THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

JOINT STOCK COMPANY

ANNUAL REPORT PREPARED BY THE BOARD OF DIRECTORS

REPORT OF THE COMMITTEE OF AUDITORS

BALANCE SHEET, PROFIT AND LOSS STATEMENT,

AND THE BUDGET OF THE CENTRAL BANK

FOR THE SIXTY-EIGHTH ACCOUNTING YEAR

1999

Submitted to

THE GENERAL ASSEMBLY OF SHAREHOLDERS

on April 25, 2000

ANKARA

2000

This is the English version of the 1999 Central Bank Annual Report

excluding the section on the Administration, Personnel and

Administrative Affairs and the section on Adjustments in Legal and Administrative Regulations.

As of December 31, 1999

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

THE BOARD

CHAIRMAN GAZİ ERÇEL

MEMBERS PROF. DR. M. BİLSAY KURUÇ

PROF. DR. RIZA AYHAN

ZEKİ ŞENER

TUNCAY ALTAN

Z. NEVBAHAR ŞAHİN

AYTEKİN TECE

THE COMMITTEE OF AUDITORS

MEMBERS HİLMİ OKÇU

M. SAİM UYSAL

AYDEMİR KOÇ

M. AYHAN TÜMER

EXECUTIVE COMMITTEE

GOVERNOR GAZİ ERÇEL

VICE GOVERNORS

AYKUT EKZEN

ŞÜKRÜ BİNAY

AYDIN ESEN

SÜREYYA SERDENGEÇTİ

CONTENTS

COMPARISION OF THE BALANCE SHEETS

FIGURES

BOXES

STATISTICAL TABLES

Table 1 : Macro Balance (at Current Prices)

Table 2 : Macro Balance (at 1994 Prices)

Table 3 : Gross National Product (at Current Producer Prices)

Table 4 : Gross National Product (at 1987 Producer Prices)

Table 5 : Fixed Capital Investment by Sectors (at Current Prices)

Table 6 : Fixed Capital Investment by Sectors

(at 1994 Prices)

Table 7 : Capacity Utilization Ratio in Manufacturing Industry (Production Value Weighted)

Table 8 : Industrial Production Index

Table 9 : Production of Selected Industrial Goods

Table 10 : Energy Balance (as Equivalent of Million Tons of Petroleum "EMPT")

Table 11 : Selected Agricultural Products

Table 12 : New Buildings According to Building Permits Issued by Municipalities

Table 13 : Extensions and Partly Finished Buildings According to Occupancy Permits Issued by Municipalities

Table 14 : Transportation Services

Table 15 : Communications Services

Table 16 : Job Applicants and Vacancies

Table 17 : Manufacturing Industry Production Workers Index

Table 18 : Nominal Wages Index per Production Hours Worked in the Manufacturing Industry

Table 19 : Real Wages Index per Production Hours Worked in the Manufacturing Industry

Table 20 : Number of Workers Sent Abroad

Table 21 : Collective Labor Contracts

Table 22 : Strikes and Lock-Outs

REPORT PREPARED BY THE BOARD FOR THE SIXTY-EIGHTH FISCAL YEAR 1999

Dear Shareholders,

We submit, herewith, for your examination and approval the Balance Sheet and the Profit and Loss Statement for 1999 and welcome you to the annual meeting.

Before dealing with the Central Bank's activities, we consider it necessary to review the economic developments in Turkey and the world in 1999. Our report, therefore, contains a detailed study of those international economic developments which relate to similar economic developments in Turkey.

In the first section, international economic developments are reviewed. The affiliated countries affecting the world economy as well as developments in international financial markets are examined in this section. Furthermore, efforts towards economic integration are studied.

The second section is devoted to the Turkish economy. In addition to macroeconomic developments such as general equilibrium, employment, public finance, and the balance of payments and prices, the monetary policy directed by the Central Bank and monetary developments are thoroughly analyzed.

The 1999 developments in the financial markets make up the third section. Firstly, the Central Bank credit is examined. This is followed by a review of developments in the banking sector as well as in the money and foreign exchange markets monitored by the Central Bank. Developments in the securities market are also discussed in this section.

The Balance Sheet and the Profit and Loss Statement for 1999 are given in the fourth section. The last section of this report provides statistical tables on the Turkish economy.

I

DEVELOPMENTS IN THE WORLD ECONOMY

I.1. THE WORLD ECONOMY

The world economy has in general shown positive developments since early 1999 while there have been some regional disparities. The negative side effects of the Russian Crisis started to disappear and the impacts of the Brazilian Crisis were restricted to Latin America. Among the developed countries, the United States of America displayed a strong growth figure while Japan did not show a sustainable growth although there were improvement signals. In the Euro Area, signs of improvement and recovery became more visible in the second half of the year.

The emerging stability in East Asian economies and the signs of improvement in Russia and Brazil have decreased the possibility of a new global crisis. However, this does not mean that all the fundamental dynamics behind the crisis, such as the structural problems in financial markets, disappeared totally. While there is an expectation of high bond yields in the emerging markets and an increase in the volume of capital flows towards these regions, it may not be so easy to reach the pre-crisis level of yields and volume of capital inflows.

High current account deficits in Argentina and Brazil continued in 1999, rising higher than 4 percent, which was determined by their governments to be the critical value. The possible economic improvement in Latin America and East Asia will be dependent on increases in the exports from these regions and the degree of growth in the industrialized countries. The most important factor that will eliminate the possibility of the emergence of a new economic crisis is the continuation of the high growth rate in United States. However, due to the possibility that the high economic growth might bring about a tight monetary policy, this situation may have negative side effects on developing countries and the European Economy. In 1999, The Federal Reserve Board (FED) increased interest rates in the United

States three times and is likely to make further rate increases in the first half of 2000. The FED's decision to increase the interest rates as well as the implication that further increases would serve as a tool to eliminate inflationary pressures reflect the aim of implementing a monetary policy that would not affect the long-run growth potential. The ongoing expectations for the possible interest rate increases in the near future not only prevent extraordinary increases in the values of the financial assets, but also guarantee the continuation of domestic demand and the existing productivity level in the economy.

Recovery in Japan continues to be dependent on the financial sector. However, due to the excess capacity that is widespread in the private sector and the weak balance sheets, the increase in public expenditures fail to create a strong secondary expenditure effect. Because of the fact that the stimulus packages fail to result in the expected recovery, economic growth in the year 2000 seems to be dependent on structural reforms.

The contribution of the growth of the economies in the European Monetary Union (EMU) is expected to be limited. Throughout 1999, the economies in the EMU encountered many internal conflicts in adopting their economies to a single currency. The new currency, namely the euro, which is perceived as a rival to US dollar in the international financial markets, lost 14 percent in value against the dollar in 1999. Although this has been beneficial for Europe in terms of competitiveness, at the same time it led to debates on credibility issues. Most of the problems related to the euro stemmed from differences between the United States and the EMU in terms of economic developments and the emergence of inflation risk in the EMU due to increasing costs as a result of higher oil prices. However, the long run solution for the main problems in the area seems to be related to the realization of the necessary structural reforms in labor markets and the further harmonization of first the fiscal policies and then the monetary policy in the region.

The forecasts concerning the world economy in 1999 and 2000 are positive although there are still substantial risks for the world financial markets. One of the most important risks is the appreciation of the Japanese yen against the dollar as it would slow down the recovery of the Japanese economy. This factor may also jeopardize the growth of the other economies within the same region. The second important risk is that the differences in the growth rates in the developed countries may lead to an exceptionally high rate of increase in the current account deficits. Another important factor that can be perceived as a risk for the world economy is the incomplete or unrealized efforts to restructure the financial sector following the Asian Crisis. Finally, although the economic outlook of Brazil seems to be improving after the crisis, the situation in Latin America is in general fragile and sensitive to interest rate increases in the United States. The future interest rate increases in the United States may result in a worsening situation for this region.

TABLE I.1.1

MAIN WORLD ECONOMIC INDICATORS

(Annual Percentage Change)

	1997	1998	1999[2]	2000[2]
OUTPUT[1]				
World	4.2	2.5	3.0	3.5
Industrial Countries	3.2	2.2	2.8	2.7
USA	3.9	3.9	3.7	2.6
Japan	1.4	-2.8	1.0	1.5
European Union	2.6	2.7	2.0	2.7
European Monetary Union	2.4	2.8	2.1	2.8
Developing Countries	5.8	3.2	3.5	4.8
The Former Centrally Planned European Economies and the Commonwealth of Independent States	2.2	-0.2	0.8	2.8
WORLD TRADE VOLUME[1]	9.9	3.6	3.7	6.2
Imports				
Developed Countries	9.2	4.8	5.9	5.9
Developing Countries	11.4	-1.3	1.1	7.2
The Former Centrally Planned European Economies and the Commonwealth of Independent States	7.0	2.9	-2.7	8.2
Exports				
Developed Countries	10.3	3.2	3.0	6.2
Developing Countries	11.4	4.9	2.4	5.6
The Former Centrally Planned European Economies and the Commonwealth of Independent States	5.0	5.9	2.7	7.2
CONSUMER PRICES[1]				
Developed Countries	2.1	1.5	1.4	1.8
Developing Countries	9.2	10.3	6.7	5.8
The Former Centrally Planned European Economies and the Commonwealth of Independent States	28.2	20.9	39.3	18.1
SIX-MONTH LIBOR (%)[3]				
US dollar	5.8	5.5	5.4	6.1
Japanese yen	0.7	0.6	0.2	0.2

German mark	3.5	3.7	3.0	3.5

Source: IMF, World Economic Outlook, October 1999.

(1) World Economic Outlook, October 1999.

(2) Estimate.

(3) London Interbank Offer Rate (LIBOR).

EFFECTS ON THE WORLD ECONOMY OF THE RECOVERY FROM CRISES IN DEVELOPING COUNTRIES

The devaluation of the currencies of Asian countries increased competition in international markets by decreasing the prices of their export commodities and limited the export possibilities of other developing countries. Moreover, these countries realized import limitations in order to increase their current account surplus. These developments were effective in the decline of the growth rate of the world trade volume to 3.9 percent in 1998, which was 9.9 percent in 1997 (Table I.1.1). Countries more vulnerable to short-term capital flows, like Brazil, were more negatively affected by the crisis. Large amounts of capital were withdrawn from Brazil due to decreasing confidence in the emerging markets. This situation affected investments and the growth performance of the economy negatively since the increase in the interest rates reduced finance possibilities. The negative influence of the Russian crisis, which emerged in August 1998, was felt in the transition economies also. The Russian economy and the transition economies, which experienced contractions in the growth of the economy in 1998, are expected to enter an improvement path in year 2000. Moreover, the ongoing increase in petroleum prices during 1999 will lead to improvements in the revenues of petroleum exporting countries, including Russia.

Developed countries were affected less by the Asian crisis compared to developing countries and transition economies. The prices of intermediate goods, excluding oil, decreased by 14.8 percent in 1998. The decline in the prices of commodities exported by developing countries led to an inflow of cheap resources for developed countries, while capital flows were directed away from developing countries towards developed countries.

Even tough the developing countries are showing signs of overcoming the crisis; the gap between short-term and long-term interest rates will maintain a high level. The capital inflows to developing countries are expected to increase in year 2000, but the amounts of it are expected to realize below the pre-crisis levels. The capital, which left the region during the crisis, began to return. However, the structural deficiencies which led to the crisis have not been removed. The reforms related to the restructuring of the banking sector and a more transparent treatment of big company holdings have not been realized yet. The mentioned reforms must be realized in order to ensure the continuation of the improvement in Asian economies.

I.1.1. Industrial Countries

Industrial production in the United States, Europe and Japan showed different trends in 1999. The negative effects of the crisis on Japanese economy seemed to decrease in 1999 despite the fact that the negative effects of the crisis have not been eliminated entirely. In United States, on the other hand, high growth rates and low rates of inflation coexisted. The negative side effects of the Russian Crisis on the European Union and the EMU disappeared to a great extent in 1999. As a result, the developed countries, which on the average grew by 2.2 percent in 1998, are predicted to have grown by 2.8 percent on the average in the year 1999. In addition to this, the average inflation of consumer prices in developed countries turned out to be 1.4 percent in 1999 while it had been realized as 1.5 percent in 1998.

In 1999, the United States experienced high economic growth with a low rate of inflation at the same time. The gross domestic product, which is predicted to have grown by 3.7 percent, showed a high rate of growth as a result of consumption, labor productivity and investments in particular. The economic growth in 1999 also had a positive influence on labor markets, as a result of which the unemployment rate decreased to 4.3 percent at the end of 1999. The rise in the inflation rate stemmed mainly from higher raw material prices and as a result, FED increased interest rates three times in 1999 by considering the possible future inflation risk. Due to buoyant domestic demand, the volume of imports increased in 1999 and the ratio of current account deficit to gross domestic product rose to 3.5 percent while the ratio for 1998 was 2.6 percent.

The economic outlook of Japan in 1999 showed signs favoring the disappearance of the negative effects of the 1997 East Asian Crisis. The Japanese economy is predicted to grow by 1 percent for 1999 although it had contracted by 2.8 percent in 1998. The main factors behind the signs of recovery in Japan are the economic improvement observed in the former crisis countries, the expansionary monetary policy implemented by the Bank of Japan and the stimulus packages introduced by the Japanese government. However, the contraction in export opportunities following the appreciation of the yen against other major currencies, which came about after some signs of recovery and the slower than expected rate of recovery in the consumption expenditures lead to doubts about the speed and the continuation of the economic recovery in Japan. The appreciation of the yen against the major currencies results in price decreases by exporters to compensate for the drop in competitiveness and this, in turn, decreases their investment motives. In addition, “the zero interest rate policy” implemented by the Bank of Japan, the measures taken several times by the government in order to increase domestic demand, the restructuring of the financial sector and the reduction in the tax rates did not bring about the expected results during the recovery process. The measures taken by the government resulted in an increase in the general budget deficit from 5.3 percent in 1998 to 7.3 percent in 1999 and the ratio of the gross debt stock to the gross domestic product reached 127 percent. The main developments supporting premature recovery in Japan were the contraction of prices by 0.4 percent in 1999 and the rise in the unemployment rate to 5 percent.

Even though the uncertainties in the Japanese economy continued, the high growth rates with low inflation in the United States and the signs of recovery in Latin America and East Asia also had positive impacts on the Euro Area. Especially in the second half of 1999, there was an improvement in the economic growth of the Euro Area following the signs of tranquillity and recovery in the world economy. At the beginning of 1999, structural changes, namely the introduction of a single currency unit and the integration of the money markets in Europe, occurred in the Euro Area. The growth rate in the Euro Area was realized as 2.1 percent in 1999 and is expected to be 2.8 percent in 2000, indicating a recovery in this area. The unemployment rate for the whole Euro Area is expected to be above 10 percent for 1999, which is a very high figure for the category of developed countries. The structural differences among the labor markets of the member countries in the region still persist and the reforms necessary to solve the problems in the labor markets of the region remain unrealized. While countries like the Netherlands and Luxembourg have the lowest rates of unemployment in the region, this rate is still higher than the 10 percent of member countries like Spain, France, Italy and Finland.

When the ratio of the public debt to GDP is observed for the Euro Area, it is seen that this rate has been realized as 72.9 percent on the average, indicating a slight decline. However, this figure is still much higher than the rate stated in Maastricht Criteria, which is 60 percent. On the other hand, there has been an improvement in the average ratio of budget deficits to the GDP in the region with a decline to 1.6 percent. When developments in prices are observed in the Euro Area, it is seen that the Harmonized Index of Consumer Prices (HICP) showed an upward trend in the second half of the year and the rate of inflation in HICP reached 1.6 percent. The main reason behind the price increases in the second half of the year is the increase in oil prices due to the OPEC meeting in March 1999. For the year 2000, the HICP inflation rate in the Euro Area is expected to rise.

In 1999, the annual growth rate of M3 showed an increase in the Euro Area. By the third quarter of 1999, it was observed that the rate of increase in the M3 stock reached 6 percent, which is a high figure when compared to the reference rate of 4.5 percent. Both the upward pressure in the inflation rates and the high rate of M3 growth in the Euro Area may necessitate in 2000 interest rate increases by the European Central Bank, which had already made an interest rate increase of 50 base points in 1999.

The share of Germany, the biggest economy in the Euro Area, in the total world production is around 4.5 percent as of 1999. The predicted growth rates for 1999 and 2000 are 1.5 percent and 2.5 percent, respectively. The German economy, which experienced the negative effects of the global crises greater than other countries in the region, had low rates of growth in the first half of 1999. However, in the second half of the year, industrial production and economic growth improved following recovery in the crisis countries and the increase in the exports due to the depreciation of the Euro against other major currencies. The inflation forecasts for the German economy are 0.6 percent and 0.8 percent respectively for 1999 and 2000. The improvement in the external demand conditions and the continuing price stability in the economy enhance the competitiveness of the goods produced by Germany. Reforms in the labor market still seem to be incomplete in Germany, which experienced an unemployment rate above 10 percent in 1999.

The rate of growth in the United Kingdom in 1999 is forecasted to be 1.75 percent. The main sources of growth in the country are the continuing expansion in the services sector, which constitutes nearly 80 percent of the economy and the improved performance in the manufacturing industry. The rate of unemployment in the economy declined to 4.1 percent, the lowest rate in the last 19 years, towards the end of 1999. However, the high rate of growth in the services sector and the rise in the volume of orders in the manufacturing industry above the level of the last two years may lead to futher interest rate increases by the Bank of England, which had already increased the interest rates in 1999.

I.1.2. Developing Countries

Following the economic crisis, the average growth rate of developing countries fell from 5.8 percent in 1997 to 3.2 percent in 1998. However, in 1999 there were some signs of recovery in this group of countries. The increase in oil prices resulted in higher incomes for oil exporting developing countries. Moreover, signs of increases in the capital inflows to East Asian countries started to be observed. This situation will affect the world trade volume and the growth of world economy positively in both 1999 and 2000.

TABLE I.1.2

REAL GDP and INFLATION

(Annual Percentage Change)

	GDP		CPI	
	1998	1999(1)	1998	1999(1)
Developing Countries	3.2	3.5	10.3	6.7
Asia	3.7	5.3	8.0	3.1
Middle East and Europe	3.2	1.8	23.6	18.3
Latin America	2.2	0.1	10.6	9.8
Africa	3.4	3.1	8.7	9.0

Source: IMF "World Economic Outlook", October 1999.

(1) Estimate.

While there was a capital outflow of US $19.7 billion in 1997 from the Asian countries affected by the crisis, other Asian markets experienced a capital inflow of US $22.8 billion. The capital outflows from the former accelerated in 1998 and reached US $45.3 billion. In the same period, due to declining confidence in emerging markets, other emerging Asian markets faced a capital outflow of US $9.6 billion. Due to increased confidence in the emerging markets in 1999, the capital flows towards emerging markets was renewed. However, the volume of capital inflows to the former crisis countries in Asia in 2000 is expected to be lower than its 1996 level.

South Korea is predicted to grow by 6.5 percent after contracting by 5.8 percent in 1998. The main factors behind the recovery of S.Korean economy are the depreciation of the won by 39 percent after the crisis and the expansion of export opportunities associated with this and an acceleration in the rate of increase in industrial production throughout 1999. Industrial production is predicted to expand by 26.8 percent in 1999. The ratio of the current account balance to the GDP in 1998 was 13.3 percent while it had been minus 1.8 percent in 1997. The main factor behind this is the diversion of industrial production to international markets due to contraction in the domestic demand and expansion in the exports markets.

The economic reform program in South Korea, which was implemented in relation with the Stand-By program with IMF, continued to be on the agenda in 1998 and 1999. Since July 1998, the won has shown a slight appreciation against the US dollar. This policy helped in decreasing interest rates to pre-crisis levels. The structural reforms to be implemented during the Stand-By program include measures for restructuring holdings and strengthening the banking sector. In 1999, South Korea continued to make repayments for the loan acquired after the start of the program in 1997. As a result of these positive developments, consumer prices decreased by 0.7 percent, while the unemployment rate became 7 percent, which can be said to be a high figure for the Korean economy. The forecasted growth rate for the year 2000 is 5.5 percent for the Korean economy. In addition, the forecasted consumer price inflation and the unemployment figures are 2.8 percent and 6 percent respectively.

In 1999, the Brazilian economy still faced the negative effects of the financial crisis that emerged initially in August 1998. In 1999, output in Brazil is predicted to contract by 1 percent annually. In the initial stages of the crisis, the high budget deficit and questions concerning the sustainability of the crawling band regime created substantial doubts about the Brazilian economy in international capital markets. As a result of the emerging lack of credibility, a substantial amount of capital outflows occurred. These resulted in increased real interest rates, which in turn had negative impacts on growth and investments in the economy. After experiencing reserve losses of US $2.8 billion in August 1998 and US $21.5 billion in September 1998, Brazil increased interest rates in December 1998. In addition, Brazil signed a Stand-By program with the IMF in November, a measure to increase the primary surplus. Pressures on Brazilian financial markets emerged again in December 1998 and January 1999, as a result of which the Brazilian monetary authorities allowed the Brazilian real to float on January 13 in 1999. Under this condition, the IMF program was reconsidered and new measures to ensure a balance in the fiscal accounts were included in the Stand-By program. In addition, the exchange rate policy using foreign exchange as the nominal anchor was abandoned. Following these new policies, the uncertainties in the economy diminished. Accordingly, the Brazilian economy is predicted to grow by 4 percent in 2000. Also, the rate of inflation in consumer prices is forecasted to be 4.6 percent in 1999 and 4.8 percent in 2000.

China, which is among the countries that were not affected by the East Asian Crisis to a great extent, had a trade surplus of US $43.6 billion in 1998. However, as a result of an increase in imports, the trade surplus in 1999 decreased to US $29.1 billion. The export volume in 1999 reached US $194.6 billion with an increase of 6.1 percent, while imports showed an increase of 18.2 percent and reached US $165.5 billion. China's growth rate in 1999 is predicted to be 6.6 percent and the expected growth rate in 2000 is 6 percent. The decrease in the export commodities of the Asian countries that were affected by the crisis resulted in a decrease in the prices of China’s importables, which in turn, with the lower capacity utilization ratios in the economy, led to a decrease of 1.5 percent in the general price level. However, the rate of inflation in 2000 is predicted to be 1.5 percent.

The decrease in China's exports to the other Asian countries after the crisis was influential in the recent slow down in the growth rate of the Chinese economy. Accordingly, Chinese exports to South Korea and Japan, which constituted 12 percent of China’s total exports, showed a substantial decline. Following the crisis, China's exports to Japan and South Korea contracted by 6 percent and 30 percent respectively. Signs of recovery in the region will have a positive influence on the Chinese economy.

An important factor that will substantially affect the Chinese economy in the future is the discussion of China's membership in the World Trade Organization (WTO), which started in 1999. While WTO membership will open the Chinese market to the world, the benefit from this membership will not be the same for every sector. The Chinese farming sector, in particular, is expected to be affected negatively by the competitiveness with the US farming sector. In addition, the state owned firms that have been protected by tariff and non-tariff barriers for a long time and many private sector firms will face potential difficulties in terms of competitiveness following membership. However, being a member of WTO is thought to be factor that will provide China with some political benefits.

ECONOMIC IMPACT OF DEVELOPMENTS IN OIL PRICES

Crude oil prices, which had reached US $25 per barrels in the international markets in 1997, started to fall due to decreasing demand after the 1997 Asian Crisis and the excess supply in oil producing countries, so prices decreased even below US $11 within the first months of 1999. As a result of the increase in the demand for oil following signs of recovery from the crisis and the decrease in production by 3 percent following OPEC's March decision to restrict output; crude oil prices increased sharply, climbing to US $28 in December of 1999. With falling oil prices in 1998, the current account balance and the fiscal balance of oil producing countries worsened while the inflation rates of oil exporting countries remained at low levels. When oil prices increased in 1999, however, an improvement in the macroeconomic balances of oil producing countries was observed, while a higher inflation risk appeared in oil importing countries.

When the supply is taken as a given amount, an increase in oil prices affects the fiscal balance of oil exporting countries in a positive way. According to the data of the International Monetary Fund, in the Middle Eastern and African oil exporting countries, the ratio of oil revenues to total public revenues is over 60 percent. In Mexico, which was affected by the crises negatively, this rate is 35 percent, in Venezuela it is 69.3 percent and in Russia around 4 percent.

An increase of 10 percent in oil prices improves the export revenues of oil exporting countries by approximately US $16 billion in a yearly period, while the oil importing countries are faced with higher energy costs and imports. Furthermore, an increase in oil prices affects the inflation and growth rates of oil importing countries negatively. According to the estimates of the International

Monetary Fund, an increase of 10 percent in oil prices increases the consumer prices of the European Union and the United States by 0.2 points and decreases the reel GDP growth by 0.1 points. It is expected that an increase in prices has a greater effect on inflation and growth from the point of view of developing countries. As a matter of fact, the effect of an increase of 10 percent in oil prices is calculated as 0.9 percent on Turkey's CPI. In addition, it is estimated that higher oil prices resulting from supply restrictions limited positive effect on the growth rate of the GDP's of oil exporting countries.

In the near future, assuming the continuation of supply restrictions, it is expected that oil prices will keep their high levels. In this case, it is expected that the macroeconomic balances of the oil exporting countries will be affected positively and in the oil importing countries there may be negative developments in the growth and foreign trade balances.

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

The Former Centrally Planned European Economies and the Commonwealth of Independent States suffered from recession in 1998 due to the financial crisis which occurred in Russia in August 1998 and the real GDP contracted by 0.2 percent.

The influence of the Russian crisis was felt in all of the transition economies, but the degree to which they were affected depended on the intensity of their economic relations with Russia. The economic situations of these economies were observed to improve with positive developments in the Russian economy during 1999. Thus, the overall GDP of the region, which had contracted by 0.2 percent in 1998, is expected to increase by 0.8 percent in 1999.

The inflation rate increased and the public budget balance deteriorated in these economies after the Russian crisis. Consumer price inflation, which was 21 percent in 1998, increased to 39 percent in 1999. This increase resulted from the rapid depreciation in the currencies of the economies of the region following the crisis.

The Russian economy, which contracted by 4.6 percent in 1998 after the crisis, is expected to expand by 1 percent in 1999. Moreover, consumer price inflation, which was 84 percent in 1998, decreased to 37 percent in 1999. Russia realized stabilization efforts under the surveillance of the IMF and in accordance with this aim made new decisions in order to correct public balances and restructure the banking sector. Thus, the primary balance, which had resulted in a deficit of 2.1 of the GDP in 1998, is planned to give a surplus of 2.1 percent of the GDP in 1999.

The continuation of political instability creates uncertainties for the future of the economy.

The countries having closer economic relations with Russia suffered from the negative effects of the crisis more than the others. The depreciation of the ruble against the currencies of the region and the decline in the import demand of Russia was effective in this development. The Ukrainian economy contracted by 3 percent in the first half of 1999 as a result of the crisis. The Ukraine was observed to take measures to increase the effectiveness of its tax collection in order to correct public balances.

The Baltic countries were also negatively affected by the crisis. The exports of Estonia and Latvia to Russia are expected to decrease by 10 percent as a result of the recession in the Russian economy.

The effects of the Russian crisis were felt beyond the real sector in the economies of the region. It became more difficult for these economies to realize foreign borrowing and this development resulted in a negative influence on the financial markets of these economies. Moreover, the rapid withdrawal of deposits and the decline in the value of Russian securities resulted in the deterioration of the situation in the banking sectors of the economies of the region. Only the Baltic countries were exempt from this development.

I.1.4. World Trade

The Asian Crisis affected world trade negatively. The growth rate in the developing countries was 5.8 percent before the crisis but this rate declined to 3.2 percent after the crisis. The decelerating rates of growth in developing countries had important reflections on international trade. While the trade imbalances increased, world trade slowed down and a drop in commodity prices was observed (Table I.1.3). From the beginning of 1999, a general improvement in the world economy had a slightly positive effect on trade volume. While it was expected that the growth rate of the world trade volume would increase to 3.7 percent in 1999, it has been estimated that this rate will be around 6.2 percent in 2000.

TABLE I.1.3

PRIMARY GOODS PRICE INDICES

(1990=100 US dollar)

	1996	1997	1998	1999	1999 December(1)
Non-Energy Goods	116.7	112.9	96.2	89.6	94.6
Food	127.7	113.9	99.6	84.3	81.5
Drink	124.9	165.5	140.3	110.5	117.6
Agricultural Raw Materials	127.7	119.0	99.5	101.5	105.7
Metals	88.2	90.9	76.1	76.2	83.8
Fertilizers	112.7	113.9	117.1	112.4	106.9
Oil	88.6	83.8	56.9	78.9	109.2

Source: IMF.

(1) Provisional.

When world trade is examined in general during 1999, and the ratio of trade to world trade is scrutinized, it is observed that the Euro Area made the largest contribution with a 19.5 percent share. This rate is 15 percent for the United States and 8.5 percent for Japan. Moreover, the strong growth of Asian economies in 1999 increased the demand for exports. However, while the increase in demand appeared with the firms forming their import weighted planned stocks, it is expected that the growth rate of imports will return to its old level when the period of harmonization for stocks has been completed.

I.2. INTERNATIONAL FINANCIAL MARKETS

After the confidence in developing markets diminished with the Asian Crisis and the Russian Crisis that appeared in 1998, there was a substantial capital flow from the developing countries to developed countries' financial markets. With the impact of these flows, a significant decrease in long-term yields was observed in the United States in 1998. In the period of transition to the monetary union, the European Central Bank decreased interest rates in 1998 and this affected bond yields. At the same time, Japan implemented an expansionary monetary policy to get out of the crisis, which resulted in lower bond yields.

TABLE I.2.1

LONG TERM YIELDS

10 Year Government Bonds

(end of period; percentage)

	USA	Germany	Japan
1998 December	4.65	3.87	2.22
1999 January	4.65	3.64	2.07
1999 February	5.29	4.02	1.96
1999 March	5.23	4.01	1.74
1999 April	5.34	3.88	1.42
1999 May	5.62	4.12	1.45
1999 June	5.79	4.51	1.85
1999 July	5.90	4.81	1.77
1999 August	6.04	4.89	1.92
1999 September	5.94	5.08	1.71
1999 October	6.02	5.16	1.80
1999 November	6.19	5.13	1.82
1999 December	6.37	5.34	1.67

Source: Bloomberg.

In 1999, the yield of long-term bonds increased with continuing inflationist expectations and interest rate were increased by monetary authorities to avoid inflation risk in the United States and Europe. Therefore, at the end of 1998, 10 year yields in the United States and Germany were 4.7 and 3.9 respectively and at the end of 1999, the yields were 6.4 and 5.3 respectively. While an increasing trend of yields has been observed in the United States, Europe and Japan the yields followed a horizontal progress due to expansionary monetary policy and the absence of inflation risk. The 10-year government bond yield in Japan that reached 2.2 percent at the end of 1998 due to a temporary increase, became 1.7 at the end of 1999.

In the foreign exchange markets, different trends were generally observed in 1999. When eleven European countries took part in a monetary union, this created an uncertain environment for those countries and resulted in the euro losing value against the dollar throughout 1999. Another factor that supported the US dollar against the euro was the continuous performance of the United States in the production of high technology goods during 1999. In addition, the higher long-term yields in the United States compared with those in Europe followed a path parallel to the “Euro/Dollar” parity. Accordingly, the parity that was 1.175 at the end of 1998 fell to 1.011 at the end of 1999 (Table I.2.2). The slowdown in the economic performance of the European Union countries in 1998 and the recovery of Europe in 1999 did not prevent the euro's depreciation against the dollar.

As a result of signs of recovery in the Japanese economy in 1999, it was observed that the capital that had flowed out of the economy before the crisis returned to the country afterwards and this created a demand for Japanese yen. In the first half of 1999, the “US dollar/Japanese yen” parity, which had generally been around 120, started to fall rapidly in the second half of the year. To overcome this trend, the Bank of Japan, which frequently intervened in the foreign exchange markets, decreased the frequency of interventions significantly as of the second half of July 1999. This, in turn, had a substantial effect on the yen's appreciation against the dollar. Therefore, “US dollar/Japan yen” parity fell from 117.6 at the end of 1998 to 102.6 at the end of 1999 (Table I.2.2). International markets considered this appreciation earlier than expected and was interpreted as a factor that would affect Japan’s future growth in a negative way.

FIRST YEAR OF THE EURO

The Euro, in its first year, gave rise to significant changes in the Euro Area. Among the changes, two of the most important are the integration of national markets that have different structures, and the second one is the rapid growth of the euro denominated bond market. Within the framework of the Euro Area Money Markets, the only market that did not fully integrate in the first year of the euro, was the repo market. The reasons for this are: the difference between the prices and the liquidities of bonds, the problems related to the harmonization of legal documentation used in repurchase agreements, the different taxation methods applied to bonds and the usability of tangible guarantees in the Euro Area.

Growth in bond markets is important especially for corporate finance in the Euro Area. A substantial pattern of integration has been observed in the private bond market and as a result of disappearing exchange rate risk in the area, the investors have diversified their bond portfolios. The most important consequence of the development of the bond market is the acceleration of the restructuring of private firms in the Euro Area by increasing their fund demand. While the integration of capital markets gained momentum, the firms in the Euro Area became stronger through mergers.

In the foreign exchange markets, the value of the euro depreciated against the dollar continuously following its creation, especially in the first half of the year. Throughout the year, the euro depreciated against the dollar by 14 percent but gained value slightly towards the end of the year. The most important factor behind the depreciation of the euro was the negative effects of the Asian Crisis that occurred in 1997 on the Russian, and consequently, on the German economy. The Asian Crisis decreased growth rates in Europe, and the growth rates in the United States were much stronger than the European growth rates. At first glance, while the euro's weakness is hardly preferrable, especially in the second half of the year it helped exports to grow and this export growth contributed to the acceleration of growth rates in the Euro Area. Upward revision of the growth rates of the Euro Area economies in the last months of 1999 and the positive outlook for the Euro Area in the year 2000 increase the probability of appreciation of euro against other major currencies.

TABLE I.2.2

PARITIES

(end of period)

	Euro / US$	US$ / JPY
1998 December	1.175	117.62
1999 January	1.164	112.90
1999 February	1.123	116.55
1999 March	1.092	119.59
1999 April	1.072	119.70
1999 May	1.064	121.79
1999 June	1.039	120.81
1999 July	1.034	119.80
1999 August	1.062	113.60
1999 September	1.049	107.17
1999 October	1.072	106.17
1999 November	1.036	104.79
1999 December	1.011	102.56

Source: CBRT.

I.2.1. Emerging Markets

Confidence in emerging markets decreased significantly in the wake of the financial crises in 1997 and 1998, and the capital began to flow from those countries to industrialized countries. In January 1999, when Brazil allowed the domestic currency to float following crisis related fiscal imbalances confidence in the emerging markets fell again. However, the effects of the crisis in Brazil were not as deep as the crises in South East Asia and Russia and signs of recovery in the former crisis countries increased confidence in the emerging markets slightly. In addition to this, following subsequent crises, the support given by the IMF to countries experiencing crises was essential for the process of recovery. However, many emerging countries started to become indebted to international markets again in 1999, and the risk premium of those countries still remains high (Table I.2.3).

TABLE I.2.3

NET CAPITAL FLOWS

(US$ billion)

	1996	1997	1998	1999	2000(1)
Developing Countries					
Direct Investment	113.5	142.6	132.4	118.5	128.4
Portfolio	74.0	66.7	27.1	21.6	40.2
Other	26.4	-60.5	-93.3	-71.8	-50.1
Official	-17.9	24.4	43.6	9.4	-2.4
Asia					
Direct Investment	54.2	61.2	56.6	41.6	43.1
Portfolio	12.0	1.1	-19.6	-8.3	-2.9
Other	36.0	59.1	-81.2	62.8	43.5
Official	-0.5	30.0	27.5	-0.4	2.3
Middle East and Europe					
Direct Investment	2.0	2.8	2.6	3.8	9.5
Portfolio	1.8	3.7	-8.6	6.5	6.2
Other	2.6	10.4	16.3	7.1	-4.7
Official	-1.1	-0.8	-1.1	-1.7	-2.0
Latin America					
Direct Investment	38.9	51.3	48.1	42.8	43.1
Portfolio	37.9	36.2	39.7	12.0	23.6
Other	2.9	-1.4	-14.0	-7.7	-4.0
Official	-14.1	-8.4	4.1	4.8	-0.1

Source: IMF "World Economic Outlook", October 1999.

(1) Estimate.

The financial crises in 1997 and 1998 resulted in substantial capital outflows from emerging markets. When the capital flows to developing countries are examined, it can be seen that the capital had started to flow to those countries as of the end of 1998, but capital inflows were unable to reach pre-crisis levels (Table I.2.4).

In South Korea, the won continued to appreciate during 1999. The main reason for the appreciation was the dense capital inflows to the country. In contrast, the real, the currency of Brazil, which had experienced a tough crisis at the beginning of 1999, depreciated against the dollar in 1999. The effects of the crisis in Russia, beginning with the devaluation of the ruble in 1998, were felt in the financial markets throughout 1999 (Table I.2.5).

TABLE I.2.4

FOREIGN INVESTMENT IN THE EMERGING MARKETS

(US$ billion)

		1997	1998	1999		
				Q1	Q2	August
Asia						
	Bond Issue	45.5	11.5	7.0	6.3	1.7
	Credit Contracts	58.9	17.7	3.5	5.1	1.1
	Equity	13.2	4.4	1.4	5.6	1.0
Latin America						
	Bond Issue	54.4	38.3	10.8	13.1	1.1
	Credit Contracts	30.9	26.1	2.2	6.7	0.4
	Equity	5.1	0.2	0.2	-	0.2
Europe						
	Bond Issue	28.2	27.9	4.1	7.1	0.6
	Credit Contracts	33.4	16.6	2.7	5.8	0.6
	Equity	6.5	5.3	0.8	0.9	0.1

Source: IMF "World Economic Outlook", October 1999.

TABLE I.2.5

EXCHANGE RATES IN THE

EMERGING MARKETS

(In terms of US dollars)

	December 30th. 1998	December 14th. 1999
Argentina	1.0	1.0
Brazil	1.21	1.85
Chile	473	537
Mexico	9.94	9.41
Venezuela	565	643
Russia	21.63	26.9
China	8.28	8.28
Hong Kong	7.75	7.77
Indonesia	8.050	7.205
Malaysia	3.8	3.8
Philippines	39.2	40.7
S.Korea	1201	1134
Thailand	36.7	38.6

Source: The Economist "Emerging Market Indicators",

December 18th –30th, 1999.

GLOBALIZATION, TRADE AND REGIONAL UNIFICATION

Globalization is the spread of common values from economical, political, social and cultural spheres to the world scale by extending beyond national boundaries. Thus, economic policies applied in developed and developing countries gradually resemble each other. The liberalization of goods-services and financial markets supported the rapid increase of world trade and capital flows.

In addition to the contributions of the International Monetary Fund (IMF) and the World Bank, the General Agreement on Trade and Tariffs (GATT) had a substantial influence on the rapid development of globalization movements. GATT brought international trade up to specific standards, decreased commercial restrictions and contributed to world trade by providing reductions in tariffs. The enactment of The Agreement Establishing the World Trade Organization and The

Agreement on Subsidies and Countervailing Measures (The Final Act of the Uruguay Round) in 1995 with the approval of the member countries, which joined GATT negotiations, was a step forward in the institutionalization of globalization. The Uruguay Round brought about regulations concerning patent and intellectual property rights. Another step in the liberalization of world trade was The General Agreement on Trade in Services. Developments in telecommunications and information technology made the services sector more commercial and intensified efforts to liberalize trade in services. One example is the steps taken to liberalize world trade in the field of information technology, a prime factor in the acceleration of the globalization process. The Information Technology Agreement (ITA), signed by Turkey in December 1996, was put into effect. The tariffs on information-communication technology products were abolished until 2000.

Progress in information technology and widespread computer usage changed the traditional trade system and led to developments in the electronic trade. Even though electronic trade has only a small share in the total world trade, rapid advances in the electronics trade led to international enterprises for the adaptation of technical and legal structure.

While globalization movements gained pace around the world, regional unification movements became widespread. Among local groups, there is a movement aimed at a higher level of unification. Within the framework of today’s economic system, globalization movements lead to regional unification movements. In other words, countries which realize that the goods and capital markets are being liberalized around the world are joining unification movements in their own regions and with other countries that they have close economic relations with. The European Union (EU), the North America Free Trade Association (NAFTA) and the Asian Pacific Economic Cooperation (APEC) can be mentioned as examples to illustrate this trend.

The liberalization of goods-services and financial markets increases the growth performance of the countries provided that appropriate macroeconomic policies are applied. Following the liberalization of markets, an increase in the export potential of a country and the availability of foreign direct investments increase the potential income and create new employment opportunities. However, the risk of being affected by external shocks increases in those countries which have liberalized their goods and services markets. During recent years, with the liberalization of capital movements, countries experiencing intensive capital inflows and outflows have become more vulnerable to global economic crises. The most recent examples of this are the Southeast Asian crisis in 1997, the Russian crisis in 1998 and the Brazilian crisis in 1999.

II

DEVELOPMENTS IN THE TURKISH ECONOMY AND MONETARY POLICY

INTRODUCTION

A period of economic recession started in Turkey in the second quarter of 1998 and deepened in 1999 as it coincided with worldwide contraction.

With the Russian Crisis that began in August 1998, capital outflow occurred in the Turkish economy. As a result of this, the interest rate of Treasury auctions and thus the general level of interest rates increased substantially. In a recessionary economic environment, where the limited amount of funds in the economy are absorbed by the public sector, investments, in particular, are crowded out. A reduction in domestic consumption and external demand led to a decline in industrial production. In addition, bad weather conditions and low performance, especially in the production of hazelnuts and olives, caused the agricultural output to fall. Internal economic dynamics and the earthquakes that occurred in August and November of 1999 extended the recession term. As a result of these situations, in the first nine-months of 1999, the gross national product (GNP) declined to 6.1 percent, compared to the same period of 1998.

When domestic and external demands contracted in 1999, the decline in the imports was greater than the decline in exports and thus the trade deficit realized at US $9 billion, which is a 30.2 percent drop in the January-November period. Although the income from invisible items and unrequited transfers decreased considerably, the current account deficit was realized as US $0.5 billion thanks to the low trade deficit in the January-November period of 1999. In the same period, while net capital inflow reached the level of US $6.7 billion, an increase in official reserves realized as US $4.7 billion.

Exports declined 4.2 percent in the January-November period of 1999. The export of manufacturing industry, which had constituted 90 percent of total exports, decreased in the same period by 3.5 percent. Imports declined substantially after September 1998. This trend continued in the first eight-months of 1999. Although the import performance has improved relatively since September 1999, imports had declined 14.6 percent in the January-November period of 1999.

Income from tourism, which constituted a large share in invisible items, reached US $5 billion with a decline of 28.3 percent in the January-November period of 1999.

There was a US $6.8 billion capital outflow in the second half of 1998 as a result of the Russian Crisis, which exhibited characteristics of global economic crisis in the third quarter of 1998, but there had been capital inflows again since early 1999. Hence, net capital inflows, which realized as US $6.7 billion, were made up largely of portfolio and short term capital.

The public sector borrowing requirement grew substantially and its share in the GNP is expected to be 13.4 percent in 1999. The budget deficit, which rose by 3.9 percentage points, reached 10.9 percent of the GNP. The main factors behind this development were the rise of personal, interest payment and non-interest transfer expenditures. The primary balance is expected to give a surplus of 2.0 percent of the GNP.

The consolidated budget cash deficit was financed through domestic borrowing during 1999. In this way, the domestic borrowing performed through a variety of instruments such as discount auctions, fixed and floating interest rate quarterly bonds, CPI indexed government securities, sales to general public and TAP (direct sales of long term public securities in small blocks with pre-determined prices upon the market demand). While the Treasury had carried out domestic borrowing to a great extent through bills in 1998, the priority was given to the borrowing in the form of long-term bonds in 1999. As in the last three years, net external borrowing was negative in 1999. The share in the GNP of the domestic debt stock in cash increased by 7 percentage points and reached 26.1 percent.

The weighted average maturity of domestic borrowing through auctions was 7.8 months at the end of 1998, but the Treasury’s preference for long-term securities increased the average maturity of domestic borrowing every month so that it reached 15.9 months as of November.

As in 1998, the monetary policy that the Central Bank practiced in 1999 was based on the targets of controlling inflation and stabilizing fiscal markets.

In order to remove uncertainties in the economy, priority was given to controlling inflation rate in 1999 and the exchange rate policy was determined in order to contribute to this aim. While the nominal depreciation of the Turkish lira based on the monthly average exchange rate basket was 40.4 percent in the first nine months of the year, the depreciation in the exchange basket accelerated and realized as 60.6 percent. The Central Bank met the short-term liquidity needs of financial institutions through open market operations aiming at stability in the market. Throughout the year, interest rates determined in the market were targeted to be consistent with the increasing trend of net foreign assets and in order to satisfy the economy’s Turkish lira requirement, priority was given to the increase in the net foreign assets.

The reserve money (X) item showed a rising trend as a result of the rise in the net foreign assets in 1999, and the average annual increase realized as 75 percent as of December. The annual increase in reserve money decelerated over time compared with previous years. The main reason behind this trend during 1999 was the relatively slow increase in net foreign assets. Net domestic assets showed a decreasing trend during 1999, except in November and December. The gross reserves of the Central Bank rose 17.8 percent in December 1999 with respect to the previous year and reached the level of US $23 235 million.

Monetary aggregates rose in real terms in 1999. While narrow money, M1, increased 32.5 percent - the highest rate, the rise in broad money, M3X, realized as 23 percent - the lowest rate.

The inflation rate accelerated in 1999 with respect to previous years. As the increase in the prices of agricultural products decelerated, the prices of manufacturing products accelerated along with the price rise of petroleum products in the international markets. Inflation rates based on the WPI and CPI were realized as 62.9 and 68.8 percent, respectively, at the end of 1999.

II.1. GENERAL EQUILIBRIUM

After the economic contraction in 1994, the Turkish economy entered a high and stable growth trend, which was mainly dependent on buoyant domestic demand and lasted until 1998. The average growth rate of the GNP was realized as 7.8 percent in the 1995-1998 period. On the supply side, the value added of industrial and commercial sectors increased considerably. On the demand side, it can be observed that GNP growth stems from private consumption and investment expenditures. In particular, the general rise in real wages since 1996, the increase in interest income which depended on high real interest rates and the expansion of export revenues as a result of participation in the customs union of the European Union led to buoyancy in domestic demand.

TABLE II.1.1

MAIN ECONOMIC INDICATORS

	1997	1998	1999
GNP (TL trillion, Current Prices)	29 393.3	53 518.3	83 124[1]
GROWTH RATE, GDP (Percent)	7.5	3.1	-1.5[1]
GROWTH RATE, GNP (Percent)	8.3	3.9	-2.0[1]
POPULATION[1] (Million)	63.7	63.4	64.3
EMPLOYMENT (Million)	21.0	21.6	22.0[6]
EXPORT (US$ billion, FOB)	32.6	31.2	28.4[1,2]
IMPORT (US$ billion, CIF)	48.6	45.9	40.2[1]
CURRENT ACCOUNT BALANCE[2] (US$ billion)	-2.6	1.9	-1.0[1]
EXTERNAL DEBT STOCK/GNP[3] (Percent)	47.4	50.8	52.9[7]
PUBLIC SECTOR BORROWING REQUIRE./GNP (Percent)	7.6	9.2	13.4[1]
DOMESTIC DEBT STOCK/GNP (Percent)	21.6	21.8	27.6[1]
TOTAL PUBLIC DEBT STOCK/GNP [4] (Percent)	47.4	46.8	52.9[7]
PRIMARY BALANCE/GNP (Percent)	0.1	4.6	2.0[1]
TAX REVENUES/GNP (Percent)	16.1	17.4	17.8[1]
WHOLESALE PRICE INDEX[5] (An.Av.Percentage Change)	81.8	71.8	53.1
CONSUMER PRICE INDEX[5] (An.Av.Percentage Change)	85.7	84.6	64.9

Source: State Institute of Statistics (SIS), State Planning Organization (SPO), Undersecretariat of the Treasury, Central Bank.

(1) Estimate of SPO.

(2) Including shuttle trade.

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

(4) Total public debt stock includes domestic and external debt stock. Short term external debts are not covered in the calculation. The annual average exchange rate was used in converting US dollar based public foreign debt stock into Turkish lira.

(5) 1994=100, twelve month averages.

(6) Survey of household Labor Force, April.

(7) End of year projection.

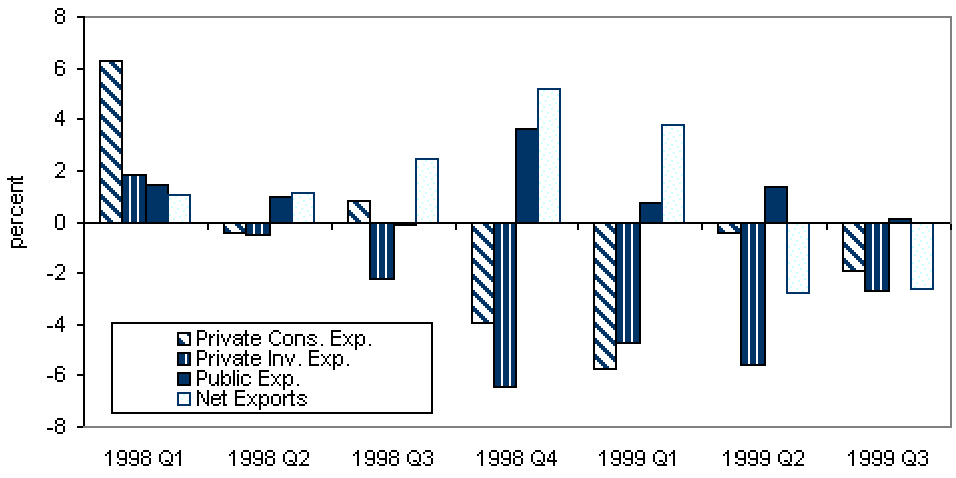
The high growth trend in the economy continued in the first quarter of 1998. During this period, while private consumption expenditures continued to rise considerably as a result of the buoyant domestic demand, the increase in private investment expenditures slowed down relatively. Moreover, public consumption and investment expenditures continued to rise significantly in spite of the contractionary fiscal policy which had been applied by the government since the beginning of 1998. However, the rapid growth period, which had lasted for three years ended in the second quarter of 1998 and the economy entered a slow growth cycle. The contraction of domestic demand was a factor in the slow down of the economy. The contractionary fiscal and income policies effective since the beginning of 1998 started to show their effects in the second quarter of the year. The increase in tax revenues and the primary surplus being realized over the target led to a drop in disposable income and thus in private consumption expenditures. The decrease in export prices due to the Southeast Asian crisis caused a reduction in export revenues and thus domestic demand was affected negatively. With the Russian crisis in August 1998, net capital outflows in most of the developing countries, including Turkey, were realized. This situation affected financing possibilities negatively by increasing risk premium and caused a rise in real interest rates. Moreover, the sharp decline in exports and the shuttle trade to the Russian Federation led to a decrease in industrial production. Due to the contractionary income policy, the decline in real wages and salaries in the public sector affected private consumption expenditures negatively in 1998. Real wages in the private sector, on the other hand, increased and this factor led to a decline in industrial production by increasing company costs. Moreover, the large inventories of these companies in 1998 and the high level investment and excess capacity in some sectors during the 1995-1997 period were the other important factors which adversely affected investment expenditures and industrial production. In the last months of 1998, the elections and the uncertainty related to the establishment of a new government led to a significant uncertainty in the industrial sector and affected industrial production, and thus economic growth, negatively (Table II.1.1, Figure II.1.1).

As a result of these developments, in spite of the high growth rate in the first quarter of 1998, the annual growth rate was slowed down considerably and the GNP and GDP growth rates were realized as 3.9 percent and 3.1 percent, respectively. In addition, agricultural value added increased by 8.4 percent in 1998 due to the good weather conditions and seasonality in some products.

In the first quarter of 1999, compared to the same period of the previous year, the GNP and the GDP declined by 8.6 percent and 8.9 percent, respectively. The slow down in economy that had begun in April 1998 and accelerated in the last quarter of the year turned into recession by 1999.

FIGURE II.1.1

CONTRIBUTION TO GDP



Source: State Institute of Statistics.

On the production side, compared to the same period of the previous year, the sharp reduction in the production of industry, commerce and transportation-communications sectors led to a sharp decline in the economy. On the expenditure side, private consumption and investment expenditures declined considerably. Exports of goods and services declined in the first quarter of the year, for the first time since 1991. This situation indicates that the contraction in foreign demand also played an important role in the economic growth rate being realized in the negative (Table II.1.2, Table II.1.3).

The contraction in domestic and foreign demand played an important role in economic recession. By the beginning of the year, the rise in the budget deficit caused a rise in the public sector borrowing requirement. This fact increased the pressure of the domestic debt stock on the financial sector, and thus the economy, and led to persistently high real interest rates in an environment of limited external financial sources.

The decline in the exportation of goods not only led to a decreasing impact on industrial production but also affected private consumption and investment expenditures adversely due to the reduction in export revenues.

TABLE II.1.2

GROSS DOMESTIC PRODUCT AND ANNUAL GROWTH IN MAIN SECTORS (1)

(Percent)

		1998					1999			
	1997	I	II	III	IV	Total	I	II	III	Total[2]
GNP	8.3	9.5	4.5	2.6	0.6	3.9	-8.6	-3.3	-6.6	-6.1
GDP	7.5	9.2	3.3	2.7	-1.2	3.1	-8.9	-1.8	-5.6	-5.3
Agriculture	-2.3	5.2	3.9	6.8	18.0	8.4	-6.8	-9.0	-3.8	-5.1
Industry	10.4	9.9	2.9	1.9	-5.4	2.0	-9.9	1.2	-8.3	-5.7
Manufacturing Ind.	11.4	9.8	2.3	0.9	-6.8	1.2	-10.9	0.7	-9.2	-6.4
Services	7.8	8.8	3.2	1.7	-1.3	2.7	-7.0	-1.9	-5.2	-4.6
Commerce	11.7	10.5	2.9	0.1	-5.2	1.4	-13.5	-4.4	-8.0	-8.3
Construction	5.0	5.2	-1.0	-1.4	1.7	0.7	-2.7	-5.3	-8.9	-6.0
Transportation and Telecommunications	7.6	13.7	4.3	4.3	-0.7	4.9	-7.8	0.9	-1.9	-2.8
Import Taxes	18.3	12.9	5.0	-5.5	-14.5	-1.0	-22.2	-5.7	-5.9	-11.3

Source: State Institute of Statistics.

(1) 1987 producer prices.

(2) First nine-months of 1999.

High real interest rates, which led to the postponement of consumption expenditures and the contraction of domestic demand, caused industrial production and investment expenditures to decline. Moreover, they affected production and investment decisions adversely by increasing production costs.

As in the previous year, in 1999, the excess capacity in some sectors and large inventories adversely affected industrial production and investment expenditures. In 1999, firms tended to reduce their inventories, which they had not been able to do in the previous year. Moreover, the sharp increase in the world market-price of petroleum, an important industrial input, affected industrial production negatively.

The decline in the construction sector, which has substantial links with many other sectors, especially basic metal and non-metallic mineral products industries, was another reason for economic recession. According to the results of the construction statistics which were conducted by the SIS, the number of construction licenses decreased in the first quarter of 1999 as compared to the same period of the previous year.

Despite the sharp economic decline in the first quarter of 1999, it was observed that expectations in the industrial sector improved gradually as of January. By March, expectations had become, considerably more positive. The disappearance of the uncertainty that had appeared as a result of election and government discussions in late 1998 and the expectation that a strong and stable government would be established after the election that would be held in April led to positive expectations in the first quarter of the year.

TABLE II.1.3

MAIN EXPENDITURE ITEMS

(1987=100, Percentage Change)

			1999			
	1997	1998	I	II	III	Total[1]
Consumption Expenditures	8.0	1.3	-6.4	-0.4	-1.9	-2.8
Public	4.1	7.8	10.2	2.1	9.1	6.9
Private	8.4	0.6	-7.9	-0.6	-2.9	-3.7
Consumer Durable	33.6	-0.8	-7.4	5.2	-8.6	-4.0
Fixed Capital Investments	14.8	-3.9	-16.6	-13.7	-11.9	-13.9
Public	28.4	13.9	2.1	21.8	-8.0	4.2
Private	11.9	-8.3	-19.1	-21.2	-13.1	-17.8
Machine-Equipment	21.2	-12.3	-29.3	-33.9	-21.0	-28.5
Construction	0.0	-1.8	-1.3	-0.1	-4.6	-2.3
Exports of Goods and Services	19.1	12	-7.7	-11.0	-13.9	-11.1
Imports of Goods and Services	22.4	2.3	-16.0	-1.9	-4.6	-7.3
Total Domestic Demand	9.0	0.6	-11.9	0.4	-2.9	-4.5
Total Final Dom. Demand	9.9	-0.2	-9.1	-4.4	-4.6	-5.8

Source: State Institute of Statistics.

(1) First nine-months of 1999.

The declining trend in the economy, while slowing down, continued in the second quarter of the year and the GNP and the GDP contracted by 3.3 and 1.8 percent, respectively. In this period, although the value added of the industry sector increased, the contraction in the construction and commerce sectors led to a decline in the growth rate of the GNP and the GDP. In addition, the declining trend in exports accelerated in this period.

The increase in industrial production in April was effective in the rise of industrial value added in the second quarter of the year. After the elections in April, expectations that a stable government would realize structural changes as well as an increase in expenditures led to a rise in industrial production in April. Hence, expectations of buoyancy in domestic demand in the second quarter of the year dominated the industrial sector. In spite of the rapid decline in the value added of the commerce sector, the relatively slower decline in the value added of wholesale and retail trade, which constituted 85 percent of the value added of the commerce sector, showed a recovery in domestic demand after March. In fact, while the decline in private consumption realized at 7.9 percent in the first quarter of the year, this rate realized at 0.6 percent in the second quarter of the year and the expenditures on consumer durables increased. However, industrial production entered into a declining trend again in May and June, showing that the expectations were not realized and consumer demands were postponed again. Delays in the establishment of the government after the April elections worsened the expectations in May and June.

The GNP and the GDP decreased by 6.6 and 5.6 percent, respectively in the third quarter of the year. The slight rise in the growth rate, compared with the same period of the previous year, indicates a serious contraction in the economy.

When the production side is examined, a rapid contraction occurred in the industry, commerce and construction sectors in the third quarter of the year. On the expenditure side, the contraction in private consumption and investment expenditures continued and the decline in exports of goods and service accelerated. Furthermore, imports of goods and services declined significantly due to contraction in domestic demand and industrial production.

In the middle of August, the earthquake which occurred in the Marmara Region, where a considerable amount of the country's industry is situated, increased uncertainty in the economy and worsened expectations. The Marmara Earthquake directly affected industrial production in a negative way, not only through loss of work days and labor force but also because of damage to industrial plants and infrastructure. The uncertainty created in the economy was responsible for a decline in consumption expenditures and domestic demand.

The biggest uncertainty created by the earthquake occurred in the construction sector. It is expected that the earthquake will affect the construction sector negatively in the short run, but positively in the long run. According to the results of construction statistics announced by the SIS, the number of construction licenses declined in the third quarter of the year after a relative increase in the second quarter, which supports this expectation.

The recession in the tourism sector is another reason for the decline in the economy. During the January-September period, tourism revenues decreased by 45.0 percent with respect to the same period of the previous year. Tourism revenues decreased significantly, especially in the third quarter, and this affected economic growth negatively.

The targets announced by the government for the year 2000, created a positive atmosphere in the economy and thus the expectations in the industrial sector turned positive again by October. However, the second earthquake, which occurred in November, partially decreased this trend. It is expected that efforts to clear away the debris and provide pre-fabricated housing, a decrease in interest rates and the realization of some delayed expenditures will affect domestic demand and production positively. Therefore, it is expected that the decline in the economic growth will slow down significantly in the last quarter of the year.

The average inflation declined due to weak domestic demand in 1999. The Wholesale Price Index declined from 71.8 percent to 53.1 percent in 1999. Although there was a decline in agricultural value added, agriculture price inflation was below the general WPI level (Table II.1.4).

TABLE II.1.4

PRICES

(Percentage Change, Annual Average, 1994=100(1))

	1994	1995	1996	1997	1998	1999
Wholesale Price Index	120.7	86.0	75.9	81.8	71.8	53.1
Agriculture Price Index	97.8	107.8	86.5	86.9	86,8	41.8
Manufacturing Price Index	129.4	81.0	70.4	80.6	66.7	57.2
Farmer’s Net Price Index	88,2	88.2	80.5	89.5	90.7	52.2

Source: State Institute of Statistics.

(1) For the period prior to 1995, the base year is 1987.

The economic decisions of the government regarding exchange rates, inflation and public finance following the stand-by aggrement with IMF created a positive atmosphere that seems to be sustainable. The demand for infrastructures and housing investments following the earthquake raised expectations for recovery in the economy. It is estimated that the expected recovery in the tourism sector will affect the growth rate positively.

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

II.1.1.A. Production Performance in Sectors

a. Agriculture

The agriculture sector value added, which showed a 8.4 percent increase in 1998 as a whole, decreased by 5.1 percent in the first three quarters of 1999. This reduction in the agricultural value added stemmed from the decrease in farming-livestock and forestry value added (Table II.1.5).

In the farming-livestock sector, the production of cereals, legumes, fruits and livestock decreased in the first nine months of the year. The farming - livestock sector value added contracted by 5.7, 10.5 and 4.2 percent respectively in each of the first three quarters of the year with respect to 1987 producer prices. The total contraction realized at 5.5 in the first nine months. Problems in the livestock sector which had been observed in previous years, such as low productivity, and a decline in the number of animals, continued in 1999.

The value added in the forestry sector contracted by 1.9 percent in the first nine months of the year. The rise in production of the fishing sector continued in 1999 and the value added in this sector increased by 6.4 percent. However, environmental and illegal fishing problems continued in this sector.

TABLE II.1.5

AGRICULTURAL SECTOR PRODUCTION AND VALUE ADDEDS

(Percentage Change, According to 1987 Producer Prices)

	9-Month			1999[1]	
	1998	1999	I	II	III
Farming and Livestock Production	6.1	-5.0	-4.7	-7.5	-4.1
Cereal	11.6	-13.4	-	-21.3	-10.9
Legumes	-4.0	-10.8	-	-24.0	-5.5
Other Field Products	1.3	-0.5	-	-9.0	0.3
Fruits	9.4	-4.8	5.9	-1.0	-6.4
Vegetables	15.0	4.8	-3.2	8.7	4.9
Livestock	1.0	-5.2	-6.7	-5.4	-3.6
Value Added of Farm.& Live.Agri.Indus.	6.1	-5.5	-5.7	-10.5	-4.2
Forestry Sector Value Added	-0.2	-1.8	-16.1	4.3	11.3
Fishery Sector Value Added	18.5	6.4	4.8	5.9	8.9
Agricultural Sector Value Added	6.1	-5.1	-6.8	-9.0	-3.8

Source: State Institute of Statistics.

(1) Provisional.

b. Industry

Industrial production, which had started to decelerate in 1998, resulted in a decline of 5.7 percent of the industrial value added. When examined by sub-sectors, in the January-September period, the mining and manufacturing industry value addeds decreased by 7.6 percent and 6.4 percent respectively, while the electricity-gas-water sector value added rose by 1.1 percent. The main reason for this general decline in industrial sector production was the contraction in domestic demand (Table II.1.2).

Textile production, which is a sub sector of the manufacturing industry, declined considerably in the first nine months of 1999 just as it had in 1998. The weak export demand of this sector determined the contraction in production. In addition, production in the metal products and machinary equipment sectors, which had been decelerating since the second quarter of 1998, declined in the first three quarters of 1999.

Parallel to these developments, total manufacturing industry production contracted by 5.8 percent according to SIS monthly industrial production index figures (Table II.1.6).

TABLE II.1.6

INDUSTRIAL PRODUCTION

(Percentage Changes with Respect to the Same Period of the Previous Year)

		1998			1999				
	1997(1)	III	IV	Total(1)	I	II	III	Jan.-Dec.(2)	Dec.(3)
TOTAL INDUSTRY	11.5	0.9	-5.5	1.3	-8.3	0.8	-6.7	-5.1	2.9
MINING	4.6	6.1	4.9	11.2	-8.3	-7.5	-13.1	-8.4	-4.5
MANU. INDUSTRY.	12.1	-0.2	-7.1	0.1	-9.6	0.5	-7.3	-5.8	3.3
Food Industry	8.0	7.9	-0.2	0.8	-3.2	6.9	0.3	-2.7	5.7
Textile Industry	8.7	-10.6	-11.3	-6.4	-20.2	-4.8	-10.6	-6.4	12.7
Petroleum Pro.Industry	4.4	2.1	5.6	2.1	11.1	10.2	-14.1	-3.2	-14.2
Chemical Industr	14.5	-4.1	-9.1	0.3	-11.2	5.6	-1.5	-1.9	17.2
Basic Metal Industry	9.6	9.0	-10.5	0.5	-12.9	3.9	-4.6	-5.6	-6.5
Mach.-Equip.Industry	22.5	-9.9	-18.6	-2.6	-16.6	-10.9	-8.8	-3.2	9.7
Transportation Industry	24.8	-10.3	-25.1	-3.7	-43.0	-18.4	-15.7	-21.8	22.8
ENERGY	8.1	9.6	4.7	7.6	1.7	8.9	2.6	4.2	3.5

Source: State Institute of Statistics, Monthly and quarterly industrial production indices, 1997=100

(1) With respect to yearly averages.

(2) With respect to the same period of the previous year.

(3) With respect to the same month of the previous year.

c. Services

The value added of the service sector contracted by 4.6 percent in the first nine months of 1999. Contraction in domestic demand led to a decline, especially in the value addeds of the construction and domestic trade sectors. The crisis in the tourism sector led to a decline not only in the hotel and restaurant sectors' value addeds but also in the transportation and domestic trade sectors value addeds.

EFFECTS OF THE MARMARA EARTHQUAKE ON THE ECONOMY

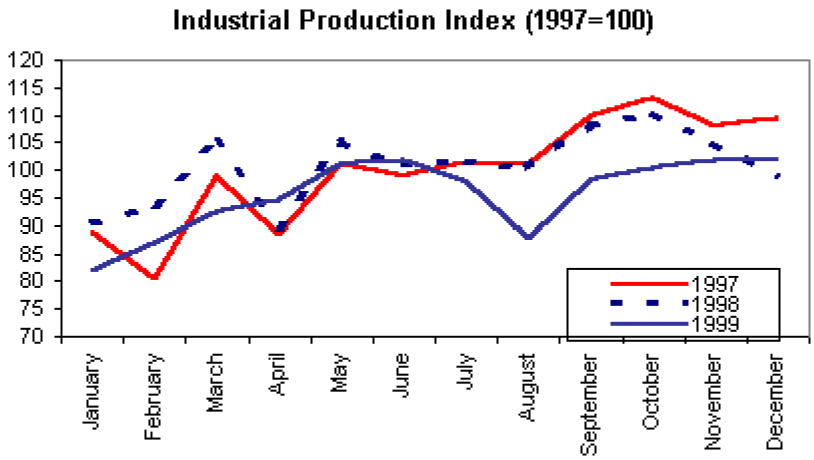
The earthquake which occurred on August 17, 1999 is one of the greatest earthquakes that has ever happened in Turkey. The effect of the earthquake on the economy was considerable since this region is densely populated and is the source of a large portion of the Turkish economy. The most affected areas - Kocaeli, Sakarya, Yalove, Bolu, Avcıyar and Bağcılar - constituted 7.7 percent of the value added in the GDP and 19.7 percent of the total manufactured industry value added.

