# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

JOINT STOCK COMPANY

2005 ANNUAL REPORT DRAWN UP BY THE BOARD
FOR THE SEVENTY-FOURTH ACCOUNTING YEAR

Submitted to

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This is the English version of the 2005 Central Bank Annual Report excluding the section on the Administration, Personnel, Administrative and Social Affairs and the section on Adjustments in Legal and Administrative Regulations.

As of December 31, 2005

**CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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# ABBREVIATIONS

| | |
|---|---|
| BRSA | Banking Regulation and Supervision Agency |
| CBRT | Central Bank of the Republic of Turkey |
| CCSA | Certification in Control Self-Assessment |
| CIA | Certified Internal Auditor |
| CIS | Commonwealth of Independent States |
| CISA | Certified Information System Auditor |
| CMB | Capital Markets Board |
| CPI | Consumer Price Index |
| CSA | Compulsory Saving Account |
| EU | European Union |
| ECB | European Central Bank |
| EMBI | Emerging Markets Bond Index |
| FDI | Foreign Direct Investment |
| FED | Board of Governors of the Federal Reserve System |
| FOMC | Federal Open Market Committee |
| FX | Foreign Exchange |
| GDP | Gross Domestic Product |
| GNAT | Grand National Assembly of Turkey |
| GNP | Gross National Product |
| HLF | Household Labor Force Survey |
| IFS | International Financial Statistics |
| IMF | International Monetary Fund |
| IMM | Interbank Money Market |
| INVDB | Investment and Development Banks |
| ISE | Istanbul Stock Exchange |
| LIBOR | London Interbank Offered Rate |
| MPC | Monetary Policy Committee |
| NDA | Net Domestic Assets |
| NFA | Net Foreign Assets |
| NIR | Net International Reserves |
| OECD | Organisation for Economic Co-Operation and Development |

| | |
|---|---|
| O/N | Overnight |
| OMO | Open Market Operations |
| PPI | Producer Price Index |
| PSBR | Public Sector Borrowing Requirement |
| SCA | Special CPI Aggregates |
| SCT | Special Consumption Tax |
| SEE | State Economic Enterprises |
| SDIF | Savings Deposit Insurance Fund |
| SDR | Special Drawing Rights |
| SPO | State Planning Organization |
| STD | Short-term Debt |
| SWIFT | Society for Worldwide Interbank Financial Telecommunication |
| TDF | Turkish Defense Fund |
| TL | Turkish Lira |
| TURKSTAT | Turkish Statistical Institute |
| UK | United Kingdom |
| UNCTAD | United Nations Conference of Trade and Development |
| USA | United States of America |
| USD | United States Dollar |
| VAT | Value Added Tax |
| WPI | Wholesale Price Index |
| YKr | New Kuruş |
| YTL | New Turkish Lira |

# REPORT PREPARED BY THE BOARD FOR THE SEVENTY-FOURTH FISCAL YEAR 2005

Dear Shareholders,

Before dealing with the Central Bank's activities, we consider it necessary to review the economic developments in Turkey and in the world during the year 2005. Our report, therefore, contains a detailed study of those international economic developments which relate to similar economic developments in Turkey.

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

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

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

The 2005 developments in the financial markets make up the fourth section. Firstly, Central Bank credit is examined. This is followed by a review of developments in the banking sector, as well as legal and administrative regulations. Developments in the securities market are also discussed in this section.

The Balance Sheet and the Profit and Loss Statement for 2005 are given in the fifth section. The last section of this report provides statistical tables concerning the Turkish economy.

We submit, herewith, for your examination and approval the Balance Sheet and the Profit and Loss Statement for 2005 and welcome you to the annual meeting.

# I

# DEVELOPMENTS IN THE WORLD ECONOMY

## I.1. THE WORLD ECONOMY

*Growth rate of the World economy slowed down partly due to increase in oil prices.*

The World economy, which grew by 5.1 percent in 2004, is expected to grow by 4.3 percent in 2005. The growth rate of the developed and developing countries had slowed down relative to 2004 (Table I.1.1). The main cause of this slowdown is the increase in oil prices. As in the previous years, among the developed countries economic growth was lead by the USA economy. Stagnation continued in Euro area countries but Japan grew at a higher rate compared to the end of 1990s and early 2000s. As developing Asian countries and petroleum exporting countries have been growing at high rates thanks to their export growth, the high growth rates of China and India are noteworthy.

The growth rate of the World trade volume decreased in 2005 due to the slowdown of the World economy. The most export growth was observed in oil exporting countries.

In developed countries, the ease of financing due to very low and stable long term interest rates, especially in the United States of America (USA), promoted economic growth by stimulating household and business expenditures. On the other hand, the strong economic performance of developing countries stimulated capital flows to these high return markets in 2005. The continuity of increase in the profitability of firms in 2005 also raised stock market returns in 2005.

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

| | 2003 | 2004 | 2005(1) |
|---|---|---|---|
| PRODUCTION | | | |
| World | 4.0 | 5.1 | 4.3 |
| Industrial countries | 1.9 | 3.3 | 2.5 |
| USA | 2.7 | 4.2 | 3.5 |
| Euro area | 0.7 | 2.0 | 1.2 |
| Japan | 1.4 | 2.7 | 2.0 |
| Developing countries | 6.5 | 7.3 | 6.4 |
| Middle and East Europe | 4.6 | 6.5 | 4.3 |
| CIS | 7.9 | 8.4 | 6.0 |
| Developing Asia | 8.1 | 8.2 | 7.8 |
| WORLD TRADE VOLUME | 5.4 | 10.3 | 7.0 |
| Imports | | | |
| Developed countries | 4.1 | 8.8 | 5.4 |
| Developing countries | 11.1 | 16.4 | 13.5 |
| Exports | | | |
| Developed countries | 3.1 | 8.3 | 5.0 |
| Developing countries | 10.8 | 14.5 | 10.4 |
| CONSUMER PRICES | | | |
| Developed countries | 1.8 | 2.0 | 2.2 |
| Developing countries | 6.0 | 5.8 | 5.9 |
| SIX-MONTH LIBOR(2) (%) | | | |
| USD | 1.2 | 1.8 | 3.6 |
| Euro | 2.3 | 2.1 | 2.1 |
| Japanese yen | 0.1 | 0.1 | 0.1 |

Source: IMF “World Economic Outlook”, September 2005.
(1) IMF estimates.
(2) LIBOR.

## I.1.1. Industrial Countries

*Two big hurricanes slowed the USA economy by 0.5 percentage points.*

Strong economic growth of the USA economy supported the growth of the World economy. However, it is observed that this growth has slowed down compared to 2004. Similarly, the growth rate of the Euro area, the United Kingdom (UK), and Japan slowed down compared to 2004. Inflation, on the other hand, is higher than 2003 and 2004 figures due to the increases in oil price. For developed countries, high budget deficits are still a problem for inflation in 2005.

*US, again, lead the World growth rate in 2005.*

The growth rate of the USA economy is expected to slowdown from 4.2 percent in 2004 to 3.5 percent in 2005 (Table I.1.1). Two big natural disasters hit the southeast part of the USA at the end of the summer and especially the oil, natural gas, and transportation sectors were disrupted due to these hurricanes. Some estimates suggest that these hurricanes reduced USA economic growth by 0.5 percentage points. However, the Organisation for Economic Co-Operation and

Development (OECD) forecasts a decrease in unemployment rate from 5.5 percent to 5.1 percent in the same year despite the slowdown in the economy. The current account deficit, on the other hand, is expected to increase from 5.7 percent of the Gross Domestic Product (GDP) in 2004 to 6.5 percent of the GDP in 2005. Despite this deterioration, USA exports is expected to grow faster than imports in 2005. Consumer price inflation, on the other hand, is expected to increase from 2.7 percent to 3.4 percent despite the slowdown in the USA economy due to oil price increases. The federal budget deficit of the USA economy is expected to decrease to 2.6 percent in 2005. However, the increase in health expenditures will increase the budget deficits to around 3 percent of the national income, again after 2007.

*Consumers' unfavorable expectations regarding employment and economic reforms, and increase in oil prices slowdown the growth rate in Euro area countries.*

The growth rate of Euro area countries is expected to slowdown to 1.2 percent in 2005 (Table I.1.1). Consumers' unfavorable expectation regarding employment and economic reforms were instrumental in this slowdown. The increase in oil prices is also affected economic growth negatively. Economic growth is expected to pick up after 2005 due to the acceleration of consumption and investment. The hike in energy prices increased the rate of inflation by over 2 percent in these countries in 2005. Large budget deficits of some European Union (EU) member countries exceeding 3 percent of their national income, on the other hand, inhibit the use of fiscal policy to fight stagnation.

If we analyze member countries separately, we could see that, similar to the previous years, domestic demand and investments are still weak in Germany, and economic growth is mainly driven by external demand. Germany is expected to grow by 1.1 percent in 2005. Currently Germany's budget deficit is 3.9 percent of their GDP, but according to OECD forecasts this figure will decrease to 3.6 percent in 2006 and 2.6 percent in 2007. Similarly, France is expected to grow by 1.6 percent in 2005. The high unemployment rate and its social problems, require reforms in the labor market. The budget deficit, on the other hand, is still more than 3 percent of the GDP in France. Lastly, contrary to the general trend, the Spanish economy is expected to grow by 3.4 percent thanks to its domestic demand expansion and export growth.

According to OECD forecasts, the growth rate of the UK economy decreased from 3.2 percent in 2004 to 1.7 percent in 2005. The slowdown in property price inflation and the decrease in household consumption are the main determinants of this decrease. However, the expansion of exports and investments counter balanced this slowdown and the decrease in the growth rate remained limited. On the other hand, consumer price inflation is expected to increase to 2.1 percent. The Bank of England decreased its official rate in August due to the slow performance of the economy, however, afterwards, due to the increase in energy prices, it decided to keep the interest rate constant and follow the developments in inflation.

Japan had been in recession since the 1990s until the beginning of its recovery in 2004 and it continued to recover in 2005 by growing 2 percent. Increases in private sector profitability and household consumption influenced this recovery and this supported the decrease in the unemployment rate. The decrease in banking sector bad loans was followed by the increase in the issue of new credits in 2005. Japan is still experiencing 0.4 percent deflation in 2005, however, projections estimate positive inflation for 2006, for the first time in recent history.

**I.1.2. Developing Countries**

*Growth rate slowdown in developing countries.*

Developing countries are expected to grow by 6.4 percent in 2005, slower than their 2004 figure. Developing Asian economies, which grew by 8.2 percent in 2004, are expected to grow by 7.8 percent in 2005. Among these Asian economies China and India are again the fastest growing economies. Petroleum exporting counties also grew at high rates thanks to the growth of their oil exports (Table I.1.2).

*Despite decrease in public investment spending growth rate, China grew at high rates due to expanding domestic demand and private investment.*

The Chinese economy grew by 9.3 percent in 2005. The high growth rate, cheap labor, and expanding domestic market have been attracting foreign investment to China. In recent years loose monetary and fiscal policy has also been stimulating domestic demand. In order to inhibit the expansion of domestic demand, the growth rate of public investment was reduced in 2005. Despite this contractionary policy, loose monetary policy stimulated private sector investments in 2005. Thanks to its strong export performance China's current account surplus increased to USD 148 billion in 2005, which is 7.8 percent of its GDP (Table I.2.2). China's international reserve accumulation policy that kept its domestic currency undervalued also contributed to the increase in the current account surplus. As of September 2005, China's international reserves increased to USD 769 billion. Similarly, we may also observe the accumulation of international reserves in the other Asian economies too. International reserves of developing Asian economies increased from USD 1.4 trillion in 2003 to USD 1.7 trillion in June 2005.

Among the Asian economies South Korea grew by 3.9 percent, a slight slowdown in its growth rate compared to 2004. Private consumption started to increase again for the first time after the downward correction of property prices in 2002. On the other hand, India grew by an impressive 7.1 percent in 2005.

*The growth rate in Latin American countries is expected to slowdown compared to 2004 and realized at 4.1 percent.*

Latin American countries are expected to grow by 4.1 percent, slower than their 2004 growth rate. Brazil, which grew by 4.9 percent in 2004, is forecasted to grow by 3.2 percent in 2005. The increase in Brazil's primary surplus since 2004 has been reducing the public sector debt-national income ratio. This ratio is expected to be 4.3 percent by the end of 2005. The decrease in the inflation rate from 7.6 percent to 5.5 percent in 2005 allowed the Central Bank of Brazil to lower its interest rates. The increase in Brazil's trade surplus also led to USD 12.5 billion current account surpluses in 2005. The Mexican economy, on the other hand, which grew by 4.4 percent in 2004 is expected to grow by 3 percent in 2005. The increase in oil prices boosted Mexico's exports and the share of its trade deficit in the GDP decreased to 0.9 percent. The financing of the current account deficit by foreign direct investments (FDI) is another positive development. Mexico's inflation rate fell from 4.7 percent in 2004 to 3.3 percent in 2005. This decrease allowed the Mexican Central Bank to lower its interest rates. The Argentinean and Venezuelan economies are expected to grow by 7.5 percent and 7.8 percent, respectively in 2005. These high growth rates signal the end of political and economic crisis in these economies.

*Increase in oil prices has been positive on growth of the Middle East economies.*

The increase in oil prices has had a positive effect on the economic growth of the Middle Eastern economies. These countries, which grew by 5.5 percent in 2004, are expected to grow 5.4 percent in 2005. The fastest growing countries in the region are Bahrain with 7.1 percent and Saudi Arabia with 6 percent. The current account surpluses of the Middle Eastern countries also increased. However, these countries have already achieved their physical production capacity, which may limit their growth rates in the future. Besides, inflation in these countries is expected to increase from 8.4 percent in 2004 to 10 percent in 2005.

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

| | GDP | | CPI | |
|---|---|---|---|---|
| | 2004 | 2005(1) | 2004 | 2005(1) |
| Developing Countries | 7.3 | 6.4 | 5.8 | 5.9 |
| Developing EU | 5.6 | 4.1 | 5.2 | 3.5 |
| Middle East | 5.5 | 5.4 | 8.4 | 10.0 |
| Asia | 8.2 | 7.8 | 4.2 | 4.2 |
| Latin America | 5.6 | 4.1 | 6.5 | 6.3 |
| CIS | 8.4 | 6.0 | 10.3 | 12.6 |

Source: IMF "World Economic Outlook", September 2005.
(1) IMF Estimates.

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

*Slowdown in global economic activity had a negative effect on the growth in CIS countries.*

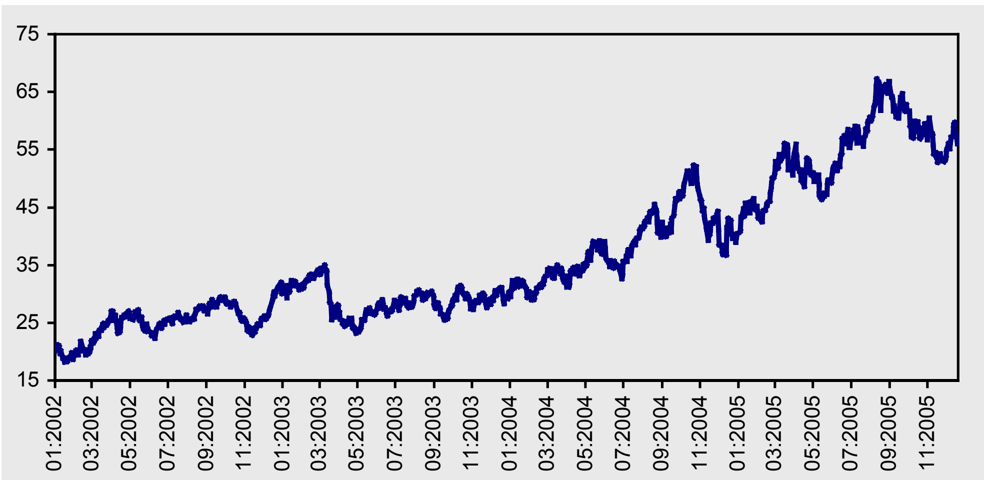
After the global slowdown in 2005 the growth rate in Commonwealth of Independent States (CIS) countries decreased from 8.4 percent in 2004 to 6 percent in 2005. Due to the same reason, the growth rate of developing European countries also slowed down to 4.1 percent. Russia, which grew 7.2 percent and had a significant current account surplus in 2004, partly due to oil price increases, grew by 6.1 percent in 2005. Azerbaijan, on the other hand, continued its high growth trend of an average of around 10 percent in the last 8 years, by growing 18.7 percent in 2005. Oil exports also played a significant role in Azerbaijan's recent growth trend. In this period its exports increased by 55.7 percent, while imports increased by 6 percent. Among the Central and Eastern European countries the fastest growth is achieved by Lithuania and Latvia, which grow by 6.8 percent and 7.8 percent, respectively. The biggest country among the new EU member states, Poland grew by 3 percent in 2005. FDI to South East Europe and CIS countries increased to USD 35 billion in 2004. Among these countries, investments to Russia reach USD 12 billion.

### I.1.4. World Trade

*Decrease in World growth rate cause slowdown in growth of World trade volume.*

World trade volume, which increased by 10.3 percent in 2004, is expected to have grown by 7 percent in 2005. The decrease in the World growth rate from 5.1 percent in 2004 to 4.3 percent in 2005 contributed to this slowdown (Table I.1.1).

***FIGURE I.1.1***
***CRUDE OIL PRICES***
***(Brent, USD/barrel)***




Source: Bloomberg.

When studying by country groups it is observed that the trade volume of developing countries increased faster than that of developed countries. The import growth rate of developed countries decreased from 8.8 percent in 2004 to 5.4 percent in 2005. On the other hand, the rate of import growth of developing countries decreased from 16.4 percent to 13.5 percent. Export growth, however, decreased from 8.3 percent to 5 percent for developed countries and from 14.5 percent to 10.4 percent for developing countries for the same period. The relatively higher growth of trade volume is mainly due to faster economic growth in developing countries. Exports and imports of the USA economy, which is the engine of world growth in 2005, grew by 7.1 percent and 5.8 percent, respectively.

In 2005, exports of petroleum exporting countries increased at very high rates. Azerbaijan's exports increased by 56 percent while those of Kuwait, Algeria, Iran, Libya, Qatar, and Saudi Arabia increased by 40-50 percent. Increasing oil revenues boosted petroleum exporting the imports of Middle Eastern, North African, and Central Asian countries by an average of 17.7 percent.

*Commodity prices continue to increase due to the expansion of demand and the rise in oil prices.*

Parallel to the increasing trend in oil prices, the increasing trend in World commodity prices in 2004 continued with greater strength in 2005. Sourced by IMF-IFS, the World Commodity Price Index, which increased by 22.4 percent in 2004, increased by 34.5 percent in 2005 due to the increase in oil prices. Crude oil prices, had been in an increasing trend throughout 2005 due to the expansion of global demand, interruption of oil supply in some countries, decrease in excess capacity, and hurricane Katrina in the USA. As a result, the price of Brent oil went up from USD 44.4 in January to USD 62.9 in September, before coming down to USD 57.3 in December.

If we exclude crude oil prices, we could see a slowdown in commodity price inflation. The unprocessed material price index published by IMF-IFS, excluding energy prices, which went up 8.9 percent in 2004, increased by 18.5 percent in 2005. The rate of growth of the metal price index, which comprises a significant share in this index, went up from 24.5 percent in 2004 to 36.2 percent in 2005. Another important development that emerged in 2005 is the rapid rise in gold prices. Price of one ounce of gold, which was USD 424 in January, went up to USD 476.8 in November, and reached USD 510.1 in December. The increase in demand for gold for jewelry purposes in regions like the Middle East and India due to income expansion, and an almost 50 percent increase in demand for gold for investment purposes significantly affected gold prices.

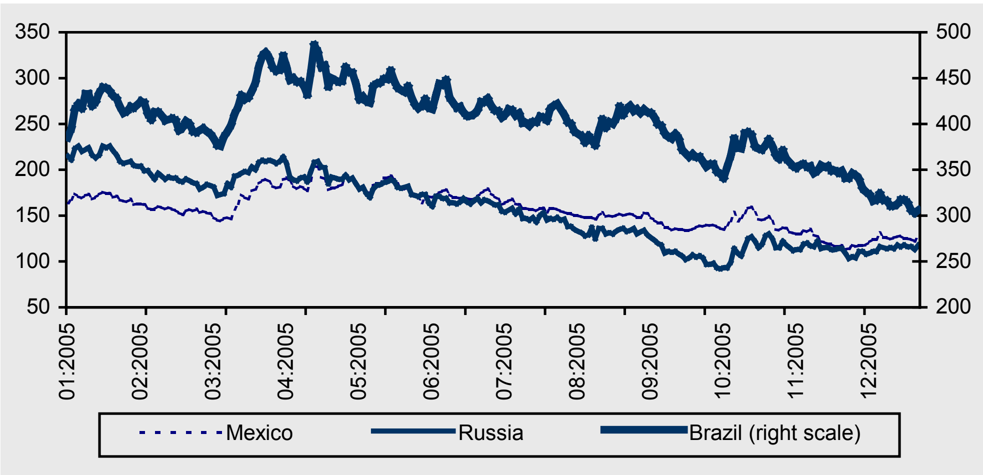
## I.2. INTERNATIONAL FINANCIAL MARKETS

*Global liquidity, FED's interest rate hikes, increases in the prices of petroleum, commodity and real estate and the Benjamin Bernanke's nomination to the FED Chairman were the main determinants of movements in international financial markets.*

In the year 2005, global liquidity, Board of Governors of the Federal Reserve System (FED) interest rate hikes, increases in the prices of petroleum, commodities and real estate and the nomination of Benjamin Bernanke as the FED Chairman were the main determinants of movements in international financial markets.

As Benjamin Bernanke was nominated to the Senate as the 14th chairman of the FED, concerns regarding a possible change in USA monetary policy emerged on the world agenda. Especially, the matter of credibility of Benjamin Bernanke, which Alan Greenspan acquired with 18 years of service as the FED Chairman received considerable attention. As a strong supporter of inflation targeting, Bernanke's desire to continue with current FED polices remained a question to be resolved.

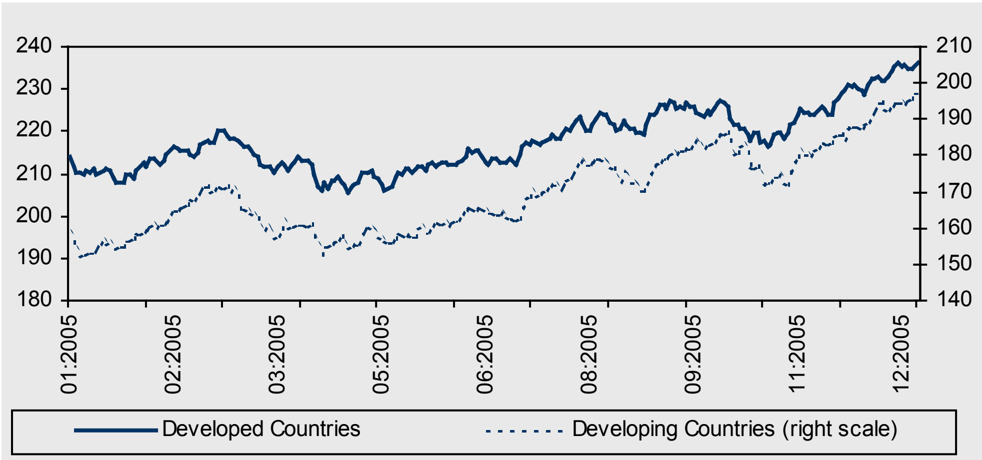
***FIGURE I.2.1***
***SPREADS OF SELECTED COUNTRIES***
***(Base Points)***




Source: JP Morgan.

To overcome the negative impact of oil prices on inflation, the FED changed interest rates from 2.25 to 4.25 percent with 25 basis point increments in all of the eight meetings that it held throughout the year. Even in the presence of interest rate increases, monetary policy was perceived to be expansionary and expectations assumed that interest rate hikes would continue in the year 2006 as in 2005. These increases restricted capital inflows to emerging economies, however promising profits of corporate and banking sector and high rate of return in these economies netted out the effect.

***FIGURE I.2.2***
***EQUITY PRICE INDICES***

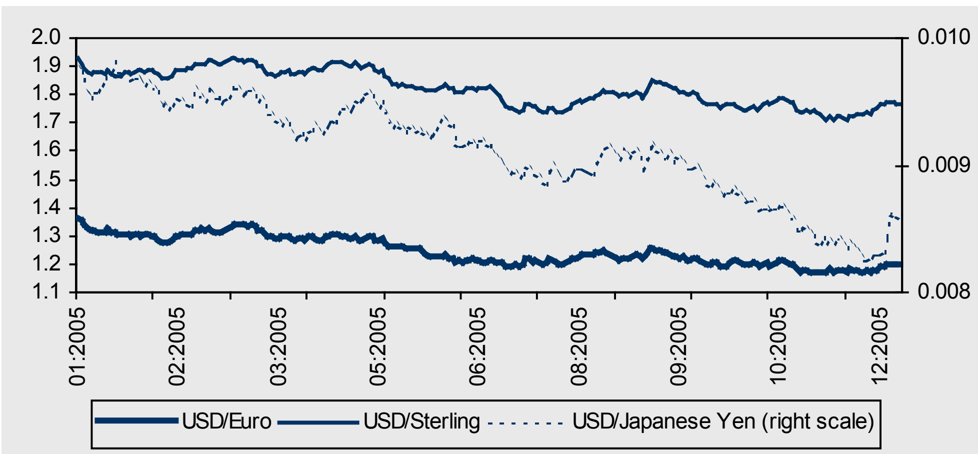



Source: JP Morgan.

The surge of capital inflows reduced spreads to emerging economies. The Emerging Markets Bond Index (EMBI+) continued to fall in 2005 as in 2004 (Figure I.2.1). Falling inflation and interest rates and continued economic growth increased corporate profits with positive implications on corporate and bank balance sheets and therefore resulted in favorable stock market conditions. These developments supported the expansion in equity markets (Figure I.2.2). In developed and developing countries, stock markets increased 9.6 and 24 percent, respectively. The decline in stock markets in February and September corresponded to the times when the FED initially raised interest rates.

*Capital inflows expanded availability of financing and therefore spreads of developing economies were reduced.*

***FIGURE I.2.3***
***PARITY OF SELECTED CURRENCIES***




Source: CBRT.

*USD appreciated against the Euro.*

Regardless of growing current account deficits, the USD appreciated against world currencies. Against the Euro, the USD appreciated 12 percent and the parity fell from 1.3 to 1.2 by the end of the year. The main determinants of this fall were the interest rate increases of the FED, political uncertainty elevated in the aftermath of the rejection of the EU constitution by a few EU members, and the reluctance of the European Central Bank (ECB) to change interest rates (Figure I.2.3).

***TABLE I.2.1***
***CAPITAL AND FINANCIAL ACCOUNTS (1)***
***(USD billion)***

| | 2002 | 2003 | 2004 | 2005 (2) |
|---|---|---|---|---|
| **Developing Countries (Total)** | **-106.9** | **-268.1** | **-366.4** | **-514.7** |
| **Net Capital Inflows** | **78.8** | **96.5** | **151.0** | **-4.2** |
| Private | 68.2 | 158.2 | 232.0 | 132.9 |
| Foreign Direct Investment | 142.7 | 153.4 | 189.1 | 209.2 |
| Portfolio Investment | -87.6 | -7.3 | 64.0 | -28.6 |
| Other Investment | 13.0 | 12.1 | -21.1 | -47.7 |
| Official | 10.6 | -61.7 | -81.0 | -137.1 |
| Reserve Assets(3) | -185.7 | -364.6 | -517.4 | -510.5 |
| **Latin America** | **20.0** | **-11.7** | **-19.2** | **-22** |
| **Net Capital Inflows** | **21.0** | **25.8** | **4.5** | **6.1** |
| Private | 0.4 | 18.5 | 9.9 | 15.2 |
| Foreign Direct Investment | 43.9 | 36.1 | 46.6 | 46.1 |
| Portfolio Investment | -14.9 | -9.0 | -10.3 | 1.7 |
| Other Investment | -28.7 | -8.5 | -26.4 | -32.5 |
| Official | 20.6 | 7.3 | -5.4 | -9.1 |
| Reserve Assets(3) | -1.0 | -37.5 | -23.7 | -28.1 |
| **Developing Asia** | **-123.7** | **-182.4** | **-204.0** | **-193.9** |
| **Net Capital Inflows** | **26.2** | **45.4** | **138.7** | **97.7** |
| Private | 21.0 | 62.0 | 132.9 | 84.6 |
| Foreign Direct Investment | 47.5 | 67.1 | 81.6 | 84.2 |
| Portfolio Investment | -60.2 | 4.9 | 25.8 | -3.3 |
| Other Investment | 33.7 | -10.0 | 25.4 | 3.8 |
| Official | 5.2 | -16.6 | 5.8 | 13.1 |
| Reserve Assets(3) | -149.9 | -227.8 | -342.7 | -291.6 |
| **Central and Eastern Europe(4)** | **36.6** | **31.0** | **37.5** | **49.6** |
| **Net Capital Inflows** | **48.2** | **42.7** | **52.3** | **66.6** |
| Private | 55.8 | 48.1 | 58.0 | 72.3 |
| Foreign Direct Investment | 25.2 | 14.9 | 23.8 | 32.5 |
| Portfolio Investment | 1.7 | 7.5 | 28.3 | 24.1 |
| Other Investment | 28.8 | 25.8 | 5.9 | 15.7 |
| Official | -7.6 | -5.4 | -5.7 | -5.7 |
| Reserve Assets(3) | -11.6 | -11.7 | -14.8 | -17.0 |

Source: IMF "World Economic Outlook", September 2005.
(1) Prepared according to the IMF Balance of Payments Manual (1993). Within this framework, the financial account is calculated as the sum of net capital flows and reserve assets items.
(2) IMF estimates.
(3) (–) Indicates increase.
(4) Includes ten new EU member countries and Turkey.

*FDI in developing economies increased.*

In 2005, FDI inflows and portfolio investment outflows increased in developing countries. With the exception of Asian countries, developing economies also observed official capital outflows (Table I.2.1). International Monetary Fund (IMF) forecasts indicate that there was an increase in the reserve assets of the developing economies by USD 510.5 billion in 2005. As in 2004, the majority of this increase was realized in developing Asian economies.

***TABLE I.2.2***
***FOREIGN DIRECT INVESTMENT***
***(USD billion)***

| | 2002 | 2003 | 2004 |
|---|---|---|---|
| **TOTAL** | 716 | 633 | 648 |
| DEVELOPED ECONOMIES | 548 | 442 | 380 |
| European Union | 420 | 339 | 216 |
| France | 49 | 43 | 24 |
| Germany | 51 | 27 | -39 |
| United Kingdom | 24 | 20 | 78 |
| Luxembourg | 117 | 91 | 57 |
| Australia | 16 | 7 | 43 |
| Canada | 22 | 6 | 6 |
| Japan | 9 | 6 | 8 |
| United States of America | 71 | 57 | 96 |
| DEVELOPING ECONOMIES | 156 | 166 | 233 |
| Africa | 13 | 18 | 18 |
| Latin America and the Caribbean | 51 | 47 | 68 |
| Brazil | 17 | 10 | 18 |
| Chile | 3 | 4 | 8 |
| Mexico | 15 | 11 | 17 |
| Asia and Pacific | 92 | 101 | 148 |
| China | 53 | 54 | 61 |
| Hong Kong | 10 | 14 | 34 |
| Singapore | 6 | 9 | 16 |
| Malaysia | 3 | 3 | 5 |
| Southeastern Europe and CIS | 13 | 24 | 35 |
| Bulgaria | 1 | 2 | 3 |
| Croatia | 1 | 2 | 1 |
| Russian Federation | 4 | 8 | 12 |

Source: UNCTAD.

In 2004, developing countries attracted USD 233 billion of capital inflows in terms of FDI. USD 148 billion of this investment was made in Asian and Pacific countries. These figures indicate a 40 percent increase in total FDI. In 2004, China, with 61 billion USD, was the leading country receiving FDI. As in previous years, low wages, high returns and expanding regional markets turned out to be the main determinants of FDI in these countries. On the contrary, FDI in developed economies declined (Table I.2.2).

# II

# DEVELOPMENTS IN THE TURKISH ECONOMY

## INTRODUCTION

The recovery period of the economy, observed for the last three years, continued in 2005 and inflation remained below the end-year target for the fourth time. While the growth rate in the first nine-month period with respect to the same period of the previous year realized as 5.5 percent, the rate of increase in consumer prices realized as 7.72 percent; therefore remaining under the end-year target level of 8 percent. The main determinants of the ongoing positive trend in 2005 can be stated as; the increase in confidence stemming from resolute implementation of the economic program, maintenance of the fiscal discipline without concession, ongoing structural reforms, the strong level of the New Turkish Lira (YTL) and the ongoing decline in interest rates.

*The main determinants of the ongoing positive trend in 2005 can be stated as; the increase in confidence depending on the determinate implementation of the economic program, maintenance of the fiscal discipline without concession, continuation of the structural reforms, strong level of the YTL and the ongoing decrease in the interest rates.*

The Central Bank of the Republic of Turkey (CBRT) previously announced that the inflation targeting regime would be implemented in 2006 and that 2005 would be a transition period. In regard to this, implicit inflation targeting under a floating exchange rate regime was implemented in 2005. Within the framework of this regime, while short term interest rates were used as the monetary policy instrument, targets that can be characterized as performance criteria and indicators- determined as floor targets for the Net International Reserves (NIR) and ceiling targets for the Money Base and Net Domestic Assets (NDA)- were observed in accordance with the program conducted with the IMF. All of the said targets have been reached.

Price indices collected and published by Turkish Statistical Institute (TURKSTAT) were updated in 2005 taking 2003 as the base year and in addition seven other indicators named as TURKSTAT Special Consumer Price Index (CPI) Aggregates were provided. The main determinants of the positive progress of the CPI in 2005 can be stated as follows: First of all, the strong position of the YTL within the year has restricted the negative impacts of the huge increases in import prices- especially the increases in crude oil prices- on the domestic economy. Besides, the secondary effects of the high increases in oil prices on CPI remained limited and the positive outlook of the expectations remained unchanged. Moreover, the non-inflationary level of the aggregate demand as a result of the accompanying expansion of production capacity due to the increasing tendency in investment; contributed positively to the CPI. At the same time, the pause in the decline of service prices observed in the last quarter of 2004, continued in 2005. The developments in administered prices and tax arrangements also exhibited significant effects in 2005, but these effects were temporary in general.

The path of producer prices in 2005 displayed a positive outlook. Prices in the agricultural sector contributed positively to the Producer Price Index (PPI) throughout 2005 and did not display any developments beyond the ordinary seasonal patterns. On the other hand, the progress of manufacturing prices throughout the year emerged in line with the path of oil prices and the exchange rate. Another important fact that stands out as important regarding the PPI is the observation of a significant weakening of the pass through from producer prices to consumer prices.

*In 2005, domestic demand increased in a controlled fashion and this helped the rate of increase in the consumer prices to remain below the target.*

In the first nine-month period of 2005 it is observed that economic growth continues by spreading out across a wider sectoral basis. Throughout this period, the largest contribution to GDP growth was from private consumption and investment expenditures. In particular, the observed increase in consumption expenditures above GDP growth -where the highest contribution was from durable consumption goods - mostly stemmed from relative price movements. Both public and private sector investment expenditures increased at high rates due to the continuation of the increases in machinery and equipment investment besides the ongoing recovery in the construction sector. This enabled productivity to keep rising despite the high growth rate in non-agricultural employment. The mentioned increase in investment also contributed to growth by increasing the production capacity. Moreover, the decline in credit costs, the rise in long-term credit opportunities and the decline in the Public Sector Borrowing Requirement (PSBR) due to the strengthening of the confidence in the economy have extended the credit opportunities of the banking sector to households. This increased the value-added in the construction sector by raising the demand for housing. Again, in this period, the fact that unit wages have remained at low levels together with increases in productivity has affected the competitiveness of firms in international markets positively despite the strong level of the YTL and has become the main determinant of export performance. The ongoing rise in domestic demand has also caused imports to rise at a high rate. In this regard, the fact that domestic demand happened to increase in a controlled fashion contributed to the rate of increase in consumer prices remaining below the target.

The decrease in the share of the PSBR in the Gross National Product (GNP) in 2005 compared to the previous year is mainly due to the positive performance of the consolidated budget balance. The high level of primary surplus - obtained as a result of the ongoing downward trend in interest rates, the increase in the borrowing maturity and the sustained fiscal discipline; worked towards decreasing net domestic borrowing in 2005 as it did in 2004. The observed increase in national income together with the improvement in borrowing conditions and high primary surplus were the main determinants of this decline. Besides the positive outlook of the fundamental macroeconomic indicators throughout the year, the maintenance of political stability and fiscal discipline, constant relations with the EU and the IMF and the absence of significant external shocks to the economy also helped with the rapid decrease in the risk premium in 2005. As a consequence, the composition of capital inflows improved in favor of long-term and this contributed to the maintenance of the strong position of the YTL.

*The high level of primary surplus; obtained as a result of the ongoing downward trend in the interest rates, the increase in the borrowing maturity and the sustained fiscal discipline; has decreased the net domestic borrowing in 2005.*

Within the monetary policy framework described above, the CBRT made nine interest rate cuts, thereby decreasing the overnight rate gradually and prudently; from it's beginning of year level of 18 percent to the end year level of 13.5 percent. The main determinants of decisions regarding interest rate cuts were the decline in inflation expectations, weak domestic demand pressure, positive progress in relations with the EU and the IMF and the belief that the economic program would be implemented without any divergence from the fiscal discipline and structural reforms. However, exogenous factors that cannot be controlled by the CBRT, such as stickiness in service inflation, oil prices and global liquidity conditions led to a prudent stance towards interest rate decisions.

In 2005, CBRT made six purchase interventions in the exchange market throughout the year due to the high volatility of the exchange rate. Moreover, in order to strengthen the exchange reserve position, it made purchase auctions throughout the year depending on the strong balance of payments position and developments in reverse currency substitution, however it did not affect the long-term trend and the equilibrium level of the exchange rate. The total amount of purchases, through auctions and interventions, were USD 22 billion.

**II.1. GENERAL EQUILIBRIUM**

The growth process, which the Turkish economy entered in 2002, continued in 2005, albeit slower than in 2004 (Table II.1.1). Strengthening of confidence in the economy through the continuation of determination to implement the economic program, the strong level of the YTL and the maintained decline in interest rates caused the expansion of the economy to continue in 2005.

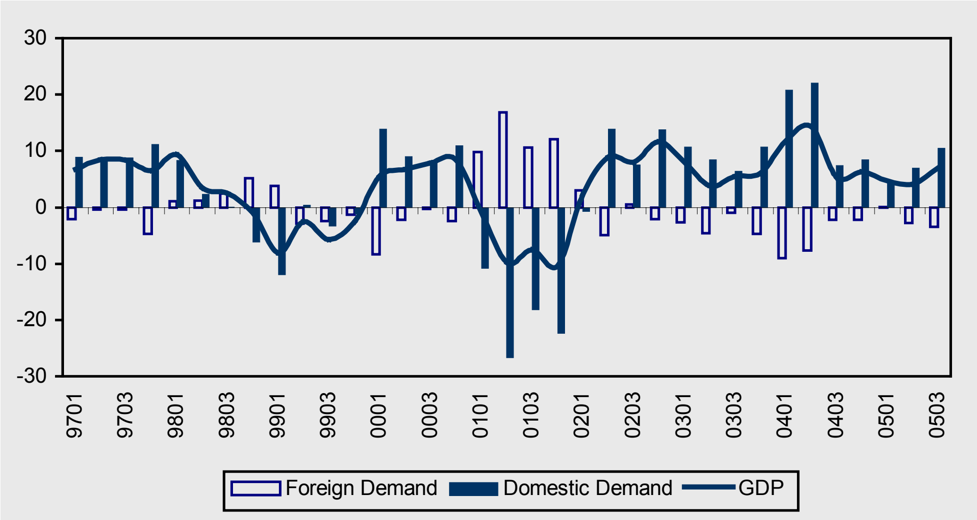
***TABLE II.1.1***
***MAIN ECONOMIC INDICATORS***

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| GNP (YTL million, Current Prices.) | 275,032 | 356,681 | 428,932 | 485,058(1) |
| Growth Rate, GDP (Percent) | 8.1 | 5.7 | 9.1 | 5.0(1) |
| Growth Rate, GNP (Percent) | 7.9 | 5.9 | 9.9 | 5.0(1) |
| Population (2) (Millions, Mid-Year) | 69.3 | 70.2 | 71.2 | 72.1(1) |
| Employment (3) (Millions) | 21.4 | 21.1 | 21.8 | 22.0 |
| Exports (USD billion, FOB) | 36.1 | 47.3 | 63.2 | 73.3 |
| Imports (USD billion, CIF) | 51.6 | 69.3 | 97.5 | 116.4 |
| Current Account Balance (USD billion) | -1.5 | -8.0 | -15.6 | -22.9 |
| Current Account Balance /GNP | -0.8 | -3.4 | -5.2 | -6.3 (4) |
| External Debt Stock/GNP (Percent) | 72.1 | 61.0 | 54.1 | 47.9(5) |
| PSBR/GNP (Percent) | 12.7 | 9.4 | 4.7 | 0.9(1) |
| Domestic Debt Stock/GNP (Percent) | 54.5 | 54.5 | 52.3 | 51.8(6) |
| Total Gross Public Debt Stock /GNP (Percent) | 78.5 | 70.4 | 63.5 | 56.6(5) |
| Primary Balance/GNP(7) (Percent) | 5.8 | 4.6 | 6.5 | 6.5(8) |
| Tax Revenue/GNP (Percent) | 23.5 | 24.7 | 24.9 | 26.2 (1) |
| PPI(9) | 30.8 | 13.9 | 15.3 | 2.7 |
| CPI(10) | 29.7 | 18.4 | 9.4 | 7.7 |

Source: TURKSTAT, SPO, Treasury, CBRT.
(1) SPO estimate (Taken from the 2006 Year Program that is promulgated in the Official Gazette dated 19 October 2005, issue 25971).
(2) TURKSTAT, Estimated by making use of TURKSTAT 2000 General Census Results.
(3) Household Labor Statistics.
(4) Realization estimate. Annual average of CBRT USD buying rate for 2005 is used in calculations.
(5) As of September 2005.
(6) Realization estimate.
(7) SPO, IMF definition.
(8) End year target.
(9) Annual percentage change, 2003=100. For 2002 and 2003 data, 1994 based WPI is used.
(10) Annual percentage change, 2003=100. For 2002 and 2003 data, 1994 based CPI is used.

The success of the economic program in achieving its macroeconomic targets in the last three years affected expectations of economic agents positively at the beginning of 2005. Through the strengthening of confidence in the economy, the decline in inflation and interest rates continued in 2005. Additionally, the decline in the PSBR helped the banking sector to increase opportunities for extending credit to households. The decrease in the cost of credits and increase in long-term credit opportunities led to a rise in consumer credits, especially housing loans. In addition to the realization of deferred housing demand, increased public sector construction investment expenditures caused construction expenditures and the construction industry value-added to rise substantially. The increase in domestic demand and exports continued in 2005 though it was slower compared to 2004. Besides, similar to 2004, while growth in domestic demand surpassed GDP growth, the contribution of external demand to growth has been negative (Figure II.1.1). In this regard, GNP growth in the first nine months of 2005 has been 5.5 percent compared to same period of the previous year (Table II.1.2).

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




Source: TURKSTAT.

***TABLE II.1.2***
***ANNUAL GROWTH IN GROSS DOMESTIC PRODUCT AND ITS MAIN SECTORS***
***(1987 Producer Prices, Percent)***

| | 2003 | 2004 | | | | | 2005 | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | I | II | III | IV | Total | I | II | III | Total(1) |
| GNP | 5.9 | 13.9 | 15.7 | 5.7 | 6.6 | 9.9 | 5.3 | 3.4 | 7.3 | 5.5 |
| GDP | 5.8 | 11.8 | 14.4 | 5.3 | 6.3 | 8.9 | 4.8 | 4.2 | 7.0 | 5.5 |
| Agriculture | -2.5 | 2.7 | 4.3 | -1.4 | 9.1 | 2.0 | 0.0 | 0.1 | 6.4 | 4.5 |
| Industry | 7.8 | 10.4 | 15.7 | 7.5 | 4.0 | 9.4 | 5.5 | 3.9 | 5.6 | 5.0 |
| Manufacturing Industry | 8.6 | 11.5 | 17.1 | 8.1 | 3.9 | 10.1 | 5.3 | 3.2 | 5.4 | 4.6 |
| Services | 5.2 | 10.2 | 12.9 | 5.4 | 5.9 | 8.4 | 4.2 | 4.4 | 7.2 | 5.4 |
| Trade | 8.1 | 17.9 | 19.7 | 7.7 | 8.9 | 12.8 | 5.8 | 4.3 | 7.1 | 5.8 |
| Construction | -9.0 | 12.7 | 6.5 | 3.9 | -0.5 | 4.6 | 16.5 | 22.2 | 19.7 | 19.7 |
| Transportation and Telecommunication | 8.4 | 5.4 | 12.0 | 4.3 | 6.2 | 6.8 | 1.6 | 2.2 | 7.4 | 3.9 |
| Import Tax | 22.6 | 38.1 | 33.2 | 20.8 | 15.7 | 26.2 | 8.4 | 8.7 | 14.1 | 10.5 |

Source: TURKSTAT.
(1) First nine months.

*In the first nine months of 2005 total domestic demand increased by 7.4 percent and total final domestic demand increased by 9.5 percent.*

When the growth of the economy is analyzed from the demand side, it is observed that private expenditures made the highest contribution to GDP growth in the first nine months of 2005. Investment expenditures increased at high rates both in the public and private sector due to expansion in the construction sector and the continuation of increase in machinery and equipment investments. In the first nine months of 2005 there has been a reversal in the sign of the contribution of stock accumulation that had contributed positively to economic growth since 2002. Public expenditure, which contributed negatively to economic growth in 2004, contributed positively in the first nine months of 2005. In this period, total domestic demand increased by 7.4 percent and total final domestic demand increased by 9.5 percent.

Private consumption expenditures increased by 6.9 percent in the first nine months of 2005 compared to the same period of the previous year (Table II.1.3). Demand for durable goods increased at a substantial rate although lower than 2004. The demand for semi-durable and non-durable goods keep their increasing trend. The high increase in food expenditures in 2005 after a contraction in 2004 indicates that consumption demand is distributed in a more balanced way in 2005 compared to 2004.

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

| | 2003 | 2004 | 2005 | | | |
|---|---|---|---|---|---|---|
| | | | I | II | III | Total(1) |
| Consumption Expenditures | 5.6 | 9.0 | 4.0 | 4.4 | 10.6 | 6.6 |
| Public | -2.4 | 0.5 | 4.3 | 4.0 | 3.3 | 3.9 |
| Private | 6.7 | 10.1 | 4.0 | 4.4 | 11.2 | 6.9 |
| Consumer Durables | 24 | 29.7 | 1.5 | 2.6 | 31.0 | 11.2 |
| Fixed Capital Investment | 10 | 32.4 | 6.9 | 17.9 | 27.8 | 18.1 |
| Public | -11.5 | -4.7 | 36.6 | 31.1 | 32.8 | 32.7 |
| Private | 20.3 | 45.5 | 4.8 | 15.8 | 26.7 | 15.9 |
| Machinery-Equipment | 46.1 | 60.3 | 1.2 | 13.6 | 27.4 | 13.7 |
| Construction | -11.4 | 15.3 | 16.2 | 23.5 | 25.2 | 22.2 |
| Stock Changes (2) | 3.0 | 1.1 | 0.1 | -0.9 | -2.8 | -1.3 |
| Exports of Goods and Services | 16.0 | 12.5 | 11.3 | 4.7 | 2.7 | 5.8 |
| Imports of Goods and Services | 27.1 | 24.7 | 9.3 | 9.2 | 11.9 | 10.1 |
| Total Domestic Demand | 9.3 | 14.1 | 4.4 | 6.4 | 11.0 | 7.4 |
| Total Final Domestic Demand | 6.5 | 14.1 | 4.7 | 8.2 | 14.5 | 9.5 |
| GDP (Expenditures) | 5.8 | 9.0 | 4.8 | 4.2 | 7.0 | 5.4 |

Source: TURKSTAT.
(1) First nine months.
(2) Contribution to GDP Growth, percentage points.

*Public expenditures increased at high rates in 2005 especially due to public investment expenditures.*

Public expenditures, which increased at a very low rate of 0.5 percent in 2004, increased by 3.9 percent in the first nine months of 2005 compared to the same period of the previous year. Public investment expenditures, declining in 2004, increased by the high rate of 32.7 percent in the first nine months of 2005, compared to the same period of the previous year. Confidence in fiscal policy was maintained as no deviation from the primary balance target was made, even though public expenditures increased.

The strengthening of the confident outlook, as a result of decisive implementation of the economic program, caused a decrease in the risk premium and hence a decrease in interest rates. This situation led to an increase in private sector investments, which caused the potential output level to rise. Besides, as a consequence of the improvement in public finance, public infrastructure investment expenditures, which complement private sector investment, started to increase. These favorable developments maintain high economic growth without putting pressure on prices.

**TABLE II.1.4**
**PRICES(1)**
**(Average Year to Year Percentage Change, 1994=100)**

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|---|
| CPI | 54.6 | 54.4 | 45.0 | 25.3 | 8.6 | 8.2 |
| PPI(2) | 51.1 | 61.6 | 50.1 | 25.5 | 14.6 | 5.9 |
| Agriculture Price Index | 37.9 | 42.2 | 56.4 | 33.9 | 23.8 | 1.7 |
| Manufacturing Industry Price Index | 55.7 | 66.7 | 48.3 | 23.8 | 13.1 | 7.6 |

Source: TURKSTAT.
(1) For 2004 and 2005, 2003 based price indexes are used and for the years prior to 2004, 1994 based price indexes are used.
(2) For the years prior to 2004, 1994 based WPI is used.

The export of goods and services increased by 5.8 percent in the first nine months of 2005, compared to the same period of the previous year, and contributed to economic growth. In this period, despite the strong level of the YTL, the sustained low levels of unit wages with increased productivity have been the basic determinants of export performance. In addition to the increase in exports, the continuation of expansion in domestic demand created a high increase in imports. The appreciation of the YTL against foreign currencies in 2005 also caused increased demand for imports. Thus, imports of goods and services increased by 10.1 percent in the first nine months of 2005 compared to the same period of the previous year.

The modest increase in demand contributed to the realization of the CPI below its target level in 2005 (Table II.1.4). In addition, productivity gains, the favorable course of the real exchange rate and unit wages and the slight increase in agricultural prices contributed to the realization of consumer price inflation below its target level.

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

### II.1.1.A. Production Performance in Sectors

#### a. Agriculture

*The agriculture sector value added rose by 4.5 percent in the first three quarters of 2005 compared to the same period of the previous year.*

The agriculture sector value added, which had shown a 2 percent yearly total increase in 2004, rose by 4.5 percent in the first three quarters of 2005 compared to the same period of the previous year (Table II.1.5). In 2005, the increase in agriculture sector value added stemmed from the increase in agriculture and livestock sector production.

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

| | 9-Month | | 2005(1) | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | I | II | III |
| Value Added of Agricultural & Livestock Production | -0.6 | 5.1 | -2.4 | 1.4 | 6.9 |
| Forestry Sector Value Added | 11.6 | -7.0 | 9.2 | -14.3 | -13.5 |
| Fishery Sector Value Added | 6.6 | 5.6 | 7.4 | 6.9 | 1.9 |
| Agricultural Sector Value Added | 0.1 | 4.5 | 0.0 | 0.1 | 6.4 |

Source: TURKSTAT.
(1) Provisional.

The agriculture and livestock sector value added decreased by 2.4 percent in the first quarter, increased by 1.4 and 6.9 percent in the second and third quarters of 2005, respectively. The total agriculture and livestock sector value added increased by 5.1 percent in the first nine months of the year.

During the first nine months of 2005, the value added of the forestry sector decreased by 7 percent compared to the same period of the previous year, whereas, the value added of the fishery sector increased by 5.6 percent.

**b. Industry**

The industrial sector value added, which had increased by 9.4 percent in 2004, rose by 5 percent in the first three quarters of 2005 compared to the same period of the previous year (Table II.1.2). During this period, along with the high performance in exports, the production expansion in the construction related sectors played an important role in the rising industrial sector valued added.

*The value added of the industrial sector increased by 5 percent in the first three quarters of 2005 compared to previous year's same period.*

According to the TURKSTAT Monthly Industrial Production Index, total industry production increased by 5.5 percent in 2005 compared to the previous year. When examined by sub-sectors, the mining sector, the manufacturing sector and electricity-gas-water production increased by 13.8 percent, 4.9 percent and 7.4 percent in 2005, respectively. During this period, when examined by sub-sectors, the production of all manufacturing industry sectors increased except textile, wearing apparel and petroleum products industries (Table II.1.6).

***TABLE II.1.6***
***INDUSTRIAL PRODUCTION[1]***
***(Percentage Changes with Respect to the Same Period of the Previous Year)***

| | 2003 | 2004 | 2005 | | | | |
|---|---|---|---|---|---|---|---|
| | | | I | II | III | IV | Annual |
| TOTAL INDUSTRY | 8.8 | 9.7 | 6.1 | 3.0 | 4.5 | 8.5 | 5.5 |
| MINING | -3.2 | 3.9 | 24.6 | 16.8 | 2.3 | 16.5 | 13.8 |
| MANUFACTURING INDUSTRY | 9.3 | 10.3 | 5.5 | 2.2 | 4.0 | 8.2 | 4.9 |
| Food Industry | 7.8 | -0.6 | 3.8 | 4.2 | 5.9 | 10.3 | 6.3 |
| Textile Industry | 2.2 | -1.6 | -9.8 | -13.8 | -15.7 | -8.1 | -11.9 |
| Wearing Apparel | 1.8 | 3.5 | -1.9 | -16.0 | -19.6 | -12.0 | -12.4 |
| Petroleum Productions Industry | 3.1 | -4.6 | -8.6 | -2.4 | 7.2 | 3.5 | -0.1 |
| Chemical Industry | 8.8 | 16.1 | 4.7 | 5.9 | 3.3 | 15.4 | 7.2 |
| Non-metalic products | 10.2 | 9.1 | 18.8 | 9.3 | 6.7 | 8.5 | 10.2 |
| Basic Metal Industry | 11.9 | 11.6 | 6.9 | 2.5 | 2.1 | 2.2 | 3.4 |
| Metal products | 3.3 | 9.3 | 29.4 | 48.8 | 34.5 | 14.5 | 31.6 |
| Machinery-Equipment Industry | 22.6 | 30.9 | 5.3 | -7.5 | -0.1 | 7.2 | 0.9 |
| Motor Vehicles Industry | 47.8 | 53.3 | 19.0 | 4.7 | 3.7 | 12.9 | 9.5 |
| PUBLIC MAN. INDUSTRY[2] | 2.2 | -0.3 | -4.6 | 4.4 | 4.2 | - | 1.4[3] |
| PRIVATE MAN. INDUSTRY[2] | 11.0 | 12.7 | 7.7 | 1.7 | 4.1 | - | 4.3[3] |
| ENERGY | 8.4 | 6.8 | 5.6 | 7.5 | 8.4 | 8.1 | 7.4 |

Source: TURKSTAT.
(1) Monthly Industrial Production Indices, 1997=100.
(2) Quarterly Industrial Production Indices, 1997=100.
(3) As of the January-September period.

According to the Monthly Industrial Production Index issued by the TURKSTAT, the production of the non-metalic products and metal products sectors, which have a 10.2 percent share in the manufacturing production, increased rapidly compared to the previous year. The high production increases in these sectors stemmed from the acceleration in investment demand. Motor vehicles industry production rose rapidly in 2003 and 2004 due to the revival in domestic demand along with the high export performance. On the other hand, the production rate of this sector decelerated and became 9.5 percent in 2005. During the same period, food sector production increased by 6.3 percent compared to the same period of the previous year and contributed significantly to the manufacturing sector production growth.

In 2005, the production of the textile and wearing apparel sectors decreased by 11.9 and 12.4 percent compared to the same period of the previous year, respectively. Lifting of quotas on the Chinese textile and apparel products in early 2005 by the "Textiles and Clothing Aggrement" of World Trade Organization, led to an increase in Chinese textile and apparel products exports. Based on the Monthly Industrial Production Index, the decrease observed in the textile and and apparel sectors production in 2005 may stem from the adverse affect of the competitive pressure in the textile and apparel sectors originating from the Asian countries such as China and India.

**c. Services**

*The value added of the services sector increased by 5.4 percent in the first nine months of 2005 compared to previous year's same period.*

The value added of the services sector increased by 5.4 percent in the first nine months of 2005 compared to the same period of the previous year (Table II.1.2). The deceleration in the industrial sector value added growth caused a limited rise in the value addeds of the wholesale-retail trade and transportation-communication sectors. During this period, the value added increased in all sub-sectors of the services sector, compared to the previous year.

The value added of the construction sector which has a 8 percent share in the services sector value added, increased by 19.7 percent in the first nine months of 2005 compared to the same period of the previous year. According to construction statistics published by the TURKSTAT, building licenses and building permits increased by the high rate of 45.1 percent and 52.3 percent in the first nine months of 2005, respectively. The high increase in building licenses indicates the continuation of the ongoing value added growth of the construction sector in the coming period. The high increase in the public investments in the first nine months of 2005 also contributed to the rise in the construction sector value added.

### II.1.1.B. Imports of Goods and Services

The fact that industrial production continued to increase, along with the recovery in domestic demand, led to the continuation of the rise in imports of goods and services in the first nine months of 2005. Total imports of goods and services with fixed prices increased by 10.1 percent in the first nine months of 2005 (Table II.1.7).

*Total imports of goods and services increased by 10.1 percent in real terms in the first nine months of 2005 compared to previous year's same period.*

***TABLE II.1.7***
***IMPORTS OF GOODS AND SERVICES***
***(USD billion)***

| | 2003 | 2004 | 2005 | | | | |
|---|---|---|---|---|---|---|---|
| | | | I | II | III | IV | Total |
| Imports (CIF) | 69.3 | 97.5 | 25.7 | 29.3 | 30.2 | 31.1 | 116.4 |
| Tourism Expenditures | 2.1 | 2.5 | 0.7 | 0.7 | 0.8 | 0.8 | 3.0 |
| Other Service Expenditures [(1)] | 6.4 | 7.6 | 1.9 | 2.1 | 2.3 | 2.6 | 9.0 |
| TOTAL | 77.8 | 107.7 | 28.3 | 32.1 | 33.3 | 34.2 | 127.9 |
| Import of Goods &Services (%)[(2)] | 27.1 | 24.7 | 9.3 | 9.2 | 11.9 | - | 10.1[(3)] |

Sources: CBRT, TURKSTAT.
(1) Excluding tourism expenditures.
(2) TURKSTAT, percentage changes with 1987 prices.
(3) As of the January-September period.

Among the main sectors, imports of the manufacturing industry, which constituted 80.6 percent of total imports, increased by 16.3 percent in 2005 compared to the previous year, while agriculture-forestry and mining imports increased by 0.4 percent and 48.4 percent, respectively.

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

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

The Turkish economy continued to grow in the first nine months of 2005 following the expansion started in 2002. As a result of the economic program implemented, inflation continued to decline and the domestic demand continued to increase but the acceleration rate decreased compared to 2004.

*The Turkish economy continued to grow in the first nine months of 2005.*

In the first nine months of 2005, public consumption expenditures increased by 3.9 percent compared to the previous year. In this period, the items "wages and salaries" of public expenditures increased by 0.2 percent, whereas "other current" expenditures, which declined in 2003 and 2004, increased by 10.1 percent.

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

| | 2003 | 2004 | 2005 | | | |
|---|---|---|---|---|---|---|
| | | | I | II | III | 9-Months |
| Total Consumption | 5.6 | 9.0 | 4.0 | 4.4 | 10.6 | 6.6 |
| Government Total Consumption Expenditures | -2.4 | 0.5 | 4.3 | 4.0 | 3.3 | 3.9 |
| Salaries-Wages | 0.9 | 1.2 | -0.6 | 0.4 | 0.7 | 0.2 |
| Other Current Expenditures | -5.9 | -0.2 | 17.6 | 9.7 | 6.8 | 10.1 |
| Private Total Consumption Expenditures | 6.6 | 10.1 | 4.0 | 4.4 | 11.2 | 6.9 |
| Food | 4.1 | 2.8 | 4.6 | 8.8 | 10.3 | 8.3 |
| Durable Goods | 24.0 | 29.7 | 1.5 | 2.6 | 31.0 | 11.2 |
| Semi-Durable & Non-Durable Goods | 2.1 | 18.8 | 12.0 | 4.2 | 5.1 | 7.1 |
| Energy, Transportation, Telecommunication | 2.2 | 0.3 | -3.1 | -0.7 | 0.3 | -1.1 |
| Services | 7.5 | 9.3 | 4.2 | 3.7 | 7.6 | 5.5 |
| House Ownership | 1.4 | 1.8 | 1.4 | 1.6 | 1.8 | 1.6 |

Source: TURKSTAT.

Total private consumption expenditures increased by 6.9 percent in the first nine months of 2005. When examined by sub-sectors, with the exception of energy-transportation and communication, expenditures on all items increased in this period. The highest rate of increase is observed in the expenditures for durable goods (Table II.1.8).

Public investment expenditures, which declined in 2003 and 2004, increased by 32.7 percent in the first nine months of 2005. In the same period, with the enhanced confidence in economy, private investment expenditures and private sector machinery and equipment investment increased by 15.9 percent and 13.7 percent, respectively. Moreover, in the first nine months of 2005, public construction investment and private construction investment increased by 26.4 percent and 22.2 percent, respectively.

**II.1.2.B. Exports of Goods and Services**

*Exports of goods and services increased by 5.8 percent in the first nine months of 2005.*

In the first nine months of 2005, exports of goods and services increased by 5.8 percent (Table II.1.9). Exports continued to grow and contributed to economic growth in 2005. The rise in productivity and low level of unit wages in the manufacturing sector helped the increase in exports to continue in 2005. In 2005, export unit value index and the export quantity index increased by 4.7 percent and 8.1 percent, respectively.

**TABLE II.1.9**
**EXPORTS OF GOODS AND SERVICES**
**(USD billion)**

| | 2002 | 2003 | 2004 | | | | |
|---|---|---|---|---|---|---|---|
| | | | I | II | III | IV | Annual |
| Exports | 47.3 | 63.1 | 17.2 | 18.1 | 18.1 | 19.8 | 73.3 |
| Shuttle Trade | 4.0 | 3.9 | 0.7 | 0.9 | 0.8 | 10 | 3.5 |
| Tourism Revenues | 13.2 | 15.9 | 2.0 | 3.8 | 8.8 | 3.6 | 18.2 |
| Other Services Revenues (1) | 5.8 | 7.0 | 1.8 | 1.8 | 2.0 | 2.2 | 7.7 |
| TOTAL | 70.3 | 90 | 21.7 | 24.6 | 29.7 | 26.4 | 102.4 |
| Exp. of Goods & Services (%)(2) | 16.0 | 12.5 | 11.3 | 4.7 | 2.7 | - | 5.8(3) |

Sources: CBRT, TURKSTAT.
(1) Excluding tourism revenues.
(2) TURKSTAT, percentage changes in 1987 prices.
(3) As of the January-September period.

### II.1.3. Employment

*In 2005, the unemployment rate remained the same at 10.3 percent as in 2004.*

Based on the results of the Household Labor Force Survey (HLF), which is conducted by the TURKSTAT, total employment, which was on average 21,147 million in 2004, went up by 1.5 percent to 22,046 million. The level of employment increased by 7 percent in urban areas and by 4.9 percent in rural areas. During the same period, 57 percent of total employment took place in urban areas as opposed to 43 percent in rural areas. The total labor supply in the same period went down by 1.6 percent. The unemployment rate remained the same at 10.3 percent as in 2004 (Table II.1.10).

The underemployment rate, which essentially covers "currently employed persons that are looking for a job or persons that could work longer hours in their current jobs or do an additional job," went down from 4.1 percent in 2004 to 3.4 percent in 2005. The inactive labor force rate, which is the sum of the underemployment and unemployment rates, was 16.1 percent. Another important indicator, the labor force participation rate, was 48.3 percent in 2005, down by 0.2 percent from the previous year. In 2005, while the labor force participation rate of males went up by 0.1 percentage points, that of females decreased by 0.5 percentage points (Table II.1.10).

The unemployment rate in urban areas went down to 12.7 percent in 2005 from 13.7 percent in 2004. The rural unemployment rate went up to 6.8 percent in 2005 from 5.9 in 2004. The number of unemployed in 2005 was up by 41 thousand compared to that in 2004 and reached 2.52 million persons.

**TABLE II.1.10**
**LABOR FORCE AND EMPLOYMENT**
**(In Thousands, Aged 15 and Over)**

| | 2004 | 2005 | | | | |
|---|---|---|---|---|---|---|
| | Average | I | II | III | IV | Average |
| Population Aged 15 and Over | 49,827 | 50,452 | 50,695 | 50,938 | 51,146 | 50,826 |
| Total Labor Force | 24,188 | 23,588 | 25,015 | 25,219 | 24,539 | 24,565 |
| Female Labor Force/Labor Force (Percent) | 26.2 | 25.1 | 26.7 | 26.1 | 25.6 | 25.9 |
| Labor Force Participation Rate (Percent) | 48.5 | 46.8 | 49.3 | 49.5 | 48.0 | 48.3 |
| Male | 72.1 | 70.6 | 72.8 | 73.8 | 72.0 | 72.2 |
| Female | 25.3 | 23.3 | 26.2 | 25.6 | 24.4 | 24.8 |
| Employment | 21,709 | 20,838 | 22,721 | 22,838 | 21,928 | 22,046 |
| Urban (Percent) | 54.1 | 56.9 | 55.8 | 56.4 | 58.4 | 57.0 |
| Rural (Percent) | 45.9 | 43.1 | 44.2 | 43.6 | 41.6 | 43.0 |
| Female Employment/Total Employment (Percent) | 26.4 | 25.3 | 26.9 | 25.9 | 25.5 | 25.9 |
| Number of Unemployed | 2,479 | 2,750 | 2,294 | 2,381 | 2,611 | 2,520 |
| Unemployment Rate (Percent) | 10.3 | 11.7 | 9.2 | 9.4 | 10.6 | 10.3 |
| Urban | 13.7 | 13.9 | 11.9 | 12.3 | 12.8 | 12.7 |
| Rural | 5.9 | 8.5 | 5.5 | 5.5 | 7.4 | 6.8 |
| Underemployed/Labor Force (Percent) | 4.1 | 3.6 | 3.6 | 3.3 | 3.3 | 3.4 |
| Inactive Labor Force (Percent) | 14.4 | 15.3 | 12.8 | 12.7 | 16.1 | 16.1 |

Source: TURKSTAT.

