

There was an increase above what was envisaged in the money demand, especially connected to the improvement in inflationary expectations, the rapid drop in inflation and interest rates, stability in the foreign currency exchange rates and increases in the bank deposits. Connected to this, the monetary base realizations in March and April remained above the targeted level. Connected to these developments, the Central Bank, as it was emphasized in the Letter of Intent dated 31 October 2003, increased the targets of the monetary base and the net domestic assets twice in the Letters of Intent dated 2 April 2004 and 15 July 2004.

After the changes made in the targets, the monetary performance criteria and the targets having the attribute of indicators, which were closely followed by the Central Bank within the framework of the economic program being implemented, were reached as of 31 December 2004. The average monetary base for the last five workdays of December, which has the attribute of a performance criterion, was realized at 19,190 trillion TL and remained under the upper limit of 20,900 trillion TL. The net international reserves, which has the attribute of a performance criterion, was realized at US\$229 million and remained above the lower limit of US\$-2,000 million. The average net domestic assets for the last five workdays of December, which has the attribute of being an indicator, was realized at 30,121 trillion TL and remained below the upper limit of 35,000 trillion TL (Table 53).

Table 53. Targets of the Monetary Policy

	Lower Limit of Monetary Base (Trillion TL)		Upper Limit of Net Domestic Assets (Trillion TL)		Lower Limit of Net International Reserve Limits (Million US\$)	
	Target (*)	Realization	Target (*)	Realization	Target	Realization
31 March 2004	16,100 (P)	16,948	29,600 (G)	27,321	-2,000 (P)	748
30 April 2004	17,500 (P)	17,508	31,600 (G)	26,076	-2,000 (P)	1,791
30 August 2004	20,500 (P)	19,301	34,600 (G)	28,015	-2,000 (P)	1,629
31 December 2004	20,900 (P)	19,190	35,000 (G)	30,121	-2,000 (P)	229

Source: Republic of Turkey, Central Bank

(*) The upper limits will be calculated on the subject dates and as the average of stocks at the last five work days ending with each of these dates.

(P) Performance criteria

(G) Indicator value

In 2004, the monetary strategy, which focuses on next period inflation and which is called covered inflation targeting, was carried out with success and significant progress was made in the preparations for finally putting official inflation targeting into force. The monetary policy strategy came very close to inflation targeting. In the 2005 monetary and exchange rate policy announced on 20 December 2004, it was announced that the open inflation targeting system would be started as of the beginning of 2006.

In 2004 as well, the short-term interest rates continued to be the basic instrument in the monetary policy implementations of the Central Bank in the fight against inflation. Within the framework of the economic program being implemented, the Central Bank decreased its short-term interest rates four times in 2004 on 5 February, 17 March, 8 September and 20 December. As a result of these reductions, the overnight borrowing interest rate, which was 26% and the lending interest rate, which was 31% at the end of 2003, were reduced to 18% and 22%, respectively. The total supply and demand balance, the indicators related to fiscal policy, the developments in wages-employment-unit cost and productivity, the public and private sector pricing behaviors, the inflationary expectations, the foreign currency exchange rates and the developments in the factors that could affect them, the probable international shocks and inflation estimates were taken into consideration when making interest decisions.

At the end of all of these developments, the money in circulation at the end of 2004 increased 22.9% compared to 2003 and rose to 12,446.3 trillion TL. The demand deposits in the banks increased 48.9% and rose to 17,020.5 trillion TL. The deposits in the Central Bank increased 58.2% and rose to 2.2 trillion TL. The money in circulation in real terms increased 8%, the demand deposits increased 30.8% and the deposits in the Central Bank increased 39%. Thus, the M1, narrow defined money supply, increased 36.7% and rose to 29,469.1 trillion TL and increased 20.1% in real terms (Table 54).

Table 54. Money Supply (M1)

Years	Money in Circulation		Demand Deposits		Deposits in the Central Bank		M1	
	Billion TL	Change (%)	Billion TL	Change (%)	Billion TL	Change (%)	Billion TL	Change (%)
1998	1,106,023	-	1,177,706	-	445	-	2,284,174	-
1999	2,003,483	81.1	2,927,483	148.6	296	-33.5	4,931,262	115.9
2000	3,214,550	60.4	4,994,420	70.6	654	120.9	8,209,624	66.5
2001	4,801,257	49.4	6,271,522	25.6	491	-24.9	11,073,270	34.9
2002	7,208,863	50.1	7,046,747	12.4	3,249	561.7	14,258,860	28.8
2003	10,128,670	40.5	11,434,056	62.3	1,422	-56.2	21,564,149	51.2
2004	12,446,299	22.9	17,020,523	48.9	2,249	58.2	29,469,070	36.7

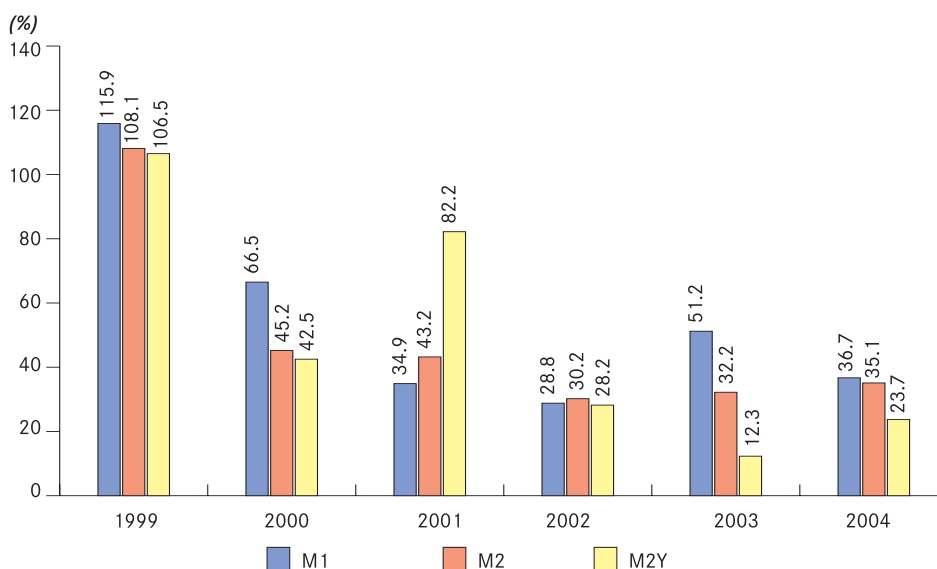
Source: Republic of Turkey, Central Bank

The term deposits, which are a sub-item of the M2 money supply, increased 34.6% and rose to 79,875.4 trillion TL and increased 18.3% in real terms. The M2, which is the broadly defined money supply, increased 35.1% and became 109,344.4 trillion TL. There was an increase of 18.7% in the M2 money supply in real terms (Table 55).

Table 55. Money Supply (M2)

Years	(Billion TL)				
	M1	Timed Deposits	Change (%)	M2	Change (%)
1998	2,284,174	8,572,589	-	10,856,763	-
1999	4,931,262	17,664,799	106.1	22,596,061	108.1
2000	8,209,624	24,602,939	39.3	32,812,563	45.2
2001	11,073,270	35,912,717	46.0	46,985,987	43.2
2002	14,258,860	46,936,415	30.7	61,195,275	30.2
2003	21,564,149	59,358,787	26.5	80,922,936	32.2
2004	29,469,070	79,875,379	34.6	109,344,449	35.1

Source: Republic of Turkey, Central Bank

Graph 16. Changes in the Money Supply

The M2Y money supply increased 23.7% and rose to 185,418.6 trillion TL. The M3 money supply increased 34.7% and rose to 116,597.6 trillion TL. The M2Y increased 8.7% and the M3 increased 18.4% in real terms (Table 56).

Table 56. Monetary Developments

	(Billion TL)						
					Change (%)		
	2001	2002	2003	2004	2002	2003	2004
Volume of Issues	5,328,876	7,707,082	10,844,508	13,465,237	44.6	40.7	24.2
M1 Money Supply	11,073,270	14,258,860	21,564,149	29,469,070	28.8	51.2	36.7
Money in Circulation	4,801,257	7,208,863	10,128,670	12,446,299	50.1	40.5	22.9
Demand Commercial Deposits	3,100,924	3,784,187	5,580,690	8,671,897	22.0	47.5	55.4
Demand Savings Deposits	1,484,723	2,064,685	3,719,120	5,204,493	39.1	80.1	39.9
Other Demand Deposits	1,685,875	1,197,875	2,134,246	3,144,133	-28.9	78.2	47.3
Central Bank Deposits	491	3,249	1,422	2,249	561.7	-56.2	58.2
M2 Money Supply	46,985,987	61,195,275	80,922,936	109,344,449	30.2	32.2	35.1
Commercial Time Deposits	4,621,320	8,261,003	9,184,744	13,169,585	78.8	11.2	43.4
Time Savings Deposits	25,774,229	32,614,228	41,396,994	56,258,543	26.5	26.9	35.9
Other Time Deposits	5,517,168	6,061,184	8,777,049	10,447,251	9.9	44.8	19.0
M2Y Money Supply	104,132,803	133,450,273	149,854,800	185,418,562	28.2	12.3	23.7
Foreign Currency Deposit Account	57,146,816	72,254,998	68,931,864	76,074,113	26.4	-4.6	10.4
M3 Money Supply	50,587,717	64,399,837	86,565,043	116,597,637	27.3	34.4	34.7

Source: Republic of Turkey, Central Bank

The total Turkish Lira deposits in the banks increased 36.4% and rose to 103,240.2 trillion TL. The foreign currency deposit accounts increased 10.4% and rose to 76,074.1 trillion TL. The Turkish Lira deposits increased 19.9% and the foreign currency deposit accounts decreased 3% in real terms (Tables 57, 58).

