Turkish Economy and Turkish Banking System in 2002

Economic Developments and Important Social and Political Events Affecting These Developments

A Slow Recovery in World Economy

The world economy, which had a global contraction towards the end of 1990s, began to recover by the end of 2001, albeit slowly. Production increased significantly, particularly in developing countries. The inflation proceeded at low levels in general. The volume of world trade increased again in 2002, following the decrease in 2001. USD depreciated in real terms against Euro throughout the year.

Revision in the "Transition Program for Strengthening the Turkish Economy" and Additional Reserves

Turkish Economy, following the poor economic performance during the crisis in the year 2001, began to recover again in 2002. The relative stability sustained in money and capital markets, positively affected goods and services markets; contraction of economic activities ceased, production increased and the inflation decreased. The international financial support provided for the economic program, which was revised with International Monetary Fund (IMF), significantly contributed to this improvement.

Turkey entered the year 2002 by signing a new agreement with IMF: The program for "Transition Program for Strengthening the Turkish Economy" was revised to cover the years 2002-2004. Within the scope of the program, strengthening the economy against external shocks and crisis, decreasing inflation, reducing public sector debts, securing a financial discipline, completing the reforms in the public sector, and strengthening of the banking system were determined as basic objectives. In the public sector the ratio of primary deficit to GNP remained as 6.5 percent.

International Monetary Fund committed to provide an additional loan of USD 16 billion to Turkey. According to this agreement, the loans taken in 2001 and due loans in 2002, 2003 were subject to an early redemption. Some of the additional loans transferred to the Treasury on February 7 was used in the payment of the bills indexed to foreign exchange in Central Bank's portfolio and SDIF's debt to the Central Bank. The additional loan provided from abroad significantly contributed to the sustaining of stability in foreign currency markets. Decreasing exchange rate risk in the banking system resulted in improvement in the current account, and supply for foreign exchange increased due to reverse money substitution. Turkish lira started to gain value against international currencies. The Central Bank held foreign exchange buying auctions in the first half of the year.

Improving Performance in the Economy in the First Half, Election Atmosphere in the Second Half

The expectations improved in the first five months. In the public sector borrowing, the interest rate of 74 percent in December 2001 decreased to 58 percent in May 2002. However, the political problems stemming from illness of the Prime Minister in May, election decision taken as of the second half of the year, prevented implementation of the economic program as planned. The structural measures were delayed. The financial discipline could not be provided as predicted. The political developments negatively affected the expectations and economic behaviours. The real interest rates remained relatively high. Therefore, it was not possible to create an environment which could sustain both economic development and stable growth.

During the second half of the year 2002 when the political developments were leading the public agenda, significant steps were taken towards amending the Constitution and certain regulations in terms of harmonization with European Union (EU). However, despite these developments Turkey was asked to wait for a new date of accession negotiations.

Out of the regulations envisaged in the economic program, “Public Procurement Law”, “Public Procurement Contracts Law” and “Private Consumption Tax Law” were accepted in the Parliament. Due to differences of views in government and the election atmosphere, many regulations envisaged in the economic program could not be completed.

The relations between Turkey and International Monetary Fund and World Bank also entered a standstill period in the last quarter of the year due to the elections. Therefore, the fourth revision negotiations to be completed in October with International Monetary Fund could not be concluded. The loan of USD 1.6 billion planned in the program was not released. The negotiations concerning the structural harmonization loans with World Bank were also delayed.

Economic Performance in 2002

As it was recently witnessed in short intervals, the growth performance indicated an instable course. GNP increased by 7.8 percent in 2002, following 9.4 percent of decrease in 2001. The growth was 25 percent in dollar terms. The per capita income increased by 20 percent to USD 2,584.

According to State Institute of Statistics, while fixed capital investments remained the same, consumption expenditures increased, albeit slowly. The contribution of foreign trade to growth was negative due to the rapid growth of imports relative to exports.

The savings deficit in public sector continued to decrease and savings surplus in private sector decreased rapidly. In comparison to the savings surplus amounting 1.4 percent of GNP in the year 2001, there was a savings deficit amounting to 3.4 percent of GNP in 2002.

In terms of production, all sectors contributed positively to the economic growth. The production increased slightly more than 7 percent and 9 percent in industry and service sectors, respectively.

Although the economic activity recovered rapidly, the unemployment rate increased to 10.6 percent, the unemployment rate in cities and among young population increased more rapidly. The real labor cost continued to decrease both in public and private sectors.

The inflation showed a rapid decrease to the levels of 30 percent after a year of interval. The inflation rate according to wholesale price index, and consumer price index decreased from 89 percent to 31 percent and from 69 percent to 30 percent, respectively.

The ratio of public sector deficit to GNP was 12.6 percent. Although it decreased by 4 percentage points as compared to 2001, it remained above 8 percent of targeted level in the program. The reason of this deviation was the realization of the budget deficit to GNP as 14.3 percent in contrast to planned rate of 9.6 percent in the program. As a result of the high level of public borrowing interest and due to the elections, non-interest expenditures increased more rapidly than expected. The primary balance, one of the basic indicators of the economic program, targeted as 5.8 percent, gave a surplus of 4.7 percent.

External borrowing had a significant share in financing of the budget. In comparison to the net external debt payment in the year 2001, slightly more than half of the budget financing was covered by external borrowing in 2002. On the other hand, the domestic borrowing decreased significantly. This development restricted the growth of outstanding domestic debt. Furthermore, due to the weights of the debts indexed to foreign exchange and foreign currency debts in outstanding domestic debt, appreciation of TL against foreign currencies positively contributed to the limitation of the growth in outstanding domestic debt. The ratio of outstanding domestic debt to GNP decreased from 68 percent to 55 percent.

Despite the growth in outstanding domestic debt remained below inflation, the pressure of public sector on financial system continued due to slow down of financial system growth. The ratio of outstanding domestic debt to the money demand composed of TL and Fx deposits, repo, and TL investment funds was 110 percent. Meanwhile, there was a significant increase in preferences of real persons for government securities compared to deposits due to tax advantage. The ratio of government securities in the portfolio of non-bank sectors to outstanding domestic debt was 27 percent, while its ratio to TL deposits was 66 percent.

The monetary policy primarily focused on sustaining price stability. In order to achieve the inflation target and to affect the expectations accordingly this direction, the monetary base increase was utilized as nominal anchor. The borrowing and lending rate of the Central Bank was determined according to the inflation target announced to the public. The short-term interest rates decreased from 80 percent to 55 percent according to budget performance, inflation expectations and the market developments. The floating exchange rate system continued. However, the Central Bank began to hold foreign exchange buying auctions due to the rapid increase in foreign exchange supply in the first half the year.

The growth in the balance sheet of the Central Bank remained below the inflation level. The net foreign assets increased, while net domestic assets decreased. The monetary base increased by 34 percent, while the central bank money increased by 111 percent. The usage of loans provided by International Monetary Fund in the payment of Treasury's debt to the Central Bank contributed to the improvement in the balance sheet positively. The international reserves increased by USD 8 billion to USD 26.7 billion. The net international reserve position increased from USD –10.9 billion to USD –2.1 billion.

The ratio of financial assets (M2YRF) composed of TL deposits, Fx deposits, repo, and TL investment funds, to GNP decreased by 8 percentage points to 52 percent. When a definition was made taking into account the portfolio of government securities of non-bank institutions, the ratio of financial assets to GNP reached 65 percent. The share of Fx deposits in M2RYF did not indicate a notable change. Due to the significant differences in taxation of investment instruments there occurred important change in the preferences from deposits to government securities, from repo to investment funds.

According to the data of the Central Bank, the growth in total deposits remained below inflation level. The ratio of total deposits and repo to GNP decreased by 11 percentage points to 49 percent. Repo was included in the balance sheet in 2002. The demand for deposit stayed in very short terms.

In the restructuring process of banking system, privately-owned banks were subject to three-stage audit concerning capital adequacy.

The structure and quality of assets of banks were evaluated in this three-stage audit. In the first stage, banks were initially audited by independent auditing institutions. In the second stage, independent auditing institutions, determined by BRSA evaluated the first auditing. In the last phase, auditing and evaluations were realized by sworn bank auditors. As different from the previous periods, the inflation accounting rules determined by BRSA were applied in the auditing process.

The banks were very cautious in taking new risks. The extended loans by depository banks through their domestic branches remained almost at the same level. There was no significant change in the performing loans due to the provisions set aside for loans under follow-up. In the meantime, demand from credit users was directed to abroad because of tax burden. The ratio of performing loans extended by domestic branches to total deposits decreased. According to data of the Central Bank, the ratio of loans including loans under flow-up to total deposits and repo decreased from 39 percent to 35 percent, its ratio to GNP decreased by 7 percentage points to 17 percent. The ratio of loans under follow-up to performing loans increased from 20 percent to 31 percent.

“Financial restructuring program” aiming the restructuring of the private sector firms, which became insolvent due to the recent financial crisis, and their debts to creditor institutions began to be implemented.

Istanbul Stock Exchange Index and trading volume decreased by 34 percent and 13 percent in dollar terms, respectively.

The increasing trend in exports continued and imports accelerated again. The exports reached USD 35 billion, while imports exceeded USD 50 billion. The coverage rate of exports to imports decreased by 7 percentage points to 69 percent. The foreign trade deficit increased by 50 percent.

The current account balance decreased from a surplus of USD 3.4 billion to a deficit of USD 1.8 billion due to the effect of the increase in foreign trade deficit. In comparison with the record level of the net capital outflow of USD 14 billion in 2001, a net inflow of USD 2 billion realized in 2002. The net outflow in short term capital movements and portfolio investments continued. The international reserves increased by USD 6.2 billion, when loans provided by International Monetary Fund were also included.

The outstanding external debt increased by USD 17.5 billion to USD 131.6 billion. The loans increased by USD 17.6 billion in public sector (excluding the Central Bank), by USD 4.1 billion in private sector. Non-bank private sector loans increased by USD 2.3 billion. The ratio of external debts to GNP was 73 percent.

2. Developments in Turkish Economy in 2002

Growth

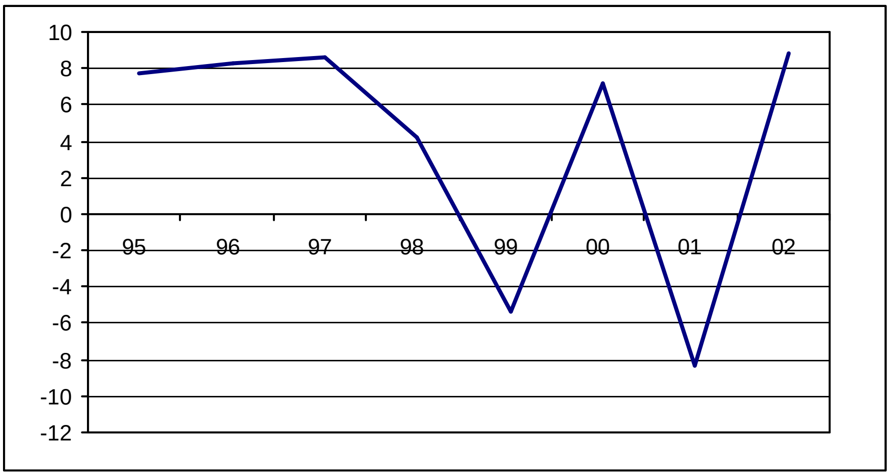
Following the rapid contraction in the Turkish economy in 2001, the GNP increased by 7.8 percent in constant prices in 2002. The GNP increased by 25 percent to USD 180 billion in dollar terms, while per capita income amounted to USD 2,584 up by 20 percent from the previous year.

Gross National Product

	1999	2000	2001	2002
Growth rate (percent)				
In current prices	47.6	61.0	42.9	55.0
In constant prices	-6.4	6.1	-9.4	7.8
Deflator (percent)	57.0	51.7	56.3	43.8
GNP				
TL trillion	78,242	125,971	176,484	273,463
USD billion	187.3	194.9	144.3	179.9
Per capita income (USD)	2,878	2,986	2,160	2,584

The most important factors affecting the economic activity positively were sustaining relative stability in the markets, external loans obtained from international institutions and markets, the production increase in almost all main sectors, continued efforts to reduce borrowing requirement of public sector, monetary policy of the Central Bank aiming price stability. The consumption increased again, albeit slowly, due to the sustained confidence in markets.

Growth (percentage change, in real terms)



Consumption, Investment and Savings

According to the estimations of State Institute of Statistics, consumption expenditures having the most significant share in total demand increased by 2.4 percent in constant prices. The consumption expenditures increased by 2 percent in private sector and 5.4 percent in public sector. The consumption in public sector mainly resulted from the increase in purchasing of goods and services. The ratio of consumption expenditures to GNP was 71 percent, while the ratio of private sector consumption expenditures to GNP was 63 percent.