As for the sectoral distribution of employment, the share of agriculture in total employment was 29.5 percent, while the share of industry was 19.4 percent and the share of the service sector was 45.8 percent. During the same period, non-agriculture employment went up by 8.4 percent. Non-agriculture employment in urban areas went up by 7.4 percent, while it went up by 12 percent in rural areas (Table II.1.11). Economic growth translated into better performance in the labor market and employment went up in all sectors except for agriculture in 2005. Employment in this period went down by 13.3 percent in agriculture, whereas it went up by 12.9 percent in industry, 11.6 percent in service, and 9.7 percent in the construction sectors.

In 2005, 54.2 percent of total employment was made up of workers getting salaries or daily wages. In the same period, the share of the self-employed in total employment was 29.8 percent and that of non-salaried family workers was 16 percent. Compared with the previous year, while the share of non-salaried family workers declined, the share of the self-employed and workers getting salaries or daily wages rose.

**TABLE II.1.11**
**SECTORAL DISTRIBUTION OF EMPLOYMENT**
**(In Thousands, Aged 15 and Over)**

| | 2004 | 2005 | | | | |
|---|---|---|---|---|---|---|
| | Average | I | II | III | IV | Average |
| TOTAL | 21,709 | 20,838 | 22,721 | 22,838 | 21,928 | 22,046 |
| Agriculture | 7,414 | 6,230 | 7,266 | 6,990 | 5,920 | 6,493 |
| Industry | 3,955 | 4,054 | 4,165 | 4,405 | 4,460 | 4,281 |
| Services | 9,316 | 9,630 | 10,038 | 10,152 | 10,347 | 10,101 |
| Construction | 1,025 | 924 | 1,252 | 1,291 | 1,201 | 1,171 |
| URBAN | 11,719 | 11,852 | 12,678 | 12,893 | 12,815 | 12,566 |
| Agriculture | 698 | 523 | 755 | 817 | 602 | 673 |
| Industry | 3,182 | 3,250 | 3,360 | 3,494 | 3,534 | 3,408 |
| Services | 7,122 | 7,406 | 7,688 | 7,664 | 7,808 | 7,652 |
| Construction | 717 | 672 | 875 | 917 | 870 | 833 |
| RURAL | 9,989 | 8,986 | 10,043 | 9,946 | 9,113 | 9,480 |
| Agriculture | 6,715 | 5,707 | 6,511 | 6,173 | 5,317 | 5,820 |
| Industry | 773 | 804 | 805 | 910 | 926 | 873 |
| Services | 2,193 | 2,224 | 2,351 | 2,488 | 2,539 | 2,448 |
| Construction | 308 | 252 | 376 | 374 | 331 | 338 |

Source: TURKSTAT.

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

| | 2003 | 2004 | 2004 | 2005 | | | |
|---|---|---|---|---|---|---|---|
| | | | Nine-months | I | II | III | Nine-months |
| Manufacturing Industry | 1.8 | 2.0 | 1.9 | 1.9 | -1.7 | -1.8 | -0.6 |
| Public | -6.8 | -10.9 | -11.3 | -10.2 | -7.1 | -8.6 | -8.6 |
| Private | 3.1 | 3.6 | 3.6 | 3.2 | -1.2 | -1.1 | 0.3 |
| Food | 0.0 | 4.6 | 3.9 | 6.6 | 2.1 | 2.0 | 3.5 |
| Textiles | 0.1 | -3.4 | -3.7 | -5.6 | -10.9 | -8.9 | -8.4 |
| Wearing Apparel | 0.1 | -9.9 | -9.4 | -3.5 | -9.3 | -5.4 | -6.1 |
| Petroleum Products | 3.0 | 9.9 | 16.0 | -10.5 | -7.6 | 5.5 | -4.5 |
| Chemicals | -0.3 | 2.7 | 2.5 | 0.6 | -0.4 | 0.4 | 0.2 |
| Non-metallic Products | 3.4 | 8.3 | 8.3 | 11.1 | 9.2 | 8.4 | 9.5 |
| Basic Metal Industry | 5.9 | 10.0 | 10.2 | 8.6 | 7.5 | 6.4 | 7.5 |
| Machinery-Equipment | 13.8 | 15.4 | 16.1 | 7.1 | 2.1 | -2.6 | 2.0 |
| Transport Vehicles | 15.7 | 20.7 | 20.9 | 20.0 | 11.6 | 3.7 | 11.3 |

Source: TURKSTAT.

*Although the growth in the ouput of the manufacturing sector is sustained in the first three quarters of 2005, the level of employment in the sector decreased.*

In the first three quarters of 2005, partly due to limited growth in the manufacturing sector, a decline in the employment figure in the sector was observed. In the same period, output of the private manufacturing sector increased by 4.4 percent and that of the public manufacturing sector grew by 4.9 percent. The index of private manufacturing sector workers went up by only 0.3 percent, while that of public manufacturing sector workers declined by 8.6 percent (Table II.1.12).

**II.1.4. Wages and Salaries**

In 2005, net labour wage increased by 4.8 percent in the public sector, compared to 2.1 percent rise in the private sector. Civil servant salaries which were increased by 10.1 percent in 2005, rose by 2.7 percent in real terms, in the same period (Table II.1.13).

*In 2005, different rate of increases depending on the type of earners were observed in real wages.*

It is observed that average net minimum wages, which rose by 4.2 percent in 2005, have started to move in a more synchronized way with the inflation following the considerable increase they showed in 2004. Annual real increases in the pensions of the Pension Fund, Social Security Institution and Bağ-Kur were 3.3 percent, 5.4 percent and 8.8 percent, respectively in 2005. Generally, it is seen that monthly incomes of minimum wage earners and retired people, whose wages are less compared to other workers, rose more in real terms after 2001. Consequently, the effect of real wages on demand-driven inflation has been limited.

***TABLE II.1.13***
***REAL WAGE INDEXES***
***(1994=100)[(1)]***

| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005[(2)] |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Labour Wage[(3)] | | | | | | | | | | |
| Public | 62.2 | 74.1 | 73.1 | 103.8 | 111.1 | 98.2 | 89.2 | 86.8 | 88.3 | 92.5 |
| Private | 93.4 | 90.6 | 105.9 | 118.2 | 119.4 | 95.3 | 94.3 | 93.9 | 97.1 | 99.1 |
| Net Salary of a Civil Servant | 102.5 | 119.3 | 117.8 | 123.1 | 108.9 | 104.8 | 110.8 | 109.9 | 112.7 | 115.7 |
| Annual Average Minimum Wage [(4)] | 110.6 | 121.2 | 115.2 | 154.9 | 132.6 | 113.9 | 123.0 | 127.6 | 158.6 | 165.3 |
| Pensions [(5)] | | | | | | | | | | |
| The Pension Fund | 113.0 | 121.0 | 114.0 | 118.0 | 104.0 | 100.0 | 104.0 | 113.0 | 120.0 | 124.0 |
| Social Security Institution | 118.0 | 134.0 | 124.0 | 127.0 | 110.0 | 107.0 | 109.0 | 124.0 | 130.0 | 137.0 |
| Bağ-Kur | 160.0 | 204.0 | 189.0 | 194.0 | 185.0 | 184.0 | 185.0 | 250.0 | 261.0 | 284.0 |

Source: SPO.
(1) In realizations, TURKSTAT - CPI (1994=100) and TURKSTAT-CPI (2003=100) are used for before and after 2005, respectively.
(2) Forecast.
(3) The calculations are made by the SPO using data of the Turkish Employer Union and Public Sector Employer Union.
(4) Annual average minimum wage for ages 16 and over in industry and services.
(5) The average pension for retired civil servants at third degree level one, for retired workers normal indicator table first-degree level nine and for retired people from Bağ-Kur at sixth degree.

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

| | 2003 | 2004 | 2004 | 2005 | | | |
|---|---|---|---|---|---|---|---|
| | | | Nine-months | I | II | III | Nine-months |
| Manufacturing Industry | -1.9 | 2.5 | 2.8 | 3.2 | 2.1 | 1.6 | 2.3 |
| Public | -5.3 | 4.7 | 5.3 | 8.7 | 5.4 | 9.0 | 7.7 |
| Petroleum Products | -2.0 | 7.2 | 7.3 | -0.7 | 2.6 | 23.4 | 8.5 |
| Private | 0.5 | 4.8 | 5.1 | 3.5 | 2.0 | 1.0 | 2.2 |
| Food | -3.0 | 10.2 | 8.8 | 6.1 | 5.3 | 6.4 | 5.9 |
| Textiles | -2.1 | 8.3 | 8.6 | 1.9 | 4.9 | 1.5 | 2.7 |
| Wearing Apparel | 4.9 | 12.2 | 12.1 | 9.0 | 6.4 | -0.8 | 4.8 |
| Chemicals | 1.2 | -2.2 | -1.0 | -1.9 | -4.0 | 3.5 | -0.8 |
| Non-metallic Products | -3.8 | 3.4 | 3.3 | 5.6 | -1.9 | -3.7 | 0.0 |
| Basic Metal Industry | -1.8 | 0.2 | 1.7 | -1.2 | 0.3 | 0.3 | -0.2 |
| Machinery-Equipment | -0.7 | -2.7 | -2.1 | 6.3 | -0.1 | 2.4 | 2.8 |
| Transport Vehicles | -0.4 | -7.4 | -8.9 | -6.5 | -7.7 | -2.3 | -5.5 |

Source: TURKSTAT.

Real wage index per hour in the manufacturing sector, which has started to increase annually since the last quarter of 2003, continued to rise in the first nine months of 2005 in the public sector, as well as in the private sector (Table II.1.14).

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

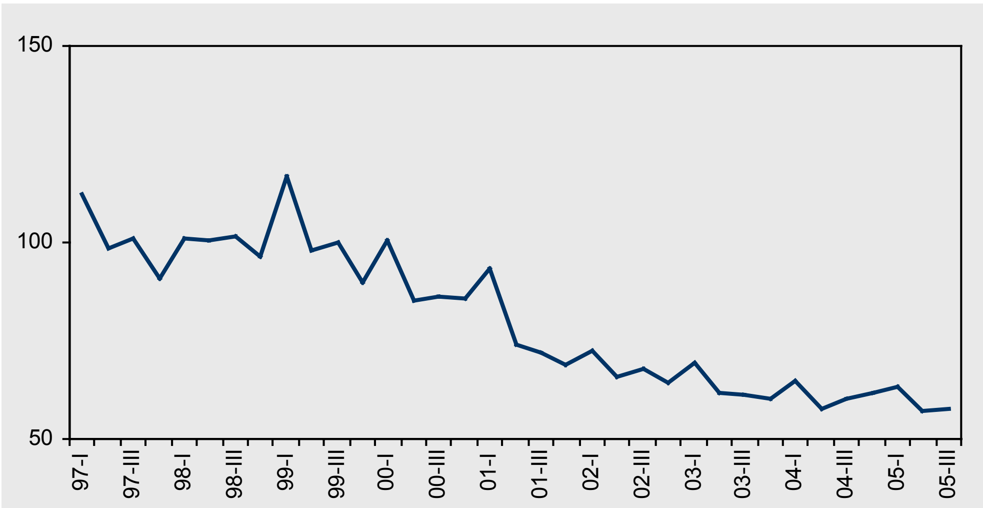
| | 2003 | 2004 | 2004 | 2005 | | | |
|---|---|---|---|---|---|---|---|
| | | | Nine-months | I | II | III | Nine-months |
| Manufacturing Industry | 7.2 | 7.4 | 9.4 | 5.1 | 4.3 | 6.1 | 5.2 |
| Public | 8.1 | 10.5 | 11.1 | 7.0 | 11.8 | 15.5 | 11.3 |
| Petroleum Products | 10.8 | -10.3 | -13.3 | 11.0 | 15.6 | 19.1 | 15.3 |
| Private | 7.9 | 8.0 | 10.5 | 6.1 | 3.4 | 5.2 | 4.8 |
| Food | 9.9 | -2.8 | -1.6 | 0.2 | 5.3 | 6.3 | 4.1 |
| Textiles | 3.4 | 1.4 | 2.6 | -2.3 | -3.2 | -7.2 | -4.3 |
| Wearing Apparel | 2.3 | 12.7 | 12.4 | 7.6 | -4.6 | -13.3 | -3.9 |
| Chemicals | 11.9 | 13.5 | 15.9 | 9.3 | 5.6 | 0.2 | 5.0 |
| Non-metallic Products | 5.6 | 1.1 | 1.8 | 6.6 | 1.4 | -2.5 | 1.5 |
| Basic Metal Industry | 3.7 | 1.2 | 1.8 | -0.7 | -1.8 | 1.0 | -0.5 |
| Machinery-Equipment | 8.9 | 11.5 | 14.6 | 2.2 | -7.2 | 4.9 | -0.2 |
| Transport Vehicles | 22.0 | 26.7 | 37.3 | 2.3 | -8.4 | -4.9 | -4.1 |

Source: TURKSTAT.

The fact that real wage increases in the public sector during the first nine-months of 2005 were more than that in the private sector, as in the case of 2004, worths to be noted. In this period, the only sector real wages showed a decrease is the sector of transport vehicles. The decline is thought to be the result of productivity losses observed in the sector in 2005.

In the first nine months of 2005, productivity per hour in the manufacturing sector increased by 5.2 percent, on average. In the same period, productivity per hour rose by 4.8 percent in the public sector, whereas it increased by 11.3 percent in the private sector, mainly due to the decrease in employment in that sector (Table II.1.15). On the other hand, productivity growth in the private manufacturing sector was a result of both the increase in production and the decrease in hours worked. Due to the fact that productivity growth has been higher than real wage growth, the positive contribution of real unit wage to the inflation has continued (Figure II.1.2).

***FIGURE II.1.2***
***PRIVATE MANUFACTURING SECTOR REAL UNIT WAGE INDEX (1)***
***(1997=100)***




Source: TURKSTAT, SPO, CBRT.
(1) It is calculated by dividing total real wage index (which is constructed by multiplying TURKSTAT real wage index of per hour in the private manufacturing sector by TURKSTAT index of hour in production in the private manufacturing sector) by TURKSTAT private manufacturing sector quarterly industry production index.

## II.2. PUBLIC FINANCE AND DOMESTIC BORROWING

### II.2.1. Public Finance

In 2005, under the framework of the economic program, fiscal discipline was maintained. As a result, the PSBR is expected to realize at –0.2 percent of the GNP in 2005 by decreasing 4.9 percentage points with respect to the previous year (Table II.2.1, Figure II.2.1). This favourable outcome mainly results from the improved performance of the consolidated budget in 2005 compared to 2004.

*The PSBR is expected to realize at –0.2 percent of the GNP in 2005 by decreasing 4.9 percentage points with respect to the previous year.*

The borrowing requirement of 'other public', which consists of local administrations, social security organizations and revolving funds is expected to realize at –0.3 percent of the GNP in 2005. The PSBR, excluding the interest payments, which realized at –8.9 percent of the GNP in 2004, is estimated at –10 percent of the GNP in 2005 (Table II.2.1).

**_TABLE II.2.1_**
**_THE RATIO OF THE PUBLIC SECTOR BORROWING REQUIREMENT TO THE GROSS NATIONAL PRODUCT(1)_**
**_(Percent)_**

| | 2003 | 2004 | Estimate 2005 |
|---|---|---|---|
| Consolidated Budget(2) | 11.3 | 7.1 | 2.0 |
| SEE | -0.7 | -0.6 | -0.5 |
| Unemployment Insurance Fund | -1.1 | -1.0 | -1.0 |
| Funds | -0.2 | -0.5 | -0.5 |
| Other Public(3) | 0.1 | -0.3 | -0.3 |
| TOTAL BORROWING REQUIREMENT (PSBR) | 9.4 | 4.7 | -0.2 |
| PSBR EXCLUDING INTEREST PAYMENTS | -7.8 | -8.9 | -10.0 |
| GNP (YTL billion) | 356.7 | 428.9 | 485.1 |

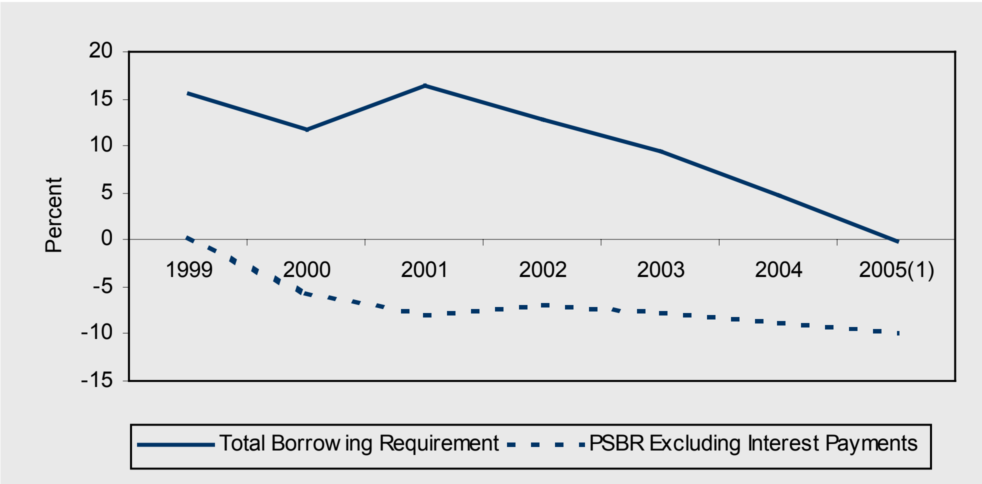
Source: SPO, Ministry of Finance.
(1) Minus sign (-) indicates a surplus.
(2) 2005 year-end consolidated budget figures are realizations taken from the Ministry of Finance, Public Accounts Bulletin.
(3) Other Public consists of local administrations, revolving funds and social security organizations.

The consolidated budget deficit as a share of the GNP is estimated to decrease to 2.0 percent in 2005 from 7.1 percent in 2004 (Table II.2.1). Factor behind this improvement has been the decrease in interest expenditures due to declining interest rates and the lengthening of the borrowing maturity. In 2005, consolidated budget revenue is estimated at 27.8 percent of the GNP. Concurrently, non-interest consolidated budget expenditures are expected to realize at 20.4 percent of the GNP, increasing from 19.5 percent in 2004. The increase in expenditures has

*The consolidated budget deficit as a share of the GNP is estimated to decrease to 2 percent in 2005 from 7.1 percent in 2004.*

mainly resulted from the increase in current transfers and investment expenditures. In 2005 budget, non-tax and capital revenues surpassed the anticipated amounts. Dividend revenues from public banks, recovery from interest and reclaims and privatization revenues from TELEKOM were the factors behind the improved performance of non-tax and capital revenues. In the same period, the consolidated budget tax revenue as a share of the GNP is estimated to be 22 percent, indicating a 1 percentage point increase compared to 2004 (Table II.2.2).

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




Source: SPO.
(1) The 2005 GNP is the estimate of SPO.

*In 2005, while taxes on income showed a good performance, revenues from domestic VAT, taxes on imports and SCT remained below anticipated amounts.*

In 2005, while taxes on income showed good performance, revenues from domestic Value Added Tax (VAT), taxes on imports and Special Consumption Tax (SCT) remained below anticipated amounts. The strong domestic currency has been a factor behind the lower than estimated realization of taxes on imports. Although imports increased by 19 percent in USD terms in 2005, as the YTL sustained its strong value, imports in YTL terms increased at a lower rate of 12 percent.

In 2005, some legal amendments were made on the tax front. VAT on some food products, education services and medical products and equipment were reduced, pursuant to the Cabinet Council Decree issued in 2004. Moreover, the provisional corporate tax rate was implemented as 30 percent in 2005, compared to 33 percent in 2004. In this period, SCT on petroleum products was not revised. Nonetheless, with Cabinet Council Decree No. 2005/8716 issued in April, the SCT rate on some luxurious goods that fall under the category of SCT List II were increased from 6.7 percent to 20 percent.

***TABLE II.2.2***
***CONSOLIDATED BUDGET***

| | Current Prices (YTL million) | | Share in GNP (Percent) | |
|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005(1) |
| **Expenditures** | 140,200 | 144,562 | 32.7 | 29.8 |
| **Non-interest Expenditures** | **83,712** | **98,883** | **19.5** | **20.4** |
| Personnel Expenditures | 28,948 | 31,856 | 6.7 | 6.6 |
| Govern. Premiums to Social Security Agencies | 4,023 | 4,533 | 0.9 | 0.9 |
| Goods and Service Purchase | 12,560 | 14,290 | 2.9 | 2.9 |
| Current Transfers | 27,659 | 35,190 | 6.4 | 7.3 |
| Capital Expenses | 7,972 | 9,684 | 1.9 | 2.0 |
| Capital Transfers | 437 | 1,546 | 0.1 | 0.3 |
| Liability | 2,075 | 1,784 | 0.5 | 0.4 |
| Reserve Appropriation | 37 | 0 | 0.0 | 0.0 |
| **Interest Expenditures** | **56,488** | **45,680** | **13.2** | **9.4** |
| **Revenues** | 109,887 | 134,819 | 25.6 | 27.8 |
| **General Budget Revenues** | **108,074** | **132,658** | **25.2** | **27.3** |
| Tax Revenues | 90,093 | 106,932 | 21.0 | 22.0 |
| Non-Tax Revenues | 17,065 | 23,198 | 4.0 | 4.8 |
| Capital Revenues | 161 | 2,042 | 0.0 | 0.4 |
| Grants and Aid | 755 | 486 | 0.2 | 0.1 |
| **Annexed Budget Revenues** | **1,813** | **2,161** | **0.4** | **0.4** |
| **Budget Balance** | -30,313 | -9,743 | -7.1 | -2.0 |
| **Primary Budget Balance** | 26,175 | 35,936 | 6.1 | 7.4 |
| **Program-Defined Primary Budget Balance** | 22,069 | 24,100 | 5.1 | 5.0 |

Source: SPO, Ministry of Finance.
(1) The 2005 GNP is the estimate of SPO.

Moreover, with Cabinet Council Decree No. 2005/8410 issued in February, the SCT on some of alcoholic beverages and tobacco was increased. Additionally, with Cabinet Council Decree No. 2005/9145 published in the Official Gazette in 17 July 2005, the same level of lump-sum and proportional tax was enforced on all tobacco products.

The coverage of consolidated budget tax revenues in expenditures rose to 74 percent in 2005, compared to 64.3 percent in 2004. Moreover, the coverage of tax revenues in non-interest expenditures realized at 108.1 percent in 2005, by increasing 0.5 percentage points compared to the previous year (Table II.2.3).

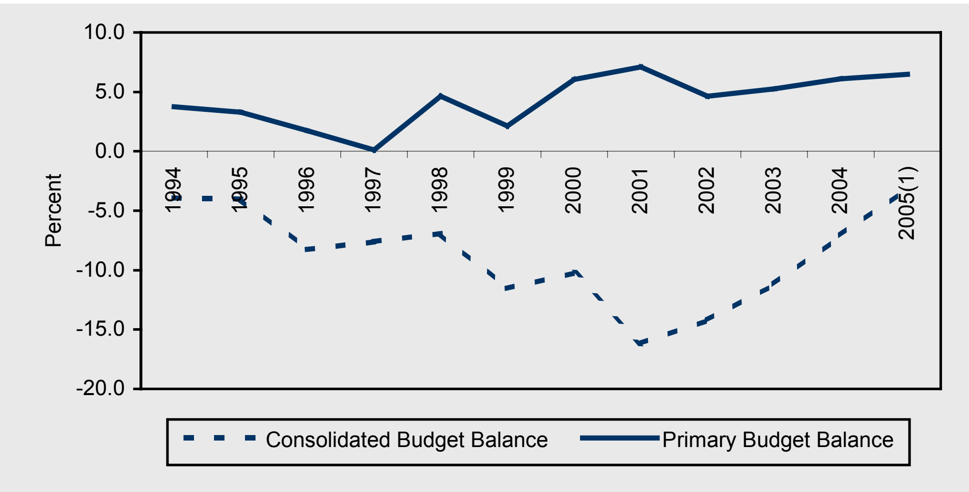
**TABLE II.2.3**
**CONSOLIDATED BUDGET INDICATORS**
**(Percent)**

| | 2004 | 2005 |
|---|---|---|
| REVENUE INDICATORS | | |
| Total Revenues/Total Expenditures | 78.4 | 93.3 |
| Total Revenues/Non-Interest Expenditures | 131.3 | 136.3 |
| Tax Revenues/Total Revenues | 82.0 | 79.3 |
| Non-Tax Revenues/Total Revenues | 15.5 | 17.2 |
| Tax Revenues/Total Expenditures | 64.3 | 74.0 |
| Tax Revenues/Non-Interest Expenditures | 107.6 | 108.1 |
| EXPENDITURE INDICATORS | | |
| Interest Payments/Tax Revenues | 62.7 | 42.7 |
| Interest Payments/Total Expenditures | 40.3 | 31.6 |
| Non-Interest Expenditures/Total Expenditures | 59.7 | 68.4 |
| Personnel Expenditures/Total Expenditures | 20.6 | 22.0 |
| Investment Expenditures(1)/Total Expenditures | 6.0 | 7.8 |
| Current Transfers/Total Expenditures | 19.7 | 24.3 |

Source: SPO.
(1) Includes capital expenditures and capital transfers.

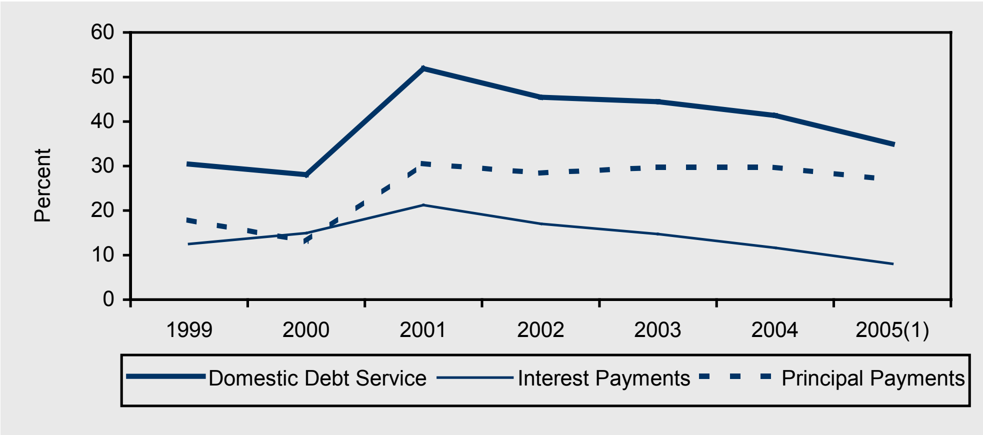
The share of consolidated budget expenditures in the GNP is expected to be 29.8 percent in 2005, decreasing 2.9 percentage points compared to the previous year; mainly due to the decrease in interest payments. In 2005, the decrease in interest expenditures were due to declining interest rates and the lengthening of the borrowing maturity.

**FIGURE II.2.2**
**BUDGET BALANCES/GNP**




Source: SPO, Ministry of Finance.
(1) The 2005 GNP is the estimate of SPO.

***FIGURE II.2.3***
***CONSOLIDATED BUDGET DOMESTIC DEBT SERVICE/GNP***




Source: SPO, Treasury.
(1) The 2005 GNP is the estimate of SPO.

The primary budget balance, which ran a surplus of 6.1 percent of the GNP in 2004, is estimated at 7.4 percent of the GNP in 2005. Because of the decrease in interest payments, the share of the domestic debt service in the GNP is expected to be 34.9 percent in 2005 (Figure II.2.3).

*In 2005, Treasury predominantly resorted to domestic borrowing for financing the budget deficit and maintained net payer status on the external front.*

In 2005, the budget balance is expected to run a deficit of 2 percent of the GNP. Throughout the year, the Treasury predominantly resorted to domestic borrowing for financing the budget deficit and maintained net payer status on the external front. In this period, payments of the Savings Deposit Insurance Fund (SDIF) and transfers from privatization contributed to the financing of the Treasury.[(1)] Starting in May, the SDIF began to repay Treasury receivables stemming from private placement securities issued as loans to the SDIF in the framework of banking system restructuring in 2001.

In 2005, progress was made in structural reforms oriented at maintaining fiscal discipline. These reforms cover the social security system, government expenditures and revenues. In the framework of the structural adjustments in the social security system, the Draft Law on Social Security and General Health Insurance, which includes amendments regarding the retirement reform, was submitted for the approval of the Grand National Assembly of Turkey (GNAT) in April. Additionally, the Draft Law on Social Security Administrative Reform,

[(1)] Pursuant to Law No 4568, enacted on 26 May 2000, privatization revenues are primarily used to cover the expenditures of the Privatization Fund. The excess cash amount of the Fund is transferred to the Treasury to be used in domestic and external debt payments.

which covers the administrative structure of the social security reform was submitted to the GNAT in December. Furthermore, the Draft Law on Social Aid and Non-Premium Payments, which is aimed at the effective use of resources allocated for social aid, is in the process of being prepared. Moreover, in the framework of the tax administration reform, the law that envisages the establishment of the Tax Administration Unit within the Ministry of Finance was enacted in May 2005.

The multi-annual central government budget system, prepared pursuant to Public Finance Administration and Control Law No. 5018, enacted in 2003, was put into effect in 2006.With this new budget law, one of the structural reforms in public administration was effected. The new system, which aims to increase transparency and enhance supervision over the budget preparation and implementation process, includes institutions that were previously excluded from the budget. In this new framework, the central government budget consists of general budget, special budget and the budget of regulatory and supervisory institutions. General budget covers the budget of public institutions that execute fundamental administrative functions of the government. Special budget consists of government institutions that are established to execute a specific task in connection with a ministry. These institutions, the founding and operating principles of which are arranged with a special law, are furnished with budget and are provided with the authority to spend from the said budget. The budget of regulatory and supervisory institutions covers instutions that are organized as a board, association and supreme board by a special law. The central government budget, which is prepared under the framework of the Medium Term Program and the Medium Term Fiscal Plan, introduces budgeting practice over a three year period.

### II.2.2. Domestic Debt Stock

*Total domestic debt stock increased by 9 percent in 2005 compared to 2004 and reached YTL 244.8 billion.*

Total domestic debt stock in 2005 increased by 9 percent in nominal terms compared to 2004 and reached YTL 244.8 billion. Borrowing net of amortization payments, which denotes the increase in debt stock, decreased in 2005 compared to the previous year. Downward trend of interest rates, increase in the borrowing maturity and high primary surplus obtained under fiscal discipline were the factors that cut down net borrowing in 2005, similar to 2004. In addition to these, revenues derived from privitization and SDIF were the other causes contributing to the decrease in net borrowing. In the light of these improvements, the ratio of domestic debt stock to GNP which was 52.3 percent at the end of 2004, is anticipated to decline to 46.5 at the end of 2005.

The major portion of the increase in domestic debt stock in 2005, emanated from cash borrowing which generates cash flow for the Treasury. Non-cash borrowing within the context of liquidation of debts of FISKO Birlik, has been very low in 2005, compared to the previous years (Table II.2.4).

***TABLE II.2.4***
***COMPOSITION OF DOMESTIC BORROWING AND DOMESTIC DEBT STOCK***

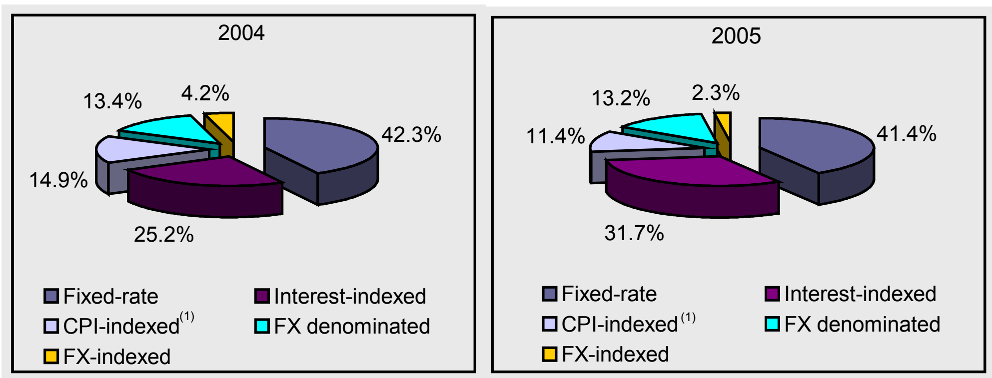
| | 2004 | | 2005 | | 2006 | |
|---|---|---|---|---|---|---|
| | Share (%) | Maturity (months) | Share (%) | Maturity (months) | Share (%) | Maturity (months) |
| Total Borrowing | 100.0 | 18.1 | 100.0 | 17.3 | 100.0 | 27.4 |
| Cash | 90.5 | 14.7 | 96.1 | 15.0 | 99.8 | 27.4 |
| T-Bill | 35.2 | 6.2 | 37.6 | 6.2 | 26.4 | 6.5 |
| Bond | 55.3 | 20.1 | 58.5 | 20.6 | 73.4 | 34.9 |
| Non-Cash | 9.5 | 50.4 | 3.9 | 73.9 | 0.2 | 36.4 |
| Total Stock | 100.0 | 25.1 | 100.0 | 20.6 | 100.0 | 23.5 |
| Cash | 67.1 | 12.4 | 73.8 | 11.8 | 79.3 | 19.6 |
| Non-Cash | 32.9 | 51.2 | 26.2 | 45.5 | 20.7 | 38.7 |

Source: Treasury.

There has been a significant increase in the maturity of cash borrowing, as a result of decrease in the share of T-bills and increase in the maturity of the bonds issued in 2005. The average maturity of cash borrowing realized as 15 months in 2004, has been 27.4 months in 2005 (Table II.2.4).

*Average maturity of cash borrowing realized as 15 months in 2004, has been 27.4 months in 2005.*

***FIGURE II.2.4***
***DOMESTIC DEBT STOCK COMPOSITION BY INSTRUMENTS***
***(Share in Total)***




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

The share of non-cash debt stock in total debt stock decreased, due to the limited amount of non-cash borrowing in 2005. Furthermore, the maturity of non-cash debt stock was shortened by 6.8 months compared to the previous year and realized as 38.7 months (Table II.2.4).

***TABLE II.2.5***
***STRUCTURE OF DOMESTIC DEBT STOCK***
***(YTL million)***

| | 2003 | | 2004 | | 2005 | |
|---|---|---|---|---|---|---|
| | Amount | Share in Total | Amount | Share in Total | Amount | Share in Total |
| **Cash** | **130,484** | **67.1** | **165,579** | **73.8** | **194,153** | **79.3** |
| Fixed Rate | 68,614 | 35.3 | 94,930 | 42.3 | 101,444 | 41.4 |
| Short-term | 24,642 | 12.7 | 30,272 | 13.5 | 17,818 | 7.3 |
| Long-term | 43,972 | 22.6 | 64,658 | 28.8 | 83,627 | 34.2 |
| Floating Rate | 29,080 | 15.0 | 36,309 | 16.2 | 57,907 | 23.7 |
| Interest Indexed | 15,089 | 7.8 | 26,186 | 11.7 | 51,320 | 21.0 |
| CPI-Indexed(1) | 13,991 | 7.2 | 10,123 | 4.5 | 6,587 | 2.7 |
| FX Denominated | 16,839 | 8.7 | 26,608 | 11.9 | 30,762 | 12.6 |
| FX-Indexed | 15,951 | 8.2 | 7,732 | 3.4 | 4,040 | 1.7 |
| IMF Credit | 8,473 | 4.4 | 3,692 | 1.6 | 0 | 0.0 |
| Swap | 7,478 | 3.8 | 4,041 | 1.8 | 4,040 | 1.7 |
| Public Sales | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| **Non-Cash** | **63,903** | **32.9** | **58,904** | **26.2** | **50,629** | **20.7** |
| Fixed Rate | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Short-term | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Long-term | 0 | 0.0 | 0 | 0.0 | 0 | 0.0 |
| Floating Rate | 54,096 | 27.8 | 53,781 | 24.0 | 47,501 | 19.4 |
| Interest Indexed | 28,972 | 14.9 | 30,435 | 13.6 | 26,293 | 10.7 |
| CPI-Indexed(1) | 25,124 | 12.9 | 23,346 | 10.4 | 21,208 | 8.7 |
| FX Denominated | 7,881 | 4.1 | 3,413 | 1.5 | 1,598 | 0.7 |
| FX-Indexed | 1,926 | 1.0 | 1,709 | 0.8 | 1,530 | 0.6 |
| **Total Stock** | **194,387** | **100.0** | **224,483** | **100.0** | **244,782** | **100.0** |
| Fixed Rate | 68,614 | 35.3 | 94,930 | 42.3 | 101,444 | 41.4 |
| Short-term | 24,642 | 12.7 | 30,272 | 13.5 | 17,818 | 7.3 |
| Long-term | 43,972 | 22.6 | 64,658 | 28.8 | 83,627 | 34.2 |
| Floating Rate | 83,175 | 42.8 | 90,090 | 40.1 | 105,408 | 43.1 |
| Interest Indexed | 44,060 | 22.7 | 56,621 | 25.2 | 77,613 | 31.7 |
| CPI-Indexed(1) | 39,115 | 20.1 | 33,469 | 14.9 | 27,795 | 11.4 |
| FX Denominated | 24,720 | 12.7 | 30,021 | 13.4 | 32,360 | 13.2 |
| FX-Indexed | 17,877 | 9.2 | 9,441 | 4.2 | 5,570 | 2.3 |

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

In spite of the decrease in the maturity of non-cash debt stock, the average maturity of the domestic debt stock increased by 2.9 months compared to 2004 and realized as 23.5 months, since the maturity of cash debt stock increased from 11.8 to 19.6 months (Table II.2.4).

The share of cash debt stock within total debt stock increased by 5.5 points to 79.3 percent in 2005. The share of fixed rate securities in total debt stock decreased, as a consequence of the increase in the share of floating rate securities within total domestic debt stock. Nonetheless the share of short term bills within the fixed rate securities decreased by 50 percent. The share of CPI- and foreign exchange (FX)-indexed securities within debt stock decreased as a result of not issuing such securities in this period.

*The structure of the domestic debt stock with respect to the borrowing instruments changed in 2005 compared to the previous year.*

Domestic borrowing in 2005 has been YTL denominated predominantly, in parallel with the borrowing strategy settled by the Treasury. The limited amount of FX denominated borrowing, however, restricted the decrease in the share of FX denominated securities within debt stock. Consequently in 2005, the portion of debt stock indexed to interest rates increased by 6.5 points to 31.7, the FX indexed portion decreased by 1.9 points to 2.3, the FX denominated portion decreased by 0.2 points to 13.2 and CPI indexed portion decreased by 3.5 points to 11.4 percent, compared to 2004 (Figure II.2.4, Table II.2.5).

***TABLE II.2.6***
***DECOMPOSITION OF DOMESTIC DEBT STOCK BY LENDERS***

| | 2004 | | 2005 | |
|---|---|---|---|---|
| | Amount (YTL billion) | (percent) | Amount (YTL billion) | (percent) |
| **1. PUBLIC SECTOR** | **83,335** | **37.1** | **75,468** | **30.8** |
| a. CBRT | 22,119 | 9.9 | 18,427 | 7.5 |
| b. State Banks | 27,451 | 12.2 | 25,037 | 10.2 |
| c. SDIF Banks | 8,317 | 3.7 | 4,496 | 1.8 |
| d. Other Public Sector | 25,449 | 11.3 | 27,508 | 11.2 |
| **2. MARKET** | **141,148** | **62.9** | **169,314** | **69.2** |
| **TOTAL (1+2)** | **224,483** | **100.0** | **244,782** | **100.0** |

Source: Treasury.

The decomposition of domestic debt stock by lenders changed in 2005. Significant portion of borrowing in 2005 took place via auctions, hence the share of the market in total domestic debt stock increased by approximately 6.3 points to 69.2 percent. The domestic debt stock of the Treasury owed the market increased to YTL 169.3 billion in 2005, while it was YTL 141.1 billion in 2004 (Table II.2.6).

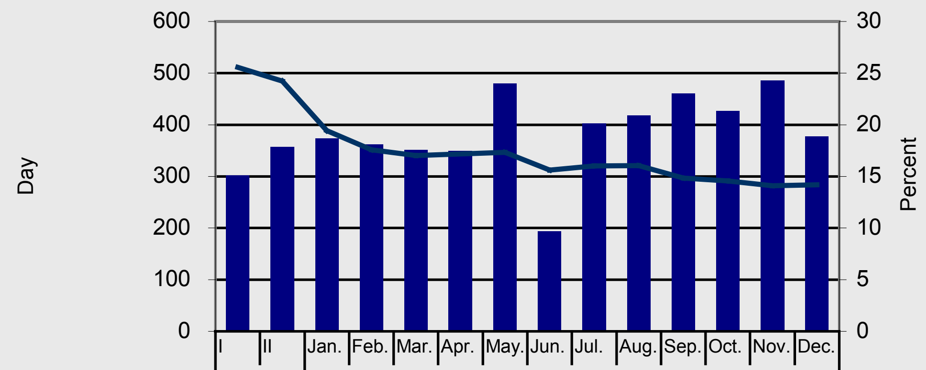
### II.2.2.A. Cash Domestic Debt Stock

*In 2005, the cash domestic debt stock increased by 17.3 percent.*

In 2005, cash domestic debt stock nominally increased by 17.3 percent due to the increase in long-term fixed rate and interest-rate indexed securities mostly and reached YTL 194.2 billion (Table II.2.6).

In 2005, the downward trend in the borrowing cost continued and interest rates decreased by 8.9 points compared to the previous end-year as the monetary and fiscal policies implemented through political stability. Treasury auction compound interest rate which was at the level of 17 percent in February, increased in May in parallel with the expectations of an interest rate increase by the Federal Reserve. The initiation of EU accession negotiations of Turkey and the Central Bank's interest rate cut perpetuation based on anticipation that risks regarding inflation were reduced, led to the borrowing cost decline in September and October. Consequently, the borrowing cost had its lowest value of 2005 at the end of the year (Figure II.2.5). The expectations of maintaining the inflation and primary surplus targets, as well as the acceleration of the privatization implementations have effect on this improvement of the borrowing conditions.

***FIGURE II.2.5***
***AVERAGE BORROWING MATURITY AND COMPOUND INTEREST RATES IN 2005(1)***




| | 2004 I | 2004 II | 2005 Jan. | Feb. | Mar. | Apr. | May. | Jun. | Jul. | Aug. | Sep. | Oct. | Nov. | Dec. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Avg. Maturity | 302 | 357 | 374 | 362 | 351 | 349 | 480 | 194 | 403 | 418 | 460 | 427 | 486 | 377 |
| Avg. Interest Rate | 25.6 | 24.2 | 19.4 | 17.6 | 17.0 | 17.2 | 17.3 | 15.6 | 16.0 | 16.1 | 14.8 | 14.6 | 14.1 | 14.2 |

Source: Treasury, CBRT.
(1) Comprises YTL denominated discount auctions.

***TABLE II.2.7***
***AUCTION INTEREST RATES IN 2005[(1)]***

| | YTL Denominated Discounted Securities | YTL Denominated Floating Securities Coupon Rate[(2)] | Fixed Couponed YTL Denominated Securities Coupon Rate | USD Denominated Discounted Securities | FX Denominated Floating Securities Coupon Rate[(3)] |
|---|---|---|---|---|---|
| January | 19.4 | 26.9 | 17.2 | - | - |
| February | 17.6 | 21.0 | 15.2 | - | (LIBOR+1.60) |
| March | 17.0 | 20.6 | - | - | - |
| April | 17.2 | 20.8 | - | - | - |
| May | 17.3 | 21.0 | - | - | (LIBOR+1.60) |
| June | 15.6 | 20.9 | - | - | (LIBOR+1.60) |
| July | 16.0 | | - | - | (LIBOR+1.60) |
| August | 16.1 | 18.7 | - | - | - |
| September | 14.8 | 18.2 | - | 4.8 | (LIBOR+1.80) |
| October | 14.6 | 17.6 | - | - | (LIBOR+1.60, LIBOR+1.80) |
| November | 14.1 | | 12.3 | - | - |
| December | 14.2 | 16.5 | 12.1 | - | - |

Source: Treasury.
(1) Annual compound interest rate weighted with net sales.
(2) Coupons of the security in January and August are paid quarterly while the rest have semi-annually coupon bearings.
(3) Securities have semi-annually coupon bearings.

In 2005, compared to 2004, the interest rate on YTL denominated borrowing instruments declined. On the other hand, there was no significant interest rate change on FX denominated debt instruments. The year average of the compound interest rate on FX denominated discounted securities had no change while the spread on USD denominated floating securities maintained the level of 1.60 percent, the value at the end of 2004 (Table II.2.7).

Alike 2004, the borrowing strategy for 2005 was set to accomplish the objective of borrowing at minimum cost, at a prudent level of risk. Treaury disclosed the major components of the borrowing strategy for 2005 in order to increase transparency. Within the framework of the strategy, the borrowing strategy asserted borrowing to be mainly in YTL denominated fixed rate securities and that the average maturity of domestic borrowing to extend over a year. In this context, Treasury borrowing was predominantly in YTL denominated fixed rate securities. In 2005, an adequate amount of reserves throughout the year were maintained in order to decrease the liquidity risk and borrowing cost for the cash and debt management that can be caused by fluctuations in interest rate or external shock. This strategy affected the expectations in a positive way by means of decreasing the vulnerability of debt stock.

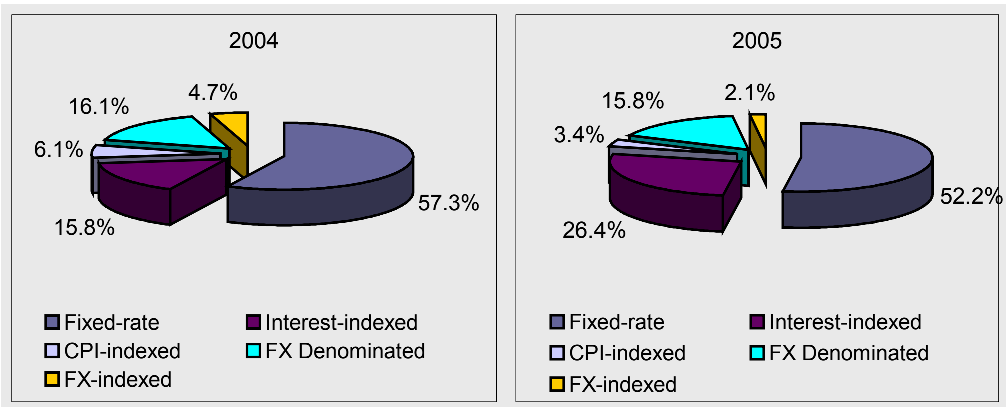
***TABLE II.2.8***
***THE COMPOSITION OF CASH BORROWING[1]***

| | 2004 | | 2005 | |
|---|---|---|---|---|
| | | Share (%) | | Share (%) |
| Auction, TAP, Public Offers, Direct Sales | 148,623 | 95.8 | 149,687 | 98.8 |
| Fixed Rate | 124,984 | 80.6 | 103,991 | 68.6 |
| Flexible Rate | 23,640 | 15.2 | 45,696 | 30.2 |
| YTL Denominated | 134,048 | 86.4 | 130,210 | 85.9 |
| FX Denominated | 14,576 | 9.4 | 19,477 | 12.9 |
| Other | 6,469 | 4.2 | 1,841 | 1.2 |
| TOTAL | 155,093 | 100.0 | 151,527 | 100.0 |

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

Within the framework of the above mentioned borrowing strategy, a significant share of Treasury borrowing in 2005 comprised cash borrowing through auction and direct sale methods. The structure of cash borrowing reveals that a significant portion of borrowing was concentrated in YTL denominated fixed rate securities as aniticipated by the borrowing strategy (Table II.2.8).

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




Source: Treasury.

In 2005, compared to previous years, although the share of the discounted securities decreased, a significant share of cash borrowing consisted of these securities. Along with the discounted securities, five year semi annually couponed government bonds, most of which were floating rate auctions, were issued. This implementation lengthened the maturity of borrowing and increased the share of the flexible rate securities.

**_TABLE II.2.9_**
**_THE MATURITY STRUCTURE OF CASH DOMESTIC DEBT STOCK_**
**_(Months)_**

| | 2004 | | | 2005 | | |
|---|---|---|---|---|---|---|
| | Amount (YTL million) | Average Maturity | Share (%) | Amount (YTL million) | Average Maturity | Share (%) |
| Cash | 165,579 | 11.8 | 100.0 | 194,153 | 19.6 | 100.0 |
| Fixed-income | 94,930 | 8.7 | 57.3 | 101,444 | 12.3 | 52.2 |
| Floating-rate | 36,309 | 15.7 | 21.9 | 57,907 | 27.9 | 29.8 |
| Interest rate-indexed | 26,186 | 15.2 | 15.8 | 51,320 | 30.8 | 26.4 |
| CPI-indexed | 10,123 | 17.2 | 6.1 | 6,587 | 5.0 | 3.4 |
| FX Denominated | 26,608 | 17.0 | 16.1 | 30,762 | 29.7 | 15.8 |
| FX-indexed | 7,732 | 13.3 | 4.7 | 4,040 | 5.5 | 2.1 |
| IMF Credit | 3,692 | 8.5 | 2.2 | 0 | 0.0 | 0.0 |
| Swap | 4,041 | 17.7 | 2.4 | 4,040 | 5.5 | 2.1 |

Source: Treasury, CBRT.

In accordance with the borrowing policy, in 2005, the share of floating-rate debt stock within the cash debt stock increased compared to 2004. Moreover in 2005, the share of FX denominated and indexed securities within the cash debt stock declined. The decline caused by the payment of FX indexed securities issued to CBRT in return for IMF Credit that were transferred to Treasury (Figure II.2.6, Table II.2.9).

**_TABLE II.2.10_**
**_NON-AUCTION CASH BORROWING IN 2005_**
**_(Euro million, USD million)_**

| Maturity (months) | Issue Date | Maturity Date | Coupon Rate (percent) | Denomination | Sales (nominal) |
|---|---|---|---|---|---|
| 61(1) | 16.02.2005 | 10.02.2010 | 2.50 (percent) | Euro | 300 |
| 61(1) | 16.02.2005 | 10.02.2010 | 2.50 (percent) | Euro | 122 |
| 36(2) | 03.08.2005 | 30.07.2008 | 1.00 (percent) | USD | 500 |
| 36(2) | 07.12.2005 | 03.12.2008 | 1.00 (percent) | USD | 500 |

Source: Treasury.
(1) 6-month fixed coupon payments.
(2) 3-month fixed coupon payments.

Consequently, in 2005, the share of fixed rate securities and the FX indexed securities in the cash domestic debt stock decreased by 5.1 points to 52.2 and 2.6 points to 2.1 percent respectively. On the other hand, the share of the floating-rate securities in the cash domestic debt stock increased by 7.9 points to 29.8 percent. The maturity of FX indexed and CPI indexed securities has lengthened generally (Figure II.2.6, Table II.2.9).

In 2005, the Treasury carried out the bulk of cash borrowing through the auction method. Furthermore, the Treasury also issued USD 1,000 million, Euro 422 million worth of securities through direct sales. In 2005, no borrowing took place through public sales and the TAP method (Table II.2.10).

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

Non-cash debt stock consists of the securities issued by the Treasury to cover the liabilities of the public institutions for each other, without the acquisition of any cash inflows. As of the end of 2005, non-cash domestic debt stock declined to YTL 50.6 billion, decreasing by 14 percent, from YTL 58.9 billion as of the end of 2004, mainly as a result of the repayments during the year.

***TABLE II.2.11***
***VARIOUS INDICATORS ABOUT DOMESTIC DEBT STOCK***
***(Percent)***

| | 2002 | 2003 | 2004 | 2005 (5) |
|---|---|---|---|---|
| Total Dom. Debt Stock/GNP | 54.5 | 54.5 | 52.3 | 50.5 (1) |
| Cash Dom. Debt Stock/GNP | 32.5 | 36.6 | 38.6 | 40.0 (1) |
| Total Dom. Debt Stock/M2 | 243.2 | 235.2 | 205.3 | 155.8 (2) |
| Cash Dom. Debt Stock/M2 | 144.9 | 157.9 | 151.4 | 123.6 (2) |
| Total Dom. Debt Stock/M2X | 111.5 | 128.6 | 121.1 | 104.9 (2) |
| Cash Dom. Debt Stock/M2X | 66.4 | 86.3 | 89.3 | 83.2 (2) |
| Total Dom. Debt Stock/TL Liabilities (3) | 142.1 | 137.2 | 122.4 | 101.9 (3) |
| Cash Dom. Debt Stock/TL Liabilities (3) | 84.7 | 92.1 | 90.3 | 80.8 (3) |
| Total Dom. Debt Stock/Total Liabilities (3) | 70.5 | 77.8 | 73.3 | 65.7 (4) |
| Cash Dom. Debt Stock/Total Liabilities (3) | 42.0 | 52.3 | 54.0 | 52.1 (4) |

Source: Treasury, CBRT.
(1) The GNP figure for 2005 is the SPO's estimate.
(2) M2 and M2X figures for 2005 are provisional.
(3) YTL and total liabilities are the liabilities of deposit banks, excluding shareholder's equities.
(4) Calculated using liabilities as of November 2005.
(5) 2005 figures are provisional.

The ratio of total domestic debt stock to GNP, an indicator of domestic debt stock relative to the size of the economy, is expected to drop to 50.5 percent in

2005 declining by nearly 2 percentage points with respect to the previous year. As a result of the Treasury's higher borrowing from the markets with regard to capital redemption, the ratio of cash domestic debt stock to GNP increased by 1.4 percentage points to 40 percent in 2005. The ratio of total domestic debt stock to M2X decreased to 104.9 percent in 2005, owing mainly to the reduction in the non-cash domestic debt stock. Besides, the ratio of cash domestic debt stock to M2X declined to 83.2 percent, decreasing by 6.1 percentage points in 2005 (Table II.2.11).

## II.3. THE BALANCE OF PAYMENTS AND EXTERNAL DEBT

### II.3.1. Balance of Payments

In the first half of 2005, exports and imports growth rates decelerated. However, in the second half of the year, the growth rate of imports accelerated while exports continued their sluggish trend.

***TABLE II.3.1***
***BALANCE OF PAYMENTS[(1)]***
***(USD million)***

| | 2003 | 2004 | 2005 |
|---|---|---|---|
| CURRENT ACCOUNT | -8,036 | -15,604 | -22,852 |
| Foreign Trade Balance | -14,010 | -23,878 | -32,576 |
| Exports (FOB) | 47,253 | 63,167 | 73,122 |
| Shuttle Trade | 3,953 | 3,880 | 3,473 |
| Imports (CIF)[(2)] | -69,340 | -97,540 | -116,048 |
| Services Balance | 10,504 | 12,784 | 14,004 |
| Services Revenues | 17,945 | 22,928 | 25,854 |
| Travel Revenues | 13,203 | 15,888 | 18,152 |
| Services Expenditures | -7,441 | -10,144 | -11,850 |
| Income Balance | -5,557 | -5,637 | -5,748 |
| Interest Payments | -4,579 | -4,343 | -5,012 |
| Current Transfers | 1,027 | 1,127 | 1,468 |
| Workers' Remittances | 729 | 804 | 851 |
| CAPITAL ACCOUNT | 3,095 | 13,337 | 20,869 |
| Reserves | -4,047 | -824 | -17,847 |
| NET ERRORS AND OMISSIONS | 4,941 | 2,267 | 1,983 |

Source: CBRT.
(1) According to the "Balance of Payments Developments and Statistics" released on 15 February 2006.
(2) Including gold imports.

Considering the sub-sectors, the slowdown of imports in the first half of the year was due to capital and consumption goods imports, whereas, intermediate goods imports continued to increase. By the third quarter of the year, besides the growth of intermediate goods imports, capital and consumption goods imports showed an upward trend. During 2005, exports increased at moderate rates owing to lower unit labor costs and productivity increases, which offset the negative effects of a strong YTL and increased external competition. The determinant sectors of export growth were motor vehicles, machinery and equipment and petroleum products. The exports of textile and apparel sectors, which comprise the biggest share in total exports, increased at lower rates than the total export growth rate.

*In 2005, current account deficit reached to USD 22.9 billion.*

In 2005, current account deficit reached USD 22.9 billion due mainly to the growing trade deficit. The major financing sources were portfolio investments, long-term borrowing of the private and banking sectors and trade credits. The share of long-term credits in total financing increased significantly. Net capital flows in 2005 were USD 20.9 billion and official reserves increased by USD 17.9 billion. In the same period, FDI increased substantially.

### II.3.2. Current Account

*In 2005, exports and imports increased by 16 and 19.3 percent, respectively.*

Exports and imports increased by 16 and 19.3 percent respectively in 2005 compared to the previous year. The ratio of exports to imports decreased to 63 percent. The current account deficit expanded to USD 22.9 billion.

***TABLE II.3.2***
***DISTRIBUTION OF EXPORTS AND IMPORTS ACCORDING TO MAIN PRODUCT GROUPS***
***(USD million)***

| | 2004 | % Share | 2005 | % Share | % Change |
|---|---|---|---|---|---|
| Total Imports (CIF) | 97,540 | | 116,352 | | 19.3 |
| Capital Goods | 17,397 | 17.8 | 20,300 | 17.4 | 16.7 |
| Intermediate Goods | 67,549 | 69.3 | 81,542 | 70.1 | 20.7 |
| Consumption Goods | 12,100 | 12.4 | 13,944 | 12.0 | 15.2 |
| Others | 493 | 0.5 | 566 | 0.5 | 14.8 |
| Total Exports | 63,167 | | 73,275 | | 16.0 |
| Capital Goods | 6,531 | 10.3 | 7,981 | 10.9 | 22.2 |
| Intermediate Goods | 25,946 | 41.1 | 30,212 | 41.2 | 16.4 |
| Consumption Goods | 30,502 | 48.3 | 34,729 | 47.4 | 13.9 |
| Others | 189 | 0.3 | 353 | 0.5 | 86.8 |

Source: TURKSTAT.

The expansion in industrial production and domestic consumption together with the rapid rise in machinery-equipment and construction investment, contributed to the growth of imports in 2005. During the year, intermediate goods imports continued its increasing trend, while capital and consumption goods imports accelerated in the second half.

Price developments contributed to the increase in imports. Likewise, international crude oil prices, which started to rise in 2004, continued its increasing trend in 2005. The Brent type crude oil price was USD 44.4 per barrel in January. It increased to USD 64.1 in August and then fell back to USD 57.3 in December. Due to the high price level, crude oil imports increased by 42 percent in 2005. On the other hand, its quantity decreased by 2.2 percent in real terms.

Motor vehicles imports, which increased at high rates in 2004, declined in the first half of 2005. However, by the third quarter of the year, it had started to increase. Other sub-sectors contributing to imports growth were machinery-equipment, electrical machinery-equipment and basic metals. Parallel to the revival in the construction sector, the imports of manufacture of basic metals increased by 22.4 percent and contributed by 2.6 points to the imports growth.

As real wages lagged behind productivity increases, the unit labor cost maintained its low levels in 2005. Together with the low unit labor cost, strong foreign demand caused exports to increase by 16 percent in 2005, in spite of the strong YTL. In the first quarter of the year exports performed better, however, after that they slowed down.

***TABLE II.3.3***
***EXPORTS OF SELECTED ITEMS***
***(USD million)***

| | 2004 | 2005 | % Change | % Contribution To Export Growth |
|---|---|---|---|---|
| Total Exports | 63,167 | 73,275 | 16.0 | - |
| Apparel and Clothing, Knitted | 6,259 | 6,588 | 5.3 | 0.5 |
| Apparel and Clothing, Not Knitted | 4,537 | 4,859 | 7.1 | 0.5 |
| Automobiles and Parts | 8,289 | 9,531 | 15.0 | 2.0 |
| Electrical Machinery and Equipment | 4,790 | 5,417 | 13.1 | 1.0 |
| Boilers, Machinery, Mechanical Equipment | 4,126 | 5,234 | 26.9 | 1.8 |
| Iron and Steel | 5,360 | 5,360 | 0.0 | 0.0 |
| Sub Total | 33,361 | 36,989 | 10.9 | 5.7 |
| Others | 29,807 | 36,286 | 21.7 | 10.3 |

Source: TURKSTAT.

Regarding the sub-items, the major contributor sectors to export growth were motor vehicles, machinery-equipment, petroleum products, food and beverages. The said four categories contributed by 6.7 points to export growth. Textile and apparel sectors exports, which are the major exporter sectors, rose at lower rates than total exports. The adverse effect of competitive pressure in these sectors, originating from Asian countries such as China and India decreased export performance. Especially, low labor costs and cheap labor reserves in China made competition tough in labor-intensive sectors like the apparel and clothing sectors.

***TABLE II.3.4***
***DISTRIBUTION OF EXPORTS AND IMPORTS ACCORDING TO COUNTRY GROUPS***
***(USD million)***

| | 2004 | % Share | 2005 | % Share | % Change |
|---|---|---|---|---|---|
| TOTAL IMPORTS | 97,540 | 100.0 | 116,352 | 100.0 | 19.3 |
| OECD Countries | 59,650 | 61.2 | 65,897 | 56.7 | 10.5 |
| (EU Countries)(1) | 45,444 | 46.6 | 49,048 | 42.2 | 7.9 |
| Other European Countries(2) | 18,416 | 18.9 | 23,784 | 20.4 | 29.1 |
| African Countries | 4,820 | 4.9 | 6,033 | 5.2 | 25.2 |
| American Countries | 6,595 | 6.8 | 7,800 | 6.7 | 18.3 |
| Middle East Countries | 5,585 | 5.7 | 7,956 | 6.8 | 42.5 |
| Other Asian Countries | 15,500 | 15.9 | 20,496 | 17.6 | 32.2 |
| Others | 368 | 0.4 | 479 | 0.4 | 30.2 |
| TOTAL EXPORTS | 63,167 | 64.8 | 73,275 | 100.0 | 16.0 |
| OECD Countries | 40,518 | 41.5 | 44,280 | 60.5 | 9.3 |
| (EU Countries)(1) | 34,451 | 35.3 | 38,350 | 52.4 | 11.3 |
| Other European Countries(2) | 6,637 | 6.8 | 8,780 | 12.0 | 32.3 |
| African Countries | 2,968 | 3.0 | 3,626 | 5.0 | 22.2 |
| American Countries | 5,733 | 5.9 | 5,937 | 8.1 | 3.6 |
| Middle East Countries | 7,921 | 8.1 | 10,114 | 13.8 | 27.7 |
| Other Asian Countries | 2,544 | 2.6 | 3,027 | 4.1 | 19.0 |
| Others | 349 | 0.4 | 478 | 0.7 | 37.0 |

Source: TURKSTAT.
(1) 25 EU countries are included.
(2) CIS countries, previously reported in this group, are included in Other Asian Countries.

The export and import unit value indices rose by 4.7 and 7 percent respectively in 2005. Therefore, the terms of trade shifted against exports. The appreciation of the Euro against the USD continued in the first quarter of 2005. However, in the rest of the year the interest rate hikes by the FED and the low growth rates of the EU caused the USD to appreciate. The USD/EUR parity, which was 1.32 in January 2005, declined to 1.19 as of December. The said parity developments affected foreign trade figures and had a decreasing effect on the imports and exports USD value. Therefore, this parity effect narrowed the foreign trade deficit by USD 864 million.

Turkish lira preserved its strong position throughout 2005. It appreciated by 5.6 percent in nominal terms against the currency basket of USD 1 and Euro 0.77. In addition, the average real appreciation of the Turkish lira was 7.9 percent in terms of the real exchange rate index computed by using the PPI for the domestic and foreign price index and 11.5 percent in terms of the index using the CPI for the respective inflation rates.

The expanding trade deficit was the main factor behind the widening of the current account deficit in 2005. Besides, global uncertainty throughout 2005 pushed up gold demand and thereby gold prices. Hence, gold imports increased by 11.1 percent in 2005.

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

| | CPI Based Index | PPI Based Index |
|---|---|---|
| 1995 | 103.1 | 97.0 |
| 1996 | 101.7 | 100.1 |
| 1997 | 115.9 | 110.7 |
| 1998 | 120.9 | 107.9 |
| 1999 | 127.3 | 108.8 |
| 2000 | 147.6 | 118.3 |
| 2001 | 116.3 | 107.3 |
| 2002 | 125.4 | 117.1 |
| 2003 | 140.6 | 126.3 |
| 2004 I | 154.2 | 143.3 |
| II | 137.5 | 127.8 |
| III | 138.1 | 126.9 |
| IV | 143.2 | 131.3 |
| 2005 I | 154.7 | 140.7 |
| II | 159.5 | 144.1 |
| III(2) | 162.2 | 145.2 |
| IV(2) | 171.2 | 146.7 |

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

Travel revenues, which make the greatest contribution to the current account balance, increased substantially in 2005 as in 2004. It increased by 14.3 percent and reached USD 18.2 billion in 2005. In the same period, while the number of foreign tourist departures went up 19.1 percent, average spending per person decreased by 4.1 percent.

***TABLE II.3.6***
***TOURISM STATISTICS***

| | 2004 | 2005 |
|---|---|---|
| Travel Revenues (USD million) | 15,888 | 18,152 |
| Average Spending (USD) | 784 | 752 |
| Number of Tourist Departures (Thousand) | 20,263 | 24,125 |
| Travel Expenditures (USD million) | -2,524 | -2,870 |
| Average Spending (USD) | 633 | 679 |
| Number of Citizens Departures (Thousand) | 3,993 | 4,230 |
| Net Travel Revenues (USD million) | 13,364 | 15,280 |

Source: TURKSTAT.

The income deficit reached USD 5.8 billion in 2005. The main reason behind this deficit was the interest payments amounting to USD 5 billion. Especially, interest payments of the General Government and the private sector increased compared to the previous year. Another important factor of the income deficit was the increased portfolio investment expenditures in this period.

**II.3.3. Capital Account**

The capital account generated inflows throughout 2005. The financial account, which consists of capital flows and official reserves, yielded a surplus of USD 20.9 billion in 2005. Excluding IMF loans and official reserve changes, capital inflow was recorded as USD 44.3 billion in this period.

In 2005 the dynamics in the capital account are quite similar compared to 2004. An increase in long-term capital inflows continued to be the major determinants of net capital flows in 2005, as it was in 2004 (Table II.3.7). Long term-credits used by both banks and non-bank private sectors became the dominant items in long-term capital flows.

Net capital inflow from FDI accelerated by USD 6.7 billion compared to the same period of the previous year and reached an inflow of USD 8.6 billion in 2005. Meanwhile, portfolio investments, which yielded an inflow of USD 8.0 billion in 2004, continue to increase and yielded USD 13.7 billion inflow.

