

Turkish Economy and Turkish Banking System in 2003

Economic Developments, Important Social and Political Events Affecting These Developments

Growth in the world economy

The global recovery started by the end of 2001 has gained momentum in 2002. Growth accelerated and the volume of trade increased. The developing countries had a remarkable growth performance with a positive impact of higher capital flows. Inflation stayed generally at low levels. Interest rates were at historical low. Oil prices remained at high levels.

Recovery in the Turkish economy despite the elections in the second half

In the Turkish economy, the stability restored in money and capital markets in 2002 had also positive effects on the goods and services sectors. Contraction in economic activity ceased. There has been a strong output recovery and continued disinflation. International financial support provided with the completion of the review of the IMF-supported program has contributed to these improvements. The economic environment continued to improve in the second half of 2002 despite the elections.

Early elections, back to single party government

Turkey entered 2003 with a new parliament and single party government after the elections held in November 2002. Ak Parti and Cumhuriyet Halk Partisi were the only parties which have taken seats in the Turkish Parliament. Ak Parti had a significant majority in the Parliament, first time after 1991 elections, following a period of 12 years with coalition governments. The new government announced that it will follow an economic program with key targets as the maintenance of fiscal discipline and sustainable growth.

Iraqi War and effects on expectations

The world entered the year 2003 under the pressure of developments in Iraq. During the early months of 2003, the world economy remained in stagnation. This was primarily due to fears about the coming war in Iraq, which triggered weakening investor and consumer confidence and high oil prices. Turkey was also affected by these developments.

Quick end to the war, increasing role of Turkey in region

The quick end to the conflict in Iraq has boosted confidence. The negative effects of these developments on the Turkish economy were lower than expected. The government declared to continue with the IMF program and to follow policies that will maintain a sustainable fiscal position. The Central Bank's liquidity management for financial stability has positively contributed to the expectations. Moreover, announcements in international and political arena for the continued support to Turkey accelerated these positive improvements.

The funds, which flowed out of the financial system during the war, were back in the system shortly. Financial sector was able to borrow funds from the external money

and capital markets. There has been a massive portfolio shift from foreign exchange to Turkish Lira in connection with the increased confidence in the current economic program. The Central Bank created demand for foreign currencies to absorb the excess liquidity.

Meanwhile, the IMF reviews were completed with a short delay and IMF announced a new repayment program that would provide an ease in debt repayments.

The decline in interest rates and inflation gained momentum after April. These have all contributed to the maintenance of a positive atmosphere for sustainable growth and stability.

Economic performance in 2003

In 2003, the performance of the Turkish economy was better than expected with a growth rate of 5.9 percent, which was higher than the long-term average rate of 4.1 percent and the program target of 5 percent. The growth rate has reached 30 percent in dollar terms. The increase in output in industry and service sectors affected the growth positively. The main sources of finance behind the increased economic activity were the expansion in the loans of banking system, especially in consumer loans and credit cards, increase in foreign borrowing by banks and non-bank sectors and increase in net errors and omissions in the balance of payments.

On the expenditure side, public demand narrowed while private demand continued to expand. Fixed capital investments in private sector increased, with a remarkable rate of 46 percent in machinery and equipment investments. Total savings deficit expanded from 2.6 to 5 percent. The contraction in the public sector deficit was accompanied by a contraction in the private sector savings surplus.

The unemployment rate increased slowly despite the increase in economic activity. General unemployment rate increased from 10.3 to 10.5 percent. Labour costs in public and private sector remained around the same level in 2002, while wages in the public sector continued to increase with a slow pace.

The descending trend in inflation speeded and inflation rate reached the level lower than the target rate in the program. In 2003, inflation rate was 14 percent in terms of wholesale prices and to 18 percent in consumer prices. The most important reasons behind the success with inflation were the decisiveness of the government to continue with the disinflation program and implement income and expenditures policy in line with the program targets, and the determined implementation of the monetary policy aiming the price stability.

According to State Planning Organization the ratio of public sector deficit to GNP was drawn below 10 percent after a long time period. The primary balance target was almost achieved while the ratio of public sector borrowing requirement to GNP decreased from 12.8 to 8.7 percent; whereas the ratio of budget deficit to GNP decreased from 14.9 to 11.4 percent.

With additional taxes, the growth in tax income was higher than the GNP deflator. The growth in expenditures was slower than the deflator due to fiscal discipline, real appreciation of TL and decrease in interest expenditures resulting from lower nominal interest rates. The ratio of interest expenditures to GNP decreased approximately by 3 percentage points to 16.4 percent.

Budget deficit was financed mainly through domestic borrowings. Including the government domestic borrowing securities issued for the restructuring of the banking system, the outstanding domestic debt increased by 30 percent and its ratio to GNP decreased by 1 percentage point to 54 percent. The improvement in the maturity structure of the debt stock continued. Out of the total debt stock, the shares of fixed interest rate TL borrowing and domestic debt instruments purchased by the market increased.

The fiscal discipline and borrowing performance supported the monetary policy focusing on price stability positively. Following a prudential monetary policy, the Central Bank decreased the short-term interest rates while monitoring the fiscal discipline, growth, and decrease trend in inflation rate and the increase in money substitution in favour of TL. The short-term interest rates of the Central Bank came to 26 percent by the end of 2003 down from a level of 55 percent as of 2002. TL appreciated in real terms against USD and euro.

In order to absorb the excess Fx supply, the Central Bank bought an amount of USD 10 billion through the daily foreign exchange buying auctions and/or open market operations. Consequently, foreign exchange reserves and net foreign assets continued to increase. The foreign exchange position, which was short with an amount of USD 900 million, turned into a long amounting to USD 400 million. Net domestic assets decreased in nominal terms.

The Central Bank absorbed also the excess TL liquidity created by foreign exchange buying auctions through open market operations and was indebted to markets all around the year. The monetary base was realized as targeted. The ratio of Central Bank balance sheet to GNP decreased by 6 percentage points to 21 percent.

As it was reflected in the balance sheet of the Central Bank, there was a higher demand for TL instruments in 2003. The money demand for TL instruments-M2RF (TL deposits + repo+ short term investment funds) increased by 22 percent in real terms. On the other hand, FX deposits decreased by 5 percent in current prices. As a consequence of this development the broad money demand-M2YRF, which includes the FX deposits, increased by 2 percentage points in real terms. The share of TL nominated instruments in M2YRF increased from 49 percent to 58 percent. The ratio of M2RF to GNP increased by 2 percentage points to 27 percent while that of M2YRF to GNP decreased by 5 percentage points to 46 percent.

The demand for government securities by the non-bank investors continued to increase because of significant level of tax incentives and high real rate of return. The ratio of government securities held by non-bank sectors (investment funds included) to money demand (TL deposits+Fx deposits and repo) increased to 41 percent in 2003, with a figure of 25 percent in 2002.

The share of TL deposits in total deposits increased noticeably. The improvement in the maturity structure was relatively slow. Average maturity of total deposits increased from 2.7 months to 2.9 months. The ratio of loans extended by domestic branches of commercial banks to the total of deposits and repos increased by 7 percentage points to 34 percent. The loans extended by the branches abroad increased by 24 percent in real terms. The growth in loans were mainly due to the rapid increase in consumer loans and loans extended via credit cards. The ratio of total loans to GNP increased by 2 percentage points to 16 percent.

Istanbul Stock Index increased by 111 percent whereas total trading volume expanded by 42 percent in dollar terms. The market value of banks traded in stock exchange constituted 26 percent of the total market value.

Foreign trade volume increased by 32 percent in 2003. Both exports and imports grew with a remarkable pace. Foreign trade deficit increased by 41 percent. The ratio of exports to GNP remained at 20 percent while that of imports to GNP increased by 1 percentage point to 29 percent. The ratio of foreign trade deficit to GNP amounted to 9.2 percent.

Current account deficit grew from USD 1.5 billion to USD 6.8 billion. The current account deficit was financed by the increase in capital inflows from USD 1.2 billion to USD 5.7 billion. The inflow resulted from the increase in portfolio investments and the borrowing by the banking sector and non-bank sectors. The most important development in 2003 was the capital inflow of USD 5.1 billion, recorded as net errors and omissions. The source of the inflow was unidentified.

Outstanding external debt increased approximately by USD 16.4 billion and reached USD 147 billion. Outstanding external debt increased in public sector (Central Bank excluded) and private sector by USD 6.4 billion and by USD 7.9 billion, respectively. The outstanding external debt of banking sector increased by USD 3.5 billion. The ratio of outstanding debt to GNP decreased by 11 percentage points to 62 percent.

Developments in Turkish Economy in 2003

Growth

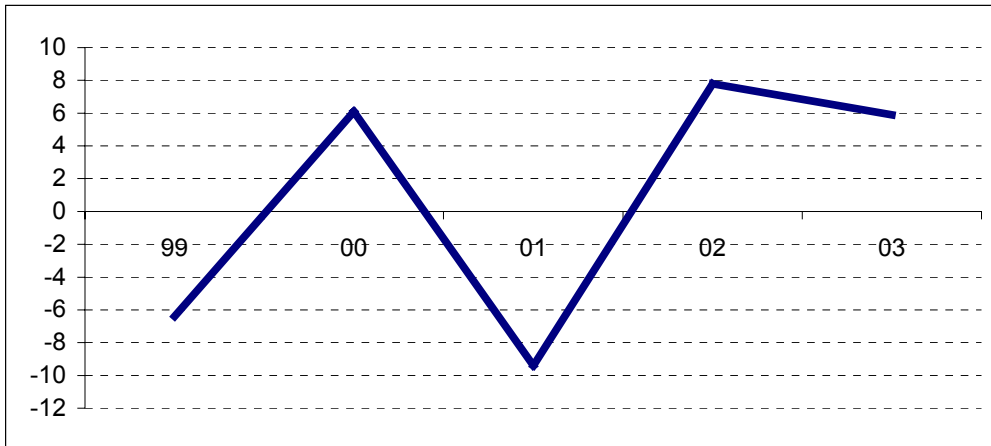
According to State Institute of Statistics (SIS), GNP increased by 5.9 percent and GDP by 5.8 percent in constant prices, respectively. The GNP increased by 29.7 percent and reached TL 356,681 trillion in nominal terms. The GNP deflator decreased to 22.5 percentage from 43.8 percentage in 2002.

Gross National Product

	1999	2000	2001	2002	2003
Growth rate (percent)					
In current prices	46.3	60.4	40.5	55.8	29.7
In constant prices	-6.1	6.3	-9.5	7.9	5.9
Deflator (percent)	57.0	51.7	56.3	43.8	22.5
GNP					
(1987 prices, TL billion)	112,044	119,145	107,783	116,166	123,165
TL trillion	78,283	125,596	176,484	275,032	356,681
USD billion	185.3	201.4	148.2	179.9	239.0
Per capita income (USD)	2,879	2,965	2,146	2,598	3,383

Due to the appreciation of TL against USD, GNP increased by 32.8 percent in dollar terms reaching USD 239 billion. Per capita income grew by 27.7 percent in current prices, 30.2 percent in dollar terms and amounted to USD 3,383. Per capita income in dollar terms exceeded the highest level of USD 3,255 in 1998 and reached its peak level of USD 3,833.

Growth (percentage change in constant prices)



With the exception of agriculture sector, there was a rapid growth in all of the main sectors. In terms of production value, industry and services sectors grew by 7.8 and 6.7 in constant prices, respectively. Agriculture sector, which had a high performance in 2002, declined by 2.5 percent in 2003. In services sector, notably the sub-sectors of commerce and transportation grew rapidly, while the construction sector contracted. The share of agriculture sector in GDP decreased by 1 percent to 13 percent, the share of industry sector increased by 1 percent to 30 in current prices. Services sector had a share of 57 percent.

Sectoral Growth Rates and Breakdown

	Percentage change (in constant prices)				Percentage shares in GDP (in current prices)			
	2000	2001	2002	2003	2000	2001	2002	2003
Agriculture	3.9	-6.5	6.9	-2.5	13	14	14	13
Industry	6.0	-7.5	9.4	7.8	28	29	29	30
Services	7.9	-11.2	7.5	6.7	59	57	57	57

Source: State Institute of Statistics

Industrial sector continued to be the driving force of growth. The value added increase in manufacturing sector, the most important sub-sector of industry, reached 8.6 percent. In the sub-sectors of industry; mainly manufacturing of motor vehicles, medical instruments, communication equipment, office accounting and computing machinery, leather, wood and petroleum products industries the growth was higher than the average in manufacturing industry. The production in energy sector grew by 8.4 percent.

Average capacity utilization ratio increased by 3 points to 72 percent. This ratio was realized as 73 percent in private sector and 66 percent in public sector.