The Marmara earthquake not only led to great physical destruction, but also halted the economic activity in the region. In particular, small and medium scale firms were damaged. The cost of the earthquake in capital stock is estimated at US $9-13 billion and US $6-10 billion by the SPO and the World Bank, respectively. The total damage to houses, infrastructures, public buildings and businesses could cost US $3-6 million according to World Bank figures. The loss in value added and production is estimated at US $1.3 billion and US $2.4 billion respectively by the State Institute of Statistics. Production either ceased or slowed down, thus deepening the recession which had already begun. The contraction of the GNP in 1999 was a spill-over effect of the earthquake to a great extent.

The joint survey of the Prime Ministry Crisis Management Center and SIS indicated that the earthquake slowed down manufacturing industry production in the affected region. According to the survey, 63 percent of the work places employing 10 or more workers were damaged due to the earthquake. The most serious damage happened to machinery-equipment, buildings and infrastructures. Of the 3491 workers in manufacturing industry affected by the earthquake 346 died. The firms which were affected by the earthquake and responded to the survey indicated that capacity utilization decreased from 87 percent to 51 percent. These firms expected to reach their pre-earthquake capacity in 18 weeks on the average. The leading factors of contraction in demand after the earthquake were listed as marketing and finance. Consequently, manufacturing industry production, a leading sector of the economic growth, contracted by 11.8 percent on the average in the August-October period (Figure).

The losses in both workers and working days and damage to factories and infrastructures led to a slow down in production for the rest of the year. Moreover, exports were negatively affected by damage to infrastructures and delays in transportation. Domestic consumption and investment contracted considerably in the region in the initial period. Post-earthquake expenditures in the region will boost the production starting in 2000. The excess demand for food, clothing and medical supplies in the region will lead to a rise in the production of chemical, food and textile sectors after the stock is depleted and production returns to normal. The increase in the demand for housing and infrastructure will naturally boost the construction sector, which had been stagnent during the last two years. The close relationship between the construction sector and other sectors is expected to boost the economy. Furthermore, the damage which occurred to consumer durables and machinary and equipment will increase demand in those sectors.

Consequently, the earthquake is expected to affect the economic growth negatively in 1999 but positively in 2000 due to the new construction activities. The State Planning Organization estimates that the effect of the earthquake on the GNP will be -1 percentage point in 1999, changing to a positive effect of 1.5 percentage points in 2000. According to World Bank estimates, the GNP will be negatively affected by 0.6-1.0 percentage points in 1999 but positively affected by 1 percentage point in 2000. However, another earthquake in the region at the beginning of November and the sluggish production in November and December indicate that the effects of the earthquakes will be considerably above these estimates.



II.1.1.B. Imports of Goods and Services

Imports had accelerated due to the Customs Union and buoyant domestic demand in the 1995-1996 period. However, since the Customs Union lost its influence in 1997 and domestic demand contracted in 1998, total imports decreased.

While the total imports of goods and services increased by 6.9 percent in January-September 1998, in terms of constant prices, they declined by 7.3 percent in the some period of 1999 (Table II.1.7). A sharp decline in imports of goods and services was observed in the first quarter of 1999, but during the following months of the year this declining tendency slowed down.

Among the main sectors, imports for manufacturing industry, which constituted 85.4 percent of the total import, declined 16.2 percent in the first eleven months of 1999, relative to the same period of the previous year. In this same period, agriculture-forestry imports decreased by 22.8 percent and mining imports increased by 6.9 percent. In addition to the decline in imports of goods, tourism and other service expenditures decreased in the same period.

The contraction in domestic demand and the reduction in industrial production were the determining factors in the decline in imports during 1999.

TABLE II.1.7

IMPORTS OF GOODS AND SERVICES

(US$ billion)

			1998	1999			
	1997	1998	11-Month	I	II	III	11-Month
Imports	48.0	45.6	41.6	7.9	10.0	10.5	35.2
Tourism Expenditures	1.7	1.8	1.7	0.2	0.6	0.4	1.4
Other Service Expenditures[(1)]	6.8	8.1	7.4	1.8	1.9	1.8	6.7
TOTAL	56.5	55.5	50.7	10.0	12.5	12.6	43.3
Imp.of Goods & Services[(2)]	22.4	2.3	6.9	-16.0	-1.9	-4.6	-7.3

Source: Central Bank, State Institute of Statistics.

1. Exluding profit transfers.
2. State Institute of Statistics, Percentage changes with 1987 prices, as of the January-September period.

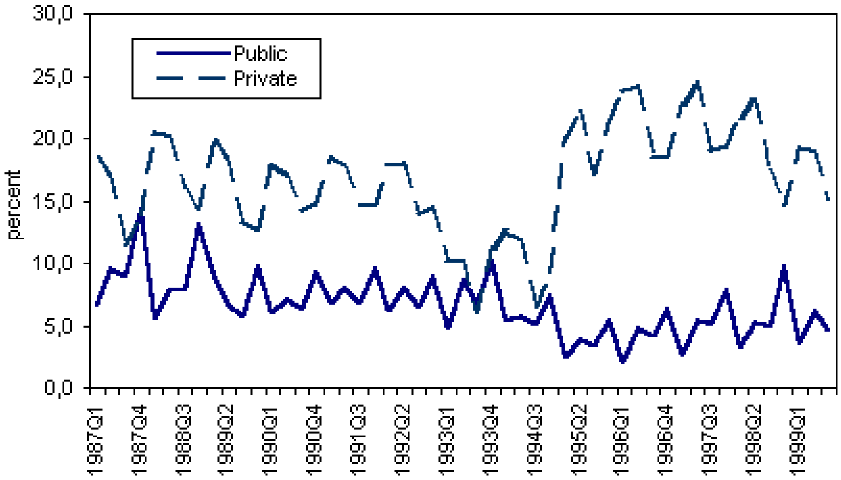
The share of private investments in total investment spending is very high in the Turkish economy and it has tended to increase over the last decade. The ratio of the private and public investments to the total investments was realized, on the average, at 73 and 27 percent respectively in the 1987-1998 period.

Private investments can be affected by several factors. Empirical studies suggest that domestic and external demand developments affect private investments positively with one and/or two lags. In addition, a positive relationship has been found between domestic and foreign credit volume and private investments. As to the effects of interest rates on private investments, contradictory and statistically insignificant results were obtained from empirical studies. However, some studies concluded that a high level of real credit rates generally affects private investments negatively. In the last twenty years, theoretical studies concerning the determination of investments have shown that uncertainty has an important effect on investments. Empirical studies taking uncertainty into consideration concluded that it affects private investments negatively in Turkey. In these studies, it is seen that public finance was an important source of uncertainty, especially in 1990s, in addition to inflation and instability in the financial markets. Besides the budget deficit, the tax policy, including changes in tax laws and inefficiency in the tax system, have created an important uncertainty for private investments. Moreover, the government's high level of debt service resulted in a gradual decrease in the share of government investments in the GNP. The relationship between private investment and government investment expenditures, which have been an important source of incentive for private investments for a long time, weakened (Figure).

Looking at the composition of private investments, it is seen that machinery and equipment investments tended to increase over time. The share of machinery and equipment investments in total private investments realized at 58 percent in 1998, when the rate of economic growth decreased considerably. This had been 25 percent in 1980. The share of private machinery and equipment investments in total private investments averaged 48 percent in the 1987-1998 period. Machinery and equipment investments, due to their nature, are a more effective factor behind long-term growth potential than private housing investments. Rapid economic growth periods coincided with the rapid growth periods of private machinery and equipment investments. The determinants of the private investments mentioned above are also valid for private machinery and equipment investments in econometric terms. Additionally, private housing investments affect private machinery and equipment investments negatively. In other words, there is a substitution between these two investments, and in periods of rapid housing investment growth, private machinery and equipment investments decrease rapidly. The decision to invest in machinery and equipment is made by firms while housing investment is decided generally by households. In some empirical studies, there is a negative relationship between private housing investments and returns of financial assets whereas there is a positive relationship between private housing investments and private savings rates.

DEVELOPMENTS IN PUBLIC AND PRIVATE INVESTMENTS IN TURKEY

(Shares in GNP)



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

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

Deceleration in domestic demand, which had begun in the second quarter of 1998, continued in the first quarter of 1999. The underlying feature of the year was the frequent changes in the expectations of economic units. In the first quarter of 1999, optimistic expectations regarding the recovery in domestic demand for the period after the general elections were dominant. In the second quarter, these optimistic expectations were further strengthened by the favorable climate in the negotiations with the International Monetary Fund (IMF) regarding a stand-by agreement. At the beginning of the third quarter, optimistic expectations were reversed by the Marmara Earthquake, which occurred in August, and changed thereafter into optimism due to the increasing probability of a stand-by agreement with the IMF. Despite the increase in optimistic expectations, the deceleration in domestic demand continued during the first nine months of 1999.

The increase in public expenditures continued in 1999 as well. The components of public expenditures did not change significantly in 1999. Of the main components of public expenditures, the item "wages and salaries" increased by 3 percent in real terms. The increase in the "other current" expenditures was rather more significant, due basically to the unexpected increase in these expenditures caused by the earthquake. Consequently, this item increased by 12.7 percent in real terms, with respect to the previous year (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)

			1999			
	1997	1998	I	II	III	9-Month
Total Consumption	8.0	1.3	-6.4	-0.4	-1.9	-2.8
Government Total Consumption Expenditures	4.1	7.8	10.2	2.1	9.1	6.9
Salaries-Wages	0.1	5.9	7.8	0.7	0.8	3.0
Other Current Expenditures	9.2	10.0	16.1	3.9	19.6	12.7
Private Total Consumption Expenditures	8.4	0.6	-7.9	-0.6	-2.9	-3.7
Food	0.8	-0.1	-5.6	4.9	1.6	0.6
Durable Goods	33.6	-0.8	-7.4	5.2	-8.6	-4.0
Semi-Durable & Non-Durable Goods	8.7	0.3	-17.7	-8.1	-5.4	-10.8
Energy. Transportation. Telecommunications	3.5	4.9	-1.9	-0.5	-1.4	-1.3
Services	15.1	-0.8	-13.2	-15.2	-12.0	-13.4
House Ownership	2.3	2.1	2.1	2.3	1.1	1.8

Source: State Institute of Statistics.

Total consumption expenditures of the private sector decreased in real terms in 1999. Negligible increases were observed in food and housing expenditures while the demand for services and semi-durable goods was observed to decline significantly during the first nine months of the year. Despite the slight increase in the demand for durable goods observed in the second quarter, the demand for these goods declined over the whole year (Table II.1.8).

Among the main components of domestic demand, the most significant decline was observed in the investment expenditures made by the private sector. This component of the domestic demand increased sharply in 1997. Paralelling the decrease in private consumption expenditures, the increase in investment expenditures somewhat decelerated in the second quarter of 1998 and turned into a sharp decrease in 1999. While private investment expenditures contracted by 17.8 percent, public investment expenditures had risen by 4.2 percent, by the end of third quarter (Table II.1.3).

II.1.2.B. Exports of Goods and Services

In 1997 exports increased rapidly, despite of the adverse effects of the South East Asian crisis. However, after 1998, beginning with the Russian crisis, the global crises deepened and total exports slowed down. Having increased by 14.4 percent in the first 9 months of 1998, total exports declined by 11.1 percent in the same period of 1999 (Table II.1.9).

TABLE II.1.9

EXPORTS OF GOODS AND SERVICES

(US$ billion)

			1998		1999		
	1997	1998	11-Months	I	II	III	11 Months
Export	26.8	27.5	24.7	6.5	6.3	6.3	23.7
Shuttle Trade	5.8	3.7	3.5	0.4	0.4	0.6	2.0
Tourism Revenues	7.0	7.2	6.9	0.6	1.2	2.2	5.0
Other Service Revenues(1)	9.9	13.6	11.6	2.8	2.6	2.3	7.6
TOTAL	49.6	52.0	46.7	10.4	0.5	11.4	38.3
Exp. of Goods & Services(2)	19.1	12.0	14.4	-7.7	-11.0	-13.9	-11.1

Source: Central Bank, State Institute of Statistics.

(1) Exluding other factor incomes.

(2) State Institute of Statistics, percentage changes with 1987 prices, as of the January-September period.

The main reasons for the decline in exports were the contraction of export markets and the decline in export prices. According to SIS foreign trade price index figures, in the January-October period, export prices declined by 7.1 percent. Moreover, the increase in registered exports and the contraction in the Russian economy reduced the shuttle trade and the crisis which occurred in tourism led to a decline in exports of goods and services.

II.1.3. Employment

According to the Survey of Household Labor Force (HLF), which was conducted by the SIS, the total civil labor force increased 3.2 percent from 23 million people in 1998 to 23.8 million people by April 1999. At the same period, the civil employment grew 2.1 percent from 21.6 to 22 million people. The unemployment rate rose from 6.3 percent in 1998 to 7.3 by April 1999 due to slow growth of employment relative to labor force. It is expected that the unemployment rate will be even higher in 1999 as a result of contraction in the economy throughout the year and employment loss stemming from the earthquake (Table II.1.10).

In April 1999, the share of total employment in total population of people capable of working was 45.1 percent. In Turkey, 59 percent of total employment is made up of self employed, employers and unpaid family workers. The share of women both in total employment and the labor force increased in April 1999 relative to 1998. A slow growth in the unemployment rate for women during this period led to a rapid growth in female employment relative to the female labor force. The female unemployment rate had reached 7.3 percent by April 1999.

TABLE II.1.10

LABOR FORCE AND EMPLOYMENT

(Thousand Person, Aged 12+)

	1997	1998	1999[(1)]
Labor Force	22 447	23 048	23 779
Female L.F./Labor Force(Percent)	28.0	28.5	30.9
Employment	21 008	21 594	22 049
Urban (Percent)	45.9	45.7	44.3
Rural (Percent)	54.1	54.3	55.7
Female Employment/Employment (Percent)	27.7	28.6	31.1
Number of Unemployed	1 440	1 454	1 730
Unemployed Rate (Percent)	6.4	6.3	7.3
Urban (Percent)	9.4	10.0	11.8
Rural (Percent)	3.7	3.0	3.4
Underemployment (Percent)	5.6	5.9	6.9
Inactive Labor (Percent)	12.0	12.2	14.2

Source: State Institute of Statistics.

1. By April 1999.

The share of urban employment in the total declined during the last two years. While the share of urban employment was 45.7 percent in 1998, it declined to 44.3 percent in April 1999. Such a decline in the share of urban employment for a country like Turkey, where rapid urbanization is being experienced, implies a growing urban unemployment rate. Actually, the urban employment in developing countries like Turkey is expected to rise.

The slow growth of urban employment in an environment of economic recession led to a rapid increase in the urban unemployment rate, which increased from 10 percent in 1998 to 11.8 percent by April 1999. Although the unemployment rate of educated people declined to 25.9 percent according to the April 1999 HLF Survey, it is still very high. The unemployment rate of young educated people in urban areas is 28.9 percent. Rural unemployment increased from 3 percent in 1998 to 3.4 percent in April 1999. The increase in the rural unemployment rate may be attributed to a general contraction in the economy and agricultural production (Table II.1.10).

Employment in public sector manufacturing industry has been observed to come down in recent years parallel to the declining share of public sector manufacturing output. While private sector employment rose in 1997 and 1998, public sector employment declined during the same period. The employment in both private and public sectors decreased as a result of economic recession in 1999. In manufacturing industry, the decline in private sector employment was more severe than that of the public sector during the first nine months of 1999. During the same period, employment dropped in all the main sub-sectors, except chemicals, of private manufacturing (Table II.1.11).

TABLE II.1.11

WORKERS IN MANUFACTURING INDUSTRY

(Annual Percentage Change)

	1997	1998	1999			
			I	II	III	9-Month
Manufacturing Industry	5.3	0.2	-7.7	-8.8	-10.9	-9.2
Public Sector	-6.9	-6.3	-4.5	-2.7	-7.1	-4.8
Private Sector	8.3	1.6	-8.3	-10.0	-11.7	-10.0

Food	6.6	-0.3	-10.1	-9.3	-9.0	-9.4
Textiles	8.1	-0.9	-12.4	-16.0	-16.8	-15.0
Petroleum Products	40.3	-1.0	-3.5	-0.2	0.0	-1.2
Chemicals	1.2	5.1	0.6	1.4	0.6	0.9
Basic Metal Industry	6.8	4.8	-0.5	-2.3	-5.0	-2.6
Machinery-Equipment	12.7	4.1	-6.6	-9.3	-12.8	-9.6
Transport Vehicles	10.1	7.8	-9.9	-13.8	-14.1	-12.6

Source: State Institute of Statistics.

Among the other sectors, agricultural employment has the largest share of total employment. According to the April 1999 HLF Survey, the employment shares of the agricultural, industrial and services sectors in total employment were realized as 45.8, 15.1 and 39.1 percent respectively. The fact that the share of agricultural employment declined as the share of manufacturing employment rose during the 1997-1999 period is important at this point. The share of service employment declined by a small amount during the same period. The rise in agricultural employment may be explained by a rapid increase in the agricultural labor supply and a decline in the labor productivity in agriculture, since the ratio of agricultural value added to the GDP remained around 14.5 percent in 1998 and 1999. Economic recession and a slow improvement in services are the main reasons behind the slowdown in industrial employment that resulted from weak performance of industrialization process (Table II.1.12).

TABLE II.1.12

EMPLOYMENT BY SECTORS

(Percent)

	1997	1998	1999[(1)]
Agriculture	42.4	43.0	45.8
Industry	17.2	16.7	15.1
Services	40.4	40.3	39.1

Source: State Institute of Statistics.

2. By April 1999.

II. 1.4. Wages and Salaries

The public sector collective bargaining contracts were completed to a great extent by 1999 and the wage system, namely echelle mobile, which had been practiced since 1997, was abolished. The decline in the wages of public sector workers in real terms during the 1994-1998 period were effective in bringing wages above the inflation rate in the public sector collective bargaining procedures carried out in 1999. With the new arrangements in the income tax rate, the overall increase in the wages of public sector workers in real terms is expected to be 43.6 percent in 1999. With this development, public sector real wages are expected to realize above the pre-1994 crisis level. The increase in public sector wages was determined as 30 percent for the first half of 1999 and an additional TL 15 million was paid per worker. In the second half of the year, the increase in the wages was as much as 5 percent over the CPI inflation rate of the first half of the year.

The real wages and salaries of all employees, except the wages of private sector workers involved in collective bargaining process, had decreased in 1998. However, in 1999, the wages that were generally determined by backward indexation realized over the inflation rate, which was targeted relatively lower, and the target was more or less attained. Wages of public sector workers and the minimum wage increased rapidly among the other wage categories and the salaries of civil servants and the wages of private sector workers are expected to increase 4.6 and 12.2 percent in real terms, respectively (Table II.1.13).

TABLO II.1.13

DEVELOPMENTS IN REAL WAGES[1]

(Annual Percentage Change)

	1993	1994	1995	1996	1997	1998	1999[2]
Labor Cost[3]							
Public Sector	12.8	-11.2	-22.7	-21.5	29.6	0.6	37.1
Private Sector	5.3	-28.0	-14.4	5.2	3.0	16.1	18.2
Net Labor Wage[3]							
Public Sector	8.0	-0.0	-17.1	-25.0	19.2	-1.3	43.6
Private Sector	1.7	-18.2	-8.3	1.9	-3.0	17.0	12.2
Civil Servant Monthly Cost	5.5	-30.6	-2.9	14.0	15.8	3.4	10.7
Net Salary of Civil Servant	2.1	-21.9	-4.8	7.6	16.5	-1.3	4.6
Annual Average Minimum Wage	11.2	-26.6	-2.8	21.9	13.0	-4.3	38.1
Pension[4]							
The Pension Fund	-1.7	-22.2	-10.5	22.4	7.6	-6.4	4.8
The Social Security Institution	-4.5	-22.0	-4.7	20.2	13.2	-7.3	3.3
Bağ-Kur	-3.3	-21.6	-1.4	58.0	27.1	-7.3	3.2

Source: State Planning Organization.

(1) State Institute of Statistics Wholesales and Consumer Price Indices, based on 1987, are used in calculating real labor cost

and net wage changes. Respectively.

(2) Provisional.

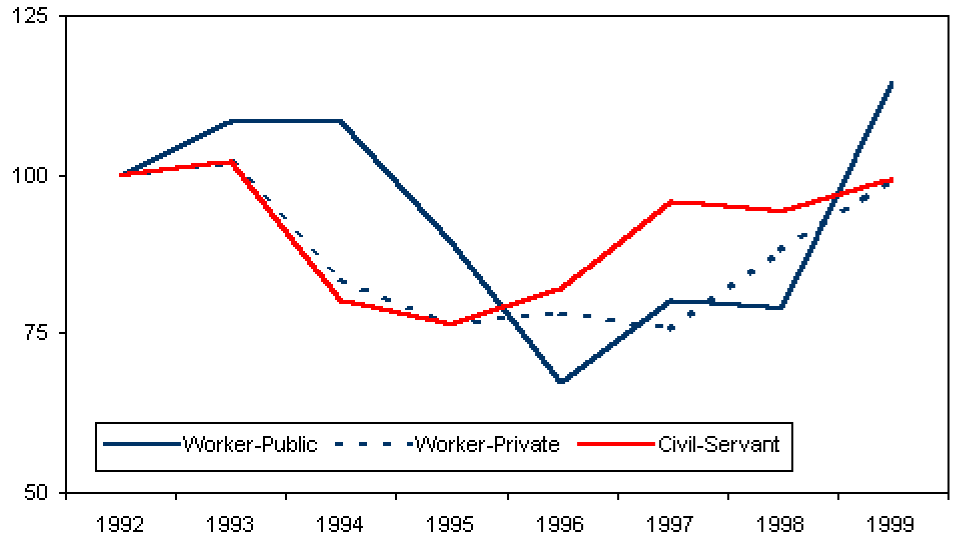
(3) The calculations are carried out by State Planning Organization by using the data of the Turkish Employer Union and the Public Sector Employer Union.

(4) Average pension for retired civil servants at third degree level one, for retired workers at the first degree level

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

FIGURE II.1.2

DEVELOPMENTS IN WAGES (1992=100)



Source: State Planning Organization.

While the wages of public workers rose above the pre-1994 crisis level, the salaries of civil servants and the wages of private sector workers did not reach their 1993 level. Civil servant salaries increased 30 percent in the first half and 20 percent in the second half of the year. The increase in the salaries of the civil servants in nominal terms over the year realized at 72.5 percent with the adjustments in the income taxes of wage earners.

The pensions of the Pension Fund, the Social Security Institution and Bağ-Kur dropped in real terms in 1998. The real pensions are expected to rise in 1999, but it is not sufficient to compensate for the real losses that occurred in 1998. The increase in the pensions of the Pension Fund and the Social Security Institution has lagged behind the increase in the wages and salaries of other sectors in recent years. The pensions of the Pension Fund and the Social Security Institution declined 11.6 and 7.5 percent respectively in real terms during the 1992-1999 period (Table II.1.13).

The wage and salary incomes of all sectors, except the pensions of Bağ-Kur and the wages of public sector workers, failed to rise in real terms during the 1992-1999 period. In the same period, while the GNP increased 4 percent on the average, the growth in employment was limited to 1.6 percent on the average. Although the value added per worker increased in the same period, a limited increase in real wages implies a deterioration in the income distribution of wage, salary and pension earners.

The real wages per hour in the private sector declined 0.9 percent in 1998 but then increased 9.9 percent in the first nine months of 1999. Real wages per hour in the public sector increased 4.3 and 16.8 percent in 1998 and 1999 respectively. In private manufacturing industry, real wages increased in all sub-sectors except petroleum products (Table II.1.14). As the wage per hour in the public sector increased, it decreased in the private sector in 1998 and the wage per hour in the whole manufacturing industry declined 0.3 percent. However, it increased sharply both in the private and public sectors in the first nine months of 1999. This caused employment in the private manufacturing industry to decrease in an environment of economic recession.

TABLE II.1.14

REAL WAGES PER HOUR IN THE MANUFACTURING INDUSTRY

(Annual Percentage Change)

			1999			
	1997	1998	I	II	III	9-Month
Manufacturing Industry	3.1	-0.3	12.2	8.8	14.6	11.9
Public Sector	13.6	4.3	3.5	15.1	32.9	16.8
Private Sector	1.6	-0.9	14.4	6.5	8.8	9.9
Food	1.7	3.9	21.5	12.2	6.8	11.5
Textiles	-0.1	-4.0	12.9	10.6	16.4	13.3
Petroleum Products	4.6	21.3	-19.3	-1.0	5.0	-6.0
Chemicals	10.7	3.5	5.4	-2.2	0.7	1.3
Basic Metal Industry	13.5	2.6	16.3	10.4	15.4	14.0
Machinery-Equipment	-0.5	1.2	19.7	3.6	-1.1	6.9
Transport-Vehicles	6.7	-0.1	20.4	-2.6	13.8	10.0

Source: State Institute of Statistics.

II.2. PUBLIC FINANCE AND DOMESTIC BORROWING

II.2.1. Public Finance

The public sector in Turkey consists of consolidated budget, financial and non-financial state economic enterprises (SEEs), local administrations, social security organizations, revolving funds and extra-budgetary funds. The share of the public sector borrowing requirement (PSBR) in the GNP is expected to reach 13.4 percent in1999, reflecting a 4.2 percentage point increase with respect to the previous year. PSBR is calculated considering total public sector expenditures and revenues.

The share of total public expenditures in the GNP realized at 34.5 percent in 1998, reflecting a 3.3 percentage point increase with respect to the previous year. In 1999, this ratio is expected to be 38.4 percent. The share of total public expenditures in the GNP increased by 3.9 percentage points. This increase resulted from current expenditures, interest payments and transfers increasing by 1.9, 1.2 and 2.3 points respectively. The share of investment expenditures in the GNP decreased by 0.3 percentage points.

It is expected that the share of public sector revenues in the GNP will decrease from 25.3 percent in 1998 to 24.1 percent in 1999. This decline was due to privatization revenues, which were 1 percent of the GNP in 1998, realizing at 0.1 percent of the GNP in 1999. It is expected that the share of tax revenues, which have the greatest part in public sector revenues, in the GNP will decrease by 0.2 percentage points. Although the tax revenues of the consolidated budget and local administrations increased, the decrease in public revenues in the GNP resulted from a decline in the tax revenues of funds.

The share of the consolidated budget deficit in the GNP decreased during the 1996-1998 period and this ratio realized at 7 percent in 1998. However, the share ofthe consolidated budget deficit in the GNP increased significantly again and reached 10.9 percent in 1999. While the share ofconsolidated budget revenues in the GNP was 22 percent in 1998, it rose to 22.5 percent in 1999. In spite of the limited increase in budget revenues, the share of consolidated budget expenditures in the GNP was 29 percent in 1998 and this ratio rose to 33.4 percent in 1999. The share of non-interest expenditures in the GNP increased by 3.1 percentage points and reached 20.5 percent while the share of interest expenditures in the GNP increased by 1.2 percentage points, reaching 12.9 percent.

TABLE II.2.1

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

(Percent)

	1994	1995	1996	1997	1998	Estimate 1999
Consolidated Budget	3.9	3.7	8.5	7.6	7.0	10.9
SEEs(2)	1.9	-0.7	0.1	0.7	1.3	1.4
Funds	0.9	0.6	0.1	-0.1	0.0	0.6
Other Public(3)	1.2	1.6	0.2	-0.6	0.9	0.5
Total Borrowing Requirement	7.9	5.2	8.9	7.6	9.2	13.4
Borrowing Requirement Excluding Interest Payments and Privatization	-2.5	-3.8	-2.3	-0.9	-2.5	-0.4

Source: State Planning Organization.

(1) Minus sign (-) indicates surplus.

(2) Enterprises subject to privatization are included.

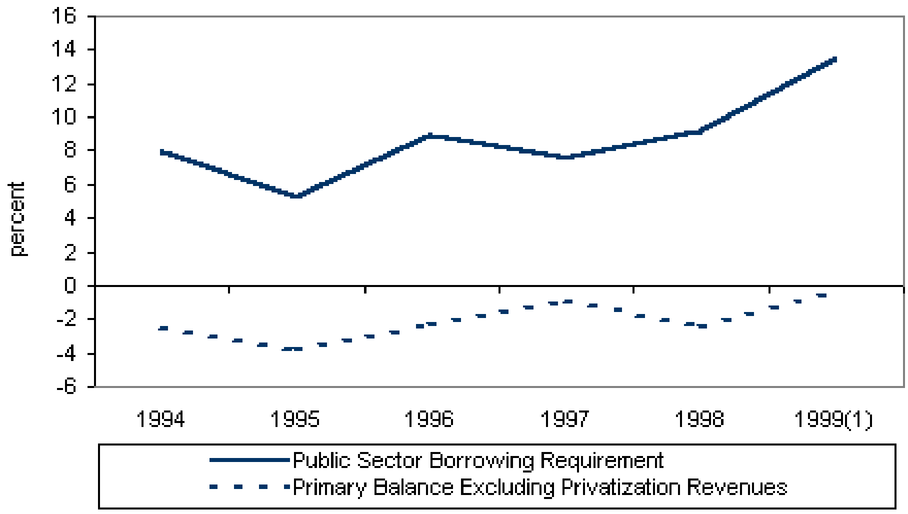
(3) Financial SEEs, local administrations, revolving funds and social security organizations are included.

While the share in the GNP of the borrowing requirement of the other public items, which include the financial SEEs, local administrations, social security organizations and revolving funds, is estimated to be 0.5 percent of the GNP, it is estimated as 1.4 percent for operational SEEs and SEEs subject to privatization. The share of the borrowing requirement of the funds in the GNP is expected to be 0.6 percent in 1999 (Table II.2.1).

In conclusion, the public sector borrowing requirement is expected to rise by 130.1 percent, relative to the 1998 level, to TL 11.2 quadrillion in 1999 and reach 13.4 percent of the GNP. The public sector had a surplus of 2.5 percent of the GNP in 1998 excluding interest payments and privatization revenues. This ratio is expected to be 0.4 percent in 1999 (Table II.2.2, Figure II.2.1).

FIGURE II.2.1

PRIMARY PUBLIC BALANCE AND PUBLIC SECTOR BORROWING REQUIREMENT / GNP



Source: State Planning Organization.

1. Estimate.

Because of early election in 1999, a provisional budget was applied for six months and the 1999 budget became a law in June. In 1999, there was no supplementary budget as in 1998.

The ratio of consolidated budget tax revenues to the GNP is expected to be 17.8 percent in 1999, reflecting a 0.4 percentage point increase with respect to 1998. The share of consolidated budget revenues in the GNP is estimated to be 22.5 percent in 1999, reflecting a 0.5 percentage point increase with respect to the previous year.

TABLE II.2.2

PUBLIC SECTOR DEFICIT AND FINANCING

(at current prices, TL trillion)

	1994	1995	1996	1997	1998	1999[3]
PSBR	-306.9	-407.6	-1,326.6	-2,246.6	-4,860.7	-11,186.8
Financing	306.9	407.6	1,326.6	2,246.6	4,860.7	11,186.8
Foreign Borrowing (net)	-65.0	-87.5	-192.7	-305.4	-629.7	972.0
Consolidated Budget	-67.2	-81.2	-134.4	-452.6	-1,035.6	459.7
SEEs[1]	-4.8	-13.5	-58.9	26.4	339.9	310.1
Funds	3.1	13.7	18.8	91.5	65.6	115.9
Other Public[2]	3.9	-6.5	-18.2	29.3	0.4	86.3
Domestic Borrowing (net)	371.9	495.1	1,519.3	2,552.0	5,490.3	10,214.8

Consolidated Budget	219.2	375.5	1,402.2	2,678.3	4,872.8	8,664.2
Central Bank Advances	51.9	94.7	229.0	0.0	0.0	0.0
Bonds	-70.3	85.7	274.0	1,484.8	1,311.0	12,233.8
T-Bills	244.2	197.2	792.2	1,020.7	3,293.2	-2,493.3
"Other" Financing	-6.6	-2.1	107.0	172.8	268.6	-1,076.3
SEEs(1)	111.6	51.7	71.1	168.0	365.8	815.2
Funds	28.4	39.4	37.8	77.1	154.6	349.1
Other Public(2)	12.7	28.5	8.2	-371.4	97.1	386.3
As a share of the GNP (%)						
PSBR	-7.9	-5.2	-8.9	-7.6	-9.2	-13.4
Financing	7.9	5.2	8.9	7.6	9.2	13.4
Foreign Borrowing (net)	-1.7	-1.1	-1.3	-1.0	-1.2	1.2
Consolidated Budget	-1.7	-1.0	-0.9	-1.5	-2.0	0.6
SEEs(1)	-0.1	-0.2	-0.4	0.1	0.6	0.4
Funds	0.1	0.2	0.1	0.3	0.1	0.1
Other Public(2)	0.1	-0.1	-0.1	0.1	0.0	0.1
Domestic Borrowing (net)	9.6	6.3	10.1	8.7	10.4	12.3
Consolidated Budget	5.6	4.8	9.4	9.1	9.2	10.4
Central Bank Advances	1.3	1.2	1.5	0.0	0.0	0.0
Bonds	-1.8	1.1	1.8	5.1	2.5	14.7
T-Bills	6.3	2.5	5.3	3.5	6.2	-3.0
"Other" Financing	-0.2	0.0	0.7	0.6	0.5	-1.3
SEEs(1)	2.9	0.7	0.5	0.6	0.7	1.0
Funds	0.7	0.5	0.3	0.3	0.3	0.4
Other Public(2)	0.3	0.4	0.1	-1.3	0.2	0.5

Source: State Planning Organization, Undersecretariat of the Treasury.

(1) Enterprises subject to privatization are included.

(2) Financial SEEs, local administrations, revolving funds and social security organizations are included.

(3) The consolidated budget figures are realizations; other figures are estimates.

The share of indirect taxes in consolidated budget tax revenues increased by 1.3 percentage points with respect to 1998 and realized at 54.7 percent. The share of direct taxes, part of consolidated budget tax revenues, in the GNP is expected to remain the same as the previous year at the 8.1 percent level. The share of indirect taxes in the GNP, on the other hand, is expected to reach 9.7 percent by increasing 0.4 percentage points (Table II.2.3).

Due to the rapid increase in expenditures, the coverage of consolidated budget tax revenues in the expenditures decreased to 53.4 percent in 1999, compared to 60 percent in 1998. Moreover, the coverage of tax revenues in non-interest budget expenditures decreased to 86.9 percent in 1999, compared to 100.2 percent in 1998 (Table II.2.3).

TABLE II.2.3

CONSOLIDATED BUDGET REVENUES

(Percent)

	1994	1995	1996	1997	1998	1999(1)
Total Revenues/GNP	19.2	17.7	18.0	19.6		22.5
Tax Revenues/GNP	15.1	13.8	15.0	16.1		17.8
Direct Taxes/ GNP	7.8	7.9	9.1	9.6	9.3	9.7
Indirect Taxes/GNP	7.3	5.9	5.9	6.6	8.1	8.1
Tax Revenues/Total Expenditures	65.5	63.4	57.0	59.4	60.0	53.4
Total Revenues/Total Expenditures	83.0	81.5	68.6	72.0	75.8	67.3
Tax Revenues/Non-Interest Expenditures	98.1	95.6	91.9	83.1	100.2	86.9
Indirect Taxes /Total Tax Revenues	51.7	57.5	60.6	59.3	53.4	54.7
Direct Taxes/ Total Tax Revenues	48.3	42.5	39.4	40.7	46.6	45.3

Source: Undersecretariat of the Treasury.

(1) GNP of 1999 is estimate.

The share of consolidated budget expenditures in the GNP, which followed an increasing trend continuously in the 90s, is expected to be 33.4 percent, an increase of 4.4 percentage points with respect to the previous year. The increase in the expenditures resulted predominantly from interest payments, personnel expenditures and transfers to social security organizations.

The share of non-interest budget expenditures in the total expenditures in 1999 realized at 61.4 percent, an increase of 1.5 percentage points. This increase resulted predominantly from transfers to social security organizations and the funds payments. The consolidated budget non-interest expenditures, which had been increasing since 1995, were brought under control in 1998 and the ratio of non-interest payments to the GNP realized at 17.4 percent. However, this ratio is expected to be 20.5 percent increasing by 3.1 percentage points in 1999. While the share of personnel expenditures, other current expenditures, non-interest transfer expenditures and interest payments in the GNP in 1999 increased by 1.0, 0.2, 1.9, 1.2 percentage points respectively, the share of investment expenditures in the GNP remained the same as 1998 (Table II.2.4, Table II.2.5).

TABLE II.2.4

CONSOLIDATED BUDGET(1)

	At current prices (TL trillion)						As a share of the GNP(Percent)					
	1994	1995	1996	1997	1998	1999	1994	1995	1996	1997	1998	1999(2)

EXPENDITURES	897	1,711	3,940	7,991	15,396	27,755	23.1	21.8	26.3	27.2	29.0	33.4
Non-Interest Expendi.	599	1,135	2,443	5,713	9,219	17,034	15.4	14.4	16.3	19.4	17.4	20.5
Current	369	644	1,283	2,779	5,141	9,084	9.5	8.20	8.6	9.5	9.7	10.9
Personnel	295	503	974	2,073	3,870	6,908	7.6	6.4	6.5	7.1	7.3	8.3
Other Current	73	142	309	706	1,271	2,175	1.9	1.8	2.1	2.4	2.4	2.6
Investment	50	92	238	590	886	1,401	1.3	1.2	1.6	2.0	1.7	1.7
Non-Interest Transfer	180	399	922	2,343	3,193	6,550	4.6	5.1	6.2	8.0	6.0	7.9
Social Security Org.	34	108	335	760	1,436	2,750	0.9	1.4	2.2	2.6	2.7	3.3
Other Transfers	146	291	587	1,583	1,757	3,800	3.8	3.7	3.9	5.4	3.3	4.6
Interest Payments	298	576	1,497	2,278	6,177	10,721	7.7	7.3	10.0	7.7	11.7	12.9
Foreign Debt Interest Payment	65	101	168	300	547	896	1.7	1.3	1.1	1.0	1.0	1.1
Domestic Debt Interest Payment	233	475	1,329	1,978	5,630	9,825	6.0	6.0	8.9	6.7	10.6	11.8
REVENUES	745	1,394	2,702	5,750	11,671	18,683	19.2	17.7	18.0	19.6	22.0	22.5
General Budget	740	1,382	2,676	5,698	11,617	18,591	19.0	17.6	17.9	19.4	21.9	22.4
Tax Revenues	588	1,084	2,244	4,746	9,233	14,807	15.1	13.8	15.0	16.1	17.4	17.8
Non-tax Revenues	46	86	160	405	1,218	1,875	1.2	1.1	1.1	1.4	2.3	2.3
Special Revenue Funds	104	211	272	547	1,166	1,909	2.7	2.7	1.8	1.9	2.2	2.3
Annexed Budget	5	12	26	52	54	92	0.1	0.2	0.2	0.2	0.1	0.1
BUDGET BALANCE	-152	-317	-1,238	-2,241	-3,725	-9,072	-3.9	-4.0	-8.3	-7.6	-7.0	-10.9
PRIMARY BUDGET BALANCE	146	259	259	37	2,452	1,649	3.8	3.3	1.7	0.1	4.6	2.0

Source: State Planning Organization, Undersecretariat of the Treasury.

(1) Adjusted.

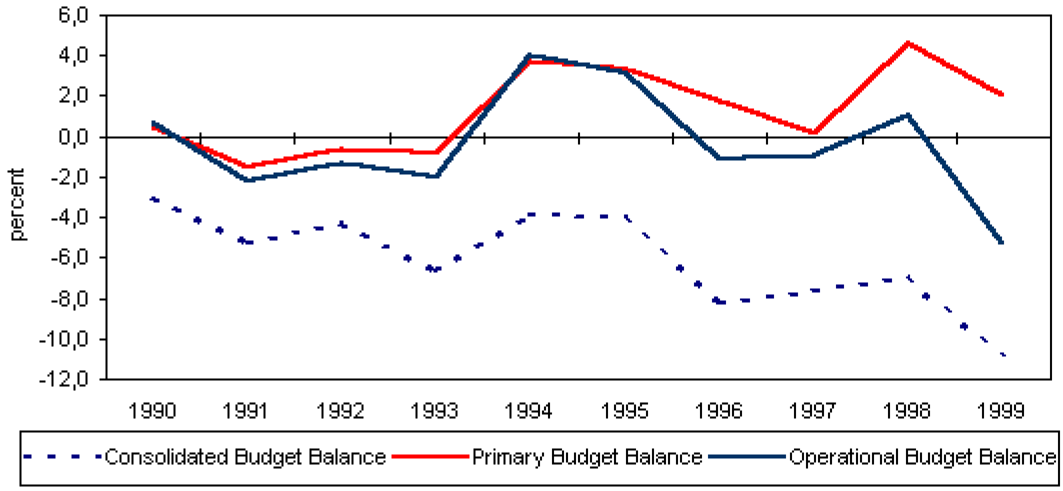
(2) GNP of 1999 is estimate.

The share of transfers to social security organizations, the most important component of the "other transfers" item, in the total expenditures and in the GNP increased with respect to the previous year. Accordingly, the share of the transfers to social security organizations in the GNP in 1999 increased to 3.3 percent.

The share in the GNP of transfers from the consolidated budget to the SEEs is expected to be 0.5 percent, increasing by 0.2 percentage points with respect to 1998.

While the share of the consolidated budget deficit in the GNP in 1999 is expected to be 10.9 percent, the primary surplus is expected to be 2.0 percent of the GNP in 1999. At current prices, budget deficit and primary surplus realized at TL 9.1 and TL 1.7 quadrillion, respectively (Figure II.2.2).

FIGURE II.2.2
BUDGET BALANCES / GNP



Source: Undersecretariat of the Treasury, State Planning Organization, Central Bank.

TABLE II.2.5

CONSOLIDATED BUDGET EXPENDITURES

(Percent)

	1994	1995	1996	1997	1998	1999(1)
Total Expenditures/GNP	23.1	21.8	26.3	27.2	29.0	33.4
Non-Interest Expenditures/GNP	15.4	14.4	16.3	19.4	17.4	20.5
Interest Payments on Do.Debt/GNP	6.0	6.1	8.9	6.7	10.6	11.8
Personnel Expenditures/GNP	7.6	6.4	6.5	7.1	7.3	8.3
Other Transfers/GNP	4.1	4.5	5.7	7.6	5.5	7.4
Interest Payments/Tax Revenues	50.7	53.1	66.7	48.0	66.9	72.4
Non-Interest Expenditures/Total Expen.	66.8	66.3	62.0	71.5	59.9	61.4
Interest Payments on Do.Debt / Total Expen.	26.0	27.8	33.7	24.8	36.6	35.4
Personnel Expenditures/ Total Expen.	30.4	29.4	24.6	25.8	25.1	24.9
Other Transfers /Total Expenditures	17.7	20.6	22.1	27.8	20.7	23.6

Source: Undersecretariat of the Treasury.

1. GNP of 1999 is estimate.

In 1999, the consolidated budget deficit was TL 9.1 quadrillion. In addition to the budget deficit, the Treasury made TL 2.5 quadrillion net repayment of Treasury bills and TL 12.2 quadrillion net borrowing on bonds in order to finance the "other" item giving a negative balance TL 1.1 quadrillion. In 1999, net foreign debt use was realized as TL 460 trillion for the first time since 1993 (Table II.2.6, Figure II.2.3).

TABLE II.2.6

QUARTERLY REALIZATION OF THE CONSOLIDATED BUDGET CASH FINANCING REQUIREMENT AND FINANCING IN 1999

(TL trillion, Quarterly)

	I	II	III	IV	Total
Budget Deficit	-2,536	-2,505	-2,257	-1,774	-9,072
Deferred Pay. Advances[1]	-79	-78	-1	106	-52
Cash Deficit	-2,615	-2,583	-2,258	-1,668	-9,124
Financing	2,615	2,583	2,258	1,668	9,124
Foreign Borrow. (net)	60	-248	-452	1,100	460
Bonds (net)	3,629	2,775	3,052	2,778	12,234
T-Bills (net)	-1,178	-158	-350	-807	-2,493
CB Advances (net)	0	0	0	0	0
Other	105	213	9	-1,403	-1,076

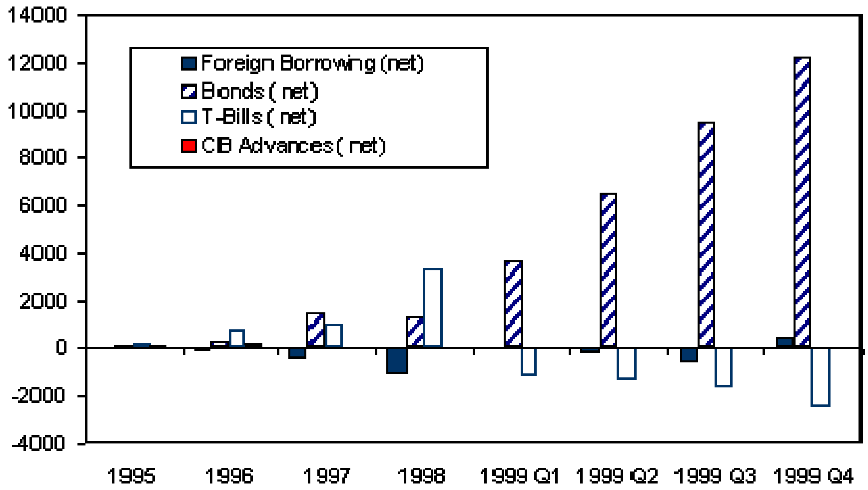
Source: Undersecretariat of the Treasury.

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

FIGURE II.2.3

CONSOLIDATED BUDGET FINANCING

(Cumulative, TL trillion)



Source: Undersecretariat of the Treasury.

During 1999, the financing of the consolidated budget cash deficit was realized mainly through domestic borrowing. In addition to discounted bonds, bonds with quarterly coupon payments, floating rate bonds and consumer price indexed bonds, domestic borrowing was realized with public sales and TAP. While the Treasury had realized domestic borrowing mainly through treasury bills in 1998, the main source in 1999 was long-term bonds.

In 1999, TL 16.9 quadrillion in bonds and TL 6.8 quadrillion in treasury bills were sold, repayments being TL 4.7 and TL 9.3 quadrillion, respectively. Therefore, the overall net domestic borrowing of the Treasury through government bonds was TL 12.2 quadrillion and the net repayment of treasury bills was 2.5 quadrillion.

Although in 1997 short-term advances to the Treasury had been set at 6 percent of the difference between the general budget appropriations of the previous and current years, this ratio declined to 3 percent in 1998 and in 1999. Consistent with the Protocol signed between the Treasury and the Central Bank in July 1997, the Treasury did not use short-term advances as of the second half of 1997 and continued this behaviour in 1999. The Treasury used short-term advances in some months in order to make salary payments, but each of these accounts was repaid totally within the month it was borrowed (Table II.2.7).

In 1999, net foreign debt was used to finance the consolidated budget cash deficit for the first time since 1993. Because of foreign loans provided to finance earthquake expenditures, a net foreign debt use of TL 1.1 quadrillion was realized in the last quarter of the year. During the year, TL 2.8 quadrillion was borrowed and TL 2.3 quadrillion was refunded (Table II.2.7, Figure II.2.3).

TABLE II.2.7

CONSOLIDATED BUDGET BALANCE AND FINANCING INDICATORS (TL trillion)

	1994	1995	1996	1997	1998	1999[(2)]
Budget Balance[(1)]	-152.2	-316.6	-1,238.1	-2,240.7	-3,697.8	-9,071.7
Cash Balance[(1)]	-151.9	-294.5	-1,267.7	-2,220.4	-3,809.5	-9,123.9
Primary Balance[(1)]	146.1	259.5	259.3	37.3	2,478.8	1,649.2
Primary Cash Balance[(1)]	146.4	281.7	229.7	57.5	2,367.1	1,597.0
Operational Budget Balance[(3)]	155.7	242.4	-161.0	-257.5	583.2	-4,387.0
Budget Balance/ GNP	-3.9	-4.0	-8.3	-7.6	-7.0	-10.9
Cash Balance/ GNP	-3.9	-3.7	-8.5	-7.6	-7.1	-11.0
Primary Balance / GNP	3.8	3.3	1.7	0.1	4.6	2.0
Primary Cash Balance/ GNP	3.8	3.6	1.5	0.2	4.5	1.9
Operational Budget Bal./ GNP	4.0	3.1	-1.1	-0.9	1.1	-5.3
Foreign Borrowing (net)/ GNP	-1.7	-1.0	-0.9	-1.5	-1.9	0.6
Bonds(net)/ GNP	-1.8	1.1	1.8	5.1	2.4	14.7
T-Bills(net)/ GNP	6.3	2.5	5.3	3.5	6.2	-3.0
CB Advances(net)/ GNP	1.3	1.2	1.5	0.0	0.0	0.0
Other Financing/ GNP	-0.2	0.0	0.6	0.5	0.5	-1.3

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

(2) GNP of 1999 is estimate.

(3) Real interest payments of domestic borrowing were calculated by multiplying the real interest rate by the total average bonds and T-Bills stock in the year. The real part was subtracted from the primary budget balance to reach the operational budget balance.

AMENDMENTS IN THE SOCIAL SECURITY SYSTEM AND UNEMPLOYMENT INSURANCE

The Turkish social security system, comprising The Social Insurance Organization, The Pension Fund and Bag-Kur, has increasingly run into deficit in the last decade. Compensating for the deficits of the social security system through the government budget contributed to soaring budget deficits. In 1999, transfers from the budget to these organizations amounted to 3.3 percent of the GNP, whereas they had been only 0.3 percent in 1991. Some of the major factors causing the financial deficits of the social security system are early retirement, the inability to cover the whole working population, the low rate of return on accumulated funds, the imbalance between monthly contributions of the employed and payments made to pensioners, and the lack of control over health care expenses.

Some measures aiming to overcome the deficiencies of the social security system were put into effect on September 8, 1999 by Law No. 4447. One of the major changes was to base retirement on age instead of working years. Under the new regulation, women will acquire the right to retirement pension at age 58 and men at 60. For those subject to the insurance system prior to this law, a gradual transition was proposed. Another change was to relate pension rates to contributions made by members. In addition, the pension rates have been indexed to the CPI(1). The lower limit of earnings for insurance premiums has been indexed to increases in the CPI and GDP growth. The upper limit of earnings is set at three times the lower limit in 2001, four times between 2002-2004, and five times from 2005 on. The rates and deferral penalties for Bag-Kur premiums have also been increased. To prevent unrecorded employment, employers are compelled to inform SIO about new workers before they start work. For the same purpose, employees are required to inform SIO about their new work places. Furthermore, the authority to investigate social security matters has been expanded to a broad category of public officers. To cut health expenditures, the members of the social security system will be compelled to undertake a portion of the expenses incurred for services that they were not previously charged for. Another restriction is that members must have made contributions for certain length of time in order to benefit from health services.

One of the most important innovations is the unemployment insurance system and the establishment of the "Unemployment Insurance Fund". This Fund will be administered by the Employment Agency Bureau for Workers and Employers and unemployment insurance contributions will be collected by SIO. The Law sets the rate of the premium at 7 percent of the gross wages, two percent of which will be collected from members and three percent from employers. The government will make a contribution of two percent of the employee's gross wages. Unemployment benefits are set at half of the net wage from the last job of the unemployed person, but it cannot exceed the net minimum wage. In order to benefit from unemployment allowances, one must have paid premiums for at least 600 days. Moreover, the premiums of the last 120 days must have been made without interruption. Unemployment allowances will be given 180 to 300 days depending on the number of days premium payments were made.

Law No. 4447 also repealed the "Law for Encouraging Workers to Save and Augment Their Savings". The clauses related to unemployment insurance and UIF and removal of savings stoppages will be put into effect as of 6.1.2000.

The effects of these amendments in the social security system on financial deficits will be barely felt in the medium term, but in the long term these deficits may be totally eliminated. Unemployment insurance is considered to be a step forward in attaining social justice.

(1)This clause will be applied to members of the Pension Fund at the beginning of the year following the approval of laws making the required changes in the related laws.

In 1998, the share of the borrowing requirement of the SEEs in the GNP was realized as 1.3 percent. In 1999, this ratio is expected to increase slightly and realize at 1.4 percent. Accordingly, the greatest part of the borrowing requirement of the SEEs resulted from the operational SEEs, except for those included in the privatization program. The main reason for the increase in the borrowing requirement of the operational SEEs was the agricultural support that was carried out by SEEs in 1999, as had been the case in 1998. The share in the GNP of the borrowing requirement of the SEEs subject to privatization is expected to realize at 0.3 percent in 1999. The total revenues from privatization was TL 57.9 trillion in 1999.

In 1999, the share in the GNP of transfers from the consolidated budget and the privatization fund to SEEs was realized as 0.6 percent. When budget and fund transfers are included, the borrowing requirement of the SEEs is 1.4 percent. When budget and fund transfers are excluded, this ratio rises to 2 percent of the GNP. The financing requirement of Funds had a TL 523 trillion deficit in 1999 and the ratio of this requirement to the GNP is expected to be 0.6 percent.

The share in the GNP of transfers from the consolidated budget to finance social security organizations is expected to rise to 3.3 in 1999. Local administrations include municipalities, the administration of provinces, the administration of water and sewer systems and Iller Bank. The financing deficit of local administrations is expected to decrease slightly and realize at 0.4 percent of the GNP.

EFFECTS OF THE MARMARA EARTHQUAKE ON PUBLIC FINANCE AND SUPPLEMENTARY TAX ARRANGEMENTS

The Marmara earthquake affected public finance as well as the entire economy. Since Kocaeli, Sakarya and Yalova, which suffered considerably from the earthquake, have a contribution of 16 percent to tax collections, tax revenues are influenced negatively due to a decrease in or the interruption of production and due to deferrals and remissions of tax obligations. In addition, aid for relief of damages, temporary and permanent settlement constructions and expenditures to improve the destroyed economic and social infrastructure caused a serious burden on public finance in 1999 and this burden will continue in the coming years. The fiscal burden of the earthquake is expected to be 0.8 percent of the GNP in 1999 and 1.5 percent in 2000.

In 1999, the Parliament permitted the government to use an additional appropriation of TL 500 trillion to cover the expenditures arising from the earthquake. International institutions and other countries also provided grants and credit for earthquake expenditures.

On November 26, 1999, Law No. 4481, which aims to help cover the losses due to the August 17 and November 12 earthquakes and support the three-year stabilization program is legislated. This law introduced the following obligations:

1. Supplementary income and corporate income taxes: taxpayers will pay an additional tax of 5 percent based on 1998 assessments. This surtax applies to ordinary and lump-sum taxpayers as well as to wage-earners with a yearly taxable earning above TL 12 billion.

2. Supplementary real estate tax: taxpayers will pay an amount equal to their 1999 real estate tax liabilities.

3. Supplementary motor vehicle tax: all motor vehicles liable to this tax are subject to this surtax based on 1999 assessments.

4. Special communications tax: this tax imposed on the GSM operators the liability of making additional collections of 25 percent from each operation (establishment, transfer and communication) they undertake during the year 2000.

5. Special transactions tax: all transactions and papers enumerated in Law No. 4306 are liable to an extra imposition equal to the standard contribution made to support education.

6. Interest tax: provision 16 of the law establishes a tax on domestic borrowing securities (excluding special arrangement government bonds and bonds on foreign currencies) issued before December 1, 1999 applicable after January 1, 2000. Stoppage rates for different securities are as follows:

- From interest payable on discounted bonds and bills: 4 percent on securities with a maturity shorter than 91 days, 9 percent on securities with a maturity of 92 to 183 days, 14 percent on securities with a maturity longer than 183 days.
- 4 percent from interest payable on three-year floating interest bonds.
- 19 percent from interest payable on two-year fixed interest bonds.

7. The law legislated stoppages, the rates of which will be determined later, from the revenues of RTUB, CMB, ISEM and Competition Authority applicable during the 2000 fiscal year.

8. The upper limit of the fuel consumption tax' was increased from 300 to 500 percent.

Taxpayers in earthquake regions (Kocaeli, Sakarya, Yalova, Bolu) are exempted from the taxes described in the first five items.

In addition to these measures, other revenue raising steps have been taken. These include the fee paid by those who want a shortened military service, a 2 percentage point rise in stoppages from interest on deposits and repurchasement agreements, a 5 percentage point rise in stoppages from real estate incomes and professional earnings, a 25 percent limit on adjustments in income tax brackets and special deductions, a 2 point increase in the VAT rate and a 25 percent increase in charges and fees. These measures, taken after the earthquakes and supporting the stabilization program, are expected to yield a total revenue of 5 percent of the GNP.

II.2.2. Agricultural Support

In 1999, with the exception of cereals, sugar beats and tobacco, agricultural products were not subject to state support purchases. The products purchased by the Union of Agricultural Sale Cooperatives were excluded from support purchases and their financial requirement was financed from the Support and Price Stabilization Fund. It is expected that the payments that are made for support purchases, which increased about 126 percent in 1998, will increase by 12.3 percent and reach TL 1.4 quadrillion in 1999 (Table II.2.8). The share in the GNP of the payments that are made for support purchases decreased from 2.4 percent in 1998 to 1.7 percent in 1999.

Generally, agricultural support prices were increased parallel to the target inflation rate in 1998 and 1999 (Table II.2.9). Agricultural support prices, which increased by 53.3 percent in 1998, are estimated to increase by 47.4 percent in 1999. In 1998, because of the global crisis, world prices decreased rapidly, production increased due to good weather conditions and high financing costs limited entry of the private sector into markets. This leads to an increase in agricultural purchases by public sector. As a result, the negative effect of the agricultural support policy on public finance increases. In 1999, due to the decline in agricultural production, purchases of wheat, barley, cotton, sugar beats, and hazelnut dropped significantly.

TABLE II.2.8

FINANCING OF AGRICULTURAL SUPPORT FROM THE BUDGET

(TL billion)

	1996	1997	1998	1999
Duty Loss	3,150	421	8,535	92,135
T. Sugar Factories	2,150	421	8,535	80,000
SPO	1,000	0	0	0
Çay-kur	0	0	0	12,135
Capital Transfer	2,500	27,830	22,656	39,000
T.Sugar Factories	1,700	20,830	22,656	20,000
Çay-kur	800	7,000	0	19,000
Borrowing Bonds	19,936	19,936	16,736	0
Çay-kur	19,936	19,936	16,736	0
SPSF Credit (1)	42,218	111,888	238,568	388,400
UASC	34,218	93,888	151,068	242,900
T. Sugar Factories	0	18,000	87,500	92,000
SPO	6,000	0	0	50,000
Çay-kur	2,000	0	0	3,500
I. Final Total	67,804	160,075	286,495	519,535
II. Purchase Prices	191,277	566,875	1,280,571	1,437,930
III. (I/II) (%)	35.5	28.2	22.4	36.1

Source : State Planning Organization, Undersecretariat of the Treasury.

(1) This figure is the sum of the budget appropriations and allowances from credit returns.

The borrowing requirement of the Soil Products Office (SPO), Turkish Sugar Factories (TSF), and TEKEL, which was TL 360 trillion in 1997, increased by 142.6 percent, reaching TL 873 trillion in 1998 due to the increase in purchases and inventories. Due to the decrease in purchases, the increase in the borrowing requirement slowed down and realized at TL 1.1 quadrillion in 1999. The share of the borrowing requirement of these three organizations in the GNP in 1998 was 1.6 percent. This ratio is expected to decrease to 1.4 percent in 1999 (Table II.2.10).

TABLE II.2.9

DEVELOPMENTS IN AGRICULTURAL SUPPORT PRICES

(Average Purchase Prices TL/Kg)

Products[1]	1991	1992	1993	1994	1995	1996	1997	1998	1999[2]
Wheat	754	1,156	1,843	3,532	7,433	22,093	35,141	53,564	82,320
Barley	628	988	1,615	2,729	5,423	15,115	25,448	39,112	59,159
Rye	601	923	1,517	2,754	5,414	13,460	26,796	41,227	57,788
Corn	737	1,185	1,600	2,974	6,769	16,862	29,502	45,517	69,616
Oats	588	924	1,185	2,744	-	14,094	26,986	42,053	58,181
Cotton [3]	3,561	6,029	9,096	25,427	40,440	68,142	138,916	180,458	233,091
Tobacco	10,870	25,715	32,615	53,093	100,963	188,173	385,621	672,048	1,099,715
Sugar Beats	218	356	556	1,032	2,750	4,775	12,128	17,709	29,700
Poppy	3,001	4,700	9,000	18,683	24,485	73,718	157,739	295,643	450,000
Hazel-nuts	5,639	9,673	19,719	56,284	81,800	206,248	531,435	772,134	1,043,614

Source : State Planning Organization.

(1) Only these products have been supported since 1994.

(2) Estimate.

(3) Excluding premiums of the Support and Price Stabilization Fund.

TABLE II.2.10

FINANCIAL INDICATORS OF SPO, TSF AND TEKEL

(Percent)

	1997	1998	1999[1]
SEEs share in PSBR	7.4	14.2	7.6
Borrowing Requirement of SPO, TSF and TEKEL / Borrowing Requirement of Operational SEEs	117.5	126.4	126.6
The share of SPO, TSF and TEKEL in PSBR	16.0	17.9	9.5
As a share of the GNP			
Borrowing Requirement of SEEs / GNP	0.6	1.3	1.1
Borrowing Requirement of SPO, TSF and TEKEL / GNP	1.2	1.6	1.4
Budget Transfers to SPO, TSF and TEKEL / GNP	0.07	0.06	0.11

1. GNP of 1999 is estimate.

While there were no budget transfers to SPO and TEKEL, sums of TL 100 trillion and TL 31 trillion were transferred to TSF and Cay-Kur, respectively. The sum of TL 388 trillion was transferred to The Union of Agricultural Sale Cooperatives and

SEEs that are responsible for agricultural support purchases from The Support and Price Stabilization Fund. It is estimated that TL 218 trillion was transferred from the budget for subvention of agricultural inputs.

II.2.3. Domestic Borrowing

The total stock of domestic debt increased nominally by 97.4 percent with respect to 1998, amounting to TL 22.9 quadrillion in 1999. It is expected to have risen to 27.6 percent of the GNP in 1999, increasing by 5.7 percentage points.

Investigating the outstanding debt stock - excluding consolidated debts - and the related interest payments, one observes that these figures totaled TL 46.5 quadrillion in 1999, up from TL 15.9 quadrillion in 1998. The nominal increase of 192.7 percent in the sum of outstanding debt and related interest payments is the result of the upward movement of interest rates due to the Russian crisis in July and of the employment of short-term borrowing instruments in 1998.

In 1999, the share of cash bills and bonds in the total domestic debt increased by 6.2 points to 88.1 percent, while the non-cash debt decreased from 18.1 percent to 11.9 over the same period. The dollar value of the cash debt as of the end of 1999 is $US 38.4 billion, which had been $US 30.4 billion at the end of the previous year.

The share of cash bills in the domestic debt stock, which is 14.1 percent in 1999, decreased by 34.9 points compared to the end of year figure of 1998. The share of bonds in the domestic debt stock, on the other hand, increased during the same period from 32.9 to 74.0 percent (Table II.2.11).

In late 1998, the Treasury extended both the maturity of borrowing and the days to maturity by issuing quarterly coupons with a maturity of 2 years. In order for this borrowing strategy to be attractive, some tax advantages were established in favor of the securities with a maturity longer than one year. The Undersecretariat of the Treasury extensively employed quarterly coupons with fixed and floating interest rates. One method for enhancing the attractiveness of these securities was to increase their liquidity, so the Treasury issued these instruments with shortened maturities for the sake of deepening the secondary market.

TABLE II.2.11

MATURITY COMPOSITION OF OUTSTANDING BONDS AND BILLS

(TL billion)

	1998			1999		
	AMOUNT	% in total	Days to Maturity (in months)	AMOUNT	% in total	Days to Maturity (in months)
SALES IN CASH	9,511,785	81.9	4.6	20,197,511	88.1	11.7
BONDS	3,815,843	32.9	5.9	16,960,758	74.0	13.6
On Account	130,314	1.1	0.0	0	-	-
1 year	2,447,350	21.1	5.5	589,537	2.6	6.9
Irregular maturity (1 year-2 years)	95,742	0.8	13.5	10,614,780	46.3	6.7
2 years	996,770	8.6	6.4	2,044,517	8.5	18.7
Irregular maturity (2 years-3 years)	0	-	-	1,950,226		31.6
3 years	145,447	1.3	9.7	1,350,648	5.9	31.6
4 years	0	-	-	0	-	-
5 years	220	0.0	15.4	220	0.0	3.3
BILLS	5,695,942	49.0	3.7	3,236,753	14.1	1.7
3 months	0	-	-	740,000	3.2	1.2
Irregular maturity (3 months-6 months)	599,154	5.2	1.5	0	-	-
6 months	1,642,600	14.1	2.4	1,320,357	5.8	1.5
Irregular maturity (6 months-9 months)	1,113,665	9.6	5.6	1,176,397	5.1	2.2
9 months	1,711,250	14.7	2.4	0	-	-
Irregular maturity (9 months-1 year)	629,273	5.4	9.3	0	-	-
NON-CASH SALES	2,101,100	18.1	53.6	2,772,634	11.9	50.2
TOTAL	11,612,885	100.0	13.4	22,920,146	100.0	16.3

Source: Undersecretariat of the Treasury.

(1) The stock of bonds and bills does not include exchange rate differences and short term advances.

In 1999, as in 1998, the Treasury kept on announcing monthly domestic-borrowing-auction programs and quarterly cash programs. These announcements influenced the markets positively by reducing uncertainties. The Treasury generally remained within its announced limits, in both amounts and terms. The Treasury held no auctions in December, 1999.

The escape of foreign capital following the Russian crisis, the displeasure in the markets after the legislation of the tax reform act, and the political uncertainty due to elections caused the auction-interest rates weighted with amounts sold to rise in the second half of 1998, and this upward trend continued until the end of the year. However, the interest rates on domestic borrowing began to decline at the beginning of 1999. This downward trend was the combined result of several factors such as economic recession, positive long-term expectations and a stabilized political climate. Interest rates of 145.2 percent in December 1998 fell to 93.3 percent in November 1999 (Table: II.2.12).

