SUPPLEMENTAL OFFERING CIRCULAR

Türkiye Cumhuriyeti
(The Republic of Turkey)

€250,000,000 9.625 per cent. Notes due 2006
to rank pari passu with, and to form a single series with, the
€500,000,000 9.625 per cent. Notes due 2006

The €250,000,000 9.625 per cent. Notes due 2006 (the "New Notes") will rank *pari passu* with, and will be consolidated and form a single series with, the outstanding €500,000,000 9.625 per cent. Notes due 2006 of Türkiye Cumhuriyeti (The Republic of Turkey) ("The Republic") (the "Existing Notes" and, together with the New Notes, the "Notes").

This supplemental offering circular (the "Supplemental Offering Circular") is supplemental to and should be read in conjunction with the offering circular dated 29 November 1999 (the "Principal Offering Circular") prepared in connection with the Existing Notes which is attached hereto. References herein to "this Offering Circular" or "the Offering Circular" are references to the Principal Offering Circular together with and as supplemented by this Supplemental Offering Circular.

The issue price of the New Notes is 100.25 per cent. of their principal amount plus accrued interest from and including 30 November 1999 to but excluding 14 December 1999.

Application has been made to list the New Notes on the Luxembourg Stock Exchange.

The New Notes will be represented initially by a temporary global Note without coupons, which will be deposited with a common depositary on behalf of Cedelbank and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System ("Euroclear") on or about 14 December 1999 (the "Closing Date"). The Temporary Global Note will be exchangeable for interests in a Global Note, without interest coupons, on or after a date which is expected to be 24 January 2000 upon certification as to non-U.S. beneficial ownership. The Global Note will be exchangeable for definitive Notes in bearer form in the denomination of €1,000 each with Coupons attached only in certain limited circumstances. See "Summary of Provisions relating to the New Notes while in Global Form".

Chase Manhattan International Limited   Salomon Smith Barney International

The date of this Supplemental Offering Circular is 10 December 1999.

This Supplemental Offering Circular is supplemental to, and should be read in conjunction with, the Principal Offering Circular which is attached hereto. All terms defined in the Principal Offering Circular shall have the same meaning when used herein, unless the context otherwise requires.

The Republic having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to The Republic and the €250,000,000 9.625 per cent. Notes due 2006 (the ''New Notes'') which is material in the context of the issue and offering of the New Notes, that such information is true and accurate in every material respect and, is not misleading in any material respect and that this Offering Circular does not omit to state any material fact necessary to make such information not misleading and that this Offering Circular does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The opinions and intentions expressed in this Offering Circular with regard to The Republic are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions. The Republic accepts responsibility for the information contained in this Offering Circular accordingly.

No person has been authorised to make or provide any representation or information regarding The Republic or the New Notes other than as contained in this Offering Circular. Any such representation or information should not be relied upon as having been authorised by The Republic or the Managers as defined under ''Subscription and Sale''. The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to the date of this Offering Circular. Unless otherwise indicated, all information in this Offering Circular is given as of the date of this Offering Circular.

The Managers do not make any representation or warranty, express or implied, as to the accuracy or completeness of the information in this Offering Circular. Each person receiving this Offering Circular acknowledges that such person has not relied on the Managers or any person affiliated with the Managers in connection with its investigation of the accuracy of such information or its investment decision. Each person contemplating making an investment in the New Notes must make its own investigation and analysis of the creditworthiness of The Republic and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience, and any other factors which may be relevant to it in connection with such investment.

Unless otherwise stated, all annual information, including budgetary information, is based upon calendar years. Figures included in this Offering Circular have been subject to rounding adjustments; accordingly, figures shown for the same item of information may vary, and figures which are totals may not be an arithmetical aggregate of their components.

This Offering Circular does not constitute an offer of, or an invitation by or on behalf of The Republic or the Managers to subscribe or purchase any of the New Notes. The distribution of this Offering Circular and the offering of the New Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by The Republic and the Managers to inform themselves about and to observe any such restrictions. The New Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the ''Securities Act''), or any state securities law, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of certain further restrictions on offers and sales of New Notes and distribution of this Offering Circular, see ''Subscription and Sale''.

In this Offering Circular, all references to ''Turkish Lira'' and ''TL'' are to the lawful currency for the time being of The Republic, references to ''€'', ''Euro'' or ''euro'' are to the single currency which was introduced at the beginning of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union and all references to ''dollars'', ''U.S.$'' and ''$'' are to the lawful currency for the time being of the United States of America.

Translations of amounts from Turkish Lira to dollars are solely for the convenience of the reader and, unless otherwise stated, are made at the exchange rate prevailing at the time as of which such amounts are specified. The Central Bank of Turkey foreign exchange buying rate for United States dollars on 8 December 1999 was TL517,228 = U.S.$1.00. No representation is made that the Turkish Lira or dollar amounts referred to herein could have been or could be converted into dollars or Turkish Lira, as the case may be, at any particular rate or at all.

In connection with this issue, Salomon Brothers International Limited may over-allot or effect transactions which stabilise or maintain the market price of the New Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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TERMS AND CONDITIONS OF THE NEW NOTES

The New Notes have the same terms and conditions as the Existing Notes, as set out in the Principal Offering Circular.

USE OF PROCEEDS

The net proceeds before expenses of the issue of the New Notes, expected to amount to approximately €250,045,423, will be used for the general funding purposes of The Republic.

RECENT DEVELOPMENTS

General

Turkey expects to receive a total of approximately \$3.7 billion of external financial assistance, most of it during the calendar year 2000. Approximately \$2.4 billion will be in the form of project-tied loans with soft terms such as long maturities and substantial grace periods. The IMF has provided \$500 million for earthquake assistance. In addition, The Republic expects to receive about \$1 billion from the World Bank, €600 million from the European Investment Bank, €300 million from the European Council Social Development Fund, \$300 million from the Islamic Development Bank, \$400 million from the Gulf Cooperation Council, \$400 million from Japan, \$60 million from Spain, \$30 million from Korea, \$18 million from Italy, \$12 million from Germany and \$5 million from Belgium. Although insufficient to cover all costs associated with the earthquake's damage, these commitments are expected to provide a portion of the funding needed to begin the rebuilding process. For instance, relief funds will be used to repair the damaged water and sewer systems. The Government expects to finance expenses not covered by these funds through its own revenue sources and domestic or international borrowing. To reduce the need for deficit financing, the parliament ratified a new tax law on 26 November 1999. The new law imposes an additional 5% on corporate and income taxes for 1998 earnings and payroll earnings of more than TL 12 billion annually. The law also envisages among others an additional real estate tax and a one-off additional tax on vehicles as well as a 25% monthly communication tax on mobile telephone usage until the end of next year. It also authorises the Cabinet to increase the petroleum consumption tax up to 500% from 300% currently. Interest earnings from treasury bills and government bonds issued before 1 December 1999 will be subject to additional tax at a rate of four to 19% depending on their maturity.

Global Economic Conditions and their Effects on the Turkish Economy

Turkey faced economic challenges beginning in August 1998 due to the erosion of investor confidence in emerging markets as a result of the devaluation of the Russian ruble, the default by Russia on its domestic debt and the rescheduling by Russia of its foreign debt. The Russian situation, coupled with the severe economic difficulties experienced by many Asian and Latin American countries since the last quarter of 1997, have had repercussions throughout the emerging markets, including the Republic. For example, the Istanbul Stock Exchange declined in value, interest rates on government securities increased and the amount of international reserves decreased during the second half of 1998. See ''Foreign Trade and Balance of Payments — International Reserves'' and ''Financial System — Capital Markets'' in the Principal Offering Circular.

Between 4 August 1998 and 31 December 1998, the Istanbul Stock Exchange index decreased by 37% from 4,128 to 2,598. The level of the index since January 1999 has regained its losses, however, and closed at 10.337 on 9 December 1999. The Republic believes that the increase is due to improved market sentiment toward economic indicators and political developments in Turkey.

During 1998, the average maturity of Turkish internal public debt declined to 7.7 months from 11.9 months in 1997. See ''Debt — Internal Debt'' in the Principal Offering Circular. During November 1999, however, the average maturity of domestic debt was 15.9 months. During 1998, the average annual interest rate on Turkish internal public debt on a compounded basis increased to 118.1% from 109.7% in 1997. Recent treasury auctions held by the Republic on 25 October and 16 November, for treasury bills with maturities of approximately three months resulted in rates of 95.7% and 93.3%, compared to 143.1% for five-month treasury bills on 26 January 1999. The volatility in treasury bill rates, and especially the increase in rates during the second half of 1998, was due to political and economic conditions in Turkey and to volatility in the international capital markets generally.

At 19 November 1999, total international reserves were approximately \$36.5 billion, Central Bank reserves were approximately \$23.4 billion, commercial bank reserves were approximately \$12.1 billion, and gold reserves were approximately \$1.0 billion.

Gross National Product

Turkey's real GNP grew by 9.2%, 4.4%, 2.4% and 0.7% in each quarter of 1998, respectively, yielding annual growth for the entire year of 3.8%. See ''Economy — Gross National Product'' in the Principal Offering Circular. In 1999, Turkey's real GNP decreased by 8.4% in the first quarter, 3.4% in the second quarter and 6.6% in the third quarter, for a cumulative 6.1% contraction in the first three quarters of the year. The Government's original budget assumed that Turkey's real GNP would grow by 3.0% in 1999. However, based on economic results so far this year and the Government's expectation that the damage to production and transportation capacity caused by the earthquake will have a negative impact on growth, the Government revised its GNP growth target to negative 2% in October 1999. The provinces in which the earthquake occurred account for approximately 35% of Turkey's overall output. The four hardest hit provinces account for approximately 8% of GNP and 6% of exports.

Inflation

In 1998, the wholesale price index (''WPI'') increased at a rate of 54.3% and the consumer price index (''CPI'') increased at a rate of 69.7%. See ''Economy — Inflation'' in the Principal Offering Circular. In November 1999, the year-on-year WPI rate of increase was 56.3%, while the year-on-year CPI rate of increase was 64.6%, as compared to 58.6% WPI growth and 72.8% CPI growth in the same period of 1998. Under the Staff Monitored Program (the ''SMP'') with the IMF, the Government had set targets for WPI inflation of 50-55% and CPI inflation of 55% by year-end 1999. In October 1999, these targets were revised to 57% for WPI and 63.9% for CPI. See ''Economy — Inflation'' in the Principal Offering Circular.

Foreign Trade and Balance of Payments

In the first eight months of 1999, the trade deficit (including shuttle trade) was $6.6 billion compared to $10.0 billion in the same period of 1998. Excluding shuttle trade, the trade deficit amounted to $7.8 billion, compared to a deficit of $12.8 billion in the first eight months of 1998. The current account balance (including shuttle trade) produced a surplus of $58 million in the first eight months of 1999, compared to a deficit of $96.2 billion in the same period of 1998.

In the first eight months of 1999, merchandise exports (including shuttle trade) decreased by 13.9% compared to the same period in 1998 and reached $18.1 billion while merchandise exports (excluding shuttle trade) decreased by 7.1% compared to the same period in 1998 and reached $16.5 billion reflecting lower prices of exported goods.

In the first eight months of 1999, imports (c.i.f.) decreased by 20.0% compared to the same period in 1998 and reached $24.9 billion.

In the first eight months of 1999, portfolio investment increased by $2.5 billion.

Tourism revenues were $3.3 billion in the first eight months of 1999 compared to $4.7 billion in the first eight months of 1998.

Monetary Policy, Exchange Rates and Banking System

During the first eleven months of 1999, reserve money increased by 72.7% from TL6,021 trillion to TL5,376 trillion. Net domestic assets decreased from TL579 trillion to negative TL1,158 trillion in the same period.

In the first two weeks following the earthquake, reserves decreased by $1 billion and the demand for Turkish Lira prompted the Central Bank to provide liquidity through open market operations. These operations have since been sterilized and the levels of reserves restored.

In August 1999, banks' required levels of general reserves were reduced from 1.0% to 0.5% of total cash credits and from 0.2% to 0.1% of total non-cash credits.

In June 1999, the Assembly passed a banking reform law, the Banks Act (Law No. 4389). The law aims to establish rules and procedures governing incorporation, management, transactions, mergers, liquidation and supervision of banks in order to ensure efficiency in the credit system and increase confidence and stability in the financial markets. The law also provides for the establishment of a ''Banking Regulation and Supervision Agency'' which will be a public entity with administrative and financial autonomy and will supervise financial institutions. The Banking Regulation and Supervisory Agency will begin its operations within one year after the appointment of the Board of Directors, which is scheduled to take place by September 2000. The Treasury and the Central Bank announced on 5 August 1999 that the ratio of a bank's "net open position" to its capital base cannot exceed 20%. See "Fiscal System — Banking System."

The capital adequacy ratios for all banks operating in Turkey averaged 14.3% for the first half of 1999. The capital adequacy ratios for state-owned deposit banks in Turkey averaged 8.5% for the first half of 1999. The net short foreign exchange position ratio was negative 37% for this system as a whole on 31 October 1999.

Consolidated Central Government Budget

In the first ten months of 1999, consolidated budget expenditures reached TL22,648 trillion and consolidated budget revenues reached TL14,066 trillion, an increase of 84% and 52.7%, respectively, over the same period in 1998. Consequently, the consolidated budget deficit amounted to TL8,852 trillion in the first ten months of 1999, compared to TL3,099 trillion during the same period in 1998.

The 1999 budget, passed in June 1999, projected total revenues of TL18,030 trillion (22.9% of GNP), an increase of 54.5% over the 1998 total, which represented 22.0% of GNP. Total expenditures were estimated at TL27,144 trillion (34.4% of GNP), an increase of 76.3% over the 1998 total, which represented 29.0% of GNP. The projected budget deficit was therefore TL9,115 trillion (11.6% of GNP), an increase of 244.6% over the 1998 total, which represented 7.0% of GNP. The 1999 budget estimated a primary budget surplus of TL1,185 trillion (1.5%) of GNP, a decrease of 51.7% as against the 1998 total, which represented 4.6% of GNP. These budget estimates were based on an assumption of 3.0% real growth in GNP and 44% inflation. As of October 1999, revised budget targets project a budget deficit comprising 11.3% of GNP, a primary surplus of 1.4% of GNP, total revenues of 21.7% of GNP, total expenditures of 32.7% of GNP and non-interest expenditures of 20.3% of GNP. In light of the 17 August 1999 earthquake, the General Assembly has approved a supplemental budget to cover approximately TL500 billion in earthquake-related expenses and to adjust the budget to reflect lower anticipated GNP growth.

On 27 March 1999, the Government reached an employment agreement with the public sector workers' union. The agreement will, during the first half of 1999, increase public sector wages by approximately 35% over the wage level at the end of 1998. The agreement also sets the wage increase for the second half of 1999 at the rate of CPI inflation plus an additional 5% of the total increased wage.

Debt

Turkey's total internal debt was approximately TL21,641 trillion at 31 October 1999, compared to approximately TL11,613 trillion at 31 December 1998. See "Debt — Internal Debt" in the Principal Offering Circular, Turkey's outstanding external debt was approximately $100.1 billion at 30 June 1999, compared to approximately $104.0 at 31 December 1998. See "Debt — External Debt and Debt Management" in the Principal Offering Circular.

Since 30 June 1999, Turkey has issued or launched the following:

- The reopening and increase to $600 million on 8 September 1999 of an issue of global bonds of 10 December 1998, with a maturity of ten years, 12% interest and a put option at the fifth year, which was previously reopened and increased to $400 million on 7 April 1999.
- Euro 400 million of Eurobonds on 4 August 1999, with a maturity of six years and 9.625% interest.
- $500 million of global bonds on 29 October 1999 with a maturity of 5 years and 11.875% interest.
- Euro 500 million of Existing Notes on 30 November 1999 with a maturity of 7 years and 9.625% interest, proposed to be increased to Euro 750 million on 14 December 1999 with the New Notes.
- Euro 400 million of Eurobonds on 2 December 1999 with a maturity of 3 years and 7.75% interest.
- $250 million of global bonds on 8 December 1999 with a maturity of 10 years and 12.375% interest.

SUMMARY OF PROVISIONS RELATING TO THE NEW NOTES WHILE IN GLOBAL FORM

Those provisions applicable to the New Notes while they are in Global Form, some of which modify the effect of the terms and conditions of the New Notes set out in this Offering Circular, are the same as those applicable to the Existing Notes while in Global Form except that the Temporary Global Note is exchangeable in whole or in part for interests in the Global Note on or after a date which is expected to be 24 January 2000 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note.

SUBSCRIPTION AND SALE

Chase Manhattan International Limited and Salomon Brothers International Limited (together, the "Managers") have, in a subscription agreement (the "Subscription Agreement") dated 10 December 1999, jointly and severally agreed to subscribe and pay for the New Notes at the issue price of 100.25 per cent. of their principal amount less a selling concession of 0.40 per cent. of such principal amount plus accrued interest from and including 30 November 1999 to but excluding 14 December 1999. The Republic has agreed to pay to the Managers a combined management and underwriting fee of 0.20 per cent. of such principal amount. In addition, The Republic has agreed to reimburse the Managers for certain of their expenses in connection with the management of the issue of the New Notes. The managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the issue of the New Notes. The Republic has agreed to indemnify the Managers against certain liabilities in connection with the issue of the New Notes.

The New Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The New Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possession or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the New Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the issue date of the New Notes within the United States or to, or for the account or benefit of, United States persons, and that it will have sent to each dealer to which it sells New Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the New Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of New Notes within the United States by a dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act.

Each Manager has agreed that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the New Notes in, from or otherwise involving the United Kingdom.

No action has been or will be taken in any jurisdiction by the Issuer or any Manager that would, or is intended to, permit a public offering of the New Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver New Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the New Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The New Notes have been accepted for clearance through the Cedelbank and Euroclear systems with an initial Common Code of 010543371 and an initial International Securities Identification Number (''ISIN'') of XS0105433717. Following the exchange of interests in the Temporary Global Note in respect of the New Notes for interests in the Global Notes, the New Notes will be traded interchangeably with the Existing Notes under a Common Code of 010445361 and ISIN of XS0104453617.

2. The Republic has obtained all necessary consents, approvals and authorisations in The Republic of Turkey in connection with the issue and performance of the New Notes. The issue of the New Notes was authorised, pursuant to the provisions of Articles 35A and 36A of the Budget Law No. 4393 for the fiscal year 1999.

3. The Republic is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material to The Republic or in the context of the issue of the New Notes nor so far as The Republic is aware is any such litigation or arbitration pending or threatened.

4. Save as disclosed in this Offering Circular, since 31 December 1998, there has been no material adverse change, or any development reasonably likely to involve an adverse change, in the condition (economic or otherwise) or general affairs of The Republic that is material in the context of the issue of the New Notes.

5. Application has been made to list the New Notes on the Luxembourg Stock Exchange. Copies (and certified English translations where the documents in question are not in English) of the following documents may be inspected during normal business hours at the offices of the Paying Agent in Luxembourg so long as any of the New Notes are listed on the Luxembourg Stock Exchange:

(i) the Fiscal Agency Agreement which includes the forms of the Temporary Global New Note, Global Note and Definitive Notes; and

(ii) the Deed of Covenant.

6. Under the International Private and Procedural Law of The Republic (Law No. 2675), a judgment of a court established in a country other than The Republic may not be enforced in the Turkish courts unless (i) there is in effect a treaty between such country and The Republic providing for reciprocal enforcement of judgments or (ii) there is de facto reciprocity in the field of enforcement of judgments between such country and The Republic or (iii) there is a provision in the laws of such country which provides for the enforcement of judgments of the Turkish courts. No international treaty exists between The Republic and the United Kingdom concerning the recognition and enforcement of judgments in civil cases.

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OFFERING CIRCULAR

Türkiye Cumhuriyeti
(The Republic of Turkey)

€500,000,000

9.625 per cent. Notes due 2006

Issue price: 99.386 per cent.

Application has been made to list the Notes on the Luxembourg Stock Exchange.

The Notes will be represented initially by a temporary global Note without coupons, which will be deposited with a common depositary on behalf of Cedelbank and Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear System (''Euroclear'') on or about 30 November 1999 (the ''Closing Date''). The Temporary Global Note will be exchangeable for interests in a Global Note, without interest coupons, on or after a date which is expected to be 10 January 2000 upon certification as to non-U.S. beneficial ownership. The Global Note will be exchangeable for definitive Notes in bearer form in the denomination of €1,000 each with Coupons attached only in certain limited circumstances. See ''Summary of Provisions relating to the Notes while in Global Form''.

Chase Manhattan International Limited | Salomon Smith Barney International

ABN AMRO | Bank Austria Creditanstalt

Caboto-Gruppo Intesa | Commerzbank Aktiengesellschaft

Deutsche Bank | DG BANK Deutsche Genossenschaftsbank AG

Dresdner Kleinwort Benson | HypoVereinsbank

ING Barings | Lehman Brothers

J.P. Morgan Securities Ltd. | Paribas

Westdeutsche Landesbank Girozentrale

The date of this Offering Circular is 29 November 1999.

Türkiye Cumhuriyeti (The Republic of Turkey) ("The Republic") or ("Turkey") having made all reasonable enquiries, confirms that this Offering Circular contains all information with respect to The Republic and the €500,000,000 9.625 per cent. Notes due 2006 (the "Notes") which is material in the context of the issue and offering of the Notes, that such information is true and accurate in every material respect and, is not misleading in any material respect and that this Offering Circular does not omit to state any material fact necessary to make such information not misleading and that this Offering Circular does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading. The opinions and intentions expressed in this Offering Circular with regard to The Republic are honestly held, have been reached after considering all relevant circumstances and are based on reasonable assumptions. The Republic accepts responsibility for the information contained in this Offering Circular accordingly.

No person has been authorised to make or provide any representation or information regarding The Republic or the Notes other than as contained in this Offering Circular. Any such representation or information should not be relied upon as having been authorised by The Republic or the Managers as defined under "Subscription and Sale". The delivery of this Offering Circular at any time does not imply that the information contained in it is correct as at any time subsequent to the date of this Offering Circular. Unless otherwise indicated, all information in this Offering Circular is given as of the date of this Offering Circular.

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This Offering Circular does not constitute an offer of, or an invitation by or on behalf of The Republic or the Managers to subscribe or purchase any of the Notes. The distribution of this Offering Circular and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by The Republic and the Managers to inform themselves about and to observe any such restrictions. The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act"), or any state securities law, and may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. For a description of certain further restrictions on offers and sales of Notes and distribution of this Offering Circular, see "Subscription and Sale".

In this Offering Circular, all references to "Turkish Lira" and "TL" are to the lawful currency for the time being of The Republic, references to "€", "Euro" or "euro" are to the single currency which was introduced at the beginning of the third stage of the European Economic and Monetary Union pursuant to the Treaty establishing the European Communities, as amended by the Treaty on European Union and all references to "dollars", "U.S.$" and "$" are to the lawful currency for the time being of the United States of America.

Translations of amounts from Turkish Lira to dollars are solely for the convenience of the reader and, unless otherwise stated, are made at the exchange rate prevailing at the time as of which such amounts are specified. The Central Bank of Turkey foreign exchange buying rate for United States dollars on 29 November 1999 was TL510,233 = U.S.$1.00. No representation is made that the Turkish Lira or dollar amounts referred to herein could have been or could be converted into dollars or Turkish Lira, as the case may be, at any particular rate or at all.