By expenditure approach, public demand narrowed while private demand continued to expand in constant prices. Private consumption and private investment expenditures increased by 6.6 percent and 20.3 percent, respectively. The main reason behind the growth in private fixed capital investments was an increase of 46.1 percent in machinery and equipment investments. On the other hand, construction expenditures in private sector decreased by 11.4 percent. The shares of private sector consumption and investment expenditures in GNP were 63.5 percent and 14.5 percent, respectively.

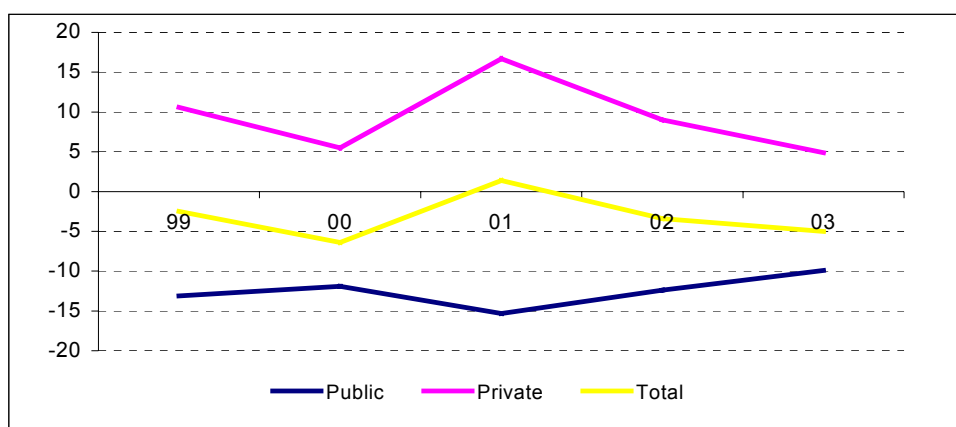
Public sector consumption expenditures, which had a share of 7.7 percent in GNP decreased by 2.4 percent, and the public sector investment expenditures which had a share of 5.2 percent decreased by 11.5 percent.

Due to the rapid growth of imports compared to exports, the contribution of foreign trade to the growth was negative in 2003.

The positive contribution of stock changes, which was the most important contribution to the growth in 2002, continued also in 2003. Stock changes increased by 59 percent in real terms, while its share in GNP increased from 5.1 percent in 2002 to 7.7 percent in 2003.

The value added by financial institutions decreased by 6.3 percent. It was due to the decrease in real wages despite the slow down in the deceleration of the number of employees in banking sector, which has an important share in the financial sector. The share of financial institutions in GDP decreased from 2.1 percent to 1.9 percent.

According to State Planning Organisation, the ratio of domestic savings to GNP increased from 19 percent to 19.3 percent. The private savings ratio remained at the level of 29 percent in 2002.

Balance of Savings (As percentage of GNP)

Total savings gap widened from 2.6 percent in 2002 to 5 percent in 2003. The private savings surplus decreased from 9.9 percent to 4.9 percent, while the public savings gap narrowed from 12.5 percent to 9.9 percent.

Domestic Savings and Balance of Savings (As percentage of GNP, percentage)

	1999	2000	2001	2002	2003
Domestic savings	19.8	18.1	17.4	19.0	19.3
Public	-6.4	-5.2	-9.9	-6.2	-5.4
Private	26.2	23.3	27.3	25.3	24.8
Savings balance	-2.8	-6.5	1.3	-2.6	-5.0
Public	-12.6	-12.1	-15.3	-12.5	-9.9
Private	9.8	5.7	16.7	9.9	4.9
External funds	2.8	6.5	-1.3	2.6	5.0

Source: State Planning Organisation

Employment, productivity and wages

Employment and real wages increased slightly in 2003. However, the upward trend in the productivity index for manufacturing industry being observed since the end of 2001, started to decelerate by the end of 2003.

Productivity for manufacturing industry decreased in the last quarter of 2003 compared to the same period of 2002. Productivity index per worker, which increased by 6 percent by the end of 2002, decreased by 0.5 percent by the end of 2003. Accordingly, productivity index per hour, which increased by 7.3 percent in 2002, decreased by 0.1 percent in 2003.

During 2003, collective contracts covering 629,240 workers in 7,806 work places in Turkey were concluded. The collective contracts in 2002 had covered totally 255,059 workers in 7,453 work places. While a workforce loss of 43,885 was suffered in 27 strikes in 2002; 23 strike were carried out in 2003, but the workday lost increased to 44,772. While there was no lockout application in 2002, 10,415 workday lost was suffered in 2 lockout applications in 2003.

Productivity Index (Annual percentage change)

	2002	2003/I	2003/II	2003/III	2003/IV
Per worker	6.0	5.1	1.8	1.4	-0.5
Per hour	7.3	5.4	1.5	1.7	-0.1

Source: State Institute of Statistics

According to the estimations of State Planning Organisation, in 2003 real labour cost of public workers remained at the same level, while that of employees and the minimum wages increased slowly.

Real Labor Cost Index (94=100)

	2000	2001	2002	2003
Total				
Public	130	116	100	100
Private	141	116	109	108
Employee	130	117	120	122
Minimum wage	156	128	133	136

Source: State Planning Organisation, TISK

The unemployment rate remained rather high despite the rapid growth in economic activity. According to State Institute of Statistics total labour supply was 23.6 million people and total employment was 21.1 million people. The number of unemployment increased approximately by 30,000 and reached 2.5 million. Consequently, the unemployment rate amounted to 10.5 percent. Out of the total employment, 44 percent were employed in services, 33 percent in agriculture, and 18 percent in industry sectors.

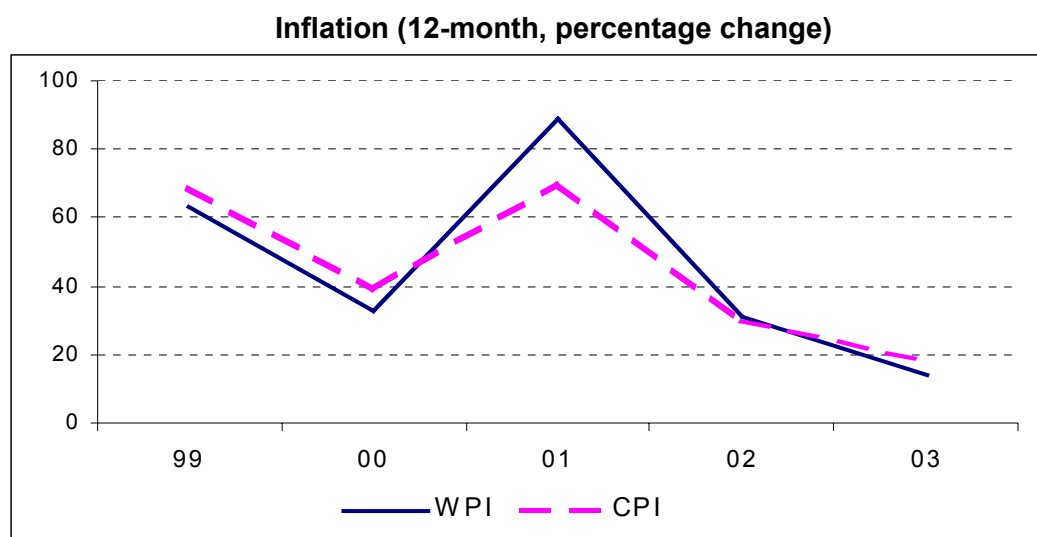
Unemployment (Percentage)

	2000	2001	2002	2003
Unemployment rate				
Overall	6.3	8.4	10.3	10.5
Urban	8.2	11.6	14.2	13.8
Educated youth	...	25.5	29.1	27.8
Underemployment rate				
Overall	6.0	6.1	5.4	4.8
Urban	5.9	6.5	3.4	3.8
Educated youth	...	6.0	6.0	6.5

Source: State Institute of Statistics

Inflation

In 2003, inflation rate was at its lowest level since the transition to the market economy in Turkey in 1980. Wholesale price index and consumer price index increased by 14 percent and 18 percent, both were below the economic program of 2003 with 17.4 percent and 20 percent, respectively. The average inflation realized as 26 percent in wholesale prices and 25 percent in consumer prices.



Expectations and behaviour of economic agents were positively affected by the favourable approach of the government to implement the disinflation program, with the support of tight fiscal policy in line with the targets set forth in the 2003 program and the determined implementation of the monetary policy focusing on price stability by the Central Bank.

Real interest rates followed an downward trend, but they remained at high. Imports became relatively cheaper due to the appreciation of TL against the main foreign currencies. The energy prices and the price adjustments in public goods and services stayed in line with the inflation target.

Inflation (percentage)				
	2000	2001	2002	2003
Annual average				
Wholesale	51	62	50	26
Public	69	71	49	25
Private	46	58	51	26
Consumer	56	54	45	25
12-month				
Wholesale	33	89	31	14
Public	25	100	32	11
Private	36	85	30	15
Consumer	39	69	30	18

Source: State Institute of Statistics

The wholesale price index increased by 11 percent and 15 percent in public and private sectors, respectively. The price increase in manufacturing industry was 13 percent in general, 13 percent in public sector and 12 percent in private sector. The inflation was realized as 20 percent in agriculture sector and 3 percent in energy sector.

Public sector

According to the estimations of the State Planning Organization, total public revenues grew by 30 percent, above the GNP deflator in 2003. Total public expenditures increased by 19 percent leading to a slowdown in the rate of increase in the public sector deficit. The ratio of total public revenues to GNP decreased by 0.1

percentage point to 31.5 percent, while that of the expenditures to GNP decreased by 4.1 percentage points to 40.2 percent. Due to the decrease in public expenditures, the ratio of public sector deficit to GNP decreased from 12.8 percent to 8.7 percent. The ratio of public sector deficit to GNP fell below 10 percent for the first time since 1998. The primary balance, which was the most important indicator of the economic program in terms of financial discipline and sustainability of the domestic debt stock, continued to give surplus. The ratio of primary surplus to GNP, which was 7 percent in 2002, is estimated to be 8.5 percent in 2003.

Public Sector Borrowing Requirement (As percentage of GNP)

	1999	2000	2001	2002	2003*
Consolidated budget	11.9	10.9	17.4	14.9	11.4
SEE's**	2.4	2.1	0.4	-1.0	-0.9
Local administrations	0.4	0.4	0.3	0.1	0.1
Funds	0.7	-1.2	-0.5	0.0	-0.6
Other	0.1	0.5	-0.9	-3.0	1.3
Public sector deficit	15.7	11.8	16.4	12.8	8.7
Public sector primary balance	0.9	-5.7	-8.1	-7.0	-8.5

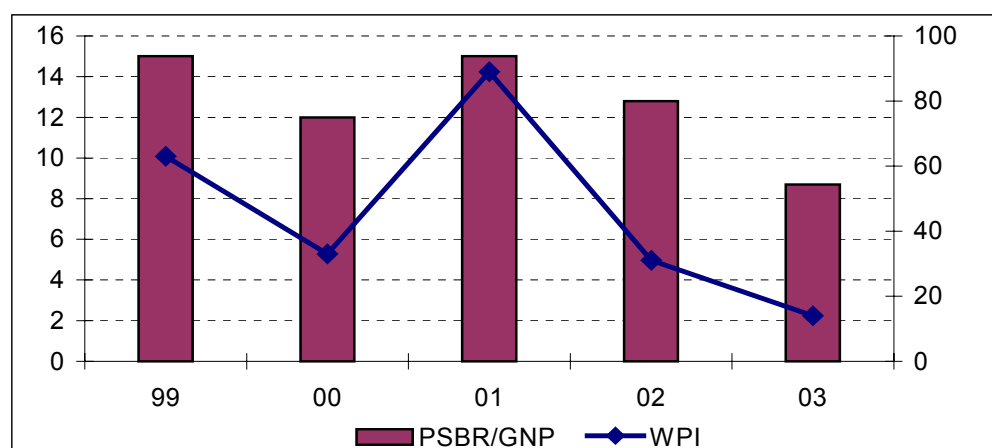
Source: State Planning Organisation

* Estimation,

**State-owned banks are excluded.

The share of tax revenues in total revenues increased from 79 percent to 84 percent. 67 percent of tax revenues was consisted of indirect taxes. Of the expenditures, 67 percent were transfer expenditures, 27 percent were current expenditures. The interest expenditures constituted 42 percent of total expenditures, down from 45 percent in 2002. The main developments affecting the public sector balance positively in 2003 were the growth in economic activity, additional taxes, implementations on the fiscal discipline, positive contribution of the state economic enterprises (SEEs) to the public sector balance, increase in the value added taxes received from imports with the rapid growth in imports, rapid decrease in borrowing interest rates, the limited increase in domestic and external debt interest expenditures with the appreciation of TL against foreign currencies, extending of maturity in public sector borrowings and increase in privatization proceeds.