Savings and Investment Expenditures (In real terms)

	Percentage change 2001	Percentage change 2002	Percentage share 2002
Consumption	-9.0	2.4	71.4
Public	-8.6	5.4	8.4
Private	-9.0	2.0	63.0
Fixed capital investments	-31.7	0.2	19.0
Public	-22.0	14.5	6.5
Private	-35.1	-7.2	12.5
Export	7.4	11.0	39.3
Import	-24.8	15.7	34.8
GDP	-7.4	7.8	100.0

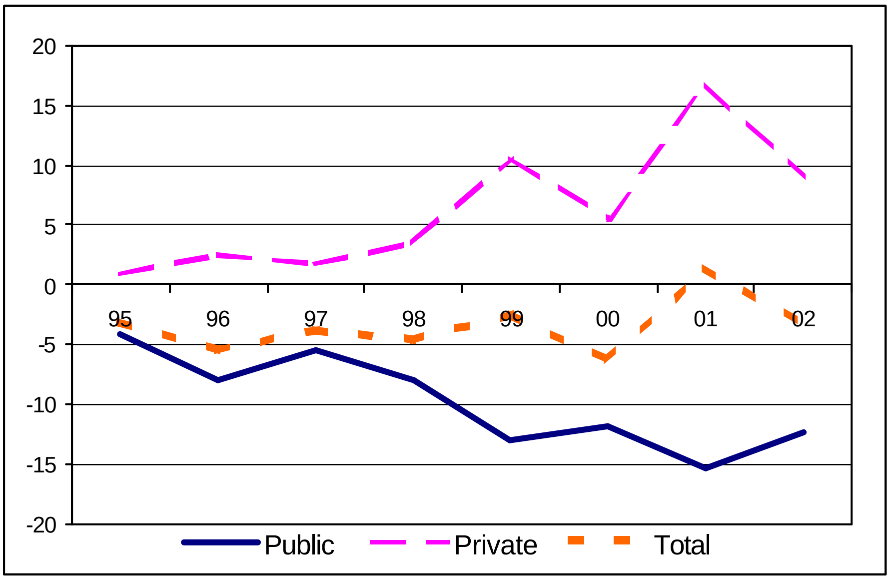
Source: State Institute of Statistics

The fixed capital investments remained almost the same; while it narrowed by 7.2 percent in private sector, it increased by 14.5 percent in public sector. 15.8 percent decrease in building construction played an important role in the contraction of investments in private sector. The ratio of fixed capital investments and private sector fixed capital investment to GDP realized as 19 percent and 12.5 percent, respectively.

Due to the rapid growth of imports compared to exports, the contribution of foreign trade to the growth was negative. The stock change was considered as the most important factor in the growth of 2002. In 2001 while a stock decrease of TL 1,687 billion in constant prices was realized, in 2002 there was a stock increase of TL 6,006 billion. The ratio of stock changes to GNP with 5.1 percent increased to a considerable level.

According to the estimations of State Planning Organization, the ratio of domestic savings to GNP decreased from 17.4 percent to 16.6 percent, in current prices. The savings rate in private sector decreased from 27.3 percent to 23.3 percent.

Balance of Savings (As percentage of GNP)



The savings deficit continued in public sector but it narrowed. The total savings balance that gave a surplus of 1.3 percent of GNP in 2001, turned into a deficit of 3.4 percent in 2002. The savings balance in public sector decreased from 15.3 percent to 12.4 percent. The savings surplus in private sector decreased from 16.7 percent to 8.9 percent. Therefore, external borrowing increased by 5 percentage points to 3.4 percent as compared to the previous year.

Domestic Savings and Savings Balance (Percentage share in GNP)

	1999	2000	2001	2002
Domestic savings	19.8	18.1	17.4	16.6
Public	-6.4	-5.2	-9.9	-6.6
Private	26.2	23.3	27.3	23.3
Savings balance	-2.8	-6.5	1.3	-3.4
Public	-12.6	-12.1	-15.3	-12.4
Private	9.8	5.7	16.7	8.9
External funds	2.8	6.5	-1.3	3.4

Source: State Planning Organisation

Sectoral Growth

There was a growth in all of the main sectors in terms of production value. Agriculture, industry and services sectors grew by 7.1 percent, 9.4 percent and 7.4 percent in constant prices, respectively. Especially the production value of sub-sectors of commerce and transportation in services sectors grew rapidly. While the share of agriculture sector in GNP decreased to 12 percent, the share of services sector increased to 62 percent, in current prices.

Sectoral Growth and Breakdown

	Percentage change (in constant prices)				Percentage shares in GNP (in current prices)			
	1999	2000	2001	2002	1999	2000	2001	2002
Agriculture	-4.6	4.1	-6.1	7.1	15	14	13	12
Industry	-5.0	5.6	-7.5	9.4	23	23	26	26
Services	-5.1	7.9	-7.4	7.4	62	63	61	62

Source: State Institute of Statistics

According to the production index by sub-sectors of industry prepared by State Institute of Statistics, annual production grew by an average of 10.6 percent in manufacturing industry. As for the sub-sectors; mainly machinery and equipment used in transportation, communication and office works and leather, wood and petroleum products industries showed a growth quite higher than the average in manufacturing industry. The production in energy sector grew by 5.4 percent.

Employment and Wages

During 2002, collective contracts covering 255,059 workers in 7,453 work places in Turkey were made. The collective contracts made in 2001 covered totally 775,478 workers in 14,211 work places. In 2001, while a workforce loss of 286,015 was suffered in 9,911 strikes carried out; in 2002, 4,618 strike was carried out and the workday loss decreased to 43,885. There was no lockout application in 2001 and 2002.

Real Labor Cost Index (94=100)

	1999	2000	2001	2002
Total				
Public	108	130	116	100
Private	124	141	116	111
Employee	147	130	117	120
Minimum wage	177	156	128	133

Source: State Planning Organization, TISK

According to the estimations of State Planning Organization, real labor cost of public workers decreased by 16 points to 100 points 2002. On the other hand, real labor cost of employees increased by 3 points to 120 points, while minimum wage increased by 5 points to 133 points. The labor cost in private sector decreased by 5 points.

Unemployment (Percentage)

	1999	2000	2001	2002
Unemployment rate				
Overall	7.4	6.3	8.5	10.6
Urban	10.4	8.2	13.2	14.3
Underemployment rate				
Overall	10.2	6.0	6.1	5.4
Urban	9.7	5.9	6.5	5.7

Source: State Institute of Statistics

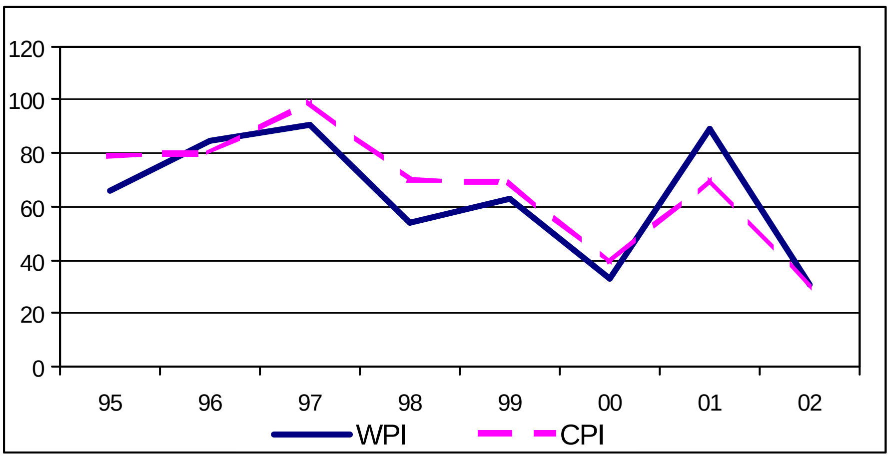
The unemployment rate increased despite the expansion in economic activity. According to the estimations of State Institute of Statistics, total labour supply was 22.7 million people and total employment was 20.3 million people. The number of unemployed people increased by approximately one hundred thousand people and reached 2.4 million people. Consequently, unemployment rate increased from 8.5 percent to 10.6 percent, this rate increased by 1.1 percentage point to 14.3 in cities. The unemployment rate realized as 16 percent when the underemployment was included. 77 percent of the unemployed people live in urban areas. Out of the total employment, 47 percent were employed in services, 34 percent in agriculture, 19 percent in industry sectors. The unemployment rate in educated young population increased from 25.8 percent to 29.4 percent.

Inflation

In 2002, the inflation declined considerably and reached the targeted level in the program. According to State Institute of Statistics wholesale price index and consumer price index increased by 31 percent and 30 percent, respectively. The average price increase realized as 50 percent in wholesale prices and 45 percent in consumer prices.

The implementation of monetary program and fiscal discipline parallel to inflation target, limited growth in domestic demand due to high real interest rates, sustaining the stability in exchange rates, relative advantage in imports with the positive effect of appreciation of TL against major currencies, adjustment in the prices of public sector goods and services in line with the inflation target, all contributed positively to the decline in inflation.

Inflation (Yearly, percentage change)



Inflation (percentage)

	1999	2000	2001	2002
Annual average				
Wholesale	53	51	62	50
Public	72	69	71	49
Private	48	46	58	51
Consumer	65	56	54	45
12-month				
Wholesale	63	33	89	31
Public	118	25	100	32
Private	48	36	85	30
Consumer	69	39	69	30

Source: State Institute of Statistics

In contrast, due to the developments related to Iraq, particularly towards the end of year negative impacts of war concerns on expectations and regional economic activities, and increase in raw petroleum prices had adverse effect on the decrease of inflation.

By December 2002, the wholesale price index increased by 32 percent and 30 percent in public and private sector, respectively. The price increases were 30 percent in general, 34 percent in public sector and 28 percent in private sector. The inflation rate realized as 35 percent in agriculture and 24 percent in energy sector.

Public Balance

According to the estimations of State Planning Organization, total public revenues grew by 46 percent above deflator in 2002. Total public expenditures increased by 37 percent. Depending on this development, the public sector deficit increased by 18 percent.

Public Sector Borrowing Requirement (As percentage of GNP)

	1990	1999	2000	2001	2002
Consolidated budget	3.0	11.6	10.3	17.4	14.3
SEEs*	3.8	2.5	2.1	0.4	-0.8
Local administrations	0.0	0.3	0.3	0.3	0.1
Funds	0.6	0.6	-1.3	-0.5	0.0
Other	0.0	0.3	0.5	-0.8	1.3
Public sector deficit	7.4	15.3	11.9	16.5	12.6
Public sector primary balance	3.9	0.9	-4.7	-8.1	-7.4

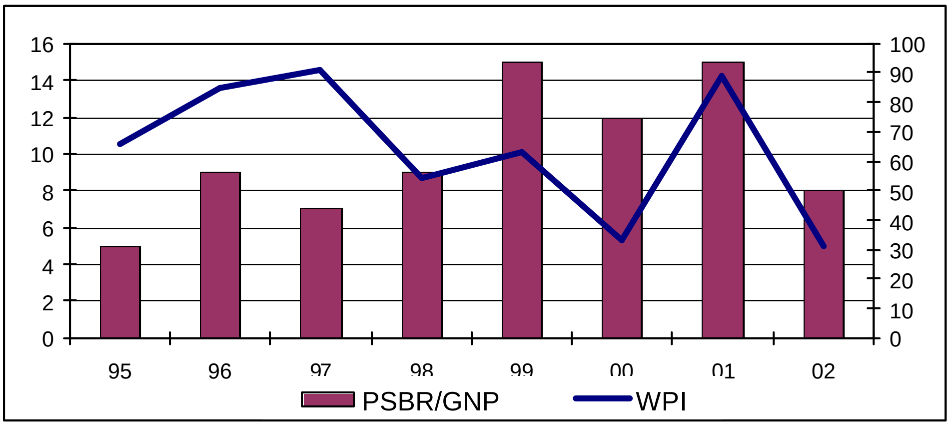
Source: State Planning Organization, * Excluding state-owned banks

The ratio of total public revenues to GNP decreased by 1 percentage point to 31.2 percent, that of the expenditures to GNP decreased by approximately 6 percentage points to 43.8 percent. Depending on the decrease in public expenditures, the ratio of public sector deficit to GNP decreased from 16.5

percent to 12.6 percent. The primary balance, which was the most important indicator of the economic program in terms of financial discipline, continued to give surplus. The ratio of primary surplus to GNP, which was 8.1 percent in 2001, realized as 7.4 percent in 2002.