TABLE II.2.12

TREASURY AUCTIONS IN 1999

	Net Sales (TL trillion)	Total Redemptions (TL trillion)	Interest Rate (Compound Weighted Average)	Maturity (Weighted with the Volume of Transactions)
January	1,996.0	1,920.6	128.0	395
February	1,836.0	1,710.0	125.2	346
March	1,656.2	1,613.8	103.4	370
April	2,409.5	2,199.8	99.6	359
May	1,870.2	2,184.6	97.6	358
June	2,422.7	2,500.9	109.7	345
July	2,663.0	2,541.9	94.1	473
August	1,356.3	1,589.4	97.0	697
September	1,645.1	1,981.2	98.7	676
October	2,458.8	2,460.8	100.6	641
November	2,280.2	2,295.1	93.3	693
December	-	437.4	-	-

Source: Undersecretariat of the Treasury, Central Bank.

The Treasury began to issue fixed-interest, quarterly coupons with a maturity of two years. This strategy aimed to help extend the maturity of debt and increase the ability to rollover the domestic debt. As of July 27, 1999 floating-interest, quarterly coupons were issued. The purpose of these new securities was to extend the maturity of borrowing and to benefit from possible declines in interest rates over the course of their term. As a result, this instrument has been widely used since July.

As the Treasury employed securities with longer maturity in domestic borrowing, the weighted average maturity of domestic borrowing via auctions was extended from month to month to 16,0 months about the end of 1999, having been 7.8 months at the end of 1998. Consequently, the number of days of the outstanding domestic debt until maturity rose from 4.6 to 11.7 months over the same period. The Treasury employed sales to the public, TAP and direct sale methods in domestic borrowing as well as auctions (Table II.2.13).

In addition to sales to public and direct sales, the Treasury issued securities amounting to TL 36.4 quadrillion, of which TL 35.1 quadrillion are sold via auctions and the remaining with other methods, in 1999. While 25.4 percent of total issuances comprises bills, the remaining 74.6 percent are bonds.

TABLE II.2.13

SALES OF SECURITIES VIA SALES TO PUBLIC AND DIRECT SALES METHODS IN 1999 (1)

Due Date	Sales to Public		Direct Sales	
	Amount sold	Interest Rate	Amount sold	Interest Rate
06.23. 1999	TL 79.1	35% (2)		
08.18. 1999	TL 77.0	42.5% (2)		
01.05. 2000			US$ 146.5	3% (3)
02.01. 2000			US$ 66.2	3% (3)
07.14. 2000	TL 4.0	WPI 20% (2)		
07.14. 2000	USD 374.4	3% (3)		
08.25. 2000			US$ 120.0	3% (3)
09.07. 2000	USD 652.5	3% (3)		
09.24. 2000			US$ 575.5	6.25% (3)
12.20. 2001			US$ 138.4	5.25% (3)

Source: Undersecretariat of the Treasury.

(1) The amounts in TL are in TL trillion, the amounts in US$ are in $ million.

(2) Seasonal interest rates.

(3) Coupon rates.

The Treasury generally realized its announced programs and targeted amounts of sales were reached. Furthermore, the employment of fixed-coupon and floating-interest bonds in 1999 supported extended maturities. These risk-free instruments also helped in the establishment of a secure climate in financial markets. The interest rates realized in auctions remained at high levels, yet they kept on a downward trend throughout the whole year.

TABLE II.2.14

COMPARISONS OF CASH DEBT STOCK WITH SOME ECONOMIC AND MONETARY AGGREGATES (Percent)

	1995	1996	1997	1998	1999[1]
Principal / GNP	14.6	18.5	17.2	19.1	26.1
Principal /M2	90.0	99.2	89.3	95.9	96.1
Principal /M2Y	43.5	50.5	47.4	50.6	54.1
Principal / Liabilities in TL [2]	64.5	71.5	57.3	46.4	54.6
Principal /Total Liabilities [2]	30.3	34.1	28.7	27.8	34.3[3]
(Principal +Interests)[4]/ GNP	23.7	32.8	35.7	29.7	56.0
(Principal +Interests) [4]/M2	146.6	175.6	185.3	149.1	205.9
(Principal +Interests) [4]/M2Y	70.9	89.4	98.3	78.7	116.0
(Principal +Interests) [4]/ Liabilities in TL [2]	105.0	126.5	118.8	72.1	117.1[3]
(Principal +Interests) [4]/Total Liabilities [2]	49.8	60.3	59.5	43.2	73.5[3]

Sources: Undersecretariat of the Treasury, Central Bank.

(1) GNP of 1999 is estimate.

(2) TL and total liabilities are the liabilities of deposit banks excluding shareholders' equities.

(3) Calculated using liabilities at the end of October.

(4) This figure is the sum of outstanding debt and related interest payments to be accrued in following periods.

The share in the GNP of the outstanding bonds and bills stock in cash, an indicator of the domestic debt stock relative to the economy, rose by 7 points, from 1998 to 1999, amounting to 26.1 percent. The share in the GNP of the sum of the principal and related interest payments, an indicator of the burden of the debt service, rose by 26.3 percent, amounting to 56.0 percent in the same period (Table II.2.14). The ratios representing the pressure of domestic borrowing on internal markets, such as debt stock or principal plus intersts to monetary aggregates, also exhibited an increase in 1999. This increase in the financial pressure was due to increasing interest payments.

The tax law brought into effect on November 26, 1999 introduced a new levy on the interests gained from domestic borrowing instruments issued before December 1, 1999. The law brought different impositions on different securities and it is expected to yield a considerable amount of tax revenue in 2000.

II.3. THE BALANCE OF PAYMENTS AND EXTERNAL DEBT

II.3.1. Balance of Payment

After the 1994 crisis, parallel to increased private consumption and investment, Turkish economy experienced high GNP growth rates in the 1995-97 period. However, this trend ceased to continue after the first quarter of 1998. By the beginning of the second quarter of 1998, as a consequence of contractionary fiscal and income policies to correct the worsening of public finance and chronic high inflation, private consumption contracted. In addition, the Asian crisis in 1997 and the Russian crisis in August 1998 created a contraction in foreign demand. Furthermore, real interest rates rose sharply after the rapid capital outflow following the Russian crisis. Economic contraction accelerated in 1999 and the earthquakes in August and November contributed to this declining trend. As a result of restrained capital inflows, the public sector put pressure on the domestic financial market and private investments almost ceased.

In an environment of declining domestic and foreign demand in 1999, decrease in imports was greater than the decrease in exports, leading to a foreign trade deficit of US $9 billion which was 30.2 percent below the previous year's figure. Despite the considerable declines in invisible items and unrequitted transfers in 1999, the current account deficit was US $0.5 billion as a result of the relatively low foreign trade deficit. In the same period, US $6.7 billion of net capital inflow and US $4.7 billion of official reserve increase were realized (Table II.3.1).

TABLE II.3.1

BALANCE OF PAYMENTS

(US$ million)

	1997	1998	1998(1)	1999(1)
Current Account Balance	-2.638	1.871	1.777	-507
Foreign Trade Balance	-15.358	-14.332	-12.913	-9.007
Shuttle Trade	5.849	3.689	3.518	2.023
Invisible Items	7.854	10.476	9.553	3.741
Travel Income	7.002	7.177	6.938	4.977
Other Private Offical Income	7.723	10.520	9.314	6.525
Unrequitted Transfers	4.866	5.727	5.137	4.759

Capital Account(Excluding Reserves)	8.737	773	905	6.700
Net Errors and Omissions	-2.755	-2.197	-1.871	-1.464
Offical Reserves (Change)	-3.344	-447	-811	-4.729

Source: Central Bank.

(1) January-November.

II.3.1.A. The Current Account

Imports declined considerably after the Russian crisis and especially after September 1998. Contraction in imports continued in the remaining quarter of 1998 and in the first 8 months of 1999. In spite of the relative improvement of imports starting in September 1999 and continuing in October and November, imports declined by 14.6 percent in the first 11 months of 1999. The decrease in private consumption and investment, which started in the second half of 1998, continued in the first 3 quarters of 1999. In addition, the GNP contracted in the same period. Furthermore, import prices fell by 7.1 percent in the January-October period of 1999. These developments are considered to be the major causes of the declining imports.

In line with the diminished consumption demand, consumption goods imports continued to decline in the first 11 months of 1999. Intermediate and capital goods imports, which constitute 66.1 and 20.8 percent of the total imports respectively, contracted drastically due to reduced industrial production and investment activity (Table II.3.2). Crude oil imports, on the other hand, increased by 22.2 percent in the first 11 months of 1999 reflecting the high rate of increase in international oil prices.

TABLE II.3.2

DISTRIBUTION OF IMPORTS AND EXPORTS ACCORDING TO MAIN PRODUCT GROUPS

(US$ million)

	1998[(1)]	% Share	1999[(1)]	% Share	% Change
Total Imports (CIF)	42,051	100.0	35,893	100.0	-14.6
Capital Goods	9,576	22.8	7,483	20.8	-21.9
Intermediate Goods	27,284	64.9	23,733	66.1	-13.0

Consumption Goods	4,850	11.5	4,405	12.3	-9.2
Other	341	0.8	272	0.8	-20.3
Total Exports	24,735	100.0	23,704	100.0	-4.2
Agriculture and Forestry	2,435	9.8	2,151	9.1	-11.7
Fishing	16	0.1	35	0.1	116.1
Mining and Quarrying	334	1.3	331	1.4	-0.8
Manufacturing	21,932	88.7	21,173	89.3	-3.5
Other	18	0.1	14	0.1	-25.3

Source: State Institute of Statistics.

1. January-November.

TABLE II.3.3

REAL EFFECTIVE EXCHANGE RATE INDEX[(1)]

	(1987=100)	(1990=100)
1987	97.8	118.2
1988	105.6	127.4
1989	86.8	104.6
1990	80.4	97.1
1991	86.9	105.1
1992	89.4	108.0
1993	90.9	109.7
1994	103.1	124.5
1995	100.9	122.0
1996	99.8	120.5
1997	93.6	112.9
1998 I	94.2	113.6
II	96.7	116.6
III	94.1	113.5
IV	95.3	115.0

1999 I	97.7	117.7
II	98.4	118.5
III(2)	95.3	114.8
IV(2)	93.2	112.2

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

(1) The figures are end-of-period. Calculations are based on the monthly average figures for the Central Bank's buying rates for US dollars and German marks, and wholesale prices in Turkey and in foreign countries. The weights in the calculation of the index are 1 for the US dollar and 1.5 for the German mark. The decline in the index value indicates the real appreciation of the Turkish lira against related currencies.

(2) US and German inflation forecasts are used for the third and fourth quarters.

Exports declined by 4.2 percent in the January-November period of 1999. Manufacturing sector exports, constituting almost 90 percent of total exports, contracted by 3.5 percent in this period. Reductions in textile and iron and steel exports continued in the first 11 months of 1999. However, exports of motor vehicles, their parts and divisions continued their high growth rates and increased by 76.4 percent in the same period. Exports were adversely affected by the lack of foreign demand in this period. Furthermore, real appreciation in the second half of 1999 and the decline in the export prices, especially in textiles and the iron and steel sector, were important factors behind the export contraction (Table II.3.3).

Trade with the European Union constitutes almost half of the foreign trade volume. While exports to the European Union increased by 3.2 percent, imports from the European Union decreased by 13.9 percent in the first 11 months of 1999. In the same period, exports to Asian countries expanded by 9.1 percent (Table II.3.4).

There was a considerable reduction in exports after the Russian crisis in September 1998. This trend continued in the rest of 1998 and in the first 11 months of 1999. In the January-November period of 1999, exports to the Russian Federation fell by 59.8 percent compared to the same period of the previous year. After the collapse of the Soviet Union, shuttle trade gained momentum, gradually increased its share in exports income and became one of the main sub-items of export revenues. However, in line with the recorded trade with the Russian Federation, shuttle trade declined by 42.5 percent in the January-November period of 1999.

The travel account, an important item of invisible revenues, was US $5 billion in the January-November period of 1999, which was 28.3 percent below the same period of 1998. The considerable decline in the number of tourists coming to Turkey in 1999 supports the decline in the travel revenues. The adverse external political environment and the earthquake in August also accounted for the decline in travel revenues. Other revenues, including other private and official services, declined by 29.9 percent in the first 11 months of 1999 due to the measurement change of other private and official revenues.

While invisible item revenues were declining, expenditures declined as well and led to a surplus of the other goods and services account. However, the surplus in the other goods and services account declined from US $9.6 billion in the January-November period of 1998 to US $3.7 billion in the same period of 1999. Furthermore, income from unrequitted transfers contracted to US $4.8 billion in the first 11 months of 1999 due to diminished workers' remittances. The current account deficit was limited as a consequence of the decline in the foreign trade deficit.

DETERMINANTS OF IMPORTS AND EXPORTS IN TURKEY

Real import demand is explained by real income and real exchange rate in conventional approaches. When real income increases and/or the real exchange rate appreciates in real terms, import demand rises. In addition, international reserves have an explanatory power on imports because they are considered as a source of import finance. Furthermore, export growth can explain imports in countries where the majority of imports consists of intermediate products. The main reason behind this view is that such intermediate goods are used as inputs in exportable goods sectors.

Real exports can be analysed in two ways: export supply and export demand, both of which are affected by real exchange rate movements. While the former is explained by real domestic income, real foreign income explains the latter. Real appreciation of the currency diminishes exports. The growth of foreign income increases the demand for exports of the country under consideration. In addition, growth in domestic income increases the supply of exportable goods due to an increase in production. Domestic demand will increase as well and a portion of these exportables may be directed towards the domestic market. Therefore, the direction of real exchange rates is particularly important in the market choise of the exporters. In addition, imports of intermediate goods are considered to have explanatory power on exports, especially in coutries whose industrial production depends to a great extent on imports of intermediate and/or capital goods.

In the export demand and supply models of the Central Bank of the Republic of Turkey (CBRT), real export is estimated as a function of real income (simple sum of incomes of G7 countries for export demand and national income for export supply) and real exchange rate. For both estimations, income and the exchange rate elasticity of exports are found to be below 1. Income elasticity of real export demand is found to be less than the exchange rate elasticity in both long and short term analyses. Accordingly, growth of export demand depends relatively more on the real depreciation of the Turkish lira. Income elasticity of real export supply is less than the exchange rate elasticity in the short term analysis. Hence, results of the short term analyses show that Turkey's export demand and supply are determined by real exchange rate movements to a great extent. In contrast, real growth of national income is the main determinant of export supply in the long term. However, the export supply of Turkey has a relatively elastic structure. Exports have expanded to North African markets especially after exports to the Commonweath of Independent States contracted considerably following the Russian crisis in August 1998.

National income and export growth, reserves, inflation and the nominal exchange rate basket are used as the explanatory variables of the import demand. In the model, the real exchange rate is divided into nominal exchange rate and inflation. Growth of national income has an augmenting effect on import demand. Income elasticity of import demand is found to be very close to 1 in the short run analysis. National income is the major determinant of import demand as well. In addition, nominal exchange rate movement is the second main determinant of the import demand in the short run, after national income. Nominal depreciation has a reducing effect on imports. In the long run, both inflation and growth of reserves lead to import growth whereas they lose their significance on imports in the short run.

Source: Şahinbeyoğlu, G. and Ulaşan, B., 1999 "An Empirical Examination of the Structural Stability of Export Function: The Case of Turkey", CBRT Discussion Paper No:9907.

Kotan, Z. and Saygılı, M., 1999 "Estimating an Import Function for Turkey", CBRT Discussion Paper No: 9909.

TABLE II.3.4

DISTRIBUTION OF IMPORTS AND EXPORTS ACCORDING TO COUNTRY GROUPS

(US$ million)

	1998[2]	% Share	1999[2]	% Share	% Change
Total Imports	42,051	100.0	35,893	100.0	-14.6
OECD Countries	30,530	72.6	25,048	69.8	-18.0
(EU Countries)	(21,912)	(52.1)	(18,875)	(52.6)	(-13.9)
European and CIS[1] Countries	4,294	10.2	4,096	11.4	-4.6
African Countries	1,629	3.9	1,470	4.1	-9.8
American Countries	683	1.6	458	1.3	-32.9

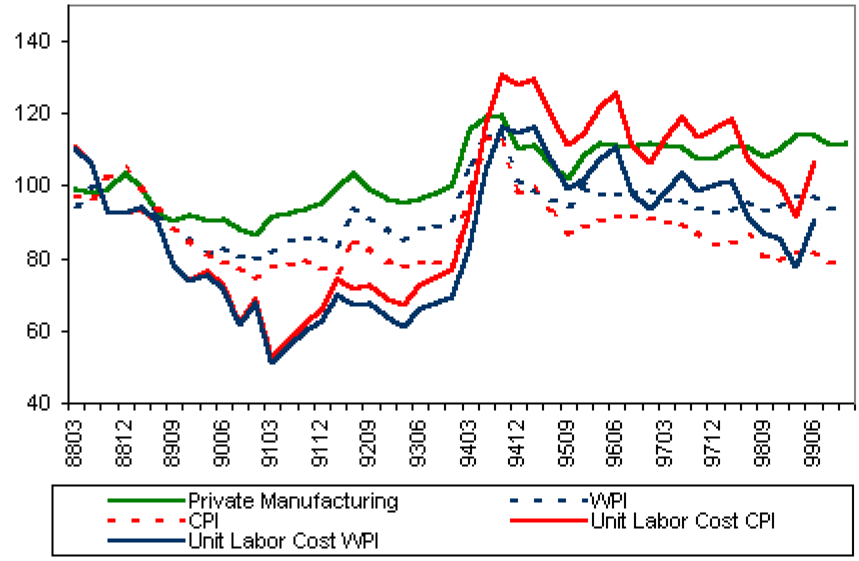
Middle Eastern Countries	1,802	4.3	1,714	4.8	-4.9
Other Asian Countries	2,429	5.8	2,122	5.9	-12.7
Other Countries	294	0.7	569	1.6	93.5
Total Exports	24,735	100.0	23,704	100.0	-4.2
OECD Countries	15,578	63.0	16,129	68.0	3.5
(EU Countries)	(12,356)	(50.0)	(12,756)	(53.8)	(3.2)
European and CIS[1] Countries	3,715	15.0	2,396	10.1	-35.5
African Countries	1,606	6.5	1,519	6.4	-5.4
American Countries	214	0.9	225	1.0	5.5
Middle Eastern Countries	2,005	8.1	1,963	8.3	-2.1
Other Asian Countries	578	2.3	629	2.7	9.1
Other Countries	288	1.2	185	0.8	-35.9

Source: State Institute of Statistics.

1. Commonwealth of Independent States.
2. January-November.

ALTERNATIVE REAL EXCHANGE RATE INDICATORS

The real exchange rate is computed by taking into consideration the inflation differences between countries. It is an important concept because it is an indicator of a country’s foreign trade competitiveness. In real exchange rate computations, various domestic and foreign inflation definitions are used in addition to nominal foreign exchange rates. Regarding the foreign inflation and exchange rate, either a single country or a group of countries with relative weights can be chosen. The countries can be weighted according to their share in foreign trade of the domestic country or the share of their currencies in the payments of that country. Five different real exchange rate indices are computed by the Central Bank of the Republic of Turkey. A basket of currencies composed of 1 US dollar and 1.5 German marks is used as the nominal exchange rate. Private manufacturing sector prices, wholesale prices (WPI) and consumer prices (CPI) are used as domestic inflation. The wholesale and consumer prices of Turkey's two major trading partners, the US and Germany, are used as the foreign inflation, after the money in the currency basket is weighted according to the shares of each unit.



In the figure above, the decreasing index shows the real appreciation of the Turkish lira against the corresponding basket of currencies. Accordingly, the real exchange rate indices calculated by unit labour cost (with foreign consumer prices) and private manufacturing sector prices show real depreciation in the Turkish lira, compared to the end of 1987. However, the Turkish lira has appreciated in real terms according to the indices calculated by unit labour cost (with foreign wholesale prices), CPI and WPI as compared to the end of 1987.

II.3.1.B. Capital Account

After the Russian crisis in August 1998, investors started to withdraw capital from all emerging markets. As a consequence, Turkey experienced US$6.8 billion of capital outflow in the second half of 1998. However, capital inflows started again at the beginning of 1999. Hence,in the January-November period of 1999, a capital inflow of US $6.7 billion was realized mainly from portfolio investment and short term capital inflows.

In this period, portfolio investment increased mainly due to the bond issues of the general government. In the first 11 months of 1999, bonds with a total value of US $2.1 billion were issued by the general government and banks (Table II.3.5).

TABLE II.3.5

CAPITAL ACCOUNT

(US$ million)

	1997	1998(1)	1999(1)
Capital Account	8,737	905	6,700
Direct Investment	554	442	30
Portfolio Investment	1,634	-6,104	2,453
Securities	-710	-1,125	-496
Bond Issues	1,774	-276	2,108
Long Term Capital Movements	4,788	3,661	-93
Drawings	9,905	10,372	9,326
General Government	1,062	1,016	763
Banks	2,478	2,692	2,033
Other Sectors	6,365	6,664	6,530
Repayments	-6,095	-7,318	-9,279
General Government	-2,518	-2,503	-2,619
Banks	-818	-2,146	-2,023
Other Sectors	-2,757	-2,666	-4,633
Short Term Capital Movements	1,761	2,906	4,310
Assets	-1,750	-567	-1,072
Liabilities	3,511	3,473	5,382
Trade Credits	2,084	1,239	3,578
Deposits with CBRT (Net)	49	-74	-96
Other FX Deposit Accounts (Net)	-152	1,553	57

Source: Central Bank.

1. January-November.

In the first 11 months of 1999, there was a short term capital inflow of US $4.3 billion. In this period, deposits decreased considerably. While the deposits with CBRT kept its position, other foreign exchange deposit accounts, including the deposits of banks and indivicuals, declined from US $1.6 billion in the first 11 months of 1998 to US $0.1 billion in the same period of 1999. In addition, there was a considerable increase in the trade credit of other sectors during the same period (Table II.3.5).

Following the abolishment of the resource utilization fund at the beginning of 1999, the advantage of using long term credit dissapeared. Accordingly, the composition of foreign credit shifted from medium and long term to short term.The general government was a net long term debt repayer in the January-November period of

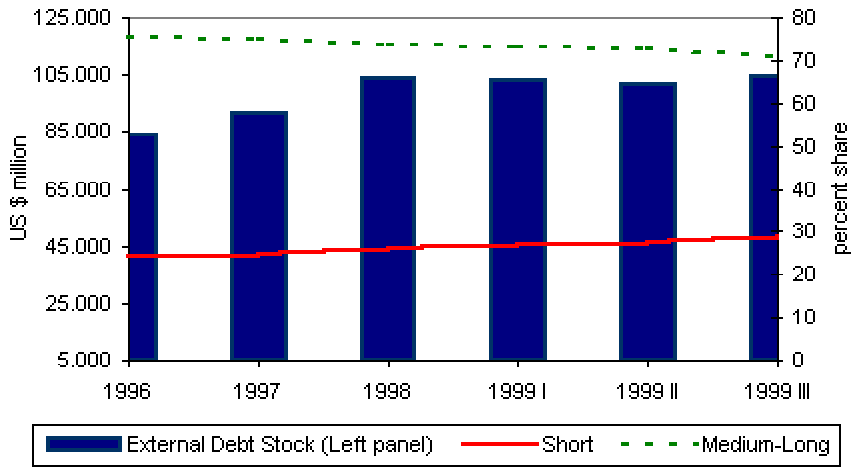
1999 whereas banks and other sectors, including state economic enterpirses, maintained their net long term debt withdrawing position in the same period. However, their net credit withdrawal fell from US $4.5 billion in the first 11 months of 1998 to US $2 billion in the same period of 1999 (Table II.3.5).

II.3.2. External Debts

The new external debt stock series has been published by the Undersecretariat of the Treasury since 1998. The new series cover the period after 1996. The external debt stock was at the level of US $104.4 billion by the end of September 1999. When compared to the end of 1998, short-term debts increased by 10.9 percent while medium and long-term debts decreased by 3.2 percent. The share of short-term debts in the total increased from 26.2 percent to 28.9 percent (Figure II.3.1).

FIGURE II.3.1

EXTERNAL DEBT STOCK AND DIVISION BY MATURITY COMPONENTS



Source: Central Bank, Undersecretariat of the Treasury.

The entry of the Euro as a currency of account at the beginning of 1999 and the changes in cross rates had a significant impact on the development of external debt stock. The currency composition of the external debt stock differs between short and medium-long term. The majority of US dollar denominated debts consist of the short-term debt stock while the Euro denominated debts are predominantly medium and long-term. By the end of September 1999, the depreciation of the US dollar against the Euro by 9.4 percent had a diminishing effect on the US dollar value of the external debt stock. Cross rate changes in other foreign currencies except Japanese yen had similar decreasing impact on the US dollar value of the external debt stock. Based on the currency compositions, this influence is more significant in medium and long-term debt stock. By the end of September 1999, it is calculated that the changes in cross rates had a diminishing impact of US $1.2 billion on the US dollar value of the external debt stock. By eliminating the cross rate effect, the real change in the external debt stock realized as an increase of US $1.7 billion (Figure II.3.2, Table II.3.6 and Table II.3.7).

TABLE II.3.6

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

(US$ million)

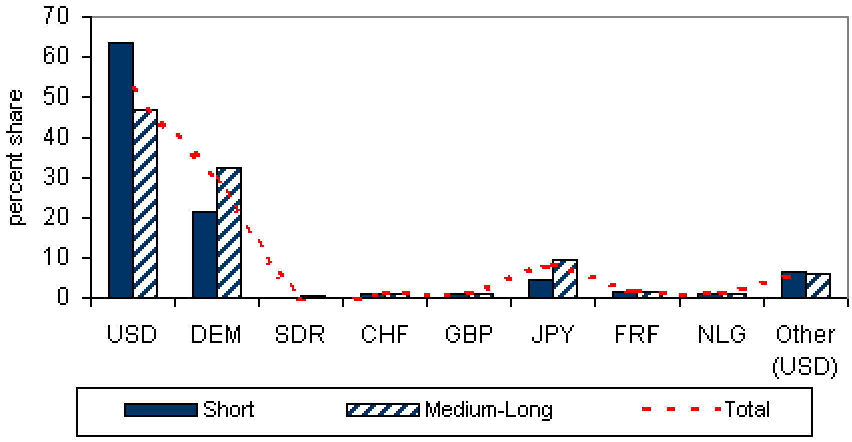
	EXTERNAL DEBT STOCK(3)				
	End of Year Exchange Rate	Previous Year's Exchange Rate	Exchange Rate Differential (A)	Nominal Movement (B)	End of Year Exchange Rate (C)
1996[2]	84,076	88,637	-4,561	-	-
1997	91,262	95,852	-4,590	7,186	11,776
1998	103,861	101,441	2,420	12,599	10,179
1999 III	104,380	105,530	-1,150	519	1,669

Source: Central Bank, Undersecretariat of the Treasury.

1. (A) The difference between the debt stock figures calculated according to the exchange rate at the end of the specified period and the previous year's end-of-year exchange rate, (B) The difference between the debt stock figures of the previous year and the specified period, (C) Nominal movement - exchange rate differential.
2. The real and nominal movement figures for the year 1996 are not calculated as the new series has been published since 1996.
3. Provisional.

The debt service ratio that is calculated by the ratio of the external debt principal and interest payments to foreign exchange revenues increased to 36.3 percent, rising by 10 percentage points as of September 1999, compared to the end of 1998. The debt service ratio is an indicator of the repayment capacity of the country and this ratio increased as an expansion of the principal repayments and interest payments as well as the decrease in the export and other service revenues as of September 1999 (Table II.3.8).

FIGURE II.3.2
CURRENCY COMPOSITION OF EXTERNAL DEBT STOCK



Source: Central Bank, Undersecretariat of the Treasury.

TABLE II.3.7

IMPACT OF EXCHANGE RATES ON EXTERNAL DEBT STOCK IN TERMS OF CURRENCY COMPOSITION(1)

(US$ million)

	1998	1999 III				
	End of Year Ex-change Rate (A)	Previous Year Ex-change Rate (B)	End of Period Exchange Rate (C)	Exchange Rate Dif-ferential (C-B=D)	Nominal Movement (C-A=E)	Real Movement (E-D=F)
US dollars	51,309	53,984	53,984	0	2,675	2,675
German marks	35,357	34,067	30,700	-3,368	-4,657	-1,290
S. D. Rights	394	232	228	-4	-166	-162
Swiss francs	1,338	1,242	1,120	-122	-218	-96
Pounds sterling	974	940	922	-18	-52	-34
Japanese yen	8,358	7,869	8,477	608	119	-489
French francs	1,491	1,617	1,457	-160	-34	126
Neth. Florins	1,046	973	876	-97	-170	-73
Other (US dollars)	3,595	4,604	6,615	2,011	3,020	1,009
TOTAL	103,861	105,530	104,380	-1,150	519	1,669

Source: Central Bank, Undersecretariat of the Treasury.

(1) (A) End of 1998 external debt stock by using 1998 end-of-year exchange rates, (B) External debt stock of September 1999 calculated by using 1998 end-of-year exchange rates, (C) External debt stock of September 1999 calculated by using September 1999 end of period exchange rates, (D) The difference between the debt stock figures calculated by September 1999 exchange rates and the previous year's end-of-year exchange rates, (E) The difference between the debt stock of 1998 and that of September 1999 (F) Nominal movement - Exchange rate differential.

TABLE II.3.8

DEBT SERVICE RATIO

(US$ million)

	1996	1997	1998	1999 I	1999 II	1999 III
Debt service	11,418	12,418	16,513	3,597	9,479	14,178
-Principal repayments	7,218	7,830	11,690	2,389	6,757	10,189
-Interest payments	4,200	4,588	4,823	1,208	2,722	3,989
Total for. exchange revenues	50,966	58,472	62,590	12,514	25,206	38,770
-Exports(1)	32,446	32,647	31,220	6,963	13,658	20,591
-Other service revenues	14,628	21,273	25,802	4,343	9,095	14,341
-Unrequitted transfers (private)	3,892	4,552	5,568	1,208	2,453	3,838
Debt service ratio	22.40	21.24	26.38	28.74	37.61	36.57

Source: Central Bank, Undersecretariat of the Treasury.

(1) Including shuttle trade and transit trade.

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

Medium and long-term debts, which made up 71.1 percent of the total debt stock as of the end of September 1999, include public sector, Central Bank and private sector borrowings when classified according to borrowers. In the classification according to lenders, the external debt stock is categorized by two broad items as official creditors and private lenders where the official creditors are detailed into bilateral lenders and multilateral organizations.

Regarding the classification of borrowers, the borrowings of the general government and State Economic Enterprises make up the 53 percent of the medium and long-term debt stock where the share of private sector borrowing reached 33 percent, with a continually increasing trend. The share of Central Bank borrowing in the total medium and long-term debt stock is 14 percent of which almost all are Dresdner Bank accounts.

Concerning the classification of lenders, private lenders make up 79 percent of the total medium and long-term external debt stock.The Dresdner Account and commercial bank credit are the main determinants in private lending.

As of September 1999, even though these items had diminishing trends based on the cross rate changes, borrowing by bond issue increased by 4 percent. The credit given by multilateral organizations under official lending that consists of 20 percent of the medium and long-term external debt stock decreased by 11.2 percent by the end of September 1999.

STRUCTURE OF TRAVEL REVENUES IN TURKEY

The "Survey of Foreign Visitors", which has been carried out by SIS since 1996, aims to evaluate the economic dimensions of tourism activities. In this recent study, travel revenues are defined as "revenues that are raised from payments made in foreign exchange by foreign visitors for consumer goods and services". The number of tourist arrivals, their expenditures and the services related to tourism activities are important in the development of the domestic economy. Turkey attracts foreign visitors during almost every month of the year but the maximum number of arrivals is recorded between July-October, with August being the peak month.

60 percent of the total number of foreign visitors come to Turkey for vacation purposes. More than two thirds of these visitors make their arrangements through travel agencies and prefer package tours. Foreign visitors consume various goods and services during their stay in Turkey. While 31.5 percent of the total travel revenues consists of payments to tour organizations, the remaining 68.5 percent represents personal expenditures. Of the personal expenditures made by foreign visitors, 51 percent of the total is comprised of payments for hotel and restaurant services, 12.6 percent covers clothing and shoe purchases while payments for gifts make up 12.4 percent. Moreover, among the goods that foreign visitors purchase in Turkey to take home with them, clothing represents 33.2 percent whereas food and other items are 3.6 percent and 63 percent, respectively.

Many reservations made by foreign visitors or made in the name of foreign visitors were cancelled at the beginning of 1999 as a result of the lobby activities of the European countries against Turkey and the NATO action in Kosovo with the policies of the European Union to dissuade travel to third countries. The earthquake which happened in August, the month with the highest level of tourist arrivals, was a further negative impact during this period and afterwards. As a result of these developments, the number of tourists coming from OECD countries declined considerably, however the number of tourists coming from the Russian Federation increased in 1999. Considering the structure of the tourism sector, these unfavorable circumstances would be expected to have inevitable repercussions on related sectors. As half of the foreign visitors prefer tour organizations, the cancellation of reservations resulted in a significant contraction in the revenues of such companies. In addition, revenues from accommodation, restaurants, transportation and entertainment services, which account for more than half of travel revenues, contracted considerably. Therefore, the value added of restaurant and accommodation services declined by 15.6 percent in the January-September 1999 period as compared to the previous year.

Provided that these unfavorable developments in 1999 come to an end, an upturn in the tourism activities is expected for 2000, with an increasing number of foreign visitor arrivals and rising travel revenues at the level of 1998.

II.3.2.B. Short -Term Debts

The classification of short-term credit according to borrowers is categorized as loans from the Central Bank, commercial banks and other sectors. The Central Bank's short-term external debt consists mainly of foreign exchange deposits with letters of credit. Short-term borrowing by commercial banks includes foreign exchange credit, foreign exchange deposits and corresponding accounts. Other sector debts consist largely of trade credit for financing foreign trade.

TABLE II.3.9

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

(US$ million)

	1996	1997	1998	1999 Q1	1999 Q2	1999 Q3
Gross FX Reserves-STD	3,108	3,410	1,258	2,322	1,802	1,828
Central Bank	15,289	17,530	18,816	20,600	20,743	22,607
Banks	-1,067	-878	-2,386	-3,108	-2,690	-3,416
Other[(2)]	-11,114	-13,242	-15,172	-15,170	-16,251	-17,363
Gross Reserves(3)-STD	4,449	4,504	2,263	3,321	2,801	2,827

Source: Central Bank.

(1) (-) indicates a deficit.

(2) Figures indicate external debt as data on foreign currency reserves and the claims of this sector is not available.

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

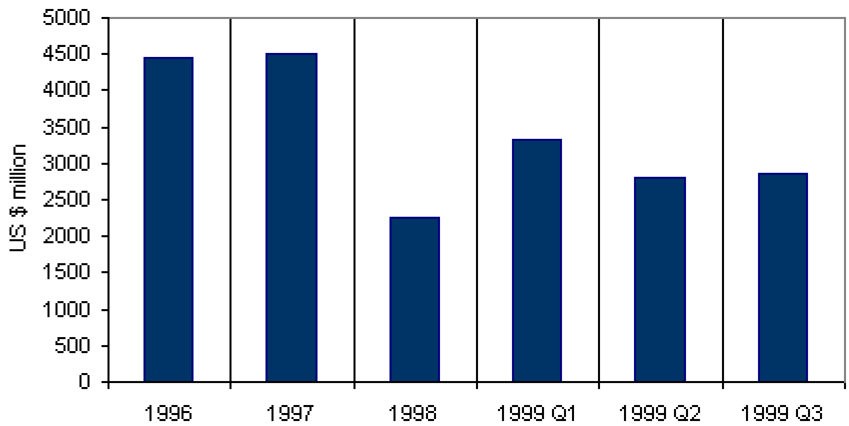
Short-term external debts had increased by 10.9 percent between the end of 1998 to September of 1999. The exclusion of the resource utilization fund on this term of borrowing expanded the short-term lending and resulted in a shift from medium and long-term borrowing to a short-term one. The main source of this expansion is the increase in other sector credit, which consists mainly of trade credit. Central

Bank short-term credit declined by 17.3 percent while commercial bank credit expanded by 8.3 percent in the mentioned period.

The surplus of gross foreign exchange reserves over short-term external borrowing is an indicator that gives an idea about the country's liquidity position and this discrepancy widened at the end of September 1999 (Table II.3.9). This expansion stemmed from the increase in Central Bank foreign exchange reserves, which move parallel with the inflows of capital, and it was more significant in the first quarter of 1999. The surplus of the Central Bank foreign exchange reserves over short-term borrowing increased from US $18.8 billion at the end of 1998 to US $22.6 billion in September 1999. The short-term borrowing of the commercial banks exceeded the foreign exchange reserves by US $3.4 billion by the end of September 1999 andother sector short-term borrowings increased by 14.4 percent at the end of the third quarter of 1999. Likewise, the gross foreign exchange reserves, which include gold reserves, surpassed the short-term borrowings by the end of September 1999 parallel to the expansion of the Central Bank foreign exchange reserves. This expansion was more significant in the first quarter of 1999 (Figure II.3.3).

FIGURE II.3.3

SURPLUS OF GROSS RESERVES OVER SHORT-TERM DEBT STOCK



Source: Central Bank, Undersecretariat of the Treasury.

II.4. MONETARY POLICY

Because of unfavourable developments in both the domestic and the foreign markets, along with the political uncertainty in the country, the monetary policy in 1996 and 1997 had been formulated to ensure stability in the financial markets. In addition to ensuring stability in the financial markets, the aim of the monetary policy in 1998 was to decrease the high inflation rate by implementing an economy wide program as the economic cost of chronic high inflation started to be felt deeply by all segments of the society. When the environment of the economy in those years was taken into account, it was observed that it would be impossible to decrease the high inflation rates and ensure stability in the financial markets at the same time just by employing monetary policy measures. For this reason, the fight against inflation was considered to be the most urgent problem by society and all segments of the economy. This economic environment necessitated the preparation of a stabilization program that was implemented within the framework of the Staff Monitored Program signed by the Turkish government and the International Monetary Fund. A look at the results of the program implemented in 1998 revealed that by taking control of high inflation rates, a decreasing trend was observed, influenced by the contraction in the domestic demand, which started after the Russian crisis in the last quarter of 1998. The inflation rate calculated on the basis of the WPI was 54.3 percent for the end of 1998, which was only a few points above the targeted inflation rate of 50 percent.

As in 1998, the monetary policy formulated by the Central Bank for 1999 was based on its aim to keep inflation under control and to ensure stability in the financial markets. The difference in the 1999 monetary policy compared with the previous year was the political and economical uncertainties that existed in the early part of the year. The implementation of the monetary policy was affected by a reduction in these uncertainties during the fall of 1999.

The economical uncertainties observed in 1999, were basically a reflection of the 1998 Russian crisis in Turkey. In other words, the capital outflow triggered by the crisis and the shortage of capital inflow in the aftermath of the crisis caused the borrowing sources of the Treasury to be constrained in the domestic market. This strain on the domestic market made the real and nominal rates, already at high levels, increase and this caused the uncertainties in the economy to increase even more. This situation caused extra pressure on the budget financing. Also affecting the formulation of the monetary policy in 1999 was the political uncertainty resulting from the election agenda. Decreasing high inflation rates requires structural reforms which have a powerful impact on the society, so the necessity to form a strong government rendered the outcome of the general elections even more important.

With the establishment of a strong coalition government after the general elections, the talks going on with the IMF were speeded up to replace the Staff Monitored Agreement, which was already in force, with a Stand-By Agreement. As the possibility of signing a Stand-By Agreement became more likely, the strategy of the monetary policy changed towards the end of the year. In this context, greater importance was given to monetary policy measures that will facilitate the implementation of a society-wide disinflation program supported by the Stand-By Agreement.

To curb the uncertainties in the economy, priority was given to the control of the high inflation rates and the foreign exchange policy was designed accordingly. For this reason, care was taken to ensure that the foreign exchange policy was consistent with the targeted inflation rate for the end of the year. As the uncertainties decreased at the end of the summer of 1999, the implementation of the foreign exchange policy was guided not by the targeted inflation but by the realized inflation rate. With this change in the foreign exchange policy, the depreciation rate of the Turkish lira increased in the last few months of 1999 in comparison with previous months. A look at the developments in the basket consisting of 1 US dollar + 0.77 Euro for the first 9 months shows that the depreciation rate of the Turkish lira against this basket was approximately the same in 1999 as it had been in 1998. For the first nine month period of 1999, this rate was 40.4 percent compared with 40.2 percent in 1998. However, when the depreciation rate is calculated on the basis of 12 months, it can be seen that this rate was 57.7 percent in 1998 and 60.6 at the end of 1999. The increase in the WPI was realized as 62.9 percent at the end of 1999 (Table II.4.1).

TABLE II.4.1

OBSERVED PERIODIC INCREASES IN THE EXCHANGE BASKET AND WPI

(Percent)

	1998		1999	
Periods	BASKET(1)	WPI(2)	BASKET(1)	WPI(2)
December-January (Monthly)	4.9	6.5	4.3	3.6
December-March (3-Month)	16.6	15.9	13.5	11.3
December-June (6-Month)	30.1	26.4	27.1	23.2
December-September (9-Month)	40.2	39.8	40.4	40.0
December-December (12-Month)	57.7	54.3	60.6	62.9

(1) Basket: 1 US dollar + 0.77 Euro.

(2) WPI: 1994=100.

The need for short-term liquidity experienced by financial institutions was met by the Central Bank via open market operations to ensure stability in the financial markets. By taking foreign exchange policy as given, the interest rate in the markets aimed at being consistent with the increasing trend of the Net Foreign Assets of the Central Bank in 1999 while the liquidity demanded by the economy were created in this way. However, in case of external shocks, interest rates were allowed to move freely while the liquidity of the market was matched by the Central Bank provided that the value of the Turkish lira was consistent with the foreign exchange policy. Prior to the implementation of the comprehensive program aimed at decreasing high inflation rates, forming a healthy basis for the financial system gained importance towards the end of the year. Therefore, measures concerning the structure of the financial system were taken into account while adjusting the liquidity of the market.

EXCHANGE RATE BASED STABILIZATION PROGRAMS AND COUNTRY EXPERIENCES

Individual or multiple nominal anchors are used to ensure economic stabilization. Exchange rates, monetary targets, wages and prices are the most commonly used nominal anchors that eliminate inflationary inertia and increase the credibility of a program. When the exchange rate anchor is chosen, authorities hope the domestic inflation rate will approach the foreign inflation rate as a result of a fixed or managed nominal exchange rate. Therefore, exchange rate based stabilization programs have been used in many countries. The national experiences of Chile, Israel and Mexico will be mentioned briefly below.

CHILE: TABLITA PLAN

Chile started to implement an exchange rate based stabilization program by using the Tablita (little table) model, which presents predetermined peso devaluation in February 1978. Although the drop in the domestic inflation rate was not enough to reach foreign inflation level, it decreased from 84 percent in 1977 to 37 percent in 1978. Encouraged by the performance of the exchange rate anchor, in June 1979 Chile fixed the exchange rate at 39 pesos per US dollar. In the aftermath of the Tablita model, consumption increased 26 percent as a result of increasing real wages and decreasing real interest rates. During the 1977-1980 period, a boom in consumption expenditures caused an average of 8.5 percent economic growth per year. While during 1978-1980 some of the capital account surplus was used to cover the current account deficit, approximately half of the capital inflows were added to foreign reserves. Increasing the amount of reserves caused expansion in base money and authorities didn't sterilize it.

During this period, the fiscal balance was improved, but the government did not eliminate wage indexation. As the exchange rate remained fixed and inflation oscillated in the 31 to 39 percent range, causing the peso to be overvalued, Chile lost its competitiveness in international markets. At the end of 1981, the current account deficit/GDP ratio reached 14,5 percent and the program failed. The Chilean government abandoned the exchange rate anchor in June 1982.

ISRAEL STABILIZATION PROGRAM: 1985-1986

The Israeli government announced a stabilization program to combat inflation on 1st July 1985. Government subsidies were eliminated and the program aimed at increasing tax revenues. In addition, the nominal exchange rate of the domestic currency to the US dollar was fixed following devaluation, and short term foreign currency denominated bank deposits were eliminated. These measures were supported by wage contracts between the government, labor unions and employer representatives, which were consistent with the program. In addition, wage indexation was eliminated, wages were frozen and price controls were implemented. The central bank chose the exchange rate as a target and credit as a nominal indicator. According to this program, many nominal anchors were used to eliminate inflationary inertia and inflationary expectations in the short run. Thus, authorities ensured the sustainability of the nominal anchors and prevented excess usage of any single nominal anchor. All these measures together increased the credibility of the program, and the program results are fascinating. The monthly inflation rate decreased 1-2 percent in the first three months of the program. Then price controls were eliminated, so the budget deficit improved. The budget deficit/GDP ratio was 15 percent in 1984, this ratio being 12 percent in the January-June period of the pre-stabilization program. During the July-December period following the stabilization program, that ratio became 4 percent. At the end of the first ten months, the real credit volume decreased, the M2 monetary aggregate increased, and the foreign currency denominated deposits decreased. This was interpreted as a confidence indicator for domestic currency. Real wages reached the pre-stabilization level in the summer of 1986 and in the next two years the average economic growth rate realized at the 3.5 percent per year.

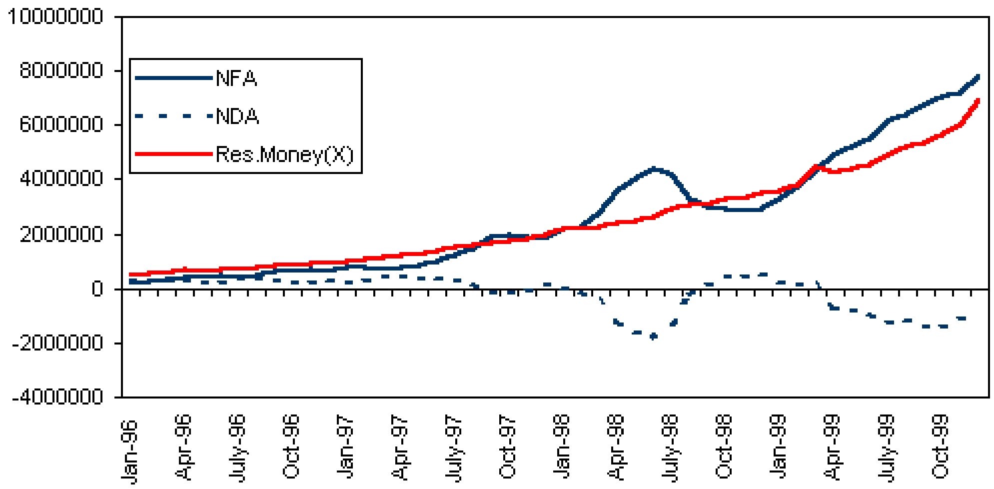
MEXICO: 1987-1994 PACTO

The Mexican government prepared a detailed program (PACTO PLAN) to bring inflation quickly under control in December 1987. With the program, the government relied on multiple nominal anchors, including a fixed exchange rate anchor. The target of the program was to reach a 2 percent monthly inflation rate within a year. In addition, Mexico, for the first time, introduced an income policy in the form of wage and price freezes. The government aimed at turning the budget deficit into a primary public sector surplus of 6 percent of the GDP. Therefore, public expenditures were reduced and tax reforms were implemented. The ratio of public sector expenditures to the GDP was reduced from 43.2 percent to 33.2 percent. The public sector borrowing requirement/GDP ratio was reduced from 16 percent in 1987 to 5.6 percent in 1989.

As a result of the Pacto Plan, the annual domestic inflation rate was reduced from 159 percent in 1987 to 8.3 percent in 1993. However, an inadequate drop in the domestic inflation rate during the fixed exchange rate implementation period caused the peso to be overvalued. The current account deficit, which had been financed by short term capital inflows since 1990, reached the unsustainable level of 7 percent of the GDP in the 1992-1994 period. Moreover, domestic interest rates has increased as a result of increasing political and economic uncertainties. These negative developments caused the government to issue larger amounts of US dollar denominated government bonds. In addition, peso denominated government bonds were replaced by US dollar denominated government bonds. In August 1994, the total short-term foreign debt was equivalent to the country's international reserve level. All of these negative developments resulted in the 1994 Mexican crisis.

FIGURE II.4.1

DEVELOPMENTS IN RESERVE MONEY(X), NET FOREIGN ASSETS, AND NET DOMESTIC ASSETS (TL billion)



Although the uncertainties at the beginning of the year started to decrease toward the middle of the year, the earthquake shock occurring on 17 August caused the uncertainties to increase again. However, these uncertainties did not prevent the Central Bank from implementing the monetary policy as formulated. In other words, the monetary policy for the last few months of 1999 was carried out with the goal being to lower inflation rates within the context of the new program. The increasing demand for Turkish lira after the earthquake was met via Open Market Operations (OMO) while the demand for foreign exchange stayed at a limited level.

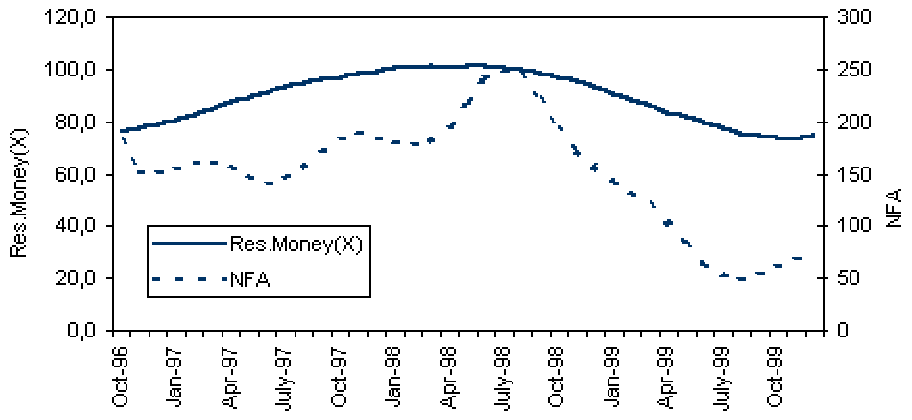
II.4.1 Analytical Balance Sheet of the Central Bank

Reserve Money(X) continued its increasing trend based on the increase in the Net Foreign Assets for 1999. The annual average increase in this item was realized as 75 percent in December. In comparison with previous years, it can be observed that the annual average rate of increase was gradually decreasing. The most important reason for this trend was the deceleration of the increase in the Net Foreign Assets for 1999. The Net Domestic Assets showed a tendency to decrease in 1999, except in November and December.

FIGURE II.4.2

ANNUAL AVERAGE INCREASES IN RESERVE MONEY(X) AND NET FOREIGN ASSETS

(*Percent)*

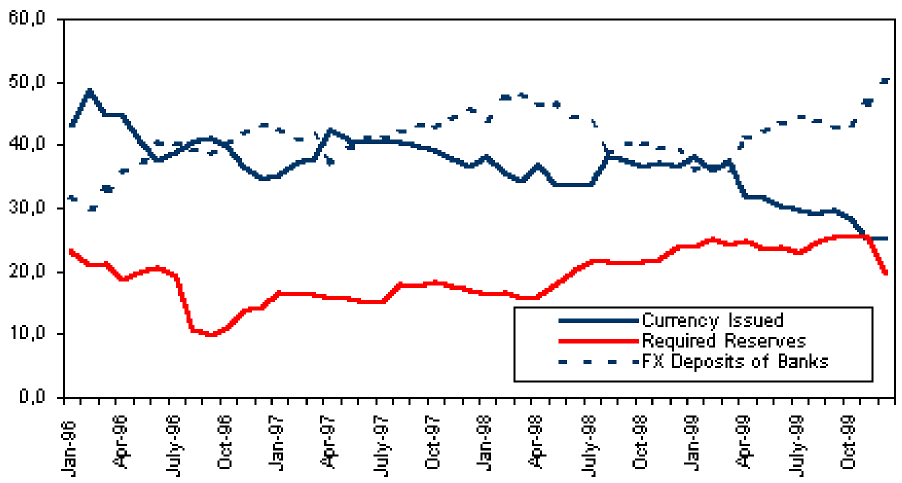


Although the annual average increase for Reserve Money(X), which is on the liability side of the analytical balance sheet, was 75 percent in 1999, compared with the end of the previous year it had increased by 90.9 percent by the end of 1999. By analyzing this latter development in the Reserve Money(X) in terms of sub-items, it can be seen that the FX Deposits of the Banking Sector increased by 112.3 percent. The FX Deposits of the Banking Sector, which increased on a parallel with the increase in the FX liabilities of the banking sector, made the greatest contribution, 49.9 percent, to the annual change in the Reserve Money(X). The rate of increase in the Currency Issued, another sub-item of Reserve Money(X), slowed down in 1999 due to both the high level of real interest rates and a contraction in the economic activity, which exerted a negative impact on the transaction demand for Turkish liras. The rate of increase in this item was 60.5 percent, a contribution of 25 percent to the annual change of Reserve Money(X) in 1999. If the same analysis is carried out for 1998, it can be seen that the annual increase in the Currency Issued was 74.6 percent and the contribution to the annual change of the Reserve Money(X) was 36.6 percent. The third item under Reserve Money(X), Required Reserves, increased parallel to the increase in TL Deposits in the banking sector until the end of November as the investment instruments in terms of Turkish lira were perceived profitable compared to other kinds of investment instruments. However, this item decreased substantially after the reduction in the rate of required reserves from 8 percent to 6 percent, which was reflected on the balance sheet in December. Although the rate of increase in this item was 101.3 percent in November 1999 compared with the same month of the previous year, it was reduced to 87.7 percent by the end of December. The last item, which is the Free Deposits of the Banking Sector, continued to increase in 1999. However, it exerted little impact on the annual change of Reserve Money(X) due to its small share in this main item. The timely change in the rate of the Required Reserves that forced the banks to hold 2 percent of their deposits as a free deposit at the Central Bank caused this item to increase substantially in December. The Free Deposits of the Banking Sector increased by 278.2 percent in December 1999, compared with the same month of the previous year.

FIGURE II.4.3

PERCENTAGE SHARES IN THE ANNUAL CHANGE OF RESERVE MONEY(X)

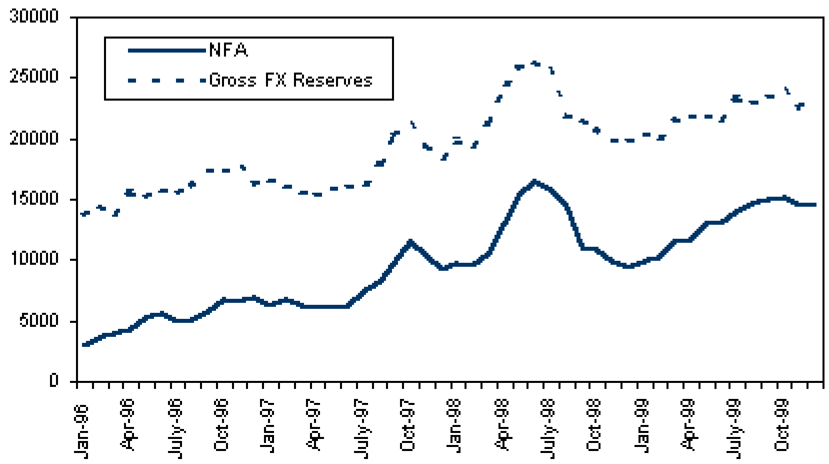
(Percent)



Net Foreign Assets, which is on the assets side of the analytical balance sheet, continued to increase in 1999. This item increased by 165.5 percent in terms of Turkish lira and by 54.8 percent in terms of US dollars in December 1999 compared with the same period of the previous year. The source of the increase in Net Foreign Assets was the increase in the Central Bank's Foreign Exchange Reserves as a result of the policy that aimed at creating the liquidity needed by the economy through foreign exchange. By increasing 17.8 percent in December 1999 compared to December 1998, the Central Bank's Gross Foreign Exchange Reserves reached US $23,235 million. However, an analysis of Net Foreign Assets by examining the rate of 12-month cumulative increase showed a decrease in this rate both in terms of Turkish liras and US dollars. The annual average increase in the Net Foreign Assets were realized as 75.8 percent in terms of Turkish lira and 7.8 percent in terms of US dollar in December 1999 compared with the same month of the last year. A look at these rates for 1998 revealed that it was 157.8 percent in terms of Turkish liras and 55.3 percent in terms of US dollars. A reason for the decrease in the rate of the annual average increase of Net Foreign Assets was the limited level of capital inflow in 1999. The already high level of the Central Bank's Foreign Exchange Reserves was another reason for the decrease in the annual average rate of increase in this item. An analysis of the developments in Foreign Assets and Foreign Liabilities for 1999, which affect the foreign exchange risk of the Central Bank, shows that Foreign Assets increased by 97 percent in terms of Turkish liras and by 14.8 percent in terms of US dollars in December 1999, compared with the same month of 1998. Although Foreign Liabilities increased by 50.5 percent in terms of Turkish liras for the same period, it contracted by 12.3 percent in terms of US dollars. As a result of these developments in Foreign Assets and Foreign Liabilities, the foreign exchange risk, which is calculated by dividing Foreign Assets by the total Foreign Liabilities, rose by 13.5 points, reaching 127.1 at the end of December 1999.

FIGURE II.4.4

DEVELOPMENTS IN GROSS FX RESERVES OF THE CENTRAL BANK AND NET FOREIGN ASSETS (US$ million)



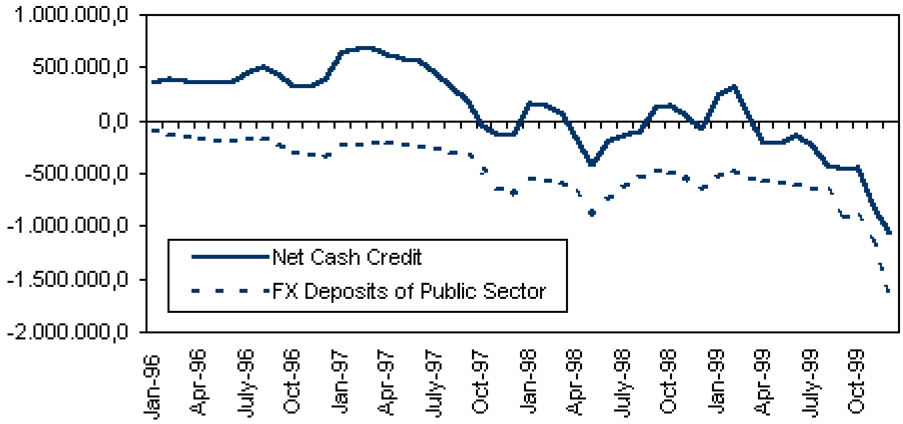
Net Domestic Assets, which is the other main assets item of the analytical balance sheet, continued to decrease until the end of November. However, this item had increased in November and December in order to be consistent with the targets of the intended monetary program for 2000. The value of this item at the end of 1999 was minus TL 932 trillion. The reasons for the decrease observed until November were the increase in the Deposits of the Public Sector at the Central Bank and the increase in the Other and Revaluation Accounts in terms of absolute values.

The Central Bank mainly used OMO to ensure stability in the financial markets in 1999, as it had in previous years. The Central Bank met the liquidity requirement arising from the banking sector by using OMO and remained in a creditor position against the financial system for the whole year. However, a look at the developments in OMO for 1999 shows that it had a decreasing trend until November except for the reverse effect of external factors such as earthquakes, religious holidays and the general elections. After November, OMO increased as a result of the takeover of some banks by the Central Bank Savings Deposit Insurance Fund, the liquidity requirement appearing towards the end of the year, and the Y2K problem. The average value of OMO reached TL 1,981 trillion in December 1999. The effect of these developments was to increase OMO by 25.8 percent in December 1999 compared with December 1998.

FIGURE II.4.5

DEVELOPMENTS IN THE NET CASH CREDITS TO THE PUBLIC SECTOR AND FX DEPOSITS OF THE PUBLIC SECTOR

(TL billion)



Another item, which is included under Net Domestic Assets, is Cash Credit to the Public Sector (Net). This account shows the net cash credit relationship between the Central Bank and public sector. The Cash Credit to the Public Sector (Net) was on a downward trend parallel to the movements of the FX Deposits of the Public Sector in 1999 as a result of the increase in the FX Deposits of the Public Sector and the agreement signed between the Central Bank and the Treasury in 1997, which limits the Treasury to using the cash advance only for the liquidity requirement appearing within a month as long as it is repaid at the end of that month. The average value of this item decreased 11 times in December 1999 compared with the same month of 1998 and reached TL 1,061 trillion. The FX deposits of the Public Sector increased by 163.4 percent for the same period.

The Other Account, where the Profit-Loss of the Central Bank is also recorded, showed a downward trend in 1999, except for April, when the Central Bank transferred part of this account to the Treasury. The sources of the observed decrease in this account were the credit balance of OMO during 1999, which generated capital gains, and the increase in net interest receipts. The average value of the Other Account reached minus TL 1,129 trillion in December 1999, whereas it had been minus TL 619 trillion in December 1998.

TABLE II.4.2

ANALITICAL BALANCE SHEET OF THE CENTRAL BANK

(Average Value of the Months, TL trillion)

	1998 Dec.	1999 March	1999 June	1999 Sept.	1999 Dec.
ASSETS	3,312.1	3,917.2	4,440.2	5,314.6	6,322.1
1- NET FOREIGN ASSETS	2,878.0	4,154.2	5,337.7	6,808.8	7,641.3
A-Foreign Assets	7,127.3	8,798.3	10,407.9	12,327.0	14,037.3
B-Foreign Liabilities	-4,249.3	-4,644.2	-5,070.3	-5,518.2	-6,396.0
2-NET DOMESTIC ASSETS	434.1	-237.0	-897.4	-1,494.2	-1,319.2
A-Cash Credit to the Pub.Sec.(Net)	-86.9	9.4	-142.0	-464.2	-1,060.9
a-Cash Credit to the Pub.Sector	762.5	697.9	604.6	657.3	851.0
b-Deposits of Pub.Sector	-204.2	-131.3	-157.8	-210.2	-213.0
c-FX Deposits of Pub.Sector	-645.1	-557.1	-588.8	-911.4	-1,698.9
B-Extra Budgetary Funds	-23.9	-16.2	-15.2	-23.7	-33.8
C-Deposits of Non-Bank Sector	-17.3	-14.1	-13.1	-11.6	-18.6
D-Cash Credit to the Banking Sec.	7.4	7.5	7.6	7.6	7.5
E-Open Market Operations	1,575.1	835.8	637.6	703.6	1,981.3
F-Other Items	-618.7	-870.8	-879.8	-902.8	-1,129.5
G-Revaluation Account	-401.7	-188.6	-492.5	-803.1	-1,255.8
H-IMF Emergency As.(Treasury)	0.0	0.0	0.0	0.0	190.6
LIABILITIES					
1-RESERVE MONEY (X)	3,312.1	3,917.2	4,440.2	5,314.6	6,322.1
A-Currency Issued	1,241.2	1,467.9	1,539.6	1,894.2	1,992.3
B-Required Reserves of Banks.	672.8	789.6	931.3	1,155.4	1,263.0
C-Free Deposits	59.5	89.2	99.4	109.6	224.9
D-FX Deposits of Banking Sector	1,338.7	1,570.5	1,869.8	2,155.3	2,842.0

Source: Central Bank.

The Revaluation account, which is under the Net Domestic Assets, continued to decrease in 1999. Changes in the exchange rates make this account important for the balance sheet as the denomination of the Central Bank's liabilities consist mainly of the Euro and Turkish TL while the assets consist mainly of US dollars. Therefore, recording the balance in the Revaluation account eliminates the impact of these differences on the balance sheet. An examination of the reasons for the observed decrease in the Revaluation account in 1999 shows that in terms of the average buying-selling rate, the Turkish lira depreciated against the US dollar by 71.7 and against the Euro by 48.4 and the parity of US dollar/Euro fell from 1.1753 in December 1998 to 1.011 in December 1999. Decreasing by TL 854 trillion in this period, the average value of the Revaluation account fell to minus TL 1,256 trillion in December 1999.

As can be seen in the Analytical Balance Sheet, a new item was added under the Net Domestic Assets, as of October 1999. The amount of credit given by the IMF for the earthquake is recorded in this item and the recording system used for this credit had no direct effect on the Net Foreign Assets and the Net Domestic Assets. In other words, this credit is recorded in the Central Banks Foreign Reserves, a sub-item of the Net Foreign Assets, while increasing the balance of the Debts to IMF at the same time. For this reason, the Net Foreign Assets were not affected by the equivalent increases in Foreign Assets and Foreign Liabilities. On the Net Domestic Assets side, it is recorded under the FX deposits of the Treasury and by crediting a new account, IMF Emergency Assistance (Treasury), it is also shown as a credit transaction of the Central Bank. As a result of this transaction, the Domestic Assets and Domestic Liabilities increased by the same amount, and thus did not influence the Net Domestic Assets.

II.4.2. Money-Credit Stock

In 1999, there was a real expansion in all definitions of money supply. The lowest expansion rate was observed in M3Y with 23 percent while the highest expansion rate was 32.5 percent in M1. Because demand deposits and foreign exchange denominated deposits grew at similar rates of 106 and 105 percent, the developments in M2 and M2Y were 27.8 and 26.8 percent in real terms. The high real interest rates during the year were the main reason for the increase in M2 money supply. The expansion in M1 arose from increases in commercial sight deposits and other sight deposits at the end of the year. The growth rate of the total credit was lower than in 1998 and lower than the deposit growth rate in 1999 because of the decrease in credit supply and demand stemming from the slowdown in economic activity (Table II.4.3.). Banks used this difference between credit and deposits in financing Government Domestic Debt Instruments, which had increased considerably.

MONETARY AND EXCHANGE RATE POLICY WITHIN THE FRAMEWORK OF THE DISINFLATION PROGRAM

During the negotations carried out in June 1999 with the International Monetary Fund, the ongoing Staff Monitored Program was envisaged to be a bridge towards a program oriented and fiscally supported Stand-By Agreement and the outlines of macroeconomic policies to be implemented during the 2000-2002 period were determined. On 22 December 1999, the IMF board of governers approved the letter of intent which is given by Turkish Government on 9 December 1999.

The 3-year disinflation program includes structual reforms in addition to fiscal, income, exchange rate and monetary policies. The fundamental goals of the program are: to bring down consumer price inflation to 25 percent by the end of 2000, 12 percent by the end of 2001 and 7 percent by the end of 2002; to reduce real interest rates to plausible levels; to increase the growth potential of the economy and to provide a more efficent and fairer allocation of economic resources.

The disinflation program has three main aspects: a) a tight fiscal policy that consists of increasing primary surplus, carrying out the structural reforms and speeding up privatization, b) an income policy in line with the targetted inflation and c) monetary and exchange rate policies aiming to help decrease inflation and interest rates and to provide a long term perspective for economic agents.

