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Turkey: Recent Economic Developments and Selected Issues

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TURKEY

Recent Economic Developments and Selected Issues

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Approved by European I Department

July 22, 1998

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Turkey: Basic Data

Area:	774,815 square kilometers
Population 1997:	63.7 million
Labor force 1997:	21.9 million
GNP per capita 1997	US$3,051

	1994	1995	1996	1997	1998 1/
Real economy			(Change in percent)		
Real GNP	-6.1	8.0	7.1	8.0	4.5
Domestic demand	-8.4	6.1	10.0	9.3	5.0
CPI (end-of-period)	125.5	78.9	79.8	99.1	55.0
Unemployment rate (in percent)	8.1	6.9	6.0	6.4	...
Gross national savings 2/	18.8	19.9	22.0	20.4	20.2
Gross domestic investment 2/	21.4	25.2	23.4	25.0	25.0
Public finance			(In percent of GNP)		
Consolidated budget balance	-4.0	-3.8	-8.5	-7.5	-7.6
Public sector borrowing requirement	9.6	5.8	11.4	11.6	10.4
Central government debt	43.5	35.6	37.6	36.3	35.4
Money and credit			(End-year, percent change)		
Broad liquidity 3/	135.2	105.2	115.4	116.1	75.4
Reserve money 4/	120.8	79.2	91.5	100.8	71.6
Credit to private sector	69.8	137.4	136.1	126.5	71.4
Interest rates			(Year average)		
T-bill rate 5/	160.7	125.8	132.4	105.2	108.6 6/
Overnight money market rate	591.7	108.2	115.8	101.4	113.0 6/
Balance of payments			(In percent of GNP)		
Trade balance	-3.2	-7.7	-10.8	-10.9	-10.7
Current account balance 7/	2.0	-1.4	-3.0	-2.5	-2.7
External debt	49.6	43.1	43.2	45.5	...
Of which: short term	8.5	9.2	11.1	11.9	...
Reserves (US$ billion, end-of-period)	8,561	13,812	17,695	19,575	27,533 8/
Fund position (as of June 30, 1998)					
Holdings of currency (in percent of quota)					154.4
Holdings of SDRs (in millions of SDRs)					1.9
Quota (in millions of SDRs)					642.0
Exchange rate					
Exchange rate regime			Floating exchange rate		
Rate on June 30, 1998			TL 265,050 per US$		
Real effective rate (1990=100)	80.3	85.7	87.7	93.4	...

Sources: Information provided by the Turkish authorities; and staff estimates.
1/ Staff projections.
2/ In percent of GNP.
3/ Includes foreign currency deposits and repos.
4/ Excluding banks' foreign currency deposits at the central bank.
5/ Simple average across maturities ranging from three months to one year, net of tax.
6/ January–June
7/ Central bank current account data differ from the national income accounts.
8/ At end-June 1998

I. THE REAL ECONOMY[1]

A. Introduction

1. The economy recovered quickly from the 1994 crisis-induced plunge in output and has grown strongly thereafter. Annual GNP growth exceeded 7 percent in each of the last three years, buoyed mainly by a sustained expansion of private consumption and public and private investment. The latter was boosted in part by the customs union with the European Union in 1996, and the expansion of trade opportunities with the former Soviet Union countries.

2. Inflation, as measured by changes in the WPI, soared to 150 percent in 1994 following the large depreciation of the lira, dropped to 65 percent in 1995 against the backdrop of a short-lived stabilization effort, rebounded to 85–90 percent in 1996–97, and slowed down to 77 percent by mid-1998, as a result of renewed adjustment efforts.

3. Real wages increased rapidly during 1989–93, dropped sharply in 1994–95, and have since recovered modestly. Real wage flexibility stems in part from the absence of widespread wage indexation, despite chronic high inflation.

4. The government's economic program for 1998 foresees a deceleration of growth to 4.5 percent and a reduction of wholesale price inflation to 50 percent. A sharp increase in the primary fiscal surplus and the government's restrictive wage and agricultural support price policies are expected to be the main factors curbing domestic demand. However, growth in the first quarter was strong, with GNP growing at 8.1 percent compared to the first quarter of the previous year; other indicators of economic activity through the second quarter suggest continued economic vigor.

5. There are a number of data deficiencies that should be borne in mind when considering real sector developments. Analysis of the savings investment balances is hampered by weaknesses in national income account data stemming mainly from the difficulties in estimating flows related to shuttle trade. The foreign balance in the national income accounts excludes shuttle trade. It also excludes one-third of services exports[2] as some of these flows are assumed to represent capital transfers. Statistical discrepancies between measurement of GDP from the production side and from the expenditure side are, in some years, larger than the measured foreign balance. The valuation of stock building in a high inflation environment also poses problems. Analysis of labor market developments suffers from the very limited scope of the Household and Labor Force Survey, the best available source of labor market statistics; approximately 40,000 individuals are surveyed out of a labor force of close to 22 million people. Both the unemployment data, which suggest a very low level of joblessness

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[1]Prepared by Rakia Moalla-Fetini.

[2] Excluding exports of transport, shipment, and direct investment related services exports.

and the wage data, which suggest remarkable real wage flexibility, should be treated with caution.

B. Domestic Output

6. Rapid GNP growth, averaging 7.7 percent a year during 1995–97, raised GNP per capita to above US$3,000 in 1997. Most of this dynamism originated from the industrial and trade sectors. Industry grew by 10.4 percent in 1997, led by a strong performance of private manufacturing (14.2 percent). Trade services grew by 11.1 percent, contributing to a strong 7.4 percent growth of the service sector. Agricultural output, with a share of 15 percent in total GDP, contracted by 2 percent, detracting modestly from total output growth (Tabulation below and Figure 1).

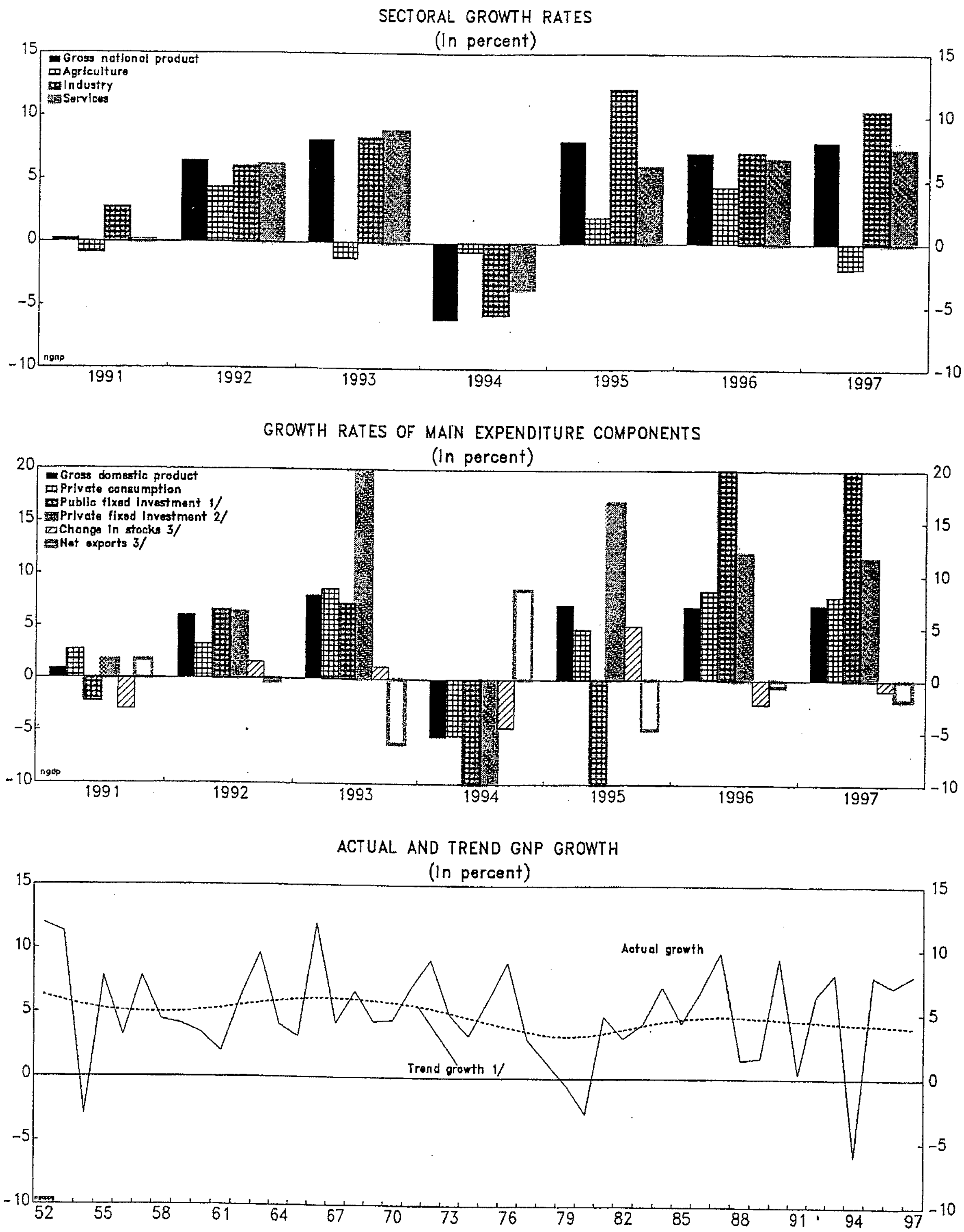
Sectoral Composition of Growth

	1993	1994	1995	1996	1997	1998
GNP	8.1	-6.1	8.0	7.1	8.0	8.1
GDP	8.0	-5.5	7.2	7.0	7.2	7.2
Agriculture	-1.3	-0.7	2.0	4.4	-2.0	-4.4
Industry	8.2	-5.7	12.1	7.1	10.4	7.9
Of which:						
Private manufacturing	11.9	-11.1	20.2	8.4	14.2	...
Services	8.8	-3.6	6.0	6.6	7.4	7.5

Source: State Institute of Statistics.

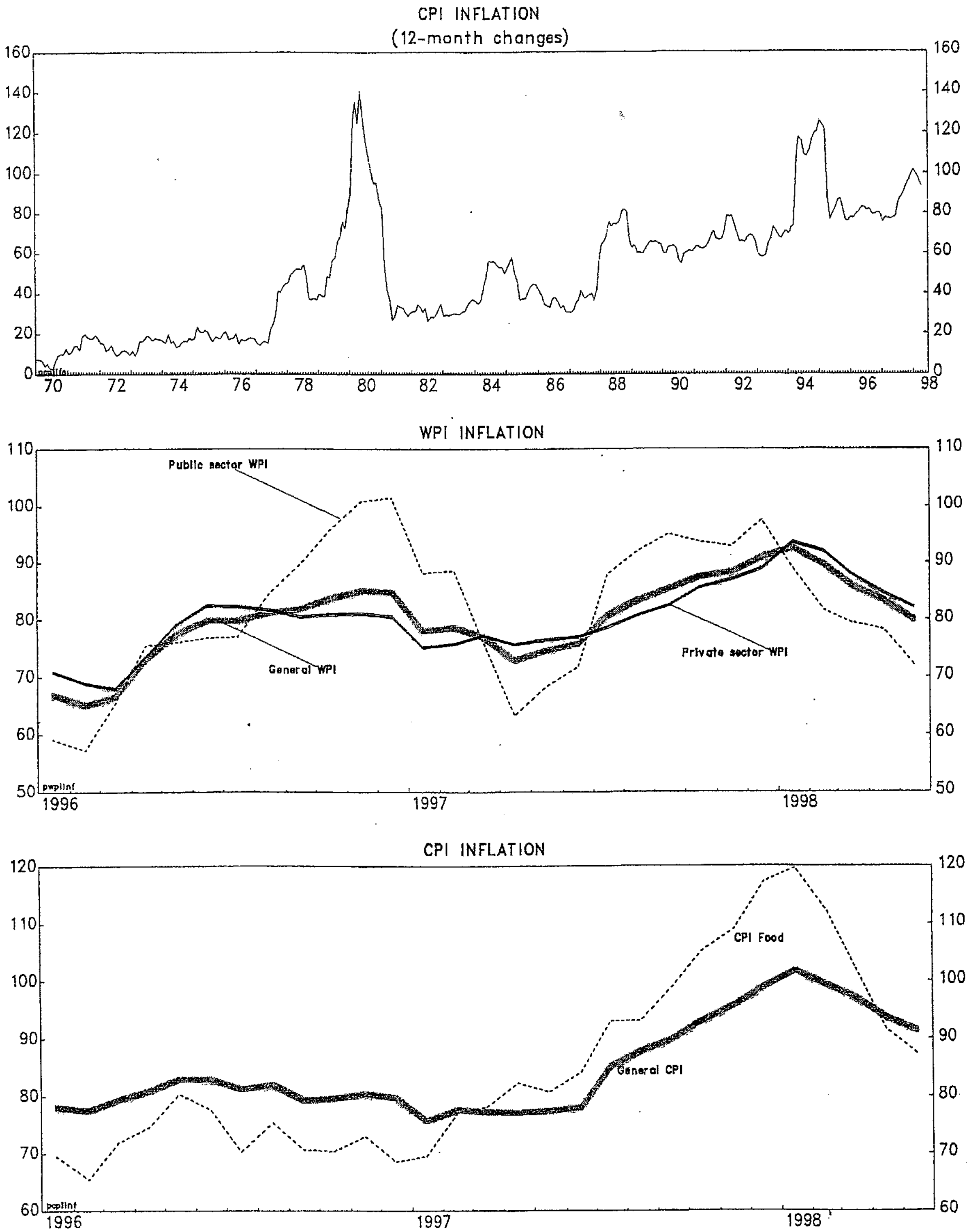
7. Trend GNP growth has hovered in the range of 4–4½ percent over the past decade or more (Figure 2). Growth has been highly variable around this trend, however, reflecting a high degree of macroeconomic instability, and the ability of the economy to rebound strongly from periodic reversals. The sharp upswing of 1995–97—during which growth averaged 7.7 percent annually following the 6.1 percent plunge in output in 1994—is a case in point.

Figure 1. Turkey: Output and Demand Developments 1952-97



Source: Data provided by the Turkish authorities.
1/ Public fixed investment was -30.8% in 1994, -18.8% in 1995, 24.4% in 1996, and 28.4% in 1997.
2/ Private fixed investment was 35% in 1993, and -10.7% in 1994.
3/ Contribution to growth.

Figure 2. Turkey: Price Developments, 1970-98
(12-month percentage change)



Source: IMF, International Financial Statistics.

Sectoral developments

8. Growth of private manufacturing reached 14.2 percent in 1997, led by machinery (23.5 percent), chemicals (11.4 percent), and heavy metals (9.7 percent). This expansion was associated with an increase in capacity utilization from 76.5 percent in 1996 to 78.6 percent in 1997. The performance of the textile sector, which grew at the rate of 6.3 percent, was hurt by sluggish foreign demand. The 18.2 percent real appreciation of the lira against the deutsche mark (December to December) was also an important factor as half of the textile sector exports to go Germany. The growth of public sector manufacturing production, in contrast to the vibrant private manufactures, remained subdued, increasing at the rate of 2.7 percent in 1997. The gradual decline in public investment in the manufacturing sector since the early 1980s is one factor behind this weak performance.

9. The weak performance of the agricultural sector—whose output growth averaged 1.5 percent during 1988–96—continued in 1997, and the share of agriculture in GNP fell to 15.1 percent in 1997 down from 17.5 percent in 1990, and an average of 33 percent in the 1970s. Protective policies, which have led to an improvement in agriculture's terms of trade vis-à-vis manufacturing of 33 percent over the last ten years, have not stemmed this decline. Wheat production, which stagnated at 16.8 million tons, failed to keep pace with consumption growth, necessitating an increase in net imports to some 2.3 million tons in 1997.

10. In 1997, the services sector, which accounts for 56 percent of total GDP, contributed 4 percentage points, or more than half of total GDP growth. Trade, tourism, and transportation services, which account for more than 60 percent of total services, underpinned the sector's performance.

C. Domestic Demand

11. Domestic demand remained very strong in 1997, contributing to continued rapid import growth of close to 20 percent in volume terms, following an increase of 18.4 percent in 1996. Import growth was even faster than the strong export performance, with the result that net exports detracted from growth (See Figure 1, Tabulation below).

Real Growth of Main Expenditure Items

	1993	1994	1995	1996	1997	1998 Q1 1/
Domestic demand	13.1	-8.4	6.1	10.0	9.6	7.4
Consumption	8.6	-5.4	5.0	8.5	7.6	7.2
Of which: Private	8.6	-5.4	4.8	8.5	8.0	7.1
Fixed capital formation	26.4	-16.0	9.1	14.1	14.6	8.0
Public	7.2	-30.8	-18.8	24.4	28.4	30.0
Private	35.0	-10.7	16.9	12.1	11.7	5.6
Contribution of net exports to real GDP growth	-6.2	8.6	-4.7	-0.6	-1.9	...
Contribution of stock building to real GDP growth	1.2	-4.6	5.1	-2.3	-0.9	...

Source: State Institute of Statistics.
1/ First quarter of 1998 over same period in 1997.

12. Domestic demand was led by private sector consumption and public and private sector investment.[3] Private consumption increased by 8.0 percent, contributing 5.5 percentage points to the 7.2 percent growth of GDP.[4] The high growth of private sector consumption reflected the sharp upward adjustment of public sector workers and civil servants' real wages (32.2 percent and 16.5 percent, respectively (see below)), and the increase in real agricultural support prices for sugar, tobacco, and tea, three main commodities under the support price policy. In addition, and given the net lending position of the household sector, the income effect of high real interest rates may have more than offset the induced negative substitution effect, leading to an expansion of private consumption.

13. Private fixed investment rebounded very strongly in 1995 after the sharp drop in 1994, and grew robustly in 1996–97 at an average rate of close to 12 percent, supported in part by the rapid expansion of real private sector credit (31.3 percent and 13.7 percent, respectively, in 1996 and in 1997). The strong growth of private investment was

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[3] Despite the sharp rise in civil service real wages in midyear, public sector consumption grew moderately in 1997 at the rate of 4.1 percent.

[4] Mirroring this growth in private sector consumption, imports of consumption goods grew by 25.1 percent in U.S. dollar terms in 1997.

encouraged, in part, by the 1996 entry into customs union with the European Union. The sectoral focus of this investment has shifted away from textile, food, and housing, toward energy, transportation, machinery, and chemicals. Imports of investment goods rose to US$11.1 billion in 1997, a 6.8 percent increase over the previous year. Private investment, as a share of GNP, increased from around 16 percent of GNP in the early 1990s to 20 percent in 1995 and has remained at that level since. Foreign direct investment remains quite small.

14. Following the severe cuts in public investment outlays in 1994, as part of the stabilization program, public sector investment grew rapidly in 1996–1997 by over 25 percent a year. This reflected rapid expansion of investment in education, in transport and communication, and in energy. Despite these high growth rates, the share of public investment in GNP in 1997 was still only 5.5 percent, compared with levels above 7 percent in the early 1990s.

D. Price Developments

15. Inflation in Turkey has been a chronic problem since the 1970s with a secular tendency for inflation to ratchet upwards, stabilizing at ever higher plateaus following sharp spikes provoked by periodic crises. During 1981–87, inflation hovered at around 40 percent. Following the 1988 crisis, it rose to a higher plateau, stabilizing at about 65 percent during 1989–93, then increased again to a plateau of around 85 percent following the 1994 crisis (Figure 2). Persistent public sector deficits, entrenched inflationary expectations, and an accommodating monetary policy are at the heart of the inflationary process.

16. Shifts in the speed of administrative adjustments to public sector prices distort movements in the WPI.[5] WPI inflation accelerated from 65 percent at end-1995 to 85 percent by end-1996, and to 91 percent by end-1997. The sharp increase in 1996 was mainly driven by a doubling of the rate of increase of public goods' prices from 50 percent at end-1995 to slightly over 100 percent by the end of 1996 in the wake of a major realignment of public goods' prices, following the suppression of price increases in the run-up to the December 1995 election. During the first half of 1997, a deceleration of

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[5] The weight of public goods' prices in the overall WPI is 23 percent.

[6] The rate of increase in prices accelerated from 70 percent at end-1995 to only 80 percent at end-1996.

prices which led to an acceleration of overall wholesale price inflation to 91 percent by the end of the year. Private manufacturing prices, on the other hand, which are considered an indicator of core inflation, rose by 75.7 percent during the year, dampening the rise in the overall WPI.

17. CPI inflation accelerated more rapidly during 1997 than that of the WPI. End-of-period inflation went up from 79.8 percent in 1996 to 99.1 percent in 1997, mainly driven by a sharp rise in food prices, which increased 117.3 percent. The adjustment of public sector prices added substantially to inflation in the second half of the year, with cumulative CPI inflation accelerating from 35.4 percent during the first six months of the year to 47.1 percent during the second half of the year.

18. Price pressure abated in 1998, with the 12-month increase in the WPI falling to 76.7 percent in June. This has reflected a genuine decline in the rate of inflation, and, to a lesser extent, the slow adjustment in public sector prices, in particular petroleum products prices, which was facilitated by the decline in international prices. During the first six months of 1998 the cumulative increase in the overall, WPI dropped to 26.1 percent from 36.6 percent during the same period the previous year. This slowdown stemmed largely from private sector prices whose cumulative increase fell to 30.5 percent during the first six months of 1998 from 38.0 percent during the same period last year. The cumulative increase in the overall CPI declined during the first six months of 1998 to 29.6 percent from 35.4 percent during the same period the previous year. As a result, the 12-month increase in the CPI fell to 90.6 percent in June (Tabulation below, Box 1, Figure 2).

Price Developments

	WPI Overall	WPI public goods	WPI private goods	CPI Overall	CPI food
12-month changes:					
December 1995	64.9	48.2	71.8	78.9	69.1
December 1996	84.9	101.4	80.5	79.8	68.5
December 1997	91.0	97.5	89.0	99.1	117.3
June 1998	76.7	69.5	78.8	90.6	84.0
Cumulative change during:					
First half 1997	36.6	31.8	38.0	35.4	48.1
Second half 1997	39.8	49.9	37.0	47.1	46.7
First half 1998	26.1	13.1	30.5	29.4	25.4

Source: State Institute of Statistics.

Box 1. The CPI and the WPI

The most recent **CPI** index is based on weights derived from the Household Income and Consumption Expenditure Survey conducted in 1994. It covers 410 goods and services and 747 commodity types. As a result of this survey, major changes in weights were made in the case of food, beverages, and tobacco (reduced from 46 percent in the 1978-based index to 31 percent); housing (increased from 15 percent to 26 percent); and transportation (increased from 5 percent to 9 percent). The new weights of the first five major groups, which account for 85 percent of total CPI are: (I) food, beverages, and tobacco, 31.09 percent, (ii) clothing and footwear, 9.71 percent; (iii) housing, water, electricity, gas, and other fuel, 25.80 percent; (iv) furnishing, household equipment, and routine maintenance, 9.35 percent; and (v) transport, 9.3 percent.

Administered prices, mainly bread, cigarettes, raki, oil and other energy products, account for about 15 percent of the CPI.

The most recent **WPI** index is based on a survey of 2,830 firms accounting for 95 percent of production, which was conducted in 1994. The new index covers four sectors (agriculture, mining, manufacturing, and energy), 31 economic activities, and 678 commodities. It excludes the services sector as no precise measure of prices at the wholesale level could be derived. As in previous indices, the share of each sector is based on the value of sales excluding exports.

Based on this survey and to reflect the ongoing changes in the structure of production, new weights have been assigned to the individual sectors. The weight of agriculture dropped from 30.4 percent, in the 1981 index, to 22.2 percent, the weight of manufacturing increased from 64.3 percent to 71.1 percent; that of energy increased from 2.4 percent to 4.2 percent; while the weight of mining declined from 3 percent to 2.5 percent. The relative share of public and private goods has also been revised to take into account the increased share of the private sector in manufacturing. The weight of public sector goods in the new index is 23.17 percent, down from 28.55 percent in the 1981 index. This overall weight of public sector goods reflect a weight of 24.16 percent for manufactured goods, zero for agriculture, 100 percent for energy, and 72.82 percent for mining.

E. Labor Market Developments

Employment

19. Turkey's labor force is estimated to have increased at an annual average rate of 1.3 percent since 1990, reaching 21.9 million in 1997. During the same period, the working age population grew by 1.5 percent annually. The associated decline in participation rates, from 56.6 percent in 1990 to 50.8 percent in 1997, reflects increased schooling rates[7] and migration from rural to urban areas where the participation rate is lower. This is especially true for women, with a participation rate of 16.1 percent in urban areas compared to 42.8 percent for women in rural areas (Figure 3).

20. During 1990-97, employment increased by 1.6 percent a year and stood at 20.5 million in 1997. The agricultural sector accounted for 42 percent of total employment but only 15 percent of output, although its share in employment is declining. Unpaid family workers in agriculture constitute some 50 percent of total employment in this sector and over 70 percent of them are women. Most of the jobs being displaced from agriculture went into services, whose share in total employment increased from 37 percent to 41 percent. Public sector employment, including the civil service, accounts for 12 percent of total employment, a share which is relatively small compared to other countries at the same stage of economic development.

21. The share of formal employment in total employment, which can be inferred from the share of employed people who are covered by the social security system is over 50 percent, in line with other middle income countries. Data for 1996 show that out of 20.9 million employed, 10.6 million were covered by the social security system. Of these, 7.9 million , or 38 percent of the total employed, were wage earners, the remaining were self employed. Of the total wage earners, 1.9 million were civil servants,[8] 500,000 were public sector workers,[9] and the remaining 5.5 million worked for the private sector.

22. Total employment fell from 20.9 million in 1996 to 20.5 million in 1997, with the rate of unemployment increasing from 6 percent to 6.4 percent. Some of this apparent fall in employment is probably due to a lack of precision of the household labor force survey. Consistent with this data, unemployment in urban areas increased from 9.2 to 9.4 percent,

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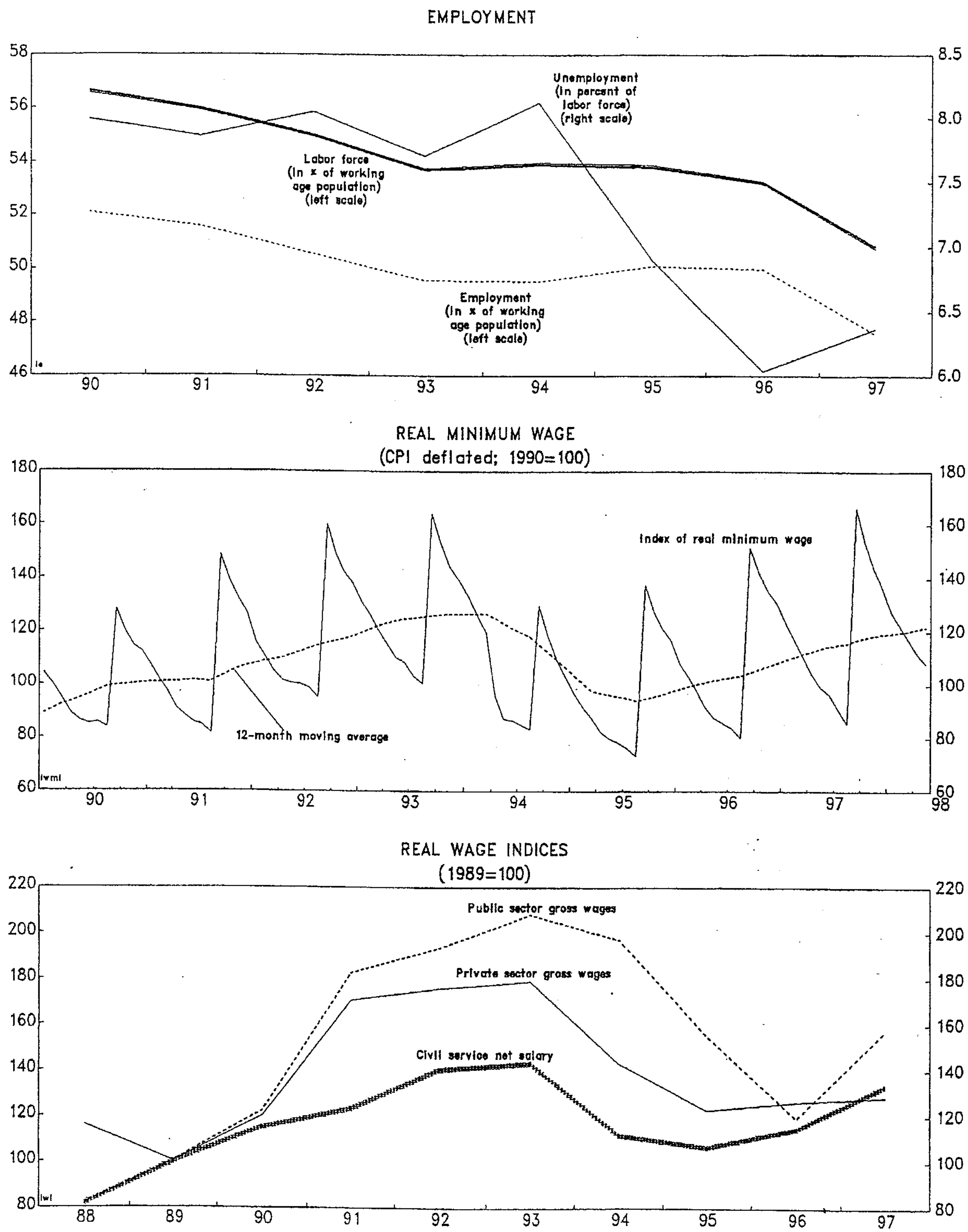
[7]Compulsory public education was raised from five years to eight years in 1997. As a result, the number of students registered in sixth grade increased by 20 percent in 1997.

[8] Of these, 1,680,000 were employed by the central government, 180,000 were employed by the State Economic Enterprises, and 110,000 were employed by local governments.

[9] Of these, 150,000 were employed by the central government, 310,000 were employed by the State Economic Enterprises, and 75,000 were employed by local governments.

Figure 3. Turkey: Labor Market Developments, 1988-97



Source: Data provided by the Turkish authorities.

23. while that in rural areas increased from 3.4 to 3.6 percent. Unemployment rates for women, which had declined steadily from 23.4 percent in 1990 to 14.7 percent in 1996, increased to 16.8 percent in 1997. Unemployment among educated urban youth remains high at around 30 percent.

24. Continued rural migration, the population growth rate (1.6 percent a year), the age structure of the population (35 percent is under 14), and the likely increase in participation rates in the near future, pose major challenges and point to the need to raise the skill level of the labor force and increase job creation.

Wages

25. Real wages have displayed a high degree of flexibility, falling sharply during the crises and recovering as output growth resumes. In the early 1990s, following the 1988 crisis, real wages increased rapidly, then fell quite sharply during the 1994 crisis and recovered slowly thereafter. Between 1989 and 1997, real wages increased by 56 percent for public sector workers, 28 percent for the private sector workers, 32 percent for civil servants, and the real minimum wage increased by close to 50 percent. Cumulative GDP growth during this period was 47 percent.

26. Minimum wages are set by the Minimum Wage Commission, which convenes once a year, usually in April. The announced minimum wage is effective from September to August of the following year. The commission met in 1997 and the legal minimum wage for workers older than 16 years was increased by an average of 105.3 percent in nominal terms, corresponding to a real increase of 10.6 percent. The commission also granted a 35 percent increase to be made effective for the period August to December 1998.[10]

27. Almost all of the public sector workers are covered by collective wage agreements. These wage contracts are usually for two years. Prior to April 1994, these contracts were de jure backward indexed and included an extra welfare component determined by the rate of economic growth. The 1994 stabilization program eliminated both practices. In 1997, 156 collective agreements covering some 500,000 public sector workers were signed. According to these collective agreements a wage increase of 84.4 percent was granted on January 1, with the new level of wages valid during the first six months of the year after which wages were to be adjusted monthly for the CPI inflation in the preceding month (the so-called monthly echelle mobile). Accordingly, gross basic wages increased by 51 percent in the second half of the year. As a result, public sector wages increased on average by 145.5 percent in 1997, which corresponds to an increase in real terms of 32.2 percent. This substantial increase compensated public sector workers for part of the

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[10]The minimum wage will be raised from TL 1,181,250 per day to TL 1,594,650 per day effective August 1, 1998.

erosion in their real wages since 1993. After this adjustment, real wages of public sector workers remained 25 percent lower than their level in 1993.

28. Civil servants, including employees of both the central government and the local authorities, may not engage in collective bargaining and their wage increase is set by the government, usually two or three times a year. In 1997, there were three civil servant wage increases: 30 percent on January 1, an additional increase of 13–42 percent in April with retroactive effect from January 1, and a third increase of 35 percent effective July 1, resulting in an average increase in nominal terms of 116.4 percent, or 16.5 percent in real terms. For 1998, a wage increase of 30 percent (with an additional 15 percent for teachers) was made effective January 1998, and a second increase of 20 percent was granted effective July 1, and a third adjustment of 10 percent will be given in October.

29. Wage increases in the private sector in 1997 in general were lower than those granted for public sector workers and civil servants, averaging around 90 percent, except for the leather sector, where the increase was 154 percent and some collective agreements in the chemical industry, where the wage increase was 107 percent. Wage increases in metal and textile sectors, two of the largest sectors, were 84–89 percent. According to the wage statistics of the employers' association, gross nominal wages in the private sector increased by 89 percent on average, corresponding to an increase in real terms of 1.8 percent (see tabulation below).

II. EXTERNAL SECTOR DEVELOPMENTS[11]

A. Background and Summary

30. While analysis of the external sector in Turkey is complicated by the large unrecorded "shuttle" trade with countries in the CIS and Eastern Europe, certain broad trends are discernible.[12] Turkey's external position strengthened in 1997, with an overall balance of US$3.3 billion (1.4 percent of GNP), which corresponded to a moderate deficit on the current account (US$4.7 billion excluding shuttle trade or US$2.8 billion including it) and a substantial surplus on the capital account of about US$9 billion.

31. Reflecting the rapid growth in domestic demand, imports rose sharply, from US$43 billion in 1996 to US$48.1 billion in 1997. The performance of exports is more difficult to gauge: officially recorded exports rose from US$23.6 billion in 1996 to US$26.8 billion in 1997, but the shuttle trade fell from US$8.8 billion in 1996 to

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[11]Prepared by Atish Ghosh.

[12] Annex II describes shuttle trade and its implications for the balance of payments. In addition to shuttle trade, there are reports of other unofficial trade with neighboring countries such as Iraq. As such, estimates of both exports and imports are subject to significant uncertainty.

US$5.8 billion in 1997. The trade balance (exclusive of shuttle trade) widened by about US$2 billion to US$21.3 billion in 1997, but this was more than offset by the improvement in the services balance, from US$9.6 billion in 1996 to US$11.7 billion in 1997—mainly on account of tourism receipts and construction services rendered abroad.

32. Despite the increase in reserves during 1997, the external position remained vulnerable because of the continued reliance on relatively short-term borrowing from the international capital markets, notwithstanding a lengthening of maturities compared with 1996. This became evident toward the end of 1997, when reserves fell sharply as investors became chary about prospects for many emerging market economies in the wake of the Asian crisis, and in February 1998, when tensions with Iraq again hurt market sentiment. On both occasions, foreign reserves fell by some US$1½–3 billion in the space of a few weeks, but recovered soon thereafter.

33. Access to international capital markets was restored in early 1998, with bond issues totaling US$1.6 billion undertaken in the first five months of the year. High domestic interest rates coupled with a predictable rate of lira depreciation have also attracted large capital inflows, mainly through the banking system. With the central bank essentially following a real exchange rate target, these capital inflows have resulted in a rapid accumulation of foreign exchange reserves, which rose by almost US$3 billion in the first quarter alone, and almost US$8 billion during the first half of 1998.

B. Current Account

34. In recent years, Turkey's current account has acted as a buffer to smooth consumption in the face of transitory macroeconomic shocks—as intertemporal models of the current account would suggest (Annex I). The main exceptions being in 1993 when the current account deficit was more than 1 percent larger than would have been consistent with macroeconomic fundamentals, and in 1994 when forced adjustment and import compression resulted in a larger surplus than predicted by such a model.

35. In 1997, the **current account** deficit was about 2½ percent of GNP (or 1½ percent of GNP including shuttle trade)—down from 3 percent of GNP in 1996.[13] The composition, however, was somewhat different, with the merchandise trade deficit

[13] Three different measures of the current account are produced by the authorities. The central bank publishes balance of payments data both including and excluding estimates of, and corrections for, shuttle trade. The definition used by the State Institute of Statistics is similar to that excluding shuttle trade but, in addition, excludes one-third of "service credits, other goods and services" (on grounds that the available figures might reflect capital transfers) as well as official transfers. According to the SIS definition, the current account deficit was US$5,380 billion in 1996 and US$4,738 billion in 1997 equivalent to 2.9 percent and 2.4 percent of GNP, respectively.

increasing to US$21.3 billion or 11 percent of GNP (from 10.8 percent of GNP), offset by a larger surplus on the services balance of US$11.7 billion.

36. Analysis of **export** trends is complicated by the widely differing estimates of shuttle trade. Recorded exports rose by some US$3 billion (6 percent) in 1997. At the same time, according to the survey of the Central Bank of Turkey (CBT), shuttle trade fell from an estimated US$8.8 billion in 1996 to US$5.8 billion in 1997. In part, this decrease probably reflects a genuine decline in shuttle trade exports as recipient markets become more sophisticated and diversify both the range and source of their imports, but it also reflects the larger share of shuttle trade exports being captured in recorded trade statistics; indeed, the jump in recorded exports to the CIS and Eastern European countries of US$1 billion (a 30 percent increase) is suggestive. If the estimates for shuttle trade in 1996 and 1997 are deemed reliable, total exports in 1997 were virtually unchanged; any such assessment, however, is obviously subject to a significant margin of error.

37. Trade price deflators for 1997 are still preliminary, but suggest that import prices fell steeply, with a terms of trade improvement of about 5 percent. Excluding shuttle trade, and measured in volume terms, exports grew by almost 15 percent in 1997—substantially higher than in 1996, and far outstripping the 7–8 percent real growth in imports of Turkey's main partner countries. On this basis, therefore, it is difficult to argue that there was any significant loss of **competitiveness**. On a trade-weighted basis, and using consumer prices as the deflator, the real effective exchange rate appreciated by 6.4 percent (year-on-year) in 1997, while WPI-based measures imply an appreciation of about 4 percent. Using third-country competitor weights makes relatively little difference, with an average (CPI-deflated) appreciation of about 4.5 percent, while an index of dollar unit labor costs—which showed a modest decrease in competitiveness in 1996—shows a 5 percent increase in competitiveness in 1997 instead.

38. The picture looks rather different, however, if shuttle trade is included in exports. With the very large estimate for shuttle trade in 1996, the rapid growth in exports occurs in 1996 (25 percent) rather than in 1997 (2 percent). Of course, such numbers are especially suspect, not only because the extent of shuttle trade is largely unknown and subject to significant error, but also because it is difficult to choose an appropriate deflator for shuttle trade exports. Rapid structural changes, the greater market integration with the European Union, and the distortions caused by high inflation, all make it difficult to discern clear trends on export performance.

39. In terms of commodities (and measured in U.S. dollars), the growth of agricultural exports slowed from 17 percent in 1996 to 9 percent in 1997, while the growth rate of industrial exports more than doubled from 6 percent in 1996 to 14 percent in 1997. Among exports of industrial goods, the sharpest slowdowns occurred for petroleum products (with exports falling by 31 percent in 1997); electrical appliances (whose growth

rate declined from 45 percent in 1996 to 9 percent in 1997); and motor vehicles (whose growth rate declined from 21 percent in 1996 to 3 percent in 1997).

40. Fueled by rapid income growth, the real exchange rate appreciation, and the continued effects of completing the customs union with the European Union (EU), merchandise **imports** increased by 12 percent in value terms (corresponding to an estimated volume growth rate of 21 percent) with imports of consumer goods rising by about 8 percent. In terms of the commodity composition, agricultural imports rose by 7 percent, while imports of manufactures rose by about 14 percent—most notably imports of electrical appliances and motor vehicles, each of which rose by about 30 percent in 1997. Like exports, import growth rates have been subject to wide gyrations, ranging from 38 percent in 1993, to 25 percent in 1994, to 41 percent in 1995, and 20 percent in 1996–97.

41. The geographical distribution of Turkey's imports remained largely unchanged in 1997, with some 50 percent of imports coming from EU countries, and 72 percent from OECD countries in total. The remaining 30 percent of imports is split evenly between Eastern European countries, Middle Eastern and North African countries, and the rest of the world.

42. The **services** surplus rose sharply, from US$3.7 billion in 1996 to US$7.9 billion in 1997. **Tourism** receipts rose from US$5.6 billion in 1996 to US$7.0 billion in 1997, reflecting both an increase in the number of tourists (from 7.9 million to 9.2 million) and a 7 percent increase in their per capita expenditure. While tourism in Turkey has performed strongly over the last few years, tourism receipts as a percent of GNP (3.7 percent) are lower than some competitor countries (e.g., Portugal, 4.7 percent; Spain 4.6 percent; Greece, 4.6 percent; Hungary, 3.9 percent), and the growth rate more uneven.[14]

43. Service credits on other items rose as well, most notably construction services provided abroad, which grew by almost 25 percent to US$2.5 billion. On the debit side, **interest payments** abroad rose modestly, from US$4.2 billion to US$4.6 billion, due to a higher debt stock and somewhat higher international interest rates.

44. Private **transfers** remained little changed from 1996, while official transfers declined. The fall in official transfers reflected the end of assistance that was related to the 1991 Persian Gulf crisis, and delays in payments from the EU to Turkey in compensation for adjustment costs related to the Customs Union.

45. Data for the first quarter of **1998** show that, relative to the first quarter of 1997, officially recorded exports grew by about 5.6 percent, while imports grew by 5.4 percent. Overall, the trade deficit increased from US$4.2 billion in 1997Q1 to US$4.4 billion in

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[14] Figures for competitor countries refer to 1995/96.

1998Q1, while the current account deficit narrowed from US$1.5 billion to US$1.3 billion.

C. Capital Account

46. The capital account surplus (excluding errors and omissions) was US$9.3 billion in 1996 and US$8.1 billion in 1997. The aggregate annual figures, however, mask important developments. First, reflecting high interest rates and a steady rate of devaluation, inflows were particularly strong during the first nine months of 1997, but fell sharply toward the end of the year in the wake of the Asian crisis. Second, in contrast to heavy reliance on short-term capital in 1996 of almost US$6 billion, maturities lengthened in 1997, with the short-term capital inflow amounting to about US$2 billion.

47. Because of macroeconomic instability, **foreign direct investment** in Turkey remains low, despite the large domestic market and robust economic growth, the low wages, and advantageous access to the EU (as well as proximity to other markets). On a flow basis, FDI declined from US$612 million in 1996 to US$554 million in 1997. Again, a comparison to potential competitor countries provides some perspective: FDI flows to Turkey over recent years have averaged 0.5 percent GNP, compared to 1–2 percent of GNP in Israel, Spain, and Greece, and significantly more in Hungary.

48. **Portfolio investment** (excluding government borrowing in the Eurobond markets) increased slightly but remained negative, as the net outflow of US$0.8 billion in 1996 fell to an outflow of about US$0.1 billion in 1997. On a net basis, equity inflows in 1996 were only US$190 million, and similar trends were observed during the first nine months of 1997, with foreign investors attracted by relatively low price-earnings ratios and strong profit growth of listed companies in the equity market. Starting in October 1997, however, the Asian crisis worsened, flows turned negative and by the end of the year, the net inflow for the year amounted to only US$7 million. Direct sales of government paper to nonresidents fared better, with an estimated net sales of US$570 million in 1997 (slightly lower than the US$619 million in 1996)—though it is widely believed that actual sales, improperly recorded, may have been substantially greater.

49. In 1997 the government issued bonds in the **Eurobond** market totaling US$2.9 billion, similar in amount to 1996. During the course of the first nine months of 1997 spreads for Turkish bonds declined to 300–350 basis points, but then increased to 450 basis points in the fourth quarter with the market turbulence following the economic crises of several Asian countries. Spreads widened to about 500 basis points in the second quarter of 1998, with the turbulence in Russia, but have declined more recently. Other medium- and long-term borrowing by the government was similar in amount to that in 1996. Thus far in 1998, some US$1.9 billion has been raised in Eurobond issues, with a target of US$3 billion for the year.

50. **Commercial bank** inflows in 1997 (US$1.7 billion) were considerably lower than in 1996 (US$4.3 billion), as some of these flows were reversed in the fourth quarter of 1997. Borrowing by the nonbank private sector was steady throughout the year, however, and rose from US$3.9 billion in 1996 to US$5.4 billion in 1997. Estimated errors and omissions (including a correction for shuttle trade) in 1997 remained broadly similar to 1996, at US$2.5 billion.[15]

51. The large capital account surplus resulted in an overall **balance of payments** surplus of US$3.3 billion and an accumulation of reserves for the third year in a row. Official reserves increased by close to US$6 billion in the first 10 months of 1997, but with the turbulence in Southeast Asia and year-end operations by the commercial banks, declined by about US$3 billion (15 percent) in November–December. Overall, taking account of valuation adjustments, foreign exchange reserves rose from US$17.7 billion at end-1996 to US$19.6 billion at end-1997.[16]

52. With market sentiment shifting in favor of Turkey, and attracted by high interest rates in U.S. dollar terms, capital flows in the first six months of **1998** have remained strong. The government's Eurobond borrowing, coupled with US$1 billion in privatization receipts (from the sale of GSM telephone licenses), meant that reserves rose by almost US$3 billion in the first quarter of 1998, and by a further US$5 billion in the second quarter.

D. External Debt

53. External debt statistics are under revision in order to better capture military debt and TL-denominated loans, as well as to take better account of exchange valuation effects. Currently, there are significant difficulties in reconciling flows and stocks (including those of public sector debt), and data from various sources. While the authorities believe that the bulk of private sector borrowing is captured by the banking system data, and reflected in official figures, there is no independent means of verifying these estimates.

54. On a flow basis, Turkey's external debt increased by US$9.5 billion during 1997. With a large share of the debt denominated in deutsche mark and yen, however, the flow increase has been partially offset by the cross-exchange rate valuation effects. Preliminary

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[15] Annex II discusses the corrections made to the balance of payments to take account of shuttle trade.

[16] Included in gross reserves are amounts deposited by Turkish workers abroad and deposited with the Central Bank of Turkey (amounting to about US$9.5 billion). On the amounts deposited in "regular" (1–2–year maturity) accounts through Dresdner Bank in Germany, the central bank has a contractual obligation to hold 35 percent of these deposits with Dresdner bank, against possible withdrawals.

estimates suggest that the stock of external debt rose from US$79.8 billion at end-1996 to US$89 billion at end-1997—or from 44 percent of GNP in 1996 to 46 percent of GNP in 1997. The maturity of obligations remained roughly constant, with the share of short-term debt at about 25 percent of the total. The (nonfinancial) public sector's share of total medium and long-term debt decreased from 64 percent at end-1996 to about 55 percent at end-1997.

55. The **debt service ratio** remained broadly stable at about 22 percent. In U.S. dollar terms, debt service increased by US$1 billion, mainly due to higher amortization. Principal repayments on medium- and long-term debt are projected to increase in 1998, to about US$11 billion, a large share of which is due from the public sector.

E. Trade Regime

56. On January 1, 1996 the Customs Union between the EU and Turkey came into effect, with all duties on imports of **industrial** goods from the EU reduced to zero (exports from Turkey have long enjoyed tariff-free entry into the EU). Turkey also harmonized its tariff (and equivalent) charges on the import of industrial goods from "third countries," with the exception of certain "sensitive" sectors—mainly motor vehicles, footwear, furniture, and ceramic products—where harmonization is to take place within five years. As a result of this agreement, the trade-weighted average of duties on industrial goods from the EU (and EFTA) fell from 5.9 percent to zero percent; and from 10.8 percent to 6 percent for industrial goods from other countries. With the new import regime adopted on December 31, 1997, the average protection rate has fallen to 5.4 percent.

57. Although **agricultural products** are excluded from the Customs Union, Turkey is gradually adopting the Common Agricultural Policy (with full harmonization with the EU's agricultural importation policies expected by 1999). Currently, customs rates range from 20–45 percent for grains (wheat, 40–45 percent; rye and oats, 30 percent; rice and maize, 35 percent; and barley, 20 percent) and about 145 percent for tea and sugar. Overall protection rates on agricultural imports from the EU or other countries are about 50 percent. On processed agricultural imports, however, the average protection rate on imports from the EU is 13 percent, but 34 percent on imports from other countries.

CURRENT ACCOUNT DYNAMICS IN TURKEY: AN INTERTEMPORAL PERSPECTIVE

58. While traditional theories of current account determination focus on the behavior of exports and imports, more recent models stress the intertemporal aspects of savings and investment decisions. In these models, the current account acts as a buffer to smooth consumption in the light of shocks to *national cash flow*, defined as output (GDP) minus investment minus government consumption (i.e., the net domestic resources available for private consumption). As such, these models go beyond the usual sustainability exercises, and provide a useful benchmark for assessing whether observed current account deficits are consistent with economic fundamentals. This annex estimates a simple intertemporal optimizing model of the current account for Turkey and uses it to compare actual current account movements to those predicted by the model.

59. The starting point of the analysis is the recognition that, with the ability to borrow (or lend) in world markets, aggregate consumption need not depend upon the current realization of output but on the annuity value of its entire present discounted value:

$$c_t^* = \frac{r}{\theta}\left\{b_t + \frac{1}{(1+r)}E_t\left[\sum_{j=0}^{\infty}\frac{1}{(1+r)^j}\,q_{t+j} - i_{t+j} - g_{t+j}\right]\right\} \qquad (1)$$

where θ is a constant of proportionality, c^* is consumption, q is GDP, i is investment, and g is government consumption.

60. The assumption that the economy is small in the world.capital markets implies Fisherian separability: investment is undertaken until the marginal product of capital equals the world interest rate. Thus investment and output can be taken as *given* when making the consumption decision. By the definition of the current account:

$$ca_t^* = y_t - i_t - g_t - \theta c_t^* \qquad (2)$$

Substituting for consumption, yields (after some manipulation):

$$ca_t^* = -\sum_{j=1}^{\infty}\frac{1}{(1+r)^j}\left[E_t\,\Delta\,(q_{t+j} - i_{t+j} - g_{t+j})\right] \qquad (3)$$

61. The expression for the current account (3) is fundamental to the intertemporal optimizing approach. It states that the current account should equal the present discounted value of *expected changes* in national cash flow. As such, it embodies the familiar dictum that a country should adjust to permanent shocks but finance temporary shocks.[17]

62. An important implication of (3) is that the current account itself should reflect any additional information about the future evolution of output that is not contained in past values of output growth; formally, the current account should *Granger cause* subsequent

[17] For instance, if the shock is permanent, then by definition it is not expected to be reversed, so $\Delta(q_{t+j} - i_{t+j} - g_{t+j}) = 0\ \forall\, j$ and, according to (3), the country should not run a deficit. If there is a temporary fall in output, $\Delta(q_{t+1}) > 0$, and the country should run a current account deficit.

changes in national cash flow. A vector autoregression therefore provides a convenient framework for estimating the expected present discounted value of change in national cash flow (i.e., the RHS of (3)):

$$\begin{bmatrix} \Delta(q_t - i_t - g_t) \\ ca_t \end{bmatrix} = \begin{bmatrix} \psi_{11} & \psi_{12} \\ \psi_{21} & \psi_{22} \end{bmatrix} \begin{bmatrix} \Delta(q_{t-1} - i_{t-1} - g_{t-1}) \\ ca_{t-1} \end{bmatrix} + \epsilon_t \qquad (4)$$

or $x_t = \Psi x_{t-1} + \varepsilon_t$. Since $E_t(x_{t+k}) = \Psi^k x_t$, the expression for the optimal current account becomes:

$$ca_t^* = -\sum_{j=1}^{\infty} \frac{1}{(1+r)^j} [1 \ 0] \ \psi^j x_t$$

$$= - [1 \ 0] \psi/(1+r) \sum_{j=0}^{\infty} \frac{1}{(1+r)^j} \ \psi^j x_t \qquad (5)$$

$$= - [1 \ 0][\psi/(1+r)][I - \psi/(1+r)]^{-1} x_t \equiv \Gamma x_t.$$

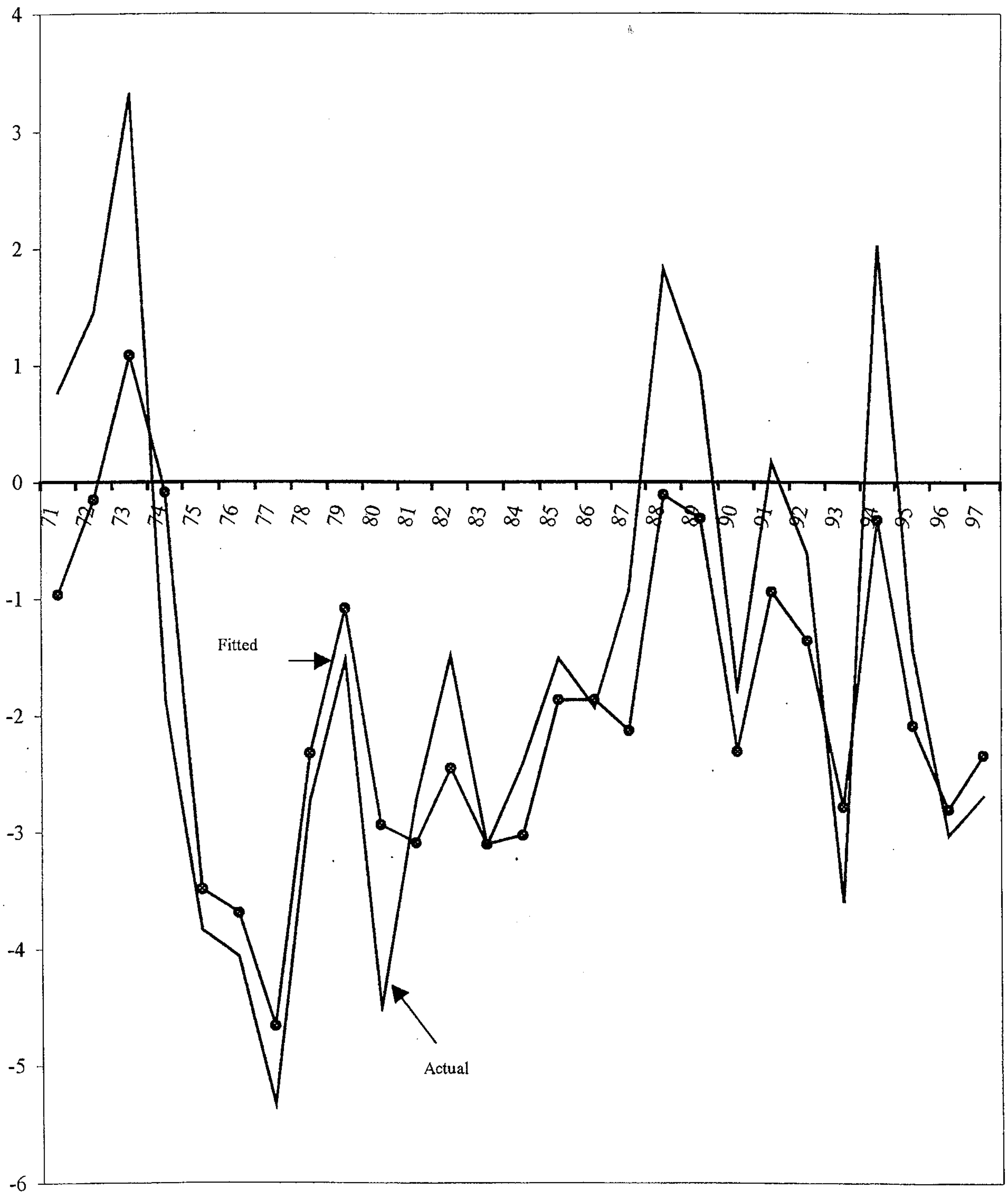
63. Expression (5) imposes stringent nonlinear restrictions on the VAR parameters that should be satisfied if the actual current account indeed reflects this intertemporal smoothing behavior (and the other assumptions of the model are satisfied). These restrictions can be tested by means of a Wald test statistic. A less formal, but perhaps more revealing test is simply to compare the time-series of the actual current account, *ca(t)*, to the theoretical current account *ca*(t)*.

64. Figure 4 undertakes this comparison. The estimation uses a first-order vector autoregression on annual national accounts data from the WEO data base over the period 1970–1997. In the early part of the sample, the actual current account showed a substantially larger surplus than would be predicted, while in 1980, the actual *deficit* was almost 1.5 percent of GDP larger than predicted. Both in 1988 and in 1994, actual surpluses were at least 1 percent of GDP larger than consumption-smoothing behavior would imply. At least this latter episode reflects a sharp adjustment—and import compression—in the face of financing difficulties following the foreign exchange crisis in 1994 when market sentiment shifted against Turkey.

65. In general, the two series track very closely, with the sample correlation between ca and ca* in excess of 0.92. Moreover, as predicted by theory, the current account does indeed Granger cause subsequent changes in national cash flow (although the coefficient is only significant at the 10 percent level).

66. Nonetheless, it is evident that actual current account movements have been somewhat more volatile than theory would imply; indeed, the hypothesis var(*ca*) = var(*ca**) can easily be rejected ($\chi^2(1) = 12.8$). The overall Wald test statistic for the restrictions (5) are also rejected at the 1 percent significance level ($\chi^2(2) = 12.1$).

Figure 4. Turkey: Actual and Fitted Current Account
(in percent of GNP) 1/



Source: Turkish authorities, and staff estimates.
1/ Excluding shuttle trade

TURKEY—SHUTTLE TRADE

67. Shuttle trade refers to the export of consumer goods—apparel, leather goods, household items—to Eastern European and CIS countries. Such trade has undoubtedly become an important element of Turkey's exports and economy, but there is little agreement on the scope and magnitudes involved. This annex describes attempts to quantify the extent of shuttle trade, and its implications for the balance of payments.

Background and early development

68. The genesis of shuttle trade is hard to uncover, but it seems likely that there was always some unrecorded trade with neighboring countries. The spectacular surge in shuttle trade that took place in the first half of the 1990s was prompted by the disintegration of economic central planning in these countries and a loosening of border controls, which permitted the unleashing of years of suppressed demand for consumer goods.

69. This trade is sometimes referred to as "suitcase" trade, as initially many traders transported their merchandise in suitcases as "accompanied baggage." As this trade burgeoned, its complexity and sophistication grew. It now takes many forms, from small-scale Mom-and-Pop operations that use accompanied baggage as the primary means of transport with consignments worth several hundred U.S. dollars, larger operations also using accompanied baggage with specially adopted buses and boats, to large-scale operations with well-established wholesale and producer level networks that use commercial freight for transport.

70. Aside from the abundant anecdotal evidence, the growth of shuttle trade was manifested in the **official statistics** in the surge of unclassified service credits (the category classified as "other service credits, other"), which increased from US$3 billion in 1990 to an estimated US$7.7 billion in 1997. These receipts are estimated on the basis of records of foreign exchange transactions by the banking system. However, foreign exchange transactions include shuttle and other trade, as well as other transactions that reflect changes in portfolio preferences, related to the widespread use of foreign exchange accounts in this dollarized economy.

Surveys to estimate shuttle trade

71. Two surveys are conducted to monitor purchases by foreign visitors of goods in Turkey that are exported. One survey is conducted by the State Institute of Statistics (SIS) and Ministry of Tourism and the other by the Central Bank of Turkey (CBT). The former is to gather information on foreign visitors to Turkey and the latter is to gather information on shuttle trade activities. As a result, the choice of samples, sample size, location of survey, survey frequency, and types of information collected differ significantly, as do the estimates of shuttle trade from these surveys.

72. The **CBT surveys** have been conducted in April, August, and November 1997, and will continue in 1998. The first survey was conducted in Istanbul, while subsequent surveys covered three locations: Istanbul, Trabzon, and Antalya. These locations were chosen as the major hubs for this trade. The survey is conducted by visiting firms, warehouses, transportation facilities, and accommodations used by shuttle traders, rather than other categories of visitors from these countries. The information is collected by interviewers. Each survey is based on 1,150 questionnaires.

73. The predominant **nationalities** of the traders varied across locations and surveys. The main nationality groups were Russian, Kazakh, Georgian, Uzbek, Azeri, and Armenian. The average length of stay reported was 3–4 nights. It also collects detailed information on commodity composition of this trade. The major **commodities** purchased were predominantly (but not exclusively) consumer goods and fell in the following categories: textiles, leather goods and shoes, food, and construction materials.

74. The results of the three surveys in 1997 showed some variation. **Average expenditure** per trader was highest in the April survey (US$8,734 in Istanbul[18]), considerably lower in the August survey (US$5,013 in Istanbul), and recovered in November (US$8,223 in Istanbul), but was a little below that of April. The low figure in the summer has been explained by a vacation-related slump in demand in the summer months. The average expenditure per trader varied considerably among the three locations surveyed. In Trabzon it averaged US$1,500–1,800, in Istanbul US$5,000–8,700, and about US$11,000 in Antalya. The differences among the three locations are thought to reflect the size of demand in destination country markets, reflecting differing income levels and atomization of the trading structures. Information from these surveys indicates that many small traders based in the Caucasus use Trabzon, while Istanbul is the major hub for this activity, particularly for the important Russian market. Antalya appears to cater to a limited number of wealthy traders that combine vacations with shuttle trade activity.

75. The **number of traders** is derived from the tourism survey that asks arriving travelers the purpose of their visit. The results of this survey indicate that 87 percent of visitors from CIS countries that arrive in Istanbul intend to engage in shuttle trade, 100 percent in Trabzon, and 5 percent in Antalya. Using these results and the total number of arrivals from CIS countries in each destination, the number of shuttle traders is estimated. The volume of traders also exhibits some seasonality, quite distinct from regular tourist activity, with fewer shuttle traders during the summer months—because of opportunities in the agricultural sector in their home countries during these months.

76. The **survey by the State Institute of Statistics (SIS) and Ministry of Tourism** differs in several respects from that of the CBT. First, its purpose is more general. It is part of the Foreign Visitors Survey, which collects information on amounts and patterns of expenditure by foreign visitors. This survey has been conducted since 1996. One part of

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[18]Information for Istanbul only is available for all three surveys. This is because the first survey was conducted solely in Istanbul, while the subsequent two surveys also included Antalya and Trabzon.

this survey records the value of goods purchased in Turkey that foreign visitors take with them when they depart from Turkey and includes a special category for wholesale purchases. Second, the survey covers all nationalities and all visitors. Third, it covers nine gateways.[19] (The nine gateways include Istanbul, Antalya, and Trabzon.) Fourth, it is conducted four times per year. Fifth, the average sample size is 5,000. Sixth, this survey collects little information on the types of goods exported.

77. The **results of the CBT and SIS surveys** differ. The CBT surveys estimated shuttle trade to amount to US$8.8 billion in 1996 and US$5.9 billion in 1997. The SIS survey estimates the value of goods purchased by foreign visitors at US$4.3 billion in 1996 and US$3.4 billion in 1997.

78. The **differences** in the results can be explained, in part, by the differences in sample populations. The CBT surveys are targeted to capture shuttle traders, both in their targeting of nationalities, places where surveys are conducted, and the structure and language (Russian) of the questionnaire used. The SIS surveys are designed to capture more general tourism-related activity. The differences in coverage may serve to act as upper and lower bounds in estimating the value of shuttle trade. Both surveys may suffer from under-reporting by respondents who may wish to conceal some part of their activities for tax avoidance or other reasons. As such, all figures on shuttle trade activity must be treated with caution.

Adjustments made by the CBT to the balance of payments

79. Adjustments to the balance of payments for shuttle trade are made in four areas. The approach used takes account of international experience and CBT survey work. In the current account two adjustments are made. The first is to increase the value of merchandise exports by the estimated total value of shuttle trade, taking into account of the results of surveys conducted by the CBT and the SIS and Ministry of Tourism. The second adjustment is to reduce services exports by an amount equal to two-thirds of estimated value of shuttle trade. The net effect of these two adjustments totaled about US$2 billion in 1996 and 1997. CBT work on the disposition of proceeds of shuttle trade indicated that proceeds (net of expenses) are held in cash foreign exchange (about one-third) or deposited abroad. These two types of transactions are reflected in adjustments made to flows of short-term capital (foreign assets) and errors and omissions, both increase estimated outflows.

Implications for analysis of the balance of payments and macroeconomic balances

80. The inclusion of this trade and corresponding adjustments in the balance of payments tends to improve the current account position and weaken the capital account. These developments complicate analysis of the ability of the economy to generate savings domestically and to attract foreign savings. Given that this trade has existed for several years, but that surveys on this activity began in 1996, only sketchy estimates of the size

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[19]Four airports, three seaports, and two land border crossings.

and growth of shuttle trade can be made and these estimates are subject to unusually large margins of error. Partial and anecdotal evidence suggest that from a small base shuttle trade grew very rapidly in the early 1990s and as the size of the trade increased, its growth rate declined somewhat (while still growing rapidly in absolute terms).

81. Shuttle trade complicates the analysis of the **current account position** in the following ways. First, the recording of exports of goods and services (before adjustments for shuttle trade) under-reports merchandise exports and over-reports service receipts. The CBT adjustments of merchandise and service exports partially offset each other. As a result, the analysis of total export growth (and its merchandise and service components) is affected by the estimates of the size of this trade and the extent to which receipts are actually captured in existing balance of payments data as part of "Other service receipts, other." Second, this factor adds an opaque ingredient to the analysis of Turkey's competitive position and the relative strength and sustainability of its current account position. In historical terms it means that the current account deficit may have been smaller than the earlier estimated 3½ percent of GNP in 1993 prior to the last balance of payments crisis. Third, inclusion of shuttle trade affects estimates of domestic savings, indicating a higher level of savings was generated domestically than thought earlier. Fourth, it may mean that the level of and growth in output were also higher than estimated earlier during the early 1990s.