Table 57. Deposits in Banks (*)

	(Billion TL)						
					Change (%)		
	2001	2002	2003	2004	2002	2003	2004
Savings and Deposits	27,258,952	34,678,913	45,116,114	61,463,036	27.2	30.1	36.2
Time	25,774,229	32,614,228	41,396,994	56,258,543	26.5	26.9	35.9
Demand	1,484,723	2,064,685	3,719,120	5,204,493	39.1	80.1	39.9
Commercial Deposits	7,722,244	12,045,190	14,765,434	21,841,482	56.0	22.6	47.9
Time	4,621,320	8,261,003	9,184,744	13,169,585	78.8	11.2	43.4
Demand	3,100,924	3,784,187	5,580,690	8,671,897	22.0	47.5	55.4
Official Deposits	2,737,446	2,311,037	4,884,231	6,344,337	-15.6	111.3	29.9
Time	732,454	1,167,562	2,397,824	3,344,489	59.4	105.4	39.5
Demand	2,004,992	1,143,475	2,486,407	2,999,848	-43.0	117.4	20.6
Other Deposits	7,203,043	7,259,059	10,911,295	13,591,384	0.8	50.3	24.6
Time	5,517,168	6,061,184	8,777,049	10,447,251	9.9	44.8	19.0
Demand	1,685,875	1,197,875	2,134,246	3,144,133	-28.9	78.2	47.3
Total Deposits	44,921,685	56,294,199	75,677,074	103,240,239	25.3	34.4	36.4

Source: Republic of Turkey, Central Bank

(*) The total TL deposits belonging to depositors settled in Turkey.

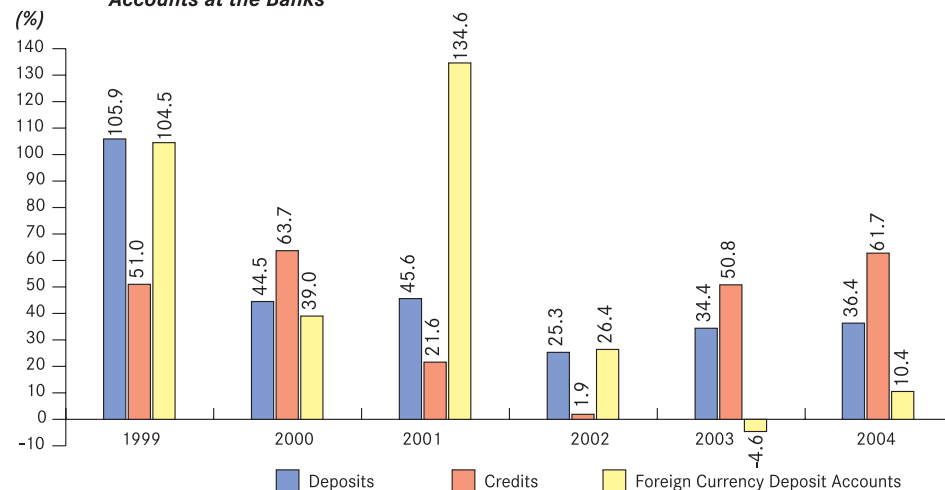
Table 58. Foreign Currency Deposit Accounts and Time Deposits

Years	Time Savings Deposit	Foreign Currency Deposit Acc. (*)	Time Savings Deposit+ Foreign Curr. Deposit Acc.	Time Savings Deposit (Share %)	Foreign Curr. Deposit Acc. (Share %)
1998	5,980,132	8,568,813	14,548,945	41.1	58.9
1999	12,741,683	17,523,249	30,264,932	42.1	57.9
2000	17,113,342	24,354,866	41,468,208	41.3	58.7
2001	25,774,229	57,146,816	82,921,045	31.1	68.9
2002	32,614,228	72,254,998	104,869,226	31.1	68.9
2003	41,396,994	68,931,864	110,328,858	37.5	62.5
2004	56,258,543	76,074,113	132,332,656	42.5	57.5

Source: Republic of Turkey, Central Bank

(*) The total foreign currency deposits belonging to depositors settled in Turkey.

Graph 17. The Rates of Change in the Deposits and Credits and the Foreign Currency Deposit Accounts at the Banks



The term savings deposits, which have the highest share within the total deposits, increased 35.9% and rose to 56,258.5 trillion TL. The demand savings deposits increased 39.9% and rose to 5,204.5 trillion TL. The total savings deposits increased 36.2% and became 61,463 trillion TL. The commercial deposits increased 47.9% and rose to 21,841.5 trillion TL. The official deposits increased 29.9% and rose to 6,344.3 trillion TL. The deposits other than these increased 24.6% and rose to 13,591.4 trillion TL.

The bank loans increased 61.7% and rose to 77,628.1 trillion TL and increased 42.1% in real terms. The commercial loans included in this increased 64.6% and rose to 70,190.8 trillion TL. The specialty loans increased 38.6% with the influence of the high rate of increase in the loans to small tradesmen and artisans and in the housing loans and rose to 7,437.3 trillion TL. The agricultural loans increased 26.8% and rose to 3,738.5 trillion TL. The small tradesmen and artisan loans increased 69.6% and rose to 2,777 trillion TL. The housing loans increased 52.4% and became 723.6 trillion TL. The private specialty loans other than these dropped 35% and became 198.3 trillion TL (Table 59).

Table 59. Bank Credits (*)

	(Billion TL)						
					Change (%)		
	2001	2002	2003	2004	2002	2003	2004
Bank Credits	31,249,115	31,845,411	48,018,584	77,628,147	1.9	50.8	61.7
Commercial Credits	27,437,063	27,896,449	42,653,312	70,190,837	1.7	52.9	64.6
Specialty Credits	3,812,052	3,948,962	5,365,272	7,437,310	3.6	35.9	38.6
Agricultural Credits	2,388,358	2,365,475	2,948,013	3,738,504	-1.0	24.6	26.8
Cr. for Small Tradesman and Artisans	640,181	902,123	1,637,585	2,776,994	40.9	81.5	69.6
Housing Credits	591,502	429,281	474,788	723,556	-27.4	10.6	52.4
Other	192,011	252,083	304,886	198,256	31.3	20.9	-35.0
Development and Investment Bank Cr.	2,797,858	3,064,396	3,729,695	4,583,828	9.5	21.7	22.9
Turkish Export Credit Banks	1,093,395	1,139,869	1,257,871	1,318,486	4.3	10.4	4.8
Other	1,704,463	1,924,527	2,471,824	3,265,342	12.9	28.4	32.1
Domestic Net Credit Volume	34,046,973	34,909,807	51,748,279	82,211,975	2.5	48.2	58.9

Source: Republic of Turkey, Central Bank

(*) Domestic

The loans of the development and investment banks increased 22.9% and rose to 4,583.8 trillion TL. The Turkish Export Credit Bank loans within this increased 4.8% and rose to 1,318.5 trillion TL. The other development and investment bank loans increased 32.1% and rose to 3,265.3 trillion TL.

Connected to these changes, in 2004 the credit stock increased 58.9% and rose to 82,212 trillion TL and increased 39.6% in real terms. Providing an environment of economic stability, the financial structures of the banks becoming stronger, the valuation of the Turkish Lira, decrease in inflation and interest rates, high growth and the increase in domestic demand have been effective in the increase in the volume of loans.

In 2004, the Central Bank foreign currency reserves increased 7.1% and rose to US\$36,006 million, the gold reserves increased 4.9% and rose to US\$1,635 million, the foreign currency reserves of the banks and private finance institutions increased 115.5% and rose to US\$21,108 million. Connected to these changes, the gross international reserves increased 30.6% and became US\$58,749 million (Table 60).

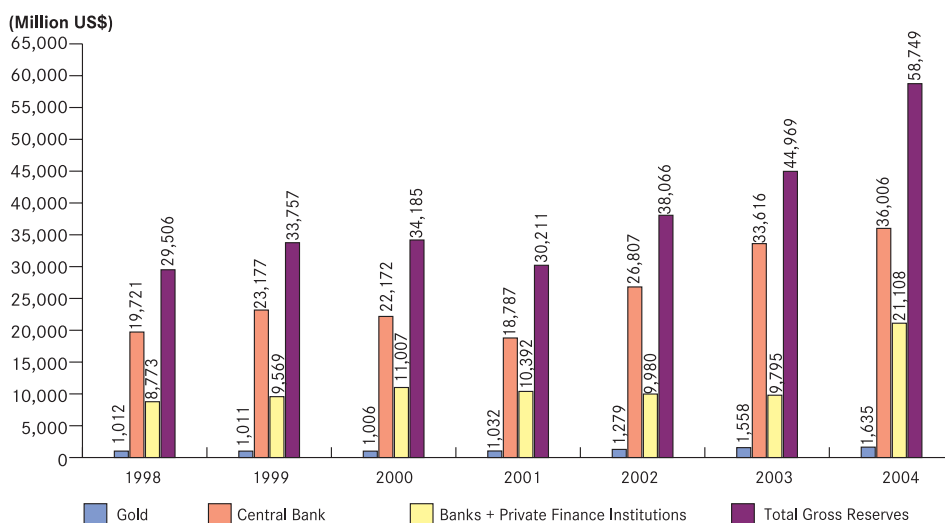
Table 60. International Reserves

(Million US\$)

Years	Gold	Gross Foreign Currency Reserves		Total Gross Reserves
		Central Bank	Banks+ Private Finance Institutions	
1998	1,012	19,721	8,773	29,506
1999	1,011	23,177	9,569	33,757
2000	1,006	22,172	11,007	34,185
2001	1,032	18,787	10,392	30,211
2002	1,279	26,807	9,980	38,066
2003	1,558	33,616	9,795	44,969
2004	1,635	36,006	21,108	58,749

Source: Republic of Turkey, Central Bank

Graph 18. International Reserves



The rate of increase occurring in imports in 2004 was realized at a higher level than the rate of increase in the Central Bank foreign currency reserves. At the end of the changes occurring in the import and Central Bank foreign currency reserves, the ratio of Central Bank foreign currency reserves to imports, which was 5.8 months in 2003, decreased to 4.4 months in 2004 (Table 61).

