783	4 822	4 974	5 005	5 008	4 848	4 861	4 932	5 054	5 127	5 163

Sources:

- (1) SIS.
- (2) The İstanbul Chamber of Commerce.
- (3) İstanbul Wage Earners Index, The İstanbul Chamber of Commerce.

TABLE 25
GOLD PRICES
(TL thousand)

	2000	2001	2002	2003	2004
<u>ANNUAL AVERAGE</u>					
Reşat (Each)	39 767	77 013	109 648	134 823	141 696
Cumhuriyet (Each)	38 871	74 759	105 213	121 066	131 090
Bullion (Gram)	5 642	10 766	15 267	17 569	18 966
<u>END OF YEAR</u>					
Reşat (Each)	41 750	95 000	127 333	142 500	154 400
Cumhuriyet (Each)	40 875	91 000	124 667	131 250	141 000
Bullion (Gram)	5 853	12 938	18 017	18 938	20 000

Source: CBRT.

TABLE 26
GOLD PRICES
(Monthly Averages)
(TL thousand)

2004	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Reşat (Each)	136 000	137 250	136 250	139 000	140 000	137 500	138 200	141 250	143 000	144 750	152 750	154 400
Cumhuriyet (Each)	124 100	119 750	120 625	125 600	129 750	128 500	128 500	135 500	137 250	139 250	143 250	141 000
Bullion (Gram)	18 360	17 400	17 375	17 880	18 875	18 988	18 770	19 313	19 738	20 300	20 600	20 000

Source: CBRT.

TABLE 27
SEEs FINANCING REQUIREMENT
(AT CURRENT PRICES) ⁽¹⁾
(TL billion)

	2000	2001	2002	2003	2004 (2)
Fixed Investments	-2 206 608	-2 253 365	-3 483 504	-2 833 882	-4 106 822
Change in Stocks	-1 125 332	-1 320 411	-1 721 869	-224 543	-700 140
Change in Fixed Assets	138 721	74 756	788 932	215 559	1 726 522
Equity in Joint Venture Companies	-18 910	-18 046	-104 121	752	-963 996
Legal Obligations, Funds	-82 003	-78 123	-184 103	-361 885	-32 994
TOTAL FINANCING REQUIREMENT	-3 294 132	-3 595 186	-4 704 665	-3 203 999	-4 077 430
INTERNALLY GENERATED FUNDS	-454 630	2 100 961	5 053 648	3 888 670	3 802 212
Retained Earnings	-1 753 112	-2 212 913	-291457	-244066	-239 212
Depreciation	941 463	1 592 204	3 616 842	3 199 047	2 992 484
Provisions	153 575	625 388	377 321	589 318	510 093
Provisions for Exchange Rate Difference	203 444	2 096 282	1 350 942	344 371	538 847
Dividends other than the Treasury	-	-	-	-	-
FINANCING REQUIREMENT FROM OUTSIDE SOURCES	-3 748 761	-1 494 826	348 983	684 671	-275 217
BUDGETARY TRANSFERS	1 149 057	1 591 814	2 621 827	2 408 344	1 865 636
Capital	1 082 717	1 486 975	1 728 641	1 404 344	1 495 636
Duty Losses	58 056	95 481	787 945	979 610	290 560
Aid	8 284	9 358	105 241	24 390	79 440
SEEs BORROWING REQUIREMENTS	-2 599 704	96 988	2 970 810	3 093 015	1 590 419
Deferred Payments	3 235 133	4 370 999	1 579 548	384 402	22 060 403
Advance Payments	-1 510 646	-3 440 528	-3 681 583	-3 452 589	-24 200 930
CASH FINANCING REQUIREMENT	-875 218	1 027 459	868 775	24 828	-550 109
FINANCING	-875 218	1 027 459	868774.582	24828	-550 109
Change in Cash Balances	-79 204	-1 778 865	-1 083 379	-146 752	-77 721
Securities and Deposits	-58 346	-162 416	-1 048 648	-46 167	-137 012
Domestic Bank Lending (net)	-9 126	-266 674	-92 660	-41 291	-101 370
Central Bank	-	-3	985	0	0
Commercial Banks	-9 126	-266 671	-93 645	-41 291	-101 370
Eximbank	-	-	-	-	-
Foreign Borrowing (net)	1 021 894	1 180 496	1 355 912	209 382	866 212
Receipts	1 279 488	1 589 394	2 023 225	1 196 215	2 294 580
Payments	-257 593	-408 898	-667 313	-986 833	-1 428 368
Government Bonds	-	-	-	-	-
GNP	125 596 000	176 484 000	273 463 000	356 680 888	424 129 000
SEEs BORROWING REQUIREMENT / GNP	-2.1	0.1	1.1	0.9	0.4
SEEs BORR. REQ. - BUDG.TRANSFERS / GNP	-3.0	-0.8	0.1	0.2	-0.1

Source: UT.

(1) Including SEEs falling under Decree Number 233 and those in the Privatization Administration Portfolio.

(2) Estimate.

TABLE 28
RESOURCES AND EXPENDITURES OF FUNDS
(AT CURRENT PRICES) ⁽¹⁾
(TL billion)

	2000	2001	2002	2003	2004 (2)
RESOURCES	3 406 148	3 644 984	1 961 858	2 273 831	3 524 336
Taxes	1 906 158	3 349 844	1 552 403	1 211 163	1 974 255
Non-tax Normal Income	628 608	295 138	286 632	388 805	513 680
Current Transfers (net)	0	0	0	585 815	0
Capital Transfers (net)	871 380	0	122 823	88 049	1 036 400
EXPENDITURES	1 927 190	2 822 800	1 950 406	1 756 156	2 022 504
Current Expenditures	463 355	616 754	1 203 678	1 122 626	1 046 998
Factor Expenditures (net)	27 857	99 858	565 736	627 848	554 095
Fixed Capital Investments	719 452	320 035	3 908	5 683	21 000
Current Transfers (net)	716 528	1 331 291	177 084	0	400 411
Capital Transfers (net)	0	454 860	0	0	0
BORROWING REQUIREMENT	1 478 956	822 184	11 452	517 675	1 501 832
FINANCING	-1 478 954	-822 184	-11 452	-517 675	-1 501 832
Receipts from Foreign Debt	341 395	101 154	394 026	110 470	136 079
Foreign Debt Payments	-88 585	-142 993	-188 744	-179 318	-181 519
Domestic Debt-Dom. Lending (Net)	-1 315 578	128 528	253 612	323 584	-826 906
Change in Cash & Banks	-416 188	-908 873	-470 346	-772 411	-629 485

Source: SPO.

(1) Includes funds and accounts under the public sector overall balance. Fund coverage varies from year to year due to liquidations. Unemployment Insurance Fund is not included.

(2) Estimate.

TABLE 29
CONSOLIDATED BUDGET APPROPRIATIONS,
EXPENDITURES AND REVENUES
(TL billion)

	2000	2001	2002	2003	2004 (1)
APPROPRIATIONS					
Initial	46 739 214	48 382 160	98 149 432	147 462 038	149 945 082
Year-end	49 531 993	82 821 821	120 581 783	147 431 396	155 946 470
Current Services					
Initial	13 044 336	16 060 402	28 798 772	38 259 130	32 187 000
Year-end	14 746 589	21 873 008	33 403 542	42 549 415	32 028 890
Investments					
Initial	2 368 922	3 470 167	5 736 802	8 392 703	6 408 767
Year-end	3 093 038	5 010 051	8 810 865	8 575 390	8 773 139
Transfers					
Initial	34 507 478	33 298 096	71 378 549	111 295 433	121 368 277
Year-end	35 620 477	62 414 560	88 017 086	107 601 480	126 967 093
Transfers to Annexed Budget					
Initial	-3 181 522	-4 446 505	-7 764 691	-10 485 228	-10 018 962
Year-end	-3 928 111	-6 475 798	-9 649 710	-11 294 889	-11 822 652
EXPENDITURES	46 705 028	80 579 065	115 682 350	140 454 842	140 200 045
Current Expenditures	13 613 937	20 448 022	31 107 959	38 513 866	32 970 571
Investment Expenditures	2 475 116	4 149 580	6 891 836	7 179 667	7 972 210
Transfer Expenditures	30 615 975	55 981 463	77 682 555	94 761 309	99 257 264
REVENUES	33 440 143	51 542 970	75 592 324	100 250 427	109 886 834
Taxes	26 503 698	39 735 928	59 631 868	84 316 169	90 092 896
Non-tax Revenues	6 537 205	11 154 553	14 971 831	14 242 564	17 980 856
Revenues from Annexed Budget	399 240	652 489	988 625	1 691 694	1 813 082

Source: UT.

(1) Provisional.

TABLE 30
PUBLIC DEBT (DOMESTIC)
(TL billion)

	2000	2001	2002	2003	2004
GOVERNMENT BONDS	34 362 937	102 127 926	112 849 835	168 973 626	194 210 700
Cash	27 373 224	40 703 763	52 251 115	105 841 900	135 306 946
Non-cash	6 989 713	61 424 163	60 598 720	63 131 726	58 903 754
TREASURY BILLS	2 057 684	20 029 334	37 019 856	25 413 074	30 272 222
Cash	2 049 388	17 649 743	37 019 856	24 642 074	30 272 222
Non-cash	8 295	2 379 591	0	771 000	0
TOTAL	36 420 620	122 157 260	149 869 691	194 386 700	224 482 922

Source: UT.

TABLE 31.A
MONETARY AUTHORITIES - SECTORAL ACCOUNTS
(TL billion)

ASSETS	2000	2001	2002	2003	2004(1)
FOREIGN ASSETS	16 607 806	30 782 124	48 220 839	51 058 649	54 227 927
Gold International Standard (FX)	675 727	1 485 813	2 091 220	2 174 040	2 193 521
Convertible Foreign Assets	14 993 504	27 249 003	43 815 573	46 922 114	50 067 877
Other Foreign Assets	938 575	2 047 309	2 314 046	1 962 496	1 966 529
CLAIMS ON CENTRAL GOVERNMENT	871 056	34 523 915	52 814 339	52 385 567	51 855 314
Budgetary Institutions	1 746 265	34 698 719	53 960 941	51 662 089	50 205 988
Treasury Coin Issue	41 106	49 422	81 807	116 557	134 485
IMF Position	190 219	189 785	22 959 725	23 466 726	26 023 334
Short-Term Advances to the Treasury	0	0	0	0	0
Government Domestic Debt Instruments	1 514 941	34 459 512	30 919 409	28 078 806	24 048 169
Activated Claims in Accordance with the Consolidation Law	0	0	0	0	0
Other Claims on the Treasury (Net)	0	0	0	0	0
Revaluation Account	-875 209	-174 804	-1 146 601	723 478	1 649 326
CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES (2)	1 724	4 045	5 030	3 322	1 016
CLAIMS ON DEPOSIT MONEY BANKS	6 543 409	9 665 218	2 703 000	1 765 333	1 393 755
Advances and Discounts	0	16 270	12 804	6 556	8 119
Commercial	0	16 270	12 804	6 556	8 119
Agricultural	0	0	0	0	0
Medium-Term Industrial Credit (Banks)	0	0	0	0	0
Advances Against Bond Collateral	0	0	0	0	0
Credit to Non-Financial Public Enterprises through Banks	0	0	0	0	0
Other Claims (3)	6 543 409	9 648 948	2 690 195	1 758 776	1 385 635
CLAIMS ON OTHER FINANCIAL INSTITUTIONS	500 000	750 000	250 000	0	302 300
Claims on Investment and Development Banks	0	0	0	0	0
Claims on Non-Bank Financial Institutions	500 000	750 000	250 000	0	302 300
UNCLASSIFIED ASSETS	704 766	1 798 855	637 820	315 073	1 096 023
T O T A L	25 228 761	77 524 158	104 631 028	105 527 945	108 876 334

Source: CBRT.

Note: Data are inflation-adjusted beginning from August 2004.

(1) Provisional (as of end-November).

(2) Direct Credit to the Non-Financial Public Enterprises is shown as claims on Non-Financial Public Enterprises (NFPE), while rediscounts of NFPE bills by banks are reclassified as claims on Deposit Money Banks.

(3) TL receivables under swap transactions are shown under "Other Claims on Deposit Money Banks"; however, TL payables are shown under "Non-Reserve Liabilities".