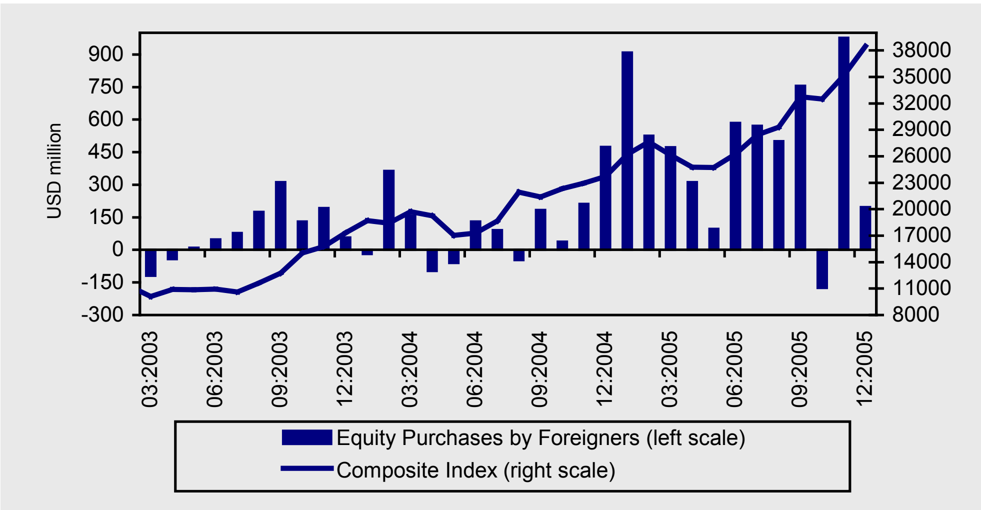
***TABLE II.3.7***
***SELECTED ITEMS FROM THE CAPITAL ACCOUNT***
***(USD million)***

| | 2004 | 2005 |
|---|---|---|
| Capital and Finance Account | 13,337 | 20,869 |
| Finance Account | 13,337 | 20,869 |
| Direct Investment | 1,988 | 8,603 |
| Portfolio Investment | 8,023 | 13,709 |
| Other Investment | 4,150 | 16,404 |
| Reserves Assets | -824 | 17,847 |
| Net Errors and Omissions | 2,267 | 1,983 |
| *Memorandum Items:* | | |
| *Short-term* | 7,502 | 8,643 |
| *Long-term* | 6,131 | 13,384 |
| *IMF Credits* | -3,518 | -5,353 |

Source: CBRT.

Capital inflow through other investments has increased to USD 16.4 billion, despite the hefty loan repayments of IMF credits. Net errors and omissions maintained its trend in 2004. As a consequence of these developments, an increase of USD 17.8 billion has been realized in official reserves.

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




Source: ISE.

Direct investments, which realized as USD 8.6 billion, originated mainly from non-resident's capital investments and real estate purchases. Meanwhile, net direct investments of residents abroad increased by 22.0 percent compared to the previous year and reached USD 1.0 billion. Beside, USD 0.2 billion net of repayment is made in long-term credits extended to foreign companies by their affiliates abroad, which are registered under other capital items and considered as direct capital investments.

In 2005, the non-resident's demand on Turkish securities continued owing to both ongoing macroeconomic stability and the high return of YTL denominated assets compared with FX denominated assets. The trend had been accelerated with the start of EU accession talks, except for the minor downturn in November. Changes in Government securities and equity stocks, which are dominant items of portfolio investments, signify this trend. It was noticed that the non-residents' composition of net purchases increased slightly towards equities in the Istanbul Stock Exchange (ISE) in 2005. Within this framework, in 2005 non-resident's net purchases of equities in the ISE and net purchases of government securities are realized as USD 5.7 billion and USD 5.9 billion, respectively.

On the other hand, the value of Turkish bonds rose throughout 2005, as regards the positive external environment for the Turkish economy. Moreover, the government's determination to maintain budget discipline and the confidence in fulfilling the macro economic targets, contributed to the narrowing of the spread of Turkish bonds (Figure II.3.2).

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

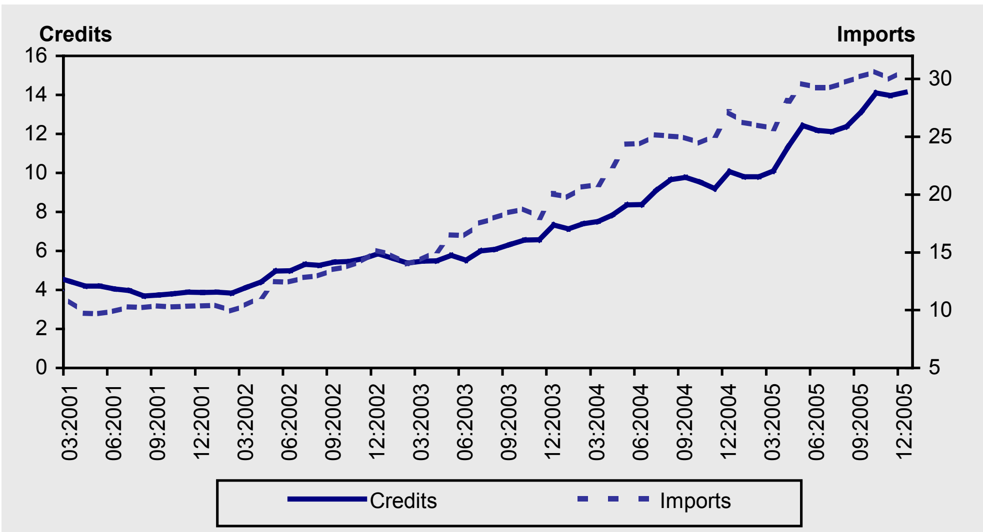

Source: CBRT.

The Treasury issued USD 6.5 billion worth of new bonds during 2005, while repaying USD 3.1 billion.

Despite its volatile course throughout the year, the FX holding item composed of current and deposit accounts that are held by banks with their correspondent banks abroad, at first increased by USD 2.8 billion in the January-September period, then after a rise which resulted in capital inflow of USD 4.8 billion net in October, again increased by USD 2.3 billion net in November and December leading to a capital outflow of the same amount.

The decreasing trend in the growth of imports resulted in a fall in the utilization of the net commercial credits. In 2005, utilization of commercial credits decreased by 18.3 percent compared to that of 2004. On the other hand, there was a fall in the commercial credits extended abroad, together with the decreasing trend in the volume of exports (Figure II.3.3).

***FIGURE II.3.3***
***PRIVATE SECTOR COMMERCIAL CREDIT UTILIZATION AND IMPORTS***
***(Three-months, USD billion)***

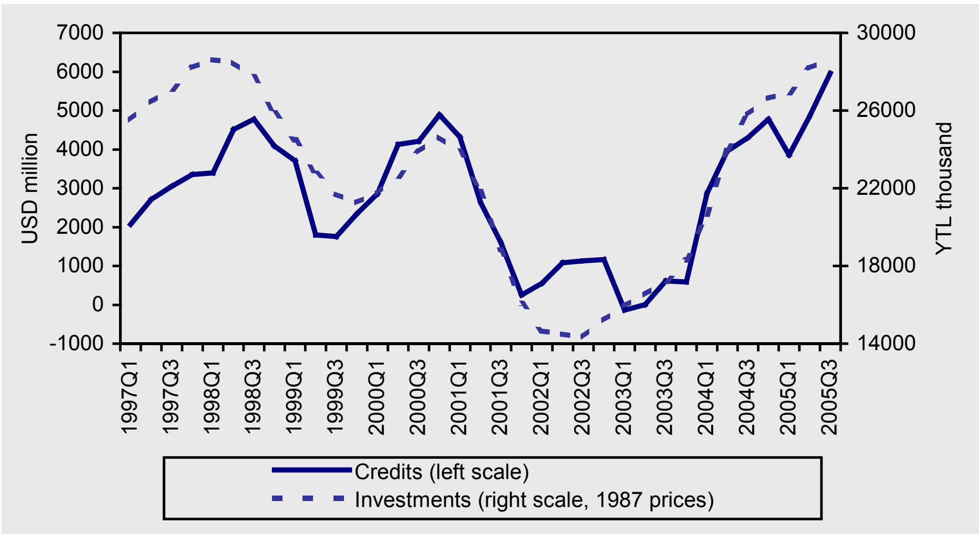



Source: CBRT.

In 2005, syndicated loans of the banking sector went down by 19.2 percent compared to that of 2004. USD 9.1 billion of the USD 6.4 billion worth of credit used in 2005 was in long-term credits while USD 2.7 billion of it was of a short-term nature.

The determined implementation of the macroeconomic program created a favorable and confident environment along with smoothing out uncertainties and the risk premium. Within this framework, long-term external credits used by the non-bank private sector expanded in line with the ample growth in domestic investments. Thus, long-term credit utilization rose by 36.4 percent in 2005, together with a 15.6 percent growth in private sector expenditures in the first three quarters of the year compared to the same period of the previous year (Figure II.3.4).

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




Source: CBRT, TURKSTAT.

Long-term FX deposit accounts with credit letters and super FX accounts held with the Central Bank by Turkish citizens working abroad displayed an outflow trend in 2005. The interest rate cut-down operations in 2005 are considered to be the primary factor in this outflow.

The external financial requirements, which is equal to the sum of the current account and net error and omissions item increased by USD 7.5 billion and became USD 20.9 (Table II.3.8). During this period, despite the rise in the current account deficit, the external financing requirement remained limited due to a surplus of USD 2 billion in net errors and omissions.

***TABLE II.3.8***
***EXTERNAL FINANCING REQUIREMENT AND SOURCES OF FINANCE***
***(USD million)***

| | 2004 | 2005 |
|---|---|---|
| **1. Current Account Balance** | -15,604 | -22,852 |
| **2. Net Errors and Omissions** | 2,267 | 1,983 |
| **I. Total Financing Requirement (= 1+2)** | -13,337 | -20,869 |
| **II. Total Financing (=1+2+3)** | 13,337 | 20,869 |
| **1. Capital Flows (net)** | 23,644 | 44,339 |
| **Direct Investment (net)** | 1,988 | 8,603 |
| **Portfolio Investment (net)** | 8,023 | 13,709 |
| General Government Bond Issues | 1,959 | 3,417 |
| Foreigners' Buying of Securities in Turkey | 7,452 | 11,603 |
| Residents' Buying of Securities Abroad | -1,388 | -961 |
| **Credits (excl. IMF credits)** | 13,818 | 20,465 |
| General Government | -1,163 | -2,165 |
| Banks | 5,708 | 9,116 |
| Long-term | 2,361 | 6,413 |
| Short-term | 3,347 | 2,703 |
| Other Sectors | 9,273 | 13,514 |
| Long-term | 4,731 | 9,721 |
| Short-term | 341 | 359 |
| Trade Credits | 4,201 | 3,434 |
| **Deposit** | 647 | 489 |
| Central Bank | -209 | -787 |
| Banks | 856 | 1,276 |
| **Others** | -832 | 1,073 |
| **2. IMF Credits** | -3,518 | -5,353 |
| Central Bank | -4,414 | -2,881 |
| General Government | 896 | -2,472 |
| **3. Changes in Reserves (- increase)** | -6,789 | -18,117 |
| Banks' FX holding | -5,965 | -270 |
| Official Reserves | -824 | -17,847 |

Source: CBRT.

External financing requirements are mostly met by portfolio investments and long-term capital flows in 2005. The long-term capital flows and portfolio investments were mostly composed of long-term credit utilization of private sector and security purchases of non-residents. A rise in FDI was also noticeable in 2005. As capital inflows surpassed the external financing requirement, the total reserves, consisting of Central Bank and banks' reserves, increased by USD 18.1 billion.

With respect to these developments, the Central Bank reserves, which were USD 36 billion by the end of 2004, increased to USD 50.5 billion by the end of 2005.

### II.3.4. External Debt

External debt stock, which was USD 161.9 billion at the end of 2004, became USD 165.5 billion as of end-September, increasing by 2.2 percent. In this period, long-term debt increased by 1.4 percent, while short-term debt (STD) increased by 17 percent (Table II.3.4). According to the balance of payment definition, USD 8.5 billion of long-term capital inflows were realized in the first three quarters of 2005. However, since long-term debt stock, in definition, also includes IMF credit repayments, long-term debt stock demonstrates a decreasing trend.

***TABLE II.3.9***
***EXTERNAL DEBT STOCK AND MATURITY STRUCTURE***
***(USD billion)***

| | 2002 | 2003 | 2004 | 2005-I | 2005-II | 2005-III |
|---|---|---|---|---|---|---|
| External Debt Stock | 130.4 | 145.8 | 161.9 | 159.9 | 162.1 | 165.5 |
| Medium-Long Term Debt | 114.0 | 122.8 | 130.1 | 127.7 | 128.4 | 128.3 |
| Public Sector | 63.7 | 69.6 | 73.8 | 73.2 | 70.6 | 68.7 |
| CBRT | 20.3 | 21.5 | 18.1 | 16.3 | 14.2 | 13.4 |
| Private Sector | 30.0 | 31.7 | 38.2 | 38.2 | 43.6 | 46.2 |
| Financial | 4.7 | 5.0 | 8.3 | 8.2 | 12.3 | 13.5 |
| Non-Financial | 25.3 | 26.7 | 29.9 | 30.0 | 31.3 | 32.8 |
| Short Term Debt | 16.4 | 23.0 | 31.8 | 32.2 | 33.7 | 37.2 |
| General Government | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| CBRT | 1.7 | 2.9 | 3.3 | 3.1 | 2.9 | 2.9 |
| Commercial Banks | 6.3 | 9.7 | 13.8 | 14.1 | 14.6 | 16.7 |
| Other Sectors | 8.4 | 10.5 | 14.8 | 15.1 | 16.2 | 17.6 |
| External Debt Stock/GNP | 72.1 | 61.0 | 54.1 | 51.7 | 50.1 | 47.9 |

Source: CBRT, Treasury.

Long-term debt stock reached USD 128.3 billion at the end of September 2005. Notwithstanding the increase in the non-financial private sector's long-term net borrowing, the USD 5.6 billion net credit repayments of the Treasury and the CBRT to the IMF and a decrease in credit letters and super-FX accounts held with the CBRT led to the fall in long-term external debt stock. The external debt stock of the public sector including the CBRT, receded by 10.7 percent as of September compared to the year-end, while the private sector's long-term external debt stock increased by 21.1 percent. Meanwhile, short-term external debt stock reached USD 37.2 billion as of end-2005, resulting from the commercial banks short-term borrowing, trade credits net drawings of the private sector and non-resident's short-term deposits in banks.

The currency composition of external debt stock differs in terms of disaggregating. While long-term debt stock consists of USD 51.8 percent and Euro 31.8 percent denominated debt, short term debt stock consists of USD 65.5 percent and Euro 32.2 denominated debt. Besides this, Special Drawing Rights (SDR) also constitutes a significant part, especially in long-term debt stock.

**_TABLE II.3.10_**
**_THE PARITY EFFECT ON EXTERNAL DEBT STOCK BY CURRENCY COMPOSITION (1)_**
**_(USD million)_**

| | 2004 External Debt Stock | | 2005 Sept | | | |
|---|---|---|---|---|---|---|
| | 2004 End-Year Exch. Rate (A) | 2005 End-Sept Exch.rate (B) | 2005 End-Sept Exch.rate (C) | Exch. rate Diff. (B-A=D) | Nominal Movement (C-A=E) | Movement with Parity Effect Deducted (E-D=F) |
| USD | 79,759 | 79,759 | 90,784 | 0 | 11,025 | 11,025 |
| Euro | 54,709 | 48,453 | 52,733 | -6,256 | -1,976 | 4,280 |
| SDR | 21,447 | 20,092 | 15,452 | -1,355 | -5,995 | -4,640 |
| Swiss frang | 1,041 | 914 | 882 | -127 | -159 | -32 |
| Pounds sterling | 711 | 654 | 657 | -57 | -54 | 3 |
| Japanese yen | 3,441 | 3,163 | 2,963 | -278 | -478 | -200 |
| Other (USD) | 793 | 785 | 2,045 | -8 | 1,252 | 1,260 |
| TOTAL | 161,900 | 153,821 | 165,516 | -8,079 | 3,616 | 11,695 |

Source: CBRT, Treasury.
(1) (A) The end of 2004 external debt stock calculated using the 2004 end-of-year exchange rates; (B) The end of 2004 external debt stock calculated using the end of September 2005 exchange rates; (C) The external debt stock Sept. 2005 calculated using Sept. 2005 exchange rates; (D) The difference between the 2004 end-of-year debt stock calculated using the Sept. 2004 exchange rates and the Sept. 2005 exchange rates; (E) The difference between the debt stock of 2004 and that of Sept. 2005; (F) The difference between the nominal movement and exchange rate differential.

Cross exchange rates influence the USD value of external debt stock, depending on the currency composition and the relative volumes. As of end-September, the Euro depreciated by 11.4 percent against the USD. Hence, the parity effect reduced the USD value of the stock by USD 6.3 billion. Likewise, the cross exchange rates in all other foreign currencies changed, reducing the USD value of the external debt. As the total lowering parity effect of USD 8.1 billion is net out the increase in total external debt stock is observed to be USD 11.5 billion instead of USD 3.4 billion (Table II.3.10). The above-mentioned cross rate impact is USD 1.3 billion in the short-term debt and USD 6.7 billion in the long-term debt.

The debt service ratio calculated as the ratio of principals and interest payments of the external debt to FX revenues, which is an important indicator of a country's capacity for repayment, did not show an improvement due to the rise in the principal external debt payments, though there were increases in both exports and tourism revenues. Accordingly, the debt service ratio that was 32.5 percent at the end of 2004 became 33.9 percent at the end of 2005 (Table II.3.11).

***TABLE II.3.11***
***DEBT SERVICE RATIO***
***(USD million)***

| | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|
| Debt Service | 28,851 | 27,804 | 30,483 | 36,518 |
| Principal(1) | 22,450 | 20,824 | 23,341 | 28,559 |
| Interest | 6,401 | 6,980 | 7,142 | 7,959 |
| Total Foreign Exch. Revenues | 59,071 | 72,424 | 93,753 | 107,601 |
| Total Goods Exports(2) | 40,124 | 51,206 | 67,047 | 76,595 |
| Service Revenues | 14,025 | 17,945 | 22,928 | 25,854 |
| Investment Income | 2,486 | 2,246 | 2,651 | 3,684 |
| Current Transfers | 2,436 | 1,027 | 1,127 | 1,468 |
| Debt Service Ratio (percent) | 48.8 | 38.4 | 32.5 | 33.9 |

Source: CBRT, Treasury.
(1) Including Eurobonds and IMF credit repayments.
(2) Including shuttle trade.

The surplus of gross foreign reserves over short-term debt stock, which is one of the main indicators of the liquidity position, increased in the second and third quarters of 2005 after a fall in the first quarter. The increase in Central Bank and banks' FX reserves was the main determinant of the increase in this indicator, despite the excessive short-term external borrowing of banks and private sectors (Table II.3.12).

***TABLE II.3.12***
***THE SURPLUS OF GROSS RESERVES OVER SHORT-TERM DEBT STOCK (1)***
***(USD million)***

| | 2002 | 2003 | 2004 | 2005-I | 2005-II | 2005-III | 2005-IV |
|---|---|---|---|---|---|---|---|
| Gross FX Reserves-STD | 20,363 | 20,398 | 20,362 | 18,608 | 21,518 | 23,413 | 30,175 |
| CBRT | 25,152 | 30,756 | 32,722 | 34,915 | 37,087 | 38,914 | 47,755 |
| Banks | 3,636 | 103 | 2,393 | -1,257 | 747 | 2,164 | 21 |
| Other Sectors(2) | -8,425 | -10,461 | -14,753 | -15,050 | -16,316 | -17,665 | -17,601 |
| Gross Reserves(3)-STD | 21,642 | 21,956 | 21,997 | 20,204 | 23,149 | 25,180 | 32,090 |

Source: CBRT.
(1) (-) indicates a deficit.
(2) Figures indicate the short-term external debt of other sectors. Data on foreign currency reserves and the claims of these sectors are not available.
(3) Gross reserves are the sum of gold and FX reserves.

## II.4. PRICES

### II.4.1. Developments in Prices

The downward trend in inflation that prevailed during the last three years continued in 2005, as well. The year-end target has been met for the fourth consecutive time. By December 2005, CPI inflation dropped to 7.72 percent, staying below the year-end target of 8 percent. The annual rate of increase in the PPI was realized as 2.66 percent (Table II.4.1).

*The year-end inflation rate realized as 7.72 percent in the CPI and 2.66 percent in the PPI.*

The indexation mechanism, which heightens the reflections of the exchange rate movements on domestic prices, weakened after the adoption of a floating exchange rate regime. Owing mainly to this structural change, CPI inflation has indeed been modestly affected by the depreciation of the exchange rate during the period April-May 2005. In addition, the stable course of the exchange rates during the rest of the year has limited the adverse economic impacts of high increases in oil prices. Provided that macroeconomic stability is maintained and expectations remain optimistic, such favorable reflections of exchange rates on inflation outcomes are expected to continue.

Among the factors having adverse effects on the CPI inflation outcome in 2005, the prices of imported commodities were considerable as they determine production costs. The undesirable effects of oil price increases on consumer price inflation during the second and third quarters of the year have weakened in the fourth quarter. The reflections of international oil price increases on domestic inflation have especially been observed in the cases of housing and transportation, namely the sectors utilizing oil and its products as direct inputs. In the case of the sectors with an indirect dependence on oil input, however, the effects have been limited. The continuous nature of the declining inflation expectations during the year indicated that the secondary effects of oil prices would be limited in the near future, as well. Although oil price developments are among the important risk factors surrounding inflation, the relatively more stable course of non-oil imported input costs limits the inflationary pressures stemming from oil prices.

*The relatively more stable course of non-oil imported input costs limits the inflationary pressure of oil prices.*

The slowdown in services sector disinflation that started in the last quarter of 2004 continued in 2005. In that respect, it is significant that services prices increased more than the goods prices did and above the year-end targets. This tendency was especially observed in the cases of housing, restaurants and hotels; and it was augmented by the constant high demand for these items. The current

*The already existing inertia in services inflation continued also in 2005.*

tendency of services toward inflation is preserved even after excluding those activities sensitive to oil prices, like transportation.

Situations such as administered prices as well as tax arrangements had a considerable impact on inflation in 2005; however, these effects were of a one-off nature. The VAT rate cut at the beginning of the year and the SCT regulations of July can be considered within this framework.

The Special CPI Aggregates (SCA), which were introduced by TURKSTAT in 2005, were utilized to measure the tendency of core inflation during the year 2005. The observed slowdown in the annual rates of increase of SCA in the fourth quarter, in addition to the first three quarters of the year, indicated that the short-term tendency of SCA inflation was towards a decline. This is considered to be a salutary signal for both 2005 and upcoming periods.

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

| | 2004 | 2005 |
|---|---|---|
| PPI | 15.35 | 2.66 |
| PPI-Manufacturing (Non-Agriculture) | 14.94 | 2.57 |
| CPI | 9.35 | 7.72 |
| CPI (Goods) | 7.74 | 6.21 |
| Non-Durables | 6.61 | 7.07 |
| Semi-Durables | 10.81 | 4.85 |
| Durables | 3.03 | 6.91 |
| CPI (Services) | 13.89 | 12.68 |
| Housing Rent | 20.49 | 20.48 |
| Restaurants and Hotels | 14.42 | 14.98 |
| Transportation Services | 9.80 | 17.97 |
| Other | 12.60 | 6.92 |

Source: TURKSTAT, CBRT.
(1) By the end of the year, 2003=100.

In sum, it is observed that the CPI followed a sound course during 2005 and a stable tendency appeared owing to the strong position of the Turkish lira as well as the normalization of international raw material prices in the last quarter. Furthermore, the optimistic perspective of expectations was not altered. Within the same framework, it must be emphasized that aggregate demand, which depicts an intermittent tendency to increase, followed a path that did not exert an inflationary pressure, given the productive capacity of the economy enhanced by increased investment demand.

*Pass-through from PPI to CPI has weakened.*

Producer price developments in 2005 present a historically salutary outlook. Agricultural prices made a favorable contribution to the PPI during 2005. On the other hand, manufacturing sector prices evolved during the year consistent with oil price and exchange rate developments. On the PPI front, an important innovation of the year 2005 was the weakening of the PPI pass-through to the CPI; basically owing to the adoption of new price indices with the base year 2003.

***TABLE II.4.2***
***QUARTERLY INFLATION(1)***
***(Percent)***

| | 1st Quarter | | 2nd Quarter | | 3rd Quarter | | 4th Quarter | |
|---|---|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| PPI | 4.60 | 0.96 | 7.77 | 0.92 | 0.95 | 1.07 | 1.36 | -0.31 |
| PPI-Manufacturing (Non-Agriculture) | 2.69 | 0.76 | 7.98 | 1.97 | 3.08 | 1.75 | 0.56 | -1.89 |
| CPI | 2.15 | 0.83 | 0.79 | 1.74 | 2.20 | 1.30 | 3.92 | 3.65 |

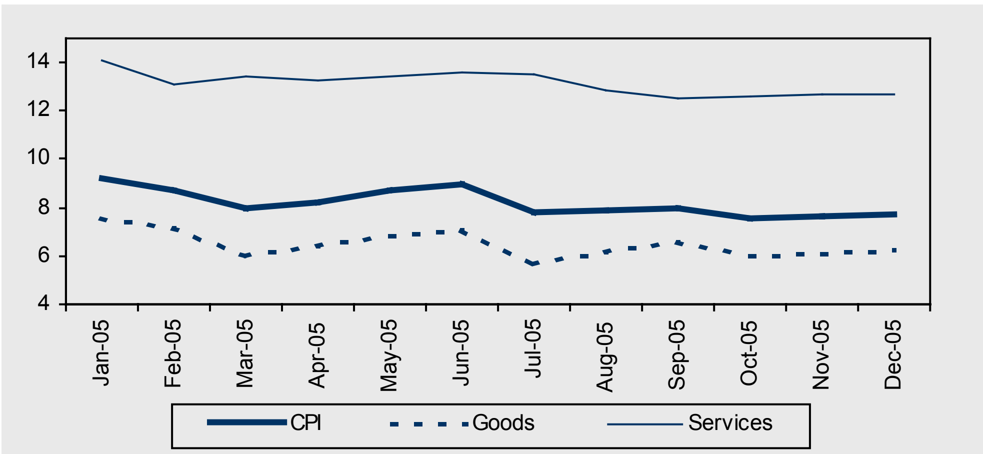
Source: TURKSTAT, CBRT.
(1) 2003=100.

### II.4.2. Developments in Consumer Prices

*Consumer prices which increased in a limited manner in the first three quarters, increased at a higher rate in the last quarter due to the effects of seasonal products.*

In the first quarter of 2005, inflation was registered considerably below its level of the previous year. VAT rate cuts in health and education sectors and the fall of clothing sector prices beyond expected seasonal patterns contributed to this decline, in addition to the appreciation of the Turkish lira and the continuance of optimistic expectations. Consequently, the annual inflation figures have visibly declined.

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



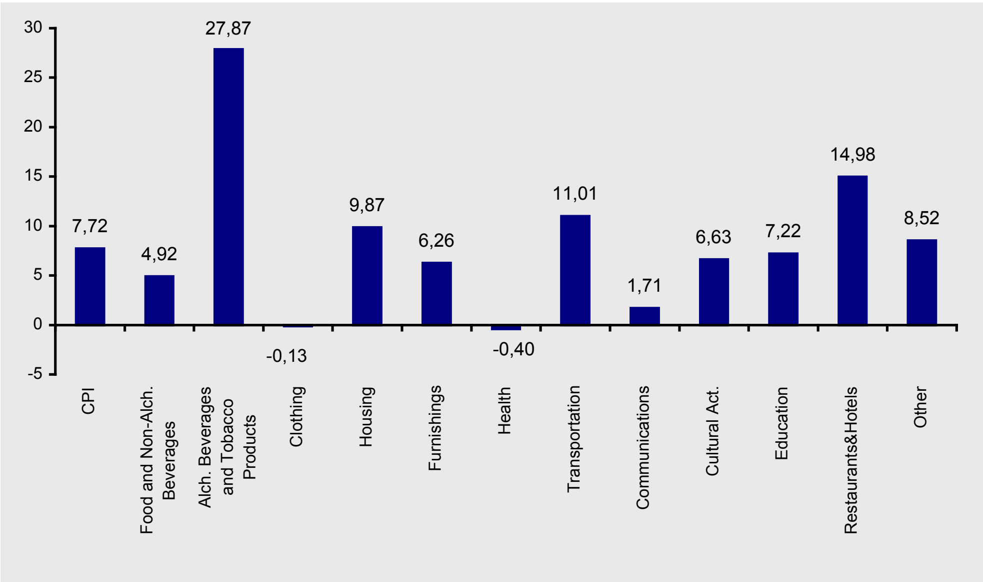

Source: TURKSTAT, CBRT.

Annual inflation temporarily regained its momentum in the second quarter due to price increases in seasonal products. Nevertheless, it started declining again once the mentioned effects disappeared. In the third quarter, high price increases in tobacco products, induced by tax regulations, caused the decline in inflation rates to slowdown. Tobacco products contributed to overall inflation in the fourth quarter, as well, due to producers' price adjustments. Eventually, the annual rate of consumer price inflation was measured as 7.72 percent.

*Inertia in services prices continued in 2005, especially with the high inflation figures in housing rent, restaurants and hotels.*

The existing contrast between the goods and services inflation figures was highlighted in 2005, increasing by 6.21 and 12.68 percent, respectively. The lower rate of increase in goods prices can be attributed to the low inflation in consumer durables owing to the appreciation of the Turkish lira as well as the low clothing sector inflation, which is 0.13 percent in 2005. Persistence in services prices continued throughout the year 2005. Housing rents and prices of restaurant and hotel services especially contributed to this development by increasing at the same ratios as in 2004. On the other hand, high energy price inflation figures, stimulated by international oil price fluctuations, affected the prices of both goods and services in an adverse manner. In this way, the energy sub-item of goods increased by 7.65 percent, whereas, prices of service items that are sensitive to oil products increased at 14.2 percent.

***FIGURE II.4.2***
***THE CPI AND MAIN SUB-ITEMS (2005)***
***(Annual Percentage Change)***




Source: TURKSTAT.

Food and non-alcoholic beverages made a favorable contribution to CPI inflation, given the 0.37 percent decline in their prices until the fourth quarter. However, in the last quarter, high inflation figures of fruits and vegetables pushed inflation in food prices to 4.92 percent.

Alcoholic beverages and tobacco products recorded the highest inflation within the CPI in 2005, at 27.87 percent. This development can be attributed to two factors; firstly, the increases in the SCT levied on these items in February and July. Another key determinant was the producers' high price increases in December.

In 2005, clothing prices declined by 0.13 percent. Owing to its high weight in the CPI basket, which is equal to 8.09 percent, this particular consumption group gave considerable support for CPI inflation to be in line with the target figures.

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

| | | 2004 | | 2005 | |
|---|---|---|---|---|---|
| | Weight (A) | Annual Change (B) | Contribution (A*B) | Annual Change (B) | Contribution (A*B) |
| **CPI** | 100 | 9.35 | - | 7.72 | - |
| Food and Non-Alcoholic Beverages | 29.42 | 6.62 | 1.95 | 4.92 | 1.45 |
| Alcoholic Beverages and Tobacco Products | 4.67 | 11.49 | 0.54 | 27.87 | 1.30 |
| Clothing | 8.09 | 7.75 | 0.63 | -0.13 | -0.01 |
| Housing | 16.91 | 11.52 | 1.95 | 9.87 | 1.67 |
| Furnishings | 6.47 | 6.22 | 0.40 | 6.26 | 0.41 |
| Health | 2.71 | 11.70 | 0.32 | -0.4 | -0.01 |
| Transportation | 10.42 | 13.46 | 1.40 | 11.01 | 1.15 |
| Communications | 4.82 | 1.70 | 0.08 | 1.71 | 0.08 |
| Cultural Activities | 3.60 | 9.83 | 0.35 | 6.63 | 0.24 |
| Education | 2.15 | 17.84 | 0.38 | 7.22 | 0.16 |
| Restaurants and Hotels | 5.87 | 14.42 | 0.85 | 14.98 | 0.88 |
| Other | 4.87 | 10.15 | 0.49 | 8.52 | 0.41 |
| | | | | | |
| **PPI** | 100 | 15.35 | - | 2.66 | - |
| Agriculture | 20.65 | 16.81 | 3.47 | 3.03 | 0.62 |
| Industry | - | 14.94 | - | 2.57 | - |
| Mining | 1.51 | 13.38 | 0.20 | 9.63 | 0.15 |
| Manufacturing | 72.07 | 15.69 | 11.31 | 3.15 | 2.27 |
| Energy | 5.77 | 5.24 | 0.30 | -8.38 | -0.48 |

Source: TURKSTAT.

Prices in the housing group have increased by 9.87 percent which is a higher rate than headline CPI inflation. Housing rent has been the major determinant of this outcome as it has increased at the rate of 20.48 percent. The housing group prices were also affected by the heightened international crude oil price, mainly through the electricity, gas and other fuels utilized by households.

Inflation in the furnishings group, which is mainly composed of durable consumer goods, was 6.26 percent in 2005 – a rate close to that of the previous year. In this group, while furniture and household equipment prices increased respectively by 13.62 and 9.12 percent, other sub-items played a compensating role. A high level of importance is attached to furniture and household equipment in the sense that these items might be indicators of private consumption demand.

The health group can be marked as the second group in which prices declined in 2005, by 0.40 percent. This outcome has been determined by the VAT rate cut of the first quarter as well as pharmaceutical prices which declined by 9.59 percent in line with the exchange rate developments. Prices of health services increased by 7.65 percent, in a manner consistent with the year-end inflation target. On the other hand, hospitalization services displayed a high rate of increase, 16.78 percent, which is around its rate of increase in 2004.

*International oil price movements became an important determinant of transportation prices also in 2005.*

Similar to the case of 2004, international oil price movements became an important determinant of transportation prices in 2005. The price of the fuels and lubricants of transportation vehicles, which oil prices have a direct impact on, has increased by 11.03. Meanwhile, transportation service prices have increased by 17.97, also reflecting the indirect effects of elevated oil prices. On the other hand, automobile prices increased in a limited manner, with the help of exchange rate developments. The resulting annual increase in the transportation group was thus, measured as 11.01 percent.

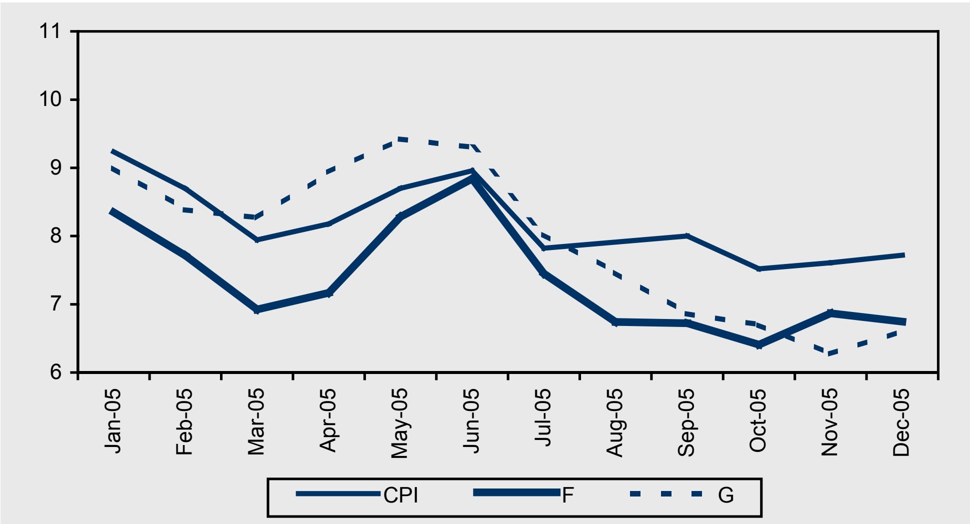
In the education group, which has displayed higher inflation than targets in the last three years, inflation was realized as 7.22 percent in 2005, which is compatible with the year-end consumer inflation target.

*Prices in the hotels and restaurants prices increased by 14.98 percent, far above the headline CPI inflation.*

Annual inflation in the restaurants and hotels group in 2005, at 14.98 percent, is higher than inflation of the group in 2004. In 2005, restaurants and hotels marked the second highest rate of price increase among other CPI sub-groups. Price increases in the group, which comprise mainly of catering and accommodation services, reflect a high degree of inertia.

Inflation rates of the communications, entertainment and cultural activities groups remained below headline CPI inflation; while the prices in the ‘other goods and services' group increased more than the year-end target due to the international gold price inflation.

***FIGURE II.4.3***
***CPI AND THE SPECIAL CPI AGGREGATES (F AND G)***




Source: TURKSTAT, CBRT.

From February 2005, TURKSTAT began disseminating seven SCA. These aggregates are aimed at eliminating the temporary effects on the CPI, measuring the medium-term tendency of inflation, and pinpointing the shocks surrounding it.

***TABLE II.4.4***
***SPECIAL CPI AGGREGATES (2003=100)***
***(Annual Percentage Change)***

| | (Weight in CPI, Percent) | 2005 |
|---|---|---|
| CPI | 100.0 | 7.72 |
| A. CPI excluding seasonal products | 87.2 | 8.39 |
| B. CPI excluding unprocessed food | 85.8 | 7.78 |
| C. CPI excluding energy | 85.1 | 7.75 |
| D. CPI excluding unprocessed food and energy | 70.9 | 7.84 |
| E. CPI excluding energy, alcoholic beverages and tobacco products | 80.4 | 6.58 |
| F. CPI excluding energy, alcoholic beverages, tobacco products, items with administered prices and indirect taxes | 70.3 | 6.75 |
| G. CPI excluding energy, alcoholic beverages, tobacco products, items with administered prices, indirect taxes and unprocessed food | 56.1 | 6.61 |

Source: TURKSTAT.

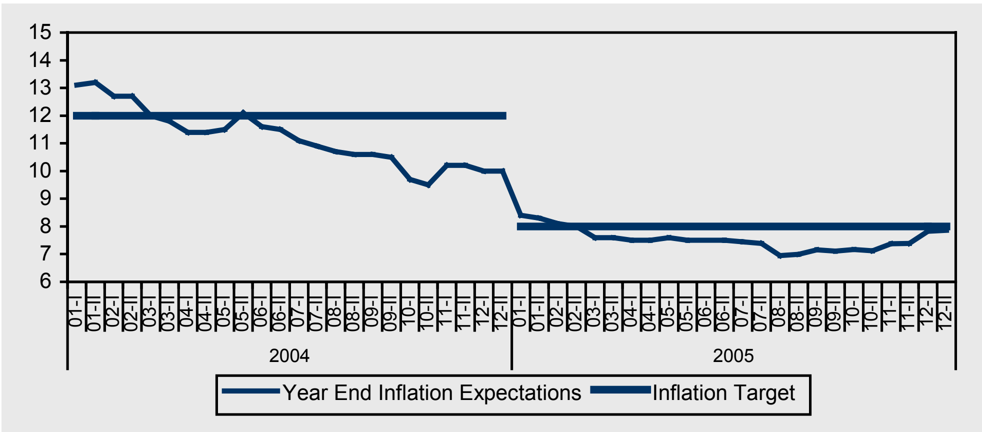
*SCA-A has been indicative of the role of the seasonal products in limiting the consumer inflation in 2005.*

The SCA-G index, which has the narrowest coverage among the SCA, has annually increased less than the headline CPI. SCA-G is computed by excluding energy, alcoholic beverages, tobacco products, items with administered prices, indirect taxes and unprocessed food from the CPI. On the other hand, SCA-A has increased more than the headline CPI, indicating the inflation-reducing contribution of the seasonal products in 2005.

*Year-end consumer inflation expectations remained below the target after March 2005.*

Year-end consumer inflation expectations remained below the target after March 2005, according to the Expectation Survey of the CBRT (Figure II.4.4).

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



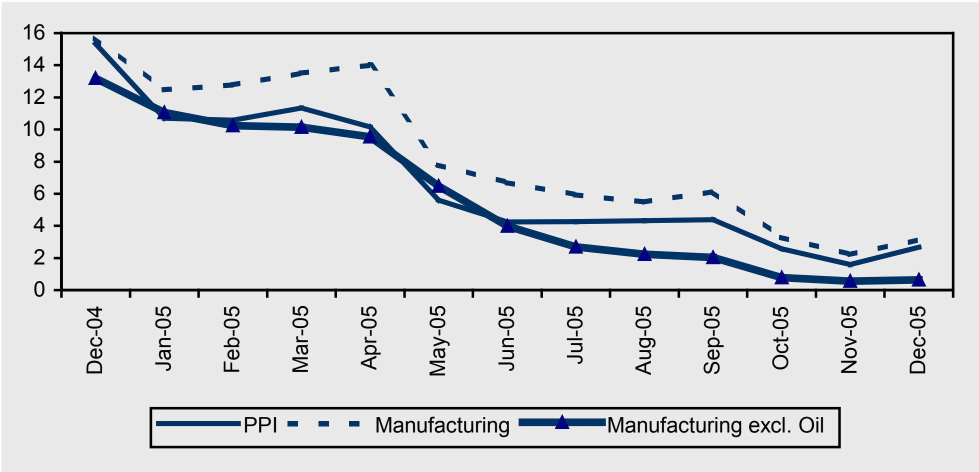

Source: CBRT.

**II.4.3. Developments in Producer Prices**

*PPI increased by 2.66 percent in 2005.*

The PPI with the base year 2003 increased by 2.66 percent in 2005. While the average monthly rate of PPI inflation had been 1.21 percent in 2004, it was as low as 0.22 percent in the year 2005. In this way, PPI inflation has reached historically low levels. During the first three quarters of the year the PPI increased by 1 percent on average, whereas it declined by 0.3 percent in the last quarter. The increase in both the agricultural and manufacturing sectors in the first quarter was replaced with declining agriculture and increasing manufacturing sector prices in the second and third quarters. In the last quarter, agricultural prices recorded a high rate of increase against the falling manufacturing prices.

***FIGURE II.4.5***
***PPI, MANUFACTURING INDUSTRY, MANUFACTURING INDUSTRY EXCLUDING OIL***
***(Annual Percentage Change)***

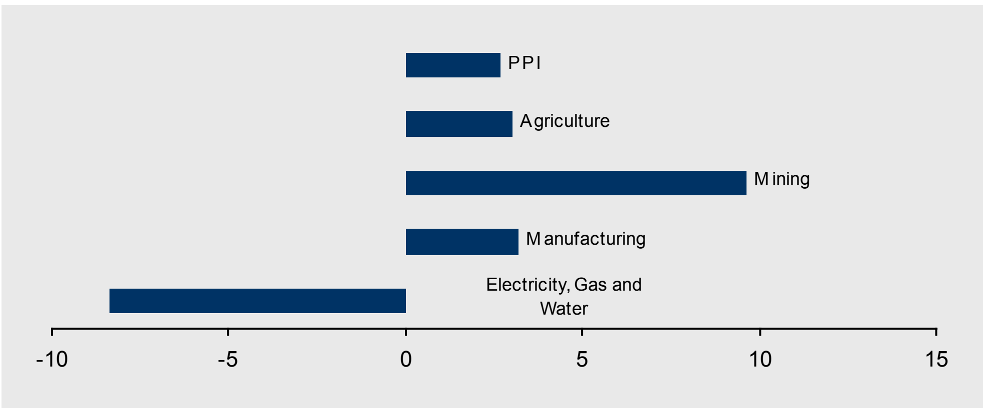



Source: TURKSTAT.

Agricultural prices increased above the PPI during the January-March period, due to seasonal and supply-related conditions. However, they favorably contributed to the PPI from April to August by declining at a rate of 5.64 percent. In the last four months of the year, agricultural prices maintained a tendency to increase and the annual inflation of the group, at 3.03 percent, remained above the headline PPI inflation rate.

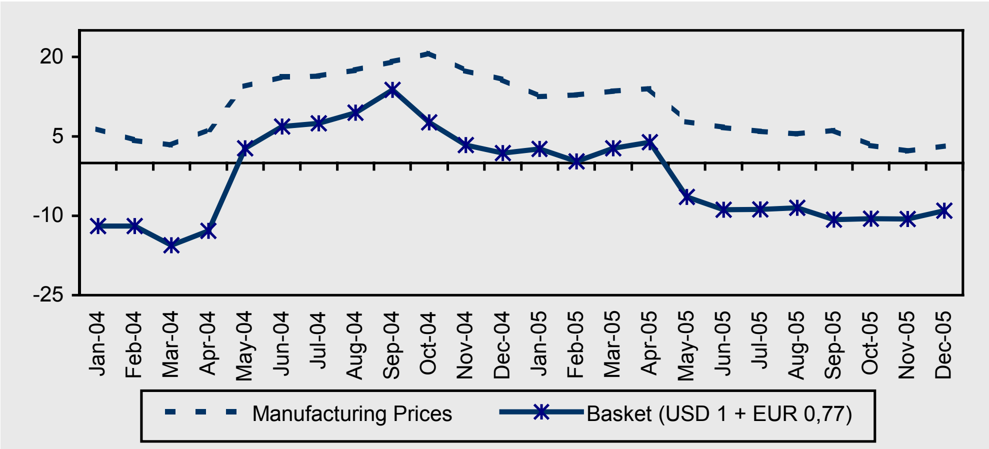
*Except for the last four months of the year, agricultural prices made favourable contribution to producer prices.*

***FIGURE II.4.6***
***PPI AND SUB-ITEMS***
***(Annual Percentage Change)***




Source: TURKSTAT.

***FIGURE II.4.7***
***MANUFACTURING PRICES AND CURRENCY BASKET***
***(Annual Percentage Change)***




Source: TURKSTAT, CBRT.

*PPI began demonstrating a higher sensitivity to exchange rate and international raw material price developments since it is a compilation of before tax prices.*

Manufacturing industry prices, which has the largest share in the PPI, began demonstrating a higher level of sensitivity to cost factors such as exchange rate and international raw material price developments. This sensitivity can be attributed to the fact that the PPI is a compilation of pre-tax prices. Throughout 2005, while the appreciation of the Turkish lira limited manufacturing industry inflation, high increases in international commodity prices, lead by oil, caused manufacturing sector prices to increase. In the first nine-month period of the year, manufacturing sector prices continued to increase due to the rising oil prices. Having declined by 2.05 percent in the fourth quarter, annual manufacturing inflation was realized as 3.15 percent. The declining tendency of the PPI becomes more apparent when oil products are excluded from manufacturing industry prices.

Low rates of increase or declining tendencies are observed when manufacturing sub-sectors are examined individually. While prices increased by only 1.56 percent in the production of food and beverages, they declined by 5.87 percent in textiles production. Coke and refined petroleum prices increased considerably due to oil price developments in international markets.

As of end-2005, prices of electricity, gas and water declined by 8.38 percent. The sizable price cuts in electricity production in September played an important role in this decline.

**TABLE II.4.5**
**PPI AND SUB-ITEMS, 2003=100**
**(Annual Percentage Change)**

| SECTORS | 2004 | 2005 |
|---|---|---|
| PPI | 15.35 | 2.66 |
| AGRICULTURE | 16.81 | 3.03 |
| Agriculture, Hunting, Forestry | 16.29 | 3.05 |
| Agriculture, Hunting | 16.53 | 3.10 |
| Forestry | 8.68 | 1.43 |
| Fishing | 45.18 | 1.69 |
| INDUSTRY | 14.94 | 2.57 |
| MINING AND QUARRYING | 13.38 | 9.63 |
| Coal Mines | 14.32 | 7.24 |
| Crude Oil, Natural Gas | 20.21 | 22.12 |
| Metal Ore | 31.69 | 21.16 |
| Quarry | 4.45 | 1.59 |
| MANUFACTURING | 15.69 | 3.15 |
| Food and Beverages | 13.64 | 1.56 |
| Tobacco Products | 1.44 | 1.76 |
| Textiles | 8.81 | -5.87 |
| Clothing | 3.48 | 2.24 |
| Leather | 5.24 | 0.27 |
| Wood… | 21.47 | -1.04 |
| Paper | 11.48 | -5.84 |
| Publishing…. | 13.10 | 7.62 |
| Coke and Refined Oil | 38.13 | 21.64 |
| Chemical Products | 14.26 | -8.64 |
| Plastics and Latex Products | 13.68 | 2.88 |
| Other non-metallic minerals | 20.92 | 11.39 |
| Basic Metal Industry | 35.45 | -1.88 |
| Metallic Goods (excl. machinery and equipment) | 17.64 | 6.74 |
| Machinery and Equipment. | 13.25 | 3.16 |
| Office Equipment | 12.38 | -11.15 |
| Electrical Machinery and Equipment | 17.44 | 9.37 |
| Communications Equipment | -4.03 | -3.03 |
| Medical, Precision and Optical Equipment | -0.49 | -7.65 |
| Motor Vehicles | 6.26 | -5.03 |
| Other Transportation Equipment | 4.21 | 60.51 |
| Furniture | 9.16 | 2.11 |
| ELECTRICITY, GAS AND WATER | 5.24 | -8.38 |
| Electricity and Gas | 5.99 | -7.35 |
| Water | 2.43 | -12.32 |

Source: TURKSTAT.

To sum up, exchange rate and international commodity price developments determined the course of the PPI during 2005. Adverse effects of commodity price increases were limited by the appreciation trend of the Turkish lira, resulting in historically low levels of PPI inflation.

## PRICE INDICES WITH BASE YEAR 2003: COVERAGE AND METHODOLOGY

Regarding price developments in 2005, updates of the official price indices by TURKSTAT had an important impact. Changes in products that are subject to production and consumption, outdated weighting schemes of existing indices and developments in the computational approaches for price indices dictated the update of price indices with the base year of 1994. Consequently, the new price indices with the base year 2003 have been disseminated and utilized in both analytical and decision-making processes since February 2005. While the older indices with the base year 1994 are still referred to in examining the past behavior of prices, the new index series with the base year 2003 have been the fundamental reference of the CBRT in its officially disseminated information and documents since February 2005.

New indices brought important changes in terms of the coverage, commodity weights, the way the prices are compiled and the computational approach (chained Laspeyres index). The number of main groups in the CPI has increased from 10 (CPI, 1994=100) to 12 (CPI, 2003=100) after the bisection of food, beverage and tobacco group and the handling of communications as a separate main group. Table 1 displays these main groups and their respective weights in the CPI.

***TABLE 1***
***CPI WEIGHTS***
***(Percentage)***

| | CPI (1994=100) | CPI (2003=100) |
|---|---|---|
| Food and Non-Alcoholic Beverages | 31.09 | 29.42 |
| Alcoholic Beverages and Tobacco Products | | 4.67 |
| Clothing | 9.71 | 8.09 |
| Housing | 25.8 | 16.91 |
| Furnishings | 9.35 | 6.47 |
| Health | 2.76 | 2.71 |
| Transportation | 9.3 | 10.42 |
| Communication | - | 4.82 |
| Entertainment and Cultural Activities | 2.95 | 3,60 |
| Education | 1.59 | 2.15 |
| Restaurants and Hotels | 3.07 | 5.87 |
| Other | 4.38 | 4.87 |

Source: TURKSTAT.

In the new index, the COICOP classification is used and the index is computed for 26 statistical regions. The prices compiled in the CPI are the post-tax prices that are eventually faced by households. Weights of fresh fruits and vegetables as well as certain clothing items are variable across months of a given year, which is an unaltered property of the older price indices. Among the fundamental changes in the CPI the following can be noted: Firstly, the inclusion of technology-intensive products such as cellular phones, digital cameras and DVD players. Other changes are the exclusion of imputed rents and the increased weights of energy items like electricity, natural gas and fuels.

From February 2005, TURKSTAT began disseminating seven Special CPI Aggregates in addition to the new price indices with the base year 2003. These aggregates are aimed at eliminating the temporary effects on the CPI, measuring the medium-to-long-term tendency of inflation, and pinpointing the shocks surrounding it. These special aggregates are presented as: "*CPI excluding seasonal products (A)*", "*CPI excluding unprocessed food (B)*", "*CPI excluding energy (C)*", "*CPI excluding unprocessed food and energy (D)*", "*CPI excluding energy, alcoholic beverages and tobacco products (E)*", "*CPI excluding energy, alcoholic beverages, tobacco products, items with administered prices and indirect taxes (F)*" and "*CPI excluding energy, alcoholic beverages, tobacco products, items with administered prices, indirect taxes and unprocessed food (G)*".

The Wholesale Price Index (WPI) with the base year 1994 was replaced with the Producer Price Index (PPI) with the base year 2003. The key differences between the old and new indices arise from the sampling units and the definition of the compiled prices. While the PPI is solely a compilation of producers' prices, the WPI also took wholesalers' prices into consideration in addition to producers' prices. While generating the PPI series, pre-tax prices are compiled, whereas the WPI was a compilation of post-tax prices. Therefore, the CPI (2003=100) and the CPI (1994=100) are comparable, whereas the same is not valid for the PPI (2003=100) and the WPI (1994=100). With the introduction of the PPI (2003=100), the private-public distinction of the WPI has been abolished. In the computation of the PPI, the *Statistical Classification of Economic Activities in the European Community, NACE Rev.1.1* is utilized in order to ensure compatibility with EU statistical data. The PPI with the base year 2003 is composed of agriculture, mining and quarrying, manufacturing industry, and the electricity, gas, and water sectors (Table 2).

***TABLE 2***
***PPI WEIGHTS***

| | WPI (1994=100) | PPI (2003=100) |
|---|---|---|
| Agriculture | 22.22 | 20.65 |
| Agriculture, Hunting and Forestry | 21.49 | 20.23 |
| Fishing | 0.73 | 0.42 |
| Industry | 77.78 | 79.35 |
| Mining and Quarrying | 2.47 | 1.51 |
| Manufacturing Industry | 71.12 | 72.07 |
| Electricity, Gas and Water | 4.19 | 5.77 |

Source: TURKSTAT.

Source: TURKSTAT, "Consumer Price Index and Producer Price Index", in Turkish, February 2005.

# III

# MONETARY POLICY AND MARKETS

## III.1. MONETARY AND EXCHANGE RATE POLICY

A framework envisaging the gradual transition to the inflation targeting regime was established under the economic program, which was launched following the crisis in February 2001 and revised at the beginning of 2002 so as to cover the 2002-2004 period. Monetary policy concentrating on the future inflation rate and called “implicit inflation targeting” has been implemented until the preconditions for full-fledged inflation targeting have been met. In this framework, short term interest rates have been used as a main policy instrument under the floating exchange rate regime on the one hand, and the Money Base ceiling introduced in the context of the economic program conducted with the IMF has functioned as a nominal anchor, on the other.

*In the period until 2005, a considerable improvement in price stability has been experienced.*

An important economic transformation has been undergone during the period until 2005. In this period, a considerable improvement in price stability has been experienced thanks to prudent fiscal and monetary policies, structural reforms, steps towards central bank independence and the floating exchange rate regime. The removal of six zeros from the currency at the beginning of 2005, which enhanced the credibility of the Turkish lira, was an obvious indication of the progress in attaining price stability. Worries about the continuity of fiscal discipline have been eased; public debt stock sustainability is no longer at the top of the economic agenda. Financial sector fragility has weakened and the depth of financial markets has increased. Overall confidence in the economy has increased.

The CBRT has completed preparations regarding its institutional and technical infrastructure, as well as maintaining the stable and confident economic environment that is required by the inflation targeting regime. In this framework, the organizational structure has been renovated, the definitions of the duties regarding the implementation of monetary policy have been clarified, the information set has been broadened, inflation forecasting methods have been improved and the communication policy has been brought up to a more efficient level.

*The CBRT stated that inflation targeting regime would be launched gradually in its announcement dated December 20, 2004.*

As a result of these developments, the CBRT stated that the inflation targeting regime would be launched gradually in its announcement dated December 20, 2004. Accordingly, the beginning of 2006 was determined as the date of switching to inflation targeting, while 2005 was announced as the 'transition year'. Implicit inflation targeting continued under the floating exchange rate in 2005, which was also stated in the above-mentioned announcement. In this framework, short term interest rates have been used as the main monetary policy instrument. On the other hand, during the transition period, a number of implementations have been put into effect in order to make the monetary policy decision-making process more institutionalized, predictable and transparent. In this framework, decisions on interest rates have been made depending on assessments arising from the pre-set Monetary Policy Committee (MPC) meetings. Besides, the rationale behind the interest rate decisions has been released within two business days in a press release called "Inflation and Outlook" together with an assessment of the general economic outlook. It was envisaged that, in 2006, when the inflation targeting regime is launched, the institutionalization of the decision-making process would be completed. In this context, the position of the MPC would change from an advisory body to a decision-making body, decisions would be made by vote, and a summary of the minutes of the meetings would start to be published.

Although the short-term interest rates have been used as the main policy instrument, monetary performance criteria and indicative targets introduced in the context of the economic program conducted with the IMF have been monitored. In this framework, the performance criteria and indicative targets, which were set as the floor for the NIR and the ceiling on the NDA and Base Money, have been monitored.

Performance criteria and indicative targets for 2005 were set in the Letter of Intent dated April 26, 2005. All targets for May and June were achieved. The fact that the rapid increase of the base money also continued in 2005 necessitated the revision of targets for the second half of 2005, as of June. However, new targets could not be set since IMF reviews had not been finalized. As a result, at the end of September, the Base Money realized at YTL 26,8 billion, exceeding the ceiling value that was YTL 24,7 billion. The performance criteria for Base Money and the NIR and the indicative target for the NDA for the end of 2005 were revised in the Letter of Intent dated November 24, 2005 and all corresponding targets were achieved (Table III.1.1).

**TABLE III.1.1**
**PERFORMANCE CRITERIA, INDICATIVE TARGETS AND REALIZATIONS**

| | Money Base Ceiling (YTL million) | | NDA Ceiling (YTL million) | | NIR (USD million) | |
|---|---|---|---|---|---|---|
| | Target(1) | Outcome | Target(1) | Outcome | Target(2) | Outcome |
| May 31, 2005 | 23,600(P) | 22,976 | 37,700(G) | 31,315 | 2,000(P) | 5,835 |
| June 30, 2005 | 23,600(P) | 22,598 | 37,700(G) | 23,987 | 2,000(P) | 10,455 |
| September 30, 2005 | 24,700(P) | 26,835 | 37,800(G) | 23,700 | 2,800(P) | 13,169 |
| December 31, 2005 | 29,200(P) | 28,756 | 25,500(G) | 12,587 | 14,000(P) | 22,393 |

Source: CBRT.
(1) These ceilings are based on the average of stocks prevailing during the five working days including and immediately preceding each of these dates.
(2) Floor.
(P): Performance criteria; (G): Indicative target.

Also in 2005, decisions on the short-term interest rate, which is the main policy instrument, were made by taking into account the factors that influence future inflation in line with the price stability goal. In this framework, in the interest rate decision-making process, the total supply and demand balance, indicators with respect to fiscal policy, developments in wages-employment- unit cost and productivity, pricing behavior in both the public and private sector, inflationary expectations, FX rates and factors affecting rates such as balance of payments developments, possible external shocks and all the inflation forecasts carried out in the CBRT have been taken into account. After nine rate cuts during the year, the overnight borrowing interest rate was reduced to 13.5 percent in December 9, 2005, which was 18 percent at the beginning of 2005 (Table III.1.2).

*Also in 2005, decisions on short-term interest rate, which is the main policy instrument, were made by taking into account the factors that influence future inflation in line with the price stability goal.*

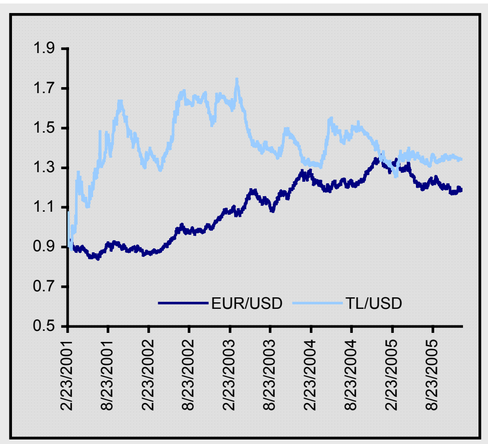
**TABLE III.1.2**
**CBRT'S INTEREST RATE DECISIONS**
**(Overnight, Percent)**

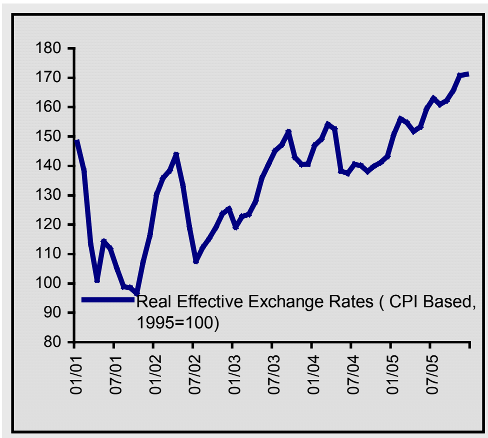
| | Borrowing | Lending |
|---|---|---|
| January 11, 2005 | 17.00 | 21.00 |
| February 9, 2005 | 16.50 | 20.50 |
| March 9, 2005 | 15.50 | 19.50 |
| April 11, 2005 | 15.00 | 19.00 |
| May 10, 2005 | 14.50 | 18.50 |
| June 9, 2005 | 14.25 | 18.25 |
| October 11, 2005 | 14.00 | 18.00 |
| November 9, 2005 | 13.75 | 17.75 |
| December 9, 2005 | 13.50 | 17.50 |

Source: CBRT.

In 2005, the CBRT decided to cut rates gradually until July. The following factors were the main determinants of these decisions: The fall in inflationary expectations, the lack of considerable demand pressures, the commencement of negotiations with the EU for full membership, several positive developments in relation to the IMF - such as the finalization of Reviews in the context of the economic program conducted with the IMF and the consensus on the new stand-by agreement; hence the belief that the economic program would continue without concession in terms of fiscal discipline and structural reforms. However, the CBRT adopted a cautious stance, because the data that was released around the second half 2005 gave mixed signals about domestic demand and future inflation rates. In this framework, interest rates did not change in July, August and September, remaining constant at the level of 14.25 percent. On the other hand, the CBRT cut short term interest rates again gradually but cautiously in the last quarter of 2005, taking into account the latest data release which showed an increase in the possibility that demand pressures on inflation could be limited, and the facts that the expected adverse effects of oil price increase on pricing behavior did not realize and uncertainties regarding the start of negotiations with the EU for full membership disappeared. As a result, short-term interest rates were set as 13.5 percent in December. The main reasons for the cautious approach of the CBRT were the inertia in inflation in the services sector and risks related to external developments like oil prices and global liquidity conditions.

***FIGURE III.1.1***
***FOREIGN EXCHANGE DEVELOPMENTS***




Source: CBRT.

The current monetary policy, which is being implemented to achieve price stability, also certainly monitors the exchange rate developments carefully. Since the last quarter of 2004, a more apparent appreciation process of the YTL has begun. Factors like decisive implementation of the economic program and the occurrence of favorable inflation and growth performances, which have resulted in an increase of capital inflows volume and changes in the domestic portfolio choices of residents in favor of the domestic currency, contributed most to this appreciation process and the stable position of the YTL. On the other hand, the debates and expectations on the commencement of negotiations for Turkey's EU accession, the interest rate decisions of the FED, the course of the stand-by agreement with the IMF and developments in oil prices all caused interim fluctuations in the exchange rates from time to time, throughout 2005 (Figure III.1.1).

Within the framework of the floating exchange rate policy that has been implemented since the year 2001, the exchange rates are determined by the demand and supply conditions of the market. However, the CBRT announced that it could intervene in the exchange rate markets in cases where exchange rates display or are expected to display excessive volatility in both directions. Under this framework, the CBRT conducted six direct sale interventions in the exchange rate markets in 2005. Besides, for the purpose of transparency, data on the direct FX sale/purchase interventions carried out since 2002 started to be published on the website of the CBRT from October 21, 2005.

*Within the framework of the floating exchange rate policy that has been implemented since the year 2001, the exchange rates are determined by the demand and supply conditions of the market.*

Moreover, the CBRT announced to the public that, depending on the balance of payments position and reverse currency substitution developments, it would hold FX purchase auctions in order to increase FX reserves without distorting the long-run tendency and equilibrium value of the exchange rate. In this framework, due to expectations that the implementation of a new three-years economic program centered on fiscal and monetary discipline and structural reforms, together with the favorable developments in the negotiations process for EU accession, will positively affect both the reverse dollarization process and the balance of payments, the CBRT restarted daily FX purchase auctions in December 22, 2004. In order to minimize the effects of the auctions on FX markets, the CBRT disclosed its annual auction program and announced that unless there is a remarkable change in FX liquidity, the program would remain unchanged. In this framework, starting from December 22, 2004 and throughout 2005, the total daily amount of auctions was determined as USD 15 million. Furthermore, an additional optional selling amount up to 200 percent of the total amount sold by the winner and priced over the average price realized in the auction will be granted to winner institutions so that the maximum daily amount that can be bought equals USD 45 million. In 2005, USD 7.4 billion was bought through the 242 FX purchase auctions realized. The total amount of FX purchased through both auctions and interventions during 2005 reached USD 22 billion.

**CURRENCY REFORM: NEW TURKISH LIRA (YTL)**

The period of high inflation, starting from the 1970's, has reduced the real value of the Turkish lira, damaged the reputation of the currency and had an adverse effect on its monetary functions as a medium of exchange and a store of value. The increase in the number of zeros in the currency has created problems in cashier transactions, accounting and statistical records, data processing programs and payment systems in terms of recording and expressing monetary values. In this process, the cash demand of the economy was met by new banknotes in larger denominations that were put into circulation almost every two years since 1981. In this framework, currency reform attempts were also made in the past. The First Draft Law regarding the elimination of five zeros from the Turkish lira was sent to the Prime Ministry in December 25, 1998. Later, the second Draft Law on the elimination of six zeros from the Turkish lira was sent to the Ministry of State for Economic Affairs in May 26, 2000. However, the reform was not implemented due to inappropriate economic conditions.

At the end of 2003, on account of declining inflation under the stability program and favorable expectations that price stability would be achieved in the near future, currency reform was put on the agenda. As inflation was receding to single digits, the beginning of 2005 was chosen as the appropriate time for influencing expectations favourably. The Law on the Currency Unit of the Republic of Turkey related to the elimination of zeros from the Turkish lira was put into effect after it was published in the Official Gazette on 31 January 2004. The New Turkish lira was effective from 1.1.2005.