82. The adjustments to the **capital account** also presume that a share of receipts results in capital outflows (as cash foreign exchange holdings or deposits abroad are increased), resulting in capital outflow in a period when high TL interest rates attract substantial capital inflows from other sources. Hence, errors and omissions were less positive than earlier recorded in 1994 and 1995. This would imply a better net international investment position than calculated using earlier balance of payments estimates of capital flows.

83. These issues raise important imponderables for macroeconomic analysis. They highlight the need to improve: (i) monitoring of this trade and (ii) the compilation and collection of external sector statistics, in particular greater use of residency criteria in reporting data. The former can be addressed by continuing and enhancing the surveys that are being conducted to measure this trade. The latter can be addressed by including resident/nonresident categories for reporting of foreign exchange transactions, to facilitate better identification of trade-related foreign exchange transactions and service exports.

III. Monetary and Financial Market Developments[20]

A. Monetary Policy Objectives and Inflation

84. Monetary policy during 1997, as in previous years, was aimed at preserving the stability of financial markets and of the real exchange rate. The central bank aligned monetary policy with its expectations for inflation, expectations that were largely informed by the stance of fiscal policy. As in the preceeding two years, the combination of a relatively predictable rate of depreciation with short-term interest rates kept high by the pressure of public sector borrowing attracted capital inflows to provide the banking system with liquidity. The central bank responded to changes in foreign investor sentiment by injecting liquidity to offset capital outflows (as in the fourth quarter of 1997) or by sterilizing excess capital inflows (as in the first half of 1998). Through this largely accommodative stance, the central bank facilitated the financing of budget deficits while avoiding crowding out the private sector. It also succeeded in maintaining market stability and competitiveness, but at the cost of chronic high inflation (Box 2).

85. Against the backdrop of the near complete erosion of the primary fiscal surplus, undermined largely by rising personnel expenditures and transfers, and strong growth in private sector activity, the central bank announced in mid-1997 that it expected the 12-month increase in the wholesale price index to be about 80 percent by end-year and that it would orient monetary policy accordingly. In the event, inflation was higher than the monetary authorities had anticipated, with the 12-month increase in the wholesale price index reaching 91 percent by year end, contributing to an appreciation of the Turkish lira in real effective terms.

86. A protocol between the treasury and the central bank setting out guidelines for better coordination of monetary policy and the borrowing strategy pursued by the treasury was concluded in July 1997. Under this protocol, the treasury agreed to avoid further recourse to short-term advances from the central bank. In 1998, the monetary authorities and the treasury sought to build further on the improved coordination and transparency initiated under the July 1997 Protocol. In each of the first two quarters of 1998, the central bank announced quarterly targets for the increase in reserve money during the period, while the treasury announced a borrowing program for the period, and agreed to continue to refrain from direct central bank financing.

87. Taking into account the large budgeted improvement in the primary fiscal surplus, the central bank announced in early 1998, that it expected inflation to be reduced to about 70 percent by end-June 1998; that the Turkish lira would be depreciated steadily in line with expected inflation against the exchange rate basket (of US$1 and DM1.5); and that the first

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[20]Prepared by David J. Ordoobadi.

Box 2. The Turkish Inflation Dynamic

Persistent fiscal deficits and an accomodating monetary stance are at the heart of the inflationary process. Fiscal policy affects the inflationary process in three main ways. First, the setting of nominal prices through the budget—notably public sector prices, agricultural support prices, and public sector wages—sends important signals and influences expectations, as well as temporarily influencing measured inflation. Second, the financing of the budget using conventional government securities bearing high nominal yields locks in inflation expectations, and projects these expectations forward. High nominal yields make disinflation difficult and costly as the real interest burden rises as inflation falls. Finally, the monetary expansion needed to accommodate the financing of excessive fiscal deficits fuels inflation, and keeps the real cost of domestic debt servicing manageable.

While direct central bank financing of the deficit has stopped—and the short-term advance accounts was brought to balance in April 1998—monetary policy has been accommodating, providing indirectly the liquidity needed by the banking system while attempting to preserve competitiveness through real exchange rate stability. A relatively predictable exchange rate path and high interest rates pressured by public sector borrowing have generally combined to attract large capital inflows. These inflows in turn contribute to money growth and inflation, while alleviating the crowding-out effect of fiscal deficits. The central bank attempts to smooth these inflows through open market operations that have at times been substantial, especially at turning points in investor sentiment.

Through these policies, the central bank has accomodated both the public sector's borrowing requirement and strong real private sector credit growth, while maintaining competitiveness, but at the cost of chronic inflation and financial fragility. Nevertheless, despite persistent fiscal deficits and an accommodating monetary stance, inflation has not spiralled out of control and the debt dynamics have remained stable. The relative stability of inflation, which in the past has tended to ratchet up to new plateaus with successive crises, is suprising given the central bank's pursuit of a real exchange rate rule, a policy which in effect deprives the system of a nominal anchor.

This stability reflects the inertial nature of Turkish inflation. Absent a price shock, inflation tends to maintain a relatively stable trajectory largely set by the experience of the recent past. Inflation can be nudged temporarily from its trajectory by the manipulation of public sector prices or pushed forcefully from its path by more substantive fiscal action. Expectations, formed through an assessment of inflation in the recent past and the likely future stance of policies, contribute to inertia and play a large role in price determination. Indeed, the rate of lira depreciation pursued by the central bank is based on its expectations for future inflation. Since exchange rate movements play an important role in price determination, the central bank in effect roughly validates its own expectations. Inflation inertia is also created by the backward indexation of wage contracts, and the projection of inflation expectations forward through the nominal yield on conventional government securities.

quarter increase in reserve money would be limited to 18–20 percent. At the end of the first quarter, having kept first quarter reserve money growth (of 17.3 percent) below the lower end of its target range, the central bank announced a second quarter target range for the increase of reserve money of 14–16 percent. The growth of reserve money in the second quarter was kept within the target range, bringing its growth to 32.8 percent in the first six months of the year. Wholesale price inflation declined to 76.7 percent by end-June, broadly in line with central bank expectations, reflecting a sharp improvement in the primary fiscal surplus and the adjustment of public sector prices and wages in line with targeted inflation. There was, however, a slight real depreciation of the Turkish lira against the exchange rate basket.[21]

88. With the initiation of a Fund staff-monitored program on June 26, 1998, the central bank announced that it would give greater emphasis to controlling its net domestic asset position, rather than reserve money, in the implementation of monetary policy in the second half of 1998, to reach the goal of reducing wholesale price inflation to 50 percent by year end. Shifting the focus of policy to controlling the central bank's net domestic asset position was necessitated by uncertainty over the demand for money and the reserve money multiplier during a period of disinflation and the difficulties posed to reserve money targetting by volatile capital inflows. The central bank also suggested that interest rates would decline and be more variable than in the past as inflation expectations adjusted to the program, and that it would not seek a further increase in its net foreign asset position, which had risen strongly in the first six months of 1998.

B. Sources of Reserve Money Growth

89. During the 18 months through June 1998, the central bank engaged, at times heavily, in open-market operations to cope with foreign capital flows associated with swings in investor sentiment, while ensuring that banking sector liquidity grew sufficiently to accommodate treasury borrowing without crowding out the private sector. While the predictable rate of depreciation and high short-term interest rates succeeded in attracting liquidity during the first nine months of 1997, the Asian crisis triggered a capital outflow in the fourth quarter whose contractionary impact on domestic liquidity was offset through sizeable open-market operations by the central bank. The restoration of investor confidence in 1998 engendered massive capital inflows whose absorption posed a major challenge to the monetary authorities as they sought to meet their announced quarterly reserve money targets (Tabulation below).

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[21]The cumulative depreciation of the Turkish lira against the currency basket during the six months through June 1998 was 28.7 percent, compared with the cumulative increase in the WPI of 26.4 percent over the same period. The INS real effective exchange rate index fell by 2.7 percent during January–May 1998, following its 13.5 percent (Dec.–Dec.) increase in 1997.

Factors Underlying Reserve Money Growth

	1997 1/				1997 1/	1998 2/	
	Q1	Q2	Q3	Q4	Year	Q1	Q2
	(Changes in percent of initial reserve money stock)						
Net foreign assets 3/	0.0	18.5	107.0	-61.6	63.9	54.8	160.9
(In millions of U.S. dollars)	-2	839	4,100	-2,035	2,901	2,874	5,053
Banks' foreign exchange deposits	1.2	2.5	6.7	6.3	16.6	1.8	1.7
Net domestic assets	17.0	10.1	-71.6	88.2	43.6	-35.6	-89.0
Claims on central government (net)	24.6	-10.9	-73.3	14.7	-44.9	1.6	7.5
Claims on other public sector (net)	-0.7	-1.0	-3.1	0.5	-4.3	-0.7	-4.6
Claims on banks	-5.6	22.5	11.9	95.4	124.2	-44.1	-101.6
Open-market operations	-5.5	22.5	11.8	95.4	124.2	-44.1	-101.6
Other items (net)	-1.2	-0.5	-7.2	-22.4	-31.4	7.5	9.7
Reserve money	15.8	26.2	28.7	20.2	90.9	17.3	15.4

Source: Central Bank of Turkey.
1/ Changes in percent of end-1996 reserve money stock.
2/ Changes in percent of end-1997 reserve money stock.
3/ Foreign flows valued at average period exchange rates.

90. While the quarterly rate of reserve money growth in 1997 was relatively stable, the sources of this growth varied widely. In the first quarter, reserve money growth was spurred entirely by an expansion in the net domestic asset position of the central bank, which was in turn fueled by an increase in net claims on the central government as a result of the treasury's recourse to the short-term advance account. In the second quarter, both the net domestic and

net foreign assets of the central bank expanded. The central bank injected liquidity through open-market operations in the second quarter, despite significant capital inflows. Foreign inflows surged in the third quarter of 1997, with the central bank's net foreign assets increasing by US$4.1 billion (107 percent of initial reserve money stock). These inflows were partially offset by a decline in the central bank's net domestic asset position, attributable to a further decline in its net claims on the central government, as the treasury built up deposits with the central bank. The net effect was a 29 percent increase in reserve money in the third quarter. The Asian crisis triggered a sharp reduction of the central bank's net foreign asset position in the fourth quarter of 1997, a contractionary impulse that was offset by a massive injection of liquidity (equivalent to 95.4 percent of initial reserve money stock) by the central bank through open-market operations.

91. For 1997 as a whole, reserve money grew by about 91 percent (compared with the 99.1 percent increase in the CPI), reflecting an expansion of about 64 percent in the central bank's net foreign asset position and a 44 percent increase in its net domestic asset position. The expansion of the central bank's net domestic assets reflected a large injection of liquidity (equivalent to about 124 percent of initial reserve money stock) through open-market operations that more than offset a decline in its net claims in the central government. Following the July protocol between the treasury and the central bank, the short-term advance account was brought to its end-1996 level and no further recourse was made to the account in the course of the year. Government deposits with the central bank rose reflecting overfunding in the domestic market and lags in spending new capital raised on international markets. In addition, movements in the revaluation account,[22] reflecting currency gains accruing to the central bank as a result of its net long foreign exchange position, helped reduce its net claims on the central government.

92. In the first half of 1998, the central bank was faced with a flood of capital attracted by high interest rates, the prospect of declining inflation, and a predictable rate of lira depreciation. As a result, the net foreign assets of the central bank increased by US$7.9 billion (about 161 percent of initial reserve money stock). This liquidity was partially absorbed through massive open-market operations (equivalent to 146 percent of initial money stock), restraining reserve money growth to 32.8 percent in the first six months of the year. While this policy succeeded in keeping reserve money growth below the lower end of the announced target, the absorption of liquidity through open-market operations held up short-term interest rates and preserved the incentive for capital inflows.

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[22]Gains and losses incurred by the central bank as a result of foreign exchange movements are recorded in the revaluation account. The steady depreciation of the Turkish lira coupled with a net short foreign exchange position had, until recently, resulted in steady losses that boosted central bank claims on the treasury which were periodically extinguished through the transfer to the central bank of government securities, which in turn were used to undertake open-market operations. With the emergence of a positive net foreign exchange position, changes in the valuation account have resulted in gains in recent years.

93. In order to break this cycle, the central bank decided, at end-June 1998, to shift its focus from announced targets for reserve money growth to controlling its net domestic asset position. Under this framework, interest rates were expected to decline and be more variable than in the past until they reached a level that equilibrated the domestic market's demand for liquidity. To further discourage capital inflows, the authorities announced a phased reduction in the ceiling on the net open foreign exchange exposure of banks from 50 percent of net worth to 30 percent by end-1998 and 20 percent by end-September 1999, but at the same time eased the definition of the open position.

C. Developments in the Main Monetary Aggregates

94. The demand for real money balances remained strong in 1997 and was accompanied by a shift in the composition of broad liquidity toward repurchase agreements or repos (Box 3) as a close substitute for demand deposits. While M2X (currency in circulation and foreign and domestic currency deposits) declined by 1.3 percent in real terms in 1997, real broad liquidity (M2X plus repos) expanded by 8.6 percent, as the latter was buoyed by a 106 percent real increase in repos (Figure 5; and Tabulation below). Repo growth remained strong in the first half of 1998. Despite chronic inflation, the ratio of M2 to GNP remained stable at about 13½ percent in 1996 and 1997, as did the level of dollarization as measured by the share of foreign currency deposits in M2X (see Figure 5).

Major Monetary Aggregates

	1993	1994	1995	1996	1997	1998
	(Percentage change in nominal terms)					
Broad liquidity 3/	73.3	135.2	105.2	115.4	116.1	109.1
Lira liquidity 4/	68.1	101.1	106.2	119.4	125.7	...
M2X 5/	64.0	148.8	101.2	116.9	96.6	103.8
M2	53.2	115.2	98.6	123.1	90.8	98.9
	(Real percentage change) 2/					
Broad liquidity 3/	1.3	4.3	14.7	19.8	8.6	9.3
Lira liquidity 4/	-1.8	-10.8	15.2	22.0	13.4	9.4
M2X 5/	-4.1	10.3	12.4	20.7	-1.3	6.5
M2	-10.5	-4.6	11.0	24.1	-4.2	3.9
Repos	...	-36.0	40.7	12.2	105.8	24.4
Private sector credit	8.0	-24.7	32.7	31.3	13.7	...
	(In percent of GNP; average period stocks)					
Broad liquidity	21.6	23.6	25.0	27.8	30.3	...
Lira liquidity	14.4	13.9	14.1	15.9	18.0	...
M2X	19.2	21.3	22.7	25.2	25.8	...
M2	12.0	11.7	11.8	13.3	13.5	...
Private sector credit	13.0	11.7	12.3	15.2	17.6	...

Source: Central Bank of Turkey.
1/ Preliminary estimates of 12-month changes through May 1998.
2/ Deflated by CPI.
3/ M2X plus repos.
4/ M2 plus repos.
5/ M2 plus foreign currency deposits.

Box 3. The Turkish Repo Market

In most markets, repos—the combined sale of a security with a forward commitment to repurchase the security at a specified date and price—are typically short-term, collateralized money market instruments traded over the counter in large denominations on terms negotiated between sophisticated, institutional market participants. At maturity, the temporary buyer (or provider of funds) returns the security and receives the original purchase price paid for the security plus interest. The buyer/reseller of the security concerned is remunerated at a rate of interest that reflects prevailing money market rates, and the collateral's attenuation of credit risk. The market risk of the underlying security is borne by the seller; from the buyer's perspective, changes in the value of the collateral affect only credit risk. This risk is typically contained by limiting the amount that can be raised on repo to a percentage of the underlying security used as collateral (also known as a "haircut").

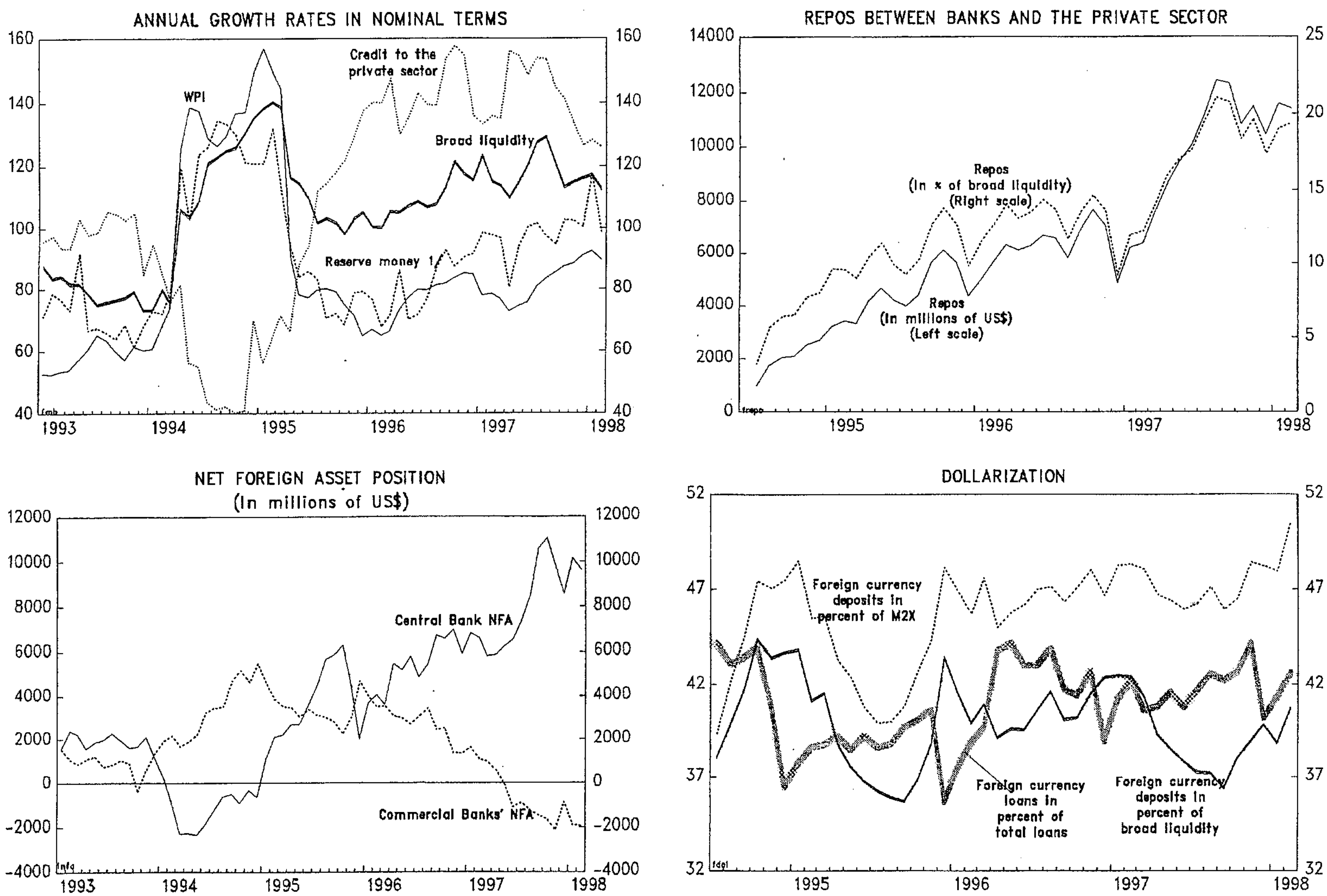
In Turkey, the repo market has become very widespread, because of its attractiveness as a highly remunerated short-term investment. Retail investors can open and rollover repo accounts with their banks as easily as fixed deposit accounts. Banks pool these accounts (up to a limit set by the central bank) and enter into repos on their clients' behalf. In addition, the underlying security is not subject to a haircut—banks (or other large holders of government securities) can repo the full market value of the underlying security.

The repo market in Turkey is largely a creature of tax and regulatory distortions. Repos are free from reserve and liquidity requirements. This advantage to banks is shared with investors in the form of interest rates that exceed those offered on sight or term deposits. The shift to repos was also spurred by the increase in the withholding tax on interest on deposits from 5.5 to 13.2 percent in January 1997, while repos remained exempt. In 1998, the withholding tax on interest on newly issued government securities was reduced to 6.6 percent and a similar tax applied to repo earnings, while the withholding tax on interest on bank deposits was kept at 13.2 percent.

As a consequence of the explosion in the repo market, Turkish monetary aggregates have become difficult to interpret since repos are an off-balance sheet transaction not normally captured in the traditional monetary aggregates. Since repos tend to have a shorter average maturity than the deposits they increasingly replace, the maturity mismatch of banks has grown with the popularity of repos. Banks' reliance on extremely short-term funds to finance a growing share of their large portfolios of treasury bills increases the risk that a change in sentiment in the repo market would be quickly reflected in treasury bill yields. Risk can also move in the opposite direction: a sharp fall in the price of treasury bills, coupled with difficulties in the banking system, could subject retail investors to an uninsured loss on an instrument that has come to be seen as a close substitute for a bank deposit.

The government has announced that it will take steps to remove the regulatory and tax distortions that have made repos such an attractive substitute for bank deposits.

Figure 5. Turkey: Monetary Developments, 1993-98



Source: Data provided by Turkish authorities.
1/ Includes banks' deposits in foreign exchange.

95. Real private sector credit expanded at an annual average rate of about 25 percent (almost 9 percent of GNP a year) during the past three years, reflecting a continued strong rebound from the plunge in credit (and economic activity) experienced in 1994. Foreign exchange credit set the pace, growing in real terms by almost 30 percent a year, contributing to a doubling of its share in total private sector credit since 1990 to 40 percent by end-1997. Despite high real interest rates on Turkish lira-denominated loans, this segment also grew rapidly—by about 23 percent a year in real terms—during 1995–97 (Figure 6). Most private sector credit is short-term, extended mainly for trade financing and working capital needs; real estate lending represents an insignificant share of private sector credit.

D. Evolution of the Assets and Liabilities of Commercial Banks

96. The growing use of repos (mainly 1–5 day maturities) by banks to finance holdings of government securities worsens their maturity mismatch, boosts their gearing, and increases their off-balance sheet exposure. As a result, the structure of commercial bank liabilities vis-à-vis the private sector has changed, with the share of repos in commercial bank liabilities more than doubling from end-1996 to February 1998, at the expense of lira deposits (Tabulation below).

Structure of Commercial Bank Liabilities to the Private Sector

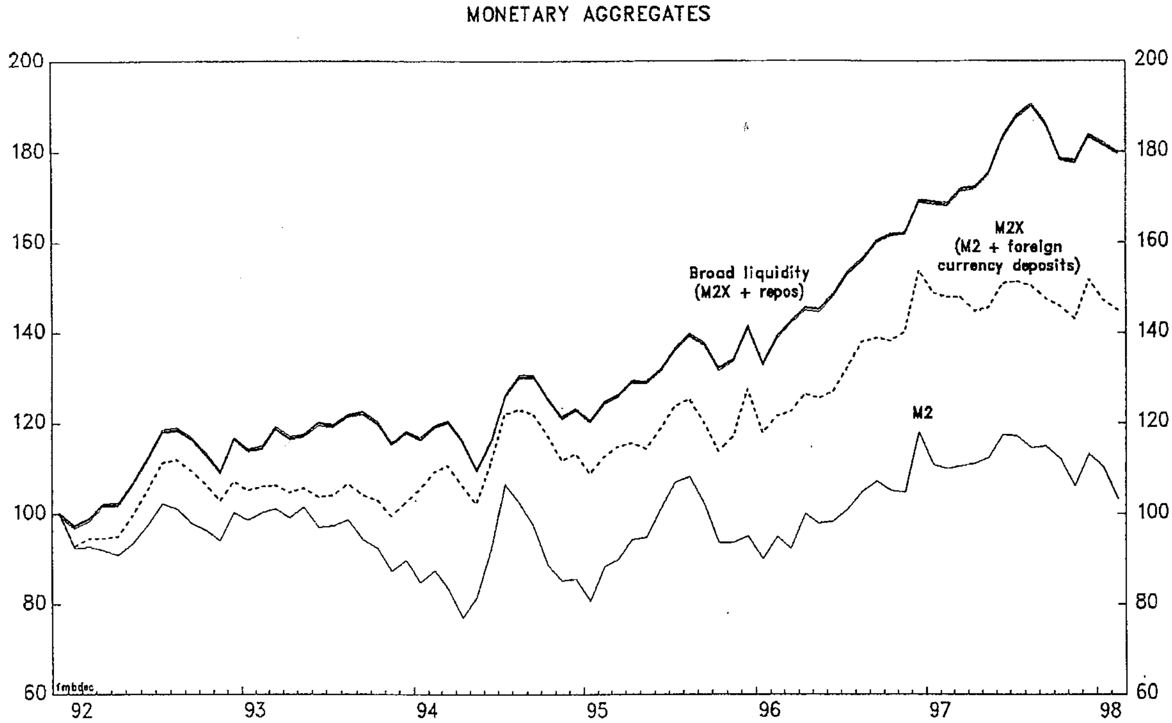
(In percent of total liabilities)

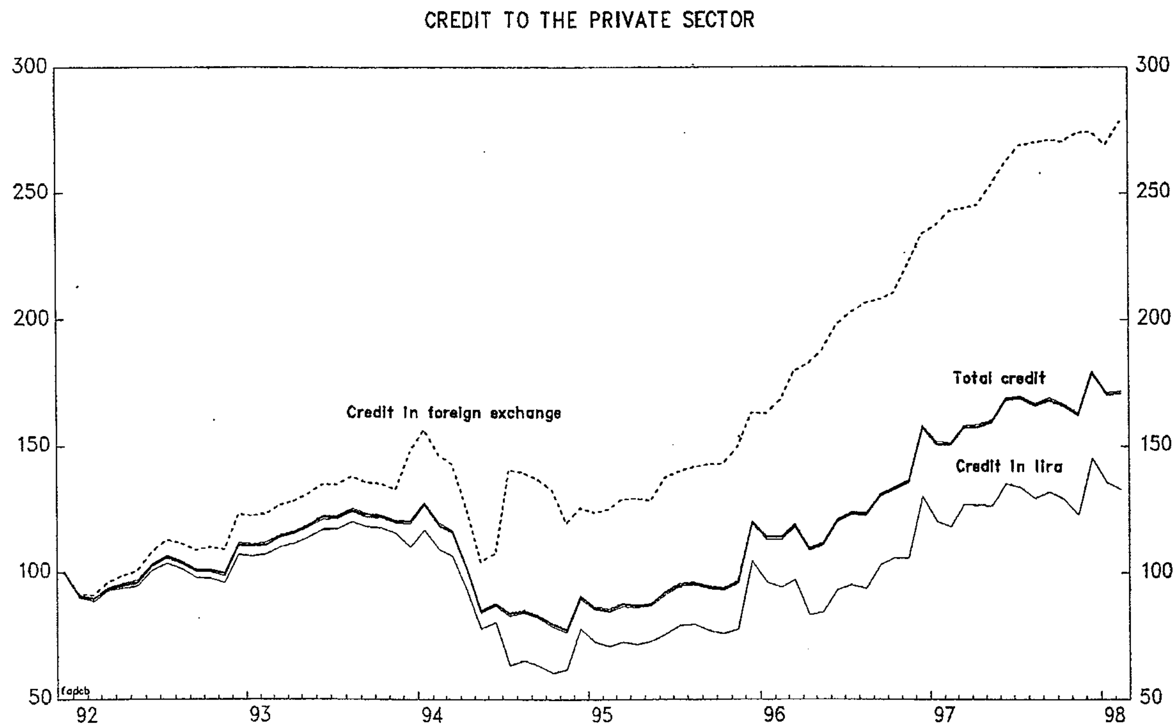
	1994	1995	1996	1997				1998
				Mar.	June	Sept.	Dec.	Feb.
Lira deposits	44.0	42.8	45.5	41.6	41.5	39.7	39.9	36.8
Resident FX deposits	47.4	46.7	44.8	43.7	39.9	38.4	41.8	42.8
Repos	8.7	10.5	9.7	14.7	18.6	21.9	18.3	20.4

Source: Central Bank of Turkey.

97. In addition to growing reliance on repos as a source of funds, commercial banks continued to raise funds abroad to fund their domestic activities. As a result of the attractively low cost of such funding, the net foreign asset position of commercial banks has declined from a positive position of US$4.7 billion in 1995 to a negative US$1.9 billion in February 1998 (Tabulation below). Banks also widened their net foreign exchange exposure from an average of US$3–3½ billion during 1996 to an average of about US$4 billion during 1997.

Figure 6. Turkey: Developments in Main Monetary Aggregates, 1991-98
(Indices: December 1991=100; in real terms)





Source: Data provided by Turkish authorities.

Net Foreign Asset Position of Commercial Banks

(In millions of U.S. dollars)

	1994	1995	1996	1997				1998
				Mar.	June	Sept.	Dec.	Feb.
Net foreign assets	5,410	4,658	1,339	965	-1,089	-1,491	-888	-1,961
Foreign assets	8,655	9,951	9,429	8,763	8,363	9,212	10,553	9,334
Foreign liabilities	3,245	5,293	8,089	7,798	9,452	10,703	11,442	11,295

Source: Central Bank of Turkey.

98. The net domestic assets of the commercial banks grew by 107 percent in 1997, led by claims on the private sector (which grew by 126.5 percent) and claims on the central government (106 percent), the latter consisting mainly of bank holdings of bills and bonds and duty loss accounts.

E. Exchange Rate Developments

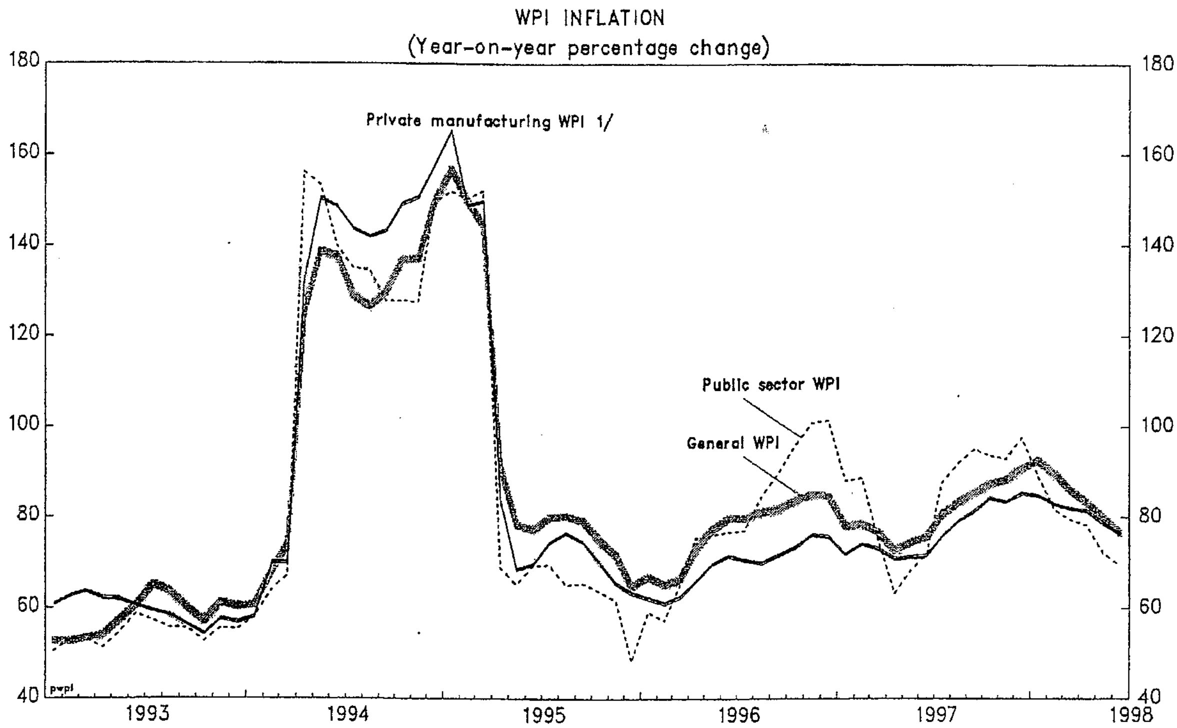
99. In 1997, the value of the lira was adjusted in line with the central bank forecasts of inflation, while interest rates were high enough to attract large short-term capital inflows.[23] However, because the central bank underestimated inflation, and because of the strength of the U.S. dollar, the CPI-based real effective exchange rate appreciated by 13.5 percent (December–December), although it remained some 10 percent below its pre-1994 crisis peak (Figure 7). In 1997, the Turkish lira depreciated by 90.5 percent against the dollar, but by only 79.4 percent against the US$1/DM1.5 currency basket, reflecting the relative strength of the U.S. dollar vis-à-vis the deutsche mark (Figure 8). In the first half of 1998, the lira depreciated 28.7 percent against the (US$1/DM1.5) currency basket followed by the central bank, compared with cumulative wholesale and consumer price inflation during the period of 26.4 percent and 29.6 percent, respectively. The INS real effective exchange rate index fell by 2.7 percent during January–May, 1998, bringing it some 12.3 percent below its pre-1994 crisis peak.

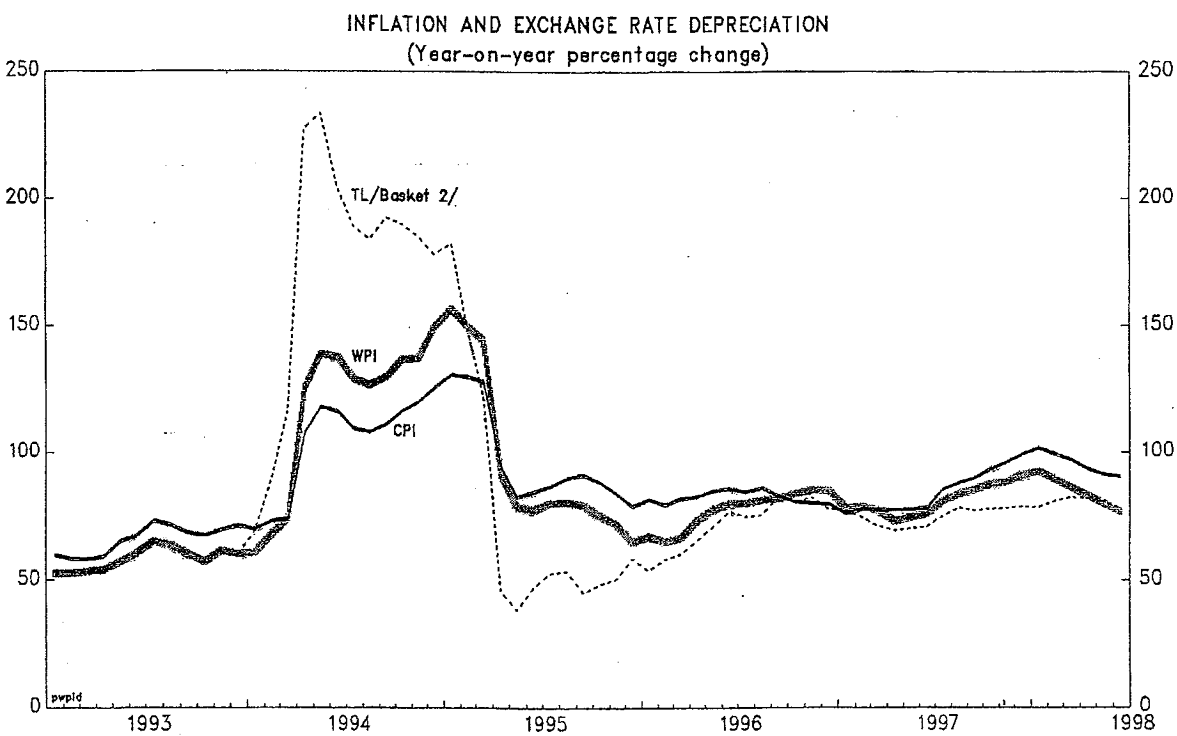
[23]Overnight interest rates averaged 5.9 percent per month versus the 5 percent monthly rate of lira depreciation.

Figure 7. Turkey: Real Exchange Rate Developments, 1988-98
(1990=100)

Source: IMF, Information Notice System.
1/ The private sector manufacturing WPI is used as Turkey's price variable.

Figure 8. Turkey: Price and Exchange Rate Developments, 1993-98





Source: Data provided by the Turkish authorities.
1/ An indication of "core" inflation, with a weight of 75% in private sector WPI.
2/ Basket of 1 US dollar and 1.5 deutsche mark.

F. Interest Rate Developments

100. Interest rates on treasury bills and in the overnight market rose in the course of 1997 and early 1998. Interest rates in the overnight market consistently exceeded the rate of lira depreciation, attracting capital inflows, through most of the period, and especially in the first half of 1998 (Figure 9). With the shift in central bank policy at end-June 1998, both overnight rates and treasury bill yields fell sharply (Figure 10). The overnight money market rate, which had hovered around 115 percent (compounded annually) during the first five months of 1998, fell to 50–60 percent after the central bank lowered its bid rate to 50 percent compounded annually, while the yield on treasury bills, which had been 99 percent in mid-June, fell to 70–75 percent in July.

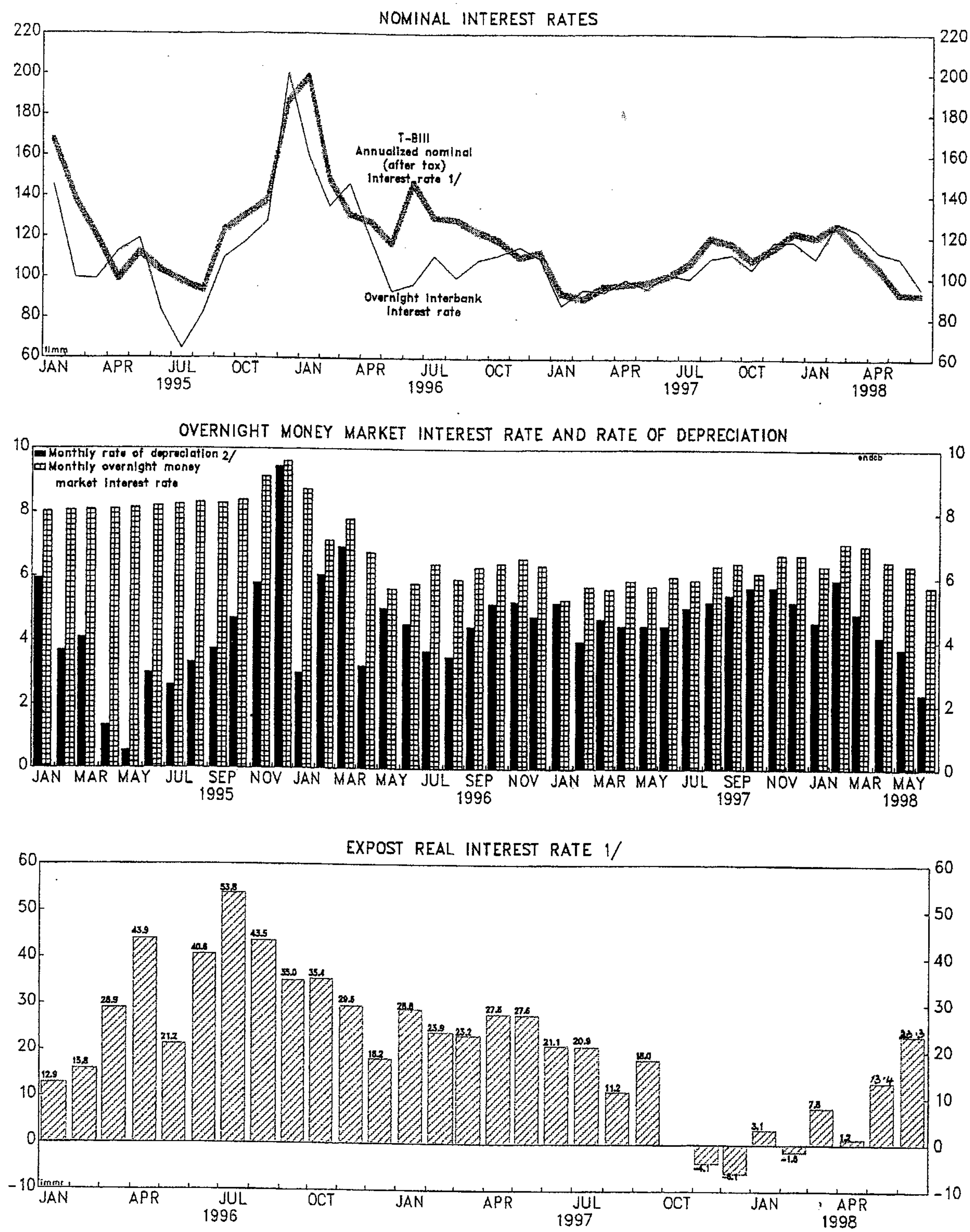
101. The treasury began issuing inflation indexed bonds in March 1997. The initial version of these bonds met with market resistance, reflecting the novelty of the instrument, its limited liquidity, relatively long duration (two year maturity versus a conventional debt stock heavily weighted toward short-term instruments), and the uncertain real return afforded by the instrument. The latter stemmed mainly from the imposition of a withholding tax on the nominal interest earnings of the security, which had the effect of eroding the real after-tax yield to the investor, with the real after-tax yield falling as inflation rose. Real before tax yields on these indexed bonds, which were issued during March–December 1997, ranged from 22–32 percent, and market acceptance remained limited.

102. Since indexed securities were seen by the treasury as a means of reducing its real interest burden during a period of disinflation, it sought to boost market acceptability through the introduction of one-year inflation-indexed treasury bills, whose real after tax yield was certain from issue. The real interest rate at auction on indexed treasury bills ranged from 19–31 percent in the first six months of 1998, reflecting continued market resistance, arising in part from expectations that inflation was on a declining trend that would make conventional securities particularly attractive. To boost liquidity, the treasury introduced a facility to permit the separate trading of registered interest and principal of indexed securities (STRIPs). The principal component of the STRIP resembles a discounted conventional security likely to appeal to domestic investors, while the coupon component would provide a guaranteed after-tax real return, a feature thought to be attractive to foreign investors.

G. Stock Market Developments

103. The Istanbul stock exchange was among the top performers in 1997, registering a return of about 84 percent in U.S. dollar terms (Figure 11). Reflecting this strong performance, valuation levels suffered, with the P/E ratio doubling (from 12.2 times in 1996 to 24.4 times in 1997), and the dividend yield falling from 2.9 percent to 1.6 percent. The market capitalization of the exchange doubled in 1997, reaching US$61.3 billion (31.2 percent of GNP). Total trading volume increased from US$37.7 billion in 1996 to US$58.1 billion, with average daily trading volume increasing from US$153 million to US$231 million over the same period.

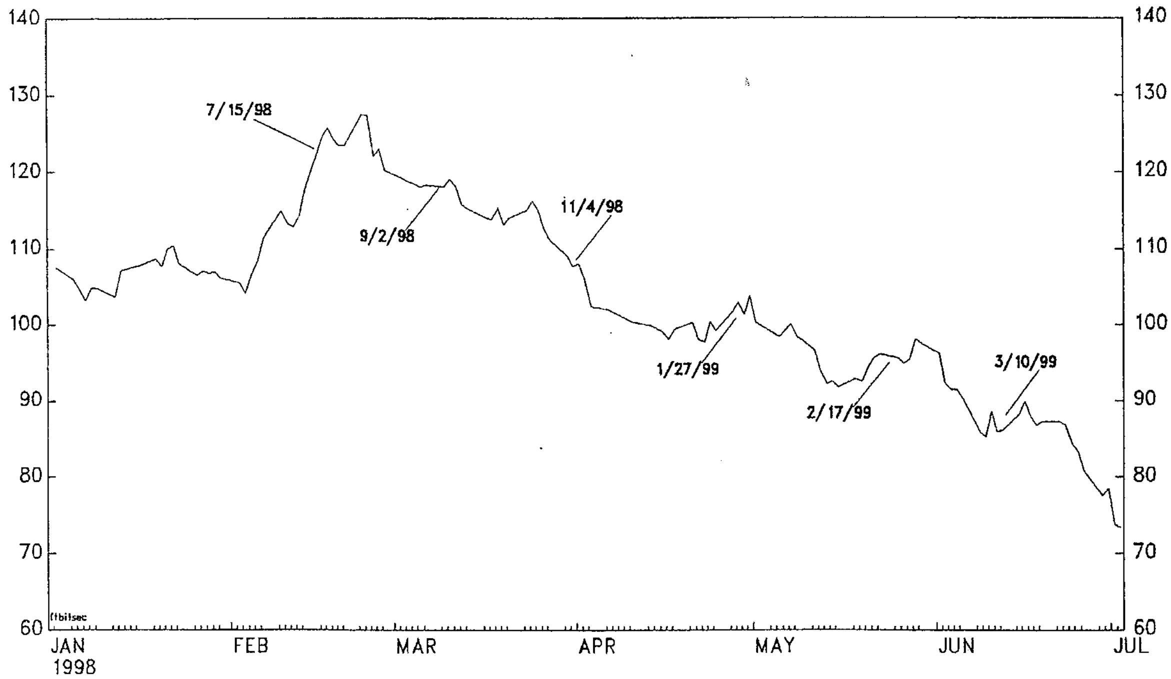
Figure 9. Turkey: Interest Rate Developments, 1995-June 1998



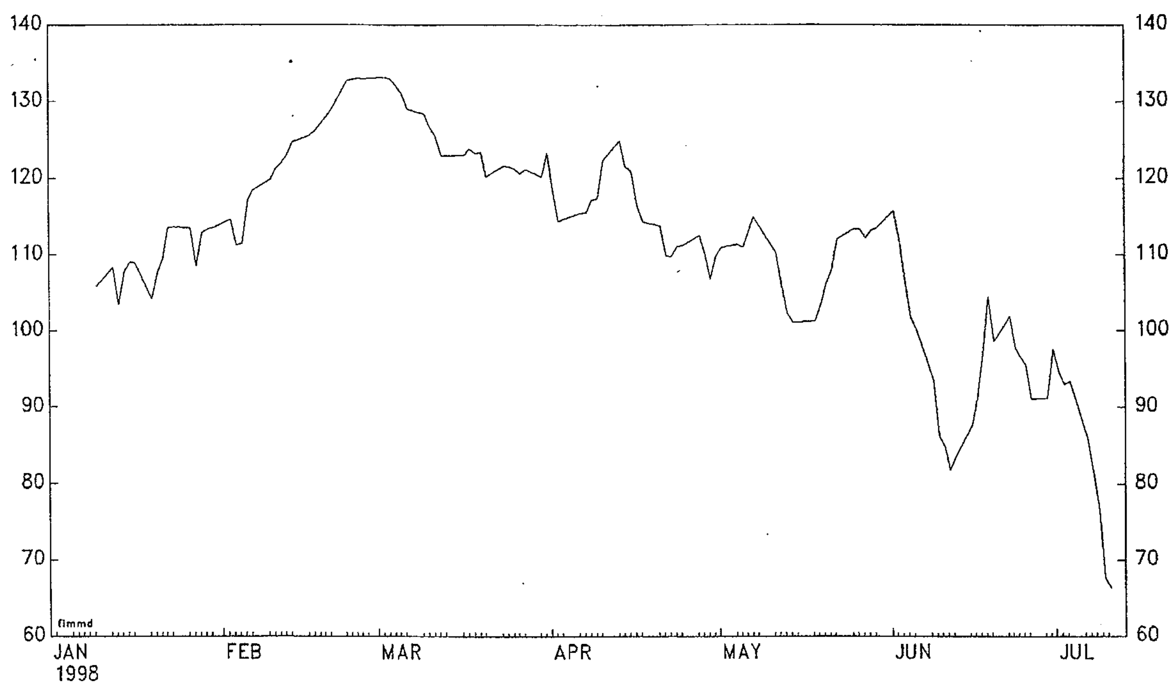
Source: Data provided by the Turkish authorities.
1/ Simple average across maturities ranging from 3 months to 1 year.
2/ Basket of 1 US dollar and 1.5 deutsche mark (end-of-period basis).

Figure 10. Turkey: Secondary T-Bill Market & Overnight Interest Rate, 1998
(Compounded, in percent per annum)

SECONDARY T-BILL MARKET RATE 1/

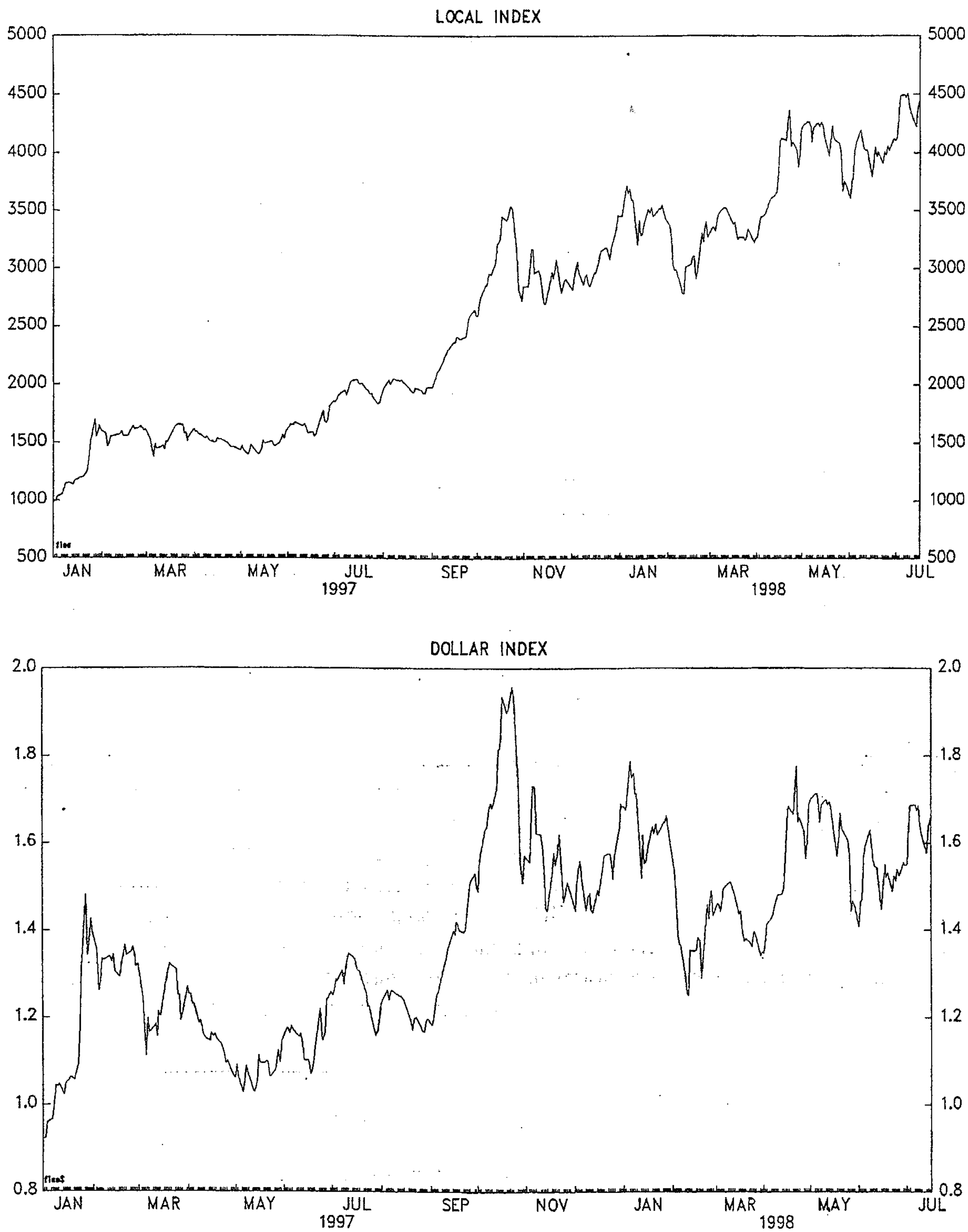


OVERNIGHT INTERBANK INTEREST RATE 2/



Source: Data provided by the Turkish authorities; and Yapi Kredi Bank.
1/ Yield in secondary trading of the most liquid paper, net of tax.
2/ 7-day moving average.

Figure 11. Turkey: Stock Market Developments, 1997-July 1998



Source: Bloomberg.

IV. Public Finances [24]

104. The nonfinancial public sector in Turkey consists of five main subsectors: the consolidated budget, which includes the central government, the budgetary funds, and the annex budget (covering some autonomous organizations); extrabudgetary funds (EBFs); local governments;[25] the social security institutions[26] and revolving funds; and nonfinancial state economic enterprises (SEEs). The first four entities constitute the general government.

105. The government engages in substantial extrabudgetary and quasi-fiscal operations; in 1997 these expenditures were 3.3 percent of total general government expenditure. Contrary to the approach adopted here, the Turkish authorities do not count these operations as part of public sector transactions.[27] The Treasury engages in extrabudgetary operations to finance the debt service of loans it has assumed under its guarantee. The largest of these are for debts of local governments and the Public Participation Fund. To finance these operations, the Treasury issues regular debt paper. Until 1996, the Treasury used extrabudgetary operations to support other public sector institutions through off-budget transfers. In addition, the Treasury engages in quasi-fiscal operations with state banks and the central bank, by placing 'non-cash bonds' to cover the cost of public sector debt consolidation operations (both the initial cost and the cost of servicing the these bonds are covered in this way) and of central bank losses. Typically, noncash bonds are inflation-indexed, with a below-market real interest rate.

A. Overall Trends

106. In 1994 and 1995, fiscal restraint in the wake of the economic crisis of 1994 brought about a marked drop in the public sector borrowing requirement (PSBR). However, in 1996, the (PSBR) almost doubled to 11.2 percent of GNP, and remained at about that level in 1997 (Figure 12). This sharp weakening in the finances of the public sector in 1996 was brought on by markedly higher interest charges, a boost in current spending and investment, the growing social security deficit, and higher spending by EBFs. In 1997, public interest payments declined, but as maturities lengthened, pushing interest payments into 1998, but the primary balance worsened sharply as outlays for recapitalization of state banks, investment, social security, and agricultural subsidies increased.

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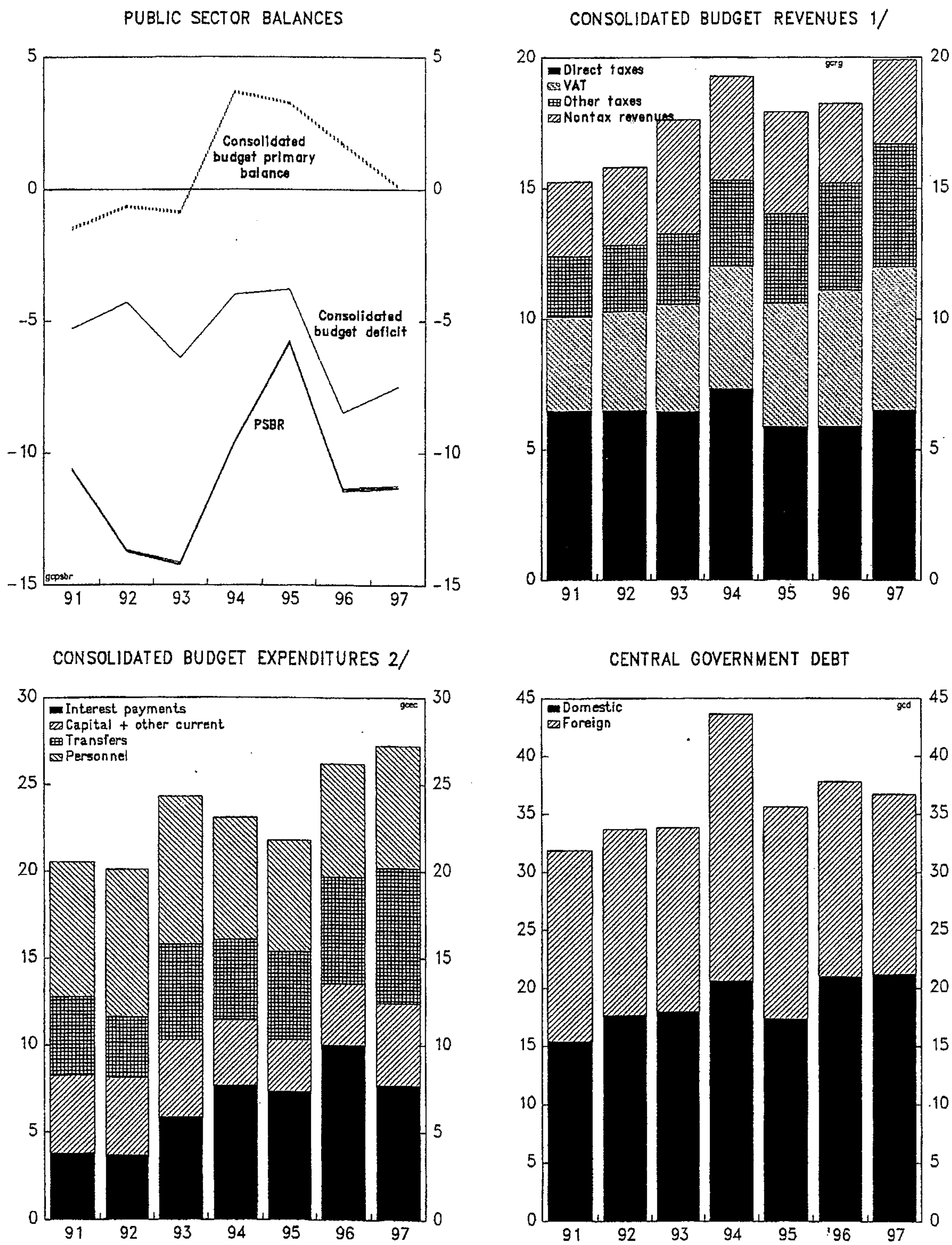
[24] Prepared by Marijn Verhoeven.

[25] Local government operations are considered in Appendix 5.

[26] Reviewed in greater detail in Appendix 2.

[27] The other difference between the authorities' presentation of public sector operations and the presentation here is that the authorities count privatization as part of public sector revenues while it is treated as a financing item in IMF documents.

Figure 12. Turkey: Fiscal Indicators, 1991-97
(In percent of GNP)



Sources: Data provided by the Turkish authorities; and staff estimates.
1/ Excluding revenues allocated to EBF expenditures.
2/ Excluding expenditures allocated to EBFs.

B. The General Government

107. The financial position of the general government improved somewhat in 1997, after the sharp deterioration in 1996. The overall deficit including extrabudgetary and quasi-fiscal operations, fell from 11.4 percent of GNP in 1996 to 10.5 percent in 1997. Interest payments declined by 2.3 percentage points of GNP, while the primary balance of the general government declined from a surplus of 1.5 percent of GNP in 1996 to a deficit of 0.5 percent of GNP in 1997.

C. Consolidated Central Government Operations

108. **Revenues** of the consolidated central government increased markedly in 1997 to 19.2 percent of GNP, from 18.0 percent in 1996. The increase was largely due to higher personal income collections tax, higher petroleum consumption taxes, higher VAT on imports, and the imposition of a withholding tax on interest on government securities. Revenues from **direct taxes** increased by 0.6 percentage points to 6.5 percent of GNP in 1997. Substantial real wage increases in the public sector boosted receipts from the personal income tax. In addition, revenues increased as the personal income tax brackets were adjusted by less than inflation in 1997, thereby increasing the real average taxation of personal income.[28] The withholding tax on government debt that was introduced at end-1996 had only a modest effect on tax revenues in 1997, as virtually all of the debt issued after the introduction of the withholding tax was contracted to fall due in 1998.

109. **Indirect tax** revenues increased by 0.4 percentage points to 9.5 percent of GNP in 1997, reflecting an average increase in petroleum consumption tax rates of 50 percent in August 1997 (yielding 0.2 percent of GNP during the year) and higher VAT revenues on imports (yielding 0.2 percent of GNP).

110. Tax collections continued to be hampered by weaknesses in **tax administration** in 1997. Tax evasion is widespread, owing to weak enforcement and soft penalties. In addition, there is an expectation of regular tax amnesties that reduces willingness to pay assessed taxes in a timely manner. Indeed, in 1997 the government introduced a program for taxpayers with outstanding obligations on which interest charges were accumulating. These taxpayers were given the choice of paying a reduced amount in 12 monthly installments. The audit rate in 1997 was about 1 percent—too low to dissuade taxpayers from evading their obligations. Nevertheless, the tax collection ratio—that is, the rate of cash collections over assessments—increased slightly, from 88.1 percent in 1996 to 89.1 percent in 1997. This improvement was mainly due to improved collections of the personal income tax.

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[28] This increase in the real average taxation of personal income came after three years in which the adjustment of personal income tax brackets were increased by more than the rate of inflation.

111. **Nontax revenues** increased by 0.2 percentage points to 3.2 percent of GNP in 1997. To finance the extension of the compulsory public school education, the government introduced, in September 1997, additional fees and taxes on a number of public services (e.g., cadastre services, tax returns, and motor vehicle registration, lottery tickets, revenues from advertising, and tobacco products). These are recorded as non-tax revenues and yielded 0.2 percent of GNP in revenues in 1997 (0.6 percent of GNP on an annual basis).

112. **Expenditures and net lending** of the consolidated budget increased in 1997 to 26.7 percent of GNP, from 26.3 percent in 1996. This, however, reflected a sharp increase in noninterest expenses which was offset by a decline in interest outlays as interest payments were pushed into 1998 through a lengthening of maturities.

113. **Noninterest expenditures** increased by 2.8 percentage points to 19.1 percent of GNP in 1997. Large real wage increases averaging 17 percent for civil servants and 32 for public sector workers[29] were the main factor underlying the 0.5 percent of GNP increase in spending on wages and salaries. In addition, civil service employment increased by 1 percent, mainly due to additional hiring of teachers and security personnel. Other current spending, of which four fifths is associated with national defense, went up by 0.2 percentage point of GNP. Investment spending increased in 1997 by 0.4 percentage point of GNP, continuing the reversal of large cuts in investment made during 1994 and 1995.

114. The government that took office in mid-1997 decided to undertake several large one-time settlements of accumulated obligations, boosting **non-interest transfers** to 7.8 percent of GNP, 1.6 percentage points higher than in 1996. The government settled 15 percent of the stock of duty losses on cotton and tea production at a cost of 0.5 percentage point of GNP in additional agricultural subsidies; recapitalized state banks, which pushed up spending on state participations by 0.4 percentage point of GNP; and settled outstanding liabilities from land requisition for infrastructural works, increasing transfer to EBFs by 0.2 percentage point of GNP. The continuing deterioration in the financial position of the social security system raised noninterest transfers by a further 0.4 percentage point of GNP.

115. **Interest payments** were markedly lower in 1997 than in 1996, falling to 7.7 percent of GNP in 1997 from 10.0 percent a year earlier, mainly because of a lengthening of maturities which shifted sizable interest payments from 1997 into 1998. In November 1996, the average maturity on government debt issues reached 13½ months, against just over 4 months in May 1996. Average interest rates on domestic borrowing declined from 199 percent in January

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[29]Civil service wages were increased by 30 percent on January 1, 1997, and then again by 13–42 percent on April 1, 1997 (retroactive to January 1, with military personnel and security forces obtaining the largest increases), and again by 35 percent on July 1, 1997. On average and on a year-on-year basis, the civil servant wage bill increased by 116 percent and public sector wages by 145 percent in 1997.

1996 to 113 percent in December and reached a low of 90 percent in February 1997, but rose subsequently to 120–125 percent at the end of 1997.

116. **Defense and security related expenditures** recorded in the consolidated budget rose by 0.3 percentage point of GNP to 3.7 percent of GNP in 1997. Additional defense spending is carried out through off-budget items, such as the Defense Industry Support Fund, but its magnitude is not reported.

117. **Extrabudgetary and quasi-fiscal operations** fell from 3.4 percent of GNP in 1996 to 2.4 percent in 1997, in large part because these operations were covered by direct transfers through the budget in the latter year. In addition, the central bank losses that are covered by quasi-fiscal operations were virtually eliminated in 1997, reducing off-budget spending 0.4 percentage point of GNP.

118. Since 1994, net foreign borrowing of the consolidated budget has been negative, as the central government relied on domestic financing to its cover deficits. In the absence of significant privatization revenue and with the elimination of financing from the central bank,[30] the central government expanded the issuance of treasury bills and government bonds, from 7.1 percent of GNP in 1996 to 8.4 percent in 1997. The stock of foreign debt declined from 16.4 percent of GNP in 1996 to 1.1 percent in 1997. Similarly, nonsecuritized debt to the central bank fell from 2.5 percent of GNP to 1.1 percent, while t-bills and bonds rose from 12.8 of GNP to 15.6 percent. Total central government debt dropped to 36.3 percent of GNP in 1997, from 37.4 percent in 1996.

119. In 1997, according to the treasury, the central government repaid some US$4.9 billion (net) of external debt (i.e., net foreign borrowing was -1.5 percent of GNP). However, these data do not record foreign borrowing of some US$1.6 billion that was held on deposit in the central bank.[31]

120. At the time the 1997 budget was drawn up, the authorities announced that they were expecting revenues from privatization of 4.0 percent of GNP on the basis of a large-scale privatization program that included privatization of the telecommunications company Turk Telekom, electricity generating plants, and power distribution lines, as well as the sales of mobile phone operating licenses. These sales were not realized, however, because of

[30]Shortly after the new government took over in the second half of 1997, the central bank and the Treasury signed a covenant under which the Treasury was to refrain from using central bank advances to finance its deficit. Before this change, the statutory limit on central bank advances to the central government was 6 percent of the difference of the change in budgetary appropriations from the previous year.

[31]There are major difficulties in reconciling Treasury data on net foreign borrowing with the balance of payments data prepared by the central bank.

organizational problems, political resistance, and legal obstacles. As a result, realized privatization revenues amounted to 0.1 percent of GNP in 1997, mostly through land sales.