TABLE 31.L
MONETARY AUTHORITIES - SECTORAL ACCOUNTS
(TL billion)

LIABILITIES	2000	20001	2002	2003	2004(1)
RESERVE MONEY (IMF Definition)	10 118 478	18 064 107	21 249 836	25 192 950	31 464 198
Currency and Coins in Circulation	3 810 101	5 330 279	7 708 822	10 784 707	13 500 553
Currency Outside Deposit Money Banks	3 196 942	4 462 913	6 899 360	9 775 116	12 366 781
Currency in Banks	613 159	867 366	809 462	1 009 591	1 133 772
Bank Deposits	6 285 780	12 695 845	13 485 735	14 347 250	17 878 084
Required Reserves	3 933 904	7 754 497	9 116 657	9 503 436	11 785 676
Free Reserves	2 351 876	4 941 348	4 369 078	4 843 814	6 092 409
Demand Deposits (TL)	22 597	37 984	55 279	60 994	85 561
Non-Financial Public Enterprises	6	8	9	7	6
Local Governments' Deposits	21 180	32 786	31 683	27 638	28 338
Private Sector	109	301	622	765	1 166
Other Financial Institutions	1 302	4 890	22 965	32 584	56 052
TIME DEPOSITS	286 317	418 765	653 214	837 444	863 292
FOREIGN EXCHANGE DEPOSITS	142 323	530 408	33 167	27 750	36 558
Non-Bank Financial Institutions	138 622	517 752	11 162	7 704	3 185
Non-Financial Public Enterprises	3 700	12 656	22 005	20 046	33 374
Local Governments	0	0	0	0	0
RESTRICTED DEPOSITS	551	540	6	9	13
FOREIGN LIABILITIES	9 965 433	36 156 907	59 603 733	58 102 378	56 985 868
Use of IMF Credits	2 488 445	19 640 037	35 342 828	33 292 322	30 929 449
IMF Emergency Assistance (Treasury)	316 327	653 080	804 351	375 348	0
Foreign Credit	39 337	112 332	119 970	97 506	58 608
Foreign Exchange Deposits by Citizens					
Abroad	7 062 991	15 557 117	23 041 336	24 148 387	25 803 578
Other Non-Residents' Deposits	16 473	137 819	218 876	111 187	85 748
Miscellaneous Payables (FX)	41 860	56 523	76 372	77 629	108 485
CENTRAL GOVERNMENT DEPOSITS	1 478 483	3 473 118	5 799 917	7 424 832	12 216 798
General and Annexed Budget					
Administration Deposits	960 820	2 171 336	3 676 553	5 167 363	10 782 122
Gen. Annex. Bud. Administration					
Project Credits	160 532	482 662	497 581	320 796	421 628
Public Economic Institutes (Annexed					
Budget Organizations)	545	197	325	544	102
Social Security Funds	0	0	0	0	0
Reserves for Letters of Credit					
(Official Enterprises)	6	0	0	0	0
Other Liabilities to Central Government	25 864	56 496	106 992	59 839	56 840
Extra-Budgetary Institutions	330 715	762 427	1 518 466	1 876 289	956 106
NON-RESERVE LIABILITIES (2)	0	7 200 100	9 574 400	8 259 450	1 508 250
CAPITAL AND RESERVES	2 232 686	9 408 409	5 015 517	3 192 609	3 431 107
UNCLASSIFIED LIABILITIES	1 004 490	2 271 804	2 701 237	2 490 522	2 370 252
T O T A L	25 228 761	77 524 158	104 631 028	105 527 945	108 876 334

Source: CBRT.

Note: Data are inflation-adjusted beginning from August 2004.

(1) Provisional (as of end-November).

(2) TL receivables against securities sold under reverse-repo transactions and TL payables under swap transactions with banks and overnight loans received from banks under open market operations are classified in "Non-Reserve Liabilities".

TABLE 32
CENTRAL BANK - CREDIT
(TL billion)

SECTORAL BREAKDOWN	2000	2001	2002	2003	2004(1)
CENTRAL GOVERNMENT	0	0	0	0	0
Short Term Advances to the Treasury	0	0	0	0	0
Other Claims on the Treasury (Net)	0	0	0	0	0
NON-FINANCIAL PUBLIC ENTERPRISES	1 724	0	0	0	0
Treasury Guaranteed Bills	0	0	0	0	0
Short-term Discount of Bills, Soil Products Office (SPO)	0	0	0	0	0
SEEs, Other (Debt of SEEs Not Paid On Due Date)	1 724	0	0	0	0
SEEs, Commercial Bills	0	0	0	0	0
FINANCIAL INSTITUTIONS	500 000	766 270	262 804	6 556	310 419
Deposit Money Banks	0	16 270	12 804	6 556	8 119
Rediscount	0	16 270	12 804	6 556	8 119
As Per Art. 40/1-c of Law No. 1211	0	0	0	0	0
Other	0	0	0	0	0
Investment and Development Banks	0	0	0	0	0
Rediscounts	0	0	0	0	0
As Per Art. 40/1-c of Law No. 1211	0	0	0	0	0
Other	0	0	0	0	0
Non-Bank Financial Institutions	500 000	750 000	250 000	0	302 300
Savings Deposit Insurance Fund	500 000	750 000	250 000	0	302 300
ABROAD (2)	935 207	2 041 090	2 305 793	1 941 320	1 944 663
TOTAL	1 436 931	2 807 360	2 568 597	1 947 876	2 255 082

Source: CBRT.

(1) Provisional (as of end-November).

(2) Loans extended to Iraq classified in "Foreign Credit" were transferred to "Claims Under Legal Proceedings" in the Central Bank balance sheet as of December 1999. Thus, the figure in "Abroad" is different from that in the Central Bank balance sheet.

TABLE 33
CENTRAL BANK - DEPOSITS
(TL billion)

SECTORAL BREAKDOWN	2000	2001	2002	2003	2004(1)
CENTRAL GOVERNMENT	1 452 613	3 416 622	5 692 925	7 364 993	12 159 957
General and Annexed Budget Administration	960 820	2 171 336	3 676 553	5 167 363	10 782 122
TL	249 163	673 900	302 378	930 232	4 973 455
FX	711 658	1 497 437	3 374 175	4 237 131	5 808 667
General and Annexed Budget Administration					
Project Funds	160 532	482 662	497 581	320 796	421 628
TL	0	0	0	0	0
FX	160 532	482 662	497 581	320 796	421 628
Public Economic Institutions	545	197	325	544	102
TL	545	197	325	544	102
FX	0	0	0	0	0
Social Security Organizations Establish by Law	0	0	0	0	0
Extra-Budgetary Funds	330 715	762 427	1 518 466	1 876 289	956 106
TL	115 092	100 985	176 382	48 289	63 321
FX	215 624	661 442	1 342 083	1 828 000	892 784
FINANCIAL INSTITUTIONS	6 426 197	13 227 062	13 519 891	14 387 557	17 937 342
Bank Deposits	6 285 780	12 695 845	13 485 735	14 347 250	17 878 084
Required Reserves	3 933 904	7 754 497	9 116 657	9 503 436	11 785 676
TL	1 404 157	1 626 371	1 671 841	2 288 617	3 061 742
FX	2 529 747	6 128 126	7 444 816	7 214 819	8 723 934
Free Reserves	2 351 876	4 941 348	4 369 078	4 843 814	6 092 409
Deposit Money Banks (FX)	1 741 866	4 050 434	3 271 335	2 975 758	3 489 900
Deposit Money Banks (TL)	610 011	890 914	1 097 743	1 868 056	2 602 509
Other Financial Institutions	140 417	531 217	34 156	40 306	59 257
Investment and Development Banks	24 464	171 521	5 985	10 725	6 951
TL	674	1 718	2 661	4 927	4 062
FX	23 790	169 803	3 324	5 798	2 889
Non-Bank Fin.Ins. (Ins. Fund. for Sav. Dep.)	115 460	351 120	9 514	1 928	785
TL (Sight)	628	3 172	1 676	21	489
FX	114 832	347 948	7 838	1 906	296
Financial Institutions (Special Finance Houses)	438	8 519	18 628	27 636	51 500
Authorized Foreign Currency Institutions	55	57	30	18	21
NON-FINANCIAL PUBLIC ENTERPRISES	3 706	12 664	22 014	20 053	33 379
State Economic Enterprises	3 706	12 664	22 014	20 053	33 379
TL (Sight)	6	8	9	7	6
FX	3 700	12 656	22 005	20 046	33 374
LOCAL GOVERNMENT	21 180	32 786	31 683	27 638	28 338
TL (Sight)	21 180	32 786	31 683	27 638	28 338
FX	0	0	0	0	0
PRIVATE SECTOR (TL)	109	301	622	765	1 166
RESTRICTED DEPOSITS	547	536	2	5	9
NON-RESIDENTS' DEPOSITS	9 319 927	28 861 496	36 446 625	34 459 546	30 794 420
Foreign Exchange Deposits by Citizens Abroad	7 062 991	15 557 117	23 041 336	24 148 387	25 803 578
Other Deposits (TL+FX)	2 256 936	13 304 380	13 405 289	10 311 158	4 990 842
OTHER DEPOSITS	22 840	1 766	294	245	258
T O T A L	17 247 120	45 553 233	55 714 056	56 260 800	60 954 868

Source: CBRT.

(1) Provisional (as of end-November).

TABLE 34.A
DEPOSIT MONEY BANKS - SECTORAL ACCOUNTS
(TL billion)

ASSETS	2000	2001	2002	2003	2004(1)
RESERVES	5 765 793	10 712 903	12 679 019	13 970 806	17 768 977
Currency	613 159	867 366	809 462	1 009 591	1 133 772
Deposits at Central Bank	5 152 634	9 845 537	11 869 557	12 961 215	16 635 205
Reserve Requirements	3 919 581	7 683 120	9 258 435	9 998 333	12 606 526
Free Reserves	1 233 053	2 162 417	2 611 122	2 962 882	4 028 679
OTHER CLAIMS ON CENTRAL BANK	58 519	1 125 664	2 078 745	438 625	6 525
Net Credit from CBRT under Swap and Repurchase Agreements	0	1 053 000	2 070 500	433 000	500
Other Claims	58 519	72 664	8 245	5 625	6 025
FOREIGN ASSETS (2)	11 514 031	17 745 631	20 666 823	19 042 263	27 565 080
CLAIMS ON CENTRAL GOVERNMENT	35 251 297	62 069 905	80 302 967	99 960 100	117 798 676
Budgetary Institutions	35 251 297	62 069 905	80 302 967	99 960 100	117 798 676
Credits to Central Government	233 179	1 291 552	720 812	452 959	31 186
Bonds and Bills Issued by Central Government	19 537 667	60 142 152	78 018 447	97 422 974	115 196 825
Other Claims on Central Government (2)	15 480 451	636 201	1 563 708	2 084 167	2 570 665
Extra-Budgetary Institutions	0	0	0	0	0
Claims on Extra-Budgetary Funds	0	0	0	0	0
CLAIMS ON NON-FINANCIAL PUBLIC					
ENTERPRISES	540 897	389 750	51 094	193 106	71 079
Credit to SEEs	531 169	378 973	22 557	190 854	70 499
Bonds Issued by SEEs	0	0	1 403	0	0
Participations in SEEs	0	0	0	0	0
Other Claims on SEEs (2)	9 728	10 777	27 134	2 252	580
CLAIMS ON LOCAL GOVERNMENT	47 595	111 896	82 514	172 356	277 526
Credits to Local Government	42 349	77 603	82 356	172 162	277 277
Bonds and Bills Issued by Local Government	0	0	0	0	0
Other Claims on Local Government (2)	5 246	34 293	158	194	249
CLAIMS ON OTHER FINANCIAL INSTITUTIONS (2)	2 057 450	1 998 441	3 017 899	3 523 020	4 059 093
Claims on Investment and Development Banks	719 186	1 054 441	1 069 897	869 315	835 088
Claims on Non-Bank Financial Institutions (3)	1 338 264	944 000	1 948 002	2 653 705	3 224 005
CLAIMS ON PRIVATE SECTOR	28 515 417	34 994 593	38 574 558	55 735 552	84 033 811
Credit to Private Sector	25 561 979	30 776 161	31 971 146	48 889 710	75 417 744
Bonds Issued by Private Enterprises	73 681	210 553	434 982	175 112	206 551
Participations in Private Enterprises	2 305 468	2 992 877	5 350 631	5 667 555	7 592 341
Other Claims on Private Sector (2)	574 289	1 015 002	790 799	1 003 175	817 175
DOMESTIC INTERBANK CLAIMS (2)(3)	6 232 183	3 163 943	2 117 915	2 462 378	2 021 685
CLAIMS ON MONEY MARKET TRANSACTIONS	1 550 475	7 727 662	7 315 825	7 792 009	1 540 732
UNCLASSIFIED ASSETS (2)	11 384 199	22 170 809	33 263 080	31 587 131	28 250 397
T O T A L	102 917 856	162 211 197	200 123 440	234 877 346	283 393 581

Source: CBRT.

Note: Data are inflation-adjusted beginning from July 2002.

(1) Provisional (as of end-November).

(2) TL receivables from reverse-repo transactions are included beginning from February 2002.

(3) Special Finance Houses, which were included in "Non-Bank Financial Institutions", are included in "Domestic Interbank Claims" beginning from December 2002.