The share of tax revenues in public revenues decreased from 81 percent to 77 percent. 65 percent of tax revenues consisted of indirect taxes. Of the expenditures, 67 percent of the expenditures was from transfer expenditures, 29 percent was form current expenditures. The interest expenditures which was the most important item in transfer expenditures constituted 45 percent of the total expenditures.

Public Sector Borrowing Requirement/GNP and Inflation (Percentage)



Main developments affecting the public sector primary balance in 2002 were the rapid growth in economy, implementations requiring the discipline in expenditures, limitation of personnel employment in public sector, increase of the deficit in social security institutions, positive contributions of state economic enterprises (SEEs) to the public fund balance, counting of terminated revenues and expenditures of non-budgetary funds into the budget, initiation of special consumption tax application as of August, increase of the wages of employees in the public sector parallel to inflation level, additional increase in the wages of the public sector employees in the last quarter of the year, early general election, increase in the value added tax received from import, due to the rapid growth in imports, the limited increase in domestic and external debt interests expenditures due to the fact that the change in the value of TL against foreign currencies remained behind inflation, high rate of real interests in TL borrowings, shortening of maturity in public sector borrowings.

The consolidated budget deficit constituting the most important part of the public sector revenues and expenditures turned out to be above the public sector deficit. Although the ratio of budget deficit to GNP decreased by 3 percentage points to 14.3 percent, it realized quite above the target (9.6 percent). While revenues increased by 48 percent, expenditures expanded by 43 percent. The increase in non-interest expenditures was 61 percent.

78 percent of budget revenues consisted of tax revenues. The increase in non-tax revenues caused by the transfer of the Central Bank's profit reaching up to 1.5 percent of GNP to the Treasury. Out of budget expenditures, 45 percent was interest expenditures, 55 percent non-interest transfer expenditures, 27 percent personal and current expenditures. The ratio of interest expenditures to GNP decreased from 23 percent to 19 percent. The ratio of non-interest expenditures to GNP increased from 22 percent to 23 percent. Primary balance gave a surplus of 4.7 percent, however remained below the targeted level of 5.8 percent.

The financing need of budget was met through external borrowing. The share of external debts in budget financing realized at its maximum level. In 2002, Turkey used net external debt. Domestic borrowing decreased by 52 percent. Net payment was made in treasury bills, while domestic borrowing realized through bond issue.

Consolidated Budget (TL trillion)

	2001	Per. share	2002*	Per. share	Per. change	As per.of GNP
Revenues	51,543	100	76,400	100	48	28
Tax revenues	39,736	77	59,634	78	50	22
Non-tax revenues	11,807	23	16,766	22	42	6
Expenditures	80,579	100	115,486	100	43	42
Transfer	55,981	70	77,548	67	39	28
Non-interest	39,517	49	63,615	55	61	23
Personnel	15,212	19	23,160	20	52	9
Current	5,236	7	7,889	7	51	3
Investment	4,150	5	6,888	6	66	3
Other	14,919	17	25,678	22	72	9
Interest expenditures	41,062	51	51,871	45	26	19
Domestic borrow.	37,494	47	46,807	41	25	17
External borrowing	3,568	4	5,064	4	42	2
Budget balance	-29,036		-39,085		35	-14
Primary balance	12,026		12,785		6	5

Source: The Ministry of Finance , * Provisional

The average maturity of domestic borrowing in terms of TL from the market, increased from 145 days to 222 days. On the other hand, annual compound interest rate of the average borrowing in TL terms decreased from 97 percent to 63 percent.

The growth in outstanding domestic debt was limited due to the increase in budget deficit at a ratio close to the inflation, continued primary surplus, decline in domestic borrowing depending on external borrowing. Furthermore, due to the weight of debts with variable interest rates and debts indexed to foreign exchange decreasing trend of interests and appreciation of TL in real terms contributed to the slow down in the growth of outstanding domestic debt.

Financing of the Consolidated Budget

	TL trillion			As percentage of GNP		
	2000	2001	2002	2000	2001	2002
Financing	16,288	32,117	35,108	13	18	13
External borrowing (net)	4,658	-3,183	18,010	4	-2	7
Domestic borrowing	11,630	35,299	17,098	9	20	6
Government bonds	10,142	8,534	-896	8	5	0
Treasury bills	-1,334	15,008	18,371	-1	9	7
Other	2,823	11,757	-376	2	7	0

Outstanding domestic debt increased by 23 percent to TL 149.9 quadrillions. The share of non-cash securities in total debt stock decreased by 13 percentage points to 40 percent. Majority of non-cash securities composed of the securities given to the banks transferred to SDIF and state-owned banks by BRSA.

Non-Cash Outstanding Government Securities

	TL trillion	USD million	Euro million
State banks	22,082	971	350
SDIF	3,400	5,702	1,347
Central Bank	18,427	-	-
Other	2,825	-	-
Total	46,734	6,673	1,697

In outstanding domestic debt, while the share of securities with constant interests increased from 15 percent to 25 percent, the share of securities with variable interests decreased from 50 percent to 43 percent and the share of securities in foreign currency and/or indexed to foreign exchange decreased from 35 percent to 32 percent. The ratio of outstanding domestic debt to GNP decreased from 68 percent to 55 percent. The same ratio decreased from 116 percent to 102 percent when external debts of the public sector were also included (excluding the Central Bank).

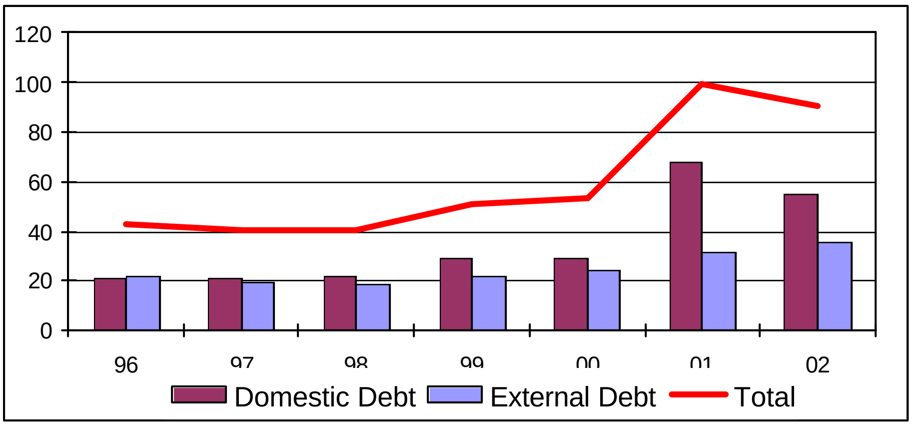
Due to the fact that outstanding domestic debt increased slower than the inflation, the demand of the public sector from the financial system declined, albeit slowly. However, the pressure of the public sector on the funds created in the financial system continued due to shrinking of the financial system

The ratio of outstanding domestic debt to M2RF (TL money demand +repo+investment funds) to M2YRF (TL money demand+ foreign exchange deposits+foreign deposits account+repo+investment funds) decreased from 249 percent to 234 percent and 115 percent to 110 percent, respectively. On the other hand, considering the outstanding debt composed of the securities sold in cash; these ratios increased from 115 percent to 125 percent for M2RF and as for M2YRF from 54 percent to 61 percent. In other words, the public sector demanded a significant amount of the funds created in the financial system. On the other hand, according to the data of the Central Bank, the ratio of the loans (including loans under follow-up) to the financial funds in TL terms was 68 percent, while the ratio of loans including foreign exchange deposits to the financial funds was 33 percent.

Outstanding Domestic Debt

	TL trillion	As percentage of GNP			
	2002	1990	2000	2001	2002
Government securities	149,870	7	29	68	55
Cash	89,271	6	23	32	33
Non-cash	60,599	1	6	36	22
Government bonds	112,850	6	27	58	41
Cash	52,251	5	22	22	19
Non-cash	60,599	1	6	36	22
Treasury bills	37,020	1	2	10	14
Cash	37,020	1	2	10	14
Non-cash	-	0	0	-	-
Central Bank advances	-	1	0	-	-
Fx depreciation	-	7	0	-	-
Outstanding domestic debt	149,870	14	29	68	55

Outstanding Public Debt (As percentage of GNP)



The Public Sector and The Financial System

	1990	1995	2000	2001	2002
Percentage of GNP					
Public sector deficit	7	7	13	16	14
M2RF	17	25	31	28	25
M2YRF	22	43	50	60	52
Ratios (percent)					
M2RF/M2YRF	77	58	62	47	49
Outstanding gov. sec./M2RF	41	60	94	249	234
Outstanding gov. sec./M2YRF	32	35	58	115	110

According to data of the Central Bank, 26 percent of the government securities was hold by banks. The amount of securities in banks reached 34 percent of the total deposits. According to the data first published in 2002, the total of government securities hold by non-bank sectors amounted to TL 34,889 billion. This amount constituted 23 percent of outstanding domestic debt and 25 percent of money demand (M2RYF). 19 percent of outstanding government securities was in portfolio of the Central Bank.

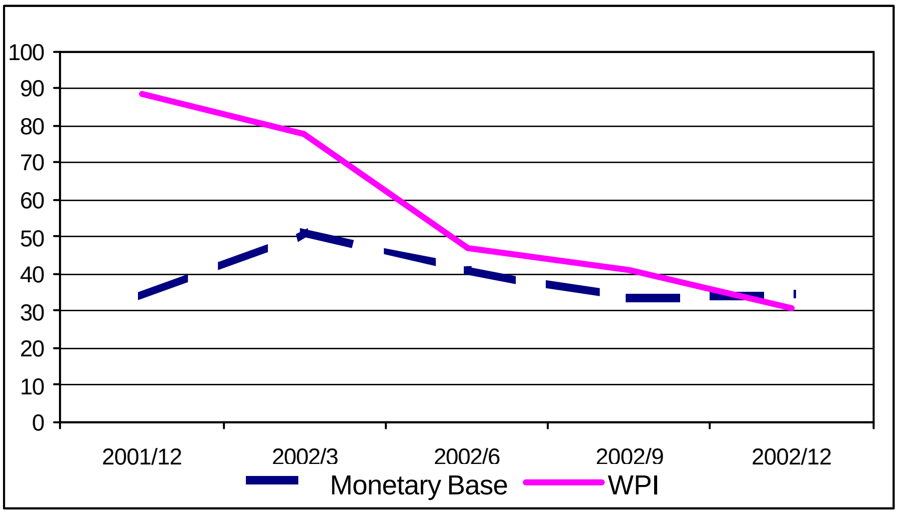
Monetary Policy

The monetary policy primarily focused on maintaining price stability and within this framework, sustaining of stability in financial markets was considered. The short term lending and borrowing rates were determined in accordance with the targeted inflation announced to the public. Depending on the budget performance, inflation expectations, developments in the economic activity and markets, short-term interest rates were decreased gradually.

The exchange rates were determined in the markets through the supply of and demand for foreign currency. The Central Bank intervened occasionally in the event of an excessive volatility in exchange rates. Pre-announced foreign exchange buying auctions were held in April-July period. The monetary base composed of emission, free bank deposits and reserve requirements was used as nominal anchor; growth in the monetary base was determined by nominal growth rate in harmony with targeted inflation

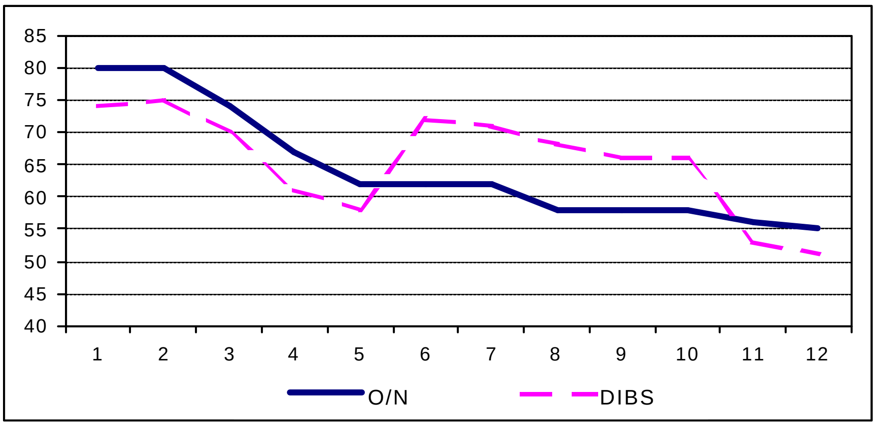
Depending on the positive developments in budget performance in the first half of the year, decrease in the borrowing of state-owned banks from money markets, relative improvements sustained in the balance sheet structure of the banking system, positive contribution of the loans obtained from international markets to debt management, recovery in the economic activity, occurring of no significant change in portfolio preferences, improvement in the inflation expectations, the Central Bank decreased short-term interest rates gradually.