121. In early 1997, two-year bonds indexed to the consumer price index were issued for the first time. To compensate for the lower liquidity, longer maturity, and more complicated pricing of these bonds relative to conventional treasury bills, investors demanded high real yields of as much as 32 percent (including the withholding tax of 13.2 percent).[32] The market resistance to this paper led the authorities to issue one-year inflation indexed bills and facilitate the separate trading of the interest and principal components of these bills, actions which helped reduce the real yield on such securities.

D. Developments in 1998

122. The **1998 budget** was drafted as part of a three-year program to reduce wholesale price inflation to 50 percent by the end of 1998, to 20 percent by end-1999, and to single digit levels by end-2000. To bring about this reduction in inflation, the primary balance of the consolidated budget was targeted to improve markedly; from near balance in 1997 to 3.5 percent of GNP in 1998. However, interest payments were budgeted to jump in 1998, by an additional 4.3 percentage points of GNP to 12.0 percent. The net result would have been an increase in the overall deficit of the consolidated government from 7.6 percent of GNP in 1997 to 8.5 percent in 1998. The large increase in interest payments in 1998 reflected the lengthening of maturities in 1997 which allowed shifting of interest payments out of 1997 into 1998. In addition, the bulk of the outstanding stock of debt has been contracted at high nominal interest rates, which adds to the real burden of debt service as inflation decelerates. Finally, the introduction of the withholding tax on interest paid on government debt paper at end-1996 (which began to take effect in late 1997) increased interest payments; essentially, the effect of the withholding tax was to add about 1 percentage point of GNP in 1998 to revenues and expenditures.

123. The 1998 budget targeted **revenues** to rise by 2.5 percentage points of GNP to 21.6 percent, as a result of revenues from the withholding tax on government securities (1.0 percentage point of GNP), the full-year effect of the increase in petroleum consumption taxation as of August 1997 (0.5 percentage points of GNP), and the full-year effect of the introduction of the education levies in late 1997 (0.4 percentage points of GNP). An additional 0.6 percentage point in revenues was expected from the reverse Tanzi effect, strong imports, and tax administration measures. The latter include initiating the use of taxpayer identification numbers for real estate transactions and car registrations, stepping up the number of audits, and a strengthening of the penalty system.

124. **Noninterest expenditures** were budgeted to fall by 1 percentage point of GNP to 17.1 percent. This was mainly due to rolling back of the one-time payments that were made to

[32]Holders of government debt instruments often finance their positions with short-term loans. Therefore, they need highly liquid assets. Inflation indexed bonds are instead more suitable as a long-term investment, and difficult to price—and therefore relatively hard to trade—as the nominal return is unknown.

state banks and extrabudgetary funds in the second half of 1997. These savings were to be sufficient to cover additional allocations for other current spending (0.4 percentage point of GNP) and for the increasing social security deficit (0.3 percentage points of GNP).

125. The **budget implementation in the first half of 1998** seemed on track to deliver an even stronger primary balance and overall balance than was budgeted. According to preliminary data, the primary surplus reached TL 1,438 trillion in the first half of the year, compared with the original full-year budget target of TL 1,726 trillion. Tax revenues—and in particular personal income tax receipts—were ahead of the budget target; in real terms, tax revenues increased by 18 percent in the first six months of 1998 compared with the same period in 1997. Improved efforts to strengthen tax collection and reduce tax evasion seem to be largely responsible for this development. The outcome for the first six months also indicates that budget appropriations could remain within the budget limits, except for wage payments, which were underestimated in the budget, and interest charges, which can not be kept within the budgeted amounts because maturities of new issues have been shorter than expected.

126. To reflect these developments, the government adopted more ambitious fiscal targets. At the same time, the policies underpinning the authorities disinflation program over the 18 months through end-1999 were set out in a widely disseminated Memorandum of Economic Policies whose implementation is being reviewed by Fund staff under a Staff-Monitored Program (SMP). Under the SMP, the primary surplus of the consolidated budget was targeted at 4.1 percent of GNP in 1998 (0.6 percentage point larger than in the 1998 budget and 4.0 percentage points larger than in 1997). The overall deficit is targeted at 7.6 percent of GNP (0.9 percentage point lower than in the 1998 budget, and about the same as in 1997). This substantial upward revision of the budget projections reflect the improved revenue performance and an upward revision of the GNP projection. Because of the higher GNP, even though in nominal terms revenues are higher under the SMP than in the budget, the revenue ratio remains unchanged (consolidated budget revenues are 21.6 percent of GNP in 1998 under the SMP as well as the budget). Apart from wages and interest payments, expenditures are expected to remain within the nominal budget limits, implying a decline as a share of GNP (from 30.1 percent of GNP in the budget to 29.2 percent under the SMP). The increase in the social security deficit has been contained by a combination of administrative measures aimed at strengthening revenue collections, reducing payments on unjustified benefit claims, and limiting spending for pensioners' health insurance.

127. The need for domestic financing of the consolidated budget under the SMP in 1998 is further reduced by the successful sales of government shares in the IŞBank and mobile telephone licenses, yielding 1.0 percent of GNP. In addition, the government has stepped up its efforts to increase its reliance on inflation indexed and foreign-currency linked instruments for debt financing, in order to prevent locking in government debt at high nominal interest rates as inflation falls.

Table 1. Turkey: Tax Summary (as of July 1998)

Tax	Rates	Taxable Base	Exemptions	Remarks
Personal Income Tax	Progressive rates from 25 percent up to 55 percent.	- The amount of tax is based on taxable net income. In determining taxable net income, taxpayers are allowed to deduct certain expenses specified in the law. - Income is classified into seven categories: 1. Business profit 2. Agricultural profit 3. Income from independent personal services 4. Salaries and wages 5. Income from immovable property 6. Income from movable property - Interest - Dividend 7. Other income - Capital gains - Nonrecurring income. - Under the conditions specified in the personal Income Tax Law, certain individuals may be eligible for a lump-sum taxation on their business profit, agricultural profit, income from independent personal services and salaries and wages. - The following income elements are subject to withholding taxation: - Salaries and wages - Interest - Dividends - Royalties - Rental income from immovable property - Payments made to farmers - Payments made to small tradesmen and artisans - Payments made to certain construction contractors - Income from independent personal services.	- Small farmers - Small tradesmen and artisans - Diplomats - The income earned by some professionals like authors, translators, painters, composers, and inventors as well as their legal heirs. - Salaries and wages specified in the law excluded from tax wholly or partly for some economic, social and practical reasons. - Taxpayers, who have incentive certificates may deduct an amount equal to a certain percentage of investment expenses from their taxable income. - TL 41,400,000 of income from the leasing of premises as residence. - Capital gains not exceeding TL 5,500,000. - Interest income from government securities. - Capital gains from the selling of securities through banks, stock exchange commissioners and other stock exchange mediators. - Interest income earned until 1/1/1997 is not required to be included in an annual tax return.	- Residents defined as individuals who stay in Turkey more than six months in a year. - Nonresidents defined as individuals who derived income from sources in Turkey. - In general, the Income Tax Law requires taxpayers to file annual tax returns in which all their income and earnings derived from various sources are included and aggregated. However, this general rule is eased where the income consists of one or more income elements specified in the Law, in particular taxpayers are not obliged to file annual tax returns for income elements which have been subjected to the withholding tax or for income elements which are subject to lump-sum taxation. In case of unlimited liability taxpayers if the income consists of only the following income elements (except the income earned in foreign countries), then the annual tax return is not filed. a. Salaries and wages on which income tax has been withheld (except salaries and wages exceeding TL 1.5 billion received from more than one employer). b. Income from nonrecurring independent personal services, immovable property, movable property which has been subjected to the withholding tax, and dividends including tax claims, provided that total amount of such gross revenues does not exceed TL 1.5 billion. c. Wages and salaries and income from business activities and independent personal services taxed on a lump-sum basis. d. The income which consists of one or more income elements listed above. Furthermore, those unlimited liability taxpayers whose gross income and earnings do not exceed TL 1.5 billion may not include the listed income elements in their tax returns even if they are required to file one for their other income elements. - For limited liability taxpayers, the income elements listed below shall not be included in an annual tax return. a. Salaries and wages, income from independent personal services, income from movable or immovable property which have been taxed on a withholding basis and dividends including tax claims of stockholders. b. Capital gains and nonrecurring income. c. The income which consists of one or more income elements listed above.

Table 1. Turkey: Tax Summary (as of July 1998)

Tax	Rates	Taxable Base	Exemptions	Remarks
Corporate Tax	25 percent.	Net Accounting Income minus tax exemptions plus nontax deductible expenses.	- Dividends income from stock investments. - 20 percent of the revenues from <u>tourism activities</u>. - Portfolio income of the mutual funds. - Dividend income received from mutual funds. - Investment allowance. - Profits derived in foreign countries from construction business (until December 31, 1998). - Income from disposition of corporate shares and immovable property (until December 31, 1998).	Corporate after tax income (which is the income distributable to the shareholders on dividends) is subject to 20 percent and 10 percent <u>withholding income tax</u> for normal and publicly traded corporations, respectively. This withholding tax is deductible from the tax calculated, in case this income is distributed as dividends and <u>the shareholders</u> declared with an annual return. - <u>Minimum Corporate Tax</u>. Corporate tax assessed cannot be lower than 20 percent of the Net Accounting Income plus nontax deductible expenses. - <u>Advance Tax</u>. 70 percent of the preceding year's accrued tax is paid in monthly installments as an advance tax.
Value-Added Tax	1 percent.	a. Supply of selected agricultural products (excluding supplies to the final consumers).	a. Supply of agricultural products and services by income-tax-exempted small farmers and by farmers on lump-sum basis.	a. Supplies of agricultural products to the consumers are taxed at 15 percent general rate, whereas applicable rate for basic staples is 8 percent in all cases.
		b. Supply of services and capital goods subject to the financial leasing law.		b. Excluding the leasing of passenger cars.
		c. Supply of books, newspapers and periodical magazines		
		d. Supply of second-hand passenger cars.		
		e. Supply of animal skins.		
		f. Supply of wheat flour and bread.		
		g. Supply of live animals		
	8 percent.	a. Supply of basic staples (e.g., general stock animals, fish, poultry, milk, cereals, bread and fresh vegetables and fruits).		
		b. Supply of services by private schools and colleges.		b. Educational services supplied by nonschool entities are subjected to the general rate.
		c. Admission fares to theaters, movie, operas, operettas, and ballets.		
		d. Supply of papers used by the printing press.		
		e. Supply of natural gas and cash-register machines.		
		f. Supply of books.		

Table 1. Turkey: Tax Summary (as of July 1998)

Tax	Rates	Taxable Base	Exemptions	Remarks
	15 percent.	All remaining supplies of goods and services within the country and importation of such goods.	1. Exportation of goods (zero rating). 2. Banking and insurance services. 3. Supply of securities, money, and foreign currency, gold bullions, postage stamps, fiscal stamps, and other similar stamps. 4. Supply of sea, air, and railroad vehicles including maintenance and repair services. 5. International transportation services within the national borders. 6. Diplomatic supplies. 7. Certain social, cultural and military goods and services supplied by bodies governed by public law. 8. Transportation of foreign petroleum products through domestic pipelines. 9. Deliveries of goods and services in customs free areas within the national borders.	
	23 percent (first higher rate).	a. Supply of luxury items (e.g., caviar, furs, cosmetic products, jewelry, etc.).		
		b. Supply of passenger cars, motorbikes, boats, and aircrafts.		b. Passenger cars modified for disabled persons are taxed at 15 percent.
		c. Rentals of boats, and aircrafts.		
		d. Supply of fire arms (handguns and rifles).		
		e. Supply of slot machines and other gambling devices, and services provided in casinos.		

Table 1. Turkey: Tax Summary (as of July 1998)

Tax	Rates	Taxable Base	Exemptions	Remarks
		f. Supply of cable-TV and (900) telephone message services.		
		g. Supply of services in bars, discos, night clubs and in golf courses, private clubs and saunas.		
		h. Cellular phones, microphones, and cameras.		
		i. Supplies of durables, like kitchen appliances and audio/video sets.		i. Tax rate is 15 percent on deliveries of durables used for industrial purposes.
	40 percent. (2nd higher rate)	a. Supply and the financial leasing of cars with motor power above 2000 cc.		
Petroleum Consumption 1/ Tax	Percent Unleaded 290 Super gasoline 300 Regular gasoline 300 Kerosene 185 Diesel 190 Heating oil 7 Fuel oil 55 Liquid petroleum gas 40	CIF value of imports plus all taxes, funds, charges, and fees, excluding VAT.	None.	There is currently one other levies on petroleum products besides the Petroleum Consumption Tax (Petroleum Price Stabilization Fund levy).
Customs Tax	Levied at different rates	CIF price of importing goods.	The goods specified in Article 7 of the Customs Tax Law. The goods imported for physical and legal persons that are specified in Article 8 of the Customs Tax Law.	
			Diplomatic exemptions.	The goods specified in Article 9 of the Customs Tax Law.
			Personal and household goods.	Personal and household goods under the provisions determined by the customs administration are exempted.
			Relief for tourists.	Cars and other belongings of tourists who visit Turkey can obtain these reliefs.
			Advantages for people living on border regions.	
			Temporary exemption.	According to Article 119 of the Customs Tax Law, the customs duties for the goods entered temporarily into the territory of Turkey are subject to guarantee-deposit under the conditions determined by the Ministry.
			Goods reentered.	

Table 1. Turkey: Tax Summary (as of July 1998)

Tax	Rates	Taxable Base	Exemptions	Remarks
Supplementary VAT		Taxable base for the Supplementary VAT (SVAT) is same as that for the VAT. SVAT is levied on selected goods imported, or "supplied domestically by their manufacturers."		
	100 percent.	a. Cigarette and tobacco products.		
	100 percent.	b. All kinds of spirits.	b. All kinds of wines, except sparkling wine.	
	15 percent.	c. Wines and beer.		
	10 percent.	d. Nonalcoholic beverages.	d. Plain and fruit sodas, fruit juices.	
	50 percent.	e. Methylated spirit.		
	60 percent.	f. Playing cards.	f. Toy playing cards intended for children.	
	60 percent.	g. X-ray films.		
Motor Vehicles Tax 1/	Specific rates varying with age, net weight and luxury category of the vehicle (there are four luxury categories--the rates shown in the tariff have to be multiplied by the factor 3 for first category, 2 for second category, 1.5 for third category, and 1 for fourth category vehicles.	Automobiles, vans, panel, and land vehicles.		As of 1995, an automatic indexation procedure is in force, based on end-of-period inflation (WPI) during the previous year.
	Specific rates varying with age and carrying capacity of vehicle. For lorries, trucks, and towing vehicles, carrying capacity is determined according to their maximum merchandise and loading weight. For vans, buses, and trolley buses by the maximum passenger capacity.	Vans, buses, trolley buses, trucks, lorries, towing vehicles.		
	Specific rates varying with age and type of vehicles.	Personal motorcycles (including motorized bicycles) foreign and passenger transport motorcycles, triporters.		

Table 1. Turkey: Tax Summary (as of July 1998)

Tax	Rates	Taxable Base	Exemptions	Remarks
	Specific rates varying with age and engine power for yachts, motor boats, and all kinds of private boats.	Tractors, private yachts, private boat, and all kinds of motor boats.		
	Specific rates proportional to engine horsepower.	Tractors.		Tractors are taxed one time only at the time of purchase.
	Specific rates varying with age and maximum take-off weight of the vehicles.	Airplanes and helicopters.		
Financial Transactions Tax	5 percent.	Bank charges and insurance premium.		
Motor Vehicles Purchase Tax 1/	6 percent (ad valorem -standard rate) There are other rates depending on the classification of the vehicle.	Purchase price of any motor vehicle inclusive of VAT.		

1/ This tax will be abolished, once the Special Consumption Tax comes into effect.

REFORMING TURKEY'S SOCIAL SECURITY SYSTEM[1]

I. INTRODUCTION

1. Turkey's social security system is unsustainable, is no longer able to provide an adequate level of pension for many members, and suffers from poor administrative procedures. This situation is reflected in several ways. First, due to the actuarial generosity of pension benefits relative to lifetime contributions, each of the three social security funds is in deficit—despite their pay-as-you-earn structure—the combined level of which is projected to rise from the current 3 percent of GNP to almost 5 percent by 2002 and to substantially higher levels thereafter. Second, since this generous benefit is linked to the level of contributions and is available at an early age, the maximum contribution that can be made by over half of the participants has been capped at such a low level that participants that subsequently receive the (capped) pension generally continue to work since their pension entitlement is such a low fraction of their current wage. Third, weak administrative controls and procedures contribute to the system's poor coverage and low revenue, and growth of the underground economy.

2. The social security crisis plays a key role in perpetuating Turkey's macroeconomic instability. Large public sector deficits fueled in part by the social security imbalance are at the root of the persistently high inflation from which the economy suffers. There is widespread agreement that an adequate stabilization package must include a substantial improvement in the pension system's finances. However, even given the emerging consensus on the need for change, there is little agreement so far as to the nature of the reforms required.

II. THE CURRENT SOCIAL SECURITY SYSTEM

A. The Structure of the Social Security Funds

3. There are three main social security funds in Turkey, each with a specific target population.[2] The largest of these, Sosyal Sigortalar Kurumu (SSK), covers private sector workers in the formal economy and public sector workers outside the civil service (such as employees of public enterprises and budgetary funds). SSK also covers seasonal workers in the agricultural sector on a voluntary basis. Emekli Sandiği (ES) covers civil servants. Bağ-Kur (BK) covers the self-employed, permanent agricultural workers, elected officials in

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[1]Prepared by David W.H. Orsmond and Jeffrey R. Franks.

[2]In addition, some banks, insurance companies, and stock markets have established pension funds that cover 72,000 members and private life insurance has also grown strongly. Special pension arrangements for the armed forces are paid by the treasury (through Emekli Sandiği) and by a fund administered by the Ministry of Defense. None of these is discussed here.

villages and municipal councils, housewives and the unemployed.[3] Together, the three funds insured 9.5 million people in 1997—almost half of total employment. Once the 4.8 million current beneficiaries of pensions are taken into account as well as their dependents, around 52 million people (80 percent of the population) have coverage. In addition to pensions, all three funds provide health, disability, and death benefits. Each fund functions on a pay-as-you-earn basis, and as a result has few assets. Table 2 outlines the structural features of each fund.

4. SSK was established in 1946 to provide workers' compensation, but its responsibilities were extended to the direct provision of health care in 1951, and to pensions in 1965. While originally designed as an autonomous organization, SSK is in practice dependent on the government for financial support and major policy decisions (such as setting benefit levels) are taken by the government. At present, there are 4.85 million insured contributors in formal employment with an additional 1.3 million voluntary members. There are 2.7 million pensioners, of which one-third are widows and dependents of an insured person who has died.[4] Contributions are paid at 33.5 percent of wages (20 percent for pensions, 12 percent for health care, and 1.5 percent for other benefits); only 14 percentage points are paid directly by the employee with the balance paid by the employer. Voluntary agricultural contributors pay 20 percent and also receive health benefits; other voluntary contributors only receive health benefits after they retire. The wage on which contributions are based is capped at 1.8 times the minimum pensionable wage in 1997 in order to cap the consequent pension benefit (see below). At its current level, this contribution ceiling implies that the contribution rate for those that earn the average wage is just 12 percent of actual wages instead of 33.5 percent.[5]

5. Emekli Sandiği was established in 1950 to provide pensions for civil servants.[6] In 1974, it was given responsibility for financing (but not directly providing) health benefits to civil service pensioners; health benefits for current civil servants are paid directly by the

[3]Housewives and the unemployed may join BK; participants in SSK who become unemployed may choose to continue to contribute to SSK.

[4]For all three funds, after the death of the insured, the pension is paid to the surviving spouse at a rate of 50 percent of the original benefit. Following the death of the insured, a pension is also paid to dependents until they begin to work or reach 26 years of age, and/or to female children for an indefinite period if they are unmarried or divorced, at a rate not to exceed an additional 50 percent of the original benefit.

[5]Average private sector wages are five times the minimum wage. Thus a contribution rate of 33.5 percent of 1.8 times the minimum wage implies an effective rate of just 12 percent.

[6]ES also administers three non-contributory programs, the cost of which are reimbursed annually by the Treasury; the old age and disability pension and health benefit for those without a pension from regular sources, veterans pensions, and special assistance for those who made sacrifices and significant services to the country for which they were not paid.

Table 2. Turkey: Basic Data on the Social Security System, 1997

Fund	Coverage	Participants	Beneficiaries	Contribution Rate	Contribution Period	Reference Period for Benefits	Benefits Determination
SSK	Private sector employees and public sector workers except civil servants	6.17 million	2.73 million	33.5 percent 20 percent for pensions; 12 percent for health care, and 1.5 percent for other benefits 1/	Regular pension 5,000 days (13.9 years) Alternative 3,600 days (10 years) if age 55 - men; 50 - women	Last 5 years for those paying at less than the contribution ceiling; last 10 years for those paying at the contribution ceiling 1/	Regular pension 60% for 5,000 days plus 1% for each additional 240 days 1/ Alternative 54% plus 1% for each additional 240 days
Emekli Sandiği	Civil servants	2.01 million	1.11 million	35 percent combined for pensions and health care	25 years - men 20 years - women	Last month's wage; last six months wage if the worker has recently been promoted	75% plus 1% for each additional year
Bağ-Kur	Self-employed urban workers and farmers	2.66 million	0.96 million	32 percent 20 percent pensions; 12 percent health care	Regular pension 9,000 days (25 years)- men 7,200 days (20 years)- women Alternative 15 years if age 55-men, 50-women	Last 1 year	Regular pension 70% plus 1% for each additional year Alternative 60% plus 1% for each additional year

1/ Contribution wage is capped at 1.8 times the minimum pensionable wage.

ministry in which they are employed. There are 2.0 million civil servant participants, which support 1.1 million pensioners (including widows and children). Contributions are set at 35 percent of salary (of which just 15 percentage points are paid by employees directly) and are not subject to a cap. Unlike SSK and ES, the contribution is not split into a pension and health component.

6. Bağ-Kur is the newest of the three funds. It was established in 1972 to provide access to pension benefits to the self-employed. In 1976 access was expanded to elected officials, and in 1984 to self-employed farmers in small-scale agriculture. Although financing health benefits was added as a function of BK in 1986-89 for the self-employed, BK does not finance health benefits in rural areas. There are 2.7 million contributors, with 1.0 million pensioners. Despite the large number of farmers in Turkey and the obligatory nature of membership in BK, coverage is quite low—only 0.8 million contributors are from the agricultural sector. On the benefits side, the situation is even more skewed. Due to the relatively recent incorporation of farmers into the system, only 74,000 of the current BK pensioners come from that sector. Contributions are paid on a schedule chosen by the contributor that has 24 contribution levels, each associated with a corresponding level of benefits at retirement. Theoretically, the contribution schedule corresponds to 32 percent of earnings (20 percent for pensions and 12 percent for health services; the self-employed engaged in agriculture pay just 15 percent), but since contributors choose their own contribution and benefit level, the actual rate can differ. Many participants choose to pay at the lowest step as this minimizes their liability while conferring entitlement to health care, then increase their contributions closer to retirement (though there is a cap on the speed with which a contributor can move to a higher contribution level).

7. All three funds suffer from structural flaws which generate huge fiscal imbalances. Table 3 shows the major indicators of the pension system and provides a sense of the problems. In particular, in recent years the number of net new pensioners has been growing at about two to three times the rate of increase of new contributors, with the consequence that the dependency ratio has fallen from 2.8 contributors per pensioner in 1992 to just 2.3 in 1997. In addition, between 1992 and 1997, the average cost of a pension has increased from 4.2 times the average paid contribution to almost five times the average contribution as the real value of pensions increased more sharply than the real value of average contributions.

8. The major reasons behind these developments are: (i) the removal of the minimum retirement age in 1992 and low minimum contribution period, which together enable a very early (and consequently lengthy) retirement period; (ii) a generous level of benefits in terms of the replacement ratio and reference period; (iii) annual indexation of pensions in all three funds linked to increases in the civil service wage; and (iv) weak administrative capabilities and procedures which foster under reporting of wages, evasion of contributions, and low participation rates in the system. These issues are discussed in greater detail below.

Table 3: Turkey: Overview of Major Pension Indicators, 1992–98

	1992	1993	1994	1995	1996	1997	1998 1/
SSK							
Number of contributors	4,274	4,592	5,188	5,645	5,924	6,165	6,378
Percentage growth	...	7.4	13.0	8.8	4.9	4.1	3.5
Compulsory membership	3,797	3,976	4,203	4,411	4,624	4,850	5,030
Percentage growth	...	4.7	5.7	4.9	4.8	4.9	3.7
Voluntary membership	477	616	985	1,234	1,300	1,315	1,348
Percentage growth	...	29.1	59.9	25.3	5.3	1.2	2.5
Number of pensioners	1,857	1,999	2,175	2,338	2,540	2,732	2,955
Percentage growth	...	7.6	8.8	7.5	8.6	7.6	8.2
Contributors/pensioner	2.3	2.3	2.4	2.4	2.3	2.3	2.2
Average pension costs (per annum)							
Nominal terms (millions of lira)	15	24	40	75	153	323	522
Real terms (1998 lira)	516	513	409	413	465	529	522
Percentage growth	...	-0.7	-20.3	0.9	12.6	13.9	-1.3
Pension/contribution (avg.)	3.5	3.9	4.9	5.6	4.8	5.0	5.0
Emekli Sandigi							
Number of contributors	1,850	1,896	1,896	1,880	1,964	2,014	2,014
Percentage growth	...	2.5	0.0	-0.8	4.5	2.5	0.0
Number of pensioners	781	828	901	952	1,048	1,114	1,136
Percentage growth	...	6.0	8.8	5.7	10.1	6.3	2.0
Contributors/pensioner	2.4	2.3	2.1	2.0	1.9	1.8	1.8
Average pension costs (per annum)							
Nominal terms (millions of lira)	19	32	47	93	205	426	718
Real terms (1998 lira)	660	676	489	512	625	698	718
Percentage growth	...	2.5	-27.7	4.7	22.1	11.7	2.9
Pension/contribution (avg.)	3.3	3.1	2.6	3.2	3.6	3.4	3.5
Bag-Kur							
Number of contributors	2,891	2,871	2,700	2,769	2,650	2,657	2,804
Percentage growth	...	-0.7	-6.0	2.6	-4.3	0.3	5.5
Self-employed	2,138	2,094	1,921	1,970	1,854	1,861	2,002
Percentage growth	...	-2.1	-8.3	2.6	-5.9	0.4	7.6
Farmers	753	777	779	799	796	796	802
Percentage growth	...	3.2	0.3	2.6	-0.4	0.0	0.8
Number of pensioners	589	646	687	739	803	957	1,032
Percentage growth	...	9.7	6.3	7.6	8.7	19.2	7.8
Self-employed	548	595	632	681	742	883	952
Percentage growth	...	8.6	6.2	7.8	9.0	19.0	7.8
Farmers	41	51	55	58	61	74	80
Percentage growth	...	24.4	7.8	5.5	5.2	21.3	8.1
Contributors/pensioner	4.9	4.4	3.9	3.7	3.3	2.8	2.7
For self-employed	3.9	3.5	3.0	2.9	2.5	2.1	2.1
For farmers	18.4	15.2	14.2	13.8	13.0	10.8	10.0
Average pension costs (per annum)							
Nominal terms (millions of lira)	6	11	23	29	85	184	298
Real terms (1998 lira)	227	233	242	160	257	302	298
Percentage growth	...	3.0	3.6	-34.0	61.2	17.2	-1.3
Pension/contribution (avg.)	7.6	10.6	10.8	6.7	9.5	7.1	7.1
Total of pension funds							
Number of contributors	9,015	9,359	9,784	10,294	10,538	10,836	11,196
Percentage growth	...	3.8	4.5	5.2	2.4	2.8	3.3
Number of pensioners	3,227	3,473	3,763	4,029	4,391	4,803	5,123
Percentage growth	...	7.6	8.4	7.1	9.0	9.4	6.7
Contributors/pensioner	2.8	2.7	2.6	2.6	2.4	2.3	2.2
Weighted average pension costs (per annum)							
Nominal terms (millions of lira)	14	23	38	71	153	319	521
Real terms (1998 lira)	498	500	398	390	465	523	521
Percentage growth	...	0.3	-20.5	-2.0	19.3	12.5	-0.5
Pension/contribution (avg.)	4.2	4.4	4.6	5.1	5.0	4.8	4.9

Source: Undersecretariat of the Treasury; and staff calculations.

1/ 1998 data are based on authorities' 1998 Budget estimates.

Early qualification for benefits

9. One of the most striking and problematic features of the Turkish system is the absence of a minimum retirement age. The retirement age was initially set at 60 years for both men and women in the early 1960s, but was soon abolished thereafter. In 1986, a decision was taken to impose a minimum retirement age of 50 years for women and 55 years for men (here denoted 50/55) after five years, but it was abandoned in 1992, the year that the 50/55 years minimum retirement age would have started to take effect. Eligibility for retirement in all three funds is now determined by two factors: (i) the number of years worked, which is standardized among the three funds at 20/25 years; and (ii) the number of years contributions have been made.[7] Concerning the latter, for ES and BK, participants are required to contribute for the same period as the minimum working period—20/25 years—while participants in SSK can receive pension benefits after just 14 years of contributions (20 years for seasonal agricultural workers) provided they also meet the minimum working year requirement.[8]

10. The result of the low number of required years of contributions plus the absence of a minimum retirement age has meant that workers can be eligible to retire as young as 34/39 years of age if they began working before 1981 when the minimum employment age was 14 years, and at 38/43 years of age thereafter when the minimum employment age was raised to 18 years. As a result, with the rapid increase in the number of pensioners that was noted above, the average retirement age in SSK is now just 47/50 years and this average has been declining over time. Further, 24 percent of all SSK pensioners are less than 50 years old and 63 percent are less than 60 years old, a common age for retirement in European countries. Given the opportunity to retire early and current mortality data—where a man who reaches the age of 43 will on average live an additional 31 years[9]—the dependency ratio is only 2.3 (i.e., the number of contributors that support each pensioner; see Table 3). Statistics for ES are almost identical with those in SSK, though the dependency ratio is even lower (at 1.8, which has been falling sharply as the number of pensioners has increased). For BK, the average retirement age is 57/57 years and there are very few pensioners less than 60 years old given the relatively short period of BK's operation; the dependency ratio for the self employed is 2.1. The dependency ratio for farmers is high since the right to contribute to the pension

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[7]The contribution period is specified in terms of days, with 360 contribution days in a year. There are also provisions in SSK and BK for retirement after 10 years for participants in SSK and 15 years for BK with a lower replacement ratio for those that reach 50/55 years of age.

[8]Although participants in SSK are required to started to work at least 20/25 years before being eligible to receive a pension, unlike the other funds they are still eligible to receive a pension if there is a subsequent 10 year break in contributions during a nonworking period.

[9]Although the current life expectancy is 69 years, this figure is affected by the high infant mortality rate in Turkey. SBO data for 1993 indicate that life expectancy for a person who has reached age 43 is 34/31 years, age 55 is 23/20 years, and age 60 is 19/17 years.

system was only extended to farmers in 1984 and many farmers have not yet reached the minimum contribution period.

Generous level of benefits relative to contributions

11. The ability to retire early after a short contribution period implies that the level of the consequent pension would have to be low for the PAYG pension system to remain financially sustainable. In fact, while each of the funds varies in its details, relative to the contributions made, the benefits paid are generous with respect to the shortness of the reference period, the high replacement ratio, and the indexation procedures for pension benefits.

12. In SSK, the reference period for calculating benefits is the last five years of contributions for those paying on the lower pension scale (roughly half of new pensioners) and the last 10 years for contributors on the upper scale (essentially those paying at the contribution ceiling). Pensioners retiring after 14 years receive a replacement ratio of 60 percent of their average salary during the reference period.[10] Each additional contribution year raises benefits by 1.5 percent of salary; for participants old enough to retire after less than 14 years of contributions, each reduction in contributions by one year reduces benefits by 1.5 percent of salary. Thus, a contributor receives an average of 4.3 percent of the pensionable wage in benefits for each of the minimum 14 years of contributions, while each additional year beyond the minimum earns only 1.5 percent in additional benefits. The low rate of increase in the replacement ratio after 14 years of contributions relative to the cost of continuing to pay into the system provides a strong incentive for participants to declare retirement as soon as they satisfy the minimum contribution period. Further, the short reference period provides an incentive for employers of participants in SSK—who are responsible for wage declarations to the SSK—to underreport a worker's earnings until the final 5–10 contribution years before the worker becomes eligible for a pension, and in consequence there is a disproportionately large number of workers in their early contribution years that are reported to be earning the minimum wage (or who are not reported to be working at all), whereas reported wages in the last five years before retirement often jumps. Employees and employees have an incentive to collude in such behavior to lower their own shares of the contribution to the pension funds.

13. To contain the financial impact of the generosity of these benefits relative to the contributions made, a ceiling has been placed on the wage on which contributions and subsequently benefits are calculated for SSK participants. As noted earlier, since the cap is set at just 1.8 times in 1997 the minimum wage, the effective contribution rate is only 12 percent of the average wage instead of 33.5 percent. As a consequence, given that the eventual pension paid is at most just 1.2 times the actual minimum wage (i.e., 60 percent of 1.8 times

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[10]In addition, new pensioners in SSK receive a lump sum payment equivalent to one month's wage for each year which is paid by the employers; the cost of lump-sum payments for ES workers is paid by ES which is subsequently reimbursed by the government.

the minimum wage) the effective replacement ratio of the pension to the actual wage is below 60 percent as well (the replacement ratio would be just 20 percent of actual wages for a person earning the average wage, currently equal to five times the average wage). This has two effects. Firstly, the contribution ceiling encourages early retirement once the minimum contribution period is reached since, although workers can expect to increase their real wage if they continue to work, once they have reached the ceiling this additional income will not be reflected in a higher pension although workers will have to continue to contribute annually at 33.5 percent of the capped wage until they announce their retirement. Secondly, with the low pension paid relative to the actual wage and a high earning capacity given their relatively youthful age, most participants in SSK continue to work even after starting to draw a pension. Although working pensioners are legally required to continue to contribute in order to receive the pension at the same time, given the poor records of SSK, there is in practice no means of enforcement.[11]

14. In Emekli Sandiği, pensioners receive 75 percent of their (uncapped) wage on retirement after contributing for 20/25 years. The reference salary for the pension calculation is just the actual wage immediately preceding retirement or the last six months if the civil servant was recently promoted. While benefits accrue at the rate of 3 percent per year for men and 3.75 percent for women during the minimum contribution period, each additional year of contribution earns only 1 percent in additional benefits. This generous replacement ratio relative to the minimum contribution period, coupled with a very short reference period, can encourage an increase in wages just before an employee's retirement and again provides little incentive for workers to contribute beyond the minimum period before drawing a pension.

15. As with ES, participants in Bağ-Kur must contribute for 20/25 years. While the reference period for benefits payment is just the year preceding retirement, there are limits on the speed with which individuals can move from one (self-declared) contribution and benefit step to another which helps to curb wage inflation in the last years.[12] As with SSK and ES, there is little incentive to contribute beyond the minimum period to qualify for a pension, since an additional year earns only 1 percent in additional benefits.

16. Once pensions are awarded, they are adjusted on a regular basis. These adjustments are based on complex formulae, with different indices applied to different pension levels. In

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[11]Reemployed pensioners can either return the pension and have it subsequently recalculated, or pay 24 percent of their pensionable wage, of which the employer pays 18 percentage points. After a worker's salary exceeds the cap on contributions, there is no incentive for a workers that has started to receive a pension to return the pension to have it subsequently recalculated since this recalculation would not lead to a higher pension.

[12]Workers are required to contribute for at least one year during each of the first 12 levels before moving to the next level, and for two years for each of the remaining 12 levels. To be eligible for a pension, a participant must have reached at least level six.

practice, pension adjustments in all three funds roughly follow increases in civil servant salaries. This step has resulted in large real pension fluctuations, with real pensions dropping in periods of fiscal austerity and rising when fiscal policy is expansionary (see Table 3).

Additional supplementary payments are poorly targeted

17. In addition to the arrangements described above, the government provides a social support payment (Soysal Yardim Zammi or SYZ) to all SSK and BK pensioners (except seasonal agricultural workers). The SYZ was introduced in 1981 as a substitute for heating and child benefits, but its scope was expanded thereafter although the resources to pay for it through the pension funds were not. The payment is now a non-targeted flat amount unrelated to past earnings, age, or the level of the earnings-related pension, and in consequence the SYZ is poorly targeted. Its level is set by the government directly and in the past has been adjusted at least by the rate of inflation. Until recently, the SYZ component of the pension actually exceeded the regular earnings-related pension for some workers, with consequent replacement ratios above 100 percent which further reduced the incentive to contribute beyond the minimum period. Since 1995 for SSK and 1996 for BK, the SYZ payment has been frozen at its nominal level which has diminished its importance in the pension system.[13]

The health sector deficit is rising

18. While still a small share of total spending, health care expenditure is rising. Between 1992–97 health expenditures by the three funds rose nearly 90 percent in real terms, with outlays climbing from 0.6 percent to 1.1 percent of GNP. This trend is in part the consequence of not having a period after joining during which claims cannot be made—which encourages people to only join once they have major medical expenses looming—and the lack of effective user fees for non-prescription services (user fees in SSK are just TL 100,000, or US$40 cents, for non-prescription services, and are provided free in ES and BK; in all funds, pensioners and workers pay 10 percent and 20 percent of the cost of prescriptions respectively).

Administration is weak with consequent low coverage and poor enforcement

19. There are major compliance problems in SSK and BK due to administrative deficiencies. In particular, there is no unified contributor identification number system, making it difficult to monitor payment records of workers, especially if they change jobs or locations. The level of resources devoted to enforcing compliance is inadequate, although some recent

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[13]For SSK, the SYZ is currently TL 4,690 per month ($20, or 10 percent of the average pension), and for BK the SYZ is currently TL 5,850 per month ($25, or 20 percent of the average pension) for those receiving a pension in the first 12 contribution grades and TL 4,500 per month for those on the top 12 contribution grades.

improvement efforts are underway.[14] Computerization of records is also inadequate, and there is little or no coordination of social insurance collections with the tax authorities.

20. These problems are expressed in two ways. First, SSK and BK experience serious problems in enrolling contributors. For SSK, 1.5 million eligible workers are not enrolled (including voluntary agricultural workers). In BK, 1 million eligible self-employed and more than 1 million small farmers not participating. Coverage rates are estimated at just 50 percent for SSK and are also low for BK; coverage for ES is 100 percent since it covers all civil servants.

21. Second, even among those enrolled, there are problems in collecting contributions due. The compliance rate in SSK is estimated at 85 percent of the declared pensionable wage bill, with public enterprises and municipal governments the worst offenders.[15] In addition to nonpayment on the declared wage, employers often under-declare incomes of their employees. For BK, the compliance rate is just 50 percent of the wage bill; only 4 percent of contributors are up to date on their payments, while 18 percent have never made a single contribution after joining. Penalties for late payment are insufficient to discourage this practice; in BK it is not unusual for prospective pensioners to make lump-sum payments at age 55 to cover accumulated arrears in contributions so as to qualify for an immediate pension since, although penalties can be charged, payments are not adjusted to reflect subsequent CPI increases or real interest rates.[16]

B. The Turkish Pension System in an International Context

22. Turkey is not alone in experiencing difficulties in its social security system. In both advanced and developing countries pension systems suffer from design flaws, such as mismatches of contributions and benefits, generous replacement ratios, or short contribution requirements. However, while the Turkish system has these flaws, the size of the problem is larger than in other countries due to the especially generous structure of benefits relative to contributions.

23. Table 4 presents a comparison of the main features of SSK (the largest fund) with the systems in other countries. The table indicates the Turkish system is among the most generous

[14]SSK has around 500 inspectors (including trainees) to cover 700,000 active employers.

[15]Over half of total arrears to the SSK in 1993 were owed by public entities. At end 1997, the budget took over the SOEs debts to the social security funds. The compliance rate in SSK improved after reforms in 1995 stiffened penalties on overdue payments, appointed additional collectors and inspectors, and involved private banks in the collection process.

[16]Late contributions in SSK pay a simple interest penalty of 15 percent per month. In BK, late payments are a simple interest rate of 10 percent for the first month and 5 percent thereafter.

Table 4. Turkey: International Comparisons of Mandatory Pension Schemes

Country	Statutory Retirement Ages (men/women)	Contribution Period for Full Pension	Benefit Accrual Factor 1/	Reference Period for Benefits	Maximum Replacement Ratio (percent)	Indexation of Benefits
Turkey	none (average age 49)	14 years	4	Last 5 or 10 years	85	Discretionary, but linked to civil service wage
United States	65/65	35 years	2/	Career	41	Prices
Japan	60/55	40 years	0.75	Career	30	Net wages
Germany	65/65	40 years	1.5	Career	60	Net wages
France	60/60	38 years	1.75	Best 12 years	50	Prices (basic scheme Wages (earning-related portion)
Italy	62/67	40 years	2	Last 5 years	80	Prices
United Kingdom	65/60	50 years	0.4	Career	20	Prices
Sweden	65/65	30 years	3/	Best 15 years	60	Prices
Argentina 4/	63/58 rising to 65/60 by 2001	30 years	Flat 27.5% of average wage plus 0.85	Last 10 years	52.5	Discretionary; previously linked to wages
Mexico (old system)	65/65	10 years	Flat 80% of average wage plus 0.56-2.4	Last 5 years	100	By evolution of minimum wage

Source: Chand, Sheetal K. and Albert Jaeger, "Aging Populations and Public Pension Schemes," Occasional Paper No. 147, December 1996.

1/ Benefit accrual factor per year of contributions, as a percent of reference period earnings. Note that pensionable contributions are capped (see text).
2/ Accrual factor rises as assessed earnings decline.
3/ Accrual factor declines as number of contribution years increases.
4/ Reformed public system. Most younger workers are now in a Chilean-style private system.

in the world. The absence of a minimum retirement age, coupled with low requirements for the minimum contribution period, mean that Turkish workers can (and do) retire at much earlier ages than workers in other countries. Strikingly, the statutory retirement ages in the nine countries in the table range from 8-16 years above the average age for SSK retirees.

24. Benefits also accrue more rapidly in the Turkish system than in other countries. The replacement ratio achieved by Turkish retirees after only 15 years of contributions would take an Italian worker 30 years or a German worker 40 years to acquire (although in Turkey the wage on which the replacement ratio is based is capped at a low level). Workers in the United States, Japan, France, the United Kingdom, or Argentina could *never* reach a pension of the same share of their contribution wage as a Turkish worker. In addition, Turkish benefits for half the contributors to SSK take into account only the last 5 years of earnings, like the Italian and the old Mexican systems. This compares to a reference period of the entire career in the United States, Japan, Germany, and the United Kingdom, and 10 to 15 years in Argentina, Sweden, and France.

C. Fiscal Problems in the Present System

25. The combination of early retirement, generous benefit formulas, and poor collection and enforcement practices have combined to create serious financial problems in each of the social security funds. These deficits are a relatively new phenomenon. Until the late 1980s, Turkey's social security system was in balance—as is intended by a PAYG system—and did not rely on transfers from the central government.[17] Budgetary transfers to ES began in 1989, though these transfers were modest (0.2-0.6 percent of GNP) and were mainly to cover the cost of the welfare payments undertaken on the Treasury's behalf (see footnote 5). In 1992, however, both SSK and BK also began to run significant deficits, and the social security deficit ballooned from 0.9 percent of GNP in 1992 to 2.6 percent of GNP by 1997 (Table 5). This dramatic deterioration was first expressed in a decline in revenue—from 4.4 percent of GNP in 1992 to 2.7 percent in 1995, which recovered somewhat thereafter—and by the rapid rise in expenditure after 1995.[18]

26. In the absence of serious reform, the deterioration in the social security finances will continue. With the rapid projected increase in the number of new pensioners, the share in GNP of pension expenditure will continue to rise rapidly, especially in BK as the self-employed who joined the system after BK was founded in 1972 reach the required 25 years of

[17]However, there were underlying financial problems before the 1990s. Given the young demographic profile, substantial unfunded liabilities were accumulating in the 1980s. According to a 1993 World Bank study, the three social security funds had already accrued an unfunded liability of 21 percent of GNP by the end of 1992.

[18]Expenditure fell temporarily by 0.5 percent of GNP between 1993-95 due to a decline in real wages during the 1994 stabilization period.

Table 5. Turkey: Social Security System Recent Developments, 1992–98
(In percent of GNP)

	1992	1993	1994	1995	1996	1997	Budget 1998
SSK							
Revenues	2.8	2.6	2.0	1.7	2.2	2.3	2.8
Contributions 1/	2.5	2.2	1.7	1.4	1.9	2.1	2.5
Other 2/	0.3	0.4	0.4	0.4	0.3	0.2	0.3
Expenditures	3.1	3.0	2.8	2.8	3.2	3.6	3.8
Pensions	2.5	2.4	2.2	2.2	2.6	3.0	3.1
Health insurance	0.4	0.4	0.5	0.4	0.5	0.5	0.5
Administrative expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.1	0.1	0.1	0.1	0.0	0.1	0.1
Balance	-0.2	-0.4	-0.8	-1.1	-1.0	-1.3	-1.0
Emekli Sandigi							
Revenues	1.5	1.5	1.4	1.1	1.4	1.4	1.4
Contributions	1.5	1.5	1.4	1.1	1.1	1.3	1.3
Other 2/	0.0	0.0	0.0	0.0	0.2	0.1	0.1
Expenditures	2.1	2.2	2.0	1.8	2.4	2.3	2.4
Pensions	1.3	1.3	1.1	1.1	1.4	1.6	1.7
Health insurance	0.1	0.2	0.1	0.2	0.2	0.3	0.3
Administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.7	0.7	0.8	0.4	0.7	0.4	0.4
Balance	-0.6	-0.7	-0.6	-0.7	-1.1	-0.9	-1.0
Bag-Kur							
Revenues	0.4	0.2	0.3	0.3	0.3	0.4	0.4
Contributions	0.4	0.2	0.2	0.2	0.3	0.4	0.4
Other 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	0.4	0.4	0.5	0.5	0.7	0.8	1.3
Pensions 1/	0.3	0.4	0.4	0.3	0.5	0.6	1.0
Health insurance	0.1	0.1	0.1	0.1	0.1	0.2	0.3
Administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Balance	-0.1	-0.2	-0.3	-0.3	-0.5	-0.5	-0.9
Total Social Security System							
Revenues	4.7	4.4	3.7	3.1	3.8	4.1	4.5
Contributions	4.4	3.9	3.3	2.7	3.3	3.7	4.2
Other	0.3	0.4	0.4	0.4	0.6	0.4	0.4
Expenditures	5.6	5.6	5.3	5.1	6.3	6.7	7.5
Pensions	4.1	4.1	3.7	3.6	4.5	5.2	5.8
Health insurance	0.6	0.7	0.6	0.8	0.8	1.0	1.1
Administrative expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.8	0.8	0.9	0.6	0.9	0.5	0.5
Overall Balance	**-0.9**	**-1.3**	**-1.6**	**-2.0**	**-2.5**	**-2.6**	**-3.0**
Treasury burden 3/	0.4	0.7	1.0	1.4	2.2	2.6	2.9
Other financing	0.5	0.6	0.6	0.6	0.2	0.0	0.1

1/ In 1998, expenditures of BK and revenues of SSK rise by 0.3 percent of GNP in settlement of past net claims of SSK on BK for the payment by SSK of pensions to people who retired from SSK but had at an earlier period contributed to BK.
2/ Excluding all payments from the Treasury.
3/ Inclues explicit budget transfers only.

contributions (which boosted BK revenue without a corresponding increase in expenditure during 1972–97). The deficit of all three funds is projected to rise by 2 percentage points over the next four years, reaching almost 6 percent of GNP by 2005 (Table 6).[19] A simple extrapolation of these trends indicates a deficit by 2050 of almost 20 percent of GNP; clearly an unreformed system will have collapsed before such a deficit level could be reached.[20]

III. TOWARD A REFORM PACKAGE: CURRENT PROPOSALS

27. The fiscal burden to keep the current system afloat will soon be so severe as to either force large cuts elsewhere in government spending, or require borrowing on a scale which would add a major impetus to inflation. In light of this, by early 1998 draft laws had been presented to the Cabinet of Ministers for reform in SSK and BK, and a draft reform law for ES is being prepared.[21] [22] [23]

28. The draft law for SSK contains several measures to improve SSK's financial situation, including the reestablishment of a minimum retirement age. The minimum retirement age would be 50/55 years for new entrants, but there would be a very long transition period for existing participants. While the minimum contribution period would remain the same, workers with more than 14 years of contributions would be permitted to retire at 38/43 years; workers with between 10–14 years of contributions could retire at 41/46 years; those with 5–10 years

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[19]There will be another bulge of retirees after 1999 when agricultural workers who joined BK when it was expanded in 1984 will be eligible to retire following 15 years of contributions, provided they are over the age of 50/55 years.

[20]This deficit forecast is consistent with the deficit projections made by the Turkish treasury in early 1998 using the ILO's pension model for Turkey.

[21]In 1995-96, the ILO made a study of the pension system, based on the situation as of 1994. Given the deterioration in the social security balances since that time, the ILO's financial framework and recommendations are somewhat dated. See Attachment 2 for a detailed discussion.

[22]Several minor reform steps were taken in recent years. SSK was provided with authority to sell its assets; although ES owns several luxury hotels and land holdings, it was not given the right to undertake asset sales (BK has no significant assets). An amnesty on penalty charges to encourage repayment by workers of outstanding debts to the social security funds ended in 1997; the authorities state that relatively few receipts were collected under the amnesty.

[23]In the context of the June 1998 Staff Monitored Program with the IMF, several changes to the proposals described here are being considered including imposing a uniform minimum retirement age of 57/60 years and minimum contribution period of 20/25 years for all funds for new entrants, and minimum retirement age of 50/55 years for existing contributors.

Table 6. Turkey: Social Security System Long-Term Projections—Baseline Scenario, 1998–2050
(In percent of GNP)

	1998	2000	2002	2005	2010	2020	2030	2040	2050
SSK									
Revenues	2.8	2.9	3.1	3.3	3.7	4.3	5.1	5.9	6.8
Contributions	2.5	2.7	2.8	3.0	3.4	4.1	4.8	5.6	6.5
Other 1/	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Expenditures	3.8	4.3	4.9	5.7	6.9	9.5	11.1	13.0	15.3
Pensions	3.1	3.6	4.1	4.8	6.0	8.3	9.7	11.4	13.2
Health insurance	0.5	0.6	0.6	0.7	0.8	1.0	1.3	1.5	1.9
Administrative expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Balance	-1.0	-1.4	-1.8	-2.4	-3.2	-5.2	-6.0	-7.2	-8.5
Emekli Sandigi									
Revenues	1.4	1.5	1.5	1.6	1.7	1.8	1.9	1.9	1.9
Contributions	1.3	1.4	1.4	1.5	1.5	1.7	1.7	1.8	1.8
Other 1/	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditures	2.4	2.6	2.9	3.3	3.8	4.5	4.9	5.5	5.9
Pensions	1.7	1.9	2.1	2.4	2.9	3.5	3.8	4.2	4.4
Health insurance	0.3	0.3	0.3	0.4	0.4	0.5	0.7	0.8	1.0
Administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Balance	-1.0	-1.2	-1.4	-1.7	-2.1	-2.7	-3.1	-3.6	-4.0
Bag-Kur									
Revenues	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.7
Contributions	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6	0.7
Other 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	1.3	1.5	1.8	2.0	2.5	3.9	4.6	5.6	6.5
Pensions	1.0	1.1	1.4	1.6	2.0	3.4	3.9	4.8	5.4
Health insurance	0.3	0.3	0.4	0.4	0.4	0.6	0.7	0.8	1.0
Administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance	-0.9	-1.0	-1.3	-1.6	-2.0	-3.3	-4.0	-5.0	-5.8
Total Social Security System									
Revenues	4.5	4.8	5.0	5.3	5.8	6.7	7.6	8.4	9.3
Contributions	4.2	4.5	4.7	4.9	5.4	6.3	7.2	8.0	9.0
Other	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Expenditures	7.5	8.5	9.5	11.0	13.2	17.9	20.7	24.2	27.6
Pensions	5.8	6.6	7.6	8.8	10.9	15.2	17.5	20.4	23.1
Health insurance	1.1	1.2	1.3	1.5	1.7	2.1	2.6	3.2	4.0
Administrative expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Overall Balance	**-3.0**	**-3.6**	**-4.5**	**-5.6**	**-7.4**	**-11.2**	**-13.1**	**-15.8**	**-18.3**
Memorandum items:									
Net of health care:									
Revenues	3.0	3.2	3.3	3.5	3.8	4.4	4.9	5.5	6.0
Expenditure	6.4	7.2	8.2	9.5	11.5	15.8	18.1	21.0	23.7
Balance	-3.4	-4.0	-4.9	-5.9	-7.7	-11.4	-13.1	-15.5	-17.7

Sources: Data provided by the Turkish authorities; and staff estimates.
1/ Excluding all payments from the treasury.

could retire at 43/48 years; and those with 1–5 years could retire at 45/50 years. The ceiling on income subject to contributions would rise to three times the minimum pensionable wage and the maximum replacement ratio would rise from 85 percent to 100 percent. The draft law would transfer the burden for paying the flat-rate (frozen) social support payment (SYZ) from SSK to the treasury and would require any increase in pensions above the CPI to be financed by the government. The draft law would institutionalize an annual payment of 10 percent of pension revenue from the treasury. There would be an increase in contribution rates for voluntary contributors, agricultural workers, and those drawing a pension but still working. Further, the law would require a minimum enrollment period of 60 days before workers would be eligible for health benefits. Administrative procedures would also be strengthened.

29. The draft law for BK contains similar provisions to the SSK draft regarding the gradual establishment of a minimum retirement age, transfer of the SYZ payments to the treasury, institutionalization of revenue transfers from the treasury, and strengthening administrative procedures. In addition, the draft law would increase the premium paid by agricultural workers and those drawing a pension but still working. The number of contribution levels for agricultural workers would be increased from 12 to 24 levels and penalties for noncompliance would be increased. The minimum insurance period for health services would be increased from 8 months to 12 months, and the health premium would be raised to 15 percent.

30. Finally, a draft law has been submitted to the Cabinet of Ministers to expand the existing opportunities for Turkish nationals living abroad to participate. Currently, under a law introduced in 1986, nationals that have worked for 20/25 years abroad that then resettle in Turkey can contribute to SSK at $2.50 per day for 5,000 days ($12,500, which can be paid as a lump sum) and then be entitled to a pension of up to $225 per month, implying an annual rate of return on benefits relative to contributions up to around 20 percent ($225/month times 12 months divided by total required contributions of $12,500). The right to participate in this scheme must be exercised within two years of returning to Turkey and is revoked if the national subsequently resettles abroad. At present, there are 52,000 beneficiaries. The new draft law imposes a minimum retirement age of 50/55 years before becoming eligible under this scheme, but removes both the requirement to remain in Turkey after starting to draw a pension, and the necessity of invoking this right within two years of settling in Turkey.

31. None of these proposals addresses the structural roots of the social security problems. Rather, these measures at best lower the annual deficit by 0.5 percent of GNP in the short term. The provisions establishing a minimum retirement age are not accompanied by a corresponding increase in the minimum contribution period, and are so gradual they do not significantly reduce the number of new retirees over the next 10–15 years. Further, the transfer of the cost of the SYZ payment and pension increases above the CPI to the government would improve the balance sheets of the funds, but would not ameliorate the overall fiscal cost of the system. Finally, while the proposed changes to the pension rights of nationals living abroad provide some additional revenue to the social security funds up-front, its actuarial cost is enormous given the implied high rate of return.

IV. Reforms to Improve the Short and Long Run Fiscal Problem

32. There are of course several ways to address the social security problem in Turkey. A critical ingredient of any comprehensive set of reform proposals must be that it aggressively addresses the rising deficit trend in the next few years, rather than only attempting to solve only the medium term deficit problem. Put another way, a reform proposal should be designed to prevent the deficit from rising to a level around 5–6 percent of GNP by 2005. With this in mind, the reform proposal presented below is guided by the following goals:

- To reduce the overall social security deficit annually from its current level of 3 percent of GNP, reaching approximate balance by 2005, and to provide a modest surplus thereafter;[24]

- To require people to retire at a later age than at present before earning the right to a full pension so as to reduce the cost to the system, but to reward participants for remaining in the system by increasing the size of the eventual pension paid and by ensuring that this pension is set at a level that is adequate to retire on;

- To provide a short and well-structured transition arrangement that phases in a higher minimum retirement age which would enable those only a few years away from being eligible to retire under the existing system to still retire early, though with some cost; and

- During the short transition period, to provide workers that under the current system would be eligible to retire during the next few years with a variety of retirement options including the right to purchase as a lump sum the outstanding contribution years required under the new proposal provided these workers have met the minimum retirement age.

33. The main reform proposals are as follows:

- **For new workers and new voluntary insured, immediately adopt a minimum retirement age of 62/62 years, minimum contribution period of 30/30 years to receive a pension with a replacement ratio of 70 percent, a reference period covering the whole work life with past contributions CPI adjusted, and increase the contribution ceiling for SSK participants to five times the minimum wage.**

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[24]These surpluses could be used to implement a system involving mandatory individual retirement savings. The experience in a number of developing countries (particularly in Latin America) suggest that fully funded systems constitute s desirable alternative, especially in countries with a history of macroeconomic instability and unreliable pension systems. But the merits of introducing such a system should be considered only after the current system has been significantly reformed.

- **For current workers and the voluntary insured, raise the minimum retirement age to 58/60 years with a five-year transition period.**[25] This should involve an immediate jump in the effective minimum retirement age by *at least five years* to 43/48 years, which would still be below the current average retirement age of 47/50 years for SSK and 57/57 years for other funds, and the minimum retirement age of 50/55 years that was to be in place as recently as 1992. The subsequent five-year phase-in to a minimum retirement age of 58/60 years should be based on the number of years left until a worker will be eligible to retire under the existing arrangements, with the new minimum retirement age higher the further one is from being eligible to retire under the current system. The purpose of using this form of transition period is to promote equity among those that have contributed under the existing system and will be eligible to retire in the next year or so, rather than requiring that such workers remain in the system for an additional decade or more. The phase in could be structured as follows:

Years before qualifying for a pension under the existing arrangements	Minimum Retirement age
less than 1 year	43/48 (at least)
1-2 years	46/51
2-3 years	49/54
3-4 years	52/56
4-5 years	55/58
More than 5 years	58/60

- **Immediately set the replacement ratio at 45 percent of average contributions paid over the reference period if workers contribute for 20/20 years, 57.5 percent for contributions for 25/25 years, and 70 percent for contributions for 30/30 years.** Contributions therefore would be reduced by 2.5 percentage points per year worked less than 30/30 years, and would be increased by 2 percent more for each additional year of work (up to a ceiling of 80 percent).[26] This would reduce significantly the accrual of benefits in the early years of participation, while raising the incentive for workers to continue to work, especially given the proposed increase in the contribution ceiling for participants in SSK explained below.

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[25]Since women live longer than men, conceptually their retirement age should at least be unified with that of males (60 years), though there are relatively few women in the workforce. The higher retirement age of 62/62 is recommended only for new participants since they can be expected to face a longer life expectancy than those already in the workforce.

[26]The replacement ratio in Turkey is high by international standards. Additional savings could be sought by lowering the replacement ratio to a uniform level of 60 percent for all funds. The savings, however, would be fairly small in the short and long run.

- **Immediately raise the contribution ceiling in SSK to five times the minimum wage in combination with the other reforms, and ensure the replacement ratio over the reference period relates to the actual (CPI-adjusted) wage on which contributions were based.** Raising the contribution ceiling will increase both the level of contributions paid as well as the eventual pension. Since a full pension would then be paid at a replacement ratio of 70 percent of the average wage over the reference period, rather than being capped at an effective rate around 25 percent of the average wage as at present, it would not be necessary for pensioners to continue to work in order to support themselves as at present. The maintenance of a ceiling on contributions is recommended for equity purposes, to encourage participation in private pension schemes for those wanting more coverage, and due to the tax code that excludes social security contributions from the income tax base.

- **Immediately increase the reference period to 10 years for all pension funds for workers that are 10 years or less from qualifying for retirement under the existing arrangement, and to whole work life for those more than 10 years from qualifying for retirement.** In practice, for ES and BK participants this will not impose a substantial change in the benefit level since their ability to pay a larger premium in their last year of work in order to increase the value of their eventual pension was limited. Further, half of the current SSK participants—those that pay at the contribution ceiling—already face a reference period of 10 years. Although it is possible for the other half of SSK participants to contribute at a low rate until five years before retirement, it is not recommended to allow supplementary payments for these SSK participants to make up for previously deliberate under reporting of income; such activity was illegal. Lengthening the reference period to the whole work life would reduce the incentive to underreport income for contribution purposes.

- **Immediately limit the annual indexation of pensions to changes in the CPI rather than to wages.** This will ensure pensioners are protected from cost of living increases, but will add resources to the current system since contributions would be based on increases in real wages but pension costs would not increase in real terms.

- **Continue indefinitely to freeze the nominal amount of SYZ payments for pensioners of SSK and BK.**

- **Improve administration, increase enforcement measures to improve collections, and expand membership.** A comprehensive administrative program would involve major improvements in record-keeping and computerization, stepped-up audit and enforcement to ensure contributions owed are paid (including higher penalties for late payment), and initiatives to expand the number of workers participating in the system. It might also include the consolidation of the three funds under a single administrative structure (after this structure has been essentially unified as suggested above), and having the tax department collect contributions rather than each institution.[27] The administration of the current social security systems is presently under review and the final report will give a better idea of the possible ways to improve the system.

- **Immediately reinforce cost controls in the health care system.** This must include imposition of meaningful user fees on all health services and a meaningful no claims period (e.g., 12 months for maternity, and 3 months for all other health needs).

34. Table 7 shows the impact of each of these measures relative to the base line projections presented earlier. The data indicate that by far the largest impact on the short and medium term outlook comes from the imposition of a minimum retirement age that rises to 58/60 years after a short transition period with a minimum contribution period of 30/30 years in order to earn a replacement ratio of 70 percent of actual salary. The proposal is designed to require workers to remain contributing for longer periods than at present—which both decreases current expenditure and increases current revenue—but also to entitle SSK workers in particular to a higher eventual pension following the removal of the ceiling on SSK contributions.

35. The indexation of pensions to the CPI rather than to the growth in real wages also has a large financial impact over the medium to long term. Clearly, for this to be so, the measure would have to be sustained for a long period and not be subject to discretionary real pension adjustments. The balance of the other measures lower the deficit, but their financial impact is much more limited.

36. Typically the use of a phase-in of a higher minimum retirement age rather than a discrete jump to the new higher level is very costly due to the increase in the pool of relatively young retirees during the phase-in. In this proposal, the cost of the phase-in would be financed by the requirement that workers either continue in employment beyond the minimum period and then receive a higher pension as their real wage increases and the contribution ceiling is removed, make discretionary payments to satisfy the 30/30 years contribution period for a full pension,[28] or accept a lower replacement ratio set at 2½ percentage points for each annual

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[27]In addition to administrative measures to improve collections, the restructuring of benefits and contributions should also improve contribution collection efficiency.

[28]In particular, during the five year transition period to the minimum retirement age of 58/60 years noted above, workers that meet the minimum age requirement under the phase-in but have not contributed for the full 30 years would be allowed to make a lump sum payment set at 33.5 percent of the minimum wage in the year of retirement per year short of 30 years (to simplify calculations). This measure implies at most a discretionary payment of 15 years worth of contributions (equal to five times the current minimum wage, which equals the current average wage; presumably the wage of those about to retire is in general higher than the

(continued...)

Table 7. Estimated Impact of Proposed Pension Reform Measures 1/
(In percent of GNP)

Measure	Financial Impact in Indicated Year Relative to Baseline Estimate			
	2000	2005	2020	2050
Rise in contribution period to 30/30 years and retirement age to 58/60 years	0.3	1.6	4.2	6.0
Change in reference period for benefits calculation	0.2	0.3	1.6	5.4
Improved administration and enforcement with consequent improved coverage	0.2	0.3	0.4	0.0
Lifting of SSK contribution ceiling	0.3	1.4	0.1	-2.1
Indexation of benefits to CPI	0.5	1.7	5.2	10.3
Improved administration of health care	0.0	0.1	0.2	1.3

Source: Fund staff estimates.

1/ Note that effects do not add up to the overall adjustment reported in Table 8 due to interactions between the various policies.

shortfall in contributions less than 30 years. In fact, due to the current ceiling on contributions to SSK, the effective replacement ratio after 14 years of contributions is only around 20 percent of actual average wages, which is less than the replacement rate proposed here for the same number of years of contributions (30 percent).

37. The financial implications of these reforms are presented in Table 8. The measures would be sufficient to reduce the deficit to near balance over the next few years, as the expenditure inertia in the system stemming from the large number of potential new (young) pensioners is halted by the imposition of a minimum retirement age with a short transition period, and revenues are enhanced through the 30/30 year contribution requirement and the immediate increase in the ceiling on SSK contributions. Of course, raising the ceiling on SSK contributions in the absence of other measures raises revenue in the short run, but worsens the long run balance as the higher wage on which contributions are based feeds into a higher pension right, and must therefore only be done in the context of the other reforms proposed.

38. The reformed PAYG system would still be fairly generous by international standards as indicated by a comparison with Table 4. The proposed retirement age for new entrants (62/62) is still younger for men than in six of the eight countries in the table (excluding the old Mexico system) and for women in four of the eight countries. The contribution period required for a full pension (30/30 years) remains below or equal to the requirements of all the other countries, and the benefits accrual factor and maximum replacement ratio is higher than in all other countries; the reference period would equal the whole lifetime as it is for 4 of the countries. Finally, the switch to pension indexation by CPI prices is already the practice in 6 of the countries in the table.