TABLE 34.L
DEPOSIT MONEY BANKS - SECTORAL ACCOUNTS
(TL billion)

LIABILITIES	2000	2001	2002	2003	2004(1)
DEMAND DEPOSITS	4 187 375	6 338 666	7 859 692	11 357 452	12 599 245
Private Sector	2 560 104	4 271 616	5 545 241	8 700 314	9 662 387
Local Government	306 051	442 900	397 447	569 220	604 132
Non-Financial Public Enterprises	405 226	639 245	787 780	1 124 970	1 133 952
Other Financial Institutions (2)	915 994	984 905	1 129 224	962 948	1 198 774
TIME DEPOSITS (3)	24 519 296	35 910 439	46 068 719	59 670 171	78 615 583
Private Sector	23 513 970	33 691 720	42 241 496	54 609 182	72 123 240
Local Government	128 104	204 700	557 654	1 136 060	1 756 422
Non-Financial Public Enterprises	435 847	872 340	2 005 766	2 332 242	3 121 653
Other Financial Institutions (2)	441 375	1 141 679	1 263 803	1 592 687	1 614 268
FUNDS RECEIVED FROM REPO TRANSACTIONS (4)	---	---	4 636 966	7 564 473	9 891 305
Private Sector	---	---	1 960 123	2 515 658	2 657 146
Local Government	---	---	61 693	72 322	43 163
Non-Financial Public Enterprises	---	---	353 326	285 945	127 788
Other Financial Institutions	---	---	2 261 824	4 690 548	7 063 208
RESIDENTS' FOREIGN EXCHANGE DEPOSITS (3)	25 277 821	59 596 905	72 287 470	68 816 810	75 785 444
CERTIFICATES OF DEPOSIT	0	0	0	0	0
SECURITIES ISSUED (TL) (5)	18	18	18	0	0
FOREIGN LIABILITIES (4)	15 466 169	14 383 093	15 783 275	19 052 570	27 595 346
CENTRAL GOVERNMENT DEPOSITS	5 053 033	6 163 034	9 477 711	14 093 763	15 762 407
Deposits of Budgetary Funds (4)	1 232 320	1 185 761	2 988 218	4 236 005	5 656 689
Official Social Security Institutions	356 783	1 009 647	1 021 594	1 966 098	2 629 781
Deposits of Extra-Budgetary Funds	3 463 930	3 967 626	5 467 899	7 891 660	7 475 937
LIABILITIES TO CENTRAL BANK	5 599 584	5 823 385	191 190	84 514	66 230
Interbank Deposits, Central Bank	582 127	168 560	132 905	1 347	547
Credit From Central Bank	0	157 088	0	0	0
Miscellaneous Payables, CBRT	43 536	61 570	58 281	60 065	65 679
Transitory Liability Accounts, CBRT	19	11 467	4	23 102	4
Securities Payable (Repurchase Agreements) (4)	4 973 902	5 424 700	0	0	0
OWNERS' EQUITY (6)	9 627 597	21 348 272	31 953 299	42 099 171	48 734 563
DOMESTIC INTERBANK LIABILITIES (2)(4)	6 999 611	4 682 171	3 893 492	5 190 709	6 199 579
DUE TO MONEY MARKET TRANSACTIONS	1 505 376	3 978 779	2 856 994	2 144 339	1 964 719
DUE TO SECURITIES LENDING MARKETS (7)	---	---	0	0	0
UNCLASSIFIED LIABILITIES (4)	4 681 976	3 986 435	5 114 614	4 803 374	6 179 160
T O T A L	102 917 856	162 211 197	200 123 440	234 877 346	283 393 581

Source: CBRT.

Note: Data are inflation-adjusted beginning from July 2002.

(1) Provisional (as of end-November).

(2) Special Finance Houses, which were included in "Other Financial Institutions", are classified under "Domestic Interbank Liabilities" beginning from December 2002.

(3) Time deposits also comprise bank liabilities such as miscellaneous receivables and transitory liability accounts, which are not defined as deposits in the Banks Act. Therefore, deposit figures of the bank accounts revised with respect to institutional sectors are different from those officially declared. FX amounts of related items are included in Residents' Foreign Currency Deposits.

(4) Due to the change in the Uniform Chart of Accounts, banks' securities subject to repurchase agreements and related items, which were previously classified as an off-balance sheet item are included in banks' balance sheet beginning from February 2002. The sectoral breakdown of funds received from repo transactions is available.

(5) FX amount of "Securities Issued" is classified under "Foreign Liabilities".

(6) In addition to "Owners' Equity" item in the Deposit Money Banks' Balance Sheet (According to the Uniform Chart of Accounts), "Provisions" shown in assets and liabilities are also covered.

(7) Due to the change in the Uniform Chart of Accounts it has been added beginning from December 2002.

TABLE 35.A
DEPOSIT MONEY BANKS - DEPOSITS
(TL billion)

SECTORAL BREAKDOWN	2000	2001	2002	2003	2004(1)
CENTRAL GOVERNMENT	2 343 643	2 839 837	5 731 199	9 283 701	10 887 506
Budgetary Accounts and Social Security	1 445 107	2 129 619	3 248 590	5 305 700	7 096 865
Official Corporations	999 491	970 340	1 729 073	2 842 795	3 778 707
Official Social Security Institutions	356 783	1 009 647	1 021 594	1 966 098	2 629 781
Other Corporations	88 833	149 632	497 923	496 807	688 377
Deposits of Extrabudgetary Funds	898 536	710 218	1 856 776	3 292 095	2 928 887
Foreign Exchange Deposits of Central	----	----	625 833	685 906	861 754
NON-FINANCIAL PUBLIC ENTERPRISES	832 170	1 501 357	4 501 164	5 080 769	5 635 834
LOCAL GOVERNMENTS	433 268	642 796	963 623	1 715 471	2 401 186
PRIVATE SECTOR	50 584 215	96 296 111	114 699 985	127 072 520	151 812 965
Non-Financial Corporations (TL)	3 576 312	5 231 983	6 201 326	7 962 993	9 492 857
Individual Corporations (TL)	761 065	598 034	918 152	1 368 728	1 400 566
Households (TL)	17 841 397	27 265 629	34 451 682	45 083 517	60 857 697
Non-profit Institutions Serving Households	3 007 033	3 833 533	4 339 784	6 488 896	6 367 607
Other (Other Corporations Deposit)	603 765	571 889	907 516	1 264 451	2 104 806
Residents' Foreign Exchange Deposits,	24 639 796	58 713 932	67 787 899	64 850 235	71 425 550
Households, Resident Real Persons	21 064 723	46 490 234	56 524 752	52 884 007	57 620 658
Resident Legal Persons, Foreign	3 575 073	12 223 698	11 263 147	11 966 228	13 804 892
Precious Stone Deposit Accounts (FX)	154 847	81 111	93 626	53 700	163 882
NON-RESIDENTS' DEPOSITS	771 191	1 808 497	2 610 885	2 828 585	3 809 483
Embassies, Consulates, International	4 265	5 790	7 167	5 627	9 492
TL Deposits of Non-Residents	65 038	118 723	193 390	278 714	586 946
Foreign Exchange Deposit Accounts,	473 647	1 088 472	1 613 257	1 741 818	1 846 407
Foreign Exchange Deposit Accounts,	228 241	595 512	797 071	802 426	1 366 638
FINANCIAL INSTITUTIONS' DEPOSITS	9 978 496	7 432 978	7 068 333	8 204 049	7 569 400
TL DEPOSITS	6 785 144	4 266 500	3 139 858	4 019 835	3 850 854
Interbank Deposits	5 456 173	2 182 775	825 180	1 492 937	1 051 862
Central Bank	9 781	1 928	1 844	1 347	547
Banks Abroad	607 897	510 187	140 146	175 155	121 670
Domestic Banks	4 838 495	1 670 660	683 190	1 316 435	929 645
Other Financial Institutions	1 328 971	2 083 725	2 314 678	2 526 898	2 798 992
Investment and Development Banks	136 097	175 724	165 690	52 928	122 769
Non-Bank Financial Institutions	1192 874	1 908 001	2 148 988	2 473 970	2 676 223
FOREIGN EXCHANGE DEPOSITS	3 193 352	3 166 478	3 928 475	4 184 214	3 718 546
Interbank Deposits	3 146 941	3 099 736	1 745 531	2 499 591	1 606 352
Central Bank	572 346	166 632	131 061	0	0
Banks Abroad	1 692 838	1 330 737	434 176	1 323 448	898 364
Domestic Banks	881 757	1 602 367	1 180 294	1 176 143	707 988
Other Financial Institutions	46 411	66 742	2 182 944	1 684 623	2 112 194
Investment and Development Banks	46 411	66 742	47 573	22 383	23 408
Non-Bank Financial Institutions	----	----	2 135 371	1 662 240	2 088 786
T O T A L	64 942 983	110 521 576	135 575 188	154 185 095	182 116 374

Source: CBRT.

(1) Provisional (as of end-November).

(2) Sectoral breakdown of resident legal persons foreign exchange deposit have been done and reclassified under the related sector as of December 2002.

TABLE 35.B
DEPOSIT MONEY BANKS - DEPOSITS
(TL billion)

DEPOSIT TYPES	2000	2001	2002	2003	2004(1)
SAVINGS DEPOSITS	17 888 051	27 365 541	34 604 347	45 302 429	61 356 160
Sight	905 778	1 586 698	2 307 305	3 835 720	4 509 962
Time	16 982 273	25 778 843	32 297 042	41 466 709	56 846 198
COMMERCIAL CORPORATION DEPOSITS					
SAVINGS DEPOSITS	5 813 377	8 117 695	12 909 736	16 736 478	19 091 408
Sight	2 077 426	3 540 384	4 756 252	7 195 918	7 155 917
Time	3 735 951	4 577 311	8 153 484	9 540 560	11 935 491
OTHER CORPORATION DEPOSITS	5 636 461	7 572 504	7 902 013	12 156 162	13 638 382
Sight	1 871 527	1 995 838	1 918 756	3 084 645	4 106 213
Time	3 764 934	5 576 666	5 983 257	9 071 517	9 532 169
of which: Funds	1 425 859	1 753 774	781 819	1 358 782	1 155 557
OFFICIAL DEPOSITS	1 322 941	1 461 832	2 587 339	4 431 744	6 005 926
Sight	947 514	817 189	1 398 351	2 081 074	2 891 745
Time	375 427	644 643	1 188 988	2 350 670	3 114 181
CERTIFICATES OF DEPOSITS	0	0	0	0	0
Sight	0	0	0	0	0
Time	0	0	0	0	0
FOREIGN EXCHANGE DEP. ACCOUNTS	25 341 684	60 397 916	74 694 153	71 436 743	79 056 225
Sight	3 762 642	10 799 780	16 192 646	16 098 780	19 057 705
Time	21 579 042	49 598 136	58 501 507	55 337 963	59 998 520
PRECIOUS STONES DEPOSIT ACCOUNTS (FX)					
Sight	154 847	81 111	93 626	53 700	163 882
Time	22 516	17 069	40 417	26 766	64 238
Time	132 331	64 042	53 209	26 934	99 644
INTERBANK DEPOSITS	8 785 622	5 524 977	2 783 974	4 067 839	2 804 391
Central Bank	582 127	168 560	132 905	1 347	547
Public Deposit Money Banks	539 426	319 551	214 608	780 813	548 205
Private Deposit Money Banks	4 359 283	2 884 927	1 455 062	1 464 409	801 099
Foreign Deposit Money Banks	821 543	68 549	123 302	136 876	162 165
Public and Private Investment and Dev. Banks					
Banks	177 414	190 904	209 791	75 141	121 007
Foreign Investment and Development Banks					
Banks	5 094	51 562	3 472	170	25 170
Banks Abroad	2 300 735	1 840 924	574 322	1 498 603	1 020 034
Institutions Authorized to Accept Deposits by Special Law	0	0	0	0	0
Special Finance Houses (2)	---	---	70 512	110 480	126 164
T O T A L	64 942 983	110 521 576	135 575 188	154 185 095	182 116 374

Source: CBRT.

(1) Provisional (as of end-November).

(2) "Special Finance Houses" deposits, which were included in "Commercial Corporations' Deposits", are classified under "Interbank Deposits" beginning from December 2002.

TABLE 36.A
INVESTMENT and DEVELOPMENT BANKS - SECTORAL ACCOUNTS
(TL billion)

ASSETS	2000	2001	2002	2003	2004(1)
RESERVES	1 123 502	1 543 159	1 471 693	1 785 850	2 343 179
Currency	486	193	307	331	571
Deposits at Central Bank	21 770	151 049	26 489	39 374	27 589
Required Reserves	0	0	16 291	33 003	23 783
Free Reserves	23 661	144 275	10 198	6 371	3 806
Claims on Deposit Money Banks	1 101 246	1 391 917	1 444 897	1 746 123	2 315 019
Securities Issued by Deposit Money Banks	0	0	0	0	0
Credit to Deposit Money Banks	1 101 246	1 391 917	1 442 693	1 744 445	2 310 863
Other Claims on Deposit Money Banks (2)	0	0	2 204	1 678	4 156
Claims on Special Finance Houses (3)	---	---	0	22	0
OTHER CLAIMS ON CENTRAL BANK	0	0	185	231	604
FOREIGN ASSETS (2)	728 275	1 580 205	1 480 359	1 212 241	909 793
CLAIMS ON CENTRAL GOVERNMENT	395 100	434 307	848 444	1 099 078	1 229 321
Budgetary Institutions	395 100	434 307	848 444	1 099 078	1 229 321
Credit to Central Government	0	0	0	0	0
Bonds and Bills Issued by Central Government	349 818	331 947	764 156	960 235	1 188 567
Other Claims on Central Government (2)	45 282	102 360	84 288	138 843	40 754
Extra-Budgetary Institutions	0	0	0	0	0
Claims on Extra-Budgetary Funds	0	0	0	0	0
CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES	24 828	28 905	43 862	68 001	99 095
Credit to SEEs	0	0	0	0	0
Bonds issued by SEEs	0	0	0	0	0
Participations in SEEs	0	0	0	0	0
Other Claims on SEEs (2)	24 828	28 905	43 862	68 001	99 095
CLAIMS ON LOCAL GOVERNMENTS	715 009	919 904	1 204 646	1 644 163	1 839 199
Credits to Local Government	714 830	919 600	1 204 450	1 641 320	1 835 982
Bonds Issued by Local Government	0	0	0	0	0
Other Claims on Local Government (2)	179	304	196	2 843	3 217
CLAIMS ON NON-BANK FINANCIAL INSTITUTIONS (2)(3)	36 495	55 947	86 225	116 183	194 597
CLAIMS ON PRIVATE SECTOR	1 069 946	1 883 233	2 515 549	2 749 151	3 154 085
Credit to Private Sector	1 032 357	1 841 590	2 243 900	2 458 812	2 798 552
Bonds Issued by Private Enterprises	0	0	0	359	358
Participations in Private Enterprises	18 065	26 092	133 730	112 796	106 608
Other Claims on Private Sector (2)	19 524	15 551	137 919	177 184	248 567
INTER-INVEST. AND DEVELOP. BANK CLAIMS (2)	30 823	39 141	57 421	52 279	36 074
CLAIMS ON MONEY MARKET TRANSACTIONS	199 672	803 572	1 194 650	1 022 000	574 150
UNCLASSIFIED ASSETS (2)	341 726	844 230	601 542	700 390	807 765
T O T A L	4 665 376	8 132 603	9 504 576	10 449 567	11 187 862

Source: CBRT.