Monetary and exchange rate policies that will be carried out in light of this plan are given below.

• The exchange rate basket composed of 1 US dollar +0.77 Euro will be announced on a daily basis for a one-year period. The Central Bank of the Republic of Turkey determined the increase rate of the basket for the year 2000 to be 20 percent, which is in line with the WPI yearly increase. Thus, the expectations stemming from chronic inflation and fostering the inflation process can be ended so that the uncertainties and related costs can be decreased to plausible levels.

• During this program, two different exchange rate regimes will be implemented. For the first 18-month period from January 2000 through June 2001, the increase in the basket will be inflation target oriented. For the second 18-month period, July 2001-December 2002, the exchange rate policy will be carried out with respect to a “progressively widening band”. The total width of this band will be 7.5 percent by the end of 2001, 15 percent by June 30, 2002 and 22.5 percent by the end of 2002.

• The monetary policy determined within the framework of the Stand-By Agreement is based on Central Bank's balance sheet items and made up of quarterly data as of the end of 1999. The performance criteria for concerned items are defined below:

• Excluding the change of revaluation account Net Domestic Assets, are determined to be mines 1200 trillion and was fixed during 2000. During the period, Net Domestic Assets will fluctuate roughly within a parallel band whose upper and lower limits will be determined as plus-minus 5 percent of previous quarter's base money figures. Thus, by virtue of this flexibility sudden and extreme fluctuations in the interest rates can be avoided. Accordingly Central Bank of the Republic of Turkey declared that it will not provide credit to the public sector. It also declared that Central Bank of the Republic of Turkey would abondon the policy of decreasing Net Domestic assets through sterilizations which had been implemented during the periods of surge in foreign exchange inflows.Fixed Net Domestic assets means that changes in the money base will be due only to a change in Net Foreign Assets. Such a system will constitute an almost automatic mechanizm to prevent foreign exchange reserves from decreasing below a certain level. When there is an excess demand for foreign exchange, the withdrawal of TL from the market will not be compensated for increasing Net Domestic Assets. This, in turn, will cause the demand for TL to increase and at least the demand for foreign exchange will cease. Thus, interest rates, as the balancing factor of the system, will reflect the market conditions completely. In the second 18-month period, when the exchange rate band will be implemented, Net Domestic Assets will be more flexible. Thus, in line with this flexibility, the strength of the monetary policy in achieving the inflation target will be more effective by increasing the influences of monetary policy on interest rates.

• In addition to the above points, the Central Bank will reduce its own transactions in the interbank money market. In this way, the Central Bank will determine bid and offer quotations according to the developments in money and repo markets other than its own. Furthermore, the amount that must be blocked in the Central Bank as reserve requirements was decreased from 8 to 6 percent to allow more effective liquidity management. The remaining 2 percent will be kept as free deposits for the obligation of liquidity ratio and in the context of weekly averages.

• An another balance sheet item subject to performance criteria is Net International Reserves, the minimum levels of which were determined. The level for each consecutive quarter of 2000 was specified as US $12,000 million, US $12,750 million, US $12,700 million, and US $13,800 million. If the Net International Reserves level shows a tendency to fall below these limits, the Central Bank of the Republic of Turkey will take the necessary measures to halt the tendency.

TABLE II.4.3

BASIC MONETARY INDICATORS[(1)]

(Percentage Change)[(2)]

	1994	1995	1996	1997	1998	1999
Reserve Money	82.6	84.9	80.0	84.7	78.7	92.7
Monetary Base	51.2	92.3	72.8	-35.4	-51.4	683.6
Central Bank Money	50.8	93.0	72.2	1.2	-9.0	168.4
Total Domestic Liabilities (TDL)	73.4	113.1	94.5	70.9	21.8	140.9
Balance Sheet	142.5	105.1	88.5	76.9	45.2	88,7
M1	80.6	65.7	109.9	65.8	65.7	115.9
M2	120.0	97.7	120.5	87.9	106.2	108.1
M2Y	120.6	101.7	109.6	99.3	91.8	106.5
M3Y	120.8	102.9	111.2	107.7	87.0	100.4
Deposits	122.0	100..9	132.7	97.6	101.4	92.5
Credit	85.3	149.9	114.0	130.0	62.7	55.1
TDL/GNP[(2)]	0.078	0.082	0.084	0.074	0.049	0.076
TDL/M2Y[(2)]	0.25	0.27	0.25	0.21	0.18	0.15
Net Domestic Assets[(2)]	300.8	371.4	332.5	7,787.4	427.1	-932.2
Net Foreign Assets[(2)]	-21.4	136.2	625.4	1,815.0	2,906.1	7,803.1
Wholesale Price Index[(3)]	149.5[(4)]	65.6	84.9	91.0	54.3	62.9

Source: Central Bank. Last Friday of month data were used.

(1) Reserve Money = Currency Issued + Required Reserves + Free Deposits of Banks + Funds Account + Deposits of Non-Bank Sector

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

Central Bank Money = Monetary Base + Public Sector Deposits

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

M1 = Currency Issued + Sight Deposit with the banks + Deposits with the Central Banks

M2 = M1 + Time Deposits with the Banks

M2Y = M2 + Foreign Exchange Deposits (TL)
M3Y = M2 + Official Deposits + Other Deposits with the Central Bank + Foreign Exchange Deposits (TL).

(2) Net Domestic assets and net foreign assets are in terms of TL trillion and based on the new definition.

(3) State Institute of Statistics. Wholesale Price Index (1994 = 100) end of year.

(4) State Institute of Statistics. Wholesale Price Index (1994 = 100) end of year.

Through the monetary policy implemented in 1999, the Central Bank aimed at ensuring stability in the financial markets. The Central Bank continued to monitor Net Domestic Assets in the New Analytical Balance Sheet in 1999. Net Foreign assets rose 169 percent, compared to December 1998, due to increasingly optimistic expectations for the Turkish economy and the achievement of financial stability in the global markets starting from the beginning of the 1999 (Table II.4.3).

FIGURE II.4.6

REAL MONEY SUPPLIES

(Annual Percentage Change)

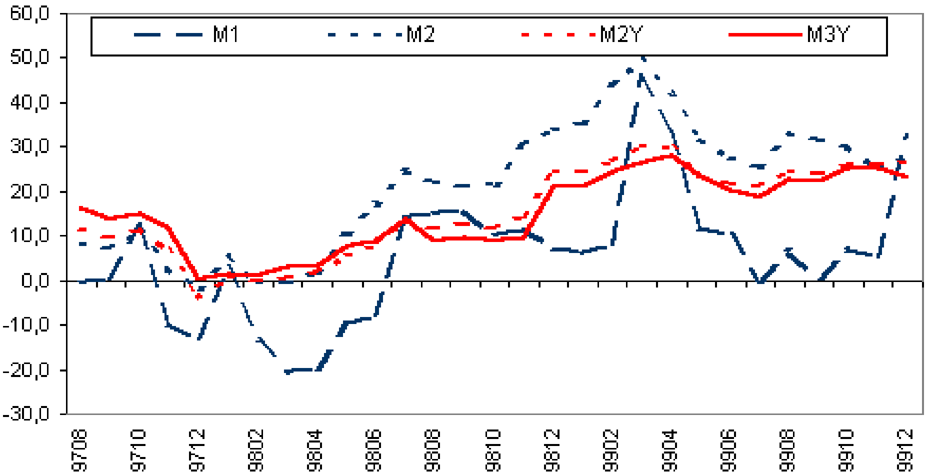


TABLE II.4.4

MONTHLY DEVELOPMENTS OF MAIN MONETARY AGGREGATES

(Cumulative percentage change)

	29	26	26	30	28	25	30	27	24	29	26	30
	Jan	Feb	Marc.	Apr.	May	June.	July	Aug.	Sept.	Oct.	Nov.	Dec.
	1999	1999	1999	1999	1999	1999	1999	1999	1999	1999	1999	1999

M1	15.4	10.0	39.3	40.5	25.5	28.6	46.6	54.8	51.8	70.3	57.3	115.9
Currency in Circulation	-1.0	4.1	51.1	22.4	14.7	23.7	23.6	47.9	54.6	59.8	47.1	81.1
Demand Deposits	30.9	15.5	28.3	57.5	35.6	33.2	68.2	61.2	49.2	80.2	66.8	148.5
M2	10.8	13.7	22.1	26.4	29.8	37.4	53.0	60.7	69.0	80.7	82.5	108.1
Time Deposits	9.5	14.7	17.5	22.6	30.9	39.8	54.7	62.3	73.5	83.4	89.2	106.1
M2Y	7.1	10.9	18.6	26.2	28.9	35.7	48.9	56.3	65.8	78.5	87.0	106.5
For. Ex. Dep. (TL)	2.4	7.4	14.2	26.0	27.8	33.5	43.6	50.8	61.9	75.7	92.8	104.5
M3	5.1	9.3	17.8	22.7	29.1	33.5	46.9	55.3	62.5	73.4	77.4	97.5
M3Y	3.9	8.5	16.3	22.7	28.5	33.5	45.5	53.4	62.2	74.4	83.8	100.4
WPI (1994=100)	3.6	7.1	11.3	17.2	21.0	23.2	28.1	32.2	40.0	46.5	52.5	62.9

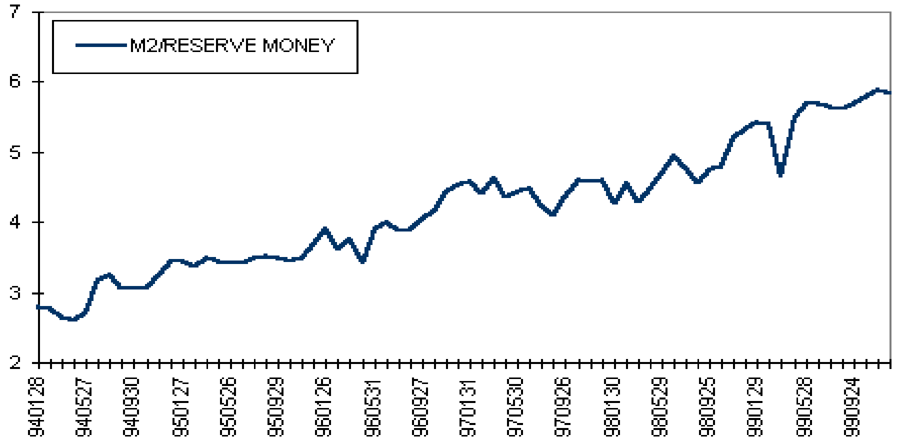
Source : Central Bank.

The monthly growth rates of money in circulation were below inflation rates in the first seven months, except March. In the second half of the year, the speed of growth in the amount of money in circulation rose, reaching 81.1 percent at the end of year. Sight deposits, another sub item of M1 money supply, rose throughout the year in real terms. The growth rate of sight deposits rose to 148.5 percent with respect to 1998. The increase in time deposits accelerated in the second half of the year, as it had in 1998. It can be observed that the growth rate of time deposits at 106.1 percent was below the inflation rate of 62.9 percent (Table II.4.4.). It can be said that the main sources of the increase in real money supply were the banks' securities portfolios and time deposits, which increased considerably in 1999.

The Central Bank Money (CBM) Multiplier is defined as M2/CBM displayed an upward trend in 1999, as in previous years. Temporary fluctuations occurred because of variations in currency issued, especially during the religious holiday. This multiplier was approximately 5.8 at the end of year (Figure II.4.7).

FIGURE II.4.7

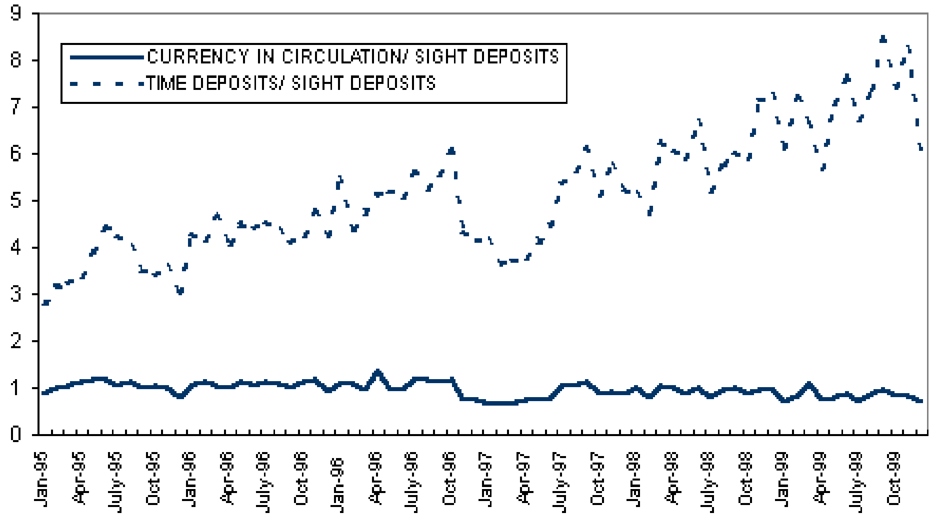
MONEY MULTIPLIER



Source: Central Bank.

FIGURE II.4.8

COMPONENTS OF THE RESERVE MONEY MULTIPLIER



Source: Central Bank.

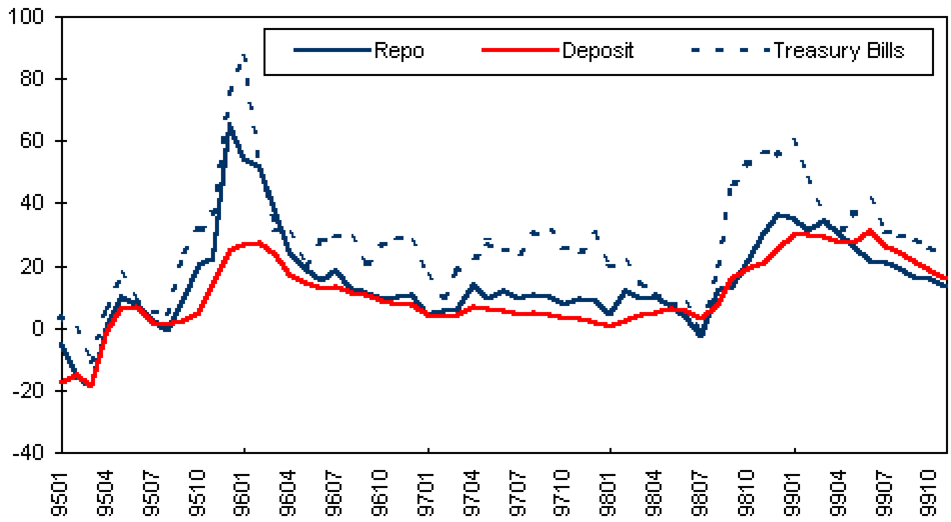
II.4.3. Interest Rates

In the first half of 1998, due to the lowered inflationary expectations and capital inflows, interest rates decreased, but the Russian Crisis, which began in August, and market uncertainty sent them into an upward trend. The overall 1999, interest rates displayed a downward trend.

In the first half of January, interest rates showed a declining trend as a result of positive political expectations. However, the economic crisis in Brazil and the take over of a commercial bank by the Deposit Insurance Fund led to an upward movement in interest rates. In February, interest rates continued to decline due to the downward trend in inflation and the positive expectations arising from the possibility of an agreement with the IMF after the elections in April. In March, another factor leading to a decline in interest rates was that the Central Bank reduced the upper band limit of interest rates in the Interbank Money Market by 2 percent in addition to decreasing daily liquidity need in the market. Due to the elections, April was the month in which the speed of the decrease in interest rates slowed down. Because the inflation rate for April was higher than expected, interest rates increased slightly in May. In June, as a result of the banks' new syndicated credit, the liquidity need in the market decreased slightly. Interest rates continued to display a downward trend in July due to factors such as the positive expectations that arose from the IMF's visit to Turkey and political developments. Another factor that contributed to this situation was the 3-percentage decrease in the upper limit of interbank interest rates by the Central Bank. In the first days of August, there had been an increase in interest rates due to the high inflation figures for July and the uncertainty about the social security reforms. The event that had the greatest effect on the markets, as well as the whole economy, was the earthquake which occurred on the 17th of August. The earthquake led interest rates to start an upward trend. The Central Bank was successful in meeting the rising liquidity demand in the market with its instruments. In September, the effect on financial markets of the uncertainties which occurred as a result of the earthquake were temporary and the TL demand in the market was satisfied by the Central Bank. Another important factor affecting interest rates is that the Central Bank lowered the upper band limit of the Interbank Money Market at the beginning of September. As the stabilization program took shape in the last three months of the year, interest rates continued to display a downward trend and this development shows positive expectations for the economy in 2000.

FIGURE II.4.9

3 MONTH REAL INTEREST RATES



Source: Central Bank.

II.4.4 Exchange Rates

The Central Bank based its exchange rate policy on the targeted inflation rate in 1999. To this end, the Central Bank aimed to keep the depreciation rate of the basket, which consists of 1 US dollar and 0.77 Euro, consistent with the targeted inflation for the end of year. However, the exchange rate policy was conducted in accordance with the realized inflation rates rather than the targeted inflation due to a decrease in uncertainties at the end of the summer. For this reason the depreciation rate increased parallel to the realized inflation in the last months of 1999.

The nominal depreciation in monthly average rates was 40.4 percent for the first nine months of 1999, while it was 60.6 percent for the end of the year, because of the increase in the depreciation rate in the last months. In addition, the drop in the parity of the US dollar/Euro from 1.1773 at the end of 1998 to 1.011 at the end of 1999 affected the developments in the rates of US dollar/Turkish lira and Euro/Turkish lira. The nominal depreciation rate of the Turkish lira against the US dollar and the Euro was realized as 71.7 and 48.4 percent respectively at the end of the year.

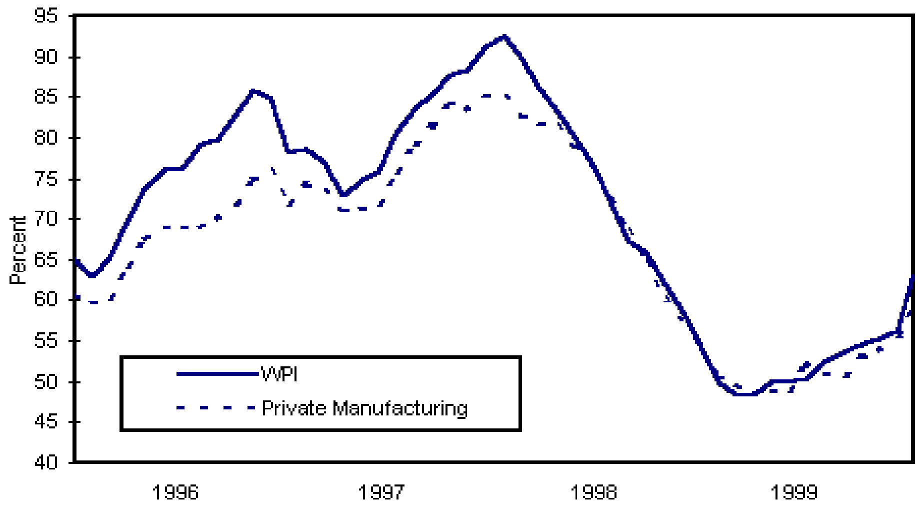
II.5. PRICES

The contraction period which started in the second quarter of 1998 should be analyzed carefully before going into an analysis of the price developments in 1999. The economic crisis which started in the banking system of the South Asian countries was deepened by the capital outflow from these countries. The capital flight led many South Asian countries to devalue their currencies. The high share of these countries in world trade, especially in exports, resulted in a decline in the general price level around the world (Figure II.5.2).

FIGURE II.5.1

SIS-WHOLESALE AND PRIVATE MANUFACTURING INDUSTRY PRICES

(1994=100, Annual Percentage Change)



Source: State Institute of Statistics.

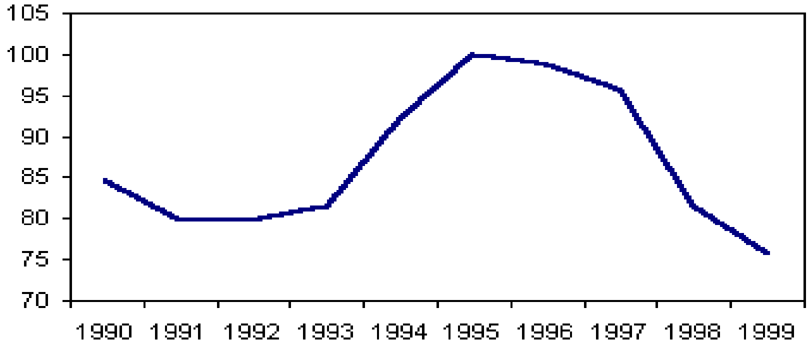
1. Private manufacturing industry and wholesale prices based on 1994 figures.

The 50 percent WPI inflation target of the government was not found credible by the private sector. The wage and price decisions of the private sector were beyond the government target but after the successful implementation of the official targets in monetary and fiscal policy in the first quarter, they reduced their inflation expectations (Figure II.5.3). Inflation and inflation expectations declined remarkably until June 1998.

FIGURE II.5.2 (1)

WORLD PRODUCT PRICE INDEX (Excluding Petroleum)

(1995=100)



Source: International Financial Statistics.

(1) First eleven months of 1999.

The economic crisis which started in Russia in August 1998 led to capital flight in all emerging countries including Turkey. The capital flight not only accelerated the domestic contraction period but also caused many problems in the private sector, which had large stocks of products. The increase in real interest rates led to an increase in the cost of stock on the one hand and resulted in delayed private consumption and a further contraction in domestic demand on the other hand. The contraction in domestic and foreign demand, the decline in the prices of primary goods and oil, and the control of public prices facilitated the achievement of the 50 percent inflation target, and the WPI realized at 54.3 percent for the year.

The beginning of 1999 was more or less a continuation of 1998. The increase in the cost of domestic borrowing at the end of 1998 led to a surge in pressure on the financial system. This not only affected the consumption behaviour of the private sector but the investment behaviour as well. The private sector postponed its consumption and investment and preferred to save more. The postponement of domestic consumption had a considerable effect on the pricing behaviour of the private sector. The private sector could not realize the seasonal price increases in January. Inflation declined further in the first quarter of 1999.

TABLE II.5.1

THE WEIGHTS OF SUB-ITEMS IN THE WPI AND THE CPI AND THEIR CONTRIBUTIONS TO PRICE INCREASES

		1998		1999	
	Weight (%) (A)	Price Increase (B)	Contribution (A*B)	Price Increase (B)	Contribution (A*B)
CPI	100	69.7	--	68.8	--
Food	31.09	60.6	18.8	55.0	17.1
Clothing	9.71	68.7	6.7	44.7	4.3
Housing	25.8	86.8	22.4	89.3	23.0
Furnishings	9.35	67.8	6.3	57.1	5.3
Health	2.76	99.6	2.7	71.1	2.0
Transportation	9.3	53.4	5.0	93.9	8.7
Cultural Activities	2.95	63.6	1.9	58.5	1.7
Education	1.59	94.6	1.5	79.7	1.3
Hotel Services	3.07	79.8	2.3	58.8	1.8
Other	4.38	49.3	2.1	60.7	2.7
WPI	100	54.3	--	62.9	-
Agriculture	22.23	71.9	16.1	30.0	6.7
Mining	2.48	34.0	0.9	94.1	2.3
Energy	4.19	69.9	3.0	71.3	3.0
Manufacturing					
Private	54.6	53.6	29.3	59.7	32.6
Public	16.5	29.8	5.0	130.0	21.4

Source: State Institute of Statistics.

TABLE II.5.2

PRICES(1)

(Annual Percentage Change)

	1996	1997	1998	1999
CPI	79.8	99.1	69.7	68.8
WPI	84.9	91.0	54.3	62.9
Private	80.5	89.0	60.1	48.4
Public	101.4	97.5	35.6	117.7
Agriculture	89.9	96.5	71.9	30.0
Mining	93.7	72.6	34.0	94.1
Energy	129.9	64.1	69.9	71.3
Manufacturing	80.6	91.2	47.1	76.7
Private	75.7	85.4	53.6	59.7
Public	96.7	108.5	29.8	130.0

Source: State Institute of Statistics.

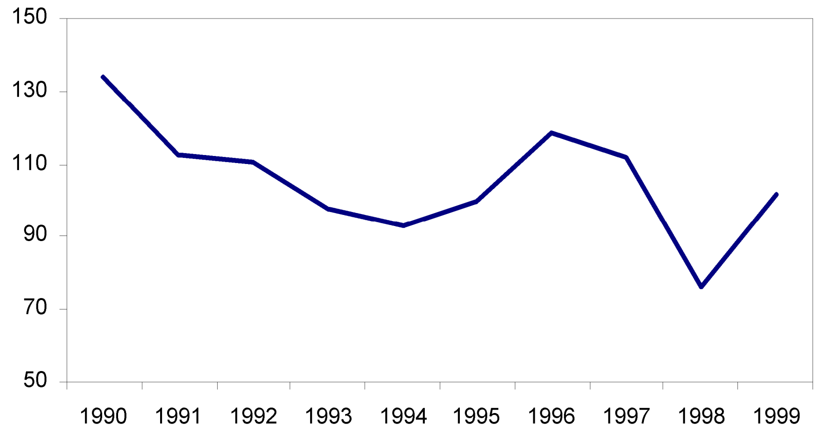
(1) CPI and WPI based on 1994.

It was not so difficult to control public prices in 1998 since there had been a decline in oil prices all through the year. The jump in oil prices at the beginning of 1999 made it difficult to control public prices another year (Figure II.5.4). The adjustment of public prices in March led to an increase in the prices of the private sector a month later. Thus, the downward trend of inflation reached its bottom level with 48.2 percent in February. Then it increased slightly and leveled off at 50 percent.

FIGURE II.5.4 (1)

AVERAGE CRUDE OIL PRICES (US$/barrel)

(1995=100)



Source: International Financial Statistics.

(1) First eleven months of 1999.

Although the rise in public prices accelerated in the second quarter, both the decline in agricultural prices and domestic contraction affected the surge in public prices. In July, the highest price adjustment since the beginning of the year was realised in public sector prices. This price increase affected the private sector pricing behaviour and inflation left its horizontal plateau and began to increase.

The earthquake which occurred in August did not slow down public manufacturing industry prices. Private manufacturing prices, on the other hand, slowed down remarkably. The earthquake affected a wide and densly populated part of the country and this further weakened domestic demand and investment, which had been contracting since 1998. The economy contracted even more than expected in the third quarter. The earthquake affected industrial production temporarily since the affected region had been the highest in terms of the value added of industrial production in the Turkish economy. The adverse effects of the earthquake were reflected in domestic demand, which changed the pricing behaviour of the private manufacturing sector in August and the price increase did not meet increasing inflation expectations. This loss of wealth in the economy accelerated the contraction in domestic demand.

In November and December of 1999, inflation jumped in spite of the unexpected decline in agricultural prices. Some price increases in the public and private sectors were made in advance in order to support the disinflation programme which was expected to be in effect by 2000 and an increase in value added tax boosted the December inflation to a record level. As a result of the base effect of the December

1998 inflation on the 1999 December inflation, the inflation rose 6.6 percentage points and in December and the increase in WPI was realized as 62.9 for the year.

TABLE II.5.3

PRICES

(Annual Average Percentage Change)

	1994(1)	1995(2)	1996(2)	1997(2)	1998(2)	1999(2)
CPI	106.3	89.0	80.4	85.7	84.6	64.9
Food	110.0	92.3	72.2	92.5	82.3	48.6
Clothing	104.8	100.7	82.6	74.9	79.6	52.2
Furnishings	122.2	82.6	65.1	71.8	81.6	58.4
Health	113.1	75.5	94.0	87.3	102.7	78.7
Transportation	108.0	84.7	97.2	93.6	76.4	70.6
Cultural Activities	102.9	86.0	84.5	76.0	93.4	60.6
Housing	91.0	86.8	85.4	82.2	90.3	86.4
WPI	120.7	86.0	75.9	81.8	71.8	53.1
Agriculture	97.8	107.8	86.5	86.9	86.8	41.8
Mining	132.8	85.6	89.3	76.2	48.6	62.4
Energy	102.3	56.4	101.7	71.8	71.8	64.7
Manufacturing	129.4	81.0	70.4	80.6	66.7	57.2
Private	130.5	81.1	68.2	77.6	70.0	52.0
Public	126.9	80.7	77.1	89.7	57.2	72.8

Source: State Institute of Statistics.

(1) CPI and WPI based on 1987 figures.

(2) CPI and WPI based on 1994 figures.

The public sector price adjustment was the main determinant of the price developments in year 1999. The surge in petroleum, tobacco and chemical prices led to an increase of 130 percent over 12 months in public sector manufacturing prices. The price increase was limited in the agricultural sector despite the fact that production had decreased. This should indicate that the contraction in domestic and foreign demand affected the agricultural sector more seriously than other sectors of the economy. The relatively low increases in agricultural support prices, the decline in shuttle trade with Russia, and the low demand in the tourism sector are thought to have affected the low prices in the agricultural sector.

TABLE II.5.4

PRICES[1]

(Annual Percentage Change)

	1997	1998					1999				
	Annual	I	II	III	IV	Annual	I	II	III	IV	Annual
CPI	99.1	97.2	90.6	80.4	69.7	69.7	63.5	64.3	64.3	68.8	68.8
WPI	91.0	86.0	76.7	65.9	54.3	54.3	48.2	50.3	54.4	62.9	62.9
Private	89.0	87.9	78.8	71.6	60.1	60.1	48.9	47.1	47.1	48.4	48.4
Public	97.5	79.4	69.5	48.2	35.6	35.6	45.9	62.3	81.0	117.7	117.7
Agricul.	96.5	98.6	82.8	85.4	71.9	71.9	49.4	43.1	37.0	30.0	30.0
Mining	72.6	58.2	54.2	41.0	34.0	34.0	41.0	58.7	71.9	94.1	94.1
Energy	64.1	68.9	74.7	76.9	69.9	69.9	63.3	63.6	62.7	71.3	71.3
Manufac.	91.2	82.7	75.1	58.9	47.1	47.1	47.1	52.5	61.1	76.7	76.7
Private	85.4	81.9	76.5	64.5	53.6	53.6	48.6	49.6	53.0	59.7	59.7
Public	108.5	84.9	70.9	44.2	29.8	29.8	42.5	61.6	85.1	130.0	130.0

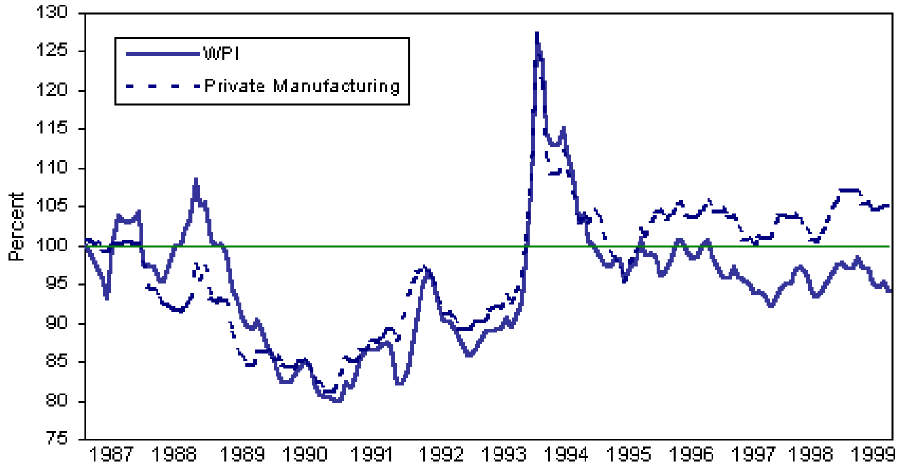
Source: State Institute of Statistics.

(1) CPI and WPI based on 1994 figures.

FIGURE II.5.5

REAL EFFECTIVE EXCHANGE RATE INDICES CALCULATED BY USING WPI AND PRIVATE MANUFACTURING PRICE INDICES [(1)]

(1987=100)



Source: Central Bank Research Department.

(1) Private manufacturing prices and WPI based on 1987. In these calculations, the exchange rate basket that consists of 1.5 German mark and 1 US dollar is used. For foreign prices, WPI based on 1990 is used for the USA and Germany. The increase in the indices indicates depreciation in real exchange rates.

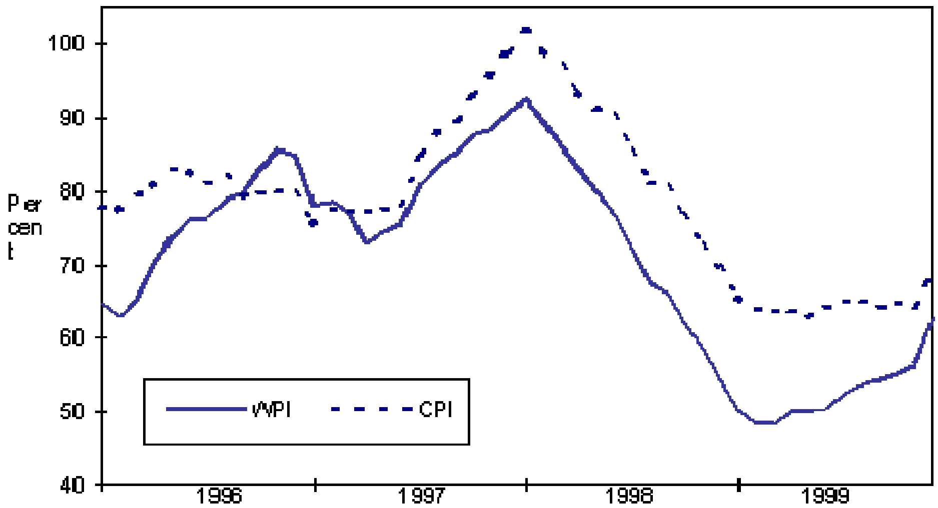
In spite of the strong domestic contraction in the economy, private sector firms increased their prices beyond expectations, due to cost pressure arising from the public sector. The most concrete example occurred, in October and November, when inflation expectations declined, followed by private sector price increases in December.

The CPI declined by 0.9 percentage point and realized at 68.8. The margin between the CPI and the WPI diminished to 5.9 percentage points from 15.4 percent in previous year. The jump in public price increases caused the gap between the CPI and the WPI to close. However, the structural problems in the housing sector and the increase in oil prices were the leading factors while the low increase in food prices and contraction in tourism sector were balancing factors for the CPI, so that it realized as slightly below the1998 figure.

FIGURE II.5.6

SIS-WHOLESALE AND CONSUMER PRICES

(1994=100, Annual Percentage Change)



Source: State Institute of Statistics.

The food, beverages and tobacco sector, which has the highest share in the CPI, declined by 27.3 percentage points compared to 1998. The main source of this decline was manufactured food product prices. The low price increases in the agricultural sector affected the retail prices of these products and food prices increased by only 47.1 percent. Although TEKEL (the tobacco monopoly) increased the prices of its products, the price increase in the food, beverages and tobacco sector was realized as 55 percent. In addition to domestic contraction, the decline in exports of manufactured goods and the shuttle trade with Russia were the leading causes of the decline in food prices.

The economic crisis which began in the South East Asian countries in 1997 and the 1998 Russia crisis deeply affected the Turkish textile sector. The expectation that being a member of the Customs Union would mean increased demand led to over-investment in the textile sector. However, the insufficient foreign demand and the domestic contraction after the Russian crisis heavily affected the textile sector. The structural problems in the textile sector affected the domestic prices of this sector. The clothing and footwear sector prices increased by only 44.7 percent year-on year, which implied a 34.9 percentage point decrease compared with the previous year.

Although the housing sector has the second highest weight in the CPI, the contribution of this sector to the CPI was the highest, just like the year before. The

92.3 percent increase in housing rent prices realized as 23.5 percentage points over the general CPI increase. The disequilibrium in the demand and supply of houses was the main factor, which became even more complicated after the Marmara earthquake. Knowing that there is no short-run solution for the housing shortage raises the need to solve this problem with other measures. To stop the practice of basing rent prices on the previous year's inflation, along with the necessary legal adjustments to make them comply with the income policy, will help to diminish the rigidity in inflation.

In the health sector, which has an oligopolistic pricing behavior, the seasonal pricing adjustments in January and July, without the use of any cost variable, remained in effect in 1999. The pricing behaviour of the health sector was under investigation by the Competitiveness Committee in 1999, which implies that this pricing behaviour will be investigated carefully in the near future.

The surge in the price of oil increased cost in the transportation sector. Prices in the transportation sector realized at 93.9 percent, which was over 25.1 percentage points of the general CPI.

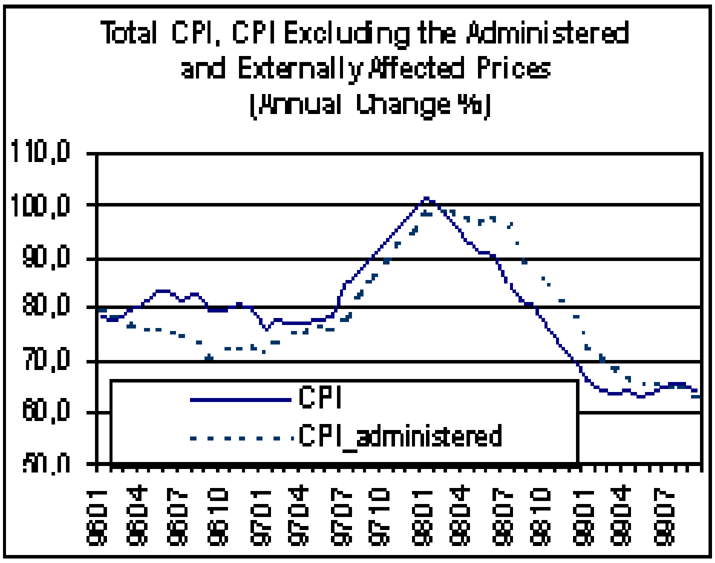
The restaurant sector was heavily influenced by the recession in the tourism sector and realized 10 percentage points below the CPI.

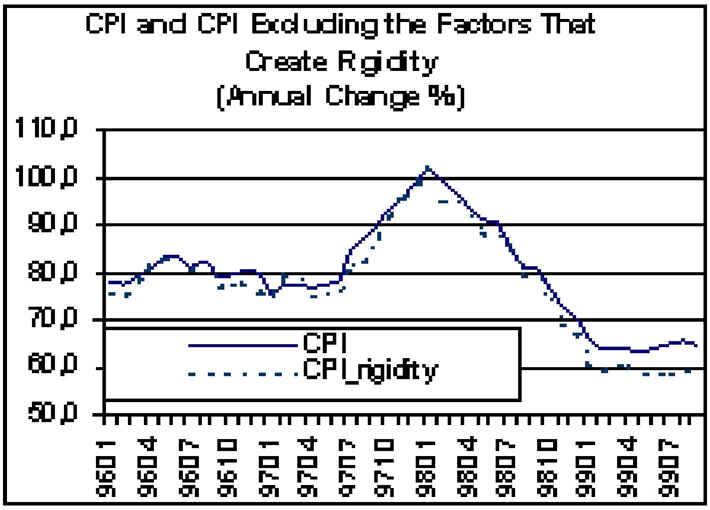
CORE INFLATION AND ITS RELATION WITH MONETARY AGGREGATES

Headline inflation may not represent long term price movements. Short-term movements in inflation can blur the actual inflationary trend. These short term transitory changes in inflation are generally the result of supply shocks. Non-monetary events such as changing seasonal patterns, resource shocks, and sector specific shocks may cause transitory noise in short-term price changes and may misrepresent long term price movements. In such an environment, it is very difficult to conduct monetary policy. Defining and measuring core inflation occupies a large part of the research of central banks. There is no single definition of core inflation. According to one approach, core inflation reflects the persistent component of the price index. In this context, core inflation has no impact on medium and long-term real growth. According to another approach, measured inflation consists of a generalized (core) component and a relative price change component. While the generalized part of inflation is affected by expected inflation and monetary expansion, relative price changes are the results of supply disturbances.

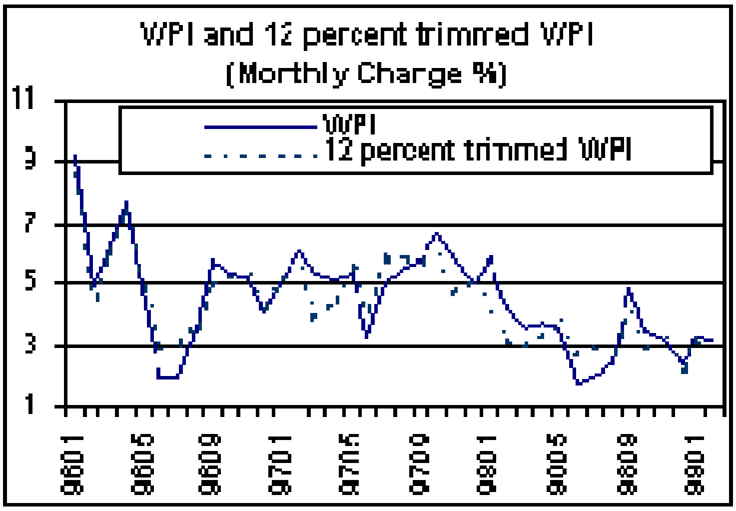
As is the case with the definition, there is no single way to measure core inflation. In general, we can divide the methods into two as the statistical ones and those based on economic theory. One statistical method entails the exclusion of food and energy prices. Another is the use of limited influence estimators, such as trimmed means and median. One of the most important methods based on economic theory is the method used by Quah and Vahey. Taking core inflation as having no medium to long-run impact on real output, they use a structural vector autoregressive model to measure core inflation. In addition to these methods, there are also other methods for measuring the core inflation.

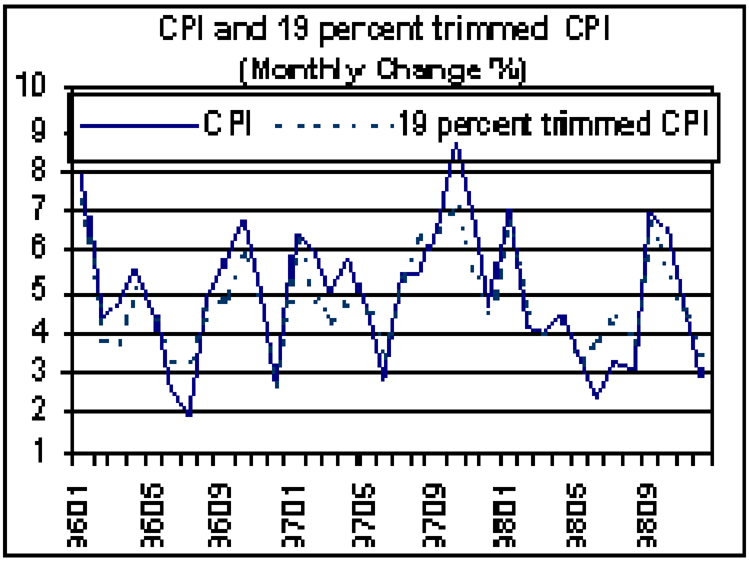
There are two studies to measure core inflation for Turkey at the Central Bank of the Republic of Turkey. In the first study, two new indices are composed using the traditional exclusion methods for 1994 based CPI. The first index excludes administered and externally affected prices from CPI. Out of 103 items, 14 items, constituting 29.7 percent of theCPI, are excluded. The annual change in the new index is below that of the CPI between March 1996 and February 1998. However, after February 1998, the annual change in the new index is higher. The second index is composed by excluding the sub-items that create rigidity in the CPI. 14 items out of 103, which account for 22.54 percent of the CPI, are excluded. As of the beginning of 1997, it can be seen that the annual change in the CPI stays above that of the newly composed CPI index.





In the second study, three different core inflation definitions, namely, trimmed means, median and exclusion of food and energy prices, are compared. Trimmed mean estimators of inflation are found to be the most efficient estimator. The optimal trims for Turkey are determined as 19 percent for the CPI and 12 percent for the WPI. In other words, some percentage of the highest and lowest price changes are ignored each month. Trimming smoothes the monthly changes. A trimmed index can be lower or higher than the original index.





The relationship between three different core inflation definitions for the CPI and monetary aggregates are explored. While core 1 is composed by excluding administered and externally affected prices, core 2 is composed by excluding the items that create rigidity. Core 3 is trimmed mean estimators. The relationship between headline inflation and core inflation definitions with monetary aggregates are examined in detail. Monetary aggregates include: first, narrow money supply - M1, M1Y and M1Y+repo; second, broad money supply - M2 and M2Y; third, foreign exchange basket; and fourth, auction interest rates and interbank overnight interest rates. The estimation method is the Engle-Granger two step cointegration procedure.

According to the results, the CPI is only related to M1Y+repo, foreign exchange basket and auction interest rates. The strongest relationship in both the short and the long term is with the foreign exchange basket. The coefficients of M1Y+repo and auction interest rates are very small. In other words, there are no close relationships between the CPI and interest rates and money supply. In the short term, the fastest correction of any deviation from the long term trend is for auction interest rates.

Core 1 is only related to M1Y+repo and the foreign exchange basket. The long-term relation with M1Y+repo is weaker than the one with CPI. However, in the short-term, the correction to long term trend is quicker. Although there is a long-run relationship between core 1 and foreign exchange basket, in the short run there is no such relationship. In sum, excluding the sub-items, which are administered and externally affected by the CPI weakens the relationship between the foreign exchange basket and money supply and completely breaks down the relationship with interest rates.

Core 2 is only related to auction interest rates and the foreign exchange basket. The relationship between core 2 and the foreign exchange basket is stronger in both the long and the short term. However, the influence of the auction interest rates on core 2 is weaker. Therefore, excluding the items that create rigidity results in a stronger relationship with the foreign exchange basket but terminates the relationship with money supply.

Core 3 is related to all the variables that are related to the CPI. M1Y+repo has a stronger effect on core 3 in both the long and the short-term. Morever, there is a considerable increase in the impact of the foreign exchange basket on the new index in terms of both higher coefficients and faster correction to the long term trend. Lastly, there is an improvment of the relationship with the auction interest rates. Hence, trimming improves the effects of all three variables compared to the original CPI.

HETERODOX STABILIZATION PROGRAMS

Chronic inflation experiences during the 1970s and 1980s showed the inefficiencies of the stabilization programs in use, and thus led to the search for new programs. In these new policies, the emphasis is to break down the inflationary inertia, which can be defined as the current inflation rate in relation to past inflation rates. Backward indexation of wages and prices weakens the relationship that inflation has with money supply and fiscal policy. In such an environment, heterodox policies put emphasis on income policies. Measures for improving public finance are supported by these income policies and foreign exchange controls.

In 1998, a disinflation program, with special emphasis on fiscal/budget policy, was implemented. The ratio of primary surplus to the GNP, which had been 0.1 percent in 1997, was realized as 4.6 percent in 1998 and the WPI inflation was reduced from 91 percent to 54.3 percent. However, this rapid decrease in inflation was partly due to control of public price adjustments and partly due to the reduction in import prices, especially of petroleum. From the begining of the year, the private sector did not believe that inflation could be slowed down, thus did not change its pricing behaviour. As a result, while the WPI inflation was realized as 54.3 percent, private sector inflation was realized as 60.1 percent, in contrast to 35.6 percent public sector inflation. It is clear that in the absence of public sector price controls, which have an important impact on production costs, and favorable external factors such as the decline in petroleum prices, private sector pricing behaviour would have resulted in much higher inflation rates in 1998. In the same manner, the private sector did not apply the program to its wage determination process and the real labour cost in the private sector rose by 16.1 percent in 1998. This had an inverse effect on employment in the manufacturing sector in the second half of 1998.

Another important point in controlling inflation is to break down price rigidities. Backward indexation is most common in the housing, health and education sectors under the CPI. The sticky price structure of these sectors is also the main reason for the difference between the CPI and the WPI. While the annual increase in the WPI was 69.7 percent in 1998, it was 86.8 percent for the housing sector, 94.6 percent for the education sector and 99.6 percent for the health sector.

1998 experiences showed the need for more comprehensive stabilization programs and the importance of private sector behaviour. In addition, it is evident that in order to break down the inflationary inertia, some additional measures are required.

TABLE II.5.5

SECTORAL PRICE INCREASES IN WPI(1)

(Annual Average Percentage Change)

	TOTAL			PUBLIC			PRIVATE		
SECTORS	1997	1998	1999	1997	1998	1999	1997	1998	1999
GENERAL	81.8	71.8	53.1	85.5	58.4	71.2	80.7	75.9	48.1
AGRICULTURE	86.9	86.8	41.8	--	--	--	86.9	86.8	41.8
Agriculture, Hunting	90.2	87.0	42.0	--	--	--	90.2	87.0	42.0
Forestry	52.4	87.2	41.1	--	--	--	52.4	87.2	41.1
Fishery Products	47.8	79.0	36.8	--	--	--	47.8	79.0	36.8
MINING	76.2	48.6	62.4	77.8	42.2	70.3	72.0	66.5	43.9
Coal Mining	76.6	54.3	48.4	79.9	52.2	49.3	67.5	60.1	45.9
Crude Petro. Nat. Gas	67.7	10.7	124.3	68.1	10.7	124.9	63.6	10.6	115.5
Metal Minerals	88.8	93.5	58.2	84.8	77.5	69.2	105.1	149.2	31.0
Non-Metal Mining	83.6	66.4	38.2	120.9	65.1	42.7	72.7	66.9	36.6
MANUFACTURING	80.6	66.7	57.2	89.7	57.2	72.8	77.6	70.0	52.0
Food	86.6	81.0	47.3	79.7	96.3	43.3	87.0	78.0	48.2
Textile	49.9	59.0	43.1	77.6	54.6	38.8	72.4	59.2	43.3
Clothing	73.2	77.9	64.3	79.1	90.4	45.7	62.3	77.6	64.7
Leather	81.1	61.1	39.8	64.7	54.0	13.0	85.9	62.9	46.4
Paper Products	58.0	70.1	50.8	47.6	80.6	56.1	62.1	66.3	48.7
Petroleum Products	93.8	54.0	101.1	93.5	49.8	100.2	94.6	67.9	103.5
Chemical Products	78.7	64.1	57.8	75.5	42.3	52.2	79.6	69.7	59.1
Plastic ve Rubber	68.3	58.0	53.5	--	--	--	68.3	58.0	53.5
Non-Metal Minerals	87.1	71.0	53.4	84.3	46.3	44.1	82.2	73.6	54.2
Metal Industry	88.3	52.1	46.3	87.5	49.4	49.0	89.0	54.3	44.0
Metal Products	73.6	74.2	47.5	89.0	70.9	8.3	73.5	74.3	47.7
Machinery-Equipment	71.8	63.4	49.9	62.0	63.4	43.7	72.0	63.4	49.9
Electrical Equipment	67.6	71.1	56.3	51.6	51.5	36.9	68.1	71.7	56.8
Vehicles	72.2	70.7	48.4	--	--	--	72.2	70.7	48.4

ENERGY	71.8	71.8	64.7	71.8	71.8	64.7	--	--	--
Electricity	68.8	69.6	68.9	68.8	69.6	68.9	--	--	--
Water	86.2	81.2	47.3	86.2	81.2	47.3	--	--	--

Source: State Institute of Statistics.

(1) Based on 1994 figures.

TABLE II.5.6
SECTORAL PRICE INCREASES IN WPI AND CPI
(Monthly Percentage Change)

	JAN		FEB		MAR		APR		MAY		JUN		JUL		AUG		SEP		OCT		NOV		DEC	
	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998	1999
WPI	6.5	3.6	4.6	3.4	4.0	4.0	4.0	5.3	3.3	3.2	1.6	1.8	2.5	4.0	2.4	3.3	5.3	5.9	4.1	4.7	3.4	4.1	2.5	6.8
Agriculture	12.9	4.6	8.6	3.9	6.6	4.4	5.5	6.0	2.5	-0.4	-2.6	-4.4	-0.1	-2.6	0.2	0.3	8.3	6.3	7.0	5.6	4.5	1.7	2.9	1.7
Mining	1.2	1.1	0.8	5.2	0.5	1.3	1.0	8.6	3.7	10.4	5.8	4.1	2.8	2.5	4.4	9.3	4.0	7.8	5.0	6.6	0.9	2.9	-0.1	9.0
Manufact.	4.1	3.1	3.0	3.0	2.9	3.9	3.4	4.9	3.5	4.6	3.2	4.4	3.6	6.8	3.1	4.1	4.2	5.7	2.9	4.2	3.0	4.9	2.3	8.8
Energy	9.3	4.7	4.2	4.4	4.4	4.5	4.4	4.3	4.4	4.6	4.4	4.4	4.5	4.3	5.8	4.4	3.3	4.3	3.2	5.3	3.3	5.3	3.2	4.4
CPI	7.2	4.8	4.4	3.2	4.3	4.1	4.7	4.9	3.5	2.9	2.4	3.3	3.4	3.8	4.0	4.2	6.7	6.0	6.1	6.3	4.3	4.2	3.3	5.9
Food	8.5	3.9	5.8	3.1	4.7	4.8	3.6	5.4	1.5	-1.1	-0.8	-1.1	2.0	1.7	2.4	1.4	7.4	5.8	6.7	7.0	4.6	4.8	2.2	9.5
Clothing	0.2	-2.9	-2.7	-2.3	0.3	-0.5	14.5	9.7	10.8	8.9	4.4	3.6	-2.1	-2.1	-2.3	-1.6	9.5	5.9	13.8	11.5	6.3	5.9	2.6	2.7
Housing	8.4	6.1	5.3	4.4	4.5	4.0	3.4	5.3	4.6	4.9	5.0	6.3	4.4	5.0	5.2	6.3	7.0	6.4	6.6	7.1	4.7	3.6	5.2	6.1
Furnishings	8.3	4.8	3.2	2.8	5.8	3.8	3.8	3.8	4.7	3.2	3.0	4.6	5.7	4.3	2.6	2.8	4.9	6.2	3.0	3.1	5.1	3.9	3.1	3.0
Health	23.3	16.0	3.7	3.9	7.4	9.3	3.9	0.3	3.9	0.9	1.2	1.4	13.4	12.9	9.8	7.0	1.2	0.3	0.6	1.8	4.7	2.1	0.2	0.3
Transport.	4.1	6.8	5.5	3.5	4.0	4.3	3.9	3.6	1.6	4.1	3.9	8.3	5.8	8.9	2.9	5.0	3.3	5.9	3.5	4.9	1.7	5.9	3.6	6.8
Cultural Act.	6.0	8.4	6.3	4.4	6.1	3.9	7.5	3.4	1.8	4.9	2.5	2.8	3.8	5.1	1.7	3.1	8.5	4.9	1.5	2.9	2.9	1.7	1.9	1.6
Education	0.1	0.2	0.1	0.1	0.5	0.5	0.3	0.0	0.0	0.0	0.1	0.1	0.1	0.1	61.1	48.2	19.0	19.8	0.3	0.1	0.1	0.0	0.1	0.1
Hotel Serv.	7.4	5.7	5.2	7.3	3.8	5.4	7.7	2.7	2.5	4.5	5.6	1.8	4.3	3.4	3.8	3.6	6.5	2.7	5.5	4.4	4.1	2.2	3.9	3.5
Other	6.7	8.2	3.7	4.0	4.6	5.2	2.7	1.7	2.0	3.3	1.6	1.6	2.8	2.5	5.2	1.8	2.3	4.4	2.8	7.1	1.8	4.5	4.6	4.3

Source: State Institute of Statistics.

III

FINANCIAL MARKETS

III.1. THE BANKING SECTOR AND CREDIT POLICY

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

In line with the tight monetary policy of the Central Bank, no support credit was extended in 1999 nor was any rediscount credit extended to the banking sector from the discount window. The use of preferential loans extended in previous years through the rediscount window was continued within restricted limits.

In order to support the development of the market for acceptance loans, term receivables of the exporting firms continued to be financed by rediscount credit after the delivery of goods and services. Either this credit was based on export bills backed up with loans or acceptance loans including the payment guarantee of a well known foreign bank or it was based on foreign currency bills, having not more than 120 days to maturity and are backed up by irreversible letter of term credit. Additionally, with Central Bank decision number 7825/17424 dated 19 August 1999, this facility was extended to include the financing of exports before the delivery of goods and services.

Developments in Central Bank Credit in 1999

Agricultural Loans

The 1998 year-end balance of the agricultural rediscount loans, which were used by the T.C. Ziraat Bankası under the limit restrictions that had been introduced on September 15, 1996, amounted to TL 7.2 trillion and remained the same in 1999.

The balance of the loans extended to sugar beet producers via Şekerbank for sugar beet purchases, under the restrictions limits introduced on December 19, 1991 and amounting to TL 55 billion by the end of 1998, remained the same in 1999.

Recent years have witnessed many new developments in central banking. The recent developments comprise many different areas, including changes in institutional as well as legal framework. The new developments include such basics as granting central banks sufficient independence to implement monetary policy within the market based rules, introducing modern instruments and techniques to operations in the foreign exchange and national money market, improving the quality of financial services by encouraging prudent operations in the financial system, establishing a legal framework which permits financial institutions to be monitored closely, and developing efficient accounting, payment and clearing systems.

The main development in the implementation of monetary policy is the inclination of the central banks to pursue policies targeting the inflation directly. Since the efficiency of the policies targeting monetary aggregates decreased significantly during the financial liberalization process, the industrial countries in particular started to substitute inflation targeting policies, which essentially require social reconciliation, for the policies targeting monetary aggregates.

Another notable development in central banking is the transition from national central banking to international central banking, within the framework of the European economic and currency union. To centralize their monetary policies within the European Union (EU) and harmonize their national policies, the European countries organized the European Central Bank (ECB). The ECB is mainly responsible for the following duties:

- Formulating and implementing the EU's monetary policy,
- Ensuring circulation of the Euro, which has been chosen as the common currency unit,
- Maintaining foreign currency operations,
- Providing equilibrium in the EU's balance of payments,
- Protecting and managing the member countries' official reserves.

Industrial Credits

The balance of the credit extended to the Halk Bankası to meet the working capital needs of artisans and craftsmen, which was TL 336.5 billion by the end of 1998, increased to TL 472.5 billion by the end of 1999. The nominal increase in these loans was 40.4 percent. The increase resulted from an exchange of bills between Halk Bankası and the Central Bank.

In accordance with the rediscount policy on acceptance loans, in 1999 the Central Bank extended credit after the delivery of goods and services amounting to TL 11.4 trillion, the face value of which was US $27.3 million. Additionally, the volume of credit extended by the Central Bank before the delivery of goods and services amounted to TL 1 billion, the face value of which was US $2 million. The balance of these loans was US $7.1 million by the end of 1999.

III.1.2. Banks

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

a) Developments in the Consolidated Balance Sheet

The banking sector started 1999 with the take over of three financially weakened banks (Interbank, Bank Ekspress, and Turk Ticaret Bankasi) by the Savings Deposit Insurance Fund (SDIF). It was also a year in which the adverse consequences of the previous year's developments became visible in banks balance sheets.

Including the problem banks taken over by the SDIF() the total assets of the banking sector grew by 96.3 percent in nominal and 25.6 percent in real terms by November 1999, with respect to November 1988, reaching TL 67.7 quadrillion. When the growth in the total assets was analyzed in US dollar terms, the total assets of the sector, which had been US $114.6 billion by November 1998, was observed to have increased to US $131.7 billion by November 1999, increasing by 14.9 percent in US dollar terms.

As the total assets of the sector continued to grow in 1999, the ratio of the total assets of the sector to the GNP reached 87.5 percent by the third quarter of 1998, and to 110.4 percent by the third quarter of 1999. It should also be considered that the decline in real GNP significantly affected the increase in the ratio. The growth in the total assets of the banking sector resulted mainly from growth in three asset items, which had significant shares in the total assets. These items are the securities portfolio, the interest-and-income accruals, and the “other assets” item.

The item total loans, including the problem banks, had the largest share in total asse ts and declined in real terms by 0.8 percent by November 1999, with respect to November 1998. The decrease in the loan portfolio resulted from the recording of the problem banks' loans incorrectly as item overdue loans and the decrease in the loan demand due basically to the slow-down in economic growth. As the loans portfolio got smaller in 1999, the share of total loans in the total assets declined to 28.3 percent in November 1999, from its 1998 level of 35.8 percent. When the loans of the problem banks were excluded, the total loans of the sector were observed to increase by 1.4 percent in real terms, with respect to the previous year.

As a result of the decrease in loan demand by the corporate sector due to both the slow-down in economic growth and higher real rates of interests, the loan portfolio of the sector decreased. The slow-down in economic growth in 1999 caused the quality of the loan portfolio to deteriorate and the risk of lending to increase considerably. These unfavorable developments led the banks to cut back on lending and substitute the risk free government securities for the loans in their portfolios. Therefore, the securities portfolio grew considerably in real terms. By November 1999, the securities portfolio grew in real terms by 70 percent, with respect to the same month of the previous year, and reached TL 12.2 quadrillion. As a result, the share of the securities portfolio in the consolidated balance sheet total, which was 13.3 percent in 1998, had risen to 18 percent by November 1999.

The growth in the securities portfolio was due basically to the growth in the government securities portfolio. As mentioned above, the increase in the risk of lending operations led the banks to place their available funds into government securities. The increase in the demand for bank funds by the government to finance its increased expenditures was another significant factor underlying the increase in the securities portfolio. The third factor was the increase in total deposits and non-deposit liabilities, against which banks have to hold government securities to comply with the liquidity requirement. The total deposits had increased by 28 percent by November 1999, with respect to the previous November.

On the assets side of the consolidated balance sheet, an increase in the required reserves against deposits contributed to the growth of the total assets. An increase in the total deposits by 28 percent in real terms forced the banks to increase their required reserve holdings with the central bank to increase approximately by the same amount. As a result, required reserves against deposits increased by 29 percent in real terms by November 1999, with respect to the past year, and its share in the balance sheet total remained the same in 1999.

The effects of the adverse developments in international markets observed in 1998, were reflected in the banks' balance sheets in 1999. The most significant effect was the increase in net overdue loans. By November 1999, the net overdue loans of the sector, including the problem banks taken over by the SDIF, increased by 152.7 percent in real terms, with respect to the previous year, and reached TL 1 quadrillion. Put differently, the ratio of the net overdue loans to total loans, which was 2.1 percent in the previous year had risen to 5.4 by November 1999. When the banks taken over by the SDIF are excluded, the total amount of the net overdue loans declined to TL 692 trillion. The total overdue loans of the banks, except those of the problem banks, was TL 1.1 quadrillion by November 1999. These banks held a loan loss reserve of TL 424 trillion against their total overdue loans. Therefore, the net overdue loans realized as TL 692 trillion. Excluding the problem banks, the ratio of net overdue loans to total loans declined from 5.4 percent to 3.6 percent.

During 1999, the incomes-and-accruals item recorded a significant increase, and contributed to the increase in the total assets. Including the problem banks, the share of the incomes-and-accruals item in the balance sheet total rose from 10.2 percent in November 1998 to 12.5 percent in November 1999. By November 1999, the increase in this item was 54.6 percent in real terms, with respect to the same month of the previous year. When the problem banks were excluded, the real rate of increase in this item rose to 67.5.

An underlying factor behind the increase in the incomes-and-accruals item was the significant increase in the interest rediscounts calculated for the loans and securities. The increase in the loan interest rediscounts resulted largely from the discounts incorrectly made by some banks to their problem loans. That is, some banks incorrectly recorded their problem loans within the non-problem loans item, and made rediscounts at very high interest rates. This caused an increase in the item incomes-and-accruals. The second factor underlying the increase in the item incomes-and-accruals was the decline in interest rates observed in the last few months of the year. The decline in interest rates increased the market value of both the securities portfolio within the balance sheet and the off-balance sheet securities used in repo transactions.

During the analysed period, the receivables item from banks increased by 17.6 percent in real terms. Despite this increase, the share of this item in the consolidated balance sheet total did not change significantly and remained around 12 percent.

The other assets item, which has a significant share in the consolidated balance sheet total, increased by 22.3 percent in real terms. Despite the real significant increase in the other assets, the share of this item in the balance sheet total increased slightly from 13.6 percent in November 1998 to 13.3 percent in November 1999.

Several developments were observed in the liabilities side of the consolidated balance sheet. The share of total deposits rose from 58.1 percent in November 1998 to 59.2 percent in November 1999. Although the change in the share of total deposits in the consolidated balance sheet total is negligible, the change in its amount was substantial. Between November 1998 and November 1999, the total deposits increased by 27.9 percent in real terms. The main factors underlying the increase in the total deposits are the following. Firstly, the average maturity of the loan portfolio remained longer than that of the source of funds during the analysed period. Together with this, an increase in overdue loans caused the liquidity needs of the sector to increase considerably. Additionally, as the liquidity needs of the sector increased sharply, borrowing from international financial markets was difficult due to the adverse borrowing terms. Therefore, the banking sector increased its demand for deposits to meet its liquidity needs. The increased demand for deposits resulted in a significant increase in nominal interest rates on deposits. Combined with these developments, deceleration in the rate of inflation during 1999 caused the real rates on deposits to remain at high positive levels. For example, the real rate of return on Turkish lira denominated three-month time deposits, which has the highest share in total deposits, remained around 26 percent during the first eight months of 1999. Afterwards, the real rate of return on three-month deposits declined, due to the drop in nominal deposit rates, and remained around 18 percent.

Secondly, the real rate of return on the main deposit alternative, the repo transactions, remained at the same level as the return on deposits. This caused savers to remain undecided between the deposits and repo transactions. Consequently, both the deposits and the volume of repo transactions increased considerably. The total volume of the repo transactions increased by 49 percent in real terms by December 1999, with respect to the previous year. As a result of this increase, the ratio of the total volume of repo transactions to total Turkish lira deposits increased from 21 percent in December 1998 to 26 percent in December 1999.

The ratio of total loans to total deposits may be considered as a rough indicator of how much of the total deposits collected by the banking sector were lent out. This ratio declined from 61.5 percent in November 1998 to 47.7 percent in November 1999.

The item payable to banks, which is the second largest item on the liabilities side of the consolidated balance sheet, increased significantly in real terms. By November 1999, the item payable to banks increased by 34.6 percent in real terms, with respect to November 1998, and the share of this item in the balance sheet total rose slightly, from 17.5 percent to 18.8 percent, during the same period.

By the end of November 1999, the share of the total net worth of the banking sector in the consolidated balance sheet total, including the problem banks, declined from 8.4 percent from 10 percent in November 1998. When the problem banks were excluded, the share of the total net worth rose from 8.4 percent to 9.4 percent.

The net open FX position of banks, which is considered in the nominator of the legal ratio of the net FX position to the capital base, rose from US $2.7 billion in December 1998 to US $3.2 billion in November 1999. The total net FX position of banks, which is calculated as the difference between FX assets and liabilities, rose from US $2.6 billion in December 1998 to US $6.3 billion in December 1999.

b) Developments in the Consolidated Profit and Loss Account

Including the problem banks, the after-tax profit of the sector increased by 19.5 percent in nominal terms by September 1999, with respect to September 1998. However, the real after-tax profit of the sector declined by 22.6 percent during the same period. When the problem banks were excluded, the increase in the nominal profit rises to 46.6 percent, while the decrease in the real profits becomes 5 percent.