In connection with this issue, Salomon Brothers International Limited may over-allot or effect transactions which stabilise or maintain the market price of the Notes at a level which might not otherwise prevail. Such stabilising, if commenced, may be discontinued at any time.

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TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes which, subject to completion and amendment, will be endorsed on each Note in definitive form:

The €500,000,000 9.625 per cent. Notes due 2006 (the "Notes", which expression includes any further Notes issued pursuant to Condition 13 (Further Issues) and forming a single series therewith) of Türkiye Cumhuriyeti (The Republic of Turkey) ("The Republic") have been authorised pursuant to the provisions of Articles 35A and 36A of the Budget Law No. 4393 for the fiscal year 1999. A fiscal agency agreement dated 30 November 1999 (the "Fiscal Agency Agreement") has been entered into in relation to the Notes between The Republic, The Chase Manhattan Bank as fiscal agent (the "Fiscal Agent") and the other paying agents named therein (together with the Fiscal Agent, the "Paying Agents" or the "Agents").

In these Conditions, "Fiscal Agent" and "Paying Agent" shall include any successors appointed from time to time in accordance with the provisions of the Fiscal Agency Agreement, and any reference to an "Agent" or "Agents" shall mean any or all (as applicable) of such persons.

Copies of the Fiscal Agency Agreement are available for inspection during usual business hours at the specified offices of each of the Agents. The holders of the Notes (the "Noteholders") and the holders of the related interest coupons (the "Couponholders" and the "Coupons" respectively) are bound by, and are deemed to have notice of, the provisions of the Fiscal Agency Agreement.

References to "Conditions" are, unless the context otherwise requires, to the numbered paragraphs of these Conditions.

1. Form, Denomination and Title

The Notes are in bearer form in the denomination of €1,000 with Coupons attached at the time of issue. Title to the Notes and the Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder.

2. Status

The Notes constitute direct, unconditional and (subject to Condition 3 (Negative Pledge)) unsecured obligations of The Republic. Subject to the provisions of Condition 3 (Negative Pledge), the Notes rank and will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured External Indebtedness (as defined in Condition 3 (Negative Pledge)) of The Republic.

3. Negative Pledge

The Republic will not, so long as any of the Notes remains outstanding, create or permit to exist:

(i) any Lien (other than a Permitted Lien) for any purpose upon or with respect to any International Monetary Assets of The Republic; or

(ii) any Lien (other than a Permitted Lien) upon or with respect to:

  (x) any other assets of The Republic to secure External Indebtedness of any Person; or

  (y) any Exportable Assets of any Government-Owned Enterprise to secure External Indebtedness of The Republic,

unless the Notes at the same time share *pari passu* and *pro rata* in such security.

"Permitted Lien" means:

(A) any Lien on Foreign Currency (or deposits denominated in Foreign Currency) securing obligations with respect to a letter of credit in the course of ordinary commercial banking transactions (and expiring within one year thereafter) to finance the importation of goods or services into The Republic;

(B) any Lien on Exportable Assets (but not official holdings of gold), documents of title relating thereto, insurance policies insuring against loss or damage with respect thereto and proceeds of the foregoing, securing External Indebtedness incurred to finance the business of producing or exporting Exportable Assets, provided that:

(x) the proceeds of the sale of such Exportable Assets are expected to be received within one year after such Exportable Assets or documents become subject to such Lien; and

(y) such External Indebtedness:

(i) is to be repaid primarily out of proceeds of sale of the Exportable Assets subject to such Lien; and

(ii) does not arise out of financing provided by the lender on condition that other External Indebtedness be repaid;

(C) any Lien securing External Indebtedness incurred for the purpose of financing any acquisition of assets (other than International Monetary Assets), provided that the assets which are subject to such Lien are:

(x) tangible assets acquired in such acquisition (including, without limitation, documents evidencing title to such tangible assets);

(y) claims which arise from the use, failure to meet specifications, sale or loss of, or damage to such assets; or

(z) rent or charter hire payable by a lessee or charterer of such assets;

(D) any Lien on or with respect to assets (other than International Monetary Assets) existing at the time of the acquisition thereof, provided that such Lien was not incurred in contemplation of such acquisition;

(E) any Lien on or with respect to assets (other than International Monetary Assets) acquired (or deemed to be acquired) under a financial lease, or claims arising from the use, operation, failure to meet specifications, sale or loss of, or damage to, such assets, provided that:

(x) such Lien secures only rentals and other amounts payable under such lease; and

(y) such assets were not owned by The Republic for more than 120 days prior to becoming subject to such lease;

(F) any Lien on any assets which arose pursuant to any order or attachment, distraint or similar legal process arising in connection with court proceedings so long as the execution or other enforcement thereof is effectively stayed and the claims secured thereby are being contested in good faith by appropriate proceedings;

(G) any Lien arising by operation of law (and not pursuant to any agreement) which has not been foreclosed or otherwise enforced against the assets to which it applies, including without limitation any right of set-off with respect to demand or time deposits maintained with financial institutions and bankers' liens with respect to property held by financial institutions, provided that such Lien arises in the ordinary course of the activities of the owner of the assets subject thereto and not with a view to securing any External Indebtedness;

(H) any Lien securing External Indebtedness incurred in connection with any Project Financing, provided that the assets to which such Lien applies:

(x) are not official holdings of gold; and

(y) are:

(i) assets which are the subject of such Project Financing; or

(ii) revenues or claims which arise from the use, operation, failure to meet specifications, exploitations, sale or loss of, or damage to, such assets;

(I) Liens on assets (other than official holdings of gold) in existence on 30 November 1999 provided that such Liens remain confined to the assets affected thereby on 30 November 1999 and secure only those obligations so secured on 30 November 1999;

(J) any Lien or Liens which otherwise would not be permissible hereunder and which secure(s) indebtedness in an aggregate amount not exceeding U.S.$25,000,000 (or the equivalent thereof in other currencies).

For purposes of these Conditions:

(a) "Exportable Assets" means goods which are sold or intended to be sold for a consideration consisting of or denominated in Foreign Currency and any right to receive Foreign Currency in connection with the sale thereof;

(b) "External Indebtedness" of any Person means:

(i) each obligation, direct or contingent, of such Person to repay a loan, deposit, advance or similar extension of credit;

(ii) each obligation of such Person evidenced by a note, bond, debenture or similar written evidence of indebtedness; and

(iii) each Guarantee by such Person of an obligation constituting External Indebtedness of another Person;

if in each case such obligation is denominated in a Foreign Currency or payable at the option of the payee in a Foreign Currency;

provided that:

(I) an obligation (or Guarantee thereof) which by its terms is payable only by a Turkish Person to another Turkish Person in The Republic is not External Indebtedness;

(II) an obligation to the extent that it is owing only to an individual who is a Turkish citizen is not External Indebtedness; and

(III) an obligation is deemed to be denominated in a Foreign Currency if the terms thereof or of any applicable Governmental programme contemplate that payment thereof will be made to the holder thereof in such Foreign Currency by the obligor, The Republic or any other Turkish Person;

(c) "Foreign Currency" means any currency other than the lawful currency of The Republic;

(d) "Government-Owned Enterprise" means any corporation or other entity which constitutes under the laws of The Republic a judicial entity separate from The Republic and of which The Republic owns, directly or indirectly, more than 50 per cent. of the capital stock or other equity interest;

(e) "Guarantee" includes a suretyship or any other arrangement whereby the respective party is directly or indirectly responsible for any External Indebtedness of another Person, including without limitation any obligation of such party to purchase goods or services or supply funds or take any other action for the purpose of providing for the payment or purchase of such External Indebtedness (in whole or in part);

(f) "International Monetary Assets" means all official holdings of gold, Special Drawing Rights, Reserve Positions in the International Monetary Fund and Foreign Exchange which is owned or held by The Republic or any monetary authority of The Republic, all as defined by the International Monetary Fund;

(g) "Lien" means any lien, mortgage, deed of trust, charge, pledge, hypothecation, security interest or other encumbrance;

(h) "Person" means an individual, corporation, partnership, joint venture, trust, unincorporated organisation or any other juridical entity, including without limitation a Government or Governmental body or agency or instrumentality or any international organisation or agency;

(i) "Project Financing" means any financing of the acquisition, construction or development of any asset in connection with a project if the Person or Persons providing such financing expressly agree to look to the asset financed and the revenues to be generated by the use, exploitation, operation of or loss of or damage to, such asset as a principal source of repayment for the moneys advanced and at the time of such financing it was reasonable to conclude that such project would generate sufficient income to repay substantially all of the principal of and interest on all External Indebtedness incurred in connection with such project; and

(j) "Turkish Person" means The Republic and any Person who is a resident or national of The Republic or which has its principal place of business, seat or head office in The Republic or any Person incorporated or organised under the laws of The Republic.

4. Interest

Each Note bears interest from and including 30 November 1999 at the rate of 9.625 per cent. per annum, payable annually in arrear on 30 November in each year (each such date, an "Interest Payment Date"). The first such payment will be made on 30 November 2000. Interest will be paid subject to and in accordance with the provisions of Condition 7 (Taxation).

Each Note will cease to bear interest from the due date for redemption unless, after surrender of such Note, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at the rate specified above (as well after as before judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after notice has been given to the Noteholders that the Fiscal Agent has received all sums due in respect of the Notes up to such seventh day (except, in the case of payment to the Fiscal Agent, to the extent that there is any subsequent default in payment in accordance with these Conditions).

If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of the number of days in the relevant period from and including the most recent Interest Payment Date (or, if none, 30 November 1999) to but excluding the relevant payment date divided by the number of days in the period from and including the most recent Interest Payment Date (or, if none, 30 November 1999) to but excluding the next scheduled Interest Payment Date.

5. Redemption, Purchase and Cancellation

(a) Final redemption

Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their principal amount on 30 November 2006.

(b) Purchase and Cancellation

The Republic and its affiliates may at any time purchase Notes in the open market or otherwise at any price. Any Notes so purchased will be cancelled. Any Notes so cancelled will not be reissued.

6. Payments

(a) Principal

Save as provided in paragraph (c) below, payments of principal shall be made only against presentation and surrender (or, in the case of part payment only, endorsement) of Notes at the specified office of any Paying Agent outside the United States by cheque drawn on, or by transfer to a euro account.

(b) Interest

Save as provided in paragraph (c) below, payments of interest shall, subject to paragraph (g) below, be made only against presentation and surrender (or, in the case of part payment only, endorsement) of the appropriate Coupons at the specified office of any Paying agent outside the United States in the manner described in paragraph (a) above.

(c) Payments in New York City

Payments of principal or interest may be made at the specified office of a Paying Agent in New York City if (i) The Republic has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able to make payment of the full amount of the interest on the Notes in the euro when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

(d) Payments Subject to Fiscal Laws

All payments of principal and interest in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 7 (Taxation).

(e) Commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments of principal or interest in respect of the Notes.

(f) Unmatured Coupons

Each Note should be presented for payment together with all relative unmatured Coupons, failing which the full amount of any relative missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the full amount of the missing unmatured Coupon which the amount so paid bears to the total amount due) will be deducted from the amount due for payment. Each amount so deducted will be paid in the manner mentioned above against presentation and surrender (or, in the case of part payment only, endorsement) of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 7 (Taxation)) in respect of the relevant Note (whether or not the Coupon would otherwise have become void pursuant to Condition 9 (Prescription)) but not thereafter.

(g) Payments on business days

If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next following business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph "business day" means, in respect of any place of presentation, any day on which banks are open for business in such place of presentation and which is a day on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET) system is operating, provided that if the Issuer determines, with the agreement of the Fiscal Agent, that the market practice in respect of internationally offered euro denominated securities is different from that specified in this paragraph, such paragraph shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the holders of Notes or (as the case may be) Coupons, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of such deemed amendment.

(h) Agents

The initial Agents and their initial specified offices are listed below. Any of the Agents may resign in accordance with the provisions of the Fiscal Agency Agreement and The Republic reserves the right at any time to vary or terminate the appointment of any Agent and appoint additional or other Agents, provided that while the Notes are outstanding it will maintain (i) a Fiscal Agent, and (ii) a Paying Agent having a specified office in a major European city which will be in Luxembourg, so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of the Luxembourg Stock Exchange so require. Notice of any change in the Agents or their specified offices will promptly be given to the Noteholders in accordance with Condition 13 (Notices).

7. Taxation

All payments of principal and interest in respect of the Notes and the Coupons by The Republic shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by The Republic or any political subdivision or any authority thereof or therein having power to tax (together "Taxes"), unless such withholding or deduction is required by law. In that event, The Republic shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon:

(a) to a holder, or to a third party on behalf of a holder, if such holder is liable to such Taxes in respect of such Note or Coupon by reason of having some connection with The Republic other than the mere holding of such Note or Coupon; or

(b) if such Note or Coupon is surrendered for payment more than 30 days after the Relevant Date, except to the extent that the holder would have been entitled to such additional amounts on surrender of such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, "Relevant Date" means whichever is the later of (a) the date on which the payment in question first becomes due and (b) if the full amount payable has not been received in London by the Fiscal Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders. Any reference in these Conditions to principal or interest in respect of the Notes or Coupons shall be deemed to include any additional amounts which may be payable under this Condition 7 (Taxation).

8. Events of Default

If any of the following events occurs:

(a) Non-payment

The Republic fails to pay any amount of interest in respect of any of the Notes when due and such failure continues for a period of 30 days or fails to pay any amount of principal in respect of any Notes at any time; or

(b) Breach of other obligations

The Republic defaults in performance or observance of or compliance with any of its other obligations set out in the Notes which default is not remedied within 30 days after notice of such default shall have been given to The Republic by any Noteholder; or

(c) Cross-acceleration

Any other present or future External Indebtedness (as defined in Condition 3 (Negative Pledge)) of The Republic for or in respect of moneys borrowed or raised, in an amount in aggregate of not less than U.S.$40,000,000 (or its equivalent in other currencies), becomes due and payable prior to its stated maturity otherwise than at the option of The Republic or any amount of such External Indebtedness in an aggregate amount of not less than U.S.$25,000,000 (or its equivalent in other currencies) is not paid when due or, as the case may be, within any applicable grace period; or

(d) Moratorium

A moratorium on the payment of principal of, or interest on, the External Indebtedness of The Republic shall be declared by The Republic; or

(e) Unlawfulness

It is or will become unlawful for The Republic to perform or comply with any of its obligations under or in respect of the Notes or the Fiscal Agency Agreement; or

(f) IMF

The Republic ceases to be a member of the International Monetary Fund;

then any Note may, by notice in writing given to the Fiscal Agent at its specified office by the holder, be declared immediately due and payable whereupon it shall become immediately due and payable at its principal amount, plus accrued interest, if any. The Republic shall, on the reasonable written request of the Fiscal Agent, confirm whether it is in compliance with the provisions of this Condition 8 (Events of Default) and Condition 3 (Negative Pledge).

9. Prescription

Claims against The Republic in respect of principal and interest shall become void unless made within a period of ten years, in the case of principal, and five years, in the case of interest, from the appropriate Relevant Date as defined in Condition 7 (Taxation).

10. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Fiscal Agent, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as The Republic may reasonably require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

11. Meetings of Noteholders; Modification and Waiver

(a) Meetings of Noteholders

The Fiscal Agency Agreement contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the modification by Extraordinary Resolution of these Conditions. The quorum at any such meeting for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than one quarter of the principal amount of the Notes, for the time being outstanding or at any adjourned meeting two or more persons being or representing Noteholders whatever the aggregate principal amount of the Notes for the time being outstanding so held or represented, except that at any meeting the business of which includes consideration of proposals, inter alia, (i) to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes or to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, (ii) to change the currency in which amounts due in respect of the Notes are payable, or (iii) to change the quorum required at any meeting or the majority required to pass an Extraordinary Resolution, the necessary quorum for passing an Extraordinary Resolution shall be two or more persons holding or representing not less than three-quarters, or at any adjourned such meeting not less than one-quarter, of the principal amount of the outstanding Notes. An Extraordinary Resolution duly passed at any meeting of Noteholders will be binding on all Noteholders, whether or not they are present at the meeting.

(b) Modification and waiver

The parties to the Fiscal Agency Agreement may agree, without the consent of the Noteholders, to any modification of any provision of the Fiscal Agency Agreement or the Notes which is of a formal, minor or technical nature or is made to correct a manifest error.

12. Further Issues

The Republic shall be at liberty from time to time, without the consent of the Noteholders, to create and issue further notes ranking equally in all respects (or in all respects save for the date for and amount of the first payment of interest thereon) so that the same shall be consolidated and form a single series with the Notes.

13. Notices

Notices to the Noteholders shall be valid if published in a daily newspaper published in Luxembourg (which is expected to be the *Luxemburger Wort*) and in London (which is expected to be the *Financial Times*). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

A copy of all notices provided pursuant to this Condition 13 (Notices) shall also be given to Morgan Guaranty Trust Company of New York as operator of the Euroclear System and Cedelbank.

14. Currency Indemnity

The euro is the sole currency of account and payment for all sums payable by The Republic under or in connection with the Notes, including damages. Any amount received or recovered in a currency other than the euro (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction or otherwise) by any Noteholder in respect of any sum expressed to be due to it from The Republic shall only constitute a discharge to The Republic to the extent of the euro amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that euro amount is less than the euro amount expressed to be due to the recipient under any Note, The Republic shall indemnify such recipient against any loss sustained by it as a result. In any event, The Republic shall indemnify the recipient against the cost of making any such purchases. These indemnities constitute a separate and independent obligation from The Republic's other obligations, shall give rise to a separate and independent cause of action, shall apply irrespective of any indulgence granted by any Noteholder and shall continue in full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under any Note or any judgment or order.

15. Governing Law and Jurisdiction

(a) Governing law

The Notes and the Fiscal Agency Agreement shall be governed by and construed in accordance with the laws of England.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and accordingly any legal action or proceedings arising out of or in connection with the Notes ("Proceedings") may be brought in such courts. The Republic irrevocably submits to the jurisdiction of such courts and waives any objection to Proceedings in such courts whether on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. These submissions are made for the benefit of each of the Noteholders and shall not limit the right of any of them to take Proceedings in any other court of competent jurisdiction nor shall the taking of Proceedings in one or more jurisdictions preclude the taking of Proceedings in any other jurisdiction (whether concurrently or not).

(c) Waiver of Immunity

The Republic irrevocably agrees that, should any Proceedings be taken anywhere (whether for an injunction, specific performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) from those Proceedings, from attachment (whether in aid of execution, before judgment or otherwise) of its assets or from execution of judgment shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. The Republic irrevocably agrees that it and its assets are, and shall be, subject to such Proceedings, attachment or execution in respect of its obligations under this Agreement provided that it is understood that The Republic is unable under the laws of The Republic to waive immunity from attachment in relation to the moveable and immoveable assets of The Republic.

(d) Consent to Proceedings

The Republic irrevocably and generally consents in respect of any Proceedings anywhere to the giving of any relief or the issue of any process in connection with those Proceedings including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings.

(e) Process Agent

The Republic irrevocably appoints The Economic Counsellor of The Republic of Turkey presently located at 43 Belgrave Square, London SW1 8PA as its authorised agent for the service of process in England. Nothing contained herein shall affect the right to serve process in any other manner permitted by law.

(f) Consent to enforcement etc.

Without limiting the generality of any of the foregoing, The Republic agrees, without prejudice to the enforcement of a judgment obtained in London according to the provisions of Article 38 of the International Private and Procedure Law of The Republic (Law No. 2675), that in the event that The Republic is sued in a court in The Republic of Turkey in connection with the Notes, such judgment shall constitute conclusive evidence of the existence and amount of the claim against The Republic pursuant to the provisions of the second sentence of Article 287 of the Civil Procedure Code of The Republic and Article 42 of the International Private and Procedure Law of The Republic.

USE OF PROCEEDS

The net proceeds before expenses of the issue of the Notes, expected to amount to approximately €493,930,000, will be used for the general funding purposes of The Republic.

RECENT DEVELOPMENTS

General

On 17 August 1999, an earthquake measuring 7.4 on the Richter scale struck near the port city of Izmit, about 60 miles east of Istanbul, destroying many buildings and killing approximately 15,000 people. The cities hit hardest by the earthquake, Izmit, Sakarya, Bursa, Bolu, and Eskişehir, include important industrial centers. Approximately 115,000 housing units were destroyed, and infrastructure was heavily damaged in the affected areas. In Izmit, Turkey's largest oil refinery was damaged by fire. In addition, some water systems were damaged in the earthquake, and environmental harm from earthquake-induced industrial damage has not yet been assessed. The full cost of the earthquake to Turkey and its impact on Turkey's economic condition are not yet calculable with precision, although the World Bank has assessed and estimated the total financial damage caused by the August 1999 earthquake in the region affected to be from US$3.0 billion to US$6.5 billion, which comprises between 1.5% and 3.3% of GNP. The total cost of reconstruction of housing facilities damaged or destroyed by the earthquake has been estimated to be approximately US$3.6 billion to US$4.6 billion, leading to a public finance burden of this amount. IMF officials have visited Turkey since the August 1999 earthquake and have assessed the macro-economic effects of the earthquake. They have concluded that there is no reason to change inflation rate targets for 2000 and 2001, because the increase in State expenditures is expected to be temporary. In addition, the capacity utilisation rate in the Turkish economy is low, and demand will not likely put pressure on the economy because excess production capacity is available.

In November 1999, another earthquake hit the northwestern province of Bolu, which lies halfway between Ankara and Istanbul. The province of Bolu accounts for 0.9% of Turkey's GDP. This earthquake has caused further damage, which will result in further financial costs to The Republic. As at the date of this Offering Circular, no estimates of those costs are available.

Turkey expects to receive a total of approximately $3.5 billion of external financial assistance, most of it during the calendar year 2000. $2.4 billion will be in the form of project-tied loans with soft terms such as long maturities and substantial grace periods. The IMF has provided $500 million for earthquake assistance. In addition, the Republic expects to receive $1 billion from the World Bank, Euro 600 million from the European Investment Bank, Euro 300 million from the European Council Social Development Fund, $300 million from the Islamic Development Bank, $400 million from the Gulf Cooperation Council, $200 million from Japan, $60 million from Spain, $30 million from Korea, $27 million from Germany and $5 million from Belgium. Although insufficient to cover all costs associated with the earthquake's damage, these commitments are expected to provide a portion of the funding needed to begin the rebuilding process. For instance, relief funds will be used to repair the damaged water and sewer systems. The Government expects to finance expenses not covered by these funds through its own revenue sources and domestic or international borrowing. To reduce the need for deficit financing, The Government has submitted to the Grand National Assembly (the "Assembly" or the "Parliament") a package of measures that includes extraordinary taxes and other measures intended to increase revenues. The Government plans to generate additional revenues by permitting citizens to pay a one-time fee rather than performing compulsory military service.

Political Conditions

The most recent nationwide local and general elections took place on 18 April 1999. Mr. Ecevit's DSP placed first with 22.2% of the vote and 136 deputies in the 550-seat Assembly. The Nationalist Movement Party ("MHP") led by Devlet Bahceli came in second with 18.0% of the vote and 129 seats. FP won 15.4% of the vote and 111 seats. Mr. Yilmaz's ANAP won 13.2% of the vote and 86 seats while DYP won 12.0% of the vote and 85 seats. On 28 May, President Süleyman Demirel approved a coalition Government of DSP, MHP and ANAP, led by Mr. Ecevit as Prime Minister.