A total of 50 banks were engaged in activities in the banking sector in 2003. This figure decreased to 48 in 2004 connected to the decrease in the number of com-

mercial banks and the banks not accepting deposits. The number of commercial banks decreased from 36 to 35 and the number of banks not accepting deposits decreased from 14 to 13. Three of the commercial banks were in the public sector, 18 were in the private sector, 13 were foreign banks and 1 was within the scope of the Savings Deposit Insurance Fund. Three of the banks, which do not accept deposits, were in the public sector, 8 were in the private sector and 2 were foreign banks (Table 62).

Table 61. Central Bank Reserves and Ratio of Meeting Imports

(Million US\$)			
Years	Republic of Turkey, Central Bank Foreign Currency	Imports	Ratio of Meeting Imports (months)
1998	19,721	45,921	5.2
1999	23,177	40,671	6.8
2000	22,172	54,503	4.9
2001	18,787	41,399	5.4
2002	26,807	51,554	6.2
2003	33,616	69,340	5.8
2004	36,006	97,362	4.4

Source: Republic of Turkey, Central Bank; SIS

Table 62. Number of Banks

	1999	2000	2001	2002	2003	2004
Commercial Banks	62	61	46	40	36	35
Public Capital Banks	4	4	3	3	3	3
Private Capital Banks	31	28	22	20	18	18
Foreign Banks	19	18	15	15	13	13
Banks Transferred to Savings Deposit Insurance Fund	8	11	6	2	2	1
Banks Not Accepting Deposits	19	18	15	14	14	13
Public Capital Banks	3	3	3	3	3	3
Private Capital Banks	13	12	9	8	8	8
Foreign Banks	3	3	3	3	3	2
Total	81	79	61	54	50	48

Source: Union of Turkish Banks

In 2004, despite the decrease in the number of banks, there was an increase in the number of bank branches. The number of branches in the sector increased 140 and the total number rose to 6,106 branches. The number of branches of the commercial banks with public sector capital increased by 178 and the number of branches of the commercial banks with private sector capital increased by 135. The number of branches of the fund banks decreased by 2 and the number of branches of the foreign capital banks did not change. The number of branches of the banks not accepting private capital deposits increased by 2 and there was no change in the number of bank branches of the banks not accepting public sector and foreign capital deposits (Table 63).

Table 63. Distribution According to Years of the Bank Branches

	1999	2000	2001	2002	2003	2004
Commercial Banks	5,399	5,485	5,995	5,720	5,777	6,088
Public Capital Banks	2,459	2,429	2,725	2,019	1,971	2,149
Private Capital Banks	2,867	2,975	3,019	3,488	3,594	3,729
Banks Trans. to Sav. Dep. Ins. Fund	27	27	16	9	3	1
Foreign Banks	46	54	235	204	209	209
Banks Established in Turkey	35	43	225	195	200	200
Banks With Branches in Turkey	11	11	10	9	9	9
Banks Not Accepting Deposits	24	24	17	18	16	18
Public Capital Banks	12	11	4	4	4	4
Private Capital Banks	10	11	11	12	10	12
Foreign Capital Banks	2	2	2	2	2	2
Total	5,423	5,509	6,012	5,738	5,793	6,106
Branches Belong. to Banks Closed Down (*)	2,268	2,328	896	368	173	0
Total	7,691	7,837	6,908	6,106	5,966	6,106

Source: Union of Turkish Banks

(*) It includes the number of branches in previous years of the banks, which were closed down.

The number of personnel of the banks increased in parallel with the developments in the number of bank branches. The number of employees working in the banking system, which was 123,249 persons in 2003, increased by 3,914 persons and became 127,163 persons in 2004. The number of employees at the commercial banks with public sector capital increased by 1,473 persons, at the commercial banks with private sector capital increased by 6,266 persons and at the commercial banks with foreign capital increased by 401 persons. The number of employees at the fund banks decreased by 75 persons. The number of employees at the public sector capital banks not accepting deposits decreased by 82 persons. The number of employees at the private sector capital banks not accepting deposits decreased by 2 persons. The number of employees at the foreign capital banks not accepting deposits increased by 5 persons (Table 64).

Table 64. Distribution According to Years of the Employees at the Banks

	1999	2000	2001	2002	2003	2004
Commercial Banks	119,436	118,479	117,372	111,720	114,565	122,630
Public Capital Banks	61,730	60,191	56,108	40,158	37,994	39,467
Private Capital Banks	55,311	55,741	55,384	65,284	70,614	76,880
Banks Trans. to Sav. Dep. Ins. Fund	485	486	414	912	478	403
Foreign Banks	1,910	2,061	5,466	5,366	5,479	5,880
Banks Established in Turkey	1,468	1,619	5,052	4,997	5,123	5,510
Banks With Branches in Turkey	442	442	414	369	356	370
Banks Not Accepting Deposits	5,142	5,285	5,079	4,913	4,612	4,533
Public Capital Banks	4,336	4,456	4,322	4,174	3,882	3,800
Private Capital Banks	764	784	712	691	683	681
Foreign Capital Banks	42	45	45	48	47	52
Total	124,578	123,764	122,451	116,633	119,177	127,163
Branches Belong. to Banks Closed Down (*)	49,410	46,637	15,044	6,638	4,072	0
Total	173,988	170,401	137,495	123,271	123,249	127,163

Source: Union of Turkish Banks

(*) It includes the number of personnel for the years prior to the closing date of the banks, which were closed down.

The application of giving a full guarantee to savings deposits, which was put into practice in 1994, was abrogated on 5 July 2004 and a limited deposit guarantee system was started that would cover savings deposits up to 50 billion TL. Furthermore, the temporary full guarantee, which was introduced in December 2000 for all of the receivables of the savings holders and other creditors at the savings banks in Turkey and which went into effect when these banks were taken within the scope of the Saving Deposit Insurance Fund, was abrogated on the same date.

As of the end of 2004, a total of 327 companies, with 217 large-scale and 110 small-scale companies were taken within the scope of the Financial Restructuring Program. Of these, 9 companies were engaged in activities in the Eastern Anatolian Region, 13 in the Black Sea Region, 17 in the Mediterranean Region, 22 in the Southeastern Anatolian Region, 38 in the Central Anatolian Region, 43 in the Aegean Region and 185 in the Marmara Region.

Of the companies taken within the scope of the program, restructuring agreements were signed with a total of 306 companies, with 101 small-scale and 205 large-scale companies. With these agreements, a total of US\$5,709.2 million loan debts were restructured, of which US\$646.9 million belonged to the small companies and US\$5,062.3 million belonged to the large companies.

Capital Markets

The total amount of shares issued in 2004 increased 4.9% compared to 2003 and rose from 166,120.1 trillion TL to 174,293.4 trillion TL. Of these, 93.9% were formed of the issue of shares of the public sector and 6.1% were formed of the issue of shares of the private sector (Table 65).

Table 65. Permits for Issuing Stocks and Bonds

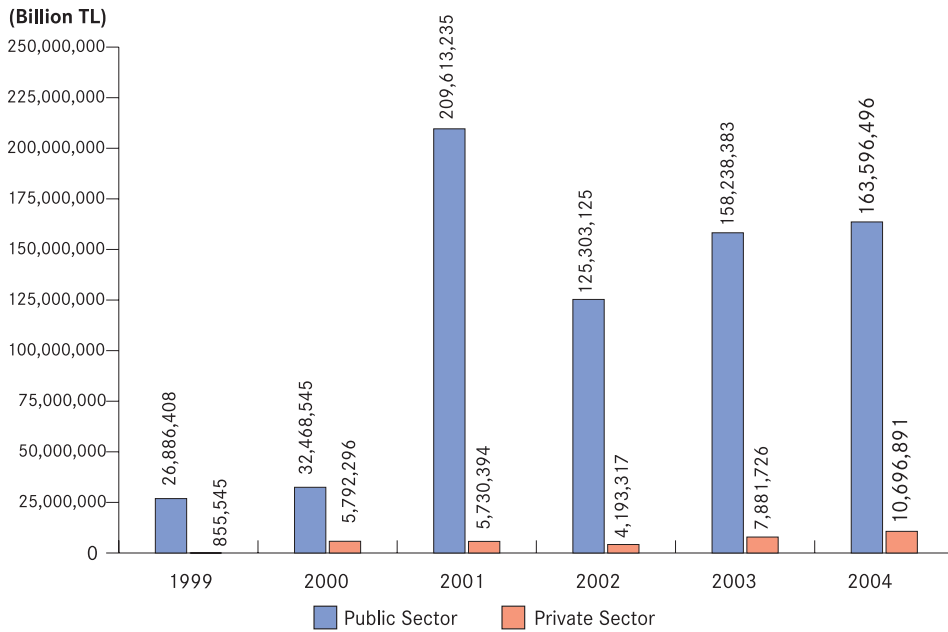
(Billion TL)								
	Value			Share (%)			Change (%)	
	2002	2003	2004	2002	2003	2004	2003	2004
Public Sector	125,303,124.8	158,238,383.4	163,596,495.8	100.0	100.0	100.0	26.3	3.4
State Debenture Bonds	58,900,024.7	101,777,185.5	102,039,666.9	47.0	64.3	62.4	72.8	0.3
Treasury Bonds	66,403,100.1	56,461,197.9	61,556,828.9	53.0	35.7	37.6	-15.0	9.0
Private Sector	4,193,317.1	7,881,726.3	10,696,891.2	100.0	100.0	100.0	88.0	35.7
Shares	1,597,316.8	1,749,596.6	3,826,540.2	38.1	22.2	35.8	9.5	118.7
Bank Bonds and Bank Guar. Bonds	83,613.9	0.0	0.0	2.0	0.0	0.0	-	-
Securities Invest. Fund Part. Cert.	2,405,345.7	6,118,693.0	6,870,351.0	57.4	77.6	64.2	154.4	12.3
Foreign Investment Fund Part. Cert.	107,040.7	13,436.7	0.0	2.6	0.2	0.0	-87.4	-
Total	129,496,441.9	166,120,109.7	174,293,387.0	-	-	-	28.3	4.9

Source: Capital Markets Board (CMB)

The issues of public sector state debenture bonds increased 0.3% and the issues of treasury bonds increased 9%. Connected to this development, the total public sector issues of securities increased 3.4% and rose to 163,596.5 trillion TL. Of this a 102,039.7 trillion TL portion (62.4%) was from the issues of state debenture bonds and a 61,556.8 trillion TL portion (37.6%) was from the issues of treasury bonds.