The main components of the after-tax profit of the sector are the interest incomes from loans and the securities portfolios. Including the problem banks, interest income from both the loans and the securities portfolios had increased by 12.9 percent and 33 percent in real terms, respectively, by September 1999. Excluding the problem banks, the interest income of the sector rose to 18.9 percent and 36.6 percent in real terms, respectively.

The increase in overdue loans caused the interest income from overdue loans to increase. By September 1999, interest income from overdue loans, including the problem banks, had increased by 71.3 percent in real terms, with respect to the same month of the previous year. When the problem banks were excluded, the annual rate of increase in the real interest income from overdue loans decreased to 58.2 percent. Although the annual rate of increase in the interest income from overdue loans is relatively high, its share in the total interest income is negligible. The share of the interest income from overdue loans in the total interest income rose slightly from 0.43 percent in September 1998 to 0.43 percent in September 1999.

As of September 1999, interest income from banks were observed to increase by 23.5 percent in real terms, with respect to September 1998, reaching TL 1.1 quadrillion.

The other interest and quasi-interest income item increased by 92.6 percent, with respect to the previous year, reaching 31.4 percent of the total interest incomes. TL 3.4 quadrillion of the other interest and quasi-interest and income belongs to the public sector banks, particularly to T.C. Ziraat Bankasi, and indicates the interest accruals on the receivables of this bank from the Treasury. The above-summarised developments resulted in an increase in the total interest income of the sector by 37 percent in real terms by September 1999.

As in the previous year, interests expenses paid to depositors constituted the largest part of the total interest expenses in 1999. Including the problem banks, interest expenses paid to depositors increased by 54.9 percent in real terms, with respect to the previous year. If the problem banks are excluded, the annual rate of increase in the interest expenses paid to depositors rises to 56.7 percent. An increase in the total deposits of the sector, together with the high real increase in the rates of interest on deposits, determined the large increase in this item.

A notable increase was observed in the interest expenses paid to banks item, which had the second largest share in the total interest expenses. As of September 1999, interest expenses paid to banks increased by 47.4 percent in real terms, with respect to the past year, reaching TL 1.9 quadrillion.

In addition to the developments summarised above, the banking sector made a loan loss provision amounting to TL 262 trillion for overdue loans; and thus, the net interest income of the sector after this provision realised at TL 3 619 trillion. This amount of net interest income indicated a decline of 4 percent in real terms, with respect to the previous year.

When the profits/loss situation of the various bank groups is analysed, it is observed that the foreign banks and the investment and development banks were successful in increasing their profits, while the public sector banks and private sector banks were not. The foreign banks and investment and development banks increased their after-tax profits by 22.1 percent and 13.4 percent, respectively.

The public sector banks and the private sector banks realised significant decreases in their profits in 1999. By September 1999, the profits of the public sector banks decreased by 82.4 percent in real terms, with respect to September 1998. Within the same period, the after-tax profits of the private sector banks decreased by 16.4 percent in real terms. A detailed analysis of the public sector banks indicates that the main reason for the significant decrease in the profits of this bank group is the sharp increase in interest expenses. Paralleling the high market share of the public sector banks in total deposits, interest expenses paid to depositors increased by 60.5 percent in real terms. This higher increase in the interest expenses to depositors caused the net interest income of the public sector banks, after the loan loss provisions to decline by 33.4 percent in real terms. The main factor determining the significant decrease in the profits of the private sector banks was the increase in total interest expenses. Within the September 1998 to September 1999 period, the total interest income of the private sector banks increased by 29.8 percent in real terms, while the total interest expenses of this bank group increased by 50 percent in real terms during the same period.

c) Deposits

The total deposits of the banking sector, excluding interbank deposits, had reached TL 40 quadrillion as of November 1999. This represents an annual increase of 100 percent in nominal and 28 percent in real terms. Compared to the previous year, the growth rate of Turkish lira deposits did not change significantly in 1999.

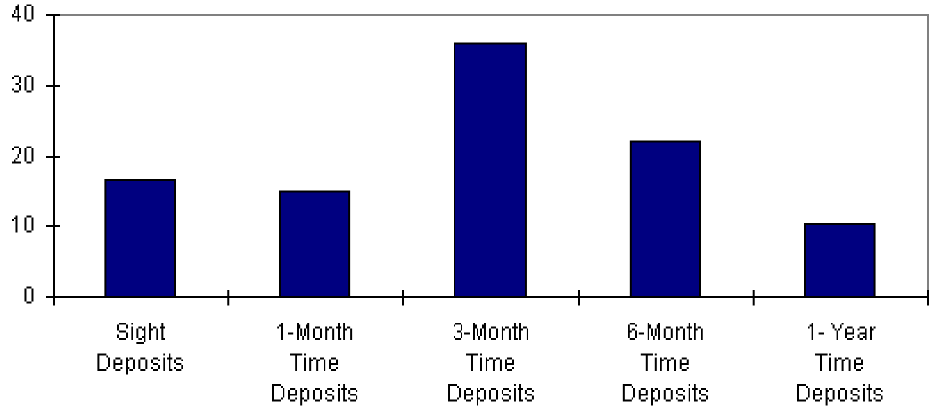
All deposit types other than official deposits and certificates of deposits increased in real terms. Turkish lira deposits rose to TL 19.6 quadrillion as of November 1998, with an annual nominal increase of 99 percent and a real increase of 27.3 percent. During the same period, foreign exchange deposits rose to TL 20.5 quadrillion, with an annual nominal increase of 101 percent and a real increase of 28.6 percent. The growth rate of foreign exchange deposits in terms of US dollar, which was 16.4 percent in November 1998, accelerated to 23.5 percent during the same period of 1999.

The breakdown of deposits by maturity reveals the fact that, when compared to the previous year, the maturity structure changed moderately in favor of longer terms in 1999. The share of demand deposits in total deposits, which was 23 percent in November 1998, declined to 16.6 percent in November 1999. During the same period, the share of one-month time deposits declined from 18 percent to 15.1 percent, whereas the share of three-month time deposits increased from 35 to 36 percent. The most significant rise was observed in six-month time deposits, whose share in total deposits increased from 15.6 percent to 22.2 percent. The share of one-year time deposits, on the other hand, increased from 8.3 to 10.2 percent (Figure III.1.1). Consequently, the average maturity of total deposits increased from 3.2 percent in November 1998 to 3.8 percent in November 1999.

FIGURE III.1.1

BREAKDOWN OF DEPOSITS BY MATURITY

(Percent)



The growth rates of Turkish lira deposits according to type are given below: As of November 1999, savings deposits increased by 113.6 percent, commercial deposits by 69.6 percent, official deposits by 97.5 percent, and other deposits by

87.5 percent in nominal terms with respect to the same month of 1998. Since certificates of deposit were legally abandoned as of January 30th, 1996, the volume of certificates of deposit decreased by 8.3 percent. As of November, the highest increase in real terms was realized in commercial deposits, which represents one-third of total deposits, with 36.7 percent. While the shares of savings and official deposits in total deposits increased in 1999, the shares of remaining deposit types declined (Table III.1.1).

TABLE III.1.1

THE SHARES OF DEPOSIT TYPES IN TOTAL DEPOSITS PERCENTAGE SHARES

(Excluding Interbank Deposits)

	Foreign Exchange Deposits	Savings Deposits	Commercial Deposits	Official Deposits	Other Deposits and Certificates
1993 November	45.0	29.0	10.0	4.0	12.0
1994 November	52.1	29.4	8.3	2.7	7.5
1995 November	49.2	32.7	8.0	2.3	7.8
1996 November	50.2	31.7	7.2	3.5	7.4
1997 November	51.5	29.3	5.8	5.0	8.3
1998 November	49.1	31.4	7.6	2.9	8.9
1999 November	49.9	32.8	6.3	2.8	8.2

Source: Central Bank.

d) Credit

The total loans of the banking sector reached TL 19.1 quadrillion as of November 1999, with an annual nominal increase of 55 percent. In real terms, on the other hand, the total loans of the banking sector decreased by 0.8 percent in the same period. Since economic activity slowed down in the second half of 1998 and then the economy entered into a recession in 1999 due to the drop in both domestic and foreign demand, the supply and demand of credit declined. Consequently, the loan to deposit ratio, which shows the amount of deposits channeled into credit, declined to 47.7 percent in November 1999. These unfavorable developments were also effective in the decline of the loan to asset ratio to 28.3 percent in November 1999 (Table III.1.2).

TABLE III.1.2

DEVELOPMENTS IN BANK LOANS

	Loans (percentage increase)	Loans/Deposits (percent)	Loans/Total Assets (percent)
1993 November	103.9	88.8	42.6
1994 November	61.2	56.7	35.4
1995 November	118.4	62.0	39.4
1996 November	129.6	61.5	41.8
1997 November	101.3	69.3	39.7
1998 November	74.1	61.5	35.8
1999 November	55.0	47.7	28.3

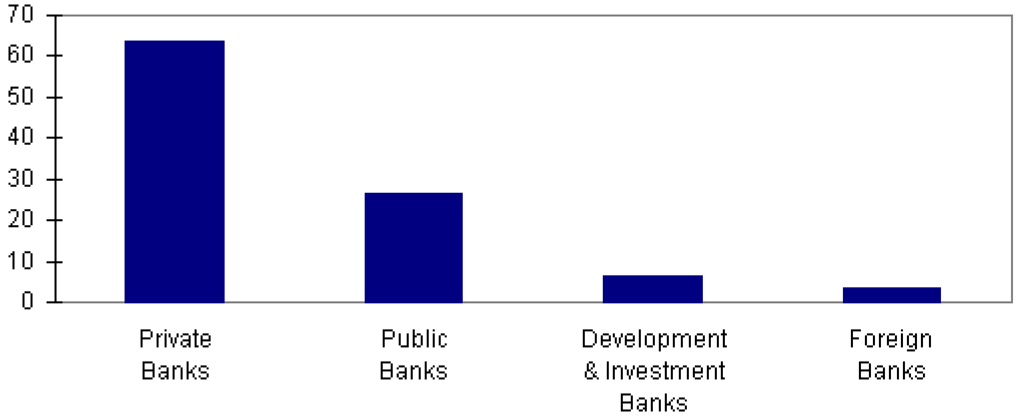
Source: Central Bank.

The share of private banks in the total loans of the banking sector was 63.5 percent as of November, while the share of public banks, development and investment banks, and foreign banks was realized as 26.4 percent, 6.5 percent and 3.6 percent, respectively (Figure III.1.2). In other words, there was no significant change in the shares of these bank groups' in the loan market when compared to the previous year. The annual nominal increase in private bank loans was 56.6 percent in November 1999, whereas those of public banks, development and investment banks and foreign banks were 46.6 percent, 82.8 percent, and 53.3 percent, respectively. In real terms, these figures correspond to a 0.2 percent increase for private banks and a 17 percent increase for development and investment banks, but a 6.4 percent decrease for public banks and a 1.9 percent decrease for foreign banks.

FIGURE III.1.2

BREAKDOWN OF LOANS BY BANK GROUPS

(Percent)



When the composition of loans is analyzed, it can be observed that there was no significant change in the shares of foreign currency loans, expressed in Turkish lira terms, in total loans in 1999 when compared to the previous year. The share of Turkish lira loans was 51.7 percent in November, whereas that of foreign currency loans was 48.3 percent as of November. The annual nominal increase in foreign currency loans amounted to 54.2 percent in November.

When the average maturity of loans is analyzed, it is observed that the share of short-term loans was 77 percent and that of medium term loans was 23 percent as of October 1999.

The share of export loans was 25 percent as of November 1999, whereas those of special loans, fund loans, consumer loans and other loans were 9.4 percent, 8 percent, 3.8 percent and 39 percent, respectively.

As of September 1999, the distribution of total cash and non-cash loans according to various sectors is as follows: 15.3 percent of total loans was extended to the construction sector, 15 percent to the textile and textile products sector, 8.3 percent to the services of wholesale and retail commercial motor vehicles and household consumption goods, 7.8 percent to the financial intermediary services, 4.8 percent to the agricultural sector, and 4.6 percent to the basic metal products sector and to the sectors producing processed materials.

III. 1.2.B Legal and Administrative Regulations

The 1999 regulations related to banking are summarized as follows:

a) Regulations on Liquidity Requirements

1) Paragraphs (a), (b), (d) and (e) of Communiqué No.96/1 on Liquidity Requirements, which had been published in Official Gazette No.22704 (repeated issue) dated July 22, 1996, was amended by Communiqué No 99/1 on Liquidity Requirements published in Official Gazette No. 23610 dated February 13, 1999. The new Communiqué allows banks to meet 2 percent of liquid assets, which they should maintain for their commitments in the form of bills at a ratio of 6 percent for Turkish lira deposits and a ratio of 3 percent for their commitments for foreign currency deposits in the form of bonds, from their Turkish lira and convertible foreign exchange assets.

2) Paragraph (a) of Article 3 and the first clause of Article 7 of Communiqué No.96/1 on Liquidity Requirements, which had been published in Official Gazette No. 22704 (repeated issue) dated July 22, 1996 was amended by Communiqué 99/2 published in

Official Gazette No.23902 dated December 10, 1999. With the new Communiqué, the ratio of liquidity assets to be maintained for Turkish lira deposits increased from 6 percent to 8 percent. The Communiqué stipulates that liquid assets corresponding to the additional 2 points will be maintained as Turkish lira free deposits with the Central Bank. Moreover, the penalty rate to be applied to banks that fail, partly or fully, to fulfill their commitments for liquidity requirements was determined as 1.5 times the maximum interest rate, instead of 1.5 times the average overnight interest rate realized at money markets conducted with the Central Bank.

b) Regulations on Required Reserves

With Communiqué No.99/1 published in Official Gazette No.23902 dated December 10, 1999, some changes were introduced to paragraph (a) of Article 3 and the second clause of Article 4 of Communiqué No.96/1 on Required Reserves, which had been published in Official Gazette No.22704 (repeated issue) dated July 22, 1996. Accordingly, the ratio of required reserves for Turkish lira deposits was reduced from 8 percent to 6 percent. Moreover, the penalty rate applicable in the event of any failure to fulfill a commitment for required reserves related to Turkish lira deposits was determined as 1.5 times the maximum interest rate, instead of 1.5 times the average overnight interest rate recorded in money markets conducted with the Central Bank.

c) Regulations on Standard Ratio for Foreign Currency Net General Position/Capital Base

Article 4 of Communiqué on Principles for Calculation and Application of Standard Ratios for “Foreign Currency Net General Position/Capital Base”, which was published in Official Gazette No.23448 dated August 29, 1999, was amended by Communiqué published in Official Gazette No.23777 dated August 5, 1999. By a new Communiqué, the “Standard Ratio for Foreign Currency Net General Position/Capital Base”, which was 30 percent, was reduced to a maximum of 20 percent and banks were granted a two-month transition period. Accordingly, the said ratio was applied as 30 percent until August 31, 1999 and as 25 percent between August 31, 1999 and September 29, 1999.

d) Regulations Related to Resource Utilization Support Fund

1) Pursuant to the amendments to Communiqué No.6 related to Decree No.88/12944 by Communiqué No.23 on the Resource Utilization Support Fund published in Official Gazette No.23776 dated August 4, 1999,

- Clause (a) of the 1st paragraph of Article 2 related to “Fund Deductions” was amended. Accordingly, the ratio of fund deduction for consumer loans extended by banks and finance corporations was reduced from 8 percent to 3 percent. Thus, the distinction between consumer loans and other types of loans extended by banks was eliminated.

- The clause amended to the 5th paragraph of Article 2 allows that the fund deductions for special permission import transactions, which are conducted in accordance with Article 77/2 of Customs Law No.1615, may be deposited between the actual date of import and the registration date of the bill of entry.

- Clause (22) amended to Article 3 concerning "Loans Exempt From Fund Deductions" provides that agricultural loans up to TL 2 billion extended by any finance corporation to farmers who are members of the agricultural cooperatives were also exempted from fund deductions.

2) Provisional Article 3, amended to Communiqué No.6 related to Decree No.88/12944 amended by Communiqué No.24, was published in Official Gazette No.23866 dated November 4, 1999 and became effective on the same date. The new Article states that persons and establishments who have been granted a "Certificate of Earthquake Damage" verifying that their production plants have suffered damage due to the earthquake recorded in Sakarya, Kocaeli, Yalova, Bursa, Bolu and İstanbul on August 17, 1999, will be exempt from fund deductions related to their import transactions in the nature of an acceptance letter of credit, payment on delivery and deferred-payment letter of credit conducted between August 17, 1999 and November 4, 1999, the publication date of the Communiqué, or to be conducted within 6 months of that date provided that the said persons and establishments have a certificate granted by the related Commerce Chambers, Industry Chambers or, Industry and Commerce Chambers to verify that the imported raw materials and intermediary goods are necessary for production or the imported machinery and equipment will replace those which were damaged by the earthquake.

e) Regulations Related to Special Finance Institutions

The 8th Central Bank Communiqué Concerning Special Finance Institutions published in Official Gazette No.23610 dated February 13, 1999 revised the 3rd paragraph of Article 11, entitled "Commitments for Legal Reserves, Ratio and Term for Establishing Required Liquidity". The new Communiqué allows legal reserves to be held against Euro current and participation accounts. Accordingly, the required liquidity for US dollar and Swiss franc accounts, as shown in the required liquidity tables dated February 19, 1999, will be held in terms of their own foreign currency. However, for Euro, German mark, French franc, Dutch florin, Australian shilling, Italian lira, Belgium franc, Finnish markka, Spanish peseta, Portuguese escudo, Irish lira and Luxembourg franc accounts, this amount will be held in terms of Euros, German marks, French francs or Netherlands guilders. The required liquidity for other foreign currency accounts will be in terms of US dollars.

The Council of Ministers Decree No.99/13621 published in Official Gazette No.23903 dated December 11, 1999, amended paragraphs (c) and (d) of Article 2 of the December

16, 1983 amendment to Communiqué No.83/7506 on the "Establishment of Special Finance Institutions" governing the definitions of current and participation accounts. The new regulation eliminated the obligation for contracts. Instead, pass-books bearing the names of the account holders will be provided.

f) Regulations on Foreign Currency Transfers

The ratios for required foreign currency and foreign exchange transfers and sales were specified as "0 percent" for June, July, August, September, October, November and December of 1998 and January of 1999 in section D, "Required Foreign Currency and Foreign Exchange Transfers and Sales", of the seventh Chapter "Managing Foreign Currency Position and Providing Information" in Central Bank Circular No.I-M. This circular, which was published within the scope of Decree No.32, concerns the "Protection of Value of Turkish lira". The ratios for transfers and sales realized in February and March of 1999 were fixed at 0 percent as well, pursuant to Central Bank Circular No.99/1 published in Official Gazette No.23538 dated January 14, 1999.

Due to the fact that the Central Bank was able to sufficiently meet its foreign currency requirement via transactions conducted in interbank markets, it was deemed more appropriate to lift obligation for required foreign currency and foreign exchange transfers and sales with an amendment to the related article of Circular No.I-M, rather than with a provisional article. Consequently, the section entitled "D-Required Foreign Currency and Foreign Exchange Transfers and Sales" included in the chapter on the "Managing Foreign Currency Position and Providing Information" was revised by Central Bank Circular No.99/2 published in Official Gazette No.23650 dated March 25, 1999 and the ratio for foreign currency and foreign exchange transfers and sales was fixed at "0 percent" to become effective as of April 1, 1999.

g) Regulations on Classification of Bank Loans and Other Claims and Reserves to be Held

With "Decree Related to Principles and Procedures on Determining the Qualifications of Bank Loans with Required Reserves and Other Claims and on Reserves to be Held", published in Official Gazette No.23913 (repeated issue) dated December 21, 1999, it was decided that bank loans and other claims would be classified under 5 groups (standard loans and other receivables, loans and other receivables being closely pursued, loans and other receivables with limited potential of recovery, doubtful loans and receivables, loans and receivables which are considered losses) according to their risk status. Moreover, general reserves would be held for loans in the 1st and 2nd groups as before, while loans in the 3rd, 4th and 5th groups would be subject to specific reserves. The said Decree would be applicable to loans which were extended or whose maturity dates were renewed as of January 1, 2000. Loans extended before this date would be subject to "Decree on Accounting Evaluation of Bank Loans in Compliance with their Qualifications and Loan Reserves" No.97/10497 dated December 30, 1997 and to the provisions of the communiqué related to the Decree, which was repealed by the new Decree.

h) Regulations on Calculation of Capital Adequacy of Banks

With "Communiqué Related to Principles and Procedures on Calculation and Evaluation of Capital Adequacy of Banks on the Basis of Consolidated Financial Tables", which was published in Official Gazette No.23913 (repeated issue) dated December 21, 1999, the principles and procedures concerning the calculation and settlement of the Sandard Ratio for "Capital Base/risk-Weighted Assets, Non-Cash Loans and Liabilities" dated June 30, 1998.

i) Amendments to the Banks Act

With Banks Act No.4389, published in Official Gazette No. 23734 dated June 23, 1999, Banks Act No.3182 was repealed.

1) The new Act governs the principles on incorporation, management, transactions, transfer, merger, liquidation and auditing of banks. Additionally, a Banking Regulation and Auditing Institution, with the status of a public entity with administrative and financial autonomy, would be established in order to ensure the enforcement of the Banks Act and other relevant acts, to supervise and conclude such enforcement, to ensure that savings are protected, and to carry out other activities or to exercise its power as defined in this Act by also issuing regulations within the limit of power granted by this Act.

2) With an amendment to Act by Law No.4491, which was published in the Official Gazette dated December 19, 1999 and became effective on the same date, powers - such as permission for the incorporation, merger and liquidation of banks, licensing to carry out banking operations and accept deposits, the revocation of a license to carry out banking transactions and accept deposits, the determination of loans subject to reserves to be assumed by Council of Ministers - were transferred to the Banking Regulation and Auditing Board, the decision-making organ of Banking Regulation and Auditing Institution. Moreover, amendments to Article 14 of the Banks Act related to measures to be taken against banks that carry out operations against laws and rules and/or whose financial structures are weakening would allow the transfer of such banks to the Fund in order to ensure their rehabilitation. Article 17 of this Act was also revised imposing personal liabilities on executives, managers and shareholders of banks who led to the enforcement of Article 14.

3) With the 6th paragraph amended to Article 20 of Act No.4389, pursuant to Article 11 of Act No.4491, special finance institutions were embodied in the Banks Act. Moreover, Article 17 of this Act repealed Council of Ministers Decree No.83/7506 related to Establishment of Special Finance Institutions as well as any and all legislation concerning this Decree.

According to Provisional Article No.3 of Act No.4491;

Special finance institutions operating on the effective date of this Act shall adapt their current structures to the provisions of Articles No.7 and 9 of Banks Act No.4389 within two years. Special finance institutions that fail to make such adaptation within the determined period will be liquidated pursuant to the general provisions.

III.1.2.C. Special Finance Institutions

The Special Finance Institutions (SFIs) were first introduced into the Turkish financial system in 1985, and the total number of these institutions reached 6 by November 1999. The total number of branches, and employees of the SFIs are 121 and 2611 respectively.

The balance sheet total of the SFIs, which was TL 841.2 trillion in November 1998, had risen to TL 1 595 trillion in November 1999, increasing by 89.7 percent in nominal and 21.3 percent in real terms. The relative size of the SFIs in the financial system, which is measured by the ratio of the total assets of the SFIs to the total assets of the banking sector, remained around 2.2 percent.

As of November 1999, the total net worth of the SFIs amounted to TL 89 trillion, and their share in the balance sheet total became 5.6 percent. The composition of the total net worth was as follows: paid up capital constituted 42.7 percent (TL 38 trillion), the revaluation fund which was composed mostly of the revaluation of fixed assets leased through financial leasing agreements constituted 34.6 percent (TL 30.8 trillion), legal reserves constituted 9 percent, and the profits constituted the 14.7 percent. As of November 1999, paid up capital increased by 56.5 percent in nominal terms and rose from TL 24.3 trillion to TL 38 trillion, with respect to November 1998.

The SFIs placed 88 percent of their total accumulated funds of TL 1.3 quadrillion into investments. During the same period, Turkish lira and FX denominated funds constituted 12 percent and 88 percent of the total accumulated funds, respectively. The SFIs placed 69 percent of the total accumulated funds in the form of FX assets and the remaining 31 percent as Turkish lira assets.

As of November 1999, overdue receivables of the SFIs increased by 132.8 percent in nominal and 48.9 percent in real terms, reaching TL 48.9 trillion. The SFIs made a loan loss reserve of Tl 30.8 trillion. This amounted to 63 percent of the total overdue receivables. The net overdue receivables, which amounted to TL 17.9 trillion by November 1999, constituted 1.5 percent of the total funds placed by the SFIs.

Liquid assets comprising cash assets, receivables from banks, and a securities portfolio amounted to TL 147.9 trillion by November 1999 and constituted 9.2 percent of the total assets of the SFIs.

As of November 1999, the after-tax profits of the SFIs reached TL 13.2 trillion, increasing by 38 percent in nominal terms with respect to the same month of the previous year. Despite this increase, the after-tax profit of the sector decreased by 11.6 percent in real terms.

The analyses of the developments in the FX position of the SFIs indicates that the SFIs operated with a closed or negligible open position in FX until 1997. After 1997, the open FX position of these institutions were observed to grow considerably. Consequently, the open FX position of the SFIs rose from TL 13 trillion in November 1998 to TL 91 trillion in November 1999.

THE BANKING REGULATION AND SUPERVISION AGENCY

In the aftermath of the Asian financial crisis, views regarding the need to increase efficiency in the supervision of banks became popular in the international arena. In line with this development, attempts to increase efficiency in banking supervision and harmonization of the rules set by the Bank for International Settlements (BIS) gained importance in Turkey. The new Banks Act No. 4389 was passed by the Parliament on June 18, 1999. With this new Banks Act, the official bodies presently responsible for supervision, regulation, and the guarantee of the interests of depositors are combined in a single administratively and financially autonomous unit called “The Banking Regulation And Supervision Agency”. With the latest change in the new Banks Act made by law no. 4491 on December 19, 1999, the authority limits of the Agency were further expanded. The Agency administrative board will be composed of seven members, who will be appointed by the board of ministries from among the candidates recommended by the minister for economic affairs. The Board is responsible for the following duties:

- Implementing the Banks Act, and determininig the conditions for the establishment and liquidation of banks.
- Supervising the banking sector,
- Guaranteeing the savings of depositors.

  With the establishment of this Board, problems arising from the absence of an autonomous body in the financial markets, where developments occur at a fast pace, are expected to disappear. Expected benefits of an autonomous supervisory unit for the banking sector are as follows:

- The problems arising from the conflict of authority among various government bodies can be minimized,
- The supervisory unit can quickly intervene during a systemic financial crisis,

- The flow of information between supervisory and deposit insurance bodies can be improved. In this way, the risks taken by banks can be more easily monitored.

The expansion of the responsibility of the Agency in such a way as to cover all the financial institutions in the system may be more beneficial.

III.2. CENTRAL BANK TRANSACTIONS

Following the Russian Crisis in 1998, international investors lost their confidence in developing markets, resulting in the capital outflows in these countries. Economic policies had to be formed in accordance with these developments since they also affected the Turkish economy. Within this framework, the second half of 1998 can be described as having liquidity needs and high levels of interest rates resulting from rapid capital outflow, difficulty in foreign borrowing and domestic borrowing at higher costs. This picture led the Central Bank to revise the targets determined by the Staff Monitoring Program (SMP) signed with the IMF and resulted in a small bias in the inflation target for the end of year. This flexibility in the monetary policy and strong foreign exchange reserves caused the effects of the crises on money markets to be slight and temporary. Thus, these effects gradually decreased towards the end of the year and left the floor to positive economic and political expectations.

The economic recession process triggered by the capital outflows in the second half of 1998 increased the fiscal pressures on the financial system. This situation required the Central Bank to be conservative due to the uncertainty created by the general elections although there were capital inflows and optimistic expectations as of the beginning of 1999. Interest rates remained high in the first four months of the year although they showed a declining trend.

Especially in the June-July period, after the elections, the optimistic expectations of the economic agents increased. At first, this was observed as a decrease in the interest rates, which lasted until the end of year with some cyclical fluctuations (Table III.2.1.). Decelarating inflationary expectations and the Central Bank’s quotations’ in the interbank money market have supported this trend. In addition, it was observed that the banks tended to sell foreign exchange to the Central Bank intensively due to capital inflows.

The Treasury’s domestic borrowing strategy in accordance with its announced program and success in foreign borrowing also contributed to this positive environment. In order to protect investors against risks and lengthen maturities, new borrowing instruments, such as bonds with fixed coupon payments and floating rate notes, were observed among the positive factors contributing to confidence in the economy. On the other hand, some developments occurring during the year retarded this trend and caused fluctuations.

TABLE III.2.1

INTEREST RATES

(Average Weighted Compounded)

	ISE Bond and Bill Markets	ISE Repo-Reverse Repo Markets (O/N)	Treasury Auctions(1)	OMO (repo)	Interbank Money Markets (O/N)
January	126.17	131.64	128.01	162.22	119.89
February	121.09	125.75	125.24	131.70	116.62
March	102.11	125.32	103.41	139.41	114.34
April	97.20	134.72	99.60	145.23	115.71
May	96.73	136.04	97.57	142.64	115.71
June	107.34	128.37	109.71	141.79	115.61
July	96.78	104.45	94.07	113.49	103.30
August	99.31	107.38	96.96	111.55	103.46
September	96.36	103.61	98.66	107.30	96.30
October	93.24	109.36	100.55	109.78	100.22
November	78.68	106.32	93.32	109.18	100.92
December	60.30	162.38	-	147.08	101.18

Source: Central Bank.

(1) Auctions with fixed coupon , floating rate and indexed to CPI are not included.

The liquidity squeeze that started with the Russian crisis continued during 1999, and the total reserves of the markets showed negative sign. Salary and tax payments, the Treasury's borrowing more than maturing amounts, the liquidity demand before the religious holidays and the Central Bank's funding below the returns also supported the liquidity squeeze. Furthermore, the crisis in Brazil and the downgrading of the Turkish economy by an international rating agency in January, uncertainty resulting from general elections in April, the Marmara earthquake in August, and the capital outflow resulting from worries about the Y2K problem towards the end of year (in November and December), exacerbated the liquidity squeeze.

In addition to the fact that five banks were transferred to the Savings Deposit Insurance Fund in December and the banking system's foreign exchange and currency demand to decrease their open positions were among the factors contributing to the liquidity squeeze. During the periods mentioned above, the Central Bank realized the most intensive interventions in the foreign exchange markets and a high and volatile trend was observed in interest rates. As a result, investors preferred to act reserved although they had optimistic expectations during the year. Due to expectations concerning an agreement to be signed with IMF, which could affect the macro balances positively especially in the second half of the year, interest rates decreased gradually until November and then sharply in the last two months of the year, which was observable from interest rates in bonds and bills markets in the ISE. Except for some short term fluctuations during the year, stability in financial markets and political structure after the elections brought about a relative increase in stability in the bonds and bills market. However, especially due to the liquidity squeeze, the margin between interest rates in repo-reverse repo market and the bonds and bills market widened in the secondary market.

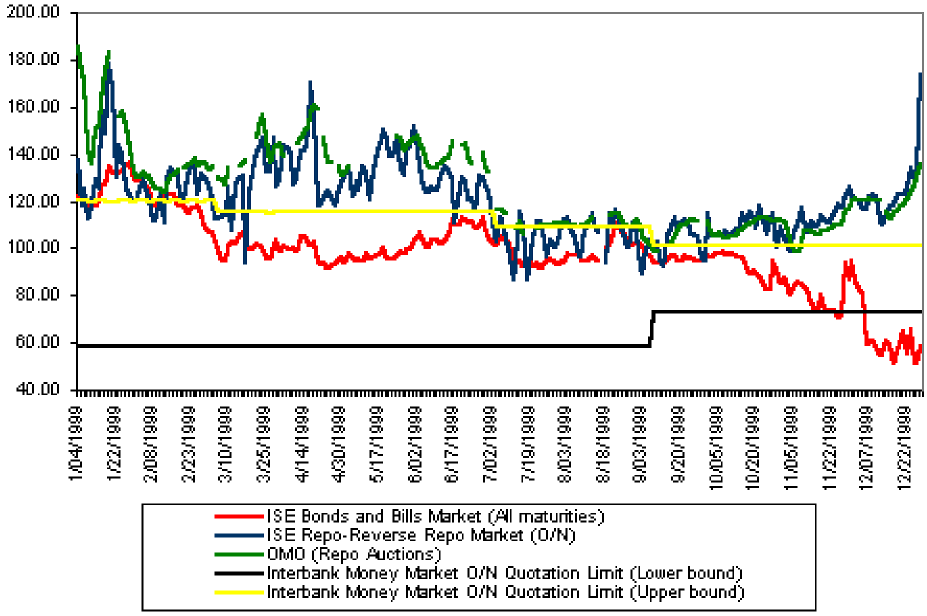
For the liquidity squeeze, the Central Bank supplied Turkish lira to the markets via open market operations and transactions in the interbank money market. The government securities interest rates in the secondary market remained within the interval of Central Bank's bid-offer quotations in the interbank money market until the last three months of the year. In the last quarter of the year, however, the decrease in expectations concerning inflation in 2000 caused the interest rates of government securities in the secondary market to drop considerably below the short term interest rates.

Although the rates in the Repo–reverse repo market remained above the official corridor, interest rates did not stay above the open market operations (OMO) interest rates. The positive environment in the markets resulting from the monetary program for 2000 announced in December caused the bond and bill markets interest rates drop sharply below the corridor. The behavior of the interest rates in the last two days of the year, when interest rates rose sharply due to the liquidity squeeze resulting from the year-end syndrome, did not reflect the general trend (Graph III.2.1).

FIGURE III.2.1

INTEREST RATES

(Weighted Average Compound)



In recent years, the Central Bank has been implementing a policy which includes a foreign exchange policy consistent with inflation forecasts and puts limitations on the growth of some balance sheet items. Within this framework, the Bank aimed to sustain stability in the economy on the one hand and external balance on the other.

In 1998, the Central Bank declared that it would implement a policy targeting the net domestic assets item in its balance sheet within the context of the SMP signed with the IMF. This policy has continued in 1999. Accordingly, the net domestic assets item was targeted as TL 800-900 trillion on the average for April 5-9th, TL 100 trillion for the end of June, minus TL 1000 trillion for the end of September and minus TL 1100 trillion for the end of year. However, some deviations in these targets happened in the Central Bank's favor following the decrease in the bank's funding via OMO due to intensive capital inflows in the first half of the year. Net domestic assets realized at minus TL 369 and minus 899 trillion for April and June, respectively. In December, monetary and foreign exchange policy was rearranged with the stand-by agreement signed with the IMF. Accordingly, a new policy was determined, based predominantly on pre-announced foreign exchange rates to create base money in return for net foreign assets. In this policy, OMO, interbank money markets transactions, required reserves and foreign exchange interventions would still be used as instruments while transactions in Turkish lira would be used to decrease the fluctuations in net domestic assets but not for sterilization. The ceiling on net domestic assets target was changed to TL 1200 trillion. Thus, the average of the net domestic assets, which is going to be calculated by using current exchange rates on December 10th , 1999 and on January 20th , 2000 was used as performance criteria for December 31st , 1999.

III.2.1.Open Market Operations

At the end of 1999, the value of securities in the OMO portfolio was TL 916,7 trillion, measured at purchase prices. In 1999, like in previous years, open market operations were used together with the foreign exchange market and the interbank money market to determine the liquidity in the economy in line with the monetary program in effect and to maintain stability in the markets.

During 1999, the net total amount injected via open market operations was TL 122,5 trillion. Analyzed on a monthly basis, it was observed that the Central Bank absorbed liquidity in the first half of the year while in the second half, except September, it injected liquidity into the markets via open market operations. In the first half of the year, funding via open market operations remained below the returns due to capital inflow. In other words, the markets met their liquidity needs by selling foreign exchange to the Central Bank with expectations of a low devaluation pace parallel to decreasing inflation expectations. The Central Bank mainly engaged in repo operations with one-week maturity auctions through its own window. Reverse repo transactions were realized in low amounts in the ISE, especially in the second half of the year, in order to prevent a sharp drop in overnight interest rates (Table III.2.2).

TABLE III.2.2

OPEN MARKET OPERATIONS

	Direct Purchase (1)	Direct Sale (2)	Reverse Repo (3)	Reverse Repo Return (4)	Repo (5)	Repo Return (6)	CBRT (7)	Net Effect (8) (*)
January	137.8	0.8	0	0	3,399.0	3,993.9	0	-457.9
February	2.4	58.7	0	0	3,825.2	3,973.6	57.8	-147.0
March	0	51.5	0	0	2,940.3	3,002.7	35.8	-78.1
April	17.0	50.1	0	0	3,007.9	3,529.0	26.2	-528.1
May	0	46.7	0	0	1,860.1	1,926.5	16.3	-96.8
June	3.4	28.8	0.1	0.1	2,342.9	2,337.9	0	-20.4
July	50.2	5.9	21.0	21.1	1,933.2	1,935.5	0	42.1
August	31.1	13.3	2.0	2.0	3,491.5	2,923.2	0	586.1
September	39.7	61.3	143.6	143.9	3,335.6	3,930.3	41.3	-574.8
October	0.3	0	1.5	0	3,474.8	3,204.1	0	269.5

November	42.9	2.5	0	1.5	6,213.0	5,451.9	0	803.0
December	68.3	0	0.0	0	7,435.7	7,286.2	107.1	324.9
Total	392.9	319.6	168.2	168.6	43,259.2	43,494.9	284.4	122.5

Sorce: Central Bank.

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

As a result, in the balance sheet, OMO stock including interbank money markets transactions reached TL 2407 trillion at the end of 1999, up from TL 1831 trillion at the end of 1998. In other words, the debt of the system to the Central Bank increased by approximately 32 percent. OMO interest rates changed according to liquidity requirements in the markets and increased sharply, especially before the elections in April and at the end of the year due to liquidity squeeze and arrangement of foreign exchange positions although there was a downward trend throughout most of the year (Table III.2.1).

MONETARY POLICY INSTRUMENTS IN 1999									
MONETARY POLICY OPERATIONS	TYPES OF TRANSACTIONS		MATURITY	FREQUENCY	METHOD	COLLATERAL	PRIMARY / SECONDARY MARKET	PARTICIPANTS	
	INJECTION OF LIQUIDITY	ABSORPTION OF LIQUIDITY							
OPEN MARKET OPERATIONS									
REPO	•		Officially from O/N to 3 months(4)	Daily(6)	Quotation and/or Auction	Government Securities (GS)	Primary Market(7)	Banks, Financial Intermediaries	
REVERSE REPO		•							
OUTRIGHT SALES		•	NOT USED RECENTLY						
OUTRIGHT PURCHASES	•								
DEPOSIT FACILITY IN THE INTERBANK MONEY MARKET		•	Officially from O/N to 3 months(4)	Daily(6)	Quotation(5)	GS(2), FX Deposits, Foreign GS, Gold Deposits	Banks		
LENDING FACILITY IN THE INTERBANK MONEY MARKET(1)	•								
OVERDRAFT FACILITY	Banks can meet urgent fund needs amounting to their usable limits in the interbank money market during the day		only for that day	Daily	GS(2), FX Deposits, Foreign GS, Gold Deposits		Banks		
FORWARD TRANSACTION LIMIT	Banks were allowed forward transaction limits in addition to their borrowing limits in the interbank money market		1 and 3 months	Daily	GS(2), FX Deposits, Foreign GS, Gold Deposits		Banks		
FOREIGN EXCHANGE TRANSACTIONS (INTERVENTIONS)									
SALES OF FX IN RETURN FOR TL		•	same day, 1 day, spot (2 days)	Daily	Quotation		Banks, Financial Intermediaries, Authorized institutions		
PURCHASE OF FX IN RETURN FOR TL	•								
RESERVE REQUIREMENTS									
Reserve requirements have been implemented as 6 percent for TL deposits, 11 percent for FX								Banks	
LIQUIDITY RATIOS									
According to current legislation, banks were obliged to hold free reserves amounting to 2 percent of Turkish Lira deposits, 8 percent of TL liabilities excluding and 8 percent of excess [illegible] of the [illegible], eligible securities amounting to 6 percent Turkish Lira deposits, 3 percent of fx deposits, 6 percent of TL excluding deposits and 3 percent of fx liabilities excluding deposits, and fx free reserves amounting to 11 percent of fx liabilities excluding deposits. Among these, [illegible], eligible securities requirements can be held as cash in TL for TL liabilities or cash in convertible currencies for fx liabilities amounting to 2								Banks	

Source: "Monetary Policy Issues and Experiences", Emir, Karasoy, Kunter, in progress.

(1) According to the pre-determined limits of the individual banks.

(2) Includes government securities in terms of FX, indexed to FX and other types of securities.

(3) Mostly 1 week (rarely 2 weeks) and rarely O/N maturity, after June 1998 CBRT used O/N transactions only in extraordinary situations such as during the Russian crisis in August.

(4) Mostly O/N, T/N and T/W transactions are realized among the maturities which are O/N, T/N, T/W, 2W, 2Hİ, 3W, 1M, 2M and 3M.

(5) 2 week deposit facility with an auction technique such as during June-July 1998 period.

(6) According to the liquidity condition of the market, CBRT can engage a repo operation or reverse repo operation but not on every business day.

(7) After June 1998, CBRT has been engaging repo operations in the ISE repo-reverse repo market if necessary.

THE MONETARY CALENDAR AND IMPORTANT DEVELOPMENTS AFFECTING THE MARKETS

January 1st : Euro, European Currency Unit, was introduced.

January 4th : CBRT announced that the foreign exchange basket will be observed as US$ 1 + EURO 0,77.

January 5th : The Treasury started to issue 2-year government bonds with quarterly fixed coupon payments.

January 8th : Interbank (a private commercial bank) was transferred to the Savings Deposit Insurance Fund.

January 13th : Crisis in Brazil.

January 22nd : S&P changed Turkey's rating from positive to stationary.

February 12th : CBRT changed the liquidity ratios.

March 5th: CBRT decreased the upper limit of quotations in the interbank money markets by 2 points from 79 percent to 77 percent.

March 24th : The banks' credit limits from the CBRT in the interbank money market were increased.

April 18th: General elections.

June 9th : The 57th Government won the vote of confidence.

June 23rd : Banking Law No. 4389 was published in the Official Gazette.

July 5th : CBRT decreased the upper limit of its quotation in the interbank money markets by 3 points. Overnight quotations were determined as 46 and 74 percent.

July 5th : CBRT introduced "overdraft facility" as a new instrument.

July 27th : Treasury started to issue 3-year floating rate government notes with quarterly coupon payments.

August 11th : CBRT introduced "Forward Transaction Limit" as a new instrument.

August 13th : The amendment to the constitution concerning the international arbitration law was approved in the Parliament.

August 14th : The change in the tax law was published in Official Gazette. The definition of income was changed and the Financial Millennium was delayed to 2002.

August 17th : The Marmara earthquake.

September 1st : The withholding tax rate on Turkish lira deposits and the witholding tax rate on interest revenue from repo transactions were increased to 13 and 12 percent, respectively.

September 8th : CBRT decreased the upper limit of its quotations in the interbank money markets by 4 points. Overnight quotations were determined as 55 and 70 percent.

September 8th : The Social Security Law was approved in the Parliment.

September 26th : Turkey was admitted to G-20.

November 26th : A 4 to 19 percent interest tax deduction on interest revenue from government securities was put into effect with the supplementary tax law. This caused a sharp increase in the bonds and bills market interest rates for a short period of time.

December 9th : CBRT announced the 3-year monetary and foreign exchange program to start in 2000.

December 10th : CBRT changed the reserve requirements and the liquidity ratios.

December 17th : Banking Law No: 4491 was put into effect.

December 18th : The law changing the Capital Market Board Law was published in the Official Gazette.

December 22nd : Yurtbank, Egebank, Sümerbank, Yasarbank and Esbank were transferred to the Savings Deposit Insurance Fund.

III.2.2. Interbank Money Market Transactions

The number of banks in the interbank money market in 1999 reached 82 with the participation of eight new banks and the withdrawal of one bank. The total transaction volume was realized as TL 58.2 quadrillion, 98.5 percent of which was composed of overnight transactions, 1 percent of which was composed of T/N transactions (next day value; one-day maturity), 0.3 percent of which was composed of one-month maturity (Table.III.2.3).

TABLE III.2.3

INTERBANK MONEY MARKETS[1]

	Total Transaction Volume (Trillion TL)	O/N Total Transaction Volume (Trillion TL)	O/N Average Interest Rate (Simple)	T/N Total Transaction Volume (Trillion TL)	T/N Average Interest Rate (Simple)	1 MONTH Total Transaction Volume (Trillion TL)	1 MONTH Average Interest Rate (Simple)
January	3,042.2	2,948.0	78.88	73.0	79.00	-	-
February	2,784.8	2,744.3	77.38	40.4	78.88	-	-
March	3,259.3	3,151.3	76.32	96.0	76.94	-	-
April	7,211.5	7,101.4	76.96	110.1	76.98	-	-
May	7,309.9	7,217.8	76.96	92.1	76.95	-	-
June	6,522.5	6,390.9	76.91	119.6	76.99	-	-
July	3,788.9	3,761.4	71.02	27.5	75.33	-	-
August	3,383.2	3,364.2	71.10	2.3	73.72	10.0	72.94
September	3,751.0	3,716.3	67.51	0.2	70.00	34.5	71.92
October	3,600.8	3,562.0	69.49	-	-	26.3	73.05
November	4,566.8	4,524.8	69.84	-	-	39.0	72.80
December	8,996.2	8,840.3	69.97	26.3	69.93	76.2	70.00

Source: Central Bank.

(1) Transaction volume is one-sided.

The Central Bank was a net seller in the interbank money market during the year. Turkish lira injected by the Central Bank through this market (mostly overnight) showed a significant leap especially in April, May and December. The increase in the banks' credit limit from the Central Bank to be used in the interbank money markets as of 24th March and the relative decrease in the cost of borrowing from this market were the fundamental reasons for this jump. The reason for the increase in December, on the other hand, was the liquidity squeeze at the end of year (Table III.2.4).

TABLO III.2.4

CENTRAL BANK'S TRANSACTIONS IN THE INTERBANK MONEY MARKETS

(TL trillion)

	O/N Purchase Amount	O/NPurchaseAvr. Int. Rate (Simple)	O/NSelling Amount	O/NSelling Avr. Int. Rate (Simple)	O/N Net(1)	T/N Net Purchase	Total Net Purchase(2)
January	-	-	1,979.8	79.00	-1,979.8	-73.0	-2,071.2
February	29.9	46.00	1,379.9	79.00	-1,350.0	-23.7	-1,373.8
March	10.4	46.00	1,852.9	77.28	-1,842.6	-57.4	-1,912.0
April	-	-	6,175.6	77.00	-6,175.6	-103.0	-6,278.6
May	-	-	6,224.2	77.00	-6,224.2	-74.0	-6,298.2
June	-	-	4,723.2	77.00	-4,723.2	-114.5	-4,849.7
July	41.1	46.00	1,085.5	74.39	-1,044.4	-15.0	-1,059.4
August	33.8	48.04	1,254.6	74.00	-1,220.9	-0.5	-1,221.3
September	122.7	52.61	1,347.4	70.39	-1,224.7	-0.2	-1,224.9
October	26.0	55.00	1,673.1	70.00	-1,647.1	-	-1,647.1
November	-	-	2,899.7	70.00	-2,899.7	-	-2,899.7
December	0.5	55.00	7,995.4	70.00	-7,995.0	-19.3	-8,057.6
TOTAL	264.3		38,591.3		-38,327.1	-480.5	-38,893.4
AVERAGE		49.81		74.59			

Source: Central Bank.

(1) Net purchases are calculated by subtracting total sales from total purchases. Negative values indicate that sales are greater than purchases.

(2) These figures include other transactions as well as O/N, T/N and 1 month transactions.

During 1999, the Central Bank changed its quotations in the interbank money market three times: in March, July and September. The Bank aimed at supporting the downward trend in interest rates by decreasing the upper limit of quotations by 2 and 3 points in March and July, respectively. In addition, rapid capital inflow and the increase in net foreign assets that were observed, especially in July, affected the decision to lower the upper limit. The lower limit for quotations was raised by 9 points while the upper limit was lowered by 4 points in September. Thus, the Central Bank continued to support the downward trend in interest rates by lowering the upper limit. By raising the lower limit, the Central Bank aimed at narrowing the margin between the two rates and hindering the demand for foreign exchange that might occur in case of excess increase in liquidity. As a result, the average overnight interest rate realized in the interbank money market exhibited a stable downward trend during the year.

TABLO III.2.5

CENTRAL BANK QUOTATIONS IN THE INTERBANK MONEY MARKETS

(Percent)

	O/N Bid Simple	O/N Bid Compound	O/N Offer Simple	O/N Offer Compound
August 26th 1998- March 4th 1999	46.00	58.36	79.00	120.15
March 5th –June 4th	46.00	58.36	77.00	115.80
June 5th –September 7th	46.00	58.36	74.00	109.43
September 8th –December 31st	55.00	73.25	70.00	101.24

Source: Central Bank.

In 1999, the Central Bank initiated two new applications. Firstly, “overdraft facility” was introduced as of 5th July in order to satisfy the urgent funding requirements during the day in the banking system and to remove the tightness in the payment systems. This application made available a fund for the banks amounting to their usable limits by paying ‘‘zero interest’’. A total of 54 banks used this facility. Secondly, banks were allocated forward transaction limits (FTL) in addition to their borrowing limits in the interbank money market for 1 and 3-month maturity and same-day transactions in order to maintain the depth and continuity of the forward transactions, and the broken maturity application was stopped. The Central Bank was not one of the sides of FTL which was initiated in 11th August. A total of 36 banks used this facility.

III.2.3. Foreign Exchange and Foreign Currency Market Transactions

In 1999, the largest volume of transactions in the foreign exchange and foreign currency markets was realized in the Turkish lira-foreign exchange markets, with US $57.5 billion representing 58 percent of the total transactions. In second and third place, foreign exchange deposits with US $36.6 billion representing 37 percent and the Turkish lira-foreign currency market with US $3 billion representing 3 percent of the transactions (Table III.2.6).

TABLE III.2.6

FOREIGN EXCHANGE-FOREIGN CURRENCY MARKET TRANSACTION VOLUME[1]

(US$ million)

	TL FX	TL FC	FX FC	FC FC	FX Deposits	Total
January	5,964.0	77.6	295.6	0.4	2,069.1	8,406.7
February	3,110.0	294.0	247.9	4.6	2,265.2	5,921.8
March	4,036.0	89.9	152.7	1.0	2,705.9	6,985.5
April	5,062.0	182.2	204.3	2.8	2,700.6	8,151.8
May	3,420.0	29.6	62.3	0	2,700.8	6,212.7
June	5,212.0	8.4	101.3	0	3,518.9	8,840.6
July	4,292.0	75.2	96.3	10.3	3,351.6	7,825.4
August	5,764.0	3.0	29.6	1.0	3,124.4	8,922.0
September	5,656.0	26.6	53.2	5.0	3,480.5	9,221.3
October	3,090.0	9.7	137.4	5.4	3,343.2	6,585.7
November	5,968.0	63.5	227.8	15.7	3,693.9	9,968.8
December	5,912.3	837.7	1,713.4	50.0	3,609.5	12,123.6
Total	57,486.3	1,697.4	3,321.6	96.1	36,563.6	99,165.8

Source: Central Bank.

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

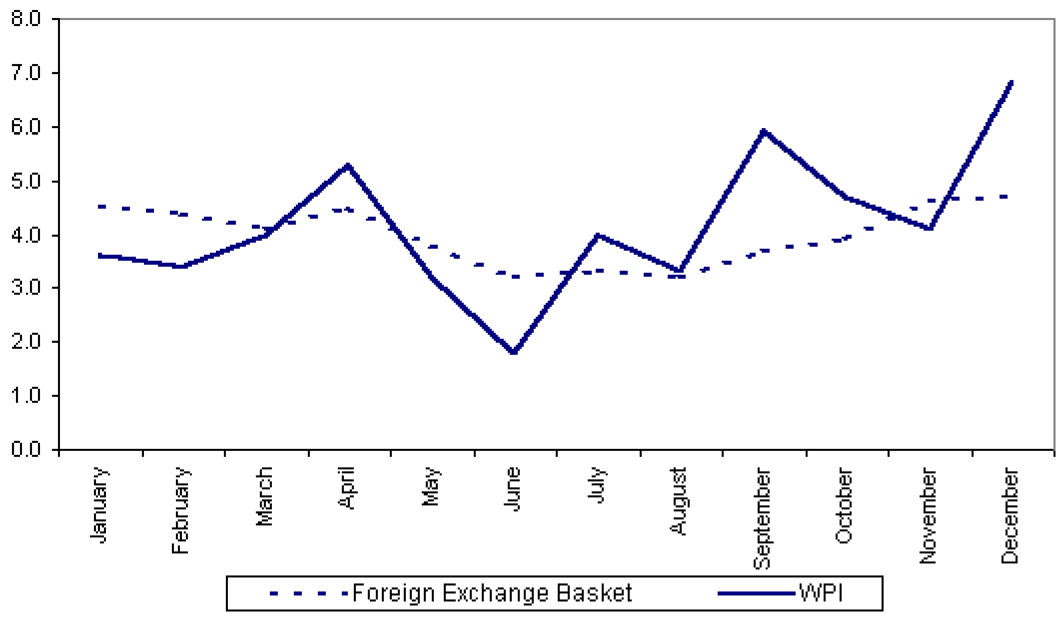
The foreign exchange and foreign currency market transactions were generally realized according to the banks’ demands in line with their foreign currency management and capital movements. As is known, the Central Bank has a foreign exchange policy that is consistent with its inflation forecast. Thus, the foreign exchange purchases and sales of the Central Bank in this market were particularly affected by the targets for the foreign exchange basket. When 1999 is examined, it can be observed that the Central Bank was in a net buyer position except for the last two months of the year. The banks started to sell foreign exchange and foreign currency in the first months of the year. One of the reasons for this was that the relative cost was lower for banks to meet their liquidity needs by selling foreign exchange. The decrease in the inflationary expectations also supported this situation. The crisis in Brazil and the downgrading of Turkey by an international rating agency in January, anxiety about general elections in April, the Marmara earthquake in August, and the worries about the Y2K problem at the end of the year caused foreign investors to sell the government securities in hand and buy foreign exchange. In addition, the banks' demand for foreign exchange and foreign currency in order to close their position at the end of the year also increased.

The Central Bank continued to determine the monthly nominal devaluation rate of the foreign exchange basket parallel to inflation forecasts during 1999. Thus, the Central Bank aimed at both controlling inflation to some extent and curbing negative effects on the foreign trade balance. The Central Bank announced at the beginning of the January that it had changed the definition of the foreign exchange basket since the Euro started being used as of 1 January 1999. According to this, since 1 Euro was fixed as 1.96 DM, the current foreign currency basket started to be followed as 1 US $ + 0.77 EURO. As to developments in 1999, it was observed that the monthly increases in the average foreign exchange basket were above the monthly increases in the wholesale price index - except for April, July, August, September, October and December. The minimum increase in the monthly average foreign exchange basket was in July with 3.2 percent and the maximum increase was realized in December with 5.1 percent. According to the end-of-the-month figures, however, the minimum increase in the foreign exchange basket was realized in June with 3.1 and the maximum increase was realized as 5.6 in November.

FIGURE III.2.3

EXCHANGE RATE BASKET AND WPI

(Monthly Percentage Change)



III.3. THE SECURITIES MARKET

The total issues registered with the Capital Markets Board reached TL 641.3 trillion by October 1999, decreasing by 23.8 percent. This value had been TL 841.8 trillion for December, 1998. The total issue for the same period of 1999 was TL 1.2 trillion in real terms.

The total outstanding securities reached TL 25,690.6 trillion in the first 10 month period of 1999. Of this total, 85.7 percent was public sector securities and the remaining 14.3 percent was private sector securities. The total of private sector securities was only TL 3,684.3 trillion.

III.3.1. Primary Market

III.3.1.A.The Public Sector

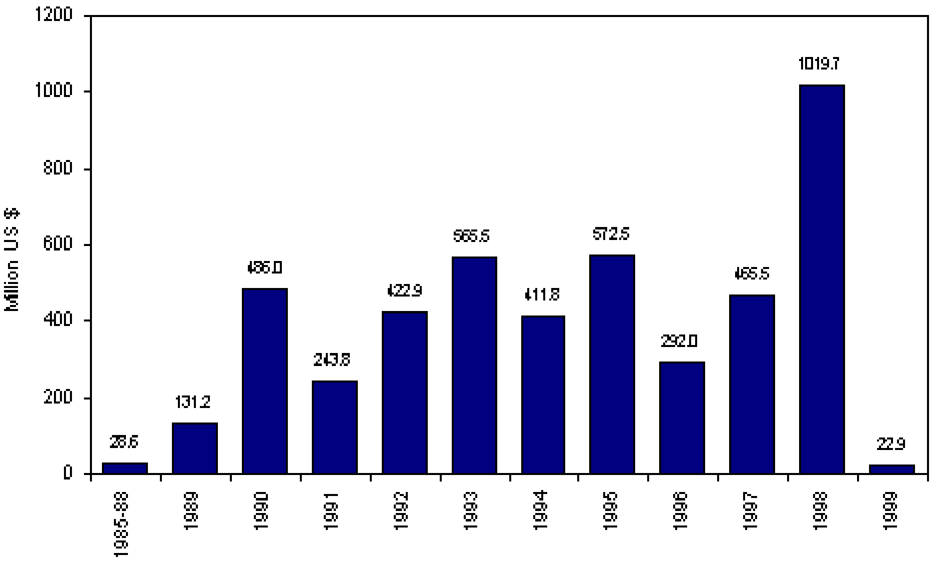
The total public sector outstanding securities rose to TL 22,006.2 trillion in 1999, increasing by 86.7 percent in comparison with 1998. The public sector outstanding securities consisted of TL 17,824.3 trillion in government bonds and treasury bills. Government bonds issued in the first 10 month period of 1999 increased 2.6 fold. The Treasury's need for loans continued in 1999 due to August 17th earthquake and high domestic loan services along with the inability to curtail public sector expenditures.

The sale of TL 16,885 trillion in government bonds was realized in the first 10 months period of 1999. This was the highest increase in sales over the last five years. The sale of government bonds made up 71 percent of the market and continued to play an important role. The outstanding treasury bills took second place, but were down by 34.6 percent compared to the previous year. The outstanding treasury bills fell in 1999 as a result of intensive reimbursement and a drop of 32.4 percent in issuance of treasury bills compared to the previous year. The reimbursement of TL 8,478.2 trillion was realized for treasury bills in the January-October period of 1999. Then, the outstanding treasury bills decreased to TL 3,817.1 trillion from TL 5,840.9 trillion. Revenue sharing certificates and foreign exchange indexed bonds had not been issued for the last three years. It was observed that outstanding privatization bonds, which have been issued since 1996, rose to TL 364.8 trillion, increasing by 106.4 percent compared to the end of the previous year. The outstanding privatization bonds reached the highest level in 1999 due to the intensive issuance of new bonds in October in return for bank loans in order to supply revenue to the Privatization Fund for the payment of principles and interest on the matured privatization bonds that had been issued over the last five years.

The public sector continued to use funds in the market due to the increase in the public sector borrowing requirement.

FIGURE III.3.1

PRIVATIZATION IMPLEMENTATIONS BY YEARS



Note: The value for 1995 includes METAŞ shares.

Privatization implementations aimed to create a new sources for the markets by directing foreign and domestic savings towards the financial markets. They also aimed to lift the pressures on market funds that had been created by the high demand of the public sector. Nevertheless, attempts at privatization were unsuccessful in 1999. The revenue realized in 1999 was the lowest level, only US $22.9 million, since the privatization process began in 1985. The privatization programme was revised in 1999 in the light of new economic developments and the earthquake calamity. The auction and implementation schedules were revised for the last half of 1999 and for the first half of 2000. According to this schedule, Deniz Nakliyat, Ankara Sigorta ve Güven Sigorta were to be privatized via the block sale method. TURBAN and ORÜS'assets and establishments were to be sold or transferred in the third quarter of 1999. ETAĞ, TAKSAN, İŞDEMİR ASİL ÇELİK and 51 percent of Petrol Ofisi were to be privatized via block sale. EBK and the assets and properties of Türkiye Zirai Donatım A.Ş were to have been sold or transferred in the fourth quarter of 1999. Of these institutions, the real estate and properties of EBK, TZD, TÜGSAŞ, Sümer Holding and ORÜS were privatized via sale and transfer methods in February, April, October, November and December of 1999. No block sale, public offerings, international offerings or ISE sales methods were used in 1999. The amount raised from the sales of these properties and assets was US $18.3 million. The revenue from the transfers of incompleted assets was US $0.5 million. The amount raised from the privatization programme, together with the US $4 million from the prepaid transfers, reached US $22.9 million. Of this total, US $21.1 million was actually collected in 1999. Since 1990, the annual revenue from privatization was US $450 million on average, except for 1991 and 1996.

The total income from privatization realized at US $4.6 billion in the 1986-1999 period (Table:III.3.1). In the same period 113 institutions were completely privatized and 76 establishments remained within the framework of the privatization programme.

TABLE III.3.1

PRIVATIZATION IMPLEMENTATIONS (1986-1999)

(US$ million)

			Shares in Total (Percentage)	
	1986-1998	1999	1986-1998	1999
Block Sales	2,031.7	0	44.3	-
Asset Sales	589.7	18.3	12.9	80.2
Public Offerings	673.9	0	14.7	-
International Offerings	721.9	0	14.7	-
ISE Sales	526.6	0	15.8	-
Incompleted Asset Sales	3,847.2	0.5	0.08	02.2
Paid-in Transfers	33.9	4.0	0.7	17.5
TOTAL	4,581.6	22.9	100.0	100.0

Source: Republic of Turkey Prime Ministry Privatization Administration.

III.3.1.B. The Private Sector

The total issues registered with the Capital Markets Board reached TL 641.3 trillion in the January-October period of 1999. The share of equities in the total was 78.1 percent. During this period, mutual fund participation certificates valued at TL 140.1 trillion were registered with the Capital Markets Board. This amount is 21.9 percent of the total securities which were registered with the Board. The values in real term were TL 911.6 billion and TL 251.2 billion for shares and mutual fund participation certificates, respectively.

The total outstanding private sector asset rose to TL 3,684.3 trillion in the first 10 month period of 1999, increasing by 94 percent compared to the previous year. This was mainly the result of improvements in the issuance of shares. No corporate bonds, commercial papers, asset backed securities, real estate certificates or profit-loss sharing certificates were sold in 1999.

The outstanding commercial papers, real estate certificates and profit-loss sharing certificates were zeroed. Corporate bonds were not issued in 1999. After the payment of TL 465.4 billion to creditors, the outstanding corporate bonds dropped to TL 5,028.2 billion, down by 8.5 percent. The asset backed securities amounting to TL 7,305 billion, which had been transferred from the previous year, were totally reimbursed.

Mutual Funds, Investment Companies, Real Estate Investment companies

Mutual funds, investment companies, and real estate investment companies gained importance as a result of an increasing number of individuals who attempted to capitalize their savings via institutional investors. This means that the formation of portfolios became more institutional through mutual funds.

The total portfolio value of mutual funds type A and type B, which are separated according to the percentage of shares in their portfolio, increased by TL 867.7 trillion. The value of mutual fund type B portfolios was TL 771.6 trillion. When the mutual fund type B portfolio allocations are analyzed, it can be observed that the value of the portfolio consists of 70.8 percent in reverse-repo, 20 percent in government bonds, 8.7 percent in treasury bills, 0.3 percent in shares, and 0.3 percent in foreign government bonds, foreign treasury bills, foreign shares, and other assets. As they had in the previous years, mutual funds continued to have more treasury bills and government bonds than equities in their portfolios in 1999 due to the high earnings on repo, government bonds, and treasury bills and the low credibility of shares.

In Turkey, the number of foreign mutual funds which made public offerings was 13 . The number of shares registered with the Board was a total of 854,458. Of this total, 313,053 shares were in circulation, the total value of which was US $4,337.8 thousand.

The number of mutual fund type A, which have been active in the markets since 1991, was 21 as of October 1999. The total market value of these funds was TL 27.4 trillion only for the month of October. Their portfolio consisted of 53.7 percent in shares, 18.5 percent in treasury bills, 17.2 percent in reverse-repo, 6.3 percent in government bonds and 4.3 percent in other assets.

III.3.2. Secondary Market

In the secondary market, the total trading volume rose to TL 637.7 quadrillion in the January-October period of 1999. The volume of the securities that were traded on the secondary market was mostly public sector securities, which made up 96.7 percent of the total transaction volume.

The transaction volume of public sector securities reached TL 616.5 quadrillion in October, 1999, an increase of 119.9 percent compared to December 1998. The traded volume consisted of 66.4 percent in government bonds and 33.6 percent in treasury bills. In the secondary market, the traded volume of government bonds rose to TL 409.4 quadrillion, increasing by 272.4 percent; and treasury bills reached TL 207.1 quadrillion, increasing by 21.5 in comparison with the previous year. Foreign exchange indexed bonds and housing certificates were not traded on the secondary market in 1999. The public sector continued to play an important role in the secondary market due to high earnings on public sector securities and endless public sector expenditures.

Private sector securities consisted of shares, bank bills and commercial papers, corporate bonds, and asset backed securities. The total volume of private sector securities traded on the secondary market was TL 21.2 quadrillion. This total consisted of 99.8 percent in shares and 0.2 percent in bank bills. The trading volume of commercial papers, which have not been traded on the secondary market since 1996, reached TL 199.8 billion for the first time in 1999. Corporate bonds and asset backed securities were not traded on the secondary market in 1999.

III.3.2.A. The Equities Market

In the Istanbul Stock Exchange (ISE) national market, the value of traded equities reached TL 26.5 quadrillion in the January-November period of 1999. Equities were traded intensively on the national market and equities traded on the regional and new company markets were comparatively low. In the equities market, the daily average trading volume hit its peak point. Having fluctuated throughout the year, it had increased 3.1 fold by November in comparison with January. This was brought about by economic measurements taken after the earthquake, expectations of Turkey’s candidacy for the European Community and the stand-by aggreement with the IMF.

While 6 new companies entered the equities market, 2 companies withdrew from the market. In short, 281 companies in total were active in the market, 253 of which companies were active in the national market, 10 in the regional market, 1 in the new companies market and 17 in the watchlist companies market.