The Government presented its 1999 Program to the Assembly on 4 June 1999, and received a vote of confidence on 9 June 1999. In its program, the Government stated that it would work for the approval and implementation of major legislative economic reform measures, including a pending social security bill to increase the minimum retirement age and a banking sector reform bill to establish an independent regulatory body and improve bank supervision. Both of these bills have since been passed by the Assembly and signed into law, although the opposition has appealed the social security law to the constitutional court. See "— Monetary Policy, Exchange Rates and Banking System" and "— Public Finance." In addition, the Assembly passed the 1999 budget on 18 June 1999. On 13 August 1999, the Assembly approved a constitutional amendment that allows for international arbitration of certain business disputes; the Government expects that this amendment will encourage foreign capital flows into Turkey.

Global Economic Conditions and their Effects on the Turkish Economy

Turkey faced economic challenges beginning in August 1998 due to the erosion of investor confidence in emerging markets as a result of the devaluation of the Russian ruble, the default by Russia on its domestic debt and the rescheduling by Russia of its foreign debt. The Russian situation, coupled with the severe economic difficulties experienced by many Asian and Latin American countries since the last quarter of 1997, have had repercussions throughout the emerging markets, including the Republic. For example, the Istanbul Stock Exchange declined in value, interest rates on government securities increased and the amount of international reserves decreased during the second half of 1998. See "Foreign Trade and Balance of Payments — International Reserves" and "Financial System — Capital Markets."

Between 4 August 1998 and 31 December 1998, the Istanbul Stock Exchange index decreased by 37% from 4,128 to 2,598. The level of the index since January 1999 has regained its losses, however, and closed at 8,364 on 15 November 1999. The Republic believes that the increase is due to improved market sentiment toward economic indicators and political developments in Turkey.

During 1998, the average maturity of Turkish internal public debt declined to 7.7 months from 11.9 months in 1997. See "Debt — Internal Debt." During October 1999, however, the average maturity of domestic debt was 15 months. During 1998, the average annual interest rate on Turkish internal public debt on a compounded basis increased to 118.1% from 109.7% in 1997. Recent treasury auctions held by the Republic on 5 October and 25 October, for treasury bills with maturities of approximately six and eight months, respectively, resulted in rates of 103.4% and 95.7%, compared to 143.1% for five-month treasury bills on 26 January 1999 and 92.7% for twelve-month treasury bills on 28 July 1998, The volatility in treasury bill rates, and especially the increase in rates during the second half of 1998, was due to political and economic conditions in Turkey and to volatility in the international capital markets generally.

At 22 October 1999, net international reserves were approximately $37.9 billion, Central Bank reserves were approximately $24.8 billion, commercial bank reserves were approximately $12.1 billion, and gold reserves were approximately $1.0 billion.

Gross National Product

Turkey's real GNP grew by 9.2%, 4.4%, 2.4% and 0.7% in each quarter of 1998, respectively, yielding annual growth for the entire year of 3.8%. See "Economy — Gross National Product." In 1999, Turkey's real GNP decreased by 8.4% in the first quarter and 3.4% in the second quarter, for a cumulative 5.8% contraction in the first half of the year. The Government's original budget assumed that Turkey's real GNP would grow by 3.0% in 1999. However, based on economic results so far this year and the Government's expectation that the damage to production and transportation capacity caused by the earthquake will have a negative impact on growth, the Government revised its GNP growth target to negative 2% in October 1999. The provinces in which the earthquake occurred account for approximately 35% of Turkey's overall output. The four hardest hit provinces account for approximately 8% of GNP and 6% of exports.

Inflation

In 1998, the wholesale price index ("WPI") increased at a rate of 54.3% and the consumer price index ("CPI") increased at a rate of 69.7%. See "Economy — Inflation." In the period January through October 1999, the year-on-year WPI rate of increase was 55.2%, while the year-on-year CPI rate of increase was 64.7% as compared to 62.0% WPI growth and 76.6% CPI growth in the same period of 1998. Under the Staff Monitored Program (the "SMP") with the IMF, the Government had set targets for WPI inflation of 50-55% and CPI inflation of 55% by year-end 1999. In October 1999, these targets were revised to 57% for WPI and 63.9% for CPI. See "Economy — Inflation."

Foreign Trade and Balance of Payments

In the first eight months of 1999, the trade deficit (including shuttle trade) was $6.6 billion compared to $10.0 billion in the same period of 1998. Excluding shuttle trade, the trade deficit amounted to $7.8 billion, compared to a deficit of $12.8 billion in the first eight months of 1998. The current account balance (including shuttle trade) produced a surplus of $58 million in the first eight months of 1999, compared to a deficit of $96.2 billion in the same period of 1998.

In the first eight months of 1999, merchandise exports (including shuttle trade) decreased by 13.9% compared to the same period in 1998 and reached $18.1 billion while merchandise exports (excluding shuttle trade) decreased by 7.0% compared to the same period in 1998 and reached $16.8 billion reflecting lower prices of exported goods.

In the first eight months of 1999, imports (c.i.f.) decreased by 20% compared to the same period in 1998 and reached $25.0 billion.

In the first eight months of 1999, portfolio investment increased by $2.5 billion.

Tourism revenues were $3.3 billion in the first eight months of 1999 compared to $4.7 billion in the first eight months of 1998.

Monetary Policy, Exchange Rates and Banking System

During the first nine months of 1999, reserve money increased by 54.2% from TL3,486 trillion to TL5,376 trillion. Net domestic assets decreased from TL579 trillion to negative TL1,400 trillion in the same period which was below the targeted level of negative TL1,000 trillion for September 1999.

In the first two weeks following the earthquake, reserves decreased by $1 billion and the demand for Turkish Lira prompted the Central Bank to provide liquidity through open market operations. These operations have since been sterilized and the levels of reserves restored.

In August 1999, banks' required levels of general reserves were reduced from 1.0% to 0.5% of total cash credits and from 0.2% to 0.1% of total non-cash credits.

In June 1999, the Assembly passed a banking reform law, the Banks Act (Law No. 4389). The law aims to establish rules and procedures governing incorporation, management, transactions, mergers, liquidation and supervision of banks in order to ensure efficiency in the credit system and increase confidence and stability in the financial markets. The law also provides for the establishment of a ''Banking Regulation and Supervision Agency'' which will be a public entity with administrative and financial autonomy and will supervise financial institutions. The Banking Regulation and Supervisory Agency will begin its operations within one year after the appointment of the Board of Directors, which is scheduled to take place by September 2000. The Treasury and the Central Bank announced on 5 August 1999 that the ratio of a bank's ''net open position'' to its capital base cannot exceed 20%. See ''Fiscal System — Banking System.''

The capital adequacy ratios for all banks operating in Turkey averaged 14.0% for the first quarter of 1999. The capital adequacy ratios for state-owned deposit banks in Turkey averaged 7.4% for the first quarter of 1999. The net short foreign exchange position ratio was negative 42% for this system as a whole on 24 September 1999.

Consolidated Central Government Budget

In the first nine months of 1999, consolidated budget expenditures reached TL19,654 trillion and consolidated budget revenues reached TL12,355 trillion, an increase of 75.4% and 52.6%, respectively, over the same period in 1998. Consequently, the consolidated budget deficit amounted to TL7,298 trillion in the first nine months of 1999, compared to TL3,109 trillion during the same period in 1998.

The 1999 budget, passed in June 1999, projected total revenues of TL18,030 trillion (22.9% of GNP), an increase of 54.5% over the 1998 total, which represented 22.0% of GNP. Total expenditures were estimated at TL27,144 trillion (34.4% of GNP), an increase of 76.3% over the 1998 total, which represented 29.0% of GNP. The projected budget deficit was therefore TL9,115 trillion (11.6% of GNP), an increase of 244.6% over the 1998 total, which represented 7.0% of GNP. The 1999 budget estimated a primary budget surplus of TL1,185 trillion (1.5%) of GNP, a decrease of 51.7% as against the 1998 total, which represented 4.6% of GNP. These budget estimates were based on an assumption of 3.0% real growth in GNP and 44% inflation. As of October 1999, revised budget targets project a budget deficit comprising 11.3% of GNP, a primary surplus of 1.4% of GNP, total revenues of 21.7% of GNP, total expenditures of 32.7% of GNP and non-interest expenditures of 20.3% of GNP. In light of the 17 August 1999 earthquake, the Budgetary Commission has approved and sent to the General Assembly a supplemental budget to cover approximately TL500 billion in earthquake-related expenses and to adjust the budget to reflect lower anticipated GNP growth.

On 27 March 1999, the Government reached an employment agreement with the public sector workers' union. The agreement will, during the first half of 1999, increase public sector wages by approximately 35% over the wage level at the end of 1998. The agreement also sets the wage increase for the second half of 1999 at the rate of CPI inflation plus an additional 5% of the total increased wage.

Social Security

The first phase of a two-phase social security reform package was approved by the Grand National Assembly in August 1999 and includes the following measures:

- Increasing the minimum retirement age to 58 for women and 60 for men for new entrants to the social security system.
- Introducing minimum retirement age requirements, which range between 41 and 52 for women and 45 and 56 years for men, for the currently insured.
- Increasing the premium ceilings.
- Introducing administrative measures to increase coverage and compliance rates.

The second phase of the reform package, which is expected to be implemented by the end of 2000, will focus on the following:

- Introducing supplementary individual pension schemes.
- Establishing a regulatory framework for individual pension schemes.
- Separation of health insurance and health care services within the SSK.
- Integration of the social security institutions.
- Increasing the financial and administrative autonomy of the social security institutions by enabling them to determine their own wage and investment policies.

Privatization

At the beginning of 1999, the Government had targeted privatization revenues for the year to total approximately $4.0 billion; however, no significant privatizations have been announced in 1999 to date and none is expected, except for the possible sale of GSM licenses, before the end of 1999. See "Public Finance — Privatization." These delays have been primarily due to uncertainty relating to the national and local elections which took place in April and volatility in international markets generally during the first half of the year, and more recently, the earthquake in Turkey. The budget of 1999 included TL270 billion from the anticipated privatization of GSM licenses. The Government targets privatization revenues for the year 2000 to total approximately $5.3 billion, with approximately $3.2 billion of that amount in cash and the remainder due in later installments. Among the privatizations planned for the year 2000 are TUPRAS (oil refinery), Turkish Airlines and POAS (petroleum distribution company).

Debt

Turkey's total internal debt was approximately TL19,209 trillion at 31 August 1999, compared to approximately TL11,613 trillion at 31 December 1998. See "Debt — Internal Debt." Turkey's outstanding external debt was approximately $100.1 billion at 30 June 1999, compared to approximately $104.0 at 31 December 1998. See "Debt — External Debt and Debt Management".

Since 30 June 1999, Turkey has issued or launched the following:

- The reopening and increase to $600 million on 8 September 1999 of an issue of global bonds of 10 December 1998, with a maturity of ten years, 12% interest and a put option at the fifth year, which was previously reopened and increased to $400 million on 7 April 1999.
- Euro 400 million of Eurobonds on 4 August 1999, with a maturity of six years and 9.625% interest.
- $500 million of global bonds on 29 October 1999, with a maturity of five years and 11.875% interest.

Year 2000 Issues

Many of the computer systems and software applications used by the government and by external parties inside and outside of Turkey could experience technical complications relating to an inability to process dates beginning in the year 2000. These complications are referred to as "Year 2000" issues. Computer systems and applications that identify dates using only the last two digits of the year are unable to distinguish between dates in the year 2000 and dates in the year 1900. Information technology (such as computer hardware and software) and embedded technology (such as devices used to control, monitor or assist in the operation of equipment, machinery or plants) could be affected by Year 2000 issues. Year 2000 issues could result in miscalculations, malfunctions and system failures unless measures are taken to identify, prevent and resolve potential Year 2000 problems.

The government appointed the State Planning Organization (the "SPO") in 1998 to ensure the uninterrupted provision of basic infrastructure and other public services, to minimize the negative impact of the Year 2000 problem in Turkey and to speed up Year 2000 compliance activities of organizations throughout Turkey. Though many private and public organizations had started their own Year 2000 compliance programs in 1997 or before, the SPO finalized a National Action Plan ("NAP") in April 1999 to coordinate these efforts.

To ensure that computer systems and applications used in both the public and private sectors are Year 2000 compliant, the NAP established a Year 2000 Advisory Board, working groups in important sectors of the economy and a Private Sector Task Force. The Year 2000 Advisory Board was established to oversee organizations that provide services, including the energy, health, communication and transportation systems. These organizations must submit on a monthly basis status reports to the advisory board describing their progress. The working groups were established to confront the Year 2000 problem in important sectors of the economy. These are telecommunications, energy, health care, transportation, finance, defense, internal security, social security, education and culture, production, services and utilities, general administration and legal services. Working groups have been meeting once a month to discuss their progress. The Private Sector Task Force was formed to assure the exchange of information between the Small and Medium Industries Development Administration, the Ministry of Industry and Commerce and the SPO. It also has responsibility for cooperating with the public sector to ensure Year 2000 compliance by small and medium size enterprises.

As part of the work being done under the NAP, organizations throughout Turkey have been developing contingency plans to deal with the problems that could arise if they do not identify and resolve all Year 2000 issues in advance of 31 December 1999. These contingency plans will continue to develop as Turkey's year 2000 program progresses.

Finance Sector

The Finance Sector Working Group includes the Central Bank, the Ministry of Finance, the undersecretary of the Treasury, the Istanbul Stock Exchange ("ISE"), Takasbank, the Banking Association and other financial institutions. The Central Bank completed its Year 2000 readiness in June 1999 and has prepared a contingency plan for such critical occurances as foreign payments, teller transactions, payment systems, repurchase agreement transactions, market transactions and deposits of Turkish non-residents. The ISE and Takasbank have both tested their computer systems as part of mandatory industry-wide testing. Testing was completed in July 1999 and was 100% successful throughout the industry.

Telecommunications

The primary telephone service provider in Turkey is Turk Telekom, and the major mobile service providers are Turkcell and Telsim. Turk Telekom completed testing each telephone system and exchange for its 17 million stationary subscribers in Turkey in June 1999. It found that 52% of the exchanges and the systems were fully Year 2000 compliant, another 21% were not compliant but would not hinder communication, and the remaining 27% percent were non-compliant but are scheduled to be fully compliant by 31 October 1999. As of 15 October 1999 Turkcell and Telsim are 100% and 96% compliant respectively in their information systems and 92.5% and 99% compliant respectively in their embedded systems. Every organization in a working group is required to prepare a contingency plan, and both Turkcell and Telsim have completed theirs.

Energy

The energy sector is divided into three fields in Turkey, electricity, natural gas and oil. The two primary electricity providers are TEAS and TEDAS. At TEAS, the conversion of all non-compliant application software, both in-house and from outside, has been completed. Testing revealed that nine power generators at TEAS had Year 2000 problems due to embedded chips. Seven of these have been corrected and tested, and TEAS plans to bring the other two into compliance by 31 October 1999. As of 15 October 1999, TEDAS is 100% compliant in its embedded systems, but only 59.5% compliant in its information systems. It is scheduled to be fully compliant by 1 December 1999. Both TEAS and TEDAS have prepared contingency plans.

The Oil and Natural Gas Pipeline Companies Organization ("POAS") foresees no problems with its computer systems but has identified a problem with their Russian pipeline equipment and system. Further, problems have been encountered in the natural gas conversion and distribution systems. As of 15 October 1999, its information systems were 81% compliant and its embedded systems were 77% compliant. POAS is planning to be fully Year 2000 compliant by 31 October 1999. POAS is in the process of preparing its contingency plans.

Water Supply

The Public Utilities Working Group is working with the municipalities to ensure Year 2000 compliance. The water supply systems are nearly compliant. There are no embedded systems in the sewer and water treatment centers, and the water distribution systems work manually. There are no Year 2000 problems in the water purification systems.

Transportation

As of 15 October 1999, Turkish Airlines is 100% year 2000 compliant in its information systems and 98% compliant in its embedded systems, and is scheduled to be fully compliant in both by 31 October 1999. According to information presented regarding airports to the Year 2000 Advisory Board on 9 September 1999, radar systems, communication systems, terminal and security systems, navigation and approach aid systems are all fully compliant. Air traffic control has been tested and the only problem that occurred was with 29 February 2000. Subsequently a contingency plan has been developed to handle this, as well as any other, problem.

Government

As of 15 October 1999, the Office of the Presidency is 90% compliant in both its information systems and in its embedded systems. The Grand National Assembly is 90% compliant in its information systems, but only 65% compliant in its embedded systems. The Prime Ministry is only 50% compliant in its information systems, but fully 90% compliant in its embedded systems. All three plan to be fully compliant by 31 October 1999, and all three are in the process of preparing contingency plans.

DESCRIPTION OF THE REPUBLIC

Turkey has a democratically-elected parliamentary form of government. Since the founding of the Republic in 1923, Turkey has aligned itself with the West and is a member of numerous international organizations, including the North Atlantic Treaty Organization (''NATO''), the Council of Europe, the International Bank for Reconstruction and Development (the ''World Bank''), the International Monetary Fund (the ''IMF'') and the Organization for Economic Co-operation and Development (the ''OECD''). Turkey is also an associate member of the European Union (''EU'') and a founding member of the European Bank for Reconstruction and Development (the ''EBRD'').

Beginning in 1980, the Government embarked upon a series of market-oriented reforms which, among other things, were designed to remove price controls and reduce subsidies, reduce the role of the public sector in the economy, emphasize growth in the industrial and service sectors, encourage private investment and savings, liberalize foreign trade, reduce tariffs and promote export growth, ease capital transfer and exchange controls and encourage foreign investment, increase the independence of the Central Bank and reform the tax system. Turkey moved towards full convertibility of the Turkish Lira by accepting the obligations of Article VIII of the IMF Articles of Agreement in March 1990. Turkey has now developed a market-oriented, highly diversified economy with growing industrial and service sectors, while retaining a prominent agricultural sector which makes the country largely self-sufficient in foodstuffs. The service sector, industrial sector and agricultural sector accounted for an estimated 59.5%, 23.2% and 17.3%, respectively, of Turkey's gross domestic product (''GDP'') in 1998. See ''Economy — Services,'' ''Economy — Industry'' and ''Economy — Agriculture.''

Location, Area and Topography

Turkey, situated at the junction of Europe and Asia, is an important crossroads between Western Europe, the Middle East and Asia. Turkey's location has been a central feature of its history, culture and politics. Turkey's land borders extend for more than 1,630 miles and are shared with eight countries: Greece and Bulgaria in the west and northwest, Iran in the east, Armenia, Georgia and Azerbaijan in the northeast and Iraq and Syria in the south.

Turkey's coastline extends for approximately 4,400 miles along the Black Sea in the north, the Aegean Sea in the southwest and the Mediterranean Sea in the south, all of which are connected by the Bosphorus, the Sea of Marmara and the Dardanelles.

Turkey has an area of approximately 300,000 square miles, and its topography is varied. The major part of the country consists of highland plateau surrounded by mountainous areas which rise toward the east. Climatic conditions differ widely among the regions.

Population

According to estimates of the State Institute of Statistics and the State Planning Organization, population growth averaged approximately 1.51% per annum between 1990 and 1997 and Turkey's current population as of mid-1999 is 64.4 million.

Turkey's population is comparatively young and the transformation of Turkey's economy from a largely agricultural to an industrial and service oriented economy has led to an increasingly urban population.

According to the State Institute of Statistics and the State Planning Organization, in 1997, 58.9% of the population lived in urban areas, while 41.1% lived in rural areas. These numbers represent a 2% shift in population from urban to rural areas from the 1995 figures. In 1990, 49.1% of the population lived in urban areas and 50.9% lived in rural areas.

The largest cities in Turkey are Istanbul, the country's commercial center and Ankara, the capital, with populations of 8.3 million and 3 million, respectively. Other cities with populations in excess of one million are Izmir, Adana, and Bursa.

As of October 1998, total civilian employment was 22.0 million, of whom approximately 43.4% were employed in agriculture, 16.3% in industry and 40.3% in services. See ''Economy — Employment and Wages.''

Turkey is constitutionally a secular state. The vast majority of the Turkish population is Muslim. There are very small numbers of non-Muslims, including Greek Orthodox, Armenian Christians and Jews. The official language of Turkey is Turkish.

Government Organization and Political Background

A popular nationalist movement began in Turkey before the turn of the century and gathered momentum in the aftermath of World War I. Turkey was declared a republic on 29 October 1923, upon the abolition of the Sultanate. Mustafa Kemal Ataturk was elected as the Republic's first President. Ataturk instituted a series of sweeping social reforms which have played a central role in the development of modern Turkey. The Constitution of the Republic (the "Constitution") was adopted in 1924 and provided for an elected parliament to be the repository of sovereign power. Executive authority was vested in the Prime Minister and the Council of Ministers. Changes were made in the legal, political, social and economic structure of the country, and Islamic legal codes were replaced by Western ones. Ataturk's reforms and Western orientation continue to be the dominant ideological element in Turkey today.

Historically, the military has been an important factor in Turkish government and politics. The Turkish military establishment has intervened in Turkish politics three times since 1959 (in 1960, 1971 and 1980) to provide stability in the face of political and social factionalism. Each time, the military withdrew after the election of a new civilian government and the introduction of changes to the legal and political systems.

Turkey's current Constitution, which was revised and ratified by popular referendum in 1982, contains a system of checks and balances aimed at ensuring a strong central government and reducing parliamentary factionalism. The Constitution provides for a parliament (the unicameral Grand National Assembly), a President and a Prime Minister. The President is elected for a seven-year term by a vote of the Grand National Assembly, and the Prime Minister is appointed by the President. The Prime Minister, in turn, nominates other members of the Council of Ministers (the "Cabinet"), who are then approved by the President. The Cabinet, chaired by the Prime Minister, exercises the executive powers of the Government.

The members of the Grand National Assembly are elected for five-year terms. The Constitution provides for a system of proportional representation and forbids the formation of political parties on the basis of class, religion or secessionism. The Election Law, Law No. 298, provides that parties whose nationwide vote in general elections is less than 10% are not eligible for seats in the Grand National Assembly. On the other hand, a party must have at least 35% of the nationwide vote in order to have a simple majority in the Grand National Assembly.

Judicial power in Turkey is exercised by courts whose independence is guaranteed by the Constitution. The Constitutional Court decides issues relating to the form and substance of laws, decrees and rules of parliament and matters relating to public officials and political parties. The Court of Appeal is the court of last resort for most civil and criminal matters, while military matters are referred to a separate system of courts.

In July 1995, a series of amendments to the Constitution were adopted. Among other things, the amendments brought into effect reforms related to the formation of political parties, membership of political parties and the involvement of unions and other organizations in political activities. See "Economy — Employment and Wages." The amendments also reduced the legal voting age from 20 to 18 increased the number of members of the Grand National Assembly from 450 to 550 and removed restrictions on the ability of academic personnel and university students to engage in political activities.

On 30 June 1997, the ruling coalition Government of the pro-Islamic Welfare Party ("RP") led by Necmettin Erbakan and Tansu Ciller's centre-right True Path Party ("DYP") collapsed after the resignation of Mr. Erbakan following widespread resignations from both parties. Earlier in 1997, Mr. Erbakan had agreed to implement a series of proposals made by the National Security Council designed to reinforce the secular nature of the Constitution. In accordance with the Constitution, the National Security Council is composed of the Prime Minister, the Chief of the General Staff, the Minister of National Defense, the Minister of Internal Affairs, the Minister of Foreign Affairs, the Commanders of the Army, Navy, and the Air Force, and the General Commander of Gendarmerie, under the chairmanship of the President of the Republic.