[28](...continued)
average wage). Even this amount would only apply for some SSK participants (since SSK workers have to have been in the workforce for 20/25 years, though they need only have contributed for 14 years). For most women in the pension funds, the discretionary payment would be two-thirds of this amount (i.e., 10 years of contributions since they would have already contributed for 20 years) and for most men the payment would be just one-third of this amount (i.e., for 5 years since they would have already contributed for 25 years).

Table 8. Turkey: Social Security System Long-Term Projections—Reform Scenario, 1998–2050
(In percent of GNP)

	1998	2000	2002	2005	2010	2020	2030	2040	2050
SSK									
Revenues	2.8	3.6	4.8	6.0	7.1	8.7	10.0	10.7	12.3
Contributions	2.5	3.3	4.5	5.7	6.9	8.5	9.7	10.4	12.0
Other 1/	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Expenditures	3.8	3.9	4.0	4.2	4.6	5.8	6.9	8.9	9.9
Pensions	3.1	3.2	3.2	3.3	3.6	4.7	5.7	7.5	8.4
Health insurance	0.5	0.6	0.7	0.8	0.9	1.0	1.1	1.2	1.3
Administrative expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Balance	-1.0	-0.3	0.7	1.8	2.5	2.9	3.1	1.8	2.4
Emekli Sandigi									
Revenues	1.4	1.4	1.5	1.6	1.7	1.8	1.9	2.0	2.0
Contributions	1.3	1.3	1.4	1.5	1.6	1.7	1.8	1.8	1.8
Other 1/	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Expenditures	2.4	2.4	2.5	2.5	2.6	2.5	2.3	2.2	2.0
Pensions	1.7	1.7	1.7	1.7	1.7	1.5	1.3	1.1	0.9
Health insurance	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.6	0.6
Administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Balance	-1.0	-1.0	-1.0	-0.9	-0.9	-0.6	-0.4	-0.2	-0.1
Bag-Kur									
Revenues	0.4	0.4	0.5	0.5	1.0	1.2	1.3	1.4	1.5
Contributions	0.4	0.4	0.5	0.5	1.0	1.2	1.3	1.4	1.5
Other 1/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	1.3	1.3	1.4	1.5	1.6	2.0	2.0	2.1	2.1
Pensions	1.0	1.0	1.1	1.1	1.1	1.5	1.4	1.4	1.4
Health insurance	0.3	0.3	0.4	0.4	0.4	0.5	0.6	0.6	0.7
Administrative expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Balance	-0.9	-0.9	-1.0	-1.0	-0.6	-0.8	-0.6	-0.6	-0.6
Total Social Security System									
Revenues	4.5	5.4	6.7	8.1	9.8	11.8	13.2	14.0	15.8
Contributions	4.2	5.1	6.4	7.7	9.4	11.4	12.8	13.7	15.4
Other 1/	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Expenditures	7.5	7.7	7.9	8.2	8.8	10.3	11.1	13.1	14.0
Pensions	5.8	5.8	6.0	6.0	6.5	7.8	8.4	10.1	10.7
Health insurance	1.1	1.2	1.4	1.6	1.7	1.9	2.1	2.4	2.7
Administrative expenses	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Overall Balance	**-3.0**	**-2.2**	**-1.2**	**-0.1**	**1.0**	**1.5**	**2.1**	**0.9**	**1.8**
Memorandum items:									
Net of health care:									
Revenues	3.2	3.8	4.7	5.6	6.8	8.1	9.1	9.7	10.9
Expenditure	6.4	6.4	6.6	6.6	7.1	8.4	9.0	10.7	11.3
Balance	-3.2	-2.6	-1.9	-1.0	-0.3	-0.3	0.1	-1.0	-0.5

Sources: Data provided by the Turkish authorities; and staff estimates.
1/ Excluding payments from the Treasury.

Assumptions for Social Security Projections

The Baseline Scenario

1. Data up to 1997 are historical, and those for 1998 reflect the budget assumptions. For the projection period 1999–2050, population and labor force growth assumptions essentially reflect those used by the ILO although the data were adjusted somewhat to keep the unemployment rate constant at its current level rather than tending to zero percent in 2050 as in the ILO assumptions. The growth rate of participants also reflects the ILO data, though the number of pensioners has been adjusted to reflect the number of new participants in the pension funds 25 years earlier. GNP growth rates are staff estimates, based on the latest WEO estimates, and real wages are expected to grow at the same pace as GNP. Real health expenditure is projected to grow at 2 percentage points per annum higher than real GNP due to an assumed increase in demand for health care as real wages increase, increased enrollment in the funds over time, and an assumption that the price of health services will rise faster than the GNP deflator (as has been the typical experience in other OECD countries). Specific growth assumptions for the base case are as follows:

	2000-2010	2011-2020	2021-2030	2031-2040	2041-2050
Population over 12 years	1.7	1.3	1.0	0.6	0.3
Labor employment	1.2	1.4	1.0	0.7	0.4
Participants in:					
SSK	2.5	1.8	1.8	1.5	1.5
ES	1.3	0.8	0.5	0.3	0.0
BK	1.5	2.3	0.3	0.3	0.3
New pensioners:					
SSK	5.0	3.3	1.5	1.5	1.5
ES	4.5	1.8	1.0	1.0	0.5
BK	6.0	5.3	1.5	2.0	1.3
Real GNP and wages	2.5	2.0	2.0	2.0	2.0

The Adjustment Scenario

2. In addition to the reforms noted in the paper, it is assumed that the improvement in the social security balance increases GNP and real wages by 0.5–1 percent per annum, and improves labor employment (and participation in the funds) by 0.2–0.4 percent per annum. Note that a comprehensive stabilization package for the whole economy would magnify the extent of the positive macroeconomic effects and thereby further improve the social security balances. In particular, after an initial drop caused by contracting domestic demand, GNP, employment, and wages could all be expected to rise faster than in the baseline, boosting contributions to the social security system.

The ILO Reform Proposals

The International Labor Office, under contract with the World Bank, undertook a study of the social security system in 1995-96. The ILO reports stress the need for a major overhaul of the Turkish pension system, highlighting the need for a substantial increase in the retirement age, and an increase in earnings subject to social security contributions (and benefits). The ILO also recommend improvements in the administration, collection rate, and coverage of the system, and advocate consolidating the three current pension funds into one or two funds.

The options

The ILO discussed four reform options to address the social security crisis. Option one is a restructured PAYG system, with a replacement ratio equal to 1.5 percent of average annual lifetime earnings per year worked and an increase in the cap on SSK contributions to five times the minimum wage. Option two would be a mandatory system of individual retirement savings accounts (along the lines of the Chilean model) equal to 17 percent of a worker's salary with a government guarantee that a pension would not be less than 40 percent of average lifetime earnings for those that contribute for 30 years. Existing workers could choose to remain in the old PAYG system or switch to the new system, and the government would cover the consequent (huge) deficit of the old PAYG system. Option three would be a hybrid system with both a PAYG component paying a flat rate of 20 percent of average earnings after 15 years of contributions at 16.5 percent, and a mandatory savings component equal to 5 percent. Option four would be a hybrid system based on option three with a voluntary, rather than mandatory, savings component.

Under all four options, under the ILO proposals the retirement age would be set initially at 53/55 years, rising gradually over 10 years to 58/60 years. Early retirement would be permitted, with pensioners receiving the accrued benefits under each system, but only if the pension entitlement were equal to the minimum pension of one-quarter of average earnings. Since under all schemes accrual of pension benefit entitlement is much slower than under the current system, early retirement would be much less advantageous. Existing pensioners would have their benefits adjusted by the CPI, rather than real wages. All options would included a major program to improve pension administration, including consolidation of the funds, unified contributor records, stepped-up enforcement, controls on benefits fraud.

According to ILO projections, each of the four options proposed would have a significant impact on controlling and reducing the social security deficit in the long-run. All options would produce a declining trend in the deficit until 2010, compared to continuous rises anticipated in the baseline. After 2010, demographic factors would produce rises in the deficit under all scenarios until roughly 2025, when the balance would again improve, falling below 1 percent of GNP by 2050. While each of the reform options produces higher revenue than under the baseline scenario, these gains are relatively small (0.2–0.5 percent of GNP). The remainder of the 8–9 percent of GNP improvement in the social security balance comes from reductions in expenditure resulting from higher retirement ages and lower benefits.

Critique of the ILO Reform Scenarios

Given intervening developments, the ILO proposals fall short of solving the social security problem faced by Turkey, and none of the four ILO options will sufficiently reduce the deficit to permit macroeconomic stabilization in the short or medium term. Firstly, the starting point for reforms has deteriorated by 1 percent of GNP since the recommendations were developed in 1995 and the number of pensioners in 1995–98 grew by almost three times what the baseline ILO estimates had forecast.[29] Secondly, real wages grew strongly in 1996-97 following their nadir in 1994 on which the ILO estimates are based, which implies a sharp increase in pensions in the near future. Third, given the 10-year transition to a minimum retirement age of 58/60 years and the right for many workers to receive a pension equal to the higher of either the old or the new system for a period of 10 years, the financial improvements generated by the ILO proposals come slowly, leaving huge deficits for a decade under their assumptions. Finally, even under the ILO's long run assumptions, none of the proposals produce a balanced social security budget for the next 50 years; as a result the system will be a perpetual drain on government revenue.

It should be noted that the benefit of adopting a fully capitalized pension system under Option two may have been underestimated by the ILO due to the proposed very long transition phase which preserves rights under the current generous system far into the future (instead of 10 years as under the other options), an underestimation of the potential real rate of return (2.2 percent compared with 14 percent in Chile for their system), use of a partial equilibrium model where economic growth and labor market conditions were held exogenous rather than responding to the new savings incentives, and no recognition of the effect the strong link between contributions and benefits would have on participation rates. However, given the major problems faced under the existing system and the difficulty the government would have in financing the huge deficits generated during a transition from a PAYG system to a fully funded scheme, adoption of a fully capitalized system should only be considered after the PAYG system has been reformed and stabilized.

[29]The ILO study assumed growth of 3¼ percent per annum, but the actual growth rate was nearly 5 percent per annum and this trend is expected to continue.

THE PRIVATIZATION PROGRAM[1]

A. Overview

1. State enterprises (SEEs) and their affiliates in Turkey are active in almost all sectors of the economy, playing a role in the provision of services (e.g., railways, telecommunications and electricity), commodity trading, banking, mining, the production of basic metals and chemicals, and defense. SEEs can be considered in two groups; those that are providers of infrastructure-related goods and services and are under control of one of the ministries, such as TEAŞ and TEDAŞ (electricity generation and distribution) and Turk Telekom (telecommunications), and the others which may or may not be expected to operate at a profit.

2. The privatization program was initiated in 1983, when the state-owned 35 enterprises, which served as parent holdings for over 120 wholly owned companies, as well as majority shares in affiliated partnerships and minority shares in over 100 joint-stock companies. The main goals of the program are to: (i) minimize state involvement in industrial and commercial activities of the economy; (ii) decrease the financing burden of the SEEs on the national budget; (iii) transfer privatization revenue for major infrastructure projects; (iv) expand and deepen the capital market by promoting wider share ownership; and (v) promote a more efficient allocation of resources.

3. Overall progress of the program has been slow until recently because of legal and institutional obstacles as well as political opposition. The process has also been hampered by the absence of competition legislation in sectors that had been covered by state monopolies. The pace of privatization accelerated noticeably in 1998 and the government plans to raise US$2.6 billion from sales of shares in enterprises in the portfolio of the Privatization Authority, US$3 billion from the sale of 34 percent of Telekom, US$1 billion from the leasing of GSM (phone) licenses, and US$2.4 billion from the transfer to the private sector of management rights of 8 power stations and 20 electrical distribution companies (with another US$1.2 billion paid after 1998). If all these are realized, some US$9 billion will be raised.

B. Legal and Institutional Framework

4. The legal and institutional frameworks for privatization have developed over the last fifteen years. The original privatization law passed in 1984 (Law 2983) envisaged the program as a means to finance housing and major infrastructure projects, such as highways and dams. Initially, decisions on which entities to privatize were taken by the Council of Ministers for wholly state-owned enterprises and the High Planning Council (chaired by the Prime Minister) for partially-owned enterprises; the authority to convert the entity subsequently into a joint stock company and sell it lay within the Public Participation Administration (PPA). Efforts in

[1]Prepared by David W.H. Orsmond.

1993 to accelerate the privatization program by enabling the government to proceed by decree rather than through these steps were annulled by the Constitutional Court.

5. In November 1994, legislation was passed (Law 4046) to replace the roles of the Council of Ministers and High Planning Council with the Privatization High Council (PHC) which comprised just the Prime Minister and four other Ministers, and to shift the role of the Public Participation Authority to the Privatization Authority (PA). In addition to deciding on which SEEs are to be privatized (decisions that had to be unanimous), the PHC also has authority over the privatization method to be used, the preparatory restructuring to be undertaken, the revenue target, and the budget for the Privatization Authority. The PA executes the PHC's decisions, including coordination and supervision of the valuation and tender process, dealing with legal and administrative issues regarding the company under privatization, and handling promotional activities associated with the sale. The 1994 privatization law also stipulates that privatization proceeds cannot be used to finance budget expenditure, but instead should be devoted to paying for the privatization process, to finance selected infrastructure projects, or to retire existing public debt. However, Law No. 4046 does not cover enterprises associated with the delivery of major infrastructure-related goods and services; the latter requires passage of separate legislation to authorize their privatization.

6. In addition to difficulties establishing the institutional structure, there have been numerous legal difficulties as elements of the legislation have been repeatedly subject to constitutional challenges, especially for private involvement in public economic institutions. Under Article 155 of the Turkish Constitution, the Administrative Court (Danistay) is given the authority to review "concession" agreements between the state and a private entity.[2] The Danistay's review is intended to "safeguard the public interest" and is based on a view that the state has privileged rights and authorities. As such, the Danistay routinely rejects clauses in contracts that cover the possibility for international arbitration and litigation in the event of a dispute between the state and the private entity, interpreting these clauses as an infringement on Turkish sovereignty. These clauses are critical for foreign participation in the privatization of infrastructure projects.

7. In response, the government has made several attempts to bypass this issue. Initially, the government tried to establish laws that explicitly stated that certain forms of private sector participation in the provision of public utilities, including recourse to international arbitration, were not concessions that infringed on Turkish sovereignty. In general, these laws were later canceled by the Constitutional Court. As an alternative, contracts have been split into one part that is between the government and the private investor and subject to the Danistay's review, and another part that is viewed as between the company being privatized and the private investor which is therefore not required to be reviewed by the Danistay, and which includes all needed commercial transactions including clauses on international arbitration.

[2]The sensitivity of concessions stems from the practice during the Ottoman Empire of granting trading concessions—often monopolies—to foreign nationals.

8. Another approach has been to use a build-operate-transfer (BOT) arrangement that is allowed under the original privatization law. Under a BOT contract, the government awards a project to a private company which builds needed infrastructure, operates it for at most 49 years, and then transfers it back to the state. In return the government guarantees the output price for a certain period and the availability of inputs. However, contracts awarded under the BOT still have to be approved by the Danistay as they represent a "concession" as defined above, and hence do not generally include a clause providing the possibility of international arbitrage.

C. Progress to Date in the Privatization of Commercial Entities

9. As noted, most entities are privatized through the Privatization Authority. Since 1985, 153 companies have been taken into the PA's portfolio or that of its predecessor (excluding 16 that were later merged with other companies or withdrawn). Of these, 109 have been privatized, leaving 44 entities in the portfolio as of April 1998. The privatization program began in 1985 with the transfer of a few incomplete plants for the private sector to finish or reconstruct, and continued at a relatively slow pace with block sales of a few small agro-industrial companies and cement companies. As the main objective of the privatization drive shifted toward promoting wider share ownership among the Turkish public, public offerings of minority shareholdings became more common. After 1992, changes in the management and structure of the PA lent a new impetus to the privatization program, but the pace slowed again in 1995 due to an uncertain political environment and a large number of tenders and final sales that were held up by the inability of the Privatization High Council to reach a unanimous decision (and which at several times canceled or reversed sales that had been earlier agreed upon). In 1998, the program's pace again accelerated (see below).

10. Between 1986–97, the privatization process generated sales of US$3.6 billion (Table 9), of which cash received was US$3.2 billion (some payments are made over several years by installment). Around half of these receipts were generated through block sales, with the balance of the receipts shared fairly equally among sales on the Istanbul Stock Exchange, company assets, domestic public offerings, and international offerings. Over the same period, the companies within the portfolio made dividend payments to the PA of US$1.3 billion. Of the total cash revenue generated (US$4.8 billion), more than half (US$2.7 billion) was provided to the remaining companies in the PA's portfolio in the form of capital injections, transfers and loans. Around one-third (US$1.4 billion) was provided to the Public Participation Fund, an extrabudgetary fund that undertakes investment expenditure.

11. The labor market impact of the divestment program has so far been minimal since until recently the privatized companies have been relatively small. To ameliorate the social impact, the PA makes contributions to the restructuring of the labor force for companies within its portfolio. Nonetheless, the privatization program remains unpopular with trade unions, particularly in sectors such as steel, textiles, and electricity.

Table 9. Turkey: Privatization Gross Revenues, Cash Proceeds, and Expenditures, 1986–97
(In millions of U.S. dollars)

	1986-93	1994	1995	1996	1997	Total
Gross Revenue	**1,859**	**412**	**573**	**292**	**466**	**3,602**
Block sale	...	...	...	...	251	1,744
Istanbul Stock Exchange	436	67	20	2	0	524
Asset sale	...	...	...	...	213	507
Public offering	431	3	0	0	0	433
International offering	0	330	0	0	0	330
Other	2	0	0	0	2	4
Cash Revenue	**2,228**	**654**	**626**	**578**	**608**	**4,824**
Privatization revenues	1,564	565	440	230	362	3,156
Block sale	695	178	265	169	277	1,583
Istanbul Stock Exchange	436	67	20	2	0	524
Asset sale	5	1	156	59	84	304
Public offering	422	3	0	0	0	425
International offering	0	316	0	0	0	316
Other	2	0	0	0	2	4
Dividend income	583	89	72	306	244	1,294
Other revenue	81	0	114	42	1	374
Cash Expenditure	**2,299**	**339**	**525**	**613**	**566**	**4,585**
Transfers to the PPA	342	63	154	352	255	1,375
Assistance to the SEEs	1,800	251	291	138	225	2,724
Capital increase	1,481	212	142	118	86	2,038
Transfers	...	...	...	11	5	304
Loans and credits	...	...	...	9	134	382
Social assistance payments	0	1	28	32	14	101
Other	157	25	51	90	72	385

Source: Data provided by the Turkish authorities.

D. The 1998 Privatization Program

12. The goals of the 1998 privatization program of the PA are to complete at least one global offering, one large industry block sale, transfer one project for recapitalization by the purchaser rather than to raise receipts for the PA, and establish one regulatory body. As noted, a quarterly program has been established which projects sales of companies in the PA's portfolio of US$4.6 billion, of which cash received in 1998 is expected to be US$2.6 billion. Of this amount, US$1 billion (or more) of the PA's receipts will be transferred to the Public Participation Fund to fund its investment program. The balance will cover the cost to the PA of recapitalizing companies in its portfolio including US$0.6 billion to cover new debts and US$0.8 billion to service past bonds that were purchased by state banks and which were issued to cover old SEE debts in 1994 under treasury guarantee.

13. The major sales that were finalized in the first half of 1998 included the re-tender of the state's 51 percent holding in the state bank Etibank for $155 million (of which $62 million was paid in 1998), its 12 percent holding in Isbank for $625 million, and 51 percent of the state's 93 percent holding in POAS (the main distributing and marketing company for petroleum products) for $1.1 billion (of which around 40 percent will be paid in 1998).

14. The program for the second half of 1998 includes the sale of 25 percent of Turkish Airlines, Erdemir (the sole integrated flat steel producer in Turkey), and Isdemir (steel production, the sale of which will be contingent on recapitalization rather than intended to raise significant revenue for the PA). Around 20 smaller enterprises and assets are also expected to be sold in 1998 including cement, textile, airport ground handling, iron, porcelain, chromium, forestry, land and housing assets, hotels and resorts, insurance, paper and pulp, and sea transport companies. The sale of one of Petkim's two petrochemical complexes and 51 percent shares in two of Tupras' four petroleum refineries may also take place in 1998 or in 1999.[3]

E. Privatization of Turk Telekom

15. The sale of public economic infrastructure projects is not covered by the PA's legal structure. In this group of enterprises, sale of the state-owned telecommunications company, Turk Telekom, has long been beset by legal and political obstacles, interrupted by three court annulments in almost as many years.

16. Turk Telekom was separated from the state-run Turkish Post Office (PTT) in 1993 by a decree which provided for the future sale of up to 49 percent of the shares in Turk Telekom and the full privatization of services such as mobile telephones, paging, and data transmission. However, the privatization process was halted when the decree was declared unconstitutional

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[3]Sale of Tupras's refineries required the prior introduction of an automatic pricing mechanism for petroleum products (equal to a margin of plus or minus 3 percent of the Italian Mediterranean f.o.b. price), which was promulgated in July 1998.

by the Constitutional Court later in 1993. A second attempt in 1994 (Law 4000) met with a similar fate when the law was annulled on the grounds that it granted too much power to the Communications and Transport Ministry which had been authorized to issue operational licenses to private companies for telecommunications operations.

17. A third attempt was made in 1995 (Law 4107) which gave the Privatization High Council responsibility for setting the principles and procedures for the transfer and sale of Turk Telekom shares as well as approving the final sale, and assigning the PA the task of determining the value of the shares and administering the privatization procedure. In accordance with this law, 10 percent of the shares was to be transferred to the Turkish Postal Services, 5 percent was to be set aside for employees of Turkish Postal Services and Turk Telekom, and the remaining 34 percent was to be offered to international and domestic investors. By December 1995, the PA had received several bids for privatization consultancy services, and was in the process of evaluating final bids from a short-list of six international consultants. However, in February 1996, the Constitutional Court annulled three provisions relating to the articles granting the PHC final authority over the sale and transfer of Turk Telekom shares, giving the PA responsibility for pricing the shares and running the privatization process, and authorizing the PA to price and tender licenses for value-added services such as paging and GSM (Group Special Mobile) licenses. As a result of the ruling, the tender process for privatization consultancy services was canceled.

18. A fourth, and this time successful, attempt was made in August 1996 (Law 4161), which also provided the legal framework for the licencing of value added telecommunications services. Although subject to another challenge, the Constitutional Court rejected the motion. Following on from this law, two GSM licenses were sold in early 1998, raising $1 billion for the treasury.

19. The privatization of Telekom is now proceeding in two steps. The first step consists of sector regulatory reform and company valuation. An independent regulator board is to be established that will be responsible for setting prices and imposing penalties in case of predatory pricing. Its members will be appointed for five years with four Deputies appointed by the government. Pricing is to be based on a cap system that increases prices by inflation less an efficiency factor. Another clause of the draft law will switch the contract of current employees of Telekom from the civil service code relevant to an SEE to a private sector contract; workers will be offered the right to serve in another SEE if they wish to maintain the same labor contract. Under WTO provisions, all telecommunications need to be liberalized by 2005; the draft bill notes that Turkey aims to achieve this target by 2002. After Cabinet of Ministers approval, the draft needs Parliament's approval without which Telekom cannot be privatized.

20. The second step consists of the actual sale of Telekom. In February 1998, the Cabinet of Ministers approved the sale of 49 percent of Telekom and valued the company t at least US$10 billion. Of this share, 20 percent will be sold to a core strategic investor(s) with foreign participation as a majority share, and simultaneously (or immediately thereafter)

4 percent will be sold by way of a global offering (for domestic and foreign investors). As ad been previously intended, a further 10 percent of the shares will be given to the Directorate of Postal and Telegram Services and the final 5 percent will be offered for sale at a discount to existing Telekom workers as well as other small domestic investors. Receipts will accrue to the treasury.

F. Private Participation in the Power Sector

21. In the early 1990s, the government embarked on a comprehensive power sector reform aimed at liberalization and eliciting greater participation of the private sector in the power generation and distribution. These steps were viewed as necessary given the rapidly growing need for energy which cannot be fully funded by the government. Law 3096, passed in 1984, allows private sector participation in the generation, transmission, and distribution of energy. However, Law 3974 to privatize institutions and businesses within the power sector was annulled by the Constitutional Court in February 1994.

22. In response, the government is moving to allow private participation through provisions of the original law passed in 1984. In particular, as of March 1998, under the build-operate-transfer (BOT) provisions, 7 power plants are already in commission (though with small capacity) and a further 10 are under construction. Under the same provisions, an additional 12 hydroelectric plants are being built along with 51 other energy projects. In July 1997, the government also successfully passed legislation (Law 4283) that allows a build-own-operate arrangement, and five firms have been contracted under this provision. Self-generation of energy is also allowed under the law, and 38 manufacturing companies have availed themselves of this provision.

23. Private sector involvement is now being extensively widened. The government has split the power company into TEAŞ (Turkish Electricity Generation and Transmission Corporation) which is responsible for electricity generation and transmission, and TEDAŞ (Turkish Electricity Distribution Company) which is responsible for distribution of electricity. Private sector participation is being sought for 10 thermal power plants accounting for 40 percent of capacity and 25 distribution areas through the transfer of operating rights. Additional power plants are to be added to this program later (see Table 10).

24. Two of ten plants have been consolidated, leaving eight plants which are to be leased to separate private companies for 20 years with TEAS guaranteeing to buy at least 85 percent of their output at a set price. The concession element of the contracts with the new private companies has been standardized, and four have been sent to the Danistay for approval; the Danistay has already seen drafts of the contracts and gave comments at that time. Approval by the Cabinet of Ministers concerning the remaining power plants is expected shortly. Total receipts are expected to be paid upfront and to yield around US$1.2 billion.

25. Twenty-nine distribution regions have been established (four of which are already in private sector hands), and there have been 20 successful bids to operate distribution centers tendered for 30 years. Of the successful bids, the contracts for seven were approved by the

Table 10. Turkey: Power Plant and Electricity Distribution Projects

	Capacity (Mega watts)	Value (In millions of US$)	Status
Power plants			
In first program			
Tunçbilek	429	100	With Danistay
Kangal	457	125	With Danistay
Orhaneli	210	90	With Danistay
Soma	1,034	255	With Danistay
Çayirhan	620	185	Being negotiated
Yatağan	630	160	Being negotiated
Yeniköy-Kemerköy	1,050	250	Being negotiated
Çatalağzi-B	300	75	With Danistay
Total	**4,730**	**1,240**	
Others			
Seyitömer	600	...	Being negotiated
Ambarli Fuel	630	...	Under consideration
Ambarli DG	1,350	...	Under consideration
Hamitabat DG	1,120	...	Under consideration
Total	**3,700**	**800**	
Electricity distribution			
Accepted bids			
Tekirdağ-Kirlareli-Edirne		145	With Danistay
Bursa-Yalova		165	With Danistay
Balikesir-Çanakkale		90	Being negotiated
Izmir-Manisa		360	Approved by cabinet
Aydin-Denizli-Muğla		110	Being negotiated
Eskisehir-Bilecik-Kütahya		90	Approved by cabinet
Afyon-Uşak-Isparta-Burdur		60	With Danistay
Kocaeli (including Gebze)		155	With Danistay
Sakarya-Bolu		70	With Danistay
Ankara-Kirikkale		175	With Danistay
Konya-Karaman		60	Being negotiated
Samsun-Ordu-Sinop		50	With Danistay
Kirşehir-Nevşehir-Niğde-Aksaray		40	With Danistay
Yozgat-Sivas-Tokat		50	With Danistay
Trabzon-Rize-Artvin-Gümüşhane-Giresun		60	With Danistay
Elaziğ-Malatya-Tuncili-Bingöl		60	With Danistay
Kahramanmaraş-Adiyaman		60	With Danistay
Şanliurfa		45	With Danistay
Zonguldak-Çankiri-Bartin-Karabük		60	With Danistay
Istanbul (trace)		500	With Danistay
Total		**2,405**	
Bids not accepted			
Amasya-Kastamonu-Çorum		40	
Erzurum-Ağri-Kars-Ardahan-Erzincan-		30	
Gaziantep-Kilis		60	
Diyarbakir-Mardin		60	
Van-Hakkari-Muş-Bitlis-Şirnak-Siirt- Batman		30	
Total		**220**	

Sources: Ministry of Energy; and Treasury.

26. Cabinet of Ministers in April 1998, and those for an additional seven were sent to the Cabinet of Ministers in May 1998. Tenders for four of the remaining six regions have been finalized. In general, the groups purchasing the distribution rights have been smaller than those for the power plants, and hence the process has taken longer including getting common agreement on the concession element. None of the contracts has been reviewed in advance by the Danistay. Total receipts for all 25 centers are estimated at US$2.6 billion (US$2.4 billion for the 20 noted above), of which half will be paid up-front, and the balance paid in installments over two years.

27. Establishment of an independent regulator is an important aspect of the reform of the power sector. A draft regulatory law will be sent to parliament during 1998 and a follow up study on the separation of power and transmission has been initiated. A regulatory body will be established with the current powers transferred from the ministry to the new body. There is no need to wait for finalization of the draft regulatory law in parliament before moving ahead with the BOT program itself.

G. Build-Operate-Transfer Programs

28. Recently, the BOT provisions have been extended for projects outside the power sector. Typically, these projects receive some form of treasury guarantee, though there is no obligation on the treasury to provide a guarantee. To date, only one BOT contract has been finalized. Under the Izmir Water Supply Contract, a Japanese/UK/Turkish consortium is spending US$865 million to construct a dam and water transmission lines for the Izmir municipality (which is also a part owner). The concession period runs for 17 years. The treasury has provided three guarantees: (i) on any subordinate loans if there is a cost overrun; (ii) to service debt if the ownership is transferred within 17 years due to default; and (iii) to purchase a minimum quantity of water at a pre-specified tariff in the event the municipality fails to purchase this minimum level.

PUBLIC SUPPORT FOR THE AGRICULTURAL SECTOR[1]

1. Agriculture plays an important role in the Turkish economy, currently representing 15 percent of GNP and employing 42 percent of the civilian workforce. The sector has a dual aspect; one part is composed of large land holdings that use modern production techniques, while the other comprises mainly small farms that use relatively inefficient techniques. Most of Turkey's poor are concentrated in this latter sector.

2. The government supports the agricultural sector in four main ways: through tariff protection at the border, purchases by the state of agricultural output at prices that exceed the market price (the price support scheme), subsidized loans, and direct subsidization of agricultural inputs.[2] As detailed below, the annual cost of the last three of these programs rose to 5 percent of GNP (US$8 billion) in 1995—mainly due to the support price and subsidized interest rate schemes—but has since been reduced to 2–2½ percent of GNP (US$4–5 billion). The annual resource transfer from consumers to producers from high rates of tariff protection has recently been estimated at an additional US$3–4 billion.

A. Tariff Protection

3. Border protection is used to protect the prices of domestic producers and to promote self-sufficiency in the production of agricultural products. All border protection is now undertaken through ad valorem tariffs; quantitative restrictions were replaced with tariffs set at the ad valorem equivalent level during the 1980 stabilization program, and variable levies were converted to their equivalent ad valorem rates in 1997. For livestock products (including meat, milk, and poultry products), tariffs are the main form of price intervention by the state. In recent years, the tariff rates on livestock products have been increased to 200 percent for most meat products, 130 percent for powered milk and 65 percent for poultry (Table 11).

4. Since the prices of nonlivestock agricultural products are also supported through the state-price support scheme (described below), the border tariff rates on these products are generally lower than those for livestock. Current tariff rates are 20–45 percent for cereals, 25 percent for raw tobacco, and about 145 percent for tea and sugar. Most of these ad valorem equivalent border protection rates have remained relatively stable in recent years; the exceptions are the protection levels provided to wheat and maize which are changed annually in response to the domestic production level, world price movements, and other concerns.

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[1]Prepared by David W.H. Orsmond. This chapter draws in part on World Bank policy papers.

[2]Various other forms of support are not discussed in this paper. For example, farmers on small plots are exempt from paying income taxes; some farmers pay a lump-sum tax set at 5 percent of the value of production in lieu of taxes.

Table 11. Tariff Protection Rates for Selected Agricultural Products, 1992–98
(in ad valorem equivalent rates, percent)

	1992	1993	1994	1995	1996	1997	1998
Tobacco							
Raw	56	52	64	57	25	25	25
Processed	78	95	78	52	24.4	22.9	21.3
Sugar							
Raw	88	88	88	88	100	135	144
Processed	88	88	88	88	100	135	144
Tea	151	142	142	142	145	145	145
Cereals							
Wheat	23	24	86	14	3	15	40-45
Barley	24	23	32	24	15	15	20
Maize	26	25	28	3	3	15	20
Rye	31	30	30	30	30	30	30
Oats	31	30	30	30	30	30	30
Rice	42	43	44	28	35	35	35
Livestock products							
Milk powder	105	96	102	81	105	130	130
Beef	156	170	158	75	95	165	200
Veal	156	170	158	75	95	165	200
Pigmeat	110	88	88	88	200	200	200
Sheepmeat	115	118	111	79	105	165	200
Poultry	61	88	88	88	70	65	65
Eggs	53	71	71	71	70	70	70

Sources: OECD (1994), *National Policies and Agricultural Trade: Turkey* (Paris); and Treasury.

B. Support Prices

5. In addition to border tariff protection, the producer price for some commodities is supported through state purchase of these products at prices that exceed the prevailing (tariff included) border price. The commodities whose prices are supported through this means has varied over time; as recently as 1992, the prices of 26 commodities were supported. Since 1994, the list has been limited to eight commodities within four groups: five cereals (wheat, barley, rye, maize, and oats), sugar beet, tobacco, and (effectively) tea leaf. Under the price-support scheme, the public sector commits to purchase products through public marketing agencies and (until 1994) agricultural sales cooperatives.[3] The support price is announced annually, usually after planting but before the harvest. Prices are determined by the government, taking into consideration recommendations of the Board of Money, Credit and Coordination, on which sit representatives of the ministries of agriculture, treasury, finance, foreign trade, and state planning, as well as the central bank.

6. Farmers can choose to sell their produce to the public purchasing entities or to private purchasers. Although the public price is higher than that offered by the private sector, payment by the public agencies is often made with a long delay, in contrast to sales to the private sector where payment is made at the time of delivery. The government has attempted to limit the cost of the price-support scheme by specifying to the public purchasing entities the maximum quantity for which the budget will reimburse the difference between the support and the market price (denoted the "duty loss") and/or limiting the payment of duty losses to certain activities (such as paying for losses incurred only if the purchased product is sold on the export market, or not paying for purchases that are used by the purchasing entity as inputs for their own production such as for cigarettes). In practice these controls have often proven unsuccessful with the losses incurred on all purchases at support prices eventually financed by the treasury. These payments have taken a variety of forms, including direct transfers and loans, writeoffs of tax obligations (including those due to the social security funds), amortization of enterprise debts, and equity injections.

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[3]The ASCUs are notionally private organizations that until 1994 were commissioned by the government to undertake support purchases on behalf of the state. ASCUs typically purchase commodities directly from farmers, undertake primary processing and packaging, and then resell the commodities to the final user. The ASCUs' purchases are funded via loans at concessionary rates (currently 50 percent) received from the extrabudgetary Support Price Stabilization Fund (SPSF), using Ziraat Bank as an agent. The ASCUs repay these loans form the SPSF after the commodities are sold to the final user, and the SPSF uses these repayments to make further loans. Prior to 1995, Ziraat financed the ASCUs directly; in 1995 the government provided Ziraat securities valued at TL 53 trillion (0.7 percent of 1995 GNP) to settle the ASCUs' debts to Ziraat. Since 1995, the SPSF has received all its resources directly from the treasury. The ASCUs continue to receive subsidized credit from the SPSF to finance their purchases.

7. Producer-support prices are generous (Table 12). After remaining relatively constant in real terms during 1993–95, real support prices were increased sharply in 1996. For most products, real support prices are now around 30 percent higher than their level during 1993–95 (70 percent higher for sugar beet). Since the recently announced support prices for 1998 are approximately in line with expected inflation, the real support price is likely to remain at around this (high) level. A similar picture emerges when the change in the ratio of support prices to the sales prices of final output is examined. After rising at around the same rate between 1993–95, nominal support prices have since increased at a rate around 20–30 percent quicker than the increase in sales prices. Current support prices are around 30–50 percent higher than the world prices of these raw commodities.

8. As a consequence of these generous prices, state purchases as a share of total output and the outstanding stocks of commodities whose prices are supported are high (Table 13). For tobacco, sugar beet, and tea leaf, the state entities purchase annually between two-thirds and four-fifths of total domestic production. In general, the state purchases less than 10 percent of the annual wheat production, though this share rose to 19 percent in 1997 due to low world relative to domestic purchase prices. End-year stocks in 1997 of sugar beet were 71 percent of annual usage, and tobacco stocks were 135 percent of annual usage (stocks of tobacco will rise sharply in 1998; see below). In general, like the share of total domestic production that is purchased at support prices, the level of stocks has remained high over time.

9. Turning to the mechanics of the price support program, the main public enterprises that purchase products at support prices are TEKEL (tobacco leaf), TMO (cereals), TSFAS (sugar beet), and CAYKUR (tea leaf). All of these companies make losses.[4] Almost half of the total losses of these four enterprises (46 percent over the period 1993–97) were incurred in TEKEL (the Tobacco Products, Salt, and Alcohol Firm). Until 1986, TEKEL was the sole manufacturer of cigarettes and the only company allowed to import tobacco (though private units could export tobacco with a license). Given its prominent role in the purchase of domestic production, and the generally low level of world demand for Turkish tobacco, the government used to impose production quotas on farmers in an effort to limit the cost to TEKEL of purchases of tobacco at the support price. In 1997, these limits were removed with a consequent huge increase in production (from 220,000 tons to 300,000 tons) and hence in purchases by TEKEL in 1998 (which is expected to reach 223,000 tons or 78 percent of total production); farmer specific production limits have since been reimposed. Some tobacco purchased by TEKEL is used to produce cigarettes and other tobacco products, and the balance is stored and periodically destroyed (through burning). The duty losses incurred on tobacco subsequently used as an input for its own production is supposed to be paid out of TEKEL's operating budget, with the budget financing just the losses incurred from the excess

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[4]In the enterprises accounts, accrued duty losses are included as a revenue item. Hence, they sometimes show an accounting profit. The data here exclude these duty losses from revenue.

Table 12. Support, Sales, and Market Price Measures for Selected Commodities, 1993-98

	1993	1994	1995	1996	1997	1998 Est.
Index of real support prices:						
Tobacco (Aegean area)	100	99	98	103	111	117
Tobacco (S.E. Anatolia)	100	113	111	116	130	122
Sugar beet	100	97	129	126	169	162
Tea leaf	100	83	91	101	114	109
Cereals						
Wheat	100	92	95	135	134	125
Barley	100	79	82	125	115	108
Maize	100	85	98	148	138	130
Rye	100	86	89	135	134	125
Oats	100	86	89	135	134	125
Index of the increase in support prices relative to the rate of increase in domestic sales prices:						
Tobacco (Aegean area)	100	91	117	122	89	...
Tobacco (S.E. Anatolia)	100	104	132	138	105	...
Sugar beet	100	99	134	117	169	...
Tea leaf	100	96	117	100	108	...
Cereals						...
Wheat	100	98	95	133	130	...
Barley	100	94	94	127	127	...
Maize	100	95	94	149	117	...
Rye	100	95	95	119	132	...
Oats	100	99	98	95	134	...
Percentage excess of support price relative to world price of selected commodities:						
Tobacco	...	...	...	...	4	-5
Sugar beet	...	...	...	...	44	29
Tea leaf	...	...	...	...	32	24
Wheat	...	...	...	...	46	47
Barley	...	...	...	...	51	30

Sources: Treasury; and staff calculations.

Table 13. Quantities Purchased at Support Prices and Outstanding Stocks, 1993–98

	1993	1994	1995	1996	1997	1998 Est.
Purchases as a share of total production for selected commodities (in percent):						
Tobacco	71	82	54	54	56	78
Sugar beet	82	84	80	79	81	81
Tea leaf	68	69	59	68	68	66
Wheat	13	8	0	3	18	11
End-year stocks as a share of consumption plus exports for selected commodities (in percent):						
Tobacco	294	263	215	147	135	...
Destroyed in year	40	77	16	1	0	...
Sugar beet	67	39	54	121	71	...
Wheat	29	13	6	7	10	...
Barley	8	28	14	19	14	...
Maize	4	1	2	11	14	...

Sources: Treasury; and staff calculations.

quantity purchased. In practice, the budget does not reimburse any of TEKEL's losses, and TEKEL in turn withholds from the budget all the excise levied on tobacco. The stock of these counter claims has roughly balanced themselves out.[5]

10. The next largest source of losses by state marketing agencies (20 percent of the losses incurred between 1993–97) is the Turkish Grain Board. TMO purchases wheat, coarse grains, and pulses (chickpeas, green and red lentils) and controls the bulk of the storage facilities. Until 1998, TMO was not allowed to sell its purchases on the domestic market at anything less than a premium of 15 percent over the purchase (support) price. This requirement was revoked by a Council of Ministers Decree in 1998. Rather than being directly covered by the treasury, TMO's duty losses tend to be financed initially by loans from Ziraat Bank (see below) and from abroad, both undertaken with a central government guarantee. These guarantees are eventually called, at which point the debts become central government obligations.

11. Losses incurred at TSFAS (Turkish Sugar Factories) represented 18 percent of total agricultural marketing agency losses between 1993–97. Although TSFAS's legal monopoly on production and the export and import of sugar and its byproducts was removed in 1984, all but five of the 27 sugar plants in Turkey are still fully owned by TSFAS, which is also a shareholder in four of the remaining five plants. Since 1984 only the duty losses incurred from exports are suppose to be covered by the budget; in practice, losses arising from all support price purchases are covered in one form or another.

12. CAYKUR (Tea Industry Corporation) incurred 16 percent of the losses in agricultural marketing agencies between 1993–97. CAYKUR owns 45 processing plants and 3 packaging facilities, and until 1984 had a monopoly on tea purchasing, processing and sales. In principle, CAYKUR sets its own prices but prices are in practice influenced by prevailing government policy. CAYKUR controls its purchase quantity by negotiating annually before the planting season the quantity of tea that it will purchase from farmers. Because its prices are technically set by CAYKUR, there is no legal obligation on the part of the government to cover its losses. Instead, between 1994–98, the main budget support provided to the tea sector has been its reimbursement (through Ziraat Bank) of the cost of pruning one-fifth of plants, which was mandated by the government to increase quality, temporarily reduce output,[6] and thereby limit CAYKUR's purchases.

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[5]Following a mutual writeoff of debts accumulated to 1994, at end 1997 the stock of duty losses due from the budget were TL 382 trillion (1.3 percent of GNP), and excise taxes withheld by TEKEL were TL 420 trillion (1.4 percent of GNP).

[6]Pruning decreases output of a tree by around 70 percent for one year.

C. Subsidized Lending Programs

13. In addition to tariff protection and high producer prices, the agricultural sector is supported through subsidized loans for the purchase of inputs by farmers. These loans are extended through Ziraat Bank, the largest commercial bank with 1,275 domestic and foreign branches. Subsidized lending from Ziraat used to represent close to one third of its total assets (peaking at a stock figure of US$4.1 billion in 1995). However, since 1995, lending to the ASCUs (US$2.4 billion stock in 1995) has been undertaken using treasury resources, with a consequent decline in Ziraat's subsidized lending. Thus, at end 1997 Ziraat's subsidized lending to the agricultural sector had fallen to TL 375 trillion (US$1.9 billion, 1.3 percent of GNP), which represented just 12 percent of its total assets.[7] Of this amount, the largest share was lent directly to farmers (TL 211 trillion), most of which was to the modern farm sector. Virtually all the balance (TL 162 trillion) was lent to the agricultural credit cooperative.[8]

14. Although the Board of Directors of Ziraat notionally decides the agricultural lending rate, political influence is strong. From 1989, the fixed rates varied between 43–55 percent depending on the type of loan; in September 1997, the rates for new loans were increased to 59–76 percent.[9] These rates have been below the rate of inflation, and significantly below the rate Ziraat pays on its deposits from the general public. The net annual cost to Ziraat of its subsidized lending increased to 3.5 percent of GNP in 1995—which included losses from ASCU lending—but has since declined to around 1 percent of GNP with the decline in Ziraat lending to the ASCUs and the increase in subsidized lending rates in 1997 (Table 14).[10]

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[7]This figure excludes the amounts Ziraat provided to cover the 1993 cotton duty loss (29 percent of its 1997 assets; see below). Much of the balance of its assets are large foreign currency loans to Turkish banks (see footnote below) and holdings of treasury securities.

[8]The agricultural credit cooperatives have over 2,500 branches and on-lent these funds at a premium to small farms in amounts that are not allowed to exceed TL 1 billion (around $4,000) per loan.

[9]The interest rate on loans for livestock was raised to 59 percent (representing 40 percent of total subsidized lending), for vegetables and grains to 70 percent (45 percent of total subsidized lending), and for tractors and other farm equipment to 76 percent (15 percent of total subsidized lending). These rates are not compounded through the year. On July 1, 1998, the average subsidized lending rate was reduced by five percentage points.

[10]The estimate assumes that the interest rate on all loans outstanding at end 1997 was increased to the new levels introduced in September 1997. Most livestock and other food product loans are for short durations (typically one year). The estimated cost at end 1997 for subsidized loans is slightly underestimated due to the 15 percent of total lending that is extended for agricultural inputs which are typically for more than one year's maturity.

Table 14: Agricultural Support through Ziraat Bank, 1993-98
(year-end stocks; TL trillions)

	1993	1994	1995	1996	1997	1998 Q1
Balance sheet data (year end stocks; TL trillions)						
Total assets of Ziraat	177	355	694	1,628	3,169	3,482
o/w total to agricultural sector	69	149	385	774	1,757	1,757
Nonsubsidized	19	53	142	508	1,272	1,254
Enterprises	10	29	58	106	255	237
Other public institutions	9	24	84	401	1,017	1,017
1993 cotton support	5	20	81	312	926	926
Other	4	4	2	89	91	91
Subsidized lending	50	96	243	266	485	503
Agricultural credits to farmers	10	17	54	141	210	224
Water Product credits	0	0	1	2	3	3
Credit co-operatives (ACUs)	10	20	48	91	162	159
Sales co-operatives (ASCUs)	29	60	141	33	110	117
Total deposits of Ziraat	109	262	546	1,405	2,554	2,878
Public sector	12	19	38	146	206	307
Central government	6	4	7	62	57	185
Government funds	2	5	7	17	44	53
Municipalities	2	4	7	20	41	32
Other	0	0	0	0	1	1
Central bank	1	1	1	1	2	1
Public deposit banks	1	5	16	46	63	35
SPSF deposits	0	0	5	50	121	121
Mandatory saving scheme	3	6	6	13	29	53
Private deposits	94	238	497	1,196	2,197	2,396
o/w Foreign exchange deposits	39	99	206	466	685	746
Interest rates on credits (percent)						
Agricultural credits to farmers						
Animal Husbandry	43	43	43	43	59	59
Vegetables and grains	50	50	50	50	70	70
Tractors and farm equip.	55	55	55	55	76	76
Average	47	47	47	47	66	66
Water Product credits	43	43	43	43	59	59
Credit co-operatives (ACUs)	34-43	34-43	34-43	43-49	59-70	59-70
Sales co-operatives (ASCUs)	43-70	50-118	50-118	50-118	70-118	70-118
Public institutions	105-118	118-150	118-150	118-182	118-130	118-130
Interest rate paid on deposits (percent)						
Public, SPSF, Mandatory savings	5	5	5	5	5	5
Private (three month deposit)	81	103	114	107	94	94
Key ratios and statistics						
Average interest paid on domestic funds	65	88	100	89	82	78
Average interest earned on dom. funds	47	47	47	47	58	58
Difference between cost and earnings	-19	-41	-53	-42	-25	-20
Implied interest subsidies (TL trillions)						
Subsidy to Ziraat from public funds	11	24	48	162	210	322
Costs to Ziraat on subsized lending 1/	38	94	265	238	335	344
Net loss to Ziraat	-27	-70	-217	-76	-125	-22
Implied interest subsidies (percent of GNP)						
Subsidy to Ziraat from public funds	0.5	0.6	0.6	1.1	0.7	0.7
Costs to Ziraat on subsized lending 1/	1.9	2.4	3.4	1.6	1.1	0.7
Net loss to Ziraat	-1.4	-1.8	-2.8	-0.5	-0.4	0
Lending/Total assets	39.1	41.9	55.4	47.5	55.4	50.5
Subsidized lending/Total assets 1/	28.3	27.0	35.0	14.4	11.8	11.1
Enterprise lending/Total assets	5.8	8.0	8.4	6.5	8.0	6.8
Subsidized lending/Total lending 1/	72.3	64.6	63.2	30.2	21.4	21.9
Enterprise lending/Total lending	14.9	19.2	15.1	13.7	14.5	13.5
Total assets/GNP	8.9	9.1	8.8	10.9	10.7	7.1
Total lending/GNP	3.5	3.8	4.9	5.2	5.9	3.6
Enterprise lending/GNP	0.5	0.7	0.7	0.7	0.9	0.5
Subsidized lending/GNP 1/	2.5	2.5	3.1	1.6	1.3	0.8

Sources: Ziraat Bank; Treasury; and staff calculations

1/ After 1995, excludes lending to and repayments from ASCUs which are covered by budget directly.

15. The government is not legally required to cover the annual loss incurred by Ziraat's subsidized lending to the agricultural sector. Instead, it supports the cost of the program in several ways. First, since subsidized lending decapitalizes Ziraat, the treasury as Ziraat's sole shareholder makes periodic discretionary payments to increase Ziraat's capital base. The most recent payment was in 1997 when the capital base was increased by TL 78 trillion (US$0.4 billion and 0.3 percent of GNP). Second, under the debt consolidation program, Ziraat has been provided nonmarketable securities (i.e., securities that carry below market interest rates) to amortize debts to Ziraat by agricultural public entities. However, since the interest payment on this paper is paid though the issue of further securities this approach does not provide cash resources to Ziraat to offset the (cash) cost of its subsidized lending. Third, the government keeps its own deposits at Ziraat (which is the government's cash treasurer) and has mandated that other public units do the same; these deposits attract a nominal interest rate of just 5 percent, well below the commercial deposit rate. Fourth, unused balances of the mandatory savings scheme are held at Ziraat, which are also paid an interest rate of just 5 percent.[11] Relative to the commercial deposit rate, the low rate paid on these public deposits imply an annual resource transfer to Ziraat of between ½–1 percent of GNP. In recent years, this effective subsidy from the use of public funds deposited at Ziraat has virtually offset the cost to Ziraat of providing subsidized loans to the agricultural sector.

16. Finally, a special arrangement covers the 1993 cotton duty loss. By law, the budget is required to cover the cost of assistance to agricultural areas that are declared disaster areas. In 1993, support from Ziraat under this program totaled TL 4.7 trillion (US$0.3 billion and 0.2 percent of GNP). This amount was not reimbursed at that time by the treasury, and has since attracted an interest rate set by agreement between Ziraat and the treasury at the commercial lending rate plus 20 percent (the 20 percent premium was abolished in 1998). Since 1993, these negotiated interest rates have varied between 120–200 percent, compounded quarterly, and the consequent debt accrued had increased to TL 1,003 trillion by 1997 (US$5.1 billion and 3.7 percent of GNP). This rapidly growing receivable boosts Ziraat's reported financial position, accounting for 29 percent of total assets and 78 percent of its interest income. However, just as for nonmarketable securities, this receivable does not strengthen the financial cash resources of Ziraat. In 1997, the treasury paid part of this debt in the amount of TL 145 trillion (0.5 percent of GNP) to offset a liquidity shortage faced by Ziraat in mid 1997.[12] [13]

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[11]Employers are required to provide 3 percent of payroll and employees 2 percent of payroll to a savings scheme, which is periodically used by the treasury to fund its operations.

[12]On June 16, 1997, Ziraat was unable to meet interbank obligations of TL 164 trillion. This situation has been alleviated following the cash infusion from the budget during the second half of 1997, including a sharp increase in public deposits held at Ziraat.

[13]Ziraat does have some profitable activities. The most lucrative arises from Ziraat's foreign

(continued...)

17. Finally, Ziraat also lends to agricultural enterprises. In recent years, these loans have been around 7–8 percent of its total assets. These loans, extended at a commercial interest rate, are often in default and hence are only extended by Ziraat under treasury guarantee. In 1997, the only enterprise receiving funds from Ziraat was TMO, which had an outstanding (guaranteed) debt of TL 255 trillion (0.9 percent of GNP). This loan was used by TMO to purchase cereals under the support price program; it is being repaid by the treasury during 1998.

D. Direct Input Subsidies

18. Imported and domestically produced inputs—of which fertilizer is the largest component—are subsidized on an unlimited per unit basis. While in the past this may have stimulated fertilizer use and compensated farmers for the high price of fertilizers which were protected by tariffs, neither of these justifications is still valid.[14] Prior to 1997, the subsidy was an ad valorem amount paid to farmers after their purchase in accordance with the cash position of the treasury. To provide more certainty for farmers, the system has now been changed. Advance payments are made to producers (via Ziraat) three months prior to production, and farmers therefore pay a subsidized price at the point of purchase. To reduce the fiscal cost of the program, the (nominal) subsidy has been frozen at its 1997 level with the consequence that its value has fallen from around 50 percent of the fertilizer price to 30 percent. Nonetheless, reportedly fertilizer usage in early 1998 has increased by 25 percent following the simplification in the subsidy payment system. Since the subsidy is provided in unlimited quantities, assuming fertilizer is used in a fixed quantity per hectare implies that one-third of the value of the subsidy is paid to the largest 5 percent of farms while only one-fifth is paid to the smallest two-thirds of farms.[15] Indeed, the disparity is even larger, since large farms use fertilizer more intensively than smaller (and poorer) farms. Various small subsidy and incentive programs are also available for seeds and plants, pesticides, and for the livestock industry.

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[13](...continued)
exchange activities. In particular, Ziraat receives foreign exchange from domestic and foreign depositors paying an average interest cost of 5.5 percent which Ziraat in part on-lends to other (smaller) domestic banks at a premium of around 7 percentage points. At end-1997, the stock of these loans was US$1.2 billion (8 percent of Ziraat's total assets).

[14]In 1994, the government opened imports of fertilizer up to any firm, eliminated import duties for imports from the EU, and reduced duties to 5–11 percent for imports from other countries.

[15]Two-thirds of the total number of farms are less than 5 hectares in size. Despite this large number, these farms represent just one-fifth of all the land cultivated in Turkey.

E. Overall Cost of Agricultural Support

19. The total level of resources transferred to the agricultural sector from the treasury and from Ziraat has been high (Table 15), equivalent to around 5 percent of GNP (US$8 billion). Since then the annual cost has fallen gradually to its current level of around 2½ percent of GNP (US$4–5 billion). Turning to the composition, the support price scheme currently implies an annual transfer to farmers of around 1 percent of GNP. The cost of the subsidized interest rate scheme, which in the past has cost up to 3.5 percent of GNP in 1995, has since declined to around another 1 percent of GNP. Total support under the input and other incentive schemes has remained at around 0.5 percent of GNP per annum.

20. Not all of these costs have been settled annually by the treasury. In 1994, the treasury contributed around 1½ percent of GNP (second panel in Table 15), with Ziraat generally picking up the balance. Since 1995, the budget has increased its annual contributions to around 3 percent of GNP (US$6 billion), including settlement of some of the past obligations that were paid by Ziraat.[16] As noted earlier, these contributions have taken a variety of forms including cash payments from the budget, equity injections to agricultural enterprises and to Ziraat, cancellation of tax obligations (the largest component, mainly representing TEKEL's excise tax obligations), assumptions of enterprise debts, and implied interest receipts forgone through deposits of public funds with Ziraat at low interest rates.[17]

21. The overall level of support provided producers is higher when the transfer of resources from consumers via the border tariff protection is taken into consideration. An estimate by the OECD put the overall cost of agriculture support in 1996 at almost US$14 billion (7.5 percent of GNP), though a Turkish study[18] revised this estimate to US$9 billion. The cost of tariff protection is disproportionately borne by the poorest 20 percent in Turkey since the share of food in their total consumption is almost 60 percent compared with 35 percent for the richest 20 percent of the population.

22. In addition to its cost, the income support provided to the agricultural sector is poorly targeted. The study by Kasnakoglu and Cakmak indicated that one half the total income transfers from agricultural policies accrued to the higher income areas of Turkey (west and

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[16]Due to the treasury payments to clear some of its debts to Ziraat, total cash payment by the treasury in recent years has exceeded the annual transfer of resources to the agricultural sector.

[17]These amounts do not include the treasury's interest obligations on the 1993 cotton assistance, which recently have been increasing at around 1½ percent of GNP per year.

[18]Kasnakoglu, H., and E.H. Cakmak, *The Fiscal Burden and Distribution of Costs and Benefits of Agricultural Support Policies in Turkey*, mimeo, Department of Economics, Middle East Technical University of Ankara, January 1998.

Table15: Public Assistance to Agricultural Sector, 1994-98
(in percent of GNP)

	1994	1995	1996	1997	1998 Budget
	Net public and Ziraat assistance to agricultural sector				
Support price scheme	1.5	1.1	0.9	1.0	0.9
Support through ASCUs	0.8	0.3	0.2	0.3	0.1
Duty losses by SOEs	0.8	0.8	0.6	0.8	0.8
Subsidized interest rates	2.4	3.5	1.6	1.1	0.7
Assistance via inputs	0.2	0.2	0.4	0.3	0.2
o/w Fertilizer	0.2	0.1	0.3	0.3	0.2
Other incentive programs	0.4	0.3	0.2	0.1	0.1
Total assistance	4.5	5.1	3.0	2.5	2.0
	Payments from budget for agricultural support 1/				
Support price scheme	0.4	2.0	1.2	1.1	1.2
Support through ASCUs	0.0	0.8	0.2	0.3	0.1
Support through the SOEs	0.4	1.3	1.0	0.9	1.0
o/w Taxes forgone 1/	0.4	0.9	0.6	0.6	0.6
Assistance to Ziraat	0.6	0.8	1.1	1.0	0.7
Equity injection	0.0	0.1	0.0	0.3	0.0
Foregone interest 1/	0.6	0.6	1.1	0.7	0.7
Assistance via inputs	0.2	0.2	0.4	0.3	0.2
o/w Fertilizer	0.2	0.1	0.3	0.3	0.2
Other incentive programs	0.0	0.0	0.6	0.6	0.2
Other Ziraat duty losses	0.0	0.0	0.1	0.5	0.1
Programs through SPSF	0.0	0.0	0.5	0.1	0.1
Total payments	1.3	3.0	3.3	3.1	2.2
Memorandum items:					
Unpaid interest due Ziraat on 1993 cotton assistance	0.4	0.8	1.5	1.8	...

Sources: Treasury; Ziraat Bank; and staff calculations

1/ Includes loss of excise tax revenue from TEKEL and implied loss of interest receipts on public deposits held at Ziraat at a low interest rate.

south central regions) while only one fifth accrued to the poorer regions (east and southeast Anatolia). This has the effect of widening the current income disparities among the regions.

F. Reform Proposals

23. The current system of agricultural support is fiscally expensive, complex, economically inefficient, and poorly targeted. In consequence, the World Bank has been working actively with the authorities on reform of the agricultural sector. The most costly aspects to the budget—and hence the areas requiring the most urgent reform—are the price support program and interest subsidy program. The main reform options are noted below.

Reform of the support price mechanism and tariff protection system

- In the short term, lower the support price paid to a level that is closer to world price levels with continual lowering of tariff rates. Alternatively, to ensure a minimum level of income guarantee, replace the system completely by setting a dollar price floor that would protect farmers from abnormally low world prices via a variable levy, which would eliminate the need for the government to make purchases at support prices.

- Over the medium term, prune the list of commodities whose prices are supported and replace the price support system with a targeted income scheme based on a registry of farm assets and income.

Reform of the purchasing agencies

- In the short term, continue to reduce excess labor in the main purchasing agencies through natural redundancy, a hiring freeze, and a funded severance package. Rationalize the purchasing agencies by splitting their support price operations from their commercial activities and privatizing non-core activities.

- In the medium term, corporatize the enterprises so as to increase their autonomy, self-management and self-financing capabilities, including imposing a hard budget constraint on their non-support price activities. Once the support price program is eliminated, privatize the agricultural enterprises since the rationale for public ownership would then have been eliminated.

Reform of the subsidized lending program

- In the short term, raise subsidized lending rates to the commercial deposit rate and allow these rates to vary so that their cost relative to the cost of Ziraat in obtaining funds can be better reflected. Alternatively, replace the interest subsidy with a payment per farm based on past usage by farm of subsidized credits using Ziraat's lending records, capped to ensure the wealthiest farms receive less of a subsidy than they do at present. Abolish all links between the ASCUs and the government, including the right of ASCUs to receive credit at subsidized interest rates.

- In the medium term, continue to raise rates to a level equal to the commercial lending rate and/or phase out the per farm payments over three years. With Ziraat then lending at commercial rates, after the stock of the treasury's debts to Ziraat have been regularized, require Ziraat to pay a commercial interest rate on its holdings of public sector funds, and privatize Ziraat.

Reform of input subsidy programs

- Phase out fertilizer and other input subsidies over three years, by holding the subsidy constant in nominal terms, and gradually reducing its nominal value. Alternatively, as for subsidized interest rates, replace the fertilizer subsidy with a payment per farm based on past usage of fertilizer, capped to ensure the wealthiest farms receive less than they do at present, and phase the program out over three years.

LOCAL GOVERNMENT IN TURKEY[1]

1. Local government in Turkey comprises 80 provinces, 15 large metropolitan municipalities, and 2,827 smaller municipalities. The provinces are administered by the central government, while the municipalities have autonomy in setting their expenditure priorities. Expenditure by the provinces and municipalities is largely financed from their revenue sharing arrangements with the central government; their combined deficit in recent years has been less than ½ percent of GNP per annum.

A. Revenue

2. Local government revenue has steadily increased from 2.4 percent of GNP in 1990 to 3.2 percent in 1997, and it is projected to increase to 3.6 percent of GNP in 1998 (Table 16).

3. Virtually all of this steady increase stems from an increase in the receipts from the revenue sharing arrangements with the central government, which now represent two-thirds of total local government revenue, as the total revenue intake of the public sector has steadily increased. The base for the revenue sharing arrangement is total tax revenue excluding the petroleum consumption tax and rebates on the VAT and income tax; local governments have no influence over the tax base including the tax rates.[2] Of this base, 14.35 percentage points are provided to local government and the balance accrues to the central government. Of the local government's share, 1.7 percentage points are distributed to the provinces and 9.25 percentage points to the non-metropolitan municipalities. The share for the 15 largest metropolitan municipalities is set at 5 percent of the tax revenue collected in the city; at present, this represents 3.4 percentage points of the base described above. These shares can be changed annually at the discretion of the central government; they were changed frequently until 1985, but have remained stable since.

4. Roughly three-fourths of the receipts accruing from the revenue sharing arrangement is provided to the provinces and municipalities, and is distributed on the basis of per capita population. The remaining one-fourth is provided to local extrabudgetary funds. The largest of these funds—receiving 3 percentage points of the tax base—are the 80 provincial institutions which finance local investment activities.

5. Only one-third of total local government revenue is derived from local sources, and most of this revenue is heavily affected by central government policy. Local taxes currently yield only a small share of total revenue (5 percent, compared to 11 percent four years ago). The property tax is the main local tax. Although local governments technically set the value of

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[1]Prepared by David W.H. Orsmond.

[2]Revenue of extrabudgetary funds is not included in this base.

Table 16. Local Government Revenue and Expenditure, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997 Prel.	1998 Proj.
				(In percent of GNP)					
Total revenue	2.4	2.8	2.8	2.8	3.1	3.1	3.1	3.2	3.6
Tax revenue	1.7	1.9	1.8	1.9	2.1	2.1	2.1	2.2	2.6
Revenue-sharing	...	...	...	1.8	1.7	1.9	1.9	2.1	2.4
Local funds	...	...	...	0.4	0.4	0.4	0.5	0.5	0.6
Other	...	...	...	1.4	1.4	1.4	1.5	1.6	1.8
Other own taxes	...	...	...	0.1	0.3	0.2	0.2	0.1	0.2
Nontax revenue	0.7	0.9	0.9	0.9	1.0	1.0	1.0	1.0	1.0
Expenditure and net lending	2.6	3.1	3.5	3.6	3.5	3.3	3.5	3.7	3.7
Current expenditure	1.9	2.0	2.2	2.4	2.4	2.2	2.2	2.4	2.4
Personnel	1.1	1.1	1.3	1.2	0.9	0.8	0.8	0.9	0.9
Transfers	0.3	0.4	0.4	0.6	0.6	0.7	0.7	0.8	0.8
Interest	0.1	0.2	0.2	0.2	0.4	0.3	0.3	0.3	0.3
Other	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.4
Capital expenditure	0.8	1.1	1.3	1.2	1.1	1.1	1.3	1.3	1.3
Fixed investment	0.7	0.9	1.2	1.1	1.0	1.0	1.2	1.2	1.2
Other	0.0	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.1
Surplus (+)/Deficit (-)	-0.2	-0.3	-0.8	-0.7	-0.4	-0.2	-0.4	-0.4	-0.1
Financing	0.2	0.3	0.8	0.7	0.4	0.2	0.4	0.4	0.1
Foreign (net)	0.1	0.1	0.3	0.3	0.2	0.0	0.1	0.1	0.1
Drawings	0.1	0.2	0.4	0.5	0.3	0.2	0.3	0.3	0.4
Amortization	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Domestic (net)	0.1	0.2	0.5	0.4	0.2	0.2	0.3	0.4	0.0
Borrowing	0.1	-0.1	0.2	0.3	0.0	0.2	0.2	0.1	0.1
Change in deposits	0.1	0.2	0.3	0.1	0.3	0.1	0.1	0.2	-0.1
				(In percent of total revenue and total expenditure)					
Total revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Tax revenue	70.3	66.6	65.7	67.4	67.0	67.4	67.3	69.7	72.2
Revenue-sharing	...	...	...	63.2	55.9	60.0	61.7	65.2	66.8
Local funds	...	...	...	13.6	11.5	14.1	14.6	15.7	16.4
Other	...	...	...	49.0	44.3	45.9	47.0	49.3	50.3
Other own taxes	...	...	...	4.2	11.1	7.4	5.6	4.6	5.4
Nontax revenue	29.7	33.4	34.3	32.6	33.0	32.6	32.7	30.3	27.8
Expenditure and net lending	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Current expenditure	70.2	65.5	63.1	66.1	68.3	67.1	63.3	64.3	64.3
Personnel	39.9	36.1	35.5	33.5	26.6	23.8	23.1	24.9	23.8
Transfers	12.4	12.5	12.3	16.5	18.4	21.5	19.9	20.7	22.5
Interest	2.9	5.5	6.1	6.1	12.8	10.4	8.6	7.2	6.7
Other	15.0	11.4	9.2	10.0	10.4	11.4	11.8	11.5	11.3
Capital expenditure	29.8	34.5	36.9	33.9	31.7	32.9	36.7	35.7	35.7
Fixed investment	28.2	30.9	33.4	31.4	27.2	28.9	33.6	33.2	33.1
Other	1.6	3.6	3.5	2.6	4.5	4.0	3.1	2.6	2.6
Memorandum item:									
Annual debts assumed by Treasury									
Millions of US$	...	...	45.4	71.8	179.2	492.8	506.9	890.3	...
Percent of GNP	...	...	0.0	0.0	0.1	0.3	0.3	0.5	...