III.3.2.B.The Bonds and Bills Market

Outright Purchases and Sales Market

In the outright purchases and sales market, the trading volume had realized TL 32.7 quadrillion by November,1999. It showed an increase of 81.7 percent compared to the previous year. The securities traded on the market belonged wholely to the public sector. In spite of small fluctuations throughout the year except in August, trade volumes showed an upward trend in this market and increased considerably starting in September. This was due to the impression given by the government that its stand on decreasing the inflation rate remained unchanged despite the earthquake. The drop in interest rates, the expectations of a stand-by agreement with the IMF and Turkey's candidacy for EC membership also played a role.

The Repo-Reverse repo Market

Trading volume in the repo-reverse repo market reached TL 216.6 quadrillion, increasing by 122.6 percent whereas it had reached TL 97.3 quadrillion in 1998. The trading volume increased rapidly, starting in January and reaching TL 21.8 quadrillion in May. It showed more stable improvements starting in June and fell to TL 21.5 quadrillion in October . Then, an increase was observed in November and it reached TL 27.2 quadrillion. The daily average trading volume reached TL 1.5 quadrillion in November.

III.3.3.Intermediaries

A total of 139 intermediaries were active in the market, 49 of which had been established by banks but were acting independently.

The breakdown of security transactions on an intermediary basis showed that TL 637.7 quadrillion was realized in the January-October period of 1999. Of this total, 92 percent was realised by the intermediaries established by banks and the remaining 8 percent by other intermediaries.

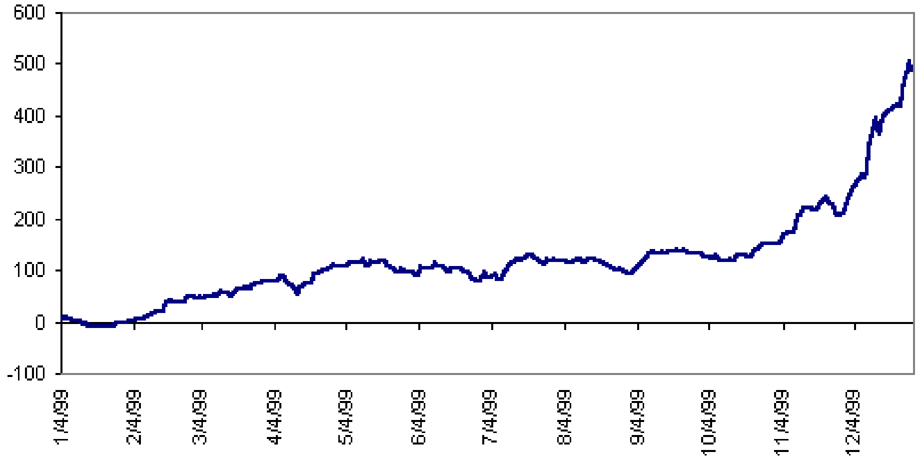
The Capital Markets Board's "Communiqué for Amending the Communiqué Corresponding to the Principles related to Intermediary Activities, and Intermediaries" was published in the Official Gazette and put into effect in July. Within the framework of this communiqué, intermediaries and intermediary activities were re-defined, stating how activities made on behalf of clients were to be carried out and placing certain restrictions on them. Moreover, it set up the rules for abolishing contracts between intermediaries and agents, with the exception of agencies set up by banks or taken over by banks. Intermediaries were required to submit an application to the Capital Markets Board within a year of the effective date of this communiqué if they wanted to establish new agencies or corresponding bureaus in place of the abolished agencies.

III.3.4. Istanbul Stock Exchange (ISE)

The Istanbul Stock Exchange (ISE) composite index showed an increase of 485.4 percent in nominal terms at the end of 1999 compared to the previous year (Table III.3.2). The composite index returns were positive for 133 of the 236 trading days of 1999, 56.4 percent of the total. The average of the positive returns, half of which were higher than 2.5 percent, was 3 percent, the standard deviation being 2.5 percent. The composite index returns were negative for 103 trading days. The average of the negative returns, half of which were less than 1.5 percent, was minus 2.5 percent, a standard deviation of 2 percent. The daily returns were between minus 1.9 percent and 2.9 percent in the newly created period, excluding the highest and the lowest 25 percent observations.

FIGURE III.3.2
CUMULATIVE PERCENT RETURNS OF THE COMPOSITE INDEX

JANUARY 4, 1999 - DECEMBER 28, 1999



In 1999, developments in the Istanbul Stock Exchange can be evaluated in three main periods according to the cumulative returns. Period I (January 4 – April 7), Period II (April 8 – October 11), and Period III (October 12 – December 28). The first, second and third periods consist of respectively 58, 123, 55 days of the total 236 trading days. Figure III.3.2 shows the cumulative returns of the ISE composite index in 1999. The cumulative return of the composite index was 89.6 percent in the first period compared to the end of the previous year (Figure III.3.3).

FIGURE III.3.3
CUMULATIVE PERCENT RETURNS OF THE COMPOSITE INDEX
PERIOD I (JANUARY 4, 1999 - APRIL 7, 1999)

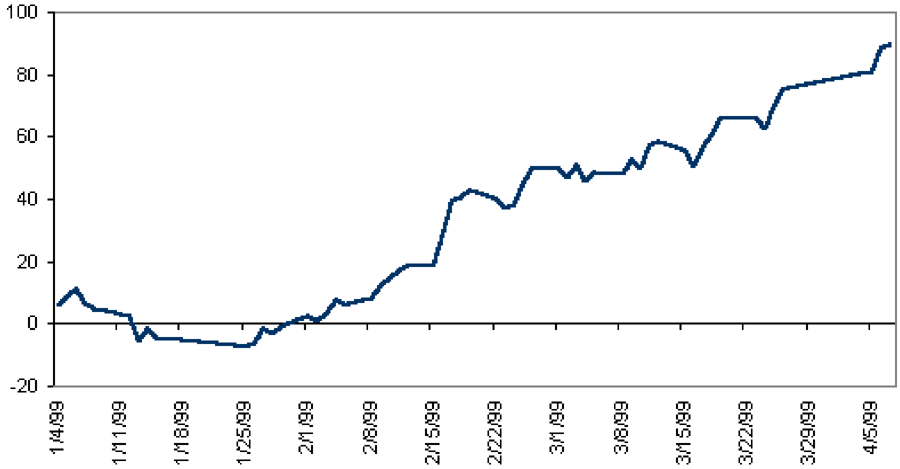
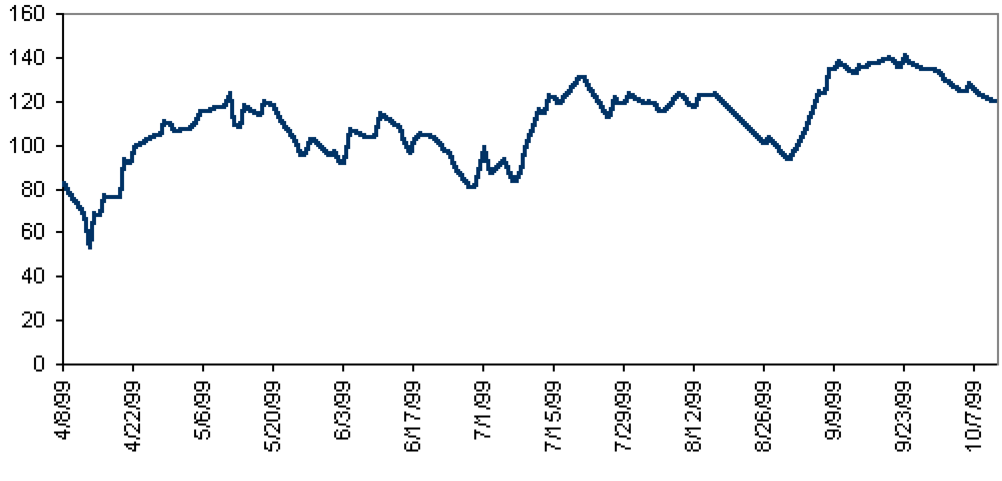


FIGURE III.3.4
CUMULATIVE PERCENT RETURNS OF THE COMPOSITE INDEX
PERIOD II (APRIL 8, 1999 – OCTOBER 11, 1999)



While the cumulative return of the ISE dropped by 7.3 percent on January 25 compared to the end of the previous year, it increased by 43.1 percent on February 2 and continued to increase until the end of the first period. In the second period, almost 6 months, the cumulative returns of the composite index, which showed high volatility, fluctuated between 53.4 percent and 137.8 percent (Figure III.3.4). The composite index significantly increased in the third period, its cumulative return increasing by 485.4 percent at the end of the period compared to the previous year (Figure III.3.5).

FIGURE III.3.5
CUMULATIVE PERCENT RETURNS OF THE COMPOSITE INDEX
PERIOD III (OCTOBER 12, 1999 - DECEMBER 28, 1999)

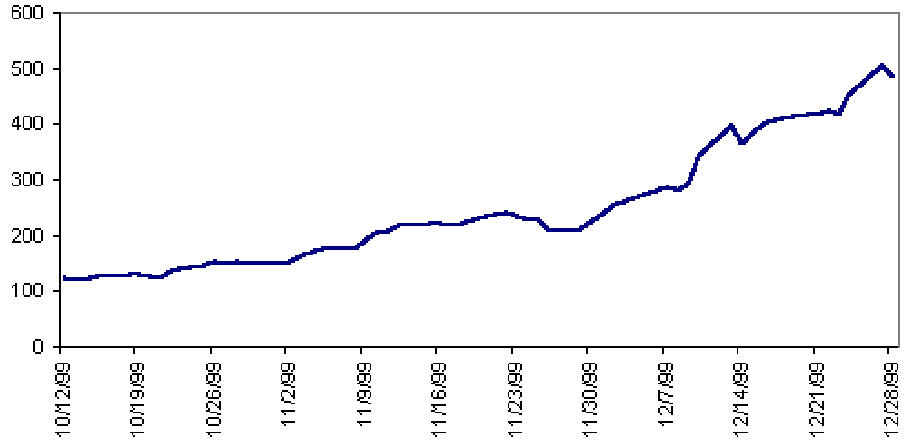


FIGURE III.3.6
RETURN AND VOLATILITY FOR A
20-DAY MOVING AVERAGE OF THE COMPOSITE INDEX

(Percent) JANUARY 4, 1999 - DECEMBER 28, 1999

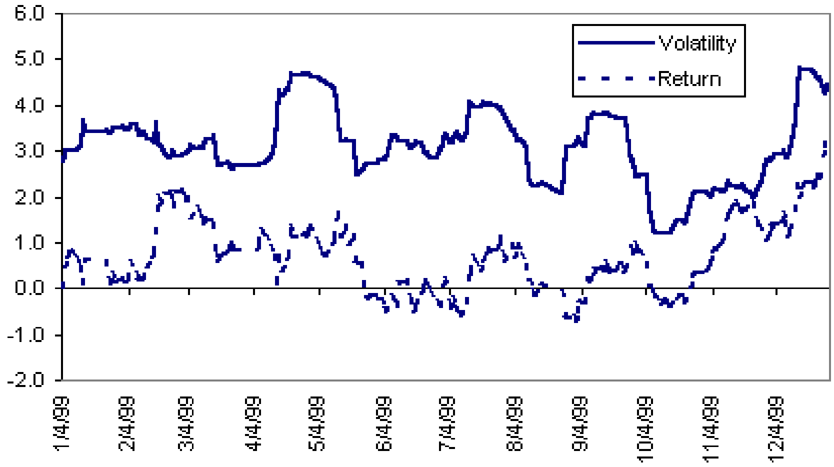


Figure III.3.6 shows the returns and risks on a 20-day moving average of the composite index in 1999. Both returns and risks showed high volatility throughout the year. The risk/return relationship also fluctuated during the year. The correlation coefficient between returns and risks was 29 percent. However, the relationship between return and risk was different in the three periods of 1999. The correlation coefficients between return and risk were minus 42 percent in the first period, 44 percent in the second period, and 81 percent in the third period. In the first period, the negative return-risk relationship shows that the earnings of the investors decreased despite the high volatility. A positive high relationship between return and risk can be observed in the third period. Investors may have recieved high returns because they undertook higher risks in this period.

Figure III.3.7 shows the values of the daily average return and risk for the composite index during a month between January 1992 and December 1999. The average daily return was 0.8 percent and the average daily volatility was 3.4 percent in 1999.

FIGURE III.3.7
AVERAGE DAILY RETURN AND VOLATILITY OF THE COMPOSITE INDEX DURING A MONTH (Percent)

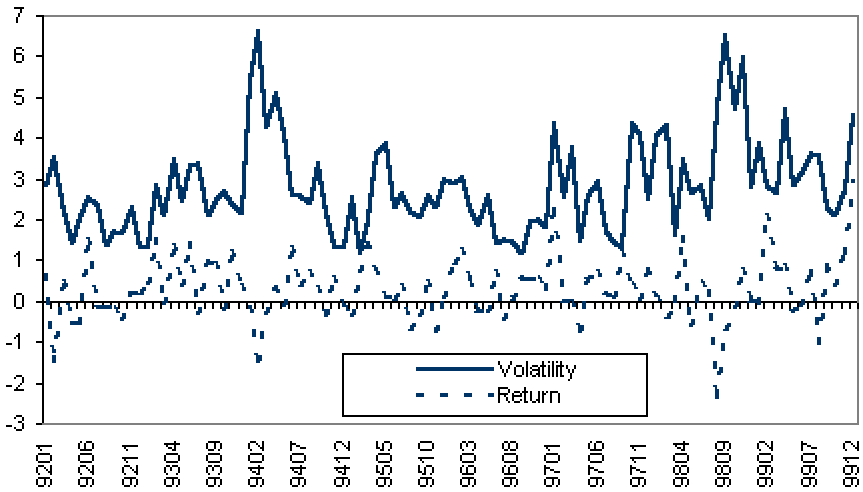


Figure III.3.8 compares the predictions of the value at risk (VAR) and the realized values for the composite index returns in 1999. The value at risk, under normal market conditions, is an indicator which demonstrates the maximum loss that can be met at a significant level in a given period. For instance, the returns of the composite index must not be smaller than the value at risk predicted at a 95 percent confidence level for 236 trading days in 1999. The realized daily returns of the composite index were just 13-days less than the forward-looking value for the risk calculated according to average daily return and volatility values predicted by using the 20-day moving average technique in 1999.

FIGURE III.3.8
VALUE AT RISK FOR A 5 PERCENT CONFIDENCE LEVEL

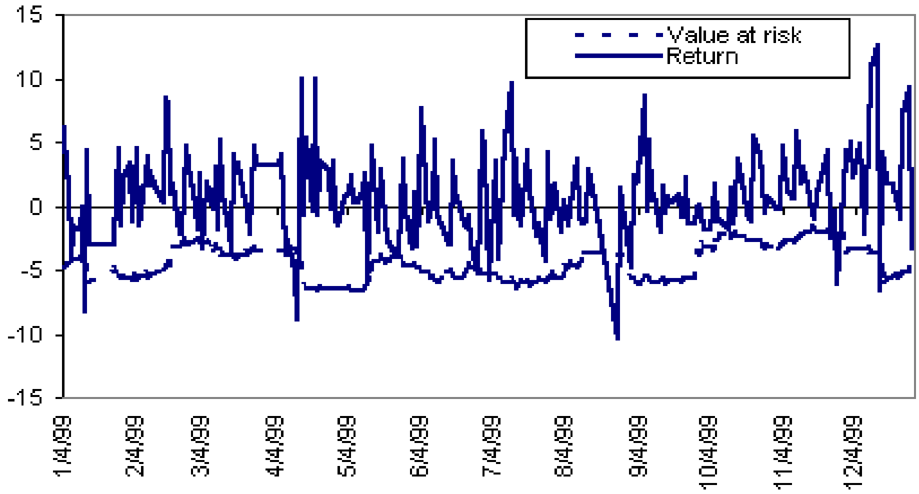


TABLE III.3.2

ISE INDICES

	Composite	Financial	Industrial
1988	3.74(1)		
	120(2)		
1989	22.18		
	561		
1990	32.56	2.56	32.56
	643	643	643
1991	43.69	33.55	49.63
	501	385	570
1992	40.04	24.34	49.15
	273	166	335
1993	206.83	191.90	222.88
	833	773	898

1994	272.57	229.64	304.74
	413	348	462
1995	400.25	300.04	462.47
	383	287	442
1996	975.89	914.47	1 045.91
	534	500	572
1997	3 451	4 522	2 660
	982	1 287	757
1998	2 598	3 270	1 944
	484	609	362
1999	15 209	21 181	9 945
	1 663	2 315	1 087

Source: Istanbul Stock Exchange Monthly Bulletins.

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

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

IV

CENTRAL BANK BALANCE SHEET

IV.1. ANALYSIS OF THE BALANCE SHEET

The major items on the 1999 Balance Sheet of the Central Bank are shown below:

Assets	1998	1999
1. Gold	325,317,374,052,500	561,263,309,612,500
2. Foreign Exchange	6,167,530,445,751,000	12,518,644,751,708,600
3. Coins	787,403,779,800	1,651,119,445,500
4. Domestic Correspondents	274,039,540,549,458	722,118,380,331,848
5. Securities Portfolio	2,385,789,667,766,000	2,886,444,440,174,000
6. Domestic Credit	9,098,359,901,740	10,588,405,282,240
7. Open Market Operations	1,830,590,872,422,500	2,406,795,263,598,000
8. Foreign Credit	395,516,833,359,500	160,457,146,796,500
9. Share Participations	1,526,872,335,000	2,255,333,630,000
10. Fixed Assets	29,088,806,241,833	45,471,626,388,531
11. Claims under Legal Proceedings	4,825,560,700	552,794,789,438,200
12. Accounts to be Redeemed		
And Activated Claims	-.-	
13. Miscellaneous Receivables	79,000,747,145,367	119,752,231,307,639
14. Other Assets	119,878,162,568,412	442,194,319,018,715
TL Assets	**11,618,169,911,433,810**	**20,430,431,116,732,273**
Regulating Accounts	**30,796,311,898,121,400**	**66,256,155,114,934,100**
Liabilities		
1. Currency Issued	1,328,542,400,922,800	2,390,748,352,889,500
2. Liabilities to Treasury	60,942,363,335,214	18,484,507,230,774
3. Foreign Correspondents	4,226,742,567,000	3,219,607,408,000
4. Deposits	7,083,336,551,214,546	12,277,365,514,219,631
5. Open Market Operations	1,557,599,954,905,500	1,969,699,941,797,000
6. Foreign Credit	4,026,109,587,500	5,552,961,417,000

7. Advances, Collateral and		
Deposits Collected against	112,129,027,950,046	231,926,902,931,896
Letters of Credit and Import		
8. Notes and Remittances Payable	3,571,558,409,000	6,432,593,634,500
9. Capital	25,000,000,000	25,000,000,000
10. Reserves	85,701,244,190,116	181,607,198,607,516
11. Provisions	1,957,865,840,300	554,800,238,589,300
12. FX Revaluation Differences	499,635,979,046,750	1,510,061,438,523,000
13. Miscellaneous Payables	13,112,762,906,290	13,841,887,185,331
14. Other Liabilities	564,938,704,178,778	759,868,979,066,825
15. Profit	298,423,646,379,970	506,795,993,232,000
TL Liabilities	**11,618,169,911,433,810**	**20,430,431,116,732,273**
Regulating Accounts	**30,796,311,898,121,400**	**66,256,155,114,934,100**

ASSETS:

1. Gold

Considering the annual average of gold prices on international markets, the value of the gold stock on the balance sheet is shown at the rate of 1 net gram of gold = TL 4,688,426.0614 calculated on the basis of 1 ounce of gold = 270 dollars as of December 31, 1998 and the following year. The value of the international standard and non-international standard gold holdings reached TL 561,263,309,612,500 equivalent to 119,712,522.34 net grams.

	Net Grams	Turkish Liras
International Standard	116,463,228.52	546,029,235,786.500
Non-International Standard	3,249,293.82	15,234,073,826.000
Total	119,712,522.34	561,263,309,612.500

The gold holdings of international standards, which increased by TL 230,036,524,592,500 in value due to a decrease of TL 504,042,218,500 equivalent to 126,180.18 net grams resulting from the ingot differences in depot returns as well as the exchange rate difference caused by the depreciation of the Turkish lira against the US dollar, reached TL 546,029,235,786,500 equivalent to 116,463,228.52 net grams.

The gold holdings of non-international standards, which increased by TL 6,413,453,186,000 in value due to the exchange rate difference caused by the depreciation of the Turkish lira against the US dollar, reached TL 15,234,073,826,000 equivalent to 3,249,293.82 net grams.

2. Foreign Exchange

This item consists of the accounts opened by the Central Bank with foreign correspondents against convertible and non-convertible foreign exchange, as well as the foreign currencies available in the Bank's vaults. The balance of this account calculated at the year-end evaluation rates amounted to TL 12,518,644,751,708,600 of which TL 12,518,057,348,662,600 and TL 587,403,046,000 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 11,792,567,733,314,500 and the foreign currencies in the Bank's vaults amounting to TL 725,489,615,348,100 as of the end of the year.

B) Non-Convertible:

This item includes the Foreign Correspondents Accounts denominated in Agreement Dollars in accordance with bilateral agreements, as well as the non-convertible foreign currencies available in the vaults. TL 68,116,618,500 of this item was in the Foreign Correspondents Accounts and TL 519,286,427,500 was in the Foreign Currency Vault.

3. Coins

This item consists of the coins available in the Central Bank's vaults, which totaled TL 1,651,119,445,500 at the end of the year.

4. Domestic Correspondents

This item reached TL 722,118,380,331,848 at the end of the year. It consists of both the Correspondents Accounts, which were opened at T.C. Ziraat Bankası in accordance with the Correspondent Agreement and totaled TL 331,848, and the foreign exchange deposit accounts at domestic banks, which amounted to TL 722,118,380,000,000 at the end of the year.

5. Securities Portfolio

This item consists of the Government Debt Securities bought pursuant to Article 52 of Central Bank Law No. 1211, Government Securities given by the Treasury in accordance with Article 61 and provisional Article 9 of Central Bank Law to compensate for exchange rate differences arising from the revaluation of gold, foreign exchange and foreign currency assets, the liabilities of the Bank and short-term advances. The

Government Debt Securities replace the claims capitalized from the Treasury and other public institutions in accordance with Arbitration Laws No. 2974 and No. 3836. It also includes the special issue Government Debt Securities taken from the Treasury against the debt of the Agricultural Products Office to the Central Bank and the government debt securities taken in accordance with the 1996 Budget Law No. 34, the 1997 Budget Law No. 31, the 1998 Budget Law No. 36, and the 1999 Budget Law No. 33 against the interest rates of the aforementioned government debt securities.

The TL 25,000,000,000 which was deposited to the Government Bonds Account by the Central Bank as the legal reserves requirement in accordance with Article No. 33 of Banking Law No. 3182 was liquidated as of November 17, 1999 in accordance with Banking Law No. 4389. This item amounted to TL 2,886,444,440,174,000 as of the end of the year.

Government Securities and Government Bonds are recorded by adding the yields between the acquisition date and December 31, 1999 to the purchasing cost pursuant to Article 279 of Law on Tax Procedure No. 4369.

Due to the repurchase and reserve repurchase operations between the Central Bank and other banks, increases and decreases in this item must be evaluated along with the "Securities" portions of "The Repurchase Agreements" items of the Open Market Opertations on both the assets and the liabilities sides of the balance sheet.

6. Domestic Credit

Domestic credit amounting to TL 9,098,359,901,740 in 1998 increased by a total amount of TL 10,588,405,282,240 resulting from an increase of TL 1,354,045,380,500 in the public sector and an increase of TL 136,000,000,000 in the banking sector. The breakdown of this item is as follows:

	Turkish lira
A) Public Sector:	**2,913,305,625,240**
a) The Treasury	
i- Short-term Advances to the Treasury	-
b) Public Sector Institutions	-
c) State Economic Enterprises	2,913,305,625,240
B) Banking Sector	**7,675,099,657,000**
a) Commercial	7,675,099,657,000
b) Agricultural	-
c) Industrial	-

d) Advances against Bond Collateral	-
e) Other	-
	10,588,405,282,240

7. Open Market Operations

This item reached TL 2,406,795,263,598,000 at the end of the year, with an increase of TL 576,204,391,175,500 compared to the previous year. Of this total, TL 2,018,605,263,598,000 represents the debt arising from securities swap transactions made by banks and paid to the Central Bank in cash. The cash debts of the banks due to money market operations was TL 388,190,000,000,000.

8. Foreign Credit

This account shows the credit extended in accordance with the Banking Agreements between the Central Bank of the Republic of Turkey and the Central Banks of Iraq and Sudan. It also includes the credit extended against the bills that were issued by the Vnescheconombank of the Russian Federation against the wheat exports made by the Soil Products office to that country and bought by the Central Bank, as well as the credit extended by the banks abroad so as to finance the claims of exports sold in installments. At the end of the year, the balance of this account was TL 160,457,146,796,500 equal to 297,088,948.30 US dollars. The claims from Iraq were placed in the Claims under Legal Proceedings item which amounted to 1,023,499,372.11 US dollars as of the end of the year.

9. Share Participations

The balance of this account was TL 2,255,333,630,000 at the end of 1999. In accordance with Article 3 of Central Bank Law No. 1211, this item consists of the Central Bank's accounts of 5,000,000 Swiss francs against gold in the Bank for International Settlements in Basle and 385,000 Belgian francs in the Bank for Worldwide Interbank Financial Telecommunication (SWIFT). The value of these participations is calculated at the rate of 1 gold Swiss franc= TL 450,032 and 1 Belgian franc = TL 13,438.

10. Fixed Assets

This item consists of the buildings, plots, furniture and fixtures owned by the Central Bank. The total re-appreciated cost of the real estate of the Central Bank, except for the plots, was TL 39,581,065,392,949. The cost value of the buildings is subject to a yearly re-appreciation assessment. When the accumulated depreciation amount of TL 2,885,721,198,260 was deducted, the net value of the real estate was TL 36,695,344,194,689. The real estate is insured for TL 24,200,262,826,000.

After deducting the re-appreciated depreciation amount of TL 5,287,410,925,315 from the cost value of TL 14,063,693,119,157 including the re-appreciation made previously as of 1990, the net cost value of the furniture and fixtures was TL 8,776,282,193,842, and they are insured for TL 5,650,954,352,927.

11. Claims under Legal Proceedings

The balance of this account at the end of the year was TL 552,794,789,438,200. This account shows the Claims in Prosecution arising from the claims from the Bank of Iraq which was TL 552,789,963,877,500 equal to 1,023,499,372.11 US dollars as of December 31, 1999 in return for extended credit as well as the debts of “İşçi Kredi Bankası” and “T. Bağcılar Bankası” to the Central Bank, whose bankruptcies became final on November 20, 1985 and March 12, 1986 respectively, together with the principal, interest and tax amounting to TL 4,825,560,700.

12. Accounts to be Redeemed and Activated Claims

No balance could be observed due to the fact that the positive exchange rate difference has been listed on the liabilities column since 1996 and the Government Debt Securities replaced the claims capitalized from the Treasury and other public institutions in 1993 in accordance with Arbitration Law No. 3836.

13. Miscellaneous Receivables

This item, which shows the balance of claims amounting to TL 119,752,231,307,639 at the end of the year, consists of TL 118,560,108,182,139 and the equivalent of TL 1,192,123,125,500 in foreign exchange. The breakdown of which is as follows:

	Turkish liras
- Advances and Deposits	570,766,006,930
- Temporary Tax and Income and Fund Shares	115,997,897,869,400
- Other	1,991,444,305,809
TOTAL	118,560,108,182,139

14. Other Assets

This item shows various claims of the Bank, amounting to a balance of TL 442,194,319,018,715 at the year’s end, and consists of TL 434,391,262,442,215 and the equivalent of TL 7,803,056,576,500 in foreign exchange.

LIABILITIES:

1. Currency Issued

The year-end balance of banknotes in circulation, issued in accordance with Article 36 of Central Bank Law No. 1211, amounted to TL 2,390,748,352,889,500.

2. Liabilities to the Treasury

A- Gold :

The gold claims of the Treasury, 345,574.68 net grams, amounted to TL 1,620,201,335,000 due to the devaluation of the Turkish lira against the US dollar as a result of an increase of TL 682,094,989,000 compared to last year.

B- Other :

This item, which shows the liabilities to the Treasury, amounted to TL 16,864,305,895,774 at the end of 1999.

3. Foreign Correspondents

This account represents the sum of TL 3,219,607,408,000 calculated at the year-end evaluation rates. It denotes the Central Bank's debt to Correspondents abroad and consists of TL 3,167,149,402,000 in convertible rates and TL 52,458,006,000 in non-convertible rates.

A- Convertible :

Convertible foreign exchange liabilities reached TL 3,167,149,402,000 increasing by TL 839,121,830,000 compared to 1998, and consists of the amounts of the foreign correspondents with the Central Bank.

B- Non-convertible :

This is the total of the credit balance of the foreign correspondents' accounts opened in Agreement dollars in accordance with bilateral agreements. The nostro accounts amounted to TL 52,458,006,000 at the end of the year, the equivalent of 97,126,83 US dollars.

4. Deposits

	Turkish Lira	Foreign Exchange
A) Public Sector	81,241,853,846,990	1,669,169,906,967,500
Treasury, General and Annexed Budget	61,466,209,512,321	1,668,675,396,743,500
Administrations		
i) Treasury	4,948,637,063,842	1,337,167,371,037,000

ii) General Budget Administrations	20,326,879,885,517	331,508,025,706,500
iii) Annexed Budget Administrations	36,190,692,562,962	
b) Public Economic Institutions	156,638,996,005	-
c) State Economic Enterprises	62,579,546,030	433,520,879,500
d) Other	19,556,425,792,634	60,989,344,500
B) Banking Sector	1,488,653,407,010,453	3,012,292,432,206,000
a) Domestic Banks	465,465,210,372,824	968,500,745,996,500
b) Banks Abroad	617,024,637,629	-
c) Required Reserves (Article 40 of the Central Bank Law)	1,022,571,172,000,000	2,043,791,686,209,500
i) Cash	1,022,571,172,000,000	2,043,791,686,209,500
ii) Gold (Net gram)	-	-
d) Other	-	-
C) Miscellaneous	2,053,232,329,471	5,833,314,243,456,000
Foreign Exchange Deposits by Citizens Abroad	-	5,819,582,278,680,000
b) Other	2,053,232,329,471	13,731,964,776,000
D) International Institutions	118,986,571,337,786	-
E) Funds	31,194,732,185,931	40,459,134,879,500
a) Savings Deposit Insurance Fund	49,405,054,000	8,686,029,129,000
b) Other	31,145,327,131,931	31,773,105,750,500
Total	1,722,129,796,710,631	10,555,235,717,509,000

The year-end balance of this account is TL 12,277,365,514,219,631.

5. Open Market Operations

The balance of this account, which represents the debts of the Central Bank to banks arising from money and securities market transactions, reached TL 1,969,699,941,797,000 at the end of the year.

6. Foreign Credit

This account shows the Central Bank's debits consisting of the short, medium and long-term debts obtained from foreign sources in accordance with credit agreements and the convertible Turkish lira deposit accounts which were transferred into the Central Bank's liabilities. It amounted to TL 5,552,961,417,000 at the end of the year.

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

The balance of this item was TL 231,926,902,931,896 at the end of the year. Of this total, TL 4,144,201,396 represents the goods, equivalents and guarantees deposited at the Bank pursuant to import regulations. The equivalent of the credit transactions of foreign exchange sales amounted to TL 231,922,758,730,500.

8. Notes and Remittances Payable

The year-end balance of this account amounted to TL 6,432,593,634,500. It consists of payment orders to be paid to beneficiaries and amounts to TL 297,960,000 in Turkish lira; TL 6,421,153,750,500 in convertible and TL 11,141,924,000 non-convertible foreign exchange.

9. Capital

Category	Number Of Shares	Percent of Total	Total TL
A	136,838	54,74	13,683,800,000
B	58,002	23,20	5,800,200,000
C	6,833	2,73	683,300,000
D	48,327	19,33	4,832,700,000
	250,000	100.00	25,000,000,000

Under Article 5 of Central Bank Law No. 1211, the capital, which equals to TL 25,000,000,000 consists of 250,000 shares, each with a nominal value of TL 100,000.

10. Reserves

This item includes both reserve funds retained in accordance with Articles No. 59 and 60 of Central Bank Law No. 1211 and revaluation funds in accordance with Laws No. 2791 and 3094. TL 25,000,000,000 which was under the heading of “Reserve for Future Losses”, has been listed as of December 17, 1999 under “Extraordinary Reserve Fund” in accordance with provisonal Article 2/I of Banking Law No. 4389. The year-end figure of this item was TL 181,607,198,607,516.

Turkish Liras

A. Ordinary Reserve Fund (Article 60 of Law No. 1211)	104,972,390,382,400
B. Extraordinary Reserve Fund (Article 60 of Law No. 1211)	42,014,308,130,500
C. Special Reserves (Article 59 of Law No. 1211)	23,256,904,985
D. Valuation Adjustment Fund (Laws No. 2791 and 3094)	34,515,696,867,303
E. Cost Adjustment Fund	81,546,322,328
(General Communique on Corporation Tax No. 49)	
TOTAL	181,607,198,607,516

11. Provisions

Provisions are retained out of the Bank's gross profit to meet various risks and this account amounted to TL 554,800,238,589,300 with an increase of TL 552,842,372,749,000 compared to last year. In this item, the claims from Iraq in return for extended credit are equal to TL 552,789,963,877,500.

Turkish liras

A. Provisions for the decrement bonds	11,936,200
B. Provisions for contingencies due to the year-end exchange	250,153,800
adjustments of foreign exchange holdings	
C. Provisions for the transport insurance of valuables such as banknotes,	2,005,187,061,100
foreign exchange, etc.	
D. Provisions for bad and doubtful debts	552,794,789,438,200
TOTAL	554,800,238,589,300

12. Foreign Exchange Revaluation Differences

The-year-end balance of this account amounted to TL 1,510,061,438,523,000.

A- Revaluation Differences as per Article 61 of the Central Bank Law :

a) Liquidated :

This item was settled at the end of 1997.

b) To be Liquidated :

The beneficiary exchange rate difference of TL 1,510,061,438,523,000, which is due to the revaluation of gold, foreign exchange and foreign currency assets and liabilities of the Bank in 1999, will be liquidated in accordance with the agreement to be reached with the Treasury.

13. Miscellaneous Payables

This account amounted to TL 13,841,887,185,331 at the end of the year and consists of the Central Bank's debts of TL 502,858,737,831 in Turkish lira and TL 13,339,028,447,500 in foreign exchange.

14. Other Liabilities

This item amounted to TL 759,868,979,066,825 at the end of the year, consisting of the Central Bank's debts of TL 623,720,222,375,325 in Turkish lira and TL 136,148,756,691,500 in foreign exchange.

IV.2. PROFITS FOR THE 1999 ACCOUNTING YEAR AND THEIR DISTRIBUTION

The net profit of the Central Bank for 1999 was TL 506,795,993,232,000. The distribution of this profit, pursuant to Article 60 of Central Bank Law No. 1211, is specified as follows:

DISTRIBUTION OF THE 1999 PROFIT

	Turkish Lira	Turkish Lira
Net profit of 1999		506,795,993,232,000
1. Reserve Funds		141,902,728,090,000
Ordinary Reserve Fund	101,359,198,640,000	
Extraordinary Reserve Fund	40,543,529,450,000	
2. Shareholders		2,504,195,000
First Dividends	1,500,000,000	
Second Dividends	1,500,000,000	
Income Tax and Fund Share	- 495,595,000	1,139,000,000,000
3. Bonus to Personnel	1,139,000,000,000	
4. Taxes and Funds		121,651,965,895,000
Corporation Tax	110,592,245,730,000	

Income Tax	450,275,000	
I.T. Fund Share	11,059,269,890,000	
Remainder		242,099,795,052,000

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

We hereby present this report to the General Meeting of the Central Bank and as of April 25, 2000 submit for your approval the distribution of the profit to the shareholders in conformity with the framework outlined above and also request the authorization of the Board to determine the method and the date of payment for bonuses to be acorded to the personnel. Finally, we deem it our duty to express our gratitude to all of the personnel of the Central Bank for their successful performance.

THE REPORT OF THE AUDITORS COMMITTEE FOR 1999,

THE SIXTY-EIGHTH ACCOUNTING YEAR OF

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Auditors Committee has thoroughly examined the activities and the resulting statements of the 1999 Accounting Year of the Central Bank of the Republic of Turkey, within the framework of the provisions of the related legislation and concluded that:

1. The cash, gold holdings, effective stock and securities in the service and reserve vaults of the Head Office and Branches, which were inspected at random, are in conformity with the records, and the legal books and these values are kept and administered in accordance with regulations,
2. The legal books and the books subject to declaration related to the Bank's accounts are in good order and in conformity with the law as well as the main contract, and the direct and indirect domestic loans extended by the Bank are kept within the limits set forth,
3. The Balance Sheet and the Profit and Loss Statement as of December 31, 1999 are designed to give systematic principals of accounting and the rules of assessment stated in the Law; classification, registration and the summary of the financial transactions, operations and fiscal tables are in conformity with the widely accepted rules and standards of accounting; the accounts are correct and explicit so as to satisfy evaluations having various views and purposes,
4. The table related to Net Profit Distribution is prepared in accordance with Article 60 of Law No. 1211,

5. The Bank has performed its duty and carried out its authority as specified by the laws and as economic conditions deemed necessary and followed a successful and harmonious monetary policy despite the difficult and negative economic conditions as well as the natural disasters in 1999,
6. Legal actions regarding liabilities, which were referred to courts by the Bank, have not yet been concluded.

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

Auditors Committee Member Auditors Committee Member

Hilmi Okçu M. Saim Uysal

Auditors Committee Member

M. Ayhan Tümer

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEET AS OF DECEMBER 31, 1999

A S S E T S	**Amount of Turkish Currency Accounts (in TL)**	**Amount of Foreign Currency Accounts (in TL)**	**Total of Turkish Currency Accounts (in TL)**	**Total of Foreign Currency Accounts (in TL)**	TOTAL (in TL)
I- Gold					
A- International Standard (Net Gram).….116,463,228.52				546,029,235,786,500	
B- Non-International Standard (Net Gram) 3,249,293.82			15,234,073,826,000		**561,263,309,612,500**
II- Foreign Exchange					
A- Convertible					
a- Foreign Banknotes………………….		725,489,615,348,100			
b- Correspondent Accounts………..		11,792,567,733,314,500		12,518,057,348,662,600	
B- Non-Convertible					
a- Bonds……………………………..		519,286,427,500			
b- Treasury Bills…………………………		68,116,618,500		587,403,046,000	**12,518,644,751,708,600**
III- Coins			1,651,119,445,500		**1,651,119,445,500**
IV- Domestic Correspondents			331,848	722,118,380,000,000	**722,118,380,331,848**
V- Securities Portfolio					
A- Government Securities					
a- Bonds…………………………....	1,701,523,620,935,000				

b- Treasury Bills…………………..	1,184,920,819,239,000	2,886,444,440,174,000		
B- Other……………………………..				**2,886,444,440,174,000**
VI- Domestic Credit				
A- Public Sector				
a- Treasury				
i- Short-term Advances to the Treasury…				
ii- Other…………………………..….				
b- Public Economic Institutions				
i- Commercial……………………….				
c- State Economic Enterprises				
i- Treasury Guaranteed Bills…………				
ii- Commercial………………………….				
iii- Other……………………………..	2,913,305,625,240	2,913,305,625,240		
B- Banking Sector				
a- Commercial				
i- Export………………………………				
ii- Other………………………...……	7,675,099,657,000			
b- Agricultural				
i- Agricultural Credit Cooperatives				
ii- Unions of Agricultural				
Sales Cooperatives…………………..…				
iii- Other………………………………				
c- Industrial………………………………				
d- Advances against Bond Collateral				
e- Other……………………………..…..		7,675,099,657,000		**10,588,405,282,240**
VII- Open Market Operations				
A- Repurchase Agreements……………				
a.Cash		2,018,605,263,598,000		
i- Foreign Exchange…………………..…..				
ii- Securities……………………..……	2,018,605,263,598,000			
b- Securities………………………………				
B- Other…………………………..……		388,190,000,000,000		**2,406,795,263,598,000**
VIII- Foreign Credit			160,457,146,796,500	**160,457,146,796,500**
IX- Participations			2,255,333,630,000	**2,255,333,630,000**
X- Fixed Assets				
A- Buildings and Building sites	39,581,065,392,949			
Depreciation Allowance for Real Estate (-)	(2,885,721,198,260)	36,695,344,194,689		
B- Furniture and Fixtures	14,063,693,119,157			
Depreciation Allowance for Furniture and Fixtures (-)	(5,287,410,925,315)	8,776,282,193,842		**45,471,626,388,531**

XI- Claims under Legal Proceedings	4,825,560,700	552,789,963,877,500	**552,794,789,438,200**
XII- Consolidated Claims & FX Revaluation			
Differences			
A- Claims under consolidation law No. 3836			
B- Revaluation Differences as per			
Article 61 of the Central Bank Law			
a- Liquidated……………………………..			
b- To be liquidated…………………			
XIII- Miscellaneous Receivables	118,560,108,182,139	1,192,123,125,500	**119,752,231,307,639**
XIV- Other Assets	434,391,262,442,215	7,803,056,576,500	**442,194,319,018,715**
T O T A L	**5,919,141,125,231,173**	**14,511,289,991,501,100**	**20,430,431,116,732,273**
REGULATING ACCOUNTS		.	**66,256,155,114,934,100**

Buildings insured for TL : …24,200,262,826,000

Furniture and Fixtures insured for TL : 5,650,954,352,927

Prevailing rediscount and advance rates:

Against bills to mature max. in 3 months:

-Rediscount rate.................................. 60.00 %

-Advance rate................…................... 70.00 %

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE SHEET AS OF DECEMBER 31, 1999

L I A B I L I T I E S	**Amount of Turkish Currency Accounts (in TL)**	**Amount of Foreign Currency Accounts (in TL)**	**Total of Turkish Currency Accounts (in TL)**	**Total of Foreign Currency Accounts (in TL)**	**TOTAL (in TL)**
I. Currency Issued			2,390,748,352,889,500		**2,390,748,352,889,500**
II. Liabilities to Treasury					
A. Gold (Net Gram) ……… 345,574.68			1,620,201,335,000		
B. Other (Net) ……………………			16,864,305,895,774		**18,484,507,230,774**
III. Foreign Correspondents					
A. Convertible…………......…				3,167,149,402,000	
B. Non-Convertible ……….………				52,458,006,000	**3,219,607,408,000**
IV. Deposits					
A. Public Sector					
a. Treasury, General and					
Annexed Budget Administration	61,466,209,512,321	1,668,675,396,743,500			
b. Public Economic Institutions	156,638,996,005				

c. State Economic Enterprises	62,579,546,030	433,520,879,500			
d. Other …………………………..	19,556,425,792,634	60,989,344,500	81,241,853,846,990	1,669,169,906,967,500	
B. Banking Sector					
a. Free Deposits of Domestic Banks	465,465,210,372,824	968,500,745,996,500			
b. Banks abroad	617,024,637,629				
c. Required Reserves					
(Central Bank Law No. 40)..					
i.Cash ………………...…….	1,022,571,172,000,000	2,043,791,686,209,500			
ii.Gold (Net Gram)					
d.Other			1,488,653,407,010,453	3,012,292,432,206,000	
C. Miscellaneous					
a. Foreign Exchange Deposits by Citizens Abroad		5,819,582,278,680,000			
b. Other………………………… .	2,053,232,329,471	13,731,964,776,000	2,053,232,329,471	5,833,314,243,456,000	
D. International Institutions			118,986,571,337,786		
E. Extrabudgetary Fund					
a. Savings Deposits Insurance Fund	49,405,054,000	8,686,029,129,000			
b. Other	31,145,327,131,931	31,773,105,750,500	31,194,732,185,931	40,459,134,879,500	**12,277,365,514,219,631**
V. Open Market Operations					
A. Repurchase Agreements					
a. Cash					
i. Foreign Exchange……………..					
ii. Securities…………………… ….					
b. Securities………………….…..	1,969,699,941,797,000		1,969,699,941,797,000		
B. Other					**1,969,699,941,797,000**
VI. Foreign Credit					
A. Short-term………………...….				237,384,713,500	
B. Medium and Long-term………				5,315,576,703,500	**5,552,961,417,000**
VII. Advances, Collateral and Deposits					
Against Letters of Credit & Import					
A. Short-term				231,922,758,730,500	
B. Medium and Long-term			4,144,201,396		**231,926,902,931,896**
VIII. Notes and Remittances Payable			297,960,000	6,432,295,674,500	**6,432,593,634,500**
IX. Capital			25,000,000,000		**25,000,000,000**

X. Reserves				
A. Ordinary and Extraordinary Reserves		146,986,698,512,900		
B. Special Reserves (Central Bank Law Art. 59)		23,256,904,985		
C. Valuation Adjustment Fund				
(Laws No. 2791 ve 3094)…………		34,515,696,867,303		
D. Cost Adjustment Fund………..		81,546,322,328		**181,607,198,607,516**
XI. Provisions		554,800,238,589,300		**554,800,238,589,300**
XII. FX Revaluation Differences				
A- Revaluation Differences as per		1,510,061,438,523,000		
Art. 61 of Central Bank Law				
a) Liquidated………………………				
b) To be Liquidated……………..	1,510,061,438,523,000			**1,510,061,438,523,000**
XIII. Miscellaneous Payables		502,858,737,831	13,339,028,447,500	**13,841,887,185,331**
XIV. Other Liabilities		623,720,222,375,325	136,148,756,691,500	**759,868,979,066,825**
XV. Profit		506,795,993,232,000		**506,795,993,232,000**
T O T A L		**9,478,579,990,854,273**	**10,951,851,125,878,000**	**20,430,431,116,732,273**
REGULATING ACCOUNTS	…………………………….....		.	**66,256,155,114,934,100**

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

DEBIT **Profit and Loss Account As of December 31, 1999**

Turkish Lira

Interest Paid	**600,327,594,275,651**
Non-Interest Paid	**777,837,926,470,559**
Staff Expenses	**58,255,653,997,000**

Other Expenses	**19,258,110,033,697**
Net Income	**506,795,993,232,000**
TOTAL	**1,962,475,278,008,907**

CREDIT

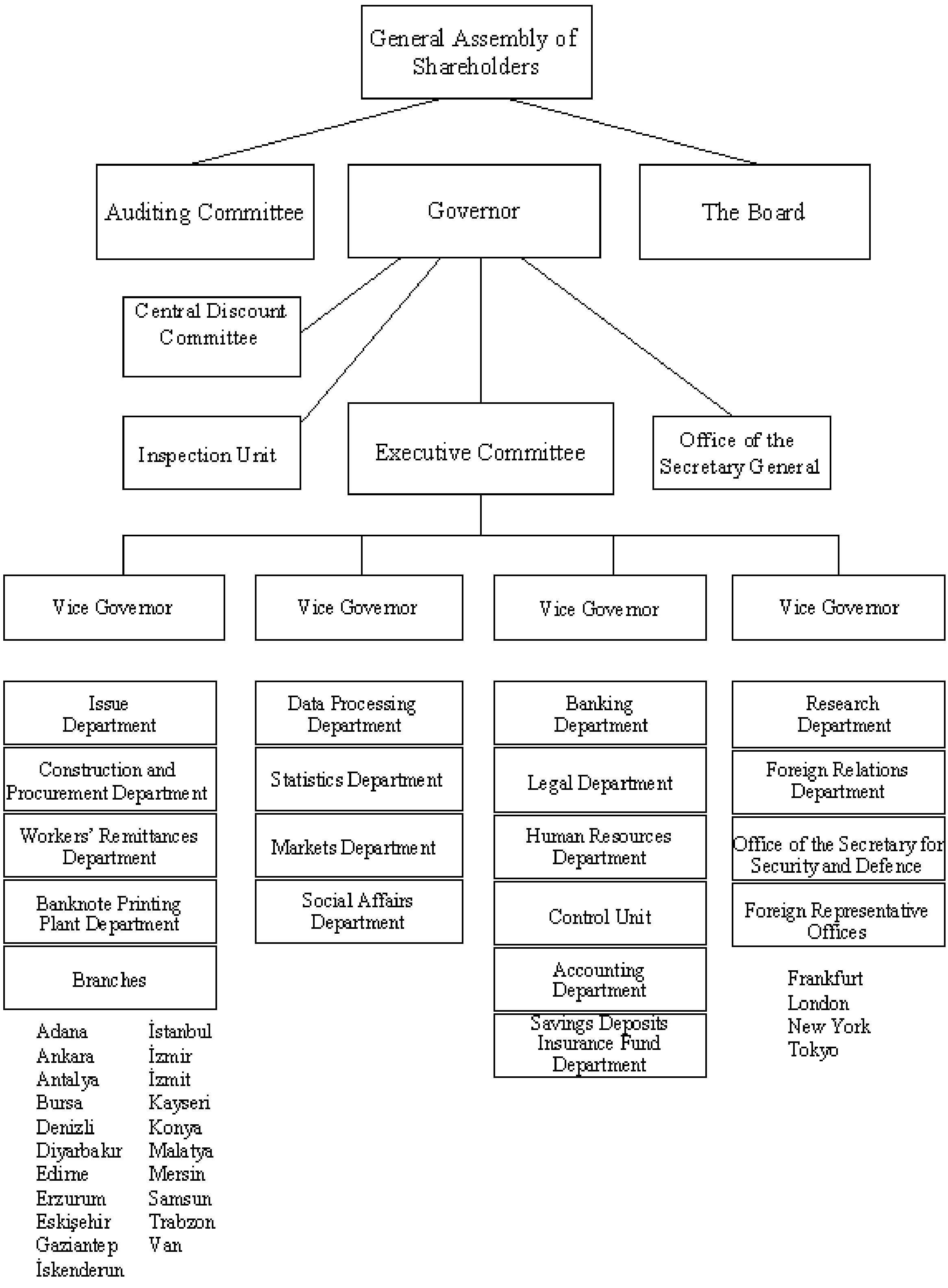
Turkish Lira

Interest Income	**1,174,405,633,175,200**
Non-Interest Income	**787,177,231,889,707**
Permanent Participations	**892,412,944,000**

TOTAL	**1,962,475,278,008,907**

THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

ORGANIZATION CHART



V

STATISTICAL TABLES

TABLE 1

Macro Balance (at current prices)

(in billions of TL)

	1995	1996	1997	1998	1999 (1)
GNP	7 854 887	14 978 067	29 393 262	53 012 781	83 124 040
Foreign resources	253 729	722 322	1 117 089	403 732	2 367 386
Total resources	8 108 617	15 700 389	30 510 351	53 416 513	85 491 426
Total investment	1 988 499	3 690 310	7 389 747	12 637 906	18 847 552
Public	299 575	796 975	1 866 021	3 471 681	5 145 863
Private	1 688 924	2 893 335	5 523 726	9 166 225	13 701 689
Fixed capital investment	1 882 225	3 757 812	7 728 372	12 977 101	18 580 704
Public	329 515	764 426	1 733 050	3 192 781	5 247 524
Private	1 552 710	2 993 386	5 995 322	9 784 320	13 333 180
Changes in stocks	106 274	-67 502	-338 625	-339 194	266 848
Public	-29 940	32 549	132 971	278 900	-101 661
Private	136 214	-100 051	-471 596	-618 094	368 508
Total consumption	6 120 117	12 010 079	23 120 603	40 778 606	66 643 875
Public disposable income	743 955	1 211 481	3 383 094	4 839 891	5 491 347
Public consumption	750 619	1 466 843	3 140 449	5 869 446	10 818 736
Public savings	-6 664	-255 362	242 645	-1 029 555	-5 327 389
Public investments	299 575	796 975	1 866 021	3 471 681	5 145 863
Public (S-I)	-306 239	-1 052 337	-1 623 376	-4 501 236	-10 473 252
Private disposable income	7 110 932	13 766 587	26 010 168	48 172 890	77 632 693
Private consumption	5 369 498	10 543 236	19 980 154	34 909 160	55 825 139
Private savings	1 741 434	3 223 350	6 030 013	13 263 730	21 807 554
Private investments	1 688 924	2 893 335	5 523 726	9 166 225	13 701 689
Private (S-I)	52 510	330 015	506 287	4 097 504	8 105 865
Private savings ratio	24.5	23.4	23.2	27.5	28.1
Total domestic savings	1 734 770	2 967 988	6 272 659	12 234 174	16 480 165
Fixed capital invest./ GNP	24.0	25.1	26.3	24.5	22.4
Domestic savings / GNP	22.1	19.8	21.3	23.1	19.8

Source: State Planning Organization.

(1) Estimate.

TABLE 2

MACRO BALANCE (at 1994 PRICES)

(in billions of TL)

	1995	1996	1997	1998	1999 (1)
GNP	4 197 095	4 495 959	4 868 692	5 052 419	4 951 370
Foreign resources	75 260	80 465	105 684	-54 209	79 683
Total resources	4 272 355	4 576 424	4 974 375	4 998 209	5 031 053
Total investment	1 094 914	1 148 096	1 281 169	1 281 730	1 232 140
Public	174 785	255 143	332 031	360 617	340 619
Private	920 129	892 953	949 139	921 113	891 521
Fixed capital investment	1 037 786	1 168 725	1 338 091	1 314 919	1 214 986
Public	190 879	245 196	309 678	333 328	347 155
Private	846 907	923 529	1 028 413	981 591	867 831
Changes in stocks	57 128	-20 629	-56 922	-33 188	17 155
Public	-16 094	9 947	22 352	27 289	-6 535
Private	73 222	-30 576	-79 274	-60 477	23 690
Total consumption	3 177 441	3 428 328	3 693 206	3 716 479	3 798 913
Public disposable income	421 047	349 663	506 857	372 337	161 974
Public consumption	424 963	441 521	461 386	484 762	534 519
Public savings	-3 917	-91 858	45 471	-112 425	-372 544
Public investments	174 785	255 143	332 031	360 617	340 619
Public (S-I)	-178 702	-347 001	-286 559	-473 042	-713 163
Private disposable income	3 776 049	4 146 296	4 361 834	4 680 081	4 789 396
Private consumption	2 752 478	2 986 807	3 231 820	3 231 717	3 264 394
Private savings	1 023 571	1 159 489	1 130 014	1 448 365	1 525 002
Private investments	920 129	892 953	949 139	921 113	891 521
Private (S-I)	103 442	266 536	180 875	527 251	633 481
Private savings ratio	27.1	28.0	25.9	30.9	31.8
Total domestic savings	1 019 654	1 067 631	1 175 485	1 335 940	1 152 458
Fixed capital invest./ GNP	24.7	26.0	27.5	26.0	24.5
Domestic savings / GNP	24.3	23.7	24.1	26.4	23.3

Source: State Planning Organization.

(1) Estimate.

TABLE 3

Gross National Product (at current producer prices)

(in billions of TL)

	1995	1996	1997	1998	1999 (1)
Agriculture	1 218 178.1	2 489 773.6	4 170 001.1	9 113 454.1	8 831 576.1
Industry	2 042 394.8	3 716 528.4	7 293 185.6	11 970 299.1	12 034 541.2
Construction	426 214.9	857 761.8	1 743 240.4	3 124 593.4	3 252 573.0

Commerce	1 587 690.8	3 022 314.5	5 985 402.3	10 404 500.9	10 060 505.5
Transportation	981 069.9	1 941 574.2	4 018 612.6	7 102 826.2	7 351 319.3
Financial institutions	322 589.9	732 340.1	1 474 426.2	3 280 525.8	4 125 806.5
Home ownership	249 169.5	442 934.8	850 331.6	1 761 710.8	2 375 089.6
Professions and services	287 000.2	554 079.6	1 067 451.3	1 956 339.3	2 016 957.7
(-) Imputed bank services	270 343.6	709 234.7	1 371 710.0	3 049 158.0	3 623 698.0
Government services	619 784.7	1 238 527.3	2 579 910 .0	4 915 736.1	6 246 532.8
Non-profit private services	14 576.7	26 922.4	53 020.9	98 742.4	137 237.4
Import tax	284 130.0	458 588.4	972 011.3	1 545 375.0	1 520 631.3
GDP	7 762 456.1	14 772 110.2	28 835 883.1	52 224 945.1	54 329 072.3
Net foreign income	92 431.1	205 957.1	557 379.0	1 293 386.5	751 114.2
GNP	7 854 887.2	14 978 067.3	29 393 262.1	53 518 331.6	55 080 186.5

Source: State Institute of Statistics.

(1) Provisional (as of the end of September 1999).

TABLE 4

Gross National Product (at 1987 producer prices)

(in billions of TL)

	1995	1996	1997	1998	1999 (1)
Agriculture	14 640.2	15 284.4	14 927.2	16 176.4	12 151.4
Industry	27 765.9	29 743.5	32 835.4	33 493.9	23 875.9
Construction	5 857.5	6 200.1	6 511.0	6 559.8	4 584.3
Commerce	20 586.7	22 412.9	25 024.4	25 365.2	17 779.7
Transportation	12 511.0	13 458.1	14 485.1	15 198.3	10 931.9
Financial institutions	2 424.2	2 476.3	2 572.9	2 751.5	2 138.0
Home ownership	5 224.2	5 351.9	5 474.6	5 590.5	4 252.7
Professions and services	2 251.9	2 398.7	2 564.4	2 652.9	1 918.0
(-) Imputed bank services	2 059.5	2 072.6	2 112.8	2 239.6	1 754.4
Government services	4 481.5	4 468.7	4 472.9	4 738.6	3 633.5
Non-profit private services	382.8	386.3	390.1	396.6	296.6
Import tax	3 821.5	4 636.8	5 486.1	5 429.6	3 767.3
GDP	97 887.8	104 745.2	112 631.2	116 113.6	83 574.8
Net foreign income	1 140.4	1 334.6	2 243.0	3 189.5	1 422.3
GNP	99 028.2	106 079.8	114 874.2	119 303.1	84 997.1

Source: State Institute of Statistics.

(1) Provisional (as of the end of September 1999).

TABLE 5

Fixed Capital Investment by Sectors

(at current prices)

(in billions of TL)

	1998			1999 (1)		
	Public	Private	Total	Public	Private	Total
Agriculture	248 762	452 977	701 739	445 243	493 727	938 970
Mining	47 847	130 564	178 411	82 901	192 978	275 879
Manufacturing	89 516	2 192 385	2 281 901	181 154	2 686 859	2 868 013
Energy	547 445	312 601	860 047	655 491	324 027	979 518
Transportation	1 104 281	1 926 759	3 031 040	1 875 977	2 287 392	4 163 368
Tourism	14 767	354 519	369 286	25 525	638 953	664 479
Housing	47 448	3 596 990	3 644 438	149 292	5 537 670	5 686 962
Education	338 631	81 656	420 287	599 625	206 516	806 141
Health	148 537	344 363	492 900	190 124	383 558	573 682
Other services	605 547	391 505	997 052	1 042 192	581 500	1 623 692
T O T A L	3 192 781	9 784 320	12 977 101	5 247 524	13 333 180	18 580 704

Source : State Planning Organization.

(1) Estimate.

TABLE 6

Fixed Capital Investment by Sectors

(at 1994 prices)

(in billions of TL)

	1998			1999 (1)		
	Public	Private	Total	Public	Private	Total
Agriculture	24 594	46 567	71 160	27 330	32 457	59 787
Mining	4 890	13 088	17 978	5 250	12 499	17 748
Manufacturing	9 611	225 813	235 424	12 059	186 296	198 355
Energy	57 398	31 884	89 282	43 184	21 777	64 961
Transportation	112 868	201 527	314 396	120 658	158 401	279 059
Tourism	1 578	35 251	36 829	1 750	40 750	42 500
Housing	5 049	345 081	350 130	10 144	339 215	349 359
Education	36 251	8 179	44 430	41 219	13 283	54 501
Health	15 853	34 007	49 859	13 220	24 689	37 909
Other services	65 236	40 193	105 430	72 342	38 465	110 807
T O T A L	333 328	981 591	1 314 919	347 155	867 831	1 214 986

Source: State Planning Organization.

(1) Estimate.

TABLE 7

CAPACITY UTILIZATION RATIO IN MANUFACTURING INDUSTRY

(PRODUCTION VALUE WEIGHTED)

(in percentages)

	1995	1996	1997	1998	1999
TOTAL	72.8	78.9	79.3	76.6	72.2
Public sector	78.8	80.7	81.2	80.9	78.9
Private sector	70.4	78.2	78.6	74.7	69.7

Source: State Institute of Statistics.

TABLE 8

INDUSTRIAL PRODUCTION INDEX

(1997=100)

	1995	1996	1997	1998	1999 (1)
TOTAL INDUSTRY	83.4	89.7	100.0	101.3	98.2
Public sector	94.6	96.6	100.0	103.8	96.2
Private sector	78.7	86.8	100.0	100.3	103.5
Mining and quarrying	94.6	95.6	100.0	111.2	113.5
Crude petroleum and natural gas	103.4	103.2	100.0	107.7	107.4
Manufacturing industry	83.0	89.2	100.0	100.1	95.9
Food products and beverages	84.5	92.6	100.0	100.8	110.8
Textile products	83.7	92.0	100.0	93.6	83.5
Wearing apparel	94.9	98.9	100.0	106.7	104.0
Chemicals	79.2	87.3	100.0	100.3	97.6
Basic metals industry	84.7	91.2	100.0	100.5	101.6
Manufacture of machinery and equipment	71.6	81.6	100.0	97.4	85.5
Electrical machinery and apparatus	75.7	91.2	100.0	91.4	83.9
Motor vehicles and trailers	71.2	80.1	100.0	96.3	75.2
Electricity, gas and water supplies	83.6	92.5	100.0	107.6	113.4

Source: State Institute of Statistics.

1. As of the end of September 1999.

TABLE 9

PRODUCTION OF SELECTED INDUSTRIAL GOODS

	1995	1996	1997	1998	1999
MINING					
Hard coal (1) (thousand tons)	2 248	2 424	2 412	3 335	2 738
Lignite (1) (thousand tons)	51 945	52 503	52 050	65 084	64 896
Crude oil (thousand tons)	3 514	3 499	3 428	3 224	2 939
MANUFACTURING INDUSTRY					
Filter cigarettes (tons)	75 382	70 736	72 417	121 719	119 291
Raki and Beer (million lt.)	740	763	805	769	748
Newsprint (thousand tons)	138	74	60	101	68
Kraft paper (thousand tons)	74	57	59	54	37
Sulfuric acid(2) (thousand tons)	630	623	788	1 007	832
Polyethylene (tons)	301 087	299 457	292 587	223 444	216 537
PVC+PCC Compound (tons)	181 036	202 562	189 239	199 645	191 327
LPG (thousand tons)	486	452	799	839	772
Naphtha (thousand tons)	1 473	1 609	1 639	1 979	1 963
Gasoline (thousand tons)	3 554	3 373	3 419	3 713	3 412
Diesel oil (thousand tons)	7 983	7 485	7 406	8 024	7 932
Fuel oil (thousand tons)	7 786	7 408	7 185	6 708	6 584
Glass (thousand tons)	506	603	740	1 168	1 066
Molten iron (thousand tons)	4 363	5 263	5 567	5 087	5 181
Steel ingots (thousand tons)	12 798	13 382	13 644	13 166	13 816
Blister copper (tons)	24 416	30 341	32 491	52 899	43 408
Alumina (tons)	171 978	159 298	164 333	157 082	159 122
Cement (thousand tons)	33 153	35 214	36 035	36 590	34 216
Tractors (units)	38 295	45 656	48 681	54 332	24 864
Automobiles (units)	222 145	196 176	236 419	221 218	222 119
Trucks (units)	19 172	29 516	43 618	30 900	13 086
Buses and Vans (units)	12 424	18 612	25 072	35 562	31 545
ENERGY					
Electrical Energy (Million Kwh)	86 291	95 373	103 037	110 990	115 424
INDUSTRIAL VALUE ADDED					
(at 1987 prices) (TL billions)	27 766	29 743	32 835	33 438	

Source: State Planning Organization - State Institute of Statistics.

(1) Pithead production.

TABLE 10

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

	1995		1996		1997		1998		1999 (2)	
	EMTP	%	EMTP	%	EMTP	%	EMTP	%	EMTP	%
CONSUMPTION	63.3	100.0	69.4	100.0	73.2	100.0	74.2	100.0	80.3	100.0
Commercial	56.2	88.8	62.3	89.8	66.2	90.4	67.1	90.4	73.6	90.4
Petroleum	29.3	46.3	30.9	44.5	30.5	41.7	30.3	41.7	32.9	40.8
Lignite	10.6	16.7	11.2	16.1	12.3	16.8	12.6	16.8	13.0	17.0
Hard coal (3)	6.7	10.6	9.1	13.1	10.3	14.1	10.3	14.1	11.3	13.9
Asphaltite	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hydroelectricity	3.1	4.9	3.5	5.0	3.4	4.6	3.6	4.6	2.8	4.9
Net Imported electricity	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.3	0.4
Natural gas	6.3	10.0	7.4	10.7	9.2	12.6	9.7	12.6	12.9	13.1
Renewable	0.2	0.3	0.2	0.3	0.3	0.4	0.3	0.4	0.4	0.4
Non-commercial	7.1	11.2	7.1	10.2	7.0	9.6	7.1	9.6	6.7	9.6
Wood	5.5	8.7	5.5	7.9	5.5	7.5	5.5	7.5	5.3	7.4
Wastes	1.6	2.5	1.6	2.3	1.5	2.0	1.6	2.0	1.4	2.2
SUPPLY	63.3	100.0	69.4	100.0	73.2	100.0	74.2	100.0	80.3	100.0
Domestic products	26.3	41.5	27.0	38.9	27.7	37.8	28.9	37.8	28.5	38.9
Petroleum	3.7	5.8	3.7	5.3	3.6	4.9	3.4	4.9	3.2	4.6
Lignite	10.7	16.9	10.9	15.7	11.9	16.3	12.8	16.3	13.0	17.3
Hard coal (3)	1.3	2.1	1.4	2.0	1.3	1.8	1.2	1.8	1.7	1.6
Asphaltite	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hydroelectricity	3.1	4.9	3.5	5.0	3.4	4.6	3.6	4.6	2.8	4.9
Wood	5.5	8.7	5.5	7.9	5.5	7.5	5.5	7.5	5.3	7.4
Wastes	1.6	2.5	1.6	2.3	1.5	2.0	1.6	2.0	1.4	2.2
Natural gas	0.2	0.3	0.2	0.3	0.2	0.3	0.5	0.3	0.7	0.7
Renewable	0.2	0.3	0.2	0.3	0.3	0.4	0.3	0.4	0.4	0.4
Imports	39.8	62.9	44.3	63.8	47.5	64.9	48.6	64.9	51.9	65.5
Petroleum	28.4	44.9	29.5	42.5	29.4	40.2	30.3	40.2	29.8	40.8
Hard coal (3)	5.2	8.2	7.5	10.8	8.9	12.2	8.7	12.2	9.6	11.7
Electricity	0.0	0.0	0.0	0.0	0.2	0.3	0.3	0.3	0.3	0.4
Natural gas	6.2	9.8	7.3	10.5	9.0	12.3	9.3	12.3	12.2	12.5
Exports	1.9	3.0	1.9	2.7	1.6	2.2	2.4	2.2	0.0	3.2
Petroleum	1.9	3.0	1.9	2.7	1.6	2.2	2.4	2.2	0.0	3.2
Electricity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Marine bunkers	0.5	0.8	0.5	0.7	0.6	0.8	0.6	0.8	0.0	0.8
Change in stocks	-0.2	-0.3	0.4	0.6	0.5	0.7	-0.1	0.7	0.0	-0.1
Statistical error	-0.2	-0.3	0.1	0.1	-0.3	-0.4	-0.2	-0.4	-0.1	-0.3

Source: Ministry of Energy and Natural Resources.