The Government was replaced by a new secularist coalition headed by Prime Minister Mesut Yilmaz of the centre-right Motherland Party ("ANAP"), Bülent Ecevit's Democratic Left Party ("DSP") and the Democratic Turkey Party ("DTP").

On 16 January 1998, responding to a case submitted by the government prosecutor seeking to revoke the status of the Welfare Party on constitutional grounds, the Constitutional Court ordered the closure of the Welfare Party after determining that its activities contravened the principles of the secular Constitution. The Constitutional Court also terminated the parliamentary memberships of former prime minister Mr. Erbakan and five other deputies and held that Mr. Erbakan and six others should be banned from being the founder, member, administrator or supervisor of another political party for five years.

Following the closure of the Welfare Party by the Constitutional Court, a new political party, the Virtue Party (''FP''), was formed in Turkey. The majority of the deputies from the former Welfare Party joined the Virtue Party.

The most recent nationwide local and general elections took place on 18 April 1999. Mr. Ecevit's DSP placed first with 22.2% of the vote and 136 deputies in the 550-seat Assembly. The Nationalist Movement Party (''MHP'') led by Devlet Bahceli came in second with 18.0% of the vote and 129 seats. FP won 15.4% of the vote and 111 seats. Mr. Yilmaz's ANAP won 13.2% of the vote and 86 seats while DYP won 12.0% of the vote and 85 seats. On 28 May, President Süleyman Demirel approved a coalition Government of DSP, MHP and ANAP, led by Mr. Ecevit as Prime Minister. The Government presented its program to the Assembly on 4 June 1999, and received a vote of confidence on 9 June 1999.

The composition of the Grand National Assembly as of 16 September 1999 was as follows:

Table No. 1

	Number of Seats	Percentage of Total
Democratic Leftist Party (DSP)(2)	136	24.7
Nationalistic Action Party (MHP)(2)	128	23.3
Virtue Party (FP)(1)	108	19.6
Motherland Party (ANAP)(2)	86	15.6
Truth Path Party (DYP)	85	15.5
Independent	6	1.1
Vacancies	1	0.2
	550	100.0

(1) Formerly known as the Welfare Party (RP).

(2) The parties in the current coalition Government.

Source: Grand National Assembly.

International Organizations

Since its foundation in 1923, the Republic has closely aligned itself with the West. It is a founding member of the United Nations (''UN''), and has been a member of NATO since 1952, an associate member of the EU since 1964, and an associate member of the Western European Union (''WEU'') since 1992.

In addition, Turkey is a founding member of the Council of Europe, the European Bank for Reconstruction and Development and the Organization for Security and Co-operation in Europe (''OSCE'') and belongs to the World Bank, the IMF, the European Resettlement Fund, the Asian Development Bank, the Multilateral Investment Guaranty Agency, the Bank for International Settlements (''BIS'') and the OECD. Furthermore, Turkey is a party to the General Agreement on Tariffs and Trade (''GATT''), a member of the World Trade Organization (''WTO'') and is a participant in the International Convention on the Harmonized Commodity Description and Coding System. Turkey is also a member of the Organization of the Islamic Conference (and chairs its Committee for Economic and Commercial Co-operation (''COMCEC'')) and of the Islamic Development Bank.

In 1963, Turkey signed an association agreement (the ''Ankara Agreement'') with the EU. In 1973, an additional protocol to the association agreement was signed between Turkey and the EU which established the framework and conditions of the transitional stage of the association. Turkey seeks full membership of the EU and in April 1987 submitted its formal application for such membership. In late 1989, the European Commission (the ''Commission'') reconfirmed that Turkey was eligible to become a full member and was inherently a European country. However, the Commission decided to defer accession negotiations due to changes in the EU and Turkey's economic situation at the time.

In March 1995, Turkey and the EU agreed to form a customs union (the ''Customs Union'') which came into effect on 1 January 1996. In anticipation of the formation of the Customs Union, Turkey reduced import protection rates during 1995. By the end of 1995, Turkey's tariff rates applicable to non-EU countries on industrial and processed agricultural products were in conformity with EU tariff rates and all customs duties between Turkey and the EU were eliminated. The Republic considers that the Customs Union has thus far been functioning in a satisfactory manner as far as its technical aspects are concerned, although neither the EU financial assistance nor the political dialogue elements of the Customs Union package have been fully implemented. The necessary legislation to ensure the efficient operation of the Customs Union has largely been enacted by Turkey, thus fulfilling its obligations under the Customs Union agreement. While the Government anticipates long-term benefits from the Customs Union through increased opportunities for trade and foreign investment, Turkey has incurred a substantial cost in conforming to the Customs Union regulations and a loss of tariff revenues resulting from its entry into the Customs Union. Under the Customs Union agreement, Turkey is entitled to benefit from EU financial assistance from a number of sources. Accordingly, since formation of the Customs Union, Turkey has been expecting to gain access to EU funds, principally in the form of grants and loans (including loans for infrastructure projects). However, disbursement of European Investment Bank (the ''EIB'') credits and EU grants amounting to approximately EUR 1.1 billion is subject to the lifting of the Greek veto at the EU and the EIB levels. Turkey has received EUR 375 million in the first stage of the Mediterranean Development Assistance (''MEDA'') program which was appropriated from the EU budget for the period from 1995 to 1999. The MEDA funds were used to provide financial support for small and medium size enterprises, economic and social development, education and risk capital.

With the completion of the Customs Union, the association between Turkey and the EU, as stipulated by the Ankara Agreement, has come to the membership stage. At the Luxembourg summit in December 1997, the EU put forward a ''European Strategy for Turkey'', which set out a program to prepare for Turkey's accession to the EU. The strategy calls for certain economic and political reforms in Turkey, particularly in the areas of human rights, respect for minorities, the establishment of stable and normal relations between Turkey and Greece and a resolution of the Cyprus problem. Turkey was not included in a list of six countries chosen in 1997 for future accession to EU membership. The Government, in a statement issued on 14 December 1997, declared that the proposed arrangements contained in the ''European Strategy'' were unacceptable. However, Turkey has indicated that it will continue with its efforts to fully integrate into the EU.

Turkey and the European Coal and Steel Community (''ECSC'') also concluded a free trade agreement, which came into force in August 1996, liberalizing trade in steel products between Turkey and the ECSC. A further free trade agreement between Turkey and the European Free Trade Association (''EFTA'') has been in force since April 1992.

Turkey took the initiative in launching the Black Sea Economic Co-operation Zone, which brings together eleven countries (Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldavia, Romania, the Russian Federation, Turkey and Ukraine) within a framework of economic co-operation. Turkey is also a founding member of the Economic Co-operation Organization (''ECO'') initially comprised of Turkey, Iran and Pakistan. ECO has subsequently been enlarged to include Afghanistan, Azerbaijan, Kirgyzstan, Kazakstan, Tajikistan, Turkmenistan and Uzbekistan. Turkey believes that its participation in such regional organizations is complementary to its application to join the EU and is not intended as a substitute for eventual EU membership.

Foreign Relations

Turkey has played and continues to play a key role in the peaceful resolution of conflicts in the region in which Turkey is located including, in particular, those in Bosnia, Azerbaijan and Kosovo. Turkey supported the implementation of the Dayton Peace agreement for Bosnia and was instrumental in the establishment of the Bosnian-Croatian Federation. Turkey has pledged approximately $80 million, including $20 million in grants, for the reconstruction of Bosnia. Turkey is also involved in a program with the United States to train and equip the Bosnian army and has participated in the Multinational Protection Force deployed in Albania in accordance with a UN Security Resolution of March 1997. Turkey also took part in NATO's peacekeeping force in Kosovo and accepted several thousand Kosovos refugees during NATO's military campaign. Turkey places a great importance on maintaining long-term, comprehensive stability in the Balkans. Turkey also continues to voice concern from time to time about the oppression of Turkish minorities in some neighboring countries.

Turkey seeks good relations with all neighboring countries. There are, however, unresolved issues in Turkey's relations with Greece, including the status of Cyprus, which is currently divided between Greek and Turkish communities. Turkey and the Turkish Cypriot side were critical of the decision taken at the EU summit in Luxembourg in December 1997 to start accession negotiations with the Greek Cypriots. Through separate press statements, they declared their belief that the Greek Cypriot side has no rightful authority to negotiate on behalf of the whole island and that the EU decision was in contravention of the 1959-60 Treaties on Cyprus. These Treaties, signed by Turkey, Greece and Great Britain, preclude Cyprus from joining any international organization such as the EU, unless Turkey and Greece are both also members. Turkey is currently not a member of the EU.

On 23 April 1998, President Demirel and the Turkish Cypriot leader, Mr. Denktas, issued a joint declaration stating that any negotiation process aimed at finding a solution to the Cyprus question should be conditioned on the acceptance of the equality of the Greek and Turkish communities by the other parties involved. Furthermore, Turkey is in agreement with the Turkish Cypriot side that international recognition of the Turkish Cypriot government and suspension of the membership talks between the Greek Cypriots and EU are prerequisites for the continuation of the peace process. Turkey has also stated that it will review and support any constructive effort to find a solution to the Cyprus question that is consistent with these principles.

The decision in January 1997 of the Greek Cypriots to purchase Russian S-300 long range surface-to-air missiles, for planned installation on Cyprus, exacerbated tensions between the two communities on the island. Subsequently, the missiles were redeployed on the Greek Island of Crete. Turkey regards the acquisition and deployment of these missiles as a destabilizing factor in the region.

On 31 March 1998, Turkey and the Turkish Cypriot government announced the creation of a joint economic zone, which seeks to allow for free circulation of capital, goods and services between the Turkish Cypriot side and Turkey, transfers of technology, increased investment and standardization of custom duties.

In addition to fostering economic and political relationships with many countries, both in Europe and the East, Turkey is currently developing political and economic relations with the Balkan, Caucasian and Central Asian countries. Turkey has actively encouraged trade with neighboring countries and has made substantial credit available through the Turkish Export Credit Bank to Bosnia, Azerbaijan and the Central Asian Republics. An objective of Turkish foreign policy has been to play a stabilizing role in the region. Extreme circumstances such as those arising in Northern Iraq in the aftermath of the Gulf crisis and terrorist activities associated with the terrorist organization, the Kurdish Workers Party (the "PKK") emanating from this region, compelled Turkey to step up its ongoing efforts to combat and eliminate PKK instigated terrorist activity in Southeastern Turkey. In this regard, Turkey has been successful in removing PKK activity from cities and tourist areas and confining such activities to the remote mountainous areas. The Government believes that the problem is increasingly being brought under control, although certain terrorist activities have continued to occur.

Turkey also enjoys close economic and political relations with the countries in the Middle East. Since the inception of the Middle East Peace Process, which the Republic actively supports, Turkey's relations with Israel have expanded to include economic and military cooperation. In addition to a free trade agreement, which was signed in March 1996, a military training agreement was signed between Turkey and Israel in February 1996 providing for co-operation in military training, exchanges between military academies and participation of observers in each other's military exercises.

Turkey is also actively contributing to the Middle East peace process and, upon the request of both Israel and the Palestinian Authority, is participating in the Temporary International Presence in Hebron.

In October 1998, Turkey and Syria entered into the Adana Agreement, which provided a commitment from Syria to forbid PKK activities within its borders. Turkey believes the Adana Agreement is a step toward future economic and strategic cooperation between the two countries.

A 23-year multi-billion dollar natural gas supply agreement was signed with Iran in August 1996 to supply natural gas to the Republic. In order to facilitate the supply of gas to Turkey, each party has agreed to construct that part of the pipeline within its own territory. The pipeline will also be used to transport Turkmen natural gas to European markets.

Following the Gulf crisis, Turkey co-operated with the international coalition and complied with the UN sanctions against Iraq. Turkey continues to enforce these sanctions. Implementation of the UN Security Council Resolution 986 of 14 April 1995 permitting Iraq to export a certain amount of oil for the purchase of food, medicine and other humanitarian products has had positive economic implications for Turkey. Under this resolution, in December 1996, Iraq was granted the ability to export $2 billion worth of oil during a six-month period. The "oil for food" program has been periodically renewed for six-month periods by the UN. Following the 17 August 1999 earthquake, the UN gave special permission for Iraq to ship $10 million through the pipeline in order to provide aid for Turkey.

In 1994 Turkey adopted and began implementing the Maritime Traffic Regulations Related to the Turkish Straits (Strait of Istanbul, Sea of Marmara and Strait of Çanakkale) to govern navigational safety and traffic in these Straits. Russia continues to raise objections to Turkey's right to regulate the Straits.

Turkey has tabled a proposal to transport oil across Turkey from the Caspian region (the "Baku-Ceyhan pipeline project"), which has support from the United States and some major oil companies. In October 1998, the presidents of Turkey, Uzbekistan, Kazakhstan, Georgia and Azerbaijan signed the Ankara Declaration, which also bears the signature of the U.S. as witness, confirming their support for the realization of the Baku-Ceyhan pipeline project as the main export pipeline for the Caspian region. Negotiations with the AIOC (Azerbaijan International Operating Company) regarding the pipeline are currently in their final stages.

ECONOMY

Background

The 1980s and the 1990s have seen a transformation of the Turkish economy from a highly protected state-directed system to a market-oriented free enterprise economy. During the 1970s, Turkey concentrated on growth financed by foreign borrowing, which culminated in a period of financial distress and a rescheduling of its external debt in 1978, 1979 and 1980. Reforms initiated since 1980 have, among other things, reduced price controls and subsidies; decreased the role of the public sector in the economy; emphasized growth in the industrial and service sectors; encouraged private investment and savings; liberalized foreign trade; reduced tariffs and promoted export growth; eased capital transfer and exchange controls and encouraged foreign investment; moved towards full convertibility of the Turkish Lira (by accepting the obligations of Article VIII of the IMF Articles of Agreement); and improved the tax system.

Turkey's real GNP growth rate averaged approximately 4.9% during the period from 1984 to 1998. Over this period, the Turkish economy became more diversified. In particular, the industrial base was broadened, and exports of goods and services grew rapidly. In addition, financial markets expanded and became more sophisticated. Although Turkey's external debt levels rose in absolute terms from $67.4 billion in 1993 to approximately $103.3 billion at year-end 1998, the relative external debt burden fell from 221.3% of current account receipts to 164.7% over the same period. Furthermore, despite being cut off from the international markets in 1994, Turkey continued to service its external debt. See ''Debt — External Debt and Debt Management.''

In addition to the registered economy, Turkey has an unregistered economy, which is substantial, though by definition unquantifiable and has historically not been reflected in the statistics of the Republic. The unregistered economy includes significant amounts of activity in the agricultural sector and in trade with counterparts in the Commonwealth of Independent States (''CIS'') republics. Consequently, trade and other figures may under-report the actual level of economic activity intended to be measured. The Government has been working with the World Bank to bring more untaxed economic activities within the scope of the registered economy, and therefore within the tax base of the Republic. Since 1996, the Government has developed a methodology to account for the portion of the unregistered economy relating to ''shuttle trade'' with the CIS republics. See ''Foreign Trade and Balance of Payments — Current Account.''

Gross National Product

Real GNP grew at a rate of 8.1% in 1993. In 1994, mainly as a result of the economic crisis and the 1994 Stabilization Program, real GNP declined by 6.1%. In 1995, real GNP grew by 8.0%, followed by a 7.1% increase in 1996 and an 8.3% increase in 1997. In 1998, real GNP growth was 3.8%.

The following table presents the components of real GNP and related figures for the years indicated:

Table No. 2

Gross National Product

	1994	1995	1996	1997	1998(1)
	(in billions of Turkish Lira)				
At constant 1994 prices					
GNP	3,887,903	4,197,095	4,495,959	4,868,692	5,087,783
Foreign balance(2)	(57,323)	75,260	80,465	105,684	125,708
Total domestic demand	3,830,580	4,272,355	4,576,424	4,974,375	5,213,490
Allocation of Domestic Demand					
Fixed Investment					
Public	192,052	190,879	245,196	309,678	333,784
Private	760,270	846,907	923,529	1,028,413	1,048,208
Total fixed investment	952,322	1,037,786	1,168,725	1,338,091	1,381,992
Consumption					
Public	414,743	424,963	441,521	461,386	506,161
Private	2,576,142	2,752,478	2,986,807	3,231,820	3,332,769
Total consumption	2,990,886	3,177,441	3,428,328	3,693,206	3,838,930
GNP (at current prices)	3,887,903	7,854,887	14,978,067	29,393,262	53,012,781
Turkish Lira/U.S. dollar (annual average)	29,704	45,705	81,137	151,428	260,039
GNP (at current prices, millions of dollars)	130,887	171,861	184,602	194,107	203,864
Population (mid-year, in thousands)	60,576	61,644	61,536	62,510	63,451
Per capita GNP (at current prices, in dollars)	2,161	2,788	2,999	3,105	3,212

(1) Estimate.

(2) The difference between the revenues earned abroad by Turkish citizens (or payments of foreigners living in Turkey) and the external payments of Turkish citizens (or revenue transfers of foreigners living in Turkey to their countries).

Sources: SIS, SPO

Gross Domestic Product

There has been a significant change in the structure of economic activity in Turkey since the 1980s. The share of the industrial sector in GDP rose in the 1980s and has continued to increase in the 1990s. The share of the agricultural sector in GDP fell throughout the 1980s but has been relatively stable in the 1990s. In 1998, the industrial sector, which includes mining, manufacturing and energy, accounted for 23.2% of GDP, compared with 25.3% in 1997. In 1998, the agricultural sector's share of GDP was 17.3%, compared with 14.5% in 1997, and the services sector was 59.5% of GDP in 1998, compared with 60.2% in 1997. GDP increased by 2.8% in 1998, compared with an increase of 7.5% in 1997.

The following table presents changes in the composition of GDP at current prices for the periods indicated:

Table No. 3

Composition of GDP by Sector
(at current prices)

	1994	1995	1996	1997	1998
			(percentage of total)		
Industry	26.4	26.3	25.2	25.3	23.2
Mining	1.4	1.3	1.2	1.2	1.1
Manufacturing	22.1	22.6	21.1	21.6	19.6
Energy	2.9	2.5	2.8	2.5	2.5
Agriculture	15.5	15.7	16.9	14.5	17.3
Services	58.2	58.0	58.0	60.2	59.5
Construction	6.8	5.5	5.8	6.0	5.9
Trade	19.7	20.5	20.5	20.8	20.1
Transportation and communications	13.3	12.6	13.1	13.9	13.9
Government	8.9	8.0	8.4	8.9	9.3
Other	9.5	11.4	10.2	10.6	10.4
GDP total	100.0	100.0	100.0	100.0	100.0

Source: SIS

The following table presents real growth in output for GDP for the periods indicated:

Table No. 4

GDP Growth by Sector
(at 1987 prices)

	1994	1995	1996	1997	1998
			(by percentage)		
Industry	(5.7)	12.1	7.1	10.4	1.8
Mining	8.0	(6.9)	2.4	4.7	5.9
Manufacturing	(7.6)	13.9	7.1	11.4	1.2
Energy	3.4	9.6	9.7	5.0	5.3
Agriculture	(0.7)	2.0	4.4	(2.3)	7.7
Services	(6.6)	6.3	7.6	8.6	2.1
Construction	(2.0)	(4.7)	5.9	5.0	(0.3)
Trade	(7.7)	11.6	8.9	11.6	1.2
Transport and communications	(2.0)	5.7	7.6	7.6	6.0
Government	0.8	2.5	(0.3)	0.1	0.6
Other	(13.7)	5.7	9.4	9.1	1.5
GDP total	(5.5)	7.2	7.0	7.5	2.8

Sources: SIS, UFT

Industry

Turkey has a well-developed and increasingly diversified industrial sector. Since 1995, industrial production has increased primarily as a result of the expansion of domestic demand since the second quarter of 1995. In addition, decreased import costs due to the Customs Union with the EU and an increase in investment contributed to the rapid growth of industrial production in 1997. In 1997, industrial production accounted for 25.3% of GDP and approximately 18.7% of total civilian employment.

In 1998, the implementation of a tight fiscal policy in order to control inflation led to a slowdown in economic activity. In addition, following the Russian economic crisis, real interest rates increased sharply in response to the outflow of capital. The resulting increase in the cost of financing new investment contributed to the decrease in private investment and consumption. As a result industrial growth declined from an annual average of 10.4% in 1997 to 1.8% in 1998. In 1998, industrial production accounted for 23.2% of GDP and approximately 16.8% of total civilian employment.

Manufacturing and Mining. Turkey's manufacturing sector is dominated by small and medium sized firms, typically family-owned, though there are also a number of large conglomerates. Areas of specialization include textiles and ready-to-wear apparel, ceramics and glass, iron and steel, chemicals and light consumer goods. Lignite production is the predominant mining activity in Turkey.

The decrease in industrial production in 1998 also affected the manufacturing industry. In 1998, growth in the manufacturing industry declined to 1.2% from 11.4% in 1997.

Energy. In 1998, Turkey imported 65.2% of its total energy requirements. In 1998, petroleum imports constituted 40.9% of total energy consumption. In addition, in 1998 Turkey imported 17.8 million metric tons oil equivalent of coal and natural gas.

In 1989, approximately 64% of Turkey's crude oil imports came from Iraq. Subsequent to the UN's embargo on Iraq, Turkey met its oil import needs from other sources, principally Saudi Arabia and Iran, although the cost (including transportation costs) of such imports increased substantially. Since 1995, Iraq has been permitted to sell a limited amount of oil in exchange for food, medicine and other humanitarian products. In 1998, 13.1% of Turkey's total crude oil imports originated from Iraq.

In 1998, Turkey imported 22.9% and 18.8%, respectively, of its total crude oil imports from Saudi Arabia and Iran.

Energy development and power generation have been priority areas for public investment. In particular, Turkey is developing hydroelectric sources and embarked on a power and irrigation project (known as "GAP") in Southeastern Anatolia in the early 1980's. The project region covers an area of 27,340 square miles, which corresponds to 9.5% of the total area of Turkey. GAP is a combination of 13 major installations primarily for irrigation and hydroelectric power generation. The project includes the construction of 22 dams and 19 hydroelectric power plants on the Euphrates and the Tigris rivers and their tributaries. It is planned that upon completion of the GAP project scheduled for 2010, approximately 1.7 million hectares (4.47 million acres) of land will be irrigated, and its power generating capacity will be approximately 7,500 MW. The total cost of GAP is expected to be $32 billion (excluding expropriation and overhead costs). The installed capacity of GAP hydropower plants in operation was 4294 MW as of December 1998 (57% of the total generating capacity of the GAP project). In addition, at such date, 11% of the total irrigation was completed, 10% was under construction and 79% was at final design level.

Turkey is also utilizing natural gas to an increasing extent, both from its own reserves and from abroad, having established long-term purchase arrangements with the Russian Federation. In addition, two power plants, Hamitabat and Ambarli in Thrace, have been producing electricity from natural gas since 1987 and 1998, respectively.