The issues of the private sector securities increased 35.7% in 2004 and rose to 10,696.9 trillion TL. A 3,826.5 trillion TL portion (35.8%) of the issues of private sector securities was formed of shares and a 6,870.4 trillion TL portion (64.2%) was formed of securities investment fund participation certificates.

Graph 19. Permits for Issuing Stocks and Bonds



As of months, the issues of private sector securities were made the most in January with 1,974.7 trillion TL. It was followed by issues of 1,799.7 trillion TL in July and 1,789.1 trillion TL in October. October, September and January were the months when there were the most intensive issues of shares and July, January and February were the months when there were the most intensive issues of securities investment fund participation certificates. No issues of bank bonds and bank guaranteed bonds and foreign investment fund participation certificates were made in 2004 (Table 66).

Table 66. Private Sector Permits for Issuing Stocks and Bonds

(Billion TL)

Years	Months	Shares	Bank Bonds and Guaranteed Bank Bonds	Securities Investment Fund Part. Certificate	Foreign Investment Fund Participation Certificate	Grand Total
2002	I	345,610.6	-	122,204.0	-	467,814.6
	II	93,944.9	-	18,340.0	-	112,284.9
	III	71,260.0	-	207,297.7	26,285.5	304,843.2
	IV	85,146.1	-	367,965.0	-	453,111.1
	V	170,765.6	-	206,407.0	45,900.0	423,072.6
	VI	74,996.0	-	466,690.0	-	541,686.0
	VII	142,531.4	-	124,851.0	19,175.3	286,557.6
	VIII	159,587.6	-	452,806.0	15,680.0	628,073.6
	IX	16,449.2	83,613.9	213,529.0	-	313,592.1
	X	50,881.7	-	47,977.0	-	98,858.7
	XI	282,235.3	-	25,115.0	-	307,350.3
	XII	103,908.6	-	152,164.0	-	256,072.6
	Total	1,597,316.8	83,613.9	2,405,345.7	107,040.7	4,193,317.2
2003	I	100,724.9	-	1,239,122.0	-	1,339,846.9
	II	4,828.0	-	20,282.0	-	25,110.0
	III	218,347.0	-	56,980.0	-	275,327.0
	IV	62,199.6	-	238,673.0	-	300,872.6
	V	16,238.9	-	716,099.0	-	732,337.9
	VI	126,772.0	-	51,205.0	-	177,977.0
	VII	134,763.8	-	71,846.0	-	206,609.8
	VIII	166,247.6	-	352,544.0	13,436.7	532,228.3
	IX	34,995.9	-	73,909.0	-	108,904.9
	X	29,076.6	-	564,389.0	-	593,465.6
	XI	67,101.7	-	1,366,822.0	-	1,433,923.7
	XII	788,300.6	-	1,366,822.0	-	2,155,122.6
	Total	1,749,596.6	-	6,118,693.0	13,436.7	7,881,726.3
2004	I	433,432.8	-	1,541,278.0	-	1,974,710.8
	II	27,202.5	-	1,260,025.0	-	1,287,227.5
	III	153,013.6	-	213,902.0	-	366,915.6
	IV	72,887.4	-	65,496.0	-	138,383.4
	V	363,691.1	-	453,841.0	-	817,532.1
	VI	394,726.5	-	765,665.0	-	1,160,391.5
	VII	254,701.6	-	1,544,977.0	-	1,799,678.6
	VIII	34,502.9	-	4,836.0	-	39,338.9
	IX	636,781.0	-	0.0	-	636,781.0
	X	976,133.8	-	812,923.0	-	1,789,056.8
	XI	172,467.9	-	19,067.0	-	191,534.9
	XII	306,999.2	-	188,341.0	-	495,340.2
	Total	3,826,540.3	-	6,870,351.0	-	10,696,891.3

Source: CMB

The volume of transactions of the securities second-hand markets, which was 605,625.7 trillion TL in 2003, rose to 9,506,756.9 trillion TL in 2004, especially due to the high rate of increase occurring in the issues of state debenture bonds (Table 67).

The second-hand sales of the public sector securities increased from 458,981.7 trillion TL to 9,298,334.2 trillion TL. The second-hand sales of the private sector securities increased from 146,644 trillion TL to 208,422.7 trillion TL. As the result of these developments, in 2004 no private sector securities investment instruments were transacted other than the second-hand market shares. Within the total second-hand market transactions, the share of the public sector securities

increased 22 points compared to the previous year and became 97.8%. The share of the private sector securities decreased 22 points and became 2.2%.

Table 67. Volume of Transactions on the Second-Hand Markets

							(Billion TL)	
	Value			Share (%)			Change (%)	
	2002	2003	2004	2002	2003	2004	2003	2004
Public Sector	267,574,516.7	458,981,673.2	9,298,334,213.5	100.0	100.0	100.0	71.5	1,925.9
State Debenture Bonds	162,162,580.2	364,784,683.3	8,534,617,383.9	60.6	79.5	91.8	124.9	2,239.6
Treasury Bonds	105,411,936.5	94,196,989.9	763,716,829.6	39.4	20.5	8.2	-10.6	710.8
Private Sector	106,302,549.8	146,644,042.8	208,422,733.2	100.0	100.0	100.0	37.9	42.1
Shares	106,302,549.8	146,644,042.8	208,422,733.2	100.0	100.0	100.0	37.9	42.1
Total	373,877,066.5	605,625,716.0	9,506,756,946.7	-	-	-	62.0	1,469.7

Source: CMB

The volume of transactions of the İstanbul Stock Exchange (İSE) increased 42.1% compared to 2003 and rose from 146,645 trillion TL to 208,422.9 trillion TL. In 2004, the highest volume of transactions was realized in March at 25,193.5 trillion TL and the lowest volume of transactions was realized in June at 10,526.1 trillion TL (Table 68).

Table 68. İstanbul Stock Exchange

Years	Months	Transactions Volume (Billion TL)	İSE Index (1986/01=1)	Wholesale Goods Pr. Index		Volume of Transactions	
				1994=100	Change (%)	Nominal Change (%)	Real Change (%)
2003	I	7,562,839.0	11,032.0	6,840.7	5.6	-21.5	-25.7
	II	7,113,369.0	11,574.4	7,055.7	3.1	-5.9	-8.8
	III	7,480,452.0	9,475.1	7,281.8	3.2	5.2	1.9
	IV	13,011,499.0	11,510.0	7,410.0	1.8	73.9	70.9
	V	10,877,115.0	11,381.4	7,364.0	-0.6	-16.4	-15.9
	VI	7,775,262.0	10,884.4	7,222.2	-1.9	-28.5	-27.1
	VII	5,957,948.0	10,572.0	7,183.5	-0.5	-23.4	-23.0
	VIII	9,364,934.0	11,611.8	7,169.4	-0.2	57.2	57.5
	IX	14,882,452.0	13,055.9	7,173.3	0.1	58.9	58.8
	X	25,045,880.0	15,754.3	7,213.4	0.6	68.3	67.4
	XI	13,079,064.0	14,617.5	7,336.2	1.7	-47.8	-48.7
	XII	24,494,152.0	18,625.0	7,382.1	0.6	87.3	86.1
2004	I	19,905,933.0	17,259.3	7,576.5	2.6	-18.7	-20.8
	II	15,137,963.0	18,889.2	7,700.6	1.6	-24.0	-25.2
	III	25,193,461.0	20,190.8	7,862.2	2.1	66.4	63.0
	IV	17,450,017.0	18,022.9	8,070.5	2.6	-30.7	-32.5
	V	13,245,101.0	17,327.9	8,067.8	0.0	-24.1	-24.1
	VI	10,526,133.0	17,967.8	7,982.7	-1.1	-20.5	-19.7
	VII	13,110,413.0	19,380.9	7,861.6	-1.5	24.6	26.5
	VIII	12,558,110.0	20,218.4	7,923.5	0.8	-4.2	-5.0
	IX	23,977,632.0	21,722.5	8,069.7	1.8	90.9	87.5
	X	18,462,868.0	22,899.9	8,330.1	3.2	-23.0	-25.4
	XI	17,960,103.0	22,486.2	8,392.7	0.8	-2.7	-3.4
	XII	20,895,211.0	24,971.7	8,403.8	0.1	16.3	16.2

Source: İSE, CMB, SIS

The İSE index followed a fluctuating course during the first five months of 2004 and started to rise as of June and followed a relatively stable course for the rest of the year. The index reached its highest level in December with the effect of the decision made on 17 December 2004 for starting Turkey's EU full membership negotiations and the developments about continuing in 2005 and later the program, which had been implemented with the IMF for the past three years. The İSE index increased 34.1% compared to 2003 and closed the year at the level of 24,971.7 points.

3. Public Finance

The priority of the 2004 fiscal policy was to reach the non-interest public sector surplus targeted by keeping the public sector expenditures under control and by implementing the revenues policy in conformance with the targeted inflation. The fiscal policy was formed in a manner to produce a non-interest surplus in the public sector at the rate of 6.5% of the GNP in order to decrease the public sector debt stock and to keep it at a sustainable level. Revenue increasing and expense restricting measures were taken in order to attain this target and some additional measures were put into practice during the year. At the end of the year, the rate of increase in the public sector revenues was realized at a rate higher than the rate of increase in the public sector expenditures.