Monetary Base ve WPI (Annual percentage change)



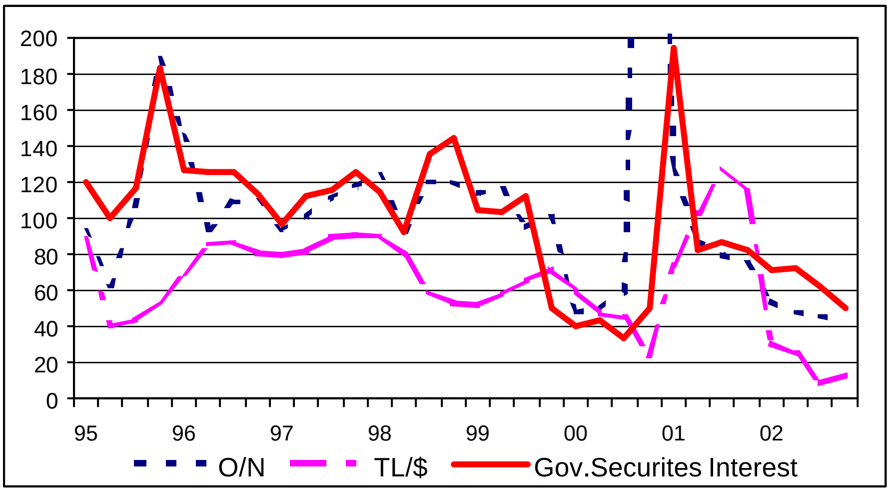
The interbank interest (compound) rate which was 80 percent at the end of 2001, decreased to 74 percent in first quarter and to 62 percent at the end of the first half in 2002. The foreign currency market remained stable in such period when the inflation showed a decreasing trend. The borrowing interest rate of the public sector showed a fluctuating trend. The instability suffered in politics as of end of the first half and uncertainty caused by early elections were the effective factors behind this development. The borrowing interest rate, which was 74 percent at the end of 2001 decreased to 57 percent in the first five months in 2002, and increased to 72 percent in June. The interest rate of 65 percent in the third quarter decreased to 50 percent immediately after the election.

Interest Rates of O/N and Government Securities (Annual compound, percentage)



The nominal depreciation of TL against dollar continued till September and decreased to 9 percent, however, it started to increase again in the last quarter of the year. The nominal depreciation of TL against euro showed a reverse tendency due to cross rate movements and reached 45 percent by increasing in the first half of the year and decreased slightly to 21 percent in the third quarter and reached 34 percent as of the end of the year.

Improvements in Exchange Rate and Interest Rates of O/N and Government Securities (percentage)



Although the balance sheet of the Central Bank in 2002 grew nominally by 24 percent, it contracted in real terms. The ratio of the balance sheet to GNP decreased from 33 percent to 27 percent. 8 percent decrease in net domestic assets consisted of loans extended to public sector in previous years was a an important factor on this. On the other hand, net foreign assets showed an significant increase. The net external assets which were negative at the end of 2001 improved rapidly in the first quarter and continued to increase in the following months. An important amount of loans provided by International Monetary Fund and Treasury's payment of its debt to the Central Bank were the important factors behind this development.

The positive effect of this development on the stability of foreign currency market, increase in TL preferences of the financial institutions, appreciation of TL, increase in the positive real rate of return of TL instruments, improvement of money substitution albeit slowly, demands of non-bank investors for government securities contributed to the increase of foreign currency supply.

The Central Bank, in order to limit the appreciation of the TL, started pre-announced foreign exchange buying auctions in a way which would not contradict with the floating exchange rate regime and thus tried to eliminate the excessive foreign currency supply.

The foreign currency reserves of the Central Bank increased by USD 3 billion from the beginning of April till the beginning of July. The increase in the foreign currency reserves continued even after termination of foreign exchange buying auction programs. The foreign currency reserve which was USD 18.7 billion in 2001 reached USD 26.7 billion as of the end of year. The net foreign currency position improved from USD –10.9 billion to – USD 2.1 billion. After the amendment on the Central Bank Law, new loans were not extended to the public sector.

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

	2001		2002		
	December	March	June	Sept.	Dec.
Net foreign assets	-2,419	7,149	9,353	12,823	12,871
Net domestic assets	25,536	20,547	23,352	23,672	23,523
Monetary base	7,931	8,621	9,139	10,294	10,662
Open market operations	1,112	6,214	8,655	7,165	8,452
Central Bank money	9,711	15,842	18,837	18,798	19,866
Fx deposits	3,120	2,862	3,319	7,705	5,996
TL liabilities	12,831	18,703	22,156	25,872	25,962
Banks' Fx deposits	10,286	8,992	10,549	10,623	10,432
Total domestic liabilities	23,117	27,695	32,705	36,496	36,394

Source: The Central Bank

The liquidity, which came out due to the improvement in the asset structure was controlled, the stability in markets was maintained. The developments on monetary aggregates were kept within the targeted interval. The monetary base grew by 34 percent. On the other hand, the Bank was net debtor from the markets during the year. The borrowing made through open market operations, reached TL 6 quadrillion in March and to TL 8 quadrillion at the end of June; in the second half it fluctuated on similar values closer to this level. The short-term borrowing of the Central Bank from markets proceeded above the emission capacity was considered as an important development. Therefore, the Central Bank money increased more than double.

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

	2001		2002		
	Dec.	March	June	Sept.	Dec.
Fx reserve	18.7	20.3	22.2	25.1	26.7
Net inter. reserves	-10.9	-3.5	-2.8	-3.0	-2.1

Along with the limitation of the growth in the balance sheet of the Central Bank and restructuring, important changes and innovations were executed in relation with the institutional structure of the market in 2002. The reserve requirement was determined as 6 percent for TL liabilities and 11 percent for foreign exchange liabilities by a regulation adopted at the end of the first quarter of the year. The interest payment to reserve requirement was maintained. Bank liquidity requirement ratio was determined as 4 percent for TL liabilities and 1 percent for foreign exchange liabilities.

On July 1, 2002, late liquidity window application was initiated; it was announced limitless liquidity support would be provided on condition that there were collateral. However, it was emphasized that this opportunity was an expensive support, therefore it was required to be used less. Another important change was that the Central Bank gradually abandoned its intermediary function in interbank money and foreign exchange and effective markets. As of December 2, 2002, the Central Bank brought its limits to zero in these markets.

Monetary Aggregates

Money Demand

The money demand M2RF in TL (money in circulation+TL deposits+repo+investment funds) grew by 35 percent. TL deposits increased at the level of inflation, repo volume declined rapidly in real terms, investments funds weighted government securities significantly increased.

The money demand M2RYF including also foreign exchange deposits grew by 31 percent equivalent to inflation. At the end of 2002, M2RF was TL 69,008 trillion (USD 42.9 billion) and M2RYF was TL 141,263 trillion (USD 87.4 billion). The ratio of money demand to GNP declined. The ratio of M2RF and to M2RYF to GNP decreased from 28 percent to 25 percent and 60 percent to 52 percent, respectively.

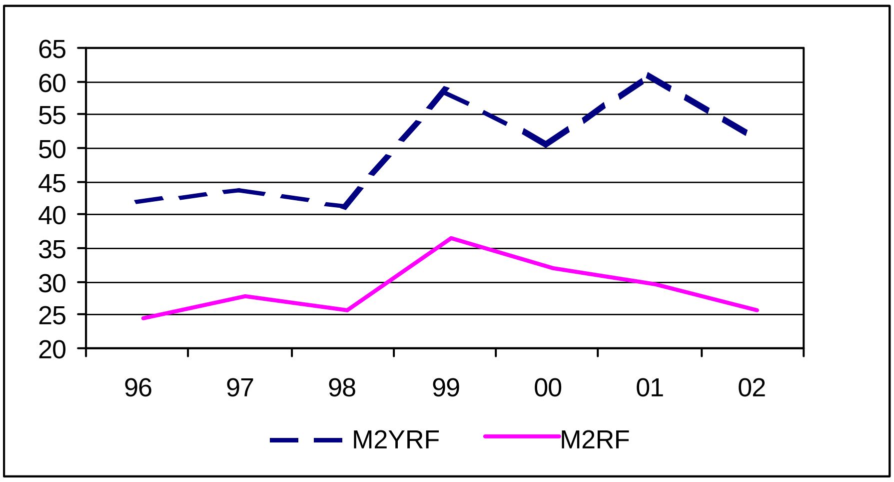
The factors affecting money demand in 2002, the year in which investment instruments in TL gained a real rate of return against inflation and foreign currencies were expansion of economic activity, differences in taxation of investment instruments, instability suffered in political environment and high level of risk expectations. Despite the increase of taxes imposed on real persons' deposit and repo revenues, the exemption of a significant part of the revenues gained from government securities and investment funds from taxes after being corrected according to inflation, a shift from deposit and repo to investment funds and government securities was observed.

Monetary Aggregates (2002)

	TL trillion	USD million	Percentage change TL	Percentage change Dollar
M2RF	69,008	42,919	35	19
Money in circulation	7,209	4,366	50	32
Demand deposits	7,050	4,270	24	8
Repo	2,955	2,054	6	-7
Investment funds	4,857	3,344	152	121
Time deposits	46,936	28,426	31	15
M2YRF	141,263	87,420	31	15
Fx deposits	72,255	44,501	27	12

Source: The Central Bank

Money Demand As Percentage of GNP



The foreign currency substitution showed volatility during the year depending on the fluctuation of exchange rate and it declined rather, as of end of the year. The share of foreign exchange deposits in money demand (M2RYF) decreased by 2 percentage points to 51 percent.

Total Deposit

Total deposits increased by 26 percent and amounted to TL 131,108 trillion (USD 79.3 billion). TL deposits and Fx deposits grew by 25 percent, 27 percent, and reached TL 56,481 trillion (USD 34.2 billion) and TL 74,537 trillion (USD 45.1 billion), respectively. The share of foreign exchange deposits in the total deposits realized as 58 percent. The ratios of the total deposits and TL deposits to GNP were 36 percent and 15 percent, respectively. According to data of the Central Bank, of the total deposits, 36 percent was in state-owned banks and 64 percent in privately-owned banks. The average maturity of total deposits was 2.6 months. The maturities of TL deposits and foreign exchange deposits were 2.5 and 2.6 months, respectively.

The Maturity Structure of Total Deposit (percentage)

	2001	2002			
	Dec.	March	June	Sep.	Dec.
Total	100	100	100	100	100
Demand and 7 day notice	17	18	18	20	20
1-month	34	31	30	30	28
3-month	38	39	36	37	40
6-month	6	6	9	7	8
12 month+	6	6	6	5	5
Average (month)	2.5	2.5	2.7	2.5	2.6

Total Loans

Excluding loans being extended from the branches abroad, the total loans of depository banks increased by only 2 percent and amounted to TL 32,277 trillion. The loans continued to narrow on real terms. The loans extended to non-financial sectors increased by 2 percent in TL terms and reached TL 36,762 trillion, in contrast, they decreased by 10 percent in dollar terms and amounted to USD 22.1 billion. TL loans remained almost the same, whereas foreign exchange loans increased by only 5 percent. The share of TL loans in total loans decreased by 1 percentage point to 54 percent. The ratio of total loans to GNP realized as 13.4 percent.

Total Deposits and Loans (2002)

	TL trillion	USD million	Percentage TL	Percentage dollar
Total deposits	131,018	79,347	26	11
Total deposits+repo	133,973	82,338	26	10
TL deposits+repo	59,436	37,222	24	9
Total loans	36,510	22,111	2	-10
Consumer loans+ c. cards	7,001	4,240	47	29
Depository bank loans	32,277	19,542	2	-11
TL	17,419	10,549	-1	-13
Fx	14,858	8,999	5	-8
Loans under follow-up (total)	10,122	6,130	58	38
Loans under follow-up (depository banks)	9,972	6,039	59	39
Ratios (%)	**1999**	**2000**	**2001**	**2002**
Total loans+ loans under follow-up/T. deposits+repo	44	50	39	35
Percentage shares in GNP				
Total deposits+repo	56	50	59	49
Total loans+loans under follow-up	26	25	24	17
Consumer loans	3	5	4	3

Source: The Central Bank

The depository bank loans which constituted 83 percent of the total loans increased by 2 percent on TL terms, while it decreased by 11 percent in dollar terms. The ratio of depository bank loans to the total loans decreased from 30 percent to 25 percent, while its ratio to M2RYF decreased from 29 percent to 23 percent.