Turkey will require 140 billion kilowatt-hours (kWh) of electricity yearly by 2000 and an annual increase of 7.6% in demand for power is expected in the next 20 years. The Build-Operate-Transfer Model (the "BOT Model") and the Build-Own-Operate Model (the "BOO Model") provide effective means to attract foreign and domestic investment to develop energy generation companies which will decrease the necessity to import energy. See "Foreign Trade and Balance of Payments — Foreign Investment." The Council of Ministers has approved the transfer of operating rights for 17 electricity distribution facilities, and 15 concession agreements are currently awaiting approval. Tenders for 8 thermal power plants (Cayirhan, Kangal, Orhaneli, Çatalağzi-B, Tunçbilek, Yatağan, Yeniköy-Kemerköy and Soma A-B) with an installed capacity of 4,730 MW were also recently completed. The companies which will be operating the power plants have been formed. In addition, the Council of Ministers has approved the contracts to transfer operating rights of the power plants from the Turkish Electricity Generation and Transmission Company ("TEAŞ") to the entrustment companies.

In addition, Turkey has entered into agreements with Iran, Bulgaria and Georgia to import electricity through already existing interconnections. The Republic expects that an agreement to build a nuclear power station in Turkey with foreign loans will be signed by year-end 1999.

Agriculture

Although the relative role of agriculture in Turkey's economy has declined over the last decade, it remains an important sector. Moreover, agriculture plays an important role in supplying products to, and creating demand for products of, other sectors. Turkey's principal agricultural products include wheat, sugar beet, barley, tobacco, grapes and figs.

In 1998, the agricultural sector grew by 7.7%, following a 2.3% decline in 1997. The increase in growth in the agricultural sector in 1998 was mainly due to the sharp increase in the production of fruits, vegetables and cereals. Agriculture accounted for approximately 17.3% of GDP and 42.3% of civilian employment 1998.

Although agricultural production in Turkey is generally less efficient than elsewhere in Europe, Turkey is largely self-sufficient in foodstuffs. Moreover, there have been significant improvements in the quality and productivity of its crops. These crops, such as barley, wheat, maize and soya, have become more readily marketable abroad and are relatively easy to store. In addition, increased grain production has had a positive impact on animal husbandry, since surplus maize is used as animal feed.

Upon completion of the GAP project scheduled for 2010, it is planned that approximately 1.8 million hectares (4.47 million acres) of land will be irrigated. See "— Energy."

Services

The services sector, which accounted for approximately 59.5% of GDP and 40.3% of the total civilian labor force in 1998, comprises a wide range of activities including construction, wholesale and retail trade, tourism, transport and communications, as well as finance and commerce, health, education and social services. In 1998, the services sector grew by 2.1% as compared to 8.6% in 1997. The decline in the services sector was attributable to the decline in the growth of the trade sector. Trade was adversely affected by the contraction in industrial production, imports and tourism.

Trade. From 1995 to 1997, the domestic trade sector grew significantly, primarily as a result of the expansion of domestic demand. In 1997, the wholesale and retail trade sector registered growth of 10.7%. In 1998, however, due to the tight fiscal and income policies pursued by the Government and the effects of the Russian and Asian crises on the global economy, domestic demand and output contracted significantly. This, in turn, contributed to the decline in wholesale and retail trade, which grew by only 1.2% in 1998.

Wholesale and retail trade accounted for approximately 20.1% of GDP in 1998.

Tourism. Tourism has become a major growth sector in Turkey's economy and has contributed significantly to foreign exchange earnings, as well as generating demand for other activities including transportation and construction. Government policy has been to support and promote growth in the tourism sector in Turkey by expediting improvements in infrastructure and by facilitating private investment in this sector, including both foreign and domestic investment.

While tourism revenues increased by 23.9% and reached $7.0 billion in 1997, in 1998, tourism revenues increased by only 2.5% and reached $7.2 billion. This represented approximately 3.6% of GDP in 1998. OECD countries, Turkey's principal source of visitors, accounted for 54.9% of total tourist arrivals in 1998.

The following table presents overall tourist arrivals, receipts and the percentage increase in receipts for the years indicated:

Table No. 5

Tourism

Year	Total Arrivals (in thousands)	Total Receipts (in millions of dollars)	% Increase in Total Receipts
1993	6,525	3,959	8.8
1994	6,696	4,321	9.1
1995	7,747	4,957	14.7
1996	8,531	5,650	14.0
1997	9,713	7,002	23.9
1998(1)	9,431	7,177	2.5

(1) Provisional.

Sources: SIS, CBT

Transport and Communications. Modernization of transport and communications has been a priority of the public sector in the past decade, and since 1994 this sector has received, on average, approximately 35% of total public sector investment. Including private sector investments in transport, approximately 26% of gross fixed capital formation has been allocated to transportation and communication since 1994.

Major projects have included the construction of motorways, the modernization of the Turkish Airlines fleet, the expansion of airports and air traffic control systems, railway improvement, and the continuing improvement of road standards to a higher load/axle basis in intensive traffic areas. Modernization of the telecommunications system has extended the telephone service throughout the country.

The most significant project currently underway in the transport and communications sector is the 580-mile Turkish section of the Trans-European highway, part of which is an express highway between Istanbul and Ankara. The highway seeks to exploit Turkey's strategic location for trade between Europe and the Middle East.

Construction. The importance of the construction sector is underscored by the role of housing, particularly the activities of the Mass Housing Fund and, previously, the Public Participation Administration, development of industrial facilities and commercial buildings, and implementation of public infrastructure improvements.

In 1998, the tight fiscal and income policies and the resulting contraction in demand and output also affected the construction sector. Although the last quarter of 1998 saw a sharp increase in public construction investments, the growth rate in the construction sector declined by 0.3% in 1998 as compared to a growth rate of 5.0% in 1997.

Employment and Wages

The total civilian labor force in Turkey comprised 23.4 million people as of October 1998. Turkey has a large reservoir of unskilled and semi-skilled workers. Turnover of the labor force has been high in certain industries, particularly with respect to labor-intensive ones. During the period from 1994 to October 1998, the total civilian labor force increased at an average annual rate of approximately 1.5%.

Total civilian employment was 22.0 million in October 1998 of whom approximately 43.4% were employed in agriculture, 16.3% in industry and 40.3% in services. This represented an increase of 1.1 million employees from October 1997 which was principally due to the increase in employment in the agricultural and services sector.

In 1998, the labor force participation rate decreased to 51.3% from 53.8% in 1997. The decreasing trend in the participation rate continues because of factors such as increasing school enrollment rates, especially for girls and migration to urban areas where women have a lower participation rate.

The Employment and Training Project, a project implemented in 1993 which trains the unemployed and provides them employment guarantees through the Labor Placement Office, trained 76,611 people by the end of 1998.

A new legislation (Law No. 4325) was enacted in 1998 with the objective of encouraging the private sector to create new employment opportunities in the less developed regions. The legislation includes provisions that allow for the payment of the employer's share of an employee's social security premiums by the Treasury and reductions and deferrals of income taxes for employers and employees.

As of October 1998, there were approximately 1.0 million public sector workers and approximately 1.9 million civil servants. In October 1998, the rate of unemployment was 6.2% compared to 6.9% in October 1997.

The following table sets forth information with respect to the labor force and employment in Turkey for the dates indicated:

Table No. 6

Employment

	October 1994	October 1995	October 1996	October 1997	October 1998
			(in thousands)		
Civilian labor force[(1)]	22,136	22,900	23,030	22,359	23,415
Civilian employment[(2)]					
Agriculture	9,023	10,226	9,962	8,219	9,534
Industry	3,241	3,190	3,378	3,889	3,577
Services	8,132	7,961	8,358	8,705	8,847
	20,397	21,378	21,698	20,815	21,958
Unemployed[(3)]	1,740	1,522	1,332	1,545	1,457
Unemployment rate(%)	7.9	6.6	5.8	6.9	6.2

(1) Civilian labor force is defined to include individuals over the age of 12 who represent labor available for the production of goods and services (employed and unemployed). According to the SPO, in calculating the civilian labor force, there has historically been difficulties in obtaining statistical information in rural areas. The SPO attributes a portion of the decrease in the civilian labor force from 1996 to 1997 to the rise in the school enrollment ratio due to the increase in mandatory primary education from 5 to 8 years. See "— Education."

(2) Civilian employment is defined to include individuals over the age of 12 who have remunerative employment and who worked for at least 40 hours per week at the time of the survey in the public and private sectors as well as civil servants.

(3) Unemployment is defined as available non-working individuals over the age of 12 who were actively seeking employment at the time of the Household Labor Force Survey from which the relevant employment statistics were derived.

Sources: SIS, SPO

The collective bargaining system in Turkey covers workers in the public and private sectors. The public sector is defined to include state-owned enterprises, but not the civil service which includes teachers and government employees. The number of employees covered by the collective bargaining agreements decreased to approximately 1.0 million in 1998 from 1.3 million in 1997. One of the main reasons for this decline was the decrease in the number of public sector workers covered by collective bargaining agreements to 508,000 in 1998 from 580,000 in 1997. In addition, by contracting out certain services, municipalities contributed to the decline in the number of employees covered by collective bargaining agreements. Salaries of civil servants who are not covered by the collective bargaining system are increased two or three times in a year by the Government, taking into account the prevailing conditions in the economy.

The nominal wages (net) in the public sector increased by approximately 83.9% while those of the workers in the private sector who are covered by collective bargaining agreements increased by 102.3% in 1998. Net real wages (deflated by consumer prices) showed a slight decline of 0.4% in the public sector, while net real wages in the private sector increased by 9.6% as compared to 1997.

In 1998, labor costs in the public sector increased by 72.7% in nominal terms and by 0.5% in real terms. During the same period, labor costs in the private sector increased by 89.6% in nominal terms and by 10.4% in real terms.

The yearly nominal average increase in civil servants' salaries (net) was 82.2% in 1998. This represented a 1.3% decline in real terms as compared to 1997. The increase in labor costs (including salaries and benefits) for civil servants in 1998 was 77.7% in nominal terms and 3.4% in real terms.

The minimum wage (net) increased by 75.5% on an annual average basis in 1998, which resulted in a decline of 4.9% in real terms.

The Constitution also stipulates, however, that the right to strike and to engage in lockouts are not to be exercised in a manner contrary to the principle of good faith, to the detriment of society or in a manner damaging to national wealth. Workers have the right to strike if a dispute arises during the collective bargaining process. Law No. 2822, enacted in 1983 to regulate collective labor agreements, strikes and lockouts, defines a lawful strike as one with the object of safeguarding and improving the economic and social conditions of workers. This law also expands the definition of unlawful union activity to include strikes for political purposes, general strikes, deliberate reduction of production and occupation of the workplace, while imposing strict regulations on workers' conduct during a strike.

According to the Ministry of Labor and Social Security, unionization rates registered an increase in the 1990-1995 period followed by a slight decline between 1995-1997. As of December 1998, approximately 2,987,975 workers were members of a trade union.

Inflation

In 1996, the State Institute of Statistics introduced revised indices for measuring consumer and wholesale price inflation in order to reflect the general social, economic and cultural changes, some of which resulted from the change in the nature and ownership of production through the privatization of the SEEs. These changes cumulatively rendered the shares of public and private sectors and the commodity weights used in the old indices (in which the base year was 1987) less accurate indicators of the economy. Relative to the old indices, the new indices (in which the base year is 1994) have lower weightings for agricultural, mining and energy components and higher weightings for manufactured products. Wholesale price inflation in December 1995 over December 1994 using the new index was 65.6% (compared to 64.9% using the old index). Consumer price inflation in December 1995 over December 1994 using the new index was 76.0% (compared to 78.9% using the old index). Wholesale price inflation and consumer price inflation at year-end 1997 stood at 91.0% and 99.1%, respectively, compared with 84.9% and 79.8% respectively at year-end 1996.

In July 1997, the Government announced a program of stabilization policies and structural reforms beginning in 1998 in order to address chronic inflation which the Government stated was due in large part to the size of Turkey's budget deficit. As part of this program, public sector prices were adjusted. In addition, an anti-inflation protocol, which gives the Central Bank more independence by allowing it to determine interest rates and monetary policy while restricting the Treasury's ability to borrow from the Central Bank to finance deficits, was signed between the Treasury and Central Bank. In June 1998, the Government entered into a Staff Monitored Program (the "SMP") with the IMF, under which the IMF staff will monitor Turkey's economic performance on a quarterly basis. See "Financial Systems — Monetary Policy."

In 1998, tight fiscal and income policies, a contraction in domestic demand and controlled increases in wages, salaries and agricultural support prices contributed to the decline of the wholesale price inflation and the consumer price inflation to 54.3%, 69.7%, respectively, by the year-end. The fall in oil and other non-oil commodity prices also helped to slow down the price increases.

The following table presents the percentage changes in wholesale and consumer prices for the years indicated:

Table No. 7

Inflation(1)

Year	Wholesale Price Index	Consumer Price Index
	(percentage change)	
1993	60.3	71.1
1994	149.6	125.5
1995	65.6	76.0
1996	84.9	79.8
1997	91.0	99.1
1998	54.3	69.7

(1) Base year — 1994, except for 1993, and 1994 where base year = 1987.

Source: SPO

FOREIGN TRADE AND BALANCE OF PAYMENTS

Foreign Trade

Turkey has increasingly diversified its export products and markets, with industrial products claiming an increasing share of total exports. From 1980 to 1997, exports increased at an average annual rate of 13.2%. The value of Turkey's exports rose from approximately $2.9 billion in 1980 to approximately $26.3 billion in 1997 and reached approximately $26.9 billion in 1998, a 2.7% increase over 1997.

The composition of exports has shifted substantially from agricultural products to industrial products. Industrial exports accounted for 88.6% of total exports in 1998 while the share of agricultural products in total exports was 10.0%. In addition to traditional export goods such as textiles and clothing products, iron and steel, glass and ceramics, products such as color televisions, electrical appliances, motor vehicles and spare parts have been gaining greater importance.

In 1996, Turkey entered into a Customs Union with the EU, which was codified by Association Council Decision No. 1/95. Within this context, customs duties for all industrial products imported from the EU were abolished and the Common Customs Tariff of the EU was adopted. In the case of processed agricultural products, the EU and Turkey have agreed upon the establishment of a system in which Turkey differentiates between the agricultural and industrial components of the duties applicable to these products and has abolished the duties applicable to the industrial component for products originating in EU and EFTA countries. The agricultural component of the duties applicable to processed agricultural products will continue. However, the EU has granted customs duty concessions for a number of Turkish products, and Turkey has extended to the EU the limited concessions which it allows to EFTA countries. In addition, a free trade agreement between the EU and Turkey covering European Coal and Steel Community products came into effect in August 1996. Within the framework of this agreement, customs duties applicable to ECSC products traded between Turkey and EU and EFTA countries have gradually been abolished during the past two years.

In order to comply with the common commercial policy of the EU in the textile and clothing sector, Turkey has harmonized its legislation to the EU's quota and surveillance measures for that sector. A decree on state aid has also been brought into force in line with EU state aid regulations, limiting the scope of state aid to research and development, environmental protection, market research, training activities, refunds on agricultural products and other aid compatible with Turkey's obligations under international treaties.

Turkey's principal trading partners have traditionally been the EU member countries. In 1998, the EU accounted for 50.0% of total exports and 52.5% of total imports. The largest total export market for Turkish products is Germany, which accounted for 20.3% of total exports in 1998. Eastern European countries and non-traditional markets in Asia have also begun to take a greater share of Turkey's exports and imports.

In accordance with the Association Council Decision concerning the Customs Union, Turkey will progressively align itself with the preferential agreements of the EU by 1 January 2001. As of 31 December 1998, free trade agreements have been signed with EFTA, Israel, Hungary, Romania, Bulgaria, Lithuania, Estonia, the Czech Republic and Slovakia, Slovenia and Latvia. With the exception of Latvia and Slovenia, all agreements have been brought into effect. Negotiations for a free trade agreement with Poland are near completion. Turkey's adoption of the EU's preferential agreements enables it to participate in the EU trade schemes with Central and Eastern European and Mediterranean countries. These free trade agreements are expected to further diversify the composition and destination of Turkish exports.

The following table presents the composition of Turkey's exports by sector of trade for the periods indicated:

Table No. 8

Exports by Sector and Commodity[1]

	Annual					Percentage Change		
	1994	1995	1996	1997	1998	1996/1995	1997/1996	1998/1997
	(in millions of dollars)							
Agricultural and Forestry	2,301.4	2,133.2	2,454.7	2,679.1	2,690.4	15.1	9.1	0.4
Agriculture and farming of animals	2,295.4	2,128.2	2,449.5	2,673.9	2,683.8	15.1	9.2	0.4
Forestry and logging	6.0	4.9	5.2	5.2	6.6	4.1	1.1	25.9
Fishing	22.2	21.4	26.5	33.2	17.1	23.6	25.1	(48.5)
Mining and Quarrying	263.0	391.3	227.6	404.8	363.5	(41.8)	77.8	(10.2)
Mining of coal, lignite and peat	0.8	0.1	0.7	0.3	0.3	600	(57.1)	(12.9)
Crude petroleum and natural gas	0.0	1.1	0.0	1.0	2.6	(99.9)	100.0	—
Metal ores	49.9	143.5	118.0	147.8	110.7	(17.8)	25.3	(25.1)
Other mining and quarrying	212.2	246.6	108.9	255.7	249.9	(55.8)	134.7	(2.3)
Manufacturing	15,517.8	19,089.3	20,237.1	23,115.9	23,790.5	6.0	14.2	2.9
Food products and beverages	1,727.7	2,063.4	2,193.8	2,454.3	2,047.3	6.3	11.9	(16.6)
Tobacco products	38.4	141.3	100.2	123.8	82.3	(29.1)	23.5	(33.5)
Textiles	3,419.5	4,108.6	4,564.7	5,354.4	5,908.0	11.1	17.3	10.3
Wearing apparel	3,199.7	4,367.8	4,053.4	4,539.3	4,578.5	(6.5)	11.2	0.9
Luggage, saddlery and footwear	215.7	180.4	220.9	299.2	271.0	22.4	35.5	(9.4)
Products of wood and cork	61.0	68.8	68.8	75.1	70.7	0.0	9.2	(5.9)
Paper and paper products	108.0	125.5	125.7	154.2	149.4	0.2	22.7	(3.1)
Printing and publishing	38.8	27.3	47.7	40.1	40.5	75.1	(16.0)	0.9
Coke, petroleum products and nuclear Fuel	236.9	277.3	259.2	179.1	240.4	(6.5)	(30.9)	34.3
Chemicals and chemical products	967.4	1,154.7	1,131.9	1,362.7	1,274.3	(2.0)	20.4	(6.5)
Rubber and plastic products	353.8	502.0	510.2	621.2	684.1	1.6	21.8	10.1
Other non-metallic minerals	576.6	690.4	760.1	931.2	941.0	13.0	19.4	1.1
Manufacture of basic metals	2,329.5	2,278.8	2,258.2	2,611.8	2,226.8	(0.9)	15.7	(14.7)
Manufacture of fabricated metal prod (exc. machinery)	251.6	345.4	401.5	454.4	586.6	16.2	13.2	29.1
Manufacture of machinery and equipment	531.5	704.6	854.5	1,035.6	1,147.0	21.3	21.2	10.8
Office, accounting and computing Machinery	11.3	10.2	21.3	28.8	42.6	109.6	35.2	47.9
Electrical machinery and apparatus	409.3	569.3	772.0	743.6	753.7	35.6	(3.7)	1.4
Communication and apparatus	211.3	252.8	316.5	469.4	659.7	25.2	48.3	83.2
Medical, precision and optical instruments, Watches	31.0	31.3	56.6	61.0	75.0	80.9	7.7	23.0
Motor vehicles and trailers	488.3	821.1	977.0	829.1	963.1	19.0	(15.1)	18.6
Other transport	113.4	118.1	155.3	353.9	357.2	31.5	128.0	0.9
Furniture	126.7	170.5	249.2	300.0	378.3	46.1	20.3	26.1
Recycling	70.5	79.8	88.3	93.8	92.7	10.6	6.2	(1.1)
Electricity, Gas and Water Supply	1.1	1.1	15.5	11.2	14.9	1,309.1	(27.7)	33.2
Electricity, gas and steam	1.1	1.1	15.5	11.2	14.9	1,309.1	(27.7)	33.2
Other Business Activities	0.0	0.3	262.2	1.0	0.5	87,300	(99.6)	(50.3)
Other business activities	0.0	0.3	262.2	1.0	0.5	87,300	(99.6)	(50.3)

	Annual					Percentage Change		
	1994	1995	1996	1997	1998	1996/1995	1997/1996	1998/1997
	(in millions of dollars)							
Social and Personal Activities	0.4	0.4	1.0	0.4	4.5	147.2	(55.8)	960.4
Recreational, cultural and sporting Activities	0.3	0.3	0.8	0.2	4.2	193.5	(74.7)	1,869.2
Other service activities	0.1	0.1	0.1	0.2	0.3	17.4	77.2	50.2
Total	18,105.9	21,637.0	23,224.5	26,245.5	26,881.4	7.3	13.0	2.4

(1) Not including "shuttle trade." See "— Balance of Payments" and "— Current Account."

Source: SIS

Trade with Iraq has been suspended since the end of the Gulf war due to the UN embargo on trade with Iraq. However, exports of certain food, medicine and other humanitarian products to Iraq are now permitted under the UN's "oil-for-food" program and, as a result, Turkey has benefited from increased exports to Iraq. The "oil-for-food" program has been periodically renewed for six-month periods by the UN. See "Description of the Republic of Turkey — Foreign Relations and International Organizations."

Turkey has taken the lead in the establishment of a Black Sea Economic Co-operation Zone, which is intended to create a regional trade organization of countries surrounding the Black Sea. With the participation of Albania, Armenia, Azerbaijan, Bulgaria, Georgia, Greece, Moldavia, Romania, the Russian Federation, Ukraine and Turkey, the Black Sea Trade and Development Bank has been established to promote economic prosperity and promote regional projects in the area. Turkey has also embarked on efforts to develop new export markets in countries with which Turkey has not traditionally traded.

The following table presents Turkey's exports by country for the periods indicated:

Table No. 9

Exports by Country(1)

	1994	1995	1996	1997	1998
	(percentage of total exports, unless otherwise indicated)				
OECD Countries	59.4	61.4	62.1	59.3	62.9
EU Countries	47.7	51.2	49.7	46.6	50.0
Germany	21.7	23.3	22.3	20.0	20.3
Italy	5.7	6.7	6.2	5.3	5.6
France	4.7	4.8	4.5	4.4	4.8
United Kingdom	4.9	5.2	5.4	5.8	6.4
USA	8.4	7.0	7.1	7.7	8.3
Non-OECD Countries	40.6	38.5	37.9	40.7	37.1
Other European Countries and CIS	13.5	18.1	15.7	17.8	14.6
CIS	7.8	9.5	11.5	13.4	9.9
African Countries	4.7	4.9	5.0	4.7	6.5
American Countries	0.6	0.5	0.5	0.8	0.9
Middle Eastern Countries	11.6	9.8	9.7	10.5	8.7
Saudi Arabia	3.4	2.2	1.9	2.0	1.6
Israel	1.0	1.1	1.1	1.5	1.8
Other Asian Countries	8.0	4.9	4.9	4.5	2.4
Other Countries	2.2	2.2	2.0	2.3	3.5
Total	100.0	100.0	100.0	100.0	100.0

(1) Not including "shuttle trade." See "— Balance of Payments" and "— Current Account."