The total public sector revenues, which were 108,377 trillion TL in 2003, increased 20.7% in 2004 and rose to 130,776 trillion TL (Table 69).

Table 69. Public Sector Revenues

(Current Prices, Trillion TL)

	Revenues			Change (%)		Share (%)			Ratios to GNP (%)		
	2002	2003	2004 (*)	2003	2004	2002	2003	2004	2002	2003	2004
Taxes	66,041	91,199	109,545	38.1	20.1	76.6	84.1	83.8	24.0	25.6	25.5
Direct	21,815	27,763	30,749	27.3	10.8	25.3	25.6	23.5	7.9	7.8	7.2
Indirect	42,933	60,168	75,766	40.1	25.9	49.8	55.5	57.9	15.6	16.9	17.7
Asset	1,293	3,267	3,030	152.7	-7.3	1.5	3.0	2.3	0.5	0.9	0.7
Non-Tax Normal Rev.	8,419	10,162	11,665	20.7	14.8	9.8	9.4	8.9	3.1	2.8	2.7
Factor Income	20,169	20,549	24,079	1.9	17.2	23.4	19.0	18.4	7.3	5.8	5.6
Social Funds	-8,837	-13,962	-16,013	58.0	14.7	-10.2	-12.9	-12.2	-3.2	-3.9	-3.7
Total	85,792	107,948	129,276	25.8	19.8	99.5	99.6	98.9	31.2	30.3	30.1
Privatization Rev.	456	429	1,500	-5.9	249.7	0.5	0.4	1.1	0.2	0.1	0.3
Total Revenues	86,248	108,377	130,776	25.7	20.7	100.0	100.0	100.0	31.4	30.4	30.5

Source: SPO, SIS
(*) Provisional

Tax revenues, which constitute a very important part of the total public sector revenues, increased 20.1% in 2004 and became 109,545 trillion TL. The non-tax normal revenues increased 14.8% and rose to 11,665 trillion TL and the factor income increased 17.2% and rose to 24,079 trillion TL. The social funds deficit increased 14.7% and became 16,013 trillion TL.

The total share of the public sector revenues within the GNP increased 0.1 points compared to the previous year and rose to 30.5%. The share of the tax revenues decreased 0.1 points and fell to 25.5%. The share of the non-tax normal revenues decreased 0.1 points and dropped to 2.7%. The share of the factor income decreased 0.2 points and fell to 5.6%. The share of the deficit of the social funds decreased 0.2 points and regressed to 3.7%. The share of the privatization revenues increased 0.2 points and rose to 0.3%.

The rate of increase of the public sector expenditures, which was 17.2% in 2003, decreased to 9.6% in 2004 and a total of 155,616 trillion TL in expenditures were made in the public sector. The share of the total public sector expenditures within the GNP fell 3.5 points and became 36.3% (Table 70).

Table 70. Public Sector Expenses

(Current Prices, Trillion TL)

	Expenses			Change (%)		Share (%)				Ratios to GNP (%)		
	2002	2003	2004 (*)	2003	2004	2002	2003	2004		2002	2003	2004
Current Expenses	34,688	43,694	50,605	26.0	15.8	28.6	30.8	32.5	12.6	12.3	11.8	
Investment Expenses	17,223	17,039	20,197	-1.1	18.5	14.2	12.0	13.0	6.3	4.8	4.7	
Fixed Capital	17,308	17,615	20,028	1.8	13.7	14.3	12.4	12.9	6.3	4.9	4.7	
Change in Stock	-85	-576	169	577.6	-	-0.1	-0.4	0.1	0.0	-0.2	0.0	
Transfer Expenses	67,381	80,415	84,209	19.3	4.7	55.6	56.6	54.1	24.5	22.5	19.6	
Current Transfers (Net)	66,858	79,947	83,740	19.6	4.7	55.2	56.3	53.8	24.3	22.4	19.5	
Budget Interest Payment	51,871	58,524	56,488	12.8	-3.5	42.8	41.2	36.3	18.9	16.4	13.2	
Capital Transfers	523	468	469	-10.5	0.2	0.4	0.3	0.3	0.2	0.1	0.1	
Stock Change Fund	1,894	895	605	-52.7	-32.4	1.6	0.6	0.4	0.7	0.3	0.1	
Total Expenses	121,186	142,043	155,616	17.2	9.6	100.0	100.0	100.0	44.1	39.8	36.3	

Source: SPO, SIS

(*) Provisional

The current expenditures, which increased 26% in 2003, increased 15.8% in 2004 and rose to 50,605 trillion TL. The share of current expenditures within the total public sector expenditures increased 1.7 points and rose to 32.5%. Its share within the GNP decreased 0.5 points and regressed to 11.8%.

The rate of increase in the public sector fixed capital investments, which was 1.8% in 2003, rose to 13.7% in 2004 and a total of 20,028 trillion TL in fixed capital investments were made. There was an increase of 169 trillion TL in the public sector stocks. Thus, the public sector investment expenditures, which shrank 1.1% in 2003, increased 18.5% in 2004 and reached 20,197 trillion TL. The share of the investment expenditures within the total public sector expenditures increased 1 point and rose to 13% and its share within the GNP decreased 0.1 point and regressed to 4.7%.

The rate of increase of the public sector transfer expenses decreased 14.6 points in 2004 and regressed to 4.7% and a total of 84,209 trillion TL in transfer expenses were made. The budget interest payments within this decreased 3.5% and regressed to 56,488 trillion TL. The share of the transfer expenses within the total public sector expenditures decreased 2.5 points and regressed to 54.1% and its share within the GNP decreased 2.9 points and fell to 19.6%. The share of the budget interest payments within the total public sector expenditures dropped 4.9 points and regressed to 36.3% and its share within the GNP decreased 3.2 points and regressed to 13.2%.

a. Consolidated Budget

In 2004, a transition was made from the program budget code system to the analytical budget code system in the organizations with general and supplementary budgets. With the new system, it was aimed to increase the productivity, effectiveness and supervision in the public sector expenditures, to provide for financial transparency and accountability and to make the budget more transparent, effective, functional and in conformance with international standards. The form of monitoring the budget revenues and expenses were changed in the new system.

In 2004 it was envisaged that the consolidated budget expenditures would be 150,508 trillion TL and that the consolidated budget revenues would be 104,109 trillion TL. As a result of this, it was targeted that the budget balance would produce a deficit of 46,399 trillion TL and that the non-interest balance would be 19,651 trillion TL. But later the envisaged budget expenditures for the end of the year were revised to 149,945 trillion TL, the consolidated budget deficit to 45,836 trillion TL and the non-interest balance to 20,214 trillion TL. No change was made in the targets of the consolidated budget revenues and the target of 104,109 trillion TL was preserved.

At the end of the year, the consolidated budget revenues, with a 9.6% increase, rose to 109,887 trillion TL and the consolidated budget expenditures, with a 0.2% decrease, regressed to 140,200 trillion TL. Thus, the expenditures were realized 9,745 trillion TL below the revised target and the revenues were realized 5,778 trillion TL above the target and a positive performance was obtained in the consolidated budget applications (Table 71).

Table 71. Consolidated Budget Balance

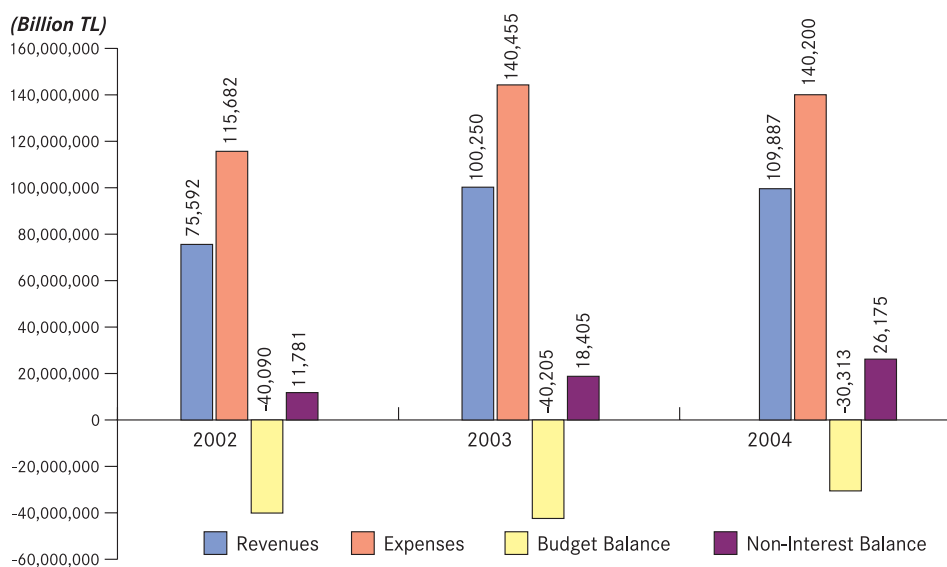
(Trillion TL)

	Budget Balance			Change (%)		Ratios to GNP (%)		
	2002	2003	2004	2003	2004	2002	2003	2004
Revenues	75,592	100,250	109,887	32.6	9.6	27.5	28.1	25.6
General Budget	74,604	98,559	108,074	32.1	9.7	27.1	27.6	25.2
Suppl. Budget	10,306	12,850	13,880	24.7	8.0	3.7	3.6	3.2
Treasury Assist.	-9,317	-11,158	-12,067	19.8	8.1	-3.4	-3.1	-2.8
Expenses	115,682	140,455	140,200	21.4	-0.2	42.1	39.4	32.7
General Budget	114,963	139,489	138,404	21.3	-0.8	41.8	39.1	32.3
Suppl. Budget	10,353	12,201	13,715	17.8	12.4	3.8	3.4	3.2
Treasury Assist.	-9,634	-11,235	-11,919	16.6	6.1	-3.5	-3.1	-2.8
Budget Balance	-40,090	-40,205	-30,313	0.3	-24.6	-14.6	-11.3	-7.1
Non-interest Balance	11,781	18,405	26,175	56.2	42.2	4.3	5.2	6.1

Source: Ministry of Finance, SIS

Note: The rejections and returns, which were recorded as expenditures in the budget in previous years and were not deducted from the tax collections, were deducted from the tax collections in 2004.