The reasons for the contraction in loans were the restrictions arising from continued public sector borrowing requirement, remaining of real interest rates at high levels, limited demand for low-risk loans, radical approach in recognizing the loans under-follow-up due to the effect of new regulations, limits brought to group loans and restrictions arising from capital adequacy.

Depending on the amendments on provisioning regulation and implementation of recapitalization program, loans under follow-up increased by 58 percent and 37 percent in TL terms and dollar terms, respectively and amounted to TL 10,122 trillion (USD 6,130 billion). Total loans under follow-up together with loans under follow-up transferred to SDIF amounted to TL 15,600 trillion. The provision of TL 7,471 trillion was set aside for loans under follow-up. Out of loans under follow-up, 46 percent belonged to state-owned banks, 38 percent to privately-owned-banks, and 15 percent to the banks in Fund. The ratio of loans under follow-up to loans increased from 19 percent to 30 percent in depository banks. The same ratio increased from 49 percent to 63 percent in state-owned banks and 7 percent to 18 percent in privately-owned banks.

Loans Under Follow-Up, Depository Bank Loans (DBL) and As Percentages of GNP

TL Trillion	**1999**	**2000**	**2001**	**2002**
Total	1,603	3,068	6,271	9,972
State-owned banks	635	983	3,624	4,560
Privately-owned banks	954	2,057	2,587	5,303
Foreign banks	14	28	59	109
Ratios (%)				
Loans under follow-up/DBL	10	12	20	31
Loans under follow-up/GNP	2	3	4	4

The loans/deposit rate of depository banks decreased from 31 percent to 25 percent. This ratio decreased from 37 percent to 32 percent when loans under follow-up were also included in total loans. According to data of the Central Bank, 83 percent of the total loans was in commercial banks and the remaining was in depository banks. 23 percent of the commercial bank loans was extended by state-owned banks, while 77 percent of them was extended by privately-owned banks.

According to data of the Central Bank, total government securities of the banking system increased by 40 percent as compared to the previous year and amounted to TL 83,000 trillion. The total securities in banks reached 62 percent of the total of deposits and repo.

Outstanding Government Securities (TL trillion)

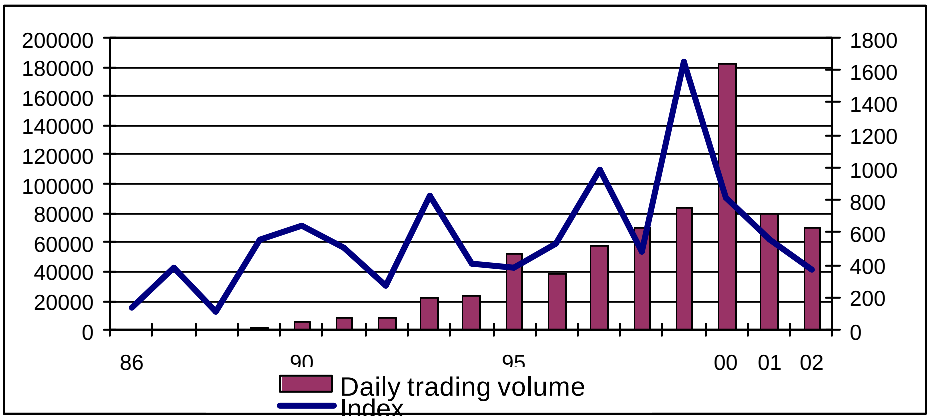
	April 2002	December 2002
Depository banks	68,000	82,500
Central Bank	30,000	30,700
Non-bank institutions	25,000	36,700
Real persons	13,000	22,000
Total	123,000	149,900

According to data firstly published in 2002, total of government securities hold by non-bank sectors amounted to TL 37,000 trillion. This amount constituted 24 percent of the outstanding domestic debt and 26 percent of the money demand (M2RYF). 19 percent of outstanding government securities was in the portfolio of the Central Bank.

Developments in Istanbul Stock Exchange

As of end of the year, Istanbul Stock Exchange (ISE) Index decreased in dollar terms in 2002 as it did in previous year. The decrease in the trading volume continued, albeit slowly. While the index in dollar terms decreased by 34 percent, the total trading volume by contracting 13 percent decreased to USD 70 billion.

ISE Index (in dollar terms) and Daily Trading Volume (USD million)



Due to the limited increase in domestic demand the unsatisfactory level of sales, high rate of real interests, decline in capital inflows with portfolio purposes, high level of risks depending on political reasons, capital strengthening program in the banking system affected the performance of ISE negatively.

In 2002, while the market value of the companies traded in stock exchange decreased from USD 47.7 billion to USD 34.4 billion, the number of companies decreased from 310 to 288. In 2002, while 5 new companies joined the stock exchange 27 companies left. Furthermore, as of the end of 2002, the market value of 12 banks traded in stock exchange with USD 7.4 billion constituted 22 percent of the total market value.

Balance of Payments

In 2002, the growth trend in exports continued, and imports accelerated again. For the reason that European Union countries had an important share in Turkey's foreign trade with a share of 52 percent in total exports, the appreciation of euro against major currencies, limited demand in the domestic market, decrease in real wages despite the decrease in exports price index affected exports in a positive way. However, the factors affecting imports were the rapid increase in production, appreciation of TL against foreign currencies and maintaining of prices of imported goods and services at the same level.

The foreign trade volume expanded by 18 percent and increased to USD 86 billion. The exports and imports by increasing 12 percent and 23 percent reached USD 35.1 billion and USD 50.8 billion, respectively. While the ratio of imports to GNP remained almost the same at the level of 28 percent, the ratio of exports to GNP increased by 6 percentage points to 20 percent. The foreign trade deficit grew by 57 percent and increased from USD 10.1 billion to USD 15.7 billion. The coverage ratio of exports to imports decreased from 76 percent to 69 percent.

According to twelve-month average, exports and imports quantity indexes increased by 16 percent and 21 percent, respectively. On the other hand, the exports and imports price indexes decreased by 2 percent and 1 percent respectively.

Foreign Trade (USD billion)

	1999	2000	2001	2002
Exports	26.6	27.8	31.3	35.1
Imports	40.7	54.5	41.4	50.8
Foreign trade deficit	14.1	26.7	10.1	15.7
Foreign trade deficit/GNP	7.5	13.3	6.3	8.7
Export/Import	65	51	76	69
Price Index* (94=100)				
Export	92	88	86	84
Import	91	95	95	94
Quantity index * (94=100)				
Exports	148	166	201	236
Imports	196	265	203	240

Source: State Institute of Statistics , * Average

Imports of capital goods, intermediate goods, consumption goods increased by 20 percent, 23 percent and 22 percent, respectively. 73 percent of total imports was intermediate goods constituted 73 percent of total imports. Of total exports, 52 percent was consumption goods, 40 percent was intermediate goods and 8 percent was capital goods. By sectors, the shares of manufacturing industry and agriculture in the distribution of exports was 93 percent and 6 percent, respectively.

Foreign Trade by Commodity Groups, 2002

	Exports			Imports		
	USD million	Per. change	Per. share	USD million	Per. change	Per. share
Capital goods	2,650	0.8	7.6	8,382	20.4	16.5
Interm. goods	14,062	4.9	40.1	36.903	23.1	72.6
Consum. goods	18,259	19.7	52.0	4.979	21.9	9.8
Other	110	129.1	0.3	567	49.3	1.1
Total	35,081	12.0	100	50,831	22.8	100

The OECD countries had a share of 65 percent in foreign trade. The share of EU countries was 49 percent. Following the Customs Union Agreement the foreign trade balance with EU countries changed against Turkey with a deficit of USD 5 billion in 2002, whereas it was USD 2 billion in 2001.

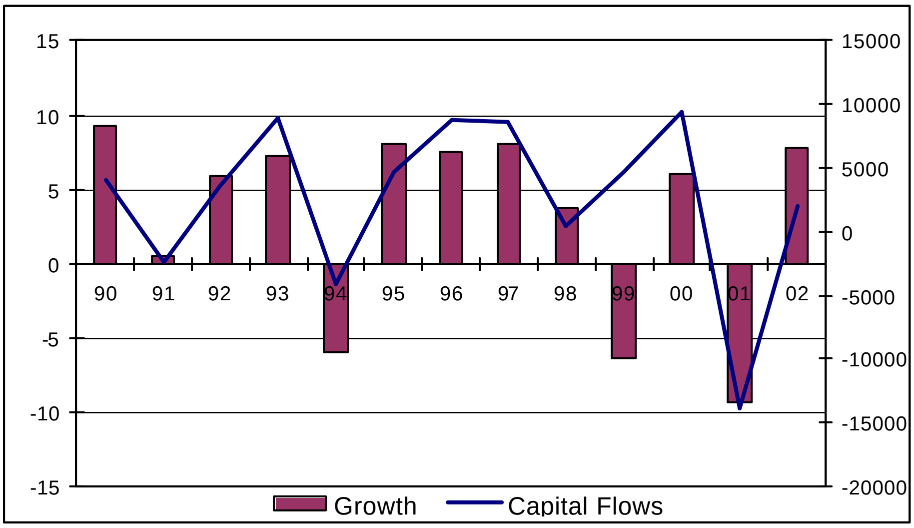
In foreign trade volume, Germany ranked first with 15 percent. This country was followed by Italy and USA with 7 percent and United Kingdom, France and Russia with 6 percent. Exports to Germany constituted 17 percent of the total export, while the imports from this country was 14 percent of the total import.

Foreign Trade by Country Groups, 2002

	Exports			Imports		
	USD million	Per. change	Per. share	USD million	Per. change	Per. share
OECD	22,988	12	66	32,567	25	65
AB	18,059	12	52	23,124	27	46
EFTA	404	12	1	2400	62	5
Other	4,525	28	13	7,044	13	13
Free Zone	1396	8	4	573	89	1
Non-OECD	10,697	9	31	17,691	17	35
Europe	3,371	27	10	6,263	19	12
Africa	1,648	8	5	2,611	-7	5
America	227	-32	1	586	40	1
Middle-East	3,445	-4	10	3,619	10	7
Other	2,006	19	6	4,609	41	9
Total	35,081	12	100	50,832	23	100

Depending on the increase of the foreign trade deficit, current account balance turned into a deficit of USD 1.8 billion from a surplus of USD 3.4 billion. The current account balance with a surplus of 2 percent of GNP in 2001 gave deficit of 1 percent of GNP in 2002. The foreign trade deficit increased from USD 4.5 billion to USD 8.6 billion. Meanwhile, other goods and services balance increased from USD 0.4 billion to USD 5.3 billion, surplus of transfer balance decreased from USD 3.8 billion to USD 3.5 billion, due to the decrease in the income of workers abroad.

Capital Flows (USD Million) and Growth (percentage)



Balance of Payments (USD million)

	1990-99*	2000	2001	2002
Foreign trade deficit	-12,305	-22,375	-4,496	-8,590
Income from other goods and services	16,271	22,320	17,936	16,494
Tourism	5,037	7,636	8,090	8,473
Interest	1,514	2,836	2,753	2,489
Other	9,721	11,848	7,093	5,532
Other goods and serv. exp.	10,408	14,989	-13,853	-13,180
Interest	4,149	6,299	7,134	-6,400
Trade deficit including goods and services	6,443	-15,044	-413	-5,276
Income from transfers (net)	4,542	5,225	3,803	3,487
Current account balance	-1,902	-9,819	3,390	-1,789
Capital movements (net)	2,881	9,610	-14,198	1,992
Direct investments (net)	605	112	2,769	410
Portfolio investments (net)	986	1,022	-4,515	-694
Other long term	1,290	4,276	-1,131	2,646
Short term	1,856	4,200	-11,321	-370
Assets	-1,039	-1,913	-156	204
Liabilities	2,894	6,113	-11,165	-574
Net errors and omissions	-441	-2,356	-2,116	-415
General balance	2,439	-2,997	-12,924	-212
Change in reserves	-2,439	2,997	12,924	212
IMF accounts	63	3,351	10,230	6,365
Official reserves	2,502	-354	2,694	-6,153

Source: The Central Bank, * Yearly average.

In contrast to capital outflow of USD 14.2 billion in 2001, in 2002 a net capital inflow of USD 2 billion realized. While the short-term capital outflow (net) was USD 0.4 billion the long-term capital inflow (net) realized as USD 2.6 billion. The reason for this item's positive balance was due to the additional loan provided by International Monetary Fund. Direct foreign capital inflow realized as USD 0.4 billion; on the other hand, a net capital outflow of USD 0.7 billion in portfolio investments. Despite the outflow of capital movements, the relation between capital movements and the growth did not change. Despite the low level of capital outflows, official reserves increased to USD 6.1 billion due to the additional loan provided by International Monetary Fund.