Public Sector Borrowing Requirement/GNP and Inflation (Percentage)



Developments in the consolidated budget, which constitutes the most important part of public income and expenditures supported the achievement of the targeted rate of inflation and reduced the pressure on borrowing rates. In addition to the curtailment in expenditures, changes in regulations to increase income were put in force. The Funds were continued to be included in the budget. The rate of special consumption tax from the sale of tobacco products and alcoholic beverages was increased, and the implementation of special transaction and communication tax, which was announced to be temporary at the start, continued. New taxes were imposed on motor vehicles and real estates. However, the additional tax on motor vehicles was cancelled by the Constitutional Court.

The consolidated budget revenues increased by 33 percent, well above the average inflation rate with the contribution of additional taxes, expenditures increased by 26 percent below the average inflation rate. The most important contribution to the slow down in the growth of expenditures was from the interest expenditures. Hence the increase in non-interest expenses was 20 percent, it was 13 percent in interest expenses. Budget deficit remained almost the same in current prices while the non-interest surplus grew by 60 percent. The ratio of consolidated budget revenues to GNP remained at 28 percent, as that of consolidated budget expenditures to GNP decreased by 3 percentage points to 39 percent. The ratio of interest expenditures to GNP decreased from 19 percent to 16 percent. The ratio of consolidated budget deficit to GNP decreased by 3 percentage points to 11 percent. The primary balance of consolidated budget was realized as 5.3 percent of GNP. According to the definition in the stand-by agreement, the primary balance was realized as 4.7 percent of GNP that was slightly below 5.2 percent target in the program.

Consolidated Budget (TL trillion)

	2002	Per. share	2003*	Per. share	Per. change	As per. of GNP 2003
Revenues	75,592	100	100,283	100	33	28
Tax revenues	59,632	79	84,334	84	41	24
Non-tax revenues	15,960	21	15,949	16	0	4
Expenditures	115,682	100	140,054	100	21	39
Transfer	77,683	67	94,470	67	22	26
Interest expenditures	51,871	45	58,609	42	13	16
Domestic borrow	46,807	40	52,719	38	13	15
External borrowings	5,064	4	5,890	4	16	2
Non-interest	37,999	33	45,584	33	20	13
Personnel	23,089	20	30,201	22	31	8
Current	8,019	7	8,218	6	3	2
Investment	6,892	6	7,165	5	4	2
Budget balance	-40,090		-39,816		-1	-11.2
Primary balance	11,781		18,793		60	5.3

Source: The Ministry of Finance, * Provisional

33 percent of tax revenues were direct taxes and 67 percent were indirect taxes. Interest expenditures had the largest share in the consolidated budget expenditures with 42 percent. The following item was the non-interest transfer payments with 25 percent. The share of personnel expenditures was 20 percent, while the shares of current and investment expenditures were 7 percent and 6 percent, respectively.

In an environment of lower interest rates, an increased demand of non-banks investors for government securities and lengthening of maturity, the weight of

domestic borrowing increased in the finance of budget deficit. Almost all of the financing need of budget was met through domestic borrowing.

Financing of the Consolidated Budget

	TL trillion			As percentage of GNP		
	2001	2002	2003	2001	2002	2003
Financing	18,421	31,910	33,795	10	12	9
External borrowing (net)	-4,408	15,550	793	-3	6	1
Domestic borrowing	23,053	17,953	34,606	13	7	10
Other	-225	-1,595	-1,604	0	-1	0

In 2003 a total of TL 162,000 trillion debt repayment was made, out of which TL 18,000 trillion was financed by special funds, TL 10,000 trillion by foreign borrowing and TL 135,000 trillion by domestic borrowing. And there was an increase of TL 2,000 trillion in Treasury's cash/bank account. Hence the domestic debt roll-over ratio was realized as 93 percent for year 2003.

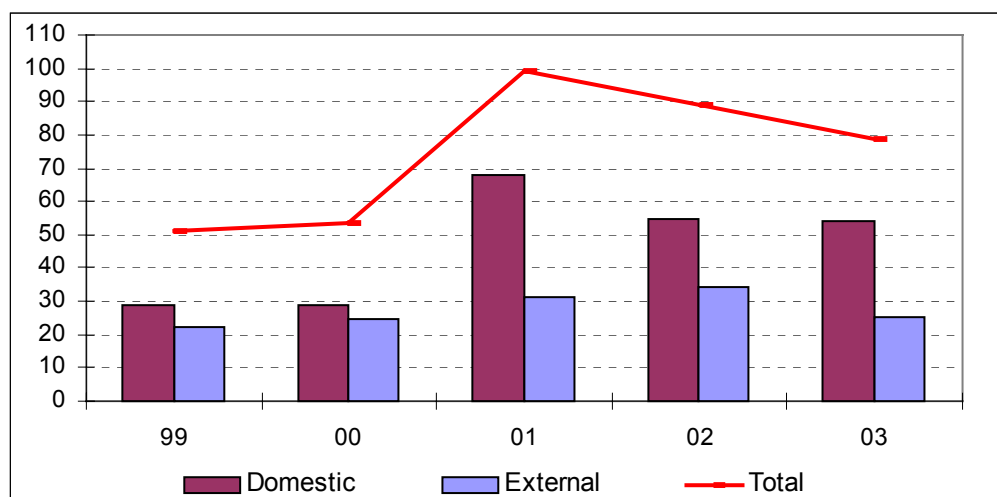
The average maturity of domestic TL borrowing from the market, increased from 222 days to 344 days. On the other hand, annual compound interest rate of the average borrowing in TL terms decreased from 50 percent to 28 percent.

Outstanding debt increased by 30 percent and reached TL 194,387 trillion. The share of non-cash securities in total debt stock decreased by 7 percentage points to 33 percent. Majority of non-cash securities was composed of the securities given to the banks, which were transferred to the management of SDIF and to the state-owned banks for their due from the Treasury.

Non-cash Outstanding Government Securities

	TL trillion	USD million	Euro million
State-owned banks	25,543	771	350
SDIF	9,979	4,317	1,173
Central bank	18,427	-	-
Other	147	-	-
Total	54,096	5,088	1,523

Outstanding Public Debt (As percentage of GNP)



The share of securities with fixed rates in outstanding debt increased from 25 percent to 35 percent, the share of securities in foreign exchange and/or indexed to foreign exchange decreased from 32 percent to 22 percent. The share of securities with variable interests remained at 43 percent.

Outstanding domestic debt increased faster than the rate of inflation. This was mainly due to the emphasis on domestic borrowing. However, the ratio of outstanding domestic debt to GNP decreased by 1 percentage point to 54 percent. The outstanding public debt increased by 9 percent and amounted to TL 282,956 trillion (USD 189.5 billion) as of December 2003. Thus, the ratio of consolidated budget outstanding debt to GNP decreased from 89 percent to 79 percent.

Outstanding Public Debt

	TL trillion	(As percentage of GNP)			
	2003	2000	2001	2002	2003
Gov. securities	194,387	29	68	55	54
Cash	130,484	23	32	33	37
Non-cash	63,903	6	36	22	18
Bonds	169,745	27	58	41	48
Cash	105,842	22	22	19	30
Non-cash	63,903	6	36	22	18
Treasury bills	24,642	2	10	14	7
Cash	24,642	2	10	14	7
Non-cash	-	0	-	-	-
Central bank advances	-	0	-	-	-
Fx depreciation	-	0	-	-	-
Domestic debt	194,387	29	68	55	54
External debt	88,569	...	27	34	25
Total	282,956	...	95	89	79

According to data of the Central Bank, 51 percent of the government securities were held by banks. Total amount of securities in banks reached 66 percent of total deposits. Total amount of government securities held by non-bank sectors increased by 94 percent and amounted to TL 67,654 trillion. This amount constitutes 35 percent of outstanding domestic debt and 41 percent of broad money demand (M2YRF). The Central Bank held 14 percent of outstanding government securities.

Monetary aggregates

Monetary policy

The monetary policy primarily focused on maintaining price stability. In order to reach the targeted rate of inflation determined together with the government, the Central Bank carried out a discreet interest rate policy taking into consideration the regional and international developments. On the other hand, in situations where uncertainty increased due to extraordinary developments or where expectations deteriorated, measures to sustain stability and to enhance confidence in the financial markets were put in force.

Because of the uncertainties mainly due to Iraq War the short-term interest rates was unchanged in January-March period. The shortly end of the war and the positive effect of the outcome that the war's impact on Turkish economy would be less than

predicted, made positive influence on the markets. Hence, the interest rates was lowered in short time intervals after April. While the short-term interest rates (annually) were 55 percent by the end of 2002, decreased to 46 percent by the end of July and 26 percent by the end of 2003. Other developments affected the interest rates were fiscal discipline, decrease in inflation rate, reverse money substitution, portfolio preferences, capital inflow.

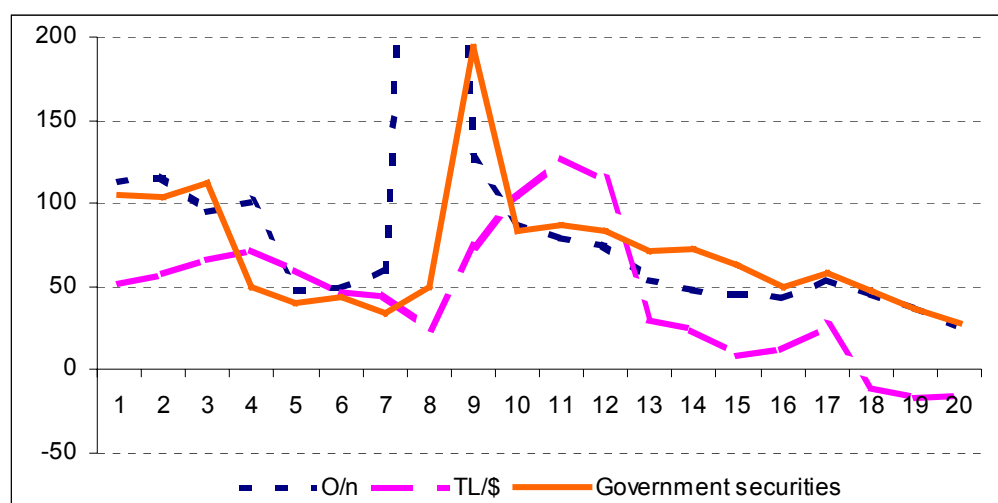
In the period when interest rates continued to decrease, TL appreciated in reel terms against the major foreign currencies. In December 2003 annual changes, in TL depreciated 13 percent against the dollar over 2002 and 27 percent end of March 2003, while the euro/TL rates in the same period were 34 percent and 59 percent, respectively. However, as from April 2003 TL appreciated with respect to both USD and euro. By the end of June 2003, the appreciation of TL against USD was 10 percent, while it depreciated by 3 percent against euro in nominal terms. By the end of the year, the appreciation of TL against USD was 15 percent, while its depreciation against euro decreased to 2 percent. In real terms, TL appreciated against both USD and euro.

Interest Rates (end of period), Exchange rates and Inflation (12-month, percent)

	2002		2003		
	Dec.	March	June	Sept.	Dec.
Interest rate (annual, compound)*					
O/n	55	55	46	38	26
Public securities	50	58	47	36	28
Exchange rates					
TL/(USD)	13	27	-10	-16	-15
TL/Euro	34	59	3	-1	2
Inflation (WPI)	31	35	30	19	14

* Average

Foreign Exchange, Interest Rates on Government Securities and O/n interest rates (Percentage)



Due to the excess of foreign currency supply, the Central Bank created an additional demand through buying auctions and/or open market operations. The Bank also absorbed the liquidity created by the foreign currency purchases. Thus, the short term interest rates determined in line with the price stability objective. The Central Bank announced the reason behind its intervention in foreign exchange market as to

prevent the fluctuations in foreign exchange rates and to increase the reserves without having a contradiction with the floating exchange rate regime, but not to target any exchange rate level. The Central Bank also placed the emphasis on the continuation of floating exchange rate regime and the free floating of exchange rates with the minimum intervention as proposed. In 2003, the Bank bought a record level of foreign exchanges with amount of USD 9.9 billion.