Note: Data are inflation-adjusted beginning from July 2002.

(1) Provisional (as of end-November).

(2) TL receivables from reverse-repo transaction are included beginning from February 2002.

(3) Special Finance Houses, which were included in "Claims On Non-Bank Financial Institutions", are classified as banks beginning from December 2002.

TABLE 36.L
INVESTMENT and DEVELOPMENT BANKS - SECTORAL ACCOUNTS
(TL billion)

LIABILITIES	2000	2001	2002	2003	2004(1)
TIME DEPOSITS (2)	359 186	1 070 079	714 051	633 319	604 166
Private Sector	14 554	100 360	82 282	97 307	21 006
Non-Financial Public Enterprises	0	0	0	2	0
Local Governments	339 578	946 722	573 561	462 271	490 921
Non-Bank Financial Institutions (5)	5 054	22 997	58 208	73 739	92 239
FUNDS RECEIVED FROM REPO TRANSACTIONS (3)	---	---	36 362	19 682	164 041
Private Sector	---	---	36 175	8 724	23 567
Non-Financial Public Enterprises	---	---	0	0	0
Local Governments	---	---	0	0	0
Non-Bank Financial Institutions	---	---	187	10 958	140 474
RESIDENTS' FOREIGN EXCHANGE DEPOSITS (2)	23 707	44 186	122 900	115 423	111 014
SECURITIES ISSUED (TL) (4)	28	6	2	1	1
FOREIGN LIABILITIES (3)	1 482 777	2 639 960	2 805 306	2 832 452	3 032 897
CENTRAL GOVERNMENT DEPOSITS	244 503	518 777	589 870	580 322	535 325
Deposits of Budgetary Funds (3)	178 396	416 469	499 687	492 210	447 316
Deposits of Extra-Budgetary Funds	66 107	102 308	90 183	88 112	88 009
LIABILITIES TO THE MONETARY SECTOR (3)	977 915	1 115 848	1 341 348	1 055 597	928 592
Liabilities to the Central Bank	100 023	224 550	196 623	118 622	77 138
Liabilities to Deposit Money Banks	877 892	891 298	1 144 722	936 911	851 454
Liabilities to Special Finance Houses (5)	---	---	3	64	0
LIABILITIES OF INTER-INVESTMENT AND DEVELOPMENT BANKS (3)	0	0	9	5 178	0
OWNERS' EQUITY (6)	1 298 004	2 204 364	3 397 302	4 807 490	5 384 986
DUE TO MONEY MARKET TRANSACTIONS	116 286	64 952	35 359	12 994	22 357
DUE TO SECURITIES LENDING MARKETS (7)	---	---	0	0	0
UNCLASSIFIED LIABILITIES (3)	162 970	474 431	462 067	387 109	404 483
T O T A L	4 665 376	8 132 603	9 504 576	10 449 567	11 187 862

Source: CBRT.

Note: Data are inflation-adjusted beginning from July 2002.

(1) Provisional (as of end-November).

(2) Some of the liabilities of Investment and Development Banks in transitory liabilities and miscellaneous payables, although they do not receive deposits, are classified as deposits solely for Monetary Survey purposes.

(3) Due to the change in the Uniform Chart of Accounts, banks' securities subject to repurchase agreements and related items are included in the banks' balance sheet beginning from February 2002, which were previously classified as off-balance sheet items. The sectoral breakdown of funds received from repo transactions is available.

(4) FX amount of "Securities Issued" is classified under "Foreign Liabilities".

(5) Special Finance Houses, which were included in "Non-Bank Financial Institutions", are classified as banks beginning from December 2002.

(6) In addition to the "Owners' Equity" item in the Investment and Development Banks' Balance Sheet (according to the Uniform Chart of Accounts), "Provisions" shown in assets and liabilities are also covered.

(7) Due to the change in the Uniform Chart of Accounts, it has been added beginning from December 2002.

TABLE 37
INVESTMENT and DEVELOPMENT BANKS - CREDIT
(TL billion)

SECTORAL BREAKDOWN	2000	2001	2002	2003	2004(1)
CENTRAL GOVERNMENT	0	0	0	0	0
NON-FINANCIAL PUBLIC ENTERPRISES	0	0	0	0	0
LOCAL GOVERNMENTS	714 830	919 600	1 204 450	1 641 320	1 835 982
FINANCIAL INSTITUTIONS	774 529	1 403 874	1 428 031	1 678 449	2 051 398
Deposit Money Banks	735 057	1 346 441	1 364 064	1 611 787	1 962 638
Special Finance Houses (2)	---	---	0	0	0
Investment and Development Banks	30 035	39 141	48 871	37 230	34 829
Non-Bank Financial Institutions (2)	9 437	18 292	15 096	29 432	53 931
Insurance Companies and Private Pension Funds	---	---	0	0	0
Financial Intermediaries	---	---	7 295	23 064	36 630
Financial Leasing Companies	---	---	0	1 007	709
Factoring Companies	---	---	7 295	22 053	29 856
Consumer Finance Companies	---	---	0	0	6 065
Other Financial Intermediaries	---	---	0	4	0
Financial Auxiliaries	---	---	7 801	6 368	17 301
Central Bank	0	0	0	0	0
PRIVATE SECTOR	1 032 357	1 841 590	2 243 900	2 458 812	2 798 552
Non-Financial Companies (3)	1 017 847	1 822 857	2 209 879	2 430 199	2 745 280
Individual Corporations (3)	---	---	20 343	13 293	32 788
Households	7 479	10 796	13 678	15 112	20 484
Credits to Personnel	7 479	10 796	13 646	15 112	20 484
Non-Profit Institutions Serving Households	---	---	0	0	0
Other	7 031	7 937	0	208	0
ABROAD	636 133	1 163 802	1 125 836	810 706	508 632
T O T A L	3 157 849	5 328 866	6 002 217	6 589 287	7 194 564

Source: CBRT.

(1) Provisional (as of end-November).

(2) "Special Finance Houses" which were included in "Non-Bank Financial Institutions", are classified in "Domestic Interbank Credits" since December 2002.

(3) "Non-Financial Companies" included in "Individual Corporations" until December 2002.

TABLE 38
DEPOSIT MONEY BANKS - CREDIT
(TL billion)

SECTORAL BREAKDOWN	2000	2001	2002	2003	2004(1)
CENTRAL GOVERNMENT	233 179	1 291 552	720 810	452 959	31 186
NON-FINANCIAL PUBLIC ENTERPRISES	531 169	378 973	22 557	190 854	70 499
LOCAL GOVERNMENTS	42 349	77 603	73 682	172 162	277 277
FINANCIAL INSTITUTIONS	735 207	1 016 370	1 089 599	958 048	909 531
Investment and Development Banks	624 751	878 257	962 147	734 568	672 094
Non-Bank Financial Institutions (2)	25 525	57 262	101 915	210 874	223 328
Insurance Companies and Private Pension Funds	---	---	1 707	1 976	4 459
Financial Intermediaries	---	---	96 269	200 477	217 968
Financial Leasing Companies	---	---	12 122	19 244	54 825
Factoring Companies	---	---	53 048	84 088	81 065
Consumer Finance Companies	---	---	0	2 377	1 754
Other Financial Intermediaries	---	---	31 099	94 768	80 324
Financial Auxiliaries	---	---	3 939	8 421	901
Domestic Interbank Credit (2)	84 931	80 851	25 537	12 606	14 109
Central Bank	0	0	0	0	0
PRIVATE SECTOR	25 561 979	30 776 161	31 997 840	48 889 710	75 417 744
Non-Financial Companies (3)(4)	15 459 400	22 609 348	14 507 269	23 094 451	35 610 031
Individual Corporations (3)(4)	---	---	7 015 891	9 158 056	9 252 758
Households	6 855 284	4 939 445	7 503 092	12 929 522	26 192 593
Consumer Credit (4)	4 602 942	2 336 850	3 130 621	5 833 254	13 160 404
Credit Cards	2 151 724	2 556 936	4 335 180	7 029 598	12 953 230
Credits to Personnel	100 618	45 659	37 291	66 670	78 959
Agricultural Sales Cooperatives	1 452 342	1 890 718	2 107 131	2 908 443	2 312 729
Agricultural Credit Cooperatives	705 716	217 198	63 800	25 319	35 600
Non-Profit Institutions Serving Households	---	---	62 552	95 732	118 333
Other	1 089 237	1 119 452	738 105	678 187	1 895 700
ABROAD	268 290	411 508	570 187	1 690 858	1 754 418
TOTAL	27 372 173	33 952 167	34 474 675	52 354 591	78 460 655

Source: CBRT.

(1) Provisional (as of end-November).

(2) Special Finance Houses, which were included in "Non-Bank Financial Institutions", are classified in Domestic Interbank Credits" since December 2002.

(3) "Non-Financial Companies" included "Individual Corporations" until December 2002.

(4) The credits in the form of consumer credits extended to business enterprises are reclassified in "Non Financial Companies" and "Individual Corporations" according to the directive of Banking Regulation and Supervision Agency beginning from December 2002.

TABLE 39
BANKING SECTOR - CREDIT STOCK, DOMESTIC
(TL billion)

	2000	2001	2002	2003	2004(1)
CENTRAL BANK (Direct Loans)	501 724	750 000	250 000	0	302 300
Central Government	0	0	0	0	0
Non-Financial Public Enterprises	1 724	0	0	0	0
Non-Bank Financial Institutions	500 000	750 000	250 000	0	302 300
DEPOSIT MONEY BANKS	26 394 201	32 581 551	32 916 804	49 916 559	76 020 034
Central Government	233 179	1 291 552	720 810	452 959	31 186
Non-Financial Public Enterprises	531 169	378 973	22 557	190 854	70 499
Local Government	42 349	77 603	73 682	172 162	277 277
Non-Bank Financial Institutions (2)	25 525	57 262	101 915	210 874	223 328
Private Sector	25 561 979	30 776 161	31 997 840	48 889 710	75 417 744
INVESTMENT AND DEVELOPMENT					
BANKS	1 756 624	2 779 482	3 463 446	4 129 564	4 688 465
Central Government	0	0	0	0	0
Non-Financial Public Enterprises	0	0	0	0	0
Local Government	714 830	919 600	1 204 450	1 641 320	1 835 982
Non-Bank Financial Institutions (2)	9 437	18 292	15 096	29 432	53 931
Private Sector	1 032 357	1 841 590	2 243 900	2 458 812	2 798 552
T O T A L	28 652 549	36 111 033	36 630 250	54 046 123	81 010 799

Source: CBRT.

Note: Interbank credit is excluded from credit stock.

(1) Provisional (as of end-November).

(2) Special Finance Houses, which were included in "Non-Bank Financial Institutions", are classified in interbank credits since December 2002.

TABLE 40
MONETARY SECTOR - ANALYTICAL BALANCE SHEET
M3Y Money Supply and Counterpart Items
(TL billion)

	2000	2001	2002	2003	2004(1)
COUNTERPART ITEMS					
FOREIGN ASSETS (NET)	2 760 179	-1 886 778	-6 297 979	-6 767 792	-2 190 265
Foreign Assets	28 121 837	48 527 755	68 887 662	70 100 912	81 793 007
Foreign Liabilities	-25 361 658	-50 414 533	-75 185 641	-76 868 704	-83 983 272
DOMESTIC CREDIT	63 223 246	128 439 070	164 742 193	198 691 861	244 359 268
Claims on Central Government (Net)	31 560 164	90 190 345	122 788 096	139 064 505	155 614 443
Claims on Central Government	36 122 354	96 593 820	133 117 305	152 345 667	169 653 990
Less: Central Government Deposits (2)(5)	-4 562 190	-6 403 476	-10 329 208	-13 281 162	-14 039 547
Claims on Local Governments	47 595	111 896	73 840	172 356	277 526
Claims on Non-Financial Public Enterprises	542 621	393 795	56 124	196 428	72 095
Claims on the Private Sector	28 515 417	34 994 593	38 574 252	55 735 552	84 033 811
Claims on Investment and Development Banks	719 186	1 054 441	1 069 897	869 315	835 088
Claims on Non-Bank Financial Institutions	1 838 264	1 694 000	2 179 984	2 653 705	3 526 305
OTHER ITEMS (NET)	-7 515 887	-17 803 945	-17 220 310	-27 966 944	-40 635 916
T O T A L	58 467 538	108 748 347	141 223 904	163 957 125	201 533 088
MONEY SUPPLY					
M1	7 549 243	11 368 782	15 827 630	23 014 336	27 601 958
Currency in Circulation	3 196 942	4 462 913	6 899 360	9 775 116	12 366 781
Demand Deposits	4 352 301	6 905 869	8 928 269	13 239 221	15 235 178
Monetary Authorities (4)	1 289	3 679	23 951	33 920	57 351
Deposit Money Banks (2)	4 351 012	6 902 190	8 904 318	13 205 301	15 177 827
M2	31 912 095	47 241 075	61 879 759	82 712 966	105 450 430
Time Deposits	24 362 852	35 872 293	46 052 129	59 698 630	77 848 472
Deposit Money Banks (2)	24 362 852	35 872 293	46 052 129	59 698 630	77 848 472
M2Y	56 849 061	106 566 525	133 664 544	151 001 010	180 632 296
Residents' Foreign Exchange Deposits	24 936 966	59 325 451	71 784 786	68 288 043	75 181 866
Monetary Authorities	142 323	530 408	33 167	27 750	36 558
Deposit Money Banks (5)	24 794 643	58 795 043	71 751 619	68 260 293	75 145 308
M2YR	-	-	138 301 510	158 565 483	190 523 601
Funds Received from Repo Transactions (3)	-	-	4 636 966	7 564 473	9 891 305
Deposit Money Banks	-	-	4 636 966	7 564 473	9 891 305
M3	33 530 572	49 422 896	64 802 152	88 104 608	116 459 917
Official Deposits (Time/Sight)	1 322 941	1 461 832	2 587 339	4 431 744	6 005 926
Central Bank's Other Deposits (4)	295 536	719 990	335 055	959 898	5 003 561
M3Y (M2Y+Official Deposits + CB's Other Deposits)	58 467 538	108 748 347	136 586 938	156 392 652	191 641 783
M3YR (M2YR+Official Deposits + CB's Other Deposits)	-	-	141 223 904	163 957 125	201 533 088

Source: CBRT.