Pursuant to the Law, the Turkish Republic's new currency unit is defined as the New Turkish Lira (YTL). The sub currency unit is determined as the New Kuruş (YKr) and one YTL was set equal to one hundred YKr. The conversion rate to be used in adapting the values in Turkish lira to the New Turkish lira is determined as one million Turkish liras (1,000,000 TL) equal to one New Turkish lira (1 YTL). YTL consists of banknotes with denominations 1, 5, 10, 20, 50, 100 YTL and coins denominated as 1, 5, 10, 25, 50 YKr and 1 YTL. One YTL is issued both as a banknote and a coin. The YTL banknote composition contains two new denominations: 50 and 100 YTL, which correspond to 50.000.000 and 100.000.000 TL respectively. To facilitate recognition of the new banknotes, denominations with the same purchasing power were issued in colors and designs similar to TL banknotes. Furthermore, YTL banknotes were amended for the visually impaired.

Prior to currency reform, comprehensive preparatory activities were carried out in order to ensure timely completion of preparations and to coordinate the process, The YTL Steering Committee was formed under the coordination of the Central Bank. Other members of the Committee were the Ministry of Finance, the Ministry of Industry and Trade, the Ministry of Internal Affairs, the Undersecretariat of Treasury, the State Institute of Statistics, the Banking Regulation and Supervision Agency and the Capital Markets Board. The Committee, by incorporating other relevant institutions, conducted the preparatory stage with three sub committees: Information Technology, Accounting and Enterprises.

In the context of the currency reform, along with the technical preparations, an effective publicity policy was carried out. A three-stage publicity campaign was initiated in September 2004.[(1)] In the first stage, preparations were made and the public was informed of the currency reform. In the second stage, from October to December 2004, banknotes and their security features were presented to the public. In the third stage, from January to March 2005, habit formation activities concerning the usage of the New Turkish lira were executed.

Following the reform, TL and YTL banknotes circulated together for one year until 31 December 2005, in order to overcome potential problems at the transition stage. To facilitate the transition and adjustment process, it was mandatory to display price labels and lists, prepared in the framework of the 12th article of the Law on Consumer Protection No 4077, in both TL and YTL.

As of 2006, after the first year of the reform, TL denominated banknotes and coins were only allowed to be changed at branches of the Central Bank and T.C. Ziraat Bank. The time span of the changeover for TL denominated banknotes is ten years, whereas for coins it is one year. As of January 1, 2006 payment orders, commercial papers, agreements and all other documents are to be issued only in terms of YTL.

As a consequence of coordination and communication between institutions and the publicity campaign, currency reform has been a success. Prior to the transition, it was emphasized that there could be a limited and transitory effect on inflation, for two main reasons: transmission of transition costs to prices and rounding effects. However, the YTL operation has definitely not increased inflation. Moreover, currency reform did not have an impact on macro variables, which are determined by factors such as macroeconomic fundamentals, the economic program, budget discipline, structural reforms, expectations and external conditions.

As a consequence of the currency reform;

- Operational and technical difficulties stemming from abundant zeros in the currency were overcome. Specifically, an improvement in cashier transactions, payments systems and accounting records were clearly observed.
- Determination to maintain economic stability was emphasized once more. In this respect, currency reform has been a factor enhancing the credibility of the domestic currency.
- Domestic currency became a comprehensible and comparable value. In this respect, our currency gained credibility at both domestic and international level. YTL was used in international transactions.
- The share of coins within the total emission increased as 500.000 TL denominated banknotes were issued as a 50 YKr coin and 1.000.000 denominated banknotes were mainly issued as 1 YTL coin.
- The transaction volume and cost of the Central Bank and the banking sector decreased.

By the end of 2006, the changeover to YTL banknotes had been completed to a great extent. As of December 23, 2005, the amount of YTL banknotes as a share of the total amount of banknotes in circulation reached 95.4 percent. Hence, the changeover has been a successful process. However, similar to the experiences of countries, which have performed currency reform, the changeover rate of coins has been lower compared to banknotes. Thus, as of December 23, 2005, only 46.4 percent of the TL coins were withdrawn from circulation compared to 2004.

To sum up, the currency reform has been an indicator of the progress in establishing economic stability. The changeover, which took place in January 1, 2005, constituted the first stage of currency reform. In the second stage, the expression, “new” in New Turkish Lira and New Kuruş will be dropped. The latter stage will be put into effect at a future date, pursuant to the decision of the Cabinet Council.

(1) Information regarding technical preparations can be found on http://www.ytl.gen.tr

As announced in the press release "Monetary Policy and Exchange Rate Policy in 2002 and Prospective Developments" dated January 2, 2002, the CBRT started to gradually abandon its intermediary functions in the FX and Banknotes Markets. In this framework, the CBRT completely ceased its intermediary operations in these markets when operations in the FX and Banknotes Market- FX Deposits Market ended in December 26, 2005.

**III.1.1. The Central Bank Balance Sheet**

*Throughout 2005, announced as the transition and last preparation year for the inflation-targeting regime, Base Money continued to be used as a nominal anchor together with inflation targets to shape the expectations of the economic agents.*

Throughout 2005, announced as the transition and last preparation year for the inflation-targeting regime, Base Money continued to be used as a nominal anchor together with inflation targets to shape the expectations of the economic agents. However, as it was often emphasized before, under the framework of implicit inflation targeting, the essence of monetary policy implementations of the CBRT is not to affect the final inflation target by controlling monetary aggregates but to improve the efficiency of the interest rate policy. In fact, since the main determinant of Base Money, which is the currency issued, contains very limited information on inflation rates in the upcoming period and it is endogenously determined under a policy in which interest rates are employed as the basic monetary policy tool, the Base Money seems to lose its value as a strong anchor. This view is further supported by the fact that expectations regarding monetary policy implementations did not deteriorate, due to favorable inflation performance, despite the fact that the realized volume of Base Money for September 2005 was above the set target for that month.

At this point, it seems useful to focus on the basic determinants of developments in Base Money under a monetary policy regime in which short-term interest rates are used as the main policy instrument. Base Money consists of two items: the currency issued and the bank deposits. While the term 'currency issued' indicates the amount of banknotes held by the public and the banks, the required reserves and free deposits of banks held at the CBRT constitute the bank deposits.

In an environment where inflation is decreasing and financial markets are deepening, monetary aggregates can grow faster than the standard money demand relationship predicts. Improved market confidence and optimistic expectations, due to the monetary program implemented by a credible monetary authority, determine the economic agents' demand for domestic money especially in countries like Turkey, where chronically high inflation accompanied by currency substitution prevailed for many years. Since the uncertainties have, to a large extent, disappeared, and confidence in the economy has improved due to the continuation of both the decisive implementation of the economic program and fiscal discipline in recent years, expectations improved significantly and the risk premium declined. As a natural consequence of this process resulting in financial deepening, declining interest rates and appreciation of the YTL, the demand for money increased.

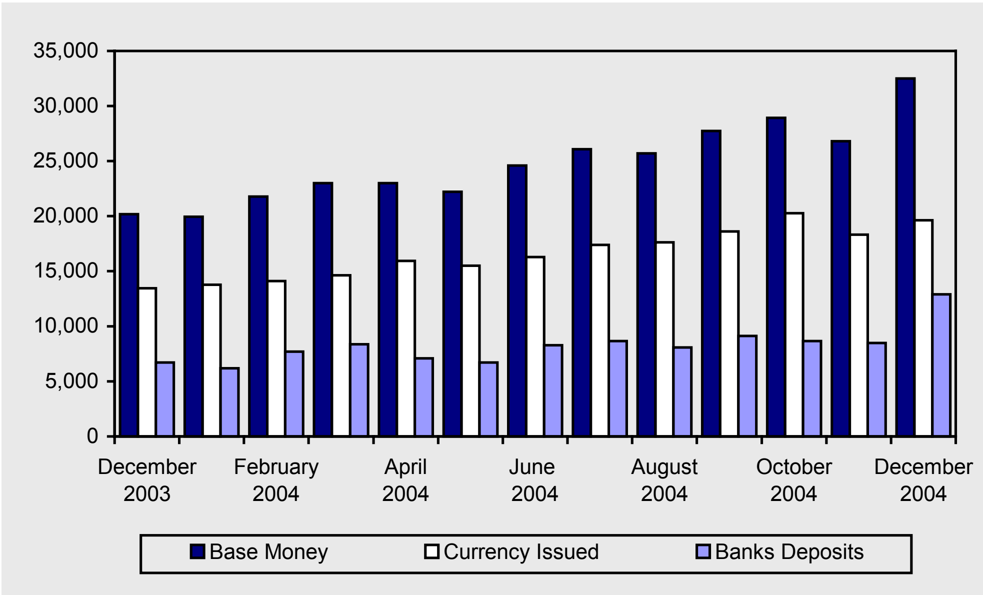
As a matter of fact, when developments in the currency issued in 2005 are analyzed, it is observed that the volume of currency issued increased at such a high rate as 45.6 percent, annually. The fact that real economic activity is sustained at high levels throughout 2005 played a crucial role in the increase in individuals' cash demand. In addition, this high growth rate of the demand for money can be considered as a reflection of the factors mentioned and explained above, such as the financial deepening experienced, declining inflation rates and the structural change in the individuals' demand for money since the year 2003, which is a result of the improvements in market confidence.

*When the developments in the currency issued in year 2005 are analyzed, it is observed that the volume of the currency issued increased at such a high rate as 45.6 percent annually.*

Similar to developments in the currency issued, depending on financial deepening and confidence in the economy, the volume of deposits of the banking sector, which is the other sub-item of Base Money, increased as a result of individuals' tendency towards YTL denominated investment instruments-especially YTL denominated deposits. An important point that needs to be clarified here is that the CBRT can manage the level of liquidity in the market, since it can affect the amount of this sub-item by changing the reserve ratios of the deposits that banks should hold at the CBRT and/or their composition. That ratio was maintained as 6 percent throughout the year 2005. In this sense, the banks could hold at most 3 percent of their YTL denominated liabilities as free deposits on two-weeks average and they were obliged to hold at least 3 percent of their YTL denominated liabilities in Required Reserve accounts, which are also called blocked accounts. In addition, as announced in the Press Release Regarding the Communiqués on Required Reserves and Liquidity Requirement, dated November 16, 2005, new arrangements were introduced for the required reserve implementation in order to enable banks to manage their liquidity in a flexible and efficient manner. Accordingly, the practice of maintaining required reserves was abolished and the total amount of YTL liabilities started to be maintained on two-weeks average in free deposits accounts. Considering the fact that the pattern of Free Deposit accounts is relatively more volatile, it is expected that this arrangement could reduce the predictability of the Bank Deposits item.

As of year-end 2005, the Bank Deposits item displayed a high growth rate, at 91.8 percent annually. This situation is the result of the above-mentioned factors combined with the fact that banks maintain their free deposit balances at the CBRT at high levels on the last day of the year due to the balance sheet arrangements occurring at the end of the year.

***FIGURE III.1.2***
***BASE MONEY AND SUB-ITEMS***
***(YTL million)***



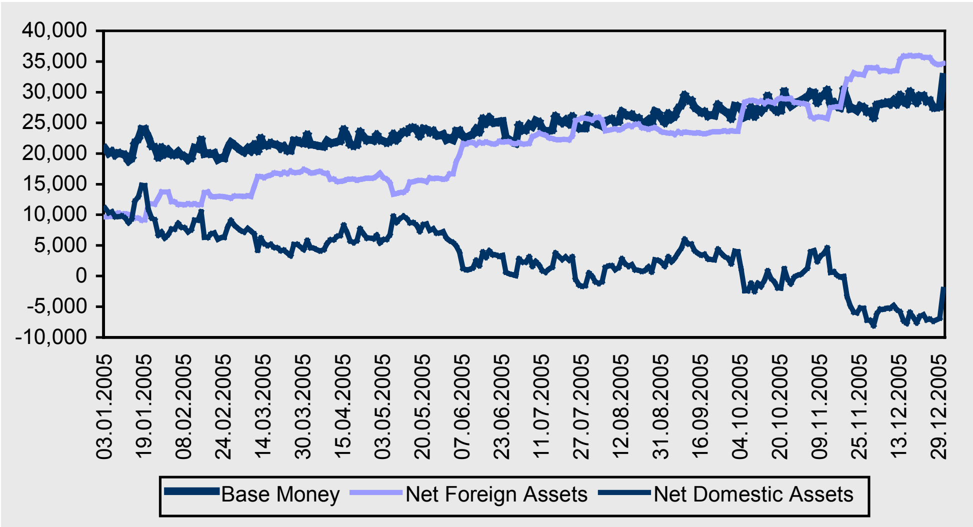

Source: CBRT.

Base money increased by 61 percent annually in 2005 compared to the end of the previous year due to the substantial increase of its sub-items. The contributions of the currency issued and bank deposits to the increase in base money are almost the same for the period under consideration. Base money, realized at YTL 28,756 million according to the average of the last five working days of December 2005, remained below the target of YTL 29,200 million as of the end December (Table III.1.1, Figure III.1.2).

*The NDA is monitored as the indicative target by the CBRT in 2005.*

The NDA is monitored as the indicative target by the CBRT in 2005. The main determinants of the NDA are the sub-items; Treasury debt, Public Sector YTL and FX Deposits, Open Market Operations (OMO) and the Revaluations account. By the end of the year, the NDA decreased substantially and realized at YTL –2,179 million as a result of the high Public Sector Deposits at the CBRT and OMO, which stemmed from excess liquidity in the markets.

***FIGURE III.1.3***
***BASE MONEY, NET DOMESTIC ASSETS, NET FOREIGN ASSETS***
***(YTL million)***



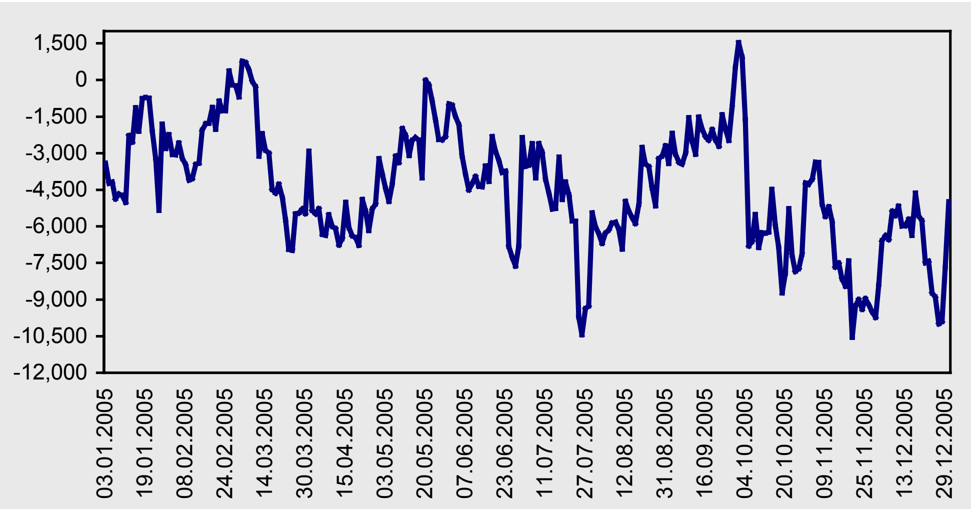

Source: CBRT.

The Treasury debt account mainly includes Government debt instruments, indexed to the CPI and the FX rate, which were taken into the CBRT's portfolio prior to November 5, 2001. Although the corresponding item basically changes due to the coupon and principal repayments of the Treasury, it is very sensitive to the developments of inflation and the FX rate because of the above-mentioned characteristic of the portfolio. The treasury debt account decreased in 2005 due to the fact that the CBRT had a total of YTL 1,521 million coupon payments from the Treasury in the period under consideration. In addition to this, the corresponding item changed depending on the developments of inflation and the FX rate throughout the year and decreased annually by 16.4 percent by the end of the year compared to the previous year. The decrease in the Treasury debt account was the main factor supporting the decrease in the NDA.

The movements of Public Sector YTL Deposits and Public Sector FX Deposits were mainly determined by domestic and external borrowing, tax revenue collection, payment of debt and salaries and closely monitored from the viewpoint of the CBRT and Treasury coordination in the context of liquidity management. Throughout 2005, the Treasury kept a sound deposit account at the CBRT. When the YTL and FX Deposits are evaluated separately, Public Sector YTL Deposits fluctuated throughout the year maintaining the starting value of YTL 4,441 million as of January at the highest level. However, Public Sector FX Deposits followed a relatively stable pattern and increased considerably by the end of the year.

The other important sub-item of the NDA is OMO. The corresponding item demonstrates the CBRT's debt to the markets (negative value) or the credit from the markets (positive value). Throughout 2005, the increase in money demand, the Treasury's net debt payments in FX and the coupon payments of the government debt instruments in the CBRT` portfolio were the factors that decreased the excess YTL liquidity in the markets. However, the excess liquidity conditions in the markets continued in 2005, as a result of the liquidity injection of the CBRT to the markets due the FX buying auctions and direct FX buying interventions, which were realized over and above the foreseen figures. Both the interest payments due to excess liquidity withdrawn through OMO and the interest rates on required reserves were the other factors that contributed to the excess liquidity. The excess liquidity in the market realized at YTL 4,983 million by the end of 2005 (Figure III.1.4).

***FIGURE III.1.4***
***OPEN MARKET OPERATIONS***
***(YTL million)***




Source: CBRT.

The "Other" account, which includes the CBRT`s profits and losses, is another sub-item of the NDA. As in the previous three years, the continued withdrawal of the excess liquidity through OMO in 2005 increased the interest cost of the CBRT. Moreover, the yield on government securities indexed to the CPI in the portfolio decreased as result of a steady decreasing trend in inflation. All these factors continued to affect the profitability of the CBRT in an adverse manner.

## *TABLE III.1.3*
## *CENTRAL BANK BALANCE SHEET ITEMS*
## *(YTL million)*

| | 31-Dec-04 current | 31-Mar-05 constant(1) | 30-Jun-05 constant(1) | 30-Sep-05 constant(1) | 30-Dec-05 constant(1) | 30-Dec-05 current |
|---|---|---|---|---|---|---|
| **I- BASE MONEY** | **20,189** | **22,994** | **24,580** | **27,724** | **32,511** | **32,511** |
| A- Currency Issued | 13,465 | 14,609 | 16,284 | 18,601 | 19,612 | 19,612 |
| B- YTL Required Reserves | 3,115 | 3,363 | 3,670 | 4,269 | 0 | 0 |
| C- Free Reserves | 3,608 | 5,023 | 4,626 | 4,854 | 12,899 | 12,899 |
| **II- NET FOREIGN ASSETS** | **9,772** | **18,548** | **24,168** | **26,201** | **38,676** | **34,690** |
| A- Net International Reserves (1-2+3) | 27,026 | 35,713 | 41,200 | 42,761 | 56,191 | 49,747 |
| 1- Gross International Reserves | 50,134 | 57,019 | 62,463 | 65,329 | 79,533 | 70,044 |
| a- Gold | 2,255 | 2,378 | 2,378 | 2,378 | 2,378 | 2,643 |
| b- Foreign banknotes | 427 | 327 | 344 | 315 | 343 | 300 |
| c- Correspondent accounts | 47,216 | 54,064 | 59,491 | 62,387 | 76,563 | 66,885 |
| - Current accounts | 3,305 | 3,580 | 4,270 | 5,247 | 6,160 | 5,324 |
| - Portfolio accounts (Excluding TDF) (2) | 43,911 | 50,484 | 55,219 | 57,139 | 70,401 | 61,560 |
| Dresdner | 0 | 0 | 0 | 0 | 0 | 0 |
| CBRT's Position | 43,911 | 50,484 | 55,219 | 57,139 | 70,401 | 61,560 |
| - Other | 0 | 0 | 1 | 1 | 1 | 1 |
| d- Reserve tranche position | 235 | 249 | 249 | 249 | 249 | 217 |
| 2- Gross International Reserve Liabilities | -23,108 | -21,306 | -21,263 | -22,568 | -23,342 | -20,297 |
| a- Overdrafts | -2 | -3 | -2 | -1 | -1 | -1 |
| b- Letters of credits | -1,094 | -1,092 | -1,111 | -1,285 | -1,735 | -1,539 |
| c- Short term credits | 0 | 0 | 0 | 0 | 0 | 0 |
| d- Dresdner account ( 1 year) | -4,464 | -4,506 | -4,444 | -4,410 | -4,336 | -3,751 |
| e- FX deposits of Banking sector (3) | -13,276 | -12,641 | -14,045 | -16,120 | -17,022 | -14,790 |
| f- IMF | -4,273 | -3,063 | -1,662 | -752 | -248 | -217 |
| - Use of credit | -4,039 | -2,815 | -1,414 | -504 | 0 | 0 |
| - SDR allocation | -234 | -248 | -248 | -248 | -248 | -217 |
| 3- Forward position (Net) | 0 | 0 | 0 | 0 | 0 | 0 |
| a- Swap | 0 | 0 | 0 | 0 | 0 | 0 |
| b- Forward options | 0 | 0 | 0 | 0 | 0 | 0 |
| B- Medium term FX credits (Net) | 1,829 | 2,015 | 2,028 | 2,008 | 2,024 | 1,815 |
| - Credits Given | 1,841 | 2,028 | 2,041 | 2,021 | 2,037 | 1,826 |
| - Credits Used | -12 | -13 | -13 | -13 | -13 | -11 |
| C- Other | -19,083 | -19,180 | -19,061 | -18,568 | -19,539 | -16,873 |
| 1- Dresdner Account | -20,503 | -20,737 | -20,512 | -20,134 | -19,868 | -17,168 |
| a- 2 Year | -10,216 | -10,225 | -10,008 | -9,606 | -9,399 | -8,119 |
| b- 3 Year | -10,287 | -10,512 | -10,504 | -10,529 | -10,469 | -9,049 |
| 2- TDF | 444 | 496 | 496 | 496 | 496 | 444 |
| 3- Other (FX lending excluded) | 976 | 1,061 | 956 | 1,071 | -167 | -149 |
| **III- NET DOMESTIC ASSETS** | **10,416** | **4,446** | **412** | **1,524** | **-6,165** | **-2,179** |
| A- Treasury Debt | 23,239 | 22,100 | 20,483 | 19,238 | 19,430 | 19,429 |
| a- CBRT's Portfolio | 23,292 | 22,143 | 20,522 | 19,286 | 19,470 | 19,470 |
| aa. DİBS prior to Nov.5, 2001 | 23,292 | 22,143 | 20,522 | 19,286 | 19,470 | 19,470 |
| ab. DİBS purchased from secondary market | 0 | 0 | 0 | 0 | 0 | 0 |
| b- Other | -53 | -42,265 | -38 | -48 | -40 | -41 |
| B- Public sector deposits (YTL) | -793 | -1,930 | -2,996 | -3,458 | -868 | -868 |
| C- Public sector deposits (FX) | -6,099 | -10,064 | -11,159 | -13,171 | -15,664 | -13,874 |
| D- Funds | -24 | -189 | -140 | -77 | -91 | -91 |
| E- Other Public Sector Deposits | -115 | -33 | -29 | -14 | -95 | -95 |
| F- Credits to Banking Sector | 310 | -20 | 9 | 6 | 2 | 1 |
| G- Open Market Operations (net) | -3,622 | 303 | -2,366 | 1,527 | -4,983 | -4,983 |
| H- Other | -4,511 | -2,922 | -4,250 | -3,436 | -3,708 | -3,708 |
| I- Revaluation Account | 2,032 | 964 | 860 | 909 | -187 | 2,010 |
| J- IMF Emergency assistance (Treasury) | 0 | 0 | 0 | 0 | 0 | 0 |
| K- FX Lending (CBRT)(4) | 0 | 0 | 0 | 0 | 0 | 0 |
| NDA (1) | | 4,446 | 412 | 1,524 | -6,165 | |
| Treasury Liabilities to the IMF (2) | | 26,338 | 25,541 | 23,037 | 22,654 | |
| Treasury FX denominated borrowing with an original maturity of less than 1 year (3) | | 0 | 0 | 0 | 0 | |
| NDA (Program definition) (1+2+3) | | 30,784 | 25,953 | 24,561 | 16,489 | |

Source: CBRT.
(1) Calculated using FX and cross rates in 26.04.2005 specified in the Letter of Intent dated 30.09.2004.
(2) Portfolio Account= Dresdner + CBRT's Position; TDF= Turkish Defense Fund.
(3) FX Deposits of the Banking Sector=Required Reserves + Free Reserves (=two-days notice + FX deposits).
(4) FX Lending by the CBRT was excluded from the NFA and included in the NDA.

Due to the increase in money demand and the Treasury`s debt service denominated in FX on the one hand; and the CBRT's interest rate cut by 3.5 percent in total throughout 2005 on the other hand, the interest cost owing to OMO transactions was lower in 2005 and thus the loss of CBRT. In addition to all these factors, because of the decrease in the interest rate paid on FX deposits held in the CBRT by workers living abroad, both the amount of deposit and the interest payments on these deposits declined, which contributed to the lower loss of the CBRT realized in 2005.

The revaluation account was another sub-item of the NDA. The revaluation account shows exchange rate differences arising from the revaluation of the Central Bank`s foreign assets and liabilities parallel to the changes in the value of the YTL against foreign currency. The foreign assets of the CBRT are denominated in USD while foreign liabilities are denominated in Euro. In this context, because of the stable pattern of both YTL and Euro against USD throughout 2005, the revaluation account became the most stable sub-item of the NDA.

*NFA increased from USD 18 billion to USD 25.8 billion in 2005.*

Net Foreign Assets (NFA), calculated with constant exchange rates, constitutes the asset side of the balance sheet together with the NDA. NFA increased from USD 18 billion to USD 25.8 billion in 2005. The NIR, monitored as the performance criteria in the framework of the economic program implemented, followed a similar pattern and increased to USD 22.4 billion and hence realized above the end-year target of USD 14 billion. The main determinants of this increase were the FX buying auctions and interventions in the amount of USD 22 billion.

**III.1.2. Monetary Aggregates**

In 2005, money supplies, defined as narrow and broad (M1 and M2), increased by 31.9 and 38.3 percent, respectively, on a nominal basis and by 22.4 and 28.4 percent on a real basis. The increase in M1 money supply was mainly caused by the increase in sight deposits at a rate of 48.7 percent. Time deposits, which is one of the sub-items of M2 money supply, increased by 40.7 percent on a nominal basis and by 30.6 percent on a real basis, by the end of 2005 (Table III.1.4).

*The FX deposits declined.*

The Turkish lira value of FX deposits decreased by 1.4 percent and reached YTL 75 billion in 2005. The share of FX deposits in total deposits had a declining trend and realized as 33.2 percent in 2005, while it was 41.6 percent in 2004. The M2X money supply, which consists of the sum of M2 and FX deposits, increased by 22 percent on a nominal basis and 13.3 percent on a real basis compared to the end of 2004 (Table III.1.4, Figure III.1.5).

***TABLE III.1.4***
***MONETARY AGGREGATES***
***(YTL million)***

| | Dec. 2002 | Dec. 2003 | Dec. 2004 | March 2005 | June 2005 | Sept. 2005 | Dec. 2005 |
|---|---|---|---|---|---|---|---|
| M1 | 14,259 | 21,564 | 29,469 | 30,443 | 33,026 | 36,879 | 38,868 |
| Currency in Circulation | 7,209 | 10,129 | 12,446 | 14,097 | 15,672 | 17,310 | 18,509 |
| Sight Deposits | 7,050 | 11,434 | 17,023 | 16,347 | 17,353 | 19,569 | 20,359 |
| M2 | 61,195 | 80,923 | 109,344 | 114,425 | 125,401 | 138,726 | 151,238 |
| Time Deposits | 46,936 | 59,359 | 79,875 | 83,981 | 92,375 | 101,847 | 112,370 |
| M2X | 133,450 | 149,855 | 185,419 | 186,744 | 197,000 | 215,555 | 226,216 |
| FX Deposits (YTL) | 72,255 | 68,932 | 76,074 | 72,320 | 71,599 | 76,830 | 74,977 |
| M2XR | 136,213 | 152,934 | 187,069 | 188,446 | 198,688 | 217,053 | 227,701 |
| REPO | 2,763 | 3,079 | 1,651 | 1,702 | 1,688 | 1,498 | 1,486 |
| YTL/USD | 1,633,732 | 1,412,533 | 1,342,100 | 1.37 | 1.34 | 1.34 | 1.34 |
| YTL/EUR | 1,691,403 | 1,759,028 | 1,826,800 | 1.78 | 1.62 | 1.62 | 1.59 |
| CPI (2003=100) | 89.8 | 104.4 | 113.9 | 114.8 | 116.8 | 118.3 | 122.7 |

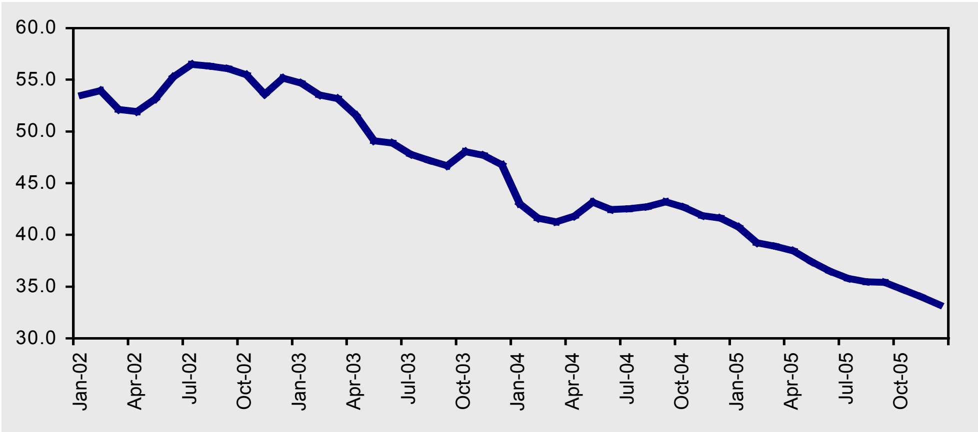
Source: CBRT.

***TABLE III.1.5***
***DEVELOPMENTS IN MAIN MONETARY AGGREGATES, EXCHANGE RATES AND PRICES***
***(Cumulative Percentage Change Compared to the end of 2004)***

| | 2005 | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | V | VI | VII | VIII | IX | X | XI | XII |
| M1 | -8.0 | -3.0 | 3.3 | 8.9 | 5.1 | 12.1 | 16.8 | 20.3 | 25.1 | 30.1 | 24.7 | 31.9 |
| Currency in Circulation | 2.6 | 4.0 | 13.3 | 19.1 | 20.9 | 25.9 | 31.5 | 36.4 | 39.1 | 53.2 | 44.7 | 48.7 |
| Sight Deposits | -15.7 | -8.1 | -4.0 | 1.4 | -6.4 | 1.9 | 6.0 | 8.6 | 15.0 | 13.1 | 10.0 | 19.6 |
| M2 | -2.6 | 0.1 | 4.6 | 8.7 | 10.6 | 14.7 | 20.0 | 23.8 | 26.9 | 31.7 | 33.9 | 38.3 |
| Time Deposits | -0.6 | 1.2 | 5.1 | 8.6 | 12.6 | 15.6 | 21.3 | 25.1 | 27.5 | 32.3 | 37.3 | 40.7 |
| M2X | -2.9 | -2.6 | 0.7 | 4.0 | 4.9 | 6.2 | 10.3 | 13.8 | 16.3 | 18.1 | 19.0 | 22.0 |
| FX Deposits (YTL) | -3.3 | -6.4 | -4.9 | -2.8 | -3.4 | -5.9 | -3.8 | -0.7 | 1.0 | -1.4 | -2.4 | -1.4 |
| M2XR | -2.8 | -2.7 | -5.4 | -5.0 | -5.9 | -6.4 | -3.5 | -2.4 | 1.1 | -1.8 | -3.1 | -1.4 |
| REPO | 7.5 | -1.4 | 3.1 | -5.5 | 4.7 | 2.3 | -4.3 | -9.9 | -9.2 | -12.8 | -1.2 | -10.0 |
| YTL/USD | -1.0 | -4.0 | 2.1 | 2.3 | 1.8 | -0.1 | -0.8 | 0.6 | -0.1 | 0.4 | 0.6 | 0.1 |
| YTL/EUR | -5.2 | -7.0 | -2.8 | -2.9 | -6.5 | -11.5 | -12.1 | -9.0 | -11.5 | -10.5 | -12.7 | -12.9 |
| CPI (2003=100) | 0.5 | 0.6 | 0.8 | 1.6 | 2.5 | 2.6 | 2.0 | 2.9 | 3.9 | 5.8 | 7.3 | 7.7 |

Source: CBRT.

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

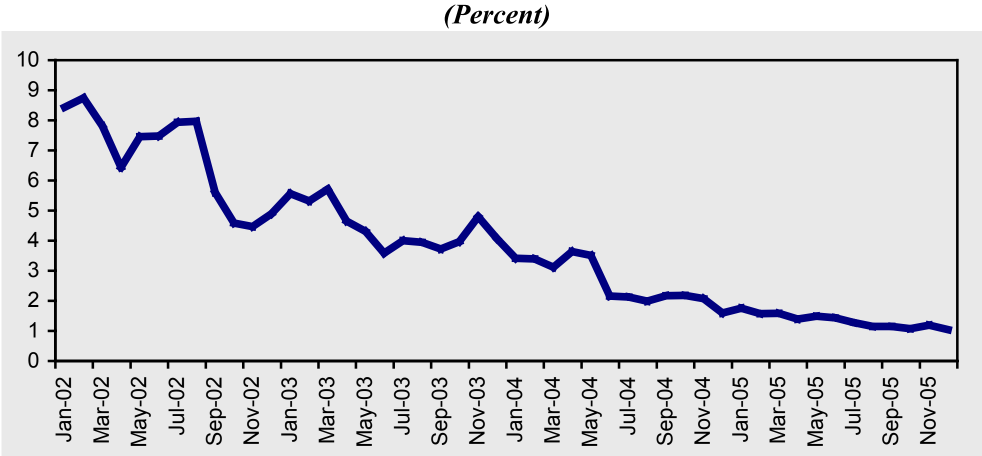



Source: CBRT.

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

The M2XR money supply, which is the sum of M2X money supply and the repo transactions that banks carry out with their clients, increased by 21.7 percent on a nominal basis and by 13 percent on a real basis, and reached at YTL 228 billion in 2005. Repo transactions decreased from YTL 1.7 billion by the end of 2004 to around YTL 1.5 billion by the end of 2005. The ratio of total repo transactions to Turkish lira value of total deposits declined by 0.6 points compared to the end of 2004 and reached 1 percent. This development was due to the improvement of confidence in the economy, the decrease in interest rates, and the corresponding demand towards long-term investment instruments (Figure III.1.6).

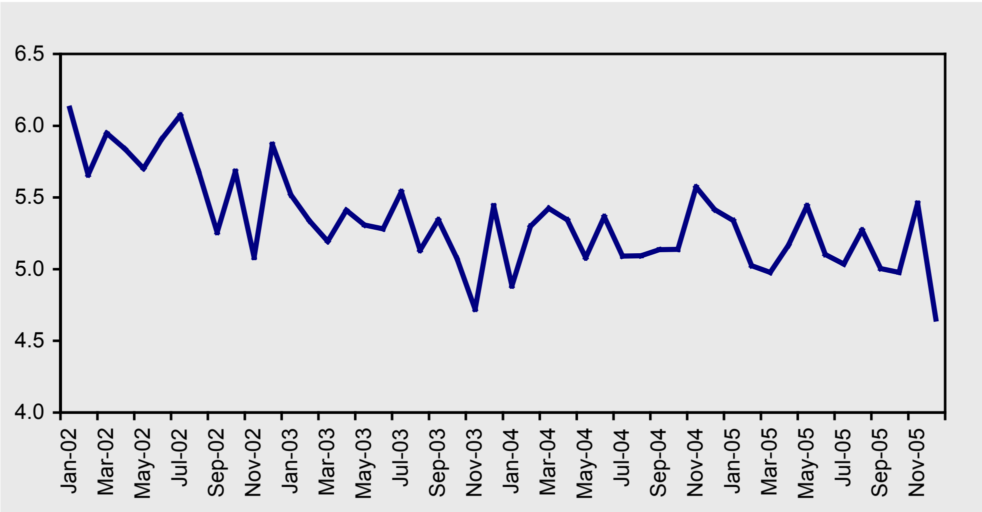
***FIGURE III.1.6***
***REPO / TOTAL DEPOSITS***
***(Percent)***




Source: CBRT.

The money multiplier, which is defined as the ratio of M2 money supply to base money, decreased from 5.4 by the end of 2004 to 4.7 by the end of 2005 (Figure III.1.7).

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



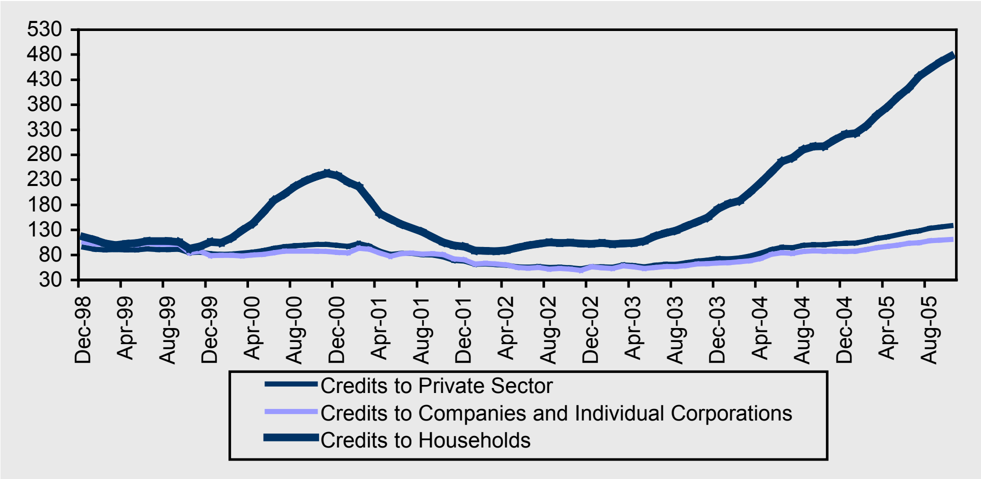

Source: CBRT.

### III.1.3. Developments in Credits

In 2005, the continuance of the disinflation process and the increase in macroeconomic stability due to successes in fiscal and monetary policy caused interest rates on credits to go down and maturities to be lengthened. The volume of credits followed an upward trend due to these developments.

Regarding the institutional sector distribution of credit provided by Investment and Development Banks and Deposit Money Banks, credit to households, which was in a rapid decline after the crisis, increased by 60 percent on a real basis by the end of October in 2005. Similarly, by the end of October 2005, credits to the private sector increased by 38 percent on a real basis. Credits to companies and individual corporations increased by 27 percent on a real basis (Figure III.1.8).

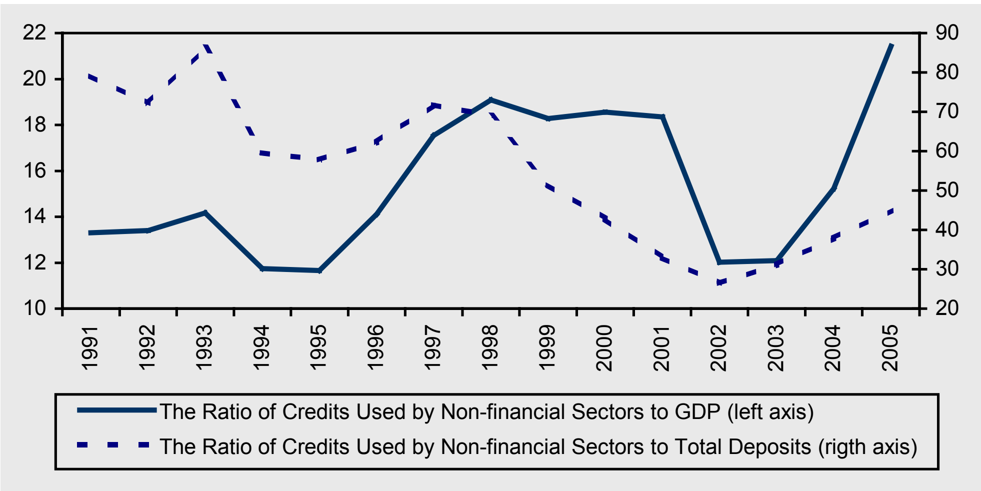
***FIGURE III.1.8***
***INDEX OF REAL CREDIT VOLUME[1] 1997=100***




Source: CBRT.
(1) CPI was used.

In 2005, the ratio of credits to GDP extended by Deposit Money Banks and Investment and Development Banks continued its increasing trend. The Credit/Deposit Volume ratio, an indicator of the banks` attitude regarding the credit supply was realized at 45 percent by the end of October 2005 (Figure III.1.9).

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




Source: CBRT.

In 2005, as in 2004, credits in Turkish lira increased considerably, while the increase of credits in FX was comparatively lower. Regarding the share of bank groups in total credits, the share of private deposit money banks was considerable. The observed increase in the share of public deposit money banks in 2004 shifted to a decrease from 26.5 percent to 24.7 percent in 2005 (Table III.1.6).

***TABLE III.1.6***
***DEVELOPMENTS IN CREDIT***
***(YTL million)***

| | 2003 | 2004 | 2005 | | | |
|---|---|---|---|---|---|---|
| | December | December | March | June | September | December |
| YTL Credit(1) | 31,727 | 60,598 | 64,109 | 74,972 | 88,564 | 97,236 |
| FX Credit(1) | 16,292 | 17,650 | 18,239 | 19,087 | 18,798 | 19,355 |
| Total Credit(1) | 48,019 | 78,248 | 82,348 | 94,059 | 107,361 | 116,591 |
| Deposit Bank(2) | | | | | | |
| Commercial Credit | 42,653 | 70,810 | 74,486 | 85,494 | 98,331 | 106,958 |
| Special Credit | 5,365 | 7,437 | 7,862 | 8,565 | 9,030 | 9,633 |
| Share of Type of Banks in Total Credits (percent) | | | | | | |
| State Deposit Banks | 23.2 | 26.5 | 26.1 | 25.3 | 24.7 | 24.7 |
| Private Deposit Banks | 71.3 | 67.9 | 68.1 | 68.9 | 66.5 | 67.0 |
| Foreign Deposit Banks | 5.5 | 5.7 | 5.7 | 5.8 | 8.8 | 8.3 |

Source: CBRT (Weekly Press Bulletin, provisional figures).
(1) Credit extended to the domestic, non-financial sector by deposit banks and investment and development banks.
(2) The sum of YTL and FX value of credit extended to domestic economic agents by deposit banks.

## III.2. CENTRAL BANK TRANSACTIONS

*The Central Bank emphasized the communication with the markets by instutitionalizing the principles, such as transparency and predictability of its actions.*

One of the main characteristics of 2005 is that it has been a transition year for the Central Bank from the implicit to the explicit inflation targeting regime. To this end, the Central Bank emphasized communication with the markets by instutitionalizing principles, such as the transparency and predictibility of its actions. Within this broad framework for monetary policy, Central Bank transactions focused on achieving the end-year inflation target of 8 percent.

As announced by the Central Bank in its Monetary and Exchange Rate Policy Framework of 2005, the MPC started to meet regularly on the 8th of each month and shared  interest rate decisions with the public at 9:00 am the following day. The overnight borrowing rate  was decreased by 4.5 percentage points in total over the whole of 2005. Hence, the overnight rate, which was 18 percent at the beginning of the year, was reduced to 13.5 percent as of December 2005.

As a result of favorable global liquidity conditions for developing countries over the whole year the FX supply surged in the market. With this development, the Central Bank intervened in the market six times in 2005. However, the Central Bank stated that equilibrium values were determined by the market in accordiance with the supply and demand conditions. Therefore, the purpose of the interventions was to prevent the expected excessive volatility in the daily foreign exhange rates rather than to move their level toward any desired value by the Central Bank.

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

| 2005 | ISE Bonds and Bills Market Outright Purchase and Sale Market | ISE Bonds and Bills Market Repo-Reverse Repo Market (O/N) | Treasury Auctions | IMM (O/N) |
|---|---|---|---|---|
| January | 19.83 | 19.42 | 19.43 | 19.09 |
| February | 17.73 | 18.64 | 17.58 | 18.16 |
| March | 16.92 | 17.32 | 17.01 | 16.84 |
| April | 17.14 | 16.37 | 17.17 | 16.33 |
| May | 16.98 | 16.04 | 17.31 | 15.87 |
| June | 16.13 | 15.73 | 15.61 | 15.37 |
| July | 16.02 | 15.58 | 16.02 | 15.31 |
| August | 16.11 | 15.48 | 16.07 | 15.31 |
| September | 16.14 | 15.84 | 14.84 | 15.31 |
| October | 14.84 | 15.14 | 14.55 | 15.10 |
| November | 14.22 | 14.79 | 14.10 | 14.77 |
| December | 14.09 | 14.76 | 14.20 | 14.53 |

Sources: CBRT, ISE.

Table III.2.1. gives the weighted average of the compound interest rates of Outright Purchase and Sale, and the Repo-Reverse Repo Market in the ISE Bonds and Bills Market, Treasury Auctions and the Overnight Transactions of the Interbank Money Market (IMM). As indicated in the table these interest rates decreased throughout the year which was in line with rate cuts announced by the Central Bank in 2005.

**III.2.1. Open Market Operations**

*The Central Bank continued to actively use OMO, the basic liquidity management instrument.*

In 2005, The Central Bank continued to use OMO, the basic liquidity management instrument, actively. Due to the volatility caused by the excess supply of FX as a result of reverse currency substitution and foreign capital inflow, liquidity distributed to the market through the executed FX interventions and FX auctions, caused the continuation of excess liquidity in the market during the year 2005. This excess liquidity was withdrawn with the mediation of the reverse repo transaction in the ISE Repo-Reverse Repo Market and borrowing from IMM transactions. The daily average excess liquidity withdrawn via reverse repo transactions and IMM transactions were YTL 4.4 billion although it reached YTL 10.5 billion. Furthermore, some repo auctions were arranged because of temporary drops in excess liquidity and of its asymmetric distribution among banks, and of some primary dealers used the repo facility in their OMO limits. There hasn't been any change in the OMO Implementation Regulation in 2005.

The asymmetric distribution of liquidity between different markets and banks caused upward pressure on money market interest rates especially when excess liquidity tended to decline. The liquidity facility extended to the market maker banks and the executed repo auctions by the Central Bank prevented the excess volatility of interest rates. Within this framework, the market maker banks used the Central Bank's repo facility of YTL 3.8 billion. Due to the liquidity squeeze in February, March, May, June and September, the Central Bank arranged forward repo auctions weekly and supplied liquidity in the amount of YTL 7.1 billion via these auctions.

***TABLE III.2.2***
***OPEN MARKET OPERATIONS***
***(YTL million)***

| 2005 | Outright Purchase [1] | Coupon Receipts from Treasury [2] | Reverse Repo [3] | Maturing Reverse Repo [4] | Repo [5] | Maturing Repo [6] | Net Effect[1] [7][2] |
|---|---|---|---|---|---|---|---|
| January | - | - | 2,508.0 | 2,637.5 | 300.0 | 300.6 | 128.9 |
| February | - | - | 2,134.0 | 2,135.3 | 900.0 | 100.1 | 801.3 |
| March | - | - | 25,255.5 | 25,197.0 | 2,600.0 | 3,110.2 | -568.7 |
| April | - | - | 17,909.0 | 17,963.4 | 2.5 | 302.6 | -245.8 |
| May | - | 867.5 | 4,404.5 | 4,435.5 | 1,500.0 | 752.2 | 778.7 |
| June | - | - | 6,930.5 | 6,936.0 | 1,610.0 | 1,253.6 | 361.9 |
| July | - | 233.7 | 13,722.0 | 13,710.9 | 0.0 | 1,110.5 | -1,121.6 |
| August | - | - | 6,193.5 | 6,212.6 | 0.0 | 0.0 | 19.1 |
| September | - | 208.8 | 0.0 | 0.0 | 3,000.0 | 0.0 | 3,000.0 |
| October | - | - | 41,086.5 | 40,270.5 | 0.0 | 3,007.2 | -3,823.2 |
| November | - | - | 26,168.0 | 25,668.8 | 0.0 | 0.0 | -499.2 |
| December | - | 211.7 | 7,608.5 | 8,956.8 | 1,025.0 | 0.0 | 2,373.3 |
| TOTAL | - | 1,521.8 | 153,920.0 | 154,124.3 | 10,937.5 | 9,937.1 | 1,204,8 |

Source: CBRT.
(1) The Net Effect column does not include coupon receipts from the Treasury.
(2) (7)=(1)- (3) + (4) + (5) - (6).

In 2005, the Central Bank received YTL 1.5 billion from the Treasury in the form of coupon payments. These coupon payments stem from the scope of the

2001 Banking operations, the Central Bank's outright purchases of government securities that were issued by the Treasury to strengthen the financial structure of public banks and banks under SDIF. The government securities are CPI indexed, their coupon payments are once a year and their maturity varies between 2006 and 2010.

In 2005, there was no outright purchase transaction from the primary and secondary markets into the OMO portfolio. Because of structural excess liquidity, the Central Bank focused on reverse repo transactions in the OMO transactions (Table III.2.2).

The simple average interest rates of reverse repo transactions started the year at 17.29 percent, and declined to 13.53 percent at the end of the year. The interest rates of repo transactions also maintained their downward trend throughout the year (Table III.2.3).

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

| | REPO(1) | | REVERSE REPO | |
|---|---|---|---|---|
| 2005 | SIMPLE | COMPOUND | SIMPLE | COMPOUND |
| January | - | - | 17.29 | 18.87 |
| February | 17.38 | 18.95 | 16.51 | 17.95 |
| March | 17.07 | 18.59 | 15.50 | 16.76 |
| April | - | - | 15.17 | 16.38 |
| May | 15.43 | 16.66 | 14.58 | 15.70 |
| June | 15.87 | 17.19 | 14.29 | 15.36 |
| July | - | - | 14.25 | 15.31 |
| August | - | - | 14.25 | 15.31 |
| September | 15.35 | 16.57 | - | - |
| October | - | - | 14.05 | 15.08 |
| November | - | - | 13.76 | 14.75 |
| December | - | - | 13.53 | 14.49 |

Source: CBRT.
(1) Weekly auctions were only taken into account.

### III.2.2. Transactions in the Interbank Money Market

The IMM preserved its importance in the withdrawal of excess liquidity. In 2005, 14.74 percent of the excess liquidity was withdrawn via OMO, and 85.26 percent via IMM transactions. The share of overnight transactions in total IMM transactions was realized at 96.88 percent.

***TABLE III.2.4***
***CENTRAL BANK TRANSACTIONS***
***IN THE INTERBANK MONEY MARKET***
***(YTL million)***

| 2005 | O/N Borrowing | O/N Lending | Late Liquidity Window Borrowing | Late Liquidity Window Lending | 1-Week Borrowing | Total Net Borrowing(1) |
|---|---|---|---|---|---|---|
| January | 53,349 | - | - | - | 740 | 54,089 |
| February | 32,732 | - | - | - | 1,780 | 34,512 |
| March | 53,516 | - | - | - | 2,140 | 55,656 |
| April | 83,561 | - | - | - | 2,640 | 86,201 |
| May | 40,336 | - | - | - | 3,095 | 43,431 |
| June | 67,416 | - | 31 | - | 3,127 | 70,574 |
| July | 86,725 | - | - | 17 | 2,420 | 89,128 |
| August | 95,749 | - | 14 | - | 1,810 | 97,572 |
| September | 42,411 | - | - | - | 1,390 | 43,801 |
| October | 73,847 | - | - | - | 2,510 | 76,357 |
| November | 109,023 | - | - | - | 2,787 | 111,810 |
| December | 123,770 | - | - | - | 3,280 | 127,050 |
| TOTAL | 862,436 | - | 45 | 17 | 27,719 | 890,182 |

Source: CBRT.
(1)The net borrowing amount is total borrowing less total lending.

In 2005, there was no change in regulations regarding IMM transactions. Turkish lira deposit purchase auctions, called off in October 2004, were not held in 2005.

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

| 2005 | O/N Borrowing | Late Liquidity Window Borrowing | Late Liquidity Window Lending | 1-Week Borrowing |
|---|---|---|---|---|
| January | 17.48 | - | - | 17.00 |
| February | 16.70 | - | - | 16.91 |
| March | 15.57 | - | - | 16.06 |
| April | 15.13 | - | - | 15.44 |
| May | 14.73 | - | - | 14.83 |
| June | 14.30 | 5.00 | - | 14.44 |
| July | 14.25 | - | 22.25 | 14.25 |
| August | 14.25 | 5.00 | - | 14.25 |
| September | 14.25 | - | - | 14.25 |
| October | 14.07 | - | - | 14.24 |
| November | 13.78 | - | - | 13.95 |
| December | 13.57 | - | - | 13.70 |

Source: CBRT.

In 2005, the amount of overnight borrowing transactions totaled YTL 862,436.6 million. The highest and lowest transaction volumes were in December and February, respectively. Lending via the late liquidity window, used only in July, and materialized at YTL 17 million and the total borrowing amount, used in June and August, was YTL 44.9 million (Table III.2.4).

IMM transactions were conducted with 48 authorized banks and average simple interest rates continued to exhibit a downward trend throughout the year (Table III.2.5).

### III.2.3. Foreign Exchange and Foreign Currency Transactions

*Upon excessive volatility in nominal exchange rates, the CBRT conducted six purchase interventions in 2005.*

In 2005, the floating exchange rate regime, which started in February 2001, continued to be operative. Negotiations with the EU regarding Turkey's full membership, the FED's interest rate decisions, IMF Reviews and rising oil prices had been the major factors influencing the USD/YTL exchange rate movements.

***TABLE III.2.6***
***TRANSACTION VOLUME IN FOREIGN EXCHANGE-FOREIGN CURRENCY MARKETS IN 2005***
***(USD million, YTL million)***

| | Auction | | Non Auction | | | | Net | |
|---|---|---|---|---|---|---|---|---|
| | Purchase | | Purchase | | Sale | | Purchase – Sale | |
| | USD | YTL | USD | YTL | USD | YTL | USD | YTL |
| January | 526 | 714 | 1,347 | 1,814 | - | - | 1,873 | 2,528 |
| February | 569 | 748 | - | - | - | - | 569 | 748 |
| March | 690 | 904 | 2,361 | 3,013 | - | - | 3,051 | 3,917 |
| April | 605 | 821 | - | - | - | - | 605 | 821 |
| May | 468 | 639 | - | - | - | - | 468 | 639 |
| June | 764 | 1,040 | 2,056 | 2,803 | - | - | 2,820 | 3,843 |
| July | 777 | 1,040 | 2,366 | 3,178 | - | - | 3,143 | 4,218 |
| August | 626 | 840 | - | - | - | - | 626 | 840 |
| September | 774 | 1,037 | - | - | - | - | 774 | 1,037 |
| October | 513 | 696 | 3,271 | 4,422 | - | - | 3,784 | 5,118 |
| November | 539 | 734 | 3,164 | 4,339 | - | - | 3,703 | 5,073 |
| December | 593 | 802 | - | - | - | - | 593 | 802 |
| TOTAL | 7,442 | 10,016 | 14,565 | 19,569 | - | - | 22,007 | 29,585 |

Source: CBRT.

FX supply increased due to positive global liquidity conditions and ongoing reverse currency substitution, and resulted in excessive volatility, whereupon the

CBRT purchased a total of USD 22,007 million; of which USD 14,565 stemmed from interventions and USD 7,442 stemmed from daily FX buying auctions (Table III.2.6).

When the total annual transaction volume in FX and foreign currency market is considered, the share of YTL-FX transactions dominated with 69.92 percent. This figure was followed by FX deposits at 29.30 percent (Table III.2.7).

***TABLE III.2.7***
***TRANSACTION VOLUME IN FOREIGN EXCHANGE-FOREIGN CURRENCY MARKETS IN 2005***
***(USD million, Double Sided)***

| | Transactions in USD | Transactions in the Other Currencies | Total | Shares in Total Transactions (percent) |
|---|---|---|---|---|
| YTL-FX | 44,399.6 | 16.6 | 44,416.2 | 69.92 |
| YTL-Foreign Currency | - | - | - | - |
| FX-Foreign Currency | 247.7 | 243.2 | 490.9 | 0.77 |
| FX-FX | 1.0 | - | 1.0 | 0.00 |
| Foreign Currency-Foreign Currency | - | 0.3 | 0.3 | 0.00 |
| FX Deposits | 14,140.0 | 4,474.7 | 18,614.7 | 29.30 |
| Total | 58,788.3 | 4,734.8 | 63,523.2 | 100.00 |

Source: CBRT.

The USD/YTL exchange rate declined at the beginning of January 2005 due to expectations that a 3-year stand-by agreement would be made with the IMF. Later in the month, the exchange rate started to increase as USD appreciated vis-à-vis other currencies since the minutes of the latest Federal Open Market Committee (FOMC) meeting inspired short-term interest rate hikes in the upcoming months. On the other hand, due to the increase of the FX supply stemming from positive market expectations, the CBRT intervened on 27 January 2005 and purchased USD 1.3 billion, starting from the level of 1.3220, in order to prevent excessive volatility in the FX market.

The USD/YTL exchange rate was 1.3300 at the beginning of February, and fluctuated between 1.2675-1.3480. The USD/YTL exchange rate decreased to 1.2847 at the end of the month due to the lower-than-expected monthly inflation figure, Moody’s’change of Turkey’s outlook from neutral to positive, increased international demand for YTL denominated instruments and parity effects of the EUR/USD.

FX sales by non-residents continued parallel to increased international interest in Turkish assets. The resulting excessive volatility led the CBRT to purchase USD 2.4 billion, starting at the level of 1.2530 on 9 March 2005. In the subsequent days, expectations about short term interest rate increases by the FED affected Turkey along with other emerging market countries and especially the FX purchases of non-residents led the USD/YTL exchange rate to reach 1.3500 at the end of the month.

The USD/YTL exchange rate started April at the level of 1.3527 and increased to 1.3911 because of ongoing capital outflows from emerging market economies and expectations that the outcome of the EU Constitution referendum in France might be unfavorable.

Although the EU Constitution was rejected both in France and the Netherland, the ratification of the new stand-by agreement with the IMF, preservation of positive long term expectations in the EU negotiation process and the reversal of capital outflows from emerging market economies resulted the USD/YTL exchange rate to decline to 1.3615 from 1.3911 at the beginning of the month.

The USD/YTL exchange rate started June at the level of 1.3615 and fluctuated between 1.3345-1.3838. The ongoing positive expectations about the Turkish economy resulted in excessive volatility in USD/YTL FX rate that became further apparent, if the appreciation trend of USD in international currency markets is considered. Due to volatility considerations, the CBRT purchased approximately USD 2.1 billion, starting at the level of 1.3395, on 3 June 2005. The declaration of the EU to start negotiations with Turkey towards full membership on 3 October 2005; the ratification of Banking Law - an IMF performance criterion, in Parliament, and successful privatization of Turkish Telecom, led the USD/YTL exchange rate to reach the level of 1.3401 at the end of May.

Improved expectations that the FED funds rate would not reach excessive levels, depreciation of the USD in international markets, and the intense interest of foreign investors for YTL led the USD/YTL exchange rate continued its downward trend in July. On 22 July 2005, the CBRT purchased USD 2.4 billion through direct intervention. Furthermore, the ratification of EU supplementary protocol and FX sales as a result of tax payments led the USD/YTL exchange rate to decline to 1.3276 at the end of July.

In August, major institutional sales were the main driving force of USD/YTL exchange rate appreciation to 1.3100. Later in the month, oil price increases, unease as a result of some friction in EU negotiations, the high current account deficit and corruption allegations in Brazil resulted in the USD/YTL exchange rate depreciating to the level of 1.3800. On the other hand, the diminishing tensions in Brazil, FX sales by domestic agents due to the high levels of USD/YTL exchange rate and tax payments, the relative decline in oil prices, and non-negative decisions taken about Turkey in COREPER's 31 August meeting led the USD/YTL exchange rate to appreciate to the level of 1.3538 at the end of August.

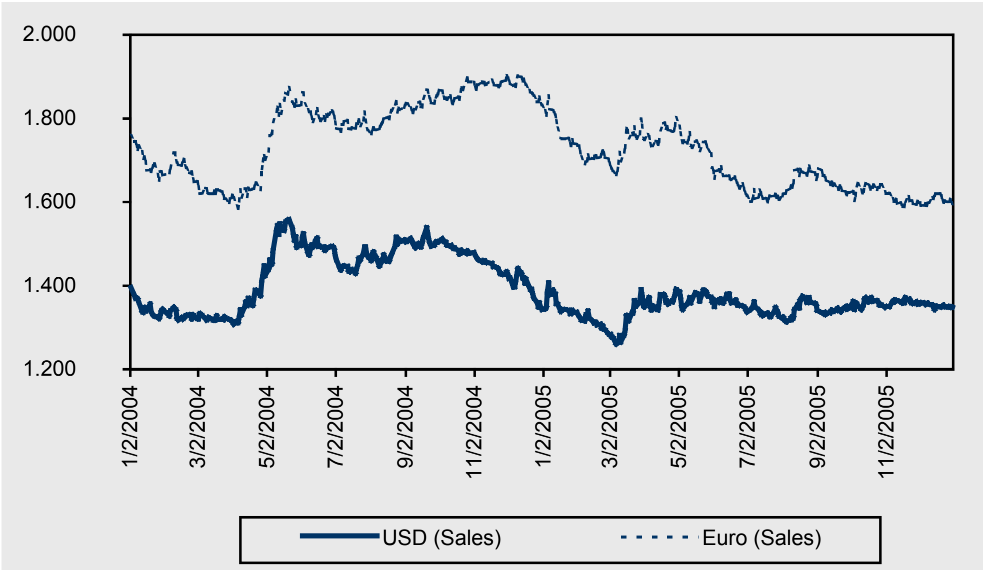
In September the FX rate declined due to sales by major domestic institutions. The USD/YTL fluctuated between 1.3350-1.3547 throughout the month mainly because of uncertainities about whether EU negotiations would start on 3 October 2005.

Soon after launching official talks with the EU for full membership, the Central Bank withdrew USD 3.3 billion from the market on the 4th of October due to the anticipated volatility in exchange rates. In the course of the month YTL, as other currencies of developing countries, started to depreciate against the USD as a result of signals given by the FED that rate increases would continue in the future. However, following the good news from the Council of State regarding approval of the sale of TELECOM and agreement with the IMF over the Letter of Intent following the completion of the first and second reviews the the USD/YTL rate, which reached 1.3700 in the middle of the month, the USD closed the month at 1.3482.

After a stable start at the beginning of November, the USD/YTL rate increased to the level of 1.3600 towards the end of the month in line with the parity increase in the EUR/USD. As a result of the lax global liquidity condition together with the depreciation of the USD in international markets, the Central Bank withdrew USD 3.2 billion from the market on the 18th of November in order to prevent both current and anticipated volatility. The USD/YTL rate, which moved within the 1.3465-1.3717 band in November, closed the month at 1.3565.

Despite the good news received from Moody's about upgrading the credit rating of Turkey it was not reflected on the USD/YTL rate due to the decrease in the EUR/USD parity. Moreover, transaction volume in FX markets stayed at a low level as many countries around the world entered the holiday season at the end of the year. Hence, the rate between the USD and YTL moved in a narrow band in December and closed the year at the level of 1.3483, compared to 1.3427 at the beginning of the year.

***FIGURE III.2.1***
***EXCHANGE RATES***
***(USD and Euro)***

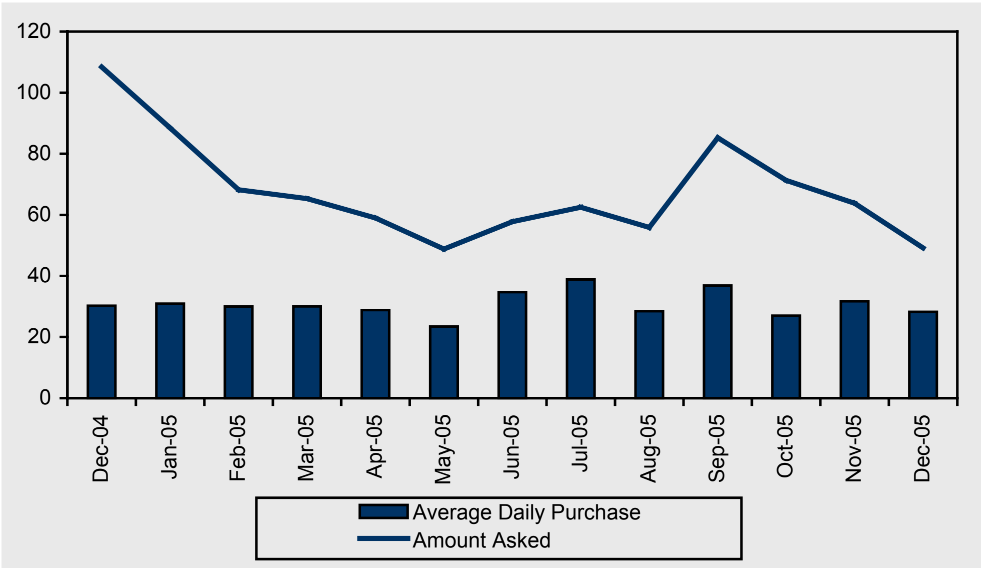



Source: CBRT.

As explained by the Central Bank in its Monetary and Exchange Rate Policy Framework of 2005, the maximum level for buying FX from the market in a day during 2005, starting from 22nd of December, 2004, is determined to be USD 45 million, which is allocated as 15 million for the auction and 30 million as the optional amount. Within this framework, the Central Bank bought USD 7.7 billion in the auctions realized between the 22th of December, 2004 and the 30th of December, 2005. The average amount of buying from the 250 auctions during this period was USD 30.7 million, while the average asked amount was realized at USD 65.6 million. Figure II.2.2 shows the average daily buying from FX auctions and the amount asked for by the market.

Within the framework announced in previous press releases, the Central Bank gradually started to withdraw itself from intermediation in the FX markets. This process ended with the complete withdrawal of the Central Bank from the FX markets as there were no further transactions in the FX – FX Deposit markets. On the other hand, the Central Banks continued to be involved as a participant in the forex markets for forex, forex for banknote and banknote for banknotes transactions.

***FIGURE III.2.2***
***FOREIGN EXCHANGE BUYING AUCTIONS***
***DAILY AVERAGE AMOUNT ASKED AND PURCHASED[1]***
***(USD million)***




Source: CBRT.
(1) Optional amounts were not included.

# IV

# FINANCIAL MARKETS

## IV.1. THE BANKING SECTOR

### IV.1.1. Developments in the Banking Sector

**General Assessments**

In recent years, factors unique to macroeconomics and the financial sector, which are supported by the intermediation of the financial system, are summarized as follows: The macroeconomic factors, which are strengthening financial intermediation, are high private capital inflow to emerging markets, obtaining macroeconomic stability, continuing the disinflation process, positive developments in the EU conversion process, and the start of a decline in fiscal dominance (Table IV.1.1). Moreover, factors unique to the sector are also listed as the restructuring of the banking sector and strengthening of its financial structure, the rising share of foreign banks in the sector and increasing competition resulting from these banks, the strengthening of the system for the supervision and auditing of banks.