Outstanding External Debt

Outstanding external debt increased approximately by USD 17.5 billion and reached USD 131.6 billion as compared to 2001. The increase in outstanding debt resulted from the increase in medium and long-term debts. The short-term outstanding debt decreased by USD 1.1 billion, the increase in outstanding external debt realized as USD 8,249 million due to exchange rate difference. Despite the rapid increase in outstanding debt, the ratio of outstanding debt to GNP decreased by 6 percentage points to 73 percent, due to a more rapid growth in GNP in dollar terms. While the ratio of medium and long-term debts to GNP decreased by 3 percentage points to 64 percent, the ratio of short term debts to GNP decreased by 3 percentage points to 8 percent.

Outstanding External Debt (USD billion)

	1999	2000	2001	2002
Medium and long-term	79.2	90.3	97.7	116.4
Public	36.8	47.7	46.3	63.9
Central Bank	10.3	13.4	23.8	21.5
Private	27.4	29.2	27.7	31.0
Banks	4.8	4.6	3.2	3.0
Short-term	22.9	28.3	16.2	15.1
Central Bank	0.7	0.7	0.6	0.5
Banks	13.2	16.9	8.0	6.3
Other sectors	9.1	9.7	7.6	8.4
Total	102.1	118.6	113.9	131.6

Source: Undersecretariat of the Treasury *Provosional

The shares of public sector and the Central Bank were 49 percent and 17 percent, respectively. The banking system had a share of 7 percent in outstanding debt, whereas non-bank sectors had a share of 28 percent. The ratio of public sector debts (excluding the Central Bank) to GNP increased from 32 percent to 35.5 percent.

Within the medium and long-term debt stock, the debts of the public sector (excluding the Central Bank) by increasing USD 23.6 billion amounted to USD

63.9 billion. The outstanding debt of the private sector increased approximately by USD 3 billion.

Of the medium and long-term outstanding debt, USD 40 billion was provided by official creditors, and USD 76 billion by private creditors. Among the official creditors, international institutions, including International Monetary Fund had the biggest share with USD 31 billion. Of debts to private creditors, USD 30 billion was provided by commercial banks, USD 24 billion obtained through bond issue.

3. Developments in Turkish Banking System in 2002

The main stages of the "Banking Sector Restructuring Program" launched after the crisis in 2001 are stated as follows: financial and operational restructuring of the state banks, immediate resolution of the banks in Savings Deposit Insurance Fund (SDIF), ensuring the sound functioning of private banks, increasing the efficiency of bank supervision and strengthening of the regulatory framework in order to ensure a more competitive environment for the banking system.

With the aim of financial restructuring of the state banks, a resource transfer of approximately TL 28.7 quadrillion to securitize the duty loss receivables from the government and to ensure capital support was executed in 2001 and the activities for operational restructuring continued in 2002.

Within the financial and operational restructuring process of the banks in the Fund, 12 banks out of 20 taken into the Fund were resolved through merger, 5 of them were sold to private investors. The liquidation process of one bank continued. In 2002, there remained two banks in the Fund management.

In 2002, the most important developments related to restructuring process in the banking sector were the resolution of the problems which had deepened in and damaged the banking sector to a great extent with the effect of the crisis in money and capital markets and the sharp contraction in the economic activity in previous year, and the special program put into practice in order to strengthen private banks' capital. In addition to ensuring capital support to the private banks within the scope of the program, the financial restructuring program was launched to ensure the real sector firms of which payment capacity was affected negatively by crisis and which were considered to create a value added to the economy to maintain their activities, to regain their solvency, and arrangements for the establishment of assets management companies were carried out.

"Law on Restructuring of the Debts to the Financial Sector and Amendments to Some Laws No. 4743" dated January 31, 2002 established the legal framework of the restructuring of the debts of companies to banks and strengthening the private banks' capital.

Within this framework, necessary legislation and institutional arrangements were adopted;

- to ensure the institutional and operational restructuring of the state banks and to enable them to participate in the restructuring process of the debts to the financial sector,
- to accelerate the follow-up and collection proceedings of the banks in the Fund in terms of receivables and to strengthen the organizational structure of SDIF,
- to provide capital support in order to strengthen the capital structures of the privately-owned banks with the provisional Article 4 added to Banking Law,

- to prepare the framework agreements on financial restructuring program and to establish assets management companies,
- to ensure tax exemptions for the institutions, which will sign framework agreements.

Private Banks' Capital Strengthening Program

In order to strengthen the capital structure of 25 banks determined by Banking Regulation and Supervision Agency (BRSA), a special program was implemented; these banks went through a three-stage audit process.

Within this three-stage audit, the asset structure and quality of the banks under the scope of the recapitalization process were evaluated. First, banks were subject to independent auditing, secondly, different independent auditing firms determined by BRSA evaluated the first audit process. Finally, sworn bank auditors of BRSA carried out the audit and assessment procedures. In contrast to the previous periods, the audit for the year 2001 was conducted on the basis of inflation accounting rules determined by BRSA. In accordance with these rules having some differences from international accounting standards, inflation accounting was applied for the first time to balance sheets of 25 banks in the banking sector.

At the stage of audit, 75 percent of the loan portfolios of the banks, big customers, loans extended to partners were examined in detail. The quality of the loan portfolio, the amount of loans under follow-up and loan loss provisions were tired to be assessed accurately. The rediscounted interest income coming from loans under follow-up was determined and deducted from income. The common credit customers of banks were evaluated under the same category. The ratio of taking guarantees into account in the measurement of loan quality was redetermined; the ratio of guarantees was conservatively kept low.

Following the determination of indirect loans and loan quality, asset risks were determined over their risk weightings. In addition, total risks were determined by taking the market risk into consideration for the first time. In accordance with the program, the banks were projected to reach a minimum capital adequacy ratio of 8 percent. It was stated that public support would be provided for the banks having a ratio between 5 percent and 8 percent. After the auditing process, capital adequacy ratio of only one bank was negative, and one bank required public support.

After the finalization of the auditing process the ratio of equity capital to cover total risks was calculated as 14.8 percent for 25 banks subjected to the special program. Although the capital need of 25 banks within the scope of the program was determined to be TL 1.3 quadrillion, depending on some developments such as cash capital increases, correction of provisions set aside for non–performing loans, positive changes in the market and exchange rate risks, the additional capital need of the banking sector was announced as TL 224 trillion to the public.

The effect of inflation accounting application on equity capital was neutral depending on the correction of capital and reserves within the scope of the application. On the other hand, the correction of bank equity participations and fixed assets according to inflation affected the banks' profit-loss calculations of previous and current periods positively. Following the application of inflation accounting process and appropriate classification of loans, the banks covered by recapitalization program declared a total loss of TL 10.6 quadrillion for current and previous terms in the year-end balance sheets of 2001 as a result of one stock correction.

After the assessment of the auditing process, important revisions were made on loans and loans under follow-up items of 25 banks. As a result of reclassification of loans and accordingly rearrangement of collaterals and loan loss provisions, claims on loans under follow-up, which were TL 2.3 quadrillion as of the end of 2001 increased to TL 7.8 quadrillion. The amount of provisions set aside for loans under follow-up increased to TL 5.2 quadrillion and an additional provision of TL 2.5 quadrillion was required from the banks.

The Banking Sector's Balance-Sheet - 2001
(Before and after inflation accounting was applied)

(USD million)	**Before inflation accounting**	**After inflation accounting***
Assets		
Liquid assets	26,588	25,846
Securities	41,208	40,906
Loans	28,329	25,636
Loans under follow-up (net)	2,973	5,093
Gross (including provisions)	6,582	9,599
Permanent assets	5,939	9,149
Other	9,983	10,400
Total	**115,020**	**116,976**
Liabilities		
Deposit	80,961	80,633
Non-deposit funds	12,274	12,247
Shareholders' equity	6,727	10,150
Paid-in capital	7,398	7,383
Reserves	2,236	21,291
Revolution fund	2,411	1,346
Loss	5,320	19,870
Net income	1,523	404

* According to the 2001 year-end purchasing power parity of the currency.

When we compare the 2001 year-end balance sheet figures of the banking sector before and after inflation accounting was applied, the results were as follows;

1- According to figures of 2001, there was not a significant difference in the balance-sheet total of the banking sector.

2- Loan stock declined.
3- Loans under follow-up increased.
4- Permanent assets composed of equity participations, affiliated companies and fixed assets grew.
5- There was no change in deposit and non-deposit items.
6- Reserves grew significantly due to re-evaluation.
7- The inflation loss arising from the previous years came out.

Banks in the Fund

The resolution of banks in the Fund through merger, sale and liquidation process constituted a significant part of the restructuring efforts in the banking sector. Following the process including the closure or merger of 19 banks taken into Fund or their sale to private groups between 1997-2001 period, at the beginning of 2002 there was left only one bank operating under the Fund management. The process of selling equity participation's and real property of the banks taken into Fund continued in 2002. After taking Pamukbank T.A.S. into Fund in June 2002 due to the fact that the ratio of capital adequacy was negative, the number of banks under the management of SDIF increased to 2. While Bayindirbank A.S. was restructured as transition bank by BRSA to undertake the assets management function; the sale process of Pamukbank T.A.S. was initiated.

Total liabilities of banks taken into Fund was USD 31.4 billion as of transfer dates, while total losses of the concerned banks became USD 17.3 billion. The principal amount of the resources supplied by the public sector within the framework of strengthening financial structures of banks in the Fund was USD 17 billion. The amount of resources transferred from SDIF resources to the banks in the Fund was USD 4.7 billion. These resources were mainly used for liquidation or transfer of deposit liabilities.

With the Law No. 4743, the scope of the SDIF's powers and its organizational structure were rearranged. SDIF and banks in the Fund were authorized to be a party to the framework agreements for financial restructuring along with the state banks, however, SDIF was allowed to participate in financial restructuring process on the condition that it would not provide any additional financing. Furthermore, SDIF was authorised to maintain all restructuring activities related to the equity participations of banks transferred to it. The scope of the SDIF's powers on its receivables was also expanded.

Financial Restructuring Program

In order to ease the negative effects of the crisis and to ensure the growth in economy, application of a comprehensive restructuring program for the industrial sector became a current issue. The works initiated for this purpose, different from the previous periods, gathered the representatives of the industrial and financial sectors at a common platform under the title of Financial Production Consultancy Committee for the first time. In the Committee consisting of the representatives of the Office of State Ministers, BRSA, Central Bank, Capital Market Board, Turkish Industrialists and

Businessman Association, Union of Chambers and Commodity Exchanges of Turkey, Banks Association of Turkey (BAT), adoption of a model in which the problematic assets of banks would remain in the bank without being transferred to an institution such as assets management company and banks could find collective solutions was agreed. Within this framework works were initiated by BAT in coordination with BRSA.

Law on Restructuring of the Debts to the Financial Sector and Amendments to Some Laws No. 4743 and Regulation on General Conditions for Approval and Enforcement of Framework Agreements on Financial Restructuring Program constituted the legal grounds of the framework agreement prepared under the financial restructuring program known as "Istanbul Approach". Within the context of framework agreement, it was possible to restructure bank receivables in three years after the approval of the agreement by BRSA and to provide additional financing when necessary, and accordingly to prepare a new payment plan.

The framework agreement on financial restructuring program to debtor firms was prepared within a certain process by "Working Group on Restucturing" consisting of representatives of T. Garanti Bankasi A.S. - Yapi Kredi Bankasi A.S. - Pamukbank T.A.S. -T. Is Bank A.S. -T. Vakiflar Bankasi T.A.O. assigned by BAT to carry out works in this respect. The framework agreement approved by the board of directors of BAT was ready for the signatures of creditor organizations on May 24, 2002. The framework agreement signed by 25 banks and 20 non-bank financial institutions was submitted to the approval of BRSA and became effective with the decision of BRSA dated June 4, 2002 and numbered 718.

As of June 2003, 299 firms consisting of 208 (32 groups) large-scale firms and 91 small-scale firms were covered under the scope of the financial restructuring program. Out of these, financial restructuring contracts were concluded with 140 large-scale firms (16 groups) and 66 small-scale firms. The total loans restructured within the framework of Istanbul Approach amounted to USD 4.8 billion.