Sources: Treasury; and staff calculations.

residential lands and buildings, these values have to be based on the value of central government land. At present, the central government revalues its land every four years (the next adjustment is due in 1998). Given the current high inflation rates, this four-year revaluation cycle implies a rapid erosion of local government property tax receipts. In consequence, the current draft tax reform bill before parliament recommends annual revaluation of public land.

6. Nontax revenue is the main form of locally generated revenue. The largest component is derived from the resale to local residents at a premium of utility services that are purchased by the metropolitan government directly from the utility supplier. The central government sets the maximum and minimum amount for the margin built into the resale prices of utility services to households and businesses. As in the case of property taxes, these limits at times have been undermined by inflation. Local nontax receipts also include income from their commercial activities, fines, fees, and user charges, and a small amount of privatization proceeds.

B. Expenditure

7. Total local government expenditure rose from 2.6 percent of GNP in 1990 to 3.5 percent in 1992, and has remained at around this level since that time.

8. The expenditure responsibilities of the 80 provincial governments are the same areas as those for central government (Law 3360). In contrast, the expenditure responsibilities of municipalities are not formally stated (Law 1580), nor are they controlled by the central government by way of centrally legislated "national norms and standards." Hence, at least in principle, local governments have discretion in setting their expenditure priorities and tend to focus on the provision of local transport, investment, and other services. In practice, however, a large share of their expenditure is affected by central government policy.

9. Around one-third of local government expenditure is spent on capital and net lending. Until 1995, all investment projects had to be approved by the central government, which exercised rigid control. Since 1995, central government approval is only needed for local investment projects that are foreign financed.

10. Approximately one-fourth of local expenditure is on personnel; this ratio has been falling over time. There are two types of personnel employed by local government: those whose employment conditions are tied to those of central government civil servants, and those whose employment conditions are set by the local government itself. In 1994, there were 254,000 local government employees, of which the conditions of employment for 95,000 employees were determined by the central civil service. There are no reported wage arrears, though some social security premiums are in arrears.

11. Another one-fourth of local expenditure represents legally required (and centrally determined) transfers to the central budget and to extrabudgetary funds (including the social

security and local natural disaster funds); the cost to local government of these transfers has grown over time. The balance of local spending is for interest payments on their borrowing and for nonwage goods and services expenditure.

C. Financing and monitoring arrangements

12. In practice, as for their revenue and expenditure, many of the sources of financing are subject to central government control which constrains local government deficits. In particular, while local governments can issue their own domestic bonds, the Cabinet of Ministers sets an overall ceiling on public debt borrowing; as a general rule, only the largest municipalities are able to issue their own domestic debt. Other domestic borrowing by local governments is typically undertaken via loans from the banking sector, especially from the provincial banks which themselves borrow funds from other commercial banks. The provincial banks, and hence their operations, however, are controlled by the central government.

13. Local governments may also borrow abroad. However, in general they are not able to borrow abroad without a central government guarantee, except financing for large projects through the metropolitan municipalities (e.g., for the Ankara metro system). No fee is charged by the central government when a guarantee is provided.[3] Due to these guarantees, in recent years the central government has each year assumed a growing share of local foreign debts, rising from 0.1 percent of GNP in 1992 to 0.5 percent by of GNP in 1997 alone (assumed debt over the period 1992–97 totaled US$2.2 billion). Virtually all these debts have arisen from borrowing that was undertaken by the three largest metropolitan areas (Ankara, Istanbul, and Izmir).[4] Amounts that are assumed and then repaid by the central government on the local government's behalf can in principle be deducted from the local government's revenue transfer in the following years.

14. The accounts of local government are subject to audit by the High Auditing Council. The local governments only reporting requirement is to the State Statistical Office, and these reports tend to be 2–3 years out of date. To supplement this information, the State Planning Office undertakes an annual survey of 500 municipalities. The administrative capacity of local governments is weak.

D. Assessment

15. The following areas are critical to successful coordination of local and central government operations:

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[3]For 1998, a limit of US$700 million was set for new public sector foreign borrowing that is guaranteed by the central government.

[4]Some debts taken over by central government were not even issued under guarantee.

(i) *Revenue issues,* including how clearly central and local government assignments are specified and on what basis the revenue is distributed, and whether the revenue and expenditure assignments link responsibility with accountability;

(ii) *Expenditure issues,* including how allocative efficiency is reconciled with national priorities and standards, and whether national standards are enforced without recourse to unfunded mandates; and

(iii) *Borrowing issues,* including whether the arrangements enable adequate control over the deficit of general government for the purposes of macroeconomic management.

Revenue arrangements

16. There are several difficulties with the current revenue arrangements. First, in practice local governments have little flexibility and capability to raise their own revenues, making them financially dependent on the central government. They have no right to impose a surcharge on a central government tax base, and even the valuation of local property—which in other countries is typically under control of local governments—is by and large determined by the central government. These arrangements separate the spending authorities from the corresponding revenue-raising responsibilities and obscure the link for the population between benefits of public expenditure and the taxes and charges needed to finance them. As a consequence, if local government expenditure exceeds the predetermined revenue allocation, there is no flexibility for the additional expenditure to be covered with increased local revenue. This can lead to an impression amongst local governments that if they overspend their allocation they will be bailed out through additional central government transfers or debt assumptions, and there is little effective choice for the central government to do otherwise. Indeed, recent experience suggests this has been the case with local investment expenditure financed by foreign borrowing. In practice, subsequently reducing the transfer in the following year is difficult to enforce for a local government that is cash strapped.

17. Second, although the revenue sharing ratio between the central and local governments has been held constant since 1985, this implies that local governments have been subject to changes in central government revenue arising from fluctuations in the business cycle, with no effective means to smooth their resource flow during these fluctuations.

18. Third, the vertical revenue distribution is in the main dependent on population, and there are in particular few mechanisms to compensate provinces, metropolitan municipalities, and other municipalities for differences in the size of their tax bases or poverty profiles.

19. The main way around these difficulties would be to give local government more discretion over their own finances. The most practical option would be to give them the ability to set the tax rates and levies on their own revenue sources, including for property taxes and the mark up for the sale of bulk billed utility services. An alternative would be to allow local

governments to impose a small surcharge on a national revenue source such as the excise tax on petroleum or the personal income tax.

Expenditure arrangements

20. Expenditure assignments are allocatively efficient when responsibility for each type of expenditure is assigned to the level of government that is closest to the final beneficiaries of these outlays. There is at present no established relationship between the functions and responsibilities of municipalities. Rather, under the current arrangements, the central government maintains a strong role in the provision of national public goods such as defense and foreign affairs, but also in all major expenditure areas such as health, education, and welfare. In consequence, there has been no need to specify national norms and standards to balance allocative efficiency against equity goals.

21. Studies of fiscal relations in other countries suggest that it is desirable for the national government to maintain control over expenditure that is strongly affected by the business cycle and where there is a need to pool risk. It is appropriate for the central government to retain control (as at present) over major welfare payments such as for pensions and child allowances. However, other forms of welfare could be provided at subnational levels so that these programs may be tailored toward the specific needs of the area. In general, effective monitoring and enforcement of any national norms and standards requires that an effective method to share local expenditure data has been established, which monitors the delivery of services, as opposed to just expenditure on these services, according to nationally set social objectives. In this respect, local government information systems could be updated.

Aggregate borrowing and macroeconomic stability

22. Finally, if local governments were provided with more flexibility in their revenue raising capacity, it would be appropriate for the central government to continue to maintain strong control over the borrowing and debt of local government in order to keep adequate control over macroeconomic borrowing aggregates, especially in a period of disinflation.

TURKISH BANKING SYSTEM STRUCTURE AND RISK[1]

A. Introduction

1. The Turkish banking system operates in a difficult environment. Macroeconomic instability—characterized by wide swings in output, chronic inflation, persistent fiscal imbalances, and periodic balance of payments crises—intensifies market and credit risk and complicates bank management. Interest rates have been high and variable, reflecting unstable expectations for inflation. This environment tends to atrophy financial market development and shorten planning horizons, as entrepreneurs finance themselves through own funds and in foreign currencies, while savers prefer extremely short-term and highly liquid investments. Macroeconomic instability has thus prevented the development of long-term securities and limited both the maturity and level of bank lending. Widespread dollarization—about 40 percent of broad money is accounted for by foreign currency deposits—has been another response to unstable domestic conditions.

2. The structure of bank balance sheets and income and their off-balance sheet positions reflects this operating environment. Core banking operations have been displaced by arbitrage activities, much of which revolves around the management and funding of large portfolios of government securities, which have been the highest yielding asset in Turkey in recent years. High inflation has encouraged banks to develop extensive (but not always efficient) branch networks to reduce funding costs through access to unremunerated sight deposits. Private commercial banks also seek to reduce the cost of funds by maintaining a net short foreign exchange position to fund lira assets, especially government securities. Despite the steady depreciation of the lira, wide interest rate spreads have made this strategy profitable, while leaving banks exposed to a sharp depreciation of the lira. Banking sector inefficiency now masked by high inflation and income from arbitrage activities will need to be addressed as economic stability is restored and banks reorient their operations toward traditional activities.

3. Tax and regulatory distortions have spurred the rapid growth of a repo market used by banks to fund large off-balance sheet portfolios of Treasury securities and by retail investors as a highly remunerated and extremely short-term close substitute to bank deposits. The explosive growth of the repo market has worsened the maturity mismatch of banks and increased their off-balance sheet exposures.

4. State banks—whose liquidity, profitability and capitalization are undermined by directed lending at subsidized rates to favored sectors—introduce additional distortions and create an uneven playing field in the banking sector. The large size of state banks contributes to market concentration: three state banks number among the five largest Turkish banks, amplifying the distorting impact of their operations.

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[1]Prepared by David J. Ordoobadi.

5. The Turkish banking system comprises 72 banks, including 59 deposit money banks (DMBs) and 13 investment and development banks.[2] Investment banks, representing about 5 percent of total assets, take no deposits and engage mainly in long-term financing for projects, and trade credits. Three of the thirteen investment banks are state owned. Among the DMBs there are 5 state banks, 35 private banks and 19 foreign banks, including 11 branches of foreign banks. Deposit money banks are typically not permitted to engage in such non-banking financial services as insurance, factoring, leasing, investment banking, and brokerage activities. However, most banks are within a holding company that includes companies engaged in such activities, as well as nonfinancial institutions. The branch network of the banking sector is extensive, especially in the case of the state banks, and the sector employs 154,000. The banking sector is concentrated, with the largest ten banks accounting for 70 percent of total assets.

6. Analysis of the sector is complicated by inadequate, though improving, reporting and accounting standards, and periodic delays in the release of data (especially by the state banks). The prevalence of bank ownership by holding companies further reduces transparency and increases the risk that group lending and other transactions are not undertaken on an arms-length basis. Reporting standards fall short in a number of areas. First, banks need not mark their securities portfolios to market, and many report cost plus accrued earnings, which can overstate reported earnings and capital. Second, lack of inflation accounting obscures the measurement of banking sector profitability. Third, the incomplete consolidation of the operations of foreign subsidiaries creates an opportunity for circumventing prudential regulations, notably on foreign exchange exposure. Fourth, tax liabilities are not accrued uniformly by all banks, despite regulations to the contrary. Fifth, the level of nonperforming loans is probably understated and there are divergent approaches to provisioning. Finally, the accounts of state banks reflect sizeable receivables from the Treasury and the reported level of capitalization and profitability of these banks is more a reflection of administrative decisions than market activities.

B. Structure of Banking Sector Assets and Liabilities

7. **Total banking sector assets** grew by 13.7 percent in 1997 to US$95 billion, or 48.3 percent of GNP (tabulation below). Foreign currency items represented 46 percent of total assets. Loans constituted the largest share of assets (46 percent), followed by securities (13 percent), and cash and deposits with other banks (15 percent). Lending to the private sector is predominantly (80 percent) short-term, as banks seek to reduce their exposure to interest rate risk, and oriented toward short-term export and commercial credits, with an

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[2]This chapter focuses on domestic deposit money banks, although some information is also provided on investment and development banks and foreign banks operating in Turkey. Not considered here are profit sharing institutions that collect deposits, originate loans, and issue credit cards in accordance with Islamic banking rules, or the activities of other financial institutions engaged in selling insurance, leasing, or brokerage activities.

extremely small share of private sector credit extended to either investment activities or consumer lending. As a result, most capital spending by firms is financed through own funds or, in the case of larger firms, foreign borrowing. Loans and the securities portfolio held by banks were a bit tilted toward Turkish lira assets (about 53 percent in each case), while cash and deposits were heavily skewed towards foreign exchange (77 percent). Government securities represented about three fourths of the securities held on bank balance sheets.

Main Banking Sector Assets
(In millions of U.S. dollars)

	1996			1997		
	TL	FX	Total	TL	FX	Total
Cash and deposits with banks	3,704	9,176	12,880	3,386	11,025	14,412
Securities portfolio (net)	6,662	5,905	12,567	6,727	5,738	12,466
Deposit reserves	1,776	2,591	4,367	1,678	2,835	4,512
Loans	18,456	17,467	35,923	22,708	20,441	43,149
Income accruals	4,450	889	5,338	5,745	1,093	6,843
Affiliates and subsidiaries (net)	821	254	1,075	758	391	1,150
Fixed assets	2,513	6	2,519	2,551	11	2,561
Total assets	46,189	37,181	83,370	51,572	43,202	94,774

Source: Treasury

8. About half of **total banking sector liabilities** were in foreign exchange (tabulation below). Deposits represented the largest type of liability (65 percent) followed by issued loans (13 percent) and shareholders' equity and retained earnings (9 percent). About 53 percent of banking sector deposits were in foreign currencies. Liabilities were overwhelmingly short-term (the ratio of short-term sources to other sources was 294 percent), with the average maturity of deposits about three months. High domestic interest rates and a predictable rate of lira depreciation have made it advantageous for banks, and in particular the private DMBs, to maintain an open foreign exchange position. In 1997, foreign currency liabilities exceeded foreign currency assets by about US$4.8 billion (Table 17).

Main Banking Sector Liabilities
(In millions of U.S. dollars)

	1996			1997		
	TL	FX	Total	TL	FX	Total
Deposits	28,207	28,985	57,192	29,244	32,489	61,733
Syndicated loans, borrowed funds and miscellaneous debt	3,215	8,595	11,810	3,009	12,099	15,108
Expense accruals	1,859	402	2,261	2,508	564	3,072
Securities issued	30	893	924	13	1,493	1,506
Reserves	1,129	8	1,137	1,074	10	1,084
Shareholders equity	5,010	19	5,029	5,783	9	5,792
Retained earnings	2,374	22	2,396	2,768	29	2,797
Total liabilities	43,595	39,775	83,370	46,752	48,022	94,774

Source: Treasury

Table 17. Turkey: Selected Indicators of the Consolidated Banking System

(In percent)

	Sep. 1996	Dec. 1996	Mar. 1997	Jun. 1997	Sep. 1997	Dec. 1997
Liquidity ratios						
Short-term assets /other assets	38.97	45.21	39.81	34.28	33.72	40.09
Short-term sources/other sources 1/	290.75	311.49	285.52	256.07	260.45	293.75
Working capital/total assets 2/	-4.07	-2.35	-1.59	-1.47	-2.11	-1.76
FX assets/FX liabilities	92.65	93.48	91.36	89.83	90.31	89.96
Liquid FX Assets/FX Liabilities	24.40	25.52	22.17	19.38	19.99	23.99
Profitability ratios						
Net interest income/total assets	5.49	7.63	3.31	5.32	6.67	7.67
Noninterest income/total assets	10.19	11.24	3.74	6.32	9.26	11.43
Net profit/total assets 3/	1.95	3.90	2.31	2.99	3.30	3.81
Net profit/shareholders equity 4/	25.80	52.29	30.37	35.55	43.18	45.90
Leverage and financial structure ratios						
Debt/(shareholders equity plus profit) 5/	1,180.62	1,022.91	917.20	941.91	1,047.51	1,003.43
(Shareholders equity plus profit)/total assets	7.81	8.91	9.83	9.60	8.71	9.06
Interest expenses/(interest income plus net noninterest income)	88.05	80.55	70.71	77.25	80.97	81.97
FX position/(shareholders equity plus profit)	-45.38	-34.94	-41.56	-50.48	-54.14	-56.12
(Shareholders equity plus profit)/ (assets plus off-balance share obligation)	4.32	5.03	5.24	4.91	4.46	4.73
Off-balance sheet obligations/total assets	80.60	77.01	87.58	95.58	95.48	91.59
Repo obligations/bonds in securities portfolio	140.04	91.51	108.84	130.18	153.60	130.69
Repo obligations/total deposits	24.41	19.28	23.68	24.44	27.16	24.97
Repo obligations/total assets	16.49	13.22	15.56	15.53	17.13	16.27
Operational ratios						
Noninterest income/total income	33.81	32.10	29.63	28.98	30.88	31.39
TL loans/FX loans	95.83	105.66	102.63	103.19	97.64	111.09
TL deposits/FX deposits	92.38	97.31	95.58	97.49	97.43	90.01
FX deposits (excluding bank deposits)/total deposits	47.53	46.40	47.85	46.78	45.69	46.90
Loans/deposits	61.79	62.81	65.77	68.47	68.66	69.90
Loans to public sector/total loans	13.92	15.47	13.27	11.44	11.96	17.33
Consumer loans/total loans	7.06	6.85	7.01	7.73	8.13	9.43
Preferential loans/total loans	22.46	24.56	22.61	20.66	17.91	23.31
Loans granted abroad/total loans	5.59	4.85	4.61	4.89	4.55	4.49
Loans granted to participants	1.66	3.89	2.79	3.18	3.80	2.62
Government securities in trading port/total assets	8.73	9.92	10.26	9.06	8.92	10.49
Ratios related with asset quality/structure of assets						
Loans under follow-up (net)/shareholders' equity	6.99	5.64	4.81	4.42	6.39	7.34
Loans under follow-up (net)/total loans	0.90	0.79	0.75	0.72	0.90	0.98
Loans under follow-up (gross)/ total loans	1.98	2.08	1.96	1.73	1.87	2.08
Loans under follow-up (net)/(total assets plus guarantees)	0.28	0.26	0.25	0.24	0.30	0.34
Loans under follow-up (net)/interest income	6.80	4.46	9.82	5.90	5.86	5.85
Provisions/net interest income	20.01	16.74	37.61	20.45	15.64	12.80
Permanent assets/total assets	20.53	18.69	18.82	19.42	18.80	17.87
Government securities/securities portfolio (net)	70.66	65.81	69.48	73.13	76.60	79.77

1/ Other sources are liabilities with a remaining maturity of at most one year.

2/ Shareholder's equity plus retained earnings minus the sum of loans under follow up, participations, fixed assets, and prepaid taxes.

3/ Before loan loss provisions and taxes.

4/ Before loan loss provisions; after taxes.

5/ Total liabilities minus shareholder's equity and retained earnings.

9. The 35 **private DMBs** constituted the largest segment of the Turkish banking system in 1997, representing 55 percent of total assets. Private DMBs are typically part of larger holding companies encompassing other financial and nonfinancial entities, giving rise both to connected lending and the ability of banks to tap the financial resources of the holding company. Most of Turkey's insurance companies, brokerage firms, and leasing companies are affiliated with banks through such holding companies. Only 14 private DMBs are traded on the Istanbul stock exchange.

10. The **assets of private DMBs** grew by 20 percent in 1997 (tabulation below). About 53 percent of their assets were in foreign exchange. Loans represented the bulk (45 percent) of the assets of these banks, followed by cash and deposits with banks (16 percent), and the securities portfolio heavily weighted toward government securities (15 percent). The open foreign exchange position of private DMBs was larger than that of the system as a whole, with foreign exchange assets representing 86 percent of foreign exchange liabilities (Table 18).

Main Assets of Private Deposit Money Banks
(In millions of U.S. dollars)

	1996			1997		
	TL	FX	Total	TL	FX	Total
Cash and deposits with banks	2,018	5,313	7,331	1,685	6,377	8,063
Securities portfolio (net)	3,489	2,501	5,991	4,109	3,442	7,551
Deposit reserves	740	1,649	2,390	640	1,949	2,589
Loans	7,725	11,394	19,119	9,751	13,668	23,442
Income accruals	3,236	676	3,913	4,228	853	5,081
Affiliates and subsidiaries (net)	643	203	846	624	295	919
Fixed assets	1,442	4	1,446	1,554	9	1,563
Total assets	20,807	22,196	43,003	24,580	27,133	51,713

Source: Treasury

11. The **liabilities of private DMBs** consisted mainly of deposits (68 percent of total liabilities), issued loans (13.2), and shareholders' equity and retained earnings (10 percent) (tabulation below). About 61 percent of private DMBs total liabilities were in foreign exchange, with about two thirds of deposits and 97 percent of issued loans denominated in foreign currencies. The ratio of short-term liabilities to other liabilities was 364 percent (Table 18).

Table 18. Turkey: Selected Indicators of Private Commercial Banks

(In percent)

	Sep. 1996	Dec. 1996	Mar. 1997	Jun. 1997	Sep. 1997	Dec. 1997
Liquidity ratios						
Short-term assets /other assets	42.37	46.24	39.48	35.83	36.07	43.61
Short-term sources/other sources 1/	351.75	372.19	352.62	337.86	349.05	364.24
Working capital/total assets 2/	-2.77	-1.59	-2.12	-1.84	-2.21	-2.39
FX assets/FX liabilities	88.91	89.72	88.05	87.22	87.09	85.70
Liquid FX Assets/FX Liabilities	21.32	22.62	19.26	17.05	18.12	20.89
Profitability ratios						
Net interest income/total assets	7.59	9.39	3.42	6.32	8.65	9.96
Noninterest income/total assets	12.61	16.09	5.10	8.16	11.61	15.04
Net profit/total assets 3/	4.13	5.57	1.98	3.32	4.39	5.08
Net profit/shareholders equity 4/	39.68	62.14	19.16	29.11	44.69	62.58
Leverage and financial structure ratios						
Debt/(shareholders equity plus profit) 5/	807.96	784.20	757.45	752.38	800.17	870.41
(Shareholders equity plus profit)/total assets	11.01	11.31	11.66	11.73	11.11	10.30
Interest expenses/(interest income plus net noninterest income)	73.33	70.16	69.28	70.86	71.64	72.63
FX position/(shareholders equity plus profit)	-57.06	-52.29	-59.41	-62.83	-68.34	-84.94
(Shareholders equity plus profit)/ (assets plus off-balance share obligation)	5.35	5.48	5.28	5.10	4.84	4.83
Off-balance sheet obligations/total assets	105.80	106.38	121.06	130.11	129.49	113.29
Repo obligations/bonds in securities portfolio	151.86	143.13	175.42	167.81	189.58	154.95
Repo obligations/total deposits	27.20	26.44	32.04	30.36	33.93	31.14
Repo obligations/total assets	19.09	18.49	21.68	20.28	22.53	21.23
Operational ratios						
Noninterest income/total income	39.90	41.71	39.29	36.20	37.03	39.08
TL loans/FX loans	64.46	67.80	68.46	73.54	72.55	71.36
TL deposits/FX deposits	54.43	56.64	52.10	53.37	51.11	50.30
FX deposits (excluding bank deposits)/total deposits	58.38	58.12	61.51	60.85	60.11	59.54
Loans/deposits	60.66	63.57	69.17	71.59	70.95	66.44
Loans to public sector/total loans	1.58	1.72	1.81	1.75	2.47	2.66
Consumer loans/total loans	6.45	7.03	7.42	8.00	8.56	10.75
Preferential loans/total loans	0.36	0.59	0.50	0.52	0.51	0.42
Loans granted abroad/total loans	3.51	3.04	2.47	2.36	2.25	2.25
Loans granted to participants	2.58	5.00	4.94	5.41	4.91	4.65
Government securities in trading port/total assets	9.29	9.68	10.88	10.44	10.92	12.86
Ratios related with asset quality/structure of assets						
Loans under follow-up (net)/shareholders' equity	2.77	2.43	2.40	2.21	3.32	4.37
Loans under follow-up (net)/total loans	0.52	0.39	0.42	0.42	0.55	0.60
Loans under follow-up (gross)/ total loans	1.45	1.58	1.48	1.45	1.57	1.93
Loans under follow-up (net)/(total assets plus guarantees)	0.15	0.12	0.14	0.14	0.18	0.19
Loans under follow-up (net)/interest income	2.90	1.86	5.81	3.19	2.97	2.71
Provisions/net interest income	15.63	10.04	26.78	14.87	10.38	9.85
Permanent assets/total assets	15.83	13.82	14.98	15.00	14.79	13.80
Government securities/securities portfolio (net)	68.60	69.49	83.14	81.65	87.03	88.05

1/ Other sources are liabilities with a remaining maturity of at most one year.

2/ Shareholder's equity plus retained earnings minus the sum of loans under follow up, participations, fixed assets, and prepaid taxes.

3/ Before loan loss provisions and taxes.

4/ Before loan loss provisions; after taxes.

5/ Total liabilities minus shareholder's equity and retained earnings.

Main Liabilities of Private Deposit Money Banks
(In millions of U.S. dollars)

	1996			1997		
	TL	FX	Total	TL	FX	Total
Deposits	10,876	19,202	30,078	11,798	23,455	35,254
Syndicated loans, borrowed funds and miscellaneous debt	535	4,555	5,090	566	6,840	7,406
Expense accruals	822	238	1,060	1,056	313	1,369
Securities issued	1	242	243	1	476	477
Reserves	711	3	714	584	6	590
Shareholders equity	3,079	11	3,090	3,192	5	3,197
Retained earnings	1,751	22	1,773	2,103	29	2,132
Total liabilities	18,264	24,739	43,003	20,054	31,659	51,713

Source: Treasury

12. The five **state-owned DMBs** represented 34 percent of banking sector assets in 1997; four of these banks ranked among the ten largest banks in Turkey, three were among the top five. These banks all combine quasi-fiscal activities with commercial banking operations, competing with private banks for deposits, money market funds, and loan origination. Ziraat Bank, the oldest bank in Turkey is the agricultural bank and acts as an agent of the Treasury in paying civil servant salaries and pensions and collecting taxes, and of the central bank. Its extensive branch network—Ziraat accounts for close to one fifth of all bank branches in Turkey—is a consequence of its obligation to maintain a branch in each administrative district in Turkey. The other prominent state DMBs are Halk Bank, established to extend loans to small- and medium-scale enterprises, and Emlak Bank, which extends loans for housing and property development.

13. The **assets of the state DMBs** grew by 2.4 percent in 1997 (Tabulation below). In contrast to the private DMBs, the assets of state DMBs were predominantly (70 percent) denominated in Turkish lira, with 78 percent of their loan portfolio in Turkish lira. Loans represented the largest single asset of the state DMBs (46 percent), followed by cash and deposits with banks (11.5 percent) and the securities portfolio (11 percent) (Tabulation below). Unlike the private DMBs, state DMBs typically maintain net long foreign currency positions. In 1997, foreign exchange assets were about 103 percent of foreign exchange liabilities.

Main Assets of the State Deposit Money Banks
(In millions of U.S. dollars)

	1996			1997		
	TL	FX	Total	TL	FX	Total
Cash and deposits with banks	898	3,037	3,936	597	3,138	3,735
Securities portfolio (net)	2,642	2,611	5,253	1,953	1,628	3,581
Deposit reserves	1,021	783	1,804	1,019	745	1,763
Loans	9,605	2,971	12,577	11,619	3,265	14,884
Income accruals	939	87	1,026	996	147	1,143
Affiliates and subsidiaries (net)	122	52	175	94	95	189
Fixed assets	847	2	849	753	2	755
Total assets	22,182	9,682	31,864	22,738	9,905	32,644

Source: Treasury

14. The asset structure of the state banks is distorted by the large level of **receivables from the Treasury**. Part of the quasi-fiscal losses incurred through directed lending by these banks is recognized as an obligation by the treasury. Losses so recognized are termed "duty losses". Other losses incurred as a result of subsidized lending to favored sectors are not reimbursed by the treasury, however, and contribute (along with a high cost structure) to the low profitability of state banks. The level of the duty loss obligation and the interest it accrues is a contentious issue, whose negotiation routinely delays the finalization of the audited accounts of Ziraat Bank. About one fifth of Ziraat Bank's assets consist of receivables from the Treasury and government securities, most of which has been transferred to Ziraat Bank in partial payment of duty loss obligations. The assets of Halk Bank are even more dominated by receivables from the Treasury and government securities, with these assets representing as much as half of Halk Bank's total assets in 1997 (Table 19).

15. The **liabilities of the state DMBs**, unlike those of private DMBs, were also mainly (71 percent) denominated in Turkish lira. Deposits, which account for three quarters of total state DMBs liabilities, were 68 percent in Turkish lira, a share raised in part by the practice of the Treasury to hold large and virtually unremunerated deposits with Ziraat Bank to increase its liquidity and lower its funding costs. State DMBs are less well capitalized than privately held banks (Tabulation below).

Main Liabilities of State Deposit Money Banks
(In millions of U.S. dollars)

	1996			1997		
	TL	FX	Total	TL	FX	Total
Deposits	16,771	8,388	25,160	16,643	7,737	24,380
Syndicated loans, borrowed funds and miscellaneous debt	1,974	843	2,816	1,715	893	2,609
Expense accruals	954	76	1,031	1,274	109	1,383
Securities issued	29	3	32	12	375	387
Reserves	195	6	201	301	3	304
Shareholders equity	1,271	7	1,279	1,657	4	1,661
Retained earnings	211	0	211	286	0	286
Total liabilities	22,439	9,515	31,864	23,045	9,599	32,644

Source: Treasury

C. Off-Balance Sheet Positions

16. **Banking sector off-balance sheet items** amounted to US$86.8 billion in 1997, or 91 percent of total banking sector assets. About 57 percent of off-balance sheet obligations were in foreign exchange. Guarantees of various types, mainly (73 percent) foreign-trade related, represented the largest off-balance sheet item, followed by forward currency contracts (tabulation below). Repos[3] grew strongly in 1997, with repos net of reverses amounting to US$13.8 billion. Repo obligations represented about one quarter

[3] A discussion of developments in the repo market is provided in Chapter III.

Table 19. Turkey: Selected Indicators of the State-owned Commercial Banks

(In percent)

	Sep. 1996	Dec. 1996	Mar. 1997	Jun. 1997	Sep. 1997	Dec. 1997
Liquidity ratios						
Short-term assets /other assets	31.65	41.82	37.29	26.20	24.61	29.53
Short-term sources/other sources 1/	351.06	375.03	292.44	223.42	223.58	296.17
Working capital/total assets 2/	-8.87	-5.40	-2.79	-3.08	-4.33	-3.37
FX assets/FX liabilities	102.57	101.76	100.88	99.64	101.38	103.19
Liquid FX Assets/FX Liabilities	40.29	37.94	35.66	30.54	29.88	37.22
Profitability ratios						
Net interest income/total assets	1.94	4.86	3.15	3.74	3.33	3.44
Noninterest income/total assets	6.62	4.88	1.74	3.46	5.31	5.49
Net profit/total assets 3/	-2.24	1.16	2.81	2.51	1.49	1.52
Net profit/shareholders equity 4/	-264.37	25.52	68.86	58.99	33.61	17.95
Leverage and financial structure ratios						
Debt/(shareholders equity plus profit) 5/	6,365.46	2,039.09	1,413.54	1,605.77	2,216.23	1,577.26
(Shareholders equity plus profit)/total assets	1.55	4.67	6.61	5.86	4.32	5.96
Interest expenses/(interest income plus net noninterest income)	111.77	95.13	73.52	85.35	93.24	94.53
FX position/(shareholders equity plus profit)	51.77	11.22	3.80	-1.78	9.14	15.74
(Shareholders equity plus profit)/ (assets plus off-balance share obligation)	1.09	3.56	5.00	4.20	3.15	4.32
Off-balance sheet obligations/total assets	41.63	31.49	32.03	39.56	37.25	38.01
Repo obligations/bonds in securities portfolio	162.76	49.84	48.80	97.56	115.51	98.38
Repo obligations/total deposits	19.90	10.31	11.29	16.35	16.08	14.10
Repo obligations/total assets	15.43	8.14	8.41	11.56	11.37	10.53
Operational ratios						
Noninterest income/total income	22.16	15.09	13.74	15.84	18.19	15.62
TL loans/FX loans	267.44	323.25	319.81	294.58	266.77	355.87
TL deposits/FX deposits	197.52	199.94	211.17	234.91	255.73	215.13
FX deposits (excluding bank deposits)/total deposits	32.67	32.00	31.26	28.59	27.27	29.85
Loans/deposits	49.40	49.99	49.21	52.00	51.67	61.05
Loans to public sector/total loans	33.49	36.27	32.08	28.55	29.66	41.30
Consumer loans/total loans	10.53	8.72	8.56	9.92	10.34	10.07
Preferential loans/total loans	62.47	64.71	63.40	59.49	53.13	62.81
Loans granted abroad/total loans	3.76	2.73	2.93	4.27	3.59	3.48
Loans granted to participants	0.78	3.50	0.12	0.18	2.99	0.17
Government securities in trading port/total assets	8.28	10.93	10.38	8.14	6.53	7.78
Ratios related with asset quality/structure of assets						
Loans under follow-up (net)/shareholders' equity	42.79	10.47	9.48	9.86	15.58	13.91
Loans under follow-up (net)/total loans	0.96	1.06	1.01	1.01	1.40	1.55
Loans under follow-up (gross)/ total loans	2.46	2.72	2.69	2.16	2.48	2.47
Loans under follow-up (net)/(total assets plus guarantees)	0.31	0.36	0.32	0.32	0.44	0.60
Loans under follow-up (net)/interest income	18.94	8.64	11.77	9.93	15.41	20.59
Provisions/net interest income	40.88	34.17	52.29	34.87	36.29	24.83
Permanent assets/total assets	30.13	27.64	26.35	28.65	27.93	27.46
Government securities/securities portfolio (net)	86.10	66.30	59.54	67.58	65.10	70.91

1/ Other sources are liabilities with a remaining maturity of at most one year.

2/ Shareholder's equity plus retained earnings minus the sum of loans under follow up, participations, fixed assets, and prepaid taxes.

3/ Before loan loss provisions and taxes.

4/ Before loan loss provisions; after taxes.

5/ Total liabilities minus shareholder's equity and retained earnings.

of deposits and 16 percent of total assets. This off-balance sheet exposure to (mainly government) securities exceeds the securities portfolio recorded on the balance sheet (of US$12.5 billion). Taken together, these holdings represent the bulk of the outstanding domestic government cash debt stock (of US$30.6 billion), highlighting both the heavy reliance of the Treasury on the banking sector to fund its borrowing and the extent to which the business of banking in Turkey revolves around funding portfolios of government securities.

Main Banking Sector Off-Balance Sheet Items
(In millions of U.S. dollars)

	1996			1997		
	TL	FX	Total	TL	FX	Total
Guarantees and Indemnities	7,530	17,372	24,902	8,096	21,464	29,561
Letters of guarantee	6,905	8,852	15,757	7,873	11,452	19,325
Letters of credit	95	6,109	6,204	55	6,678	6,733
Irrevocable commitments	15,713	1,946	17,659	19,274	1,814	21,088
Repos	10,550	475	11,025	15,266	151	15,417
Reverse repos	3,673	265	3,938	1,484	90	1,574
FX and interest rate derivatives	4,682	16,281	20,963	9,657	25,857	35,514
Long FX forwards	2,123	4,857	6,979	4,208	10,628	14,836
Short FX forwards	2,116	4,312	6,428	4,905	8,352	13,257
Swaps	0	5,024	5,024	65	4,751	4,816
Total	28,516	35,690	64,205	37,346	49,453	86,799

Source: Treasury

D. Banking Sector Income and Profitability

17. The after tax **net income of the banking system** declined a little in 1997, notwithstanding an increase of 10.8 percent in net income before taxes, reflecting the impact of stricter enforcement of uniform conventions on tax provisioning. The return on average assets declined from 3.9 percent in 1996 to 2.6 percent in 1997, while the return on average net worth fell from 64 percent to 44 percent.

18. Reflecting the net open foreign exchange exposure of banks and the steady depreciation of the lira, the banking sector typically generates substantial **foreign exchange transaction losses** which are more than offset by net interest income, as the interest rate differential has typically exceeded the rate of lira depreciation. In 1997, for example, the banking sector generated net interest income after provisions of US$7 billion and foreign exchange losses of about US$2 billion (tabulation below).

Summary Income Statement of the Banking Sector
(In millions of U.S. dollars)

	1996	1997	Percent Change
Total interest income (before provisions)	19,823	23,676	19.4
Interest on loans	11,826	14,377	21.6
Interest from securities portfolio	4,858	5,159	6.2
Total interest expense	13,462	16,406	21.9
Interest expense of deposits	12,757	15,332	20.2
Total noninterest income	9,371	10,834	15.6
Securities transactions	1,227	951	-22.5
Foreign exchange transactions	6,542	7,996	22.2
Total noninterest expense	12,482	14,496	16.1
Personnel	1,588	1,794	12.9
Foreign exchange transactions	7,703	9,886	28.3
Net interest income (after provisions)	6,094	6,968	14.3
Net noninterest income	-3,111	-3,662	...
Net foreign exchange income	-1,161	-1,890	...
Net income before tax	2,983	3,306	10.8
Net income after tax	2,363	2,357	-0.2

Source: Treasury.

19. The **net income of private DMBs** accounted for almost three fourths of the after tax net income of the banking system (tabulation below). The average structure of income suggested in the tabulation below and Table 18 masks a wide variation among private DMBs. A number of these banks—accounting for almost one third of total banking sector assets—are heavily reliant on interest income from securities, with such income amounting to well over one third of total interest income. While many of these banks are large, well capitalized and engaged in a wide range of other activities, some are quite small and appear to rely almost uniquely on income from securities transactions.

Summary Income Statement of Private Deposit Money Banks
(In millions of U.S. dollars)

	1996	1997	Percent Change
Total interest income (before provisions)	9,671	12,122	25.4
Interest on loans	5,850	7,403	26.5
Interest from securities portfolio	2,798	3,408	21.8
Total interest expense	5,631	6,971	23.8
Interest expense of deposits	5,140	6,120	19.1
Total noninterest income	6,919	7,775	12.4
Securities transactions	702	522	-25.7
Foreign exchange transactions	5,188	6,020	16.0
Total noninterest expense	8,563	10,300	20.3
Personnel	892	980	9.8
Foreign exchange transactions	6,221	7,650	23.0
Net interest income (after provisions)	3,892	4,948	27.2
Net noninterest income	-1,644	-2,525	...
Net foreign exchange income	-1,033	-1,630	...
Net income before tax	2,247	2,423	7.8
Net income after tax	1,773	1,797	1.4

Source: Treasury.

20. State banks recorded small gains in 1997.The structure of **state bank income** differs sharply from the banking sector as a whole. First, the profit and loss account of these banks

largely reflects administrative decisions, including the recognition of duty losses, the level of interest accruing on receivables from the treasury, and the level of deposits placed by the treasury (at 5 percent interest) with Ziraat, rather than market forces. Second, state banks typically limit their foreign exchange exposure and are generally long foreign currencies, with the result that they have generated a small gain from their foreign exchange transactions in recent years (tabulation below).

Summary Income Statement of State Deposit Money Banks
(In millions of U.S. dollars)

	1996	1997	Percent Change
Total interest income (before provisions)	8,752	9,684	10.7
Interest on loans	5,560	6,446	15.9
Interest from securities portfolio	1,679	1,384	-17.6
Total interest expense	7,202	8,562	18.9
Interest expense of deposits	7,331	8,775	19.7
Total noninterest income	1,556	1,792	15.2
Securities transactions	420	283	-32.6
Foreign exchange transactions	702	1,016	44.7
Total noninterest expense	2,736	2,419	-11.6
Personnel	565	667	18.1
Foreign exchange transactions	676	950	40.5
Net interest income (after provisions)	1,433	1,033	-27.9
Net noninterest income	-1,180	-627	...
Net foreign exchange income	26	66	153.8
Net income before tax	253	407	60.8
Net income after tax	210	209	-0.5

Source: Treasury.

E. Banking Sector Risk

21. The Treasury is the lead banking supervisor, and undertakes onsite **supervision**, through its Board of Sworn Bank Auditors, and offsite supervision, geared to ensuring compliance with existing regulations and evaluating the financial position and risk exposure of banks. The central bank engages in mainly off-site supervision and is responsible for regulating reserve and liquidity requirements. Savings deposits with banks are insured by the Savings Deposit Insurance Fund (SDIF). To restore confidence following the failure of three banks during the 1994 crisis, universal **deposit insurance** was introduced, and the insurance cover for individual depositors remains generally unlimited.[4] Banks meeting the minimum capital adequacy ratio of 8 percent pay premiums equivalent to 0.25 percent of savings deposits, while those whose capital adequacy falls short pay premiums of 0.26 percent. The assets of the SDIF (about US$1.5 billion) are held by the central bank.

[4]Insurance is not extended to accounts of individuals holding more than 10 percent of the shares of the bank concerned, bank management, and the spouses and children such shareholders or bank officials.

22. Banks are required to observe a minimum risk-weighted **capital adequacy** requirement of 8 percent. The banking system as a whole has maintained this ratio at about 12.6 percent since 1995. State DMBs, whose capitalization had lagged the sector as a whole since 1994, achieved a capital adequacy ratio of 12.6 percent in 1997, mainly reflecting the capital injection to Ziraat Bank in late 1997. Private DMBs had a capital adequacy ratio of about 12 percent. There is a wide degree of variation within this average, however, with some banks falling well short of the minimum requirement.

23. In the 1994 crisis, banks that had not anticipated the sharp devaluation of the lira lost heavily, contributing to the collapse of three small banks and, as noted earlier, the introduction of unlimited deposit insurance to forestall a run. A **limit on the net open foreign exchange position** of 50 percent of capital was imposed with effect from April 1996. In a bid to reduce capital inflows—which were particularly heavy in the first half of 1998—and banking sector risk, the authorities announced at end-June that this ceiling would be reduced to 30 percent by end-1998 and to 20 percent by end-September 1999. However, the measurement of the net foreign exchange exposure under the new ceiling is to include 100 percent (rather than the current 50 percent) of foreign exchange indexed assets and liabilities. This redefinition softens the impact of the reduced ceiling since most banks are net long foreign exchange indexed securities. Banks exceeding the ceiling, which many consistently do, must place a penalty deposit with the central bank equivalent to 8 percent of the excess.

24. At end-March 1998, the **net open position foreign currency position of the banking system** was about 40 percent of net worth, within the current ceiling. State banks and development and investment banks each had a positive net foreign exchange position of about 10-11 percent of net worth. However, a number of private DMBs exceeded the 50 percent prudential ceiling. The six largest private DMBs had an average foreign exchange exposure of 55 percent of net worth, while medium sized private DMBs had an exposure of 62 percent. There is some concern that the reported open foreign exchange position is subject to end-of-period window dressing, and might in any case be incomplete.

25. The **maturity mismatch** between bank assets and liabilities is significant, not so much for the difference in the average maturity of bank assets and liabilities per se, but because of the risks emanating from the unstable macroeconomic environment. This mismatch is limited by the very short-term nature of most bank lending. Banks fund assets with average maturities of nine months with liabilities having an average maturity of less than three months. Taking into account off-balance sheet repo transactions widens this mismatch, however.

26. The reported level of **non-performing loans** suggests that Turkish banks manage credit risk well. There are reasons to suspect, however, that reported figures capture only part of the picture. First, accounting standards in Turkey are unevenly applied, making it difficult for banks to judge the creditworthiness of borrowers. Second, many private commercial banks restructure loans in difficulty to avoid having to classify them as non-performing. This practice is said to be even more widespread among the state banks. Loans under follow-up represented

only about 2 percent of total banking sector loans at end-1997 (see Table 1), and 2½ percent of the loans of the state DMBs (see Table 19). As a group, development banks and foreign banks in Turkey each had nonperforming loans of just over 1 percent of total loans (Tables 20 and 21).

27. The **liquidity risk** borne by private sector Turkish banks is mitigated by the stability of banking sector liabilities and the relatively low level and short tenor of lending. Despite their short tenor, the stability of repo market funding is increased by the collateralized nature of this borrowing, a factor that should give lenders comfort in the event of market turbulence. On the asset side, loans carry very short-term maturities. In addition, the securities portfolio held by banks is liquid, at least in the case of the private sector banks, and includes a large share of government securities.

28. In contrast, the **state banks have faced liquidity difficulties**, but these have arisen mainly from their quasi-fiscal operations, the losses from which are compensated with a delay through the issuance of non-cash debt carrying below-market yields and above-average maturities. In the first half of 1997, the chronic cash shortage of the state banks, and of Ziraat Bank in particular, periodically disrupted the money market and bid up the cost of funds to other banks. The recapitalization of Ziraat Bank at end-1997 and the decision of the treasury to increase its deposits with Ziraat eased this liquidity squeeze. State banks enjoy an implicit government guarantee, not least because of their size, that reduces the likelihood that temporary shortages of liquidity would lead to a loss of confidence.

29. The **transition to low inflation** will necessitate a reorientation of banking sector activities toward traditional lending, and increased banking sector efficiency. As macroeconomic stability is established, the high cost structure of the banking system will no longer be masked by high inflation and arbitrage profits. However, disinflation is expected to increase bank intermediation, a process that should benefit banks, provided that they adapt their operations to more traditional banking in good time.

Table 20. Turkey: Selected Indicators of Development and Investment Banks

(In percent)

	Sep. 1996	Dec. 1996	Mar. 1997	Jun. 1997	Sep. 1997	Dec. 1997
Liquidity ratios						
Short-term assets /other assets	17.42	16.80	13.96	21.21	18.40	19.64
Short-term sources/other sources 1/	45.66	42.10	62.04	66.90	66.92	60.50
Working capital/total assets 2/	6.04	5.88	6.16	6.80	6.57	9.20
FX assets/FX liabilities	97.98	99.74	101.47	99.43	100.40	103.45
Liquid FX Assets/FX Liabilities	7.21	7.33	7.24	9.05	6.24	10.67
Profitability ratios						
Net interest income/total assets	6.15	7.50	2.35	4.25	5.38	6.74
Noninterest income/total assets	8.63	11.46	3.98	7.57	8.99	11.77
Net profit/total assets 3/	4.97	5.03	1.92	2.83	3.64	4.32
Net profit/shareholders equity 4/	65.28	46.80	21.35	32.75	45.36	25.78
Leverage and financial structure ratios						
Debt/(shareholders equity plus profit) 5/	711.56	745.60	729.76	731.26	742.01	560.30
(Shareholders equity plus profit)/total assets	12.32	11.83	12.05	12.03	11.88	15.14
Interest expenses/(interest income plus net noninterest income)	48.55	53.00	47.36	54.90	58.16	57.53
FX position/(shareholders equity plus profit)	-10.97	-1.44	8.10	-3.13	2.27	14.50
(Shareholders equity plus profit)/(assets plus off-balance share obligation)	8.38	8.28	8.34	8.09	8.43	10.25
Off-balance sheet obligations/total assets	47.01	42.80	44.51	48.65	40.94	47.77
Repo obligations/debt section in securities portfolio	51.10	61.71	103.19	72.57	99.61	69.55
Repo obligations/total assets	2.24	2.22	2.53	1.94	2.58	2.29
Operational ratios						
Noninterest income/total income	44.32	46.51	49.41	49.58	46.28	48.31
TL loans/FX loans	33.15	33.46	32.41	30.57	28.67	32.55
Loans to public sector/total loans	16.42	17.86	17.74	14.83	14.55	16.51
Consumer loans/total loans	0.00	0.00	0.00	0.00	0.00	0.00
Preferential loans/total loans	11.71	15.71	15.94	17.65	15.38	15.26
Loans granted abroad/total loans	22.62	22.45	23.22	24.34	22.87	23.45
Loans granted to participants	0.14	0.11	0.11	0.43	0.55	0.53
Government securities in trading port/total assets	2.96	2.54	1.98	2.27	2.23	2.73
Ratios related with asset quality/structure of assets						
Loans under follow-up (net)/shareholders' equity	24.33	18.54	15.59	13.76	15.34	7.89
Loans under follow-up (net)/total loans	2.61	2.03	1.86	1.71	1.68	1.33
Loans under follow-up (gross)/ total loans	3.00	2.45	2.26	2.10	2.00	1.79
Loans under follow-up (net)/(total assets plus guarantees)	1.45	1.26	1.16	1.00	1.08	0.85
Loans under follow-up (net)/interest income	28.59	19.16	57.80	27.15	21.81	13.67
Provisions/net interest income	39.50	30.54	91.29	41.65	40.45	37.61
Permanent assets/total assets	11.07	9.57	9.11	8.33	8.20	8.52
Government securities/securities portfolio (net)	66.66	69.16	73.72	83.03	83.63	80.28

1/ Other sources are liabilities with a remaining maturity of at most one year.
2/ Shareholder's equity plus retained earnings minus the sum of loans under follow up, participations, fixed assets, and prepaid taxes.
3/ Before loan loss provisions and taxes.
4/ Before loan loss provisions; after taxes.
5/ Total liabilities minus shareholder's equity and retained earnings.

Table 21. Turkey: Selected Indicators of Foreign Banks

(In percent)

	Sep. 1996	Dec. 1996	Mar. 1997	Jun. 1997	Sep. 1997	Dec. 1997
Liquidity ratios						
Short-term assets /other assets	164.94	170.64	164.13	152.15	142.32	151.93
Short-term sources/other sources 1/	229.94	287.23	242.52	281.46	200.17	253.22
Working capital/total assets 2/	5.41	4.10	5.16	5.23	5.07	3.98
FX assets/FX liabilities	82.87	90.36	75.91	71.53	76.01	79.32
Liquid FX Assets/FX Liabilities	19.37	31.36	19.88	15.53	21.64	27.87
Profitability ratios						
Net interest income/total assets	9.20	11.35	4.60	7.92	10.97	12.65
Noninterest income/total assets	13.58	9.68	5.06	7.30	13.03	12.93
Net profit/total assets 3/	6.63	6.74	2.19	3.42	4.50	5.16
Net profit/shareholders equity 4/	62.65	73.93	17.67	32.93	53.78	62.78
Leverage and financial structure ratios						
Debt/(shareholders equity plus profit) 5/	557.24	630.28	613.77	685.59	759.66	864.76
(Shareholders equity plus profit)/total assets	15.22	13.69	14.01	12.73	11.63	10.37
Interest expenses/(interest income plus net noninterest income)	55.96	59.52	62.98	63.86	65.36	66.37
FX position/(shareholders equity plus profit)	-70.02	-44.59	-110.30	-147.19	-136.46	-135.35
(Shareholders equity plus profit)/ (assets plus off-balance share obligation)	5.88	4.92	4.13	4.15	3.78	2.89
Off-balance sheet obligations/total assets	158.77	178.21	239.48	206.37	207.72	259.20
Repo obligations/bonds in securities portfolio	47.19	35.82	91.75	53.65	82.58	85.06
Repo obligations/total deposits	28.94	19.48	47.94	23.88	41.62	44.25
Repo obligations/total assets	15.74	11.07	23.73	11.21	17.57	17.10
Operational ratios						
Noninterest income/total income	43.52	31.29	37.82	34.32	40.11	36.16
TL loans/FX loans	61.78	52.85	52.32	54.57	46.79	47.64
TL deposits/FX deposits	34.35	39.86	42.89	43.01	52.90	54.52
FX deposits (excluding bank deposits)/total deposits	57.32	52.27	50.42	44.83	31.26	33.78
Loans/deposits	38.19	36.06	43.90	50.72	58.84	61.90
Loans to public sector/total loans	0.52	0.69	0.60	3.28	4.18	3.53
Consumer loans/total loans	2.90	3.55	3.58	1.14	1.19	3.97
Preferential loans/total loans	0.00	0.00	0.00	0.00	0.00	0.00
Loans granted abroad/total loans	1.09	2.68	3.79	3.96	5.01	4.70
Loans granted to participants	0.00	0.00	0.00	0.08	0.55	0.00
Government securities in trading port/total assets	14.59	14.10	12.55	9.07	12.05	11.85
Ratios related with asset quality/structure of assets						
Loans under follow-up (net)/shareholders' equity	1.74	1.02	0.66	1.33	1.36	1.73
Loans under follow-up (net)/total loans	0.77	0.39	0.35	0.53	0.41	0.46
Loans under follow-up (gross)/ total loans	2.41	2.02	1.62	1.37	1.05	1.11
Loans under follow-up (net)/(total assets plus guarantees)	0.11	0.06	0.05	0.09	0.07	0.08
Loans under follow-up (net)/interest income	1.74	0.70	1.65	1.60	0.94	0.88
Provisions/net interest income	6.22	3.91	8.12	3.54	2.03	2.05
Permanent assets/total assets	10.50	9.96	9.57	8.49	7.31	6.82
Government securities/securities portfolio (net)	43.46	44.19	47.99	42.89	53.57	53.22

1/ Other sources are liabilities with a remaining maturity of at most one year.

2/ Shareholder's equity plus retained earnings minus the sum of loans under follow up, participations, fixed assets, and prepaid taxes.

3/ Before loan loss provisions and taxes.

4/ Before loan loss provisions; after taxes.

5/ Total liabilities minus shareholder's equity and retained earnings.

Table 22. Turkey: Output Developments, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Q1
	(In trillions of Turkish liras; at market current prices)								
GNP	397.2	634.4	1,103.6	1,997.3	3,887.9	7,854.9	14,978.1	29,694.9	8,668.2
Net factor income	4.1	4.3	10.2	15.5	19.5	92.4	206.0	557.3	223.6
GDP	393.1	630.1	1,093.4	1,981.9	3,868.4	7,762.5	14,772.1	29,137.6	8,444.6
Agriculture	68.7	96.1	163.8	305.5	598.2	1,218.2	2,489.8	4,396.1	566.5
Industry	100.3	163.3	280.1	485.7	1,019.8	2,042.4	3,716.5	7,293.2	2,358.1
Services	210.6	348.5	608.7	1,109.4	2,114.6	4,217.8	8,107.2	16,476.8	5,206.7
Import duties	13.4	22.2	40.7	81.2	135.9	284.1	458.6	971.5	313.3
	(In trillions of Turkish liras; constant 1987 market prices)								
GNP	84.6	84.9	90.3	97.7	91.7	99.0	106.1	114.6	24.0
Net factor income	1.0	0.5	0.9	1.1	0.4	1.1	1.3	2.3	0.7
GDP	83.6	84.4	89.4	96.6	91.3	97.9	104.7	112.3	23.3
Agriculture	14.2	14.0	14.7	14.5	14.4	14.6	15.3	15.0	1.0
Industry	22.3	22.9	24.3	26.3	24.8	27.8	29.7	32.8	7.9
Services	43.7	43.8	46.5	50.6	48.8	51.7	55.1	59.2	13.0
Import duties	3.4	3.6	4.0	5.3	3.4	3.8	4.6	5.3	1.4
	(Real percentage change)								
GNP	9.4	0.3	6.4	8.1	-6.1	8.0	7.1	8.0	8.1
GDP	9.3	0.9	6.0	8.0	-5.5	7.2	7.0	7.2	7.2
Agriculture	6.8	-0.9	4.3	-1.3	-0.7	2.0	4.4	-2.0	-4.4
Industry	8.6	2.7	5.9	8.2	-5.7	12.1	7.1	10.4	7.9
Services	8.1	0.4	6.1	8.8	-3.6	6.0	6.6	7.4	7.5
	(Sectoral contribution to real GNP growth)								
Net factor income	0.2	-0.6	0.5	0.2	-0.7	0.8	0.2	0.9	...
Agriculture	1.2	-0.2	0.7	-0.2	-0.1	0.3	0.7	-0.3	...
Industry	2.3	0.7	1.6	2.2	-1.5	3.3	2.0	2.9	...
Services	4.2	0.2	3.2	4.5	-1.9	3.2	3.5	3.9	...
Import duties	1.4	0.2	0.5	1.4	-1.9	0.4	0.8	0.6	...
	(Percentage change)								
Deflators									
GNP	57.6	59.2	63.5	67.4	107.3	87.2	78.0	83.5	85.4
Agriculture	70.6	41.1	63.5	88.9	97.2	99.7	95.8	80.1	87.9
Industry	49.9	58.5	61.9	60.2	122.6	78.7	69.9	77.8	76.9
Services	60.8	64.9	64.6	67.6	97.7	88.3	80.3	89.2	90.5
WPI (average period)	52.3	55.3	62.1	58.4	120.7	88.5	77.9	81.8	84.8
CPI (average period)	60.3	66.0	70.1	66.1	106.2	93.6	82.3	85.7	91.4
Memorandum items:									
GNP (in million US$)	150,758	150,168	158,122	178,715	132,302	170,081	183,994	195,575	38,798
GDP (in million US$)	149,195	149,156	156,656	177,332	131,639	168,080	181,464	191,905	33,456

Source: State Institute of Statistics.

Table 23. Turkey: GNP and its Components, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Q1
	(In trillions of Turkish liras; at market current prices)								
GDP	393.1	630.1	1,093.4	1,981.9	3,868.4	7,762.5	14,772.1	29,137.6	8,444.6
Agriculture	68.7	96.1	163.8	305.5	598.2	1,218.2	2,489.8	4,396.1	566.5
Industry	100.3	163.3	280.1	485.7	1,019.8	2,042.4	3,716.5	7,293.2	2,358.1
Mining and quarrying	6.3	9.8	14.9	21.8	54.1	98.5	183.1	336.9	68
Manufacturing	86.3	139.7	236.6	412.4	853.5	1,751.7	3,123.0	6,218.6	2,044
Elecricity, gas, and water	7.7	13.8	28.6	51.4	112.2	192.2	410.4	737.7	246
Services	210.6	348.5	608.7	1,109.4	2,114.6	4,217.8	8,107.2	16,476.8	5,206.7
Construction	24.7	44.1	74.5	145.8	263.7	426.2	857.8	1,737.4	481
Trade and hotel and restaurant services	74.9	117.4	202.4	368.4	760.9	1,587.7	3,022.3	6,061.5	1,691
Transportation and communication	46.5	74.6	133.3	236.9	514.1	981.1	1,941.6	4,046.6	1,341
Financial services	12.7	26.1	43.5	84.5	115.0	322.6	732.3	1,533.3	699
Ownership of dwelling	13.2	23.2	41.2	68.2	127.9	249.2	442.9	850.2	328
Business and personal services	14.4	23.0	39.6	71.4	142.8	287.0	554.1	1,083.5	313.9
(less) imputed bank service charges	9.8	23.3	41.2	75.7	163.5	270.3	709.2	1,468.7	639.4
Government services	32.5	61.1	111.8	203.9	344.5	619.8	1,238.5	2,579.9	980.4
Import duties	13.4	22.2	40.7	81.2	135.9	284.1	458.6	971.5	313
	(In percent of GDP; at market current prices)								
Agriculture	17.5	15.2	15.0	15.4	15.5	15.7	16.9	15.1	6.7
Industry	25.5	25.9	25.6	24.5	26.4	26.3	25.2	25.0	27.9
Mining and quarrying	1.6	1.5	1.4	1.1	1.4	1.3	1.2	1.2	0.8
Manufacturing	22.0	22.2	21.6	20.8	22.1	22.6	21.1	21.3	24.2
Elecricity, gas, and water	2.0	2.2	2.6	2.6	2.9	2.5	2.8	2.5	2.9
Services	53.6	55.3	55.7	56.0	54.7	54.3	54.9	56.5	61.7
Construction	6.3	7.0	6.8	7.4	6.8	5.5	5.8	6.0	5.7
Trade and hotel and restaurant services	19.1	18.6	18.5	18.6	19.7	20.5	20.5	20.8	20.0
Transportation and communication	11.8	11.8	12.2	12.0	13.3	12.6	13.1	13.9	15.9
Financial services	3.2	4.1	4.0	4.3	3.0	4.2	5.0	5.3	8.3
Ownership of dwelling	3.4	3.7	3.8	3.4	3.3	3.2	3.0	2.9	3.9
Business and personal services	3.7	3.7	3.6	3.6	3.7	3.7	3.8	3.7	3.7
(less) imputed bank service charges	2.5	3.7	3.8	3.8	4.2	3.5	4.8	5.0	7.6
Government services	8.3	9.7	10.2	10.3	8.9	8.0	8.4	8.9	11.6

Source: State Institute of Statistics.

Table 24. Turkey: GDP and its Components, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Q1
	(In trillions of Turkish liras; constant 1987 market prices)								
GDP	83.6	84.4	89.4	96.6	91.3	97.9	104.7	112.3	23.3
Agriculture	14.2	14.0	14.7	14.5	14.4	14.6	15.3	15.0	1.0
Industry	22.3	22.9	24.3	26.3	24.8	27.8	29.7	32.8	7.9
Mining and quarrying	1.5	1.6	1.6	1.5	1.6	1.5	1.6	1.6	0.4
Manufacturing	18.7	19.2	20.3	22.2	20.5	23.3	25.0	27.8	6.6
Elecricity, gas, and water	2.0	2.1	2.4	2.6	2.7	2.9	3.2	3.4	0.9
Services	43.7	43.8	46.5	50.6	48.8	51.7	55.1	59.2	13.0
Construction	5.4	5.5	5.8	6.3	6.1	5.9	6.2	6.5	1.3
Trade and hotel and restaurant services	16.9	16.7	17.9	20.0	18.5	20.6	22.4	24.9	5.1
Transportation and communication	10.1	10.1	10.9	12.1	11.8	12.5	13.5	14.4	3.5
Financial services	2.5	2.5	2.5	2.5	2.4	2.4	2.5	2.6	0.7
Ownership of dwelling	4.6	4.7	4.8	5.0	5.1	5.2	5.4	5.5	1.4
Business and personal services	1.9	1.9	2.1	2.2	2.1	2.3	2.4	2.6	0.5
(less) imputed bank service charges	2.2	2.2	2.1	2.1	2.1	2.1	2.1	2.1	0.5
Government services	4.0	4.1	4.3	4.3	4.4	4.5	4.5	4.5	1.1
Import duties	3.4	3.6	4.0	5.3	3.4	3.8	4.6	5.3	1.4
	(Percentage changes)								
GDP	9.3	0.9	6.0	8.0	-5.5	7.2	7.0	7.2	7.2
Agriculture	6.8	-0.9	4.3	-1.3	-0.7	2.0	4.4	-2.0	-4.4
Industry	8.6	2.7	5.9	8.2	-5.7	12.1	7.1	10.4	7.9
Mining and quarrying	-2.5	4.5	0.3	-6.4	8.0	-6.9	2.3	4.7	0.6
Manufacturing	9.7	2.4	5.8	9.3	-7.6	13.9	7.1	11.4	8.4
Of which: private manufacturing	11.6	1.9	7.6	9.3	-12.1	19.6	9.0	14.7	...
Elecricity, gas, and water	8.6	0.4	6.1	8.8	-3.6	6.0	6.6	7.4	7.7
Services	8.1	0.4	6.1	8.8	-3.6	6.0	6.6	7.4	7.5
Construction	-1.1	1.1	6.2	7.9	-2.0	-4.7	5.8	4.6	4.2
Trade and hotel and restaurant services	12.3	-0.7	6.9	11.6	-7.6	11.5	8.9	11.2	7.9
Transportation and communication	11.9	-0.4	8.1	10.8	-2.0	5.7	7.6	7.2	13.0
Financial services	2.0	0.8	-2.1	-0.4	-1.5	0.3	2.2	3.2	6.1
Ownership of dwelling	2.5	2.4	2.5	2.8	2.8	2.1	2.4	2.3	2.4
Business and personal services	8.1	0.9	5.5	6.9	-4.3	7.3	6.5	6.8	7.3
(less) imputed bank service charges	1.9	0.2	-2.3	-0.6	-1.8	-0.3	0.6	1.7	5.5
Government services	2.9	2.4	3.4	1.8	0.8	2.5	-0.3	0.1	0.7
Import duties	0.0	4.1	11.3	32.8	-35.2	11.5	21.3	14.8	10.1

Source: State Institute of Statistics.