***TABLE IV.1.1***
***NET CAPITAL INFLOWS TO EMERGING MARKETS***
***(USD billion)***

| | 2000 | 2001 | 2002 | 2003 | 2004 | 2005(1) | 2006(1) |
|---|---|---|---|---|---|---|---|
| Total Capital Flows | 22.2 | 65.6 | 78.8 | 96.5 | 151.0 | -4.2 | -85.5 |
| Private Capital Flows | 74.3 | 66.2 | 68.2 | 158.2 | 232.0 | 132.9 | 53.8 |
| Direct Investments | 167.0 | 178.6 | 142.7 | 153.4 | 189.1 | 209.2 | 206.1 |
| Portfolio Investments | 21.0 | -83.6 | -87.6 | -7.3 | 64.0 | -28.6 | -19.0 |
| Other Capital Flows | -113.7 | -28.8 | 13.0 | 12.1 | -21.1 | -47.7 | -133.3 |
| Official Flows | -52.1 | -0.6 | 10.6 | -61.7 | -81.0 | -137.1 | -139.3 |

Source: IMF "World Economic Outlook", September 2005.
(1) Projections.

The domestic agents' portfolio attitude has been directed to the YTL due to the favorable developments in macroeconomic stability. As a result of this development, the inclination for foreign currency items has decreased and financial stability has improved. Moreover, while non-residents increased their domestic government securities portfolio, which is transmitting interest rate risk from the financial system to non-resident agents, the soundness of the financial system improved. In addition to this, the applied exchange rate policy reduced the macroeconomic vulnerabilities with the rising awareness of risk management for economic agents.

The banking sector extended more credit to households and the real sector rather than the public sector in 2005. Credit volume continued its increasing trend due to the restructuring of the financial system, the positive effects of the EU conversion process on macroeconomic expectations, willingness to increase the domestic client bases of foreign banks, and the effort to protect the client basis of domestic banks. The increased rate of credit supported both investment and private consumption. During this period, the increased rate of housing loans, which is grouped in consumer loans, was especially striking.

The number of banks in the Turkish Banking Sector decreased to 47 due to the merging of Ak Uluslararası Bankası A.Ş. with Akbank T.A.Ş. in 2005, while the total number of banks was 48 in 2004. In this period, the name of Türk Dış Ticaret Bankası A.Ş was changed to Fortis Bank A.Ş. Moreover, it was transferred to the foreign bank group from the private bank group. The number of deposit banks was 34 while investment and development banks were thirteen at the end of 2005. Deposit banks consist of three public banks, seventeen private banks, thirteen foreign banks and one SDIF bank. Six foreign banks were established in Turkey, while seven opened branches.

The integration process of the Turkish banks to Basel II has been continued in our country due to the strengthening of the supervision and auditing of the banking sector, as observed in all countries. The Banking Regulation and Supervision Agency (BRSA) released the road map related to Basel II on 30$^{th}$ May, 2005, which explains when and how it will be applied in Turkey, after the revised framework of the "international convergence of capital measurement and capital standards" had been issued in June 2004. According to the road map, Basel II will start to apply in our country on 1$^{st}$ January 2008. During the transition process, it is necessary that its soundness and appropriateness should be assessed by the banking sector, real sector, supervision authorities, and other related institutions, which are affected by this transition.

Recently, increasing competition and interest of foreign institutions in the Turkish banking sector has expanded the number of branches and personnel. While the total number of personnel in banks increased from 127,163 in 2004 to 132,258 in 2005, the number of branches increased from 6,106 to 6,247 (Table IV. 1.2). Due to the rise of the importance of individual banking for foreign banks and the transfer of Fortis Bank A.Ş. (Dışbank) from the private bank group to that of foreign banks, the number of branches and personnel of foreign banks increased. On the other hand, the number of branches and personnel of state banks decreased due to the restructuring of the Türkiye Halk Bankası A.Ş., which was merged with Pamukbank T.A.Ş. in November 2004. In this period, the number of branches and personnel of private banks increased due to increasing competition in the sector and the importance of the credit policy. The number of branches of investment and development banks did not significantly change, while the number of personnel decreased.

**_TABLE IV.1.2_**
**_SHARES OF BANK GROUPS IN THE SECTOR_**
**_(Percent)_**

| | Total Assets | Securities[1] | Loans | Non-Perf. Loans | Deposits | Employees[2] | Branches[2] |
|---|---|---|---|---|---|---|---|
| **As of December 2004** | | | | | | | |
| Public Sector Banks | 34.9 | 50.0 | 21.1 | 37.7 | 42.4 | 39,467 | 2,149 |
| Private Sector Banks | 57.4 | 45.6 | 68.9 | 55.2 | 55.1 | 76,880 | 3,729 |
| SDIF Banks | 0.6 | 1.2 | 0.0 | 1.9 | 0.0 | 403 | 1 |
| Foreign Banks | 3.4 | 2.0 | 4.7 | 2.4 | 2.5 | 5,880 | 209 |
| Investment and Development Banks | 3.7 | 1.1 | 5.3 | 2.8 | 0.0 | 4,533 | 18 |
| Sector Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | - | - |
| (YTL Billion) | 306.4 | 123.7 | 99.3 | 6.4 | 191.1 | 127,163 | 6,106 |
| **As of December 2005** | | | | | | | |
| Public Sector Banks | 31.3 | 45.2 | 21.0 | 33.6 | 38.8 | 38,046 | 2,035 |
| Private Sector Banks | 59.7 | 49.7 | 68.2 | 57.6 | 57.0 | 78,806 | 3,799 |
| SDIF Banks | 0.5 | 0.5 | 0.0 | 1.3 | 0.0 | 395 | 1 |
| Foreign Banks | 5.2 | 3.1 | 6.8 | 5.4 | 4.1 | 10,610 | 393 |
| Investment and Development Banks | 3.2 | 1.5 | 4.0 | 2.1 | 0.0 | 4,401 | 19 |
| Sector Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | - | - |
| (YTL Billion) | 397.1 | 143.1 | 149.9 | 7.5 | 243.1 | 132,258 | 6,247 |

Source: CBRT and Bank Association of Turkey.
(1) Government Securities.
(2) Number of employees and branches.

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

*The balance sheet size of the banking sector rose to USD 295.7 billion in December 2005 due to the high increase in credit volume.*

The total assets of the banking sector increased by 20 percent in real terms and rose to YTL 397.1 billion as of December 2005, compared to the previous year, as a result of the positive effect of the EU convergence process on macroeconomic expectations, sustainable economic growth with the disinflation period, and abundant international liquidity. Total assets also increased by 30 percent in USD terms, and rose from USD 228.3 billion at the end of 2004, to USD 295.7 billion at the end of 2005, which was also affected by the appreciation of the Turkish lira against the USD (Table IV.1.3).

***TABLE IV.1.3***
***TOTAL ASSETS AND THEIR SHARES***

| | December 2004 | | December 2005 | |
|---|---|---|---|---|
| | USD billion | Share (%) | USD billion | Share (%) |
| Total | 228.3 | 100.0 | 295.7 | 100.0 |
| State Banks | 79.7 | 34.9 | 92.7 | 31.3 |
| Private Banks | 131.1 | 57.4 | 176.6 | 59.7 |
| SDIF Banks | 1.4 | 0.6 | 1.4 | 0.5 |
| Foreign Banks | 7.7 | 3.4 | 15.4 | 5.2 |
| Investment and Development Banks | 8.4 | 3.7 | 9.6 | 3.2 |

Source: CBRT.

As a result of the restructuring process of the banking sector and the willingness of foreign financial institutions to purchase Turkish banks, while the share of the public sector in the banking sector decreased, the share of the private sector increased at the end of 2005. In December 2005, while the share of private and foreign banks increased compared to the end of the previous year, the share of state banks, SDIF banks, and development and investment banks decreased. While the highest decrease was realized in the share of the state banks, the highest share increase was realized in the share of foreign banks, due to the purchasing of Turkish banks by foreign financial institutions (Table IV.1.3).

In 2005, while USD against YTL increased by 0.1 percent in nominal terms, the CPI increased by 7.7 percent. For this reason, while Turkish lira denominated items were discounted according to the CPI 2003=100, FX denominated items were assessed in FX terms. In 2005, when the developments on the consolidated balance sheet were analyzed, while YTL denominated assets increased by 29 percent in real terms, FX denominated assets increased by 13 percent in USD terms. The YTL equivalent of the FX denominated assets slightly increased by 5 percent in real terms due to the movement of YTL, which is not significantly changed against the USD. While the YTL denominated liabilities of the consolidated balance sheet also increased by 29 percent in real terms, FX denominated liabilities increased by 15 percent in USD terms. In the same period, the YTL equivalent of the FX denominated liabilities increased by 7 percent in real terms.

**TABLE IV.1.4**
**SELECTED BALANCE SHEET ITEMS OF THE BANKING SECTOR**
**(YTL billion)**

| | December 2004 | | | | December 2005 | | | |
|---|---|---|---|---|---|---|---|---|
| | S.B. | P.B. | F.B. | Total | S.B. | P.B. | F.B. | Total |
| TOTAL ASSETS | **106.9** | **175.9** | **10.4** | **306.4** | **124.5** | **237.2** | **20.7** | **397.1** |
| YTL | 81.6 | 98.9 | 6.6 | 195.6 | 100.6 | 147.2 | 13.2 | 271.4 |
| FX | 25.3 | 77.0 | 3.8 | 110.8 | 23.9 | 90.0 | 7.5 | 125.7 |
| 1- Claims on Banks | 6.5 | 9.5 | 1.5 | 21.0 | 5.8 | 13.4 | 3.1 | 25.8 |
| 2- Total Securities Portfolios (Net)(1) | 61.8 | 56.4 | 2.5 | 123.7 | 64.7 | 71.1 | 4.4 | 143.1 |
| YTL | 48.8 | 29.4 | 1.9 | 82.5 | 52.6 | 40.8 | 3.2 | 99.1 |
| FX | 13.0 | 27.1 | 0.6 | 41.1 | 12.1 | 30.3 | 1.2 | 44.0 |
| 3- Credit | 20.9 | 68.4 | 4.7 | 99.3 | 31.4 | 102.3 | 10.2 | 149.9 |
| YTL | 17.8 | 40.5 | 3.1 | 64.3 | 26.9 | 69.1 | 7.3 | 107.3 |
| FX | 3.1 | 28.0 | 1.6 | 35.0 | 4.6 | 33.2 | 2.9 | 42.7 |
| 4- Past-Due Loans (Gross) | 2.4 | 3.5 | 0.2 | 6.4 | 2.5 | 4.3 | 0.4 | 7.5 |
| 5- Interest & Income Accruals | 3.8 | 5.9 | 0.3 | 10.3 | 3.5 | 6.5 | 0.5 | 10.9 |
| 6- Participations & Subsidiaries | 0.9 | 10.5 | 0.1 | 11.8 | 1.0 | 9.6 | 0.3 | 11.2 |
| 7- Other Assets | 1.3 | 1.9 | 0.3 | 3.7 | 1.9 | 2.9 | 0.5 | 6.2 |
| TOTAL LIABILITIES | **106.9** | **175.9** | **10.4** | **306.4** | **124.5** | **237.2** | **20.7** | **397.1** |
| YTL | 79.5 | 89.3 | 5.9 | 183.4 | 98.2 | 134.8 | 12.1 | 255.3 |
| FX | 27.4 | 86.6 | 4.4 | 123.0 | 26.3 | 102.4 | 8.6 | 141.8 |
| 1- Deposits | 81.1 | 105.2 | 4.7 | 191.1 | 94.4 | 138.7 | 10.0 | 243.1 |
| YTL | 59.2 | 45.1 | 1.4 | 105.7 | 73.1 | 76.7 | 4.7 | 154.6 |
| FX | 21.8 | 60.1 | 3.3 | 85.4 | 21.3 | 61.9 | 5.3 | 88.6 |
| 2- Funds from Repo | 1.2 | 9.0 | 0.2 | 10.6 | 0.7 | 15.7 | 0.6 | 17.4 |
| 3- Due to Banks | 4.1 | 23.9 | 2.4 | 33.8 | 5.4 | 40.3 | 5.0 | 54.3 |
| 4- Interest & Expense Accruals | 0.8 | 1.3 | 0.2 | 2.4 | 0.9 | 2.1 | 0.4 | 3.4 |
| 5- Owners Equity | 10.1 | 27.4 | 2.1 | 46.0 | 13.3 | 29.8 | 3.3 | 54.2 |
| Paid Up Capital | 3.8 | 7.8 | 0.6 | 14.8 | 4.7 | 11.2 | 0.9 | 20.0 |
| Legal and Provisional Reserves | 0.6 | 2.9 | 0.4 | 23.6 | 5.0 | 12.1 | 1.7 | 41.2 |
| Profit (Loss) for the Period | 2.7 | 2.8 | 0.2 | 6.5 | 2.9 | 1.9 | 0.5 | 6.2 |
| Profit (Loss) for Previous Years | 0.2 | -0.5 | 0.0 | -21.6 | 0.1 | -0.2 | 0.1 | -18.9 |
| Selected Off-Balance Sheet Items | | | | | | | | |
| 1- Contingencies | 7.5 | 44.0 | 2.0 | 55.7 | 8.6 | 48.5 | 5.7 | 64.8 |
| 2- Commitments | 8.4 | 97.7 | 15.8 | 124.0 | 8.8 | 93.9 | 25.3 | 134.0 |

Source: CBRT.
S.B.: state banks, P.B.: private banks, F.B.: foreign banks
(1) It is the sum of securities available for sale and securities to be held till maturity.

The maintenance of macroeconomic stability, the decline in nominal interest rates, the extension in the maturity of loans and economic growth led to an increase in both credit supply and demand in 2005, as in the previous year. During this period, banks focused much more on individual loans and especially housing loans. Thus, banks aimed at raising their profitability by enlarging their customer base. Although the financial structure of the individual and the corporate sectors have strengthen in accordance with the growth trend of the economy, non-performing loans followed an upward trend due to rapid credit growth. The rise in non-performing loans essentially stemmed from the increase in individual loans and credit cards, and was observed in the loans extended to the private and foreign banks, which were the two bank groups in which loans enlarged most rapidly.

The total securities portfolio, which had the second highest share after credits in consolidated balance sheet assets, increased because of the rise in the government securities portfolio of private and foreign banks. The increase in the total securities portfolio was mainly observed in YTL denominated items. Hence, compared to the expansion in the credits, the rate of change of total securities was quite limited.

Claims on the Central Bank, banks and the money market, one of the most liquid assets of banks, rose dramatically on the consolidated balance sheet in 2005, compared to the previous year. While the significant increase in claims on the money market was primarily caused by the liquidity owned by public banks, claims on the Central Bank had the highest growth rate due to the excess liquidity.

The participations and subsidiaries item of banks' assets dropped since private banks turned somewhat towards credits, whereas other asset items rose because of public and private banks.

Deposits, which make up the highest share on the liability side of banks, preserved its increasing trend in 2005, as in 2004, with the downward tendency of inflation, the EU convergency process, economic growth and the maintenance of macroeconomic stability. During this period, residents' portfolio choices changed in favour of YTL denominated instruments due to the stable course of FX, and, accordingly, the increase in foreign currency denominated deposits was lower than the increase in YTL denominated deposits. The increase in deposits was observed mostly in foreign banks and private banks. Another financial source of the banking sector, funds sustained from repo transactions, rose dramatically because of the substantial boom in private banks' funds sustained from repo transactions.

Furthermore, loans to banks supplied by banks abroad increased significantly in 2005, in accordance with the maintenance of macroeconomic stability, high liquidity conditions in international markets and confidence in the Turkish financial system. This increase mainly stemmed from the loans extended to private banks and foreign banks, from banks abroad.

The improvement in the owner's equity of banks continued in line with the increases in paid up capital and legal and provisional reserves items, in spite of the decrease in profitability. Although the revenue of banks from banking services has risen, the revenue from the total securities portfolio has receded since interest rate margins decreased and thus caused a decline in banks' profits.

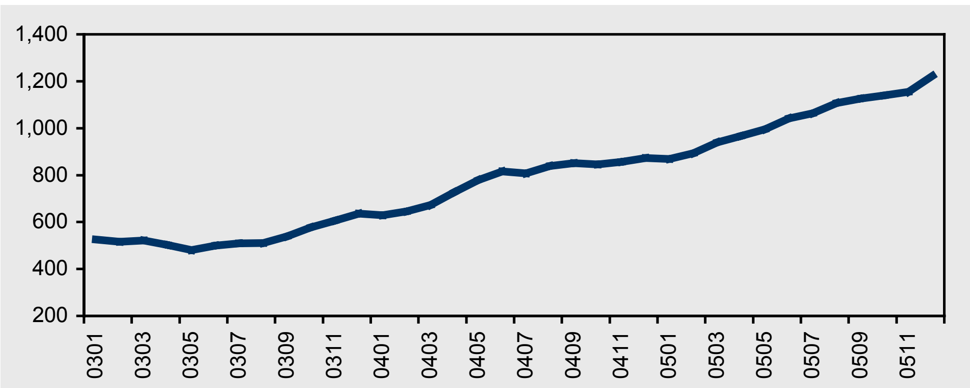
During this period, from the off-balance sheet activities of banks, the contingencies item demonstrated a slight increase, while a substantial rise was observed in the derivative financial instruments sub-item. In December 2005, the contingencies item in the off-balance sheet increased by 8 percent, whereas the derivative financial instruments item increased by 57 percent, in real terms. The YTL denominated share of the derivative financial instruments item increased by 99 percent in real terms, while the foreign currency denominated share of the derivative financial instruments item, which is higher, increased by 59 percent on USD basis.

### IV.1.2.A. Credits

*Credit volume increased in 2005, especially due to the growth in the consumer loans.*

Owing to the positive effects of the low inflation environment and the EU convergency process on the banking sector, together with the improvement in banks' intermediary functions, credit volume increased in 2005 (Figure IV.1.1). Parallel to the decline in credit interest rates and the increase in domestic demand, competition in the banking sector grew and the variety of products regarding consumer loans and, especially housing loans, increased. These factors led to the speeding up of the credit growth rate from the beginning of 2005.

***FIGURE IV.1.1***
***CREDIT VOLUME***
***(Constant Prices, Thousand YTL)[1]***



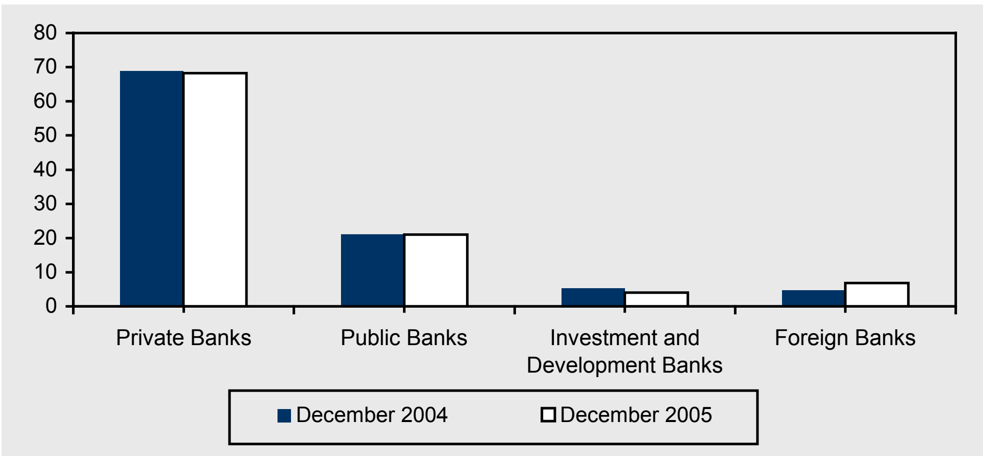

Source: CBRT.
(1) Discounted by CPI 2003=100.

Credit growth was mainly observed in loans to individuals. Similar to high rates of growth to those observed in automobile loans in 2004, were monitored in housing loans in 2005. Housing loans played a leading role and became the major component of consumer loans in 2005.

Total credits increased by 40 percent in real terms compared to the end of the previous year, reaching to an amount of 149,9 billion YTL in December 2005. In the same period, YTL denominated loans grew by 55 percent in real terms, while FX denominated loans increased by 22 percent in real terms on a USD basis and by 13 percent in real terms on a YTL basis. As in 2004, an increase in credit volume was observed both in YTL denominated loans and FX denominated loans, yet a higher share of credits was mainly YTL denominated. The ratio of FX denominated loans to total credit volume decreased from 35 percent at the end of 2004, to 28 percent end 2005.

When analyzed by banking groups, it is observed that the highest share of the credit volume was provided by the private banks in 2005, as in previous years, while the share of foreign banks in the sector increased (Figure IV.1.2).

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




Source: CBRT.

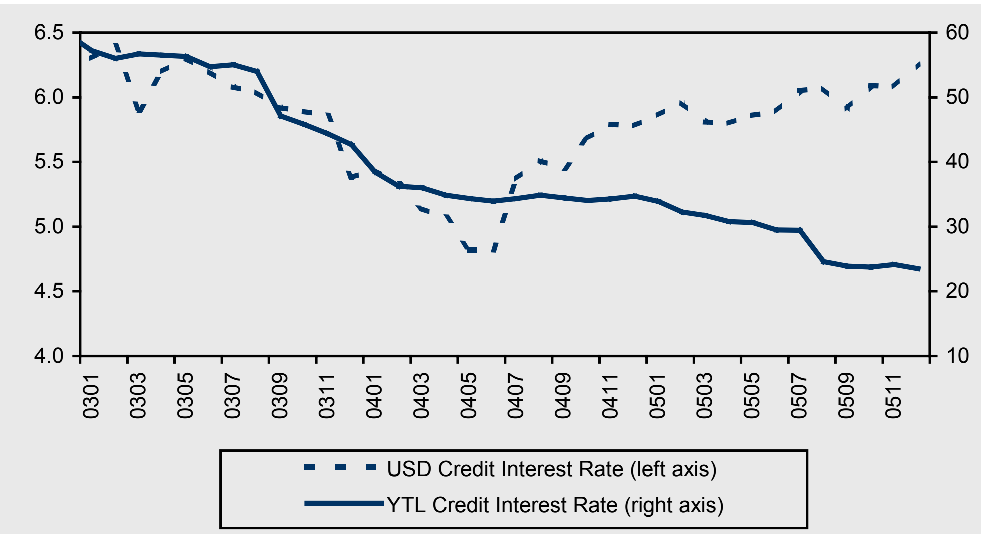
Loans extended by private banks and public banks increased by 39 percent in real terms, though the increase in loans extended by foreign banks was 104 percent in real terms. This high rate of growth in loans extended by foreign banks was mainly because of these banks' appetite to expand their credit base, as well as the changing status of a relatively large bank in the system, namely Fortis Bank (Dışbank), from private bank to foreign bank and, accordingly, its classification under foreign banks.

The ratio of non-performing loans to total loans, which was 6.4 percent in December 2004, decreased to 5 percent in December 2005. The decline in non-performing loans primarily stemmed from the decline of non-performing loans of public banks in real terms. The share of non-performing loans of public banks dropped from 11.4 percent to 8 percent, while the share of non-performing loans of private banks dropped from 5.1 percent to 4.2 percent at the end of 2005, compared to the end of the previous year.

*The ratio of non-performing loans to total loans decreased to 5 percent in December 2005.*

According to the sectoral breakdown, having the highest share in total non-performing loans, the non-performing loans of the textile and textile products sector was 11.2 percent of the total loans extended to this sector in December 2005. However, declines were observed in the shares of non-performing loans of wholesale and retail trading services and non-metal ores industries sectors.

***FIGURE IV.1.3***
***INTEREST RATES ON CREDITS***
***(Weighted Average, Percent)***




Source: CBRT.

Along with the disinflation process, the downward trend of the nominal and real credit interest rates continued in 2005 as well (Figure IV.1.3). Especially with rising competition among banks, interest rates displayed a sharp decrease in July and August and leveled out at 23 percent in December 2005. On the other hand, USD credit interest rates maintained the same level in 2005, with a volatile pattern.

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

*The increase of the total portfolio was more limited in 2005.*

In 2005, the total securities portfolio of the banking sector showed a more limited increase compared to credit volume as the PSBR diminished and amounted to YTL 143 billion. In this period the total securities portfolio increased by 7 percent in real terms. The share of the portfolio of public banks in the total securities portfolio of the banking sector, which was 50 percent at the end of 2004, decreased to 45 in December 2005, as the share of portfolio of private banks increased. The total securities portfolio of the banking sector denominated in YTL increased 11 percent in real terms while the total securities portfolio denominated in foreign currency increased 7 percent in terms of USD. Regarding the structure of the securities portfolio of banks, it can be seen that the portfolio of public and private banks essentially denominated in YTL increased. In addition, the change of status of a private bank to a foreign bank led to a sharp increase in the relatively low share of the portfolio of foreign banks (Table IV.1.5).

**TABLE IV.1.5**
**TOTAL SECURITIES OF THE BANKING SECTOR**
**(YTL million)**

| December 2004 | Public | Private | Foreign | SIDF | INVDB | Total |
|---|---|---|---|---|---|---|
| **Total Securities** | **61,820** | **56,447** | **2,525** | **1,513** | **1,377** | **123,682** |
| YTL | 48,810 | 29,360 | 1,911 | 1,513 | 940 | 82,534 |
| FX | 13,010 | 27,087 | 614 | - | 438 | 41,149 |
| **December 2005** | **Public** | **Private** | **Foreign** | **SIDF** | **INVDB** | **Total** |
| **Total Securities** | **64,680** | **71,055** | **4,399** | **764** | **2,160** | **143,058** |
| YTL | 52,613 | 40,781 | 3,205 | 764 | 1,740 | 99,103 |
| FX | 12,067 | 30,274 | 1,194 | - | 420 | 43,955 |

Source: CBRT.

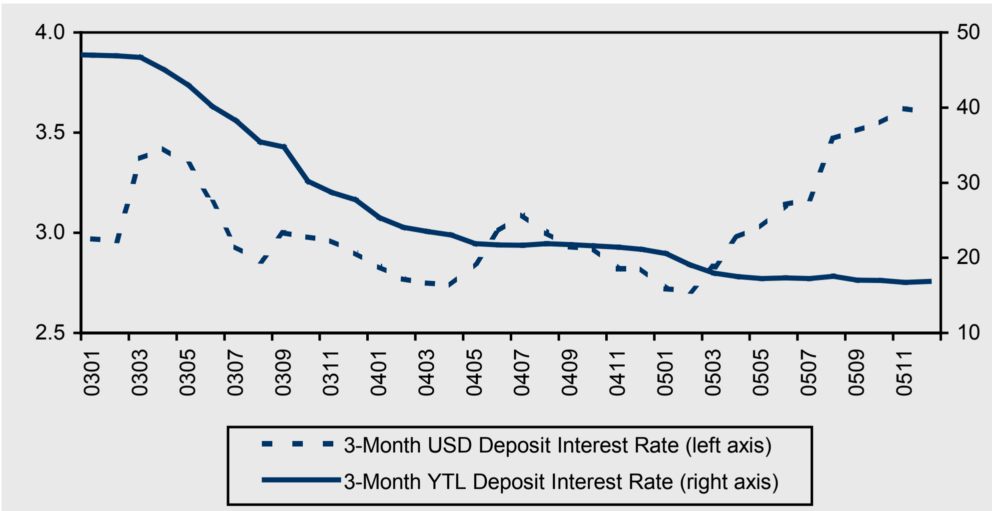
### IV.1.2.C. Deposits

*In 2005, the deposit volume continued to increase.*

In 2005, as the atmosphere in the banking sector was being positively influenced by macroeconomic factors such as the decreasing trend in inflation and on-going fiscal discipline, foreign investors entered the system directly or as shareholders. These circumstances have affected the structure of the balance sheet of the banking sector and also the deposit volume. Total deposits of the banks. increased by 18 percent in real terms in December 2005, compared to the end of the previous year. During this period. as deposits denominated in YTL increased 36 percent in real terms, deposits denominated in foreign currency increased 4 percent in terms of USD, while they decreased 4 percent in terms of YTL. One of the main factors that caused deposits denominated in YTL to increase more than deposits denominated in foreign currency was the fact that, in line with economic stability, confidence in the national currency increased and financial instruments denominated in YTL were thereby preferred extensively.

Among banking groups. foreign banks had the highest increase in deposits. The deposit volume of foreign banks as well as the credit volume led by foreign banks, rose sharply and increased by 97 percent in real terms in December 2005, compared to the end of the previous year. In addition. the share of deposit volume of foreign banks in total deposits, which was 2.5 percent at the end of 2004, increased to 4.1 in December 2005.

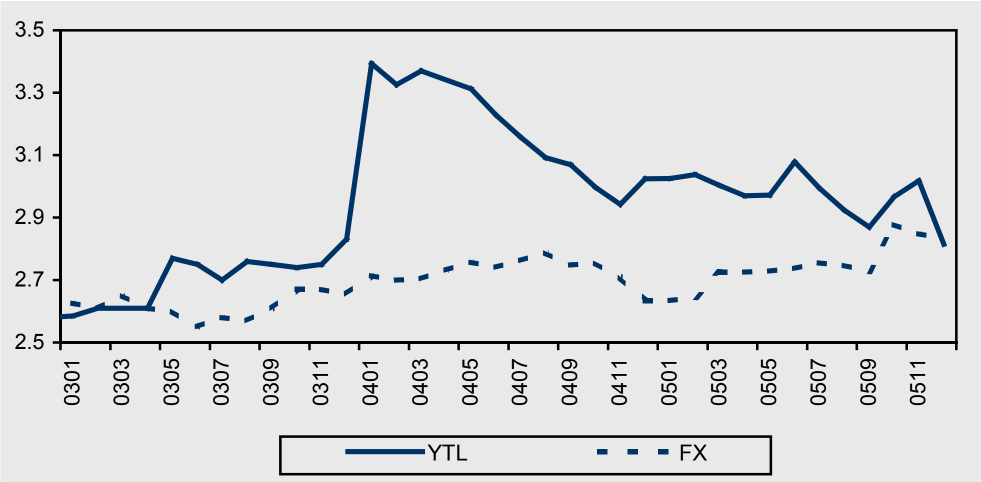
***FIGURE IV.1.4***
***DEPOSIT RATES***
***(Percent)***




Source: CBRT.

In 2005, the deposits of private banks increased 22 percent in real terms while the deposits of public banks increased 8 percent in real terms; the deposits of public, private and foreign banks denominated in YTL increased by 15, 58, and 216 percent, respectively. During this period, while deposits of public banks denominated in foreign currency decreased 3 percent in terms of USD, deposits of private banks denominated in foreign currency increased 3 percent in terms of USD. Besides, deposits of foreign banks denominated in foreign currency increased considerably, by 58 percent in terms of USD.

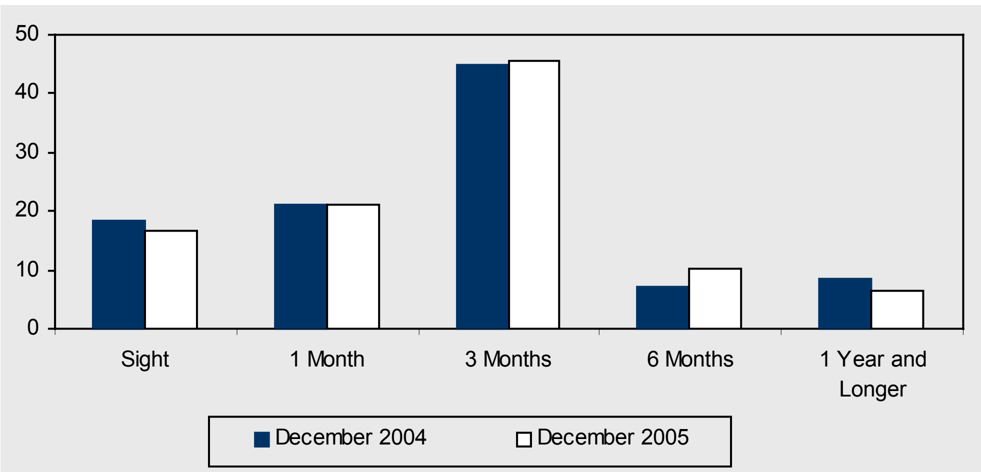
*FIGURE IV.1.5*
*AVERAGE MATURITY OF DEPOSITS*
*(In Months)*




Source: CBRT.

The interest rates of deposits denominated in Turkish lira, in line with disinflation, continued to decline. However, interest rates of deposits denominated in USD had an increasing trend (Figure IV.1.4). Interest rate rises of the FED affected the trend of interest rates of deposits denominated in USD.

*FIGURE IV.1.6*
*BREAKDOWN OF DEPOSITS ACCORDING TO MATURITY*
*(Percent)*




Source: CBRT.

At the end of 2005, the average maturity of deposits denominated in YTL, as well as that of deposits denominated in foreign currency was 2.8 months (Figure IV.1.5). The average maturity of deposits denominated in YTL fluctuated for around 3 months of the year, yet it showed a significant decrease in December 2005. On the other hand, the average maturity of deposits denominated in foreign currency increased gradually.

In 2005, deposit volume was concentrated in 3-month deposits while the share of 3-month deposits in total deposits, which was 7.2 percent at the end of 2004, increased to 10.2 in December 2005 as the share of 1-year and longer time deposits decreased (Figure IV.1.6).

**IV.1.2.D. Owners Equity**

*Foreign banks appeared to be the most profitable banks of the sector.*

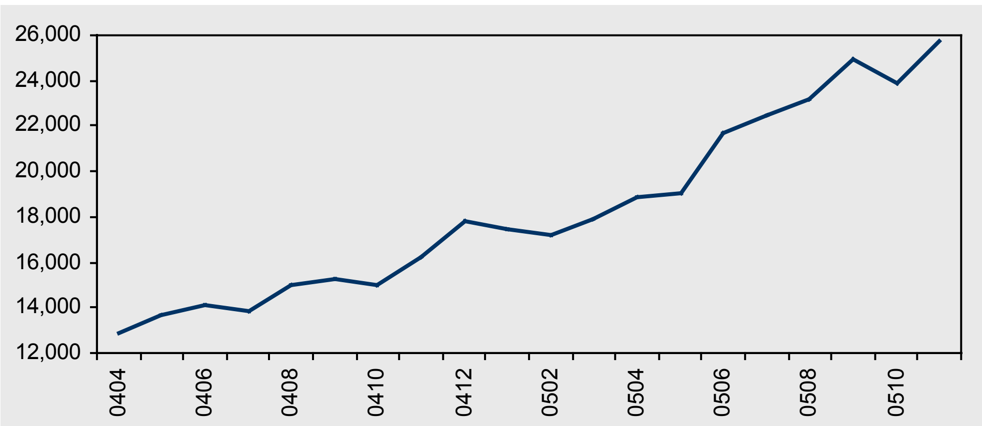
The total owners' equity of the banking sector, which was YTL 46 billion at the end of 2004, increased by 9.5 percent in real terms and reached YTL 54.1 billion at the end of 2005. This increase stemmed from the rise in paid-up capital and legal and provisional reserves. Foreign and investment and development banks were groups, which increased their profits in real terms. The profitability of other bank groups declined in real terms compared to the end of the previous year.

**IV.1.2.E. Due to Banks**

*Foreign credits obtained by banks abroad increased significantly in 2005.*

The "due to banks" item consists mainly of foreign credit received by banks from abroad from the previous year. This item increased 49 percent in real terms compared to the end of the previous year and amounted to YTL 54.3 billion at the end of 2005.

***FIGURE IV.1.7***
***FOREIGN CREDIT USED BY THE BANKING SECTOR***
***(USD million)***




Source: CBRT.

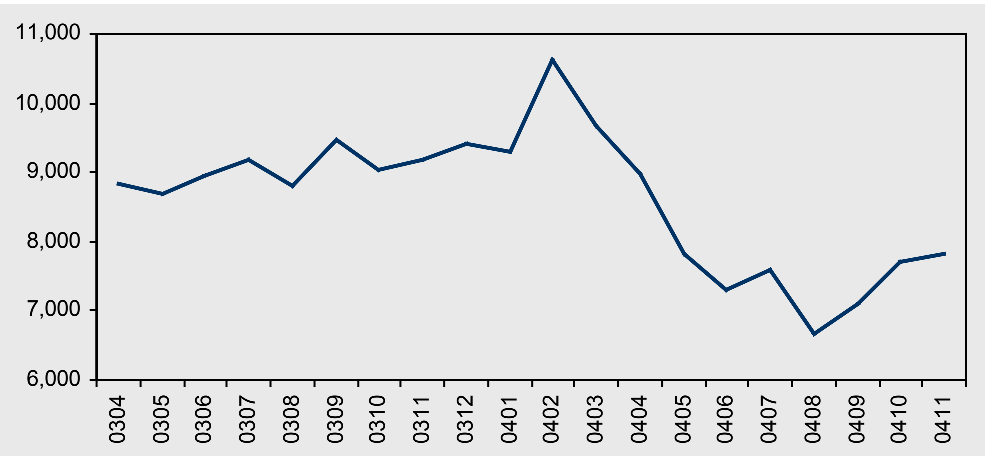
The main motivating factors of this rise can be explained as the favorable course of global liquidity, macroeconomic stability, disinflationary period and EU convergence. While the FX denominated "due to banks" items of foreign banks increased 98 percent in real terms, those of public banks and private banks increased 20 and 56 percent, respectively, in real terms. The credit extended to banks from abroad rose to USD 25.7 billion at the end of 2005, while it was USD 17.8 billion in 2004 (Figure IV.1.7).

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

*The open position of the banking sector calculated according to in-balance sheet items has increased in 2005 significantly.*

According to balance sheet figures, the difference between the FX liabilities and assets, excluding items indexed to foreign currency has also continued its upward trend in 2005. Banks borrowed a significant amount abroad due to the foreign investor's risk appetite associated with positive expectations about the EU, contribution of declining fiscal dominance to macroeconomic stability and banking sector soundness, and increased competition in the sector.

***FIGURE IV.1.8***
***THE FOREIGN CURRENCY ASSET-LIABILITY DIFFERENCE IN THE BANKING SECTOR***
***(USD million)***

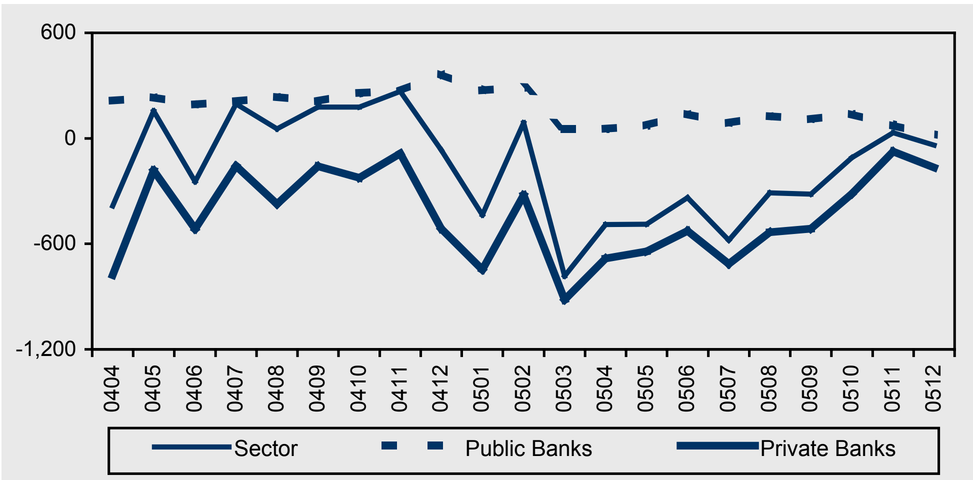



Source: CBRT.

While the open position calculated according to balance sheet figures was USD 9 billion at the end of 2004, it rose to USD 12 billion at the end of 2005 (Figure IV.1.8). In the same period, the open position of private and foreign banks increased, but that of public banks increased only slightly. Public banks, private banks, foreign banks, SDIF banks and development and investment banks also had balance sheet open positions of USD 1.7 billion, USD 9.2 billion, USD 853 million, USD 63 million and, USD 116 million respectively.

The foreign currency net general open position of the banking sector, which takes into account off-balance sheet items and items indexed to foreign currency, did not change significantly in 2005. While the foreign currency open position of the banking sector was 66 million in 2004, it realized as 39 million at the end of 2005. Also, while the foreign currency net general open position of the private banks was slightly open, public banks had a partially excess position (Figure IV.1.9).

***FIGURE IV.1.9***
***THE NET POSITION OF THE BANKING SECTOR***
***(USD million)***




Source: CBRT.

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

*The banking sector had a profit of YTL 6.2 billion as of the end of 2005.*

The banking sector made a profit of YTL 6.2 billion at the end of 2005, compared to the YTL 6.5 billion profit in 2004 (Table IV.1.6). In USD terms, while the banking sector made a profit of USD 4.8 billion in December 2004, it showed a profit of USD 4.6 billion in December 2005. While the profits of public banks, private banks, SDIF banks declined, profits of foreign banks, investment and development banks increased. Public banks, private banks, investment and development banks, SDIF banks and foreign banks made a profit of YTL 2.8 billion, YTL 1.9 billion, YTL 682 million, YTL 259 million and YTL 510 million, respectively.

As of December 2005, the net interest income decreased because of declining interest rates and increased competition. Also, provisions for non-performing loans increased in the banking sector in this period. This led to a decrease in the net interest income of banks after provisions by 7.9 percent, compared to the end of the previous year.

***TABLE IV.1.6***
***CONSOLIDATED INCOME STATEMENT OF THE BANKING SECTOR SELECTED ITEMS***
***(YTL million)***

| | December 2004 | | | December 2005 | | |
|---|---|---|---|---|---|---|
| | YTL | FX | Total | YTL | FX | Total |
| **1. INTEREST INCOME** | 35,415 | 4,925 | 40,339 | 36,817 | 5,479 | 42,296 |
| Interest Income on Loans | 13,710 | 1,833 | 15,544 | 17,930 | 2,189 | 20,120 |
| Interest Income on Banks | 552 | 340 | 891 | 677 | 466 | 1,143 |
| Interest Income on Interbank Market Transactions | 1,001 | 15 | 1,016 | 541 | 16 | 558 |
| Interest Income on Total Securities(1) | 18,664 | 2,652 | 21,316 | 16,169 | 2,674 | 18,843 |
| Other Interest Income | 1,010 | 73 | 1,084 | 1,055 | 116 | 1,171 |
| **2. INTEREST EXPENSES** | 19,822 | 2,886 | 22,708 | 20,509 | 3,486 | 23,995 |
| Interest Paid for Deposits | 17,127 | 1,862 | 18,989 | 17,861 | 1,914 | 19,775 |
| Interest Paid for Balances due to Banks | 784 | 797 | 1,581 | 907 | 1,377 | 2,283 |
| Interest Paid for Interbank Market Transactions | 113 | 25 | 137 | 122 | 26 | 148 |
| **NET INTEREST INCOME (EXPENSES)** | 15,592 | 2,039 | 17,631 | 16,308 | 1,993 | 18,301 |
| Provisions for Past Due Loans | 1,400 | 23 | 1,423 | 2,103 | 116 | 2,220 |
| **NET INTEREST INCOME (EXPENSES) AFTER PROVISIONS** | 14,192 | 2,016 | 16,207 | 14,205 | 1,877 | 16,082 |
| **3.NON-INTEREST INCOME** | 7,244 | 902 | 8,145 | 9,327 | 859 | 10,186 |
| Income from Banking Activities | 3,941 | 253 | 4,194 | 5,249 | 262 | 5,511 |
| **4. NON-INTEREST EXPENSES** | 13,834 | 677 | 14,511 | 18,026 | 714 | 18,740 |
| Personnel Expenses | 4,613 | 31 | 4,644 | 5,255 | 34 | 5,289 |
| Other Non-Interest Expenses | 4,748 | 86 | 4,834 | 6,848 | 106 | 6,954 |
| **5.OTHER NON-INTEREST INCOME (EXPENSES)** | -1,958 | 1,198 | -760 | 1,203 | 916 | 2,119 |
| Net Income (Expenses) from Capital Market Transactions | 1,098 | 741 | 1,839 | 1,202 | 174 | 1,376 |
| Net Income (Expenses) from FX Transactions | 0 | 457 | 457 | 0 | 742 | 742 |
| **PROFIT (LOSS) BEFORE TAX** | 5,644 | 3,438 | 9,082 | 6,709 | 2,938 | 9,647 |
| Provisions for Taxes | 2,632 | -5 | 2,627 | 3,426 | 2 | 3,428 |
| **PROFIT (LOSS) FOR THE PERIOD** | 3,012 | 3,442 | 6,454 | 3,283 | 2,935 | 6,218 |

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

According to the analysis of expenses by sub-items, in December 2005 there was an increase in interest paid for deposits, compared to December 2004. Especially, the fact that the increase was in YTL denominated deposits may imply that it stemmed from the increase in deposit volume and the sluggishness of deposit rates. Furthermore, the increase in interest income on and interest paid for Interbank Market transactions might stem from increasing confidence in the Interbank Market.

The analysis of income by sub-items shows that compared to the end of the previous year, there was a clear rise in interest income on loans as of December 2005. However, interest income on total securities, in line with decreasing interest rates, went down in 2005. This put a limit on total interest income despite the significant rise in interest income on loans. When considering total interest income, year-end figures increased slightly compared to the previous year due to the rising credit volume. Similar to the interest income on total securities, interest income from Interbank Market transactions decreased significantly, due to declining interest rates.

The main source of profits of banks in 2005 appeared to be interest income from loans. When other sources such as profits from FX transactions and profits from capital market transactions are considered, profits from capital market transactions decreased and profits from FX transactions increased only slightly as of December 2005. The main reason for the lower profit from capital market transactions than that of the previous year was the fact that interest rates had dropped at a slower pace in 2005 compared to the previous year. Also, the reason for the slight increase of profit from FX transactions was the stable course of the YTL against the USD and Euro.

Public banks made a profit of YTL 2.9 billion in December 2005, compared to a profit of YTL 2.7 billion in 2004. The declining interest rates due to cyclical developments affected the interest income of public banks, thus causing a limited increase in these items. Moreover, the increase in non-performing loans and decrease in interest income from the total securities portfolio in public banks lowered the profits of these banks compared to the end of the previous year.

Private banks made a profit of YTL 1.9 billion at the end of 2005, compared to YTL 2.8 billion in 2004. The decline in the profits of private banks mainly stemmed from the increase in other non-interest expenses and other provisions. Moreover, incomes from capital market transactions decreased substantially due to the low course of interest rates.

SDIF banks made a profit of YTL 259 million in 2005, compared to a profit of YTL 386 million in 2004. Development and investment banks made a profit of YTL 683 million in 2005 compared to YTL 315 million in 2004. The rise in profit of development and investment banks mostly stemmed from the increase in profits from FX transactions and the decrease in other non-interest expenses.

Foreign banks made a profit of YTL 510 million in 2005 compared to YTL 241 million in 2004. The rising share of foreign banks in the banking sector was the main reason behind the increase in profits of foreign banks in 2005 compared to the previous year. Increasing interest income, in line with the rising foreign share, further contributed to this process.

**IV.1.4. Legal and Administrative Regulations**

With "Communiqué No. 2005/1 on the Amendment of the Communiqué regarding the Law on Regulation of Check Payments and Protection of Check Bearers", published in the Official Gazette No. 25697, dated 11 January 2005, the amount of liability that the drawee bank has to pay to the bearer other than the drawer for bad or insufficient checks presented by a specified time has been set at "350 New Turkish lira", to be effective as of 24 January 2005.

Related to Communiqué No. 14 on the Regulation regarding the Inflation Accounting Application;

✓ With the Circular No. 2005/4 of the BRSA dated 3 March 2005, doubts about the inflation accounting application have been dispelled.

✓ With the Circular No. 2005/5 of the BRSA dated 28 April 2005, it was announced that the inflation accounting application had been abandoned.

With the "Regulation on the Amendment of the Regulation regarding the Principles for Consolidated and Non-Consolidated Calculation and Application of the Standard Ratio of Foreign Currency Net General Position to Equity Capital by Banks", published in the Official Gazette No. 25812, dated 11 May 2005, definitions of "Forward FX Buying Commitments" and "Forward FX Selling Commitments" were changed, and the definition of fictitious transaction was excluded.

With the "Regulation Amending the Regulation for the Establishment and Operation of Special Finance Institutions", published in the Official Gazette No. 25861, Article 37 of the Regulation for the Establishment and Operation of Special Finance Institutions, published in the Official Gazette No. 24529, dated 20 September 2001, has been amended so as to force special finance institutions to hold, publish and send their accounts and financial tables to the relevant authorities in a way that complies with the adjustments put into effect by the BRSA, pursuant to Article 13 of the Law.

Related to the Regulation for Accounting Application;

✓ "Communiqué No:17 about The Standards to be Applied to the Fiscal Tables to be Announced and the Descriptions and Footnotes Thereto", which was promulgated in Official Gazette No: 25858, dated June 27, 2005, has been amended.

✓ "Communiqué No: 15 Regarding the Alterations about the Standards for Consolidated Fiscal Tables and accounting of Subsidiaries, Joint Ventures and subsidiaries, which was promulgated in the Official Gazette No: 25858 dated June 27, 2006, has been amended.

✓ With Communiqué No: 17 and 19 about the Standards to be Applied to the Fiscal Tables to be Announced and the Descriptions and Footnotes Thereto", which was promulgated in Official Gazette No: 25858, dated June 27, 2006, the principles for the format and content of the consolidated and non-consolidated fiscal tables to be prepared by special finance houses as well as the principles for announcing these fiscal tables with their descriptions and footnotes were set.

The Regulations for Amending the Regulations Regarding the Establishment and Activities of the Banks promulgated in Official Gazette No: 25905, dated August 13, 2005 as well as the clauses of Article 4 of the "Regulations Regarding the Establishment and Activities of the Banks" bearing the title Equity Capital and Consolidated Equity Capital, which provide that capital-like credits be registered under the equity capital accounts have been amended.

With the aim of contributing to the more effective and productive activity of the banks through decreasing the intermediation costs of the banking sector, the required reserves kept by the banks at our 'bank' are being remunerated.

✓ The interest rate to be applied to the YTL required reserves was formerly set to be held in the range between 75 to 80 percent of the simple weighted average interest rate for YTL-denominated deposits. Within this framework, parallel to the downward trend in interest rates applied to YTL deposits by the banks, the interest rate to be applied to YTL-denominated required reserves, which was determined as 12.50 percent on August 25, 2004 was decreased to 11.75 by February 7, 2005; to 11 percent by April 11, 2005 and to 10.25 percent by May 24, 2005.

✓ The interest rates of FX required reserves are maintained similarly to those of the 2-day FX deposits, which are held by banks within the Central Bank, and determined on a weekly basis. In the week of January 2nd 2006, the mentioned rates were set as 2.045 and 1.115 for US and Euro-denominated reserves, respectively.

With Banking Act No. 5411, dated 19 October 2005, published in the Official Gazette, No. 25983, dated 1 November 2005, the Banks Act, No. 4389, its annexes and the relative amendments that were made on the Act were repealed, comprehensive adjustments were made to the banking sector, financial holding companies and participation banks were included in the Act and a number of provisions of the Central Bank Law were changed.

Amendments to be made on the Communiqué on the Uniform Account Plan and Prospectus;

✓ With the communiqué published in Official Gazette No. 25765, dated 24 March 2005, capital resources and non-interest income accounts were amended.

✓ With the communiqué published in Official Gazette No. 25984, dated 2 November 2005, new ledger accounts and sub accounts were opened with respect to various matters whereas a number of subsidiary accounts were closed and new explanations were added.

With the Communiqué on Required Reserves, No. 2005/1, published in Official Gazette, No. 25995, dated 16 November 2005,

✓ The Communiqué on Liquidity Requirement No. 2002/2, published in Official Gazette No. 24710, dated 29 March 2002, its annexes and the amendments made to the Communiqué were repealed and the implementation regarding the liquidity requirement, which remained dysfunctional in current conditions, was terminated.

✓ In order to facilitate the liquidity management of banks, to contribute to the stability of the course of short-term interest rates and reduce the probability of pressure exerted by the short-term changes in YTL-denominated liquidities, all of the YTL-denominated required reserves were established on average as of 2006. In the previous implementation, half of the YTL-denominated required reserves were established on average.

✓ The provision regarding the implementation of the sanctions regarding Article 40/II of the Central Bank Law related to the required reserves was amended with paragraph F of Article 168 of Banking Law No.5411 by considering the implementations of the European Central Bank. The said provision was amended in a way to keep deposits without accruing interests in the event that required reserves are not established on time or are established partially. Based on the said provision, the article regarding the implementation of sanctions stated in the communiqué on required reserves was amended in a way to keep deposits (YTL-denominated deposits equal to twice the amount of the YTL-denominated required reserves and USD-denominated deposits equal to three times the amount of foreign required reserves that were established partially) without accruing interests in the blocked accounts opened for required reserves within our Bank by considering the periods where required reserves were established partially. In cases where the procedure is not followed properly, the mentioned article was amended in a way to apply penal interest to be set with regard to the establishment period for lacking reserves.

✓ In order to prevent unfair competition between the banks that were seen to ignore their liabilities on the dates where required reserve liabilities were calculated, and the banks that assume these liabilities, instead of taking one calculation day as the basis, the banks, which were seen to ignore their liabilities on the calculation day by the researches and supervision, were required to calculate their required reserve liabilities according to the average of the days between the two calculation dates.

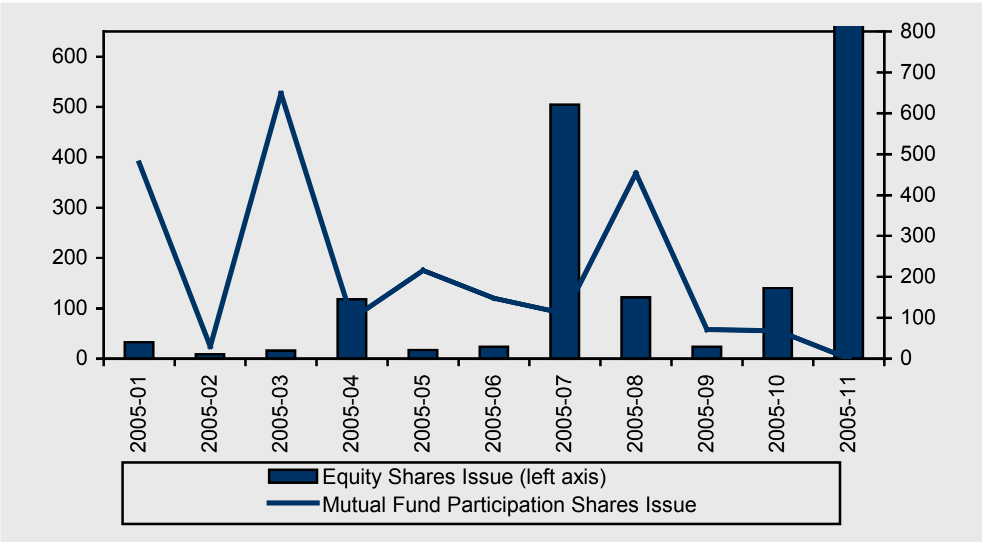
✓ In order to prevent banks from operating with an aim to evade the required liabilities, it was made possible to reduce the part of the liabilities (net) to centers and branches abroad, which amounts to the deposit/participation funds that were collected from Turkey on behalf of the branches abroad, from the total domestic liabilities.

## IV.2. SECURITIES MARKET

*The total amount of securities registered to Capital Board Markets between January-November 2005 period was YTL 17.7 billion at current prices, increasing by 65.3 percent compared to the end-year in 2004.*

The total amount of securities registered with the Capital Markets Board (CMB) between January-November 2005 was realized as YTL 17.7 billion at current prices, increasing by 65.3 percent compared to end-year 2004.

***FIGURE IV.2.1***
***SECURITIES REGISTERED WITH THE CAPITAL MARKETS BOARD DURING 2005***
***(YTL million)***




Source: CMB.

As of November 2005, a total of YTL 7.5 billion in equity shares and YTL 9.2 billion in mutual fund participation certificates were registered with the Board. While the issue of equity shares was mostly concentrated in July and November, the issue of mutual fund participation certificates was mainly concentrated in January, March and August during 2005 (Figure IV.2.1).

### IV.2.1. Primary Markets

#### IV.2.1.A. Public Sector

*As of October 2005, the total outstanding government securities of the public sector increased.*

As of October 2005, the total outstanding government securities of the public sector reached YTL 246.8 billion, increasing by 9 percent compared to end-year 2004 (Table IV.2.1).

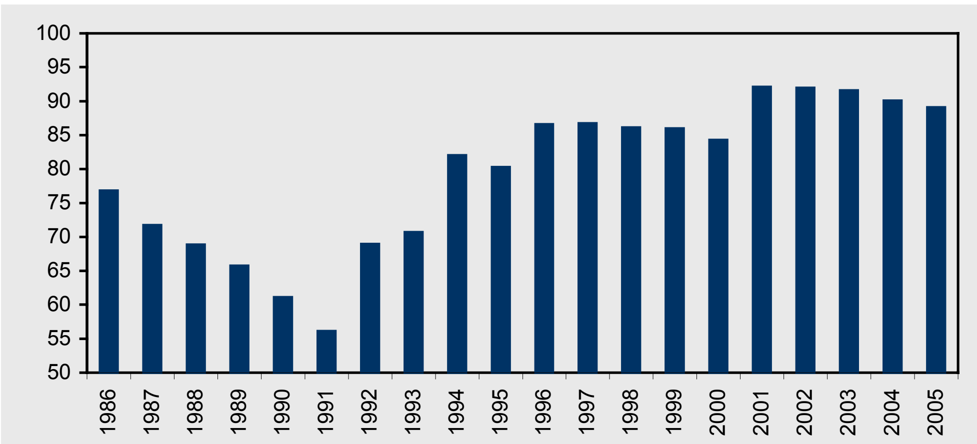
**TABLE IV.2.1**
**AMOUNTS OF OUTSTANDING PUBLIC AND PRIVATE SECTOR SECURITIES**
**(YTL million)**

| | Outstanding Government Securities | Share(1) | Government Bonds | Treasury Bills | Privatization Bonds | Outstanding Private Sector Securities | Share(1) | Total Outstanding Securities |
|---|---|---|---|---|---|---|---|---|
| 2004-12 | 227,415 | 90.0 | 194,211 | 30,272 | 2,932 | 25,186 | 10.0 | 252,601 |
| 2005-01 | 231,724 | 91.4 | 194,999 | 33,793 | 2,932 | 21,678 | 8.6 | 253,402 |
| 2005-02 | 234,251 | 90.1 | 202,365 | 28,954 | 2,932 | 25,728 | 9.9 | 259,978 |
| 2005-03 | 235,421 | 90.0 | 202,897 | 29,592 | 2,932 | 26,234 | 10.0 | 261,655 |
| 2005-04 | 239,117 | 90.1 | 203,896 | 32,289 | 2,932 | 26,364 | 9.9 | 265,481 |
| 2005-05 | 237,996 | 89.8 | 203,807 | 31,258 | 2,932 | 27,144 | 10.2 | 265,140 |
| 2005-06 | 238,990 | 89.7 | 204,687 | 30,112 | 4,191 | 27,400 | 10.3 | 266,390 |
| 2005-07 | 239,365 | 89.0 | 208,776 | 26,397 | 4,191 | 29,478 | 11.0 | 268,842 |
| 2005-08 | 243,708 | 89.1 | 215,489 | 24,028 | 4,191 | 29,674 | 10.9 | 273,382 |
| 2005-09 | 247,198 | 89.2 | 221,219 | 21,988 | 3,991 | 29,805 | 10.8 | 277,003 |
| 2005-10 | 246,770 | 89.1 | 221,242 | 21,537 | 3,991 | 30,282 | 10.9 | 277,052 |

Source: CMB.
(1) Shares in total outstanding securities.

In the aforementioned period, government bonds and privatization bills increased by 14 percent and 36 percent respectively. During the same period, Treasury bills decreased by 29 percent. The share of outstanding government securities in the total outstanding securities had a decreasing trend in 2005 (Figure IV.2.2).

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




Source: CMB.

### IV.2.1.B. Privatization

During 2005, USD 8.2 billion privatization revenue was acquired while USD 1.3 billion privatization revenue was acquired in 2004. Privatization revenues in 2005 were mostly provided through block sales (Table IV.2.2).

***TABLE IV.2.2***
***PRIVATIZATION IMPLEMENTATIONS***
***(USD million)***

| | 1986-2003 | 2004 | 2005 | TOTAL |
|---|---|---|---|---|
| Block Sales | 3,524 | 400 | 7,054 | 10,978 |
| Asset Sales and Transfers | 863 | 607 | 399 | 1,869 |
| Public Offerings | 2,669 | 191 | 274 | 3,134 |
| ISE Sales | 801 | 0 | 454 | 1,255 |
| Incomplete Asset Sales | 4 | 0 | 0 | 4 |
| Paid-in Transfers | 308 | 69 | 28 | 406 |
| **TOTAL** | 8,170 | 1,267 | 8,209 | 17,646 |

Source: Privatization Administration.

### IV.2.1.C. Private Sector

*The ratio of private sector securities to total outstanding securities was 10.9 percent as of October 2005.*

As of October 2005, private sector securities, which are solely comprised of equity shares, reached YTL 30.3 billion, increasing by 20 percent compared to the end of 2004. The ratio of private sector securities to total outstanding securities was 10.9 percent as of October 2005. The share of private sector securities to total outstanding securities had an increasing trend in 2005 (Table IV.2.1).

***TABLE IV.2.3***
***2004 AND 2005 FIGURES OF PORTFOLIO ALLOCATION OF TYPE A AND TYPE B MUTUAL FUNDS***
***(Percent)***

| | Type A | | Type B | | Type A and Type B | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| Equity Shares | 66.41 | 66.15 | 0.08 | 0.12 | 2.37 | 2.09 |
| Government Bonds | 18.32 | 20.85 | 65.41 | 67.74 | 63.79 | 66.34 |
| Reverse Repo | 14.37 | 11.61 | 33.99 | 29.30 | 33.31 | 28.77 |
| Money Market | 0.08 | 0.86 | 0.46 | 2.84 | 0.45 | 2.78 |
| Foreign Securities | 0.83 | 0.48 | 0.06 | 0.01 | 0.08 | 0.02 |
| Other | 0.00 | 0.06 | 0.00 | 0.00 | 0.00 | 0.00 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Total Portfolio Value (YTL million) | 9,635.29 | 9,011.02 | 269,736.43 | 292,323.01 | 279,371.72 | 301,334.03 |

Source: CMB.

As of November 2005, while the total portfolio value of type A mutual funds decreased to YTL 9 billion with a 6.5 percent decrease compared to the end of 2004, the total portfolio value of type B mutual funds increased to YTL 292.3 billion with an 8.4 percent increase. The total portfolio value of type A and type B mutual funds was 301.3 billion, increasing by 7.8 percent (Table IV.2.3).

**IV.2.2. Secondary Markets**

The cumulative trading volume in secondary markets has increased by 29 times compared to the end of 2004, reaching YTL 480.7 billion as of end-year 2005. In the aforementioned period, while the cumulative trading volume of government bonds increased by 31.3 percent, reaching YTL 429.3 billion, the cumulative trading volume of treasury bills in secondary markets increased by 12.4 percent and realized as YTL 51.5 billion during the same period (Table IV.2.4).

As of October 2005, the amount of private sector securities traded in secondary markets increased by 31 percent. Consequently, the secondary markets trading volume of private sector securities, which are solely comprised of equity shares reached YTL 273 billion in 2005.

***TABLE IV.2.4***
***GOVERNMENT SECURITIES SECONDARY MARKET TRADING VOLUME***
***(YTL million)***

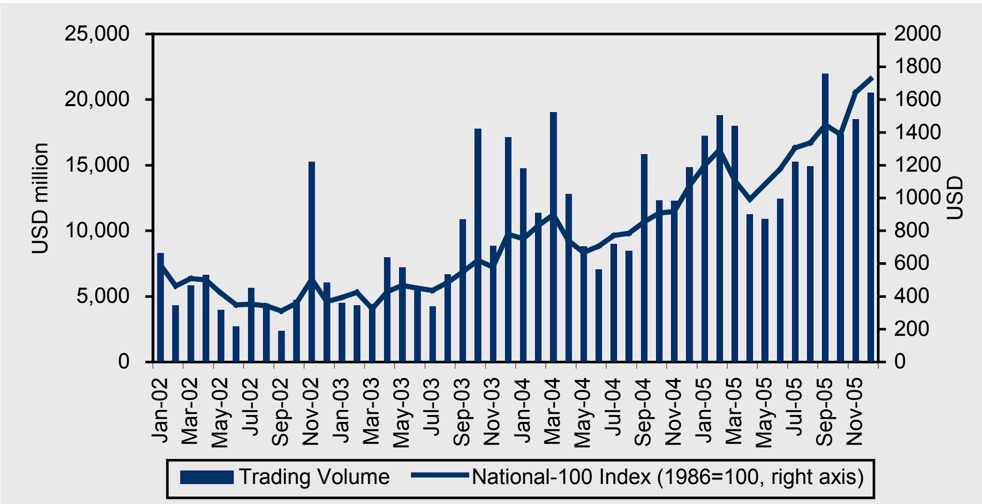
| | Government Bond | | Treasury Bill | | Total | |
|---|---|---|---|---|---|---|
| | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 |
| January | 23,632 | 35,625 | 2,940 | 4,328 | 26,572 | 39,953 |
| February | 20,612 | 41,714 | 2,897 | 4,441 | 23,509 | 46,155 |
| March | 27,105 | 51,700 | 2,952 | 4,504 | 30,057 | 56,204 |
| April | 31,188 | 35,889 | 3,836 | 4,491 | 35,024 | 40,380 |
| May | 29,227 | 39,960 | 3,957 | 5,094 | 33,184 | 45,054 |
| June | 22,995 | 36,204 | 3,034 | 4,403 | 26,029 | 40,608 |
| July | 26,806 | 26,878 | 4,277 | 4,438 | 31,082 | 31,316 |
| August | 25,339 | 30,313 | 3,802 | 3,846 | 29,141 | 34,159 |
| September | 28,666 | 37,362 | 4,602 | 4,049 | 33,268 | 41,411 |
| October | 26,576 | 34,085 | 5,139 | 4,260 | 31,715 | 38,346 |
| November | 27,493 | 28,387 | 4,142 | 3,735 | 31,635 | 32,122 |
| December | 37,270 | 31,148 | 4,183 | 3,868 | 41,453 | 35,016 |
| Total | 326,909 | 429,266 | 45,761 | 51,456 | 372,670 | 480,723 |
| Average | 27,242.4 | 35,772.2 | 3,813.4 | 4,288.0 | 31,055.8 | 40,060.2 |
| Standard Deviation | 4,279.5 | 6,721.7 | 726.9 | 373.5 | 4,681.0 | 6,925.9 |
| Coefficient of Variation (1) | 0.157 | 0.188 | 0.191 | 0.087 | 0.151 | 0.173 |
| Volatility (2) | 0.024 | 0.034 | 0.035 | 0.008 | 0.022 | 0.029 |

Source: CMB.
(1) Coefficient of Variation= Standard Deviation/Average.
(2) Volatility = 1 - ($Average^2$ / ($Average^2$ + Standard $Deviation^2$).