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

(2) Provisional.

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

TABLE 11

Selected Agricultural Products

(thousand metric tons, except as otherwise indicated)

	1995	1996	1997	1998	1999 (1)
CEREALS					
Wheat	18 000	18 500	18 650	21 000	18 000
Barley	7 500	8 000	8 200	9 000	7 700
Rye	240	245	235	232	231
Oats	250	275	280	310	283
Maize	1 900	2 000	2 080	2 300	2 297
Rice	150	168	165	315	340
Other	44	43	40	30	26
PULSES					
For food	1 675	1 660	1 522	1 450	1 253
For fodder	174	172	177	145	129
FRUIT AND NUTS					
Grapes	3 550	3 700	3 700	3 600	3 600
Figs (fresh)	300	290	243	255	255
Apples	2 100	2 200	2 550	2 450	2 500
Peaches	340	360	355	410	380
Oranges	842	890	740	970	950
Other	2 461	2 507	2 356	2 790	2 674
Hazelnuts	455	446	410	580	545
Pistachio nuts	36	60	70	35	30
Other unshelled nuts	224	223	209	211	211
MISCELLANEOUS PRODUCTS					
Sugar beets	11 171	14 543	18 400	21 941	19 300
Potatoes	4 750	4 950	5 100	5 250	5 500
Onions	2 850	1 900	2 100	2 270	2 400
OIL SEEDS					
Sunflower	900	780	900	860	950
Sesame	30	30	28	34	28
Peanut	70	80	82	90	62
Soybean	75	50	40	60	21
Olive	515	1 800	510	1 650	600
TOBACCO, TEA, etc.					
Tobacco	204	225	286	250	210
Tea (leaves)	523	600	752	979	1 050

Poppy pods (tons)	25	5	11	28	30
TEXTILE RAW MATERIALS					
Cotton (raw)	2 224	2 083	2 105	2 224	2 258

Source: State Institute of Statistics.

(1) Estimate.

TABLE 12

New Buildings According to Building Permits Issued by Municipalities

	1995	1996	1997	1998	1999 (1)
Value (in millions of TL)					
Houses	102 766 653	163 751 616	337 952 165	571 270 545	416 382 723
Apartment buildings	490 140 312	758 221 670	1 548 720 224	2 464 967 231	2 098 580 120
Commercial buildings	75 277 048	147 875 401	354 707 2703	580 384 960	536 483 981
Industrial buildings	49 907 791	119 606 072	225 555 533	354 443 173	227 241 720
Cultural buildings	14 697 749	28 123 225	70 078 457	145 634 719	149 419 688
Other buildings	12 388 414	20 347 279	37 223 243	80 312 765	88 752 150
T O T A L	745 177 967	1 237 925 263	2 574 236 895	4 197 013 393	3 516 860 382
Floor Area (thousand sq.m.)					
Houses	11 769	10 666	11 291	10 666	5 693
Apartment buildings	54 756	47 731	49 490	45 711	26 991
Commercial buildings	9 000	9 615	11 814	11 231	7 326
Industrial buildings	5 435	7 329	7 343	6 768	3 066
Cultural buildings	1 593	1 796	2 207	2 646	2 034
Other buildings	1 405	1 341	1 243	1 547	1 239
T O T A L	83 957	78 478	83 389	78 569	46 349

Source: State Institute of Statistics.

(1) Provisional (as of the end of September 1999).

TABLE 13

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

	1995	1996	1997	1998	1999 (1)
Value (in millions of TL)					
Houses	40 698 680	83 438 462	171 195 825	244 192 361	208 666 687
Apartment buildings	214 590 740	417 694 419	858 979 669	1 361 482 482	1 039 269 517
Commercial buildings	42 200 325	94 339 388	199 862 741	330 967 506	243 283 290
Industrial buildings	24 139 489	44 954 650	114 870 908	238 999 576	179 197 811

Cultural buildings	3 494 294	10 129 484	16 427 961	46 496 624	50 989 822
Other buildings	5 181 452	8 518 741	17 636 454	32 795 463	25 783 882
T O T A L	330 304 980	659 075 144	1 378 973 558	2 254 934 012	1 747 191 009
Floor Area (thousand sq.m.)					
Houses	4 664	5 267	5 690	4 719	2 909
Apartment buildings	24 205	26 292	27 717	25 021	13 624
Commercial buildings	5 073	6 340	6 942	6 541	3 473
Industrial buildings	2 579	2 700	3 716	4 429	2 376
Cultural buildings	380	608	528	833	662
Other buildings	609	558	573	625	355
T O T A L	37 510	41 764	45 167	42 168	23 399

Source: State Institute of Statistics.

(1) Provisional (as of the end of September 1999).

TABLE 14

Transportation Services

	1995	1996	1997	1998	1999 (1)
LAND TRANSPORTATION					
Passengers (Million)	516	576	634	656	669
Amount of freight (Million tons)	321	387	391	434	443
Passenger trans. (Million passengers x km)	155 202	167 871	180 967	186 159	189 882
Freight trans. (Million tons x km)	112 515	135 781	139 789	152 210	155 254
Vehicles (Million vehicles x km)	34 833	41 015	46 384	49 947	50 946
VEHICLES (2)					
Cars	3 058 511	3 274 156	3 570 105	3 807 305	4 040 768
Trucks, pick-ups	719 164	776 057	883 423	986 477	1 063 807
Buses-vans	263 248	277 672	298 953	317 899	332 278
STATE AND PROVINCIAL ROADS					
Asphalt, concrete, stone (km)	50 805	51 819	52 927	54 425	54 889
Stabilized, macadam, rough grade and crude roads (km)	9 194	8 406	7 914	6 460	6 022
RAILWAY TRANSPORTATION					
Passengers (Million)	105	98	107	110	100
Amount of freight (Million tons)	15	16	17	16	15
Passenger trans.(Million passengers x km.)	5 797	5 229	5 840	6 160	6 140
Freight trans.(Million tons x km)	8 516	8 914	9 614	8 376	8 108
ROLLING STOCK					
Tractive vehicles:					
Steam engines	50	50	50	50	50
Trunk-line engines	545	529	526	508	487
Maneuvering engines	81	76	77	78	81

Electrical engines	59	59	60	68	77
Total engines	735	714	713	704	695
Diesel trains	60	56	59	57	55
Electrical trains	98	98	98	93	93
Tracked vehicles:					
Passenger carriages	1 100	1 082	1 059	1 046	1 041
Freight carriages	18 532	17 442	17 138	16 989	17 172
Wagon (passenger + freight)	425	406	389	352	314
Other carriages	3 207	3 145	3 029	3 082	2 995
MARITIME TRANSPORTATION					
Passengers (Million)	85	86	90	84	75
Amount of freight (Million tons)	70	73	89	86	91
Passenger trans. (Million pass. x km)	672	651	710	745	780
Freight trans. (Million ton x km)	34 965	512 938	526 400	538 600	558 800
MARITIME FLEET					
Turkish cargo ships (thousand DWT)	9 550	10 500	10 088	10 449	10 638
Passenger ships (gross tons)	119 382	118 867	113 603	112 614	111 715
Tankers (gross tons)	1 043 993	1 069 859	843 156	851 832	950 501
AIR TRANSPORTATION					
Passengers (thousand)	8 599	9 281	10 266	10 504	10 410
Amount of freight (tons) (Pass. + cargo plane)	90 846	91 688	108 582	100 780	109 535
AIR FLEET					
Airplanes	64	65	66	71	75

Source: Related Institutions.

(1) Provisional.

(2) Source: State Institute of Statistics (as of the end of November 1999).

TABLE 15

Communications Services

	1995	1996	1997	1998	1999 (1)
MAIL (x 1000)	1 482 090	1 485 452	1 511 659	1 156 613	1 131 263
Domestic	1 160 067	1 153 003	1 174 328	947 574	975 470
Foreign	322 023	332 449	337 331	209 039	155 793
Incoming	220 789	232 728	221 021	125 408	93 750
Outgoing	101 234	99 721	116 310	83 631	62 043
CABLES (x 1000)	4 471	4 734	3 403	2 576	2 051
Domestic	4 405	4 684	3 370	2 553	2 030
Foreign	66	50	33	23	21
Incoming	30	23	19	12	13
Outgoing	36	27	14	11	8
TELEPHONE CALLS (x 1000)					

Number of revolutions billed (2)	64 057 245	81 247 812	94 481 951	99 861 925	115 000 000
Number of Trunk calls (manual)	7 932	7 254	6 000	3 364	2 450
International calls (outgoing, minutes)	373 561	473 433	557 507	644 076	700 000
NUMBER OF SUBSCRIBERS	13 664 834	15 098 204	17 357 428	18 778 760	18 224 850
Automatic switchboards	13 215 682	14 286 478	15 744 020	16 959 500	18 100 000
Manual switchboards	12 022	7 166	3 600	1 437	350
Mobile phones	103 833	113 560	126 659	124 448	124 500
Cellular phones (3)	333 297	691 000	1 483 149	3 330 107	7 560 000
NUMBER OF PTT OFFICES	31 222	24 860	19 063	16 984	13 628
Main offices	1 154	1 152	1 148	1 150	1 144
Branches	2 856	2 658	2 624	2 568	2 539
Sub-branches	27 212	21 050	15 291	13 266	9 945

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

(1) 1999 figures are provisional.

(2) Includes urban, trunk and international calls.

(3) Licensed to private sector as of May 1, 1998.

TABLE 16

Job Applicants and Vacancies

(number of people)

	1995	1996	1997	1998	1999 (1)
New Applicants	335 787	411 170	468 070	430 407	386 339
Total Applicants	1 018 182	990 872	1 058 837	1 096 185	1 482 524
New Vacancies	272 707	267 060	238 539	235 360	214 067
Unfilled Vacancies	303 982	291 813	277 800	280 408	494 475
Unemployed	401 292	416 795	463 323	465 235	471 193
Vacancies filled during the year	264 111	243 280	220 615	218 354	195 026

Source: Public Employment Services.

1. Provisional (from January to November 1999).

TABLE 17

MANUFACTURING INDUSTRY PRODUCTION WORKERS INDEX

(1997=100)

	1997	1998	1998/3	1998/4	1999/1	1999/2	1999/3

TOTAL	100.0	100.2	103.0	98.1	90.7	92.5	91.8
Public sector	100.0	93.7	100.6	93.0	83.0	91.7	93.5
Private sector	100.0	101.6	103.5	99.1	92.4	92.7	91.4

Source: State Institute of Statistics.

TABLE 18

NOMINAL WAGES INDEX PER PRODUCTION HOURS WORKED IN THE MANUFACTURING INDUSTRY

(1997=100)

	1997	1998	1998/3	1998/4	1999/1	1999/2	1999/3
TOTAL	100.0	184.1	192.8	217.2	280.8	310.1	364.1
Public sector	100.0	192.5	191.7	231.7	277.4	345.4	420.5
Private sector	100.0	182.9	193.7	214.1	284.5	300.7	347.6

Source: State Institute of Statistics.

TABLE 19

REAL WAGES INDEX PER PRODUCTION HOURS WORKED IN THE MANUFACTURING INDUSTRY

(1997=100)

	1997	1998	1998/3	1998/4	1999/1	1999/2	1999/3
TOTAL	100.0	99.7	100.7	97.4	112.0	110.3	115.4
Public sector	100.0	104.3	100.2	103.9	113.5	122.9	133.2
Private sector	100.0	99.1	101.2	96.0	110.7	107.0	110.1

Source: State Institute of Statistics.

TABLE 20

NUMBER OF Workers Sent Abroad

	1995	1996	1997	1998	1999 (1)
The United States of America	294	278	302	124	117

Australia	248	97	21	4	11
Austria	16	5	1	1	1
Belgium	1	2	2	0	1
Denmark	50	39	12	17	14
Germany	2 246	2 443	1 800	1734	2 189
France	13	16	9	33	20
The Netherlands	13	5	2	1	2
The United Kingdom	43	36	29	38	22
Switzerland	18	31	13	10	5
Libya	1 753	2 063	1 833	1 032	626
Saudi Arabia	14 529	5 635	7 657	6 821	4 938
Other	40 259	30 047	21 640	16 092	8 570
T O T A L	59 483	40 697	33 321	25 907	16 516

Source: Public Employment Services.

(1) Provisional (from January to November 1999).

TABLE 21

Collective Labor Contracts

	1995	1996	1997	1998	1999
COLLECTIVE LABOR CONTRACTS	2 357	1 871	2 056	1 867	2 286
Public	969	861	1 010	943	1 137
Private	1 388	1 010	1 046	924	1 149
WORKERS COVERED BY CONTRACTS	765 928	515 840	841 518	219 434	828 458
Public	508 696	281 190	625 670	94 871	544 995
Private	257 232	234 650	215 848	124 563	283 463
ESTABLISHMENTS COVERED BY CONTRACTS	11 274	10 290	12 966	7 047	12 373
Public	8 480	6 971	10 778	4 290	9 638
Private	2 794	3 319	2 188	2 757	2 735

Source: Ministry of Labor and Social Security.

TABLE 22

Strikes and Lock-outs

	1995	1996	1997	1998	1999
STRIKES					

Number of strikes	120	38	37	44	34
Number of participants	199 867	5 461	7 045	11 482	3 263
Workdays lost in strikes	4 838 241	274 322	181 913	282 638	229 825
LOCK-OUTS					
Number of lock-outs	5	3	4	2	4
Number of participants	4 047	3 761	4 083	500	931
Workdays lost in lock-outs	162 512	160 368	62 236	5 284	76 470

Source: Ministry of Labor and Social Security.

TABLE 23

Price Indices

	1995	1996	1997	1998	1999
ANNUAL AVERAGE					
WHOLESALE PRICES					
(1987=100) (1)					
General	7 065	12 337	22 336	38 022	58 460
Agriculture	7 267	12 925	23 170	44 059	61 533
Mining	6 842	12 557	22 608	33 534	52 841
Manufacturing	7 041	12 010	22 061	36 257	57 369
Energy	6 479	12 842	21 327	35 568	59 708
(1994=100) (1)					
General	186	327	595	1 022	1 565
Agriculture	208	388	724	1 353	1 918
Mining	186	351	619	920	1 494
Manufacturing	181	308	557	928	1 459
Energy	156	315	542	931	1 533
(1968=100) (2)					
General	1 111 281	1 906 838	3 402 083	5 742 379	8 250 777
CONSUMER PRICES					
CPI Turkey (1987=100) (1)	8 512	15 271	28 249	51 868	84 799
CPI Turkey (1994=100) (1)	188	339	630	1 163	1 917
Istanbul Wage Earners					
General (1995=100) (2)	100	188	358	656	1 041
END OF YEAR					
WHOLESALE PRICES					
(1987=100) (1)					
General	8 567	15 582	29 698	44 970	74 860
Agriculture	9 314	15 968	30 493	53 529	67 183
Mining	8 696	16 299	29 402	38 541	71 419
Manufacturing	8 404	15 355	29 590	42 390	76 958

Energy	7 292	16 304	26 048	44 240	75 837
(1994=100) (1)					
General	223	413	788	1 215	1 980
Agriculture	255	484	951	1 635	2 126
Mining	237	458	790	1 059	2 057
Manufacturing	215	389	744	1 094	1 933
Energy	177	408	669	1 137	1 947
(1968=100) (2)					
General	1 330 489	2 361 023	4 441 945	6 572 115	10 238 991
CONSUMER PRICES					
CPI Turkey (1987=100) (1)	10 962	19 345	38 536	64 914	108 381
CPI Turkey (1994=100) (1)	240	431	858	1 455	2 457
Istanbul Wage Earners					
General (1995=100) (2)		243	492	831	1 319

Source: (1) State Institute of Statistics.

(2) Istanbul Chamber of Commerce.

TABLE 24

MONTHLY PRICE INDICES

1999	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
WHOLESALE PRICES												
(1987=100) (1)												
General	46 527	47 974	49 965	52 617	54 581	55 797	58 313	60 379	63 798	66 833	69 875	74 860
Agriculture	55 825	57 674	59 802	62 956	63 537	60 673	58 556	58 491	61 725	65 340	66 630	67 183
Mining	38 946	40 512	41 438	44 408	48 431	50 653	52 311	56 294	60 406	63 791	65 476	71 419
Manufacturing	43 703	44 984	46 925	49 405	51 710	54 123	58 123	60 747	64 204	66 984	70 566	76 958
Energy	46 380	48 344	50 588	52 774	55 125	57 564	60 067	62 727	65 467	68 991	72 636	75 837
(1994=100) (1)												
General	1 259	1 301	1 353	1 424	1 471	1 497	1 556	1 607	1 701	1 780	1 853	1 980
Agriculture	1 711	1 778	1 856	1 968	1 961	1 874	1 825	1 830	1 946	2 055	2 090	2 126
Mining	1 071	1 127	1 142	1 240	1 368	1 425	1 461	1 597	1 721	1 834	1 887	2 057
Manufacturing	1 128	1 162	1 206	1 265	1 323	1 382	1 476	1 537	1 625	1 693	1 777	1 933
Energy	1 190	1 242	1 298	1 354	1 417	1 479	1 543	1 611	1 680	1 770	1 864	1 947
(1968=100) (2)												
General	6 768 698	6 836 615	7 083 374	7 369 231	7 780 870	7 954 248	8 269 936	8 474 247	8 810 045	9 118 243	9 609 176	10 238 991
CONSUMER PRICES												
CPI Turkey (1987=100) (1)												
General	67 754	69 745	72 407	76 128	78 455	80 911	83 674	87 090	92 373	98 285	102 386	108 381
CPI Turkey (1994=100) (1)												
General	1 525	1 574	1 638	1 717	1 768	1 825	1 895	1 975	2 093	2 225	2 319	2 457
Istanbul Wage Earners (1995=100) (2)												
General	841	857	899	946	973	1 004	1 036	1 052	1 116	1 204	1 252	1 319

Source: (1) State Institute of Statistics.

(2) Istanbul Chamber of Commerce.

TABLE 25

GOLD PRICES

(Thousand TL)

	1995	1996	1997	1998	1999
ANNUAL AVERAGE					
Reţat (each)	4 028	7 125	11 525	18 124	27 503
Cumhuriyet (each)	3 908	6 957	10 987	16 905	25 511
Bullion (gram)	571	1 018	1 614	2 487	3 779
END OF YEAR					

Reţat (each)	5 130	8 850	13 175	20 875	32 400
Cumhuriyet (each)	4 990	8 500	12 675	19 463	32 350
Bullion (gram)	719	1 251	1 860	2 869	4 826

Source: Central Bank.

TABLE 26

GOLD PRICES (Monthly Averages)

(Thousand TL)

1999	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Reţat (each)	21 500	22 500	23 438	25 300	26 875	27 000	28 800	29 000	29 000	32 300	31 925	32 400
Cumhuriyet (each)	20 150	21 663	22 750	23 610	24 150	23 825	24 020	24 600	25 613	31 600	31 800	32 350
Bullion (gram)	2 981	3 198	3 360	3 487	3 554	3 486	3 546	3 640	3 793	4 720	4 758	4 826

Source: Central Bank.

TABLE 27

AVERAGE Support Purchase Prices of Agricultural Products

(TL/Kg)

PRODUCTS	1995	1996	1997	1998	1999 (1)
Wheat (2)	7 433	22 093	35 141	53 564	82 320
Barley (2)	5 423	15 115	25 488	39 112	59 159
Rye (2)	5 414	13 460	26 796	41 227	57 788
Maize (2)	6 769	16 862	29 502	45 517	69 616
Oat (2)	-	14 094	26 986	42 053	58 181
Cotton (3)	40 440	68 142	138 916	180 458	233 091
Tobacco (2)	100 963	188 173	385 621	672 048	1 099 715
Sugar beets (2)	2 750	4 775	12 128	17 709	29 700
Sunflower seeds	18 001	37 969	67 728	111 682	130 000
Hazelnuts	81 800	206 248	531 435	772 134	1 043 614
Dried figs	64 200	84 770	195 285	397 813	580 429
Raisins (seedless)	38 502	81 311	165 474	263 820	414 223
Olive oil	148 621	302 572	287 131	446 766	-
Mohair	-	221 346	460 000	867 348	983 230

Pistachios	-	309 200	450 093	1 321 024	1 900 510
Soy beans	15 001	41 395	58 003	90 002	110 004
Poppy seeds (2)	24 485	73 718	157 739	295 643	450 000
Rice	24 232	43 548	85 557	130 704	155 000
Peanuts	38 493	63 413	142 079	159 529	-
Silk cocoons	198 896	382 571	772 735	1 269 248	1 904 718
Red peppers	-	210 227	250 226	-	600 147
Olives	94 259	154 052	249 891	555 461	-
Rose oil	35 014	84 019	120 023	155 000	250 004
Red lentils	24 148	-	-	113 576	195 565
Tea	12 271	24 989	50 421	87 464	124 987

Source: State Planning Organization.

(1) Estimate.

2. Products under the Support Purchases Program differ from year to year. Only these products are supported as of 1994.

(3) Excluding Support and Price Stability Fund premiums.

TABLE 28

Consolidated Budget

(in billions of TL)

	1995	1996	1997	1998	1999 (1)
REVENUES	1 394 023	2 702 034	5 750 096	11 887 552	18 973 291
Taxes	1 084 350	2 244 094	4 745 484	9 232 930	14 807 267
Direct taxes	460 437	883 607	1 931 970	4 303 893	6 712 882
Indirect taxes	623 913	1 360 487	2 813 514	4 929 037	8 094 385
Non-tax revenues	289 825	430 074	950 400	2 474 665	3 878 626
Grants	7 404	1 832	1 692	0	7 521
Annexed budget	12 444	26 034	52 520	179 957	279 878
EXPENDITURES	1 710 645	3 940 162	7 990 748	15 585 376	28 017 791
NON-TAX EXPENDITURES	1 134 530	2 442 761	5 712 831	9 408 781	17 296 951
Personnel	502 600	974 148	2 073 140	3 870 228	6 908 320
Other current expenditures	141 549	308 571	706 342	1 309 061	2 239 566
Investments	91 777	238 085	590 382	998 361	1 540 232
Interest payments	576 115	1 497 401	2 277 917	6 176 595	10 720 840
Foreign loans	100 596	168 314	299 950	547 081	896 218
Domestic loans	475 519	1 329 087	1 977 967	5 629 514	9 824 622
Transfers to the SEEs	45 500	50 200	123 640	159 960	416 800
Other transfers	353 104	871 757	2 219 327	3 071 171	6 192 033
PRIMARY BALANCE	259 493	259 273	37 265	2 478 771	1 676 340
BUDGET BALANCE	-316 622	-1 238 128	- 2 240 652	-3 697 824	-9 044 500
DEFERRED PAYMENTS	52 072	16 325	139 740	204 064	406 672
ADVANCES	-29 945	-45 931	-119 518	-315 730	-458 905
CASH BALANCE	-294 495	-1 267 734	-2 220 430	-3 809 490	-9 096 733

FINANCING	294 495	1 267 734	2 220 430	3 809 490	9 096 733
FOREIGN LOANS (Net)	-79 560	-134 410	-447 085	-1 035 566	459 693
Receipts from loans	131 110	253 296	192 087	723 766	2 565 938
Receipts from On-lending	28 314	24 390	52 094	79 533	241 536
Repayments	-238 984	-412 097	-691 266	-1 838 865	-2 347 781
DOMESTIC LOANS (Net)	282 875	1 066 229	2 505 517	4 590 178	9 740 450
Government Bonds (Net)	85 657	274 040	1 484 843	1 297 022	12 233 781
Issues	222 453	583 276	2 068 523	2 806 639	16 903 261
Repayments	-136 796	-309 236	-583 679	-1 509 617	-4 669 480
Treasury bills, (Net)	197 218	792 189	1 020 674	3 293 156	-2 493 331
Issues	1 147 241	3 266 449	2 981 644	9 173 673	6 840 020
Repayments	-950 023	-2 474 260	-1 960 970	-5 880 517	-9 333 351
SHORT-TERM ADVANCES (NET)	94 723	228 954	0	0	0
OTHERS	-3 544	106 961	161 998	254 879	-1 103 410

Source: Undersecretariat of the Treasury.

(1) Provisional.

TABLE 29

State Economic Enterprises Financing Requirement at current prıces (1)

(in billions of TL)

	1995	1996	1997	1998	1999 (2)
FIXED INVESTMENTS	-78 589	-164 768	-377 067	-891 707	-1 410 607
CHANGE IN STOCKS	-56 241	-202 118	-524 970	-857 255	-873 324
CHANGE IN FIXED ASSETS	11 031	-17 850	-12 387	23 347	-102 190
INCREASE IN MINORITY INTERESTS	-389	-3 580	-1 875	-12 596	-33 472
LEGAL OBLIGATIONS, FUNDS	-3 370	-10 368	-24 832	-64 078	-94 060
TOTAL FINANCING REQUIREMENT	-127 557	-398 684	-941 131	-1 802 290	-2 513 652
INTERNALLY GENERATED FUNDS	131 158	325 237	581 013	840 017	838 829
Retained earnings	-30 685	89 049	219 442	211 704	-98 333
Depreciation	100 110	147 156	259 541	390 269	624 426
Provisions	16 141	8 687	11 836	22 058	61 996
Provisions for exchange rate difference	45 592	80 345	90 194	215 985	250 740
Dividends other than treasury	0	0	0	0	0
FINANCING REQUIREMENT FROM EXTERNAL SOURCES	3 602	-73 447	-360 118	-962 273	-1 674 824
BUDGETARY TRANSFERS	54 874	61 320	165 700	256 609	549 469
Capital	54 325	52 111	162 130	238 349	464 519
Duty losses	0	8 297	2 050	14 960	80 000

Aid	549	912	1 520	3 300	4 950
SUPPORT AND DEVELOPMENT FUNDS	0	0	0	0	0
SEE LOAN REQUIREMENTS	58 476	-12 127	-194 417	-705 664	-1 125 355
Deferred payments	197 075	409 898	892 431	1 747 900	1 742 572
Advance payments	-159 041	-179 126	-601 399	-1 183 365	-757 261
Cash financing requirement	96 510	218 644	96 614	-141 130	-140 043
Financing	-96 510	218 644	-33 580	141 130	140 043
Change in cash balances	-56 674	-177 449	-156 333	-314 583	-318 107
Securities and deposits	-40 073	33 043	-161 791	-102 268	-191 195
Domestic loans	7 524	-35 284	195 089	202 783	337 282
Central Bank	231	0	0	0	196
Commercial banks	7 795	-35 284	195 089	202 783	337 086
Eximbank	- 502	0	0	0	0
Foreign loans, net	-13 526	-58 920	26 421	339 849	312 063
Receipts	25 232	65 455	82 746	378 635	351 419
Payments	-38 759	-124 375	-56 325	-38 786	-39 356
Government Bonds	6 240	19 966	0	15 349	0
GNP	7 854 887	14 978 067	29 393 262	53 518 332	83 124 000
SEE BORROWING REQUIREMENT / GNP	0.7	-0.1	-0.7	-1.3	-1.4
SEE BORR. REQ. - BUDG.TRANSFERS / GNP	0.1	-0.5	-1.2	-1.8	-2.0

Source: Undersecretariat of the Treasury.

(1) Including SEE's under privatization scheme.

(2) Estimate.

TABLE 30

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

	1995	1996	1997	1998	1999 (1)
RESOURCES	259 128	503 714	1 089 204	1 764 116	2 358 989
Taxes	135 049	217 952	543 446	871 230	1 087 485
Non-tax normal income	33 189	51 453	92 907	134 940	275 418
Factor income	11 200	30 425	41 314	63 728	93 692
Current transfers	32 984	146 144	274 522	287 366	582 190
Capital transfers	46 707	57 738	137 014	406 853	320 203
EXPENDITURES	306 868	519 301	1 085 900	1 768 425	2 882 495
Current expenditures	43 596	57 639	101 825	142 384	378 257
Tax expenditures	-	-	-	-	-
Non-tax normal expenditures	-	-	-	-	-

Factor expenditures	3 886	9 322	55 242	131 049	136 488
Current transfers	164 472	255 503	428 857	698 176	1 237 569
Capital investments	52 324	88 934	243 294	455 747	632 501
Fixed capital investments	42 589	107 903	256 681	341 069	497 680
BORROWING REQUIREMENT	-47 739	-15 587	3 304	-4 309	-523 506
FINANCING	47 739	15 587	-3 304	4 309	523 506
Receipts from foreign debts	22 295	53 504	133 618	136 986	227 146
Foreign debt payments	-8 597	-34 700	-42 075	-71 358	-111 230
Domestic Debt-Dom. Lending (Net)	39 419	37 755	77 093	154 612	349 144
Change in cash & banks	-5 378	-40 972	-171 940	-215 932	58 446

Source: State Planning Organization.

(1) Estimate.

TABLE 31

Consolidated Budget Appropriations,

Expenditures and Revenues

(in billions of TL)

	1995	1996	1997	1998	1999 (1)
APPROPRIATIONS					
Initial	1 330 978	3 510 989	6 256 422	13 691 379	25 334 049
Year-end	1 808 465	4 114 147	8 364 230	14 828 152	25 776 820
Current Services	1 233 448	2 402 536	5 067 622	9 905 239	17 136 883
Initial	550 891	1 045 750	2 125 998	4 454 941	7 952 784
Year-end	682 557	1 356 786	2 941 624	5 450 298	9 184 099
Investments	205 047	526 805	1 206 720	2 260 840	3 089 367
Initial	85 032	238 696	495 287	1 000 375	1 340 593
Year-end	120 015	288 109	711 433	1 260 465	1 748 774
Transfers	2 024 465	5 366 737	9 839 735	18 817 064	35 085 656
Initial	831 813	2 514 698	4 232 243	9 334 159	17 850 090
Year-end	1 192 652	2 852 039	5 607 492	9 482 905	17 235 566
Transfers to annexed budget	-323 517	- 670 942	-1 493 425	-2 463 612	-4 201 037
Initial	-136 758	-288 151	-597 106	-1 098 096	-1 809 418
Year-end	-186 759	-382 787	-896 319	-1 365 516	-2 391 619
EXPENDITURES	1 710 645	3 940 162	7 990 748	15 585 376	28 017 791
Current expenditures	644 149	1 282 719	2 779 482	5 179 289	9 147 886

Investment expenditures	91 777	238 085	590 382	998 361	1 540 232
Transfer expenditures	974 719	2 419 358	4 620 884	9 407 726	17 329 673
REVENUES	1 394 023	2 702 034	5 750 096	11 887 552	18 973 291
Taxes	1 084 350	2 244 094	4 745 484	9 232 930	14 807 267
Non-tax revenues	297 229	431 906	952 092	2 474 665	3 886 147
Revenues from annexed budget	12 444	26 034	52 520	179 957	279 878

Source: Undersecretariat of the Treasury.

(1) Provisional.

TABLE 32

Public Debt (Domestic)

(in billions of TL)

	1995	1996	1997	1998	1999
GOVERNMENT BONDS	511 769	1 250 154	3 570 812	5 771 980	19 683 392
Cash	220 955	603 845	2 267 894	3 815 843	16 960 758
Non-cash	290 814	646 669	1 302 918	1 956 136	2 722 634
FX DIFFERENCE	25 940	40	0	0	0
TREASURY BILLS	631 298	1 527 838	2 374 990	5 840 906	3 236 753
Cash	512 298	1 320 343	2 374 990	5 695 942	3 236 753
Non-cash	119 000	207 495	0	144 964	0
ADVANCE	192 000	370 953	337 623	0	0
TOTAL	1 361 007	3 148 985	6 283 425	11 612 886	22 920 145

Source: Undersecretariat of the Treasury.

“This page is intentionally left blank.”

TABLE 33.A

MONETARY AUTHORITIES - SECTORAL ACCOUNTS

(TL Billions)

ASSETS	1995	1996	1997	1998	1999(1)
FOREIGN ASSETS	888 771.9	2 028 847.5	4 260 030.9	6 895 742.4	11 877 892.9
Gold: International Standard (FX)	82 294.5	148 702.0	230 226.7	316 496.8	465 060.0
Convertible Foreign Assets	740 456.3	1 754 680.0	3 780 503.8	6 181 816.1	10 810 833.5
Other Foreign Assets	6 6021.1	125 465.5	249 300.4	397 429.5	601 999.4
CLAIMS ON CENTRAL GOVERNMENT	598 000.5	867 775.2	805 252.9	469 417.3	-243 479.9
Budgetary Institutions	572 060.7	917 709.1	1 096 049.3	969 053.3	678 426.6
Treasury Coin Issue	2 816.7	5 998.4	9 341.5	14 494.2	23 818.7
Treasury IMF Position	47 758.2	83 618.4	143 973.4	156 720.3	65 302.8
Short Term Advances to the Treasury	192 000.0	370 952.9	337 623.2	0.0	0.0
Government Securities (2)	329 167.8	457 139.4	605 111.2	797 838.8	589 305.1
Activated Claims in Accordance with Law Consolidation	0.0	0.0	0.0	0.0	0.0
Other Claims on the Treasury (net)	318.0	0.0	0.0	0.0	0.0
Revaluation Account	25 939.8	-49 933.9	-290 796.4	-499 636.0	-921 906.5
CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES (3)	1 203.3	2 242.8	1 576.2	1 559.3	1 873.8
CLAIMS ON DEPOSIT MONEY BANKS	28 677.0	73 111.7	831 002.0	2 102 597.1	1 462 830.5
Advances and Discounts	12 220.2	7 682.0	7 675.6	7 539.1	7 675.1
Commercial	12 174.2	7 674.3	7 675.1	7 539.1	7 675.1
Agricultural	0.0	0.0	0.0	0.0	0.0
Medium Term Industrial Credit, Banks	46.0	7.7	0.5	0.0	0.0
Advances Against Bond Collateral	0.0	0.0	0.0	0.0	0.0
Credit to Non-Financial Public Enterprises through Banks	0.0	0.0	0.0	0.0	0.0
Other Claims	16 456.8	65 429.7	823 326.4	2 095 058.0	1 455 155.4
CLAIMS ON OTHER FINANCIAL INST.	29.0	6.7	0.2	9 577.2	0.0
Claims on Investment and Development Banks	29.0	6.7	0.2	9 577.2	0.0
Claims on Non-Bank Financial Institutions	0.0	0.0	0.0	0.0	0.0
UNCLASSIFIED ASSETS	23 579.1	70 379.8	810 556.3	1 824 739.2	734 469.5
T O T A L	1 540 260.8	3 042 363.7	6 708 418.5	11 303 632.5	13 833 586.8

Source: Central Bank.

(1) As of the end of September 1999.

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

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

TABLE 33.L

MONETARY AUTHORITIES - SECTORAL ACCOUNTS

(TL Billions)

LIABILITIES	1995	1996	1997	1998	1999(1)
RESERVE MONEY	507 819.1	972 285.6	1 943 151.4	3 505 543.1	5 393 771.0
Currency and Coin in Circulation	226 477.1	387 812.6	767 734.1	1 342 249.2	1 892 392.3
Currency Outside Deposit Money Banks	188 505.9	315 893.1	598 568.6	1 030 504.3	1 490 552.2
Currency in Banks	37 971.2	71 919.5	169 165.5	311 744.9	401 840.1
Bank Deposits	278 885.7	580 425.7	1 169 709.5	2 147 382.3	3 490 174.6
Required Reserves	250 873.4	450 875.8	917 008.1	1 648 020.9	2 678 161.7
Free Reserves	28 012.3	129 549.9	252 701.4	499 361.4	812 012.9
Demand Deposits (TL)	2 456.3	4 047.3	5 707.8	15 911.6	11 204.1
Non-Financial Public Enterprises	29.6	27.0	21.2	22.2	4.3
Local Government Deposits	2 394.6	3 991.7	5 620.3	15 629.7	10 585.7
Private Sector Deposits	9.8	14.2	26.0	47.6	97.9
Other Financial Institutions	22.3	14.4	40.3	212.1	516.2
TIME DEPOSITS	12 425.1	33 304.5	56 179.6	112 124.7	139 285.7
FOREIGN EXCHANGE DEPOSITS	12 147.1	39 224.8	111 440.7	135 152.1	218 154.4
Non-Bank Financial Institutions	11 921.2	38 867.3	110 842.9	134 189.8	217 270.3
Non-Financial Public Enterprises	215.1	342.4	572.6	921.1	829.5
Local Governments	10.8	15.1	25.2	41.2	54.6
RESTRICTED DEPOSITS	15.3	22.0	30.5	92.0	205.2
FOREIGN LIABILITIES	769 307.1	1 395 231.3	2 507 930.5	4 151 906.2	5 359 648.8
Use of IMF Credit	40 832.5	71 366.5	121 969.6	121 821.5	65 955.8
Foreign Credit	11 333.6	10 677.3	13 862.8	8 252.8	17 621.6
Foreign Exchange Deposits by Citizens Abroad	687 737.8	1 284 555.2	2 326 013.7	4 005 515.9	5 252 676.7
Other Non-Residents' Deposits	27 062.6	25 390.8	38 658.1	5 334.0	12 407.5
Miscellaneous Payables (FX)	2 340.6	3 241.5	7 426.3	10 982.0	10 987.2
CENTRAL GOVERNMENT DEPOSITS	103 109.4	225 023.3	874 811.3	833 151.7	918 111.7
General and Annexed Budget Administration Deposits	88 034.2	188 271.9	737 715.7	694 726.1	808 841.2
Gen. Annex. Bud. Administ. Project Credit	11 407.7	17 256.8	17 064.5	37 311.1	33 961.3
Public Economic Institutes (Annexed Budget Organizations)	7.3	41.2	439.9	14.1	106.5
Social Security Funds (LC)	0.0	0.0	0.0	0.0	0.0
Reserves for Letters of Credit (Official Ent.)	16.3	13.5	7.8	0.6	0.5
Other Liabilities to Central Government	244.0	10 455.3	63 607.1	60 942.4	22 211.3
Extra-budgetary Institutions	3 399.9	8 984.6	55 976.3	40 157.4	52 990.9
CAPITAL AND RESERVES	19 191.7	113 966.9	203 448.2	435 678.0	243 116.7
UNCLASSIFIED LIABILITIES	116 246.0	263 305.3	1 011 426.3	2 129 984.7	1 561 293.3
T O T A L	1 540 260.8	3 042 363.7	6 708 418.5	11 303 632.5	13 833 586.8

Source: Central Bank.

(1) As of the end of September 1999.

TABLE 34

CENTRAL BANK - CREDIT

(TL Billions)

SECTORAL BREAKDOWN	1995	1996	1997	1998	1999(1)
CENTRAL GOVERNMENT	192 318.0	370 952.9	337 623.2	0.0	0.0
Short Term Advances to the Treasury	192 000.0	370 952.9	337 623.2	0.0	0.0
Other Claims on the Treasury (net)	318.0	0.0	0.0	0.0	0.0
NON-FINANCIAL PUBLIC ENTERPRISES	1 203.3	2 242.8	1 576.2	1 559.3	1 873.8
Treasury Guaranteed Bills	0.0	0.0	0.0	0.0	0.0
Short-term Discount of Bills, Soil Products Office (SPO)	0.0	0.0	0.0	0.0	0.0
SEEs' Other (Debts of SEEs Not Paid On Due Date)	1 203.3	2 242.8	1 576.2	1 559.3	1 873.8
SEEs, Commercial Bills	0.0	0.0	0.0	0.0	0.0
FINANCIAL INSTITUTIONS	12 249.2	7 688.7	7 675.8	7 539.1	7 675.1
Deposit Money Banks	12 220.2	7 682.0	7 675.6	7 539.1	7 675.1
Advances and Discounts	12 220.2	7 682.0	7 675.6	7 539.1	7 675.1
Commercial	12 174.2	7 674.3	7 675.1	7 539.1	7 675.1
Agricultural	0.0	0.0	0.0	0.0	0.0
Medium Term Industrial Credit, Banks	46.0	7.7	0.5	0.0	0.0
Advances Against Bonds	0.0	0.0	0.0	0.0	0.0
Claims on Public Economic Institutions	0.0	0.0	0.0	0.0	0.0
Other Credit	0.0	0.0	0.0	0.0	0.0
Investment and Development Banks	29.0	6.7	0.2	0.0	0.0
Export Advances and Discounts	0.0	0.0	0.0	0.0	0.0
Special Export Loans-Eximbank	0.0	0.0	0.0	0.0	0.0
Eximbank Credit, Foreign Trade Capital Corp.	0.0	0.0	0.0	0.0	0.0
Export Discount Credit	0.0	0.0	0.0	0.0	0.0
Other Commercial Credit, Inv. & Dev Banks	0.0	0.0	0.0	0.0	0.0
Med. Term Credit, Inv. and Dev. Banks	29.0	6.7	0.2	0.0	0.0
Non-Bank Financial Institutions	0.0	0.0	0.0	0.0	0.0
Advances for Savings Protection Fund	0.0	0.0	0.0	0.0	0.0
CREDIT ABROAD	65 665.3	124 699.8	247 977.6	395 516.8	599 493.7
T O T A L	271 435.8	505 584.2	594 852.8	404 615.2	609 042.6

Source: Central Bank.

(1) as of the end of September 1999.

TABLE 35

CENTRAL BANK - DEPOSITS

(TL Billions)

SECTORAL BREAKDOWN	1995	1996	1997	1998	1999(1)
CENTRAL GOVERNMENT DEPOSITS	102 849.1	214 554.5	811 196.4	772 208.7	895 899.9
General and Annexed Budget Administration	88 034.2	188 271.9	737 715.7	694 726.1	808 841.2
TL	13 397.8	33 358.8	181 613.1	213 243.5	164 159.7
FX	74 636.4	154 913.1	556 102.6	481 482.6	644 681.5
General and Annexed Budget Administration Project Funds	11 407.7	17 256.8	17 064.5	37 311.1	33 961.3
TL	0.0	0.0	0.0	0.0	0.0
FX	11 407.7	17 256.8	17 064.5	37 311.1	33 961.3
Public Economic Institutions	7.3	41.2	439.9	14.1	106.5
TL	7.3	41.2	439.9	14.1	106.5
FX	0.0	0.0	0.0	0.0	0.0
Social Security Organizations Est. by Law	0.0	0.0	0.0	0.0	0.0
Extra-budgetary Institutions	3 399.9	8 984.6	55 976.3	40 157.4	52 990.9
TL	3 086.8	6 549.3	49 717.8	16 540.5	37 541.5
FX	313.1	2 435.3	6 258.5	23 616.9	15 449.4
FINANCIAL INSTITUTION DEPOSITS	290 921.2	619 654.4	1 281 605.3	2 283 491.4	3 709 100.5
Bank Deposits	278 885.7	580 425.7	1 169 709.5	2 147 382.3	3 490 174.6
Required Reserves	250 873.4	450 875.8	917 008.1	1 648 020.9	2 678 161.7
TL	106 549.3	175 512.1	336 353.5	694 261.4	1 183 156.7
FX	144 324.1	275 363.7	580 654.6	953 759.5	1 495 005.0
Free Reserves	28 012.3	129 549.9	252 701.4	499 361.4	812 012.9
Domestic Banks (FX)	20 790.2	76 876.3	218 332.4	411 376.5	694 765.9
Deposit Money Banks (Free Dep. TL)	7 222.1	52 673.6	34 369.0	87 984.9	117 247.0
Other Financial Institutions	12 035.5	39 228.7	111 895.8	136 109.1	218 925.9
Investment and Development Banks	476.2	1 212.7	4 528.2	10 330.4	15 426.3
TL	19.1	11.8	36.2	205.4	505.3
FX	457.1	1 200.9	4 492.0	10 125.0	14 921.0
Non-Bank Finan.Ins.(Ins. Fund. for Sav. Dep.)	11 467.3	37 669.0	106 355.0	124 071.5	202 360.2
TL (Sight)	3.2	2.6	4.1	6.7	10.9
FX	11 464.1	37 666.4	106 350.9	124 064.8	202 349.3
Financial Institutions (Special Finance Houses)	92.0	347.0	1 012.6	1 697.0	1 125.2
Authorized Foreign Currency Institutions	0.0	0.0	0.0	10.2	14.2
NON-FINANCIAL PUBLIC ENTERPRISES	244.7	369.4	593.8	943.3	833.8
State Economic Enterprises	244.7	369.4	593.8	943.3	833.8
TL (Sight)	29.6	27.0	21.2	22.2	4.3
FX	215.1	342.4	572.6	921.1	829.5
LOCAL GOVERNMENT	2 405.4	4 006.8	5 645.5	15 670.9	10 640.3
TL (Sight)	2 394.6	3 991.7	5 620.3	15 629.7	10 585.7
FX	10.8	15.1	25.2	41.2	54.6
PRIVATE SECTOR (TL)	9.8	14.2	26.0	47.6	97.9

RESTRICTED DEPOSITS	10.8	17.5	26.7	88.3	201.5
NON-RESIDENTS' DEPOSITS	714 800.4	1 309 946.0	2 364 671.8	4 010 849.9	5 265 084.2
Deposits With Letter of Credit	687 737.8	1 284 555.2	2 326 013.7	4 005 515.9	5 252 676.7
Other Deposits (TL+FX)	27 062.6	25 390.8	38 658.1	5 334.0	12 407.5
OTHER DEPOSITS	4.8	4.8	158.3	36.4	140.1
T O T A L	1 111 246.2	2 148 567.6	4 463 923.8	7 083 336.5	9 881 998.2

Source: Central Bank.

(1) As of the end of September 1999.

TABLE 36.A

DEPOSIT MONEY BANKS - SECTORAL ACCOUNTS

(TL Billions)

ASSETS	1995	1996	1997	1998	1999(1)
RESERVES	314 479.7	641 352.1	1 297 880.7	2 433 421.6	3 702 655.2
Currency	37 971.2	71 919.5	169 165.5	311 744.9	401 840.1
Deposits at Central Bank	276 508.5	569 432.6	1 128 715.2	2 121 676.7	3 300 815.1
Reserve Requirement	249 914.4	468 063.5	918 597.2	1 723 329.9	2 789 899.1
Free Reserves	26 594.1	101 369.1	210 118.0	398 346.8	510 916.0
OTHER CLAIMS ON CENTRAL BANK	19 497.4	46 485.3	15.8	4.7	4.7
Net Credit from CBRT under Swap and	19 476.0	46 461.0	0.0		
Repurchase Agreement				0.0	0.0
Other Claims	21.4	24.3	15.8	4.7	4.7
FOREIGN ASSETS	593 595.8	1 016 172.4	2 160 785.5	3 661 848.9	5 602 104.6
CLAIMS ON CENTRAL GOVERNMENT	413 346.7	1 405 806.7	2 891 576.9	8 291 055.3	16 007 321.8
Budgetary Institutions	385 467.2	1 293 916.6	2 869 364.1	8 267 920.4	15 981 736.1
Credit to Central Government	20 524.9	12 538.4	21 751.6	14 755.5	10 623.4
Bonds and Bills Issued by Central	252 821.9	874 679.3	1 842 642.2		
Government				3 742 139.7	8 604 785.9
Other Claims on Central Government	112 120.4	406 698.9	1 004 970.3	4 511 025.2	7 366 326.8
Extra-budgetary Institutions	27 879.5	111 890.1	22 212.8	23 134.9	25 585.7
Claims on Extra-budgetary Funds	27 879.5	111 890.1	22 212.8	23 134.9	25 585.7
CLAIMS ON NON-FINANCIAL PUBLIC	40 288.7	49 210.9	217 408.5		
ENTERPRISES				289 798.2	252 719.1
Credit to SEE's	37 637.0	46 777.5	215 343.6	283 376.2	245 914.0
Bonds Issued by SEE's	0.0	0.0	0.0	0.0	0.0
Participations in SEE's	2.6	81.6	83.9	263.5	164.5
Other Claims on SEE's	2 649.1	2 351.8	1 981.0	6 158.5	6 640.6
CLAIMS ON LOCAL GOVERNMENT	4 745.6	6 420.6	8 194.4	19 538.5	30 998.4
CLAIMS ON OTHER FINANCIAL	32 858.7	71 568.2	186 773.1		
INSTITUTIONS				323 064.5	623 289.9
Claims on Inv. and Development Banks	28 032.0	58 216.8	129 270.3	204 123.0	334 207.0
Claims on Non-Bank Financial Institutions	4 826.7	13 351.4	57 502.8	118 941.5	289 082.9
CLAIMS ON PRIVATE SECTOR	1 356 669.1	3 202 529.0	7 252 461.7	11 493 241.4	15 204 687.9
Credit to Private Sector	1 277 943.5	3 029 298.7	6 959 948.6	10 774 211.5	14 273 913.7
Bonds Issued by Private Enterprises	22.6	26 083.8	9 558.6	0.0	1 834.1
Participations in Private Enterprises	50 578.0	74 722.5	147 067.1	433 531.4	597 591.9
Other Claims on Private Sector	28 125.0	72 424.0	135 887.4	285 498.5	331 348.2
DOMESTIC INTERBANK CLAIMS	143 585.4	367 859.3	851 113.2	1 321 271.9	2 521 802.0
UNCLASSIFIED ASSETS	777 198.8	1 336 625.7	2 689 043.6	6 062 698.9	11 651 798.3
T O T A L	3 696 265.9	8 144 030.2	17 555 253.4	33 895 943.9	55 597 381.9

Source: Central Bank.

(1) As of the end of September 1999.

TABLE 36.L

DEPOSIT MONEY BANKS - SECTORAL ACCOUNTS

(TL Billions)

LIABILITIES	1995	1996	1997	1998	1999(1)
DEMAND DEPOSITS	193 428.5	562 351.4	887 428.7	1 386 552.2	1 626 539.4
Private Sector	155 340.0	367 984.7	675 143.1	1 027 950.9	1 231 437.8
Local Government	12 023.8	43 765.7	66 346.3	121 497.8	111 504.3
Non-financial Public Enterprises	20 438.9	138 945.6	123 350.2	155 781.9	181 122.3
Other Financial Institutions	5 625.8	11 655.4	22 589.1	81 321.6	102 475.0
TIME DEPOSITS (2)	959 240.8	2 097 901.1	4 237 012.7	9 138 355.1	15 587 719.7
Private Sector	914 329.3	2 053 427.0	4 063 703.5	8 710 732.0	15 086 610.6
Local Government	6 838.9	15 970.6	49 970.8	35 279.5	47 843.6
Non-financial Public Enterprises	32 206.4	6 229.6	84 118.9	271 439.1	94 763.7
Other Financial Institutions	5 866.2	22 273.9	39 219.5	120 904.5	358 501.8
RESIDENTS' FOREIGN EXCHANGE					
DEPOSITS	1 145 818.7	2 409 590.8	4 893 817.5	8 654 299.9	13 636 378.2
CERTIFICATES OF DEPOSIT	6 918.9	11 208.2	159.6	15.7	14.6
BONDS	36 689.8	5 863.3	81 402.8	122 771.6	169 170.4
FOREIGN LIABILITIES	315 754.7	871 833.0	2 342 662.6	4 605 871.1	7 722 156.1
CENTRAL GOVERNMENT DEPOSITS	143 855.7	392 887.1	838 425.6	1 495 345.1	2 727 127.1
Deposits of Budgetary and Social Sec. Institutions	66 113.4	217 625.9	386 862.1	605 248.2	1 002 888.5
Deposits of Extra-budgetary Funds	77 742.3	175 261.2	451 563.5	890 096.9	1 724 238.6
CREDIT FROM CENTRAL BANK	12 586.3	14 470.9	62 313.5	167 548.3	245 455.7
Interbank Deposits, Central Bank	286.4	5 313.2	21 490.6	155 887.2	237 782.9
Credit From Central Bank	12 299.9	9 157.7	40 822.9	11 661.1	7 672.8
CAPITAL ACCOUNTS	383 838.6	869 243.2	1 863 930.0	3 944 350.9	5 552 725.6
DOMESTIC INTERBANK LIABILITIES	206 457.5	484 610.3	1 202 700.6	1 793 120.5	3 475 955.5
UNCLASSIFIED LIABILITIES	291 676.4	424 070.9	1 145 399.8	2 587 713.5	4 854 139.6
T O T A L	3 696 265.9	8 144 030.2	17 555 253.4	33 895 943.9	55 597 381.9

Source: Central Bank.

(1) As of the end of September 1999.

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

TABLE 37.A

DEPOSIT MONEY BANKS - DEPOSITS

(TL Billions)

SECTORAL BREAKDOWN	1995	1996	1997	1998	1999(1)
CENTRAL GOVERNMENT	70 835.7	227 608.8	467 595.2	774 434.6	1 443 199.1
Deposit of Budget and Soc. Sec. Institutions	46 118.5	177 577.5	287 878.1	520 661.1	907 262.9
Official Corporations	25 574.5	134 408.4	156 579.9	249 699.4	482 840.2
Other Corporations	20 544.0	43 169.1	131 298.2	270 961.7	424 422.7
Deposits of Extra-budgetary Funds	24 717.2	50 031.3	179 717.1	253 773.5	535 936.2
FINANCIAL INSTITUTION DEPOSITS	178 967.8	463 113.7	1 097 340.8	2 531 154.9	5 380 651.4
Interbank Deposits	167 475.8	429 184.4	1 035 532.2	2 328 928.8	4 919 674.6
Interbank, Central Bank	286.4	5 313.2	21 490.6	155 887.2	237 782.9
Interbank, Banks Abroad	75 665.0	167 319.0	491 077.5	1 251 884.7	2 357 703.0
Domestic Interbank	91 524.4	256 552.2	522 964.1	921 156.9	2 324 188.7
Other Financial Institutions	11 492.0	33 929.3	61 808.6	202 226.1	460 976.8
Investment and Development Banks	5 117.5	18 895.6	32 423.9	99 793.5	167 635.7
Non-Bank Financial Institutions	6 374.5	15 033.7	29 384.7	102 432.6	293 341.1
NON-FINANCIAL PUBLIC ENTERPRISES	50 909.6	142 169.2	202 551.3	419 925.2	271 410.4
LOCAL GOVERNMENT	18862.7	59 736.3	116 317.1	156 777.3	159 347.9
PRIVATE SECTOR	2 114 760.1	4 761 773.5	9 472 937.5	18 071 615.6	29 130 935.1
Savings Deposits, Real Persons	682 572.7	1 728 529.7	3 184 697.5	6 409 385.5	11 793 240.8
Commercial Corporations	131 561.2	279 562.4	645 186.6	1 507 044.6	1 926 943.2
Other Corporations	147 888.6	332 882.4	749 076.3	1 525 759.0	2 166 894.2
Residents' Foreign Exchange Deposits	1 145 818.7	2 409 590.8	4 893 817.5	8 629 410.8	13 243 842.3
Certificates of Deposit	6 918.9	11 208.2	159.6	15.7	14.6
DEPOSITS ABROAD	109 450.8	221 725.9	607 849.1	962 914.8	1 587 646.3
T O T A L	2 543 786.7	5 876 127.4	11 964 591.0	22 916 822.4	37 973 190.2

Source: Central Bank.

(1) As of the end of September 1999.

TABLE 37.B

DEPOSIT MONEY BANKS - DEPOSITS

(TL Billions)

DEPOSIT TYPES	1995	1996	1997	1998	1999(1)
SAVINGS DEPOSITS	684 284.7	1 731 882.7	3 191 504.5	6 425 225.5	11 826 550.8
Sight	54 611.7	133 776.1	236 498.5	326 003.6	434 577.2
Time	629 673.0	1 598 106.6	2 955 006.0	6 099 221.9	11 391 973.6
COMMERCIAL CORPORATION					
DEPOSITS	202 023.7	474 389.7	950 222.8	2 085 866.3	2 531 694.6
Sight	120 677.4	376 397.3	572 771.6	877 452.8	979 530.9

Time	81 346.3	97 992.4	377 451.2	1 208 413.5	1 552 163.7
OTHER CORPORATION DEPOSITS	187 872.6	417 200.2	1 039 529.4	2 038 103.6	3 132 097.6
Sight	30 561.0	87 327.3	265 733.3	406 715.8	871 108.6
Time	157 311.6	329 872.9	773 796.1	1 631 387.8	2 260 989.0
of which: Extra-budgetary Funds (2)	13 980.8	28 894.0	133 974.3	183 960.8	453 395.6
OFFICIAL DEPOSITS	36 803.7	165 737.8	221 367.1	364 531.2	600 216.0
Sight	33 039.5	158 798.6	184 138.5	291 929.4	469 496.1
Time	3 764.2	6 939.2	37 228.6	72 601.8	130 719.9
CERTIFICATES OF DEPOSIT	6 918.9	11 208.2	159.6	15.7	14.6
Sight	26.8	53.7	20.9	15.7	14.6
Time	6 892.1	11 154.5	138.7	0.0	0.0
FOREIGN EXCHANGE DEPOSITS	1 253 289.7	2 627 628.8	5 493 851.5	9 599 246.9	15 187 842.2
Sight	364 908.2	705 978.4	1 280 512.4	2 036 166.0	2 682 475.7
Time	888 381.5	1 921 650.4	4 213 339.1	7 563 080.9	12 505 366.5
INTERBANK DEPOSITS	172 593.4	448 080.0	1 067 956.1	2 403 833.2	4 694 774.4
Central Bank	286.4	5 313.2	21 490.6	155 887.2	237 782.9
Public Deposit Banks	20 895.4	55 473.0	59 658.1	72 454.2	218 639.1
Private Deposit Banks	70 629.0	201 079.2	463 306.0	823 813.6	1 713 013.7
Investment and Development Banks	5 117.5	18 895.6	32 423.9	99 793.5	167 635.7
Banks Abroad	75 665.0	167 319.0	491 077.5	1 251 884.7	2 357 703.0
Institutions Authorized to Accept Deposits by Special Law	0.1	0.0	0.0	0.0	0.0
T O T A L	2 543 786.7	5 876 127.4	11 964 591.0	22 916 822.4	37 973 190.2

Source: Central Bank.

(1) As of the end of September 1999.

(2) Extra-budgetary fund deposits in Other Deposits are not included in money supply.

TABLE 38.A

INVESTMENT and DEVELOPMENT BANKS - SECTORAL ACCOUNT

(TL Billions)

ASSETS	1995	1996	1997	1998	1999(1)
RESERVES	84 105.6	147 364.7	256 856.0	457 081.2	626 642.3
Currency	35.8	49.9	74.9	134.0	98.5
Deposits at Central Bank	483.0	1 310.9	4 338.3	6 502.9	8 797.9
Claims on Deposit Money Banks	83 586.8	146 003.9	252 442.8	450 444.3	617 745.9
Securities Issued by Deposit Money Banks	0.0	0.0	0.0	0.0	19.8
Loans to Deposit Money Banks	83 586.8	146 003.9	252 442.8	450 444.3	617 726.1
OTHER CLAIMS ON CENTRAL BANK	777.0	710.2	0.0	0.0	0.0
FOREIGN ASSETS	60 544.8	101 488.3	218 451.1	340 743.8	492 365.3
CLAIMS ON CENTRAL GOVERNMENT	7 079.0	16 766.6	43 038.6	86 033.9	137 622.3
Budgetary Institutions	6 445.0	15 562.5	43 038.6	86 033.9	137 622.3
Credit to Central Government	0.0	0.0	0.0	0.0	0.0
Bonds and Bills Issued by Central Government	4 777.5	13 034.1	31 463.8	67 293.9	116 388.9
Other Claims on Central Government	1 667.5	2 528.4	11 574.8	18 740.0	21 233.4

Extra-budgetary Institutions	634.0	1 204.1	0.0	0.0	0.0
Claims on Extra-budgetary Funds	634.0	1 204.1	0.0	0.0	0.0
CLAIMS ON NON-FINANCIAL PUBLIC					
ENTERPRISES	9 222.3	6 567.8	17 286.3	11 147.6	4 545.6
Credit to SEE's	333.8	9.0	0.0	0.0	0.0
Bonds issued by SEEs	0.0	0.0	0.0	0.0	0.0
Participations in SEEs	12.0	70.5	70.5	70.9	70.8
Other Claims on SEEs	8 876.5	6 488.3	17 215.8	11 076.7	4 474.8
CLAIMS ON LOCAL GOVERNMENT	10 130.5	23 783.8	45 414.9	93 048.0	200 333.8
CLAIMS ON NON-BANK FINANCIAL					
INSTITUTIONS	136.4	605.5	4 855.5	6 824.8	12 514.5
CLAIMS ON PRIVATE SECTOR	78 313.9	169 682.7	331 534.7	572 991.9	774 683.0
Credit to Private Sector	76 291.3	164 283.0	326 393.5	562 370.6	754 656.6
Bonds Issued by Private Enterprises	0.0	0.0	0.0	0.0	0.0
Participations in Private Enterprises	737.3	4 144.6	3 215.5	5 263.0	11 902.6
Other Claims on Private Sector	1 285.3	1 255.1	1 925.7	5 358.3	8 123.8
INTER-INVEST. AND DEVELOP. BANK CLAIMS	807.5	2 065.1	4 215.4	6 993.2	9 623.7
UNCLASSIFIED ASSETS	52 318.8	73 522.5	124 716.5	169 246.6	325 178.9
T O T A L	303 435.8	542 557.2	1 046 369.0	1 744 111.0	2 583 509.4

Source: Central Bank.

(1) As of the end of September 1999.

TABLE 38.L

INVESTMENT and DEVELOPMENT BANKS - SECTORAL ACCOUNT

(TL Billions)

LIABILITIES	1995	1996	1997	1998	1999(1)
TIME DEPOSITS (2)	2 896.6	2140.8	3 260.8	3 427.4	4 862.5
Private Sector	2 879.4	2 134.2	3 254.3	3 320.9	4 693.7
Non-Financial Public Enterprises	17.2	6.6	6.5	106.5	168.8
BONDS	50 758.3	69 820.6	130 308.7	103 968.0	114 636.6
FOREIGN LIABILITIES	48 672.0	90 421.0	157 233.0	271 790.0	358 379.0
CENTRAL GOVERNMENT DEPOSITS	44 215.3	66 624.8	141 732.6	214 128.3	330 693.4
Deposits of Budgetary and Social Security					
Institutions	31 964.8	51 144.6	120 064.9	185 241.9	294 347.7
Deposits of Extra-budgetary Funds	12 250.5	15 480.2	21 667.7	28 886.4	36 345.7
LIABILITIES TO THE MONETARY SECTOR	88 254.3	175 017.8	313 897.2	549 020.8	798 637.4
Credit from Central Bank	30.0	15 368.9	30 276.9	47 431.7	66 930.1
Liabilities to Deposit Money Banks	88 224.3	159 648.9	283 620.3	501 589.1	731 707.3
CAPITAL ACCOUNTS	33 009.5	86 268.1	194 142.5	383 920.0	611 208.9
UNCLASSIFIED LIABILITIES	35 629.8	52 264.1	105 794.2	217 856.5	365 091.6
T O T A L	303 435.8	542 557.2	1 046 369.0	1 744 111.0	2 583 509.4

Source: Central Bank.

(1) As of the end of September 1999.

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

TABLE 39

INVESTMENT and DEVELOPMENT BANKS - CREDIT

(TL Billions)

SECTORAL BREAKDOWN	1995	1996	1997	1998	1999(1)
CENTRAL GOVERNMENT	0.0	0.0	0.0	0.0	0.0
NON-FINANCIAL PUBLIC ENTERPRISES	333.8	9.0	0.0	0.0	0.0
LOCAL GOVERNMENT	10 130.5	23 783.8	45 414.9	93 048.0	200 333.8
FINANCIAL INSTITUTIONS	66 037.0	106 708.7	178 443.6	304 180.7	381 852.0
Deposit Money Banks	65 178.5	104 348.3	169 934.6	292 118.5	363 039.1
Investment and Development Banks	807.5	2 043.0	4 176.8	6 948.8	8 613.4
Eximbank	0.0	0.0	0.0	0.0	0.0
Other Investment and Development Banks	807.5	2 043.0	4 176.8	6 948.8	8 613.4
Non-Bank Financial Institutions	51.0	317.4	4 332.2	5 113.4	10 199.5
Special Finance Houses	0.0	0.0	0.0	0.0	0.0
Insurance Companies	0.0	0.0	0.0	0.0	0.0
Other Financial Institutions	51.0	317.4	4 332.2	5 113.4	10 199.5
PRIVATE SECTOR	76 291.3	164 283.0	326 393.5	562 370.6	754 656.6
Private Enterprises	63 628.3	139 914.6	276 365.6	457 176.2	655 828.0
Households	468.2	935.5	1 929.6	3 383.6	5 532.8
Other	12 194.8	23 432.9	48 098.3	101 810.8	93 295.8
CREDIT ABROAD	38 744.3	87 666.5	172 195.3	271 769.8	463 937.4
T O T A L	191 536.9	382 451.0	722 447.3	1 231 369.1	1 800 779.9

Source: Central Bank.

(1) As of the end of September 1999.

TABLE 40

DEPOSIT MONEY BANKS - CREDIT

(TL Billions)

SECTORAL BREAKDOWN	1995	1996	1997	1998	1999(1)
CENTRAL GOVERNMENT	20 524.9	12 538.4	21 751.6	14 755.5	10 623.4
NON-FINANCIAL PUBLIC ENTERPRISES	37 637.0	46 777.5	215 343.6	283 376.2	245 914.0
LOCAL GOVERNMENT	4 745.6	6 420.6	8 194.4	19 538.5	30 998.4
FINANCIAL INSTITUTIONS	69 718.4	117 376.9	212 181.2	353 161.6	508 076.8
Investment and Development Banks	26 257.9	50 854.9	100 514.1	158 148.7	258 536.1
Eximbank	3 627.1	10 591.2	31 179.2	63 167.7	88 724.7

Other Investment and Development Banks	22 630.8	40 263.7	69 334.9	94 981.0	169 811.4
Non-Bank Financial Institutions	1 480.7	4 141.9	22 378.1	19 417.4	32 664.7
Insurance Companies	0.0	0.2	2 971.4	900.8	0.0
Special Finance Houses	176.6	2 574.5	2 901.6	458.9	5 445.8
Other Financial Institutions	1 304.1	1 567.2	16 505.1	18 057.7	27 218.9
Domestic Interbank Credit	41 979.8	62 380.1	89 289.0	175 595.5	216 876.0
PRIVATE SECTOR	1 277 943.5	3 029 298.7	6 959 948.6	10 774 211.5	14 273 913.7
Private Enterprises	899 597.0	2 232 932.3	4 996 588.7	8 722 593.8	11 337 165.4
Households (2)	13 418.6	29 476.8	94 259.0	142 825.6	202 311.5
Other (3)	364 927.9	766 889.6	1 869 100.9	1 908 792.1	2 734 436.8
CREDIT ABROAD	22 551.8	49 513.4	132 053.0	272 926.8	288 306.4
T O T A L	1 433 121.2	3 261 925.5	7 549 472.4	11 717 970.1	15 357 832.7

Source: Central Bank.