Note: Data are inflation-adjusted beginning from July 2002 for banking sector and from August 2004 for Central Bank.

(1) Provisional (as of end-November).

(2) Deposits of Saving Deposit Insurance Funds are reclassified as "Non-Bank Financial Institutions' Deposits" and added in M1 and M2 Money Supply according to maturity.

(3) Due to the change in the Uniform Chart of Accounts, banks' securities subject to repurchase agreements and related items, which were previously classified as an off-balance sheet item, are included in the banks' balance sheet beginning from February 2002. Therefore, funds received from repurchase transactions are included in M2YR and M3YR.

(4) TL Deposits of Savings Deposit Insurance Funds are reclassified under M1, which was previously shown under the Central Bank's Other Deposits.

(5) Foreign Exchange Deposits of Central Government have been compiled and added to "Central Government Deposits" under Counterpart Items beginning from December 2002.

The Central Bank of the Republic of Turkey

TABLE 41
CENTRAL BANK - ANALYTICAL BALANCE SHEET
(TL billion)

	2000	2001	2002	2003	2004
A S S E T					
FOREIGN ASSETS	18 004 037	34 409 563	50 995 283	52 891 854	53 592 147
DOMESTIC ASSETS	-1 100 599	25 679 957	23 075 242	23 605 277	21 080 644
Cash Operations	-416 026	25 664 127	24 221 843	22 881 799	19 048 118
Treasury Debt.	1 490 801	34 403 119	30 812 443	28 019 133	23 236 563
CBRT Portfolio	1 514 941	34 459 512	30 919 409	28 078 806	23 292 479
Gov.Dom.Debt Instr. Prior to Nov. 5, 2001	1 514 941	34 301 090	30 919 409	28 078 806	23 292 479
Gov.Dom.Debt Instr. Purchased from					
Secondary Markets	0	158 422	0	0	0
Other	-24 140	-56 394	-106 966	-59 673	-55 916
Credit to Banking Sector	0	16 270	12 804	6 556	7 678
Credit to SDFI	500 000	750 000	250 000	0	302 300
Other Items	-2 406 827	-9 505 262	-6 853 404	-5 143 890	-4 498 423
Revaluation Account	-875 207	-174 804	-1 146 601	723 478	2 032 526
IMF Emergency Assistance Account (Treasury)	190 634	190 634	0	0	0
T O T A L	16 903 438	60 089 520	74 070 525	76 497 131	74 672 791
LIABILITY					
TOTAL FOREIGN EXCHANGE LIABILITIES	15 923 554	50 220 700	53 551 071	52 362 594	49 929 437
Liabilities to Non-Residents	10 405 974	36 733 224	37 368 781	35 647 919	30 554 024
Liabilities to Residents	5 517 580	13 487 475	16 182 290	16 714 675	19 375 413
FX Deposits of the Non-Banking Sector	1 222 177	3 139 113	5 462 814	6 518 301	6 099 459
FX Deposits of the Banking Sector	4 295 403	10 348 363	10 719 476	10 196 374	13 275 954
CENTRAL BANK MONEY	979 884	9 868 820	20 519 454	24 134 537	24 743 354
Reserve Money	5 949 348	7 975 887	10 668 323	15 010 397	20 327 876
Currency Issued	3 772 411	5 282 660	7 635 622	10 675 528	13 465 237
Deposits of the Banking Sector	2 015 481	2 520 198	2 791 824	4 191 278	6 723 267
Required Reserves	1 404 157	1 626 371	1 671 841	2 288 617	3 115 294
Free Deposits	611 324	893 827	1 119 983	1 902 661	3 607 973
Extra-Budgetary Funds	115 720	104 157	178 059	48 310	24 372
Deposits of the Non-Banking Sector	45 736	68 872	62 818	95 281	115 000
Other Central Bank Money	-4 969 464	1 892 934	9 851 131	9 124 140	4 415 478
Open Market Operations	-5 218 625	1 243 969	9 578 737	8 260 095	3 622 089
Deposits of Public Sector	249 161	648 964	272 394	864 045	793 389
TOTAL	16 903 438	60 089 520	74 070 525	76 497 131	74 672 791

Source: CBRT.

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

A) The use of IMF credit under stand-by agreement is recorded as TL Liability in the CBRT Weekly Statement under the heading "Deposits by International Organizations" at the prevailing TL/SDR exchange rate on the date of withdrawal. However in the Analytical Balance Sheet, SDR liability is considered as a foreign liability and valued at the prevailing exchange rates. Exchange rate differences accumulated between the date of withdrawal and the date of the Analytical Balance Sheet are recorded in the FX revaluation account.

B) The sum of the Domestic Correspondents, Fixed Assets, Miscellaneous Receivables, and Other Assets items on the asset side and the sum of the "Notes and Remittances Payable, Capital, Reserve Funds, Provisions, Miscellaneous Payables, and Other Liabilities items on the liability side of the weekly statement are netted into "Other Items" item on the asset side of the Analytical Balance Sheet.

C) The "Gold Claims of the Treasury" item on the liability side of the Weekly Statement is netted with Treasury's Other Debt on the asset side of the Analytical Balance Sheet.

D) "Overnight Operations" and "Cash debt and claims due to securities transactions under repurchase and reverse repurchase agreements" are netted under the heading "Open Market Operations" item on the liability side whereas, "Security debt and claims due to security transactions under repurchase and reverse repurchase agreement" are netted under the heading "CBRT Portfolio" item in the asset side of the Analytical Balance Sheet.

E) As of 18 October 1999, liabilities to IMF shown under "Foreign Liabilities" in the Analytical Balance Sheet increased in the amount of Emergency Assistance. The corresponding item is shown as "IMF Emergency Assistance Account (Treasury)" under the "Domestic Assets" item and exchange rate differences is recorded to "FX Revaluation" account. However, as of June 21, 2002, the "IMF Emergency Assistance Account (Treasury)" item has been included in "Treasury's Liability" due to the Memorandum of Understanding signed between Treasury and the CBRT on May 6, 2002.

TABLE 42
SECURITIES ISSUED
(TL billion)

	2000	2001	2002	2003	2004 (1)
PUBLIC SECTOR	26 685 862	164 183 336	58 900 026	101 777 186	102 028 851
Government Bonds	5 782 683	45 429 899	66 403 099	56 461 198	61 556 829
Treasury Bills	32 468 545	209 613 235	125 303 125	158 238 383	163 585 680
PRIVATE SECTOR	5 792 296	5 730 395	4 193 318	7 881 726	
Bonds	-	-	-	-	-
Equities (2)	3 007 974	1 684 498	1 597 317	1 749 597	3 826 540
Bank Bills	12 471	147 697	83 614	-	-
Mutual Fund Participation Certificates (2)	2 767 908	3 830 879	2 405 346	6 118 693	6 870 351
Foreign Mutual Fund Participating Shares (3)	3 943	67 321	107 041	13 437	-

Sources: CMB, UT.

(1) Provisional.

(2) Market value of the issue.

(3) Foreign Mutual Funds are registered on the basis of the number of shares. The amounts represent TL equivalents of registered shares calculated by using foreign exchange selling rates.

TABLE 43
INTERNATIONAL RESERVES
(US\$ million)

	2000	2001	2002	2003	2004 (1)
GOLD (2)	1 006	1 032	1 279	1 558	1 635
GROSS FOREIGN EXCHANGE RESERVES	33 179	29 180	36 803	43 410	52 044
Central Bank	22 172	18 787	26 807	33 616	36 006
Deposit Money Banks	11 007	10 392	9 996	9 795	16 038
GROSS INTERNATIONAL RESERVES	34 185	30 212	38 082	44 968	53 679
Overdrafts	26	20	15	11	1
NET RESERVES	34 159	30 192	38 067	44 957	53 678

Source: CBRT.

(1) Provisional.

(2) Gold was valued at \$269 per ounce at the end of 2001, at \$276.5 per ounce at the end of 2002, at \$242.75 per ounce at the end of 2003 and at \$438 per ounce at the end of 2004.

TABLE 44
BALANCE OF FOREIGN TRADE

	In Millions of TL			In Millions of US\$		
	Imports	Exports	Volume of Foreign Trade	Imports	Exports	Balance of Foreign Trade
1970	10 348	6 409	1 536	948	588	-360
1971	17 725	9 087	1 847	1 171	677	-494
1972	22 344	11 876	2 448	1 563	885	-678
1973	29 791	18 031	3 403	2 086	1 317	-769
1974	53 112	21 190	5 310	3 778	1 532	-2 246
1975	68 993	20 077	6 140	4 739	1 401	-3 338
1976	82 930	30 775	7 089	5 129	1 960	-3 169
1977	104 855	31 344	7 549	5 796	1 753	-4 043
1978	113 274	55 351	6 887	4 599	2 288	-2 311
1979	178 495	75 750	7 331	5 069	2 261	-2 808
1980	613 292	221 498	10 819	7 909	2 910	-4 999
1981	1 002 325	530 726	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	4 034 939	2 608 332	17 891	10 757	7 134	-3 623
1985	5 994 754	4 152 927	19 301	11 343	7 958	-3 385
1986	7 561 157	5 012 345	18 561	11 105	7 457	-3 648
1987	12 353 041	8 844 331	24 348	14 158	10 190	-3 968
1988	20 470 614	16 809 242	25 997	14 335	11 662	-2 673
1989	33 827 597	24 819 337	27 417	15 792	11 625	-4 167
1990	58 813 592	34 033 944	35 261	22 302	12 959	-9 343
1991	88 918 000	57 387 400	34 640	21 047	13 593	-7 454
1992	159 628 300	101 901 200	37 586	22 871	14 715	-8 156
1993	329 022 100	170 699 400	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	3 559 029 759	1 907 001 834	66 851	43 627	23 224	-20 403
1997	7 419 624 416	4 039 401 624	74 820	48 559	26 261	-22 298
1998	11 898 371 328	7 032 148 731	72 895	45 921	26 974	-18 947
1999	17 185 041 882	11 211 265 206	67 258	40 671	26 587	-14 084
2000	34 227 081 874	17 347 694 857	82 278	54 503	27 775	-26 728
2001	50 550 213 196	38 770 187 935	72 733	41 399	31 334	-10 065
2002	78 389 702 304	54 621 624 134	87 613	51 554	36 059	-15 495
2003	103 424 769 215	70 369 503 260	116 593	69 340	47 253	-22 087
2004 (1)	139 395 919 694	90 115 282 123	160 358	97 341	63 017	-34 324

Source: SIS.

(1) Provisional.

TABLE 45
ANNUAL EXPORTS BY INTERNATIONAL STANDARD INDUSTRIAL
CLASSIFICATION (ISIC R3)
(US\$ million)

	2000	2001	2002	2003	2004 (1)
Agriculture and Animal Raising	1 652	1 968	1 744	2 105	2 516
Forestry and Logging	7	9	10	16	16
Fishing	25	30	51	81	101
Mining of Coal, Lignite and Peat	2	4	1	1	2
Crude Petroleum and Natural Gas	5	3	3	3	0
Metal Ores	128	81	102	101	186
Other Mining and Quarrying	266	261	281	364	460
Food Products and Beverages	1 836	2 016	1 881	2 650	3 345
Tobacco Products	123	81	100	90	78
Textiles	4 614	4 943	5 533	6 841	7 995
Clothing	5 417	5 398	6 615	8 154	9 338
Luggage, Saddlery and Footwear	190	212	214	286	328
Wood and Cork Products	63	109	118	146	202
Paper and Paper Products	164	242	303	367	456
Printing and Publishing	43	43	49	67	79
Coke, Petroleum Products and Nuclear Fuel	301	416	670	954	1 345
Chemicals and Chemical Products	1 397	1 481	1 581	1 926	2 554
Rubber and Plastic Products	781	941	1 085	1 464	1 957
Other Non-metallic Minerals	1121	1 231	1 468	1 800	2 314
Manufacture of Basic Metals	2 247	2 921	3 239	3 884	6 738
Manufacture of Fabricated Metal (Exc. Machinery)	661	733	932	1 503	2 195
Manufacture of Machinery and Equipment	1 376	1 564	2 078	3 119	3 910
Office, Accounting and Computing Machinery	63	52	40	41	52
Electrical Machinery and Apparatus	825	1038	1 057	1 221	1 575
Communication Equipment and Apparatus	962	1002	1 575	1 948	2 883
Medical, Precision and Optical Instruments, Watches	75	77	89	129	173
Motor Vehicles and Trailers	1 745	2 657	3 603	5 437	8 812
Other Transport Vehicles	882	948	529	1 037	1 343
Furniture	631	719	945	1 315	1 770
Recycling	0	0	0	0	0
Electricity, Gas and Water Supplies	20	20	16	20	60
Except of Motor Vehicles and Motorcycles	136	127	147	183	231
Other Business Activities	0	1	0	0	1
Recreational, Cultural and Sporting Activities	16	4	1	1	2
Other Service Activities	0	0	0	0	0
TOTAL	27 775	31 334	36 059	47 253	63 017

Source: SIS.