### IV.2.2.A. Stock Market

The ISE Stock Market experienced nine public offerings in addition to 13 secondary public offerings during 2005. As of December 2005, the total trading volume on the ISE Stock Market, National Market was USD 197.1 billion. On the other hand, the total trading volume in the aforementioned market during 2003 and 2004 was realized as USD 99.4 billion and USD 146.5 billion, respectively. Hence, the total trading volume on the ISE Stock Market, National Market when denominated in USD increased by 29 percent during 2005 compared to the previous year. The monthly average trading volume during 2005 was USD 15.7 billion. Throughout the year, trading was mostly concentrated in February, September and December, respectively, whereas the minimum trading volume was witnessed in May (Figure IV.2.3).

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




Source: ISE.

*National-100 index increased by 61 percent in 2005 compared to the same period of the previous year.*

The National-100 Index in USD sustained its upward trend of 2004 throughout 2005. Hence, in December 2005 the record level of the previous three years was witnessed. As of year-end 2005, the National-100 index increased by 61 percent compared to the same period of the previous year. Compared to year-end 2003, the increase was by 122 percent.

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

| | Purchase | Sale | Net |
|---|---|---|---|
| **2003 Total** | **9,167** | **8,158** | **1,010** |
| January 04 | 1,514 | 1,533 | -18 |
| February 04 | 1,696 | 1,332 | 364 |
| March 04 | 2,064 | 1,908 | 157 |
| April 04 | 1,594 | 1,690 | -96 |
| May 04 | 1,156 | 1,216 | -60 |
| June 04 | 1,038 | 907 | 131 |
| July 04 | 1,333 | 1,243 | 90 |
| August 04 | 1,020 | 1,065 | -44 |
| September 04 | 1,854 | 1,671 | 183 |
| October 04 | 1,691 | 1,654 | 37 |
| November 04 | 1,965 | 1,754 | 212 |
| December 04 | 2,472 | 1,998 | 474 |
| **2004 Total** | **28,566.5** | **26,126.9** | **2,439.5** |
| January 05 | 3,626 | 2,817 | 809.4 |
| February 05 | 4,116 | 3,632 | 484.9 |
| March 05 | 3,316 | 3,164 | 151.5 |
| April 05 | 1,904 | 1,865 | 39.2 |
| May 05 | 2,183 | 1,994 | 189.3 |
| June 05 | 2,510 | 2,193 | 317.2 |
| July 05 | 3,436 | 3,009 | 426.8 |
| August 05 | 3,511 | 3,033 | 478.4 |
| September 05 | 4,927 | 4,503 | 423.9 |
| October 05 | 4,151 | 4,334 | -183.1 |
| November 05 | 4,636 | 3,955 | 680.8 |
| December 05 | 4,278 | 4,009 | 268.6 |
| **2005 Total** | **42,594.1** | **38,507.2** | **4,086.9** |

Source: ISE.

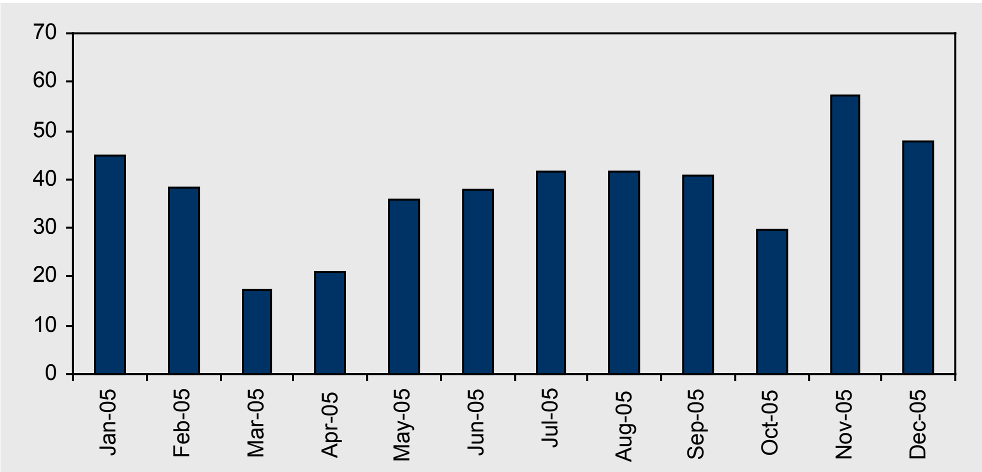
The analysis of transactions on the ISE Stock Market realized on behalf of and to the account of foreign banks/brokerage houses or individuals demonstrates that the trading volume of foreign investors increased in 2005. Purchase transactions realized on behalf of and to the account of foreign banks/brokerage houses or individuals were USD 42.6 billion, while the same figure had been USD 28.6 billion and USD 9.2 billion in 2004 and 2003, respectively. Sales transactions realized on behalf of and to the account of foreign banks/brokerage houses or individuals were USD 38.5 billion in 2005, while the same figure had been USD 26.1 billion and USD 8.2 billion in 2004 and 2003, respectively. Consequently, foreign investors were net buyers in 2005 (Table IV.2.5).

***TABLE IV.2.6***
***ISE STOCK MARKET CLOSING VALUES OF PRICE INDICES AND MONTHLY PERCENTAGE CHANGES***
***(Year 2005)***

| | National -100 | | Industrial | | Financial | |
|---|---|---|---|---|---|---|
| | Index [1] | Monthly Percentage Change | Index [1] | Monthly Percentage Change | Index [1] | Monthly Percentage Change |
| January | 27,330 | 1.1 | 22,688 | 1.1 | 39,719 | 1.1 |
| February | 28,396 | 3.9 | 23,135 | 2.0 | 42,032 | 5.8 |
| March | 25,558 | -10.0 | 21,647 | -6.4 | 36,662 | -12.8 |
| April | 23,592 | -7.7 | 19,101 | -11.8 | 34,417 | -6.1 |
| May | 25,236 | 7.0 | 20,042 | 4.9 | 37,248 | 8.2 |
| June | 26,957 | 6.8 | 21,888 | 9.2 | 40,034 | 7.5 |
| July | 29,615 | 9.9 | 23,472 | 7.2 | 44,961 | 12.3 |
| August | 30,908 | 4.4 | 24,250 | 3.3 | 47,237 | 5.1 |
| September | 33,333 | 7.8 | 26,336 | 8.6 | 51,305 | 8.6 |
| October | 31,964 | -4.1 | 25,262 | -4.1 | 49,063 | -4.4 |
| November | 38,089 | 19.2 | 28,808 | 14.0 | 60,122 | 22.5 |
| December | 39,778 | 4.4 | 31,141 | 8.1 | 62,800 | 4.5 |

Source: ISE.
(1) YTL based (1986=100)

***FIGURE IV.2.4***
***NATIONAL-100 RETURN INDEX***
***(Annual Real Return[1])***




Source: ISE.
(1) Deflated by 2003-based CPI.

The National-100 index in YTL, which followed an upward trend during 2005, increased by 59 percent based on closing values when compared to year-end in

2004. During the same period, based on year-end closing values, the industrial index and financial index increased by 49 percent and 77 percent, respectively (Table IV. 2.6).

*The real returns of the shares of the top 100 companies traded at National Market have increased on average by 37.9 percent in real terms during 2005.*

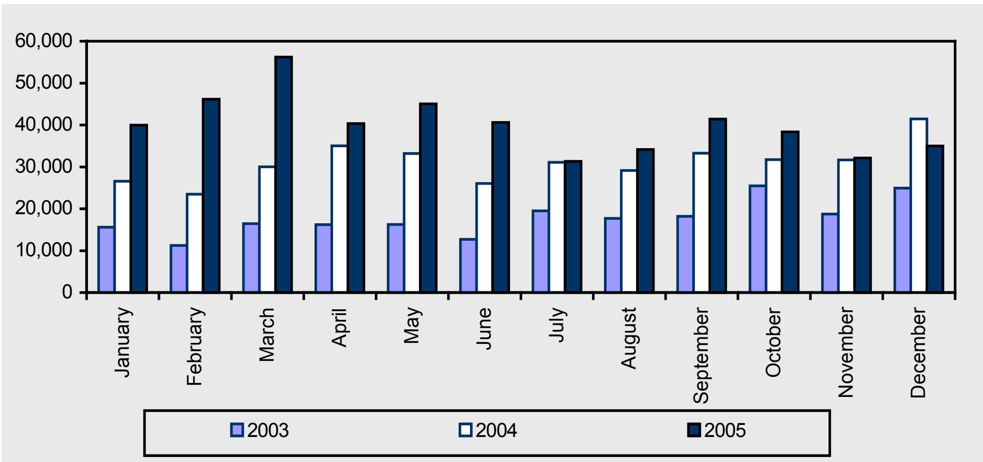
The real returns of shares of the top 100 companies traded in the National Market have been highly volatile throughout the year. Nevertheless, the average real return index increased by 37.9 percent throughout the year. The highest return was realized in November. As of December 2005, compared to the same period of 2004, the National-100 return index increased by 47.9 percent (Figure IV.2.4).

**IV.2.2.B. Bonds and Bills Market**

**ISE Outright Purchases and Sales Market**

The total monthly transaction volume on the Outright Purchases and Sales Market operating under the ISE Bonds and Bills Market has stayed well above the 2004 and 2003 figures (Figure IV.2.5).

***FIGURE IV.2.5***
***ISE BONDS AND BILLS MARKET OUTRIGHT PURCHASES AND SALES MONTHLY TRADING VOLUME***
***(YTL million)***




Source: ISE.

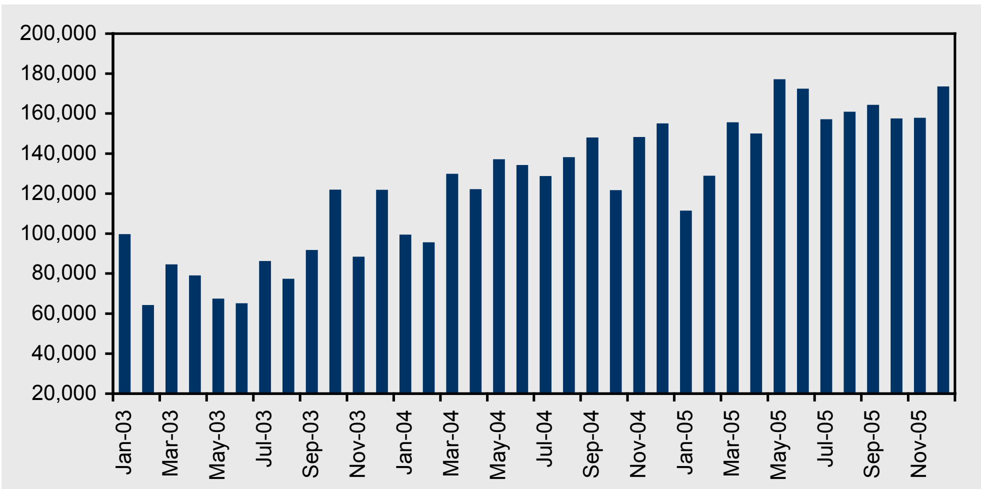
As of year-end 2005, the total transaction volume on the Outright Purchases and Sales Market increased by 29 percent compared to the end of 2004. Hence, as of December 2005, the total transaction volume on the Outright Purchases and Sales Market was YTL 480.7 billion. As of year-end, total transaction volume on the Outright Purchases and Sales Market denominated in USD reached USD 359.4 billion with an increase of 37 percent compared to year-end 2004.

**ISE Repo-Reverse Repo Market**

The total transaction volume on the Repo-Reverse Repo Market operating under the ISE Bonds and Bills Market reached YTL 1.8 trillion in 2005 with an increase of 15 percent. The total transaction volume in the Repo-Reverse Repo Market denominated in USD was realized as USD 1.3 trillion with an increase of 22 percent in the aforementioned period.

The monthly analysis of the total transaction volume on the Repo-Reverse Repo Market shows a volatile trend throughout 2005. During the year, trading was mostly concentrated in May and June, while the lowest trading volume of the year was witnessed in December, January and February, respectively (Figure IV.2.6).

***FIGURE IV.2.6***
***ISE BONDS AND BILLS MARKET REPO-REVERSE REPO MARKET TRADING VOLUME***
***(YTL million)***




Source: ISE:

**IV.2.2.C. International Bonds and Bills Market**

*International bonds issued in 2005 had a lower cost.*

The International Bonds and Bills Market, operating under the ISE International Market, hosted two USD denominated bond issues and two Euro denominated bond issue in 2005.

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

| Bond ID | Agreement Date | Principal Payment Date | Amount (million ) | Maturity (year+month) | Interest Rate (Annual %) |
|---|---|---|---|---|---|
| **I- USD** | | | | | |
| 140234USD2TR8F | 07.01.2004 | 14.02.2034 | 1,500 | 30+1 | 8.000 |
| 150130USD2TR11.87F | 10.01.2000 | 15.01.2030 | 1,500 | 30 | 1.875 |
| 050225USD2TR7.37F | 13.01.2005 | 05.02.2025 | 2,000 | 20+0.5 | 7.375 |
| 050620USD2TR7F | 07.02.2005 | 05.06.2020 | 1,250 | 15 | 7.000 |
| 150315USD2TR7,25F | 30.09.2004 | 15.03.2015 | 1,500 | 10+5 | 7.250 |
| 150114USD2TR9,5F | 17.09.2004 | 15.01.2014 | 1,250 | 10+4 | 9.500 |
| 140113USD2TR11F | 09.01.2004 | 14.01.2013 | 1,500 | 10 | 11.000 |
| 230112USD2TR11.5F | 15.01.2002 | 23.01.2012 | 1,000 | 10 | 11.500 |
| 300611USD2TR9F | 24.06.2004 | 30.06.2011 | 750 | 9 | 9.000 |
| 150610USD2TR11.75F | 08.06.2000 | 15.06.2010 | 1,500 | 10 | 11.750 |
| 150609USD2TR12.37F | 18.06.1999 | 15.06.2009 | 1,250 | 10 | 12.375 |
| 151208USD2TR12.00F | 10.12.1998 | 15.12.2008 | 600 | 10(put 5) | 12.000 |
| 190308USD2TR9.87F | 12.03.2002 | 19.03.2008 | 1,350 | 6 | 9.875 |
| 130108USD2TR10.5F | 07.11.2002 | 13.01.2008 | 1,100 | 5+2 | 10.500 |
| 190907USD2TR10.00F | 19.09.1997 | 19.09.2007 | 600 | 10 | 10.000 |
| 271106USD2TR11.37F | 19.11.2001 | 27.11.2006 | 1,000 | 5 | 11.375 |
| **TOTAL** | | | **19,650** | | |
| **II- EURO** | | | | | |
| 160217EUR1TR5.5F | 15.02.2005 | 16.02.2017 | 1000 | 12 | 5.5 |
| 100214EUR1TR6.5F | 09.02.2004 | 10.02.2014 | 1000 | 10 | 6.5 |
| 060712EUR1TR4.75 | 05.07.2005 | 06.07.2012 | 650 | 7 | 4.75 |
| 180111EUR1TR9.5F | 17.06.2004 | 18.01.2011 | 750 | 7+7 | 9.5 |
| 090210EUR1TR9.25F | 08.02.2000 | 09.02.2010 | 1000 | 10 | 9.25 |
| 210909EUR1TR5.5F | 20.09.2004 | 21.09.2009 | 600 | 5 | 5.5 |
| 240108EUR1TR9.87F | 17.01.2004 | 24.01.2008 | 500 | 5 | 9.875 |
| 221007EUR1TR8.12F | 10.10.1997 | 22.10.2007 | 1500 | 10 | 8.125 |
| 080507EUR1TR9.75F | 07.05.2002 | 08.05.2007 | 750 | 5 | 9.75 |
| 301106EUR1TR9.62F | 29.11.1999 | 30.11.2006 | 750 | 7 | 9.625 |
| 250805EUR1TR9.62F | 23.08.1999 | 25.08.2005 | 400 | 6 | 9.625 |
| **TOTAL** | | | **8,900** | | |
| **III- EURO (Issued as DM and converted to EURO as of 2002)** | | | | | |
| 200406DEM1TR10.5SD | 15.04.1998 | 20.04.2006 | 1000 | 8 | 10.5-7.00 |
| **TOTAL** | | | **1,000** | | |
| **IV- JPY** | | | | | |
| 160206JPY1TR7.20F | 15.01.1996 | 16.02.2006 | 10,000 | 10+1 | 7.200 |
| **TOTAL** | | | **10,000** | | |

Source: ISE.

The analysis of international bonds issued in 2005 demonstrates a decrease in cost structure. The total value of USD denominated bonds issued in 2005 was USD 3.25 billion with an average maturity of 17.5 years and average annual rate of 7.2 percent, whereas the value of Euro denominated bond amounted to Euro 1.65 billion with a 8.5 year maturity and 5.1 percent annual interest rate (Table IV.2.7).

# V

# CENTRAL BANK BALANCE SHEET

## V.1. ANALYSIS OF THE BALANCE SHEET

The major items on the 2004 and 2005 balance sheets of the Central Bank are shown below.

| **Assets** | 2004 (YTL) | 2005 (YTL) |
|---|---|---|
| 1. Gold | 2,254,793,278 | 2,640,297,700 |
| 2. Foreign Exchange | 48,327,454,952 | 67,781,346,062 |
| 3. Coins | 2,931,769 | 69,150,222 |
| 4. Domestic Correspondents | 1,144,224,101 | - |
| 5. Securities Portfolio | 23,164,478,819 | 20,495,029,120 |
| 6. Domestic Credit | 309,977,715 | 1,371,900 |
| 7. Open Market Operations | 127,999,999 | 1,026,305,864 |
| 8. Foreign Credit | 113,274,082 | 45,168,842 |
| 9. Share Participations | 20,904,100 | 19,302,988 |
| 10. Fixed Assets | 289,588,841 | 292,229,737 |
| 11. Claims under Legal Proceedings | - | - |
| A. Claims under Legal Proceedings | 1,728,113,901 | 1,779,582,864 |
| B. Provision for Past-Due Receivables | -1,728,113,901 | -1,779,582,864 |
| 12. Treasury Liabilities Due to SDR | 234,485,785 | 216,438,050 |
| 13. Revaluation | 2,032,526,096 | 2,029,328,035 |
| 14.Accrued Interest and Income | 74,275,476 | 12,214,713 |
| 15. Miscellaneous Receivables | 5,563,075 | 30,809,346 |
| 16. Other Assets | 19,714,747 | 21,699,791 |
| 17. Loss | 509,726,063 | 131,438,625 |
| 18. Previous Years' Losses | - | - |
| **YTL Assets** | **78,631,918,898** | **94,812,130,994** |
| **Regulating Accounts** | **498,607,709,562** | **573,982,394,113** |
| **Liabilities** | 2004 (YTL) | 2005 (YTL) |
| 1. Currency Issued | 13,465,236,966 | 19,612,018,803 |
| 2. Liabilities to Treasury | 291,421,840 | 259,564,868 |
| 3. Foreign Correspondents | 41,404,207 | 962,056 |
| 4. Deposits | 56,044,673,836 | 63,482,072,439 |
| 5. Open Market Operations | 3,622,089,369 | 7,034,350,000 |
| 6. Foreign Credit | 12,158,192 | 11,329,344 |
| 7. Advances. Collateral and Deposits Collected against Letters of Credit and Import | 1,096,905,436 | 1,537,173,657 |
| 8. Notes and Remittances Payable | 19,783,353 | 18,068,269 |
| 9. SDR Allocation | 234,485,785 | 216,438,050 |
| 10. Capital | 46,233,524 | 46,233,524 |
| 11. Reserves | 1,283,130,781 | 773,404,718 |
| 12. Provisions | 92,522,327 | 105,921,387 |
| 13. Revaluation Account | - | - |
| 14. Accrued Interest and Expense | 2,215,887,190 | 1,548,341,228 |
| 15. Miscellaneous Payables | 103,800,422 | 77,840,636 |
| 16. Other Liabilities | 62,185,668 | 88,412,013 |
| **YTL Liabilities** | **78,631,918,898** | **94,812,130,994** |
| **Regulating Accounts** | **498,607,709,562** | **573,982,394,113** |

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
# ACCOUNTING PRINCIPLES AND POLICIES

## I- Fundamental Principles for Accounting Practices

Social responsibility, economic entity, going concern, periodic reporting, monetary unit, historic cost, neutrality and documentation, consistency, full explanation, prudence, substance over form, and materiality principles, which are the underlying assumptions of accounting, are also the basis of accounting practices of the Central Bank of the Republic of Turkey (the Bank).

## II- Accounting Policies

### a- The Basis for Recognition

The Bank prepares its statutory financial statements in accordance with Turkish Commercial Code and Tax Legislation and the Law of the Central Bank of the Republic of Turkey (the Bank's Law) No.1211. According to Article 57 and Article 58 of the Bank's Law, the accounting period is defined as the calendar year.

Acquisition costs are used in bookkeeping entries. Securities, gold reserve and foreign currency assets and liabilities are recorded at their fair value. Transactions are reflected into records on their value date.

Since inflation adjustment conditions have been realized as of December 31, 2003 and as of December 31, 2004, non-monetary items on the financial statements of the Bank were restated. As the conditions for inflation adjustment have disappeared, the adjustment was not executed for the year 2005.

### b- Gold and Foreign Currency Transactions

Gold reserves are revalued quarterly using the average of gold prices quoted at 11.00 and at 14.00 on the London Exchange by taking 1 ounce of gold = 31,1035 grams. The accounting methods for the differences originating from price changes and the changes in the USD exchange rate are similar in revaluing gold reserves. Foreign currency assets and liabilities are revalued using the buying exchange rate on the transaction date. The revaluation differences of the transactions are recorded as unrealized gains and losses according to Article 61 of the Bank's Law.

**c- Securities**

The securities portfolio consists of government securities purchased directly and under repurchase agreements in order to regulate the money supply and liquidity in the economy in line with the monetary policy targets pursuant to Article 52 of the Bank's Law.

Turkish currency denominated securities that are purchased by the Bank on its own account are shown at their fair value revalued at the end of each month. The fair value is calculated using the prices of securities listed on a stock exchange or other organized markets. In absence of these prices, the prices of related securities published in the Official Gazette by the Bank on a daily basis are used for the fair value calculation. The differences between the acquisition cost and fair value are reflected in the income statement.

Securities denominated in foreign currency are shown at fair value calculated using closing prices in the related international markets at the end of each month. The differences between the acquisition cost and fair value are reflected in the income statement.

**d- Income Recognition**

All incomes and expenses are recognized on an accrual basis. On the other hand, accrued incomes and expenses are calculated for interests of undue receivables and payables, with regard to the periodic reporting principle, at the end of each month.

According to Article 61 of the Bank's Law, the unrealized revaluation gains and losses, arising from the revaluation of gold, foreign exchange and foreign exchange indexed items due to a change in the value of the Turkish currency, are monitored in a temporary account named "Revaluation Account". The realized exchange differences are reflected on the income statement on the date of occurrence.

**e- Repurchase and Reverse Repurchase Transactions of the Securities**

In repurchase transactions; securities are bought with a commitment to sell the security back at a later date at a price specified on the value date based on a contract made on the transaction date. The securities purchased under repurchase agreement are included in the securities portfolio. The cash receivables resulted from the purchase of the securities are shown under

"Assets/Open Market Operations/Cash" and securities payable are shown under "Liabilities/Open Market Operations/Securities". On the value date, the difference between the resale price and purchase price of securities is reflected in the income statement.

The valuation differences of securities in repurchase transactions are accounted on an accrual basis, based on the interest rate on the contracts on the balance sheet date.

In reverse repurchase transactions; securities are sold with a commitment to buy the security back at a later date at a price specified on the value date, based on a contract made on the transaction date. The securities sold under repurchase agreement are removed from the securities portfolio and are shown under the "Assets/Open Market Operations/Securities" item. The cash debts at due date are shown under the "Liabilities/Open Market Operations/Cash" item. The difference between the cost and sale price is reflected in the income statement on the value date.

**f- Fixed Assets**

Fixed assets (land, property and equipment) are recognized at acquisition cost; and properties and equipments are shown on the balance sheet with their net value after deducting their depreciation. While the depreciation of properties and equipments is calculated with the standard method, the proportional method is used in the calculation of the depreciation of passenger cars. Different depreciation rates are applied for fixed assets in accordance with communiques of the Ministry of Finance of the Republic of Turkey.

**g- Provisions**

According to Article 59 of the Bank's Law, provisions in amounts deemed appropriate by the Board may be provided for over the gross annual profit of the Bank in order to meet losses, which may arise in future years. As of year-end, provisions are set for employee termination benefits and internal insurance funds.

**h- Employee Termination Benefits**

The Bank has maintained provisions, to be completed in five years, for retirement pay and employee termination benefits, which it is obliged to pay for its employees in the coming years as of the end of 2001. Moreover, for the current obligations of the year 2002 and the following years, provisions have been maintained in respect of services of employees up to the balance sheet date.

In accordance with the Pension Fund Law and Social Insurance Law, retirement pay and employee termination benefits are paid on the retirement of employees or in the case of layoff. Based on the said Laws, the amount payable is calculated according to the title and tenure of the personnel.

**i- Taxation**

The Bank, established as a "joint stock company", as per Article 1 of the Bank's Law, is a corporate taxpayer. Moreover, the Bank is responsible for withholding tax, as per Article 94 of the Individual Income Tax Law (on wages, outsourcing payments, interest on deposits, etc.) and as per Article 24 of the Corporate Income Tax Law (on the payments made to firms subject to limited tax liability except for commercial, agricultural and other earnings; and on payments made for the transfer or sale of intangible rights).

On the other hand, the Bank is a taxpayer of Banking and Insurance Transactions Tax but not of Value Added Tax. However, according the Value Added Tax Law, the Bank is responsible to withhold Value Added Tax on payments for purchases of imported commodities and services.

The Bank is also a Stamp Tax payer for documents except for those mentioned as exemptions in Article 64 of the Bank's Law.

**j- Participations**

As per Article 3 of the Bank's Law, the Bank has participation shares in the Bank For International Settlements (BIS) and the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The values of these participations are translated into New Turkish lira using the end-year buying exchange rates. As dividends and the changes in the values of shares go directly to the profit and loss statement, unrealized gains and losses due to the changes in exchange rates are recognized in the balance sheet as per Article 61 of the Bank's Law.

As the currency unit of the Turkish Republic has been changed to the New Turkish lira by Law No. 5083 from January 2005 onwards, the figures on the balance sheet were redenominated as YTL following this date. In order to facilitate a comparison with 2005, the figures of 2004 and the previous years are also redenominated in YTL.

**ASSETS:**

**1. Gold**

The gold holdings are composed of international standards and non-international standards of gold, the year-end balance of which is YTL 2,640,297,700 in total, equivalent to 119,304,549.88 net grams. The gold holdings on the balance sheet are valued using 1 net gram of gold = YTL 22,1307, calculated as 1 ounce of gold = USD 513.00, based on prices quoted on the London stock exchange as of December 30, 2005.

| | Net Grams | (YTL) |
|---|---|---|
| International Standard | 116,103,752.76 | 2,569,461,698 |
| Non-International Standard | 3,200,797.12 | 70,836,001 |
| Total | 119,304,549.88 | 2,640,297,700 |

While the value of the gold holdings of international standards was YTL 2,194,299,896 equivalent to 116,103,752.76 net grams in 2004, it increased by YTL 375,652,295 due to an increase in the price of 1 ounce of gold from USD 438.00 in 2004 to USD 513.00 in 2005; despite a decrease of YTL 490,493 which arose from the exchange rate difference caused by the appreciation of the YTL against the USD. As a result, the value of the gold holdings of international standards reached YTL 2,569,461,698 in 2005.

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

The gold holdings of non-international standards, which was equal to YTL 60,493,383 and 3,200,797.12 net grams in 2004, increased by YTL 10,354,140 due to the increase in the price of 1 ounce of gold, while decreasing by YTL 13,522 due to the exchange rate difference caused by the appreciation of the YTL against the USD, and reached YTL 70,836,001 in 2005.

**2. Foreign Exchange**

This item consists of the accounts opened by the Central Bank with foreign correspondents against convertible and non-convertible foreign exchange, the Reserve Tranche Position held with the IMF, as well as the foreign currencies available in the Bank's vaults. The balance of this account, evaluated at year-end buying rates, amounted to YTL 67,781,346,062, of which YTL 67,781,345,292 and YTL 770 were the convertible and non-convertible amounts, respectively.

**A) Convertible**

This item includes the convertible foreign exchange accounts with the Foreign Correspondents amounting to YTL 67,264,932,935, the Reserve Tranche Position amounting to YTL 217,339,980 and the foreign currencies in the vaults of the Central Bank's branches amounting to YTL 299,072,377 as of the end of the year.

**B) Non-Convertible**

While the Foreign Correspondents Accounts that were opened in accordance with bilateral agreements have no balance, the non-convertible foreign currencies available in the vaults of the Central Bank's branches amounted to YTL 770 as of the end of the year.

**3. Coins**

This item consists of the coins available in the Central Bank's vaults, which totaled YTL 69,150,222 at the end of the year.

**4. Domestic Correspondents**

This item, which consists of both the Correspondents Accounts that were opened in accordance with the domestic correspondence agreement, and the foreign exchange deposit operations held in Foreign Exchange Market, has no balance at the end of the year.

**5. Securities Portfolio**

Government Debt Securities, which were equal to YTL 23,164,478,819 as of the end of 2004, include government securities bought from public banks and the banks under the Savings Deposits Insurance Fund (which were later exchanged for long term securities in 2001), FX indexed securities issued by the Treasury, as well as the securities held under repurchase operations. As of the end of 2005, despite the purchase of securities to the amount YTL 1,025,000,000 under repurchase operations, this item showed a balance of YTL 20,495,029,120 due to the redemption of the FX indexed securities to the amount YTL 3,694,449,699 equivalent to SDR 1,768,000,000.

The YTL securities in the Central Bank portfolio were recorded at their market prices on December 31, 2005.

Due to the repurchase operations between the Central Bank and other banks, increases and decreases in this item must be evaluated along with the securities in the Open Market Operations "Repurchase Agreements / Securities" item on the liabilities side of the balance sheet.

**6. Domestic Credit**

This item, which includes the credit extended to the Banking Sector and the Savings Deposit Insurance Fund, amounted to YTL 1,371,900 as of the end of 2005.

The year-end balance of rediscounted credits extended against FX securities was YTL 1,371,900, equivalent of USD 1,022,432.

The total advance extended to the Savings Deposit Insurance Fund, collateralized by Treasury-issued securities was YTL 302,299,993. Of this total, YTL 257,017,720 was extended on February 19, 2004 and the remaining YTL 45,282,273 was extended on March 15, 2004. However, as the total amount was redeemed early on May 9, 2005, this item had no balance as of the end of 2005.

| | YTL |
|---|---|
| **A) Banking Sector** | **1,371,900** |
| a) Rediscount Credit | 1,371,900 |
| b) As per Art. 40/c of Law No: 1211 | - |
| c) Other | - |
| **B) Credit to Savings Deposit Insurance Fund** | **-** |
| **TOTAL** | **1,371,900** |

**7. Open Market Operations**

This item, which was equal to YTL 1,026,305,864 at the end of the year with an increase of YTL 898,305,865 as compared to the previous year, represents the cash debt of the banks due to repurchase agreements.

**8. Foreign Credit**

This item consists of the credit extended in accordance with the Banking Agreement between the Central Bank of the Republic of Turkey and the Central Bank of Sudan and the credit extended in accordance with the Banking Agreement concerning claims on non-performing loans due to the Banking Regulation terminated on December 31, 1990 between the Central Bank of the Republic of Turkey and the Central Bank of Albania. As USD 47,914,777.49 of the credit extended against bills bought by the Central Bank, which were issued by the Vnescheconombank of the Russian Federation against wheat exports made by the Soil Products Office to that country, was collected and the installment of the principal of USD 2,822,977.50 was received from the Central Bank of Sudan, the balance of this account decreased to YTL 45,168,842, equal to USD 33,662,872.62 as of the end of 2005, from the value of YTL 113,274,082 equivalent of USD 84,400,627.62 in 2004.

**9. Share Participations**

The balance of this account was YTL 19,302,988 at the end of 2005. In accordance with Article 3 of Central Bank Law No. 1211, this item consists of the Central Bank's accounts of SDR 10,000,000 in the Bank for International Settlements in Basle and Euro 19,520 held with the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The value of these participations is calculated at the rate of SDR 1 = YTL 1,92720 and Euro 1 = YTL 1,58750.

**10. Fixed Assets**

This item, which had a balance of YTL 292,229,737 as of the year end, consists of the net values of buildings, plots, furniture and fixtures owned by the Central Bank adjusted for inflation less their allowance for depreciation.

The net value of the real estate is YTL 273,184,387, after deducting the accumulated depreciation of buildings totaling YTL 39,872,292 from the value of the real estate totaling YTL 313,056,679. The value of the real estate adjusted for inflation, which was YTL 307,975,633 in the previous year, reached YTL 313,056,679 after the additions of YTL 5,081,046 this year.

The net value of furniture and fixtures is YTL 19,045,350 after deducting the accumulated depreciation totaling YTL 54,146,698 from the value of furniture and fixtures, totaling YTL 73,192,048. The value of furniture and fixtures increased by YTL 3,840,215, compared to the previous year.

**11. Claims under Legal Proceedings**

This account shows the claims on the Central Bank of Iraq, which was YTL 1,655,366,433 (equivalent of USD 1,233,690,887.54) as well as the claims arising from credit amounting to YTL 124,216,431 (equivalent of USD 92,574,475.48), which was extended against bills bought by the Central Bank from the Enka Construction and Industry Joint Stock Company regarding the Iraq Bekhme Dam project. As the provision of YTL 1,779,582,864 was set for these claims as an offsetting item, this account has no balance as of the end of the year.

**12. Treasury Liabilities Due to SDR Allocation**

This item consists of the allocation of SDR 112,307,000 (equivalent to YTL 216,438,050), which was allocated by the IMF to Turkey and used by the Treasury. It is recorded reciprocally with the "SDR Allocation" on the liability side.

**13. Revaluation Account**

This item consists of unrealized losses arising from the revaluation of gold and foreign exchange on both the assets and liabilities sides pursuant to Article 61 of CBRT Law as amended by Law No. 4651 on April 25, 2001. The year-end balance of this account is YTL 2,029,328,035.

**14. Accrued Interest and Income**

The accrued interest and income as of the end of the year 2005 is YTL 12,214,713.

**15. Miscellaneous Receivables**

This item, which shows a balance amounting to YTL 30,809,346 at the end of the year, consists of YTL 29,132,343 in Turkish currency and YTL 1,677,003 in foreign currencies, the breakdown of which is as follows:

| | YTL |
|---|---|
| - Advances and Deposits | 825,961 |
| - Income Tax to be Deducted From The Corporation Tax Payable | 5,534,981 |
| - Letters of Credit of the Banknote Printing Plant | 798,841 |
| - YTL Deposits Accounts with National Banks Abroad | 21,723,885 |
| - Banknotes Sent Abroad for the Test of Cash Counter Machines to be Imported | 65,230 |
| - Other | 183,445 |
| **TOTAL** | 29,132,343 |

**16. Other Assets**

This item shows various claims of the Bank, amounting to a balance of YTL 21,699,791 at year-end and consists of YTL 18,037,043 in Turkish currency and YTL 3,662,748 in foreign currencies.

**17. Loss of the Period**

The balance of this account is YTL 131,438,625 at the end of 2005 and results from the net between interest income, non-interest income and income from share participation, totaling YTL 3,961,760,817 and interest expense, non-interest expense and other expenses, totaling YTL 4,093,199,442. The detailed explanation of the net loss of the Central Bank for the year 2005 appears under the heading "VI.2.PROFIT LOSS ACCOUNT FOR THE YEAR 2005"

**18. Losses from Previous Years**

The loss in 2004, amounting to YTL 509,726,063, was transferred to the "Losses from Previous Years" item in 2005, and this loss was offset by the "Ordinary and Extraordinary Reserves" item according to Board Decision No. 8630/18229 on March 15, 2005 and this item has no balance as of the end of the year.

**LIABILITIES:**

**1. Currency Issued**

The year-end balance of currency in circulation, issued in accordance with Article 36 of Central Bank Law No. 1211, amounted to YTL 19,612,018,803, increasing by YTL 6,146,781,837 compared to last year.

**2. Liabilities to the Treasury**

The year-end balance of liabilities to the Treasury amounted to YTL 259,564,868, decreasing by YTL 31,856,972 compared to last year.

**A- Gold**

The gold claims of the Treasury, 345,574.68 net grams, amounted to YTL 7,647,823 as of the end of the year. Although the YTL was revalued against the USD in 2005, the account resulted in an increase of YTL 1,116,643 compared to the previous year due to the increase in the value of 1 ounce of gold against the USD.

**B- Reserve Tranche Means**

Due to the portion of Turkey's IMF quota of SDR 964 million, which was paid as gold and foreign exchange, the Treasury has a Reserve Tranche Means of SDR 112,775,000. Presented reciprocally with a "Reserve Tranche Position" in the assets, the year-end balance of this item is YTL 217,339,980.

**C- Other**

This item, which shows the net liabilities to the Treasury due to various transactions, amounted toYTL 34,577,065 at the end of 2005.

**3. Foreign Correspondents**

This account denotes the Central Bank's debt to correspondents abroad and shows a balance of YTL 962,056 in convertible foreign exchange.

**A- Convertible**

Convertible foreign exchange liabilities amounted to YTL 962,056, decreasing by YTL 222,919 compared to 2004, and consists of foreign correspondents accounts and accounts of foreign central banks with the Central Bank.

**B- Non-Convertible**

This item consists of the accounts opened in accordance with bilateral agreements and has no balance as of the end of 2005.

**4. Deposits**

The year-end balance of this account is YTL 63,482,072,439, the breakdown of which is as follows:

| | Turkish Currency YTL | Foreign Currency YTL |
|---|---|---|
| A) Public Sector | 957,105,651 | 13,410,012,584 |
| a) Treasury, General and Annexed Budget Administrations | 868,002,287 | 13,352,710,368 |
| i) Treasury | 146,379,698 | 12,073,619,934 |
| ii) General Budget Administrations | 409,981,949 | 1,279,090,434 |
| iii) Annexed Budget Administrations | 311,640,640 | |
| b) Public Economic Institutions | 297,464 | - |
| c) State Economic Enterprises | 4,013 | 57,302,215 |
| d) Other | 88,801,887 | - |
| B) Banking Sector | 12,898,867,350 | 14,766,854,045 |
| a) Free Deposits of Domestic Banks | 12,891,946,804 | 5,367,106,129 |
| b) Foreign Banks | 6,896,979 | - |
| c) Required Reserves (Article 40 of the Central Bank Law) | | 9,399,747,916 |
| i) Cash | | 9,399,747,916 |
| ii) Gold (Net grams) | - | - |
| d) Other | 23,567 | - |
| C) Miscellaneous | 1,060,058 | 20,952,275,068 |
| a) Foreign Exchange Deposits by Citizens Abroad | - | 20,884,256,156 |
| b) Other | 1,060,058 | 68,018,912 |
| D) International Institutions | 5,037,438 | - |
| E) Extra-budgetary Funds | 90,564,773 | 400,295,472 |
| a) Savings Deposit Insurance Fund | 15,407 | 15,877,894 |
| b) Other | 90,549,366 | 384,417,578 |
| **Total** | 13,952,635,270 | 49,529,437,169 |

**5. Open Market Operations**

The balance of this item reached YTL 7,034,350,000 at the end of the year**.** YTL 1,025,000,000 represents the debts in securities arising from Open Market Operations and YTL 6,009,350,000 represents the cash claims of the banks due to Interbank Money Market Operations.

**6. Foreign Credit**

This account shows the non-guaranteed trade arrears, which were transferred to the Central Bank's liabilities**.** It amounted to YTL 11,329,344, equivalent to USD 8,443,392.72 at the end of the year.

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

The balance of this item was YTL 1,537,173,657 at the end of the year. Of this total, YTL 4,124 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 YTL 1,537,169,533.

**8. Notes and Remittances Payable**

The year-end balance of this account amounted to YTL 18,068,269. It consists of payment orders to be made to beneficiaries, amounting to YTL 18,067,969 in foreign currencies and YTL 300 in Turkish currency.

**9. SDR Allocation**

This account, presented reciprocally with the "Treasury's Liabilities due to SDR Allocation" in the assets, shows the liability to the IMF amounting to YTL 216,438,050, the equivalent of SDR 112,307,000 allocated to Turkey by the IMF and used by the Treasury.

**10. Capital**

Capital is composed of paid-in capital of YTL 25,000, which consists of 250,000 shares, each with a nominal value of YTL 0.10, pursuant to Article 5 of Central Bank Law No. 1211; and an inflation adjustment of paid-in capital, of YTL 46,208,524, as per the decrees of Law No. 5024.

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

| Category | Number of Shares | Percent of Total | (YTL) |
|---|---|---|---|
| A | 136,800 | 54,72 | 13,680 |
| B | 64,039 | 25,62 | 6,404 |
| C | 625 | 0,25 | 62 |
| D (*) | 48,536 | 19,41 | 4,854 |
| Paid-in capital | 250,000 | 100,00 | 25,000 |
| Inflation adjustment for paid-in capital | | | 46,208,524 |
| **TOTAL** | | | **46,233,524** |

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

**11. Reserves**

This item includes both reserve funds retained in accordance with Articles No. 59 and 60 of the Central Bank Law No. 1211, and inflation adjustment differences as per Law No. 5024, which came into effect after being published in Official Gazette No. 25332 on December 30, 2003. The year-end balance of this item was YTL 773,404,718.

| | YTL |
|---|---|
| A. Ordinary Reserves (Article 60 of Law No. 1211) | 419,857,244 |
| B. Extraordinary Reserves (Article 60 of Law No. 1211) | 0 |
| C. Special Reserves (Article 59 of Law No. 1211) | 174,997 |
| D. Inflation Adjustment Difference for Reserves | 353,372,477 |
| TOTAL | **773,404,718** |

As per the Board Resolution adopted within the framework of Article 22/h of the Central Bank Law No. 1211, the loss of 2005 amounting to YTL 131,438,625 will be offset with Ordinary Reserves.

**12. Provisions**

The year-end balance of this item was YTL 105,921,387. Pursuant to Article 59 of Central Bank Law No. 1211**,** provisions are retained out of the Bank's gross profit to meet various risks, for transport insurance of valuables, and for pension commitments.

| | YTL |
|---|---|
| A. Provisions for Pension Commitments | 69,064,666 |
| B. Other Provisions | 36,856,721 |
| TOTAL | **105,921,387** |

**13. Revaluation Account**

This item consists of unrealized gains arising from the revaluation of gold and foreign exchange on both the assets and liabilities sides. As exchange differences are on the asset side as of the end of 2005, this item shows no balance.

**14. Interest and Expense Accruals**

The year-end balance of this item was YTL 1,548,341,228, mainly comprising interest accruals due to Foreign Exchange Deposits by Citizens Abroad.

### 15. Miscellaneous Payables

This account amounted to YTL 77,840,636 at the end of the year and consists of the Central Bank's debts of YTL 3,629,337 in Turkish currency and YTL 74,211,299 in foreign currencies.

### 16. Other Liabilities

This item amounted to YTL 88,412,013 at the end of the year, consisting of the Central Bank's debts of YTL 2,850,727 in Turkish currency and YTL 85,561,285 in foreign currencies.

## V.2. PROFIT AND LOSS ACCOUNT FOR THE 2005 ACCOUNTING YEAR

The loss of the Central Bank as of 2005 amounted to YTL 131,438,625, decreasing by YTL 378,287,438 compared to 2004.

| **PROFIT AND LOSS ACCOUNT OF THE CENTRAL BANK (YTL)** | **31.12.2004** | **31.12.2005** |
|---|---|---|
| **I- NET PROFIT / (LOSS) FROM YTL TRANSACTIONS** | **394,674,770** | **(209,430,077)** |
| 1- Net Profit / (Loss) from YTL Securities Portfolio | 3,040,849,272 | 1,708,348,751 |
| 2- Net Profit / (Loss) from Open Market Operations and Interbank Money Market Operations | (1,465,855,575) | (635,032,603) |
| a- Net Profit / (Loss) from Open Market Operations | (483,215,733) | (70,534,681) |
| b- Net Profit / (Loss) from Interbank Money Market Operations | (982,639,842) | (564,497,922) |
| 3- Interest Paid to YTL Required Reserves | (756,802,030) | (820,941,338) |
| 4- Other | (422,516,896) | (460,804,887) |
| a – Interest received from Domestic Credits | 64,982,582 | 14,837,675 |
| b – Provision for Past-Due Receivables | 46,858,734 | (51,468,963) |
| c – Inflation Adjustment Loss | (125,861,306) | 0 |
| d – Expenses | (348,805,921) | (367,497,564) |
| e – Other | (59,690,987) | (57,676,035) |
| **II- NET PROFIT / (LOSS) FROM FX TRANSACTIONS** | **(905,400,833)** | **77,991,452** |
| 1- Net Profit / (Loss) from FX Reserves | (668,821,622) | 130,457,768 |
| a- FX Portfolio and Deposir Revenues | 835,392,894 | 1,126,913,852 |
| b- Interest paid to FX Deposits by Citizens Abroad | (1,645,088,720) | (885,046,775) |
| c- Interest Paid to FX Deposit and Required Reserves | (90,677,810) | (149,856,492) |
| d- Gold and FX Net Profit | 231,552,014 | 38,447,183 |
| 2- IMF Use of Fund Credit and Charges | (235,579,211) | (52,466,316) |
| **III- NET PROFIT (LOSS) (I + II)** | **(509,726,063)** | **(131,438,625)** |

The net loss of the Central Bank from YTL transactions was YTL 209,430,077 as of year-end. As of the end of 2005, the Central Bank gained an interest income of YTL 1,708,348,751 from its YTL government domestic borrowing securities portfolio. The net loss from open market operations and money market operations was YTL 635,032,603, and an interest of amount YTL 820,941,338 was paid to the YTL required reserves.

On the other hand, the Central Bank gained a net profit of YTL 77,991,452 from foreign currency operations. While interest of YTL 885,046,775 was incurred for foreign exchange deposits by citizens abroad, YTL 149,856,492 for foreign currency deposits and required reserves, and YTL 52,466,316 for the resources from the IMF; a revenue of YTL 1,126,913,852 was gained from foreign currency portfolio and deposit accounts, and YTL 38,447,183 from gold and foreign exchange operations;.

The distribution of general expenses, occurring among YTL transactions, incurred for the operational activities of the Bank in the last two years is shown below on the basis of the expenditure items at 2003 prices:

| | | | YTL |
|---|---|---|---|
| **At 2003 prices, YTL** | **2004** | **2005** | **04-05 % change** |
| I- Personnel Expenses | 226,181,213 | 223,992,952 | -1 |
| II- Other Expenses | 38,648,178 | 37,867,271 | -2 |
| III-Banknote Printing Expenses | 56,328,024 | 50,909,570 | -10 |
| **TOTAL** | **321,157,415** | **312,769,793** | **-3** |

In 2005, a decrease was observed in personnel and other expenses, and in banknote printing expenses, compared to 2004.

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

Within the framework of the policy of decreasing personnel expenses by increasing efficiency through utilizing qualified human capital by employing a small number of employees with higher qualifications as well as implementing up-to-date technology, the number of personnel decreased by 35 percent from 7224 in 1994 to 4660 in 2005.

As compared to the previous year, there was a decrease of 1 percent in personnel expenses, and 0.8 percent in salaries and fringe benefits. In 2005, the amount of gross salaries paid to the members of the Board, Executive Committee and Auditing Committee of the Bank was YTL 2,124,747. This amount accounted for 0.9 percent of the total salaries and fringe benefits paid to personnel in 2005.

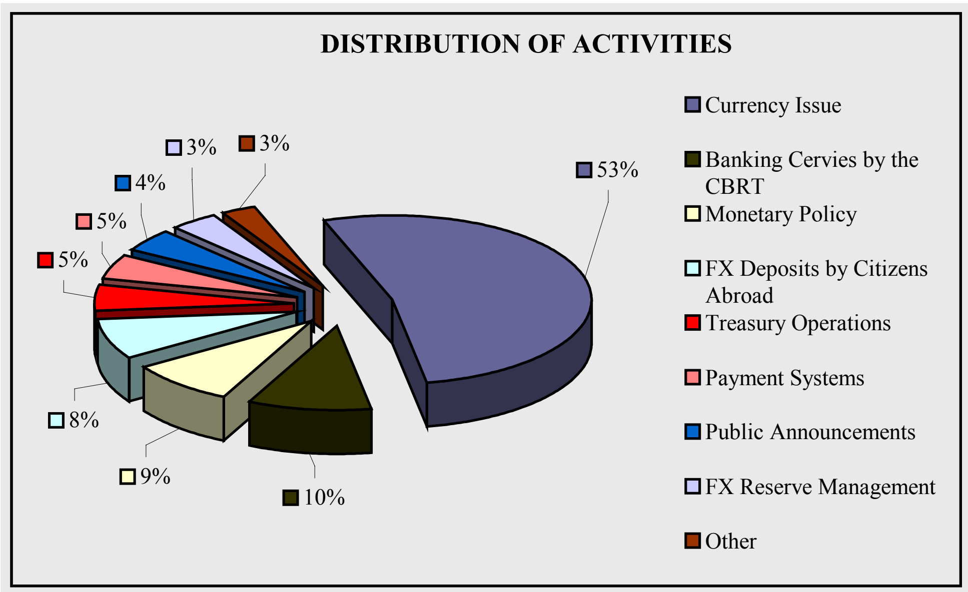
**In other expenses;** 2 percent decrease in 2005 as compared to the previous year was due to the decrease in the insurance cost of the circulation of foreign banknotes in domestic market.

There were no significant changes in other expenditure items.

**The decrease in banknote printing expenses;** 10 percent decrease in banknote printing expenses in 2005, as compared to the previous year, was due to the leveling of banknote printing expenses after an increase as a result of the change in the banknote printing program arising from conversion to the YTL.

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

The share of the primary activities of the Central Bank in its 2005 budget expenses was as follows: Currency issue 53 percent, banking services supplied by the Central Bank 10 percent; monetary policy 9 percent; treasury operations and payment systems 5 percent and management of foreign exchange reserves 3 percent.




The loss incurred in 2005 emanated from the structure of the Central Bank balance sheet and from the economic program in force. Within the framework of the program being implemented, to incur a loss is inevitable if the shares of currency issued in the liabilities and those of the YTL securities portfolio in the assets are too low, and the shares of foreign currency denominated assets and liabilities in the balance sheet are too high. The ideal case is that price stability is achieved and the Central Bank makes a profit. However, if the aim of price stability contradicts making a profit in the future, the Central Bank will favor price stability, which is the main duty of the Central Bank. The Central Bank has begun to practice the regime of inflation targeting, within the framework of the institutionalization process of monetary policy in 2006. Together with this regime, a move towards the process of “price stability” is planned, which is the main duty of the Central Bank, from the “disinflation” process of recent years. Monetary policy will be implemented accordingly; however, the reflections on the balance sheet will depend on the prevailing conditions and on the phase of the economic program being implemented.

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

# BALANCE SHEET,
# PROFIT AND LOSS STATEMENT

## THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
BALANCE SHEET AS OF DECEMBER 31, 2005 (YTL)

| ASSETS | Amount in Turkish Currency Accounts (in YTL) | Amount in Foreign Currency Accounts (in YTL) | Total in Turkish Currency Accounts (in YTL) | Total in Foreign Currency Accounts (in YTL) | TOTAL (in YTL) |
|---|---|---|---|---|---|
| **I- Gold** | | | | | |
| **A- International Standard (Net Grams).**116,103,752.76 | | | | 2,569,461,698 | |
| **B- Non-International Standard (Net Grams)** 3,200,797.12 | | | 70,836,001 | | **2,640,297,700** |
| **II- Foreign Exchange** | | | | | |
| **A- Convertible** | | | | | |
| a- Foreign Banknotes…………………………………… | | 299,072,377 | | | |
| b- Correspondent Accounts……………………………… | | 67,264,932,935 | | | |
| c- Reserve Tranche Position…..………………………… | | 217,339,980 | | 67,781,345,292 | |
| **B- Non-Convertible** | | | | | |
| a- Foreign Banknotes…………………………………… | | 770 | | | |
| b- Correspondent Accounts……………………………… | | | | 770 | **67,781,346,062** |
| **III- Coins** | | | 69,150,222 | | **69,150,222** |
| **IV- Domestic Correspondents** | | | | | |
| **V- Securities Portfolio** | | | | | |
| **A- Government Securities** | | | | | |
| a- Bonds…………………………………………... | 20,495,029,120 | | | | |
| b- Treasury Bills…………………………………...….. | | | 20,495,029,120 | | |
| **B- Other………………………………………………..** | | | | | **20,495,029,120** |
| **VI- Domestic Credit** | | | | | |
| **A- Banking Sector** | | | | | |
| a- Rediscount | | 1,371,900 | | | |
| b- As per Art. 40/c of Law No. 1211 | | | | | |
| c-Other | | | | 1,371,900 | |
| **B. Credit to SDIF** | | | | | **1,371,900** |
| **VII- Open market Operations** | | | | | |
| **A- Repurchase Agreements….………………………..** | | | | | |
| a.Cash | | | | | |
| i- Foreign Exchange…….……………………………….. | | | | | |
| ii- Securities……..………………………………… | 1,026,305,864 | | | | |
| b- Securities.………………………………………… | | | 1,026,305,864 | | |
| **B- Other………………………………………………** | | | | | **1,026,305,864** |
| **VIII- Foreign Credit** | | | | 45,168,842 | **45,168,842** |
| **IX- Share Participations** | | | | 19,302,988 | **19,302,988** |
| **X- Fixed Assets** | | | | | |
| **A- Buildings and Building Sites** | 313,056,679 | | | | |
| **Depreciation Allowance for Real Estate (-)** | -39,872,293 | | 273,184,387 | | |
| **B- Furniture and Fixtures** | 73,192,048 | | | | |
| **Depreciation Allowance for Furniture and Fixtures (-)** | -54,146,698 | | 19,045,350 | | **292,229,737** |
| **XI- Claims Under Legal Proceedings (Net)** | | | | | |
| **A- Claims Under Legal Proceedings** | | | | 1,779,582,864 | |
| **B- Provision for Past-Due Receivables (-)** | | | -1,779,582,864 | | |
| **XII- Treasury Liabilities Due to SDR Allocation** | | | | 216,438,050 | **216,438,050** |
| **XIII- Revaluation Account** | | | 2,029,328,035 | | **2,029,328,035** |
| **XIV- Accrued Interest and Income** | | | 12,214,713 | | **12,214,713** |
| **XV- Miscellaneous Receivables** | | | 29,132,343 | 1,677,003 | **30,809,346** |
| **XVI- Other Assets** | | | 18,037,042 | 3,662,748 | **21,699,790** |
| **XVII- Loss of the Period** | | | 131,438,625 | | **131,438,625** |
| **XVIII- Previous Years' Loss** | | | | | |
| | | **T O T A L...........** | **22,394,118,838** | **72,418,012,156** | **94,812,130,994** |

**REGULATING ACCOUNTS** ……………………………………………………………………………………………… **573,982,394,113**

Buildings insured for YTL 277,276,058.
Furniture and fixtures insured for YTL 54,084,660.

Prevailing rediscount and advance rates :
Against bills to mature in maximum 3 months:
-Rediscount rate.................... %23.00
-Advance rate....…................... % 25.00

## THE CENTRAL BANK OF THE REPUBLIC OF TURKEY
BALANCE SHEET AS OF DECEMBER 31, 2005 (YTL)

| LIABILITIES | Amount in Turkish Currency Accounts (in YTL) | Amount in Foreign Currency Accounts (in YTL) | Total in Turkish Currency Accounts (in YTL) | Total in Foreign Currency Accounts (in YTL) | TOTAL (in YTL) |
|---|---|---|---|---|---|
| **I. Currency Issued** | | | 19,612,018,803 | | **19,612,018,803** |
| **II. Liabilities to Treasury** | | | | | |
| **A. Gold (Net Grams)……… 345,574.68** | | | 7,647,823 | | |
| **B. Reserve Tranche Means …………** | | | | 217,339,980 | |
| **C. Other (Net) …………** | | | 34,537,416 | 39,649 | **259,564,868** |
| **III. Foreign Correspondents** | | | | | |
| **A. Convertible………………....……** | | | | 962,056 | |
| **B. Non-Convertible ……………** | | | | | **962,056** |
| **IV. Deposits** | | | | | |
| **A. Public Sector** | | | | | |
| a. Treasury, General and Annexed Budget Administrations… | 868,002,287 | 13,352,710,368 | | | |
| b. Public Economic Institutions……… | 297,464 | | | | |
| c. State Economic Enterprises……….. | 4,013 | 57,302,215 | | | |
| d. Other ……………………………… | 88,801,887 | | 957,105,651 | 13,410,012,584 | |
| **B. Banking Sector** | | | | | |
| a. Free Deposits of Domestic Banks | 12,891,946,804 | 5,367,106,129 | | | |
| b. Foreign Banks | 6,896,979 | | | | |
| c. Required Reserves (Central Bank Law Art. 40).. | | | | | |
| i. Cash ……………….....……….. | | 9,399,747,916 | | | |
| ii.Gold(Net Grams) | | | | | |
| d.Other | 23,567 | | 12,898,867,350 | 14,766,854,045 | |
| **C. Miscellaneous** | | | | | |
| a. Foreign Exchange Deposits by Citizens Abroad…………………………… | | 20,884,256,156 | | | |
| b. Other……………………………. | 1,060,058 | 68,018,912 | 1,060,058 | 20,952,275,068 | |
| **D. International Institutions** | | | 5,037,438 | | |
| **E. Extrabudgetary Funds** | | | | | |
| a. .Savings Deposit Insurance Fund | 15,407 | 15,877,894 | | | |
| b. Other | 90,549,366 | 384,417,578 | 90,564,773 | 400,295,472 | **63,482,072,439** |
| **V. Open Market Operations** | | | | | |
| **A. Repurchase Agreements** | | | | | |
| a. Cash | | | | | |
| i. Foreign Exchange..…………….. | | | | | |
| ii. Securities………………………. | | | | | |
| b. Securities……………………….. | 1,025,000,000 | | 1,025,000,000 | | |
| **Other** | | | 6,009,350,000 | | **7,034,350,000** |
| **VI. Foreign Credit** | | | | | |
| **A. Short-term……………………..** | | | | | |
| **B. Medium and Long-term……………** | | | | 11,329,344 | **11,329,344** |
| **VII. Advances, Collateral and Deposits Collected Against letters of Credit and Imports** | | | | | |
| **A. For Letters of Credit** | | | | 1,537,169,533 | |
| **B. For Imports** | | | 4,124 | | **1,537,173,657** |
| **VIII. Notes and Remittances Payable** | | | 300 | 18,067,969 | **18,068,269** |
| **IX. SDR Allocation** | | | | 216,438,050 | **216,438,050** |
| **X. Capital** | | | | | |
| **A. Paid-in Capital …………………….** | | | 25,000 | | |
| **B. Inflation Adjustment for Paid-in Capital** | | | 46,208,524 | | **46,233,524** |
| **XI. Reserves** | | | | | |
| **A. Ordinary and Extraordinary Reserves** | | | 419,857,244 | | |
| **B. Special reserves (CBRT Law Art. 59)** | | | 174,997 | | |
| **C. Inflation Adjustment for Reserves** | | | 353,372,477 | | **773,404,718** |
| **XII. Provisions** | | | | | |
| **A. Provisions for pension Commitments** | | | 69,064,666 | | |
| **B Provision for Taxes………………………** | | | | | |
| **C. Other Provisions………………………** | | | 36,856,721 | | **105,921,387** |
| **XIII. Revaluation Account** | | | | | |
| **XIV. Accrued Interest and Expenses** | | | 1,548,341,228 | | **1,548,341,228** |
| **XV. Miscellaneous Payables** | | | 3,629,337 | 74,211,299 | **77,840,636** |
| **XVI. Other Liabilities** | | | 2,850,727 | 85,561,285 | **88,412,013** |
| | | **T O T A L,,,,,,,,,,,,** | **43,121,574,659** | **51,690,556,335** | **94,812,130,994** |
| **REGULATING ACCOUNTS** | ……………………………………………………………………………………..... | | | | **573,982,394,113** |

**THE CENTRAL BANK OF THE**
**Profit and Loss Statement**

**LOSSES AND EXPENSES**

| | New Turkish lira |
|---|---|
| **Interest Paid** | **2,598,342,399** |
| **Non-Interest Paid** | **1,127,359,479** |
| **Personnel Expenses** | **263,186,746** |
| **Other Expenses** | **104,310,818** |
| **TOTAL** | **4,093,199,442** |

**REPUBLIC OF TURKEY**
**As of December 31, 2005** **PROFITS**

| | New Turkish lira |
|---|---|
| Interest Income | 3,034,502,034 |
| Non-Interest Income | 924,033,148 |
| Share Participations | 3,225,635 |
| Loss | 131,438,625 |
| TOTAL | 4,093,199,442 |

## AUDIT AT THE CENTRAL BANK

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

### *Audit conducted by the internal organs of the Bank*

In accordance with Article No.15 of Central Bank Law, the General Assembly examines the annual report submitted by the Board of the Bank and the report of the Auditing Committee. Moreover, the General Assembly also examines the Balance Sheet and the Profit and Loss Statement and approves them. Every year, the General Assembly monitors the annual activities of the Bank by doing so and releasing the members of the Board and the Auditing Committee.

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

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

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

The Internal Audit Department, which was established at the end of 2002 with the aim of restructuring the Central Bank's internal auditing functions in line with internationally acceptable standards and best practices. The principal is to perform an independent, objective assurance and consulting activity designed to add value and improve the operations of the Bank as well as help the Bank achieve its goals by developing a systematic, disciplined approach to evaluate and enhance the efficiency and productivity of risk management, internal control and governance processes. The 2004-2005 Audit Plan was performed within this framework. The COBIT-based project, which had been conducted for the information technology audit, was accomplished and the subjects to be audited in the Bank's information technology processes and systems in 2006 were identified.

The achievements of our auditors in certified international internal audit programs continued in 2005. Two of our auditors attended and successfully completed the Certification in Control Self-Assessment Program (CCSA) in 2005. One auditor received the Certified Internal Auditor (CIA) certificate and the other chief auditor was granted the Certified Information System Auditor (CISA) certificate. Accordingly, the number of auditors having CISA and CIA certificates reached three and eight, respectively, by the end of 2005.

The Regulations of the Control Group, which govern the working principles of controllers, who have been employed temporarily in the Internal Audit Department since 2003, was put into effect in 2005. Joint custody and control activities continued to be carried out by the control staff under the management of the said Department throughout the year.

***Audit conducted by External Auditors:***

Article 42 of Central Bank Law constitutes the legal basis of external auditing within the Bank. Accordingly, the Prime Minister may request the audit of the Bank's transactions and accounts.