Table 25. Turkey: Production Index of Manufacturing Industry, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 May 1/
	(Weighted by value added at constant prices; percentage change over previous year) 2/								
Food, beverages, and tobacco	6.8	9.2	-3.6	8.1	2.6	5.1	6.9	6.2	-0.4
Textile, clothing, and leather	2.3	-8.6	4.3	-0.7	-4.1	16.0	8.7	6.3	-14.5
Wood	17.4	-6.2	0.6	7.6	-13.3	16.1	5.4	...	...
Paper and printing	15.3	-5.9	9.8	19.2	-11.9	11.1	-4.1	-1.4	15.5
Chemicals, petrochemicals, petroleum products, and rubber	3.4	-0.6	3.2	7.4	-4.4	16.2	2.8	11.4	10.1
Non-metallic mineral products	3.9	4.6	11.7	6.1	-4.3	11.9	5.1	7.6	2.6
Basic metal	16.8	-7.8	6.5	13.7	-4.2	4.4	8.4	9.7	-3.9
Machinery and transport equipment	31.8	12.0	8.1	16.8	-25.7	20.5	17.2	23.5	26.7
Total manufacturing	9.5	1.9	4.1	8.9	-8.3	13.5	7.7	11.7	8.6
Public	5.5	1.6	1.0	2.3	2.6	-1.5	3.2	2.7	...
Private	11.6	1.9	7.6	9.3	-12.1	19.6	9.0	14.7	...

Source: State Institute of Statistics.

1/ 12-month change through May 1998.
2/ Beginning in 1993, changes based on 1992 = 100.

Table 26. Turkey: Production of Major Industrial Commodities, 1993-98

	Thousands of tons	Percentage change over same period of previous year					
	1997	1993	1994	1995	1996	1997	Jan-Feb 1998
Mining							
Hard coal 1/	2,412	-3.8	4.3	-20.8	7.8	-0.5	-8.4
Lignite 1/	52,050	-7.8	6.3	6.4	1.1	-0.9	32.1
Crude oil	3,428	-9.4	-5.3	-4.7	-0.4	-2.0	-2.5
Manufacturing							
Cotton yarn 2/	29	-7.3	-19.8	-7.9	-19.5	12.1	-30.4
Wool yarn 2/	3	45.1	-11.8	-29.8	9.3	-29.4	-67.2
Filtered cigarettes	72	9.5	11.7	-3.3	-6.2	2.4	9.8
Raki and beer (millions of liters)	805	14.1	7.5	11.0	3.2	5.4	-3.8
Newsprint	60	-21.1	16.7	25.2	-46.0	-19.3	985.7
Kraft paper	59	-18.1	7.8	-4.9	-23.6	4.0	108.8
Sulphuric acid	788	17.9	-3.6	-13.7	-1.1	26.4	-6.0
Polyethylene	293	3.9	4.5	6.4	-0.5	-2.3	1.5
PVC and PCC	189	5.9	-1.5	15.4	11.9	-6.6	-5.8
LPG	799	-0.3	3.7	8.0	4.3	76.7	2.9
Naphta	1,639	0.6	1.4	16.4	9.2	1.9	-0.4
Gasoline	3,419	9.1	3.9	6.4	-5.1	1.4	-10.2
Diesel	7,406	10.5	2.0	7.9	-6.2	-1.1	-6.7
Fuel oil	7,185	3.1	-12.8	2.6	-4.8	-3.0	5.2
Bottles and glass articles	740	3.5	0.9	14.9	19.1	22.7	16.8
Crude iron	5,567	-3.4	5.7	-5.2	20.6	5.8	6.4
Steel ingots	13,644	11.4	5.7	5.1	4.6	2.0	4.3
Blistered copper	32	28.2	-9.0	-19.8	24.3	7.1	36.5
Alumina	164	-9.5	9.7	10.7	-7.4	3.2	6.4
Cement	36,035	9.5	-5.8	12.4	6.2	2.3	11.9
Tractors (number)	48,681	44.7	-27.2	57.9	19.2	6.6	35.9
Automobiles (number)	236,419	29.6	-39.3	6.5	-11.7	20.5	24.0
Trucks (number)	43,618	43.4	-62.2	70.6	54.0	47.8	13.0
Buses and minibuses (number)	25,072	11.8	-59.3	41.3	49.8	34.7	67.4
Energy							
Electrical energy (Kwh million)	103,037	10.1	6.1	10.3	10.5	8.0	9.7
Value added in industry (at constant producer prices)		8.2	-5.7	12.1	7.1	10.4	...

Sources: State Institute for Statistics; and State Planning Office, Main Economic Indicators, January 1998.

1/ Pithead production.
2/ Public sector.

Table 27. Turkey: Expenditure on GDP at Current Prices, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Q1
	(In trillions of Turkish liras; current prices)								
GNP	397.2	634.4	1103.6	1997.3	3887.9	7854.9	14978.1	29694.9	8668.2
Net factor income	4.1	4.3	10.2	15.5	19.5	92.4	206.0	557.3	223.6
Net exports of goods and services	-16.8	-17.6	-32.3	-112.4	37.8	-346.2	-878.5	-1674.4	-657.6
Exports of goods and services 1/	52.2	87.2	157.4	271.0	826.4	1544.1	3178.9	7088.4	2258.6
Imports of goods and services	69.0	104.8	189.6	383.4	788.5	1890.2	4057.4	8762.8	2916.2
Gross domestic absorption	409.9	647.7	1125.7	2094.2	3830.6	8108.6	15650.6	30811.9	9102.2
Consumption	312.6	522.8	900.8	1627.4	3156.9	6295.1	11688.7	23590.4	7855.6
Public	43.1	77.9	140.6	258.1	450.6	837.2	1709.2	3535.1	1132.7
Private	269.6	444.9	760.3	1369.3	2706.3	5457.9	9979.4	20055.3	6722.9
Gross domestic investment	95.7	143.2	260.9	547.1	830.9	1977.4	3510.2	7224.6	2073.9
Fixed capital formation	89.9	150.2	258.4	525.5	952.3	1850.2	3692.1	7602.1	2087.9
Public	28.5	48.0	81.3	143.8	221.1	304.4	687.4	1636.3	268.4
Private	61.4	102.2	177.1	381.7	731.3	1545.8	3004.7	5965.8	1819.5
Change in stocks	5.8	-7.0	2.5	21.6	-121.4	127.1	-181.9	-377.5	-14.1
Statistical discrepency	1.6	-18.2	-36.0	-80.3	-157.2	-163.9	451.7	-3.1	-827.2
Gross national savings	84.5	111.6	202.8	369.9	731.0	1559.7	3289.4	6104.5	812.6
	(In percent of GNP)								
Foreign balance 1/	3.2	2.1	2.0	4.9	-1.5	3.2	4.5	3.8	5.0
Gross domestic absorption	103.2	102.1	102.0	104.9	98.5	103.2	104.5	103.8	105.0
Consumption	78.7	82.4	81.6	81.5	81.2	80.1	78.0	79.4	90.6
Public	10.8	12.3	12.7	12.9	11.6	10.7	11.4	11.9	13.1
Private	67.9	70.1	68.9	68.6	69.6	69.5	66.6	67.5	77.6
Gross domestic investment	24.1	22.6	23.6	27.4	21.4	25.2	23.4	24.3	23.9
Fixed capital formation	22.6	23.7	23.4	26.3	24.5	23.6	24.7	25.6	24.1
Public	7.2	7.6	7.4	7.2	5.7	3.9	4.6	5.5	3.1
Private	15.5	16.1	16.0	19.1	18.8	19.7	20.1	20.1	21.0
Change in stocks	1.5	-1.1	0.2	1.1	-3.1	1.6	-1.2	-1.3	-0.2
Statistical discrepency	0.4	-2.9	-3.3	-4.0	-4.0	-2.1	3.0	0.0	-9.5
Gross national savings	21.3	17.6	18.4	18.5	18.8	19.9	22.0	20.6	9.4
Memorandum item:									
External current account (excl. official transfers; BOP data)	-2.5	-1.3	-1.2	-4.0	1.7	-2.0	-3.2	-2.6	-3.3

Source: State Institute of Statistics.

1/ National Income accounts statistics are based on BOP data that are unadjusted for shuttle trade.
In addition, 1/3 of other exports of services is excluded from exports of goods and services based on the premise that these may reflect capital transfers.

Table 28. Turkey: Expenditure on GDP and its Components, at Constant Prices, 1990-98

	1990	1991	1992	1993	1994	1995	1996	1997	1998 Q1
				(In trillions of Turkish liras; constant 1987 prices)					
Gross national product	84.6	84.9	90.3	97.7	91.7	99.0	106.1	114.6	24.0
Net factor income	1.0	0.5	0.9	1.1	0.4	1.1	1.3	2.3	0.7
Gross domestic product	83.6	84.4	89.4	96.6	91.3	97.9	104.7	112.3	23.3
Net exports of goods and services	-3.9	-2.4	-2.7	-8.2	0.0	-4.3	-4.9	-6.8	-1.9
Exports of goods and services	14.1	14.6	16.2	17.5	20.1	21.7	26.5	31.6	7.3
Imports of goods and services	18.0	17.1	18.9	25.7	20.1	26.0	31.4	38.4	9.2
Gross domestic absorption	87.5	86.8	92.1	104.8	91.3	102.2	109.6	119.1	25.2
Consumption	64.1	65.9	68.0	73.9	69.9	73.4	79.7	85.7	19.7
Public	6.3	6.5	6.8	7.3	6.9	7.4	8.0	8.4	1.6
Private	57.8	59.4	61.3	66.5	63.0	66.0	71.6	77.4	18.1
Gross domestic investment	23.2	20.8	23.5	30.7	21.7	28.6	30.1	33.7	6.9
Fixed capital formation	21.7	21.8	23.1	29.2	24.6	26.8	30.6	35.1	7.0
Public	6.9	6.8	7.2	7.7	5.3	4.3	5.4	6.9	0.8
Private	14.8	15.0	15.9	21.5	19.2	22.5	25.2	28.1	6.1
Change in stocks	1.5	-0.9	0.4	1.5	-2.9	1.8	-0.5	-1.4	0.0
Statistical discrepancy	0.2	0.1	0.5	0.2	-0.3	0.2	-0.2	-0.2	-1.3
				(Real percentage change)					
Gross domestic product	9.3	0.9	6.0	8.0	-5.5	7.2	7.0	7.2	7.4
Exports of goods and services	2.6	3.7	11.0	7.7	15.2	8.0	22.0	19.1	14.1
Imports of goods and services	33.0	-5.2	10.9	35.8	-21.9	29.6	20.5	22.4	10.2
Domestic demand	13.4	2.2	4.0	13.1	-8.4	6.1	10.0	9.6	7.4
Consumption	12.6	2.8	3.3	8.6	-5.4	5.0	8.5	7.6	7.2
Public	8.0	3.7	3.6	8.6	-5.5	6.8	8.6	4.1	8.4
Private	13.1	2.7	3.2	8.6	-5.4	4.8	8.5	8.0	7.1
Fixed capital formation	15.9	0.4	6.4	26.4	-16.0	9.1	14.1	14.6	8.0
Public	8.9	-2.2	6.5	7.2	-30.8	-18.8	24.4	28.4	30.0
Private	19.4	1.7	6.3	35.0	-10.7	16.9	12.1	11.7	5.6
				(Contribution to GDP growth)					
Gross domestic absorption	14.6	-0.8	6.3	14.2	-14.0	11.9	7.6	9.1	...
Consumption	9.4	2.1	2.6	6.5	-4.1	3.9	6.4	5.8	...
Public	0.6	0.3	0.3	0.6	-0.4	0.5	0.6	0.3	...
Private	8.8	1.9	2.3	5.9	-3.7	3.3	5.7	5.5	...
Gross domestic investment	5.2	-2.8	3.2	8.0	-9.4	7.6	1.6	3.4	...
Fixed capital formation	3.9	0.1	1.6	6.8	-4.8	2.5	3.9	4.3	...
Public	0.7	-0.2	0.5	0.6	-2.5	-1.1	1.1	1.5	...
Private	3.1	0.3	1.1	6.2	-2.4	3.6	2.8	2.8	...
Change in stocks	1.3	-2.9	1.6	1.2	-4.6	5.1	-2.3	-0.9	...
Net exports of goods and services	-5.4	1.8	-0.3	-6.2	8.6	-4.7	-0.6	-1.9	...
Exports of goods and services	0.5	0.6	1.9	1.4	2.7	1.8	4.9	4.8	...
Imports of goods and services	5.8	-1.1	2.2	7.6	-5.8	6.5	5.5	6.7	...

Source: State Institute of statistics.

Table 29. Turkey: Agricultural Production, Major Crops, 1993-97

	Thousands of tons	Percentage change				
	1997	1993	1994	1995	1996	1997
Cereals						
Wheat	18,650	8.8	-16.7	2.9	2.8	0.8
Barley	8,200	8.7	-6.7	7.1	6.7	2.5
Maize	2,080	12.4	-26.0	2.7	5.3	4.0
Pulses						
Lentils	515	22.5	-17.0	-13.7	28.8	27.9
Chick peas	720	-3.9	-12.2	12.3	0.3	-1.6
Dry beans	235	0.0	-10.0	25.0	2.2	2.2
Industrial crops						
Sugar beet	18,402	3.3	-17.1	-13.7	28.8	27.9
Cotton	789	-4.5	4.9	35.7	-6.0	-1.9
Tobacco	300	-3.0	-42.4	9.4	13.7	29.1
Oil seeds						
Cotton seeds	1,261	-4.5	4.9	35.7	-6.0	-1.9
Sunflower seeds	900	-14.2	-9.2	21.6	-13.3	15.4
Groundnuts	82	4.5	0.0	0.0	14.3	2.5
Fruit and nuts						
Grapes and figs	3,943	7.3	-6.1	3.2	3.6	-1.2
Citrus fruits	1,433	3.8	8.1	-5.1	2.1	-21.3
Hazelnuts	410	-41.3	60.7	-7.1	-2.0	-8.1
Apples	2,550	-1.0	0.7	0.2	4.8	15.9
Value added in agriculture (at constant producer prices)		-1.3	-0.7	2.0	4.4	-2.0

Source: State Institute of Statistics.

Table 30. Turkey: Selected Agricultural Support Prices, 1993-97

	Turkish lira per kg. 1997	1993	1994	1995	1996	1997
		(percentage change in nominal terms)				
Cereals						
Wheat	35,125	53.2	91.6	110.5	197.2	59.0
Barley	25,484	57.3	69.0	98.7	178.7	68.6
Rye	26,788	53.4	81.6	96.5	148.6	99.0
Maize	29,314	60.9	85.9	127.6	149.1	73.8
Industrial crops						
Sugar beet	12,100	56.1	85.7	166.5	73.6	153.4
Tea leaf	52,500	...	71.8	104.9	100.0	110.0
Tobacco	385,621	26.8	62.8	93.7	83.9	103.9
CPI (year-on-year)		66.1	106.3	93.6	82.3	85.7
		(percentage change in real terms)				
Cereals						
Wheat		-7.8	-7.1	8.7	63.0	-14.4
Barley		-5.3	-18.1	2.6	52.9	-9.2
Rye		-7.6	-12.0	1.5	36.4	7.2
Maize		-3.1	-9.9	17.6	36.6	-6.4
Industrial crops						
Sugar beet		-6.0	-10.0	37.7	-4.8	36.5
Tea leaf		...	-16.7	5.8	9.7	13.1
Tobacco		-23.7	-21.1	0.1	0.9	9.8

Source: State Planning Organization.

Table 31. Turkey: Balances of Wheat, Tobacco, Sugar, and Petroleum Products, 1990-97
(Thousands of tons)

	1990	1991	1992	1993	1994	1995	1996	1997
Wheat								
Opening stock	3,056	7,861	8,196	4,992	6,402	3,980	3,055	3,300
Production	18,000	18,900	17,370	18,900	15,750	16,200	16,650	16,785
Net imports	2,219	-2,135	-3,880	-372	-522	1,023	1,974	2,289
Consumption	15,414	16,430	16,694	17,118	17,650	18,155	18,379	18,546
Ending stock	7,861	8,196	4,992	6,402	3,980	3,048	3,300	3,828
Tobacco								
Opening stock	289	389	418	468	571	569	518	419
Production	270	296	241	334	339	188	204	231
Net exports	69	137	79	96	112	136	169	160
Consumption	69	81	71	69	81	70	60	63
Burning of stocks	32	49	41	66	148	33	74	54
Ending stock	389	418	468	571	569	518	419	373
Sugar								
Opening stock	658	1,545	1,770	1,641	1,485	776	706	1,380
Production	1,789	1,888	1,954	2,016	1,547	1,375	1,862	2,371
Net imports	648	-53	-393	-472	-456	405	662	-122
Consumption	1,550	1,610	1,690	1,700	1,800	1,850	1,850	1,900
Ending stock	1,545	1,770	1,641	1,485	776	706	1,380	1,729
Refined Petroleum products								
Opening stock	2,407	3,408	2,641	2,575	2,627	2,459	2,561	2,547
Production 1/	23,779	22,057	23,597	25,661	24,885	27,027	26,416	26,806
Net imports	230	-592	369	1,706	1,162	1,836	3,415	3,288
Consumption	23,008	22,232	24,032	27,315	26,215	28,761	29,845	30,094
Ending stock	3,408	2,641	2,575	2,627	2,459	2,561	2,547	2,547

Source: Data provided by the Turkish authorities.

1/ Most of the refining uses imported crude oil...

Table 32. Turkey: Rate of Capacity Utilization in Manufacturing Industry, 1990-98 1/
(Weighted by production value)

	Total	Public	Private
1990			
1991	74.5	77.4	73.0
1992	76.5	77.7	75.7
1993	79.5	79.1	79.7
1994	73.0	78.3	70.9
1995	78.6	80.5	77.9
1996	78.0	82.0	76.5
1997 2/	79.4	81.5	78.6
1996 2/			
January	79.7	86.3	75.6
February	78.1	85.1	72.7
March	75.2	73.7	76.3
April	76.9	77.9	76.2
May	83.2	86.4	80.9
June	81.5	85.9	78.6
July	80.1	82.1	78.7
August	79.0	82.2	76.8
September	79.4	81.9	77.8
October	81.0	85.6	77.7
November	76.9	82.8	73.0
December	79.9	88.7	74.3
1997 2/			
January	78.4	82.7	75.4
February	77.2	80.7	75.3
March	80.3	84.0	78.0
April	77.6	81.1	75.4
May	82.6	81.7	83.1
June	81.0	82.2	80.3
July	80.8	82.4	79.8
August	82.4	88.5	78.4
September	87.1	91.8	82.0
October	79.8	77.1	81.7
November	84.1	89.8	80.2
December	79.3	82.4	78.1
1998 2/			
January	75.4	80.1	72.2
February	77.7	78.4	77.2
March	80.4	80.8	80.2
April	74.4	74.1	74.6
May	80.6	84.4	78.4
June	74.9	66.4	79.7

Source: Data provided by the Turkish authorities.

1/ Data on capacity utilization are collected from monthly and quarterly surveys. The quarterly series is based on a larger sample, hence it is not directly comparable with the monthly series. The annual figures in this table are averages of the quarterly data.

2/ Provisional.

Table 33. Turkey: Wholesale and Consumer Price Index, 1990-98

	Wholesale price index									Consumer price index		
	General			Agriculture 1/	Mining 2/	Manufacturing			Energy 4/			
	Total	Public	Private	Total	Total	Total	Public	Private 3/	Total	Total	Food 5/	Housing 6/
	(Year-on-year change; in percent)											
1990	52.3	56.7	50.6	70.6		46.8	57.6	42.6	56.5	60.3	...	...
1991	55.3	61.3	52.9	50.8		55.3	58.8	53.8	75.1	66.0	...	...
1992	62.1	65.2	60.8	62.7		59.7	59.4	59.8	93.8	70.1	...	...
1993	58.4	54.5	60.1	62.2		56.6	50.7	59.3	43.1	66.1	...	...
1994	120.7	122.5	119.9	97.8	132.8	129.4	127.4	129.8	102.2	106.2	...	...
1995	88.5	77.0	93.4	118.7	76.6	83.5	83.2	83.9	47.8	93.6	...	...
1996	77.9	81.2	78.0	94.8	88.8	70.9	76.9	69.8	100.2	82.3	72.2	85.4
1997	81.8	85.5	80.7	86.9	76.2	80.6	89.7	77.6	71.8	85.7	92.5	82.2
	(12-month changes; in percent)											
1996												
January	67.0	59.1	70.9	90.2	78.7	60.3	57.1	62.3	59.3	81.5	69.5	87.1
February	65.1	57.2	68.9	85.2	73.7	57.8	51.8	61.1	78.5	79.4	65.3	88.5
March	66.5	65.2	67.9	79.0	71.2	61.3	61.6	62.6	82.6	81.9	71.8	86.4
April	73.1	75.4	73.5	89.0	78.8	66.4	72.0	66.0	93.7	82.4	74.6	85.3
May	77.3	75.9	79.0	98.5	81.4	69.2	71.9	69.8	95.6	84.7	80.3	84.4
June	79.8	76.7	82.4	106.1	89.2	70.4	71.2	71.5	101.7	85.7	77.6	86.8
July	79.8	76.9	82.3	108.3	88.8	70.0	71.2	70.7	102.4	84.3	70.3	88.4
August	81.3	84.5	81.7	107.7	94.0	72.0	80.2	70.0	103.8	85.9	75.3	90.9
September	81.9	89.6	80.5	98.8	96.8	74.9	86.3	71.7	104.1	82.7	70.6	82.1
October	83.8	95.7	80.9	96.0	101.8	77.7	92.3	73.4	110.6	80.5	70.3	81.8
November	85.1	100.8	81.1	90.7	102.2	80.9	96.7	76.1	120.1	79.9	72.9	81.7
December	84.9	101.4	80.5	89.9	93.7	80.6	96.7	75.7	129.9	79.8	68.5	84.6
1997												
January	78.0	88.2	75.1	81.3	91.8	74.6	83.5	71.9	107.3	75.7	69.5	80.0
February	78.6	88.6	75.7	78.5	93.3	77.4	87.6	74.2	89.1	77.7	77.1	78.0
March	77.0	76.0	77.2	84.4	82.7	73.3	73.6	73.2	83.9	77.3	78.1	76.9
April	72.8	63.2	75.7	83.9	72.0	68.2	60.2	71.0	73.9	77.2	82.3	78.8
May	74.6	68.3	76.4	85.9	66.3	70.4	67.9	71.2	72.3	77.5	80.7	79.5
June	75.7	71.6	76.9	86.9	72.9	71.9	72.5	71.7	66.9	78.0	84.1	79.2
July	80.7	87.8	78.6	84.4	73.6	80.6	94.9	75.9	64.7	85.2	93.0	81.4
August	83.4	92.0	80.8	84.4	77.6	84.6	100.4	79.2	62.4	87.8	93.0	83.4
September	85.4	95.0	82.5	85.3	78.7	87.1	103.9	81.4	63.9	89.8	98.8	82.7
October	87.5	93.7	85.6	88.8	71.9	88.9	102.6	84.3	66.8	93.2	105.1	84.0
November	88.4	92.8	87.0	94.5	71.6	87.8	100.8	83.4	70.1	95.8	108.9	87.7
December	91.0	97.5	89.0	96.5	72.6	91.2	108.5	85.4	64.1	99.1	117.3	88.0
1998												
January	92.5	89.0	93.6	111.2	61.9	88.4	98.8	84.9	64.9	101.6	119.6	92.2
February	89.6	81.6	92.0	110.0	55.3	84.3	88.9	82.9	66.7	99.3	112.1	92.8
March	86.0	79.4	87.9	98.7	58.2	82.7	84.9	81.9	68.9	97.2	102.5	94.6
April	83.3	78.3	84.7	90.3	60.2	81.8	82.7	81.4	70.5	93.6	91.5	92.0
May	79.9	72.0	82.1	88.1	61.0	77.3	73.8	78.6	72.4	91.4	87.4	93.9
June	76.7	69.5	78.8	82.8	54.2	75.1	70.9	76.5	74.7	90.6	84.0	94.4

Source: State Institute of Statistics.

1/ Entirely private sector.
2/ Predominantly public.
3/ Private sector manufacturing WPI accounts for 75 percent of the total manufacturing WPI.
4/ Entirely public sector.
5/ Accounts for 31 percent of the CPI.
6/ Accounts for 26 percent of the CPI.

Table 34. Turkey: Labor Market Developments, 1990-97 1/

	1990	1991	1992	1993	1994	1995	1996	1997
				(In percent)				
Participation rate	**56.6**	**55.9**	**55.0**	**53.7**	**53.9**	**53.8**	**53.2**	**50.8**
Urban	47.2	45.6	46.4	45.5	45.5	44.2	43.5	43.1
Male	76.8	75.3	75.3	73.6	73.5	72.0	71.5	70.5
Female	17.0	15.5	17.1	17.0	17.2	16.3	15.4	16.1
Rural	66.9	67.4	64.9	63.4	64.0	65.6	65.4	60.8
Male	83.0	82.3	81.3	79.6	80.9	81.6	81.2	79.5
Female	52.0	53.5	49.4	48.2	48.1	50.4	50.4	42.8
Unemployment rate	**8.0**	**7.9**	**8.1**	**7.7**	**8.1**	**6.9**	**6.0**	**6.4**
Urban	12.0	12.1	11.9	11.6	11.8	10.2	9.2	9.4
Male	9.5	10.1	10.0	9.5	10.0	8.6	8.0	7.6
Female	23.4	22.0	20.5	20.6	19.7	17.6	14.7	16.8
Rural	4.9	4.7	4.9	4.4	5.0	4.2	3.4	3.6
Male	6.0	6.2	6.2	6.2	6.4	5.4	4.4	4.0
Female	3.4	2.4	2.9	1.8	2.6	2.2	1.8	2.8
Underemployment rate	6.3	6.9	7.8	6.9	8.2	6.7	6.3	5.6
Rate of unemployment and underemployment	**14.3**	**14.8**	**15.8**	**14.6**	**16.3**	**13.6**	**12.3**	**12.0**
				(In percent of total employment)				
Agriculture	**47.1**	**47.4**	**43.5**	**44.5**	**44.8**	**46.8**	**44.9**	**41.9**
Industry	**15.2**	**15.7**	**16.8**	**15.8**	**16.4**	**15.3**	**15.9**	**17.2**
Mining	1.1	1.0	0.9	0.8	0.9	0.7	0.8	0.8
Manufacturing industry	13.8	14.4	15.5	14.5	15.0	14.0	14.7	15.9
Electricity, gas, and water	0.4	0.3	0.3	0.5	0.5	0.5	0.4	0.6
Services	**37.7**	**36.8**	**39.7**	**39.7**	**38.8**	**38.0**	**39.2**	**40.9**
Construction	5.2	5.5	5.6	6.2	5.8	5.8	6.0	6.2
Transportation	4.3	4.3	4.6	4.8	4.4	4.1	4.3	4.3
Commerce	11.3	11.5	12.6	12.5	12.4	12.5	12.6	13.7
Financial institutions	2.2	2.3	2.5	2.3	2.4	2.2	2.3	2.5
Other services	14.7	13.3	14.5	14.0	13.8	13.3	13.9	14.3

Source: State Planning Organization.

1/ Based on results of the State Institute of Statistics' Household Labor Force Survey (revised series).

Table 35. Turkey: Labor Market Developments, 1990-97 1/

	1990	1991	1992	1993	1994	1995	1996	1997
				(In thousands)				
Total population	**56,203**	**57,305**	**58,401**	**59,485**	**60,579**	**61,584**	**63,137**	**63,655**
Urban	30,516	31,844	33,098	34,602	36,244	37,854	39,534	41,404
Rural	25,687	25,461	25,303	24,883	24,335	23,730	23,603	22,251
Total population in the 15+ age group	**35,601**	**36,590**	**37,594**	**38,700**	**39,709**	**40,717**	**41,804**	**43,107**
Urban	18,588	19,297	20,095	20,910	21,711	22,477	23,338	24,346
Male	9,366	9,716	10,101	10,514	10,932	11,265	11,689	12094
Female	9,222	9,581	9,994	10,396	10,779	11,212	11,649	12252
Rural	17,013	17,293	17,499	17,790	17,998	18,240	18,466	18,761
Male	8,191	8,364	8,492	8,593	8,752	8,861	9,023	9203
Female	8,822	8,929	9,007	9,197	9,246	9,379	9,443	9558
Civilian labor force	**20,150**	**20,469**	**20,665**	**20,783**	**21,404**	**21,907**	**22,236**	**21,899**
Urban	8,767	8,809	9,315	9,509	9,883	9,942	10,151	10,496
Male	7,195	7,320	7,610	7,741	8,031	8,116	8,356	8,523
Female	1,572	1,489	1,705	1,768	1,852	1,826	1,795	1,973
Rural	11,383	11,660	11,350	11,274	11,521	11,965	12,085	11,403
Male	6,795	6,886	6,900	6,844	7,076	7,235	7,323	7,314
Female	4,588	4,774	4,450	4,430	4,445	4,730	4,762	4,089
Civilian employment	**18,539**	**18,860**	**19,001**	**19,181**	**19,665**	**20,395**	**20,894**	**20,505**
Urban	7,716	7,743	8,207	8,408	8,715	8,927	9,216	9,513
Male	6,512	6,581	6,851	7,005	7,228	7,422	7,684	7,872
Female	1,204	1,162	1,356	1,403	1,487	1,505	1,532	1,641
Rural	10,823	11,117	10,794	10,773	10,950	11,468	11,678	10,992
Male	6,390	6,458	6,472	6,423	6,621	6,841	7,002	7,019
Female	4,433	4,659	4,322	4,350	4,329	4,627	4,676	3,973
Unemployment	**1,611**	**1,609**	**1,664**	**1,602**	**1,739**	**1,512**	**1,342**	**1,394**
Underemployment	**1,271**	**1,415**	**1,609**	**1,439**	**1,755**	**1,474**	**1,401**	**1,237**
Civilian employment by sector:								
Agriculture	**8,731**	**8,948**	**8,263**	**8,539**	**8,807**	**9,538**	**9,379**	**8,584**
Industry	**2,819**	**2,963**	**3,195**	**3,030**	**3,223**	**3,111**	**3,327**	**3,529**
Mining	201	185	177	144	175	148	174	161
Manufacturing industry	2,552	2,714	2,953	2,783	2,948	2,854	3,063	3,254
Electricity, gas, and water	66	64	65	103	100	109	90	114
Services	**6,989**	**6,949**	**7,543**	**7,612**	**7,635**	**7,746**	**8,188**	**8,392**
Construction	966	1,029	1,066	1,183	1,150	1,177	1,264	1,269
Transportation	805	805	866	921	863	840	893	885
Commerce	2,094	2,174	2,385	2,389	2,447	2,555	2,634	2,811
Financial institutions	399	430	474	443	471	458	484	504
Other services	2,725	2,511	2,752	2,676	2,704	2,716	2,913	2,923

Source: State Planning Organization.

1/ Based on results of the State Institute of Statistics' Household Labor Force Survey (revised series).

Table 36. Turkey: Wages and Labor Costs, 1990-97

	1990	1991	1992	1993	1994	1995	1996	1997 Provisional
				(In Turkish liras per day)				
Minimum wage 1/	10,125	19,175	35,700	62,863	101,875	186,750	400,750	822,938
Minimum wage (end-of-Period)	13,800	26,700	48,300	83,250	139,125	282,000	567,000	1,181,250
Private sector 2/								
Base wage	37,411	91,260	161,406	271,530	451,815	750,076	1,410,398	2,665,653
Gross wage	62,805	148,680	260,573	440,775	726,975	1,204,440	2,243,730	4,240,650
Total labor cost	83,115	203,490	341,963	577,635	936,045	1,468,688	2,732,520	5,164,463
Public sector 3/								
Base wage	28,200	70,667	132,300	240,600	490,500	786,533	1,086,833	2,484,158
Gross wage	53,633	133,500	240,567	429,600	839,667	1,279,733	1,770,500	4,347,277
Total labor cost	67,533	164,000	291,233	520,333	1,019,633	1,485,967	2,053,033	5,217,288
Civil servants								
Net salary	23,241	41,357	80,010	135,735	218,550	403,057	782,122	1,692,300
Labor cost	40,980	70,598	128,456	214,625	328,687	602,070	1,207,903	2,542,630
				(Percentage change)				
Minimum wage 1/	81.6	89.4	86.2	76.1	62.1	83.3	114.6	105.3
Private sector 2/								
Gross wage	92.0	136.7	75.3	69.2	64.9	65.7	86.3	89.0
Labor cost	88.0	144.8	68.0	68.9	62.0	56.9	86.1	89.0
Public sector 3/								
Gross wage	95.3	148.9	80.2	78.6	95.5	52.4	38.3	145.5
Labor cost	96.1	142.8	77.6	78.7	96.0	45.7	38.2	154.1
Civil servants								
Net salary	84.4	77.9	93.5	69.6	61.0	84.4	94.0	116.4
Labor cost	96.9	72.3	82.0	67.1	53.1	83.2	100.6	110.5
Consumer price index	60.3	66.0	70.1	66.1	106.3	93.6	82.3	85.7
				(Index: 1989 = 100)				
Real wages 4/								
Minimum wage 1/	113.3	129.2	141.4	150.0	117.8	111.5	131.3	145.2
Private sector gross wage	119.8	170.8	176.0	179.2	143.3	122.6	125.3	127.5
Public sector gross wage	121.8	182.7	193.5	208.1	197.1	155.2	117.8	155.7
Civil servants' net salary	115.0	123.3	140.3	143.2	111.8	106.5	113.4	132.1
				(Percentage changes)				
Real wages 4/								
Minimum wage 1/	13.3	14.1	9.5	6.0	-21.4	-5.3	17.7	10.6
Private sector gross wage	19.8	42.6	3.0	1.8	-20.1	-14.4	2.2	1.8
Public sector gross wage	21.8	49.9	5.9	7.5	-5.3	-21.3	-24.1	32.2
Civil servants' net salary	15.0	7.2	13.7	2.1	-22.0	-4.7	6.4	16.5
Real wages (in U.S. dollars per day)								
Minimum wage 1/	3.88	4.60	5.19	5.72	3.43	4.09	4.95	5.44
Private sector gross wage	24.08	35.64	37.92	40.13	24.50	26.37	27.69	28.04
Public sector gross wage	20.56	32.00	35.00	39.11	28.30	28.02	21.85	28.74
Civil servants' net salary	8.91	9.91	11.64	12.36	7.37	8.82	9.65	11.19
Memorandum item:								
Average TL/US$	2,609	4,172	6,872	10,985	29,670	45,678	81,035	151,239

Source: State Planning Organization.

1/ Average over the calendar year. (The minimum wage set each year is effective from September to the following August.)
2/ Represents only the wages of workers covered by collective labor agreements.
3/ Based on data provided by the Public Sector Employers' Union.
4/ Nominal wages deflated by the consumer price index.

Table 37. Turkey: Wage Contracts in Selected Sectors			
Sector	Duration	Wage Increases	Number of Workers
Basic metals industry	1.9.1996-31.8.1998	1st 6 months: 45% 2nd 6 months: 35% 3rd 6 months: percentage increase in CPI during the previous 6 months 4th 6 months: percentage increase in CPI during the previous 6 months	100,000
Textile	1.9.1996-31.8.1998	1st year: 85% 2nd year: 1st 6 months: 40% 2nd 6 months: 35%	60,000
Paper printing	1.9.1996-31.8.1998	1st year : 75% 2nd year: 78% (if increase in CPI exceeds 78%, half of the exceeded part will be added to 78%)	3,000
Cement	1.1.1996-31.12.1997	1st year: 75% 2nd year: 60%.	5,000
Glass Industry	1.1.1997-31.12.1998	1st 6 months: various increases across wage levels 2nd 6 months: adjustment + percentage increase in CPI during the previous 6 months 3rd 6 months: percentage increase in CPI during the previous 6 months 4th 6 months: percentage increase in CPI during the previous 6 months	7,000
Leather	1.3.1997-28.2.1999	1st year: 154% 2nd year: 70%	3,000
Construction	February-June 1996 - February-June 1998	1st year: 1st 6 months: 25-35% 2nd 6 months: 25-35% 2nd year: 1st 6 months: percentage increase in CPI during the previous 6 months 2nd 6 months: percentage increase in CPI during the previous 6 months	6,000 - 10,000
Chemistry	a) 1.1.1997-31.12.1998	a) 1st year: 75% 2nd year: 70% (If increase in CPI exceeds 70%, half of the exceeded part will be added to 70%)	7,000
	b) 1.1.1997-31.12.1998	1st 6 months: 53% 2nd 6 months: percentage increase in CPI during the previous 6 months 3rd 6 months: 30% (If increase in CPI exceeds 30%, the exceeded part will be added to 30%) 4th 6 months: 30%	

Table 38. Turkey: Balance of Payments, 1992-1998 1/
(In millions of US dollars)

	1992	1993	1994	1995	1996	1997	1998-Q1
Current account	-974	-6,433	2,631	-2,339	-5,380	-4,738	-1,256
Trade balance	-8,190	-14,160	-4,216	-13,212	-19,424	-21,315	-4398
Merchandise exports (FOB)	14,891	15,611	18,390	21,975	23,604	26,782	6,538
Merchandise imports (FOB)	-23,081	-29,771	-22,606	-35,187	-43,028	-48,097	-10,936
Services (net)	3,157	3,959	3,755	6,377	9,597	11,710	1,942
Credit	10,419	11,788	11,691	16,094	20,527	25,133	5,307
Travel	3,639	3,959	4,321	4,957	5,650	7,002	808
Interest	1,012	1,135	890	1,488	1,577	1,900	465
Other	5,768	6,694	6,480	9,649	13,300	16,231	4,034
Debit	-7,262	-7,829	-7,936	-9,717	-10,930	-13,423	-3,365
Travel	-776	-934	-866	-911	-1,265	-1,716	-470
Interest	-3,439	-3,574	-3,923	-4,303	-4,200	-4,588	-1,019
Other	-3,047	-3,321	-3,147	-4,503	-5,465	-7,119	-1,876
Private transfers (net)	3,147	3,035	2,709	3,425	3,892	4,552	1,165
Official transfers (net)	912	733	383	1,071	555	314	35
Capital account	3,648	8,963	-3,854	5,069	9,763	9,264	3,220
Direct investment	779	622	559	772	612	554	83
Portfolio investment (securities, net)	-395	190	1,059	1,338	-761	-140	168
Public sector bonds and loans (net)	1475	1866	-2365	-1190	-698	-105	-1,116
Disbursements	4,070	4,284	1,086	3,034	3,579	3,960	5,600
Repayments	-2,595	-2,418	-3,451	-4,224	-4,277	-4,065	-6,716
Central Bank of Turkey	299	1,166	1,795	1,828	1,398	1,159	191
Deposit money banks (net)	-330	1,270	-4,924	73	4,334	1,677	1,891
Medium- and long-term (net)	51	199	-594	62	886	2,081	-252
Short-term (net)	-345	1,011	-4,348	-91	3,331	-502	2,121
Assets (net)	-2,438	-3,291	2,423	-1,791	1,331	-1,074	1,378
Liabilities (net)	2,093	4,302	-6,771	1,700	2,000	572	743
Other (private sector, net)	1,820	3,849	22	2,248	4,878	6,119	1,003
Medium- and long-term (net)	148	2,107	959	185	1,506	3,487	701
Short-term (trade & FX credits, net)	1,672	1,742	-937	2,063	3,372	2,632	302
Errors and omissions	-1,190	-2,222	1,769	2,275	164	-1,209	1,045
Overall balance	1,484	308	546	5,005	4,547	3,316	-1,256
Change in official reserves (-: increase)	-1,484	-308	-546	-5,005	-4,547	-3,316	1,256

Sources: Data provided by the Turkish authorities; and staff estimates.

1/ Estimates excluding shuttle trade.

Table 39. Turkey: Estimate of the Shuttle Trade and Implications for the Balance of Payments, 1996-97

	1996		1997	
	Official Estimate without Shuttle Trade	Adjusted for CBT Estimate of Shuttle trade	Official Estimate without Shuttle Trade	Adjusted for CBT Estimate of Shuttle trade
Current account	-5,380	-2,433	-4,738	-2,750
Trade balance	-19,424	-10,582	-21,315	-15,466
Exports	23,604	32,446	26,782	32,631
Imports	-43,028	-43,028	-48,097	-48,097
Services	9,597	3,702	11,710	7,850
Capital account	9,763	8,761	9,264	8,588
Long-term capital	2,818	2,818	6,827	6,827
Short-term capital	6,945	5,943	2,437	1,761
Errors and ommissions	164	-1,781	-1,209	-2,522
Overall balance	4,547	4,547	3,317	3,317

Source: Data provided by the Turkish authorities; and staff estimates.

Table 40. Turkey: Foreign Trade, Value, and Volume, 1990-97

	1990	1991	1992	1993	1994	1995	1996	1997 1/
	(In millions of U.S. dollars)							
Exports, f.o.b. 1/	12,959	13,593	14,715	15,345	18,106	21,637	23,224	26,246
Imports, c.i.f. 2/	22,302	21,047	22,871	29,429	23,270	35,709	43,626	48,656
Consumption goods	3,026	2,879	2,971	4,116	2,780	4,415	6,620	7,127
Capital goods	5,787	6,051	6,772	9,565	6,895	10,488	13,257	13,227
Intermediate goods	13,490	12,117	13,128	15,747	13,596	20,807	23,749	28,292
Oil	3,495	2,456	2,632	2,549	2,433	3,017	3,417	3,490
Other	9,996	9,661	10,496	13,197	11,163	17,790	20,332	24,801
	(Percent change from previous year)							
Total exports								
Value	11.5	4.9	8.3	4.3	18.0	19.5	7.3	...
Price 3/	10.3	-0.9	1.3	-2.8	-3.7	13.6	-5.5	...
Volume 4/	5.6	6.7	3.0	6.4	14.8	3.8	2.2	...
Total imports 2/								
Value	41.2	-5.6	8.7	28.7	-20.9	53.5	18.9	...
Price 3/	5.3	-3.1	-1.9	-6.2	0.9	17.2	1.0	...
Volume 4/	14.9	-3.9	1.7	37.0	-21.5	28.3	20.0	...
Oil and oil products imports								
Value	45.2	-20.9	2.3	3.7	-5.3	25.0	22.9	...
Price	33.5	-20.6	-1.6	-14.8	-2.1	7.6	11.7	...
Volume	8.8	-0.4	4.0	21.7	-3.3	16.2	-2.2	...
Non-oil imports 2/								
Value	40.3	-1.9	9.9	33.2	-23.1	58.4	22.1	...
Price	0.5	1.0	-1.8	-4.6	1.4	18.6	0.2	...
Volume	39.6	-2.9	11.9	39.7	-24.2	33.6	32.2	...
Terms of trade	4.7	2.3	3.2	3.6	-4.5	-3.1	-5.3	...

Sources: State Planning Organization and State Institute of Statistics.

1/ Excluding transit trade.
2/ Excluding transit trade and nonmonetary gold.
3/ Price indices are estimated by the State Institute of Statistics.
4/ Volume indices are estimated by the State Institute of Statistics.

Table 41. Turkey: Real Exchange Rate Indices, 1990-97
(Base 1992 = 100)

	Real exchange rate, WPI based 1/	Real exchange rate, WPI based 2/	Real exchange rate, WPI based 3/	Real exchange rate, WPI based 4/	Unit wage cost in private manufacturing in U.S. dollars
1990	106.4	108.8	106.1	106.4	92.6
1991	104.4	106.8	105.1	104.6	113.6
1992	100.0	100.0	100.0	100.0	100.0
1993	99.0	101.7	103.4	103.0	99.4
1994	79.7	81.4	83.0	82.4	64.2
1995	91.9	90.4	92.9	92.6	69.3
1996	91.4	91.7	92.8	92.4	72.3
1997	91.7	95.4	93.8	94.0	67.8

Source: Data provided by the Turkish authorities.

1/ Based on a basket of nominal exchange rates weighted by 0.75 US$ and 0.25 DM and wholesale price indices.
2/ Based on a basket of nominal exchange rates weighted by 1 US$ and 1.5 DM and wholesale price indices.
3/ Based on nominal exchange rates and wholesale price indices weighted by the shares of United States, Germany, Belgium, France, the Netherlands, Switzerland, Italy, United Kingdom, and Japan in Turkey's exports.
4/ Based on nominal exchange rates and wholesale price indices weighted by the shared of United States, Germany, Belgium, France, the Netherlands, Switzerland, Italy, United Kingdom, and Japan in Turkey's imports.

Table 42. Turkey: Commodity Composition of Exports, 1993-97 1/

	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
	In millions of U.S. dollars					Percent of total					Percent change from year earlier				
Agriculture and livestock	2,365	2,457	2,307	2,708	2,947	15.4	13.6	10.7	11.7	11.2	7.3	3.9	-6.1	17.4	8.8
Crops	2,014	2,082	2,085	2,473	2,673	13.1	11.5	9.6	10.6	10.2	0.7	3.4	0.1	18.6	8.1
Hazelnuts	413	436	586	445	622	2.7	2.4	2.7	1.9	2.4	42.0	5.6	34.4	-24.1	39.8
Raisins	134	176	190	207	224	0.9	1.0	0.9	0.9	0.9	4.4	31.3	8.0	8.9	8.2
Tobacco	396	395	245	542	565	2.6	2.2	1.1	2.3	2.2	27.9	-0.3	-38.0	121.2	4.2
Cotton	145	31	6	65	55	0.9	0.2	0.0	0.3	0.2	215.0	-78.6	-80.6	983.3	-15.4
Others	926	1,044	1,058	1,214	1,207	6.0	5.8	4.9	5.2	4.6	-24.4	12.7	1.3	14.7	-0.6
Livestock products	294	245	155	170	195	1.9	1.4	0.7	0.7	0.7	109.0	-16.7	-36.7	9.7	14.7
Fishery products	44	53	54	59	71	0.3	0.3	0.2	0.3	0.3	-11.0	20.5	1.9	9.3	20.3
Forestry	14	16	13	6	8	0.1	0.1	0.1	0.0	0.0	-4.6	14.3	-18.8	-53.8	33.3
Mining and quarry products	239	272	406	389	424	1.6	1.5	1.9	1.7	1.6	-9.8	13.9	49.1	-4.2	9.0
Industrial products	12,741	15,377	18,924	20,127	22,875	83.0	84.9	87.5	86.7	87.2	4.0	20.7	23.1	6.4	13.7
Processed agricultural products	1,369	1,765	2,214	2,118	2,397	8.9	9.7	10.2	9.1	9.1	2.3	28.9	25.4	-4.3	13.2
Textiles	5,421	6,286	8,158	8,528	9,711	35.3	34.7	37.7	36.7	37.0	2.9	16.0	29.8	4.5	13.9
Forestry products	23	41	58	62	66	0.1	0.2	0.3	0.3	0.3	-16.7	78.3	41.5	6.9	6.5
Hides and leather products	552	560	597	434	512	3.6	3.1	2.8	1.9	2.0	-2.7	1.4	6.6	-27.3	18.0
Chemicals	468	576	712	823	953	3.0	3.2	3.3	3.5	3.6	-4.8	23.1	23.6	15.6	15.8
Rubber and plastic	385	450	555	611	718	2.5	2.5	2.6	2.6	2.7	1.4	16.9	23.3	10.1	17.5
Petroleum products	172	235	277	274	189	1.1	1.3	1.3	1.2	0.7	-25.7	36.6	17.9	-1.1	-31.0
Cement	90	145	141	135	171	0.6	0.8	0.7	0.6	0.7	-35.0	61.1	-2.8	-4.3	26.7
Glass and ceramics	380	431	544	621	736	2.5	2.4	2.5	2.7	2.8	-3.8	13.4	26.2	14.2	18.5
Nonferrous metal	173	215	344	384	452	1.1	1.2	1.6	1.7	1.7	5.1	24.3	60.0	11.6	17.7
Iron and steel	2,011	2,369	2,257	2,256	2,599	13.1	13.1	10.4	9.7	9.9	29.1	17.8	-4.7	0.0	15.2
Metal prod. & machinery	393	591	764	884	1,064	2.6	3.3	3.5	3.8	4.1	4.3	50.4	29.3	15.7	20.4
Electrical appliances	566	682	914	1,328	1,449	3.7	3.8	4.2	5.7	5.5	-4.3	20.5	34.0	45.3	9.1
Motor vehicles	380	503	816	991	1,022	2.5	2.8	3.8	4.3	3.9	-0.4	32.4	62.2	21.4	3.1
Other	358	528	573	678	836	2.3	2.9	2.6	2.9	3.2	13.6	47.4	8.6	18.3	23.3
Total exports	15,345	18,106	21,637	23,224	26,246	100.0	100.0	100.0	100.0	100.0	4.3	18.0	19.5	7.3	13.0

Source: Data provided by the Turkish authorities.

1/ Exports f.o.b., excluding transit trade.

Table 43. Turkey: Geographical Distribution of Exports, 1994-97
(In millions of U.S. dollars)

					Percentage of total				Percentage change from a year earlier		
	1994	1995	1996	1997	1994	1995	1996	1997	1995	1996	1997
OECD countries	10,758	13,213	14,427	15,546	59.4	61.1	62.1	59.2	22.8	9.2	7.8
EC countries	8,635	11,071	11,549	12,236	47.7	51.2	49.7	46.6	28.2	4.3	5.9
France	851	1,033	1,053	1,163	4.7	4.8	4.5	4.4	21.4	1.9	10.4
Germany	3,934	5,034	5,187	5,253	21.7	23.3	22.3	20.0	28.0	3.0	1.3
Italy	1,034	1,456	1,446	1,388	5.7	6.7	6.2	5.3	40.8	-0.7	-4.0
United kingdom	889	1,135	1,261	1,505	4.9	5.2	5.4	5.7	27.7	11.1	19.3
Others	1,927	2,413	2,602	2,927	10.6	11.2	11.2	11.2	25.2	7.8	12.5
Other OECD countries	2,123	2,142	2,878	3,310	11.7	9.9	12.4	12.6	0.9	34.4	15.0
Switzerland	239	238	276	318	1.3	1.1	1.2	1.2	-0.4	16.0	15.2
United states	1,520	1,516	1,639	2,120	8.4	7.0	7.1	8.1	-0.3	8.1	29.3
Others	364	388	963	872	2.0	1.8	4.1	3.3	6.6	148.2	-9.4
Eastern Europe and FSU	2,305	3,353	3,329	4,322	12.7	15.5	14.3	16.5	45.5	-0.7	29.8
Middle East and North African countries	3,052	3,265	2,992	3,246	16.9	15.1	12.9	12.4	7.0	-8.4	8.5
Egypt	195	245	316	304	1.1	1.1	1.4	1.2	25.6	29.0	-3.8
Islamic Rep of Iran	250	266	298	307	1.4	1.2	1.3	1.2	6.4	12.0	3.0
Iraq	141	119	-		0.8	0.5	-	-	-15.6	-	-
Kuwait	128	119	107	126	0.7	0.5	0.5	0.5	-7.0	-10.1	17.8
Libya	179	238	244	187	1.0	1.1	1.1	0.7	33.0	2.5	-23.4
Saudi Arabia	609	467	431	534	3.4	2.2	1.9	2.0	-23.3	-7.7	23.9
Other MENA	1,550	1,811	1,596	1,788	8.6	8.4	6.9	6.8	16.8	-11.9	12.0
Other countries	1,991	1,806	2,476	3,132	11.0	8.3	10.7	11.9	-9.3	37.1	26.5
Total exports	18,106	21,637	23,224	26,246	100	100	100	100	19.5	7.3	13.0

Source: Data provided by the Turkish authorities.

Table 44. Turkey: Commodity Composition of Imports, 1993-97 1/

	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997	1993	1994	1995	1996	1997
	In millions of U.S. dollars					Percent of total					Percent change from year earlier				
Agriculture and livestock	1,664	1,209	2,444	2,955	3,171	5.7	5.2	6.8	6.8	6.5	41.2	-27.3	102.2	20.9	7.3
Mining and quarry product	2,741	2,969	3,478	4,298	4,138	9.3	12.8	9.7	9.9	8.5	-0.4	8.3	17.1	23.6	-3.7
Crude oil	2,250	2,432	2,919	3,417	3,194	7.6	10.5	8.2	7.8	6.6	-3.1	8.1	20.0	17.1	-6.5
Others	491	537	559	881	944	1.7	2.3	1.6	2.0	1.9	16.1	9.4	4.1	57.6	7.2
Industrial products	25,024	19,092	29,787	36,373	41,347	85.0	82.0	83.4	83.4	85.0	32.7	-23.7	56.0	22.1	13.7
Processed agricultural products	1,280	1,029	1,805	1,367	1,211	4.3	4.4	5.1	3.1	2.5	12.4	-19.6	75.4	-24.3	-11.4
Textiles	1,053	1,136	1,848	2,535	2,825	3.6	4.9	5.2	5.8	5.8	44.2	7.9	62.7	37.2	11.4
Forestry products	40	29	47	89	87	0.1	0.1	0.1	0.2	0.2	53.6	-27.5	62.1	89.4	-2.2
Hides and leather products	179	186	245	315	321	0.6	0.8	0.7	0.7	0.7	35.3	3.9	31.7	28.6	1.9
Chemicals	2,981	2,647	4,288	4,546	4,992	10.1	11.4	12.0	10.4	10.3	13.6	-11.2	62.0	6.0	9.8
Petroleum products	1,075	974	1,374	1,871	2,319	3.7	4.2	3.8	4.3	4.8	24.3	-9.4	41.1	36.2	23.9
Rubber and plastic	1,156	1,003	1,780	2,157	2,413	3.9	4.3	5.0	4.9	5.0	18	-13.2	77.5	21.2	11.9
Cement	18	12	13	7	14	0.1	0.1	0.0	0.0	0.0	-3.3	-33.3	8.3	-46.2	100.0
Glass and ceramics	217	179	300	404	377	0.7	0.8	0.8	0.9	0.8	10.5	-17.5	67.6	34.7	-6.7
Nonferrous metals	470	443	823	943	1,114	1.6	1.9	2.3	2.2	2.3	10.5	-5.7	85.8	14.6	18.1
Iron and steel	3,089	2,401	3,534	3,406	3,723	10.5	10.3	9.9	7.8	7.7	45.9	-22.3	47.2	-3.6	9.3
Metal products and machinery	5,390	3,724	5,654	8,763	9,445	18.3	16.0	15.8	20.1	19.4	28.6	-30.9	51.8	55.0	7.8
Electrical appliances	2,012	1,767	2,138	2,966	3,849	6.8	7.6	6.0	6.8	7.9	15.2	-12.2	21.0	38.7	29.8
Motor vehicles	4,046	2,162	3,635	4,394	5,701	13.7	9.3	10.2	10.1	11.7	80.7	-46.6	68.1	20.9	29.7
Others	2,018	1,400	2,303	2,610	2,956	6.9	6.0	6.4	6.0	6.1	40	-30.6	64.5	13.3	13.3
Total imports	29,429	23,270	35,709	43,626	48,656	100.0	100.0	100.0	100.0	100.0	28.7	-20.9	53.5	22.2	11.5

Source: Data provided by the Turkish authorities.

1/ Imports c.i.f., excluding nonmonetary gold and transit trade.

Table 45. Turkey: Geographical Distribution of Imports, 1994-97
(In millions of U.S. dollars)

					Percentage of total				Percentage change from a year earlier		
	1994	1995	1996	1997	1994	1995	1996	1997	1995	1996	1997
OECD countries	15331	23695	31092	34779	65.9	66.2	71.3	71.5	54.6	31.2	11.9
EC countries	10915	16861	23138	24834	46.9	47.1	53.0	51.0	54.5	37.2	7.3
France	1458	1996	2771	2964	6.3	5.6	6.4	6.1	36.9	38.8	7.0
Germany	3646	5548	7814	8010	15.7	15.5	17.9	16.5	52.2	40.8	2.5
Italy	2009	3193	4286	4456	8.6	8.9	9.8	9.2	58.9	34.2	4.0
United kingdom	1170	1830	2510	2758	5.0	5.1	5.8	5.7	56.4	37.2	9.9
Others	2632	4294	5757	6646	11.3	12.0	13.2	13.7	63.1	34.1	15.4
Other OECD countries	4416	6834	7954	9945	19.0	19.1	18.2	20.4	54.8	16.4	25.0
Switzerland	473	816	1015	1097	2.0	2.3	2.3	2.3	72.5	24.4	8.1
United states	2426	3724	3516	4345	10.4	10.4	8.1	8.9	53.5	-5.6	23.6
Others	1517	2294	3423	4503	6.5	6.4	7.8	9.3	51.2	49.2	31.6
Eastern Europe and FSIJ	2580	4540	3979	4608	11.1	12.7	9.1	9.5	76.0	-12.4	15.8
Middle East and North African countries	3372	4320	5563	4517	14.5	12.1	12.8	9.3	28.1	28.8	-18.8
Egypt	124	211	272	393	0.5	0.6	0.6	0.8	70.2	28.9	44.5
Islamic Rep of Iran	693	690	806	646	3.0	1.9	1.8	1.3	-0.4	16.8	-19.9
Iraq	0	0	0	0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait	77	97	104	171	0.3	0.3	0.2	0.4	26.0	7.2	64.4
Libya	320	385	476	533	1.4	1.1	1.1	1.1	20.3	23.6	12.0
Saudi Arabia	1229	1383	1708	1017	5.3	3.9	3.9	2.1	12.5	23.5	-40.5
Others	929	1554	2197	1757	4.0	4.3	5.0	3.6	67.3	41.4	-20.0
Other countries	1987	3253	2992	4746	8.5	9.1	6.9	9.8	63.7	-8.0	58.6
Total exports	23270	35808	43626	48650	100	100	100	100	53.9	21.8	11.5

Source: Data provided by the Turkish authorities.

Table 46. Turkey: Long-term Capital Flows, 1992-97
(In millions of US dollars)

	1992	1993	1994	1995	1996	1997
Total long-term capital	**2252**	**5909**	**933**	**930**	**2818**	**6855**
Direct investment	**779**	**622**	**559**	**772**	**612**	**554**
Portfolio investment	**2411**	**3917**	**1158**	**237**	**570**	**1634**
Of which:						
Net bond issues	2806	3727	99	386	1331	1774
Other long-term capital	**-938**	**1370**	**-784**	**-79**	**1636**	**4667**
Resident official sector (including central bank)	-1093	-930	-1461	-537	-916	-480
Drawings	1092	525	365	723	775	1062
Dresdner deposits	410	925	1315	1462	1273	978
Amortizations	-2595	-2380	-3141	-2722	-2964	-2520
Deposit money banks	7	193	-282	273	1046	1660
Drawings	554	682	352	500	1439	2478
Amortizations	-547	-489	-634	-227	-393	-818
Other sectors (including private)	148	2107	959	185	1506	3487
Drawings	1877	3650	2632	2903	3834	6244
Of which:						
Project credits	335	224	418	149	0	0
Financial leasing	469	1089	716	775	601	427
Amortizations	-1729	-1543	-1673	-2718	-2328	-2757

Source: Data provided by the Turkish authorities.

Table 47. Turkey: Short-term Capital Flows, 1992-1997 1/
(In millions of US dollars)

	1992	1993	1994	1995	1996	1997
Short-term capital	**1,396**	**3,054**	**-5,127**	**2,305**	**6,945**	**2,437**
Assets	**-2,438**	**-3,291**	**2,423**	**-1,791**	**1,331**	**-1,074**
Credits extended abroad (net)	-327	-289	-38	293	-125	-358
Central Bank of Turkey (net)	5	48	-28	-48	-63	-60
Deposit money banks (net)	-332	-337	-10	341	-62	-298
FX reserve holdings (DMBs -:increase of reserves)	-2,142	-2,894	2,451	-2,030	1,510	-678
Other	31	-108	10	-54	-54	-38
Liabilities	**3,834**	**6,345**	**-7,550**	**4,096**	**5,614**	**3,511**
Central Bank of Turkey	100	193	168	279	188	269
Of which : Dresdner	55	144	115	101	63	49
Deposit money banks	2,093	4,302	-6,771	1,700	2,000	572
FX deposit accounts (nonres.)	-311	520	-170	899	1,231	-152
FX credits (net of repaym.)	2,404	3,782	-6,601	801	769	724
Other sectors	1,641	1,850	-947	2,117	3,426	2,670
Trade credits (net)	1,645	2,244	-816	1,671	3,419	2,084
FX credits (net)	-4	-394	-131	446	7	586

Source: Data provided by Turkish authorities; and staff estimates.

Table 48. Turkey: Foreign Direct Investment, 1982-97
(In millions of US dollars)

	Permits		Realization		
	Annual	Cumulative	Inflow	Outflow	Net
1982	167	830	103	48	55
1983	103	933	87	41	46
1984	271	1,204	162	49	113
1985	235	1,439	158	59	99
1986	364	1,803	170	45	125
1987	655	2,458	171	65	106
1988	821	3,279	387	33	354
1989	1,512	4,791	738	75	663
1990	1,861	6,652	788	88	700
1991	1,967	8,619	910	127	783
1992	1,820	10,439	912	133	779
1993	2,063	12,502	797	175	622
1994	1,478	13,980	637	78	559
1995	2,938	16,918	935	163	772
1996	3,837	20,755	937	325	612
1997 1/	1,077	21,832	873	319	554

Source: Data provided by the Turkish authorities.

1/ Permits are as of end-September.

Table 49. Turkey: External Debt, 1990-97
(In millions of U.S. dollars; end-of-period)

	1990	1991	1992	1993	1994	1995	1996	1997 1/
				(By maturity)				
Total outstanding debt	49,035	50,489	55,592	67,356	65,601	73,278	79,748	89,252
Medium- and long-term	39,535	41,372	42,932	48,823	54,291	57,577	59,231	65,941
Short-term	9,500	9,117	12,660	18,533	11,310	15,701	20,517	22,634
				(By borrower)				
Medium- and long-term	39,535	41,372	42,932	48,823	54,291	57,577	59,231	65,941
Government (including SEEs)	30416	32590	33598	36,237	39,550	39,472	38,087	35,944
Of which: Consol. budget	23,659	25,134	25,798	28,336	30,416	31,095	30,230	30,098
SEEs	4,785	5,185	5,135	5,439	5,483	4,811	4,369	...
Local authorities	1,032	1,159	1,695	1,602	2,549	2,414	2,236	...
EBFs	939	1,103	949	836	1,045	1,127	1,237	...
Central bank	7,321	6,530	6,150	6,618	8,597	10,486	10,728	11,975
Private sector	1,798	2,252	3,184	5,968	6,144	7,619	10,416	18,022
Short-term	9,500	9,117	12,660	18,533	11,310	15,701	20,517	22,634
Central bank	855	557	572	667	828	993	984	1,193
Deposit money banks	5,373	5,216	7,157	11,127	4,684	6,659	8,522	9,094
Other sectors	3,272	3,344	4,931	6,739	5,798	8,049	11,011	12,347
				(By creditor)				
Medium- and long-term	39,535	41,372	42,932	48,823	54,291	57,577	59,231	...
Multilateral agencies	9,564	10,069	9,160	8,674	9,183	9,081	8,148	...
IMF	...	...	...	...	344	573	663	...
IBRD, IDA, IFC	6,435	6,540	5,781	5,440	5,380	5,191	4,620	...
European investment bank	604	602	463	250	264	86	65	...
European resettlement fund	2,439	2,859	2,880	2,952	3,065	3,114	2,676	...
Islamic development bank	68	54	40	15	117	108	115	...
OPEC Fund	10	5	3	2	0	0	0	...
Int. fund for Ag. development	8	9	13	15	13	9	9	...
Bilateral lenders	12,984	14,587	15,035	18,153	20,678	21,558	23,264	...
OECD countries	11,652	13,169	13,542	16,607	19,001	19,552	20,579	...
OPEC countries	564	438	363	317	236	247	195	...
Other countries	768	980	1,130	1,229	1,441	1,759	2,490	...
Commercial banks 2/	10,720	10,992	12,956	15,706	16,113	16,532	17,090	...
Other private lenders	6,267	5,724	5,781	6,290	8,317	10,406	10,729	...
Short-term	9,500	9,117	12,660	18,533	11,310	15,701	20,517	22,634
Commercial banks	3,845	4,144	6,490	9,526	2,901	4,263	5,037	...
Other private lenders	5,655	4,973	6,170	9,007	8,409	11,438	15,499	...
Of which: Dresdner bank scheme	-695	-553	-569	-666	-823	-973	-942	...
				(By type of credit)				
Medium- and long-term	39,535	41,372	42,932	48,823	54,291	57,577	59,231	...
Project and program credits	21,116	22,815	21,819	21,760	25,219	23,598	22,099	...
Eurocurrency loans	4,843	4,309	3,640	3,083	2,325	2,346	2,310	...
Bond issues	5,877	6,683	9,316	12,623	13,788	14,186	14,780	...
Rescheduled debt	12	11	10	8	9	9	9	...
Private credits	7,687	7,554	8,147	11,349	12,950	17,438	20,033	...
Short-term	9,500	9,117	12,660	18,533	11,310	15,701	20,517	...
Credits	5,524	6,134	10,065	15,436	8,044	11,230	15,013	...
Bankers' credits	51	0	0	0	0	0	0	...
Overdrafts	24	3	2	1	5	20		...
Acceptance credits	1,386	1,504	2,630	4,762	3,772	5,361	8,344	...
Pre-export financing	146	486	945	1,148	1,371	1,606	1,632	...
FX credit received by DMBs	2,093	2,787	5,132	8,696	2,241	3,161	3,941	...
FX credit received by others	1,740	1,354	1,356	829	655	1,082	1,054	...
Other	84	0	0	0	0	0	0	...
Deposits	3,976	2,983	2,595	3,097	3,266	4,471	5,523	...
FX deposit accounts	3,280	2,429	2,025	2,431	2,443	3,498	4,581	...
Dresdner scheme	695	553	569	666	823	973	942	...
Convertible deposits	1	1	1	0	0	0	0	...