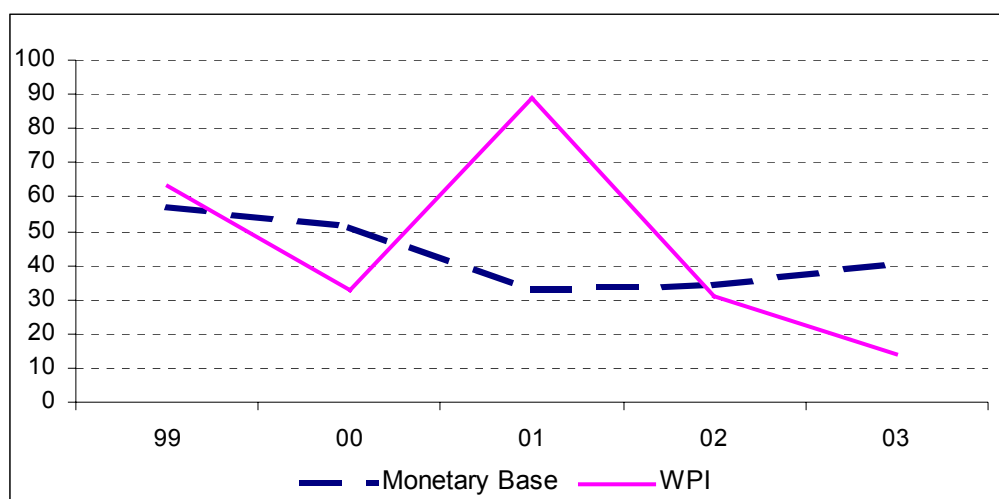
The size and structure of the Central Bank's balance sheet were affected notably by acceleration in the foreign exchange rates because of the Iraq war in the first quarter, and increase in the supply of foreign exchange in the second quarter. While there was a contraction of 2 percent in the balance sheet by the end of 2002, it expanded by 28 percent by the end of first quarter. However the growth rate in the balance sheet slowed down to 2 percent by the end of first half and was realised as 0,3 percent by the end of 2003. The ratio of Central Bank's balance sheet to GNP decreased to 21 percent by the end of 2003, down from 27 percent by the end of 2002.

The Balance Sheet of the Central Bank, Selected Items (TL trillion)

	2002 Dec.	March	2003 June	Sept.	Dec.
Net foreign assets	12,871	13,683	12,030	19,087	17,262
Net domestic assets	23,523	25,046	23,234	23,824	23,585
Monetary base	10,662	12,019	12,712	15,061	15,010
Open market operations	8,452	9,799	6,424	11,374	8,260
Central Bank money	19,966	23,487	21,104	27,844	24,134
Fx deposits	5,996	3,905	4,838	5,726	6,517
TL liabilities	25,962	27,391	25,943	33,570	30,652
Banks' Fx deposits	10,432	11,337	9,321	9,341	10,196
Total domestic liabilities	36,394	38,728	35,264	42,911	40,848

Source: The Central Bank

Monetary Base and Wholesale Inflation (Annual change, percentage)



Compared to the end of 2002, net foreign assets increased by 6 percent in the first quarter of 2003, decreased by 7 percent in the second quarter and grew by 34 percent by the end of year. In current prices, net domestic assets increased slowly in the first quarter, remained the same in the rest of the year. Monetary base (currency

issued + free deposits of banks + required reserves) considered as nominal anchor, increased by 21 percent by the end of the first half and 47 percent by the end of year, respectively. Borrowing from open market operations showed a significant volatility due to the requirements of liquidity management.

The Central Bank foreign exchange reserves increased approximately by USD 7 billion in 2003. This increase stemmed from foreign exchange buying actions in the second half of the year. Foreign exchange reserves reached USD 33.6 billion in 2003, up from USD 26.7 billion in 2002. Net foreign exchange position of the Central Bank improved from a short position of USD 2.2 billion to a long position of USD 0.4 billion. Thus, the increase in the net foreign exchange position of the Central Bank was above USD 10 billion in the last two years.

Central Bank's Fx Reserves and Net International Reserves (USD billion)

	2002 Dec.	March	2003 June	Sept.	Dec.
Fx reserves	26.7	26.7	28.8	33.9	33.6
Net international reserves	-2.2	-0.9	-1.5	2.9	0.4

Interest rates determined by the Central Bank were decreased gradually to 16 percent by the end of the 2003, from 25 percent by the end of the 2002.

Money demand

In 2003, demand for money in TL instruments grew more than the rate of inflation. M2RF (TL deposits+repo+short term investment funds) increased by 38 percent in current prices and 22 percent in constant prices. Depending on important tax advantage compared to deposits and repos, investment funds continued to grow significantly with 144 percent in current prices and 114 percent in constant prices, respectively.

Monetary Aggregates (2003)

	TL trillion	USD million	Percentage change	
			TL	USD
M2RF	95,193	68,323	38	59
Money in circulation	10,129	7,270	41	67
TL demand deposits	11,435	8,207	62	92
Repo	3,079	2,210	4	8
Investment funds	11,191	8,032	144	52
TL time deposits	59,359	42,604	26	50
M2YRF	164,125	117,798	16	35
Fx deposits	68,932	49,475	-5	11

Source: The Central Bank

While the TL equivalent of Fx deposits decreased the USD equivalent of Fx deposits increased by 11 percent. This development was mainly the result of the appreciation of TL against USD and euro as well as the depreciation of USD against Euro. Thus, money demand including also foreign exchange deposits (M2YRF) increased by 16 percent in current prices and 2 percent in constant price. The share of foreign exchange deposits in M2YRF decreased by 9 percentage points to 42 percent.

Breakdown of Monetary Aggregates (Percentage)

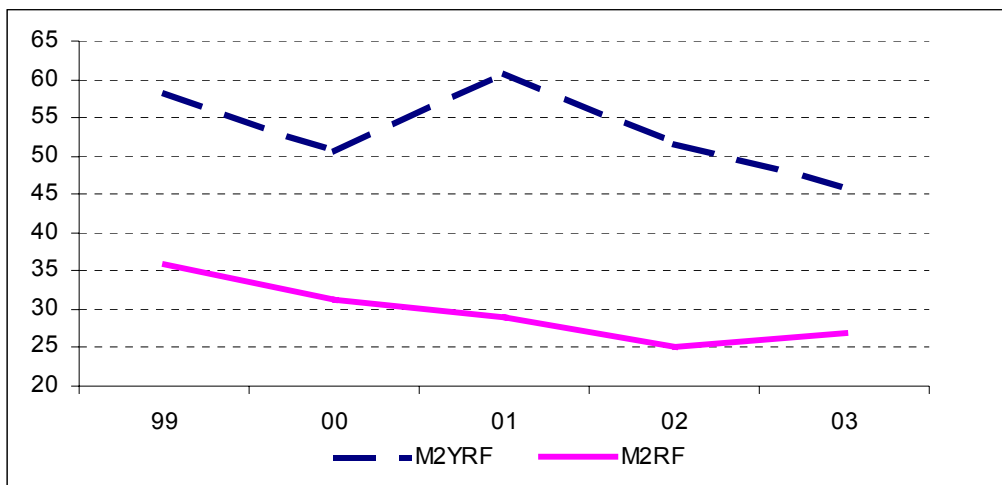
	1999	2000	2001	2002	2003
Money in circulation	4	5	4	5	6
TL demand deposits	6	8	5	5	7
Repo	11	9	3	2	2
Investment funds	1	1	2	3	7
TL time deposits	39	39	33	33	36
Fx deposits	38	38	53	51	42
M2RYF	100	100	100	100	100

Source: The Central Bank

The factors affecting the preferences in favour of TL investment instruments were, the descending trend in the inflation rate, high real rate of return in TL instruments and appreciation of TL against foreign currencies, rapid growth in economic activity and differentiation in the taxation of different investment instruments. Investments funds and notable government securities continued to be more preferable since an important portion of the income from these instruments after the inflation deduction was exempted from taxation, whereas the taxation on the income from deposits and repo transactions was relatively heavy. As a matter of fact, the market value of the domestic debt included in the portfolios of households showed a remarkable increase in the recent years. The value of these securities increased by 94 percent in current prices and by 70 percent in constant prices. The ratio of government securities held by non-bank sectors to the GNP increased by 6 percentage points to 19 percent while its ratio to the government securities in banks' portfolio increased from 42 percent to 69 percent.

The ratio of money demand for TL instruments (M2RF) to GNP increased by 2 percentage points to 27 percent. The ratio of money demand including also foreign exchange deposits (M2RYF) to GNP decreased from 51 percent to 46 percent.

Government securities held by commercial banks increased by 19 percent. The ratio of these securities to GNP was realised as 28 percent and to total deposits as 67 percent, respectively.

Money Demand (As percentage of GNP)

According to the Central Bank's data, total deposits increased by 12 percent in current prices, while decreased by 2 percent in constant prices. TL deposits

increased by 35 percent in current prices and 19 percent in constant prices, On the other hand, TL equivalent of foreign exchange deposits increased by 4 percent in current prices, while decreased by 16 percent in constant prices. In the first quarter, following Iraq War, USD 3.1 billion amounted Fx deposits was withdrawn from the banking system. But short after the end of war, Fx deposits started to increase again. Fx deposits reached USD 51 billion in December 2003, up from USD 44 billion in December 2002. The share of TL equivalent of Fx deposits in total deposits decreased by 9 percentage points to 48 percent. The ratio of total deposits to GNP decreased by 7 percentage points to 41 percent.

Maturity Structure of Total Deposits (Percentage)

	1999	2000	2001	2002	2003
Total	100	100	100	100	100
Demand	18	19	17	19	20
1-month	18	29	34	30	26
3-month	35	38	38	38	38
6-month	19	9	6	8	10
12- month+	10	6	6	6	6
Average (month)	3.7	2.8	2.7	2.8	2.9

Deposit interest rates followed a trend parallel to the inflation. Hence, compound interest rate for 1-month deposits, decreased to 32 percent by the end of 2003 from 56 percent in 2002, and interest rate for 3-month deposits decreased from 53 percent to 31 percent in the same period. The maturity weighted average deposit interest rates decreased from 46 percent to 27 percent. Maturity structure of TL deposits improved slightly while that of Fx deposits remained almost the same.

According to the Central Bank's data, the state-owned banks had a share of 40 percent in total deposits while privately owned banks had a share of 52 percent. The fact that TL deposits had a higher share in total deposits affected this development as TL appreciated against major currencies. The share of foreign banks was 2 percent in total deposits. The state-owned banks had a share 54 percent in TL deposits and 23 percent in Fx deposits. On the other hand, the privately-owned banks had a higher share in Fx deposits with 70 percent. Their share in TL deposits was 45 percent.

The ratio of loans to deposits increased. The ratio of total loans extended from the branches in Turkey, (performing loans + non-performing loans after provisioning) to total deposits + repos increased from 27 percent to 34 percent. Total loans, excluding loans extended from the branches abroad, increased by 42 percent in current prices and 24 percent in constant prices. Performing loans increased by 49 percent, while non-performing loans after provisioning decreased by 42 percent. This was mainly affected from the fact that some of the non-performing loans were rescheduled within the framework of the financial restructuring program. Thus, the share of non-performing loans before provisioning in total loans decreased from 28 percent to 16 percent, and after provisioning this ratio decreased from 8 percent to 3 percent. The total loans were restructured within the framework of financial restructuring program amounted to USD 6.1 billion.

Loans extended by commercial banks accounted for 92 percent of total loans. The share of loans extended by privately owned banks to total loans was 71 percent, while that of state-owned banks remained at 23 percent. Total loans extended by commercial banks increased by 47 percent in current prices and 30 percent in

constant prices. On the other hand, the increase in performing loans was 55 percent in current prices and 36 percent in constant prices. One of the most important reason behind this was the rapid growth of consumer loans and loans extended via credit cards. Consumer loans increased by 198 percent in current prices and 162 percent in constant prices while loans extended via credit cards increased by 60 percent in current and 41 percent in constant prices. The share of consumer loans and loans extended via credit cards in performing loans increased by 8 percentage points to 30 percent. The ratio of non-performing loans (before provisioning) to consumer loans and loans extended via credit cards decreased from 5 percent to 3 percent.

Total loans* (TL trillion)

	1999	2000	2001	2002	2003
Total loans**	19,590	29,602	38,812	39,413	56,144
Performing loans***	18,607	28,366	35,910	36,762	54,600
Non-performing loans (net)****	983	1,236	2,902	2,651	1,544
Non-performing loans *****	1,631	3,121	6,421	10,122	8,750
Total loans /GNP (percentage)	25	24	22	14	16

* Loans are extended by domestic branches of the banking system.

** Performing loans + non-performing loans (net)

*** Total loans of the banking system (loans to financial system are excluded)

**** Loans under follow-up after provisioning (net, banking system)

***** Loans under follow-up before provisioning (gross, banking system)

The ratio of total loans extended by commercial banks to GNP was realised as 14 percent. In commercial banks, the ratio of non-performing loans to total loans decreased from 31 percent to 15 percent.