The fact that the interest payments were realized below the target connected to a decrease in the interest rates made a positive influence on the budget deficit. The consolidated budget deficit, which was 40,205 trillion TL in 2003, decreased 24.6% in 2004 and regressed to 30,313 trillion TL and was realized 15,523 trillion TL below the revised target. The non-interest balance, which was 18,405 trillion TL in 2003, with an increase of 42.2% in 2004, was realized at the level of 26,175 trillion TL.

Graph 20. Consolidated Budget Balance

The ratio of the budget revenues meeting the expenditures, which was 71.4% in 2003, rose to 78.4% in 2004. The ratio of the consolidated budget revenues to the GNP fell from 28.1% to 25.6% and the ratio of the consolidated budget expenditures

to the GNP dropped from 39.4% to 32.7%. The ratio of the consolidated budget deficit to the GNP regressed from 11.3% to 7.1% and the ratio of the non-interest consolidated budget surplus to the GNP rose from 5.2% to 6.1%.

Revenues

A number of revenue increasing measures were put into force in order to be able to reach the targeted budget revenues in 2004. Within this scope, the rate of corporation tax was increased only for the 2004 revenues, the special communications tax was made permanent and its scope was expanded. The Special Consumer Tax (ÖTV) system was reorganized related to the motor vehicle taxation system and the tobacco products and alcoholic beverages. The measures taken had a positive influence on revenues and an increase above the expectations was provided. At the end of the year the consolidated budget revenues increased 9.6% and rose to 109,887 trillion TL and was realized 5,778 trillion TL above the envisaged target.

The tax revenues increased 6.9% and rose to 90,093 trillion TL and the non-tax revenues increased 33.4% and rose to 17,065 trillion TL. The capital revenues dropped 13.9% and regressed to 161 trillion TL. The donations and aids received decreased 40.4% and regressed to 755 trillion TL. Thus, the general budget revenues increased 9.7% and rose to 108,074 trillion TL. The supplementary budget revenues increased 7.2% and became 1,813 trillion TL (Table 72).

Table 72. Consolidated Budget Revenues

(Trillion TL)

	Revenues		Change (%)	Share (%)	
	2003	2004	2004	2003	2004
General Budget	98,559	108,074	9.7	98.3	98.4
Tax Revenues	84,316	90,093	6.9	84.1	82.0
Non-Tax Revenues	12,788	17,065	33.4	12.8	15.5
Capital Revenues	187	161	-13.9	0.2	0.1
Donations and Assistance Obtained	1,268	755	-40.4	1.3	0.7
Collections from Receivables	0	0	-	0.0	0.0
Supplementary Budget Revenues	1,692	1,813	7.2	1.7	1.6
Total	100,250	109,887	9.6	100.0	100.0

Source: Ministry of Finance

Note: The rejections and returns, which were recorded as expenditures in the budget in previous years and were not deducted from the tax collections, were deducted from the tax collections in 2004.

In 2003, 88.2% of the consolidated budget revenues assessed were collected and 86.8% were collected in 2004. The rate of collection of the general budget revenues decreased from 88% to 86.7% and the tax revenues within this decreased from 92.5% to 92.2% and the non-tax revenues decreased from 66.2% to 65.7%. The capital revenues decreased from 100% to 83% and the donations and aids received increased from 92.5% to 95.1%. The ratio of collection of the supplementary budget revenues, which was 99.2% in 2003, became 98.8% in 2004 (Table 73).

The taxes collected on income, profit and capital gains in 2004 increased 3.3% and rose to 26,558 trillion TL. The taxes collected on property increased 21.5% and rose

to 1,478 trillion TL. The taxes collected on international trade and transactions increased 34.6% and rose to 16,936 trillion TL. The taxes collected on administrative charges and fees, and nonindustrial incidental sales increased 29.2% and rose to 2,055 trillion TL. The taxes collected on goods and services in Turkey decreased 0.2% and regressed to 41,406 trillion TL (Table 74).

Table 73. Assessment and Collection of Revenues

(Trillion TL)

	2003			2004			2004		
	Assessed	Collected ⁽¹⁾	Assessed /Collected	Assessed	Collected ⁽¹⁾	Assessed /Collected	Assessed	Collected ⁽²⁾	Assessed /Collected
General Budget	111,992	98,559	88.0	135,848	119,231	87.8	124,691	108,074	86.7
Tax Revenues	91,118	84,316	92.5	108,716	101,061	93.0	97,748	90,093	92.2
Non-Tax Revenues	19,316	12,788	66.2	26,135	17,244	66.0	25,955	17,065	65.7
Capital Revenues	187	187	100.0	198	165	83.3	194	161	83.0
Don. and Assistance Obt.	1,371	1,268	92.5	799	760	95.1	794	755	95.1
Collect. from Receivables	0	0	-	0	0	-	0	0	-
Supplementary Budget Rev.	1,706	1,692	99.2	1,835	1,813	98.8	1,835	1,813	98.8
Total	113,698	100,250	88.2	137,683	121,044	87.9	126,526	109,887	86.8

Source: Ministry of Finance

(1) Including rejections and returns

(2) Excluding rejections and returns

Table 74. Consolidated Budget Revenues

(Trillion TL)

	2003	2004	Change (%)	Share (%)	
				2003	2004
Consolidated Budget Revenues	100,250	109,887	9.6	100.0	100.0
General Budget Revenues	98,559	108,074	9.7	98.3	98.4
1- Tax Revenues	84,316	90,093	6.9	84.1	82.0
Taxes on Income, Profits and Capital Gains	25,709	26,558	3.3	25.6	24.2
Income Tax	17,064	17,844	4.6	17.0	16.2
Corporation Tax	8,645	8,715	0.8	8.6	7.9
Other Taxes Not Made on Income, Profits and Cap. Gains	0	-2	-	0.0	0.0
Property Taxes	1,216	1,478	21.5	1.2	1.3
Taxes on Goods and Services in Turkey	41,474	41,406	-0.2	41.4	37.7
VAT Collected in Turkey	15,390	11,760	-23.6	15.4	10.7
Special Consumption Tax	22,299	26,070	16.9	22.2	23.7
Taxes on Usage of Materials, Usage Permits or Eng. in Act.	2,015	1,383	-31.4	2.0	1.3
Other Taxes on Goods and Services	1,771	2,193	23.8	1.8	2.0
Taxes on International Trade and Transactions	12,579	16,936	34.6	12.5	15.4
Customs Taxes	889	1,213	36.4	0.9	1.1
Import Taxes	11,642	15,669	34.6	11.6	14.3
Other Taxes on International Trade and Transactions	48	54	12.5	0.0	0.0
Other Taxes	1,747	1,660	-5.0	1.7	1.5
Stamp Tax	1,707	1,897	11.1	1.7	1.7
Other Taxes Not Classified Elsewhere	40	-237	-692.5	0.0	-0.2
Administrative Charges and Fees, Non-Industrial Sales	1,591	2,055	29.2	1.6	1.9
2- Non-tax Revenues	12,788	17,065	33.4	12.8	15.5
Enterprise and Ownership Revenues	611	1,097	79.5	0.6	1.0
Profits of Revolving Funds and Similar Institutions	606	1,092	80.2	0.6	1.0
Proceeds of Institutions	4	6	50.0	0.0	0.0
Non-financial Org. and Public Sector Goods Org. Revenues	3,070	3,503	14.1	3.1	3.2
Other Property Revenues	1,561	3,916	150.9	1.6	3.6
Pecuniary Fines and Penalties	2,003	2,126	6.1	2.0	1.9
Various Non-tax Revenues	2,806	3,996	42.4	2.8	3.6
Shares Collected from Individuals and Institutions	2,418	1,953	-19.2	2.4	1.8
Sale of Valuable Papers	319	474	48.6	0.3	0.4
3- Capital Revenues	187	161	-13.9	0.2	0.1
Sales of Fixed Capital Assets	184	29	-84.2	0.2	0.0
Sales of Stocks	3	2	-33.3	0.0	0.0
Sales of Land and Non-material Assets	0	129	-	0.0	0.1
4- Donations and Assistance Received	1,268	755	-40.5	1.3	0.7
5- Collections from Receivables	0	0	-	0.0	0.0
Supplementary Budget Revenues	1,692	1,813	7.2	1.7	1.6

Source: Ministry of Finance

Note: The rejections and returns, which were recorded as expenditures in the budget in previous years and were not deducted from the tax collections, were deducted from the tax collections in 2004.

The total tax burden, which is defined as the ratio of the total tax revenues to the GDP, became 20.9% in 2004 (Table 75).

Table 75. Tax Burden

	1998	1999	2000	2001	2002	2003	2004
Total Tax Burden (*)	17.7	19.1	21.3	22.3	21.5	23.4	20.9

Source: Ministry of Finance

(*) The taxes, fees and charge revenues of the local administrations, shares allocated from the general budget revenues of the provincial special administrations and municipalities and the revenues of the funds having the attribute of taxes are not included in the total of the tax revenues when calculating the total tax burden.

The tax flexibility coefficient, which indicates the sensitivity to changes in the GDP of the tax revenues, became 0.35% in 2004 (Table 76).