(1) As of the end of September 1999.

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

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

TABLE 41

BANKING SECTOR - CREDIT STOCK

(TL Billions)

	1995	1996	1997	1998	1999(1)
CENTRAL BANK (DIRECT)	193 521.3	373 195.7	339 199.4	1 559.3	1 873.8
Central Government	192 318.0	370 952.9	337 623.2	0.0	0.0
Non-Financial Public Enterprises	1 203.3	2 242.8	1 576.2	1 559.3	1 873.8
Non-Bank Financial Institutions	0.0	0.0	0.0	0.0	0.0
DEPOSIT BANKS	1 342 331.7	3 099 177.1	7 227 616.3	11 111 299.1	14 594 114.2
Central Government	20 524.9	12 538.4	21 751.6	14 755.5	10 623.4
Non-Financial Public Enterprises	37 637.0	46 777.5	215 343.6	283 376.2	245 914.0
Local Government	4 745.6	6 420.6	8 194.4	19 538.5	30 998.4
Non-Bank Financial Institutions	1 480.7	4 141.9	22 378.1	19 417.4	32 664.7
Private Sector	1 277 943.5	3 029 298.7	6 959 948.6	10 774 211.5	14 273 913.7
INVESTMENT AND DEVELOPMENT					
BANKS	86 806.6	188 393.2	376 140.6	660 532.0	965 189.9
Central Government	0.0	0.0	0.0	0.0	0.0
Non-Financial Public Enterprises	333.8	9.0	0.0	0.0	0.0
Local Government	10 130.5	23 783.8	45 414.9	93 048.0	200 333.8
Non-Bank Financial Institutions	51.0	317.4	4 332.2	5 113.4	10 199.5
Private Sector	76 291.3	164 283.0	326 393.5	562 370.6	754 656.6
T O T A L	1 622 659.6	3 660 766.0	7 942 956.3	11 773 390.4	15 561 177.9

Source: Central Bank.

1. As of the end of November 1999.

Note: Interbank credit is excluded from credit stock.

TABLE 42

MONETARY SECTOR - ANALYTICAL BALANCE SHEET

M3Y Money Supply and Counterpart Items

(TL Billions)

	1995	1996	1997	1998	1999(1)
COUNTERPART ITEMS					
FOREIGN ASSETS (NET)	424 059.4	806 416.2	1 599 110.4	1 820 133.2	4 436 839.4
Foreign Assets	1 482 367.7	3 045 019.9	6 420 816.4	10 557 591.3	17 479 997.5
Foreign Liabilities	-1 058 308.3	-2 238 603.7	-4 821 706.0	-8 737 458.1	-13 043 158.1
DOMESTIC CREDIT	2 273 523.3	5 226 313.8	10 215 398.7	19 389 026.8	29 423 783.4
Claims on Central Government (Net)	837 728.9	1 894 335.6	2 548 984.6	7 252 247.7	13 310 214.3
Claims on Central Government	1 011 347.2	2 273 581.9	3 696 829.8	8 760 472.6	15 763 841.9
Less: Central Government Deposits	-173 618.3	-379 246.3	-1 147 845.2	-1 5 08 224.9	-2 453 627.6
Claims on Local Government	4 745.6	6 420.6	8 194.4	19 538.5	30 998.4
Claims on Non-Financial Public Enterprises	41 492.0	51 453.7	218 984.7	291 357.5	254 592.9
Claims on Private Sector	1 356 669.1	3 202 529.0	7 252 461.7	11 493 241.4	15 204 687.9
Claims on Investment and Development Banks	28 061.0	58 223.5	129 270 5	213 700.2	334 207.0
Claims on Non-Bank Financial Institutions	4 826.7	13 351.4	57 502.8	118 941.5	289 082.9
OTHER ITEMS (NET)	-202 399.4	-424 227.2	-669 822.6	-382 170.0	-639 108.2
T O T A L	2 495 183.3	5 608 502.8	11 144 686.5	20 826 990.0	33 221 514.6
MONEY SUPPLY					
M1	388 184.5	896 854.6	1 581 210.0	2 562 478.1	3 358 759.5
Currency Outside Banks	189 465.2	319 024.0	610 871.0	1 057 863.5	1 512 902.9
Demand Deposits	198 719.3	577 830.6	970 339.0	1 504 614.6	1 845 856.6
Monetary Authorities	47.2	82.5	487.4	84.0	216.6
Deposit Money Banks	198 672.1	577 748.1	969 851.6	1 504 530.6	1 845 640.0
M2	1 256 631.5	2 924 893.3	5 658 800.4	11 423 197.8	18 550 081.5
Time Deposits	868 447.0	2 028 038.7	4 077 590.4	8 860 719.7	15 191 322.0
Deposit Money Banks	868 447.0	2 028 038.7	4 077 590.4	8 860 719.7	15 191 322.0
M2Y	2 414 597.3	5 373 708.9	10 664 058.6	20 212 649.8	32 404 614.1
Residents' Foreign Exchange Deposits	1 157 965.8	2 448 815.6	5 005 258.2	8 789 452.0	13 854 532.6
Monetary Authorities	12 147.1	39 224.8	111 440.7	135 152.1	218 154.4
Deposit Money Banks	1 145 818.7	2 409 590.8	4 893 817.5	8 654 299.9	13 636 378.2
M3	1 337 217.5	3 159 687.2	6 139 428.3	12 037 538.0	19 366 982.0
Official Deposits (Time/Sight)	36 803.7	165 737.8	221 367.1	364 531.2	600 216.0
Other CBRT Deposits	43 782.3	69 056.1	259 260.8	249 809.0	216 684.5
M3Y (M2Y+Official Dept.+ Other CBRT Deposits)	2 495 183.3	5 608 502.8	11 144 686 5	20 826 990.0	33 221 514.6

Source: Central Bank.

(1) As of the end of September 1999.

TABLE 43

CENTRAL BANK - ANALYTICAL BALANCE SHEET

(TL Billions)

	1995	1996	1997	1998	1999 (1)
ASSETS					
FOREIGN ASSETS	911 817	2 041 524	4 336 722	7 204 082	13 370 552
DOMESTIC ASSETS	509 295	640 317	364 267	-336 158	-1 407 405
Cash Operations	464 283	643 891	554 348	80 643	-416 401
Cash Credit to the Public Sector	466 496	821 261	889 105	771 915	631 322
Cash Credit to the Banking Sector	12 254	7 693	7 681	7 544	7 640
Other Items (net)	-14 467	-185 063	-342 438	-698 816	-1 055 363
FX Revaluation Account	45 012	-3 574	-190 081	-416 801	-1 181 638
IMF Emergency Assistance Account (Treasury)	0.0	0.0	0.0	0.0	190 634
TOTAL	1 421 112	2 681 841	4 700 989	6 867 924	11 963 147
LIABILITIES					
TOTAL FX LIABILITIES	1 048 318	1 975 747	4 053 023	6 340 632	10 303 844
Foreign Liabilities	775 667	1 409 326	2 545 585	4 297 078	6 191 019
Domestic Liabilities	272 651	566 421	1 507 438	2 043 554	4 112 825
FX Deposits of Non-Bank Sector	102 802	212 984	703 959	668 292	1 443 597
FX Deposits of the Banking Sector	169 849	353 437	803 479	1 375 262	2 669 228
CENTRAL BANK MONEY	372 794	706 094	647 966	527 292	1 659 303
Reserve Money	343 484	621 483	1 186 386	2 145 718	3 394 004
Currency Issued	223 934	382 243	758 878	1 328 542	1 893 237
Banking Sector Deposits	113 792	228 199	370 758	782 555	1 458 848
Required Reserves	106 549	175 512	336 353	694 261	1 341 147
Free Deposits	7 243	52 687	34 405	88 294	117 701
Extra-budgetary Funds	3 193	6 549	49 722	16 737	25 059
Deposits of Non-Bank Sector	2 565	4 492	7 028	17 884	16 860
Other Central Bank Money	29 310	84 611	-538 420	-1 618 426	-1 734 701
Open Market Operations	15 926	51 369	-720 339	-1 830 589	-2 147 512
Public Sector Deposits	13 384	33 242	181 919	212 163	412 811
T O T A L	1 421 112	2 681 841	4 700 989	6 867 924	11 963 147

Source: Central Bank.

(1) As of the end of November 1999.

Note: The difference between the total of the weekly statement published in the Official Gazette every week and the Analytical Balance Sheet is due to:

A) The use of IMF credit under stand-by agreement is recorded as TRL. Liability in the CBRT Weekly Statement under the heading “Deposits by International Organisations ” at the prevailing TRL/SDR exchange rate on the data of withdrawal. However in the Analytical Balance Sheet, SDR liability is considered as a foreign liability and marked to market. Exchange rate differences accumulated between the data of withdrawal and the data of Analytical Balance Sheet is recorded to FX revaluation account.

B) The sum of the Coins "Domestic Correspondents, Fixed Assets, Miscellaneous Receivables, Other Assets" on the asset side and the sum of the " Notes and Remittances Payable, Capital, Reserve Funds, Provisions, Miscellaneous Payables, Other Liabilities" on the liability side of the weekly statement is netted into the "Net Other Assets" item on the asset side of the Analytical Balance Sheet.

C) "Gold Claims of the Treasury" on the liability side of the weekly statement is netted with the Treasury's other debts on the asset side of the Analytical Balance Sheet.

D) "Overnight Operations" and "Cash debts and claims due to bond transactions under repurchase and reverse repurchase agreement" are netted under the heading "Open Market Operations" in the liability side whereas "Security debts and claims due to bond transaction under repurchase and reverse repurchase agreement" are netted under the "The Credit to the Public Sector" item in the asset side of the Analytical Balance Sheet.

E) As of 18 October 1999, liabilities to the IMF shown under "Foreign Liabilities" in the Analytical Balance Sheet have increased in the amount of Emergency Assistance. The corresponding item has been shown as "IMF Emergency Assistance (Treasury)" under the "Domestic Assets" and exchange rate differences have been recorded to "FX Revaluation" account.

TABLE 44

Securities Issued

(in billions of TL)

	1995	1996	1997	1998	1999
PUBLIC SECTOR	1 439 666.4	4 969 897.0	6 259 962.0	11 352 381.0	26 886 408.0
Government bonds	343 345.4	1 247 869.0	3 185 561.0	4 708 066.0	20 027 770.0
Treasury bills	1 096 321.0	3 722 028.0	3 074 401.0	9 546 260.0	6 858 638.0
Revenue sharing certificates (RSC) (1)	12 418.6	4 456.9	-	-	-
Foreign exchange indexed bonds (1)	21 847.0	13 659.7	-	-	-
PRIVATE SECTOR	174 526.2	161 961.4	378 449.3	841 777.8	855 541.7
Bonds	1 883.1	1 229.0	1495.5	2532.8	-
Equities(2)	51 332.7	102 202.4	305 732.1	696 821.8	678 870.7
Profit and loss sharing certificates	300.0	-	-	-	-
Bank bills	1 300.0	2 362.5	9 934.5	-	-
Commercial bills	1 533.0	2 880.0	2 200.0	-	-
Mutual Fund Participation Certificates	4 249.0	8 945.0	34 330.0	131 423.3	176 671.0
Foreign Mutual Fund participating shares (3)	-	-	1 757.2	-	-
Asset based securities	113 928.5	41 628.5	23 000.0	11 000.0	-
Real Estate Certificates	-	-	2 713.8	-	-

Source: Capital Market Board.

(1) Stock values.

(2) Market value.

(3) Foreign Mutual Funds are registered on the basis of the number of shares.

TABLE 45

International Reserves

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
GOLD (2)	1 383	1 383	1 124	1 012	1 011
GROSS FOREIGN EXCHANGE RESERVES	21 954	23 625	26 044	28 494	30 970
Central Bank	12 391	16 273	18 419	19 721	22 529
Deposit Money Banks	9 563	7 352	7 625	8 773	8 441
GROSS INTERNATIONAL RESERVES (3)	23 337	25 008	27 168	29 506	31 981
Overdrafts	20	42	30	7	11
NET RESERVES	23 317	24 966	27 138	29 499	31 970

Source: Central Bank.

(1) As of the end of November 1999.

(2) Gold was valued at $369.1 per ounce between 1988 and 1996, at $300 per ounce at the end of 1997 and at $270 at the end of 1998.

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

TABLE 46

Balance of Foreign Trade

	in millions of TL			in millions of US$		
			Volume of			Balance of
	Imports	Exports	Foreign Trade	Imports	Exports	Foreign Trade
1966	6 522	4 415	1 209	718	491	-227
1967	6 217	4 701	1 207	685	522	-163
1968	6 934	4 468	1 260	764	496	-268
1969	7 275	4 832	1 338	801	537	-264
1970	10 348	6 408	1 536	948	588	-360
1971	17 725	9 090	1 848	1 171	677	-494
1972	22 346	11 876	2 448	1 563	885	-678
1973	29 797	18 037	3 403	2 086	1 317	-769
1974	53 124	21 197	5 310	3 778	1 532	-2 246
1975	68 987	20 075	6 140	4 739	1 401	-3 338
1976	82 941	30 775	7 089	5 129	1 960	-3 169
1977	104 882	31 338	7 549	5 796	1 753	-4 043
1978	113 290	55 358	6 887	4 599	2 288	-2 311

1979	178 505	75 744	7 330	5 069	2 261	-2 808
1980	613 267	221 498	10 819	7 909	2 910	-4 999
1981	1 002 356	530 716	13 636	8 933	4 703	-4 230
1982	1 461 425	937 311	14 589	8 843	5 746	-3 097
1983	2 127 081	1 298 945	14 963	9 235	5 728	-3 507
1984	4 034 897	2 608 332	17 891	10 757	7 134	-3 623
1985	5 994 853	4 252 949	19 301	11 343	7 958	-3 385
1986	7 561 157	5 012 346	18 562	11 105	7 457	-3 648
1987	12 353 041	8 844 331	24 348	14 158	10 190	-3 968
1988	20 476 720	16 809 326	25 997	14 335	11 662	-2 673
1989	33 762 160	24 819 337	27 417	15 792	11 625	-4 167
1990	58 755 207	34 071 035	35 261	22 302	12 959	-9 343
1991	88 914 171	57 373 403	34 640	21 047	13 593	-7 454
1992	159 628 934	111 123 668	37 586	22 871	14 715	-8 156
1993	328 904 847	171 144 874	44 773	29 428	15 345	-14 083
1994	683 826 641	550 041 707	41 376	23 270	18 106	-5 164
1995	1 649 154 021	1 001 123 478	57 346	35 709	21 637	-14 072
1996	3 559 032 738	1 906 932 074	66 851	43 627	23 224	-20 403
1997	7 419 624 416	4 039 401 624	74 820	48 559	26 261	-22 298
1998	11 898 371 329	7 032 148 731	72 895	45 921	26 974	-18 947
1999 (1)	14 723 129 138	9 761 221 926	59 597	35 893	23 704	-12 189

Source : State Institute of Statistics.

(1) Provisional (covering the period from January to November 1999).

TABLE 47

ANNUAL EXPORTS BY INTERNATIONAL STANDARD INDUSTRIAL CLASSIFICATION

(ISIC Rev. 3)

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
Agriculture and animal raising	2 128	2 450	2 674	2 693	2 144
Forestry and logging	5	5	5	7	7
Fishing	21	27	33	17	35
Mining of coal, lignite and peat	0	1	0	0	1
Crude petroleum and natural gas	1	0	0	3	5
Metal ores	144	118	148	111	95
Other mining and quarrying	247	250	256	250	230
Food products and beverages	2 063	2 194	2 454	2 057	1 542
Tobacco products	141	100	124	84	87
Textiles	4 109	4 565	5 354	5 921	5 051
Wearing apparel	4 368	4 083	4 539	4 590	3 712

Luggage, saddlery and footwear	180	221	299	271	162
Products of wood and cork	69	69	75	71	61
Paper and paper products	125	126	154	150	128
Printing and publishing	27	48	40	41	43
Coke, petroleum products and nuclear fuel	277	259	179	241	284
Chemicals and chemical products	1 155	1 244	1 362	1 277	1 098
Rubber and plastic products	502	510	621	685	588
Other non-metallic minerals	690	780	931	944	858
Manufacture of basic metals	2 279	2 258	2 628	2 228	1 891
Manufacture of fabricated metal (exc. machinery)	345	401	454	587	497
Manufacture of machinery and equipment	705	860	1 036	1 150	1 124
Office, accounting and computing machinery	10	21	29	43	54
Electrical machinery and apparatus	569	772	744	756	614
Communication equipment and apparatus	253	316	470	862	681
Medical, precision and optical instruments, watches	31	57	61	75	58
Motor vehicles and trailers	821	977	829	985	1 411
Other transport vehicles	118	158	354	384	724
Furniture	171	249	300	379	433
Recycling	80	89	94	93	72
Electricity, gas and water supply	1	15	11	15	13
Other business activities	0	0	1	0	0
Recreational, cultural and sporting activities	0	1	0	4	1
Other service activities	0	0	0	0	0
TOTAL	21 637	23 224	26 261	26 974	23 704

Source: State Institute of Statistics.

(1) Provisional (covering the period from January to November 1999).

TABLE 48

ANNUAL IMPORTS BY INTERNATIONAL STANDARD INDUSTRIAL CLASSIFICATION (ISIC Rev. 3)

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
Agriculture and raising animal	1 798	2 023	2 298	1 984	1 377
Forestry and logging	110	148	122	145	116
Fishing	2	2	2	1	1
Mining of coal, lignite and peat	288	581	561	464	270
Crude petroleum and natural gas	3 568	4 252	4 264	2 970	3 203
Metal ores	121	138	147	175	92
Other mining and quarrying	113	118	166	156	119
Food products and beverages	1 791	2 019	1 774	1 475	962
Tobacco products	28	44	47	56	46
Textiles	1 600	1 894	2 052	2 022	1 505
Wearing apparel	64	183	266	235	159

Luggage, saddlery and footwear	250	348	359	307	189
Products of wood and cork	98	125	140	164	120
Paper and paper products	925	837	837	860	796
Printing and publishing	123	133	158	159	132
Coke, petroleum products and nuclear fuel	763	1 069	1 152	967	1 088
Chemicals and chemical products	5 965	6 390	7 142	7 187	6 186
Rubber and plastic products	578	820	889	985	808
Other non-metallic minerals	350	457	434	493	370
Manufacture of basic metals	2 875	2 800	3 315	3 143	2 116
Manufacture of fabricated metal (exc. machinery)	539	837	898	929	661
Manufacture of machinery and equipment	5 002	7 533	8 051	7 771	4 524
Office, accounting and computing machinery	687	776	914	1 063	989
Electrical machinery and apparatus	955	1 226	1 477	1 657	1 328
Communication equipment and apparatus	1 029	1 391	1 944	2 354	2 810
Medical, precision and optical instruments, watches	788	1 042	1 183	1 240	983
Motor vehicles and trailers	1 789	2 933	4 412	4 107	2 870
Other transport vehicles	2 072	1 927	1 845	1 326	926
Furniture	291	436	524	541	412
Recycling	1 142	1 118	1 098	872	656
Electricity, gas and water supply	0	12	84	106	71
Other business activities	1	2	1	1	1
Recreational, cultural and sporting activities	1	13	7	5	8
Other service activities	0	0	0	0	0
TOTAL	35 709	43 627	48 559	45 921	35 893

Source: State Institute of Statistics.

1. Provisional (covering the period from January to November 1999).

TABLE 49

EXPORTS BY SELECTED CATEGORIES (in millions of US$)

	1995	1996	1997	1998	1999 (1)
Articles of apparel and clothing accessories, knitted	3 446	3 568	3 962	3 594	3 391
Articles of apparel and clothing accessories, not knitted	2 203	2 149	2 321	2 061	2 159
Electrical machinery and equipment	994	1 315	1 450	1 508	1 459
Iron and steel	1 739	1 753	2 004	1 346	1 398
Fruits	1 235	1 135	1 309	998	1 082
Boilers, machinery, mechanical appliances	691	783	982	966	1 129
Other ready-made textile articles	540	622	806	766	845
Vehicles other than railway	643	777	676	662	1 286
Cotton, cotton yarn and cotton fabric	506	645	674	628	687
Man-made staple fibres	574	591	665	558	530
Articles of iron and steel	507	506	611	555	532
Preparations from vegetables and fruits	528	563	617	488	506
Tobacco and manufactured tobacco products	381	634	683	531	528

Plastics and plastic articles	319	343	430	378	368
Salt, sulphur, earth, plastering materials, lime, cement	390	388	432	358	379
Vegetables	378	478	491	321	244
Man-made filaments	389	290	337	319	353
Glass and glassware	241	271	341	294	290
Animal fats and vegetable oils	473	358	400	272	307
Carpets and other floor coverings	252	307	350	283	237
Rubber and rubber articles	297	266	287	276	304
Leather articles	446	350	328	283	238
Other	4 464	5 134	6 107	9 529	5 452
TOTAL	21 637	23 224	26 261	26 974	23 704

Source: State Institute of Statistics.

(1) Provisional (covering the period from January to November 1999).

TABLE 50

IMPORTS BY SELECTED CATEGORIES (in millions of US$)

	1995	1996	1997	1998	1999 (1)
Boilers, machinery, mechanical appliances	5 748	8 189	9 157	7 375	5 536
Mineral fuels, mineral oils, of which	4 621	5 909	6 068	3 827	4 633
Crude petroleum	*2 919*	*3 417*	*3 194*	*2 084*	*2 378*
Electrical machinery and equipment	2 240	2 952	3 849	7 375	4 480
Vehicles other than railway	1 576	2 649	4 105	3 106	2 633
Iron and steel	3 024	2 580	2 962	2 423	1 841
Plastics and plastic articles	1 375	1 596	1 927	1 651	1 648
Organic chemicals	1 715	1 535	1 704	1 393	1 466
Optical instruments and apparatus	754	970	1 078	946	891
Cotton, cotton yarn and cotton fabric	886	682	1 045	911	604
Aircraft	1 378	915	977	766	543
Man-made filaments	498	530	711	680	578
Paper and cardboard	702	710	709	610	662
Pharmaceutical products	332	421	551	601	778
Tanning and dyeing extracts	566	637	704	574	531
Articles of iron and steel	447	615	761	552	426
Man-made staple fibres	648	658	676	547	500
Miscellaneous chemical products	398	485	538	469	456
Animal fats and vegetable oils	640	463	564	444	393
Raw hides and leather	658	889	785	475	173
Aluminium and aluminium articles	382	382	519	429	425
Rubber and rubber articles	413	488	486	403	379
Other	6 709	9 372	8 682	10 364	3 939
TOTAL	35 709	43 627	48 559	45 921	35 893

Source: State Institute of Statistics.

(1) Provisional (covering the period from January to November 1999).

TABLE 51

EXPORTS BY COUNTRIES

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
A. OECD countries	13 831	14 427	15 583	16 979	16 129
1.EU countries	11 078	11 549	12 248	13 498	12 756
Germany	5 036	5 187	5 253	5 459	4 874
UK	1 136	1 261	1 511	1 740	1 640
France	1 033	1 053	1 163	1 305	1 398
Italy	1 457	1 446	1 387	1 557	1 483
2.EFTA countries	294	336	414	357	328
Iceland	2	2	3	11	2
Norway	54	58	93	101	82
Switzerland	238	276	318	244	243
3.Other OECD countries	2 459	2 542	2 921	3 125	3 045
U.S.A.	1 514	1 639	2 032	2 233	2 226
Japan	180	168	144	113	107
B. Turkey Free Zones	-	447	611	832	657
C. Non-OECD countries	7 806	8 351	10 067	9 163	6 918
1.Europe and Russian Federation	3 059	3 646	4 684	3 980	2 396
Russia	1 238	1 512	2 056	1 348	521
Ukraine	199	268	337	274	196
Romania	302	314	359	468	233
2.African countries	1 065	1 159	1 234	1 819	1 519
Algeria	269	278	317	482	373
Egypt	246	316	304	474	427
Libya	238	244	187	95	125
3.American countries	136	140	205	234	225
4.Middle Eastern countries	2 052	2 245	2 382	2 189	1 963
Saudi Arabia	470	431	535	474	324
Iran	268	298	307	195	132
5.Other Asian countries	1 054	1 143	1 169	636	630
China	67	65	44	38	33
Malaysia	100	134	134	42	34
Hong-Kong	217	219	243	144	92
Singapore	143	248	366	133	123

6.Other countries	440	17	393	305	185
TOTAL	21 637	23 224	26 261	26 974	23 704

Source: State Institute of Statistics.

(1) Provisional (covering the period from January to November 1999).

TABLE 52

IMPORTS BY COUNTRIES

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
A. OECD countries	24 401	31 092	34 815	33 472	25 048
1.EU countries	16 861	23 138	24 870	24 075	18 875
Germany	5 548	7 814	8 021	7 316	5 115
UK	1 830	2 510	2 763	2 683	1 905
France	1 996	2 771	2 967	3 034	2 806
Italy	3 193	4 286	4 463	4 222	2 816
2.EFTA countries	892	1 112	1 287	1 169	802
Iceland	1	4	5	4	2
Norway	75	93	178	148	145
Switzerland	816	1 015	1 104	1 018	655
3.Other OECD countries	6 649	6 842	8 658	8 228	5 372
U.S.A.	3 724	3 516	4 330	4 054	2 768
Japan	1 400	1 422	2 040	2 046	1 251
B. Turkey Free Zones	-	297	361	418	416
C. Non-OECD countries	11 308	12 238	13 383	12 031	10 429
1.Europe and Russian Federation	4 315	4 102	4 646	4 673	4 096
Russia	2 082	1 921	2 174	2 155	2 044
Ukraine	856	762	918	989	713
Romania	368	441	394	345	348
2.African countries	1 384	1 993	2 197	1 758	1 470
Algeria	448	737	768	647	566
Egypt	211	272	399	393	101
Libya	385	476	533	343	449
3.American countries	622	644	764	724	458
4.Middle Eastern countries	2 688	3 243	2 726	1 943	1 714
Saudi Arabia	1 385	1 708	1 018	670	500
Iran	689	806	646	433	532
5.Other Asian countries	1 982	2 227	2 547	2 626	2 122

China	539	556	787	846	797
Malaysia	272	237	283	285	193
Hong-Kong	139	202	163	141	109
Singapore	66	131	103	117	97
6.Other countries	317	29	503	307	569
TOTAL	35 709	43 627	48 559	45 921	35 893

Source: State Institute of Statistics.

(1) Provisional (covering the period from January to November 1999).

TABLE 53

ANNUAL FOREIGN TRADE CLASSIFIED BY BROAD ECONOMIC CATEGORIES

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
EXPORTS	21 637	23 224	26 261	26 974	23 704
Capital goods	830	1 104	1 263	1 334	1 623
Intermediate goods	8 960	9 745	11 032	11 150	9 679
Consumption goods	11 840	12 357	13 941	14 475	12 348
Others	7	18	25	15	55
IMPORTS	35 709	43 627	48 559	45 921	35 893
Capital goods	8 119	10 336	11 051	10 625	7 483
Intermediate goods	25 078	28 737	31 871	29 561	23 733
Crude petroleum	*2 919*	*3 417*	*3 194*	*2 084*	*2 379*
Other	*22 159*	*25 320*	*28 677*	*27 477*	*21 354*
Consumption goods	2 416	4 424	5 336	5 364	4 404
Others	96	129	301	371	272

Source: State Institute of Statistics.

(1) Provisional (covering the period from January to November 1999).

TABLE 54

FOREIGN TRADE PRICE INDEX

(1994=100)

	1995	1996	1997	1998	1999 (1)
EXPORTS					
GENERAL	112.6	107.6	102.5	98.4	91.3
MANUFACTURING	114.7	109.1	101.7	96.9	90.4
Food products and beverages	117.9	117.0	105.6	95.8	91.7
Textiles	118.4	108.5	100.9	101.1	88.8
Chemicals and chemical products	111.9	108.4	105.8	100.2	90.9
Manufacture of basic metals	115.8	108.7	104.6	94.3	80.5
Manufacture of machinery and equipment	101.7	103.3	100.2	102.7	95.9
Motor vehicles and trailers	103.6	101.5	93.9	97.8	97.4
IMPORTS					
GENERAL	116.8	109.7	100.2	96.1	95.4
Crude petroleum and natural gas	110.6	125.1	116.1	78.2	134.0
MANUFACTURING	117.4	107.5	97.9	98.1	92.4
Food products and beverages	119.4	113.4	110.9	110.6	80.6
Textiles	110.2	97.6	97.0	99.2	85.3
Chemicals and chemical products	122.6	113.8	101.1	98.3	91.4
Manufacture of basic metals	123.6	113.1	103.3	94.8	84.2
Manufacture of machinery and equipment	108.5	101.8	89.2	99.7	105.0
Motor vehicles and trailers	101.8	102.3	92.0	94.6	95.1

Source: State Institute of Statistics.

(1) Provisional (as of October 1999).

TABLE 55

Balance of Payments

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
A. CURRENT ACCOUNT	-2 339	-2 437	-2 638	1 871	-507
Merchandise Exports FOB	21 975	32 446	32 647	31 220	26 154
Exports	21 636	23 225	26 261	26 973	23 704
Shuttle Trade		8 842	5 849	3 689	2 023
Transit Trade	339	379	537	558	427
Merchandise Imports FOB	-35 187	-43 028	-48 005	-45 552	-35 161
Imports (CIF)	-35 709	-43 627	-48 559	-45 935	-35 893

Imports of non-monetary gold	-1 322	-1 672	-1 867	-1 861	-1 033
Transit Trade	-301	-347	-492	-514	-390
Freight and Insurance	2 145	2 618	2 913	2 758	2 155
Trade Balance	-13 212	-10 582	-15 358	-14 332	-9 007
Other goods and services: credit	16 094	14 628	21 273	25 802	17 105
Travel	4 957	5 650	7 002	7 177	4 977
Interest	1 488	1 577	1 900	2 481	2 119
Others	9 649	7 401	12 371	16 144	10 009
Other goods and services: debit	-9 717	-10 930	-13 419	-15 326	-13 364
Travel	-911	-1 265	-1 716	-1 754	-1 400
Interest	-4 303	-4 200	-4 588	-4 823	-4 877
Others	-4 503	-5 465	-7 115	-8 749	-7 087
Total goods, services and income	-6 835	-6 884	-7 504	-3 856	- 5 266
Private unrequited transfers (net)	3 425	3 892	4 552	5 568	4 472
Workers' remittances	3 327	3 542	4 197	5 356	4 154
Other	98	350	355	212	318
Official unrequited transfers (net)	1 071	555	314	159	287
Workers' remittances	38	48	32	41	42
Other	1 033	507	282	118	245
B. CAPITAL ACCOUNT (Excluding Reserves) rreserRESReserves)	4 643	8 763	8 737	773	6 700
Direct investments (net)	772	612	554	573	30
Portfolio investments (net)	237	570	1 634	- 6 386	2 453
Long term capital	-79	1 636	4 788	3 985	-93
Drawings	4 126	6 048	9 905	11 505	9 326
Repayments	-5 667	-5 685	-6 095	-8 174	-9 279
FX Deposits with CBRT (net)	1 462	1 273	978	654	-140
Short term capital	3 713	5 945	1 761	2 601	4 310
Asset (net)	-383	331	-1 750	-1 464	-1 072
Loans extended	1 101	-125	-358	-261	-551
DMBs’ FX holdings	-1 430	1 510	-678	-752	-286
Other assets	-54	-1 054	-714	-451	-235
Liabilities (net)	4 096	5 614	3 511	4 065	5 382
Loans received	3 096	4 320	3 613	1 842	5 421
Deposits	1 000	1 294	-102	2 223	-39
C. NET ERRORS AND OMISSIONS	2 354	-1 781	-2 755	-2 197	-1 464
Total overall balance	4 658	4 545	3 344	447	4 729
D. TOTAL CHANGE IN RESERVES	-4 658	-4 545	-3 344	-447	-4 729
Reserve position in the Fund					-112
Use of Fund Credit	347	0	-28	-231	241
Official reserves	-5 005	-4 545	- 3 316	-216	-4 858

Source: Central Bank. (1) Provisional (from January to November 1999).

TABLE 56

Selected Items from the Capital Account

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
CURRENT ACCOUNT BALANCE	-2 339	-2 437	-2 638	1 871	-507
CAPITAL ACCOUNT (excluding reserves)	4 643	8 763	8 737	773	6 700
Direct investments	772	612	554	573	30
Portfolio investments	237	570	1 634	-6 386	2 453
(Credit received from capital markets)	(386)	(1 331)	(1 774)	(-579)	(2 108)
LONG-TERM CAPITAL	-79	1 636	4 788	3 985	-93
Official sector (Central Bank incl.)	-676	-916	-480	-1 004	-2 000
Drawings	723	775	1 062	1 179	763
FX Deposits with CBRT	1 462	1 273	978	654	-140
Repayments	-2 861	-2 964	-2 520	-2 837	-2 623
Deposit money banks	273	1 046	1 660	829	10
Drawings	500	1 439	2 478	3 126	2 033
Repayments	-227	-393	-818	-2 297	-2 023
Other sectors (Private sector included)	324	1 506	3 608	4 160	1 897
Drawings	2 903	3 834	6 365	7 200	6 530
(Project credit)	(149)	0	0	0	0
(Financial leasing)	(775)	(601)	(548)	(216)	(123)
Repayments	-2 579	-2 328	-2 757	-3 040	-4 633
SHORT-TERM CAPITAL	3 713	5 945	1 761	2 601	4310
Assets	-383	331	-1 750	-1 464	-1 072
Loans extended	1 101	-125	-358	-261	-551
DMBs’ FX holdings	-1 430	1 510	-678	-752	-286
Other assets	-54	-1 054	-714	-451	-235
Liabilities	4 096	5 614	3 511	4 065	5 382
Public Sector	279	188	269	109	-25
FX Deposits with CBRT	101	63	49	-80	-96
Other	178	125	220	189	71
Commercial banks	1 700	2 000	572	2 366	1 826
FX. Deposit accounts	899	1 231	-152	2 303	57
FX. Credit	801	769	724	63	1 769
Other sectors	2 117	3 426	2 670	1 590	3 581
Trade credit	1 671	3 419	2 084	1 171	3 578
FX. Credit	446	7	586	419	3
Other	0	0	0	0	0
OFFICIAL RESERVES	-5 005	-4 545	-3 316	-216	-4 858
Foreign exchange reserves	-5 032	-4 545	-3 316	-216	-4 858
Monetary gold	27	0	0	0	0

Source: Central Bank.

Note: 1996 to 1999 figures include shuttle trade.

(1) Provisional (from January to November 1999).

TABLE 57

Outstanding External Debt (in millions of US$)

	1996	1997	1998	1999 (1)
(by maturity)				
TOTAL OUTSTANDING DEBT	84 076	91 262	103 861	104 380
SHORT TERM	20 517	22 634	27 236	30 201
MEDIUM AND LONG TERM	63 559	68 628	76 625	74 179
(by borrower)				
SHORT TERM	20 517	22 634	27 236	30 201
Central Bank	984	889	905	748
CBRT Loans	42	30	7	13
FX Deposits with CBRT	942	859	898	735
Deposit Money Banks	8 419	8 503	11 159	12 090
Other sectors	11 114	13 242	15 172	17 363
MEDIUM AND LONG TERM	63 559	68 628	76 625	74 179
A-Public Sector	40 211	39 291	40 117	39 244
1-General Government	35 865	34 849	35 862	35 442
a-Central Government	31 757	30 965	31 980	31 883
Treasury	15 547	15 545	15 890	16 309
Onlending and Allocated	9 124	7 917	8 350	7 818
General Budget	4 616	4 652	4 491	4 338
Annexed Budget	2 470	2 852	3 249	3 417
b-Local Administrations	2 946	2 896	3 068	2 891
c-Extra Budgetary Funds	1 146	979	804	662
d-Universities	16	9	10	6
2-Other	1 085	939	686	579
3- State Owned Enterprises	3 261	3 503	3 569	3 223
B-CBRT	11 389	10 868	12 073	10 721
CBRT Loans	669	601	392	224
FX Deposits with CBRT	10 720	10 267	11 681	10 497
C-Private Sector	11 959	18 469	24 435	24 214
1-Financial	3 375	5 601	6 677	5 727
a-Banks	2 258	3 773	4 215	3 436
b-Non-Bank Financial Enterprises	1 117	1 828	2 462	2 290
2-Non-Financial	8 584	12 868	17 758	18 487
(by lender)				
SHORT TERM	20 517	22 634	27 236	30 201
Commercial Bank Credit	4 940	5 969	6 511	7 636
Private Lender Credit	15 577	16 665	20 725	22 565

MEDIUM AND LONG TERM	63 559	68 628	76 625	74 179
A-Official Creditors	18 009	16 543	16 998	15 749
1-Bilateral Lenders	8 938	8 307	8 914	8 568
Central Banks	28	16	28	25
Central Governments	4 171	3 699	3 562	3 135
Official Financial Institutions	3 693	3 256	3 456	3 383
Official Investment and Dev. Banks	1 046	1 336	1 868	2 025
2-Multilateral Organizations	9 071	8 236	8 084	7 181
European Investment Bank	419	494	599	541
European Resettlement Fund	2 676	2 227	2 176	1 902
Islamic Development Bank	269	290	325	326
Int. Fund for Agricultural Dev.	11	8	6	6
International Finance Corp.	761	997	1 234	1 241
International Development Ass.	122	115	109	106
IBRD	4 152	3 510	3 247	2 837
IMF	661	595	388	222
B-Private Creditors	45 550	52 085	59 627	58 430
1-Private Lenders	32 469	38 354	45 592	43 840
Commercial Banks	15 334	19 572	23 229	22 840
Non-Bank Financial Institutions	3 639	5 266	6 175	5 984
Non-Monetary Institutions	2 235	2 457	3 371	3 414
Off-Shore Banks	516	767	1 110	1 078
Private Investment and Dev. Banks	11	11	11	11
Individuals	6	6	7	8
FX Deposits with CBRT	10 720	10 267	11 681	10 497
NGTA	8	8	8	8
2-Bond Issue	13 081	13 731	14 035	14 590

Source: Central Bank, Undersecretariat of the Treasury.

1. Provisional (as of the end of September 1999).

TABLE 58

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

(in millions of US$)

TYPE OF CURRENCY	1997	1998	1999 (1)
US Dollars	43 703	51 309	53 984
German Marks	29 978	35 357	30 700
SDR	603	394	228
Swiss Francs	1 345	1 338	1 120
Pounds Sterling	1 000	974	922
Japanese Yens	9 162	8 358	8 477
French Francs	1 316	1 491	1 457
Netherlands Guilders	881	1 046	876

Others (in US Dollars)	3 274	3 594	6 616
T O T A L	91 262	103 861	104 380

Source: Central Bank, Undersecretariat of the Treasury.

1. Provisional (as of the end of September 1999).

TABLE 59

FOREIGN EXCHANGE DEPOSITS WITH CBRT

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
TOTAL	11 558	11 949	11 360	12 809	10 845
Non-residents	11 370	11 662	11 126	12 579	10 665
Short term	973	942	859	898	687
Medium and long term	10 397	10 720	10 267	11 681	9 978
Residents	188	287	234	230	180
Currency composition of FX Deposits with CBRT					
(in millions of original currency)					
US Dollars	118	140	161	191	229
German Marks	15 526	17 445	19 066	20 007	19 420
French Francs	296	352	400	444	492
Netherlands Guilders	712	777	828	865	876
Swiss Francs	116	116	119	121	115
EURO					24
Pounds Sterling	0	1	2	2	3

Source: Central Bank.

(1) As of the end of November 1999.

TABLE 60

Foreign Exchange Deposit Accounts

(in millions of US$)

	1995	1996	1997	1998	1999 (1)
Foreign exchange deposit accounts	25 561	28 675	32 807	37 589	44 474
Non-residents	3 498	4 579	4 156	6 647	6 334
Residents	22 063	24 096	28 651	30 942	38 140
Interbank	2 847	2 547	3 396	3 767	4 347
Other	19 216	21 549	25 255	27 175	33 793

Reserve Requirements on FX deposits	2 425	2 561	2 836	3 050	3 628
Currency composition of FX deposits					
(in millions of original currency)					
US Dollars	10 601	13 396	19 376	22 123	28 923
German Marks	18 442	20 530	20 618	22 371	24 750
French Francs	2 573	2 371	2 436	2 210	1 979
Netherlands Guilders	968	883	845	886	719
EURO					1 149
Swiss Francs	417	418	410	441	398
Japanese Yens	7 133	18 158	27 168	24 147	6 771
Pounds Sterling	147	193	229	243	287

Source: Central Bank.

(1) As of the end of November 1999.

TABLE 61

Projected Debt Services

(by Borrower)

(in millions of US$)

	1999	2000	2001	2002	2003	2004	2005+ (1)
TOTAL	17 717	22 212	15 949	12 193	11 264	8 294	16 279
Principal	13 233	17 294	12 313	9 266	8 972	6 594	12 132
Interest	4 483	4 917	3 635	2 926	2 293	1 701	4 148
Public sector							
Principal	6 051	6 776	7 644	6 236	7 163	5 552	9 940
Interest	2 700	3 070	2 763	2 366	1 970	1 503	3 842
Central Bank							
Principal	132	92	0	0	0	0	0
Interest	21	9	0	0	0	0	0
Private sector							
Principal	7050	10426	4669	3030	1809	1042	2192
Interest	1762	1838	872	560	323	198	306

Source: Undersecretariat of the Treasury.

(1) Covers the payments to be made in 2005 and the following years.

Note: Includes principal repayments on loans obtained by bond issue.

TABLE 62

Sectoral Breakdown of Companies with Foreign Capital

(as of December 31, 1999)

SECTORS	Number of Companies	Foreign Capital In millions of TL	Share in Total Foreign Cap. (%)	Total Capital in millions of TL	Foreign Share in Total Capital (%)
AGRICULTURE	**114**	**2 811 752**	**0.34**	**6 615 735**	**42.50**
MINING	**65**	**8 302 880**	**1.01**	**16 865 320**	**49.23**
MANUFACTURING					
Food manufacturing	133	47 516 128	5.77	80 845 739	58.77
Beverage industries	11	446 853	0.05	1 017 093	43.93
Tobacco products	10	27 878 612	3.39	30 750 787	90.66
Wearing apparel	3	5 484	0.00	5 790	94.72
Textiles	56	4 558 772	0.55	17 363 274	26.26
Ready-made garments	158	11 280 765	1.37	26 213 258	43.03
Leather and leather products	20	196 900	0.02	362 885	54.26
Footwear	9	58 852	0.01	370 332	15.89
Forestry products	12	354 359	0.04	852 607	41.56
Furniture	9	20 600	0.00	27 331	75.37
Paper and printing industry	1	35 000	0.00	35 000	100.00
Paper	13	3 444 686	0.42	7 611 700	45.26
Printing	12	265 078	0.03	462 924	57.26
Chemicals	33	4 189 650	0.51	6 011 030	69.70
Industrial chemicals	52	19 069 375	2.32	35 612 373	53.55
Other chemical products	80	23 481 239	2.85	31 863 184	73.69
Other petroleum and coal products	6	1 782 161	0.22	3 349 974	53.20
Rubber	1	20 128	0.00	20 750	97.00
Plastics	51	16 183 780	1.97	18 859 478	85.81
Tires	7	5 574 728	0.68	10 122 757	55.07
Fertilizers	2	34 609	0.00	69 115	50.07
Non-metallic mineral products	2	166 549	0.02	166 600	99.97
Ceramics, clay, cement products	21	2 817 525	0.34	12 240 894	23.02
Glassware	13	4 293 753	0.52	29 646 374	14.48
Cement	9	26 182 607	3.18	58 762 461	44.56
Other Non-metallic minerals	2	15 700	0.00	30 500	51.48
Basic metal industries	7	1 092 231	0.13	3 310 616	32.99
Iron-steel	15	13 601 183	1.65	81 750 029	16.64
Non-ferrous metals	16	2 759 833	0.34	5 234 902	52.72
Machinery	15	451 394	0.05	662 534	68.13
Fabricated metal products	40	1 867 710	0.23	10 391 806	17.97
Non-electrical machinery	27	627 947	0.08	982 445	63.92
Electrical machinery	70	17 562 650	2.13	27 736 678	63.32
Electronics	69	12 801 842	1.56	20 128 787	63.60
Transport equipment	28	79 326 642	9.64	174 758 585	45.39
Transport related industries	98	26 743 097	3.25	50 866 638	52.57
Measuring and controlling equipment	14	6 071 472	0.74	6 449 942	94.13
Air transport equipment	2	4 420 448	0.54	9 041 930	48.89
Other industrial equipment	104	12 390 005	1.51	20 381 553	60.79
T O T A L	**1 231**	**379 590 347**	**46.11**	**784 370 655**	**48.39**
SERVICES					
Trade	1 935	82 536 942	10.03	110 041 404	75.01

Restaurants	233	7 183 810	0.87	8 946 156	80.30
Hotels	279	24 516 113	2.98	40 570 135	60.43
Construction	143	7 185 230	0.87	7 993 250	89.89
Land transport	22	284 211	0.03	828 483	34.30
Marine transport	44	1 217 299	0.15	1 360 785	89.46
Air transport	50	403 999	0.05	722 588	55.91
Services related to transportation	108	3 108 963	0.38	4 304 583	72.22
Communication	13	9 784 228	1.19	24 412 319	40.08
Banking and other financial services	38	123 473 028	15.00	180 173 613	68.53
Financial institutions	45	36 847 017	4.48	65 407 875	56.33
Insurance	28	9 201 753	1.12	25 974 664	35.43
Leasing	5	1 845 110	0.22	1 861 500	99.12
Private education	11	54 056	0.01	70 250	76.95
Research and development activities	11	1 142 369	0.14	1 161 160	98.38
Health services	34	2 353 770	0.29	4 834 805	48.68
Other social services	207	85 289 525	10.36	118 426 641	72.02
Cinema and other entertainment	4	369 790	0.04	491 571	75.23
Laundry & dry cleaning services	2	5 000	0.00	20 000	25.00
Other personal services	8	714 084	0.09	728 470	98.03
Other activities	320	34 962 759	4.25	40 320 832	86.71
T O T A L	**3 540**	**432 479 056**	**52.54**	**638 651 084**	**67.72**
GRAND TOTAL	**4 950**	**823 184 035**	**100.00**	**1 446 502 794**	**56.91**

Source: Undersecretariat of the Treasury.

TABLE 63

FOREIGN INVESTMENT APPROVAL BY YEARS

Years	Number of Companies	Amounts Approved (in millions of US$)	Cumulative (in millions of US$)
1986	619	364	1 574
1987	836	655	2 229
1988	1 172	821	3 050
1989	1 525	1 512	4 562
1990	1 856	1 861	6 423
1991	2 123	1 967	8 390
1992	2 330	1 819	10 209
1993	2 554	2 063	12 272
1994	2 830	1 478	13 750
1995	3 161	2 938	16 688
1996 (1)	3 582	3 837	20 525
1997	4 068	1 678	22 203
1998	4 533	1 647	23 850
1999 (2)	4 950	1 701	25 551

Source: Undersecretariat of the Treasury.

1. Foreign investment approval in 1996 includes the approval for $2.3 billion allotted for the Istanbul-Silivri Grand Metropolitan Project, which French investors plan to undertake.
2. As of the end of September 1999.

TABLE 64

Average Interest Rates of Auctioned Government Securities in 1999 (1)

(in percent)

Months	6 Months (up to 182 days)	12 Months (1) (up to 434 days)	24 Months (2)
January	106.85	136.60	92.58
February	96.59	130.33	90.25
March	90.11	106.59	79.82
April	77.85	101.12	79.62
May	86.08	97.46	85.55
June	86.79	106.50	90.72
July	77.61	94.23	85.88
August	75.56	97.67	89.24
September	81.89	-	76.50
October	73.08	89.68	79.93
November	71.66	-	65.45
December	-	-	-

Source: Central Bank.

Note: Interest rates are given according to auction dates and net interest rates. A simple arithmetic mean is taken if more than one auction was held within the same month for the same maturity. Auctions of 3-year variable interest securities indexed to future inflation are excluded.

1. Includes 14-month discounted securities.
2. Interest rates on bonds with coupon payments every 3 months.

TABLE 65

Government Securities Sold at Auctions in 1999 (1) (in billions of TL)

Months	6 Months (up to 182 days)	12 Months (1) (up to 434 days)	24 Months (2)
January	920 434.6	2 087 159.9	491 723.2
February	745 475.9	3 088 743.0	79 046.5
March	380 958.7	2 810 249.0	70 420.0
April	907 209.0	2 612 268.7	413 156.3
May	740 229.3	2 292 809.1	219 321.7
June	248 065.8	4 228 001.7	169 490.0
July	1 423 615.9	1 413 388.2	279 066.0
August	285 333.1	591 116.9	166 506.4

September	885 012.3	-	268 549.0
October	406 846.2	704 380.2	971 478.3
November	466 943.0	-	961 451.7
December	-	-	-

Source: Central Bank.

Note: The table is arranged according to auction dates.

The amounts sold to non-competitive bidders and buy options granted to the highest bidders are included in these figures.

The sales related to consolidated debt securities are not included.

1. Includes 14-month discounted securities.
2. Interest rates on bonds with coupon payments every 3 months.

TABLE 66

Interbank Money Market Transactions

(1999 Monthly Averages)

Months	Number of Daily Transactions (1)	Volume of Daily Transactions (in billions of TL) (2)	Actual Overnight Interest (%) Minimum	Maximum	Average (3)
January	252	357 905.9	75.00	79.00	78.88
February	268	278 477.0	46.00	79.00	77.38
March	270	325 929.0	46.00	79.00	76.32
April	278	686 812.4	73.00	77.00	76.96
May	278	730 993.0	76.00	77.00	76.96
June	272	592 950.9	70.00	77.00	76.91
July	268	344 443.6	46.00	77.00	71.02
August	244	322 210.5	46.00	74.00	71.10
September	232	341 002.7	46.00	74.00	67.51
October	214	360 084.0	55.00	70.00	69.49
November	198	415 160.9	65.50	70.00	69.84
December	252	817 832.7	55.00	70.00	69.97

Source: Central Bank.

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

(2) Monthly averages of the volume of double-sided transactions.

(3) Monthly averages of overnight interest rates.

TABLE 67

Foreign Exchange and Banknote Transactions

Interbank Foreign Exchange Market Transactions (1)	Indicative FX Rates (TL/$) (2)

Date	Total no. of Monthly Transactions	Total Volume of Monthly Transactions $ millions	Exchange Rates (TL/$) Maximum Rate of the Month	Exchange Rates (TL/$) Minimum Rate of the Month	Monthly Average no. of Institutions Participated	Max.	Min.	Monthly Averages of Indicative FX Rates (TL/$)
January 1998	2 028	1 782	216 570	207 070	39	215 620	207 110	212 496.0
February	7 128	5 519	229 700	219 180	62	229 600	219 320	224 489.0
March	3 532	3 691	242 900	230 400	41	242 800	230 380	236 528.0
April	3 194	3 101	249 900	243 050	49	249 750	243 350	246 735.0
May	2 684	2 996	257 220	249 670	36	257 170	249 680	252 893.0
June	3 758	4 497	266 650	257 300	32	266 330	257 490	261 719.0
July	3 946	5 207	271 030	266 780	29	270 880	267 080	269 109.0
August	7 806	11 015	279 050	270 880	34	278 890	271 000	274 897.0
September	4 926	6 790	277 900	273 700	30	277 830	273 840	275 958.0
October	4 376	5 180	286 620	273 350	31	286 460	273 920	266 103.0
November	5 890	7 890	304 500	287 470	40	303 820	287 510	295 783.0
December	3 976	5 258	315 600	302 000	35	315 220	302 690	308 143.0
January 1999	6 102	8 407	332 450	314 750	39	332 200	315 579	323 118
February	5 258	5 922	352 480	333 450	47	352 405	334 245	342 987
March	5 362	6 986	369 380	354 190	45	369 155	354 550	361 697
April	6 086	8 152	390 600	372 880	44	390 248	372 963	381 278
May	4 138	6 213	404 900	389 250	38	406 594	389 577	396 809
June	5 366	8 841	421 600	406 480	39	421 362	407 313	414 163
July	5 354	7 825	433 330	421 160	42	433 052	422 262	427 919
August	5 416	8 922	445 880	428 680	40	445 339	428 878	436 821
September	5 728	9 221	463 450	443 700	41	463 193	444 139	455 202
October	4 392	6 586	481 400	459 750	39	479 621	459 784	468 187
November	6 452	9 969	516 600	481 920	42	516 150	482 486	498 547
December	10 430	12 124	543 000	516 500	51	542 703	517 053	528 929

Source: Central Bank.

(1) Double sided transactions.

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

TABLE 68

TRADE WEIGHTED EFFECTIVE REAL EXCHANGE RATES

	Average Price(1)	Average Exchange Rate TL/$	Average Exchange Rate TL/DM	Cross Rate DM/$	Price Index USA IPP(2)	Price Index Germany IPP(2)	TWERER	Price Index USA IPP(3)	Price Index Germany IPP(3)	*TWERER
12.1994	17 267.60	37 402.77	23 764.64	1.57	105.8	102.2	69.3			

12.1995	28 163.51	56 587.52	39 267.24	1.44	108.4	104.0	70.0	100.0	100.0	75.3
12.1996	51 935.87	104 297.52	67 229.52	1.55	111.7	103.6	71.9	102.8	99.8	76.9
12.1997	96 591.22	199 050.87	112 058.26	1.78	109.7	104.7	75.5	101.2	100.9	80.8
12.1998	146 427.44	306 170.87	183 210.43	1.67	106.9	104.4	74.1	98.1	99.2	79.3
1.1998	103 319.93	211 141.05	116 326.32	1.82	108.8	104.8	77.4	100.4	100.8	82.9
2.	107 644.46	222 694.50	122 816.50	1.81	108.3	104.8	76.7	99.9	100.8	82.1
3.	111 858.69	234 795.91	128 703.64	1.82	108.0	104.7	76.0	99.6	100.7	81.4
4.	116 044.12	244 903.33	134 631.67	1.82	108.3	104.7	75.3	99.9	100.7	80.7
5.	120 141.61	251 309.50	141 558.50	1.78	108.4	104.7	75.0	100.0	100.7	80.3
6.	122 864.03	260 055.00	145 262.73	1.79	108.1	104.6	74.6	99.9	100.7	79.8
7.	125 615.95	267 626.52	148 722.61	1.80	108.3	104.4	74.3	99.9	100.4	79.5
8.	128 726.89	273 256.67	152 735.24	1.79	107.6	104.4	74.7	99.2	100.4	80.0
9.	134 603.51	274 625.00	160 982.27	1.71	107.4	104.1	76.0	99.1	100.1	81.4
10.	138 658.39	277 950.95	169 590.00	1.64	107.3	103.7	76.0	99.0	99.7	81.3
11.	142 480.13	293 540.48	174 798.10	1.68	106.9	103.3	75.1	98.6	99.4	80.4
12.	146 427.44	306 170.87	183 210.43	1.67	106.4	103.1	74.1	98.1	99.0	79.4
1.1999	151 772.95	320 509.35	190 642.24	1.68	106.6	103.1	73.5	98.5	98.5	78.7
2.	156 038.71	340 335.00	195 375.90	1.74	106.1	103.1	72.7	97.8	98.4	78.0
3.	161 604.31	359 127.65	200 481.00	1.79	106.5	103.1	72.2	98.1	98.4	77.5
4.	169 049.29	378 448.24	207 347.86	1.83	106.5	103.1	72.3	99.3	99.0	76.9
5.	175 895.41	394 090.80	214 292.10	1.84	-	-	-	100.0	99.0	76.7
6.	179 814.46	411 506.45	218 555.36	1.88	-	-	-	100.4	99.0	75.8
7.	186 364.68	425 565.18	224 917.68	1.89	-	-	-	101.1	99.0	75.8
8.	192 016.27	433 873.15	235 690.30	1.84	-	-	-	101.9	99.0	75.1
9.	202 069.39	452 314.77	242 789.55	1.86	-	-	-	103.0	99.0	75.7
10.	210 858.90	465 562.55	255 341.25	1.82	-	-	-	103.0	99.0	75.9
11.	220 340.63	494 501.32	261 925.55	1.89	-	-	-	103.0	99.0	76.0

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

(2) 1990 = 100 Industrial Goods Price Index.

(3) 1995 = 100 Industrial Goods Price Index.

* Decrease of the index value of TWERER reflects the devaluation of TL against the weighted exchange rate.

TABLE 69

Central Bank Personnel by Category

(as on December 31, 1999)

No.of	Gen. Ad. Services	Technical Services	Legal Services	Health Services	Training Services	Auxiliary Services	Total	Employed on contractual basis	Grand

Branches	cadres	F	M	F	M	F	M	F	M	F	M	F	M	F	M	F	M	Total
Head Office	3 313	923	855	86	255	8	3	15	5	6	1	36	375	1 074	1 494	85	190	2 843
Adana	123	46	38		5			1				5	10	52	53		10	115
Ankara	446	196	180	1								5	22	202	202		9	413
Antalya	93	31	36		1							3	11	34	48		6	88
Bursa	120	46	41		1							1	10	47	52		6	105
Denizli	85	19	40									1	8	20	48		6	74
Diyarbakır	82	11	34		1							2	8	13	43		10	66
Edirne	78	26	32		1							3	7	29	40		4	73
Erzurum	74	6	41									2	7	8	48		5	61
Eskiţehir	84	24	33									3	8	27	41		4	72
Gaziantep	94	30	34		1							1	9	31	44		6	81
İskenderun	80	25	31		2							3	9	28	42		3	73
İstanbul	676	254	224	3	11	2	2	5				28	78	292	315	1	25	633
İzmir	352	117	111	7	10	1		2	1			19	50	146	172		6	324
İzmit	108	32	40		4							5	10	37	54		5	96
Kayseri	84	12	49		1							3	5	15	55		6	76
Konya	87	19	43		1							3	8	22	52		6	80
Malatya	82	10	40		1							2	8	12	49	1	8	70
Mersin	101	37	33		2							4	8	41	43		4	88
Samsun	89	26	36		1							1	9	27	46		5	78
Trabzon	83	17	40		1							5	7	22	48		5	75
Van	75	7	37		1								6	7	44		10	61
Total				97	00	11	5	23	6	6	1					87		

Source: Central Bank.

Total Personnel 5 645

Banknote Printing Mill Labor 12

Total 5 657

Total Personnel on December 31, 1998 5 517

Net Change 140

TABLE 70

Offices of the Central Bank

	Year Established	Number of Personnel as of the end of 1999
BRANCHES		
Adana	1969	115
Ankara	1931	413
Antalya	1963	88
Bursa	1969	105
Denizli	1974	74
Diyarbakır	1955	66
Edirne	1963	73
Erzurum	1959	61
Eskiţehir	1954	72

Gaziantep	1956	81
İskenderun	1951	73
İstanbul	1931	633
İzmir	1932	324
İzmit	1983	96
Kayseri	1968	76
Konya	1974	80
Malatya	1977	70
Mersin	1933	88
Samsun	1933	78
Trabzon	1963	75
Van	1978	61
Representative Offices		
Frankfurt	1976	7
Berlin	1982	3
London	1977	3
New York	1977	4
Tokyo	1997	2

Source : Central Bank.

COMPARISON OF THE BALANCE SHEETS

1998 – 1999

C O M P A R I S O N O F T H E 1998 - 1999 B A L A N C E S H E E T S

(M I L L I O N TL)

A S S E T S

	1998	1999
I- Gold	**325,317,374**	**561,263,310**
A- International Standard (Net Gram)116,463,228.52………	316.496.753	546.029.236
B- Non-International Standard (Net Gram)3,249,293.82…………..	8,820,621	15,234,074
II- Foreign Exchange	**6,167,530,446**	**12,518,644,751**
A- Convertible	6,167,144,670	12,518,057,348
a- Banknotes……………………....	147,588,230	725,489,615
b- Correspondent Accounts	6,019,556,440	11,792,567,733
B- Non-Convertible	385,776	587,403
a- Foreign Banknotes………………	346,336	519,286
b- Treasury Bills…………………..	39,440	68,117
III- Coins	**787,404**	**1,651,119**
IV- Domestic Correspondents	**274,039,541**	**722,118,380**
V- Securities Portfolio	**2,385,789,668**	**2,886,444,440**
A- Government Securities	2,385,764,668	2,886,444,440
a- Bonds…………………………..…	1,261,402,261	1,701,523,621
b- Treasury Bills…………………….	1,124,362,407	1,184,920,819
B- Other……………………..……	25,000	
VI- Domestic Credit	**9,098,360**	**10,588,406**
A- Public Sector	1,559,260	2,913,306
a- Treasury		
i- Short-term Advances to the Treasury…		
ii- Other (net)…………………………		
b- Public Economic Institutions		
i- Commercial…………………….…		
c- State Economic Enterprises		
i- Treasury Guaranteed Bills….………		
ii- Comercial…………………………		
iii- Other………………………………	1,559,260	2,913,306
B- Banking Sector	7,539,100	7,675,100
a- Commercial		
i- Export…………………………..…..		
ii- Other……………………………....	7,539,100	7,675,100
b- Agricultural		
i- Agricultural Credit Cooperatives…….		
ii- Unions of Agricultural		
Sales Cooperatives……………..……..		

iii- Other……………………………..		
c- Industrial		
d- Advances against Bond Collateral		
e- Other		
VII- Open Market Operations	**1,830,590,872**	**2,406,795,264**
A- Repurchase Agreements………..		
a.Cash		
i- Foreign Exchange…………….……		
ii- Securities…………………….……..	1,587,950,872	2,018,605,264
b- Securities		
B- Other	242,640,000	388,190,000
VIII- Foreign Credit	**395,516,833**	**160,457,147**
IX- Share Participations	**1,526,872**	**2,255,334**
X- Fixed Assets	**29,088,806**	**45,471,626**
A- Buildings and Building Sites	25,791,139	39,581,065
Depreciation Allowance for Real Estate (-).	-1,865,549	-2,885,721
B- Furniture and Fixtures	7,767,031	14,063,693
Depreciation Allowance for Furniture and Fixtures (-)…………………	-2,603,815	-5,287,411
XI- Claims under Legal Proceedings……	**4,825**	**552,794,789**
XII- Consolidated Claims & FX Revaluation Differences ……………….….		
A- Claims under Consolidation Law No. 3836…………………………..…		
B- Revaluation Differences as per Article 61 of Central Bank Law……		
a- Liquidated		
b- To be liquidated		
XIII- Miscellaneous Receivables	**79,000,747**	**119,752,231**
XIV- Other Assets	**119,878,163**	**442,194,320**
	11,618,169,911	**20,430,431,117**
REGULATING ACCOUNTS……........	**30,796,311,898**	**66,256,155,115**

L I A B I L I T I E S

	1998	1999
I. Currency Issued………………………	**1,328,542,401**	**2,390,748,353**
II. Liabilities to the Treasury	**60,942,363**	**18,484,507**

A. Gold (Net Gr.) 345,574.68………....	938,106	1,620,201
B. Other (Net) ……………………..…...	60,004,257	16,864,306
III. Foreign Correspondents	**4,226,743**	**3,219,607**
A. Convertible…………………………..	2,328,028	3,167,149
B. Non-Convertible……….…………...	1,898,715	52,458
IV. Deposits	**7,083,336,551**	**12,277,365,514**
A. Public Sector	748,665,387	1,750,411,761
a. Treasury, General and		
Annexed Budget Administrations………...	731,688,908	1,730,141,606
b. Public Economic Institutions…………..	14,114	156,639
c. State Economic Enterprises…………….	943,295	496,101
d. Other…………………………….….	16,019,070	19,617,415
B. Banking Sector	2,157,847,374	4,500,945,839
a. Domestic Banks	509,691,899	1,433,965,956
b. Banks Abroad	134,605	617,025
c. Required Reserves		
(Central Bank Law No. 40)		
i.Cash…………………………………	1,648,020,870	3,066,362,858
ii.Gold (Net Gr.) ……………………		
d. Other		
C. Miscellaneous	4,010,531,385	5,835,367,476
a. Foreign Exchange Deposits by Citizens Abroad	4,005,515,931	5,819,582,279
b. Other………………………………	5,015,454	15,785,197
D. International Institutions	2,063,502	118,986,571
E. Extrabudgetary Funds	164,228,903	71,653,867
a. Savings Deposit Insurance Fund……….	124,071,476	8,735,434
b. Other……………………………………	40,157,427	62,918,433
V. Open Market Operations	**1,557,599,955**	**1,969,699,942**
A. Repurchase Agreements	1,557,599,955	1,969,699,942
a. Cash		
i. Foreign Exchange…………..………….		
ii. Securities………………………………		
b. Securities	1,557,599,955	1,969,699,942
B. Other		
VI. Foreign Credit	**4,026,110**	**5,552,961**
A. Short-term…………………………...	156,387	237,385
B. Medium and Long-term………....…..	3,869,723	5,315,576
VII. Advances, Collateral and Deposits Collected		
Against Letters of Credit & Import	**112,129,028**	**231,926,903**
A. For Letters of Credit……………...	112,124,703	231,922,759
B. Medium and Long Term…………..	4,325	4,144
VIII. Notes and Remittances Payable….	**3,571,558**	**6,432,594**

IX. Capital………………………….…….	**25,000**	**25,000**
X. Reserves……………………….....….	**85,701,244**	**181,607,199**
A. Ordinary and Extraordinary Reserves…	63,403,228	146,986,699
B. Special Reserves (Art. No. 59 of Banking Law)………..…	8,756	23,257
C. Reserve for Future Losses	25,000	
(Art. No. 32 of Banking Law No. 3182)…..		
D. Valuation Adjustment Fund	22,229,512	34,515,697
(Laws No. 2791 and 3094)…………..….		
E. Cost Adjustment Fund……………...	34,748	81,546
XI. Provisions	**1,957,866**	**554,800,239**
XII. FX Revaluation Differences	**499,635,979**	**1,510,061,439**
A- Revaluation Differences as per Art. 61 of Central Bank Law	499,635,979	1,510,061,439
a) Liquidated……………………………....		
b) To be liquidated…………….……….	499,635,979	1,510,061,439
XIII. Miscellaneous Payables	**13,112,763**	**13,841,887**
XIV. Other Liabilities	**564,938,704**	**759,868,979**
XV. Profit	**298,423,646**	**506,795,993**
	11,618,169,911	**20,430,431,117**
REGULATING ACCOUNTS.................	**30,796,311,898**	**66,256,155,115**