Deposits and Loans (TL trillion)

	1999	2000	2001	2002	2003
Total deposits	38,576	56,293	103,767	131,018	147,351
- TL deposits	20,111	30,918	45,035	56,481	75,979
- Fx deposits	18,465	25,375	58,732	74,537	71,372
Total deposits+repo	43,576	62,317	106,560	133,973	150,418
Commercial banks' loans	17,061	27,146	34,480	34,860	51,398
- Active loans	16,090	25,942	31,671	32,277	49,878
- Non-performing loans (net)	971	1,204	2,808	2,583	1,521
- Non-performing loans (gross)	1,603	3,068	6,271	9,972	8,567
<i>For Information:</i>					
Consumer loans and c. cards loans	2,143	6,695	4,768	7,001	15,212
- Consumer loans	982	4,619	2,323	2,902	8,634
- Credit cards loans	1,161	2,076	2,445	4,099	6,578
<i>As a percentage of GNP</i>					
Total deposits+repo	55.7	49.6	60.4	48.7	42.2
Total loans	25.0	23.6	22.0	14.3	15.7
Commercial banks' loans	21.8	21.6	19.5	12.7	14.4
Consumer loans	1.3	3.7	1.3	1.1	2.4

According to Banking Regulation and Supervision Authority, loans by commercial banks extended from the branches abroad amounted to TL 5,727 trillion. Including such kind of loans, total loans of the banking system (performing loans and non-performing loans after provisioning) reached TL 61,871 trillion.

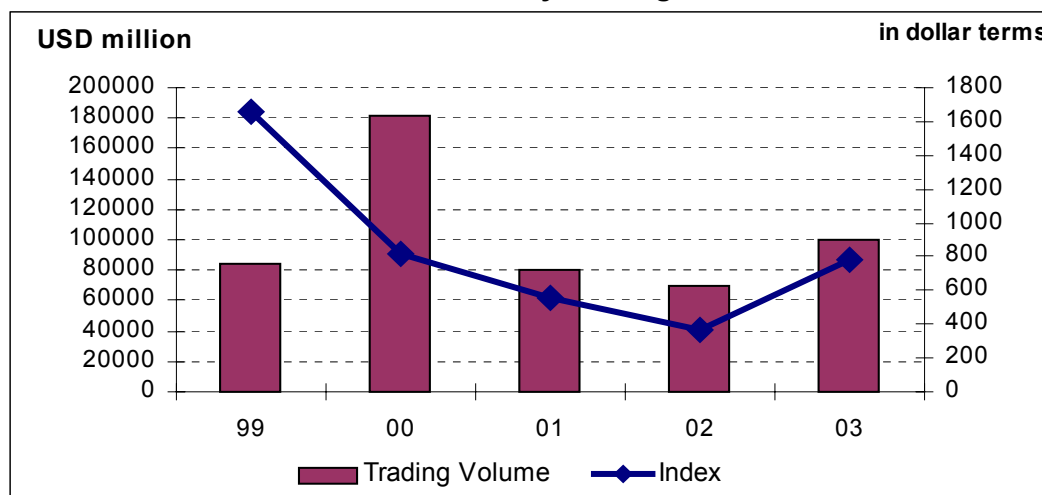
Developments in İstanbul Stock Exchange

By the end of 2003, İstanbul Stock Exchange (ISE) Index increased in dollar terms contrary to the last two years. While the index in dollar terms increased by 111 percent, the volume of total trading expanded by 42 percent and reached USD 100 billion.

The performance of the stock exchange was positively affected by a number of developments as follows; a positive change in economic expectations, the positive effect of developments in Euro/USD rate on export performance despite the appreciation of TL, decline in nominal interest rates and increase in domestic demand.

In 2003, the market value of companies traded in stock exchange increased from USD 34.4 billion to USD 95.4 billion. The number of companies decreased from 288 to 285. While 4 new companies joined the stock exchange, 7 companies left. Furthermore, as of the end of 2003, the market value of 12 banks traded in stock exchange with USD 24.8 billion constituted 26 percent of the total market value of companies traded in stock exchange.

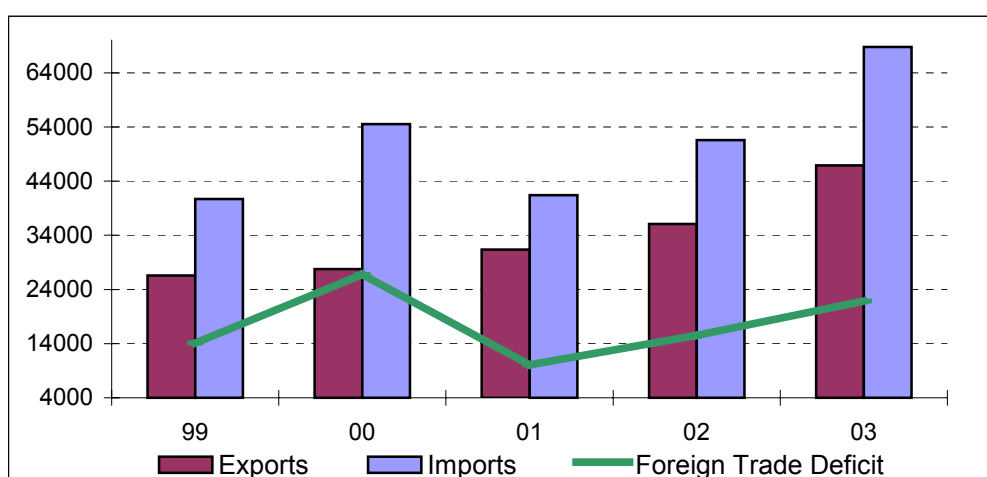
ISE Index and Daily Trading Volume



Balance of foreign trade

In 2003, the growth trend both in exports and imports continued. The volume of foreign trade expanded by 32 percent and increased to USD 116 billion. For the reason that European Union (EU) countries had an important share in Turkey's foreign trade with a share of 52 percent in total exports the increase in total demand in EU area, due to appreciation of Euro against main currencies relatively limited appreciation of TL against Euro, slow increase in domestic demand, stable real wages, increase in productivity, and increase in prices of export goods affected exports positively.

On the other hand, despite the increase in prices of import goods, the lower prices in imported intermediary and capital goods due to the appreciation of TL, slow increase in domestic demand due to decreasing inflation and interest rates, and continued increase in production led to an increase in exports.

Balance of Foreign Trade (USD million)

The exports increased by 30 percent and reached USD 46.9 billion and imports expanded by 33 percent amounted to USD 46.9 billion and USD 68.7 billion. The coverage ratio of exports to imports decreased from 70 percent to 68 percent. While the ratio of exports to GNP remained almost the same at 20 percent, the ratio of imports to GNP increased from 28 percent to 29 percent. The foreign trade deficit grew by 41 percent and reached USD 21.9 billion. The ratio of foreign trade deficit to GNP was realised at 9.2 percent.

According to 12-month average, exports and imports quantity indexes increased by 22 percent and 33 percent, respectively. On the other hand, the exports and imports price indexes increased by 10 percent and 7 percent, respectively.

Foreign Trade (USD billion)

	1999	2000	2001	2002	2003
Exports	26.6	27.8	31.3	36.1	46.9
Imports	40.7	54.5	41.4	51.6	68.7
Foreign trade deficit	14.1	26.7	10.1	15.5	21.9
Foreign trade volume	67.3	82.3	72.7	87.6	115.6
Foreign trade deficit/GNP	7.5	13.3	6.3	8.7	9.2
Export/Import	65	51	76	70	68
Price Index * (94=100)					
Exports	92	88	86	84	92
Imports	91	95	95	94	101
Quantity index* (94=100)					
Exports	150	167	204	236	288
Imports	199	265	199	240	320

Source: State Institute of Statistics, * Average

Imports of capital goods and intermediate goods increased each by 32 percent and consumption goods increased by 50 percent. Intermediate goods constituted 72 percent of total imports. By sectors, the share of manufacturing industry in total imports was 80 percent. Machinery, vehicles, iron and steel, chemistry were the most important sub-sectors of the manufacturing industry. The share of mining sector in total imports was 16 percent. The crude oil import increased by 17 percent and reached USD 4.8 billion in 2003.

Of total exports, 51 percent were consumption goods, 39 percent were intermediate goods and 9 percent were capital goods. By sectors, the shares of manufacturing industry and agriculture in total exports were 93 percent and 5 percent, respectively. Textiles, vehicles, iron and steel, machinery were the most important sub-sectors of the manufacturing industry.

Foreign Trade by Commodity Groups, 2003

	Exports			Imports		
	USD million	Per. change	Per. share	USD million	Per. change	Per. share
Capital goods	4,308	57.2	9.2	11,222	32.1	16.3
Interme. goods	18,372	25.5	39.2	49,536	32.3	72.1
Consumer goods	23,909	29.0	51.0	7,511	50.0	10.9
Other	288	92.0	0.6	466	-23.7	0.7
Total	46,878	30.0	100.0	68,734	33.3	100.0

The OECD countries had a share of 65 percent in foreign trade. The share of EU countries was 52 percent. Following the Customs Union Agreement the foreign trade balance with EU countries changed against Turkey with a deficit of USD 7.1 billion, whereas it was USD 4.9 billion in 2002. The share of EU countries was 52 percent in exports and 46 percent in imports, respectively.

Germany ranked first with 16 percent in foreign trade volume, followed by USA and United Kingdom with 8 percent, Italy with 7 percent and France with 6 percent. While exports to Germany constituted 16 percent of total exports, the share of imports from this country in total imports was 14 percent.

Foreign Trade by Country Groups, 2003

	Exports			Imports			Exports-Imports
	USD million	Per. change	Per. share	USD million	Per. change	Per. share	USD million
OECD	30,263	28	65	43,544	32	63	-13,281
EU	24,350	32	52	31,495	35	46	-7,145
EFTA	533	30	1	3,355	34	5	-2,822
Other	5,380	15	11	8,693	22	13	-3,313
Free Zone	1,893	32	4	586	2	1	1,307
Non-OECD	14,722	33	31	24,604	37	36	-9,882
Europe	4,680	36	10	8,818	39	13	-4,138
Africa	2,111	24	5	3,244	20	5	-1,133
America	255	6	1	1,070	81	2	-815
Middle East	5,037	41	11	4,334	18	6	703
Other	2,639	25	6	7,138	52	10	-4,499
Total	46,878	30	100	68,734	33	100	-21,856

Balance of payments

Compared to the previous year, the current account deficit increasing by 334 percent reached USD 6.6 billion in 2003. The ratio of current account deficit to GNP increased by 2 percentage points to 2.8 percent. Beside the rapid growth in economic activity other factors effecting the balance of payments were the depreciation of euro against USD in real terms, TL appreciation against major

currencies, capital inflows and reverse money substitution. Meanwhile after a long time Turkey made net payments to the IMF.

The main contributing factor to the increase in current account deficit stemmed from an increase in the merchandise trade deficit, which was widened by 65 percent including shuttle trade and reached USD 13.7 billion. Shuttle trade remained approximately at USD 4 billion. At the same time, gold imports increased by 84 percent and amounted to USD 2.6 billion.

The surplus in the balance of services sector helped to restrict the current account deficit, which increased by 34 percent and amounted to USD 10.5 billion. Net tourism income increased by 68 percent to USD 11.2 billion and made the most important contribution to the balance of services sector. Interest expenditures, which were the most important sub-item of investment income balance, increased from USD 4.4 billion to USD 4.6 billion.

The rapid increase in the current account deficit was financed by the increase in capital inflows and nets errors and omissions account. The capital inflows jumped up USD 5.6 billion in 2003 from USD 1.2 billion in 2002. Net errors and omissions account increased dramatically to USD 5.1 billion by the end of 2003, which was USD 149 million in 2002.

Current Account Balance (USD million)

	2000	2001	2002	2003
Current account balance	-9,819	3,390	-1,522	-6,609
-General merchandise	-22,410	-4,543	-8,337	-13,721
-Exports(fob)	30,721	34,373	40,124	51,021
-Imports(fob)	-53,131	-38,916	-48,461	-64,742
-Services (net)	11,368	9,130	7,879	10,516
-Tourism (net)	7,636	8,090	6,599	11,090
-Income(net)	-4,002	-5,000	-4,554	-5,427
-Direct investments	89	52	-86	-268
-Portfolio investments	-434	-694	-835	-1,207
-Other investments	-3,657	-4,358	-3,633	-3,952
-Interest expenditures	-4,825	-5,497	-4,417	-4,586
-Current transfers	5,225	3,803	3,490	2,023
-Workers remittances	4,560	2,786	1,936	729

In addition to the growth in portfolio investments, external borrowing notably by the banking sector contributed to the increase in capital inflows. There was an inflow of USD 2.2 billion from the portfolio account in 2003, as against outflows of USD 0.6 billion in 2002. Net direct foreign investments decreased from USD 863 million to USD 76 million.