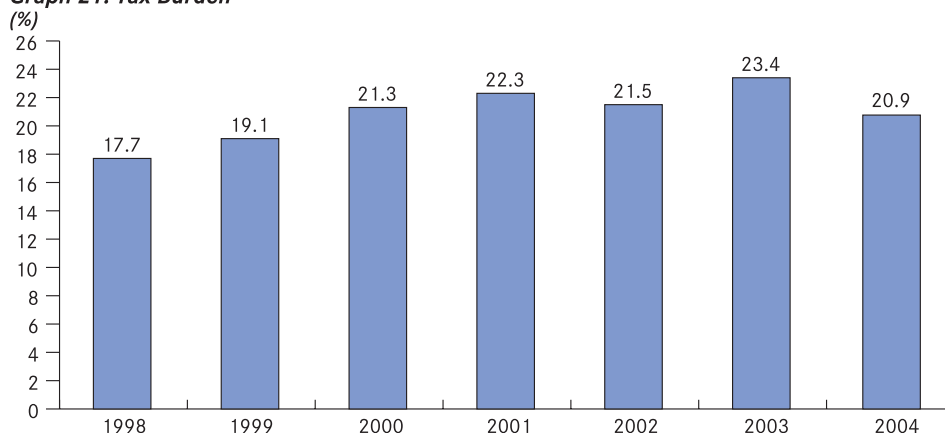
Table 76. Tax Flexibility Coefficients

	1998	1999	2000	2001	2002	2003	2004
Total Tax Flexibility	1.17	1.25	1.30	1.16	0.90	1.40	0.35
Income + Corporation Tax Flexibility (*)	1.52	1.11	0.53	1.81	0.48	1.12	0.17

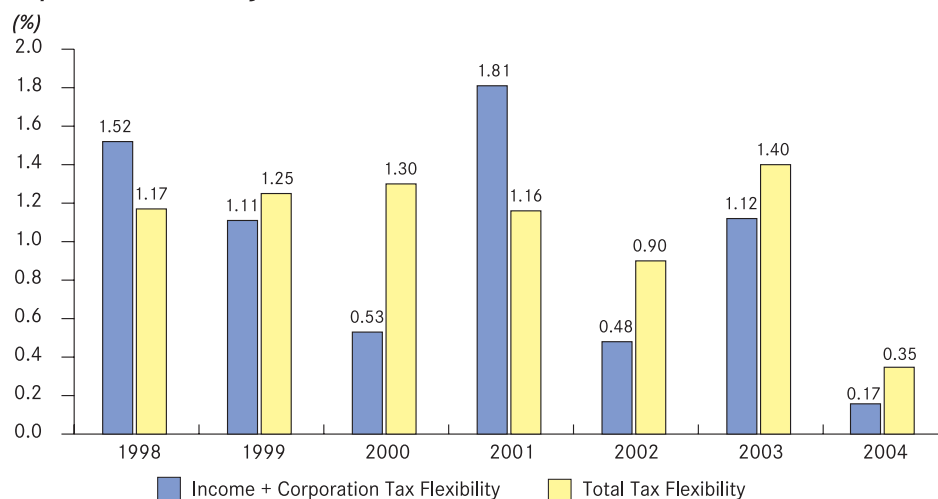
Source: Ministry of Finance

(*) Supplementary income and Corporation taxes introduced by Law No. 4481 are not included.

Graph 21. Tax Burden



Graph 22. Tax Flexibility



Expenditures

The measures aimed at providing savings in expenditures were also continued in 2004. Increasing the minimum wage and retirement salaries in January 2004 above the program targets brought an additional burden to the 2004 budget. A 13% reduction was made on some expense items in March in order to compensate for this and to be able to realize the 2004 budget targets. The additional measures taken and the drop in the interest rates made a positive influence on the spending performance and by realizing the 2004 budget expenditures at the level of 140,200 trillion TL, it remained 9,745 trillion TL below the revised budget target. The expenditures excluding interest increased 12.7% and rose to 83,712 trillion TL. The personnel expenditures and the state premiums to the social security organizations increased 16.8% and rose to 32,971 trillion TL. The purchases of goods and services increased 13.6% and rose to 12,560 trillion TL. The current transfers increased 10.6% and rose to 27,659 trillion TL. The capital expenditures increased 6.8% and rose to 7,972 trillion TL. The capital transfers increased 332.7% and rose to 437 trillion TL. The interest expenditures, with the effect of the drop in interest rates, decreased 3.5% and regressed to 56,488 trillion TL (Table 77).

Table 77. Consolidated Budget Expenditures

	(Trillion TL)				
	Expenditures		Change (%)	Share (%)	
	2003	2004	2004	2003	2004
Expenses	132,822	140,200	5.6	100.0	100.0
Non-interest Expenses	74,298	83,712	12.7	55.9	59.7
Personnel Exp. and State Premiums to the Soc. Sec. Org.	28,238	32,971	16.8	21.3	23.5
Purchases of Goods and Services	11,053	12,560	13.6	8.3	9.0
Current Transfers	25,001	27,659	10.6	18.8	19.7
Capital Expenses	7,464	7,972	6.8	5.6	5.7
Capital Transfers	101	437	332.7	0.1	0.3
Giving Loans	2,167	2,075	-4.2	1.6	1.5
Reserve Allocations	273	37	-86.4	0.2	0.0
Interest Expenses	58,524	56,488	-3.5	44.1	40.3

Source: Ministry of Finance

Note: Excluding rejections and returns.

The share of the personnel expenditures and the share of the state premiums to the social security organizations increased from 21.3% to 23.5%. The share of the current transfers increased from 18.8% to 19.7%. The share of the interest expenditures decreased from 44.1% to 40.3%.

b. State Economic Enterprises (SEEs)

The total revenues of the operating State Economic Enterprises (SEEs) in 2004 decreased 19.9% and fell to 33,616 trillion TL. The total expenditures decreased 18.5% and dropped to 33,134 trillion TL. The profits of the operating SEEs, which were 1,516 trillion TL in 2003, decreased 45.3% in 2004 and regressed to 829 trillion TL (Table 78).

Table 78. Financial Balance of the Operating SEEs

(Current Prices, Trillion TL)

	2002	2003	2004 ^(*)
A. Total Revenues	39,578	41,945	33,616
I. Operating Revenues	34,246	37,644	29,799
1. Sales Revenues of Goods and Services	31,680	34,937	27,345
2. Other Revenues	2,566	2,707	2,454
II. Funds Remaining in Organization	3,357	2,441	2,581
1. Amortizations	1,990	1,903	2,080
2. Profit/Loss for Inflation Correction	0	0	76
3. Provisions	1,367	538	426
III. Budget and Funds	1,975	1,857	1,236
IV. Other Revenues	0	3	0
B. Total Expenses	36,576	40,671	33,134
I. Operating Expenses	33,393	36,669	29,651
1. Cost of Sales of Goods and Services	27,327	29,955	24,826
2. Other Expenses	6,066	6,714	4,825
II. Investment Expenses	2,827	2,146	2,326
III. Increase in Stock	292	347	467
IV. Other Expenses	64	1,509	690
C. Borrowing Requirement	3,002	1,274	482
D. Financing	-3,002	-1,274	-482
I. Cash-Bank Change	-491	329	514
II. Domestic Borrowing (Net)	-3,606	-2,004	-1,822
III. Foreign Borrowing (Net)	1,095	401	826
Period Profit-Loss	1,836	1,516	829
Factor Income	4,210	3,416	2,729
Payments of Salaries and Wages	3,857	4,699	4,213

Source: SPO

(*) Estimate of realization

c. Funds

Within the scope of the fund balance in 2004, it was monitored in four funds: The Support and Price Stability Fund within the budget, the Social Assistance and Solidarity Incentive Fund, the Defense Industry Support Fund and the Privatization Fund, outside of the budget. The revenues of the funds included in the public sector general balance increased 55% compared to 2003 and rose to 3,524 trillion TL and their expenses increased 15.2% and rose to 2,023 trillion TL (Table 79).

Table 79. Fund Balance ⁽¹⁾

(Current Prices, Trillion TL)

	2002	2003	2004 ⁽¹⁾	Ratios to GNP (%)		
				2002	2003	2004 ⁽²⁾
FUND REVENUES	2,000	2,274	3,524	0.7	0.6	0.8
Tax Revenues	1,589	1,211	1,974	0.6	0.3	0.5
Non-Tax Normal Revenues	288	389	514	0.1	0.1	0.1
Current Transfers (Net)	0	586	0	0.0	0.2	0.0
Capital Transfers (Net)	123	88	1,036	0.0	0.0	0.2
FUND EXPENSES	1,944	1,756	2,023	0.7	0.5	0.5
Current Expenses	1,196	1,123	1,047	0.4	0.3	0.2
Factor Expenses (Net)	566	628	554	0.2	0.2	0.1
Fixed Capital Expenses	4	6	21	0.0	0.0	0.0
Current Transfers (Net)	178	0	400	0.1	0.0	0.1
REVENUES-EXPENSES DIFF.	56	518	1,502	0.0	0.1	0.4
FINANCING	56	-518	-1,502	0.0	-0.1	-0.4
Foreign Debt Utilization	394	110	136	0.1	0.0	0.0
Foreign Debt Repayment	-189	-179	-182	-0.1	-0.1	0.0
Domestic Debt-Receivables (Net)	254	324	-827	0.1	0.1	-0.2
Cash-Bank Change	-515	-772	-629	-0.2	-0.2	-0.1

Source: SPO

(1) The Unemployment Insurance Fund is excluded.

(2) Provisional

d. Public Sector Financing Deficit

The public sector financing deficit, which was 33,666 trillion TL in 2003, dropped to 24,840 trillion TL in 2004 and its ratio to the GNP fell from 9.4% to 5.8%. The public sector financing balance excluding budget interest payments, which produced a surplus of 24,858 trillion TL in 2003, produced a surplus of 31,648 trillion TL in 2004. The positive development in the consolidated budget deficit and in the financing balances of the funds has been the most important factor in the improvement in the public sector borrowing requirement (Table 80).