(1) Provisional.

TABLE 46
ANNUAL IMPORTS BY INTERNATIONAL STANDARD INDUSTRIAL
CLASSIFICATION (ISIC R3)
(US\$ million)

	2000	2001	2002	2003	2004 (1)
Agriculture and Animal Raising	1 974	1 321	1 591	2 384	2 493
Forestry and Logging	149	88	112	152	226
Fishing	2	1	1	2	8
Mining of Coal, Lignite and Peat	615	300	689	929	1 222
Crude Petroleum and Natural Gas	6 196	6 076	6 193	7 766	9 366
Metal Ores	149	110	190	186	231
Other Mining and Quarrying	136	91	120	139	162
Food Products and Beverages	1 156	1 014	1 362	1 634	1 898
Tobacco Products	43	40	46	58	73
Textiles	1 853	1 683	2 500	3 094	3 784
Wearing Apparel	266	277	346	450	602
Luggage, Saddlery and Footwear	312	269	331	437	619
Wood and Cork Products	207	106	153	241	399
Paper and Paper Products	1 152	785	1 007	1 319	1 712
Printing and Publishing	251	220	200	251	282
Coke, Petroleum Products and Nuclear Fuel	2 587	1 799	2 191	2 833	3 758
Chemicals and Chemical Products	8 084	6 775	8 661	11 238	15 089
Rubber and Plastic Products	1 039	813	1 074	1 434	1 941
Other Non-metallic Minerals	428	325	412	516	717
Manufacture of Basic Metals	3 534	3 612	4 707	7 304	11 060
Manufacture of Fabricated Metal (Exc. Machinery)	873	871	1 085	1 133	1 573
Manufacture of Machinery and Equipment	5 838	4 937	6 474	8 141	10 358
Office, Accounting and Computing Machinery	1 595	782	988	1 213	1 764
Electrical Machinery and Apparatus	1 601	1 221	1 701	2 036	3 164
Communication Equipment and Apparatus	3 994	2 035	2 336	3 029	4 530
Medical, Precision and Optical Instruments, Watches	1 341	1 001	1 156	1 437	2 053
Motor Vehicles and Trailers	5 966	2 206	2 918	6 411	11 796
Other Transport Vehicles	1 474	1 360	961	524	1 890
Furniture	608	556	773	960	1 247
Recycling	0	0	0	0	0
Electricity, Gas and Water Supplies	132	162	128	43	16
Except of Motor Vehicles and Motorcycles	830	543	1 139	2 040	3 298
Other Business Activities	5	8	2	1	1
Recreational, Cultural and Sporting Activities	114	13	5	7	10
Other Service Activities	0	0	0	0	0
TOTAL	54 503	41 399	51 554	69 340	97 341

Source: SIS.

(1) Provisional.

TABLE 47
EXPORTS BY SELECTED CATEGORIES
(US\$ million)

	2000	2001	2002	2003	2004 (1)
Clothing and Accessories, Knitted	3 729	3 641	4 443	5 733	6 258
Clothing and Accessories, Not Knitted	2 506	2 639	3 254	3 814	4 535
Electrical Machinery and Equipment	1 978	2 260	2 867	3 475	4 786
Iron and Steel	1 624	2 070	2 270	2 969	5 286
Fruit	1 030	1 201	1 193	1 392	1 896
Boilers, Machinery, Mechanical Appliances	1 418	1 745	2 142	2 993	4 123
Other Ready-made Textile Articles	1 021	1 055	1 255	1 632	1 856
Vehicles other than Railway	1 593	2 335	3 304	5 272	8 288
Cotton, Cotton Yarn and Cotton Fabric	713	843	811	997	1 219
Man-made Staple Fibres	608	640	654	767	925
Articles of Iron and Steel	697	976	1 244	1 391	2 224
Preparations from Vegetables and Fruit	486	528	516	671	980
Tobacco and Manufactured Tobacco Products	491	435	385	419	478
Plastics and Plastic Articles	499	610	680	926	1 322
Salt, Sulphur, Soil, Plastering Materials, Lime, Cement	485	537	615	733	916
Vegetables	264	375	322	473	482
Man-made Filaments	490	470	502	639	796
Glass and Glassware	386	411	446	520	614
Animal Fats and Vegetable Oils	157	235	156	347	277
Carpets and Other Floor Coverings	295	263	287	381	517
Rubber and Rubber Articles	383	459	514	684	841
Leather Articles	307	328	307	316	324
Other	6 615	7 277	7 891	10 709	14 072
TOTAL	27 775	31 334	36 059	47 253	63 017

Source: SIS.

(1) Provisional.

TABLE 48
IMPORTS BY SELECTED CATEGORIES
(US\$ million)

	2000	2001	2002	2003	2004 (1)
Boilers, Machinery, Mechanical Appliances	7 817	6 304	8 174	10 294	13 449
Mineral Fuels, Mineral Oils, of which	9 541	8 339	9 204	11 575	14 368
<i>Crude Petroleum</i>	4 208	3 878	4 088	4 777	6 092
Electrical Machinery and Equipment	6 113	3 636	4 356	5 520	8 361
Vehicles other than Railway	5 467	1 827	2 333	5 383	10 237
Iron and Steel	2 778	1 797	2 905	4 748	7 989
Plastics and Plastic Articles	2 179	1 733	2 382	3 236	4 763
Organic Chemicals	2 037	1 625	1 888	2 332	2 982
Optical Instruments and Apparatus	1 242	953	1 089	1 361	1 928
Cotton, Cotton Yarn and Cotton Fabric	1 080	950	1 293	1 641	1 981
Aircraft	937	250	296	153	1 211
Man-made Filaments	695	567	751	861	1 008
Paper and Cardboard	939	652	855	1 164	1 528
Pharmaceutical Products	1 035	1 088	1 439	2 019	2 710
Tanning and Dyeing Extracts	614	492	681	850	1 030
Articles of Iron and Steel	705	845	709	827	928
Man-made Staple Fibres	665	550	858	952	1 174
Miscellaneous Chemical Products	512	484	580	743	960
Animal Fats and Vegetable Oils	364	314	402	495	510
Raw Hides and Leather	383	427	621	615	574
Aluminium and Aluminium Articles	548	418	526	715	960
Rubber and Rubber Articles	538	365	523	764	1 064
Other	4 106	3 904	5 601	8 313	11 535
TOTAL	54 503	41 399	51 554	69 340	97 341

Source: SIS.

(1) Provisional.

TABLE 49
EXPORTS BY COUNTRY
(US\$ million)

	2000	2001	2002	2003	2004 (1)
A-EUROPEAN UNION COUNTRIES (EU)	15 086	16 854	19 468	25 899	34 399
European Union Countries (15)	14 510	16 118	18 459	24 484	32 538
European Union Countries (10)	575	736	1 010	1 415	1 861
B-FREE ZONES IN TURKEY	895	934	1 438	1 928	2 562
C-OTHER COUNTRIES	11 794	13 546	15 152	19 426	26 056
Other European Countries	2 433	2 787	3 554	4 857	6 605
North African Countries	1 087	1 150	1 267	1 577	2 203
Other African Countries	285	371	430	554	760
Middle East Countries	3 309	3 297	3 596	3 973	5 174
Central America and Caraips	167	201	197	166	331
South America Countries	120	186	121	131	193
Near And Middle Eastern	2 573	3 261	3 440	5 465	7 900
Other Asian Countries	1 298	1 331	1 790	2 348	2 543
Australia and New Zealand	135	98	122	158	264
Other Countries	385	864	637	197	84
TOTAL	27 775	31 334	36 059	47 253	63 017
<u>SELECTED COUNTRY GROUPS</u>					
OECD Countries	19 006	20 616	23 551	30 425	40 425
EFTA Countries	324	316	409	538	657
Organization of Blacksea Economic Co-operation	2 467	2 932	3 599	5 044	6 763
Organization for Economic Co-operation	874	972	1 042	1 569	2 203
New Independent States	1 649	1 978	2 279	2 963	3 956
Turkish Republics	572	557	619	899	974
Organization of Islamic Conference	3 573	4 197	4 725	7 205	10 193

Source: SIS.

(1) Provisional.

TABLE 50
IMPORTS BY COUNTRY
(US\$ million)

	2000	2001	2002	2003	2004 (1)
A-EUROPEAN UNION COUNTRIES (EU)	27 388	18 949	24 519	33 495	45 428
European Union Countries (15)	26 610	18 280	23 321	31 696	42 347
European Union Countries (10)	777	668	1 198	1 799	3 081
B-FREE ZONES IN TURKEY	496	303	575	589	811
C-OTHER COUNTRIES	26 619	22 147	26 461	35 256	51 101
Other European Countries	7 288	6 613	8 658	11 987	18 348
North African Countries	2 257	2 115	2 138	2 519	3 231
Other African Countries	457	704	558	820	1 551
Middle East Countries	4 167	3 390	3 421	3 741	5 066
Central America and Caraibs	80	41	103	169	206
South America Countries	551	410	541	1 012	1 271
Near And Middle Eastern	3 373	3 016	3 186	4 455	5 577
Other Asian Countries	6 933	4 884	6 530	9 644	15 483
Australia and New Zealand	305	232	313	247	302
Other Countries	1 208	741	1 013	662	67
TOTAL	54 503	41 399	51 554	69 340	97 341
<u>SELECTED COUNTRY GROUPS</u>					
OECD Countries	35 682	26 011	32 985	43 899	59 563
EFTA Countries	1 155	1 481	2 512	3 396	3 890
Organization of Blacksea Economic Co-operation	6 746	5 553	6 588	9 298	15 317
Organization for Economic Co-operation	1 543	1 238	1 548	2 736	3 215
New Independent States	5 693	4 630	5 555	7 777	12 886
Turkish Republics	628	283	468	623	752
Organization of Islamic Conference	6 321	5 540	6 072	8 195	10 588

Source: SIS.

(1) Provisional.

TABLE 51
ANNUAL FOREIGN TRADE CLASSIFIED BY BROAD ECONOMIC CATEGORIES
(US\$ million)

	2000	2001	2002	2003	2004 (1)
EXPORTS	27 775	31 334	36 059	47 253	63 017
Capital Goods	2 176	2 658	2 790	4 344	6 527
Intermediate Goods	11 565	13 369	14 657	18 494	25 839
Consumption Goods	13 987	15 262	18 465	24 125	30 462
Others	47	46	147	289	189
IMPORTS	54 503	41 399	51 554	69 340	97 341
Capital Goods	11 365	6 940	8 400	11 326	17 379
Intermediate Goods	36 010	30 301	37 656	49 735	67 373
<i>Crude Petroleum</i>	4 208	3 878	4 088	4 777	6 092
Consumption Goods	6 928	3 813	4 898	7 813	12 096
Others	199	344	600	466	493

Source: SIS.

(1) Provisional.

TABLE 52
FOREIGN TRADE PRICE INDICES (Annual Averages) (ISIC R3)
(1994=100)

	2000	2001	2002	2003	2004(1)
EXPORTS					
GENERAL	87.8	85.5	84.0	92.4	107.1
MANUFACTURING	86.6	85.1	83.5	92.8	106.7
Food Products and Beverages	85.2	81.5	82.6	89.2	106.8
Textiles	83.6	82.2	79.9	88.9	98.8
Chemicals and Chemical Products	94.4	90.4	84.5	90.2	99.9
Manufacture of Basic Metals	83.6	81.5	83.9	103.2	140.2
Manufacture of Machinery and Equipment	89.2	85.7	80.2	86.1	99.2
Motor Vehicles and Trailers	85.0	85.1	88.3	100.0	114.8
IMPORTS					
GENERAL	94.9	94.6	93.5	100.9	113.5
Crude Petroleum and Natural Gas	169.7	153.4	150.5	177.0	212.8
MANUFACTURING	88.5	88.8	88.1	93.9	105.0
Food Products and Beverages	79.3	81.2	93.6	97.4	110.3
Textiles	84.3	85.9	82.5	87.4	97.2
Chemicals and Chemical Products	93.9	93.2	91.1	101.1	113.1
Manufacture of Basic Metals	89.9	83.8	83.8	97.7	142.1
Manufacture of Machinery and Equipment	87.5	90.5	89.7	94.4	97.6
Motor Vehicles and Trailers	83.7	81.4	84.5	91.9	104.3

Source: SIS.

(1) Provisional.