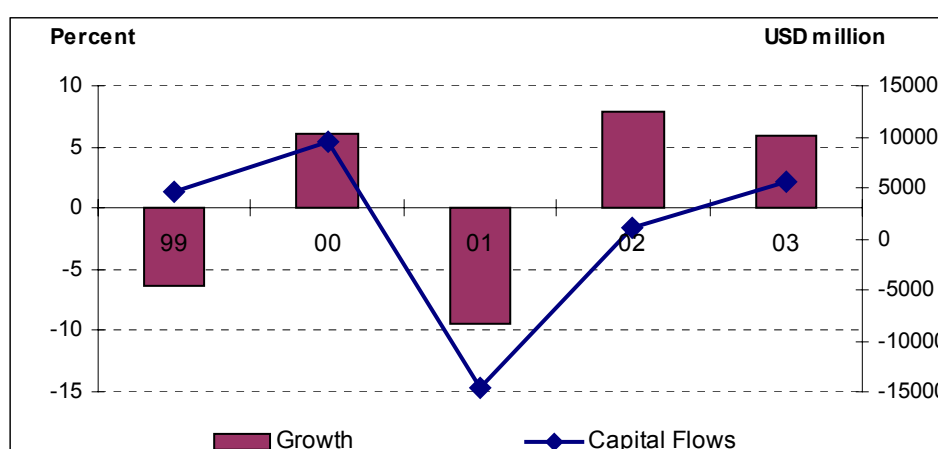
The most important development in 2003 was a record inflow of unclassified USD 5.1 billion net errors and omissions account.

Balance of payments gave a surplus of USD 4.1 billion with the effect of net errors and omissions item. After the repayments to the IMF, official reserves increased by USD 4 billion. In 2002 Turkey used a net loan facility of USD 6.4 billion from IMF and made a payment of USD 50 million on the net in 2003, for the first time since 1998.

Capital and Financial Account (USD million)

	2000	2001	2002	2003
Capital and financial account	9,584	-14,643	1,161	5,597
-Capital account (net)	0	0	0	0
-Financial account (net)	9,584	-14,643	1,161	5,597
-Direct investments abroad (net)	112	2,769	863	76
-Portfolio investments (net)	1,022	-4,515	-593	2,235
-Other investments (net)	8,450	-12,897	891	3,286
-Net errors and omissions	-2,762	-1,671	149	5,109
General balance	-2,997	-12,924	-212	4,097
-IMF accounts	3,351	10,230	6,365	-50
-Official reserves	-354	2,694	-6,153	-4,047

Capital Flows and Growth



Outstanding external debt

Outstanding external debt increased approximately by USD 16.4 billion and reached USD 147 billion as compared to 2002. Medium and long term outstanding external debt rose by USD 9.8 billion, short term outstanding debt increased by USD 6.5 billion. Despite the increase in outstanding debt, the ratio of outstanding debt to GNP fell by 11 percentage points to 62 percent, due to a rapid growth in GNP in dollar terms. While the ratio of medium and long term debts to GNP decreased by 12 percentage points to 52 percent, the ratio of short term debts to GNP increased by 1 percentage point to 10 percent. The shares of public sector and the Central Bank in outstanding external debt were 48 percent and 17 percent, respectively. The share of the banking system in outstanding external debt was 9 percent, whereas that of non-bank sectors was 27 percent. The ratio of public sector debts (excluding the Central Bank) to GNP decreased from 27 percent to 20 percent. Within the medium and long-term debt stock, the public sector's debt (excluding the Central Bank) increased by USD 7.4 billion and amounted to USD 70.3 billion. The outstanding external debt of the private sector increased approximately by USD 2.3 billion.

Of the medium and long-term outstanding debt, USD 43 billion was provided by official creditors, and USD 82 billion by private creditors. Among the official creditors, international institutions, including IMF had the largest share with USD 33 billion. Of debts to the private creditors, USD 30 billion was provided by commercial banks and USD 28 billion was obtained through bond issue.

Outstanding External Debt (USD billion)

	1999	2000	2001	2002	2003
Medium and long term	80.1	90.3	97.7	114.5	124.3
Public	42.4	47.7	46.3	63.9	70.3
Central bank	10.3	13.4	23.8	20.3	21.5
Private	27.4	29.2	27.7	30.2	32.5
Banks	4.8	4.6	3.2	3.0	3.1
Short term	22.9	28.3	16.4	16.4	22.9
Central bank	0.7	0.7	0.6	1.7	2.9
Banks	13.2	16.9	8.0	6.3	9.7
Other sectors	9.1	9.7	7.6	8.4	10.4
Total	102.9	118.6	113.9	130.9	147.3

Source: Undersecretariat of the Treasury *Provisional

Developments in Turkish Banking System in 2003

Balance-sheet developments

The number of banks operating in Turkey was 50 at the end of 2003 by decreasing 4 banks compared to the end of 2002; of which 36 banks were commercial banks and 14 were non-depository banks.

The number of bank employees was 123,000, while that of branches was around 6,000. The decreasing trend observed in the number of employees and branches in the recent years slowed down notably.

By the end of 2003, total assets of the banking sector amounted to TL 250,000 trillion. In dollar terms total assets was USD 179 billion. The ratio of total assets to GNP decreased from 78 percent at the end of 2002 to 67 percent as of the third quarter of 2003 before it rose to 70 percent by the end of year. The share of commercial banks in total assets of the banking sector was 96 percent, of which 33 percent belonged to state-owned banks and 57 percent to privately owned banks.

In terms of total assets the share of largest five banks increased both in assets and deposits, and decreased in loans. The shares of largest ten in the sector increased as well.

The share of TL items increased both in total assets and total liabilities; TL items accounted for 61 percent in total assets and 57 percent in total liabilities. When assets and liabilities indexed to foreign exchange are not included the difference between Fx assets and Fx liabilities in balance sheet of the banking sector increased from - USD 5.3 billion to - USD 7.2 billion by the end of 2003.

The shares of securities portfolio and loans in total assets increased, while that of permanent assets decreased. The ratio of non-performing loans to total loans before provisioning decreased from 19 percent to 12 percent; provision was allocated for 89 percent of non-performing loans.

Total deposits constituted 64 percent of total liabilities. The share of TL deposits in total deposits increased rapidly. Non-deposit liabilities increased as well due to improvements in the facilities of borrowing from abroad.

Shareholders' equity increased by 38 percent and amounted to TL 35,538 trillion. The ratio of shareholders' equity to total assets reached 14.2 percent, 2 percentage points higher from the previous year. Improvement in the level of profitability contributed also to this development in shareholders' equity positively. On the other hand, the level of profitability in the banking sector increased by 138 percent. When the banks in the Fund are excluded, the rate of increase in profitability was 32 percent. In addition to the increase in shareholders' equity, the improvement in free shareholders' equity continued due to the decline in permanent assets.

Regulations related to the banking sector

Execution and Bankruptcy Law

By the comprehensive amendments and changes made in the Execution and Bankruptcy Law some positive steps were taken for acceleration of collection of receivables and for prevention and avoidance of bad faith acts of the debtors taken

with the intention of leaving the collection process hanging in the air. Consequently, inefficient procedures related to the legal proceedings, which were causing significant losses in the economic value of assets, were removed to a large extent. However, the provisions related to restructuring of capital stock companies through conciliation have been added to the Execution and Bankruptcy Law with the latest amendments. The implementation of these new provisions should be carefully monitored for prevention of abusive attempts of the debtors in bad faith.

Banks Act

Recent amendments made in Banks Act No. 4389 aimed mainly to accelerate the legal proceedings of receivables arising from banks, which are determined as their resources are used as to endanger the soundness of the bank, and thus whose management and supervision is transferred to the Saving Deposit Insurance Fund (SDIF) and/or whose banking license is revoked and liquidation process is started due to the decision of dissolution. Within this context additional provisions are introduced to ensure the effective follow-up of all kinds of money, properties, rights and receivables from banks, which are transferred to the bank owner's spouse, children and/or their blood relatives, and/or to the controlling shareholders of the bank or to their companies, subsidiaries and or to third persons through simulation transactions.

Consumer Protection Law

The Law No. 4077 on Protection of Consumer Rights was amended in compliance with EU directives on consumer protection. With the recent amendments the debtors of credit cards and/or consumer loans, who did not or could not repay their debts, were provided with facilities of rescheduling of their debt as well as decreasing of the interest rates. Pursuant to the new amendments the past-due interest rate is limited, in addition, banks are required to apply fixed interest rate in contracts, and restrained to impose any charge in case of early payment of debt.

Inflation accounting practice

The legislation on accounting practices enabling the taxation of net income according to the principle of inflation accounting was prepared in 2003 and passed through the parliament in February 2004 to be applied as from 2005.

Measures for lowering financial intermediation costs

Important steps were taken also for lowering the financial Intermediation costs in tax regulations. According to this, stamp duty on loan transactions and special transaction tax imposed in case of opening a time account were removed, and deduction from deposit interest income for Defence Industry Support Fund was cancelled.

Fight against informal economy

Efforts to fight with informal economy gained ground in 2003. In this context a new regulation was introduced to necessitate payments above a certain amount to be made through the financial sector.

Savings Deposit Insurance Fund practices

A new arrangement on calculation of savings deposit insurance premiums based on risk was introduced.

Financial Restructuring Program; “İstanbul Approach”

Practices within the framework of the financial restructuring program continued in 2003. As of April 2004, 323 firms consisting of 217 (34 groups) large-scale firms and 106 small-scale firms were covered under the scope of the financial restructuring program. Total amount of loans covered by the program was USD 6.1 billion. Out of the financial restructuring contracts were concluded with 198 large-scale firms (25 groups) and 77 small-scale firms. Total number of employees in those firms was 47,656; of which 37,013 were employed in large-scale firms, 10,643 in small-scale firms. In those firms total exports, total turnover and total assets were USD 783 million, TL 3,044 trillion and TL 7,737 trillion, respectively. Total loans restructured within the framework of the financial restructuring program amounted to USD 5.6 billion. Hence, a 92 percent of debts under the scope of “İstanbul Approach” has been restructured.

Primary dealer program

In 2003 a strengthened primary dealer program was applied in order to deepen the government bond market and ensure the fulfilment of commitments by primary dealer banks. Under the program, it is also aimed to further enhance the effectiveness in debt management and liquidity in secondary government bond market, and to ensure the stability and continuity of the primary dealership system by providing facilities to primary dealer banks both in primary market and money market.

TRLIBOR

The system for determination and fixing of Turkish Lira Reference Interest Rate (TRLIBOR) to be applied between banks, and also between customers and banks in Turkey has continued with the participation of 13 banks. TRLIBOR was 45.9 percent as overnight average compounded rate and 47.2 percent in yearly base.

Basel II and risk management

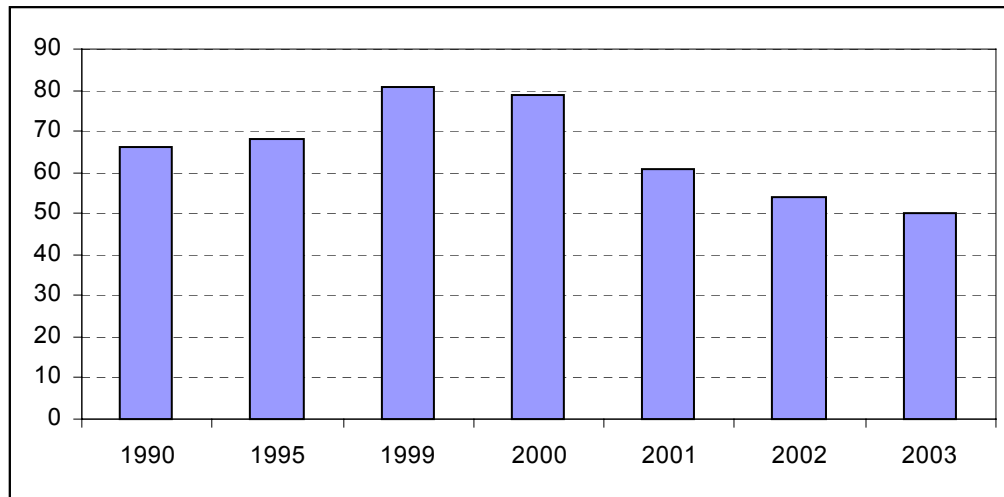
In order to enhance the understanding of the new Basel Capital Accord (Basel II), to establish an efficient cooperation and discussion forum and determine a common strategy, a “Steering Committee on Basel-II” was formed with representatives from BRSA and banks on March 2003. The Committee meets regularly and studies on various projects to prepare a level playing field for better implementation of Basel-II. One of these important projects is “The Road Map for the Transition to New Basel Capital Accord (Basel-II), prepared on the basis of views of the banks. The road map was announced to the public by BRSA in September 2003.