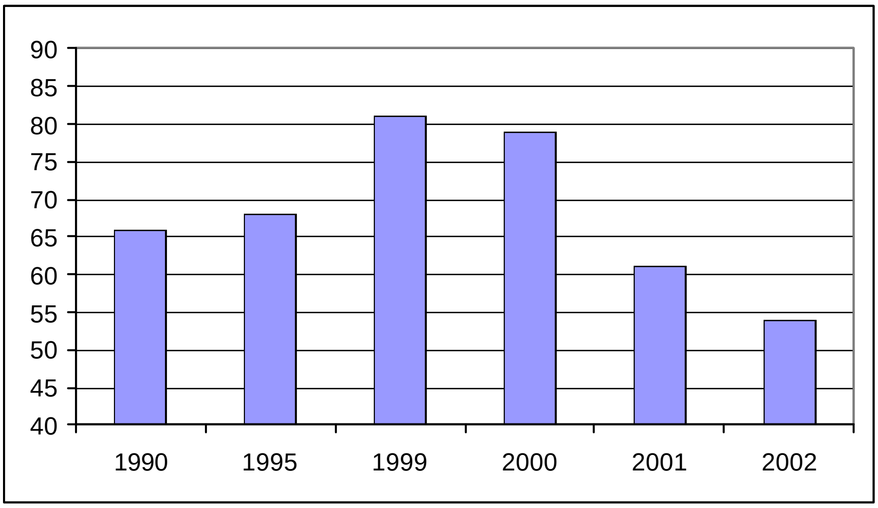
Turkish Banking System in 2002

Number of Banks and Branches

In the banking system, the decreasing trend started in 2000 in the number of banks, branches and employees continued also in 2002. In 2002 the number of banks decreased from 61 to 54; the number of commercial banks decreased by 6, while the number of non-depository banks decreased by 1.

Along with the resolution process of banks in the Fund and termination of some banks' operations, bank mergers and closures led to the decline in the number of banks. In June 2002, Pamukbank T.A.S. was transferred to the Fund. Out of the banks in the Fund, EGS Bank A.S. and Toprakbank A.S. were merged into Bayindirbank A.S. in January 2002 and in September 2002, respectively, while Sümerbank A.S. was transferred to a private bank, namely Oyak Bank A.S.

The Number of Banks (1990-2002)



Number of Banks and Branches *

	2000		2001		2002	
	Bank	**Branch**	**Bank**	**Branch**	**Bank**	**Branch**
Commercial banks	61	7,807	46	6,889	40	6,087
State-owned banks	4	2,834	3	2,725	3	2,019
Privately-owned banks	28	3,783	22	3,523	20	3,659
Banks in the Fund	11	1,073	6	408	2	203
Foreign banks	18	117	15	233	15	206
Non-depository banks	18	30	15	19	14	19
State-owned banks	3	11	3	4	3	4
Privately-owned banks	12	16	9	12	8	12
Foreign banks	3	3	3	3	3	3
Total	79	7,837	61	6,908	54	6,106

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

The legal entity of Türk Ticaret Bankasi A.S. under the Fund was terminated in August 2002 by being liquidated while that of Rabobank Netherlands Head Branch was in April 2002. Furthermore, following the completion of the legal process of Okan Yatirim Bank A.S. in April 2002, its banking licence was revoked. Sinai Yatirim Bankasi A.S. was transfered to Türkiye Sinai Kalkinma Bankasi A.S. in March 2002. Sitebank A.S. was sold to Nova Bank in January 2002, and Milli Aydin Bankasi A.S. was sold to Denizbank A.S. in October 2002. Meanwhile, the commercial title of Westdeutsche Landesbank Girozentrale was changed as West LBAG in October 2002.

Total number of branches decreased by 802 to 6,106. All of these closed branches belonged to commercial banking group. As of the end of 2002, only the number of branches belonging to privately owned commercial banks increased.

Number of Employees

The number of employees in the banking system continued to decline in 2002. In 2000 3,587; in 2001 32,906 and in 2002, 14,224 employees lost their jobs, therefore, the number of employees decreased by 50,717 persons within last three years. In December 2002, 96 percentage of employees in the banking system were employed by the commercial banks while 4 percent by non-depository banks; 33 percent of total employees were employed by state-owned commercial banks, 54 percent by privately-owned commercial banks, 5 percent by banks in the Fund, 4 percent by foreign banks.

Number of Employees

	2000	2001	2002
Commercial banks	164,845	132,274	118,329
State-owned banks	70,191	56,108	40,158
Privately-owned banks	70,954	64,380	66,869
Banks in the Fund	19,895	6,391	5,886
Foreign banks	3,805	5,395	5,416
Non-depository banks	5,556	5,221	4,942
State-owned banks	4,456	4,322	4,174
Privately-owned banks	1,021	822	691
Foreign banks	79	77	77
Total	170,401	137,495	123,271

The number of banks, branches and employees decreased to the level in 1980s as a result of the decline in the last three years. Thus, as of the end of 2002, the number of banks, branches and employees decreased to the lowest level recorded since 1985, 1980 and 1979, 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 in this development.

Balance Sheet Items

According to financial tables prepared on the basis of 2002 year-end purchasing power parity of the currency, total assets decreased by 2 percent to TL 212.7 quadrillion (USD 129.7 billion). The ratio of total assets to GNP decreased from 93 percent to 78 percent. The main reasons of this decline in the banking sector's assets were as follows; the balance sheet items of banks in the Fund was taken out of the system, shift from deposit to government securities and investment funds due to low risk and higher rates of return along with the effect of tax differences, and the appreciation of TL against foreign currencies.

Total assets of the commercial banks decreased by 2 percent, while that of non-depository banks decreased by 5 percent. In the commercial banks group, the state-owned banks shrank by 4 percent, the foreign banks by 2 percent, and the banks in the Fund by 14 percent while the privately-owned banks grew by 1 percent compared to the end of 2001.

Total Assets by Groups

	TL trillion	USD million	Per. change
Commercial banks	203,237	123,944	-2
State-owned banks	67,831	41,367	-4
Privately-owned banks	119,471	72,860	1
Banks in the Fund	9,310	5,678	-14
Foreign banks	6,624	4,040	-2
Non-depository banks	9,428	5,749	-5
Total	212,665	129,694	-2

Market Shares

According to the end of 2001 the share of commercial banks in total assets increased by 1 percentage point to 96 percent. Within this group the share of state-owned banks and banks in the Fund decreased by 1 percentage point to 32 percent and 4 percent, respectively. The share of privately-owned banks increased from 55 percent to 56 percent while that of foreign banks remained the same at the level of 3 percent.

Market Shares of Groups (percentage)

	T. assets		T. deposits		T. loans	
	2001	2002	2001	2002	2001	2002
Commercial banks	95	96	100	100	88	89
State-owned banks	33	32	34	34	22	17
Privately-owned banks	55	56	57	58	58	65
Banks in the Fund	5	4	8	5	5	3
Foreign banks	3	3	2	2	3	4
Non-depository banks	5	4	-	-	12	11

In the distribution of total deposits, the share of state-owned banks and foreign banks remained the same with 34 percent and 2 percent, respectively. The share of privately-owned banks in total deposits increased by 1 percentage point to 58 percent, whereas the share of banks in the Fund decreased by 3 percentage points to 5 percent.

In total loans, the share of state-owned commercial banks and banks in the Fund decreased by 5 percentage points and 2 percentage points to 17 percent and 3 percent, respectively. Nevertheless, the share of privately owned commercial banks increased by 7 percentage points to 65 percent, and the share of foreign banks increased by 1 percentage point to 4 percent. The share of non-depository banks remained almost the same at 11 percent.

Concentration

The share of the largest five banks in the sector was 58 percent in assets, 61 percent in deposits, 55 percent in loans. The share of the largest ten banks in the sector was 81 percent in assets, 86 percent in deposits and 74 percent in loans. The share of the largest five and ten banks in terms of assets did not change significantly and the share of the largest five in deposits and loans increased.

During the last decade, the share of the largest five and ten banks in the sector significantly increased. Moreover, the share of the largest five in total asset increased from 44 percent in 1998 to 58 percent in 2002. The share of the largest ten in total assets increased from 68 percent to 81 percent within the same period. The same tendency was also observed in both deposit and loan concentration.

Concentration in Banking Sector* (percentage)

	1998	1999	2000	2001	2002
Largest five					
T. assets	44	46	48	56	58
T. deposits	49	50	51	55	61
T. loans	40	42	42	49	55
Largest ten					
T. assets	68	68	69	80	81
T. deposits	73	69	72	81	86
T. loans	73	73	71	80	74

In terms of total assets, there was only one bank having an asset size larger than USD 20 billion. 5 banks had asset sizes between USD 10-20 billion, one bank between USD 5-10 billion, 8 banks between USD 2-5 billion. The number of banks having an assets size higher than USD 1 billion in the sector decreased from 21 in 2001 to 19 in 2002.

The Number of Banks by Asset Size

USD Billion	-0.5	0.5-1	1-2	2-5	5-10	10-20	20+
Commercial banks	18	5	3	7	1	5	1
State-owned banks					1	1	1
Privately-owned banks	5	4	2	5		4	
Banks in the Fund				2			
Foreign banks	13	1	1				
Non-depository banks	11	1	1	1			
Total	29	6	4	8	1	5	1

Balance Sheet Currency Structure and "Fx Assets – Fx Liabilities"

As of December 2002, TL assets grew by 4 percent while Fx assets decreased by 7 percent compared to the end of 2001. On the other side, TL liabilities grew by 10 percent, whereas Fx liabilities decreased by 11 percent. Therefore, the share of Fx assets in balance sheet decreased from 49 percent to 46 percent, and the share of Fx liabilities decreased from 56 percent to 50 percent.

Assets and liabilities indexed to foreign exchange are not included in "Fx assets- Fx liabilities" definition. In 2002, the difference between Fx assets and Fx liabilities in balance sheet declined from USD –8.7 billion to USD –5.3 billion. According to calculations made by BRSA by including assets and liabilities indexed to foreign exchange, the in-balance sheet foreign exchange position of the banking sector indicated a deficit of USD 551 million as of the end of 2002.

Fx Position by Groups (percentage)

	Per. share Fx Assets		Per. share Fx Liabilities		USD billion Fx Assets – Fx Liabilities	
	2001	2002	2001	2002	2001	2002
Commercial banks	49	46	56	50	-9.0	-5.4
State-owned banks	35	33	37	34	-1.0	-0.6
Privately-owned banks	57	54	65	59	-5.6	-3.9
Banks in the Fund	51	37	83	52	-2.1	-0.8
Foreign banks	53	53	61	56	-0.3	-0.1
Non-depository banks	56	52	51	49	0.3	0.2
Sector	49	46	56	50	-8.7	-5.3

(*) 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. 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 Fx Position in Balance Sheet (USD million)

	2000	2001	2002
State-owned banks	-144	191	194
Privately-owned banks	-8,377	-1,487	-454
Banks in the Fund	-3,984	-441	-367
Foreign banks	-1,803	108	42
Non-depository banks	-245	40	34
Sector	-14,553	-1,588	-551

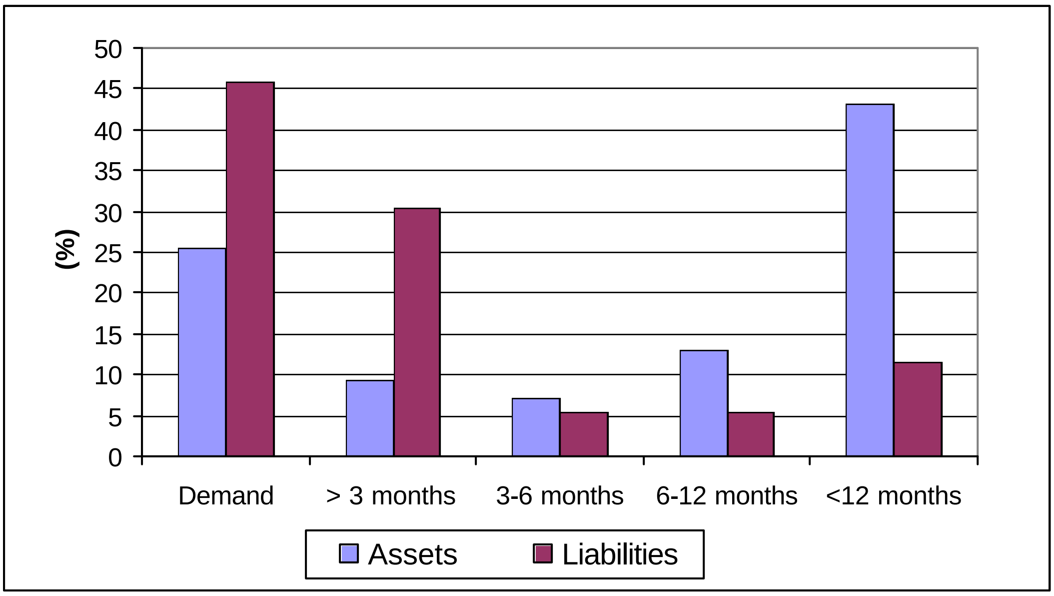
Source: BRSA Weekly Bulletin

Structure of Assets

Depending on ensuring stability in financial markets and the improvement of the economic activity, the share of liquid assets in total assets decreased by 6 percentage points to 16 percent. In contrast to this, while loan demand remained limited the share of securities increased by 7 percentage points to 41 percent due to the continued demand for funds from the public sector, low risks and high rates of return of the government securities. The share of loans and permanent assets remained almost the same as 27 percent and 9 percent, respectively.