Sources: SPO, SIS

The value of imports increased from approximately $7.9 billion in 1980 to approximately $48.6 billion in 1997 and declined to approximately $45.9 billion in 1998, a 5.5% decrease over 1997. This decrease was mainly attributable to the decrease in oil prices as well as the contraction in output and domestic demand.

In 1998, of the main commodity groups, the share of intermediate goods in total imports was 64.4% while the shares of capital goods and consumption goods in total imports were 23.2% and 11.6%, respectively. Customs duties on industrial products imported from EU and EFTA countries were abolished from 1 January 1996. Prior to the abolition of the customs duties, the arithmetic average of the import protection rates for these countries was 10% and the weighted average rate was approximately 5.6%. For products imported from third countries, the weighted average rate decreased from approximately 15% in 1995 to 5.6% from 1 January 1996 and will be further reduced to 3.2% by the year 2001 when the EU implements further reductions from the Uruguay round of trade negotiations. The only exception to the application of the common customs tariff to industrial imports from third countries relates to a number of products including motor vehicles, furniture and ceramics, which will be subject to higher tariff rates in Turkey until 2001. The Mass Housing Fund levy on imports was abolished for all industrial products on 1 January 1996. For agricultural products, the Mass Housing Fund has been included into customs duties since 1 January 1997.

The following table presents the composition (by International Standard Industrial Classification) of Turkey's imports (other than non-monetary gold) by sector of trade for the periods indicated:

Table No. 10

Imports by Sector

	Annual					Percentage Change		
	1994	1995	1996	1997	1998	1996/1995	1997/1996	1998/1997
	(in millions of dollars)							
Agriculture And Forestry	881.9	1,907.8	2,170.7	2,420.7	2,128.4	13.8	11.5	(12.1)
Agriculture and farming of animals	739.6	1,797.9	2,023.0	2,299.2	1,983.6	12.5	13.7	(13.7)
Forestry and logging	142.3	109.9	147.8	121.5	144.6	34.4	(17.8)	19.0
Fishing	1.5	1.7	1.5	1.7	1.1	(8.4)	9.9	(33.6)
Mining And Quarrying	3,353.6	4,090.6	5,089.6	5,186.9	3,757.6	24.4	1.9	(27.6)
Mining of coal, lignite and peat	383.8	287.9	580.8	560.8	464.3	101.7	(3.4)	(17.2)
Crude petroleum and natural gas	2,837.1	3,568.5	4,252.4	4,313.1	2,962.1	19.2	1.4	(31.3)
Mining of uranium and thorium ores	—	—	0.0	—	—	—	—	—
Metal ores	54.8	121.1	138.1	146.6	175.4	14.0	6.2	19.7
Other mining and quarrying	77.9	113.1	118.4	166.3	155.9	4.7	40.5	(6.3)
Manufacturing	19,031.2	29,706.3	35,981.8	40,955.2	39,915.2	21.1	13.8	(2.5)
Food products and beverages	1,020.0	1,790.5	2,018.9	1,773.9	1,475.1	12.8	(12.1)	(16.8)
Tobacco products	54.5	28.2	44.0	46.8	56.8	56.1	6.3	19.2
Textiles	980.3	1,600.1	1,893.8	2,051.1	2,022.0	18.4	8.3	(1.4)
Wearing apparel	43.6	64.1	182.9	265.7	240.7	168.4	45.3	(9.4)
Luggage, saddlery and footwear	190.4	250.1	348.3	358.4	306.3	39.3	2.9	(14.6)
Products of wood and cork	62.7	98.0	124.9	140.3	163.0	27.4	12.4	16.2
Paper and paper products	394.8	925.3	836.5	836.7	860.3	(9.6)	0.0	2.8
Printing and publishing	102.8	123.3	133.0	158.2	159.2	7.9	18.9	0.6
Coke, petroleum products and nuclear fuel	597.8	763.3	1,069.3	1,181.1	966.7	40.1	10.5	(18.1)
Chemicals and chemical products	3,593.7	5,964.7	6,390.3	7,140.9	7,184.4	7.1	11.7	0.6
Rubber and plastic products	348.8	578.1	820.3	888.7	984.2	41.9	8.3	10.7
Other non-metallic minerals	220.2	350.0	456.6	433.6	493.1	30.5	(5.0)	13.7
Manufacture of basic metals	1,722.0	2,875.1	2,799.9	3,314.3	3,155.9	(2.6)	18.4	(4.8)
Manufacture of fabricated metal prod. (exc. Machinery)	390.3	539.4	837.4	898.4	942.6	55.2	7.3	4.9
Manufacture of machinery and equipment	3,389.4	5,001.6	7,443.9	8,042.3	7,762.9	48.8	8.0	(3.5)
Office, accounting and computing machinery	398.6	687.1	775.6	913.5	1,062.3	12.9	17.8	16.3
Electrical machinery and apparatus	823.2	955.5	1,225.8	1,475.9	1,655.4	28.3	20.4	12.2
Communications and apparatus	708.4	1,029.4	1,391.4	1,943.9	2,351.0	35.2	39.7	20.9
Medical, precision and optical instruments, watches	717.5	787.7	1,042.1	1,182.9	1,230.4	32.3	13.5	4.0
Motor vehicles and trailers	1,008.4	1,789.2	2,932.6	4,441.0	4,106.0	63.9	51.4	(7.5)

	Annual					Percentage Change		
	1994	1995	1996	1997	1998	1996/1995	1997/1996	1998/1997
	(in millions of dollars)							
Other transport	1,236.3	2,072.3	1,659.3	1,845.4	1,324.8	(19.8)	11.2	(28.2)
Furniture	150.6	290.9	436.3	524.0	541.2	50.0	20.1	3.3
Recycling	876.9	1,142.4	1,118.4	1,097.9	871.9	(2.1)	(1.8)	(20.6)
Electricity, Gas And Water Supply	—	0.0	11.8	83.8	113.3	—	—	35.2
Electricity, gas and steam	—	0.0	11.8	83.8	113.3	—	—	35.2
Other Business Activities	0.7	1.1	358.6	1.1	0.6	31,351.8	(99.7)	(48.2)
Other business activities	0.7	1.1	358.6	1.1	0.6	31,351.8	(99.7)	(48.2)
Social And Personal Activities	1.1	1.5	12.7	6.7	5.0	750.9	(47.0)	(26.1)
Recreational, cultural and sporting activities	1.1	1.5	12.7	6.7	5.0	749.9	(47.0)	(26.3)
Other service activities	—	—	0.0	0.0	0.0	—	—	—
Total	23,270.0	35,709.0	43,626.7	48,585.1	45,921.2	22.2	11.5	(5.5)

Source: SIS

The following table presents imports (other than non-monetary gold) by country or region of origin for the periods indicated:

Table No. 11

Imports by Country

	1994	1995	1996	1997	1998
	(percentage of total imports, unless otherwise indicated)				
OECD Countries	65.9	66.4	71.3	71.7	72.9
EU Countries	46.9	47.2	53.0	51.2	52.5
Germany	15.7	15.5	17.9	16.5	15.9
Italy	8.6	8.9	9.8	9.2	9.3
France	6.3	5.6	6.4	6.1	6.6
UK	5.0	5.1	5.8	5.7	5.8
USA	10.4	10.4	8.1	8.9	8.8
Japan	4.2	3.9	3.3	4.2	4.5
Non-OECD Countries	34.1	33.6	28.7	28.3	27.1
Other European Countries and CIS	11.2	12.5	9.4	9.6	10.2
CIS	7.8	9.3	7.0	7.4	8.1
African Countries	3.7	3.9	4.6	4.5	3.8
American Countries	1.4	1.7	1.5	1.6	1.6
Middle Eastern Countries	10.9	7.5	7.4	6.6	4.8
Other Asia Countries	5.5	7.1	5.1	5.2	5.7
Other Countries	1.4	0.9	0.7	0.7	1.0
Total	100.0	100.0	100.0	100.0	100.0

Sources: SPO, SIS

In 1998, imports (c.i.f.) declined by 5.4% over 1997 to approximately $45.9 billion in response to the contraction in domestic demand and output. The decline in crude oil prices which decreased the oil imports bill by approximately $1 billion was also a factor contributing to the decrease in imports. In 1998, the EU accounted for more than half of Turkey's total imports.

As of 31 December 1998, Turkey's net international reserves were approximately $29.5 billion, which would cover 7.7 months of imports. As of 31 December 1998, official reserves of the Central Bank were approximately $19.7 billion.

Other Goods, Services and Income

In addition to merchandise exports and imports, Turkey's current account is also composed of earnings from other goods, services and income. This item includes tourism revenues, interest earnings and other invisible revenues such as earnings from shipment and transportation, investment income, contractors' earnings and other official and private services (a residual category).

In 1998, Turkey's tourism revenues increased by only 2.5% and reached approximately $7.2 billion. See "Economy — Tourism." In addition, earnings from interest reached $2.5 billion in 1998, which represented a 30.6% increase from $1.9 billion in 1997.

Turkey's receipts from shipment, transportation, investment income, contractors' earnings, and other official and private services amounted to approximately $16.1 billion in 1998, which represented an increase of 30.5% from 1997. On the other hand, the debit side for the same services amounted to approximately $8.7 billion, an increase of 23.0% from 1997.

Balance of Payments

The following table summarizes the balance of payments of Turkey for the periods indicated:

Table No. 12

Balance of Payments

			Inc. Shuttle Trade(1)		
	1994	1995	1996	1997	1998
	(in millions of dollars)				
Current account:					
Merchandise Exports	18,390	21,975	32,446	32,647	31,220
Exports f.o.b.	18,106	21,636	23,225	26,261	26,973
Shuttle trade	—	—	8,842	5,849	3,689
Transit trade(2)	284	339	379	537	558
Imports f.o.b.	(22,606)	(35,187)	(43,028)	(48,005)	(45,552)
Imports c.i.f.	(23,270)	(35,709)	(43,627)	(48,559)	(45,935)
Non-monetary gold	(480)	(1,322)	(1,672)	(1,867)	(1,861)
Transit trade(2)	(251)	(301)	(347)	(492)	(514)
Freight and insurance on imports	1,395	2,145	2,618	2,913	2,758
Trade balance	(4,216)	(13,212)	(10,582)	(15,398)	(14,332)
Other goods, services and income (credit)	11,691	16,094	14,628	21,273	25,802
Travel	4,321	4,957	5,650	7,002	7,177
Interest	890	1,488	1,577	1,900	2,481
Other	6,480	9,649	7,401	12,371	16,144
Other goods, services and income (debit)	(7,936)	(9,717)	(10,930)	(13,419)	(15,326)
Travel	(866)	(911)	(1,265)	(1,716)	(1,754)
Interest	(3,923)	(4,303)	(4,200)	(4,588)	(4,823)
Other	(3,147)	(4,503)	(5,465)	(7,115)	(8,749)
Total goods, services and income	(461)	(6,835)	(6,884)	(7,504)	(3,856)
Private unrequited transfers (credit)	2,709	3,425	3,892	4,552	5,568
Workers' remittances	2,627	3,327	3,542	4,197	5,356
Other	82	98	350	355	212
Official unrequited transfers	383	1,071	555	314	159
Workers' remittances	37	38	48	32	41
Other	346	1,033	507	282	118
Current account balance	2,631	(2,339)	(2,437)	(2,638)	1,871
Capital account:					
Direct investment	559	772	612	554	573
Portfolio investment(3)	1,158	237	570	1,634	(6,386)
Other long term capital	(784)	(79)	1,636	4,788	3,985
Drawings	3,349	4,126	6,048	9,905	11,505
Repayments	(5,448)	(5,667)	(5,685)	(6,095)	(8,174)
Dresdner Bank Program(4)	1,315	1,462	1,273	978	654
Total long term capital	933	930	2,818	6,976	(1,828)
Short term capital	(5,127)	3,713	5,945	1,761	2,601
Assets	2,423	(383)	331	(1,750)	(1,464)
Liabilities	(7,550)	4,096	5,614	3,511	4,065
Capital account balance	(4,194)	4,643	8,763	8,737	773

	1994	1995	Inc. Shuttle Trade(1) 1996	1997	1998
		(in millions of dollars)			
Net errors and omissions	1,769	2,354	(1,781)	(2,755)	(2,197)
Overall balance	206	4,658	4,545	3,344	447
IMF	340	347	0	(28)	(231)
Official reserves of the Central Bank(5)	(546)	(5,005)	(4,545)	(3,316)	(216)
Total decrease (increase) in reserves	(206)	(4,658)	(4,545)	(3,344)	(447)

(1) See "— Current Account."

(2) Transit trade covers goods imported and exported to a third country without crossing the border.

(3) Portfolio investment includes bonds issued in the international capital markets by Turkey or Turkish entities as well as investments in Turkish securities by foreign persons and non-residents, on a net basis.

(4) See "— Capital Account."

(5) "Official reserves of the Central Bank" refers to the foreign exchange inflows and outflows of the Central Bank for the specified year.

Sources: CBT, SIS

Current Account

In part because of its proximity to Russia and the other CIS republics, Turkey benefits from a significant amount of "shuttle trade," which reflects goods purchased by visitors to Turkey from neighboring countries, principally the CIS republics, and transported as accompanied baggage for resale in those countries. In 1996, the Central Bank began to account for the "shuttle trade" in its official balance of payments statistics through conducting surveys based on questionnaires submitted to foreigners travelling to Turkey for the purpose of conducting "shuttle trade." These surveys are conducted approximately three times a year in areas where "shuttle trade" activities are most common. The extent of the shuttle trade is determined by correlating the number of foreigners who traveled to Turkey for this activity with the average amount spent on goods by each such foreigner. This methodology has been accepted by the IMF and will be used by the Republic in future reporting of its economic data. See "Economy — Background."

In 1998, the growth performance of exports was adversely affected by the slowdown in world trade. Moreover, the decline in export prices resulted in a limited increase in exports in nominal terms. Imports, on the other hand, contracted significantly due to the sharp reduction in the oil imports bill as well as the decrease in output and domestic demand.

In 1998, exports f.o.b. (excluding "shuttle trade") increased by 2.7% from approximately $26.2 billion in 1997 to approximately $27.0 billion. Earnings from "shuttle trade" declined to approximately $3.7 billion in 1998 from approximately $5.8 billion in 1997 primarily due to the crisis in the Russian economy. Consequently, in 1998, merchandise exports (including "shuttle trade") decreased by 4.3% to approximately $31.2 billion from approximately $32.6 billion in 1997.

In 1998, imports f.o.b. declined by 5.1% to approximately 45.6 billion from $48.0 billion in 1997. Consequently, the trade deficit (including "shuttle trade") decreased to approximately $14.3 billion in 1998 from approximately $15.4 billion in 1997.

In 1998, although revenues from tourism stagnated, interest earnings, invisible revenues and workers' remittances increased by 30.6%, 30.5% and 27.6%, respectively. See "— Other Goods, Services and Income." Consequently, the current account balance moved to a surplus of $1.9 billion in 1998 from a deficit of $2.6 billion in 1997.

Foreign Investment

Turkey attaches a high priority to the encouragement of foreign direct investment and provides a variety of incentives to prospective investors. The banking, agriculture and mining sectors have been opened to foreign direct investment, and laws protecting copyrights, patents and trademarks have been passed by the parliament in an effort to encourage greater foreign direct investment. See "Economy — Intellectual Property." In 1995, Turkey issued a decree aimed at facilitating foreign investment by reducing government involvement in a number of areas. Under this decree, official approval is no longer required for capital transfers abroad, new share issues overseas by Turkish companies or execution of know-how and technical assistance agreements between Turkish companies and foreign counterparts. There were also relaxations in 1995 of rules concerning offshore borrowing by Turkish companies, as well as more generous arrangements regarding investment allowances in respect of Turkish companies. In addition, Turkey also changed its regulations to allow foreign investors to keep their investment funds in savings accounts denominated in foreign currency, rather than requiring them to convert their funds into Turkish Lira.

In 1994, Law No. 3996 (the "BOT Legislation") established the legal framework was established for the Build-Operate-Transfer Model (the "BOT Model") which offers foreign investors the opportunity to invest in large infrastructure projects, such as dams, highways, railways, bridges, tunnels, seaports and airports, as well as communications, environmental and energy production projects. The BOT Model is a project development and financing model whereby private sector sponsors make equity investments in a private entity (the project company) to which the Government also contributes and which is established solely for the purpose of implementing the project. The project company builds the project, operates it for a period of time sufficient to generate the envisaged return and then transfers it to the Government.

The application of the BOT Model to energy production rests upon Law No. 3096, which was enacted in 1984. This law administers the assignment of the production, transmission, distribution and marketing of electricity to private entities other than the Turkish Electricity Company (TEAS) and the Turkish Electricity Distribution Company (TEDAS). Under this law, companies are allowed to generate, transmit and distribute electricity nationwide and sell electricity to TEDAS and TEAS. A standard BOT contract has a term of up to 99 years, after which ownership of all assets is transferred to the Government at no cost.

A variation on the BOT Model, the Build-Operate Model (the "BO Model") was also developed for energy production projects. The BO Model allows private investors to finance, build and operate power plants without the required transfer to the Government. In addition, private companies can operate already existing power plants by transferring operating rights for these entities. See "Economy — Energy."

The liberalization of the legal framework for foreign investment has resulted in an increased direct foreign investment flow into Turkey. While the cumulative figure for approved foreign investment between 1954 and 1980 was only $280 million, this amount increased by approximately $24 billion between 1980 and 1998. The leading investors in Turkey originate from France, the U.S., the Netherlands, Germany, Switzerland, the U.K., Italy and Japan.

Capital Account

In 1998, the capital account balance showed a net inflow of $0.8 billion compared to $8.7 billion in 1997. According to the SPO, the capital account displayed two different trends in the first and second half of 1998. In the first half, there was an inflow of $7.6 billion, followed by an outflow of $6.9 billion in the second half of the year as a result of the economic crisis in Russia.

Portfolio investment, which registered an inflow of $1.6 billion in 1997, displayed an outflow of $6.4 billion in 1998. Other medium and long-term capital movements registered a net inflow of $4.0 billion in 1998, compared to a net inflow of $4.8 billion in 1997.

Turkey's capital account was also affected by a program offered by the Central Bank through Dresdner Bank AG of Germany ("Dresdner Bank") to attract the foreign currency deposits of Turkish workers in Germany (the "Dresdner Bank Program"). In 1997, the increase in net inflows to the Dresdner Bank Program was $978 million and, in 1998 the Dresdner Bank account balance decreased to $324 million.

Short-term capital movements, which showed a net inflow of $1.8 billion in 1997, produced a net inflow of $2.6 billion in 1998.

Official reserves of the Central Bank increased by $216 million in 1998 as compared with an increase of $3.3 billion in 1997.

International Reserves

Over the last decade, Turkey has substantially increased its international reserves (including official reserves of the Central Bank, reserves held by commercial banks and gold), which are primarily denominated in U.S. dollars. During the last quarter of 1993 and early 1994, the Treasury borrowed less than what was required by domestic debt repayment obligations, which resulted in the creation of a substantial amount of excess reserves in the TL money markets. The excess funds were, in turn, channeled into foreign exchange markets, causing a loss of foreign exchange reserves. The 1994 Stabilization Program and the 1994 Stand-By Arrangement with the IMF allowed the Government to regain access to the international capital markets. See "The Republic of Turkey — Other Economic Developments Since 1994." The funds borrowed were deposited with the Central Bank, increasing net international reserves from $16.5 billion in 1994 to $23.9 billion in 1995. Since 1995, net international reserves have increased steadily, reaching $29.5 billion as of 31 December 1998.

The following table presents the level of international reserves at the dates indicated:

Table No. 13

International Reserves

	Gold[(1)]	Central Bank[(2)]	Commercial Banks[(3)]	Gross Reserves	Overdraft	Net Reserves
			(in millions of dollars)			
1993	1,488	6,213	10,061	17,762	0.7	17,761.4
1994	1,410	7,112	7,997	16,519	4.8	16,514.3
1995	1,383	12,391	10,169	23,943	19.6	23,922.8
1996	1,383	16,273	7,352	25,008	41.7	24,965.9
1997	1,384	18,419	7,625	27,168	30.2	27,138.1
1998	1,012	19,721	8,773	29,506	7.4	29,498.6

(1) Before February 1998, 1 ounce = \$369. After February 1998, 1 ounce = \$300.

(2) Includes Turkish Defense Fund (as of 31 December 1998, the fund, which consists of grants made to Turkey to compensate for the losses Turkey incurred during the Gulf War, was \$447 million).

(3) Includes all commercial banks (foreign and domestic) doing business in Turkey.

Sources: CBT, SPO

FINANCIAL SYSTEM

The Central Bank

The Central Bank (Türkiye Cumhuriyet Merkez Bankasi) was founded in 1930 and performs the traditional functions of a central bank, including the issuance of banknotes, implementation of Government exchange rate and monetary policies, supervision of various aspects of the banking system and advising the Government as to financial matters.

The objectives of the Central Bank are set in consultation with the Undersecretariat of Treasury (the "Treasury"). The Board of the Central Bank is appointed by the Government. The Central Bank exercises its powers and is responsible for its affairs within the bounds of applicable law and the Government's defined policies.

The Central Bank is responsible for developing and implementing the Government's monetary policy. In addition to being the sole regulator of the volume and circulation of the national currency, it controls the money supply through open market operations and by setting reserve and liquidity requirements. The Central Bank's open market operations desk maintains a portfolio of Government securities to effect repurchases, reverse repurchases, direct sales and direct purchases. On a day-to-day basis, the Central Bank also regulates liquidity through the inter-bank market. The Central Bank has the exclusive right to issue banknotes in Turkey.

Within the framework of legislation and the Republic's overall economic objectives, the Central Bank manages and controls the official gold and foreign exchange reserves. The Central Bank's foreign currency reserves consist primarily of United States dollar and Deutsche mark denominated deposits and marketable securities issued by foreign governments and institutions of high credit quality. The Central Bank is also required to determine and protect the parity of the national currency with gold and foreign currencies within guidelines set by the Government. Besides the foreign exchange market, the Central Bank oversees the domestic markets for Turkish Lira deposits, foreign currency notes and foreign currency deposits. The Central Bank also engages in lending and the granting of credits through its discount window from time to time, though it has not done so to any material extent from January 1996 to date.

The Central Bank signed an anti-inflation protocol with the Treasury in August 1997 that gives it more autonomy by allowing it to determine interest rates and monetary policy. The Treasury also agreed to safeguard the Central Bank's monetary program by implementing its financial relations with the Bank, including short-term advances, in a way that would not conflict with the monetary policies established by the Central Bank.

Monetary Policy

1994. The difficulties in the Turkish economy in the first half of 1994 were attributable in large part to the increased public sector deficit in 1993 and its monetization together with a widening of the current account deficit. In an effort to stabilize the economy and to enhance the Central Bank's ability to control monetary aggregates and establish stability in the financial markets, certain structural changes were made in the Organic Law of the Central Bank. Law No. 3985, dated 21 April 1994 (the "1994 Banking Amendment"), amended the Organic Law of the Central Bank No. 1211, dated 14 January 1970, regarding the Central Bank advances to the Treasury. Pursuant to the 1994 Banking Amendment, the level of short-term advances which may be extended by the Central Bank to the Treasury, which had previously amounted to 15% of the total increases in budget appropriations each year, was reduced to 12% of increases in budget appropriations for 1995, 10% for 1996, 6% for 1997 and 3% for 1998 and the following years. These arrangements, in addition to rendering the Central Bank more autonomous, limit the amount of the budget deficits which can be financed using Central Bank resources. Moreover, the total amount of credits and advances to be extended to the public sector each year is not permitted to exceed 50% of the short-term advance levels set forth above.