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

## THE REPORT OF THE AUDITING COMMITTEE FOR 2005 THE SEVENTY-FOURTH ACCOUNTING YEAR OF THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

The Auditing Committee has thoroughly examined the activities and the resulting statements of the 2005 Accounting Year of the Central Bank of the Republic of Turkey, within the framework of the provisions of the related legislation, and concluded that:

1. The cash, gold holdings, foreign exchange banknotes and securities in the service and reserve vaults of the Head Office and Branches, which were inspected at random, are in conformity with the records as well as the legal books and these values are kept and administered in accordance with the regulations,

2. The legal books and the books relating to the Bank's accounts that are subject to declaration are in good order and in conformity with the Central Bank Law and the Articles of Associations. Furthermore, the domestic loans extended by the Bank, either directly or indirectly, are within the limits set forth,

3. "The Balance Sheet" designed as of December 31, 2005 and "the Profit and Loss Statement" created for the period between 01.01.2005 and 31.12.2005 are in compliance with the systematic principles of accounting and the rules of assessment stipulated by the Turkish Commercial Code and the Central Bank Law;

4. Financial Tables are drawn up so as to present the financial situation of the Central Bank of the Republic of Turkey as of 31 December 2005 and the activity result relating to the year that has ended on the same date is in an accurate, correct, and clear manner pursuant to the legislation in force in Turkey and the Central Bank Law,

5. A lawsuit regarding the legal liability, which was filed by the Bank, has not concluded yet.

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

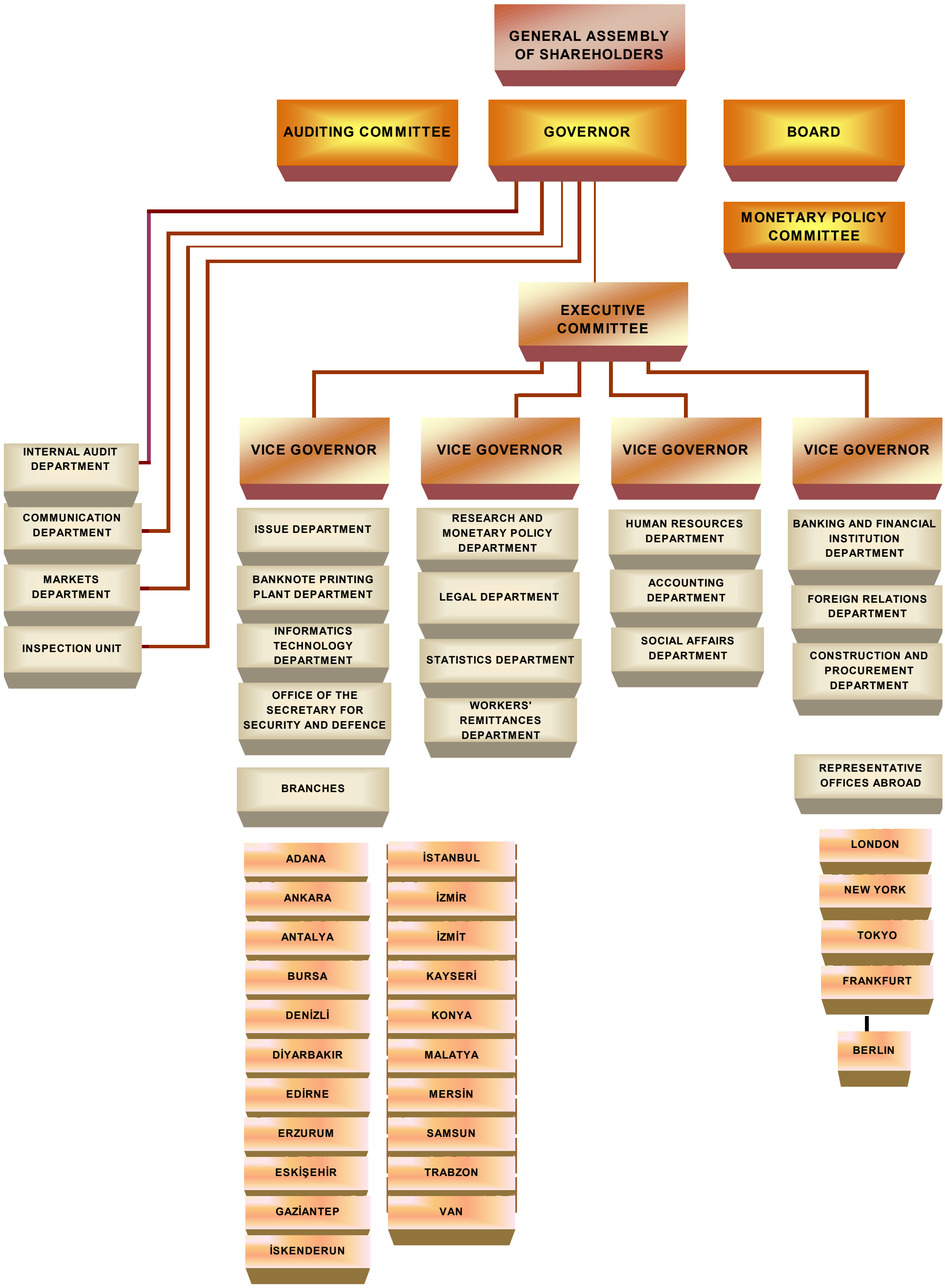
Auditing Committee Member
Mustafa Saim Uysal

Auditing Committee Member
Bilal San

Auditing Committee Member
Prof. Dr. Necdet Şensoy

Auditing Committee Member
Abdullah Yalçın

# THE CENTRAL BANK OF THE REPUBLIC OF TURKEY ORGANIZATIONAL CHART



# INDEPENDENT AUDIT REPORTS

**CONVENIENCE TRANSLATION INTO ENGLISH OF AUDITOR'S REPORT ORIGINALLY ISSUED IN TURKISH**

**THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**

**AUDITOR'S REPORT**
**FOR THE PERIOD 1 JANUARY 2005 - 31 DECEMBER 2005**

To the Central Bank of the Republic of Turkey

1. We have audited the accompanying balance sheet of the Central Bank of the Republic of Turkey ("the Bank") as of 31 December 2005 and the related statement of income for the year then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with International Standards on Auditing. These standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. The financial statements of the Bank as of 31 December 2004 were audited by another auditor whose report dated 4 March 2005 expressed an unqualified opinion.
4. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2005 and the results of its operations for the year then ended in accordance with the Law of the Central Bank of the Republic of Turkey and related legislation.

Without qualifying our opinion, we draw attention to the following matter:

5. As explained in Note I.B.3, effects of differences between accounting principles and standards set out by related legislation in Turkey and Central Bank Law, and accounting principles generally accepted in countries in which the accompanying financial statements are to be distributed and International Financial Reporting Standards ("IFRS") have not been quantified in the accompanying financial statements. Accordingly, the accompanying financial statements are not intended to present the financial position, results of operations and changes in financial position and cash flows in accordance with the accounting principles generally accepted in such countries and IFRS.

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi
a member of
PricewaterhouseCoopers

Haluk Yalçın, SMMM

Istanbul, 27 February 2006

**AUDITOR'S REPORT**

To the Central Bank of the Republic of Turkey

1. We have audited the accompanying balance sheet of the Central Bank of the Republic of Turkey ("the Bank") at 31 December 2005 and the related statements of income and of cash flows for the year then ended, all expressed in the equivalent purchasing power of the New Turkish Lira at 31 December 2005. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our audit.

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

3. The financial statements of the Bank for the year ended 31 December 2004 were audited by another auditor whose report dated 11 March 2005 expressed an unqualified opinion.

4. In our opinion, the financial statements present fairly, in all material respects, the financial position of the Central Bank of the Republic of Turkey at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Başaran Nas Serbest Muhasebeci
Mali Müşavirlik Anonim Şirketi
a member of
PricewaterhouseCoopers

Haluk Yalçın, SMMM

Istanbul, 27 February 2006

**THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**

**BALANCE SHEET AT 31 DECEMBER**

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

| | Notes | 2005 thousand YTL | 2004 thousand YTL | 2005 Million US$ (*) | 2004 Million US$ (*) |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and gold reserves | 6 | 3,008,521 | 2,756,249 | 2,242 | 2,054 |
| Due from banks | 7 | 6,328,670 | 4,541,573 | 4,717 | 3,385 |
| Financial assets at fair value through profit or loss | 8 | 80,936,749 | 68,992,312 | 60,320 | 51,418 |
| Loans and advances to customers | 9 | 46,624 | 505,193 | 35 | 377 |
| Investment securities: | | | | | |
| -Available-for-sale | 10 | 225,268 | 21,460 | 168 | 16 |
| -Held-to-maturity | 10 | 436,486 | 452,528 | 325 | 337 |
| Property and equipment | 11 | 243,130 | 237,940 | 181 | 177 |
| Intangible assets | 12 | 3,305 | 2,503 | 2 | 2 |
| Other assets | 13 | 34,707 | 27,717 | 26 | 21 |
| **Total assets** | | **91,263,460** | **77,537,475** | **68,016** | 57,787 |

Detailed information about the notes that are an integral part of the financial statements are found in the Independent Audit Reports which are published in our Bank's web site.

**THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**

**BALANCE SHEET AT 31 DECEMBER**

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

| | Notes | 2005 thousand YTL | 2004 thousand YTL | 2005 Million US$ (*) | 2004 Million US$ (*) |
|---|---|---|---|---|---|
| **LIABILITIES** | | | | | |
| Currency in circulation | 14 | 19,612,019 | 13,823,325 | 14,616 | 10,302 |
| Due to banks | 15 | 27,937,406 | 20,749,029 | 20,821 | 15,464 |
| Other deposits | 16 | 37,016,098 | 34,833,941 | 27,587 | 25,961 |
| Due to International Monetary Fund ("IMF") | 17 | 6,748 | 4,173,758 | 5 | 3,111 |
| Other borrowed funds | 18 | 6,013,857 | 3,720,077 | 4,482 | 2,772 |
| Other liabilities | 19 | 1,690,692 | 1,432,108 | 1,260 | 1,068 |
| Employment termination benefits | 21 | 53,989 | 53,698 | 40 | 40 |
| **Total liabilities** | | **92,330,809** | **78,785,936** | **68,811** | **58,718** |
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | 28 | 25 | 25 | - | - |
| Adjustment to share capital | | 47,439 | 47,439 | 35 | 35 |
| Total paid-in share capital | | 47,464 | 47,464 | 35 | 35 |
| Accumulated deficit | | (1,320,778) | (1,295,925) | (983) | (966) |
| Other reserves | 10 | 205,965 | - | 153 | - |
| **Total shareholders' equity** | | **(1,067,349)** | **(1,248,461)** | **(795)** | **(931)** |
| **Total liabilities and shareholders' equity** | | **91,263,460** | **77,537,475** | **68,016** | **57,787** |
| Commitments and contingent liabilities | 27 | | | | |

(*) US Dollar ("US$") amounts presented above are translated from YTL for convenience purposes only, at the official YTL bid rate announced by the Bank at 31 December 2005, and therefore do not form part of these financial statements (Note 2.c.).

Detailed information about the notes that are an integral part of the financial statements are found in the Independent Audit Reports which are published in our Bank's web site.

**THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**

**INCOME STATEMENT**
**FOR THE YEARS ENDED 31 DECEMBER**
(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)
(Amounts are translated into US$ for convenience purposes only (See Note 2.c))

| | Notes | 2005 thousand YTL | 2004 thousand YTL | 2005 Million US$ (*) | 2004 Million US$ (*) |
|---|---|---|---|---|---|
| Interest and similar income | 22 | 3,056,468 | 3,428,345 | 2,278 | 2,555 |
| Interest expense and similar charges | 22 | (2,477,948) | (4,028,043) | (1,847) | (3,002) |
| **Net interest income/(expense)** | | **578,520** | **(599,698)** | **431** | **(447)** |
| Fee and commission income | 23 | 35,166 | 29,900 | 26 | 22 |
| Fee and commission expense | 23 | (118,960) | (107,995) | (89) | (80) |
| **Net fee and commission expense** | | **(83,794)** | **(78,095)** | **(63)** | **(58)** |
| Dividend income | 24 | 3,249 | 4,206 | 2 | 3 |
| Net trading income | | (73,193) | (566,113) | (55) | (422) |
| Foreign exchange gains/(losses), net | 25 | (111,344) | (179,308) | (83) | (134) |
| Other operating income | | 2,997 | 1,975 | 2 | 1 |
| Impairment losses on loans and advances | 9 | (51,140) | (25,378) | (38) | (19) |
| Operating expenses | 26 | (343,191) | (383,914) | (256) | (286) |
| **Loss before income tax** | | **(77,896)** | **(1,826,325)** | **(60)** | **(1,362)** |
| Income tax expense | 20 | - | - | - | - |
| Gain on net monetary position | | 53,043 | 31,393 | **40** | 23 |
| **Net loss for the year** | | **(24,853)** | **(1,794,932)** | **(20)** | **(1,339)** |

(*) US Dollar ("US$") amounts presented above are translated from YTL for convenience purposes only, at the official YTL bid rate announced by the Bank at 31 December 2005, and therefore do not form part of these financial statements (Note 2.c.).

Detailed information about the notes that are an integral part of the financial statements are found in the Independent Audit Reports which are published in our Bank's web site.

**THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**

**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**
**FOR THE YEARS ENDED 31 DECEMBER**
(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

| | Share Capital | | | | | |
|---|---|---|---|---|---|---|
| | **Share capital** | **Adjustment to share capital** | **Total paid-in capital** | **Other reserves** | **Retained Earnings/ (Accumulated Deficit)** | **Total** |
| **Balance at 1 January 2004** | **25** | **47,439** | **47,464** | **-** | **498,885** | **546,349** |
| Other | - | - | - | - | 122 | 122 |
| Net loss for the year | - | - | - | - | (1,794,932) | (1,794,932) |
| **Balance at 31 December 2004** | **25** | **47,439** | **47,464** | **-** | **(1,295,925)** | **(1,248,461)** |
| **Balance at 1 January 2005** | **25** | **47,439** | **47,464** | **-** | **(1,295,925)** | **(1,248,461)** |
| Available-for-sale securities' net fair value gains (Note 10) | - | - | - | 205,965 | - | 205,965 |
| Net loss for the year | - | - | - | - | (24,853) | (24,853) |
| **Balance at 31 December 2005** | **25** | **47,439** | **47,464** | **205,965** | **(1,320,778)** | **(1,067,349)** |

Detailed information about the notes that are an integral part of the financial statements are found in the Independent Audit Reports which are published in our Bank's web site.

## THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

## STATEMENT OF CASH FLOW
## FOR THE YEARS ENDED 31 DECEMBER

(Amounts expressed in thousands of New Turkish Lira ("YTL") in terms of the purchasing power of YTL at 31 December 2005, unless otherwise indicated)

| | Note | 2005 | 2004 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net loss for the year | | (24,853) | (1,794,932) |
| Adjustment for: | | | |
| Depreciation of property and equipment | 11 | 12,009 | 12,131 |
| Amortisation of intangible assets | 12 | 985 | 903 |
| Provision for loan losses | 9 | 51,140 | 25,378 |
| Employment termination benefits | 21 | 8,329 | 9,324 |
| Net interest income/(expense) | 22 | (578,520) | 599,698 |
| Interest received | 22 | 3,067,388 | 3,334,259 |
| Interest paid | 22 | (3,145,860) | (4,247,685) |
| Add back dividend income | 24 | (3,249) | (4,206) |
| Inflation effect on non-operating activities | | (46,685) | (306,055) |
| **Cash flows from operating profits before changes in operating assets and liabilities** | | **(659,316)** | **(2,371,185)** |
| Changes in operating assets and liabilities: | | | |
| Net decrease/(increase) in loans and advances to customers | 9 | 389,798 | (232,089) |
| Net (increase)/decrease in other assets | 13 | (2,017) | 315,509 |
| Net increase in currency in circulation | 14 | 5,788,694 | 1,347,087 |
| Net increase/(decrease) in due to banks | 15 | 7,129,006 | 3,774,103 |
| Net increase/(decrease) in other deposits | 16 | 2,887,996 | (4,508,503) |
| Net increase/(decrease) in other liabilities | 19 | 252,705 | (485,525) |
| Inflation effect on operating activities | | 1,972,415 | 11,751,334 |
| **Net cash from operating activities** | | **17,759,281** | **9,590,731** |
| **Cash flows from investing activities** | | | |
| Purchase of property, equipment and intangible assets, net | 11, 12 | (18,986) | (13,059) |
| (Purchase)/ redemption of securities | 8 | (11,928,395) | 14,852,779 |
| Dividends received | | 3,492 | 3,949 |
| Inflation effect on investing activities | | (1,909,735) | (12,559,301) |
| **Net cash used in investing activities** | | **(13,853,624)** | **2,284,368** |
| **Cash flows from financing activities** | | | |
| Repayments of borrowed funds and due to IMF | 18 | (1,850,656) | (13,722,085) |
| Inflation effect on financing activities | | 191,019 | 2,101,939 |
| **Net cash from financing activities** | | **(1,659,637)** | **(11,620,146)** |
| **Net increase in cash and cash equivalents** | | **2,246,020** | **254,953** |
| **Inflation effect on cash and equivalents** | | **(207,014)** | **(987,917)** |
| **Cash and cash equivalents at beginning of year** | 29 | **7,297,220** | **8,030,184** |
| **Cash and cash equivalents at the end of year** | 29 | **9,336,226** | **7,297,220** |

Detailed information about the notes that are an integral part of the financial statements are found in the Independent Audit Reports which are published in our Bank's web site.

# TURKEY-IMF MONETARY RELATIONS

Turkey has been a member of the IMF since 1947. The Undersecretariat of the Treasury has been designated as the fiscal agent and the Central Bank of Turkey as the depository institution as regards the IMF.

Within this framework, the Treasury, as a fiscal agent, has the authority to carry out on behalf of Turkey all operations and transactions such as purchase and repurchase of SDR as well as payments of charges and other payments payable to the IMF. As a depository, it is the Central Bank's responsibility to ensure that these transactions are properly reflected in YTL-denominated No.1 and No.2 Accounts and the Securities Account of the IMF with the Central Bank.

Turkey's quota in the IMF represents its capital subscription and amounts to SDR 964 million as of Dec. 31, 2005. SDR 112 million of the quota is Turkey's reserve tranche position, which is paid in cash as foreign exchange.

The Central Bank's liability to the IMF, which equaled SDR 1,934 million in 2004, has no balance as of Dec.31, 2005 due to the redemption in 2005 of the principal of the use of credit for Bank reserve purposes. While the direct use of credit by the Treasury from the IMF was SDR 11,914 million as of the end of 2004, it decreased to SDR 10,247 million as of the end of 2005, due to the redemption of SDR 3,332 million, despite the new use of credit of amount SDR 1,666 million in 2005. The details of the resources provided by the Fund in 2004 and 2005 are presented below:

| (SDR) | 2004 | 2005 |
|---|---|---|
| **Use of Credit** | 13,848,347,500 | 10,247,335,000 |
| **Emergency Assistance** | | |
| **Bank Reserve Purposes** | 1,934,347,500 | |
| **Supplemental Reserve Facility** | | |
| **Direct use of credit by the Treasury** | 11,914,000,000 | 10,247,335,000 |

As of December 31, 2005, the IMF's holdings of New Turkish lira amount to YTL 23,169 million, the equivalent of SDR 11,099 million.

| | YTL | SDR |
|---|---|---|
| **Number 1 account** | 5,030,987 | 2,410,000 |
| **Number 2 account** | 6,985 | 3,346 |
| **Securities account** | 23,163,740,967 | 11,096,150,000 |
| | **23,168,778,939** | **11,098,563,346** |

The No.1 and No.2 accounts of the IMF are presented in Deposits as International Institutions in the liabilities of the Central Bank balance sheet. The securities account is kept on the off-balance sheet and includes non-negotiable, non-interest bearing securities issued by the Treasury in favor of the IMF, which are payable on demand. These securities are issued for that portion of the quota liability paid in domestic currency, for purchases of SDR, for budget financing purposes, and for the revaluations made by the IMF every year as of April 30.

Based on the Memorandum of Understanding signed between the Central Bank and the Treasury on May 6, 2002, in order to clarify the relationships between Turkey and the IMF, the revaluation differences arising from the changes in the YTL/SDR parity are reflected by the Central Bank, at the end of each month, to the Fund's No.1 and No.2 accounts by either meeting from or transferring to the Revaluation Account, which shows the revaluation differences in accordance with Bank Law Article No.61.

Within the framework of the relations between Turkey and the IMF, Turkey incurs charges, which are payable quarterly, on the outstanding purchases and on the difference between the SDR holdings and the SDR allocation. The IMF pays remuneration, after the close of each of the IMF's financial quarters, on Turkey's remunerated reserve tranche position.

# VI

# STATISTICAL TABLES

### TABLE 1
### MACRO BALANCE (AT CURRENT PRICES)
### (YTL thousand)

| | 2001 | 2002 | 2003 | 2004 | 2005 (1) |
|---|---|---|---|---|---|
| GNP | 176 483 953 | 275 032 366 | 356 680 888 | 428 932 343 | 485 058 000 |
| Foreign Resources | -2 360 709 | 6 639 998 | 14 920 066 | 26 530 062 | 34 573 935 |
| Exports (Goods and Services) | 60 150 878 | 81 134 076 | 98 496 338 | 124 348 181 | 135 872 762 |
| Imports (Goods and Services) | 55 861 684 | 85 232 383 | 110 334 367 | 149 299 109 | 168 870 083 |
| Income from abroad | -1 928 485 | -2 541 692 | -3 082 038 | -1 579 134 | -1 576 614 |
| Total Resources | 174 123 244 | 281 672 364 | 371 600 955 | 455 462 405 | 519 631 935 |
| Total Investment | 28 451 337 | 59 532 420 | 83 683 421 | 113 671 287 | 133 340 392 |
| Public | 9 835 398 | 17 222 805 | 16 714 837 | 17 941 050 | 25 983 014 |
| Private | 18 615 940 | 42 309 615 | 66 968 583 | 95 730 237 | 107 357 378 |
| Fixed Capital Investment | 33 470 391 | 47 482 293 | 57 423 184 | 78 781 779 | 98 653 353 |
| Public | 11 300 047 | 17 307 672 | 17 287 521 | 18 051 594 | 24 577 759 |
| Private | 22 170 344 | 30 174 621 | 40 135 663 | 60 730 185 | 74 075 594 |
| Changes in Stocks | -5 019 054 | 12 050 127 | 26 260 237 | 34 889 508 | 34 687 039 |
| Public | -1 464 649 | -84 866 | -572 684 | -110 544 | 1 405 255 |
| Private | -3 554 404 | 12 134 994 | 26 832 921 | 35 000 052 | 33 281 784 |
| Total Consumption | 145 671 907 | 222 139 943 | 287 917 534 | 341 791 119 | 386 291 543 |
| Public Disposable Income | 5 958 512 | 17 568 879 | 24 955 436 | 46 085 617 | 69 982 859 |
| Public Consumption | 23 141 350 | 34 687 870 | 43 999 678 | 51 476 788 | 57 351 772 |
| Public Savings | -17 182 838 | -17 118 991 | -19 044 242 | -5 391 171 | 12 631 087 |
| Public Investments | 9 835 398 | 17 222 805 | 16 714 837 | 17 941 050 | 25 983 014 |
| Public (S-I) | -27 018 236 | -34 341 796 | -35 759 079 | -23 332 221 | -13 351 927 |
| Private Disposable Income | 170 525 441 | 257 463 487 | 331 725 452 | 382 846 726 | 415 075 141 |
| Private Consumption | 122 530 557 | 187 452 073 | 243 917 856 | 290 314 331 | 328 939 771 |
| Private Savings | 47 994 884 | 70 011 414 | 87 807 596 | 92 532 395 | 86 135 370 |
| Private Investments | 18 615 940 | 42 309 615 | 66 968 583 | 95 730 237 | 107 357 378 |
| Private (S-I) | 29 378 945 | 27 701 799 | 20 839 013 | -3 197 842 | -21 222 008 |
| Private Savings Ratio | 28.1 | 27.2 | 26.5 | 24.2 | 20.8 |
| Total Domestic Savings | 30 812 046 | 52 892 423 | 68 763 354 | 87 141 224 | 98 766 457 |
| Fixed Capital Investment / GNP | 19.0 | 17.3 | 16.1 | 18.4 | 20.3 |
| Domestic Savings / GNP | 17.5 | 19.2 | 19.3 | 20.3 | 20.4 |

Source: SPO.
(1) Estimate.

**TABLE 2**
**MACRO BALANCE (AT 1998 PRICES)**
**(YTL thousand)**

| | 2001 | 2002 | 2003 | 2004 | 2005 (1) |
|---|---|---|---|---|---|
| GNP | 48 350 537 | 52 188 038 | 55 250 734 | 60 697 992 | 63 732 892 |
| Foreign Resources | -1 280 294 | -734 374 | 675 580 | 2 691 600 | 3 290 055 |
| Exports (Goods and Services) | 15 125 773 | 16 810 971 | 19 497 482 | 21 929 722 | 23 415 675 |
| Imports (Goods and Services) | 13 249 062 | 15 345 394 | 19 504 743 | 24 320 195 | 26 403 659 |
| Income from abroad | -596 416 | -731 203 | -668 319 | -301 128 | -302 072 |
| Total Resources | 47 070 243 | 51 453 664 | 55 926 314 | 63 389 592 | 67 022 947 |
| Total Investment | 7 545 108 | 10 693 665 | 13 182 746 | 16 558 725 | 18 040 882 |
| Public | 2 538 347 | 3 206 101 | 2 868 138 | 2 802 244 | 3 632 886 |
| Private | 5 006 761 | 7 487 564 | 10 314 608 | 13 756 480 | 14 407 995 |
| Fixed Capital Investment | 8 885 380 | 8 549 876 | 9 463 119 | 12 244 899 | 14 035 660 |
| Public | 2 929 463 | 3 221 200 | 2 949 255 | 2 815 912 | 3 470 625 |
| Private | 5 955 918 | 5 328 677 | 6 513 864 | 9 428 987 | 10 565 035 |
| Changes in Stocks | -1 340 272 | 2 143 789 | 3 719 627 | 4 313 825 | 4 005 222 |
| Public | -391 115 | -15 098 | -81 118 | -13 668 | 162 261 |
| Private | -949 157 | 2 158 887 | 3 800 744 | 4 327 493 | 3 842 961 |
| Total Consumption | 39 525 135 | 40 759 999 | 42 743 568 | 46 830 868 | 48 982 065 |
| Public Disposable Income | 1 632 427 | 3 333 736 | 3 865 658 | 6 521 552 | 9 195 210 |
| Public Consumption | 6 340 079 | 6 451 998 | 6 414 837 | 6 529 182 | 6 595 309 |
| Public Savings | -4 707 652 | -3 118 262 | -2 549 179 | -7 630 | 2 599 901 |
| Public Investments | 2 538 347 | 3 206 101 | 2 868 138 | 2 802 244 | 3 632 886 |
| Public (S-I) | -7 245 999 | -6 324 364 | -5 417 317 | -2 809 874 | -1 032 985 |
| Private Disposable Income | 46 718 110 | 48 854 302 | 51 385 077 | 54 176 440 | 54 537 682 |
| Private Consumption | 33 185 056 | 34 308 001 | 36 328 731 | 40 301 686 | 42 386 757 |
| Private Savings | 13 533 054 | 14 546 301 | 15 056 345 | 13 874 754 | 12 150 925 |
| Private Investments | 5 006 761 | 7 487 564 | 10 314 608 | 13 756 480 | 14 407 995 |
| Private (S-I) | 8 526 293 | 7 058 738 | 4 741 737 | 118 274 | -2 257 070 |
| Private Savings Ratio | 29.0 | 29.8 | 29.3 | 25.6 | 22.3 |
| Total Domestic Savings | 8 825 402 | 11 428 039 | 12 507 166 | 13 867 124 | 14 750 826 |
| Fixed Capital Investments/ GNP | 18.4 | 16.4 | 17.1 | 20.2 | 22.0 |
| Domestic Savings / GNP | 18.3 | 21.9 | 22.6 | 22.8 | 23.1 |

Source: SPO.
(1) Estimate.

### TABLE 3
### GROSS NATIONAL PRODUCT (AT CURRENT PRODUCER PRICES)
### (YTL thousand)

| | 2001 | 2002 | 2003 | 2004 | 2005 (1) |
|---|---|---|---|---|---|
| Agriculture | 21 521 043 | 32 114 870 | 42 126 246 | 48 394 672 | 40 129 156 |
| Industry | 45 881 462 | 70 034 336 | 88 813 240 | 107 061 273 | 88 712 344 |
| Construction | 9 240 878 | 11 398 698 | 12 662 006 | 15 380 670 | 14 561 380 |
| Commerce | 37 403 001 | 55 935 190 | 71 329 760 | 88 714 047 | 72 767 254 |
| Transportation | 28 159 160 | 41 820 643 | 53 846 171 | 62 009 163 | 50 243 351 |
| Financial Institutions | 6 639 387 | 12 944 723 | 17 884 644 | 21 603 584 | 15 804 040 |
| Home Ownership | 8 491 898 | 11 637 781 | 14 653 025 | 18 398 553 | 16 335 652 |
| Professions and Services | 6 592 344 | 9 753 592 | 12 429 089 | 14 889 331 | 12 384 355 |
| (-) Imputed Bank Services | 11 534 431 | 8 095 559 | 7 911 747 | 10 821 250 | 9 139 261 |
| Government Services | 18 525 724 | 27 838 383 | 36 561 477 | 42 548 483 | 35 353 501 |
| Non-profit Private Services | 918 063 | 1 664 000 | 3 610 383 | 3 530 102 | 1 234 223 |
| Import Tax | 6 573 910 | 10 527 402 | 13 758 630 | 18 802 850 | 15 594 198 |
| GDP | 178 412 438 | 277 574 058 | 359 762 926 | 430 511 477 | 353 980 194 |
| Net Foreign Income | 7 471 010 | 8 030 324 | 8 415 643 | 10 040 097 | 8 643 477 |
| GNP | 176 483 953 | 275 032 366 | 356 680 888 | 428 932 343 | 352 879 789 |

Source: TURKSTAT.
(1) Provisional (as of end-September, 2005).

### TABLE 4
### GROSS NATIONAL PRODUCT (AT 1987 PRODUCER PRICES)
### (YTL thousand)

| | 2001 | 2002 | 2003 | 2004 | 2005 (1) |
|---|---|---|---|---|---|
| Agriculture | 14 923 | 15 948 | 15 549 | 15 863 | 12 778 |
| Industry | 31 207 | 34 142 | 36 794 | 40 234 | 32 284 |
| Construction | 5 662 | 5 346 | 4 866 | 5 092 | 4 348 |
| Commerce | 24 096 | 26 740 | 28 902 | 32 613 | 26 068 |
| Transportation | 14 820 | 15 715 | 17 028 | 18 193 | 14 024 |
| Financial Institutions | 2 666 | 2 477 | 2 319 | 2 344 | 1 758 |
| Home Ownership | 5 769 | 5 873 | 5 957 | 6 066 | 4 616 |
| Professions and Services | 2 484 | 2 669 | 2 808 | 3 032 | 2 421 |
| (-) Imputed Bank Services | 2 114 | 1 921 | 1 782 | 1 812 | 1 373 |
| Government Services | 5 045 | 5 082 | 5 125 | 5 184 | 3 875 |
| Non-profit Private Services | 412 | 415 | 410 | 411 | 296 |
| Import Tax | 4 914 | 6 127 | 7 509 | 9 473 | 7 882 |
| GDP | 109 885 | 118 612 | 125 485 | 136 693 | 108 979 |
| Net Foreign Income | 4 576 | 3 908 | 3 809 | 4 244 | 3 616 |
| GNP | 107 783 | 116 338 | 123 165 | 135 308 | 107 900 |

Source: TURKSTAT.
(1) Provisional (as of end-September, 2005).

***TABLE 5***
***PRICE INDICES***
***(Annual Average)***

| | 2004 | 2005 |
|---|---|---|
| CONSUMER PRICE INDEX | | |
| (2003=100) | | |
| General | 108,60 | 117,48 |
| Food and Non-Alcoholic Beverages | 106,82 | 112,08 |
| Alcoholic Beverages and Tobacco | 119,10 | 135,18 |
| Clothing and Footwear | 106,63 | 110,44 |
| Housing, Water, Electricity, Gas and Other Fuels | 108,44 | 120,00 |
| Furnishings, Household Equipment and Routine Maintenance of the House | 106,02 | 113,64 |
| Health | 108,05 | 112,64 |
| Transport | 107,31 | 123,73 |
| Communications | 103,17 | 104,89 |
| Recreation and Culture | 108,91 | 117,06 |
| Education | 119,33 | 135,16 |
| Restaurants and Hotels | 116,73 | 133,49 |
| Miscellaneous Goods and Services | 110,22 | 117,71 |
| PRODUCER PRICE INDEX | | |
| (2003=100) | | |
| General | 114,57 | 121,32 |
| Agriculture | 123,81 | 125,93 |
| Industry | 112,16 | 120,12 |
| Mining and Stone Quarrying | 111,57 | 124,07 |
| Manufacturing Industry | 113,13 | 121,70 |
| Electricity, Gas and Water | 100,14 | 99,26 |

Source: TURKSTAT.

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**TABLE 6.A**
**MONETARY AUTHORITIES - SECTORAL ACCOUNTS**
**(YTL thousand)**

| **ASSETS** | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| FOREIGN ASSETS | 30 782 124 | 48 220 839 | 51 058 649 | 52 384 047 | 68 862 365 |
| Gold International Standard (FX) | 1 485 813 | 2 091 220 | 2 174 040 | 2 194 300 | 2 384 725 |
| Convertible Foreign Assets | 27 249 003 | 43 815 573 | 46 922 114 | 48 327 454 | 64 628 441 |
| Other Foreign Assets | 2 047 309 | 2 314 046 | 1 962 496 | 1 862 293 | 1 849 199 |
| CLAIMS ON CENTRAL GOVERNMENT | 34 523 915 | 52 814 339 | 52 385 567 | 50 333 752 | 40 448 839 |
| Budgetary Institutions | 34 698 719 | 53 960 941 | 51 662 089 | 48 301 226 | 38 294 057 |
| Treasury Coin Issue | 49 422 | 81 807 | 116 557 | 134 485 | 481 686 |
| IMF Position | 189 785 | 22 959 725 | 23 466 726 | 24 874 262 | 17 883 477 |
| Short-Term Advances to the Treasury | 0 | 0 | 0 | 0 | 0 |
| Government Domestic Debt Instruments | 34 459 512 | 30 919 409 | 28 078 806 | 23 292 479 | 19 928 894 |
| Activated Claims in Accordance with the Consolidation Law | 0 | 0 | 0 | 0 | 0 |
| Other Claims on the Treasury (Net) | 0 | 0 | 0 | 0 | 0 |
| Revaluation Account | -174 804 | -1 146 601 | 723 478 | 2 032 526 | 2 154 782 |
| CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES | 4 045 | 5 030 | 3 322 | 567 | 0 |
| CLAIMS ON DEPOSIT MONEY BANKS | 9 665 218 | 2 703 000 | 1 765 333 | 1 151 902 | 548 032 |
| Advances and Discounts | 16 270 | 12 804 | 6 556 | 7 678 | 3 759 |
| Commercial | 16 270 | 12 804 | 6 556 | 7 678 | 3 759 |
| Agricultural | 0 | 0 | 0 | 0 | 0 |
| Medium-Term Industrial Credit (Banks) | 0 | 0 | 0 | 0 | 0 |
| Advances Against Bond Collateral | 0 | 0 | 0 | 0 | 0 |
| Credit to Non-Financial Public Enterprises through Banks | 0 | 0 | 0 | 0 | 0 |
| Other Claims | 9 648 948 | 2 690 195 | 1 758 776 | 1 144 224 | 544 272 |
| CLAIMS ON OTHER FINANCIAL INSTITUTIONS | 750 000 | 250 000 | 0 | 302 300 | 0 |
| Claims on Investment and Development Banks | 0 | 0 | 0 | 0 | 0 |
| Claims on Non-Bank Financial Institutions | 750 000 | 250 000 | 0 | 302 300 | 0 |
| UNCLASSIFIED ASSETS | 1 798 855 | 637 820 | 315 073 | 448 879 | 608 807 |
| T O T A L | 77 524 158 | 104 631 028 | 105 527 945 | 104 621 447 | 110 468 042 |

Source: CBRT.
Note: Data are inflation-adjusted beginning from August 2004.
(1) Provisional (as of end-November).

**TABLE 6.L**
**MONETARY AUTHORITIES - SECTORAL ACCOUNTS**
**(YTL thousand)**

| LIABILITIES | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| RESERVE MONEY (IMF Definition) | 18 064 107 | 21 249 836 | 25 192 950 | 33 625 426 | 39 417 450 |
| Currency and Coins in Circulation | 5 330 279 | 7 708 822 | 10 784 707 | 13 596 791 | 18 744 226 |
| Currency Outside Deposit Money Banks | 4 462 913 | 6 899 360 | 9 775 116 | 12 443 528 | 17 231 588 |
| Currency in Banks | 867 366 | 809 462 | 1 009 591 | 1 153 263 | 1 512 638 |
| Bank Deposits | 12 695 845 | 13 485 735 | 14 347 250 | 19 858 077 | 20 489 114 |
| Required Reserves | 7 754 497 | 9 116 657 | 9 503 436 | 11 868 739 | 13 799 356 |
| Free Reserves | 4 941 348 | 4 369 078 | 4 843 814 | 7 989 338 | 6 689 758 |
| Demand Deposits (YTL) | 37 984 | 55 279 | 60 994 | 170 558 | 184 110 |
| Non-Financial Public Enterprises | 8 | 9 | 7 | 7 | 278 |
| Local Governments' Deposits | 32 786 | 31 683 | 27 638 | 31 819 | 16 137 |
| Private Sector | 301 | 622 | 765 | 907 | 1 018 |
| Other Financial Institutions | 4 890 | 22 965 | 32 584 | 137 825 | 166 677 |
| TIME DEPOSITS | 418 765 | 653 214 | 837 444 | 1 093 540 | 1 322 422 |
| FOREIGN EXCHANGE DEPOSITS | 530 408 | 33 167 | 27 750 | 77 285 | 65 574 |
| Non-Bank Financial Institutions | 517 752 | 11 162 | 7 704 | 27 976 | 14 897 |
| Non-Financial Public Enterprises | 12 656 | 22 005 | 20 046 | 49 309 | 50 677 |
| Local Governments | 0 | 0 | 0 | 0 | 0 |
| RESTRICTED DEPOSITS | 540 | 6 | 9 | 13 | 15 |
| FOREIGN LIABILITIES | 36 156 907 | 59 603 733 | 58 102 378 | 54 128 478 | 39 571 625 |
| Use of IMF Credits | 19 640 037 | 35 342 828 | 33 292 322 | 28 913 970 | 18 325 558 |
| IMF Emergency Assistance (Treasury) | 653 080 | 804 351 | 375 348 | 0 | 0 |
| Foreign Credit | 112 332 | 119 970 | 97 506 | 53 562 | 12 361 |
| Foreign Exchange Deposits by Citizens Abroad | 15 557 117 | 23 041 336 | 24 148 387 | 24 978 895 | 21 089 289 |
| Other Non-Residents' Deposits | 137 819 | 218 876 | 111 187 | 79 485 | 3 660 |
| Miscellaneous Payables (FX) | 56 523 | 76 372 | 77 629 | 102 567 | 140 757 |
| CENTRAL GOVERNMENT DEPOSITS | 3 473 118 | 5 799 917 | 7 424 832 | 6 900 617 | 15 912 370 |
| General and Annexed Budget Administration Deposits | 2 171 336 | 3 676 553 | 5 167 363 | 5 621 857 | 14 258 492 |
| Gen. Annex. Bud. Administration Project Credits | 482 662 | 497 581 | 320 796 | 399 292 | 367 702 |
| Public Economic Institutes (Annexed Budget Organizations) | 197 | 325 | 544 | 348 | 527 |
| Social Security Funds | 0 | 0 | 0 | 0 | 0 |
| Reserves for Letters of Credit (Official Enterprises) | 0 | 0 | 0 | 3 362 | 0 |
| Other Liabilities to Central Government | 56 496 | 106 992 | 59 839 | 55 959 | 36 480 |
| Extra-Budgetary Institutions | 762 427 | 1 518 466 | 1 876 289 | 819 799 | 1 249 168 |
| NON-RESERVE LIABILITIES (2) | 7 200 100 | 9 574 400 | 8 259 450 | 3 621 900 | 9 733 750 |
| CAPITAL AND RESERVES | 9 408 409 | 5 015 517 | 3 192 609 | 2 874 760 | 2 920 178 |
| UNCLASSIFIED LIABILITIES | 2 271 804 | 2 701 237 | 2 490 522 | 2 299 427 | 1 524 657 |
| T O T A L | 77 524 158 | 104 631 028 | 105 527 945 | 104 621 447 | 110 468 042 |

Source: CBRT.
Note: Data are inflation-adjusted beginning from August 2004.
(1) Provisional (as of end-November).
(2) TL/YTL receivable against securities sold under reverse repo transactions and TL/YTL payables under swap transactions with banks and overnight loans received from banks under open market operations are classified in ''Non-Reserve Liabilities''.

***TABLE 7***
***CENTRAL BANK - CREDITS***
***(YTL thousand)***

| **SECTORAL BREAKDOWN** | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| CENTRAL GOVERNMENT | 0 | 0 | 0 | 0 | 0 |
| Short Term Advances to the Treasury | 0 | 0 | 0 | 0 | 0 |
| Other Claims on the Treasury (Net) | 0 | 0 | 0 | 0 | 0 |
| NON-FINANCIAL PUBLIC ENTERPRISES | 0 | 0 | 0 | 0 | 0 |
| Treasury Guaranteed Bills | 0 | 0 | 0 | 0 | 0 |
| Short-term Discount of Bills, Soil Products Office (SPO) | 0 | 0 | 0 | 0 | 0 |
| SEEs, Other (Debt of SEEs Not Paid On Due Date) | 0 | 0 | 0 | 0 | 0 |
| SEEs, Commercial Bills | 0 | 0 | 0 | 0 | 0 |
| FINANCIAL INSTITUTIONS | 766 270 | 262 804 | 6 556 | 309 978 | 3 759 |
| Deposit Money Banks | 16 270 | 12 804 | 6 556 | 7 678 | 3 759 |
| Rediscount | 16 270 | 12 804 | 6 556 | 7 678 | 3 759 |
| As Per Art. 40/1-c of Law No. 1211 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Investment and Development Banks | 0 | 0 | 0 | 0 | 0 |
| Rediscounts | 0 | 0 | 0 | 0 | 0 |
| As Per Art. 40/1-c of Law No. 1211 | 0 | 0 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 |
| Non-Bank Financial Institutions | 750 000 | 250 000 | 0 | 302 300 | 0 |
| Savings Deposit Insurance Fund | 750 000 | 250 000 | 0 | 302 300 | 0 |
| ABROAD (2) | 2 041 090 | 2 305 793 | 1 941 320 | 1 841 388 | 1 829 825 |
| T O T A L | 2 807 360 | 2 568 597 | 1 947 876 | 2 151 366 | 1 833 585 |

Source: CBRT.
(1) Provisional (as of end-November).
(2) Loans extended to Iraq classified in ‘‘Foreign Credit’’ were transferred to ‘‘Claims Under Legal Proceedings’’ in the Central Bank balance sheet as of December 1999. Thus, the figure in ‘‘Abroad’’ is different from that in the Central Bank balance sheet.

**TABLE 8**
**CENTRAL BANK - DEPOSITS**
**(YTL thousand)**

| SECTORAL BREAKDOWN | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| CENTRAL GOVERNMENT | 3 416 622 | 5 692 925 | 7 364 993 | 6 841 297 | 15 875 889 |
| General and Annexed Budget Administration | 2 171 336 | 3 676 553 | 5 167 363 | 5 621 857 | 14 258 492 |
| YTL | 673 900 | 302 378 | 930 232 | 871 796 | 4 232 864 |
| FX | 1 497 437 | 3 374 175 | 4 237 131 | 4 750 061 | 10 025 628 |
| General and Annexed Budget Administration Project Funds | 482 662 | 497 581 | 320 796 | 399 292 | 367 702 |
| YTL | 0 | 0 | 0 | 0 | 0 |
| FX | 482 662 | 497 581 | 320 796 | 399 292 | 367 702 |
| Public Economic Institutions | 197 | 325 | 544 | 348 | 527 |
| YTL | 197 | 325 | 544 | 348 | 527 |
| FX | 0 | 0 | 0 | 0 | 0 |
| Social Security Organizations Establish by Law | 0 | 0 | 0 | 0 | 0 |
| Extra-Budgetary Funds | 762 427 | 1 518 466 | 1 876 289 | 819 799 | 1 249 168 |
| YTL | 100 985 | 176 382 | 48 289 | 23 333 | 92 237 |
| FX | 661 442 | 1 342 083 | 1 828 000 | 796 466 | 1 156 931 |
| FINANCIAL INSTITUTIONS | 13 227 062 | 13 519 891 | 14 387 557 | 20 023 936 | 20 670 709 |
| Bank Deposits | 12 695 845 | 13 485 735 | 14 347 250 | 19 858 077 | 20 489 114 |
| Required Reserves | 7 754 497 | *9 116 657* | *9 503 436* | *11 868 739* | 13 799 356 |
| YTL | 1 626 371 | 1 671 841 | 2 288 617 | 3 115 294 | 4 513 746 |
| FX | 6 128 126 | 7 444 816 | 7 214 819 | 8 753 445 | 9 285 610 |
| Free Reserves | 4 941 348 | *4 369 078* | *4 843 814* | *7 989 338* | 6 689 758 |
| Deposit Money Banks (FX) | 4 050 434 | 3 271 335 | 2 975 758 | 4 519 362 | 2 887 950 |
| Deposit Money Banks (YTL) | 890 914 | 1 097 743 | 1 868 056 | 3 469 976 | 3 801 807 |
| Other Financial Institutions | 531 217 | 34 156 | 40 306 | 165 858 | 181 595 |
| Investment and Development Banks | 171 521 | *5 985* | *10 725* | *7 410* | 18 700 |
| YTL | 1 718 | 2 661 | 4 927 | 4 264 | 7 789 |
| FX | 169 803 | 3 324 | 5 798 | 3 146 | 10 911 |
| Non-Bank Fin.Ins. (Ins. Fund. for Sav. Dep.) | 351 120 | *9 514* | *1 928* | *25 869* | 4 052 |
| YTL (Sight) | 3 172 | 1 676 | 21 | 1 038 | 67 |
| FX | 347 948 | 7 838 | 1 906 | 24 830 | 3 986 |
| Participation Banks | 8 519 | *18 628* | *27 636* | *132 523* | 158 821 |
| Authorized Foreign Currency Institutions | 57 | *30* | *18* | *57* | 21 |
| NON-FINANCIAL PUBLIC ENTERPRISES | 12 664 | 22 014 | 20 053 | 49 316 | 50 956 |
| State Economic Enterprises | 12 664 | 22 014 | 20 053 | 49 316 | 50 956 |
| YTL (Sight) | 8 | 9 | 7 | 7 | 278 |
| FX | 12 656 | 22 005 | 20 046 | 49 309 | 50 677 |
| LOCAL GOVERNMENT | 32 786 | 31 683 | 27 638 | 31 819 | 16 137 |
| YTL (Sight) | 32 786 | 31 683 | 27 638 | 31 819 | 16 137 |
| FX | 0 | 0 | 0 | 0 | 0 |
| PRIVATE SECTOR (YTL) | 301 | 622 | 765 | 907 | 1 018 |
| RESTRICTED DEPOSITS | 536 | 2 | 5 | 9 | 11 |
| NON-RESIDENTS' DEPOSITS | 28 861 496 | 36 446 625 | 34 459 546 | 29 097 110 | 21 534 125 |
| Foreign Exchange Deposits by Citizens Abroad | 15 557 117 | 23 041 336 | 24 148 387 | 24 978 895 | 21 089 289 |
| Other Deposits (YTL+FX) | 13 304 380 | 13 405 289 | 10 311 158 | 4 118 216 | 444 835 |
| OTHER DEPOSITS | 1 766 | 294 | 245 | 280 | 179 |
| T O T A L | 45 553 233 | 55 714 056 | 56 260 800 | 56 044 674 | 58 149 023 |

Source: CBRT.
(1) Provisional (as of end-November).

## TABLE 9.A
## DEPOSIT MONEY BANKS - SECTORAL ACCOUNTS
## (YTL thousand)

| ASSETS | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| RESERVES | 10 712 903 | 12 679 019 | 13 970 806 | 19 628 823 | 20 647 895 |
| Currency | 867 366 | 809 462 | 1 009 591 | 1 153 263 | 1 512 638 |
| Deposits at Central Bank | 9 845 537 | 11 869 557 | 12 961 215 | 18 475 560 | 19 135 257 |
| Reserve Requirements | 7 683 120 | 9 258 435 | 9 998 333 | 13 118 287 | 14 642 974 |
| Free Reserves | 2 162 417 | 2 611 122 | 2 962 882 | 5 357 273 | 4 492 283 |
| OTHER CLAIMS ON CENTRAL BANK | 1 125 664 | 2 078 745 | 438 625 | 134 138 | 6 030 |
| Net Credit from CBRT under Swap and Repurchase Agreements | 1 053 000 | 2 070 500 | 433 000 | 128 000 | 0 |
| Other Claims | 72 664 | 8 245 | 5 625 | 6 138 | 6 030 |
| FOREIGN ASSETS | 17 745 631 | 20 666 823 | 19 042 263 | 27 178 462 | 26 719 232 |
| CLAIMS ON CENTRAL GOVERNMENT | 62 069 905 | 80 302 967 | 99 960 100 | 114 060 397 | 132 878 265 |
| Budgetary Institutions | 62 069 905 | 80 302 967 | 99 960 100 | 114 060 397 | 132 878 265 |
| Credits to Central Government | 1 291 552 | 720 812 | 452 959 | 679 813 | 256 144 |
| Bonds and Bills Issued by Central Government | 60 142 152 | 78 018 447 | 97 422 974 | 111 684 966 | 130 011 940 |
| Other Claims on Central Government | 636 201 | 1 563 708 | 2 084 167 | 1 695 618 | 2 610 181 |
| Extra-Budgetary Institutions | 0 | 0 | 0 | 0 | 0 |
| Claims on Extra-Budgetary Funds | 0 | 0 | 0 | 0 | 0 |
| CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES | 389 750 | 51 094 | 193 106 | 353 200 | 383 095 |
| Credit to SEEs | 378 973 | 22 557 | 190 854 | 352 637 | 382 486 |
| Bonds Issued by SEEs | 0 | 1 403 | 0 | 0 | 0 |
| Participations in SEEs | 0 | 0 | 0 | 0 | 0 |
| Other Claims on SEEs | 10 777 | 27 134 | 2 252 | 563 | 609 |
| CLAIMS ON LOCAL GOVERNMENT | 111 896 | 82 514 | 172 356 | 297 802 | 345 932 |
| Credits to Local Government | 77 603 | 82 356 | 172 162 | 297 555 | 345 572 |
| Bonds and Bills Issued by Local Government | 0 | 0 | 0 | 0 | 0 |
| Other Claims on Local Government | 34 293 | 158 | 194 | 247 | 360 |
| CLAIMS ON OTHER FINANCIAL INSTITUTIONS | 1 998 441 | 3 017 899 | 3 523 020 | 4 186 949 | 4 501 753 |
| Claims on Investment and Development Banks | 1 054 441 | 1 069 897 | 869 315 | 828 020 | 643 067 |
| Claims on Non-Bank Financial Institutions (2) | 944 000 | 1 948 002 | 2 653 705 | 3 358 929 | 3 858 686 |
| CLAIMS ON PRIVATE SECTOR | 34 994 593 | 38 547 558 | 55 735 552 | 85 144 559 | 119 015 825 |
| Credit to Private Sector | 30 776 161 | 31 971 146 | 48 889 710 | 76 602 464 | 113 102 885 |
| Bonds Issued by Private Enterprises | 210 553 | 434 982 | 175 112 | 212 078 | 54 064 |
| Participations in Private Enterprises | 2 992 877 | 5 350 631 | 5 667 555 | 7 781 872 | 4 530 795 |
| Other Claims on Private Sector | 1 015 002 | 790 799 | 1 003 175 | 548 145 | 1 328 081 |
| DOMESTIC INTERBANK CLAIMS (2) | 3 163 943 | 2 117 915 | 2 462 378 | 2 521 072 | 3 118 650 |
| CLAIMS ON MONEY MARKET TRANSACTIONS | 7 727 662 | 7 315 825 | 7 792 009 | 3 979 450 | 7 783 728 |
| UNCLASSIFIED ASSETS | 22 170 809 | 33 263 080 | 31 587 131 | 27 853 869 | 30 790 670 |
| T O T A L | 162 211 197 | 200 123 440 | 234 877 346 | 285 338 721 | 346 191 075 |

Source: CBRT.
Note: Data are inflation-adjusted beginning from July 2002 to December 2004.
(1) Provisional (as of end-November).
(2) Participation Banks (formerly Special Finance Houses), which were included in "Non-Bank Financial Institutions" are included in "Domestic Bank" beginning from December 2002.

## *TABLE 9.L*
## *DEPOSIT MONEY BANKS - SECTORAL ACCOUNTS*
## *(YTL thousand)*

| LIABILITIES | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| DEMAND DEPOSITS | 6 338 666 | 7 859 692 | 11 357 452 | 14 167 855 | 17 543 430 |
| Private Sector | 4 271 616 | 5 545 241 | 8 700 314 | 10 968 483 | 14 245 123 |
| Local Government | 442 900 | 397 447 | 569 220 | 694 919 | 758 644 |
| Non-Financial Public Enterprises | 639 245 | 787 780 | 1 124 970 | 1 271 734 | 1 254 585 |
| Other Financial Institutions (2) | 984 905 | 1 129 224 | 962 948 | 1 232 719 | 1 285 078 |
| TIME DEPOSITS (3) | 35 910 439 | 46 068 719 | 60 198 620 | 81 737 441 | 113 430 176 |
| Private Sector | 33 691 720 | 42 241 496 | 55 137 631 | 74 728 454 | 102 474 929 |
| Local Government | 204 700 | 557 654 | 1 136 060 | 1 844 706 | 2 605 743 |
| Non-Financial Public Enterprises | 872 340 | 2 005 766 | 2 332 242 | 3 280 369 | 3 364 220 |
| Other Financial Institutions (2) | 1 141 679 | 1 263 803 | 1 592 687 | 1 883 912 | 4 985 284 |
| FUNDS RECEIVED FROM REPO TRANSACTIONS (4) | --- | 4 636 966 | 7 664 143 | 7 820 667 | 7 043 241 |
| Private Sector | --- | 1 960 123 | 1 181 260 | 946 044 | 668 784 |
| Local Government | --- | 61 693 | 72 322 | 33 395 | 56 620 |
| Non-Financial Public Enterprises | --- | 353 326 | 285 945 | 162 755 | 119 870 |
| Other Financial Institutions | --- | 2 261 824 | 6 124 616 | 6 678 473 | 6 197 967 |
| RESIDENTS' FOREIGN EXCHANGE DEPOSITS (3) | 59 596 905 | 72 287 470 | 68 816 810 | 76 330 235 | 73 506 392 |
| CERTIFICATES OF DEPOSIT | 0 | 0 | 0 | 0 | 0 |
| SECURITIES ISSUED (YTL) | 18 | 18 | 0 | 0 | 0 |
| FOREIGN LIABILITIES (4) | 14 383 093 | 15 783 275 | 19 052 570 | 26 150 549 | 40 911 805 |
| CENTRAL GOVERNMENT DEPOSITS | 6 163 034 | 9 477 711 | 14 093 763 | 16 199 136 | 21 195 205 |
| Deposits of Budgetary Funds (4) | 1 185 761 | 2 988 218 | 4 236 005 | 5 781 976 | 10 018 224 |
| Official Social Security Institutions | 1 009 647 | 1 021 594 | 1 966 098 | 2 172 035 | 3 244 476 |
| Deposits of Extra-Budgetary Funds (2) | 3 967 626 | 5 467 899 | 7 891 660 | 8 245 125 | 7 932 505 |
| LIABILITIES TO CENTRAL BANK | 5 823 385 | 191 190 | 84 514 | 76 370 | 77 367 |
| Interbank Deposits, Central Bank | 168 560 | 132 905 | 1 347 | 1 821 | 114 |
| Credit From Central Bank | 157 088 | 0 | 0 | 0 | 0 |
| Miscellaneous Payables, CBRT | 61 570 | 58 281 | 60 065 | 74 522 | 77 253 |
| Transitory Liability Accounts, CBRT | 11 467 | 4 | 23 102 | 27 | 0 |
| Securities Payable (Repurchase Agreements) (4) | 5 424 700 | 0 | 0 | 0 | 0 |
| SHAREHOLDERS' EQUITY (5) | 21 348 272 | 31 953 299 | 42 099 171 | 50 048 602 | 58 862 008 |
| DOMESTIC INTERBANK LIABILITIES (2)(4) | 4 682 171 | 3 893 492 | 4 562 590 | 5 641 865 | 5 366 492 |
| DUE TO MONEY MARKET TRANSACTIONS | 3 978 779 | 2 856 994 | 2 144 339 | 1 900 653 | 1 153 298 |
| DUE TO SECURITIES LENDING MARKETS | --- | 0 | 0 | 0 | 0 |
| UNCLASSIFIED LIABILITIES (4) | 3 986 435 | 5 114 614 | 4 803 374 | 5 265 348 | 7 101 661 |
| T O T A L | 162 211 197 | 200 123 440 | 234 877 346 | 285 338 721 | 346 191 075 |

Source: CBRT.
Note: Data are inflation-adjusted beginning from July 2002 to December 2004.
(1) Provisional (as of end-November).
(2) Participation Banks (formerly Special Finance Houses), which were included in "Other Financial Institutions", are classified under "Domestic Interbank Liabilities" beginning from December 2002.
(3) Time deposits also comprise bank liabilities such as miscellaneous receivables and transitory liability accounts, which are not defined as deposits in the Banks Act. Therefore, deposit figures of the bank accounts revised with respect to institutional sectors are different from those officially declared. FX amounts of related items are separated and included in Residents' Foreign Currency Deposits beginning from October 1999.
(4) Due to the change in the Uniform Chart of Accounts, banks' securities subject to repurchase agreements and related items, which were previously classified as an off-balance sheet item are included in banks' balance sheet beginning from February 2002. The sectoral breakdown of funds received from repo transactions is available.
(5) In addition to "Shareholders' Equity" item in the Deposit Money Banks' Balance Sheet (According to the Uniform Chart of Accounts), "Provisions" shown in assets and liabilities are also covered.

# TABLE 10.A
# DEPOSIT MONEY BANKS - DEPOSITS
## (YTL thousand)

| SECTORAL BREAKDOWN | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| CENTRAL GOVERNMENT | 2 839 837 | 5 731 199 | 9 283 701 | 11 134 165 | 15 397 188 |
| Budgetary Accounts and Social Security (YTL) Institutions | 2 129 619 | 3 248 590 | 5 305 700 | 6 899 334 | 11 945 983 |
| Official Corporations | 970 340 | 1 729 073 | 2 842 795 | 4 051 761 | 7 219 166 |
| Social Security Ins. Established by Law | 1 009 647 | 1 021 594 | 1 966 098 | 2 172 035 | 3 244 476 |
| Other Corporations | 149 632 | 497 923 | 496 807 | 675 538 | 1 482 341 |
| Deposits of Extrabudgetary Funds (YTL) | 710 218 | 1 856 776 | 3 292 095 | 3 538 255 | 2 547 660 |
| Foreign Exchange Deposits of Central (FX) Government (2) | - | 625 833 | 685 906 | 696 576 | 903 545 |
| NON-FINANCIAL PUBLIC ENTERPRISES | 1 501 357 | 4 501 164 | 5 080 769 | 5 967 900 | 5 228 237 |
| LOCAL GOVERNMENTS | 642 796 | 963 623 | 1 715 471 | 2 561 528 | 3 397 280 |
| PRIVATE SECTOR | 96 296 111 | 114 699 985 | 127 072 520 | 154 701 036 | 182 557 923 |
| Non-Financial Corporations (YTL) | 5 231 983 | 6 201 326 | 7 962 993 | 10 491 594 | 15 615 998 |
| Individual Corporations (YTL) | 598 034 | 918 152 | 1 368 728 | 1 658 254 | 2 103 929 |
| Households (YTL) | 27 265 629 | 34 451 682 | 45 083 517 | 61 575 824 | 82 462 429 |
| Non-profit Institutions Serving Households | 3 833 533 | 4 339 784 | 6 488 896 | 6 171 403 | 9 077 526 |
| Other (Other Corporations Deposit) | 571 889 | 907 516 | 1 264 451 | 2 637 215 | 3 822 924 |
| Residents' Foreign Exchange Deposits, Private Sector (FX) | 58 713 932 | 67 787 899 | 64 850 235 | 72 009 887 | 69 384 077 |
| Households, Resident Real Persons | 46 490 234 | 56 524 752 | 52 884 007 | 57 786 204 | 55 324 293 |
| Resident Legal Persons, Foreign Exchange Deposits | 12 223 698 | 11 263 147 | 11 966 228 | 14 223 683 | 14 059 784 |
| Precious Stone Deposit Accounts (FX) (2) | 81 111 | 93 626 | 53 700 | 156 859 | 91 040 |
| Household Resident Real Persons | - | - | - | - | 49 995 |
| Non-Financial Companies and Individual Corporations | - | - | - | - | 41 045 |
| NON-RESIDENTS' DEPOSITS | 1 808 497 | 2 610 885 | 2 828 585 | 3 402 734 | 3 929 276 |
| Embassies, Consulates, International Institutions | 5 790 | 7 167 | 5 627 | 8 033 | 24 076 |
| YTL Deposits of Non-Residents | 118 723 | 193 390 | 278 714 | 623 933 | 1 023 099 |
| Foreign Exchange Deposit Accounts, Non-Resident Real Persons | 1 088 472 | 1 613 257 | 1 741 818 | 1 851 152 | 1 903 688 |
| Foreign Exchange Deposit Accounts, Non-Resident Legal Persons | 595 512 | 797 071 | 802 426 | 919 616 | 978 080 |
| Precious Stones Dep.Acc., Non-Res.Real Per. (2) | - | - | - | - | 333 |
| Precious Stones Dep.Acc.Non-Res.Regal Per. (2) | - | - | - | - | 0 |
| FINANCIAL INSTITUTIONS' DEPOSITS | 7 432 978 | 7 068 333 | 8 204 049 | 9 522 157 | 11 813 786 |
| YTL DEPOSITS | 3 700 962 | 3 139 858 | 4 019 835 | 5 709 452 | 6 823 161 |
| Interbank Deposits | 2 182 775 | 825 180 | 1 492 937 | 2 610 465 | 2 513 540 |
| Central Bank | 1 928 | 1 844 | 1 347 | 1 821 | 114 |
| Banks Abroad | 510 187 | 140 146 | 175 155 | 138 571 | 483 933 |
| Domestic Banks | 1 670 660 | 683 190 | 1 316 435 | 2 470 073 | 2 029 493 |
| Other Financial Institutions | 1 518 187 | 2 314 678 | 2 526 898 | 3 098 987 | 4 309 621 |
| Investment and Development Banks | 175 724 | 165 690 | 52 928 | 160 232 | 172 308 |
| Non-Bank Financial Institutions | 1 342 463 | 2 148 988 | 2 473 970 | 2 938 755 | 4 137 313 |
| FOREIGN EXCHANGE DEPOSITS | 3 166 478 | 3 928 475 | 4 184 214 | 3 812 705 | 4 895 540 |
| Interbank Deposits | 3 099 736 | 1 745 531 | 2 499 591 | 1 672 963 | 2 083 180 |
| Central Bank | 166 632 | 131 061 | 0 | 0 | 0 |
| Banks Abroad | 1 330 737 | 434 176 | 1 323 448 | 857 700 | 995 535 |
| Domestic Banks | 1 602 367 | 1 180 294 | 1 176 143 | 815 263 | 1 087 645 |
| Other Financial Institutions | 66 742 | 2 182 944 | 1 684 623 | 2 139 742 | 2 812 360 |
| Investment and Development Banks | 66 742 | 47 573 | 22 383 | 4 475 | 5 837 |
| Non-Bank Financial Institutions | - | 2 135 371 | 1 662 240 | 2 135 267 | 2 806 523 |
| PRECIOUS STONES DEPOSIT ACCOUNTS (FX)(2) | - | - | - | - | 95 085 |
| T O T A L | 110 521 576 | 135 575 188 | 154 185 095 | 187 289 520 | 222 323 690 |

Source: CBRT.

(1) Provisional (as of end-November).

(2) The sectoral breakdown of “Precious Stones Deposits” item is available beginning from November 2005.

***TABLE 10.B***
***DEPOSIT MONEY BANKS - DEPOSITS***
***(YTL thousand)***

| **DEPOSIT TYPES** | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| SAVINGS DEPOSITS | 27 365 541 | 34 604 347 | 45 302 429 | 62 085 506 | 83 093 921 |
| Sight | 1 586 698 | 2 307 305 | 3 835 720 | 5 235 801 | 6 975 193 |
| Time | 25 778 843 | 32 297 042 | 41 466 709 | 56 849 705 | 76 118 728 |
| COMMERCIAL CORPORATION DEPOSITS (2) | 8 117 695 | 12 909 736 | 16 736 478 | 21 379 815 | 27 531 397 |
| Sight | 3 540 384 | 4 756 252 | 7 195 918 | 8 254 006 | 8 866 671 |
| Time | 4 577 311 | 8 153 484 | 9 540 560 | 13 125 809 | 18 664 726 |
| OTHER CORPORATION DEPOSITS | 7 572 504 | 7 902 013 | 12 156 162 | 13 726 659 | 19 858 221 |
| Sight | 1 995 838 | 1 918 756 | 3 084 645 | 3 274 530 | 3 998 770 |
| Time | 5 576 666 | 5 983 257 | 9 071 517 | 10 452 129 | 15 859 451 |
| of which: Funds | 1 753 774 | 781 819 | 1 358 782 | 1 259 875 | 1 184 235 |
| OFFICIAL DEPOSITS | 1 461 832 | 2 587 339 | 4 431 744 | 6 395 030 | 10 251 056 |
| Sight | 817 189 | 1 398 351 | 2 081 074 | 3 054 537 | 5 087 114 |
| Time | 644 643 | 1 188 988 | 2 350 670 | 3 340 493 | 5 163 942 |
| CERTIFICATES OF DEPOSITS | 0 | 0 | 0 | 0 | 0 |
| Sight | 0 | 0 | 0 | 0 | 0 |
| Time | 0 | 0 | 0 | 0 | 0 |
| FOREIGN EXCHANGE DEP. ACCOUNTS | 60 397 916 | 74 694 153 | 71 436 743 | 79 097 516 | 76 627 772 |
| Sight | 10 799 780 | 16 192 646 | 16 098 780 | 19 911 518 | 18 396 313 |
| Time | 49 598 136 | 58 501 507 | 55 337 963 | 59 185 998 | 58 231 459 |
| PRECIOUS STONES DEPOSIT ACCOUNTS (FX) | 81 111 | 93 626 | 53 700 | 156 859 | 186 458 |
| Sight | 17 069 | 40 417 | 26 766 | 69 429 | 71 436 |
| Time | 64 042 | 53 209 | 26 934 | 87 430 | 115 022 |
| INTERBANK DEPOSITS | 5 524 977 | 2 783 974 | 4 067 839 | 4 448 135 | 4 774 865 |
| Central Bank | 168 560 | 132 905 | 1 347 | 1 821 | 114 |
| Public Deposit Money Banks | 319 551 | 214 608 | 780 813 | 1 522 248 | 619 232 |
| Private Deposit Money Banks | 2 884 927 | 1 455 062 | 1 464 409 | 1 402 920 | 2 049 365 |
| Foreign Deposit Money Banks | 68 549 | 123 302 | 136 876 | 231 967 | 254 286 |
| Public and Private Investment and Dev. Banks | 190 904 | 209 791 | 75 141 | 142 898 | 167 725 |
| Foreign Investment and Development Banks | 51 562 | 3 472 | 170 | 21 809 | 10 420 |
| Banks Abroad | 1 840 924 | 574 322 | 1 498 603 | 996 271 | 1 479 468 |
| Institutions Authorized to Accept Deposits by Special Law | 0 | 0 | 0 | 0 | 0 |
| Participation Banks (2) | --- | 70 512 | 110 480 | 128 201 | 194 255 |
| T O T A L | 110 521 576 | 135 575 188 | 154 185 095 | 187 289 520 | 222 323 690 |

Source: CBRT.
(1) Provisional (as of end-November).
(2) “Participation Banks” (formerly Special Finance Houses) deposits, which were included in “Commercial Corporations’ Deposits”, are classified under "Interbank Deposits" beginning from December 2002.