Source: Data provided by the Turkish authorities; and staff estimates.

1/ Preliminary staff estimates.
2/ Including bond issues.

Table 50. Turkey: External Debt Service, 1992-97
(In millions of US dollars)

	1992	1993	1994	1995	1996 1/	1997 1/
Total external debt service	8,733	8,227	9,993	11,897	11,418	12,418
Interest debits	3,439	3,574	3,923	4,303	4,200	4,588
Medium- and long-term debt repayments 2/	5,294	4,653	6,070	7,594	7,218	7,830
Current account receipts (excluding official transfers)	28,457	30,434	32,790	41,494	50,966	58,456
Debt service ratio	30.7	27.0	30.5	28.7	22.4	21.2

Source: Data provided by the Turkish authorities.

1/ Shuttle trade reflected.
2/ Repayments of credits received from capital markets (bond issues) and IMF repayments are included.

Table 51. Turkey: Annual Growth Rates of Major Monetary Aggregates, 1991-97
(In percent)

	1991	1992	1993	1994	1995	1996	1997
			(Percentage changes in nominal terms)				
Broad liquidity (incl. Repos)	81.5	93.4	73.3	135.2	105.2	115.4	116.1
M2	64.5	66.4	53.2	115.2	98.6	123.1	90.8
Repos	0.0	...	177.7	44.2	151.8	101.7	309.8
Lira liquidity (M2 & Repos)	64.5	89.1	68.1	101.1	106.2	119.4	125.7
Residents FCDs	137.0	103.2	84.2	200.8	103.9	110.3	103.1
M2X	81.5	77.7	64.0	148.8	101.2	116.9	96.6
Credit to private sector	61.8	84.5	84.7	69.8	137.4	136.1	126.5
Reserve money (excl. banks' FX deposits)	54.9	65.0	69.1	81.4	83.6	80.8	85.1
Reserve money (incl. banks' FX deposits)	53.2	74.4	67.8	120.8	79.2	91.5	100.8
			(Percentage changes in real terms) 1/				
Broad liquidity (incl Repo)	6.0	16.5	1.3	4.3	14.7	19.8	8.6
M2	-3.9	0.3	-10.5	-4.6	11.0	24.1	-4.2
Repos	...	...	62.3	-36.0	40.7	12.2	105.8
Lira liquidity (M2 & Repos)	-3.9	13.9	-1.8	-10.8	15.2	22.0	13.4
FCDs	38.5	22.5	7.7	33.4	14.0	17.0	2.0
FCDs (in US$)	36.7	20.6	9.1	13.2	31.7	16.4	6.6
M2X	6.0	7.1	-4.1	10.3	12.4	20.7	-1.3
Credit to private sector	-5.5	11.2	8.0	-24.7	32.7	31.3	13.7
Lira credit	-12.2	7.0	3.0	-29.3	34.3	24.6	11.4
Foreign exchange credit	20.7	22.9	20.1	-15.0	29.8	43.4	17.4
Foreign exchange credit (in US$)	19.1	21.0	21.7	-27.8	49.9	42.7	22.7
Reserve money (including banks' FX deposits)	-11.5	7.3	-1.9	-2.1	0.1	6.5	0.9
			(In percent of GNP; end-of-period stocks)				
Broad liquidity (incl Repo)	25.7	28.6	27.4	33.1	33.6	38.0	41.4
M2	17.9	17.1	14.5	16.0	15.7	18.4	17.7
Lira liquidity (M2 & Repo)	17.9	19.4	18.0	18.6	19.0	21.9	24.9
M2X	25.7	26.3	23.8	30.4	30.3	34.5	34.2
Credit to the private sector	15.6	16.5	16.9	14.7	17.3	21.4	24.4
			(In percent of GNP; average period stocks)				
Broad liquidity (incl Repo)	20.0	21.7	21.6	23.6	25.0	27.8	30.3
M2	14.4	13.7	12.0	11.7	11.8	13.3	13.5
Lira liquidity (M2 & Repo)	14.4	14.8	14.4	13.9	14.1	15.9	18.0
M2X	20.0	20.5	19.2	21.3	22.7	25.2	25.8
Credit to the private sector	12.6	12.7	13.0	11.7	12.3	15.2	17.6

Sources: Central Bank of Turkey; and staff estimates and projections

1/ CPI deflated.

Table 52. Turkey: Monetary Survey, 1990-98
(In billions of Turkish liras)

	1990	1991	1992	1993	1994	1995	1996	1997	Feb-98
Net foreign assets	**2,134**	**8,690**	**32,211**	**35,893**	**184,213**	397,306	654,992	1,570,223	1,754,143
Central bank	-1,315	-442	13,695	16,513	-25,300	119,465	403,875	1,752,100	2,202,138
Deposit money banks	3,449	9,131	18,515	19,380	209,513	277,841	251,117	-181,877	-447,995
Net domestic assets	**87,791**	**154,516**	**283,536**	**510,998**	**1,101,948**	**2,241,834**	**3,338,378**	**10,717,028**	**11,713,574**
Domestic credit	**62,274**	**120,771**	**262,914**	**538,490**	**1,004,281**	**2,203,717**	**3,343,779**	**10,950,489**	**11,981,474**
Claims on the central government (net)	**10,262**	**35,150**	**103,195**	**236,779**	**447,808**	**990,447**	**1,578,654**	**4,636,912**	**5,173,796**
Central bank	-102	13,379	38,803	92,860	175,972	421,458	541,743	123,899	238,683
Short-term credits	2,901	13,589	30,983	70,421	122,278	192,000	234,230	337,623	337,623
Government securities	1,192	4,499	20,773	37,013	75,098	329,168	457,032	605,111	640,852
Government's deposits	4,194	4,709	12,953	14,575	21,403	99,710	149,520	818,835	739,792
In Turkish lira	771	1,229	4,997	2,804	9,989	13,665	17,331	245,668	248,498
In foreign exchange	3,423	3,480	7,956	11,771	11,414	86,044	132,189	573,167	491,294
Deposit money banks	10,364	21,771	38,748	72,710	169,131	310,392	491,712	2,375,530	2,327,077
Credits	2,482	5,415	10,140	5,244	188	20,525	5,545	21,752	19,898
Bills and bonds	15,911	26,073	37,872	76,944	146,233	252,822	373,478	1,842,642	1,879,575
Duty loss accounts	823	1,187	5,567	12,962	54,498	103,158	286,013	897,999	937,173
Deposits	8,852	10,904	14,832	22,439	31,788	66,113	173,323	386,862	509,570
Repos	0	0	25,645	71,209	102,705	258,597	545,199	2,137,482	2,608,036
Claims on other public sector (net)	**-9,048**	**-13,159**	**-22,515**	**-34,904**	**-15,048**	**-143,399**	**-185,067**	**-938,884**	**-951,266**
Extrabudgetary funds	-12,057	-16,267	-24,131	-44,869	-41,139	-64,727	-89,806	-591,678	-624,912
Central bank 1/	-1,155	-2,746	-2,898	-5,409	-2,853	-14,864	-30,761	-162,327	-178,925
Deposit money banks	-10,902	-13,521	-21,233	-39,460	-38,286	-49,863	-59,045	-429,351	-445,987
Local government	-1,063	-3,122	-4,445	-7,693	-10,967	-23,361	-40,980	-163,739	-153,962
Central bank	-408	-336	-475	-688	-1,082	-2,405	-2,496	-5,646	-4,044
Deposit money banks	-655	-2,786	-3,971	-7,005	-9,885	-20,956	-38,484	-158,094	-149,918
Non-financial state enterprises	4,072	6,230	6,061	17,659	37,058	-55,311	-54,281	-183,467	-172,392
Central bank	589	4,186	9,926	8,660	23,291	-10,748	-22,298	-109,288	-121,886
Deposit money banks	3,484	2,044	-3,864	8,998	13,767	-44,563	-31,983	-74,180	-50,506
Claims on the private sector	**61,060**	**98,780**	**182,233**	**336,615**	**571,521**	**1,356,669**	**1,950,192**	**7,252,462**	**7,758,944**
Credit in lira	48,513	25,910	129,378	228,030	363,347	873,236	1,110,813	4,339,267	4,450,527
Credit in foreign exchange 2/	12,547	72,870	52,855	108,585	208,174	483,433	839,379	2,913,195	3,308,417
Other items net	25,518	33,745	20,622	-27,493	97,667	38,117	-5,401	-233,461	-267,900
Broad liquidity	**89,925**	**163,205**	**315,746**	**546,890**	**1,286,161**	**2,639,140**	**3,993,370**	**12,287,252**	**13,467,717**
M2X	89,925	163,205	290,101	475,681	1,183,456	2,380,543	3,448,171	10,149,770	10,859,681
M2	68,875	113,316	188,710	288,892	621,581	1,234,724	1,828,069	5,255,952	5,376,807
Currency outside banks	11,154	17,167	29,712	50,574	100,085	185,689	260,465	589,227	657,217
Demand deposits	15,785	20,151	34,069	56,366	93,853	121,921	170,795	563,643	404,615
Time and savings deposits	39,554	72,602	121,220	178,888	423,011	920,196	1,388,328	4,102,923	4,314,959
Certificates of deposits	2,382	3,397	3,709	3,064	4,633	6,919	8,482	160	17
Residents' foreign exchange deposits	21,051	49,889	101,391	186,790	561,875	1,145,819	1,620,102	4,893,818	5,482,873
Repos	0	0	25,645	71,209	102,705	258,597	545,199	2,137,482	2,608,036

Source: Statistics Department of the Central Bank of Turkey.

1/ Includes deposits of the Saving Deposits Insurance Fund.
2/ Data for 1990-93 are staff estimates.

Table 53. Turkey: Accounts of the Monetary authorities, 1990-98
(In billions of Turkish liras)

	1990	1991	1992	1993	1994	1995	1996	1997	Feb-98
Net foreign assets	**-1,315**	**-442**	**13,695**	**16,513**	**-25,300**	**119,465**	**633,616**	**1,752,100**	**2,202,138**
Foreign assets	24,249	37,222	73,521	124,914	372,835	888,772	2,028,848	4,260,031	4,986,951
Foreign liabilities	25,564	37,663	59,826	108,401	398,135	769,307	1,395,231	2,507,931	2,784,814
Net domestic assets	**29,649**	**43,846**	**62,007**	**110,497**	**305,794**	**383,081**	**328,624**	**176,002**	**-59,365**
Claims on the central government (net)	**-102**	**13,379**	**38,803**	**92,860**	**175,972**	**421,458**	**612,054**	**123,899**	**238,683**
Short-term credits	2,901	13,589	30,983	70,421	122,278	192,000	370,953	337,623	337,623
Government securities 1/	1,192	4,499	20,773	37,013	75,098	329,168	457,139	605,111	640,852
Government's deposits	4,194	4,709	12,953	14,575	21,403	99,710	216,039	818,835	739,792
In Turkish lira	771	1,229	4,997	2,804	9,989	13,665	43,869	245,668	248,498
In foreign exchange	3,423	3,480	7,956	11,771	11,414	86,044	172,170	573,167	491,294
Claims on other public sector	**-975**	**1,104**	**6,553**	**2,563**	**19,357**	**-28,017**	**-87,309**	**-277,261**	**-304,855**
Claims	902	4,848	11,601	12,515	25,930	1,203	2,243	1,576	1,422
Lira deposits	561	1,712	1,152	2,303	1,762	5,511	10,568	55,359	54,240
FX deposits	1,316	2,033	3,896	7,650	4,811	23,709	78,984	223,478	252,037
By sector:				-610	888	-2,321	-5,585	-46,992	-34,353
Extrabudgetary funds	-1,155	-2,746	-2,898	-5,409	-2,853	-14,864	-46,651	-162,327	-178,925
Deposits in Turkish lira	354	1,490	655	1,350	643	3,087	6,549	49,718	50,220
Deposits in foreign exchange 2/	802	1,256	2,243	4,059	2,210	11,777	40,102	112,609	128,705
Of which: Insurance fund of savings deposits	293	651	1,542	3,443	1,774	11,464	37,666	106,351	118,514
Local governments	-408	-336	-475	-688	-1,082	-2,405	-4,007	-5,646	-4,044
Deposits in Turkish lira	187	211	460	654	1,075	2,395	3,992	5,620	4,016
Deposits in foreign exchange	221	125	15	34	7	11	15	25	28
Nonfinancial public enterprises	589	4,186	9,926	8,660	23,291	-10,748	-36,652	-109,288	-121,886
Claims	902	4,848	11,601	12,515	25,930	1,203	2,243	1,576	1,422
Turkish lira deposits	21	11	36	298	44	30	27	21	4
Foreign exchange deposits	293	651	1,639	3,557	2,594	11,921	38,867	110,843	123,304
Claims on deposit money banks	**4,511**	**4,387**	**8,655**	**16,866**	**20,503**	**28,677**	**73,112**	**831,002**	**664,070**
Advances and discount	3,099	3,967	7,920	16,861	12,252	12,220	7,682	7,676	7,675
Other claims	1,412	420	735	5	8,251	16,457	65,430	823,326	656,395
Other items net:	**26,214**	**24,976**	7,996	-1,792	**89,962**	-39,037	**-269,232**	**-501,639**	-657,263
Revaluation account	26,394	32,417	34,745	31,932	133,417	25,940	-49,934	-290,796	-365,949
Capital and reserves	-1,246	-2,194	-3,468	-8,782	-13,709	-19,192	-113,967	-203,448	-75,702
Others	1,066	-5,247	-23,280	-24,942	-29,746	-45,785	-105,332	-7,395	-215,612
				71	91	86	71	99	82
Reserve Money	**28,334**	**43,405**	**75,703**	**127,010**	**280,494**	**502,546**	**962,240**	**1,928,102**	**2,142,772**
Currency issued	14,031	21,252	36,771	63,030	120,126	223,660	381,814	758,393	809,999
Currency outside banks	11,154	17,167	29,712	50,574	100,085	185,689	309,895	589,227	657,217
Currency in bank vaults	2,878	4,086	7,059	12,456	20,042	37,971	71,920	169,166	152,783
Banks deposits	14,302	22,153	38,932	63,980	160,368	278,886	580,426	1,169,710	1,332,773
Required reserves	11,014	16,851	30,776	51,479	122,543	250,873	450,876	917,008	1,037,645
Free reserves	3,288	5,301	8,156	12,501	37,826	28,012	129,550	252,701	295,129
TL/US$	2,930	5,080	8,556	14,458	38,418	59,501	107505.00	204,750	228,460

Source: Statistics Department of the Central Bank.

1/ Securities are adjusted to include those sold, and to exclude those purchased, under repurchase agreements. Counterpart adjustments are made in the accounts of the Deposit Money Banks.

2/ Includes deposits of the Saving Deposits Insurance Fund.

Table 54. Turkey: Accounts of Commercial Banks, 1990-98
(In billions of Turkish liras)

	1990	1991	1992	1993	1994	1995	1996	1997	Feb-98
Net foreign assets	**3,449**	**9,131**	**18,515**	**19,380**	**209,513**	**277,841**	**144,339**	**-181,877**	**-447,995**
Foreign assets	14,571	27,867	73,144	154,976	335,160	593,596	1,016,172	2,160,786	2,132,503
Foreign liabilities	11,122	18,736	54,629	135,596	125,647	315,755	871,833	2,342,663	2,580,498
Net domestic assets	**75,323**	**136,908**	**267,519**	**476,937**	**976,564**	**2,175,610**	**5,231,209**	**11,879,902**	**13,258,495**
Domestic credit	**76,019**	**128,139**	**254,894**	**502,638**	**968,859**	**2,098,456**	**5,125,645**	**11,611,723**	**12,869,132**
Claims on central government (net)	**10,364**	**21,771**	**64,393**	**143,919**	**271,836**	**568,989**	**1,578,734**	**4,513,012**	**4,935,113**
Credits	2,482	5,415	10,140	5,244	188	20,525	12,538	21,752	19,898
Bills and bonds	15,911	26,073	37,872	76,944	146,233	252,822	874,679	1,842,642	1,879,575
Duty loss accounts	823	1,187	5,567	12,962	54,498	103,158	387,533	897,999	937,173
Deposits	8,852	10,904	14,832	22,439	31,788	66,113	217,626	386,862	509,570
Claims on other public sector (net)	-8,074	-14,263	-29,068	-37,466	-34,405	-115,382	-234,851	-661,624	-646,411
Extrabudgetary institutions	-10,902	-13,521	-21,233	-39,460	-38,286	-49,863	-63,371	-429,351	-445,987
Claims	574	1,908	2,005	3,903	21,640	27,880	111,890	22,213	21,638
Deposits	11,476	15,429	23,238	43,363	59,927	77,742	175,261	451,564	467,625
Local government	-655	-2,786	-3,971	-7,005	-9,885	-20,956	-69,286	-158,094	-149,918
Claims	753	0	0	0	2,756	4,746	6,421	8,194	8,788
Deposits	1,409	2,786	3,971	7,005	12,642	25,702	75,707	166,288	158,706
Nonfinancial public enterprises	3,484	2,044	-3,864	8,998	13,767	-44,563	-102,194	-74,180	-50,506
Claims	6,814	9,095	7,120	24,052	44,629	40,289	49,211	217,409	195,555
Deposits	3,331	7,051	10,985	15,053	30,862	84,852	151,405	291,588	246,061
Claims on private sector	61,060	98,780	182,233	336,615	571,521	1,356,669	3,202,529	7,252,462	7,758,944
Net position vis-à-vis the central bank	12,669	21,851	37,336	59,570	159,907	288,180	579,234	507,873	821,486
Claims of central bank	4,511	4,387	8,655	16,866	20,503	28,677	73,112	831,002	664,070
Bank reserves	14,302	22,153	38,932	63,980	160,368	278,886	580,426	1,169,710	1,332,773
Cash in vaults	2,878	4,086	7,059	12,456	20,042	37,971	71,920	169,166	152,783
Other items net	-696	8,769	12,625	-25,701	7,705	77,154	105,564	268,179	389,363
Liabilities vis-à-vis private sector	**78,772**	**146,039**	**286,034**	**496,317**	**1,186,077**	**2,453,451**	**5,375,549**	**11,698,025**	**12,810,500**
Demand deposits	15,785	20,151	34,069	56,366	93,853	121,921	357,440	563,643	404,615
Time and savings deposits	39,554	72,602	121,220	178,888	423,011	920,196	2,075,701	4,102,923	4,314,959
Residents' foreign exchange deposits	21,051	49,889	101,391	186,790	561,875	1,145,819	2,409,591	4,893,818	5,482,873
Certificates of deposits	2,382	3,397	3,709	3,064	4,633	6,919	11,208	160	17
Repos	0	0	25,645	71,209	102,705	258,597	521,609	2,137,482	2,608,036
Memorandum items:									
	(In percent of total liabilities to the private sector)								
Lira deposits	73.3	65.8	55.6	48.0	44.0	42.8	45.5	39.9	36.8
Residents' foreign exchange deposits	26.7	34.2	35.4	37.6	47.4	46.7	44.8	41.8	42.8
Repos	0.0	0.0	9.0	14.3	8.7	10.5	9.7	18.3	20.4

Source: Central Bank of Turkey.

Table 55. Turkey: Central Bank Balance Sheet, 1994-98

	1994	1995	1996	1997				1998	
				Mar.	Jun.	Sep.	Dec.	March	June
	(End-of-period Stocks; in billions of Turkish liras) 1/								
Net foreign assets	**-22,234**	**130,652**	**628,568**	**738,008**	**980,242**	**1,863,415**	**1,791,137**	**2,797,493**	**4,419,543**
Net international reserves	310,919	767,514	1,793,348	2,035,408	2,434,571	3,585,586	3,823,698	5,208,135	7,065,521
Other foreign liabilities (net)	333,153	636,862	1,164,780	1,297,400	1,454,329	1,722,171	2,032,561	2,410,642	2,645,978
Banks deposits in FX	**97,565**	**165,571**	**353,441**	**422,880**	**507,457**	**641,967**	**803,479**	**968,427**	**1,088,669**
Required reserves	65,033	144,324	275,364	328,211	376,720	462,723	580,655	693,182	789,581
Free reserves	32,532	21,247	78,077	94,669	130,737	179,244	222,824	275,245	299,088
Net domestic assets	**305,536**	**378,300**	**346,356**	**404,276**	**409,563**	**-160,434**	**198,729**	**-436,876**	**-1,755,821**
Claims on central government (net)	144,245	256,528	421,140	547,960	455,390	-41,723	-26,309	-78,358	-45,665
Short-term credits	122,278	192,000	370,953	471,047	420,725	337,623	337,623	0	0
Portfolio accounts	43,198	163,850	266,087	233,810	272,105	287,034	454,299	650,038	739,006
Securities portfolio	75,098	329,167	457,304	393,024	431,319	446,248	613,513	730,460	784,428
Securitizations	-31,900	-165,317	-191,217	-159,214	-159,214	-159,214	-159,214	-80,422	-45,422
Other	-3,774	74	-10,456	-3,080	-10,038	-22,680	-63,607	-78,285	-92,249
Deposits	17,457	99,396	205,444	153,817	227,402	643,700	754,624	650,111	692,422
Lira deposits	6,056	13,381	33,274	15,524	28,481	309,369	181,458	279,719	260,634
FX deposits	11,401	86,015	172,170	138,293	198,921	334,331	573,166	370,392	431,788
Claims on other public sector (net)	23,008	-10,828	-38,269	-49,950	-64,877	-97,005	-112,067	-141,254	-214,211
Soil products office	25,096	0	0	0	0	0	0	0	0
Claims on SEEs	833	1,201	2,243	2,304	1,864	1,586	1,576	1,446	894
Deposits	2,921	12,029	40,512	52,254	66,741	98,591	113,643	142,700	215,105
Lira deposits	169	37	68	15	37	27	461	52	180
FX deposits	543	215	342	381	433	489	573	663	735
Funds FX	2,209	11,777	40,102	51,858	66,271	98,075	112,609	141,985	214,190
Claims on banks	11,189	-3,672	-43,674	-78,557	61,276	135,294	728,020	204,748	-1,000,792
Agricultural	0	0	0	0	0	0	0	0	0
Commercial	12,322	12,249	7,689	6,895	7,181	7,678	7,676	7,675	7,675
Other	0	0	0	0	0	0	0	0	0
Open market operations	**-1,138**	**-15,926**	**-51,368**	**-85,457**	**54,090**	**127,611**	**720,339**	**197,068**	**-1,008,472**
Bonds transactions (NET)	-9,384	-23,552	-38,884	-138,200	-5,853	40,587	710,202	164,258	-814,852
Debts due to bonds which will be repurchased	-9,384	-23,552	-57,048	-152,078	-5,853	0	0	0	-814,852
Claims due to bonds which will be resold	0	0	-18,164	-13,878	0	-40,587	-710,202	-164,258	0
Overnight operations	8,246	7,626	-12,485	52,743	59,943	87,024	10,137	32,810	-193,620
Deposits given	8,246	16,452	34,230	52,743	59,943	87,024	36,650	32,810	95,730
Deposits taken	0	8,826	46,715	0	0	0	26,513	0	289,350
Other items (net)	127,094	136,272	7,162	-15,177	-42,226	-157,000	-390,915	-422,012	-495,153
Devaluation account	135,520	41,898	-3,635	-20,132	-59,326	-141,940	-190,081	-8,267	-192,528
Securitizations	31,900	165,317	191,217	159,214	159,214	159,214	159,214	80,422	45,422
Other items net	-40,108	-68,615	-179,787	-149,693	-137,099	-166,645	-342,437	-478,909	-339,126
Nonbank Pri. Sec. Dep.	-218	-2,328	-633	-4,566	-5,015	-7,629	-17,611	-15,258	-8,921
								0	0
Reserve money	**185,737**	**343,381**	**621,483**	**719,404**	**882,348**	**1,061,014**	**1,186,387**	**1,392,190**	**1,575,053**
Currency issued	120,212	223,934	382,243	459,439	567,311	702,320	758,878	897,888	1,005,988
Bank deposits in liras	63,663	113,789	228,197	241,462	289,689	332,482	370,758	433,175	546,744
Required reserves	57,509	106,548	175,512	208,760	246,814	287,732	336,353	387,013	526,316
Free reserves	6,154	7,241	52,685	32,702	42,875	44,750	34,405	46,162	20,428
Other	1,862	5,658	11,043	18,503	25,348	26,212	56,751	61,127	22,321
Funds	656	3,090	6,549	16,406	21,661	21,459	49,722	51,181	11,630
Nonbank private sector	1,206	2,568	4,494	2,097	3,687	4,753	7,029	9,946	10,691
Memorandum items:									
Lira/US$ (end-of-period)	38,687	59,501	107,505	126,270	146,670	172,810	204,750	240,710	265,050
Lira/US$ (average period)	29,700	45,766	81,102	118,631	137,392	162,237	188,251	235,393	259,834
Foreign exchange exposure (in millions of US$) 2/	-3,462	-2,234	581	987	1,412	4,563	1,472	5,467	10,127
(in percent of reserve money)	-72	-39	10	17	23	74	25	95	170

Source: Accounting Department of the Central Bank.

1/ All foreign currency aggregates are valued at current exchange rates (cross exchange rates vis-à-vis the US$, and Lira/US$).

2/ Defined as total foreign exchange assets minus total foreign exchange liabilities, which include foreign liabilities and governments, public sector, and banks' foreign exchange deposits.

Table 56. Turkey: Factors Affecting Changes in Reserve Money, 1995-98

	1995	1996	1997 Q1	1997 Q2	1997 Q3	1997 Q4	1997 Year	1998 Q1	1998 Q2	1998 Jan.-Jun.
	(Flows; in billions of Turkish liras) 1/									
Net foreign assets	**126,795**	**296,110**	**-260**	**115,222**	**665,126**	**-383,111**	**396,978**	**649,854**	**1,258,762**	**1,908,616**
(In millions of U.S. dollar)	2,771	3,651	-2	839	4,100	-2,035	2,901	2,874	5,053	7,926
Banks' deposits in foreign exchange	**11,934**	**40,957**	**7,277**	**15,229**	**41,373**	**39,405**	**103,285**	**21,148**	**19,916**	**41,064**
Net domestic assets	**42,782**	**22,950**	**105,458**	**62,951**	**-445,087**	**547,889**	**271,211**	**-422,903**	**-1,055,983**	**-1,478,886**
Claims on central government (net)	**134,225**	**238,123**	**153,005**	**-67,806**	**-455,545**	**91,474**	**-278,872**	**19,456**	**88,587**	**108,044**
Short-term credits	69,722	178,953	100,094	-50,322	-83,102	0	-33,330	-337,623	0	-337,623
Portfolio accounts	120,652	102,237	-32,277	38,295	14,929	167,265	188,212	195,739	88,968	284,707
Other	3,848	-10,530	7,376	-6,958	-12,642	-40,927	-53,151	-14,678	-13,964	-28,642
Deposits	59,997	32,537	-77,812	48,821	374,730	34,864	380,603	-176,018	-13,583	-189,602
Lira deposits	7,325	19,893	-17,750	12,957	280,888	-127,911	148,184	98,261	-19,085	79,176
Foreign exchange deposits	52,672	12,644	-60,062	35,864	93,842	162,775	232,419	-274,279	5,502	-268,778
Claims on other public sector (net)	**-30,564**	**-13,155**	**-4,335**	**-6,106**	**-19,018**	**2,865**	**-26,594**	**-7,885**	**-54,447**	**-62,333**
Claims on SEEs	368	1,042	61	-440	-278	-10	-667	-130	-552	-682
Deposits	5,836	14,197	4,396	5,666	18,740	-2,875	25,927	7,755	53,895	61,651
Lira deposits	-132	31	-53	22	-10	434	393	-409	128	-281
Foreign exchange deposits	-477	-35	-19	-9	-20	-6	-54	-12	2	-10
Funds foreign exchange deposits	6,445	14,201	4,468	5,653	18,770	-3,303	25,588	8,177	53,765	61,942
Claims on banks	**-14,861**	**-40,002**	**-34,883**	**139,833**	**74,018**	**592,726**	**771,694**	**-523,272**	**-1,205,540**	**-1,728,812**
Open market operations	**-14,788**	**-35,442**	**-34,089**	**139,547**	**73,521**	**592,728**	**771,707**	**-523,271**	**-1,205,540**	**-1,728,811**
Bonds transactions (net)	-14,168	-15,332	-99,316	132,347	46,440	669,615	749,086	-545,944	-979,110	-1,525,054
Debts due to bonds which will be repurchased	-14,168	-33,496	-95,030	146,225	5,853	0	57,048	0	-814,852	-814,852
Claims due to bonds which will be resold	0	-18,164	4,286	13,878	-40,587	-669,615	-692,038	545,944	164,258	710,202
Overnight operations	-620	-20,111	65,228	7,200	27,081	-76,887	22,622	22,673	-226,430	-203,757
Other items (net)	-46,017	-162,017	-8,329	-2,970	-44,542	-139,176	-195,017	88,799	115,417	204,215
Reserve money	**157,644**	**278,102**	**97,921**	**162,944**	**178,666**	**125,373**	**564,904**	**205,803**	**182,863**	**388,666**
Currency issued	103,722	158,309	77,196	107,872	135,009	56,558	376,635	139,010	108,100	247,110
Bank deposits in liras	50,126	114,408	13,265	48,227	42,793	38,276	142,561	62,417	113,569	175,986
Required reserves	49,039	68,964	33,248	38,054	40,918	48,621	160,841	50,660	139,303	189,963
Free reserves	1,087	45,444	-19,983	10,173	1,875	-10,345	-18,280	11,757	-25,734	-13,977
Other	3,796	5,385	7,460	6,845	864	30,539	45,708	4,376	-38,806	-34,430
	(Changes in percent of initial stock of reserve money)									
Net foreign assets	**68.3**	**86.2**	**0.0**	**18.5**	**107.0**	**-61.6**	**63.9**	**54.8**	**106.1**	**160.9**
Banks' deposits in foreign exchange	6.4	11.9	1.2	2.5	6.7	6.3	16.6	1.8	1.7	3.5
Net domestic assets	**23.0**	**6.7**	**17.0**	**10.1**	**-71.6**	**88.2**	**43.6**	**-35.6**	**-89.0**	**-124.7**
Claims on central government (net)	72.3	69.3	24.6	-10.9	-73.3	14.7	-44.9	1.6	7.5	9.1
Short-term credits	37.5	52.1	16.1	-8.1	-13.4	0.0	-5.4	-28.5	0.0	-28.5
Portfolio accounts	65.0	29.8	-5.2	6.2	2.4	26.9	30.3	16.5	7.5	24.0
Other	2.1	-3.1	1.2	-1.1	-2.0	-6.6	-8.6	-1.2	-1.2	-2.4
Deposits	32.3	9.5	-12.5	7.9	60.3	5.6	61.2	-14.8	-1.1	-16.0
Lira deposits	3.9	5.8	-2.9	2.1	45.2	-20.6	23.8	8.3	-1.6	6.7
FX deposits	28.4	3.7	-9.7	5.8	15.1	26.2	37.4	-23.1	0.5	-22.7
Claims on other public sector (net)	-16.5	-3.8	-0.7	-1.0	-3.1	0.5	-4.3	-0.7	-4.6	-5.3
Claims on banks	-8.0	-11.6	-5.6	22.5	11.9	95.4	124.2	-44.1	-101.6	-145.7
Open market operations	**-8.0**	**-10.3**	**-5.5**	**22.5**	**11.8**	**95.4**	**124.2**	**-44.1**	**-101.6**	**-145.7**
Overnight operations	-0.3	-5.9	10.5	1.2	4.4	-12.4	3.6	1.9	-19.1	-17.2
Other items (net)	-24.8	-47.2	-1.3	-0.5	-7.2	-22.4	-31.4	7.5	9.7	17.2
Reserve money	**84.9**	**81.0**	**15.8**	**26.2**	**28.7**	**20.2**	**90.9**	**17.3**	**15.4**	**32.8**
Memorandum items:										
Central bank's foreign exchange exposure (millions US$) 2/	**-2,234**	**581**	**987**	**1,412**	**4,563**	**1,472**	**1,472**	**5,467**	**10,127**	**10,127**
(In percent of reserve money)	-38.7	10.1	17.3	23.5	74.3	25.4	25.4	94.5	170.4	170.4
Average TL/US$	45,766	81,102	118,631	137,392	162,237	188,251	151,628	223,419	252,060	246,332

Source: Accounting Department of the Central Bank.

1/ Flows of foreign currency assets and liabilities are valued at the average period exchange rate .
2/ Defined as central bank's foreign assets minus foreign exchange deposits of banks, the central government, and the rest of the public sector, and foreign liabilities to nonresidents.

Table 57. Turkey: Repo Transactions between Banks and the Private Sector, 1994-98
(In billions of Turkish liras)

	Total	Total (In US$; millions)	TL/US$ (End-of-period)
1994	102,705	2,652	38,726
1995	258,597	4,335	59,650
1996	521,609	4,840	107,775
1997	2,097,591	10,245	204,750
1996			
January	309,892	4,946	62,660
February	373,019	5,656	65,952
March	445,854	6,302	70,752
April	453,638	6,096	74,422
May	488,359	6,243	78,225
June	543,843	6,674	81,485
July	545,199	6,568	83,003
August	498,634	5,797	86,018
September	625,993	6,837	91,558
October	730,585	7,620	95,873
November	715,468	7,044	101,575
December	521,609	4,840	107,775
1997			
January	718,228	6,213	115,610
February	774,368	6,358	121,785
March	947,474	7,440	127,355
April	1,158,257	8,583	134,955
May	1,317,837	9,409	140,055
June	1,471,437	9,939	148,045
July	1,767,679	11,114	159,045
August	2,058,784	12,417	165,810
September	2,132,082	12,338	172,810
October	1,894,500	10,511	180,240
November	2,176,935	11,248	193,540
December	2,097,591	10,245	204,750
1998			
January	2,387,940	11,149	214,190
February	2,608,036	11,416	228,500
March	2,609,438	10,841	241,630
April	2,806,461	11,297	248,550

Source: Central Bank of Turkey.

Table 58. Turkey: Net Foreign Asset Position of the Central Bank of Turkey, 1993-98
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997 Mar.	1997 Jun.	1997 Sep.	1997 Dec.	1998 Mar.	1998 Jun.
Net foreign assets	1,164	-575	2,196	5,846	5,844	6,683	10,783	8,748	11,622	16,674
Net international reserves	7,540	8,036	12,899	16,681	16,119	16,599	20,749	18,675	21,637	26,657
Gross reserves	7,745	8,561	13,813	17,695	17,020	17,486	21,637	19,575	22,485	27,533
Gold	1,532	1,449	1,422	1,422	1,422	1,422	1,422	1,156	1,156	1,156
Other	6,213	7,112	12,391	16,273	15,598	16,064	20,215	18,419	21,329	26,377
Foreign banknotes	626	419	796	292	332	304	298	363	284	289
Correspondent accounts	5,587	6,693	11,595	15,980	15,267	15,760	19,917	18,056	21,045	26,088
Current accounts	1,234	4,601	7,430	5,826	3,300	3,722	6,409	6,463	6,517	6,326
Portfolio accounts	4,074	1,394	3,931	9,990	11,890	11,986	13,452	11,530	14,466	19,701
Of Which:										
Turkish defence fund	0	0	1,072	965	765	669	624	632	597	524
Required deposit at Dresdner	1,071	1,393	1,604	1,498	1,386	1,337	1,328	1,309	1,286	1,278
Other accounts	280	698	234	164	77	52	55	63	63	61
International reserve liabilities	205	525	914	1,014	901	887	888	900	849	876
Overdrafts	1	5	20	42	36	35	37	30	35	44
Short-term credits	0	1	1	1	0	0	0	0	0	0
Letters of credit	203	175	209	310	228	211	222	274	261	324
Int. Mon. Fund	0	344	684	661	637	641	629	595	551	507
Other foreign liabilities	6,376	8,611	10,703	10,835	10,275	9,916	9,966	9,927	10,015	9,983
FX deposit of nonresident citiziens	6,975	9,225	11,558	11,949	11,375	11,202	11,331	11,360	11,360	11,577
Dresdner scheme										
1 year maturity	669	834	999	968	907	885	888	879	866	868
2 year maturity	6,306	7,845	9,347	9,149	8,641	8,454	8,490	8,480	8,439	8,568
3 year maturity	0	546	1,212	1,832	1,827	1,862	1,953	2,001	2,055	2,141
Medium-term credit (net)	-691	-763	-1,006	-1,143	-1,157	-1,169	-1,183	-1,197	-1,210	-1,223
Others (net)	92	150	151	29	56	-117	-183	-236	-135	-371

Source: Central Bank of Turkey.

Table 59. Turkey: Net Foreign Asset Position of Commercial Banks, 1993-98
(In millions of U.S. dollars)

	1993	1994	1995	1996	1997				1998
					Mar.	June	Sep.	Dec.	Feb
Net foreign assets	**1,339**	**5,410**	**4,658**	**1,339**	**965**	**-1,089**	**-1,491**	**-888**	**-1,961**
Foreign assets	**10,708**	**8,655**	**9,951**	**9,429**	**8,763**	**8,363**	**9,212**	**10,553**	**9,334**
Cash	431	554	664	918	657	710	695	927	684
Claims on banks abroad	9,519	6,951	8,059	6,634	5,886	5,281	5,748	6,742	5,736
Banks abroad	6,899	5,552	6,167	5,326	4,474	4,051	4,285	4,989	3,912
Head offices and branches abroad	2,621	1,399	1,891	1,308	1,412	1,230	1,464	1,753	1,824
Claims on other nonresidents	757	1,149	1,229	1,877	2,220	2,372	2,769	2,884	2,915
Securities and bonds	327	481	646	1,141	1,448	1,426	1,782	1,813	1,773
Credits	325	525	378	459	505	547	578	645	722
Equity participation	88	117	145	194	187	276	286	337	339
Other	18	27	60	82	79	122	123	89	80
Foreign liabilities	**9,369**	**3,245**	**5,293**	**8,089**	**7,798**	**9,452**	**10,703**	**11,442**	**11,295**
Interbank deposits	354	326	1,268	1,552	1,177	1,525	2,209	2,398	2,413
Loans	8,092	1,854	2,095	4,244	4,310	5,344	5,599	5,907	5,541
Nonresidents FCDs	731	945	1,802	2,023	2,025	2,315	2,615	2,931	3,117
Others	193	120	128	270	287	268	280	205	224

Source: Central Bank of Turkey.

Table 60. Turkey: Selected Interest Rates, 1991-98
(Compounded annualized after tax; in percent)

	Overnight Interbank Rate	Three-month Treasury Bills 1/	Six-month Treasury Bills 1/	One Year Treasury Bills 1/	Average Across Maturities 1/ 2/	Three-month Repurchase Rate	Three-month Time Deposits 3/	Short-term Commercial Credits
1991	109.6	86.0			86.0		69.0	111.4
1992	92.2	94.2			94.2	84.2	77.0	116.0
1993	87.6	85.8			85.8	81.2	71.4	114.7
1994	591.7	156.2	136.6		160.7	143.9	115.8	274.8
1995	108.2	123.0	121.3	108.6	125.8	106.9	93.8	176.7
1996	115.8	138.1	138.6	115.0	132.4	114.0	101.1	162.6
1997	101.4	118.3	112.4	105.5	106.0	97.2	89.0	144.0
1996								
January	158.8	207.2	190.2	--	198.7	154.1	108.7	183.4
February	129.7	145.9	150.3	--	148.1	147.1	107.6	176.5
March	145.5	129.9	131.8	--	130.9	126.5	104.2	172.2
April	114.5	--	122.8	--	127.2	110.8	99.4	166.6
May	91.5	111.9	121.2	--	116.5	106.3	98.9	165.5
June	95.3	125.6	167.0	--	146.3	102.7	98.4	159.7
July	111.4	129.0	129.4	--	129.2	108.6	99.3	163.9
August	98.6	--	127.7	--	128.3	101.4	99.4	154.1
September	109.2	117.5	127.5	--	122.5	100.7	99.3	150.1
October	110.9	--	--	121.8	118.3	100.7	99.0	152.8
November	115.1	--	118.1	--	110.0	104.4	99.3	153.0
December	109.0	--	--	108.3	112.5	104.3	99.4	153.2
1997								
January	85.6	--	--	92.2	92.2	85.8	85.8	145.5
February	92.6	--	--	--	89.6	88.0	85.0	139.1
March	92.4	--	--	--	95.8	88.4	84.9	141.4
April	91.3	--	--	--	--	96.9	85.0	140.3
May	94.2	--	--	97.7	97.7	91.1	85.3	141.0
June	101.5	--	100.9	--	100.9	95.7	86.1	140.5
July	99.1	--	--	105.7	107.0	97.4	88.6	144.3
August	109.3	--	--	119.7	119.7	103.6	93.4	145.3
September	111.5	--	121.7	112.1	116.9	103.6	92.8	145.3
October	103.9	114.1	--	--	108.9	101.7	93.3	148.5
November	117.7	--	114.7	--	114.7	106.0	93.8	152.4
December	118.0	122.5	--	--	122.5	107.9	94.2	--
1998								
January	109.7	--	120.0	--	120.0	--	93.2	--
February	127.1	128.9	124.0	--	126.5	--	86.7	--
March	123.5	113.1	117.8	--	115.5	--	93.6	--
April	112.9	--	106.8	--	105.4	--	92.4	--
May	109.9	--	--	91.5	92.3	--	91.4	--
June	94.8	--	90.5	99.0	92.2	--	87.6	--

Sources: Central Bank of Turkey; and staff estimates.

1/ From November 1996 onwards, after withholding of taxes at the rate of 13.2 percent and from January 1998 at 6.6 percent.
2/ Average across maturities ranging from three months to one year.
3/ The withholding tax on deposits (inclusive of fund charges) was raised from 5.5 percent during 1995-96 to 13.2 percent in January 1997.

Table 61. Turkey: Selected Real Interest Rates, 1995-98
(Compounded annualized after tax; in percent)

	Overnight Interbank Rate Return vis-à-vis basket 1/	Repo Market Rate Return vis-à-vis basket 1/	Ex-post rate of return on T-bills 2/	Three-month Time Deposits 3/	Short-term Commercial Credits 3/
1995	38.7	38.5	--	8.4	55.2
1996	21.0	20.1	31.5	14.3	49.4
1997	13.4	11.1	17.5	-4.8	22.2
1996					
January	34.8	32.3	12.9	8.5	47.4
February	17.0	25.9	15.8	7.9	43.7
March	18.2	9.0	28.9	19.4	59.2
April	14.3	12.4	43.9	38.9	85.7
May	12.2	20.9	21.2	37.3	83.3
June	21.3	25.9	40.6	19.3	56.2
July	24.8	23.1	53.8	1.4	34.3
August	31.1	32.9	43.5	-0.1	27.3
September	32.6	27.3	35.0	10.8	39.0
October	21.5	15.6	35.4	13.2	43.8
November	10.2	4.7	29.5	11.3	41.3
December	13.7	11.1	18.2	3.2	31.1
1997					
January	-3.3	-3.2	28.8	-6.5	23.6
February	18.8	16.0	23.9	-3.4	24.8
March	18.8	16.3	23.2	6.3	38.9
April	11.9	15.2	27.8	7.9	40.1
May	10.4	8.6	27.6	2.0	32.7
June	21.2	17.8	21.1	-13.4	11.9
July	14.9	13.9	20.9	-18.8	5.2
August	23.3	19.9	11.2	-18.1	3.9
September	11.2	7.1	18.0	-11.4	12.7
October	9.2	8.0	--	-7.4	19.0
November	8.8	2.9	-4.1	1.0	31.5
December	15.5	10.2	-6.1	4.5	--
1998					
January	14.1	--	3.1	14.5	--
February	17.4	--	-1.6	14.5	--
March	23.5	--	7.8	27.7	--
April	29.4	--	1.2	--	--
May	32.4	--	13.3	--	--
June	36.0	--	23.3	--	--

Sources: Central Bank of Turkey; and staff estimates.

1/ Defined as annualized monthly nominal interest rates divided by the annualized rates of monthly depreciation vis-à-vis a basket of 1 US dollar and 1.5 deutsche mark.

2/ Monthly average of real ex-post interest on T-bills maturing during the month.

3/ Defined as annualized monthly nominal interest rates deflated by the annualized rates of CPI inflation during the following three months.

Table 62. Turkey: Interest Rates on Foreign Exchange Denominated Deposits and Commercial Lending, 1994-98
(Compounded; percent)

	Three-month Deposits		Commercial Credit	
	US Dollar	Deutsche Mark 1/	Short-term	Long-term
1994	3.9	5.9	8.5	10.9
1995	4.8	5.4	9.5	8.1
1996	5.7	5.0	10.4	7.2
1997	7.2	5.7	9.9	7.3
1996				
January	5.3	5.1	9.6	8.5
February	5.4	5.1	9.6	7.1
March	5.5	5.0	12.1	7.2
April	5.5	5.1	12.0	7.3
May	5.7	5.0	12.2	7.1
June	5.6	5.0	12.8	7.2
July	5.5	5.0	9.5	7.0
August	5.7	4.7	9.6	7.0
September	5.6	4.7	9.5	7.0
October	5.7	4.8	9.4	7.0
November	6.2	4.9	9.3	7.1
December	6.4	5.1	9.4	6.7
1997				
January	6.1	4.8	9.5	7.1
February	6.0	4.8	9.6	7.1
March	6.1	4.8	9.7	7.0
April	6.1	4.8	9.8	7.0
May	6.5	5.1	10.0	7.1
June	7.0	5.3	9.8	7.1
July	7.3	5.6	10.0	7.2
August	7.6	6.0	10.0	7.2
September	8.1	6.5	10.0	8.8
October	8.4	6.7	10.0	7.3
November	8.5	6.8	9.9	7.1
December	8.3	6.7	9.9	7.2
1998				
January	8.3	6.8	--	--
February	8.4	6.8	--	--
March	8.4	6.8	--	--

Sources: Central Bank of Turkey; and staff estimates.

1/ Deutsche Mark deposits.

Table 63. Turkey: Taxes on Financial Instruments, 1995-97
(In percent)

	1995			1996			1997		
	January	June	December	January	June	December	January	June	December
Withholding tax on TL deposits	5.0	5.0	5.0	5.0	5.0	5.0	12.0	12.0	12.0
Inclusive of Fund contribution 1/	5.4	5.5	5.5	5.5	5.5	5.5	13.2	13.2	13.2
Withholding tax on FX deposits	10.0	10.0	10.0	10.0	10.0	10.0	12.0	12.0	12.0
Witholding tax on corporate bonds	10.0	10.0	10.0	10.0	10.0	10.0	12.0	12.0	12.0
Witholding tax on finance bills	10.0	10.0	10.0	10.0	10.0	10.0	12.0	12.0	12.0
Withholding tax on government bills and bonds 2/	0.0	0.0	0.0	0.0	0.0	10.0	12.0	12.0	12.0
Financial transaction tax	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
RUSF contribution (Consumer credits) 3/	6.0	6.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
RUSF contribution (Others)	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0	6.0

Source: Data provided by the Turkish authorities.

1/ Beginning January 1, 1993, 5% DISF charge on Deposit withholding tax has been replaced by Fund allocation charge of 7% and beginning February 1, 1995, it increased to 10%.

2/ Charge on Withholding tax on government bills and bonds was in effect from November 1, 1996.

3/ In effect since September 22, 1995.

Table 64. Turkey: Maturity Structure of Bank Deposits and Loans, 1990-98
(In percent of total)

	1990	1991	1992	1993	1994	1995	1996	1997	Feb-98
					Deposits				
TL deposits									
Sight	36.5	31.6	33.1	36.6	27.3	21.4	27.0	23.3	21.6
1-month	7.2	8.0	7.9	7.7	13.0	17.3	14.7	14.7	13.4
3-months	22.1	34.7	35.2	31.1	36.7	32.2	31.5	33.4	34.9
6-months	15.0	12.6	12.7	16.6	17.5	23.7	23.5	24.0	25.2
1 year and more	19.2	13.1	11.1	8.0	5.6	5.4	3.3	4.6	4.9
Foreign exchange deposits									
Sight	24.3	21.7	23.3	26.6	28.8	29.1	26.9	23.3	22.4
1-month	17.6	10.1	8.1	8.3	8.1	13.3	13.8	19.2	20.3
3-months	17.8	30.4	36.0	35.4	35.1	32.2	30.6	34.8	0.3
6-months	10.8	9.9	9.8	9.2	9.1	9.0	9.3	8.5	8.8
1 year and more	29.6	27.9	22.8	20.5	18.9	16.4	19.4	14.1	48.2
Total deposits									
Sight	33.4	28.3	29.3	32.2	28.1	25.5	26.9	23.3	22.0
1-month	9.8	8.7	8.0	7.9	10.5	15.2	14.3	17.0	17.1
3-months	21.1	33.3	35.5	33.0	35.8	32.2	31.1	34.1	16.5
6-months	13.9	11.7	11.6	13.3	13.2	15.9	16.6	16.2	16.5
1 year and more	21.8	17.9	15.5	13.5	12.4	11.2	11.1	9.4	27.9
Average maturity (in months)									
TL deposits	3.9	3.4	3.2	3.0	2.9	3.2	2.9	3.1	3.3
FX deposits	4.9	5.0	4.5	4.2	3.9	3.6	3.9	3.4	6.5
Total deposits	4.2	3.9	3.7	3.5	3.5	3.4	3.4	3.3	5.0
					Loans				
Lira loans									
Short-term	73.1	73.2	74.7	75.2	76.6	81.3	83.2	86.7	...
Long-term	26.9	26.8	25.3	24.8	23.4	18.7	16.8	13.3	...
Foreign exchange loans									
Short-term	72.4	74.6	81.2	81.5	78.2	85.5	81.2	84.2	...
Long-term	27.6	25.4	18.8	18.5	21.8	14.5	18.8	15.8	...
Total lonas									
Short-term	72.9	73.6	76.6	77.3	77.4	83.2	82.2	85.6	...
Long-term	27.1	26.4	23.4	22.7	22.6	16.8	17.8	14.4	...

Source: Central Bank of Turkey.

Table 65. Turkey: Breakdown of Banks Loans to the Private Sector, 1990-97
(Percentage shares)

	1990	1991	1992	1993	1994	1995	1996	Nov-97
Export loans	13.6	17.1	17.9	18.5	23.0	24.5	29.0	30.2
Commercial loans	38.9	38.4	35.5	33.1	31.6	29.9	29.9	34.6
Special loans	32.3	30.4	32.2	29.1	28.1	28.7	26.2	18.7
Financial sector loans	4.2	5.4	5.5	6.8	8.8	8.6	6.1	5.1
Consumer loans	4.1	3.4	5.2	9.1	3.7	4.4	4.7	6.4
Export guaranteed investment loans	2.9	2.2	1.6	1.5	2.1	2.1	2.2	3.0
Other investment loans	3.7	3.0	2.0	1.9	2.8	1.7	1.7	2.0
Import loans	0.2	0.2	0.1	0.0	0.1	0.1	0.2	0.1

Source: Central Bank of Turkey.

Table 66. Turkey: General Information on Banks, 1995-97

	No. of Banks			Capital Billion TL			Number of Branches			Personnel Employed		
	1995	1996	1997	1995	1996	1997	1995	1996	1997	1995	1996	1997
A. Investment and Development Banks	13	14	13	13,841	36,914	96,158	23	27	16	6,093	6,377	5,715
State banks	3	3	3	9,693	27,364	82,460	9	9	7	5,240	5,110	4,827
Private banks	7	8	7	3,738	8,638	12,250	10	15	8	714	1,142	808
Foreign banks	3	3	3	410	912	1,448	4	3	1	139	125	80
B. Deposit Money Banks	55	55	59	122,550	254,655	746,681	6,196	6,385	6,609	138,964	140,996	146,798
State banks	5	5	5	31,608	54,001	209,193	2,866	2,870	2,826	72,850	70,284	69,377
Private banks	31	31	35	83,625	177,309	480,540	3,228	3,408	3,675	62,691	67,241	73,624
Foreign banks	19	19	19	7,317	23,345	56,948	102	107	108	3,423	3,471	3,797
Of which : branch offices	11	11	10	2,740	9,573	19,346	17	19	13	798	902	892
Total	68	69	72	136,391	291,569	842,839	6,219	6,412	6,625	145,057	147,373	152,513

Source: Data provided by the Turkish authorities.

Table 67. Turkey: Distribution of Bank Assets, 1992-97

	1992	1993	1994	1995	1996	1997
	(In billions of Turkish liras)					
Investment and development banks	40,170	73,834	164,662	302,126	553,774	1,042,507
State banks	29,123	52,213	121,804	232,169	406,970	791,176
Private banks	9,702	18,770	39,015	61,863	128,494	206,681
Foreign banks	1,345	2,851	3,843	8,094	18,310	44,650
Deposit money banks	510,419	973,592	1,854,263	3,803,409	8,404,789	18,333,786
State banks	235,237	386,185	800,215	1,550,370	3,428,986	6,696,986
Private banks	254,578	547,727	993,061	2,093,002	4,584,663	10,506,286
Foreign banks	20,604	39,680	60,987	160,037	391,140	1,130,514
Total assets	550,589	1,047,426	2,018,925	4,105,535	8,958,563	19,376,293
	(Share in total assets, in percent)					
Investment and development banks	7.3	7.0	8.2	7.4	6.2	5.4
State banks	5.3	5.0	6.0	5.7	4.5	4.1
Private banks	1.8	1.8	1.9	1.5	1.4	1.1
Foreign banks	0.2	0.3	0.2	0.2	0.2	0.2
Deposit money banks	92.7	93.0	91.8	92.6	93.8	94.6
State banks	42.7	36.9	39.6	37.8	38.3	34.6
Private banks	46.2	52.3	49.2	51.0	51.2	54.2
Foreign banks	3.7	3.8	3.0	3.9	4.4	5.8
	(In percent of GNP)					
Investment and development banks	3.6	3.7	4.2	3.8	3.7	3.5
State banks	2.6	2.6	3.1	3.0	2.7	2.7
Private banks	0.9	0.9	1.0	0.8	0.9	0.7
Foreign banks	0.1	0.1	0.1	0.1	0.1	0.2
Deposit money banks	46.3	48.7	47.7	48.4	56.1	61.7
State banks	21.3	19.3	20.6	19.7	22.9	22.6
Private banks	23.1	27.4	25.5	26.6	30.6	35.4
Foreign banks	1.9	2.0	1.6	2.0	2.6	3.8
Total assets	49.9	52.4	51.9	52.3	59.8	65.3

Source: Data provided by the Turkish authorities.

Table 68. Turkey: Concentration Ratios for Deposit Money Banks, 1990-97
(Shares in percent)

	1990	1991	1992	1993	1994	1995	1996	1997
Largest five banks 1/								
Total assets	54	54	52	50	56	52	49	45
Total deposits	59	55	56	52	56	53	53	47
Total loans	57	55	58	53	55	56	49	45
Largest ten banks 1/								
Total assets	75	77	75	71	82	75	71	70
Total deposits	85	80	81	76	82	76	73	72
Total loans	78	75	86	75	80	78	72	74

Source: Data provided by the Turkish authorities.

1/ At end-December 1997, three of the five largest banks (Ziraat Bank, Halk Bank, and Emlak Bank), and four of the ten largest banks (the previous three and Vakif Bank) were state owned.

Table 69. Turkey: Commercial Banking System Capital/Asset Ratios, 1992-97 1/
(In percent)

	1992	1993	1994	1995	1996	1997
Investment and development banks	8.05	9.79	3.83	8.84	16.07	18.40
State banks	8.72	9.48	2.07	6.78	13.24	17.72
Private banks	5.44	11.30	11.31	17.40	33.35	26.66
Foreign banks	17.13	11.16	30.15	38.25	32.06	11.19
Deposit money banks	8.63	10.38	8.10	12.97	12.41	12.22
State banks	10.04	12.70	8.12	8.31	9.13	12.63
Private banks	7.60	9.08	7.35	14.73	13.39	11.93
Foreign banks	10.95	13.80	20.73	21.76	20.83	13.67
Total	8.57	10.32	7.61	12.60	12.66	12.62

Source: Data provided by the Turkish authorities.

1/ The capital asset ratio is measured at end-of-period. It is defined as the ratio of the capital base over risk-weighted asse noncash credits, and obligations, in conformity with the Banking Law No. 3182 (Decree No. 12, February 9, 1995).

Table 70. Turkey: Bank Profitability Indicators, 1991-97
(In percent) 1/

Type of Banks	1991	1992	1993	1994	1995	1996	1997
Investment and Development Banks							
Profits on total average equity	16.0	16.7	25.9	-33.1	58.1	80.9	36.7
Profits on total average assets	1.7	1.7	2.3	-1.7	2.6	5.5	3.8
Deposit Money Banks							
Profits on total average equity	39.0	50.1	56.1	37.8	55.6	59.0	54.8
Profits on total average assets	2.6	3.3	3.7	2.5	3.6	3.6	3.1
State Banks 2/							
Profits on total average equity	15.7	48.9	47.0	-10.0	10.3	31.9	29.3
Profits on total average assets	0.9	2.8	3.0	-0.5	0.4	1.4	1.3
Private Banks 2/							
Profits on total average equity	48.7	44.4	57.7	59.2	76.3	77.2	61.1
Profits on total average assets	4.1	3.5	4.1	4.4	6.1	6.0	4.3

Source: Data provided by the Turkish authorities.

1/ After tax profits and losses in percent of average stocks of equity or assets at beginning- and end-year. Branches abroad are excluded.

2/ Includes both investment/development banks and deposit money banks.

Table 71. Turkey: Nonperforming Loans and Selected Assets in Bank Portfolios, 1991-97
(In percent of total assets) 1/

Type of Banks	1991	1992	1993	1994	1995	1996	1997
Development and Investment Banks							
Treasury bills and bonds	1.8	2.2	2.1	1.2	1.8	2.5	2.5
Other public issues securities	0.1	0.4	0.2	0.4	0.2	0.2	0.1
Loans	61.1	62.4	61.1	58.8	63.4	70.7	69.3
Nonperforming loans (gross)	3.0	3.2	2.7	5.2	3.9	1.8	1.3
Provisions	1.0	0.8	0.8	1.5	1.1	0.3	0.3
Nonperforming loans (net)	2.0	2.4	1.9	3.7	2.8	1.4	0.9
Deposit Money Banks—State Banks							
Treasury bills and bonds	11.0	11.9	15.1	11.5	8.3	10.6	7.8
Other public issues securities	0.5	0.2	0.0	0.6	1.0	0.6	0.1
Loans	42.1	41.2	39.0	37.4	44.0	39.5	45.6
Nonperforming loans (gross)	3.5	1.8	1.8	1.5	1.3	1.1	1.2
Provisions	2.1	1.2	1.1	1.0	0.7	0.7	0.4
Nonperforming loans (net)	1.4	0.6	0.7	0.5	0.6	0.4	0.7
Deposit Money Banks—Private Banks							
Treasury bills and bonds	11.7	9.1	6.7	7.5	7.4	9.7	12.9
Other public issues securities	0.4	0.3	0.2	1.7	0.7	0.6	0.1
Loans	38.7	38.5	38.0	35.1	36.6	44.5	45.3
Nonperforming loans (gross)	1.0	0.9	0.8	1.1	0.8	0.7	0.9
Provisions	0.7	0.6	0.5	0.7	0.6	0.5	0.6
Nonperforming loans (net)	0.3	0.3	0.3	0.4	0.2	0.2	0.3
Deposit Money Banks—Foreign Banks							
Treasury bills and bonds	8.9	7.9	4.1	6.9	8.9	14.1	11.8
Other public issues securities	6.3	4.0	7.4	6.7	9.2	15.4	0.0
Loans	45.2	34.5	30.9	23.8	24.3	20.5	23.9
Nonperforming loans (gross)	1.2	1.0	7.3	2.6	0.7	0.4	0.3
Provisions	0.7	0.6	7.0	1.3	0.6	0.3	0.2
Nonperforming loans (net)	0.5	0.4	0.4	1.3	0.1	0.1	0.1
Total Commercial Banking System							
Treasury bills and bonds	10.4	9.7	9.4	8.6	7.4	9.8	10.5
Other public issues securities	0.6	0.4	0.4	1.3	1.2	1.2	0.1
Loans	42.3	41.3	39.8	37.7	41.0	43.1	45.5
Nonperforming loans (gross)	2.3	1.5	1.5	1.6	1.2	0.9	1.0
Provisions	1.4	0.9	1.0	0.9	0.7	0.6	0.5
Nonperforming loans (net)	0.9	0.6	0.5	0.7	0.5	0.3	0.4

Source: Data provided by the Turkish authorities.

1/ Branches abroad are excluded.

Table 72. Turkey: Net Open Position of Commercial Banks, 1991-97 1/
(In millions of U.S. dollars)

Type of Banks	1991	1992	1993	1994	1995	1996	1997
Investment and Development Banks	**30**	**25**	**-404**	**-195**	**-16**	**-17**	**99**
State banks	-112	76	-232	-27	75	62	213
Private banks	144	-29	-116	-136	-79	-61	-88
Foreign banks	-2	-22	-56	-32	-12	-18	-26
Deposit Money Banks	**-1,004**	**-2,616**	**-4,574**	**-823**	**-1,499**	**-2,032**	**-2,629**
State banks	11	-660	-673	59	-341	186	316
Private banks	-970	-1,944	-3,577	-720	-1,141	-2,131	-2,821
Foreign banks	-45	-12	-324	-162	-17	-87	-124
Total Commercial Banking System	-974	-2,591	-4,978	-1,018	-1,515	-2,049	-2,530
(in percent of paid-in capital)	38.9	103.6	178.4	54.7	68.2	75.5	61.7

Source: Data provided by the Turkish authorities.

1/ The net open position is defined as (total asset + forward purchases) - (total liabilities + forward sales) in foreign currency valued at end-period central bank buying exchange rates. Exchange indexed transactions are not included.

Table 73. Turkey: Consolidated Budget 1993-98
(In percent of GNP)

	1993	1994	1995	1996	1997 Preliminary	1998 Budget	1998 Program 1/
Total revenues	17.6	19.1	17.7	18.0	19.2	21.6	21.6
Tax revenues	13.2	15.1	13.8	15.0	16.0	18.1	17.7
Direct	6.4	7.3	5.9	5.9	6.5	7.8	7.9
Indirect	6.8	7.8	7.9	9.1	9.5	10.3	9.9
Nontax revenue	4.4	4.0	3.9	3.0	3.2	3.5	3.9
Revenues earmarked to budgetary funds	3.2	2.6	2.6	1.8	1.8	1.7	1.9
Education levies	0.0	0.0	0.0	0.0	0.2	0.6	0.6
Revenue from state property	0.2	0.3	0.3	0.6	0.7	0.7	...
Other	1.0	1.1	1.0	0.7	0.5	0.5	1.4
Expenditures	24.3	23.1	21.8	26.3	26.7	30.1	29.2
Noninterest expenditure	18.5	15.4	14.4	16.3	19.1	18.1	17.5
Personnel	8.5	7.0	6.4	6.5	7.0	7.1	7.1
Other current	1.8	1.9	1.8	2.1	2.3	2.7	2.5
Transfers	5.5	4.6	5.1	6.2	7.8	6.2	6.0
Social security	0.7	1.0	1.4	2.2	2.6	2.9	2.7
Allocation to budgetary funds	1.4	1.1	0.8	1.1	1.3	0.7	0.7
Agricultural subsidies	0.2	0.2	0.2	0.4	0.8	0.4	0.4
State participation 2/	0.1	0.0	0.1	0.2	0.6	0.1	0.1
Transfers to SEEs	1.3	0.5	0.6	0.3	0.4	0.3	0.3
Banks' duty losses	0.0	0.1	0.1	0.2	0.2	0.1	0.1
Other	1.9	1.6	1.9	1.7	1.9	1.8	1.9
Investment	2.7	1.9	1.2	1.6	2.0	2.0	1.9
Interest payments	5.8	7.7	7.3	10.0	7.7	12.0	11.7
Domestic borrowing	4.6	6.0	6.1	8.9	6.7	10.9	10.5
Foreign borrowing	1.2	1.7	1.3	1.1	1.0	1.2	1.2
Primary balance	-0.9	3.7	3.3	1.7	0.1	3.5	4.1
Overall balance (commitment)	-6.7	-4.0	-4.1	-8.3	-7.6	-8.5	-7.6
Overall balance (cash)	-6.3	-4.0	-3.8	-8.5	-7.5	-8.5	-7.6
Financing	6.3	4.0	3.8	8.5	7.5	8.5	7.6
Foreign borrowing (net)	1.1	-1.7	-1.0	-0.9	-1.5	-1.0	-0.7
Receipts from loans	2.3	1.1	2.0	1.9	0.8	2.6	2.8
Payments on loans	-1.3	-2.9	-3.0	-2.8	-2.3	-3.6	-3.5
Domestic borrowing (net)	5.3	5.6	4.8	9.4	9.0	9.2	7.3
Central bank (net)	2.7	1.3	1.2	1.5	0.0	0.0	0.0
Treasury bills and bonds (net)	2.6	4.5	3.6	7.1	8.4	8.9	7.2
Other	0.0	-0.2	0.0	0.7	0.5	0.2	0.1
Privatization, asset sales and other	0.0	0.1	0.0	0.0	0.1	0.4	1.0
Extrabudgetary operations	1.1	1.7	2.0	1.6	1.0	...	1.0
Quasi-fiscal operations	2.2	0.9	0.8	1.8	1.4	...	1.0
Adjusted balance (cash) 3/	-9.6	-6.6	-6.5	-12.0	-9.9	...	-9.7
Adjusted domestic borrowing 3/	8.5	8.2	7.5	12.8	11.4	...	9.4
Outstanding stock of duty losses							
Ziraat bank	...	3.1	1.5	2.2	3.5	...	...
Halk bank	...	0.6	0.7	1.1	2.0	...	...

Sources: Undersecretariat of the Treasury; and staff estimates.