Turkish Banking System in 2003

Number of Banks and Branches

The number of banks decreased from 54 to 50 due to decrease in the number of commercial banks group; 2 banks from each privately owned banks and foreign banks were closed in 2003.

Number of Banks (1990-2003)



Number of Banks and Branches*

	2001		2002		2003	
	Bank	Branch	Bank	Branch	Bank	Branch
Commercial banks	46	6,889	40	6,087	36	5,949
State-owned banks	3	2,725	3	2,019	3	1,971
Privately-owned banks	22	3,523	20	3,659	18	3,594
Banks in the Fund	6	408	2	203	2	175
Foreign banks	15	233	15	206	13	209
Non-depository banks	15	19	14	19	14	17
State-owned banks	3	4	3	4	3	4
Privately-owned banks	9	12	8	12	8	10
Banks in the Fund	3	3	3	3	3	3
Total	61	6,908	54	6,106	50	5,966

* Including the foreign branches and branches in the Turkish Republic of Northern Cyprus.

The developments behind this decrease in the number of banks follow as; the banking licence of T. İmar Bankası T.A.Ş.¹ was revoked, Fiba Bank A.Ş.² was transferred to Finans Bank A.Ş., Ing Bank N.V., two banks operating in Turkey through branch office, namely ING Bank N.V.³ and Credit Suisse First Boston Bank⁴ were liquidated.

¹ BRSA's resolution dated 3.7.2003 and numbered 1085.

² BRSA's resolution dated 3.4.2003 and numbered 1023.

³ BRSA's resolution dated 1.5.2003 and numbered 1037.

⁴ BRSA's resolution dated 11.9.2003 and numbered 1127.

The number of branches decreased to 5,966 branches. 140 branches were closed in 2003. Of which 138 were in commercial banks and 2 in non-depository banks. In 2003 the number of branches increased only in foreign commercial banks group

Number of Employees

The decreasing trend in the number of employees in the banking sector slowed down considerably in 2003. In 2000-2002 period the number of employees had decreased by 50,717 persons. However, in 2003 the number of employees was 123,249, decreasing only by 22 persons compared to 2002.

In 2003 the number of employees decreased by 2,164 persons in state-owned commercial banks, 1,368 persons in the banks in the Fund, 300 persons in non-depository banks, while increased by 3,745 persons in privately owned commercial banks, 65 persons in foreign commercial banks. A 96 percent of total employees were employed by commercial banks; of which 31 percent were employed by state-owned commercial banks, 57 percent by privately owned commercial banks. On the other hand 4 percent of total bank employees were employed by non-depository banks;

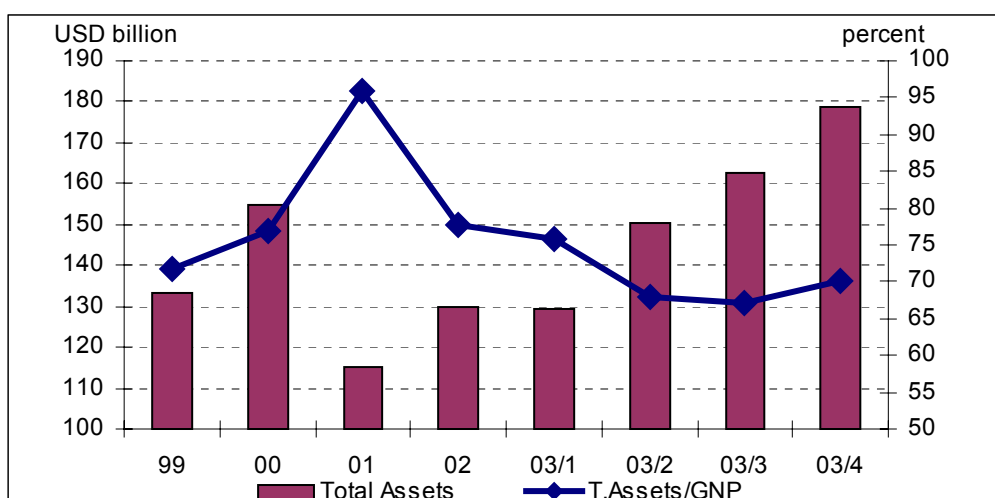
Number of Employees

	2001	2002	2003
Commercial banks	132,274	118,329	118,607
State-owned banks	56,108	40,158	37,994
Privately-owned banks	64,380	66,869	70,614
Banks in the Fund	6,391	5,886	4,518
Foreign banks	5,395	5,416	5,481
Non-depository banks	5,221	4,942	4,642
State-owned banks	4,322	4,174	3,882
Privately-owned banks	822	691	683
Banks in the Fund	77	77	77
Total	137,495	123,271	123,249

The number of banks, branches and employees decreased to the level in 1980s as a result of decline in the last three years. Thus, by the end of 2002, the number of banks, branches and employees decreased to the lowest level recorded since 1985, 1980 and 1977, respectively. Transfer of some banks to the Fund in accordance with the restructuring program started in 1999, operational restructuring of the state-owned banks, decrease in bank funds and individual banks' efforts to cut their cost of funds were effective factors behind this development.

Balance-Sheet Items

As of December 2003, total assets of the banking system increased by 17 percent and amounted to TL 249,750 trillion (USD 179 billion). The ratio of total assets to GNP decreased from 78 percent in 2002 to 70 percent in 2003. Although the ratio of total assets to GNP decreased steadily in the first three quarters and realized as 76 percent in March, 68 percent in June and 67 percent in December, it increased to 70 percent in the last quarter.

Total Assets and Total Assets/GNP (1999-2003)

The main reasons behind this growth in the balance-sheet of the banking system were the positive expectations about economic activity and market stability sustained in financial markets, which had a positive impact on TL assets as TL appreciated against hard currencies. This increase in the funds of the banking system led to an increase in securities and loans items in total assets as well.

Total Assets by Groups, December 2003

	TL trillion	USD million	Per. change (TL)	Per. change (USD)
Commercial banks	239,485	171,886	18	39
State-owned banks	83,134	59,668	23	44
Privately-owned banks	142,271	102,112	19	40
Banks in the Fund	7,136	5,122	-23	-10
Foreign banks	6,943	4,983	5	23
Non-depository banks	10,265	7,367	9	28
Total	249,750	179,253	17	38

In commercial banks group, total assets grew by 23 percent in state-owned banks, 19 percent in privately owned banks and 5 percent in foreign banks, while that of banks the Fund shrank by 23 percent. On the other hand total assets grew by 9 percent in non-depository banks.

Market Shares

The distribution of total assets between commercial banks and non-depository banks remained the same with 96 percent and 4 percent, respectively. However, in commercial banks group, the share of state-owned banks and privately owned banks increased by 1 percentage point each to 33 percent and 57 percent, respectively. The share of banks in the Fund decreased by 1 percentage point to 3 percent, whereas that of foreign banks remained the same at 3 percent.

Market Shares of Groups (Percentage)

	T. assets		T. deposits		T. loans	
	2002	2003	2002	2003	2002	2003
Commercial banks	96	96	100	100	89	91
State-owned banks	32	33	34	38	17	18
Privately-owned banks	56	57	58	57	65	67
Banks in the Fund	4	3	5	3	3	1
Foreign banks	3	3	2	2	4	4
Non-depository banks	4	4	-	-	11	9

In total deposits, the shares of privately owned banks and banks in the Fund decreased by 1 percentage point and 2 percentage points to 57 percent and 3 percent, respectively. The share of state-owned banks increased by 4 percentage points to 38 percent, while that of foreign banks remained the same at 2 percent.

In total loans, the share of banks in the Fund decreased by 2 percentage points to 1 percent. Nevertheless, the shares of state-owned and privately owned commercial banks increased by 1 percentage points and 2 percentage point to 18 percent and 67 percent, respectively while that of foreign banks remained the same at 4 percent. On the other hand, the share of non-depository banks decreased by 2 percentage points to 9 percent.

Concentration

The share of the largest five banks in the sector was 60 percent in total assets, 62 percent in total deposits, 54 percent in total loans. In the same way, the share of the largest ten banks was 82 percent in total assets, 86 percent in total deposits and 75 percent in total loans. The share of the largest five banks increased in terms of assets and deposits whereas decreased in loans. The share of largest ten banks increased in assets and loans, remained the same in deposits.

Concentration in Banking Sector* (Percentage)

	1999	2000	2001	2002	2003**
Largest five					
T. assets	46	48	56	58	60
T. deposits	50	51	55	61	62
T. loans	42	42	49	55	54
Largest five					
T. assets	68	69	80	81	82
T. deposits	69	72	81	86	86
T. loans	73	71	80	74	75

* As of total assets

The shares of the largest five banks and largest ten banks in the banking system increased considerably in the last five years. In fact, the share of the largest five banks in total assets increased from 44 percent in 1998 to 60 percent in 2003. Accordingly, the share of the largest ten banks increased from 68 percent to 82 percent in the same period. The similar trend was also observed in deposits and loans.

In terms of the size of assets there was only 1 state-owned bank and 4 privately owned banks among the largest five banks while 3 state-owned banks and 7

privately owned banks in the largest ten banks. There were 4 banks having an asset size between USD 10-20 billion (2 state-owned bank, 2 privately owned banks), 2 privately-owned banks between USD 20-30 billion. There was only 1 state-owned bank with an asset size above USD 30 billion.

The Number of Banks by Asset Size

USD billion →	+0-1		1-2		2-5		5-10		10-20		20-30		30+
	99	03	99	03	99	03	99	03	99	03	99	03	03
Number													
Commercial	37	18	10	3	7	7	6	1	4	4	1	2	1
State-owned					1		1		1	1	1		1
Privately-owned	15	6	6	2	5	5	5	1	3	3		2	
In the Fund	17	12	1		1	1							
Foreign	5		3	1	1	1							
Non-depository	17	11	1	2	1	1							
Total	54	29	11	5	8	8	6	1	4	4	1	2	1

Currency Structure of Balance-Sheet and “FX assets-FX liabilities”

Compared to the end of 2002, TL assets increased by 33 percent while Fx assets decreased by 1 percent. On the other side, TL liabilities and Fx liabilities increased by 34 percent and 1 percent, respectively. Consequently, in balance-sheet the share of Fx assets decreased from 46 percent to 39 percent and the share of Fx liabilities declined from 50 percent to 43 percent.

Fx Position by Groups^(*) (Percentage)

	Per. share Fx assets		Per. share Fx liabilities		USD billion Fx assets-Fx liabilities	
	2002	2003	2002	2003	2002	2003
Commercial banks	46	39	50	43	-5.4	-7.5
State-owned banks	33	26	34	27	-0.6	-0.6
Privately-owned banks	54	48	59	53	-3.9	-5.1
Banks in the Fund	37	11	52	39	-0.8	-1.4
Foreign banks	53	44	56	50	-0.1	-0.3
Non-depository banks	52	46	49	42	0.2	0.3
Sector	46	39	50	43	-5.3	-7.2

^(*)The definition of Fx position used in the table means the difference between Fx assets and Fx liabilities in balance-sheet. This definition differs from that of ‘Net General Position’ in the regulation on standard ratio for Fx Net General Position/Capital Base issued by the Central Bank and BRSA. Hence, Fx denominated loans in the balance-sheet, Fx assets and Fx liabilities in the off-balance sheet are not included in the former definition.

Banking Sector’s Foreign Exchange Position in Balance Sheet

USD million	2001	2002	2003
State-owned banks	191	194	227
Privately-owned banks	-1,487	-454	-367
Banks in the Fund	-441	-367	1
Foreign banks	108	42	82
Non-depository banks	40	34	37
Sector	-1,588	-551	-20

Source: BRSA Weekly Bulletin

Assets and liabilities indexed to foreign exchange are not included in "Fx assets- Fx liabilities" definition. In 2003, the difference between Fx assets and Fx liabilities in balance sheet increased from USD -5.3 billion to USD -7.2 billion. According to calculations made by BRSA by including assets and liabilities indexed to foreign exchange, foreign exchange position in the balance-sheet of banking sector indicated a deficit of USD 20 million as of the end of 2003.

Structure of Assets

Due to the maintenance of stability in the financial markets, an appreciation of TL against other currencies and vitality in economic activity the share of liquid assets in total assets decreased by 1 percentage points to 15 percent. In contrast to this the share of securities portfolio and loans increased by 3 percentage points and 1 percentage point to 43 percent and 28 percent, respectively.