### *TABLE 11.A*
### *INVESTMENT AND DEVELOPMENT BANKS - SECTORAL ACCOUNTS*
### *(YTL thousand)*

| ASSETS | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| RESERVES | 1 543 159 | 1 471 693 | 1 785 850 | 2 950 861 | 2 154 212 |
| Currency | 193 | 307 | 331 | 458 | 482 |
| Deposits at Central Bank | 151 049 | 26 489 | 39 374 | 31 008 | 83 843 |
| Required Reserves | 0 | 16 291 | 33 003 | 25 469 | 75 577 |
| Free Reserves | 151 049 | 10 198 | 6 371 | 5 539 | 8 266 |
| Claims on Deposit Money Banks | 1 391 917 | 1 444 897 | 1 746 123 | 2 919 395 | 2 069 887 |
| Securities Issued by Deposit Money Banks | 0 | 0 | 0 | 0 | 0 |
| Credit to Deposit Money Banks | 1 391 917 | 1 442 693 | 1 744 445 | 2 911 184 | 2 065 621 |
| Other Claims on Deposit Money Banks | 0 | 2 204 | 1 678 | 8 211 | 4 266 |
| Claims on Participation Bank (2) | --- | 0 | 22 | 0 | 0 |
| OTHER CLAIMS ON CENTRAL BANK | 0 | 185 | 231 | 654 | 1 399 |
| FOREIGN ASSETS | 1 580 205 | 1 480 359 | 1 212 241 | 892 571 | 447 826 |
| CLAIMS ON CENTRAL GOVERNMENT | 434 307 | 848 444 | 1 099 078 | 1 272 963 | 1 731 666 |
| Budgetary Institutions | 434 307 | 848 444 | 1 099 078 | 1 272 963 | 1 731 666 |
| Credit to Central Government | 0 | 0 | 0 | 0 | 0 |
| Bonds and Bills Issued by Central Government | 331 947 | 764 156 | 960 235 | 1 229 707 | 1 653 396 |
| Other Claims on Central Government | 102 360 | 84 288 | 138 843 | 43 256 | 78 270 |
| Extra-Budgetary Institutions | 0 | 0 | 0 | 0 | 0 |
| Claims on Extra-Budgetary Funds | 0 | 0 | 0 | 0 | 0 |
| CLAIMS ON NON-FINANCIAL PUBLIC ENTERPRISES | 28 905 | 43 862 | 68 001 | 97 416 | 119 629 |
| Credit to SEEs | 0 | 0 | 0 | 0 | 0 |
| Bonds issued by SEEs | 0 | 0 | 0 | 0 | 0 |
| Participations in SEEs | 0 | 0 | 0 | 0 | 0 |
| Other Claims on SEEs | 28 905 | 43 862 | 68 001 | 97 416 | 119 629 |
| CLAIMS ON LOCAL GOVERNMENTS | 919 904 | 1 204 646 | 1 644 163 | 2 140 081 | 2 625 062 |
| Credits to Local Government | 919 600 | 1 204 450 | 1 641 320 | 2 136 171 | 2 589 337 |
| Bonds Issued by Local Government | 0 | 0 | 0 | 0 | 0 |
| Other Claims on Local Government | 304 | 196 | 2 843 | 3 910 | 35 725 |
| CLAIMS ON NON-BANK FINANCIAL INSTITUTIONS (2) | 55 947 | 86 225 | 116 183 | 186 363 | 248 825 |
| CLAIMS ON PRIVATE SECTOR | 1 883 233 | 2 515 549 | 2 749 151 | 3 055 529 | 3 396 876 |
| Credit to Private Sector | 1 841 590 | 2 243 900 | 2 458 812 | 2 698 417 | 2 953 745 |
| Bonds Issued by Private Enterprises | 0 | 0 | 359 | 338 | 339 |
| Participations in Private Enterprises | 26 092 | 133 730 | 112 796 | 106 915 | 127 755 |
| Other Claims on Private Sector | 15 551 | 137 919 | 177 184 | 249 859 | 315 037 |
| INTER-INVEST. AND DEVELOP. BANK CLAIMS | 39 141 | 57 421 | 52 279 | 34 043 | 31 282 |
| CLAIMS ON MONEY MARKET TRANSACTIONS | 803 572 | 1 194 650 | 1 022 000 | 184 750 | 951 200 |
| UNCLASSIFIED ASSETS | 844 230 | 601 542 | 700 390 | 669 151 | 627 601 |
| T O T A L | 8 132 603 | 9 504 576 | 10 449 567 | 11 484 382 | 12 335 578 |

Source: CBRT.

Note: Data are inflation-adjusted beginning from July 2002 to December 2004.

(1) Provisional (as of end-November).

(2) Participation Banks (formerly Special Finance Houses), which were classified as "Non-Bank Financial Institutions", are classified as “Domestic Bank” beginning from December 2002.

***TABLE 11.L***
***INVESTMENT AND DEVELOPMENT BANKS - SECTORAL ACCOUNTS***
***(YTL thousand)***

| **LIABILITIES** | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| TIME DEPOSITS (2) | 1 070 079 | 714 051 | 633 319 | 926 631 | 893 775 |
| Private Sector | 100 360 | 82 282 | 97 307 | 38 987 | 22 063 |
| Non-Financial Public Enterprises | 0 | 0 | 2 | 0 | 0 |
| Local Governments | 946 722 | 573 561 | 462 271 | 794 464 | 690 965 |
| Non-Bank Financial Institutions (5) | 22 997 | 58 208 | 73 739 | 93 180 | 180 747 |
| FUNDS RECEIVED FROM REPO TRANSACTIONS (3) | --- | 36 362 | 19 682 | 173 824 | 175 235 |
| Private Sector | --- | 36 175 | 8 724 | 32 217 | 22 432 |
| Non-Financial Public Enterprises | --- | 0 | 0 | 0 | 0 |
| Local Governments | --- | 0 | 0 | 0 | 0 |
| Non-Bank Financial Institutions | --- | 187 | 10 958 | 141 607 | 152 803 |
| RESIDENTS' FOREIGN EXCHANGE DEPOSITS (2) | 44 186 | 122 900 | 115 423 | 102 257 | 130 258 |
| SECURITIES ISSUED (YTL) | 6 | 2 | 1 | 1 | 1 |
| FOREIGN LIABILITIES | 2 639 960 | 2 805 306 | 2 832 452 | 2 864 191 | 3 139 569 |
| CENTRAL GOVERNMENT DEPOSITS | 518 777 | 589 870 | 580 322 | 518 233 | 565 224 |
| Deposits of Budgetary Funds | 416 469 | 499 687 | 492 210 | 422 076 | 460 671 |
| Deposits of Extra-Budgetary Funds | 102 308 | 90 183 | 88 112 | 96 157 | 104 553 |
| LIABILITIES TO THE MONETARY SECTOR | 1 115 848 | 1 341 348 | 1 055 597 | 973 924 | 357 641 |
| Liabilities to the Central Bank | 224 550 | 196 623 | 118 622 | 72 382 | 5 333 |
| Liabilities to Deposit Money Banks | 891 298 | 1 144 722 | 936 911 | 901 542 | 352 308 |
| Liabilities to Participation Banks (4) | --- | 3 | 64 | 0 | 0 |
| LIABILITIES OF INTER-INVESTMENT AND DEVELOPMENT BANKS | 0 | 9 | 5 178 | 0 | 0 |
| SHAREHOLDERS' EQUITY (5) | 2 204 364 | 3 397 302 | 4 807 490 | 5 508 707 | 6 515 256 |
| DUE TO MONEY MARKET TRANSACTIONS | 64 952 | 35 359 | 12 994 | 9 533 | 122 084 |
| DUE TO SECURITIES LENDING MARKETS | --- | 0 | 0 | 0 | 0 |
| UNCLASSIFIED LIABILITIES | 474 431 | 462 067 | 387 109 | 407 081 | 436 535 |
| T O T A L | 8 132 603 | 9 504 576 | 10 449 567 | 11 484 382 | 12 335 578 |

Source: CBRT.
Note: Data are inflation-adjusted beginning from July 2002 to December 2004.
(1) Provisional (as of end-November).
(2) Some of the liabilities of Investment and Development Banks in transitory liabilities and miscellaneous payables, although they do not receive deposits, are classified as deposits solely for Monetary Survey purposes.
(3) Due to the change in the Uniform Chart of Accounts, banks' securities subject to repurchase agreements and related items are included in the banks' balance sheet beginning from February 2002, which were previously classified as off-balance sheet items. The sectoral breakdown of funds received from repo transactions is available.
(4) Participation Banks (formerly Special Finance Houses, which were included in "Non-Bank Financial Institutions", are classified as banks beginning from December 2002.
(5) In addition to "Shareholder' Equity" item in the Investment and Development Banks' Balance Sheet (according to the Uniform Chart of Accounts), "Provisions" shown in assets and liabilities are also covered.

***TABLE 12***
***INVESTMENT AND DEVELOPMENT BANKS - CREDIT***
***(YTL thousand)***

| **SECTORAL BREAKDOWN** | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| CENTRAL GOVERNMENT | 0 | 0 | 0 | 0 | 0 |
| NON-FINANCIAL PUBLIC ENTERPRISES | 0 | 0 | 0 | 0 | 0 |
| LOCAL GOVERNMENTS | 919 600 | 1 204 450 | 1 641 320 | 2 136 171 | 2 589 337 |
| FINANCIAL INSTITUTIONS | 1 403 874 | 1 428 031 | 1 678 449 | 1 959 359 | 1 790 320 |
| Deposit Money Banks | 1 346 441 | 1 364 064 | 1 611 787 | 1 878 311 | 1 709 001 |
| Participation Banks (2) | --- | 0 | 0 | 0 | 0 |
| Investment and Development Banks | 39 141 | 48 871 | 37 230 | 32 796 | 30 035 |
| Non-Bank Financial Institutions (2) | 18 292 | 15 096 | 29 432 | 48 252 | 51 284 |
| Insurance Companies and Private Pension Funds | --- | 0 | 0 | 0 | 0 |
| Financial Intermediaries | --- | 7 295 | 23 064 | 36 201 | 32 174 |
| Financial Leasing Companies | --- | 0 | 1 007 | 0 | 0 |
| Factoring Companies | --- | 7 295 | 22 053 | 29 742 | 30 524 |
| Consumer Finance Companies | --- | 0 | 0 | 6 459 | 1 650 |
| Other Financial Intermediaries | --- | 0 | 4 | 0 | 0 |
| Financial Auxiliaries | --- | 7 801 | 6 368 | 12 051 | 19 110 |
| Central Bank | 0 | 0 | 0 | 0 | 0 |
| PRIVATE SECTOR | 1 841 590 | 2 243 900 | 2 458 812 | 2 698 417 | 2 953 745 |
| Non-Financial Companies (3) | 1 822 857 | 2 209 879 | 2 430 199 | 2 649 372 | 2 895 528 |
| Individual Corporations (3) | --- | 20 343 | 13 293 | 31 871 | 37 216 |
| Households | 10 796 | 13 678 | 15 112 | 17 174 | 21 001 |
| Credits to Personnel | 10 796 | 13 646 | 15 112 | 17 174 | 21 001 |
| Non-Profit Institutions Serving Households | --- | 0 | 0 | 0 | 0 |
| Other | 7 937 | 0 | 208 | 0 | 0 |
| ABROAD | 1 163 802 | 1 125 836 | 810 706 | 448 303 | 186 105 |
| T O T A L | 5 328 866 | 6 002 217 | 6 589 287 | 7 242 250 | 7 519 507 |

Source: CBRT.
(1) Provisional (as of end-November).
(2) Participation Banks (formerly Special Finance Houses), which were included in "Non-Bank Financial Institutions", are classified in "Domestic Interbank Credits" since December 2002.
(3) "Non-Financial Companies" included in "Individual Corporations" until December 2002.

## *TABLE 13*
## *DEPOSIT MONEY BANKS - CREDIT*
## *(YTL thousand)*

| **SECTORAL BREAKDOWN** | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| CENTRAL GOVERNMENT | 1 291 552 | 720 810 | 452 959 | 679 813 | 256 144 |
| NON-FINANCIAL PUBLIC ENTERPRISES | 378 973 | 22 557 | 190 854 | 352 637 | 382 486 |
| LOCAL GOVERNMENTS | 77 603 | 73 682 | 172 162 | 297 555 | 345 572 |
| FINANCIAL INSTITUTIONS | 1 016 370 | 1 089 599 | 958 048 | 934 259 | 513 902 |
| Investment and Development Banks | 878 257 | 962 147 | 734 568 | 653 745 | 183 788 |
| Non-Bank Financial Institutions (2) | 57 262 | 101 915 | 210 874 | 262 427 | 296 221 |
| Insurance Companies and Private Pension Funds | --- | 1 707 | 1 976 | 5 336 | 9 645 |
| Financial Intermediaries | --- | 96 269 | 200 477 | 254 494 | 285 524 |
| Financial Leasing Companies | --- | 12 122 | 19 244 | 58 645 | 77 169 |
| Factoring Companies | --- | 53 048 | 84 088 | 122 262 | 129 755 |
| Consumer Finance Companies | --- | 0 | 2 377 | 2 200 | 35 718 |
| Other Financial Intermediaries | --- | 31 099 | 94 768 | 71 387 | 42 882 |
| Financial Auxiliaries | --- | 3 939 | 8 421 | 2 597 | 1 052 |
| Domestic Interbank Credit (2) | 80 851 | 25 537 | 12 606 | 18 087 | 33 893 |
| Central Bank | 0 | 0 | 0 | 0 | 0 |
| PRIVATE SECTOR | 30 776 161 | 31 997 840 | 48 889 710 | 76 602 464 | 113 102 885 |
| Non-Financial Companies (3)(4) | 22 609 348 | 14 507 269 | 23 094 451 | 35 942 497 | 50 838 422 |
| Individual Corporations (3)(4) | --- | 7 015 891 | 9 158 056 | 9 598 957 | 13 434 091 |
| Households | 4 939 445 | 7 503 092 | 12 929 522 | 26 433 935 | 42 986 434 |
| Consumer Credit (4) | 2 336 850 | 3 130 621 | 5 833 254 | 12 542 550 | 26 226 023 |
| Credit Cards | 2 556 936 | 4 335 180 | 7 029 598 | 13 717 391 | 16 456 887 |
| Credits to Personnel | 45 659 | 37 291 | 66 670 | 173 994 | 303 524 |
| Agricultural Sales Cooperatives | 1 890 718 | 2 107 131 | 2 908 443 | 2 529 750 | 2 534 060 |
| Agricultural Credit Cooperatives | 217 198 | 63 800 | 25 319 | 37 814 | 76 642 |
| Non-Profit Institutions Serving Households | --- | 62 552 | 95 732 | 121 883 | 192 426 |
| Other | 1 119 452 | 738 105 | 678 187 | 1 937 628 | 3 040 810 |
| ABROAD | 411 508 | 570 187 | 1 690 858 | 1 818 102 | 1 195 021 |
| T O T A L | 33 952 167 | 34 474 675 | 52 354 591 | 80 684 830 | 115 796 010 |

Source: CBRT.
(1) Provisional (as of end-November).
(2) Participation Banks (formerly Special Finance Houses), which were included in "Non-Bank Financial Institutions", are classified in “Domestic Interbank Credits" since December 2002.
(3) "Non-financial Companies" included "Individual Corporations" until December 2002.
(4) The credits in the form of consumer credits extended to business enterprises are reclassified in “Non Financial Companies” and “Individual Corporations” according to the directive of Banking Regulation and Supervision Agency beginning from December 2002.

**TABLE 14**
**BANKING SECTOR - CREDIT STOCK, DOMESTIC**
**(YTL thousand)**

| | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| CENTRAL BANK (Direct Loans) | 750 000 | 250 000 | 0 | 302 300 | 0 |
| Central Government | 0 | 0 | 0 | 0 | 0 |
| Non-Financial Public Enterprises | 0 | 0 | 0 | 0 | 0 |
| Non-Bank Financial Institutions | 750 000 | 250 000 | 0 | 302 300 | 0 |
| DEPOSIT MONEY BANKS | 32 581 551 | 32 916 804 | 49 916 559 | 78 194 896 | 114 383 308 |
| Central Government | 1 291 552 | 720 810 | 452 959 | 679 813 | 256 144 |
| Non-Financial Public Enterprises | 378 973 | 22 557 | 190 854 | 352 637 | 382 486 |
| Local Government | 77 603 | 73 682 | 172 162 | 297 555 | 345 572 |
| Non-Bank Financial Institutions (2) | 57 262 | 101 915 | 210 874 | 262 427 | 296 221 |
| Private Sector | 30 776 161 | 31 997 840 | 48 889 710 | 76 602 464 | 113 102 885 |
| INVESTMENT AND DEVELOPMENT BANKS | 2 779 482 | 3 463 446 | 4 129 564 | 4 882 840 | 5 594 366 |
| Central Government | 0 | 0 | 0 | 0 | 0 |
| Non-Financial Public Enterprises | 0 | 0 | 0 | 0 | 0 |
| Local Government | 919 600 | 1 204 450 | 1 641 320 | 2 136 171 | 2 589 337 |
| Non-Bank Financial Institutions (2) | 18 292 | 15 096 | 29 432 | 48 252 | 51 284 |
| Private Sector | 1 841 590 | 2 243 900 | 2 458 812 | 2 698 417 | 2 953 745 |
| T O T A L | 36 111 033 | 36 630 250 | 54 046 123 | 83 380 036 | 119 977 674 |

Source: CBRT.
Note: Interbank credit is excluded from credit stock.
(1) Provisional (as of end-November).
(2) Participation Banks (formerly Special Finance Houses), which were included in "Non-Bank Financial Institutions", are classified in interbank credits since December 2002.

## *TABLE 15*
## *MONETARY SECTOR - ANALYTICAL BALANCE SHEET*
### *M3Y Money Supply and Counterpart Items*
### *(YTL thousand)*

| | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| COUNTERPART ITEMS | | | | | |
| FOREIGN ASSETS (NET) | -1 886 778 | -6 297 979 | -6 767 792 | -83 549 | 16 149 002 |
| Foreign Assets | 48 527 755 | 68 887 662 | 70 100 912 | 79 562 509 | 95 581 597 |
| Foreign Liabilities | -50 414 533 | -75 185 641 | -76 868 704 | -79 646 058 | -79 432 595 |
| DOMESTIC CREDIT | 128 439 070 | 164 742 193 | 198 691 861 | 241 654 096 | 277 862 968 |
| Claims on Central Government (Net) | 90 190 345 | 122 788 098 | 139 064 505 | 151 368 719 | 153 616 363 |
| Claims on Central Government | 96 593 820 | 133 117 307 | 152 345 667 | 164 394 149 | 173 327 104 |
| Less: Central Government Deposits (5) | -6 403 476 | -10 329 208 | -13 281 162 | -13 025 430 | -19 710 741 |
| Claims on Local Governments | 111 896 | 82 514 | 172 356 | 297 802 | 345 932 |
| Claims on Non-Financial Public Enterprises | 393 795 | 56 124 | 196 428 | 353 767 | 383 095 |
| Claims on the Private Sector | 34 994 593 | 38 547 558 | 55 735 552 | 85 144 559 | 119 015 825 |
| Claims on Investment and Development Banks | 1 054 441 | 1 069 897 | 869 315 | 828 020 | 643 067 |
| Claims on Non-Bank Financial Institutions | 1 694 000 | 2 198 002 | 2 653 705 | 3 661 229 | 3 858 686 |
| OTHER ITEMS (NET) | -17 803 945 | -17 220 310 | -27 867 274 | -42 046 538 | -52 912 325 |
| T O T A L | 108 748 347 | 141 223 904 | 164 056 795 | 199 524 010 | 241 099 645 |
| MONEY SUPPLY | | | | | |
| M1 | 11 368 782 | 15 827 630 | 23 014 336 | 28 793 392 | 36 854 850 |
| Currency in Circulation | 4 462 913 | 6 899 360 | 9 775 116 | 12 443 528 | 17 231 588 |
| Demand Deposits | 6 905 869 | 8 928 269 | 13 239 221 | 16 349 864 | 19 623 261 |
| Monetary Authorities (4) | 3 679 | 23 951 | 33 920 | 139 148 | 168 533 |
| Deposit Money Banks (2) | 6 902 190 | 8 904 318 | 13 205 301 | 16 210 716 | 19 454 728 |
| M2 | 47 241 075 | 61 879 759 | 82 712 966 | 108 539 246 | 146 553 461 |
| Time Deposits | 35 872 293 | 46 052 129 | 59 698 630 | 79 745 854 | 109 698 611 |
| Deposit Money Banks (2) | 35 872 293 | 46 052 129 | 59 698 630 | 79 745 854 | 109 698 611 |
| M2Y | 106 566 525 | 133 664 544 | 151 001 010 | 184 403 562 | 219 552 534 |
| Residents' Foreign Exchange Deposits | 59 325 451 | 71 784 786 | 68 288 043 | 75 864 316 | 72 999 073 |
| Monetary Authorities | 530 408 | 33 167 | 27 750 | 77 285 | 65 574 |
| Deposit Money Banks (5) | 58 795 043 | 71 751 619 | 68 260 293 | 75 787 031 | 72 933 499 |
| M2YR | - | 138 301 510 | 158 665 153 | 192 224 229 | 226 595 775 |
| Funds Received from Repo Transactions (3) | - | 4 636 966 | 7 664 143 | 7 820 667 | 7 043 241 |
| Deposit Money Banks | - | 4 636 966 | 7 664 143 | 7 820 667 | 7 043 241 |
| M3 | 49 422 896 | 64 802 152 | 88 104 608 | 115 839 027 | 161 057 329 |
| Official Deposits (Time/Sight) | 1 461 832 | 2 587 339 | 4 431 744 | 6 395 030 | 10 251 056 |
| Central Bank's Other Deposits (4) | 719 990 | 335 055 | 959 898 | 904 751 | 4 252 813 |
| M3Y (M2Y+Official Deposits + CB's Other Deposits) | 108 748 347 | 136 586 938 | 156 392 652 | 191 703 343 | 234 056 403 |
| M3YR (M2YR+Official Deposits + CB's Other Deposits) | - | 141 223 904 | 164 056 795 | 199 524 010 | 241 099 645 |

Source: CBRT.

Note: Data are inflation-adjusted beginning from July 2002 for banking sector and from August 2004 for Central Bank.

Note: The Money Supply counterpart items in this table are different from those in Monetary Survey. The reason is that the items included in the official money supply definitions are categorized in different sections of the Monetary Survey aggregates are slightly different from the official money supply and counterpart items.

(1) Provisional (as of end-November).

(2) Deposits of Saving Deposit Insurance Funds, which were previously covered under "Deposit of Extra-budgetary Institutions (Central Government deposits), are reclassified as "Non-Bank Financial Institutions' Deposits" and added in M1 and M2 Money Supply according to maturity.

(3) Due to the change in the Uniform Chart of Accounts, banks' securities subject to repurchase agreements and related items, which were previously classified as an off-balance sheet item, are included in the banks' balance sheet beginning from February 2002. Therefore, funds received from repurchase transactions are included in M2YR and M3YR.

(4) TL/YTL Deposits of Savings Deposits Insurance Funds are reclassified under M1, which was, previously show under Central Bank's Other Deposits.

(5) Foreign Exchange Deposits of Central Government have been compiled and added to "Central Government Deposits" under Counterpart Items beginning from December 2002.

# *TABLE 16*
## *CENTRAL BANK - ANALYTICAL BALANCE SHEET*
### *(YTL thousand)*

| | 2001 | 2002 | 2003 | 2004 | 2005 |
|---|---|---|---|---|---|
| A S S E T S | | | | | |
| FOREIGN ASSETS | 34 409 563 | 50 995 283 | 52 891 854 | 53 592 147 | 72 271 038 |
| DOMESTIC ASSETS | 25 679 957 | 23 075 242 | 23 605 277 | 21 080 644 | 17 750 782 |
| Cash Operations | 25 664 127 | 24 221 843 | 22 881 799 | 19 048 118 | 15 721 454 |
| Treasury Debt. | 34 403 119 | 30 812 443 | 28 019 133 | 23 236 563 | 19 427 844 |
| CBRT Portfolio | 34 459 512 | 30 919 409 | 28 078 806 | 23 292 479 | 19 470 029 |
| Gov.Dom.Debt Instr. Prior to Nov. 5, 2001 | 34 301 090 | 30 919 409 | 28 078 806 | 23 292 479 | 19 470 029 |
| Gov.Dom.Debt Instr. Purchased from Secondary Markets | 158 422 | 0 | 0 | 0 | 0 |
| Other | -56 394 | -106 966 | -59 673 | -55 916 | -42 185 |
| Credit to Banking Sector | 16 270 | 12 804 | 6 556 | 7 678 | 1 372 |
| Credit to SDIF | 750 000 | 250 000 | 0 | 302 300 | 0 |
| Other Items | -9 505 262 | -6 853 404 | -5 143 890 | -4 498 423 | -3 707 762 |
| Revaluation Account | -174 804 | -1 146 601 | 723 478 | 2 032 526 | 2 029 328 |
| IMF Emergency Assistance Account (Treasury) | 190 634 | 0 | 0 | 0 | 0 |
| T O T A L | 60 089 520 | 74 070 525 | 76 497 131 | 74 672 791 | 90 021 820 |
| LIABILITIES | | | | | |
| TOTAL FOREIGN EXCHANGE LIABILITIES | 50 220 700 | 53 551 071 | 52 362 594 | 49 929 437 | 51 474 119 |
| Liabilities to Non-Residents | 36 733 224 | 37 368 781 | 35 647 919 | 30 554 024 | 22 827 996 |
| Liabilities to Residents | 13 487 475 | 16 182 290 | 16 714 675 | 19 375 413 | 28 646 123 |
| FX Deposits of the Non-Banking Sector | 3 139 113 | 5 462 814 | 6 518 301 | 6 099 459 | 13 879 269 |
| FX Deposits of the Banking Sector | 10 348 363 | 10 719 476 | 10 196 374 | 13 275 954 | 14 766 854 |
| CENTRAL BANK MONEY | 9 868 820 | 20 519 454 | 24 134 537 | 24 743 354 | 38 547 701 |
| Reserve Money | 7 975 887 | 10 668 323 | 15 010 397 | 20 327 876 | 32 696 354 |
| Currency Issued | 5 282 660 | 7 635 622 | 10 675 528 | 13 465 237 | 19 612 019 |
| Deposits of the Banking Sector | 2 520 198 | 2 791 824 | 4 191 278 | 6 723 267 | 12 898 867 |
| Required Reserves | 1 626 371 | 1 671 841 | 2 288 617 | 3 115 294 | 0 |
| Free Deposits | 893 827 | 1 119 983 | 1 902 661 | 3 607 973 | 12 898 867 |
| Extra-Budgetary Funds | 104 157 | 178 059 | 48 310 | 24 372 | 90 565 |
| Deposits of the Non-Banking Sector | 68 872 | 62 818 | 95 281 | 115 000 | 94 903 |
| Other Central Bank Money | 1 892 934 | 9 851 131 | 9 124 140 | 4 415 478 | 5 851 347 |
| Open Market Operations | 1 243 969 | 9 578 737 | 8 260 095 | 3 622 089 | 4 983 044 |
| Deposits of Public Sector | 648 964 | 272 394 | 864 045 | 793 389 | 868 303 |
| TOTAL | 60 089 520 | 74 070 525 | 76 497 131 | 74 672 791 | 90 021 820 |

Source: CBRT.

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

A) The use of IMF credit under stand-by agreement is recorded as YTL Liability in the CBRT Weekly Statement under the heading "Deposits by International Organizations" at the prevailing YTL/SDR exchange rate on the date of withdrawal. However in the Analytical Balance Sheet, SDR liability is considered as a foreign liability and valued at the prevailing exchange rates. Exchange rate differences accumulated between the date of withdrawal and the date of the Analytical Balance Sheet are recorded in the FX revaluation account.

B) The sum of the Domestic Correspondents, Fixed Assets, Miscellaneous Receivables, and Other Assets items on the asset side and the sum of the "Notes and Remittances Payable, Capital, Reserve Funds, Provisions, Miscellaneous Payables, and Other Liabilities items on the liability side of the weekly statement are netted into "Other Items" item on the asset side of the Analytical Balance Sheet.

C) The "Gold Claims of the Treasury" item on the liability side of the Weekly Statement is netted with Treasury's Other Debt on the asset side of the Analytical Balance Sheet.

D) "Overnight Operations" and "Cash debt and claims due to securities transactions under repurchase and reverse repurchase agreements" are netted under the heading " Open Market Operations" item on the liability side whereas, "Security debt and claims due to security transactions under repurchase and reverse repurchase agreement" are netted under the heading "CBRT Portfolio" item in the asset side of the Analytical Balance Sheet.

E) As of 18 October 1999, liabilities to IMF shown under "Foreign Liabilities" in the Analytical Balance Sheet increased in the amount of Emergency Assistance. The corresponding item is shown as "IMF Emergency Assistance Account (Treasury)" under the "Domestic Assets" item and exchange rate differences is recorded to "FX Revaluation" account. However, as of June 21, 2002, the "IMF Emergency Assistance Account (Treasury)" item has been included in "Treasury's Liability" due to the Memorandum of Understanding signed between Treasury and the CBRT on May 6, 2002.

### *TABLE 17*
### *SECURITIES ISSUED*
### *(YTL thousand)*

| | 2001 | 2002 | 2003 | 2004 | 2005 (1) |
|---|---|---|---|---|---|
| PUBLIC SECTOR | 209 613 235 | 125 303 125 | 158 238 383 | 163 596 496 | 155 520 456 |
| Government Bonds | 164 183 336 | 58 900 026 | 101 777 186 | 102 039 667 | 115 404 219 |
| Treasury Bills | 45 429 899 | 66 403 099 | 56 461 198 | 61 556 829 | 40 116 237 |
| | | | | | |
| PRIVATE SECTOR | 5 730 394 | 4 193 317 | 7 881 726 | 10 696 891 | 7 317 214 |
| Bonds (2) | 1 684 498 | 1 597 317 | 1 749 597 | 3 826 540 | 3 991 870 |
| Equities | 147 697 | 83 614 | - | - | |
| Bank Bills (3) | 3 830 879 | 2 405 346 | 6 118 693 | 6 870 351 | 2 390 990 |
| Mutual Fund Participation Certificates (3) | | | | | 929 187 |
| Foreign Mutual Fund Participating Shares (4) | 67 321 | 107 041 | 13 437 | - | 5 167 |

Sources: CMB, Treasury.
(1) Provisional.
(2) Includes cash contributions only.
(3) Market value of the issue.
(4) Represents the number of shares (Foreign Mutual Fund Participation Certificate) registered with the Board and the number of shares in the amount of CBRT USD exchange rate at the date of registration certificate.

### *TABLE 18*
### *INTERNATIONAL RESERVES*
### *(USD million)*

| | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| GOLD (2) | 1 032 | 1 279 | 1 558 | 1 635 | 1 915 |
| | | | | | |
| GROSS FOREIGN EXCHANGE RESERVES | 29 180 | 36 787 | 43 410 | 52 152 | 66 742 |
| Central Bank | 18 787 | 26 807 | 33 616 | 36 009 | 50 518 |
| Deposit Money Banks | 10 393 | 9 980 | 9 794 | 16 143 | 16 224 |
| | | | | | |
| GROSS INTERNATIONAL RESERVES | 30 212 | 38 066 | 44 968 | 53 787 | 68 657 |
| Overdrafts | 20 | 15 | 11 | 1 | 1 |
| | | | | | |
| NET RESERVES | 30 192 | 38 051 | 44 957 | 53 786 | 68 656 |

Source: CBRT.
(1) Provisional.
(2) Gold was valued at USD 276.5 per ounce at the end of 2001, at USD 342.75 per ounce at the end of 2002, at USD 417.25 per ounce at the end of 2003, at USD 438 per ounce at the end of 2004 and at USD 513 per ounce at the end of 2005.

## *TABLE 19*
## *BALANCE OF PAYMENTS*
## *(USD million)*

| | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| I. CURRENT ACCOUNT | 3 392 | -1 524 | -8 036 | -15 604 | -22 852 |
| A. Goods | -3 733 | -7 283 | -14 010 | -23 878 | -32 576 |
| 1.General Merchandise | -2 770 | -5 928 | -11 488 | -20 471 | -28 822 |
| Exports FOB | 34 347 | 40 071 | 51 130 | 66 956 | 76 463 |
| Exports | 31 334 | 36 059 | 47 253 | 63 167 | 73 122 |
| Shuttle Trade | 3 039 | 4 065 | 3 953 | 3 880 | 3 473 |
| Adjustment: Classification | -26 | -53 | -76 | -91 | -132 |
| Imports FOB | -37 117 | -45 999 | -62 618 | -87 427 | -105 285 |
| Imports (CIF) | -41 399 | -51 554 | -69 340 | -97 540 | -116 048 |
| Adjustment: Coverage | 2 483 | 3 093 | 4 100 | 5 787 | 6 877 |
| Adjustment: Classification | 1 799 | 2 462 | 2 622 | 4 326 | 3 886 |
| 2.Non-monetary Gold (Net) | -963 | -1 355 | -2 522 | -3 407 | -3 754 |
| B.Services (Net) | 9 132 | 7 879 | 10 504 | 12 784 | 14 004 |
| Transportation | 833 | 861 | -523 | -1 064 | -1 297 |
| Travel | 6 352 | 6 599 | 11 090 | 13 364 | 15 280 |
| Construction Services | 654 | 832 | 682 | 724 | 874 |
| Financial Services | -391 | -400 | -83 | -89 | -41 |
| Other Business Services | 1 695 | -68 | -26 | 129 | -129 |
| Government Services | -319 | -572 | -715 | -734 | -889 |
| Other Services | 308 | 627 | 79 | 454 | 206 |
| C.Income (Net) | -5 000 | -4 556 | -5 557 | -5 637 | -5 748 |
| Direct Investment | 52 | -89 | -405 | -796 | -817 |
| Portfolio Investment | -694 | -835 | -1 207 | -1 195 | -924 |
| Other Investment | -4 358 | -3 632 | -3 945 | -3 646 | -4 007 |
| Interest Income | 1 139 | 784 | 634 | 697 | 1 005 |
| Interest Expenditure | -5 497 | -4 416 | -4 579 | -4 343 | -5 012 |
| D.Current Transfers | 2 993 | 2 436 | 1 027 | 1 127 | 1 468 |
| Workers Remittances | 2 786 | 1 936 | 729 | 804 | 851 |
| Official Transfers | 207 | 500 | 298 | 323 | 617 |
| II. CAPITAL AND FINANCIAL ACCOUNTS | -1 633 | 1 406 | 3 095 | 13 337 | 20 869 |
| A.CAPITAL ACCOUNT | 0 | 0 | 0 | 0 | 0 |
| B.FINANCIAL ACCOUNT | -1 633 | 1 406 | 3 095 | 13 337 | 20 869 |
| 1.Direct Investment (Net) | 2 855 | 962 | 1 253 | 1 988 | 8 603 |
| 2.Portfolio Investment (Net) | -4 515 | -593 | 2 465 | 8 023 | 13 709 |
| 3.Other Investment (Net) | -2 667 | 7 190 | 3 424 | 4 150 | 16 404 |
| Assets | -601 | -777 | -986 | -6 955 | 490 |
| Trade Credits | -445 | -921 | -910 | -1 607 | 582 |
| Loans | -734 | 19 | -404 | 617 | 178 |
| Currency and Deposits | 927 | 594 | 724 | -5 965 | -270 |
| Other Assets | -349 | -469 | -396 | 0 | 0 |
| Liabilities | -2 066 | 7 967 | 4 410 | 11 105 | 15 914 |
| Trade Credits | -1 930 | 2 483 | 2 181 | 4 201 | 3 434 |
| Loans | 614 | 5 039 | 753 | 6 099 | 11 678 |
| Currency and Deposits | -832 | 348 | 1 368 | 647 | 489 |
| Other Liabilities | 82 | 97 | 108 | 158 | 313 |
| 4.Reserve Assets | 2 694 | -6 153 | -4 047 | -824 | -17 847 |
| Reserve Position in the Fund | 0 | 0 | 0 | 0 | 0 |
| Foreign Exchange | 2 694 | -6 153 | -4 047 | -824 | -17 847 |
| III. NET ERRORS AND OMISSIONS | -1 759 | 118 | 4 941 | 2 267 | 1 983 |

Source: CBRT.
(1) Provisional.

**TABLE 20**
**BALANCE OF PAYMENTS – SELECTED ITEMS**
**(USD million)**

| | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| CURRENT ACCOUNTS | 3 392 | -1 524 | -8 036 | -15 604 | -22 852 |
| CAPITAL AND FINANCIAL ACCOUNTS | -1 633 | 1 406 | 3 095 | 13 337 | 20 869 |
| DIRECT INVESTMENT | 2 855 | 962 | 1 253 | 1 988 | 8 603 |
| Abroad | -497 | -175 | -499 | -859 | -1 047 |
| In Turkey | 3 352 | 1 137 | 1 752 | 2 847 | 9 650 |
| PORTFOLIO INVESTMENT | -4 515 | -593 | 2 465 | 8 023 | 13 709 |
| Assets | -788 | -2 096 | -1 386 | -1 388 | -961 |
| Liabilities | -3 727 | 1 503 | 3 851 | 9 411 | 14 670 |
| Equity Securities | -79 | -16 | 905 | 1 427 | 5 669 |
| Debt Securities | -3 648 | 1 519 | 2 946 | 7 984 | 9 001 |
| OTHER INVESTMENTS | -2 667 | 7 190 | 3 424 | 4 150 | 16 404 |
| Assets | -601 | -777 | -986 | -6 955 | 490 |
| Trade Credits | -445 | -921 | -910 | -1 607 | 582 |
| Loans | -734 | 19 | -404 | 617 | 178 |
| Currency and Deposits | 927 | 594 | 724 | -5 965 | -270 |
| Other Assets | -349 | -469 | -396 | 0 | 0 |
| Liabilities | -2 066 | 7 967 | 4 410 | 11 105 | 15 914 |
| Trade Credits | -1 930 | 2 483 | 2 181 | 4 201 | 3 434 |
| Long-Term | 11 | 1 353 | 966 | 486 | 60 |
| Short-Term | -1 941 | 1 130 | 1 215 | 3 715 | 3 374 |
| Loans | 614 | 5 039 | 753 | 6 099 | 11 678 |
| Monetary Authority | 10 229 | -6 138 | -1 479 | -4 414 | -2 881 |
| Use of Fund Credits | 10 230 | -6 138 | -1 479 | -4 414 | -2 881 |
| Long-Term | -1 | 0 | 0 | 0 | 0 |
| Short-Term | 0 | 0 | 0 | 0 | 0 |
| General Government | -1 977 | 11 834 | -765 | -267 | -4 637 |
| Use of Fund Credits | 0 | 12 503 | 1 429 | 896 | -2 472 |
| Long-Term | -977 | -669 | -2 194 | -1 163 | -2 165 |
| Short-Term | -1 000 | 0 | 0 | 0 | 0 |
| Banks | -8 076 | -1 028 | 1 975 | 5 708 | 9 116 |
| Long-Term | -1 024 | -297 | -40 | 2 361 | 6 413 |
| Short-Term | -7 052 | -731 | 2 015 | 3 347 | 2 703 |
| Other Sectors | 438 | 371 | 1 022 | 5 072 | 10 080 |
| Long-Term | 255 | 1 099 | 734 | 4 731 | 9 721 |
| Short-Term | 183 | -728 | 288 | 341 | 359 |
| Currency and Deposits | -832 | 348 | 1 368 | 647 | 489 |
| Monetary Authority | 736 | 1 336 | 497 | -209 | -787 |
| Banks | -1 568 | -988 | 871 | 856 | 1 276 |
| Other Liabilities | 82 | 97 | 108 | 158 | 313 |
| RESERVE ASSETS | 2 694 | -6 153 | -4 047 | -824 | -17 847 |

Source: CBRT.
(1) Provisional.

**TABLE 21**
**OUTSTANDING EXTERNAL DEBT (USD million)**

| | 2001 | 2002 | 2003 | 2004 | 2005 (1) |
|---|---|---|---|---|---|
| TOTAL OUTSTANDING DEBT | 113 643 | 130 420 | 145 833 | 161 897 | 165 516 |
| SHORT-TERM | 16 403 | 16 424 | 23 013 | 31 790 | 37 194 |
| MEDIUM AND LONG-TERM | 97 240 | 113 996 | 122 820 | 130 107 | 128 322 |
| BY BORROWER | | | | | |
| SHORT-TERM | 16 403 | 16 424 | 23 013 | 31 790 | 37 194 |
| Central Bank | 752 | 1 655 | 2 860 | 3 287 | 2 855 |
| CBRT Loans | 20 | 15 | 11 | 1 | 1 |
| FX Deposits with CBRT | 732 | 1 640 | 2 849 | 3 286 | 2 854 |
| General Government | 0 | 0 | 0 | 0 | 0 |
| Deposit Money Banks | 7 997 | 6 344 | 9 692 | 13 750 | 16 674 |
| Other Sectors | 7 654 | 8 425 | 10 461 | 14 753 | 17 665 |
| MEDIUM AND LONG TERM | 97 240 | 113 996 | 122 820 | 130 107 | 128 322 |
| A-Public Sector | 46 161 | 63 692 | 69 607 | 73 810 | 68 716 |
| 1-General Government | 41 232 | 59 150 | 65 532 | 70 321 | 65 945 |
| a-Central Administrations | 38 759 | 56 824 | 63 423 | 68 546 | 64 515 |
| Consolidated Budget | 38 724 | 56 799 | 63 408 | 68 541 | 64 515 |
| Private Budget | 35 | 25 | 15 | 5 | 0 |
| b-Local Administration | 1 834 | 1 594 | 1 480 | 1 281 | 1 016 |
| c-Funds | 522 | 621 | 534 | 418 | 349 |
| d-Universities | 22 | 25 | 28 | 25 | 22 |
| e-Autonomous Institutions | 94 | 85 | 67 | 52 | 43 |
| 2-Other Public Sector | 1 492 | 982 | 764 | 655 | 195 |
| 3- State Owned Enterprises | 3 437 | 3 560 | 3 311 | 2 835 | 2 577 |
| B-CBRT | 23 591 | 20 340 | 21 504 | 18 114 | 13 367 |
| CBRT Loans | 13 643 | 8 068 | 7 272 | 2 995 | 331 |
| FX Deposits with CBRT | 9 948 | 12 272 | 14 232 | 15 119 | 13 036 |
| C-Private Sector | 27 488 | 29 965 | 31 709 | 38 183 | 46 239 |
| 1-Financial | 4 789 | 4 651 | 5 035 | 8 250 | 13 485 |
| Banks | 3 211 | 3 041 | 3 113 | 5 714 | 10 614 |
| Non-bank Financial Enterprises | 1 578 | 1 610 | 1 922 | 2 536 | 2 871 |
| 2-Non-financial | 22 699 | 25 314 | 26 674 | 29 933 | 32 754 |
| BY LENDER | 113 643 | 130 420 | 145 833 | 161 897 | 165 516 |
| SHORT-TERM | 16 403 | 16 424 | 23 013 | 31 790 | 37 194 |
| Commercial Bank Credit | 7 775 | 5 187 | 8 260 | 11 882 | 15 147 |
| Private Lender Credit | 8 628 | 11 237 | 14 753 | 19 908 | 22 047 |
| MEDIUM AND LONG-TERM | 97 240 | 113 996 | 122 820 | 130 107 | 128 322 |
| A-Official Creditors | 30 594 | 40 085 | 42 622 | 41 016 | 33 438 |
| Governmental Organizations | 8 569 | 9 328 | 9 461 | 8 779 | 7 478 |
| Multilateral Organizations | 22 025 | 30 757 | 33 161 | 32 237 | 25 960 |
| B-Private Creditors | 66 645 | 73 911 | 80 199 | 89 091 | 94 884 |
| 1-Loans | 45 584 | 50 265 | 53 008 | 59 050 | 64 415 |
| Commercial Banks | 27 504 | 28 623 | 29 477 | 33 518 | 39 840 |
| Non-bank Financial Institutions | 3 371 | 3 413 | 3 094 | 2 946 | 2 995 |
| Non-monetary Institutions | 3 941 | 4 772 | 4 498 | 4 531 | 4 575 |
| Off-shore Banks | 731 | 1 084 | 1 610 | 2 899 | 3 951 |
| Private Investment and Development Banks | 81 | 92 | 88 | 29 | 9 |
| FX Deposits with CBRT | 9 948 | 12 272 | 14 232 | 15 119 | 13 036 |
| NGTA’s | 8 | 8 | 9 | 9 | 9 |
| 2-Bond Issue | 21 061 | 23 646 | 27 191 | 30 040 | 30 469 |

Sources: Treasury, CBRT.

(1) Provisional (as of September 2005)

**TABLE 22**
**CURRENCY COMPOSITION OF THE FOREIGN DEBT STOCK IN USD AT YEAR-END RATES**
**(USD million)**

| TYPE OF CURRENCY | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| USD | 57 314 | 61 217 | 67 059 | 79 758 | 90 801 |
| German Marks | 826 | 0 | 0 | 0 | 0 |
| Euros | 34 190 | 39 849 | 48 137 | 54 708 | 52 728 |
| SDRs | 14 106 | 22 018 | 24 012 | 21 447 | 15 452 |
| Swiss Francs | 686 | 709 | 861 | 1 040 | 882 |
| Pounds Sterling | 709 | 767 | 686 | 711 | 657 |
| Japanese Yens | 5 176 | 5 313 | 4 516 | 3 441 | 2 963 |
| French Francs | 23 | 0 | 0 | 0 | 0 |
| Netherlands Guilders | 21 | 0 | 0 | 0 | 0 |
| Others (in USD) | 593 | 549 | 563 | 792 | 2 033 |
| TOTAL | 113 643 | 130 420 | 145 833 | 161 897 | 165 516 |

Sources: CBRT, Treasury.
(1) Provisional (as of September 2005).

**TABLE 23**
**FOREIGN EXCHANGE DEPOSITS WITH CBRT**
**(USD million)**

| | 2001 | 2002 | 2003 | 2004 | 2005(1) |
|---|---|---|---|---|---|
| TOTAL | 10 807 | 14 097 | 17 300 | 18 611 | 15 576 |
| Non-residents | 10 680 | 13 912 | 17 081 | 18 405 | 15 416 |
| Short-Term | 732 | 1 640 | 2 849 | 3 286 | 2 762 |
| Medium and Long-Term | 9 948 | 12 272 | 14 232 | 15 119 | 12 654 |
| Residents | 127 | 185 | 219 | 206 | 160 |
| Currency Composition of FX Deposits with CBRT (In Millions of Original Currency) | | | | | |
| USD | 850 | 1 203 | 1 313 | 1 258 | 1 114 |
| German Marks | 0 | 0 | 0 | 0 | 0 |
| French Francs | 0 | 0 | 0 | 0 | 0 |
| Netherlands Guilders | 0 | 0 | 0 | 0 | 0 |
| Swiss Francs | 121 | 125 | 118 | 104 | 92 |
| Euros | 11 215 | 12 277 | 12 702 | 12 673 | 12 146 |
| Pounds Sterling | 4 | 6 | 7 | 6 | 6 |

Source: CBRT.
(1) Provisional.

### *TABLE 24*
### *FOREIGN EXCHANGE DEPOSIT ACCOUNTS*
### *(USD million)*

| | 2001 | 2002 | 2003 | 2004 | 2005[1] |
|---|---|---|---|---|---|
| Foreign Exchange Deposit Accounts | 52 864 | 52 224 | 57 143 | 64 539 | 65 342 |
| Non-residents | 3 992 | 3 149 | 4 372 | 5 034 | 4 953 |
| Residents | 48 872 | 49 075 | 52 771 | 59 505 | 60 389 |
| Interbank | 5 693 | 4 238 | 3 918 | 3 219 | 3 207 |
| Other | 43 179 | 44 837 | 48 853 | 56 286 | 57 182 |
| | | | | | |
| Reserve Requirements on FX deposits | 4 257 | 4 555 | 6 146 | 6 522 | 7 010 |
| | | | | | |
| Currency Composition of FX Deposits (In Millions of Original Currency) | | | | | |
| USD | 38 080 | 36 886 | 36 783 | 38 538 | 38 524 |
| German Marks | 2 787 | 0 | 0 | 0 | 0 |
| French Francs | 177 | 0 | 0 | 0 | 0 |
| Netherlands Guilders | 105 | 0 | 0 | 0 | 0 |
| EUROs | 14 224 | 13 696 | 15 166 | 17 883 | 21 249 |
| Swiss Francs | 465 | 362 | 344 | 323 | 317 |
| Japanese Yens | 2 019 | 3 155 | 6 603 | 4 779 | 7 443 |
| Pounds Sterling | 382 | 421 | 524 | 609 | 690 |

Source: CBRT.
(1) Provisional.

### *TABLE 25*
### *AVERAGE INTEREST RATES OF GOVERNMENT SECURITIES AND THE AMOUNTS SOLD AT AUCTIONS IN 2005*

| | 6 Months (Up to 182 days) | | 12 Months (Between 183 and 365 days) | | Longer than 12 Months (Longer than 365 days) | |
|---|---|---|---|---|---|---|
| Months | Amount (Thousand YTL) | Interest (In Percent) | Amount (Thousand YTL) | Interest (In Percent) | Amount (Thousand YTL) | Interest (In Percent) |
| January | 2 250 008 | 17,25 | 3 847 533 | 19,26 | 6 358 572 | 20,76 |
| February | 3 945 778 | 16,68 | | | 4 681 966 | 18,58 |
| March | 1 128 685 | 15,34 | 1 016 933 | 16,94 | 2 486 589 | 17,98 |
| April | 2 265 200 | 14,87 | 4 742 373 | 16,72 | 6 087 928 | 18,63 |
| May | 1 326 072 | 15,78 | 1 724 750 | 16,61 | 7 624 554 | 18,56 |
| June | 1 335 557 | 14,13 | 1 738 960 | 15,93 | | |
| July | 2 386 744 | 14,37 | 3 886 147 | 16,01 | 8 245 977 | 16,93 |
| August | 2 277 511 | 15,27 | | | 4 062 669 | 16,92 |
| September | 1 312 872 | 13,50 | | | 4 603 504 | 15,74 |
| October | 1 917 154 | 13,78 | | | 5 025 153 | 15,19 |
| November | | | 4 942 714 | 14,13 | 8 761 963 | 14,61 |
| December | 1 451 066 | 14,00 | 3 000 782 | 14,21 | 2 698 728 | 14,38 |

Source: CBRT.
Note: Interest rates are given according to auction dates and are net simple rates. The amounts sold to non-competitive bidders and buy options granted to the highest bidders are included.

### *TABLE 26*
### *INTERBANK MONEY MARKET TRANSACTIONS IN 2005*

| Months | Number of Daily Transactions (1) | Volume of Daily Transactions (In Thousand YTL) (1) | Actual Overnight Interest (%) | | |
|---|---|---|---|---|---|
| | | | Minimum | Maximum | Average |
| January | 54 | 5 693 621 | 17,00 | 18,00 | 17,48 |
| February | 46 | 3 451 235 | 16,50 | 17,00 | 16,70 |
| March | 50 | 4 839 617 | 15,50 | 16,50 | 15,57 |
| April | 62 | 8 209 619 | 15,00 | 15,50 | 15,13 |
| May | 44 | 4 136 300 | 14,50 | 15,00 | 14,73 |
| June | 52 | 6 415 845 | 14,25 | 14,50 | 14,30 |
| July | 56 | 8 491 648 | 14,25 | 14,25 | 14,25 |
| August | 56 | 8 870 223 | 14,25 | 14,25 | 14,25 |
| September | 42 | 3 981 945 | 14,25 | 14,25 | 14,25 |
| October | 60 | 7 272 081 | 14,00 | 14,25 | 14,07 |
| November | 70 | 11 180 970 | 13,75 | 14,00 | 13,78 |
| December | 62 | 11 549 991 | 13,50 | 13,75 | 13,57 |

Source: CBRT.
(1) Monthly averages of double-sided transactions.

### *TABLE 27*
### *FOREIGN EXCHANGE AND BANKNOTE TRANSACTIONS IN 2005*

| Date | Interbank Foreign Exchange Market Transactions (double sided) | | | | | Indicative FX Rates (YTL/USD) | | |
|---|---|---|---|---|---|---|---|---|
| | Total Number of Monthly Transactions | Total Volume of Monthly Transactions Millions USD | Exchange Rates (YTL/USD) | | Monthly Average Number of Institutions Participated | | | |
| | | | Maximum Rate of The Month | Minimum Rate of The Month | | Maximum | Minimum | Monthly Averages |
| January | 690 | 2 595 | 1.4080 | 1.3305 | 12 | 1.4068 | 1.3331 | 1.3562 |
| February | 714 | 2 555 | 1.3400 | 1.2833 | 10 | 1.3391 | 1.2847 | 1.3139 |
| March | 872 | 3 280 | 1.3929 | 1.2599 | 11 | 1.3905 | 1.2601 | 1.3142 |
| April | 820 | 2 976 | 1.3873 | 1.3415 | 11 | 1.3911 | 1.3420 | 1.3619 |
| May | 804 | 2 651 | 1.3890 | 1.3439 | 11 | 1.3890 | 1.3427 | 1.3702 |
| June | 924 | 3 170 | 1.3820 | 1.3395 | 12 | 1.3794 | 1.3401 | 1.3602 |
| July | 1 138 | 3 341 | 1.3655 | 1.3228 | 15 | 1.3615 | 1.3265 | 1.3386 |
| August | 1 020 | 3 027 | 1.3700 | 1.3143 | 12 | 1.3742 | 1.3142 | 1.3443 |
| September | 944 | 3 391 | 1.3529 | 1.3318 | 11 | 1.3501 | 1.3319 | 1.3404 |
| October | 728 | 2 396 | 1.3729 | 1.3459 | 11 | 1.3715 | 1.3432 | 1.3577 |
| November | 646 | 2 069 | 1.3722 | 1.3500 | 11 | 1.3710 | 1.3498 | 1.3606 |
| December | 784 | 2 540 | 1.3592 | 1.3433 | 10 | 1.3592 | 1.3434 | 1.3518 |

Source: CBRT.

***TABLE 28***
***CENTRAL BANK PERSONNEL BY CATEGORY***
***(As of December 31, 2005)***

| Branches | No. of Cadres | General Administrative Services | | Technical Services | | Health Services | | Legal Services | | Auxiliary Services | | Total | | Employed on Contractual Basis | | Grand Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | F | M | F | M | F | M | F | M | F | M | F | M | F | M | |
| Head Office | 2 938 | 761 | 849 | 20 | 221 | 8 | 2 | 8 | 2 | 23 | 215 | 820 | 1 289 | 201 | 273 | 2 583 |
| Adana | 90 | 23 | 30 | | 4 | 1 | | | | 4 | 5 | 28 | 39 | 3 | 8 | 78 |
| Ankara | 372 | 114 | 152 | | | | | | | 1 | 7 | 115 | 159 | 11 | 15 | 300 |
| Antalya | 80 | 15 | 31 | | | | | | | | 6 | 15 | 37 | 2 | 7 | 61 |
| Bursa | 105 | 31 | 39 | | 1 | | | | | | 5 | 31 | 45 | 3 | 13 | 92 |
| Denizli | 74 | 10 | 31 | | 1 | | | | | | | 10 | 32 | 5 | 10 | 57 |
| Diyarbakır | 69 | 3 | 33 | | 1 | | | | | 1 | 5 | 4 | 39 | | 12 | 55 |
| Edirne | 62 | 10 | 23 | | 1 | | | | | 1 | 4 | 11 | 28 | 2 | 5 | 46 |
| Erzurum | 62 | 2 | 23 | | 1 | | | | | 1 | 1 | 3 | 25 | 3 | 10 | 41 |
| Eskişehir | 72 | 17 | 30 | | 1 | | | | | | 5 | 17 | 36 | 1 | 5 | 59 |
| Gaziantep | 74 | 10 | 32 | | 1 | | | | | | 5 | 10 | 38 | 5 | 7 | 60 |
| İskenderun | 63 | 10 | 27 | | 2 | | | | | 1 | 7 | 11 | 36 | 4 | 1 | 52 |
| İstanbul | 539 | 130 | 186 | 2 | 10 | 4 | | 1 | 1 | 9 | 52 | 146 | 249 | 16 | 32 | 443 |
| İzmir | 222 | 67 | 86 | 3 | 7 | 1 | | | | 8 | 27 | 79 | 120 | 7 | 6 | 212 |
| İzmit | 90 | 22 | 39 | | 4 | | | | | 1 | 4 | 23 | 47 | 3 | 6 | 79 |
| Kayseri | 79 | 6 | 42 | | 1 | | | | | 2 | 4 | 8 | 47 | 3 | 8 | 66 |
| Konya | 71 | 7 | 36 | | 2 | | | | | 1 | 4 | 8 | 42 | 2 | 6 | 58 |
| Malatya | 70 | 7 | 32 | | 1 | | | | | 1 | 6 | 8 | 39 | 3 | 9 | 59 |
| Mersin | 74 | 19 | 30 | | 2 | | | | | 1 | 6 | 20 | 38 | | 5 | 63 |
| Samsun | 77 | 12 | 34 | | 2 | | | | | | 3 | 12 | 39 | 1 | 8 | 60 |
| Trabzon | 79 | 7 | 36 | | 1 | | | | | 1 | 5 | 8 | 42 | 3 | 15 | 68 |
| Van | 61 | 2 | 26 | | 1 | | | | | 1 | 5 | 3 | 32 | | 15 | 50 |
| **TOPLAM** | 5 423 | 1 285 | 1 847 | 25 | 265 | 14 | 2 | 9 | 3 | 57 | 381 | 1 390 | 2 498 | 278 | 476 | 4 642 |

Source: CBRT.
Total Personnel ..................................................................4 642
Banknote Printing Mill Workers...............................................2
Total....................................................................................4 644
Total Personnel on December 31, 2004 ............................4 758
Net Change ....................................................................... -114

**TABLE 29**
**OFFICES OF THE CENTRAL BANK**

| | Year Established | Number of Personnel as of the end of 2005 |
|---|---|---|
| **BRANCHES** | | |
| Adana | 1969 | 78 |
| Ankara | 1931 | 300 |
| Antalya | 1963 | 61 |
| Bursa | 1969 | 92 |
| Denizli | 1974 | 57 |
| Diyarbakır | 1955 | 55 |
| Edirne | 1963 | 46 |
| Erzurum | 1959 | 41 |
| Eskişehir | 1954 | 59 |
| Gaziantep | 1956 | 60 |
| İskenderun | 1951 | 52 |
| Istanbul | 1931 | 443 |
| İzmir | 1932 | 212 |
| İzmit | 1983 | 79 |
| Kayseri | 1968 | 66 |
| Konya | 1974 | 58 |
| Malatya | 1977 | 59 |
| Mersin | 1933 | 63 |
| Samsun | 1933 | 60 |
| Trabzon | 1963 | 68 |
| Van | 1978 | 50 |
| **REPRESENTATIVE OFFICES** | | |
| Frankfurt | 1976 | 8 |
| Berlin | 1982 | 4 |
| London | 1977 | 4 |
| New York | 1977 | 4 |
| Tokyo | 1997 | 2 |

Source: CBRT.

# COMPARISON OF THE BALANCE SHEETS 2004-2005

**C O M P A R I S O N O F T H E 2004 - 2005**

## A S S E T S

| | 2004 | 2005 |
|---|---|---|
| **I. Gold** | **2,254,793,278** | **2,640,297,700** |
| **A. International Standard** ………………………..…………… | 2,194,299,896 | 2,569,461,698 |
| **B. Non-International Standard** ……………………..………….. | 60,493,383 | 70,836,001 |
| **II. Foreign Exchange** | **48,327,454,952** | **67,781,346,062** |
| **A. Convertible** | 48,327,454,115 | 67,781,345,292 |
| a. Foreign Banknotes ……………………………….……………………….. | 427,123,897 | 299,072,377 |
| b. Correspondent Accounts | 47,664,867,295 | 67,264,932,935 |
| c. Reserve Tranche Position | 235,462,923 | 217,339,980 |
| **B. Non-Convertible** | 837 | 770 |
| a. Foreign Banknotes ……………………………………………………… | 837 | 770 |
| b. Correspondent Accounts …………………………………………………….. | | |
| **III. Coins** | **2,931,769** | **69,150,222** |
| **IV. Domestic Correspondents** | **1,144,224,101** | |
| **V. Securities Portfolio** | **23,164,478,819** | **20,495,029,120** |
| **A. Government Securities** | 23,164,478,819 | 20,495,029,120 |
| a. Bonds ……………………………………………………………………….. | 23,164,478,819 | 20,495,029,120 |
| b. Treasury Bills | | |
| **B. Other**………………………………………………………………………… | | |
| **VI. Domestic Credit** | **309,977,715** | **1,371,900** |
| **A. Banking Sector** | 7,677,722 | 1,371,900 |
| a. Rediscount | 7,677,722 | 1,371,900 |
| b. As per Art 40/c of Law No:1211 | | |
| c. Other | | |
| **B. Credit to SDIF** | 302,299,993 | |
| **VII. Open Market Operations** | **127,999,999** | **1,026,305,864** |
| **A. Repurchase Agreements** | 127,999,999 | 1,026,305,864 |
| a. Cash | | |
| i. Foreign Exchange……………………………………………………… | | |
| ii. Securities………………………………………………………………... | | |
| b. Securities | 127,999,999 | 1,026,305,864 |
| **B. Other** | | |
| **VIII. Foreign Credit** | **113,274,082** | **45,168,842** |
| **IX. Share Participations** | **20,904,100** | **19,302,988** |
| **X. Fixed Assets** | **289,588,841** | **292,229,737** |
| **A. Buildings and Building Sites** | 307,975,633 | 313,056,679 |
| **Depreciation Allowance for Real Estate (-)**……………………………... | -33,591,927 | -39,872,293 |
| **B. Furniture and Fixtures** | 59,258,298 | 73,192,048 |
| **Depreciation Allowance for Furniture and Fixtures (-)**………………… | -44,053,163 | -54,146,698 |
| **XI. Claims under Legal Proceedings** | | |
| **A. Claims under Legal Proceedings** ………………………………………… | 1,728,113,901 | 1,779,582,864 |
| **B. Provision for Past-Due Receivables** ……………………………………… | -1,728,113,901 | -1,779,582,864 |
| **XII. Treasury Liabilities Due to SDR Allocation** | **234,485,785** | **216,438,050** |
| **XIII. Revaluation Account** | **2,032,526,096** | **2,029,328,035** |
| **XIV. Accrued Interest and Income** | **74,275,476** | **12,214,713** |
| **XV. Miscellaneous Receivables** | **5,563,075** | **30,809,346** |
| **XVI. Other Assets** | **19,714,747** | **21,699,790** |
| **XVII. Loss of the Period** | **509,726,063** | **131,438,625** |
| **XVIII. Previous Years' Loss** | | |
| | **78,631,918,898** | **94,812,130,994** |
| **REGULATING ACCOUNTS**.................................. | **498,607,709,562** | **573,982,394,113** |

## BALANCE SHEETS (YTL)

### LIABILITIES

| | 2004 | 2005 |
|---|---|---|
| **I. Currency Issued** | **13,465,236,966** | **19,612,018,803** |
| **II. Liabilities to Treasury** | **291,421,841** | **259,564,868** |
| **A. Gold (Net Grams)** | 6,531,180 | 7,647,823 |
| **B. Reserve Tranche Means** | 235,462,923 | 217,339,980 |
| **C. Other (Net)** | 49,427,738 | 34,577,065 |
| **III. Foreign Correspondents** | **41,404,207** | **962,056** |
| **A. Convertible** | 1,184,974 | 962,056 |
| **B. Non-Convertible** | 40,219,233 | |
| **IV. Deposits** | **56,044,673,836** | **63,482,072,439** |
| **A. Public Sector** | 6,100,260,282 | 14,367,118,234 |
| a. Treasury, General and Annexed Budget Administrations | 5,942,386,823 | 14,220,712,655 |
| b. Public Economic Institutions | 348,000 | 297,464 |
| c. State Economic Enterprises | 49,316,213 | 57,306,228 |
| d. Other | 108,209,246 | 88,801,887 |
| **B. Banking Sector** | 19,999,220,855 | 27,665,721,395 |
| a. Free Deposits of Domestic Banks | 8,129,270,663 | 18,259,052,933 |
| b. Foreign Banks | 1,000,380 | 6,896,979 |
| c. Required Reserves (Central Bank's Law Art. 40) | | |
| i. Cash | 11,868,739,411 | 9,399,747,916 |
| ii.Gold (Net Grams) | | |
| d. Other | 210,401 | 23,567 |
| **C. Miscellaneous** | 25,060,793,586 | 20,953,335,126 |
| a. Foreign Exchange Deposits by Citizens Abroad | 24,978,894,739 | 20,884,256,156 |
| b. Other | 81,898,847 | 69,078,970 |
| **D. International Institutions** | 4,038,731,131 | 5,037,438 |
| **E. Extra-budgetary Funds** | 845,667,982 | 490,860,245 |
| a. Savings Deposit Insurance Fund | 25,868,562 | 15,893,301 |
| b. Other | 819,799,420 | 474,966,944 |
| **V. Open Market Operations** | **3,622,089,369** | **7,034,350,000** |
| **A. Repurchase Agreements** | 128,189,369 | |
| a. Cash | | |
| i. Foreign Exchange | | |
| ii. Securities | 128,189,369 | |
| b. Securities | | 1,025,000,000 |
| **B. Other** | 3,493,900,000 | 6,009,350,000 |
| **VI. Foreign Credit** | **12,158,192** | **11,329,344** |
| **A. Short-term** | | |
| **B. Medium and Long-term** | 12,158,192 | 11,329,344 |
| **VII. Advances, Collateral and Deposits Collected Against Letters of Credit & Import** | **1,096,905,436** | **1,537,173,657** |
| **A. For Letters of Credit** | 1,093,539,874 | 1,537,169,533 |
| **B. For Letters of Import** | 3,365,562 | 4,124 |
| **VIII. Notes and Remittances Payable** | **19,783,353** | **18,068,269** |
| **IX. SDR Allocation** | **234,485,785** | **216,438,050** |
| **X. Capital** | **46,233,524** | **46,233,524** |
| **A. Paid-in Capital** | 25,000 | 25,000 |
| **B. Inflation Adjustment for Paid-in Capital** | 46,208,524 | 46,208,524 |
| **XI. Reserves** | **1,283,130,781** | **773,404,718** |
| **A. Ordinary and Extraordinary Reserves** | 929,583,307 | 419,857,244 |
| **B. Special Reserves (CBRT's Law, Art.59)** | 174,997 | 174,997 |
| **D. Inflation Adjustment for Reserves** | 353,372,477 | 353,372,477 |
| **XII. Provisions** | **92,522,327** | **105,921,387** |
| **A. Provisions for Pension Commitments** | 58,567,813 | 69,064,666 |
| **B. Provision for Tax** | | |
| **C. Other Provisions** | 33,954,514 | 36,856,721 |
| **XIII. Revaluation Account** | | |
| **XIV. Accrued Interest and Expense** | **2,215,887,190** | **1,548,341,228** |
| **XV. Miscellaneous Payables** | **103,800,423** | **77,840,636** |
| **XVI. Other Liabilities** | **62,185,668** | **88,412,013** |
| **XVII. Profits** | | |
| | **78,631,918,898** | **94,812,130,994** |
| **REGULATING ACCOUNTS** | **498,607,709,562** | **573,982,394,113** |