1/ Program under the IMF Staff Monitored Program.
2/ Capital transfers to financial and nonfinancial SEEs.
3/ Adjusted for extrabudgetary and quasi-fiscal operations.

Table 74. Turkey: Consolidated Budget, 1993-98
(In billions of Turkish liras)

	1993	1994	1995	1996	1997 Preliminary	1998 Budget	1998 Program
Total revenue	**351,392**	**742,390**	**1,390,454**	**2,696,762**	**5,688,998**	**10,620,000**	**11,397,500**
Tax revenue	264,273	587,760	1,084,350	2,244,095	4,750,451	8,900,000	9,349,500
Direct	128,324	283,733	460,437	883,607	1,932,328	3,835,000	4,143,000
Indirect	135,949	304,028	623,913	1,360,488	2,818,123	5,065,000	5,206,500
Nontax revenue	87,119	154,630	306,104	452,667	938,547	1,720,000	2,048,000
Revenues earmarked to budgetary funds	63,411	100,370	203,781	264,093	523,163	851,000	1,025,000
Education levies	0	0	0	0	52,400	300,000	300,000
Revenue from state property	4,535	12,043	21,023	83,083	201,468	332,000	...
Other	19,173	42,217	81,300	105,491	161,516	237,000	723,000
Expenditure	**485,231**	**897,289**	**1,710,615**	**3,940,200**	**7,936,308**	**14,789,000**	**15,421,000**
Noninterest expenditure	368,761	599,004	1,134,500	2,442,800	5,658,391	8,894,000	9,254,000
Personnel	169,511	273,062	502,600	974,100	2,072,753	3,500,000	3,750,000
Other current	35,300	73,400	141,500	308,600	692,724	1,330,000	1,330,000
Transfers	110,789	179,754	398,600	922,000	2,313,329	3,064,000	3,174,000
Social security	13,700	39,260	108,200	335,300	760,000	1,400,000	1,400,000
Allocation to budgetary funds	27,649	44,352	64,900	168,400	387,000	350,000	351,000
Agricultural subsidies	3,547	8,773	17,100	59,000	251,000	200,000	200,000
State participation 1/	1,310	1,748	5,300	25,000	181,000	30,000	30,000
Transfers to SEEs	25,800	21,000	45,400	50,200	123,640	160,000	160,000
Banks' duty losses	985	2,388	9,640	24,000	49,000	50,000	50,000
Other	37,798	62,233	148,060	260,100	561,689	874,000	983,000
Investment	53,161	72,788	91,800	238,100	579,585	1,000,000	1,000,000
Interest payments	116,470	298,285	576,115	1,497,400	2,277,917	5,895,000	6,167,000
Domestic borrowing	92,518	233,168	475,519	1,329,100	1,977,967	5,325,000	5,559,000
Foreign borrowing	23,952	65,117	100,596	168,300	299,950	570,000	608,000
Primary balance	**-17,369**	**143,386**	**255,954**	**253,962**	**30,607**	**1,726,000**	**2,143,500**
Overall balance (commitment)	**-133,857**	**-154,906**	**-320,161**	**-1,243,438**	**-2,247,310**	**-4,169,000**	**-4,023,500**
Overall balance (cash)	**-126,103**	**-154,606**	**-297,961**	**-1,273,038**	**-2,227,088**	**-4,169,000**	**-4,023,500**
Financing	**126,103**	**154,606**	**297,961**	**1,273,039**	**2,227,088**	**4,169,000**	**4,023,500**
Foreign borrowing (net)	21,062	-67,174	-79,600	-134,400	-452,584	-485,000	-368,000
Receipts from loans	46,140	44,030	159,400	277,700	238,682	1,259,000	1,487,000
Payments on loans	-25,078	-111,204	-239,000	-412,100	-691,266	-1,744,000	-1,855,000
Domestic borrowing (net)	105,041	219,054	373,992	1,402,166	2,664,672	4,536,000	3,854,500
Central bank (net)	53,010	51,857	93,700	229,000	0	0	0
Treasury bills and bonds (net)	52,312	173,900	282,900	1,066,200	2,505,517	4,356,000	3,782,500
Other	-281	-6,703	-2,608	106,966	159,155	118,000	72,000
Privatization, asset sales and other	0	2,726	3,569	5,273	15,000	180,000	537,000
Extrabudgetary operations	21,996	66,572	153,959	245,187	308,112	...	552,461
Quasi-fiscal operations	43,125	34,579	61,454	272,262	418,867	...	533,532
Adjusted balance (cash) 2/	-191,224	-255,757	-513,374	-1,790,487	-2,954,067	...	-5,109,493
Adjusted domestic borrowing 2/	170,162	320,205	589,405	1,919,615	3,391,651	...	4,940,493
Outstanding stock of duty losses							
Ziraat bank	...	120,505	121,224	329,591	1,042,483	...	...
Halk bank	...	23,972	57,188	170,306	597,164	...	...

Sources: Undersecretariat of the Treasury; and staff estimates.

1/ Capital transfers to financial and nonfinancial SEEs.
2/ Adjusted for extrabudgetary and quasi-fiscal operations.

Table 75. Turkey: Consolidated Budget Tax Revenue, 1993-98

	1993	1994	1995	1996	1997 Provisional	1998 Budget	1998 Program
			(In billions of Turkish liras)				
Tax revenue	264,273	587,760	1,084,350	2,244,095	4,750,451	8,900,000	9,350,000
Direct taxes	128,324	283,733	460,437	883,607	1,932,328	3,835,000	4,143,000
Taxes on income	125,793	278,074	435,999	864,970	1,896,789	3,770,000	4,078,000
Personal income tax	106,661	181,884	329,795	675,632	1,500,751	2,970,000	3,278,000
Corporate income tax	19,132	43,976	103,241	189,338	396,038	800,000	800,000
Additional taxes	...	52,214	2,963	...	...	...	...
Taxes on wealth 1/	2,531	5,659	24,438	18,637	35,539	65,000	65,000
Indirect taxes	135,949	304,027	623,913	1,360,488	2,818,123	5,065,000	5,207,000
Taxes on goods and services	89,447	214,353	429,232	971,188	1,992,240	3,737,000	3,777,000
VAT on domestic transactions	50,892	110,918	212,119	415,131	862,050	1,510,000	1,600,000
Supplementary VAT (exercises)	388	8,029	16,937	42,857	58,997	140,000	140,000
Petroleum consumption tax	12,791	46,625	103,180	303,915	637,470	1,340,000	1,240,000
Financial transactions tax	7,129	16,467	25,340	56,999	114,680	185,000	225,000
Stamp duty	7,971	13,677	29,197	57,334	121,891	215,000	225,000
Other indirect taxes 2/	10,276	18,637	42,459	94,952	197,152	347,000	347,000
Taxes on imports	46,213	89,650	194,648	387,282	824,636	1,327,500	1,430,000
Customs duties	13,171	21,842	48,433	62,041	110,906	180,000	180,000
VAT on imports	30,985	65,824	142,861	323,715	699,062	1,120,000	1,240,000
Other duties and levies	2,057	1,984	3,354	1,526	14,668	27,500	10,000
Abolished taxes	289	24	33	2,018	1,247	500	0
			(In percent of GNP)				
Tax revenue	13.2	15.1	13.8	15.0	16.0	18.1	17.7
Direct taxes	6.4	7.3	5.9	5.9	6.5	7.8	7.9
Taxes on income	6.3	7.2	5.6	5.8	6.4	7.7	7.7
Personal income tax	5.3	4.7	4.2	4.5	5.1	6.1	6.2
Corporate income tax	1.0	1.1	1.3	1.3	1.3	1.6	1.5
Additional taxes	0.0	0.0	0.7	0.0	0.0	0.0	-
Taxes on wealth 1/	0.1	0.1	0.3	0.1	0.1	0.1	0.1
Indirect taxes	6.8	7.8	7.9	9.1	9.5	10.3	9.9
Taxes on goods and services	4.5	5.5	5.5	6.5	6.7	7.6	7.2
VAT on domestic transactions	2.5	2.9	2.7	2.8	2.9	3.1	3.0
Supplementary VAT (exercises)	0.0	0.2	0.2	0.3	0.2	0.3	0.3
Petroleum consumption tax	0.6	1.2	1.3	2.0	2.1	2.7	2.4
Financial transactions tax	0.4	0.4	0.3	0.4	0.4	0.4	0.4
Stamp duty	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Other indirect taxes 2/	0.5	0.5	0.5	0.6	0.7	0.7	0.7
Taxes on imports	2.3	2.3	2.5	2.6	2.8	2.7	2.7
Customs duties	0.7	0.6	0.6	0.4	0.4	0.4	0.3
VAT on imports	1.6	1.7	1.8	2.2	2.4	2.3	2.4
Other duties and levies	0.1	0.1	0.0	0.0	0.0	0.1	0.0
Abolished taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Undersecretariat of the Treasury.

1/ Includes the motor vehicles tax and the inheritance and gift tax.
2/ Includes fees and excises on motor vehicle purchases.

Table 76. Turkey: Budgetary Defense and Security-Related Expenditures, 1993-98

	1993	1994	1995	1996	1997 Provisional	1998 Budget
			(In billions of Turkish liras)			
Total defense and security expenditure	68,997	134,258	254,910	502,510	1,105,285	1,965,262
Ministry of defense	43,711	85,377	167,798	333,397	745,015	1,397,375
General directorate of security	15,637	26,869	49,777	102,169	227,023	338,493
Gendarmerie	9,649	22,012	36,675	64,712	129,293	221,502
Coast guard	...	...	660	2,232	3,954	7,892
Memorandum item:						
Total defense and security expenditure	3.5	3.5	3.2	3.4	3.7	4.0

Source: General Directorate of Public Accounts, Ministry of Finance.

Table 77. Turkey: Central Government Debt, 1991-1997

	1991	1992	1993	1994	1995	1996	1997
			(In billions of Turkish liras) 1/				
Total debt	**203,824**	**374,291**	**674,031**	**1,693,132**	**2,797,075**	**5,601,755**	**10,782,556**
Domestic debt	97,644	194,235	357,347	799,310	1,361,008	3,148,984	6,282,324
Cash debt	42,151	83,333	137,389	338,266	733,254	1,923,828	4,641,784
Government bonds	23,893	41,086	72,901	34,036	220,955	603,485	2,266,794
Of which :							
Inflation indexed	0	0	0	0	0	0	975,238
FX denominated/FX indexed	1,099	1,099	1,099	1,099	7,634	239,847	276,628
Treasury bills	18,258	42,247	64,488	304,230	512,299	1,320,343	2,374,990
Of which :							
FX denominated/FX indexed	0	0	0	25,702	26,867	54,092	28,631
Noncash debt	9,508	45,300	117,605	205,349	409,815	854,163	1,302,917
Related to parafiscal operation	5,497	20,581	63,705	98,285	159,738	428,977	782,060
Other noncash securities	4,011	24,719	53,899	107,064	250,076	425,186	520,856
Unsecuritized debt	45,985	65,602	102,354	255,695	217,940	370,993	337,623
Foreign debt	**106,180**	**180,056**	**316,684**	**893,822**	**1,436,067**	**2,452,772**	**4,500,232**
Foreign debt (in millions of U.S. dollars)	25,134	25,798	28,336	30,416	31,095	30,230	29,720
			(In percent of GNP) 2/				
Total debt	**32.1**	33.9	**33.7**	43.5	**35.6**	**37.4**	36.3
Domestic debt	15.4	**17.6**	17.9	**20.6**	**17.3**	**21.0**	**21.2**
Cash debt	6.6	7.6	6.9	8.7	9.3	12.8	15.6
Noncash debt	1.5	4.1	5.9	5.3	5.2	5.7	4.4
Unsecuritized debt	7.2	5.9	5.1	6.6	2.8	2.5	1.1
Foreign debt	**16.7**	**16.3**	**15.9**	**23.0**	**18.3**	16.4	**15.2**
			(In percent of total debt)				
Domestic debt	47.9	51.9	53.0	47.2	48.7	56.2	58.3
Of which : cash debt	20.7	22.3	20.4	20.0	26.2	34.3	43.0
Foreign debt	52.1	48.1	47.0	52.8	51.3	43.8	41.7
			(In percent of total domestic debt)				
Cash debt	**43.2**	42.9	38.4	**42.3**	53.9	**61.1**	73.9
Government bonds	24.5	21.2	20.4	4.3	16.2	19.2	36.1
Of which :							
Inflation indexed	0.0	0.0	0.0	0.0	0.0	0.0	15.5
FX denominated/FX indexed	1.1	0.6	0.3	0.1	0.6	7.6	4.4
Treasury bills	18.7	21.8	18.0	38.1	37.6	41.9	37.8
Of which :							
FX denominated/FX indexed	0.0	0.0	0.0	3.2	2.0	1.7	0.5
Noncash debt	**9.7**	**23.3**	**32.9**	**25.7**	**30.1**	**27.1**	**20.7**
Related to parafiscal operation	5.6	10.6	17.8	12.3	11.7	13.6	12.4
Other noncash securities	4.1	12.7	15.1	13.4	18.4	13.5	8.3
Unsecuritized debt	**47.1**	**33.8**	**28.6**	**32.0**	**16.0**	**11.8**	**5.4**
Momorandum items:							
GNP (in trillions of TL)	634	1,104	1,997	3,888	7,855	14,978	29,695
GNP (in billions of US$)	150.2	158.1	178.7	132.3	170.1	184.6	196.1
TL/US$ (end-of-period)	5,080	8,564	14,458	38418	59501	107,505	204,750

Source: Undersecretariat of the Treasury.

1/ End-of-period stocks.
2/ End-of-period stocks divided by period GNP

Table 78. Turkey: Central Government Domestic Debt, 1991-97

	Stocks outstanding at end						1997			Stock
	1991	1992	1993	1994	1995	1996	Payments	Borrowing	Net	at end-Dec. 1997
	(In billions of Turkish liras)									
Total domestic debt	**97,644**	**194,235**	**357,347**	**799,310**	**1,361,008**	**3,148,984**	**3,298,298**	**6,431,638**	**3,133,340**	**6,282,324**
Securitized debt	**51,659**	**128,633**	**254,994**	**543,615**	**1,143,068**	**2,777,991**	**3,154,888**	**6,321,597**	**3,166,709**	**5,944,701**
Cash debt	**42,151**	**83,333**	**137,389**	**338,266**	**733,254**	**1,923,828**	**2,311,699**	**5,029,655**	**2,717,956**	**4,641,784**
Bonds sold for cash	**23,893**	**41,086**	**72,901**	**34,036**	**220,955**	**603,485**	**374,438**	**2,037,746**	**1,663,309**	**2,266,794**
By auction	8,351	28,680	62,899	6,358	159,518	296,117	159,526	796,977	637,451	933,568
Inflation indexed	0	0	0	0	0	0	35,000	1,010,238	975,238	975,238
Tap issues	13,139	9,041	5,120	9,337	35,567	18,842	18,283	0	-18,283	559
Console bonds	1,304	2,179	3,783	8,867	13,236	27,180	39	33,660	33,621	60,801
FX indexed	1,099	1,099	1,099	1,099	7,634	239,847	56,732	93,514	36,782	276,628
Public unique account	0	87	0	347	0	16,500	90,858	74,358	-16,500	0
Other issues				8,029	5,000	5,000	14,000	29,000	15,000	20,000
Bills sold for cash	**18,258**	**42,247**	**64,488**	**304,230**	**512,299**	**1,320,343**	**1,937,262**	**2,991,908**	**1,054,647**	**2,374,990**
By auction	18,258	38,855	44,265	226,616	447,405	1,244,059	1702186.9	2,759,510	1,057,323	2,301,382
Irregular issues	481	0	0	0	306,154	971,905				1,921,904
Public issues	0	3,391	20,224	45,327	36,775	22,192	69,192	91,977	22,785	44,977
Irregular issues						22,192				44,977
In terms of FX	0	0	0	25,702	26,867	54,092	133,286	107,824	-25,461	28,631
Public unique account	0	0	0	0	0	0	32,597	32,597	0	0
Other issues	0	0	0	6,585	1,251	0	0	0	0	0
Noncash debt	**9,508**	**45,300**	**117,605**	**205,349**	**409,815**	**854,163**	**843,189**	**1,291,943**	**448,754**	**1,302,917**
Related to parafiscal operations	**5,497**	**20,581**	**63,705**	**98,285**	**159,738**	**428,977**	**77,224**	**430,307**	**353,083**	**782,060**
Central bank	2,644	8,455	42,788	48,288	73,384	250,353	0	263,617	263,617	513,971
Consolidation securities	2,644	3,852	25,185	25,185	50,281	50,281	0	0	0	50,281
Paper in lieu of cash interest pay.	0	0	0	0	0	120,669	0	263,617	263,617	384,286
Securities given in place of losses	0	4,603	17,603	23,103	23,103	79,403	0	0	0	79,403
Agricultural bank	2,796	11,218	20,010	49,090	84,721	175,319	76,373	164,440	88,067	263,386
Consolidation securities	2,796	11,218	20,010	46,067	42,338	94,593	10,590	0	-10,590	84,004
Paper in lieu of cash principal & interest payments	0	0	0	3,023	42,383	80,726	65,784	164,440	98,656	179,382
Other banks	56	907	907	907	1,632	3,305	851	2,250	1,399	4,704
Consolidation securities	56	907	907	907	907	851	851	0	-851	0
Paper in lieu of cash interest pay.	0	0	0	0	725	2,454	0	2,250	2,250	4,704
Other noncash securities	**4,011**	**24,719**	**53,899**	**107,064**	**250,076**	**425,186**	**765,965**	**861,635**	**95,671**	**520,856**
Central bank	0	6,000	14,000	45,900	204,317	280,217	464,739	418,735	-46,004	234,213
Securities for devaluation account	0	6,000	14,000	45,900	179,317	205,217	389,739	343,735	-46,004	159,213
Bonds	0	6,000	14,000	45,900	60,317	48,769	160,232	270,676	110,444	159,213
Bills	0	0	0	0	119,000	156,447	229,507	73,060	-156,447	0
Securities for short-term advances	0	0	0	0	25,000	75,000	75,000	75,000	0	75,000
Bonds	0	0	0	0	25,000	50,000	50,000	75,000	25,000	75,000
Bills	0	0	0	0	0	25,000	25,000	0	-25,000	0
Agricultural bank 1/	2,077	684	684	0	0	0	0	0	0	0
Other institutions 2/	1,153	1,153	1,153	1,153	1,153	0	0	0	0	0
Extrabudgetary issues	0	14,509	33,991	45,482	44,607	116,301	65,037	0	-65,037	51,264
Foreign exchange rate difference	782	2,374	4,072	14,530	0	28,668	236,188	442,900	206,712	235,380
Bonds	782	2,374	4,072	14,530	0	27,806	232,303	439,877	207,574	235,380
Bills	0	0	0	0	0	862	3,886	3,023	-862	0
Unsecuritized debt	**45,985**	**65,602**	**102,354**	**255,695**	**217,940**	**370,993**	**143,410**	**110,041**	**-33,369**	**337,623**

Source: Undersecretariat of the Treasury.

1/ Securities given to cover duty losses.
2/ Consolidation securities.

Table 79. Turkey: Holders of the Central Government Securitized Debt, 1991-97 1/

	1991	1992	1993	1994	1995	1996	1997
				(In billions of Turkish liras)			
Total securitized debt	**51,659**	**128,633**	**254,994**	**543,615**	**1,143,068**	**2,777,991**	**5,944,701**
Banking system	**30,572**	**58,644**	**113,957**	**221,331**	**581,990**	**1,331,819**	**2,447,753**
Central bank	4,499	20,773	37,013	75,098	329,168	457,139	605,111
Commercial banks	26,073	37,872	76,944	146,233	252,822	874,679	1,842,642
Private sector							
Repos with banks	**0**	**25,645**	**71,209**	**102,706**	**258,597**	**521,609**	**2,097,591**
Residual	**21,087**	**44,344**	**69,828**	**219,578**	**302,482**	**924,564**	**1,399,357**
				(In millions of U.S. dollars) 2/			
Total securitized debt	**10,169**	**15,020**	**17,637**	**14,150**	**19,211**	**25,841**	**29,034**
Banking system	**6,018**	**6,848**	**7,882**	**5,761**	**9,781**	**12,388**	**11,955**
Central bank	886	2,426	2,560	1,955	5,532	4,252	2,955
Commercial banks	5,133	4,422	5,322	3,806	4,249	8,136	8,999
Private sector							
Repos with banks	**0**	**2,995**	**4,925**	**2,673**	**4,346**	**4,852**	**10,245**
Residual	**4,151**	**5,178**	**4,830**	**5,716**	**5,084**	**8,600**	**6,834**
				(In percent of total)			
Central bank	8.7	16.1	14.5	13.8	28.8	16.5	10.2
Commercial banks	50.5	29.4	30.2	26.9	22.1	31.5	31.0
Private sector repos with banks	0.0	19.9	27.9	18.9	22.6	18.8	35.3
Other	40.8	34.5	27.4	40.4	26.5	33.3	23.5

Source: Data provided by the Turkish authorities.

1/ The breakdown shown in this table is only approximate as it is based on Treasury's data, which value debt excluding accrued interest, and monetary survey data, where debt data reported by some banks may be marked to market.

2/ Converted into U.S. dollars by using end-of-period exchange rate.

Table 80. Turkey: Public Sector Borrowing Requirement, 1993-98

	1993	1994	1995	1996	1997	1998 Program
			(In trillions of Turkish liras)			
Public Sector Borrowing Requirement	**292.0**	**379.4**	**469.3**	**1,725.9**	**3,398.2**	**5,518.8**
Consolidated budget & extra-budgetary and and quasi-fiscal operations	**191.2**	**255.8**	**513.4**	**1,790.5**	**2,954.1**	**5,109.6**
Consolidated budget deficit	126.1	154.6	298.0	1,273.0	2,227.1	4,023.6
Interest payments settled by issuing noncash debt	0.0	3.0	40.1	163.8	430.3	533.5
Issuing of consolidation bonds (net)	43.1	31.6	21.4	108.5	-11.4	0.0
Off-budget transfers	20.5	28.0	20.0	90.0	0.0	0.0
Debt servicing of guarranteed debt	1.5	38.6	134.0	155.2	308.1	552.6
Domestic debt	0.0	14.0	66.2	60.3	102.2	194.8
External debt	1.5	24.6	67.7	95.0	205.9	357.7
Rest of the general government 1/	**46.9**	**67.8**	**31.3**	**-51.3**	**145.6**	**112.4**
Extrabudgetary funds 2/	21.5	33.1	-15.6	-75.8	162.3	202.4
Social security institutions	11.8	23.9	49.6	15.3	29.6	63.3
Local governments 3/	13.6	10.5	-5.8	10.8	-44.1	-147.9
Revolving funds	0.1	0.3	3.1	-1.6	-2.2	-5.4
Nonfinancial SEEs	53.9	55.8	-75.3	-13.2	298.6	296.8
			(In percent of GNP)			
Public Sector Borrowing Requirement	**14.6**	**9.8**	**6.0**	**11.5**	**11.4**	**10.5**
Consolidated budget & extra-budgetary and	**9.6**	**6.6**	**6.5**	**12.0**	**9.9**	**9.7**
and quasi-fiscal operations	0.0	0.0	0.0	0.0	0.0	0.0
Consolidated budget deficit	6.3	4.0	3.8	8.5	7.5	7.6
Interest payments settled by issuing noncash debt	0.0	0.1	0.5	1.1	1.4	1.0
Issuing of consolidation bonds (net)	2.2	0.8	0.3	0.7	0.0	0.0
Off-budget transfers	1.0	0.7	0.3	0.6	0.0	0.0
Debt servicing of guarranteed debt	0.1	1.0	1.7	1.0	1.0	1.0
Domestic debt	0.0	0.4	0.8	0.4	0.3	0.4
External debt	0.1	0.6	0.9	0.6	0.7	0.7
Rest of the general government 1/	**2.3**	**1.7**	**0.4**	**-0.3**	**0.5**	**0.2**
Extrabudgetary funds 2/	1.1	0.9	-0.2	-0.5	0.5	0.4
Social security institutions	0.6	0.6	0.6	0.1	0.1	0.1
Local governments 3/	0.7	0.3	-0.1	0.1	-0.1	-0.3
Revolving funds	0.0	0.0	0.0	0.0	0.0	0.0
Nonfinancial SEEs	2.7	1.4	-1.0	-0.1	1.0	0.6

Source: Data provided by the Turkish authorities.

1/ Borrowing requirement adjusted for off-budgetary transfers and repayments of guarranteed debt by the central government.
2/ Consists of a set of 13 funds whose accounts are shown in Table 85.
3/ Consists of local government, municipalities, and 3 local government funds.

Table 81. Turkey: General Government Consolidated Accounts, 1993-97 1/
(In percent of GNP)

	1993	1994	1995	1996	1997 Estimate
Total revenue	**25.2**	**27.3**	**25.2**	**26.3**	**27.7**
Taxes	18.0	19.0	17.6	18.5	20.0
Consolidated budget	13.2	15.1	13.8	15.0	16.0
Local governments	1.9	2.1	2.1	2.1	2.3
Extra-budgetary funds	2.9	1.8	1.7	1.5	1.8
Nontax revenues	7.2	8.3	7.6	7.8	7.7
Consolidated budget	1.2	1.4	1.3	1.3	1.4
Local governments 2/	0.9	1.0	1.0	1.0	1.0
Extra-budgetary funds 3/	0.8	0.7	0.7	0.7	0.6
Social security systems	4.4	3.7	3.1	3.8	4.1
Other funds 4/	0.0	1.5	1.5	1.0	0.7
Total expenditure & net lending	**37.8**	**35.7**	**32.4**	**37.8**	**38.2**
Wages and other current expenditures	13.1	13.0	11.7	12.0	12.6
Consolidated budget	10.3	8.9	8.2	8.6	9.3
Local governments	1.5	1.3	1.2	1.2	1.3
Extra-budgetary funds	0.5	0.5	0.6	0.4	0.6
Social security systems	0.8	0.9	0.5	0.8	0.5
Other funds	0.0	1.4	1.2	1.0	0.8
Current transfers	9.4	7.9	8.0	9.0	11.2
Consolidated budget	3.5	2.4	2.8	2.7	3.7
Local governments	0.3	0.3	0.3	0.3	0.3
Extra-budgetary funds	0.9	0.8	0.5	0.7	1.0
Social security systems	4.7	4.3	4.4	5.3	6.1
Interest payments	6.1	8.4	8.2	10.7	8.4
Consolidated budget	5.8	7.7	7.3	10.0	7.7
Local governments	0.2	0.4	0.3	0.3	0.3
Extra-budgetary funds	0.1	0.2	0.4	0.3	0.5
Social security systems	0.0	0.0	0.1	0.1	0.0
Investment	5.3	3.6	2.8	3.6	4.1
Consolidated budget	2.7	1.9	1.2	1.6	2.0
Local governments	1.2	1.1	1.1	1.3	1.3
Extra-budgetary funds	1.4	0.7	0.5	0.7	0.9
Social security systems	0.0	0.0	0.0	0.1	0.0
Capital transfers	0.5	0.7	0.3	0.2	0.3
Consolidated budget	0.0	0.0	0.0	0.0	0.0
Local governments	0.0	0.0	0.0	0.0	0.0
Extra-budgetary funds	0.5	0.7	0.3	0.2	0.3
Social security systems	0.0	0.0	0.0	0.0	0.0
Exta-budgetary and quasi-fiscal expenditures	3.2	2.0	1.4	2.3	1.5
Primary balance	**-3.2**	**2.1**	**2.4**	**1.5**	**-0.5**
Balance (commitment basis)	**-12.5**	**-8.3**	**-7.2**	**-11.4**	**-10.5**
Financing	12.5	8.3	7.2	11.4	10.5
External	1.3	-1.7	-1.2	-0.9	-1.3
Borrowing	2.8	1.4	2.1	2.3	1.4
Repayments	-1.6	-3.2	-3.4	-3.2	-2.7
Domestic	11.0	9.6	8.1	12.1	11.5
Privatization	0.2	0.4	0.3	0.2	0.3

Sources: State Planning Organization; and staff estimates.

1/ The consolidation methodology has been modified to present government operations on a gross basis.
2/ Consists of local governments, municipalities, and 3 local government funds: the Municipalities Fund, the Local Government Fund, and the Special Provinces Fund.
3/ 13 Extrabudgetary funds whose accounts are consolidated in table 85.
4/ Consists of 48 other funds.

Table 82. Turkey: General Government Consolidated Accounts, 1993-97 1/
(In billions of Turkish liras)

	1993	1994	1995	1996	1997 Estimate
Total revenue	**504,283**	**1,062,725**	**1,980,227**	**3,945,131**	**8,236,024**
Taxes	359,556	738,170	1,383,888	2,778,148	5,952,802
Consolidated budget	264,273	587,761	1,084,350	2,244,094	4,750,451
Local governments	38,254	80,587	164,487	316,102	676,993
Extra-budgetary funds	57,029	69,822	135,051	217,952	525,359
Nontax revenues	144,727	324,555	596,339	1,166,983	2,283,222
Consolidated budget	23,708	54,260	102,323	188,574	415,384
Local governments	18,516	39,670	79,446	153,531	283,586
Extra-budgetary funds	15,610	27,696	52,404	106,843	166,073
Social security systems	86,893	143,223	243,969	574,543	1,217,976
Other funds	0	59,706	118,197	143,492	200,203
Total expenditure & net lending	**754,519**	**1,386,361**	**2,543,956**	**5,656,311**	**11,345,113**
Wages and other current expenditures	262,000	504,600	916,353	1,798,487	3,743,271
Consolidated budget	204,811	346,507	644,149	1,282,719	2,765,477
Local governments	30,900	50,480	91,829	181,957	387,016
Extra-budgetary funds	9,387	18,577	44,776	58,405	182,753
Social security systems	16,902	35,953	43,170	125,023	162,846
Other funds	0	53,083	92,429	150,383	245,180
Current transfers	188,610	306,551	631,861	1,347,494	3,323,298
Consolidated budget	69,440	91,818	218,370	411,749	1,106,736
Local governments	6,859	13,546	26,730	43,685	92,612
Extra-budgetary funds	17,685	32,130	40,604	97,453	299,114
Social security systems	94,626	169,057	346,157	794,607	1,824,836
Interest payments	122,749	325,119	644,110	1,600,438	2,492,204
Consolidated budget	116,470	298,285	576,115	1,497,400	2,277,917
Local governments	4,328	17,434	26,990	44,684	76,411
Extra-budgetary funds	1,951	9,400	31,135	40,721	137,595
Social security systems	0	0	9,870	17,633	281
Investment	106,184	141,599	221,498	543,437	1,231,283
Consolidated budget	53,161	72,788	91,800	238,100	579,585
Local governments	24,271	41,583	84,560	189,544	378,884
Extra-budgetary funds	27,921	25,866	42,589	107,873	266,174
Social security systems	831	1,362	2,549	7,920	6,640
Capital transfers	10,644	29,077	22,300	29,035	95,449
Local governments	-142	1583	1169	2250	4060
Extra-budgetary funds	10,786	27,494	21,131	26,785	91,389
Extra-budgetary and quasi-fiscal expenditures 2/	64,332	79,414	107,834	337,420	459,608
Primary balance	**-63,155**	**80,897**	**188,215**	**226,678**	**-157,277**
Balance (commitment basis)	**-250,236**	**-323,636**	**-563,730**	**-1,711,181**	**-3,109,089**
Financing	250,236	323,636	563,730	1,711,181	3,109,089
External	25,563	-66,889	-96,915	-129,012	-389,868
Borrowing	56,783	55,631	168,781	347,770	413,357
Repayments	-31,220	-122,520	-265,696	-476,781	-803,225
Domestic	220,149	373,280	635,429	1,810,443	3,400,535
Privatization	4,524	17,245	25,215	29,749	98,422
Memorandum item:					
Balance (with consolidated budget on a cash basis)	-242,500	-323,343	-541,530	-1,740,781	-3,088,867

Sources: State Planning Organization; and staff estimates.

1/ The consolidation methodology has been modified to present government operations on a gross basis.
2/ See memorandum item in Table 84.

Table 83. Turkey: Total Tax Revenues of the General Government, 1993-97

	1993	1994	1995	1996	1997 Estimate
			(In billions of Turkish liras)		
Total Tax Revenue	**359,556**	**738,170**	**1,383,888**	**2,778,148**	**5,952,802**
Consolidated budget tax revenues	**264,273**	**587,761**	**1,084,350**	**2,244,094**	**4,750,451**
Of which: share in Petroleum Consumption Tax (PCT)	12,791	46,625	103,180	303,915	637,470
Local governments tax revenues	**38,254**	**80,587**	**164,487**	**316,102**	**676,993**
Share in the divisible pool 1/	27,818	53,318	111,886	220,696	479,183
Municipalities 2/	15,667	28,102	59,866	120,359	252,908
Metropolitan municipalities	9,603	20,298	39,973	75,834	169,124
Special provinces	2,089	4,070	9,904	19,840	48,053
Water & sewage administrations	459	848	2,143	4,663	9,098
Revenues earmarked to local gvt. funds:	7,696	13,879	34,318	68,399	153,712
Municipalities fund	6,006	10,676	26,156	53,598	119,570
Of which: share in petroleum consum.	338	62	93	203	425
Local government fund	1,168	2,186	5,113	9,908	22,340
Special provinces fund	522	1,017	3,049	4,893	11,802
Share of Municipalities in the PCT 3/	367	76	114	610	1,368
Local government own tax revenues	2,373	13,314	18,169	26,397	42,730
Tax revenues earmarked to EBFs	**57,029**	**69,822**	**135,051**	**217,952**	**525,359**
Share of petroleum consumption tax	12,747	7,670	11,445	32,974	72,914
Share in the additional VAT 2/	478	3,588	9,934	24,353	40,000
Share in other taxes	43,804	58,564	113,672	160,625	412,445
			(In percent of GNP)		
Total tax revenues	18.0	19.0	17.6	18.5	20.0
Consolidated budget tax revenues	13.2	15.1	13.8	15.0	16.0
Local governments tax revenues	1.9	2.1	2.1	2.1	2.3
Tax revenues earmarked to funds	2.9	1.8	1.7	1.5	1.8
			(In percent of total)		
Consolidated budget tax revenues	73	80	78	81	80
Local governments tax revenues	11	11	12	11	11
Tax revenues earmarked to funds	16	9	10	8	9
GNP (in trillions of TLs)	1,997	3,888	7,855	14,978	29,695

Source: Data provided by the Turkish authorities.

1/ Prior to 1994, the divisible pool included all consolidated budget tax revenues, not earmarked to any funds. From 1994 onwards, the tax on petroleum consumption is excluded from the divisible pool.

2/ 30 percent of the additional VAT on alcohool & tobacco and 100 percent of the additional VAT on wine and beer goes to the Mass Housing Fund.

3/ Includes the share of the special provinces fund in the PCT.

Table 84. Turkey: Composition of Extrabudgetary and Quasi-Fiscal Operations, 1993–98

	1993	1994	1995	1996	1997 Estimate	1998 Program
			(In billions of Turkish liras)			
Extrabudgetary operations	**21,996**	**66,572**	**153,959**	**245,187**	**308,112**	**552,461**
Extrabudgetary transfers 1/	**20,482**	**28,000**	**20,000**	**89,966**	**0**	**0**
Of which:						
Social security institutions	0	0	0	20,000	0	0
State economic enterprises	14,707	13,850	6,240	19,966	0	0
State banks	5,775	14,150	0	0	0	0
Support price stabilization fund			13,760	50,000	0	0
Debt servising of guarranteed debt	**1,514**	**38,572**	**133,959**	**155,221**	**308,112**	**552,461**
Domestic	0	13,987	66,248	60,261	102,241	194,721
Privatization administration	0	2,885	4,197	7,580	0	0
PPF (revenue sharing certificates)		11,102	62,051	52,681	102,241	194,721
External	1,514	24,585	67,711	94,960	205,871	357,740
Feris	0	6,497	12,014	19,860	15,562	45,505
Put option	0	6,472	11,123	18,737	17,708	7,456
Guarranteed debt	1,514	11,616	44,574	56,363	172,601	304,779
SOEs	725	3,794	10,564	5,405	6,089	10,260
Local administrations	789	5,320	22,556	42,212	147,037	184,798
PPF & PA		2,430	1,191	7,556	18,093	32,029
Turkish defense fund	0	0	3,822	0	0	0
Others	0	71	6,440	1,191	1,382	77,692
Quasi-fiscal operations	**43,125**	**34,579**	**61,454**	**272,262**	**418,867**	**533,532**
Interest payments settled by issuing noncash debt	0	3,023	40,086	163,763	430,307	533,532
Issuing of consolidation bonds/bonds for losses	43,125	31,556	21,368	108,499	-11,441	0
Of which:						
Central bank	34,333	5,500	25,096	176,969	263,617	...
Consolidated bonds	21,333	0	25,096	0	0	...
Paper in lieu of cash interest payments	0	0	0	120,669	263,617	...
Bonds given to cover losses	13,000	5,500	0	56,300	0	...
Agricultural bank	8,792	29,079	35,632	93,621	153,850	...
Consolidated bonds	8,792	26,056	-3,729	52,255	-10,590	...
Paper in lieu of princ. & cash interest payments	0	3,023	39,360	41,366	164,440	...
Other banks	0	0	725.4	1672.3	1399	...
Consolidated bonds	0	0	0	-56	-851	...
Paper given in lieu of cash interest payments	0	0	725	1,728	2,250	...
Total	**65,120**	**101,151**	**215,412**	**517,449**	**726,979**	**1,085,993**
			(In percent of GNP)			
Extrabudgetary operations	1.1	1.7	2.0	1.6	1.0	1.0
Quasi-fiscal operations	2.2	0.9	0.8	1.8	1.4	1.0
Memorandum item:						
Extrabudgetary & quasi-fiscal operations excluding intra-general government transfers	64,332	79,414	107,834	337,420	459,608	674,445

Sources: Undersecretariat of the Treasury; and staff estimates.

1/ Consist of government bonds issued to SSIs, SEEs, and EBFs. These institutions discount these bonds to raise funds to close their financing gap.

Table 85. Turkey: Consolidated Accounts of the Extrabudgetary funds, 1993-97 1/

	1993	1994	1995	1996	1997 Estimate
	(In billions of Turkish liras)				
Total revenues	80,066	111,432	208,695	429,346	935,180
Tax revenues	57,029	69,822	135,051	217,952	525,359
Share in PCT	12,747	7,670	11,445	32,974	72,914
Share in additional VAT 2/	478	3,588	9,934	24,353	40,000
Share in other taxes	43,804	58,564	113,672	160,625	412,445
Nontax revenues	23,038	41,611	73,645	211,394	409,822
Current transfers	6,025	10,939	16,839	115,051	260,685
Of which: from the budget	4,770	9,687	13,571	92,582	224,489
from other funds 3/	0	0	0	433	0
Capital transfers	6,038	11,749	12,417	14,464	24,760
Of which: from local government funds	1,186	2,342	3,422	6,390	13,669
from other funds 3/	1,472	1,886	4,248	5,147	5,591
Other nontax revenues	10,974	18,922	44,389	81,879	124,377
Total expenditure	101,574	160,998	278,079	471,345	1,217,768
Current expenditure	56,292	95,944	195,808	299,006	760,666
Transfers	44,955	67,966	119,897	199,880	440,318
Of which: to the budget	27,270	35,836	79,293	102,427	141,204
Interest 4/	1,951	9,400	31,135	40,721	137,595
Other current expenditure	9,387	18,577	44,776	58,405	182,753
Capital expenditure	45,281	65,055	82,271	172,339	457,102
Investment	27,921	25,866	42,589	107,873	266,174
Capital transfers	17,360	39,189	39,683	64,466	190,928
Of which: to the budget	4,996	9,306	13,947	31,593	89,963
to other funds 3/	1,578	2,389	4,605	6,088	9,576
Balance (before off-budget transfers)	-21,508	-49,566	-69,384	-41,999	-282,588
Off-budget transfers	0	16,417	85,021	117,817	120,334
Balance (after off-budget transfers)	-21,508	-33,149	15,637	75,818	-162,254
Financing	21,508	33,149	-15,637	-75,818	162,254
Foreign net	-921	3,092	13,698	18,802	99,022
New borrowing	2,150	8,100	22,295	53,503	142,154
Repayments	3,071	5,008	8,597	34,700	43,132
Domestic	17,905	15,539	-50,981	-119,096	-20,190
Privatization	4,524	14,519	21,646	24,476	83,422
	(In percent of GNP)				
Total revenues	4.0	2.9	2.7	2.9	3.1
Tax revenues	2.9	1.8	1.7	1.5	1.8
Nontax revenues	1.2	1.1	0.9	1.4	1.4
Total expenditure	5.1	4.1	3.5	3.1	4.1
Current expenditure	2.8	2.5	2.5	2.0	2.6
Capital expenditure	2.3	1.7	1.0	1.2	1.5
Balance (before off-budget transfers)	-1.1	-1.3	-0.9	-0.3	-1.0
Balance (after off-budget transfers)	-1.1	-0.9	0.2	0.5	-0.5

Source: State Planning Organization.

1/ Consolidated accounts of 13 EBFs: Privatization authority, Public Participation Fund, Mass Housing Fund, Development and Support Fund, Price Support Stabilization Fund, Fuel Price Stabilization Fund, Oil Exploration Fund, Resource Utilization Fund, Revenue Administration Improvement Fund, Defence Industry Support Fund, and Social Aid and Solidarity Fund, Education and Health Tax Fund, Petroleum Consumption Tax Fund.

2/ 30 percent of additional VAT on alcohol and tobacco plus 100 percent of the additional VAT on wine and beer go to the MHF.

3/ Excluding the 13 extrabudgetary funds and the 3 local government funds.

4/ Interest payments include interest payments of revenues sharing certificates of the PPF.

Table 86. Turkey: Consolidated Accounts of Local Governments and Local Government Funds, 1993-97 1/

	1993	1994	1995	1996	1997 Est.
			(In billions of Turkish liras)		
Total revenue	**56,770**	**120,257**	**243,933**	469,633	960,579
Tax revenue	**38,254**	**80,587**	**164,487**	316,102	676,993
Share in the divisible pool	27,818	53,318	111,886	220,696	479,183
Municipalities	15,667	28,102	59,866	120,359	252,908
Metropolitan municipalities	9,603	20,298	39,973	75,834	169,124
Special provinces	2,089	4,070	9,904	19,840	48,053
Water & sewage administrations	459	848	2,143	4,663	9,098
Revenues earmarked to local gvt. funds:	7,696	13,879	34,318	68,399	153,712
Municipalities fund	6,006	10,676	26,156	53,598	119,570
Local government fund	1,168	2,186	5,113	9,908	22,340
Special provinces fund	522	1,017	3,049	4,893	11,802
Share of municipalities in PCT	367	76	114	610	1,368
Local government own tax revenues	2,373	13,314	18,169	26,397	42,730
Nontax revenue and factor income	**18,516**	**39,670**	**79,446**	153,531	**283,586**
Total expenditures	**71,125**	**136,125**	**260,706**	**522,616**	**1,063,535**
Current expenditures	46,996	92,959	174,977	330,822	680,591
Transfers	11,768	25,045	56,158	104,181	217,164
Of which: to the budget	3,605	8,923	25,664	53,467	109,515
to EBFs 2/	1,186	2,342	3,422	6,390	13,669
to other funds 3/	119	234	342	639	1,368
Interest	4,328	17,434	26,990	44,684	76,411
Personnel	23,800	36,273	62,055	120,472	264,865
Other current expenditure	7,100	14,207	29,774	61,485	122,151
Capital expenditures	23,875	41,983	84,016	188,609	378,885
Fixed investment	22,302	37,001	75,225	175,651	355,590
Increase in fixed assets and changes in stocks	1,715	3,399	7,622	10,708	19,235
Transfers	-142	1,583	1,169	2,250	4,060
Stock revaluation fund	-254	-1,183	-1,713	-3,185	-4,059
Surplus (+) or deficit (-)	**-14,355**	**-15,868**	**-16,773**	**-52,983**	**-102,956**
Off-budget transfers	789	5,320	22,556	42,212	147,037
Balance (after off-budget transfers)	**-13,566**	**-10,548**	**5,783**	**-10,771**	**44,081**
Financing	13,566	10,548	-5,783	10,771	-44,081
Foreign (net)	6,394	7,101	-2,699	10,976	15,788
Borrowing	9,465	13,409	15,400	40,957	84,615
Repayment	-3,071	-6,308	-18,099	-29,981	-68,827
Domestic	7,172	3,447	-3,084	-205	-59,869
			(In percent of GNP)		
Total revenues	2.8	3.1	3.1	3.1	3.2
Tax revenues	1.9	2.1	2.1	2.1	2.3
Nontax revenues	0.9	1.0	1.0	1.0	1.0
Total expenditures	3.6	3.5	3.3	3.5	3.6
Current expenditures	2.4	2.4	2.2	2.2	2.3
Capital expenditures	1.2	1.1	1.1	1.3	1.3
Balance (before off-budget transfers)	-0.7	-0.4	-0.2	-0.4	-0.3
Balance (after off-budget transfers)	-0.7	-0.3	0.1	-0.1	0.1

Source: State Planning Organization.

1/ Local Government Funds consist of the Municipalities Fund, the Local Government Fund, and the Special Provinces Fund.
2/ Consists of transfers to the Social Aid and Solidarity Funds from the three Local Government Funds.
3/ Consists of transfers to the Natural Disaster Fund from the three Local Government Funds.

Table 87. Turkey: Public Sector Fixed Investment, 1991–97

	1991	1992	1993	1994	1995	1996	1997 Estimate
			(In billions of Turkish liras)				
Total Public Sector	**45,561**	**79,034**	**143,977**	**192,052**	**330,142**	**762,069**	**1,729,303**
Consolidated budget 1/	17146	29239	53,161	72,788	123,777	289,493	710,000
Of which: reflected in budget			53,161	50,355	91,777	238,085	579,585
SEEs	14,892	23,137	38,680	53,742	80,873	168,472	378,010
Nonfinancial SEEs	13144	20341	33,148	45,812	64,328	135,576	323,799
Financial SEEs	317	445	414	681	2,284	3,704	8,401
SEEs under privatization	1,431	2,351	5,118	7,249	14,261	29,192	45,811
Local authorities	3,993	10,795	22,302	37,001	75,225	175,651	355,590
Revolving funds	726	628	1,082	1,293	5,129	12,660	12,889
Social security institutions	376	470	831	1,362	2,549	7,920	6,640
Extrabudgetary funds	8428	14765	27,921	25,866	42,589	107,873	266,174
Total Private Sector	**102,172**	**177,094**	**381,740**	**731,261**	**1,545,796**	**3,004,661**	**5,965,781**
Total investment	**147,733**	**256,128**	**525,717**	**923,313**	**1,875,938**	**3,766,730**	**7,695,084**
			(In percent of GNP)				
Total Public sector	**7.2**	**7.2**	**7.2**	**4.9**	**4.2**	**5.1**	**5.8**
Consolidated budget 1/	2.7	2.6	2.7	1.9	1.6	1.9	2.4
SEEs	2.3	2.1	1.9	1.4	1.0	1.1	1.3
Local authorities	0.6	1.0	1.1	1.0	1.0	1.2	1.2
Revolving funds	0.1	0.1	0.1	0.0	0.1	0.1	0.0
Social security institutions	0.1	0.0	0.0	0.0	0.0	0.1	0.0
Extrabudgetary funds	1.3	1.3	1.4	0.7	0.5	0.7	0.9
Total Private Sector	**16.1**	**16.0**	**19.1**	**18.8**	**19.7**	**20.1**	**20.1**
Total investment	**23.3**	**23.2**	**26.3**	**23.7**	**23.9**	**25.1**	**25.9**
			(In percent of public sector investment)				
Consolidated budget 1/	37.6	37.0	36.9	37.9	37.5	38.0	41.1
SEEs	32.7	29.3	26.9	28.0	24.5	22.1	21.9
Nonfinancial SEEs	28.8	25.7	23.0	23.9	19.5	17.8	18.7
Financial SEEs	0.7	0.6	0.3	0.4	0.7	0.5	0.5
SEEs under privatization	3.1	3.0	3.6	3.8	4.3	3.8	2.6
Local authorities	8.8	13.7	15.5	19.3	22.8	23.0	20.6
Revolving funds	1.6	0.8	0.8	0.7	1.6	1.7	0.7
Social security institutions	0.8	0.6	0.6	0.7	0.8	1.0	0.4
Extrabudgetary funds	18.5	18.7	19.4	13.5	12.9	14.2	15.4
			(In percent of total investment)				
Public investment	30.8	30.9	27.4	20.8	17.6	20.2	22.5
Private investment	69.2	69.1	72.6	79.2	82.4	79.8	77.5

Source: State Planning Organization.

1/ Includes central government operations not covered by the consolidated budget, for example, State Hydraulic Authority (DSI) and State Highways and Rural Affairs Authority.

Table 88. Turkey: Social Security Institutions, 1993-97

	1993	1994	1995	1996	1997 Estimate
	(In billions of Turkish liras)				
Revenue	**100,593**	**182,483**	**352,169**	**909,843**	**1,964,976**
Premium	78,344	127,822	212,376	488,268	1,109,097
Others revenues	8,549	15,401	31,593	86,275	108,879
Transfers from central government 1/	13,700	39,260	108,200	335,300	747,000
SSK	0	14,480	59,200	146,000	337,000
Bag-Kur	2,700	4,530	8,000	70,100	130,000
EMS	11,000	20,250	41,000	119,200	280,000
Expenditure	**112,359**	**206,372**	**401,746**	**945,183**	**1,994,603**
Insurance expenditure	94,626	169,057	346,157	794,607	1,824,836
Retirement insurance	82,511	147,739	285,817	670,453	1,531,676
Health insurance	12,115	21,318	60,340	124,154	293,160
Expenditure made on behalf of budget	11,230	21,570	30,611	101,236	99,525
Other expenditure	5,672	14,383	22,429	41,420	63,602
Of which: Interest expenditure	0	0	9,870	17,633	281
Investment	831	1,362	2,549	7,920	6,640
Surplus (+) Deficit (-)	**-11,766**	**-23,889**	**-49,577**	**-35,340**	**-29,627**
Off-budget transfers 2/	**0**	**0**	**0**	**20,000**	**0**
Deficit	-11,766	-23,889	-49,577	-15,340	-29,627
Financing	**11,766**	**23,889**	49,577	15,340	29,627
External financing	0	0	0	0	0
Domestic financing	11,766	23,889	49,577	15,340	29,627
	(In percent of GNP)				
Revenues	**5.0**	4.7	4.5	6.1	6.6
Premium	3.9	3.3	2.7	3.3	3.7
Others revenues	0.4	0.4	0.4	0.6	0.4
Transfers from central government	0.7	1.0	1.4	2.2	2.5
Expenditure	**5.6**	**5.3**	**5.1**	6.3	6.7
Insurance Expenditure	4.7	4.3	4.4	5.3	6.1
Retirement insurance	4.1	3.8	3.6	4.5	5.2
Health insurance	0.6	0.5	0.8	0.8	1.0
Expenditure made on behalf of budget	0.6	0.6	0.4	0.7	0.3
Other expenditure	0.3	0.4	0.3	0.3	0.2
Of which: Interest expenditure	0.0	0.0	0.1	0.1	0.0
Investment	0.0	0.0	0.0	0.1	0.0
Surplus (+) Deficit (-)	-0.6	-0.6	**-0.6**	**-0.2**	**-0.1**
Off-budget transfers	**0.0**	**0.0**	**0.0**	**0.1**	**0.0**
Deficit	**-0.6**	**-0.6**	-0.6	**-0.1**	-0.1
Financing	**0.6**	**0.6**	0.6	**0.1**	0.1
Memorandum item:					
Off-budget transfers as reflected in SSI accounts 3/	9,705	**10,687**	**23,869**	20,000	0
SSK	9,705	10,687	23,869	0	0
Bag-Kur	0	0	0	20,000	0
EMS	0	0	0	0	0

Source: State Planning Organization.

1/ For 1997, the figure reflected in the consolidated budget is TL 760 trillion. The difference has not been reconciled yet.
2/ As reflected in Treasury's domestic debt data. The same figures are reflected in Table 84.
3/ The difference has not been reconciled.

Table 89. Turkey: Social Security Institutions, 1993-98
(In billions of Turkish liras)

	1993	1994	1995	1996	1997 Estimate	1998 Budget
Soysyal Sigortalar Kurumu (SSK)						
Revenue	52,167	94,126	195,624	476,172	1,021,759	1,828,572
Premium	44,444	65,304	108,384	280,521	610,865	1,051,310
Others revenues	7,723	14,342	28,040	49,651	73,894	304,262
Transfers from central government	0	14,480	59,200	146,000	337,000	473,000
Expenditure	60,252	109,735	219,993	473,190	1,062,466	1,865,394
Insurance expenditure	57,035	103,585	210,073	456,341	1,021,702	1,798,227
Retirement insurance	48,116	86,046	175,636	387,514	881,400	1,543,568
Health insurance	8,919	17,539	34,437	68,827	140,302	254,659
Other expenditure	2,593	5,011	8,053	11,363	35,714	58,667
Investment	624	1,139	1,867	5,486	5,050	8,500
Balance (excl. off-budget transfers)	-8,085	-15,609	-24,369	2,982	-40,707	-36,822
Off-budget transfers	9,705	10,687	23,869	0	0	0
Balance (incl. off-budget transfers)	1,620	-4,922	-500	2,982	-40,707	-36,822
Financing (domestic)	-1,620	4,922	500	-2,982	40,707	36,822
Bag-Kur						
Revenue	7,526	14,357	28,055	109,677	241,551	626,654
Premium	4,748	9,655	19,452	38,767	110,992	190,754
Others	78	172	603	810	559	900
Transfers from central government	2,700	4,530	8,000	70,100	130,000	435,000
Expenditure	8,667	19,898	40,789	109,384	248,795	636,701
Insurance expenditure	8,136	19,063	29,528	88,569	242,750	450,433
Retirement insurance	8,136	19,063	21,483	67,868	176,037	307,321
Health insurance	0	0	8,045	20,701	66,713	143,112
Other expenditure	480	809	11,250	20,690	5,805	185,768
Investments	51	26	11	125	240	500
Balance (excluding off-budget transfers)	-1,141	-5,541	-12,734	293	-7,244	-10,047
Off-budget transfers	0	0	0	20,000	0	0
Balance (including off-buget transfers)	-1,141	-5,541	-12,734	20,293	-7,244	-10,047
Financing (domestic)	1,141	5,541	12,734	-20,293	7,244	10,047
Emekli Sandigi (EMS)						
Revenue	40,900	74,000	128,490	323,994	701,666	1,171,097
Premium	29,152	52,863	91,540	184,980	422,240	694,376
Transfers from central government	11,000	20,250	34,000	103,200	245,000	420,000
Other revenues	748	887	2,950	35,814	34,426	56,721
Expenditure	43,440	76,739	140,964	362,609	683,342	1,187,576
Insurance expenditure	29,455	46,409	106,556	249,697	560,384	964,338
Retirement insurance	26,259	42,630	88,698	215,071	474,239	816,149
Health insurance	3,196	3,779	17,858	34,626	86,145	148,189
Other current expenditure	13,829	30,133	33,737	110,603	121,608	221,238
Investment	156	197	671	2,309	1,350	2,000
Balance	-2,540	-2,739	-12,474	-38,615	18,324	-16,479
Financing (domestic)	2,540	2,739	12,474	38,615	-18,324	16,479

Source: State Planning Organization.

Table 90. Turkey: Summary of Borrowing Requirement of State Economic Enterprises, 1993–97 1/

	1993	1994	1995	1996	1997 Estimate
	(In billions of Turkish liras)				
Borrowing requirement (=1+2+3+4)	**54,604**	**59,546**	**-64,714**	**-7,838**	**304,678**
1. Gross investment outlays	74,009	109,230	127,558	398,684	844,889
2. Adjusted operating deficit	21,852	-19,494	-162,690	-418,338	-693,746
Operating deficit (excl personnel outlays)	-77,724	-176,342	-385,594	-784,195	-1,441,332
Personnel outlays	99,576	156,848	222,904	365,857	747,586
3. Government transfers	-45,565	-38,594	-61,114	-81,286	-131,268
4. Dividends/taxes/other	4,308	8,404	31,532	93,102	284,803
Financing (5+6)	**54,604**	**59,546**	**-64,714**	**-7,838**	**304,678**
5. Deferred payments	37,173	115,453	38,034	230,772	271,097
6. Cash financing	17,431	-55,907	-102,748	-238,610	33,581
	(In percent of GNP)				
Borrowing requirement (=1+2+3+4)	**2.7**	**1.5**	**-0.8**	**-0.1**	**0.6**
1. Gross investment outlays	3.7	2.8	1.6	2.7	1.6
2. Adjusted operating deficit	1.1	-0.5	-2.1	-2.8	-1.3
Operating deficit (excl personnel outlays)	-3.9	-4.5	-4.9	-5.2	-2.7
Personnel outlays	5.0	4.0	2.8	2.4	1.4
3. Government transfers	-2.3	-1.0	-0.8	-0.5	-0.2
4. Dividends/taxes/other	0.2	0.2	0.4	0.6	0.5
Financing (5+6)	**2.7**	**1.5**	**-0.8**	**-0.1**	**0.6**
5. Deferred payments	1.9	3.0	0.5	1.5	0.5
6. Cash financing	0.9	-1.4	-1.3	-1.6	0.1

Source: Undersecretariat of the Treasury.

1/ Includes a total of 47 SEEs, of which 31 are still in the Treasury's portfolio, and 16 have been transferred to the Privatization Authority's portfolio.

Table 91. Turkey: Borrowing Requirement of State Economic Enterprises, 1993–97

	1993	1994	1995	1996	1997 Estimate
	(In billions of Turkish liras)				
Total current revenues	**410,564**	**924,033**	**1,583,537**	**3,056,289**	**5,909,687**
Sales of goods and services	386,679	866,734	1,474,001	2,810,612	5,594,959
Other sales revenues	3,103	1,427	4,341	4,614	8,929
Nonoperating revenues	20,782	55,872	105,195	241,063	305,799
Total current expenses	**510,733**	**1,022,173**	**1,579,937**	**3,129,737**	**6,345,633**
Cost of goods and services sold	156,167	384,983	676,357	1,391,089	2,742,601
Wages & salaries	99,576	156,848	222,904	365,857	747,586
Interest payments	40,272	89,119	93,285	115,803	197,434
Other expenses	136,401	273,589	428,301	765,202	1,528,320
Taxes/dividents/other	4,308	8,404	31,532	93,102	284,803
Investment outlays	74,009	109,230	127,558	398,684	844,889
Balance	**-100,169**	**-98,140**	**3,600**	**-73,448**	**-435,946**
Government transfers	**46,290**	**42,388**	**71,678**	**86,691**	**137,357**
Transfers from budget & PA	30,858	24,744	54,874	61,320	131,268
Transfers from the budget	26,235	21,398	45,989	50,882	127,095
Capital	21,970	21,000	45,440	41,673	123,400
Duty losses	3,880	0	0	8,297	2,050
Aid 1/	385	398	549	912	1,645
Transfers from the PA	4,623	3,346	8,885	10,438	4,173
Extrabudgetary transfers 2/	14,707	13,850	6,240	19,966	0
Off-budget transfers:					
Payments of guarranteed debt 3/	725	3,794	10,564	5,405	6,089
Overall deficit (-)	**-53,879**	**-55,752**	**75,278**	**13,243**	**-298,589**
Deferred payments (net)	37,173	115,453	38,034	230,772	271,097
Overall deficit (cash basis)	**-16,706**	**59,701**	**113,312**	**244,015**	**-27,492**
Cash financing	**16,706**	**-59,701**	**-113,312**	**-244,015**	**27,492**
Securities	-2,035	-13,270	-40,073	33,043	-11,181
Domestic bank lending, net	**20,057**	**-39,608**	**-59,712**	**-218,138**	**-12,269**
Loans	27,868	-17,760	7,524	-35,284	157,417
Central bank	8,416	-11,784	231	0	0
Commercial banks	19,497	-7,168	7,795	-35,284	157,417
Eximbank	-45	1,192	-502	0	0
Change in deposits	7,811	21,848	67,236	182,854	169,686
Foreign borrowing, net	**-1,316**	**-6,823**	**-13,527**	**-58,920**	**50,942**
Receipts	6,444	19,086	25,232	65,455	138,786
Repayments	-7,760	-25,909	-38,759	-124,375	-87,844

Source: Undersecretariat of the Treasury.

1/ Reflected in the consolidated budget under "other transfers."

2/ Includes transfers of government bonds outside the budgetary framework, as reflected in Table 84.

3/ As reflected in Table 84.

Table 92. Turkey: Profit and Loss Accounts of State Economic Enterprises, 1993-97 1/
(In billions of Turkish liras)

	1993	1994	1995	1996	1997 Estimate
Total current revenues	**410,564**	**924,033**	**1,583,537**	**3,056,289**	**5,909,687**
Sales of goods and services	386,679	866,734	1,474,001	2,810,612	5,594,959
Other sales revenues	3,103	1,427	4,341	4,614	8,929
Nonoperating revenues	20,782	55,872	105,195	241,063	305,799
Total current expenses	**471,931**	**1,027,111**	**1,582,690**	**2,874,139**	**5,578,899**
Cost of goods and services sold	255,743	541,831	899,261	1,756,946	3,490,187
Of which : wages & salaries	99,576	156,848	222,904	365,857	747,586
Depreciation	21,364	44,242	100,110	147,156	280,082
Interest payments	40,272	89,119	93,285	115,803	197,434
Provisions	3,006	10,592	16,141	8,687	14,181
Provisions for exchange rate differences	15,145	67,738	45,592	80,345	68,695
Other expenses	136,401	273,589	428,301	765,202	1,528,320
Operating surplus (+) or loss (-)	**-61,367**	**-103,078**	**847**	**182,150**	**330,788**
Direct tax obligations	3,758	6,239	26,824	71,515	208,016
Operating surplus/loss after direct tax obligation	-65,125	-109,317	-25,977	110,635	122,772
Subsidies	32	48	0	0	0
After-tax available income	-65,093	-109,269	-25,977	110,635	122,772
Of which : Declared dividends	835	2,213	4,708	21,587	76,787
Retained earnings	-65,928	-111,482	-30,685	89,048	45,985
Memorandum items:					
Duty losses accrued on goods sold	11,624	18,591	16,341	18,407	71,647

Source: Undersecretaries of the Treasury.

1/ Includes a total of 47 SEEs, of which 31 are still in the Treasury's portfolio, and 16 have been transferred to the PA'

Table 93. Turkey: Financing Requirement of State Economic Enterprises, 1993–98
(In billions of Turkish liras)

	1993	1994	1995	1996	1997 Estimate	1998 Budget
Total financing requirement	**74,009**	**109,230**	**127,558**	**398,684**	**844,889**	**1,176,236**
Fixed investment	38,266	53,061	78,589	164,768	369,609	640,000
Change in stocks	33,117	48,478	56,241	202,118	423,713	429,377
Change in fixed assets	1,963	6,158	-11,031	17,850	12,205	37,938
Equity in joint ventures	89	705	389	3,580	5,157	7,871
Legal requirements, funds	574	828	3,370	10,368	34,205	61,050
Internally generated funds	**-26,160**	**11,090**	**131,158**	**325,236**	**408,943**	**656,408**
Retained earnings	-65,928	-111,482	-30,685	89,048	45,985	71,580
Depreciation	21,364	44,242	100,110	147,156	280,082	458,185
Provisions	3,006	10,592	16,141	8,687	14,181	21,983
Provisions for exchange rate differences	15,145	67,738	45,592	80,345	68,695	104,660
Cap.inj. other than from Treasury & PA	253	0	0	0		
External financing requirements (+)	**100,169**	**98,140**	**-3,600**	**73,448**	**435,946**	**519,828**
Government transfers	**45,565**	**38,594**	**61,114**	**81,286**	**131,268**	**212,799**
Transfers from budget & PA	30,858	24,744	54,874	61,320	131,268	212,799
Transfers from the budget	26,235	21,398	45,989	50,882	127,095	162,799
Capital	21,970	21,000	45,440	41,673	123,400	145,000
Duty losses	3,880	0	0	8,297	2,050	15,000
Aid 1/	385	398	549	912	1,645	2,799
Transfers from the PA	4,623	3,346	8,885	10,438	4,173	50,000
Extrabudgetary transfers 2/	14,707	13,850	6,240	19,966	0	0
Borrowing requirement	**54,604**	**59,546**	**-64,714**	**-7,838**	**304,678**	**307,029**
Deferred payments	75,371	211,366	197,075	409,898	668,368	925,326
Advance payments	-38,198	-95,913	-159,041	-179,126	-397,271	-527,576
Cash financing requirement	**17,431**	**-55,907**	**-102,748**	**-238,610**	**33,581**	**-90,721**
Financing	**17,431**	**-55,907**	**-102,748**	**-238,610**	**33,581**	**-90,721**
Securities	-2,035	-13,270	-40,073	33,043	-11,181	13,189
Domestic bank lending, net	**20,782**	**-35,814**	**-49,148**	**-212,733**	**-6,180**	**-129,601**
Loans	27,868	-17,760	7,524	-35,284	157,417	153,698
Central bank	8,416	-11,784	231	0	0	0
Commercial banks	19,497	-7,168	7,795	-35,284	157,417	153,698
Eximbank	-45	1,192	-502	0	0	0
Change in deposits 3/	7,086	18,054	56,672	177,449	163,597	283,299
Foreign borrowing, net	**-1,316**	**-6,823**	**-13,527**	**-58,920**	**50,942**	**25,691**
Receipts	6,444	19,086	25,232	65,455	138,786	155,138
Repayments	-7,760	-25,909	-38,759	-124,375	-87,844	-129,447

Source: Undersecretariat of the Treasury.

1/ Reflected in the consolidated budget under "other transfers."

2/ Includes transfers of government bonds outside the budgetary framework.

3/ Including pure cash balances.