TABLE 53
BALANCE OF PAYMENTS
(US\$ million)

	2000	2001	2002	2003	2004 (1)
I. CURRENT ACCOUNT	-9 819	3 390	-1 522	-8 037	-15 451
A. Goods	-21 959	-3 733	-7 283	-14 010	-23 830
1.General Merchandise	-20 059	-2 770	-5 928	-11 488	-20 424
Exports FOB	30 721	34 347	40 071	51 130	66 805
Exports	27 775	31 334	36 059	47 253	63 016
Shuttle Trade	2 946	3 039	4 065	3 953	3 880
Adjustment: Classification		-26	-53	-76	-91
Imports FOB	-50 780	-37 117	-45 999	-62 618	-87 229
Imports (CIF)	-54 503	-41 399	-51 554	-69 340	-97 341
Adjustment: Coverage	3 272	2 483	3 093	4 100	5 787
Adjustment: Classification	451	1799	2 462	2 622	4 325
2.Non-monetary Gold (Net)	-1 900	-963	-1 355	-2 522	-3 406
B.Services (Net)	11 368	9 130	7 879	10 505	12 768
Transportation	492	833	861	-523	-1067
Travel	5 923	6 352	6 599	11 090	13 364
Construction Services	968	654	832	682	724
Financial Services	-303	-391	-400	-83	-89
Other Business Services	4 082	1 693	-68	-25	131
Government Services	-277	-319	-572	-715	-734
Other Services	483	308	627	79	439
C.Income (Net)	-4 002	-5 000	-4 554	-5 559	-5 516
Direct Investment	89	52	-86	-400	-672
Portfolio Investment	-434	-694	-835	-1 207	-1 195
Other Investment	-3 657	-4 358	-3 633	-3 952	-3 649
Interest Income	1 168	1 139	784	634	697
Interest Expenditure	-4 825	-5 497	-4 417	-4 586	-4 346
D.Current Transfers	4 774	2 993	2 436	1 027	1 127
Workers Remittances	4 560	2 786	1 936	729	804
Imports with Waiver	214	207	500	298	323
Official Transfers					
II. CAPITAL AND FINANCIAL ACCOUNTS	12 581	-1 719	1 373	2 994	12 469
A.CAPITAL ACCOUNT	0	0	0	0	0
B.FINANCIAL ACCOUNT	12 581	-1 719	1 373	2 994	12 469
1.Direct Investment (Net)	112	2 769	863	1195	1711
2.Portfolio Investment (Net)	1 022	-4 515	-593	2 569	8 070
3.Other Investment (Net)	11 801	-2 667	7 256	3 277	3 512
Assets	-1 939	-601	-777	-986	-7 296
Trade Credits	-26	-445	-921	-910	-1563
Loans	116	-734	19	-404	506
Currency and Deposits	-1 690	927	594	724	-5 849
Other Assets	-339	-349	-469	-396	-390
Liabilities	13 740	-2 066	8 033	4 263	10 808
Trade Credits	805	-1 930	2 483	2 181	4 168
Loans	12 868	614	5 105	606	6 089
Currency and Deposits	-20	-832	348	1 368	393
Other Liabilities	87	82	97	108	158
4.Reserve Assets	-354	2 694	-6 153	-4 047	-824
Reserve Position in the Fund	0	0	0	0	0
Foreign Exchange	-354	2 694	-6 153	-4 047	-824
III. NET ERRORS AND OMISSIONS	-2 762	-1 671	149	5 043	2 982

Source: CBRT.

(1) Provisional.

TABLE 54
BALANCE OF PAYMENTS – SELECTED ITEMS
(US\$ million)

	2000	2001	2002	2003	2004 (1)
CURRENT ACCOUNTS	-9 819	3 390	-1 522	-8 037	-15 451
CAPITAL AND FINANCIAL ACCOUNTS	12 581	-1 719	1 373	2 994	12 469
DIRECT INVESTMENT	112	2769	863	1195	1711
Abroad	-870	-497	-175	-499	-857
In Turkey	982	3266	1038	1694	2568
PORTFOLIO INVESTMENT	1022	-4515	-593	2569	8070
Assets	-593	-788	-2096	-1386	-1139
Liabilities	1615	-3727	1503	3955	9209
Equity Securities	489	-79	-16	1009	1427
Debt Securities	1126	-3648	1519	2946	7782
OTHER INVESTMENTS	11 801	-2 667	7 256	3 277	3 512
Assets	-1 939	-601	-777	-986	-7 296
Trade Credits	-26	-445	-921	-910	-1563
Loans	116	-734	19	-404	506
Currency and Deposits	-1690	927	594	724	-5849
Other Assets	-339	-349	-469	-396	-390
Liabilities	13 740	-2 066	8 033	4 263	10 808
Trade Credits	805	-1 930	2 483	2 181	4 168
Long-Term	8	11	1 353	966	486
Short-Term	797	-1 941	1 130	1 215	3 682
Loans	12 868	614	5 105	606	6 089
Monetary Authority	3 348	10 229	-6 138	-1 479	-4 414
Use of Fund Credits	3 351	10 230	-6 138	-1 479	-4 414
Long-Term	-3	-1	0	0	0
Short-Term	0	0	0	0	0
General Government	117	-1 977	11 834	-765	-267
Use of Fund Credits	0	0	12 503	1 429	896
Long-Term	-883	-977	-669	-2 194	-1 163
Short-Term	1 000	-1 000	0	0	0
Banks	4 378	-8 076	-1 028	1 975	5 642
Long-Term	-363	-1 024	-297	-40	2 295
Short-Term	4 741	-7 052	-731	2 015	3 347
Other Sectors	5 025	438	437	875	5 128
Long-Term	4 897	255	1 165	587	4 787
Short-Term	128	183	-728	288	341
Currency and Deposits	-20	-832	348	1 368	393
Monetary Authority	622	736	1 336	497	-209
Banks	-642	-1 568	-988	871	602
Other Liabilities	87	82	97	108	158
RESERVE ASSETS	-354	2 694	-6 153	-4 047	-824

Source: CBRT.

(1) Provisional.

TABLE 55
OUTSTANDING EXTERNAL DEBT
(US\$ million)

	2000	2001	2002	2003	2004 (1)
TOTAL OUTSTANDING DEBT	118 802	113 895	130 353	145 805	153 160
SHORT-TERM	28 301	16 403	16 424	23 013	29 316
MEDIUM AND LONG-TERM	90 501	97 492	113 929	122 792	123 844
BORROWER					
SHORT-TERM	28 301	16 403	16 424	23 013	29 316
Central Bank	653	752	1 655	2 860	3 014
CBRT Loans	26	20	15	11	2
FX Deposits with CBRT	627	732	1 640	2 849	3 012
General Government	1 000	0	0	0	0
Deposit Money Banks	16 900	7 997	6 344	9 692	12 677
Other Sectors	9 748	7 654	8 425	10 461	13 625
MEDIUM AND LONG TERM	90 501	97 492	113 929	122 792	123 844
A-Public Sector	47 919	46 413	63 981	70 293	71 376
1-General Government	42 502	41 276	59 178	65 566	66 780
a-Consolidated Budget	39 522	38 760	56 830	63 453	64 942
b-Local Administration	2 380	1 937	1 676	1 535	1 347
c-Extra Budgetary Funds	594	557	646	549	466
d-Universities	6	23	26	29	25
2-Other	1 205	1 129	1 045	1 201	1 384
3- State Owned Enterprises	4 212	4 008	3 758	3 526	3 212
B-CBRT	13 429	23 591	20 340	21 504	17 791
CBRT Loans	3 705	13 643	8 068	7 272	3 935
FX Deposits with CBRT	9 724	9 948	12 272	14 232	13 856
C-Private Sector	29 153	27 488	29 608	30 995	34 677
1-Financial	7 582	4 789	4 586	4 972	6 047
2-Non-financial	21 571	22 699	25 022	26 023	28 630
BY LENDER	118 802	113 895	130 353	145 805	153 160
SHORT-TERM	28 301	16 403	16 424	23 013	29 316
Commercial Bank Credit	17 306	7 775	5 187	8 260	11 330
Private Lender Credit	10 995	8 628	11 237	14 753	17 986
MEDIUM AND LONG-TERM	90 501	97 492	113 929	122 792	123 844
A-Official Creditors	20 172	30 643	40 151	42 926	41 110
Governmental Organizations	8 705	8 581	9 302	9 457	8 608
Multilateral Organizations	11 467	22 062	30 849	33 469	32 502
B-Private Creditors	70 329	66 849	73 778	79 866	82 734
1-Loans	48 194	45 511	49 932	52 288	54 492
Commercial Banks	27 362	27 504	28 505	28 768	30 830
Non-bank Financial Institutions	5 602	3 371	3 304	3 003	2 580
Non-monetary Institutions	4 280	3 933	4 745	4 637	4 860
Off-shore Banks	1 203	732	1 098	1 639	2 357
Private Investment and Development	15	0	0	0	0
FX Deposits with CBRT	9 724	9 948	12 272	14 232	13 856
NGTA's	8	8	8	9	9
Others		15	0	0	0
2-Bond Issue	22 135	21 338	23 846	27 578	28 242

Sources: UT, CBRT.

(1) Provisional (as of September 2004).

TABLE 56
CURRENCY COMPOSITION OF THE FOREIGN DEBT STOCK IN US\$ AT
YEAR-END RATES
(US\$ million)

TYPE OF CURRENCY	2000	2001	2002	2003	2004 (1)
US Dollars	64 589	57 532	61 127	66 545	76 687
German Marks	23 147	826	0	0	0
EUROs	14 832	34 187	39 859	48 587	49 315
SDRs	4 186	14 106	22 018	24 012	21 510
Swiss Francs	783	686	719	883	915
Pounds Sterling	809	709	733	654	659
Japanese Yens	7 447	5 176	5 312	4 517	3 277
French Francs	1 014	23	0	0	0
Netherlands Guilders	647	21	0	0	0
Others (in US Dollars)	1 348	629	585	607	797
TOTAL	118 802	113 895	130 353	145 805	153 160

Sources: CBRT, UT.
(1) Provisional (as of September 2004).

TABLE 57
FOREIGN EXCHANGE DEPOSITS WITH CBRT
(US\$ million)

	2000	2001	2002	2003	2004(1)
TOTAL	10 514	10 807	14 097	17 300	18 611
Non-residents	10 351	10 680	13 912	17 081	18 405
Short-Term	627	732	1 640	2 849	3 286
Medium and Long-Term	9 724	9 948	12 272	14 232	15 119
Residents	163	127	185	219	206
Currency Composition of FX Deposits with CBRT (In Millions of Original Currency)					
US Dollars	476	850	1 203	1 313	1 258
German Marks	19 898	0	0	0	0
French Francs	548	0	0	0	0
Netherlands Guilders	911	0	0	0	0
Swiss Francs	116	121	125	118	104
EUROs	150	11 215	12 277	12 702	12 673
Pounds Sterling	3	4	6	7	6

Source: CBRT.
(1) Provisional.

TABLE 58
FOREIGN EXCHANGE DEPOSIT ACCOUNTS
(US\$ million)

	2000	2001	2002	2003	2004(1)
Foreign Exchange Deposit Accounts	49 329	52 864	52 224	57 143	64 535
Non-residents	5 760	3 992	3 149	4 372	5 035
Residents	43 569	48 872	49 075	52 771	59 500
Interbank	5 526	5 693	4 238	3 918	3 221
Other	38 043	43 179	44 837	48 853	56 279
Reserve Requirements on FX deposits	3 766	4 257	4 555	6 146	6 522
Currency Composition of FX Deposits (In Millions of Original Currency)					
US Dollars	35 188	38 080	36 886	36 783	38 545
German Marks	21 643	2 787	0	0	0
French Francs	2 072	177	0	0	0
Netherlands Guilders	856	105	0	0	0
EUROs	2598	14 224	13 696	15 166	17 874
Swiss Francs	402	465	362	344	323
Japanese Yens	1 653	2 019	3 155	6 603	4 779
Pounds Sterling	317	382	421	524	609

Source: CBRT.

(1) Provisional.

TABLE 59
PROJECTED DEBT SERVICES
(BY BORROWER)
(US\$ million)

	2004 Q4	2005	2006	2007	2008	2009	2010+ (2)
TOTAL	8 559	34 301	28 804	15 916	13 497	9 840	43 978
Principal	6 755	27 743	23 936	11 966	10 362	7 313	31 570
Interest (1)	1 804	6 558	4 868	3 951	3 135	2 527	12 408
Public Sector							
Principal	2 330	12 248	17 780	8 390	7 588	4 864	27 843
Interest (1)	1 173	5 009	3 814	3 077	2 458	1 993	11 394
Central Bank							
Principal	1 093	2 842	0	0	0	0	0
Interest (1)	35	47	1	0	0	0	0
Private Sector							
Principal	3 332	12 654	6 156	3 576	2 774	2 449	3 727
Interest (1)	595	1 502	1 053	874	677	534	1 014

Source: UT.

(1) Including charges and expenses.

(2) Excluding NGTA and Dresdner Accounts' repayments.

TABLE 60
AVERAGE INTEREST RATES OF AUCTIONED
GOVERNMENT SECURITIES IN 2004
(in Percent)

Months	6 Months (Up to 182 days)	12 Months (Up to 567 days)
January	25.25	24.72
February	23.30	23.58
March	22.06	24.92
April	21.57	23.44
May	25.96	29.71
June	24.62	28.46
July	23.04	26.79
August	22.55	25.38
September	19.18	27.30
October	19.59	23.36
November	19.58	23.76
December	19.87	24.44

Source: CBRT.

Note: Interest rates are given according to auction dates and are net simple rates. The amounts sold to non-competitive bidders and buy options granted to the highest bidders are included.

TABLE 61
GOVERNMENT SECURITIES SOLD AT AUCTIONS IN 2004
(TL billion)

Months	6 Months (Up to 182 days)	12 Months (Up to 567 days)
January	2 452 638	9 046 366
February	1 651 935	6 592 014
March	1 405 464	10 470 205
April	2 304 935	10 820 661
May	4 865 252	6 790 226
June	2 979 099	3 388 286
July	2 083 484	9 227 864
August	2 724 361	13 998 255
September	1 494 389	7 681 307
October	2 072 762	9 697 395
November	2 334 979	13 772 923
December	1 434 909	9 893 085

Source: CBRT.

Note: The table is arranged according to auction dates and nominal amounts. The amounts sold to non-competitive bidders and buy options granted to the highest bidders are included.

TABLE 62
INTERBANK MONEY MARKET TRANSACTIONS IN 2004

Months	Number of Daily Transactions (1)	Volume of Daily Transactions (In Billion TL) (1)	Actual Overnight Interest (%)		
			Minimum	Maximum	Average (2)
January	80	5 209 757	26.00	26.00	26.00
February	100	7 362 671	24.00	24.00	24.00
March	82	5 860 553	22.00	24.00	22.98
April	94	8 323 838	22.00	22.00	22.00
May	76	6 356 545	22.00	22.00	22.00
June	70	5 855 795	22.00	22.00	22.00
July	70	7 004 636	22.00	22.00	22.00
August	64	6 448 590	22.00	22.00	22.00
September	58	6 670 232	20.00	22.00	20.44
October	62	7 920 945	20.00	20.00	20.00
November	58	5 623 410	20.00	20.00	20.00
December	48	3 935 413	18.00	20.00	18.69

Source: CBRT.