Additional measures were taken by the Central Bank during the first three months of the 1994 Stabilization Program. During such time, the reserve and liquidity systems were expanded to cover investment banks and other special financial institutions and the liquidity requirement was redefined to cover all the liabilities, including asset-backed securities. The reserve requirement system was modified to increase the reserve requirement ratio on foreign exchange deposits from 10% to 11% while keeping the reserve ratio at 8% (for Turkish Lira deposits). In addition, since June 1994, all debt instruments taken as collateral for repurchase agreements have been required to be deposited with the Central Bank. Toward the end of 1994, the Central Bank, working in tandem with the 1994 Stabilization Program, was able to help establish stability in the financial markets and the Central Bank eased pressure on interest rates as exchange rates stabilized in relative terms.

1995. The economy entered 1995 with a more stable picture in both the financial and real sectors. A major aim of monetary policy in 1995 was to reduce inflation while allowing sufficient room for economic recovery. Under the auspices of the 1994 Stand-By Arrangement, the Republic adopted quarterly target floors for net foreign assets and quarterly target ceilings for net domestic assets. See "The Republic of Turkey — Other Economic Developments Since 1994." It also adopted monthly exchange rate targets, which would allow the Turkish Lira to depreciate against a basket of currencies consisting of $1 plus DM1.5 sufficiently to offset targeted wholesale price inflation of 40% in 1995. However, inflation was substantially higher than targeted with the wholesale price index reaching 65.6% and the Turkish Lira appreciated in real terms during 1995. See "— Exchange Rates and Exchange Rate Policies."

From the point of view of the Central Bank, the most striking development in 1995 was the very rapid increase in its foreign exchange reserves. This was due to two factors. First, substantial reverse currency substitution occurred as stability was restored to the foreign exchange markets, given favorable domestic interest rates. Second, the Republic posted a small current account surplus in the first three quarters of 1995. Thus, net international reserves (which for IMF purposes exclude gold and Turkish Defense Fund moneys, which are included in the data reported in the "International Reserves" table) rose steadily from $8.0 billion at end 1994 to $14.8 billion at the end of September 1995.

This development helps to explain the surge in monetary aggregates in the first three quarters of 1995, given that the Central Bank was unable to fully sterilize the huge increase in foreign exchange reserves through open market operations. Nonetheless, all of the performance criteria of the IMF program were met for the first three quarters of 1995 with net international reserves $4.0 billion above the targeted floor, net domestic assets significantly lower than the targeted ceiling, and the exchange rate basket more or less on target.

The economic picture changed significantly in October 1995 with the collapse of the coalition Government and the decision to hold early national elections on 24 December 1995. First, budget spending increased in the pre-election period and, in part because of a revenue shortfall in actual privatization revenues, the Treasury was forced to draw significantly on advances from the Central Bank. Second, as expectations of a post-election devaluation built, the rate of depreciation of the Turkish Lira accelerated sharply, particularly as elections approached. The Central Bank abandoned its exchange rate targets in October 1995 and announced that it would let the Turkish Lira depreciate in line with wholesale price inflation. The Central Bank began quoting forward rates for the Turkish Lira in order to give the currency markets a stable benchmark, but nonetheless the Turkish Lira fell sharply (by 8.4% against the U.S. dollar in December 1995 alone). Third, due to rising political uncertainty the Treasury started to have difficulty rolling over its domestic debt, even at higher interest rates. The impact of these developments on the Central Bank's balance sheet was a decrease in its international reserves and an increase in its net domestic assets. Thus, in the last quarter of 1995, official reserves of the Central Bank decreased by $3.8 billion, while net domestic assets increased by TL177 billion (approximately 81%). Thus, net domestic assets exceeded the IMF year-end ceiling target by approximately TL28 trillion, while the exchange rate basket exceeded its year-end target by 14%.

1996. The Central Bank's monetary policy in 1996 was focused on limiting the growth of reserve money in order to control the growth of the Central Bank's balance sheet and monetary aggregates. In 1996, the Central Bank was able to use its open market operations to slow monetary growth. In 1996, the wholesale price index increased by 84.9%, the exchange rate basket by 76.4% and reserve money by 81% annually. Official reserves of the Central Bank increased by approximately $3.9 billion in 1996, while Treasury bill auction rates after reaching compounded annual rates of approximately 206% at the end of 1995, fell to 125% by the end of 1996.

1997. The main goal of monetary policy in 1997 was to maintain price stability in financial markets. The stability target was reflected in the balance sheet as reserve money was created only against the increase in net foreign assets. The cash credit to the public sector, which is the main constituent of domestic assets, continued its declining trend in 1997. Being the lender of last resort, the Central Bank applied interest rates above the market rates while providing liquidity to the market. In 1997, compound interest rates fluctuated between 83% and 122% and in May 1998, fell to 92%. In 1997, monetary aggregates M1, M2 and reserve money declined whereas MY2 increased in real terms. The exchange rate policy in 1997 was based on stability in the real exchange rates.

1998. The primary goal of the Central Bank's 1998 monetary policy was to contribute to the Government's policy of reducing the inflation rate by implementing an exchange rate policy that is consistent with the inflation target and by controlling reserve money on the liability side of its balance sheet.

Target bands for the growth of reserve money were announced in January and April 1998 for the first and second quarters of the year, respectively. The growth rate of reserve money was targeted to be 18-20% for the first quarter and 14-16% for the second quarter, producing a cumulative increase of 34-39% for the first half of the year. Reserve money grew by 17.3% in the first quarter and 13.1 percent in the second quarter, which were below the lower limit of the targeted band.

In June 1998, Turkey entered into a Staff Monitored Program (the "SMP") with the IMF, under which the Central Bank adopted new definitions of net domestic assets and reserve money. In line with this program, the Central Bank announced that it planned to conduct its monetary and exchange rate policy consistent with the targeted inflation in the second half of the year. Considering the uncertainties regarding the demand for base money and the reserve money multiplier in a period of declining inflation, the Central Bank shifted its target from reserve money to its net domestic assets for the second half of 1998. In this regard, the Central Bank aimed to keep the expansion of net domestic assets under tight control and to reduce its intervention in the money market. However, due to the adverse external developments resulting from the economic crisis in Russia, the Central Bank intervened heavily in the foreign exchange market and raised interest rates in order to provide stability for the currency. This produced a decrease in the official reserves. In addition, the Russian economic crisis limited the ability of the Treasury to obtain financing in the international markets, which in turn brought about an increasing demand for Turkish Lira.

In order to increase the liquidity of the markets, the Central Bank allowed a more rapid expansion of net domestic assets during the third quarter of the year. In October 1998, the year-end target for net domestic assets under the SMP was revised to TL700 trillion from negative TL1,514 trillion. Nonetheless, net domestic assets at year-end 1998 stayed below the targeted level and registered as TL579.4 trillion, compared to TL142 trillion at year-end 1997. In 1998, M2 and MY2 grew by approximately 102% and 90%, respectively, as compared to year-end 1997.

The following table presents trends in monetary aggregates and selected Central Bank balance sheet information for the dates indicated:

Table No. 14

Selected Central Bank Balance Sheet Data

	As at 31 December				
	1994	1995	1996	1997	1998(1)
	(in billions of Turkish Lira)				
Assets	**302,921**	**645,445**	**1,272,515**	**2,155,405**	**2,613,342**
Net Foreign Assets	(21,382)	136,150	632,198	1,791,137	2,906,051
Foreign Assets	368,701	911,817	2,041,524	4,336,722	7,173,037
Foreign Liabilities	390,083	775,667	1,409,326	2,545,585	4,266,986
Central Bank claims on:					
Public Sector	347,965	511,508	817,687	699,024	341,923
Deposit Money Banks and other Financial Institutions plus net other items	(23,662)	(2,213)	(177,370)	(334,756)	(634,632)
Liabilities	**302,921**	**645,445**	**1,272,515**	**2,155,405**	**2,613,341**
Domestic Liabilities	109,781	272,651	566,421	1,507,438	2,022,129
FX Deposits of Non-Banks	14,237	102,802	212,984	703,959	662,262
FX Deposits of the Banking Sector	95,544	169,849	353,437	803,479	1,359,867
Reserve Money	185,738	343,484	621,483	1,186,387	2,040,981
(of which: Currency Issued)	120,212	223,934	382,243	758,878	1,232,331
Deposits and Other Liabilities of the Central Bank	7,402	29,310	84,611	(538,420)	(1,449,769)
Key Monetary Aggregates					
M1.	230,874	388,185	896,855	1,581,210	2,284,174
M2.	630,348	1,255,632	2,924,893	5,658,800	10,856,763
MY2 (M2 + foreign exchange deposits at commercial banks)	1,195,353	2,414,597	5,373,709	10,664,058	19,425,576

(1) Provisional

Source: CBT.

Exchange Rates and Exchange Policies

Turkish exchange rate policy is conducted by the Central Bank in coordination with the Treasury, and the Central Bank is fully responsible for its implementation. The exchange rate is determined freely in the foreign exchange market. The Central Bank intervenes in the foreign exchange market to prevent excessive exchange rate volatility.

Pursuant to Decree No. 32 issued in August 1989 and amended in June 1991, the Government eased restrictions on the convertibility of the Turkish Lira by facilitating the exchange of the proceeds of transactions in Turkish securities by foreign investors, enabling Turkish citizens to purchase securities on foreign securities exchanges, permitting individuals to take up to $5,000 of foreign currency notes and $15,000 worth of jewelry abroad, permitting non-residents to buy foreign exchange without limitation and transfer such foreign exchange abroad and permitting Turkish companies, without ministerial approval, to invest up to $5 million abroad. By law, 70% of the proceeds of export transactions must be repatriated to Turkey within a prescribed period of time. By 1996, all restrictions on the convertibility of the Turkish Lira for current account transactions and non-resident capital account transactions had been lifted. Most restrictions on resident capital transactions have also been lifted.

Since November 1995, the exchange rate policy of the Republic has been to devalue the Turkish Lira in line with WPI inflation against a currency basket consisting of $1.00 and DM1.5 over the long run. In 1998, the Central Bank implemented its exchange rate policy with the aim of maintaining international competitiveness and to support the decline in inflation. Hence, the value of the currency basket consisting of $1.00 and DM1.5 increased by 58.1% against the Turkish Lira, compared with the 54.3% increase in wholesale prices.

Banking System

The Turkish banking system is under the supervision of the Treasury which exercises its power through the General Directorate of Banking and Foreign Exchange and the Sworn Bank Auditors Board. Bank auditors perform on-site auditing and the Banking and Foreign Exchange General Directorate supervises and monitors banks off-site. The Central Bank also performs off-site bank monitoring as lender of last resort.

In addition to the Central Bank, 76 banks were operating in Turkey as of 31 December 1998, including 16 investment and development banks (one of which is a clearing bank) and 60 commercial banks. The universal banking system in Turkey allows commercial banks to engage in banking and other financial services. Four of the commercial banks are state-owned. State-owned banks have typically run losses because of their specialized public policy functions, such as the granting of subsidized loans to certain groups such as farmers and small businesses. For example, at the end of December 1998, 50.4% of the loans of state-owned banks were granted at below-market rates (for T.C. Ziraat Bankasi (''Ziraat Bank''), the agricultural bank, this figure was 79.5%). The losses that arose due to the transactions that these banks are obliged by law to undertake and that appear in their interim balance sheets have been covered by the Treasury within the framework of ''special duty losses'' at year-end 1998.

The following table sets forth the capital adequacy ratios for all banks operating in Turkey and for the state-owned deposit banks:

Table No. 15

	Capital adequacy at end of period	
	All banks	**State-owned deposit banks**
	(percentage)	
1995	12.8	8.3
Q1, 1996	12.6	9.1
Q2, 1996	10.9	3.9
Q3, 1996	9.8	0.4
Q4, 1996	12.7	9.1
Q1, 1997	13.2	11.9
Q2, 1997	13.4	13.2
Q3, 1997	12.1	9.7
Q4, 1997	12.6	12.6
Q1, 1998	12.8	12.8
Q2, 1998	14.0	11.6
Q3, 1998	14.6	12.7
Q4, 1998	12.6	8.6

Source: UT

Of the 56 privately owned commercial banks, 36 are domestically owned and 20 have 50% or more of their shares owned by foreign shareholders or are branches of foreign banks. By year-end 1998, the public and private domestic deposit banks (excluding branches abroad) respectively held 36.4% and 52.7% of the total assets of all banks, whereas foreign owned banks and the foreign banks' branches together held 5.9% of the total assets of the banking sector. Investment and development banks held 5% of the assets of the banking sector as of year-end 1998. The major commercial banks are internationally recognized institutions with nationwide branch networks and deposit bases. Banks are allowed to deal in foreign exchange and to borrow and lend in foreign currency.

The banking regulations in Turkey are similar to those applicable in other developed countries, and although no changes have been made to banking laws since the end of 1994, legal changes are planned to align banking regulations with EU directives. Major areas of change include reduced lending limits, close monitoring of problem banks, acceleration of the liquidation of problem banks and increased effectiveness of supervision through the establishment of a Board of Financial Markets. In addition, to strengthen the financial status of the Deposit Insurance Fund, new entrants into the banking sector will be asked to pay an entrance fee to the Deposit Insurance Fund as a percentage of the minimum capital requirement.

In 1996, the Uniform Chart of Accounts and accounting standards were revised, bringing those standards in line with the International Accounting Standards (''IAS''), except for the standard on inflationary accounting.

A number of regulations were introduced in 1997, under the framework of the existing banking laws, to enhance the quality of bank supervision. The regulation on the ''Principles of the Institutions which Perform Independent Auditing at Banks,'' which was published as of March 1997, sets out guidelines regarding the reporting, authorization and field of operations of independent auditing firms and describes the qualifications and conditions that independent auditors are required to fulfill.

The Communique on the ''Principles of the Preparation and Announcement of Consolidated Financial Tables by Banks'' was published in May 1997. The Communique requires that the banks that are the parent company in a group of financial institutions that hold the exclusive or joint controlling power (with other financial institutions in the group) over one or more of the financial companies in the group or hold significant influence over these companies prepare consolidated financial statements. The parent bank established in Turkey is required to consolidate the statements of the financial institutions that are members of such a group, regardless of their country of origin and field of expertise.

In addition, the ''Decree on Credit Provisioning, Accounting and Valuation of Bank Credits According to Loan Classification,'' which became effective as of the end of 1997, mandates that banks make special provisions for all past due loans according to the quality and liquidity of the collateral associated with such loans. This decree also requires banks to maintain a general reserve of 1% of their total cash credits and 0.2% of their total non-cash credits. Pursuant to this decree, banks are also authorized, under certain circumstances, to restructure loans with borrowers experiencing temporary liquidity problems.

In June 1998, capital charges against weighted risk assets and off-balance sheet items were brought into line with the EU directives by the "Communique on Capital Adequacy of Banks (Solvency Ratio)." In August 1998, the overall foreign exchange open position that a bank may hold was limited to 30% of its capital base in order to limit foreign exchange exposure risks, to be effective on 1 January 1999. In December 1998, the aggregate net short foreign exchange position of Turkish banks was 33.29% of the aggregate capital base.

Capital Markets

As a consequence of the economic liberalization policies implemented in Turkey since the 1980s coupled with encouragement from the Government, the Turkish capital markets, encompassing securities and other financial markets, in addition to the economy as a whole, have undergone significant transformation. Financial liberalization gave rise to reorganization of the economy's institutional structure and the introduction of financial innovations.

Capital markets regulation was undertaken in line with overall financial sector reform. The objectives of these reforms were several: to secure transparency, confidence and stability in the capital markets; to contribute to the private sector's more effective utilization of capital markets; to bring market discipline to SEEs and strengthen the process of their restructuring; to facilitate local government financing in the capital markets; to develop new instruments, institutions and markets replacing existing outmoded and problematic ones; to reduce the costs of credit and fund allocation; to deepen the financial markets; to contribute to the participation of the public at large in investment activity; and to reach standards of developed nations in financial structure and practice.

Basic legislation was enacted in 1981 to adapt the legal framework to world markets and in 1983 to restructure the stock exchanges and secondary securities markets. The Istanbul Stock Exchange (the "ISE") was established in 1986. In 1989, the foreign exchange regime was amended to allow non-residents to invest in Turkish securities and allow residents to invest in foreign securities.

The Turkish Capital Market Law was amended in 1992, and new instruments were introduced such as repurchase agreements, futures and options contracts, convertible bonds, bonds with puts and calls, asset-backed securities and non-voting shares. The new law also prohibits insider trading activities and manipulation, providing for penalties ranging from TL500 million in fines to three years' imprisonment, or both.

Prospective securities issuers, including SEEs and municipalities, now fall within the scope of a Board Registration System and all are subject to common disclosure requirements. Prospectuses for issuance of securities are now more detailed, in accordance with EU directives. All banks may now issue debt securities with no compulsory requirements regarding deposits, allowing them greater access to the capital markets. Independent auditing has been institutionalized and extended in the market.

Mutual funds, including those established by non-bank financial institutions, have been differentiated based on portfolio structure. "Type A" funds are mutual funds required to invest at least 25% of their portfolios in shares of companies permanently established in Turkey. Type A fund participation certificates can be traded on the ISE. To encourage individuals to invest in the capital markets, the Government has exempted income from Type A funds from personal income taxation.

The rules regarding margin trading, short selling, borrowing and lending securities were promulgated in December 1994. In March 1996, principles for the issuance of capital markets instruments by non-residents were introduced, and these are regulated by the Capital Market Board. The Capital Market Law also authorizes the Capital Market Board to regulate the establishment and operations of the institutions that operate in the futures markets. In March 1997, a Communique concerning the principles of the establishment and operations of the rating institutions was published by the Capital Market Board. In June 1998, a Communique establishing certain principles regarding capital and capital adequacy requirements of intermediary institutions was published by the Capital Market Board.

As of 31 December 1998, there were 54 banks and 139 non-bank intermediary institutions operating at the ISE.

The amount of private sector securities issued increased from TL 85 trillion in 1994 to TL 842 trillion in 1998. In 1994, total traded value of securities on the secondary market was TL 6,163 trillion. By year-end 1998, total traded value of securities reached TL 298,585 trillion. As of 31 December 1998, total market capitalization was TL 10,612 trillion.

The economic crisis in Russia also affected domestic capital markets. In the second half of 1998, there were significant fluctuations in the ISE. At year-end 1998, the ISE composite index decreased by 24.7%, from 3,451 at year-end 1997 to 2,598. According to the Central Bank, average daily volatility of the ISE composite index was 2.9% in 1998, compared to 2.2% in 1997.

PUBLIC FINANCE

General

The public sector in Turkey includes the central Government, local governments (provincial governments, municipalities and villages), financial and non-financial state economic enterprises (''SEEs''), Social Security Institutions and extra-budgetary funds (''EBFs'').

The fiscal year of the Republic is the calendar year, and the Republic employs in principle a cash basis of accounting. The annual budget process commences in June with the budget message of the Prime Minister prepared by the Ministry of Finance. Individual ministry budgets are prepared and reviewed by the High Planning Council (consisting of the Prime Minister, certain Ministers and the Undersecretary of the State Planning Organization) and a budget bill together with supporting information is submitted to the Grand National Assembly in early October. Following debate, the annual budget law is generally approved by the Grand National Assembly and promulgated by the President in early December.

Each of the SEEs adopts an annual financial program which is approved by the Council of Ministers. The Grand National Assembly annually appropriates a single amount to the Treasury for allocation among the SEEs. Revenues and expenditures of the SEEs are excluded from the consolidated budget. Since 1993, by contrast, revenues and expenditures of most EBFs have been consolidated with the national budget. This consolidation was intended to impose a discipline on EBF spending, and result in a decrease in the EBFs' contribution to the annual public sector borrowing requirement. See ''— Extra-Budgetary Funds.''

Consolidated Central Government Budget

In the face of the difficulties experienced in the first quarter of 1994, the Government announced the 1994 Stabilization Program and introduced a set of strong measures to reduce the public sector deficit. See ''The Republic of Turkey — Other Economic Developments Since 1994.'' As a result of the various measures taken to improve revenues and reduce expenditure in 1994, the consolidated budget revenues increased by 112% from 1993 to 1994. Expenditures increased at a rate of 85% in 1994 compared to a 119% increase in 1993 and produced a consolidated budget deficit of 3.9% of GNP. Until the end of 1994, the Treasury was permitted to draw new short-term loans from the Central Bank of up to 15% of the annual increase in central Government budget appropriations. However, in April 1994, by an amendment to the relevant law, this ratio was reduced to 12% in 1995 and 10% in 1996, with further reductions to 6% in 1997 and 3% in 1998. See ''Monetary and Exchange Rate Policy.''

Due to the elections in December 1995 and the high domestic interest payments paid in the last quarter of the year, total expenditures exceeded budgetary expectations and the consolidated budget deficit reached 3.9% of GNP in 1995. In September 1995, the World Bank approved a $62 million loan to the Republic to finance a public financial management project. The principal aims of this project are modernization of the Turkish tax system, reorganization and modernization of customs operations, improvement of management of public expenditure and personnel payroll and modernization of the auditing activities of the Turkish court of accounts.

The consolidated budget figures for 1996 showed total revenues of TL2,702 trillion, total expenditures of TL3,940 trillion and a deficit of TL1,238 trillion. The deficit figure corresponded to 8.3% of GNP, significantly exceeding the target for 1996 of 6.5% of GNP due primarily to increases in personnel expenditure, transfers to Social Security Institutions and interest payments for domestic debt. The increase in interest expenditure was primarily due to the relatively short-term borrowing of the Treasury and the unforeseen increase in the market rates of interest.

In the second half of 1996, the Government announced a number of measures designed to increase budget revenues to $30 billion by the end of that year. These measures included the intensification of privatization efforts, the sale of state-owned real estate and land, improvements in tax collection methods and implementation of withholding tax on interest earnings from Treasury bonds and bills. See ''— Taxation'' and ''— Privatization.'' The Government also implemented a ''car-import scheme'' to allow Turkish expatriate workers to import automobiles into Turkey duty-free provided the workers deposit hard currency of DM50,000 for one year with Ziraat Bank. The Treasury is permitted to draw on these funds by issuing bonds to Ziraat Bank. As of June 1997, the Treasury had utilized TL123.5 trillion of the aggregate surplus by issuing bonds to the state banks.

The 1997 budget projected a balanced consolidated budget, based on expected revenues from the measures designed to increase budget revenues announced in the second half of 1996 outlined above. In 1997, budget revenues were targeted to increase by 6.8 percentage points of GNP over 1996 levels, reaching 24.7% of GNP, while expenditures were budgeted to decline by 1.4 percentage points of GNP to 24.7% of GNP, mainly due to an expected decrease in interest expenditures. The budget also relied heavily on privatization receipts and included $4.3 billion from the privatization of Türk Telekom and $2.0 billion from the sale of state lands.

However, in 1997, estimated revenues fell significantly short of the targets, while non-interest expenditures rose sharply. In the period from 1996 to 1997, non-interest expenditures increased by 133.9%, while revenues increased by 112.8%. As a result, the budget deficit for the period increased to TL2,241 trillion in 1997 from TL1,238 trillion in 1996. The cash deficit of the budget also increased to TL2,220 trillion in 1997 from TL1,268 trillion in 1996. The primary balance continued to be in surplus by approximately TL37 trillion in 1997, compared with TL259 trillion in 1996.