In the distribution based on remaining maturity; in total assets the share of assets with non-fixed terms was 25 percent, that of less than 3 months terms was 35 percent, that of less than 6 months terms was 42 percent, that of less than 12 months terms was 54 percent. The share of assets having a maturity longer than 12 months in total was 43 percent. On the contrary, 12 percent of liabilities had a maturity longer than 12 months. In total liabilities, the share of liabilities with non-fixed terms was 46 percent, that of shorter than 3 months terms was 76 percent, that of shorter than 6 months terms was 82 percent and that of shorter than 12 months term was 87 percent.

Maturity Structure of Assets and Liabilities



The most important reasons of the decrease in loan stock were as follows; the loans of banks in the Fund got out of the system, the loan demand remained limited and the three-stage audit program implemented by BRSA. According to this, the loans and the loans under follow-up were reclassified and provisions were set aside for loan losses in accordance with the new regulations. The loans under follow-up decreased from TL 16.9 quadrillion to TL 10.4 quadrillion. After deducting specific provisions, the share of loans under follow-up in total loans decreased from 29.5 percent to 18.5 percent, and 6.7 quadrillion TL for provisions was allocated for loan losses. According to this, provisions were allocated for a 64 percent of loans under follow-up

The Structure and Development of Assets

	TL trillion	USD billion	Per. Change	Percentage share 2001	Percentage share 2002
Liquid assets	34,357	21.0	-29.3	22.4	16.2
Securities	86,113	52.5	15.9	34.3	40.5
Trading securities (net)	20,829	12.7	19.6	8.0	9.8
Investment sec. available for sale (net)	17,669	10.8	1,503.4	0.5	8.3
Investment sec. held to maturity (net)	47,615	29.0	-14.6	25.8	22.4
Loans	56,370	34.4	-1.7	26.5	26.5
Loans under follow-up	10,430	6.4	-38.4	7.8	4.9
Specific provisions(-)	6,691	4.1	-9.8	3.4	3.1
Permanent assets	18,144	11.1	-2.4	8.6	8.5
Investments and associates	3,001	1.8	-16.2	1.7	1.4
Subsidiaries	5,262	3.2	-2.6	2.5	2.5
Property and equip. (net)	9,551	5.8	2.7	4.3	4.5
Intangible assets (net)	330	0.2	10.4	0.1	0.2
Other assets	2,022	1.2	-23.0	1.2	1.0
Total assets	212,675	129.7	-1.8	100.0	100.0

The permanent assets composed of investments and associates, subsidiaries, property and equipment and intangible assets decreased by 2.4 percent and amounted to TL 18.1 quadrillion. Investments and associates decreased, while property and equipment and intangible assets grew. Including loans under follow-up after provisions, the share of the permanent assets in total assets decreased from 13 percent to 10.3 percent.

Loans Under Follow-up* and Specific Provisions (percentage)

	Loans und. follow-up/ Total loans 2001	Loans und. follow-up/ Total loans 2002	Specific provisions/ Loans und. follow-up 2001	Specific provisions/ Loans und. follow-up 2002
Commercial banks	32.5	20.4	42.6	64.2
State-owned banks	46.1	48.6	62.7	73.9
Privately-owned banks	26.8	9.1	31.5	53.0
Banks in the Fund	53.6	119.0	28.9	60.5
Foreign banks	5.7	5.0	76.0	77.6
Non-depository banks	7.5	2.9	83.4	64.0
Sector	29.5	18.5	43.8	64.2

* Specific provisions are excluded.

Structure of Liabilities

Total deposits decreased by 3 percent, and its share in total liabilities realized as 67 percent. Foreign exchange deposits declined by 6 percent and its share in total liabilities decreased by 2 percentage points to 39 percent. TL deposits increased by 1 percent and constituted 28 percent of total liabilities.

The Distribution of Deposits

	TL trillion	USD million	Per. change	Per. share 2001	Per. share 2002
Savings dep.	34,851	21,254	-1	24	24
Public sector dep.	2,921	1,781	50	1	2
Commercial dep.	13,503	8,235	25	7	9
Interbank dep.	4,415	2,692	-39	5	3
Other institutions dep.	7,641	4,660	-15	6	5
Foreign currency dep.	78,964	48,157	-5	57	55
Precious metals dep.	94	57	-8	0	0
Total	142,388	86,835	-3	100	100

The share of savings deposits, which had the largest share in TL deposits, in total deposits remained the same at 24 percent. While the share of commercial deposits increased by 2 percentage points to 9 percent and the share of public sector deposits increased by 1 percentage point to 2 percent; the shares of interbank deposits and other institutions' deposits decreased respectively by 2 percentage point and 1 percentage point to 3 percent and 5 percent. The non-deposit funds having a share of 13 percent in total funds declined by 3 percent in 2002. 55 percent of non-deposit funds was composed of foreign exchange loans.

The Structure and Development of Liabilities

	TL trillion	USD million	Per. change	Per. share 2001	Per. share 2002
Deposits	142,388	86,835	-3	68	67
TL	60,012	36,598	1	27	28
Fx	82,376	50,237	-6	41	39
Non-deposit funds	26,932	16,424	-3	13	13
Shareholder's equity	25,699	15,672	22	10	12
Paid-in capital	12,012	7,325	15	5	6
Supplementary cap.	28,046	17,104	-19	16	13
Profit reserves	23,630	14,411	139	5	11
Profit or loss	-37,988	-23,167	12	-16	-18
Current year income/loss	2,882	1,758	-123	-6	1
Other liabilities	17,657	10,768	-12	9	8
Total	212,675	129,700	-2	100	100

Shareholders' Equity

Total shareholders' equity of the banking sector increased by 22 percent and reached TL 25,695 trillion (USD 15.7 billion). The ratio of shareholders' equity to total assets rose from 9.7 percent to 12.1 percent. The paid-in capital of the sector was TL 12 quadrillion (USD 7.3 billion), and its supplementary capital became TL 28 quadrillion (USD 17 billion).

Shareholders' Equity

	TL trillion	USD million	Per. change
Commercial banks	22,703	13,846	21
State-owned banks	6,747	4,115	8
Privately-owned banks	15,194	9,266	20
Banks in the Fund	-626	-382	61
Foreign banks	1,388	846	-8
Non-depository banks	2,992	1,825	30
Sector	25,695	15,670	22

Besides the increase in shareholders' equity depending on the positive contribution of profit, the free shareholders' equity of the sector improved significantly. The free shareholders' equity (shareholders' equity -permanent assets-loans under follow-up after specific provisions) increased from TL –6,996 trillion to TL 4,145 trillion. The ratio of free shareholders' equity to total assets rose from –3.1 percent to 1.9 percent.

Free Shareholders' Equity*

	TL trillion		Free S. Equity / Total assets (per.)	
	2001	2002	2001	2002
Commercial banks	-9,030	1,608	-4.1	0.8
State-owned banks	1,286	2,693	1.8	4.0
Privately-owned banks	-6,816	343	-5.6	0.3
Banks in the Fund	-4,485	-2,523	-41.3	-27.1
Foreign banks	1,165	1,095	17.4	16.5
Non-depository banks	1,852	2,537	18.7	26.9
Sector	-6,996	4,145	-3.1	1.9

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

Shareholders' Equity/Risk Weighted Assets (SE/RWA) and Shareholders' Equity /Total Assets (SE/TA)(Percentage)

	SE/RWA		SE/TA	
	2001	2002	2001	2002
Commercial banks	16.2	23.1	9.1	11.2
State-owned banks	36.6	50.2	8.8	9.9
Privately-owned	16.5	19.7	10.7	12.7
Banks in the Fund	-28.5	-2.0	-15.0	-6.7
Foreign banks	44.2	32.6	22.2	21.0
Non-depository banks	36.3	40.2	23.2	31.7
Sector	17.5	24.2	9.7	12.1

The ratio of shareholders' equity to risk weighted assets increased from 17.5 percent to 24.2 percent, and that of shareholders' equity to total assets increased from 9.7 percent to 12.1 percent. On consolidated basis, this ratio was 36 percent.

The current year loss turned into profit of TL 2.4 quadrillion (USD 1.4 billion) in 2002 from loss of TL 12.3 quadrillion (USD 7.5 billion) in 2001. The net profits of state-owned and privately-owned commercial banks and non-depository banks increased more rapidly than the average. The sector, which closed the year 2001 with loss due to the effect of the crisis had a positive profitability performance in 2002; however the level of profitability remained quite insufficient and low. Return on average assets of the banking sector realized as 1.1 percent, and the return on average equity was 9.2 percent.

Net Profit-Losses, 2002

	Net profit-loss USD million	Return on aver. assets (percentage)	Return on aver. equity (percentage)
Commercial banks	1,154	0.9	8.3
State-owned banks	644	1.6	15.7
Privately-owned banks	1,482	2.0	16.0
Banks in the Fund	-1,022	-18.0	267.9
Foreign banks	50	1.2	5.9
Non-depository banks	283	4.9	15.5
Sector	1,437	1.1	9.2

Income-Expenditure Structure

In 2002, in comparison with previous year, the interest incomes decreased by 40 percent and the interest expenditures decreased by 37 percent. A decline in interest rates depending on the decline of inflation rate, an increase of the share of securities on foreign exchange terms and/or indexed to foreign exchange in stock and a shift in preferences from deposit to government securities due to tax advantage were effective factors in this development. Depending on this development, net interest incomes decreased by 47 percent and the net interest incomes from assets decreased from 11.2 percent to 6 percent.

Another important contribution to the operating income came from commercial income account. While transaction profits of the capital market continued to increase, depending on the positive change in exchange rate risk, the foreign exchange losses indicated a very significant decrease. Thus, net foreign exchange losses decreased from TL –12.3 quadrillion to TL –2.4 quadrillion. The operating income increased by 30 percent in 2002.

The ratio of operating income to total assets increased from 7.1 percent to 9.4 percent. On the other hand, depending particularly on the decrease of the provisions set aside for loans under follow-up and decline of other operating expenditures, a very significant improvement was realized in operating profit.
The operating expenditures of the sector decreased by 12 percent from TL 11,120 trillion to TL 9,779 trillion. The personnel expenditures decreasing by 5 percent to 3,578 trillion TL and other operating expenditures decreasing by 28 percent to TL 2,627 quadrillion played an effective role on this development. A 37 percent of the operating expenditures was constituted by personnel expenditures, 25 percent by other management expenditures and 27 percent by other operating expenditures.

Income-Expenditure

	TL trillion	USD million	Per. change
Interest income	44,338	27,040	-40
Interest expense	31,539	19,234	-37
Net interest income	12,799	7,805	-47
Net fees and commission income	2,200	1,342	-3
Dividend income	130	79	-39
Net trading Income	892	544	106
Profit/loss on trad. account sec.	3,262	199	326
Foreign exchange income/losses	-2,370	-145	81
Other operating Income	3,863	2,356	62
Total operating Income	19,892	12,131	30
Net operating income	5,277	3,218	171
Income before taxes	3,522	2,148	-132
Provisions for taxes on income	1,152	703	2
Net profit/loss	2,357	1,437	-119

The banking sector having an operating loss of TL –7.5 quadrillion (USD -4.6 billion) in 2001 obtained an operating profit of TL 5.3 quadrillion (USD 3.2 billion) in 2002. Due to the decrease in net currency position loss, the banking sector completed the year 2002 with profit. The profit of the banking sector before taxes was TL 3.5 quadrillion (USD 2.1 billion), and its profit after taxes was TL 2.4 quadrillion (USD 1.4 billion).

Off Balance Sheet Items

While off-balance sheet liabilities decreased by 5 percent in 2002, the custody and pledged securities account increased by 12 percent. While the commitments increased by 67 percent the guarantees-warranties and the derivative financial instruments decreased by 4 percent and 37 percent, respectively.

Off Balance Sheet Items, 2002

	TL trillion	USD million	Per. change
Off-balance sheet items	99,274	60,542	-5
Guarantees and warranties	44,835	27,342	-4
Commitments	29,015	17,695	67
Derivative financial inst.	25,424	15,505	-37
Custody and pledged securities	129,204	78,795	12
Total	228,478	139,337	4