Table 80. Public Sector Borrowing Requirement

	(Current Prices, Trillion TL)					
				Ratios to GNP (%)		
	2002	2003	2004 (*)	2002	2003	2004
Consolidated Budget	40,746	40,205	33,987	14.8	11.3	7.9
SEE	-2,768	-2,646	-1,870	-1.0	-0.7	-0.4
Operating	-3,002	-1,274	-482	-1.1	-0.4	-0.1
Within the Scope of Privatization	234	-1,372	-1,388	0.1	-0.4	-0.3
Local Administrations	161	1,637	158	0.1	0.5	0.0
Revolving Funds	-521	-1,189	-1,156	-0.2	-0.3	-0.3
Social Security Organizations	102	133	-191	0.0	0.0	0.0
Unemployment Insurance Fund	-2,772	-3,956	-4,586	-1.0	-1.1	-1.1
Funds	-11	-518	-1,502	0.0	-0.1	-0.4
Borrowing Requirements	34,937	33,666	24,840	12.8	9.4	5.8
Budget Interest Payments	51,871	58,524	56,488	19.0	16.4	13.2
Non-interest Borrowing Requirement	-16,934	-24,858	-31,648	-6.2	-7.0	-7.4

Source: SPO

(*) Provisional

The consolidated budget deficit, which has the largest share within the public sector deficit, became 33,987 trillion TL. The local administration deficits became 158 trillion TL. The operating SEEs produced a surplus of 482 trillion TL. The organizations within the scope of privatization produced a surplus of 1,388 trillion TL. The revolving fund organizations produced a surplus of 1,156 trillion TL. The social security organizations produced a surplus of 191 trillion TL. The unemployment insurance fund produced a surplus of 4,586 trillion TL. The funds produced a surplus of 1,502 trillion TL.

The consolidated budget financing balance produced a deficit at 7.9% of the GNP. The operating SEEs financing balance produced a surplus of 0.1% of the GNP. The revolving fund organizations financing balance produced a surplus of 0.3% of the GNP. The unemployment insurance fund financing balance produced a surplus of 1.1% of the GNP. The funds financing balance produced a surplus of 0.4% of the GNP.

e. Privatization

The privatization activities, which were started in 1984, with the objective of completing the semi-finished facilities or having a new facility constructed in its place with the transfer of them to the private sector, were also continued in 2004.

With the privatization applications, which were continued in 2004, ever since 1985, the public shares in 244 organizations, 22 semi-completed facilities, 6 real estate properties, 4 electric power plants, 6 freeways, 2 Bosphorus bridges, 29 facilities and 1 service unit have been taken within the scope of privatization. The public sector share in 23 organizations, 4 electric power plants and 4 real estate properties were later removed from within the scope of privatization without being subjected to privatization applications. More than half of the organizations taken within the scope of privatization have been privatized in the period from 1985 up until the end of 2004.

Within the framework of the program carried out by taking the public sector shares of the organizations, which belong completely to the public sector or which have a public sector participation, within the scope of privatization, which has accelerated as of 1986, the sales/transfer transactions of the shares or assets of 180 organizations have been made and in 168 of these organizations no public sector shares have remained. There is still a public sector share in the other 12 organizations, which realized partial privatization transactions in the form of block sales, public offerings, international offerings, sales on the İstanbul Stock Exchange or sales of assets. Currently, there are 34 organizations within the scope of privatization. There is a public sector share of over 50% in 24 of these organizations. Furthermore, 1 real estate property, 29 facilities, 6 freeways, 2 Bosphorus bridges and 1 service unit are also included within the scope of privatization.

The 2004 privatization program was announced on 11 February 2004 and it was stated that the Turk TELEKOM, TEKEL (State Monopolies), PETKİM, some electricity distribution companies, the sugar factories, the National Lottery, the Vehicle Inspection Stations, the Manavgat Drinking Water Facilities, the Eti Krom (Chrome), the Eti Bakır (Copper), the Eti Electrometallurgy, the Eti Aluminum and the DİVHAN are the main organizations within the scope of privatization.

In the Letter of Intent dated 31 October 2003 related to the sixth review of the standby agreement, which is being carried out with the IMF, it was envisaged that cash income totaling US\$3 billion would be obtained from privatization in 2004. The targets having the attribute of indicators were determined on 31 March, 30 June, 30 September and 31 December 2004. But the target specified could not be reached as of the end of the year. Despite this, 2004 was a more successful year compared to 2003 from the aspect of privatization applications. A total of 1,761.6 trillion TL (US\$1,267 million) was obtained in privatization revenues. The total amount of privatization revenues realized from 1986 up until the present is 5,031.6 trillion TL (US\$9,431.5 million) (Table 81).

Table 81. Privatization Transactions

	(Million TL)		
	1986-2003	2004	1986-2004
- Block Sales	1,100,811,540	565,820,031	1,666,631,571
- Sales of Facilities/Assets	357,551,525	823,099,124	1,180,650,649
- Public Offerings	732,562,164	92,143,108	824,705,272
- Offerings to International Institutions	313,722,671	177,655,583	491,378,254
- Sales on the İstanbul Stock Exchange	443,014,291	0	443,014,291
- Sales of Semi-completed Facilities	580,135	0	580,135
- Transfers with Payments	321,818,703	102,845,306	424,664,009
Total	3,270,061,029	1,761,563,152	5,031,624,181
	(Thousand US\$)		
	1986-2003	2004	1986-2004
- Block Sales	3,524,189	399,762	3,923,951
- Sales of Facilities/Assets	863,542	606,418	1,469,960
- Public Offerings	1,642,408	65,327	1,707,735
- Offerings to International Institutions	1,026,333	125,953	1,152,286
- Sales on the İstanbul Stock Exchange	800,819	0	800,819
- Sales of Semi-completed Facilities	4,369	0	4,369
- Transfers with Payments	302,776	69,562	372,338
Total	8,164,436	1,267,022	9,431,458

Source: Chairmanship for the Administration of Privatization

(1) It does not include the US\$ 57,900,000 that is METAS's pledged share sales in the 1995 applications.

(2) The figures shown in the tables are the sales amounts, which show the amounts that have been realized in the related year.

A net inflow of 1,585.2 trillion TL (US\$1,129.9 million) was obtained in 2004 from the sales transactions of shares and assets, a portion of which was realized in time payments and in foreign currency payments. In 2004, the total resources obtained from the organizations within the scope of privatization reached the level of 3,753.2 trillion TL (US\$2,609 million), together with 276.4 trillion TL (US\$202.7 million) in dividend income and 1,891.7 trillion TL (US\$1,276.4 million) in other resources. The difference between the application amount on the basis of years and the net inflow amount stems from the installment payments related to the time transactions (Table 82).

The net inflows provided between 1986 and 2004 were 4,356.4 trillion TL (US\$8,610.9 million). The total resources obtained from the organizations within the scope of privatization was 9,345.6 trillion TL (US\$14,328.7 million), together with 903.8 trillion TL (US\$2,333.6 million) in dividend income, 3.7 trillion TL (US\$60.4 million) in sales revenue from collateral shares and 4,081.7 trillion TL (US\$3,323.8 million) in other resources.

Expenditures of 3,480.3 trillion TL (US\$2,398.3 million) were made within the framework of the privatization applications in 2004. Thus, the amount of expenditures made within the framework of the privatization applications between 1986 and 2004 reached 9,165.9 trillion TL (US\$13,819.6 million). Within this, the largest shares are the transfers made to the treasury and the financing transferred in the form of capital participations and debts to the organizations within the scope of privatization (Table 83).

Table 82. Resources Obtained from Privatization

	(Million TL)				(Thousand US\$)	
	1986-2002	2003	2004 ⁽¹⁾	1986-2004	2004 ⁽¹⁾	1986-2004
COLLECTIONS FROM PRIVATIZATION TRANSACTIONS	2,526,575,282	244,682,815	1,585,158,266	4,356,416,363	1,129,921	8,610,889
- Income from Block Sales	1,138,478,385	18,587,740	518,521,507	1,675,587,632	364,042	3,835,402
- Income from Sales of Facilities and Assets	206,961,899	171,894,632	567,970,935	946,827,466	414,251	1,081,592
- Income from Public Offerings	714,708,925	0	51,797,464	766,506,389	37,011	1,632,589
- Income from Offerings to International Institutions	309,776,836	0	175,621,870	485,398,706	125,488	1,129,959
- Income from Sales on the Istanbul Stock Exchange	120,980,733	49,960,104	219,394,642	390,335,479	153,352	837,988
- Income from Sales of Semi-Completed Facilities	583,270	0	0	583,270	0	3,567
- Income from Paid Transfers	35,085,234	4,240,338	51,851,847	91,177,419	35,777	89,792
SALES REVENUE FROM COLLATERAL SHARES	3,729,756	0	0	3,729,756	0	60,419
DIVIDEND REVENUES	524,604,634	102,786,558	276,364,463	903,755,655	202,698	2,333,583
COLLECTIONS FROM LOAN PRINCIPAL GIVEN TO ORGANIZATIONS IN THE SCOPE OF PRIVATIZATION	16,882,148	23,476,944	5,318,641	45,677,733	3,900	94,225
INTEREST INCOME FROM LOAN/DEBENTURE BONDS GIVEN TO ORGANIZATIONS IN THE SCOPE OF PRIVATIZATION	6,345,185	0	0	6,345,185	0	17,659
OTHER REVENUES	87,222,714	81,636,608	158,393,429	327,252,751	112,166	242,828
BORROWING	1,819,431,230	155,000,000	1,728,000,000	3,702,431,230	1,160,364	2,969,088
- Borrowing (Borrowing, Debenture Bonds, Bonds, etc.)	1,806,804,189	155,000,000	1,728,000,000	3,689,804,189	1,160,364	2,709,223
- Utilization of Foreign Credits and Donations ⁽²⁾	12,627,041	0	0	12,627,041	0	259,865
TOTAL RESOURCES	4,984,790,949	607,582,925	3,753,234,799	9,345,608,673	2,609,049	14,328,691

Source: Chairmanship for the Administration of Privatization

The figures given in this table show the cash entry totals for the Privatization Fund Account and the other special accounts related to privatization.

(1) As of 24 December 2004.

(2) The amounts used from loans and donations obtained from the loans opened by the World Bank and some international organizations to be used for the privatization transactions.