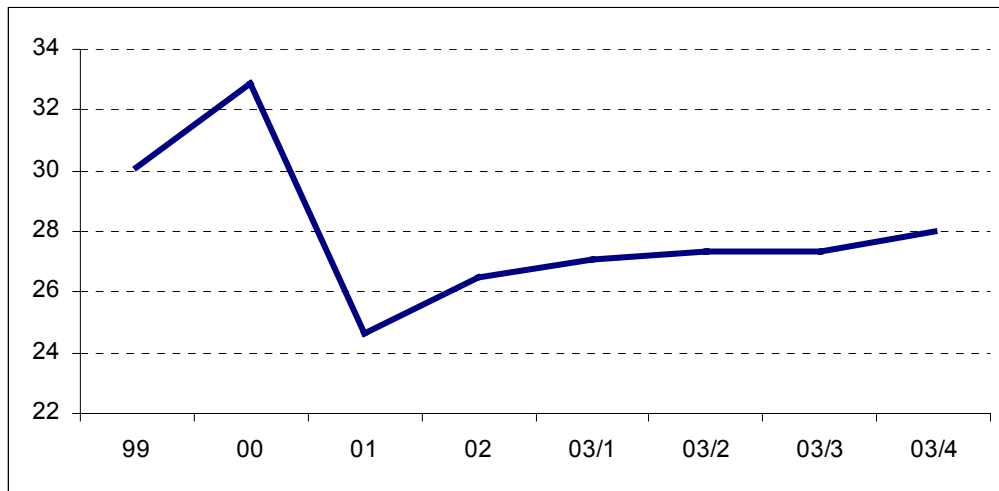
The Structure and Development of Assets

	TL trillion	USD billion	Per. change (TL)	Per. share 2002	Per. share 2003
Liquid assets	36,293	26.0	6	16	15
Securities	106,910	76.7	24	40	43
Trading securities	30,026	21.6	44	10	12
Invest. sec. available for sale	30,668	22.0	74	8	12
Invest. sec. held to maturity	46,217	33.2	-3	22	19
Loans	69,990	50.2	24	27	28
Non-performing loans	8,629	6.2	-17	5	3
(-)Specific provisions	7,641	5.5	14	3	3
Permanent assets	19,242	13.8	6	9	8
Invest. and participations	2,386	1.7	-20	1	1
Subsidiaries	6,252	4.5	19	2	3
Property and equipment	10,196	7.3	7	4	4
Intangible assets	407	0.3	23	0	0
Other assets	17,315	12.4	-2	8	7
Total assets	249,750	179.3	17	100	100

There was a rapid change in the structure of securities. While securities held to maturity and valued by the method of internal yield decreased by 3 percent, investment securities available for sale and trading securities valued on the basis of market prices increased by 44 percent and 74 percent, respectively.

Loans extended by domestic branches and from branches abroad increased by 31 percent and amounted to TL 69,002 trillion, of which 53 percent were TL denominated.

Non-performing loans before provisioning decreased by 17 percent, whereas the provisions allocated for loan losses increased by 14 percent. After provisioning non-performing loans declined by 74 percent due to these developments. Accordingly, the share of non-performing loans in total assets decreased from 1.8 percent to 0.4 percent.

Loans/Total Assets (Percentage)**Non-performing Loans* and Specific Provisions (Percentage)**

	Non-performing loans/ Total loans		Specific provisions/ Non-performing loans	
	2002	2003	2002	2003
Commercial banks	23	14	64	89
State-owned banks	60	36	74	98
Privately-owned banks	10	7	53	80
Banks in the Fund	227	117	60	75
Foreign banks	5	5	78	80
Non-depository banks	4	4	64	91
Sector	21	13	64	89

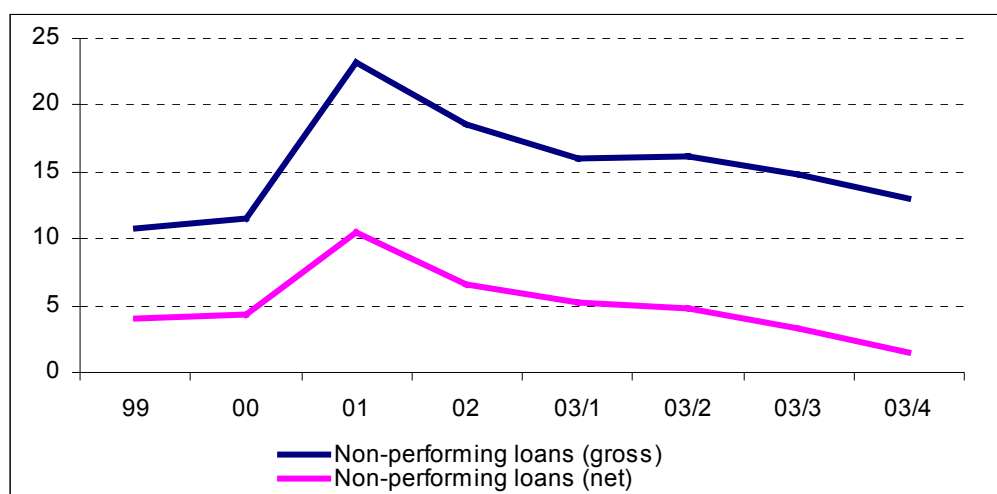
* Specific provisions are excluded.

In addition to the increase in performance of economic activity, decrease in inflation and real interest rates helped the improvement of asset quality and/or loans portfolio. On the other hand, the improvement in profitability enabled banks to increase provisions for loan losses. Thereby, the ratio of non-performing loans before provisioning to total loans decreased from 19 percent to 12 percent, while that of specific provisions to non-performing loans increased from 64 percent to 89 percent.

Permanent assets composed of investments-associates, subsidiaries, property-equipment, and intangible assets increased by 6 percent to TL 19,242 trillion. However, the share of permanent assets in total assets decreased by 1 percentage point to 8 percent. Beside the decrease in inflation and strategy for the improvement of assets quality through the sale of investments, participations and subsidiaries, the banks' performance to adopt the recent changes in regulations played an important role in this development.

Based on remaining maturity the share of demand assets in total assets was 24 percent, that of assets with 1-12 months maturity was 30 percent. The share of assets having a maturity longer than one year maturity was 46 percent. On the contrary, in total liabilities the share of demand liabilities was 50 percent, that of liabilities with 1-12 months maturity was 36 and the rest had a maturity longer than one year.

Non-performing loans to Total loans (Percentage)



Structure of Liabilities

Total deposits increased by 13 percent, and the share in total liabilities decreased by 3 percentage points and realized as 64 percent. Fx deposits decreased by 4 percent and the share in total liabilities decreased by 7 percentage points to 32 percent. TL deposits increased by 36 percent and constituted 33 percent of total liabilities. Thus, total deposits amounted to TL 160,812 trillion, of which 51 percent were TL deposits and 49 percent were Fx deposits.

The Structure and Development of Liabilities

	TL trillion	USD billion	Per. change (TL)	Per. share 2002	Per. share 2003
Deposits	160,812	115.4	13	67	64
TL	81,592	58.6	36	28	33
Fx	79,220	56.9	-4	39	32
Non-deposit funds	39,085	28.1	24	15	16
Shareholders' equity	35,538	25.5	38	12	14
Paid-in capital	13,445	9.7	12	6	5
Supplementary cap.	22,709	16.3	19	13	9
Reserves	21,122	15.2	-11	11	8
Profit or loss	-21,738	-15.6	-43	-18	-9
Previous year	-27,348	-19.6	-33	-19	-11
Current year	5,610	4.0	95	1	2
Other liabilities	14,315	10.3	9	6	6
Total	249,750	179.3	17	100	100

Non-deposit funds having a share of 16 percent in total liabilities increased by 24 percent to TL 39,085 trillion. Funds borrowed including loans obtained from abroad constituted 52 percent of non-deposit funds. Another important development in non-deposit funds was that funds from repo transactions increased by 82 percent and amounted to TL 11,241 trillion.

Shareholders' equity

Total shareholders' equity of the banking system increased by 38 percent and reached TL 35,538 trillion (USD 25,5 billion). The ratio of shareholders' equity to total assets increased from 12.1 percent to 14.2 percent. The main contribution to the improvement in shareholders' equity was derived from the increase in net current income.

Shareholders' equity				
	TL trillion	USD million	Per. change (TL)	S. equity/ T. assets
Commercial banks	31,350	22,501	38	13.1
State-owned banks	9,574	6,872	42	11.5
Privately-owned banks	20,958	15,042	38	14.7
Banks in the Fund	-848	-609	35	-12.0
Foreign banks	1,666	1,195	20	24.0
Non-depository banks	4,188	3,006	40	40.8
Sector	35,538	25,507	38	14.2

In addition to the increase in shareholders' equity and decrease in permanent assets in real terms, free capital continued to rise. Free capital (shareholders' equity-permanent assets –non-performing loans after provisioning) increased from TL 3,815 trillion to TL 15,308 trillion. The ratio of free capital to total assets rose from 1.8 percent to 6.1 percent.

Free Capital

	TL trillion		Free capital /T. assets	
	2002	2003	2002	2003
Commercial banks	31,350	22,501	38	4.7
State-owned banks	9,574	6,872	42	7.7
Privately-owned banks	20,958	15,042	38	3.4
Banks in the Fund	-848	-609	35	-18.8
Foreign banks	1,666	1,195	20	19.6
Non-depository banks	4,188	3,006	40	37
Sector	35,538	25,507	38	6

*Shareholders' equity-permanent assets-loans under follow-up after specific provisions

Current year net income in balance sheet increased by 95 percent and amounted to TL 5,610 trillion. However, the net current income of the sector increased only by 32 percent when banks in the Fund were excluded. In commercial banks the rate of increase in the current year net income was 70 percent in state-owned banks, 20 percent in privately owned banks, 127 percent in foreign banks. Current year net income decreased by 5 percent in non-depository banks.

Including banks in the Fund, return on assets increased from 1.1 percent to 2.2 percent, while return on equity rose from 9.2 percent to 15.8 percent. Nevertheless, the return on assets increased from 2 percent to 2.2 percent when banks in the Fund are excluded while the return on equity decreases from 15.3 percent to 14.7 percent.

	Net Profit-Loss, 2003			Return on assets (percentage)	Return on equity (percentage)
	Net Profit-Loss TL trillion	USD million	Per. change (TL)		
Commercial banks	5,135	3,702	113.5	2.2	16.5
State-owned banks	1,760	1,283	69.5	2.2	18.7
Privately-owned banks	2,917	2,090	21.0	2.1	13.9
Banks in the Fund	272	195	-124.1	3.8	-32.1
Foreign banks	186	134	124.1	2.7	11.2
Non-depository banks	512	367	10.3	5.0	12.2
Sector	5,678	4,067	96.9	2.3	16.0
Sector (excluding banks in the Fund)	5,406	3,873	34.7	2.2	14.9

Income-Expenditure

Net interest income of the banking sector decreased by 12 percent before provisions were allocated for non-performing loans. Along with the decrease in interest rates the decline in interest income obtained from securities portfolio was effective in this development. In contrast interest income obtained from loans increased albeit slowly due to the larger volume of loans. After provisions allocated for loan losses and other receivables, which declined by 29 percent, net interest margin fell only by 1 percent.

Income-Expenditure, December 2003

	TL trillion	USD million	Per. change
Interest income	38,817	27,860	-12
Interest expense	27,561	19,781	-13
Net interest income	11,256	8,079	-12
Net fees and commission income	2,686	1,928	22
Dividends	13	10	-90
Net trading income	6,662	4,782	647
Profit/loss on trad. account sec.	5,031	3,611	54
Foreign exchange income/losses	1,631	1,171	169
Other operating income	2,725	1,956	-29
Total operating income	23,407	16,800	18
Net operating income	9,329	6,695	77
Income before taxes	8,036	5,767	128
Provisions for taxes on income	2,435	1,748	111
Net profit/loss	5,610	4,027	138

An increase in income from banking services, a rapid growth in transaction profits of the capital market and a shift from loss to profit in exchange transactions were the most important contributions to the improvement in profit volume. Moreover, net income from the sale of assets and moderate increase in operational expenses also affected the profitability performance positively. Gross income and net income of the banking sector increased by 128 percent and 138 percent respectively. Provisions for taxes on income increased by 111 percent and amounted to TL 2,435 trillion.

Off Balance Sheet Items

In off-balance sheet, guaranties and warranties increased by 4 percent, while commitments increased by 84 percent. This increase in commitments was mainly

due to an increase of 140 percent in irrevocable commitments. On the other hand, derivative financial instruments and custody and pledged securities increased by 35 percent, and 67 percent, respectively. Hence, the rate of increase in total off balance sheet items was 54 percent.

Off Balance Sheet Items, December 2003

	TL trillion	USD million	Per. change
Guaranties and warranties	46,647	33,480	4
Commitments	53,526	38,417	84
Derivative financial instruments	34,280	24,604	35
Custody and pledge securities	216,376	155,300	67
Total	350,828	251,801	54