(1) Monthly averages of double-sided transactions.

(2) Average of simple overnight interest rates.

TABLE 63
FOREIGN EXCHANGE AND BANKNOTE TRANSACTIONS IN 2004

Date	Interbank Foreign Exchange Market Transactions (double sided)				Monthly Average Number of Institutions Participated	Indicative FX Rates (TL/\$)		
	Total Number of Monthly Transactions	Total Volume of Monthly Transactions \$ Millions	Exchange Rates (TL/\$)			Maximum	Minimum	Monthly Averages (TL/\$)
			Maximum Rate of the Month	Minimum Rate of the Month				
January	938	3 163	1 345 500	1 320 900	11	1 395 983	1 321 924	1 347 207
February	1 022	3 653	1 351 500	1 317 400	15	1 348 606	1 317 509	1 329 287
March	1 652	5 064	1 337 000	1 315 500	16	1 332 769	1 316 538	1 321 720
April	1 400	4 869	1 390 000	1 305 600	14	1 447 074	1 307 617	1 363 007
May	566	2 029	-	-	9	1 558 189	1 438 616	1 512 337
June	636	2 284	-	-	9	1 524 393	1 473 545	1 495 418
July	638	2 480	-	-	9	1 492 454	1 429 287	1 454 390
August	626	2 251	-	-	9	1 516 160	1 447 379	1 476 333
September	716	2 466	-	-	9	1 538 766	1 490 869	1 505 352
October	604	2 386	-	-	8	1 511 665	1 476 342	1 491 277
November	494	1 828	-	-	8	1 478 993	1 426 245	1 450 177
December	764	2 427	1 390 000	1 343 950	9	1 440 800	1 342 700	1 396 142

Source: CBRT.

TABLE 64
REAL EFFECTIVE EXCHANGE RATES
(1995=100)

BASED ON CONSUMER PRICE INDEX

	Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
1998	119.3	117.4	116.2	116.1	115.7	115.5	116.3	118.5	121.1	122.5	122.8	120.9
1999	121.5	121.2	121.8	121.8	121.0	121.5	122.4	122.1	124.1	126.1	126.4	127.3
2000	128.6	131.5	132.4	132.9	135.7	132.3	133.5	135.9	139.0	142.4	146.5	147.6
2001	148.1	138.4	113.5	101.2	114.2	111.8	105.1	98.9	98.5	96.6	107.4	116.3
2002	130.3	135.8	138.4	143.8	133.4	118.9	107.6	112.2	115.2	119.0	123.7	125.4
2003	119.2	122.7	123.5	127.9	135.8	140.6	145.1	147.2	151.5	142.9	140.5	140.6
2004	147.0	149.1	154.2	152.5	138.2	137.5	140.5	140.1	138.1	139.9	141.3	143.2*

BASED ON WHOLE SALE PRICE INDEX

	Jan.	Feb.	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
1998	113.1	111.7	110.8	110.2	109.8	108.7	108.7	109.4	110.6	110.4	110.2	107.8
1999	107.1	107.5	107.9	108.5	107.8	106.7	107.3	105.9	107.4	107.2	107.1	108.7
2000	110.5	113.4	114.2	114.7	116.1	112.4	111.8	112.5	114.0	116.0	117.9	118.2
2001	118.1	111.7	95.4	88.3	101.1	98.9	94.2	89.1	88.5	89.0	97.8	107.2
2002	119.0	125.2	128.5	133.3	123.6	110.8	101.3	105.6	107.9	111.2	114.3	117.0
2003	113.7	117.8	118.5	123.2	128.2	130.3	134.4	135.9	137.5	128.6	126.4	126.3
2004	134.0	137.1	143.3	144.2	129.9	128.0	128.0	127.6*	126.8*	129.1*	129.4*	131.0*

Source: CBRT.

(*) Provisional.

TABLE 65
CENTRAL BANK PERSONNEL BY CATEGORY
(as of December 31, 2004)

Branches	No. of Cadres	General Administrative Services										Employed on Contractual Basis				Grand Total	
		Services		Technical Services		Health Services		Legal Services		Auxiliary Services		Total		Contractual Basis			
		F	M	F	M	F	M	F	M	F	M	F	M	F	M		
Head																	
Office	2 959	774	798	28	258	8	4	6		26	243	842	1 303	192	264	2 601	
Adana	91	24	34		4	1				4	5	29	43		5	77	
Ankara	373	128	143							2	9	130	152	8	21	311	
Antalya	81	17	32								7	17	39	1	9	66	
Bursa	105	29	38		1						4	29	43	1	14	87	
Denizli	75	13	31		1						2	13	34	2	10	59	
Diyarbakır	69	4	33		1					1	6	5	40		13	58	
Edirne	62	10	24		1					2	4	12	29	2	7	50	
Erzurum	64	3	29		1					1	5	4	35	3	9	51	
Eskişehir	72	14	32		1						5	14	38	2	5	59	
Gaziantep	74	10	32		1						8	10	41	2	5	58	
İskenderun	65	14	29		2					1	8	15	39	3	1	58	
İstanbul	546	151	189	2	10	5		2	1	13	57	173	257	12	31	473	
İzmir	231	70	86	3	8	2		1		11	28	87	122	1	5	215	
İzmit	90	24	37		4					1	4	25	45	3	9	82	
Kayseri	80	6	41		1					2	4	8	46	4	11	69	
Konya	72	7	39		2					1	4	8	45	1	9	63	
Malatya	71	8	35		1					1	7	9	43	3	9	64	
Mersin	75	24	29		2					2	6	26	37		6	69	
Samsun	78	11	35		2						3	11	40	1	9	61	
Trabzon	79	7	38		1					1	6	8	45	3	16	72	
Van	61	3	28		1					1	5	4	34		14	52	
TOPLAM	5 473	1 351	1 812	33	303	16	4	9	1	70	430	1 479	2 550	244	482	4 755	

Source: CBRT.

Total Personnel.....	4 755
Banknote Printing Mill Workers.....	3
Total.....	4 758
Total Personnel on December 31, 2003.....	4 774
Net Change	-16

TABLE 66
OFFICES OF THE CENTRAL BANK

	Year Established	Number of Personnel as of the end of 2004
<u>BRANCHES</u>		
Adana	1969	77
Ankara	1931	311
Antalya	1963	66
Bursa	1969	87
Denizli	1974	59
Diyarbakır	1955	58
Edirne	1963	50
Erzurum	1959	51
Eskişehir	1954	59
Gaziantep	1956	58
İskenderun	1951	58
Istanbul	1931	473
İzmir	1932	215
İzmit	1983	82
Kayseri	1968	69
Konya	1974	63
Malatya	1977	64
Mersin	1933	69
Samsun	1933	61
Trabzon	1963	72
Van	1978	52
<u>REPRESENTATIVE OFFICES</u>		
Frankfurt	1976	8
Berlin	1982	3
London	1977	4
New York	1977	4
Tokyo	1997	1

Source: CBRT.

**COMPARISON OF THE BALANCE SHEETS
2003-2004**

COMPARISON OF 2003- 2004
(MILLION)

A S S E T S

	2003	2004
I. Gold	2,234,170,898	2,254,793,278
A. International Standard	2,174,039,472	2,194,299,896
B. Non-International Standard	60,131,427	60,493,383
II. Foreign Exchange	46,922,503,744	48,327,454,952
A. Convertible	46,922,114,362	48,327,454,115
a. Foreign Banknotes	982,681,877	427,123,897
b. Correspondent Accounts	234,190,031	235,462,923
c. Reserve Tranche Position		
B. Non-Convertible	389,382	837
a. Foreign Banknotes	380,209	837
b. Correspondent Accounts	9,173	
III- Coins	7,377,912	2,931,769
IV- Domestic Correspondents	1,758,775,474	1,144,224,101
V- Securities Portfolio	27,645,805,802	23,164,478,819
A- Government Securities	27,645,805,802	23,164,478,819
a- Bonds	27,645,805,802	23,164,478,819
b- Treasury Bills		
B- Other		
VI- Domestic Credit	6,556,133	309,977,715
A- Banking Sector	6,556,133	7,677,722
a- Rediscount	6,556,133	7,677,722
b- As per Art 40/c of Law No:1211		
c- Other		
B- Credit to SDIF		302,299,993
VII- Open Market Operations	432,999,998	127,999,999
A- Repurchase Agreements	432,999,998	127,999,999
a- Cash		
i- Foreign Exchange		
ii- Securities		
b- Securities	432,999,998	127,999,999
B- Other		
VIII- Foreign Credit	166,346,625	113,274,082
IX. Share Participations	20,786,547	20,904,100
X- Fixed Assets	257,792,337	289,588,841
A- Buildings and Building Sites	269,029,580	307,975,633
Depreciation Allowance for Real Estate (-)	-24,380,233	-33,591,927
B- Furniture and Fixtures	45,548,606	59,258,298
Depreciation Allowance for Furniture and Fixtures (-)	-32,405,617	-44,053,163
XI- Claims under Legal Proceedings	0	0
A. Claims under Legal Proceedings	1,774,972,635	1,728,113,901
B. Provision for Past-Due Receivables	-1,774,972,635	-1,728,113,901
XII- Treasury Liabilities Due to SDR Allocation	233,218,176	234,485,785
XIII- Revaluation Account	723,478,393	2,032,526,096
XIV- Accrued Interest and Income	7,346,510	74,275,476
XV- Miscellaneous Receivables	33,981,289	5,563,075
XVI- Other Assets	19,824,646	19,714,747
XVII- Loss of the Period	1,548,363,435	509,726,063
XVIII- Previous Years' Loss	3,912,749,921	
	85,932,077,840	78,631,918,898
REGULATING ACCOUNTS.....	400,112,786,330	498,607,709,562

The Central Bank of the Republic of Turkey

**BALANCE SHEETS
(TL)**

L I A B I L I T I E S

	2003	2004
I. Currency Issued	10,675,527,631	13,465,236,966
II. Liabilities to Treasury	294,029,190	291,421,841
A. Gold (Net Grams)	6,470,876	6,531,180
B. Reserve Franche Means	234,190,031	235,462,923
C. Other (Net)	53,368,283	49,427,738
III. Foreign Correspondents	85,411,923	41,404,207
A. Convertible.....	15,177,964	1,184,974
B. Non-Convertible.....	70,233,959	40,219,233
IV. Deposits	56,260,799,995	56,044,673,836
A. Public Sector	5,533,000,819	6,100,260,282
a. Treasury, General and Annexed Budget Administrations.....	5,421,420,786	5,942,386,823
b. Public Economic Institutions	543,702	348,000
c. State Economic Enterprises.....	20,053,278	49,316,213
d. Other	90,983,053	108,209,246
B. Banking Sector	14,387,652,351	19,999,220,855
a. Free Deposits of Domestic Banks	4,882,174,703	8,129,270,663
b. Foreign Banks	1,901,016	1,000,380
c. Required Reserves (Central Bank's Law Art. 40)		
i. Cash.....	9,503,435,704	11,868,739,411
ii. Gold (Net Grams).....		
d. Other	140,928	210,401
C. Miscellaneous	24,261,957,908	25,060,793,586
a. Foreign Exchange Deposits by Citizens Abroad	24,148,387,150	24,978,894,739
b. Other.....	113,570,759	81,898,847
D. International Institutions	10,199,971,789	4,038,731,131
E. Extra-budgetary Funds	1,878,217,128	845,667,982
a. Savings Deposit Insurance Fund.....	1,927,858	25,868,562
b. Other.....	1,876,289,270	819,799,420
V. Open Market Operations	8,260,095,369	3,622,089,369
A. Repurchase Agreements	433,645,369	128,189,369
a. Cash		
i. Foreign Exchange		
ii. Securities	433,645,369	128,189,369
b. Securities		
B. Other	7,826,450,000	3,493,900,000
VI. Foreign Credit	12,093,985	12,158,192
A. Short-term		
B. Medium and Long-term	12,093,985	12,158,192
VII. Advances, Collateral and Deposits Collected		
Against Letters of Credit & Import.....	837,448,514	1,096,905,436
A. For Letters of Credit	837,444,392	1,093,539,874
B. For Letters of Import.....	4,122	3,365,562
VIII. Notes and Remittances Payable	12,818,666	19,783,353
IX. SDR Allocation	233,218,176	234,485,785
X. Capital	40,612,613	46,233,524
A. Paid-in Capital.....	25,000	25,000
B. Inflation Adjustment for Paid-in Capital.....	40,587,613	46,208,524
XI. Reserves	6,588,141,748	1,283,130,781
A. Ordinary and Extraordinary Reserves	2,477,946,742	929,583,307
B. Special Reserves (CBT's Law, Art.59).....	68,147	174,997
D. Inflation Adjustment for Reserves.....	4,110,126,859	353,372,477
XII. Provisions	76,810,833	92,522,327
A. Provisions for Pension Commitments.....	47,119,588	58,567,813
B. Provision for Tax.....		
C. Other Provisions.....	29,691,245	33,954,514
XIII. Revaluation Account		
XIV. Accrued Interest and Expense	2,429,838,953	2,215,887,190
XV. Miscellaneous Payables	82,929,824	103,800,423
XVI. Other Liabilities	42,300,420	62,185,668
XVII. Profits		
	85,932,077,840	78,631,918,898
REGULATING ACCOUNTS.....	400,112,786,330	498,607,709,562