Due to the sharp increase in non-interest expenditures during the first half of 1997, the Government submitted a supplemental budget of approximately TL1,835 trillion to the parliament in the fall of 1997. The bulk of the supplemental budget was allocated to personnel expenditures, transfers to Social Security Institutions (as defined herein), interest payments, state participation in public banks and payments for duty losses.

In July 1997, the Government increased consumption taxes on petroleum products from an average of 102% to 150% in order to raise further revenues.

Taking into account the supplemental budget, total budget expenditures for 1997 were approximately TL7,991 trillion, reaching 27.2% of GNP, an increase from 26.3% of GNP in 1996. Consolidated budget tax revenues increased from 15.0% of GNP in 1996 to 16.1% of GNP in 1997. Due to a significant shortfall in revenues, the share of non-tax revenues in GNP in 1997 was 3.2%. Total budget revenues increased from TL2,702.0 trillion, 18.0% of GNP in 1996 to TL5,750.1 trillion, 19.6% of GNP in 1997.

The budget deficit was approximately TL2,241 trillion at year-end 1997, representing 7.6% of GNP. The primary balance yielded a surplus of approximately 0.1% of GNP in 1997. The budget deficit was financed mainly by the issuance of Government bonds and Treasury bills.

In order to tackle the increasing inflation and the fiscal deficit, the Government decided to implement a Three-year Program beginning in 1998. The aim of this program was to reduce inflation to a single digit level by 2000 while ensuring sustainable growth. In this context, Government income policy was set in line with the inflation targets. As part of its efforts to reduce inflation, the Government announced that the Treasury, the Central Bank and the Ministry of Finance would each produce quarterly policies to give a clearer picture of the Government's short-term action.

In 1998, the consolidated budget deficit as a share of GNP was targeted to be 8.1%, while the primary balance was projected to yield a surplus of 3.9% of GNP. The following measures were taken in 1998:

- The 1998 Budget Law imposed a ceiling on Treasury's domestic and external borrowing. According to the law, net domestic borrowing must be equal to the budget deficit. In external borrowing, if the amount borrowed exceeds the principal payments, the amount will be deducted from the domestic borrowing limit. If the amount borrowed is less than the principal payments, the amount will be added to the domestic borrowing limit.
- The Budget Law required all public institutions to deposit their excess cash in the Central Bank or the Ziraat Bank.
- Investment projects whose appropriation was less than 10% of its estimated cost were postponed.
- Wage and salary increases and agricultural support prices were determined in line with the inflation target.
- A tax reform bill was approved by the Parliament and put into effect in July 1998. The bill aims to include the unregistered economy within the scope of taxation and to minimize tax evasion and losses through a more effective tax system. See "— Taxation."
- Treasury's use of short-term advances from the Central Bank as a financing tool was restricted to 3% of the increase in consolidated budget appropriations over the previous year, which represented 4.0% of targeted GNP.

As a result of these measures, the primary surplus was realized as 4.6% of GNP in 1998 compared to 0.1% in 1997. The budget deficit improved slightly to TL3,725 trillion, 7.0% of GNP, compared to 7.6% in 1997.

Consolidated budget revenues as a share of GNP increased to 22.0% in 1998 from 19.6% in 1997. This was mainly due to the increase in tax revenues from 16.1% of GNP in 1997 to 17.4% of GNP. The improvement in tax administration procedures and the initiation of tax identification numbers and increased tax inspections contributed to the increase in tax revenues. See "— Taxation." Non-tax revenues increased to 4.6% of GNP in 1998 from 3.2% in 1997. This increase was primarily due to the sales of two GSM licenses and special revenues from eight-year basic education levies. See "— Privatization" and "Economy — Education."

Total budget expenditures increased from 27.2% of GNP in 1997 to TL15,397 trillion in 1998 which represented 29.0% of GNP. The increase in interest expenditures from 7.8% of GNP in 1997 to 11.7% of GNP in 1998 was the primary reason for the overall increase in budget expenditures. Turkey includes interest expenses in its budget only upon maturity of zero-coupon debt. The increase in interest expenditures in 1998 resulted from a lengthening of maturities in 1997, so that more interest that had accumulated during 1997 was paid in 1998. In addition, in 1998 the maturity of new domestic debt issued was shorter due to the Russian economic crisis, so that less of the interest accrued during 1998 was carried into 1999. The share of non-interest expenditures in GNP, on the other hand, declined from 19.4% in 1997 to 17.4% in 1998.

The borrowing requirement of the off-budget public sector increased from a near-balance of 0.3% of GNP to an estimated of 1.6% of GNP in 1998.

The following table sets forth the consolidated central Government budget (adjusted and based on actual amounts realized for the years 1994 to 1997 and provisional figures for 1998), which excludes SEEs for the periods indicated:

Table No. 16

Consolidated Central Government Budget (Adjusted)

	1994	1995	1996	1997	1998(1)
	(in trillions of Turkish Lira)				
Revenues	745.1	1,394.0	2,702.0	5,750.1	11,670.9
Taxes	587.8	1,084.4	2,244.1	4,745.5	9,232.9
Non-tax revenues(2)	148.7	289.8	430.1	950.4	2,383.8
Grants	3.5	7.4	1.8	1.7	0.0
Annex budget	5.2	12.4	26.0	52.5	54.2
Total expenditures	897.3	1,710.6	3,940.2	7,990.7	15,396.5
Non-interest expenditure	599.0	1,134.5	2,442.8	5,712.8	9,219.9
Personnel	273.1	502.6	974.1	2,073.1	3,870.2
Other current	73.4	141.5	308.6	706.3	1,270.8
Investment	72.8	91.8	238.1	590.4	885.6
Transfers to SEEs	21.0	45.5	50.2	123.6	160.0
Other transfers(3)	158.7	353.1	871.8	2,219.3	3,033.3
Primary balance	146.1	259.5	259.3	37.3	2,451.0
Interest payments of which:	298.3	576.1	1,497.4	2,277.9	6,176.6
Foreign borrowing	65.1	100.6	168.3	300.0	547.1
Domestic borrowing	233.2	475.5	1,329.1	1,978.0	5,629.5
Budget balance	(152.2)	(316.6)	(1,238.1)	(2,240.7)	(3,725.6)
Deferred payments	20.1	52.1	16.3	139.7	204.1
Advance payments	(19.8)	(29.9)	(45.9)	(119.5)	(315.7)
Cash balance	(151.9)	(294.5)	(1,267.7)	(2,220.4)	(3,837.3)
Financing	151.9	294.5	1,267.7	2,220.4	3,837.3
Foreign borrowing, net	(67.2)	(79.6)	(134.4)	(447.1)	(1,035.6)
Receipts from loans	34.1	131.1	253.3	192.1	723.8
Receipts from on-lending	9.9	28.3	24.4	52.1	79.5
Payments on loans	(111.2)	(239.0)	(412.1)	(691.3)	(1,838.9)
Domestic borrowing, net	173.9	282.9	1,066.2	2,505.5	4,590.2
Government bonds, net	(70.3)	85.7	274.0	1,484.8	1,297.0
Receipts	24.9	222.5	583.3	2,068.5	2,806.6
Payments	(95.2)	(136.8)	(309.2)	(583.7)	(1,509.6)
Treasury bills, net	244.2	197.2	792.2	1,020.7	3,293.2
Receipts	624.2	1,147.2	3,266.4	2,981.6	9,173.7
Payments	(380.0)	(950.0)	(2,474.3)	(1,961.0)	(5,880.5)
Central bank advances, net	51.9	94.7	229.0	0.0	0.0
Other	(6.6)	(3.5)	107.0	162.0	282.6
Other deferred payments	(3.0)	27.9	67.3	55.8	361.6
Bank accounts	(3.6)	(31.6)	39.6	106.2	(78.9)
Errors and omissions	(0.0)	0.2	0.1	0.0	0.0

(1) Provisional.

(2) Includes privatization proceeds.

(3) Includes transfers to EBFs.

Source: UT

Taxation

The Government collects taxes on personal and corporate income, real estate, goods and services (including value added tax), foreign trade, and interest earnings on government securities (except interest payments and any other amounts to be paid by the Republic under any external public debt obligation).

In July 1998, the Grand National Assembly approved a tax bill, which aims to include the unregistered economy within the scope of taxation and to minimize tax evasion and losses through a more effective tax inspection system. The bill covers all types of revenues and seeks to limit exemptions and exclusions and to eliminate legislative loopholes that have been eroding the tax base. In order to include unregistered economy within the scope of taxation, all taxpayers are required to obtain tax identification numbers which will be used in financial transactions as well as the buying and selling of real estate and motor vehicles. This will provide transparency to the tax system and allow the Government to prevent tax evasion. The new law also reduced the personal income tax rates, from 55%-25% to 45%-15% and the corporate income tax rates, from 40% to 37%-30%. In addition, various taxes and fees on goods were unified under a special consumption tax and the penalty system was simplified. Under the new tax law, penalties are non-negotiable and will include criminal sanctions.

Beginning in October 1998, the withholding tax on government securities was abolished. In 1998, tax revenues in the budget increased to 17.4% of GNP from 16.1% in 1997. See "— Consolidated Central Government Budget."

State Economic Enterprises

Both financial and non-financial SEEs continue to play an important role in the Turkish economy. There are 21 non-financial SEEs in the Treasury's portfolio and 19 non-financial SEEs in the Privatization Administration's portfolio. SEEs engaged in industry and communications include: the Machinery and Chemical Industries Authority or MKEK (industrial chemicals, munitions, special steels and castings); TÜPRAŞ (petroleum refineries); TÜGSAŞ (fertilizers); Posta Işletmesi (postal services); Telekom (telecommunications); SEKA (paper); TMO (Turkish Grain Board); TEAS (Turkish Electricity Generation and Transmission Corporation); TEDAŞ (Turkish Electricity Distribution Corporation); TCDD (railways); TKT (Turkish Coal Board); TDÇT (iron and steel); TEKEL (tobacco and alcoholic beverage); and TŞFAŞ (sugar factories). The three financial SEEs in the Treasury's portfolio, Ziraat Bank, Emlak Bank and Halk Bank, are among the largest commercial banks in Turkey, and held 34.7% of total customer deposits as of 31 December 1998.

In addition to receiving funding directly from the Government budget, SEEs borrow from domestic commercial banks and in foreign markets. The 1994 Banking Amendment, which decreased the level of short-term advances from the Central Bank to the Treasury, also limited rediscount credit facilities from the Central Bank to SEEs and to annexed budget administrations to an amount equal to 50% of the short-term advances to the Treasury.

In July 1992, the Grand National Assembly enacted legislation that consolidated the debt of all SEEs by netting their respective obligations to each other as at 31 December 1991, to be reflected in the financial accounts commencing in 1993. A total of TL38 trillion of debt and TL13 trillion of receivables of the SEEs were written off.

Further legislation was enacted in 1994 that made the SEEs subject to attachment, bankruptcy and liquidation proceedings. The 1998 Budget Law enabled the Government to write-off tax liabilities of SEEs that had losses of more than TL4 trillion in 1997. TDÇ1, TCDD and SEKA's tax liabilities, amounting to TL108 trillion, were written-off under this provision.

External financing requirements of non-financial SEEs increased from TL360.1 trillion to approximately TL863.0 trillion in 1998. The deterioration in the financial condition of non-financial SEEs is mainly due to the limited increase in sale prices due to falling external prices, the sharp increase in the volume of agricultural support purchases and the rise in the SEEs' investments in telecommunications and infrastructure.

The following table summarizes information relating to the financing requirements of the non-financial SEEs both in the Treasury's portfolio and the Privatization Administration's portfolio for the years indicated:

Table No. 17

Financing Requirements of Non-Financial SEEs

	1994	1995	1996	1997	1998[1]
			(in billions of Turkish Lira)		
Total financing requirement:	(109,230)	(127,557)	(398,685)	(941,131)	(1,684,080)
Increase (reduction) from internally generated funds	(11,090)	131,158	325,237	581,013	821,095
Net financing requirement from outside sources	(94,140)	3,602	(73,448)	(360,118)	(862,985)
Transfers from consolidated budget	24,744	54,874	61,320	165,700	257,636
Transfers from Support and Development Fund Borrowing requirement	211,366	58,476	(12,128)	(194,418)	(605,349)
Deferred payments	(95,913)	197,075	409,898	892,431	1,512,038
Advance payments	42,057	(159,041)	(179,126)	(601,399)	(1,251,355)
Cash financing requirement	(18,055)	96,510	218,644	96,614	(344,666)
Change in cash	(13,270)	(56,674)	(177,449)	(156,333)	(314,583)
Securities and deposits	(17,760)	(40,073)	33,043	(161,791)	(102,268)
Domestic bank borrowing, net	(6,823)	7,524	(35,284)	195,089	488,278
Foreign borrowing, net	13,850	(13,526)	(58,920)	26,421	273,239
Government bonds	(42,057)	6,240	19,966	0	0

(1) Provisional.

Source: UT

In 1997, SEEs reported an operating surplus of TL478.6 trillion primarily due to the rate of increase in total current revenues and the continuing trend of decreasing employment caused by retirement and hiring limits. In 1998, the operating surplus increased by 78% to approximately TL853.0 trillion.

The SEEs' (financial and non-financial) investments accounted for 18.4% of total fixed investments by the public sector in 1997 and an estimated 23.9% in 1998. Budgetary transfers to SEEs accounted for approximately 1.7% and 2.1%, respectively, of consolidated budget expenditures in 1997 and 1998.

The following table summarizes the profits and losses of non-financial SEEs (both in the Treasury's portfolio and the Privatization Administration's portfolio) for the years indicated:

Table No. 18

Profits and Losses of SEEs

	1995	1996	1997	1998[1]
		(in billions of Turkish Lira)		
Revenues	1,583,537	3,056,289	5,899,081	10,073,095
Expenditures	(1,582,690)	(2,874,139)	(5,420,498)	(9,220,151)
Operating surplus (loss)	847	182,151	478,583	852,944

(1) Provisional.

Source: UT

Privatization

In 1983, Turkey embarked on a plan to privatize a large part of its public sector by enacting laws permitting the eventual privatization of state-owned assets. Since the passage of the Privatization Law in November 1994, the privatization program has been implemented by the Privatization Administration (the ''PA'') under the supervision of the Privatization High Council (''PHC''), to which certain SEEs designated for privatization have been transferred by the Government from the Treasury's portfolio. Under the Privatization Law, proceeds from the sale of enterprises in the PA's portfolio cannot be used for general consolidated budget purposes. All proceeds obtained from privatizations are credited to the Privatization Fund. See ''— Extra-Budgetary Funds.''

The Privatization Fund is used to finance, among other things, compensation payments for redundancies, payments of salaries, fringe benefits and other rights for employees of privatized companies whose contracts are terminated, contributions to capital increases in the shareholdings of the PA and the liquidation of outstanding debt obligations of companies that have been privatized. A portion of the proceeds from the Privatization Fund are transferred to the Public Participation Fund in order to service debt certificates issued to finance public projects. See "Debt — Internal Debt."

The PHC is the ultimate decision making body for privatization in Turkey. The PHC is composed of the Deputy Prime Minister (in the case of a coalition of more than one party), two Ministers of State, the Minister of Finance, the Minister of Industry and Commerce and is chaired by the Prime Minister. While the PA is the executive body for privatization, the Ministry of Energy and Natural Resources and the Ministry of Transportation also oversee certain privatization projects within their jurisdictions. See "Economy — Industry — Energy."

From 1985 to 31 December 1998 131 companies were privatized either through a sale of shares or an asset sale. Of these, 113 have no remaining shares owned by the Government. Certain of these asset and share sales were made on an installment payment and foreign exchange basis and, as of 31 December 1998, $4.1 billion of net privatization revenues had been realized since 1985. A possible discrepancy between the sales value and the net revenue may arise from interest on payments by installments and exchange rate variations in the case of foreign exchange payments.

In 1994, a total of approximately $412 million was raised through privatizations, including the sale of Tofaş (an automobile manufacturer) by an international offering of shares which raised $330 million, as well as the sale of certain cement factories and asset sales. During 1994, opponents of privatization instituted a number of legal proceedings, including constitutional challenges, against the privatization program. To address the legal issues raised through these challenges, a new Privatization Law was adopted, which established the PHC to oversee the privatization process.

In 1995, a total of approximately $573 million (including Metaş's sale of pledged securities) was raised through privatization. Sales during this period included entities in the sugar, cement and magnesium industries, as well as a state-owned bank, Sümer Bank. At the outset of 1995, the target for privatizations for that year had been nearly $5.0 billion (revised downward to $2.7 billion in June). The originally targeted level of privatization sales was not achieved for a number of reasons, including unexpected developments at the tender stage, annulments and other problems. Also, the PHC failed to approve certain sales which were otherwise scheduled to be completed in 1995.

At year-end 1996, a total of approximately $230 million, resulting from disposals of entities in the cement, zinc, forestry and textile industries, was realized from privatization.

In 1997, a total of approximately $466 million was raised through privatizations which included the sale of two state-owned banks, Anadolu Bank and Denizbank, for $136 million. The privatization process transferring the management rights for 30 years in six ports, namely Tekirdağ, Rize, Ordu, Sinop, Giresun and Hopa ports of T. Denizcilik Işletmeleri A.Ş. (Turkish Maritime Organizations) raised approximately $120 million. Although the tender process for the block sale of 99.92% of Deniz Nakliyat A.Ş. (Turkish Cargo Lines) had been completed with a high bid of $141.3 million, the tender was cancelled due to a decision of the Supreme Court. The privatization process for the block sale of 99.96% of Petlaş Lastik Sanayi A.Ş. (tire producer) was completed and the sale agreement for $35 million was signed in May 1997. The sale agreements for Ergani cement factory ($47 million) and two refractory brick-ceramic factories (Bozüyük-Filyos) ($30 million) and affiliate shares in Çemas and Çimhol ($3 million), were signed in April and May 1997, respectively. In addition, Turban Kemer Marina, Turban Akçay Holiday Resort, Turban Kuşadasi Marina and Turban Bodrum Marina were privatized by asset sales, raising a total of approximately $68.3 million.

In 1998, a total of approximately $1.02 billion was raised through privatizations from the PA's portfolio, which included the following entities that were privatized through tender:

- The privatization of Kurtalan Cement factory was completed in January 1998 and raised approximately $28.1 million.
- The privatization of Etibank was finalized in March 1998 and raised approximately $155.5 million.
- The block sale of 40% of the shares of Havaş (Airport Handling Services) raised approximately $27.1 million.

- The block sale of SDÇI (Sivas Demir Çelik Işletmeleri)(iron-steel) was completed in April 1998 and raised $6.7 million.
- A global offering of 12.3% of the shares of İş Bank was completed in May 1998 and raised approximately $633 million. The transaction was the largest international sale originating in Turkey.
- The privatization of Konya Krom Magnezit Tugla (Chromium refractory brick) was completed in June 1998 and raised $40.7 million.
- The privatization of Yarimca Porselen Sanayi (porcelain) raised approximately $30.5 million.
- The transfer of management rights of the Antalya port raised $29 million.

In addition, real estate holdings of SEK (dairy products), ORÜS (forestry, wood materials), TDİ (Turkish Maritime Organizations and Sümer Holding (textiles) were privatized by asset sales.

Türk Telekom. The legal framework for the privatization of Türk Telekom was established with Law No. 4161 enacted in August 1996. Under this legislation, the transfer of up to 49% of Türk Telekom shares will be effected as follows:

- 10% to Posta İşletmesi (postal services),
- 5% to employees of Posta İşletmesi and Türk Telekom as well as small investors,
- 34% to domestic and foreign investors through a block sale (up to 20%) and a global offering.

An independent tender committee consisting of representatives from the PA, Ministry of Transportation, the Undersecretariat of Treasury, Capital Market Board and Türk Telekom has been established to execute the sale. The tender committee has selected a consortium that will conduct the sale process.

According to the proposed timetable the block sale and the global offering is expected to be completed by the end of 2000.

GSM Licensing. As a result of Article 4 of Law No. 4161, two license agreements ($500 million each), each for a term of 25 years were signed between the Ministry of Transportation and service providers, Türkcell and Telsim. These license agreements, through which $1 billion was paid to the Treasury in 1998, have also been approved by the Council of Ministers and the Supreme Administrative Court.

The license agreements provide that the operators Türkcell and Telsim pay 15% of their gross revenues to the Treasury each year until the termination of the licenses.

Since the GSM market in Turkey has grown rapidly, the Government plans to issue two additional GSM licenses in the near future, one to be awarded directly to Türk Telekom and the other to be auctioned to private firms.

Extra-Budgetary Funds

In 1984, due to increasing budgetary restrictions, the Government established a number of Extra Budgetary Funds (''EBFs'') with the objective of financing the implementation and administration of specific Government programs, such as incentive programs for exports and investment, social and housing programs, and public investment projects. Until 1993, the EBFs had not been included in Turkey's consolidated public budget and had been independently financed and administered. In 1992, the Grand National Assembly enacted legislation to include 63 EBFs in the 1993 consolidated budget. Currently, there are 11 EBFs and two special accounts, which are not included in the consolidated budget. In 1998, 62% of the revenues of consolidated EBFs and 9% of revenues of non-consolidated EBFs were appropriated directly to the consolidated budget. Non-consolidated EBFs of particular importance to the Turkish economy are the Privatization Fund, which oversees the privatization of SEEs, the Public Participation Fund, which finances infrastructure investment, the Mass Housing Development Fund, which finances housing infrastructure development, the Defense Industries Support Fund, which develops military manufacturing capabilities, and the Support Price Stabilization Fund, which channels certain export and import duties into the subsidization of fertilizers.

The following table presents, for the years indicated, the operating balance and financing of eleven of the largest EBFs, including the Privatization Fund, the Public Participation Fund, the Mass Housing Fund, the Defense Industries Support Fund and the Support Price Stabilization Fund, and two special accounts, the Petroleum Consumption Tax and the Budget Education Health Tax, each of which has been in continuous existence since 1988 (with the exception of the Privatization Fund, which was established in 1995):

Table No. 19

Extra-Budgetary Funds[1]

	1994	1995	1996	1997	1998[2]
		(in billions of Turkish Lira)			
Revenues	86,944	175,552	290,509	636,353	1,006,383
Expenditures	(121,994)	(223,290)	(306,096)	(633,040)	963,800
Surplus (Deficit)	(35,049)	(47,739)	(15,587)	3,313	42,583
Financing					
Foreign borrowing, net	3,092	13,698	18,804	91,543	65,629
Domestic borrowing, net	31,957	34,041	(3,217)	(94,857)	(108,212)
Total	35,049	47,739	15,587	(3,313)	(42,583)

(1) Eleven of the largest EBFs.

(2) Provisional estimate.

Source: SPO

In 1998, the borrowing requirement of the EBFs was TL42.6 trillion, which amounted to 0.1% of GNP. Revenues of the 11 largest EBFs and two special accounts were TL1,006.4 trillion, while expenditures of such EBFs and accounts were 963.8 trillion. This resulted in a surplus of TL42.6 trillion in 1998, compared with a surplus of TL3.3 trillion in 1997.

Local Government

The operations of local authorities expanded rapidly following the Government's 1984 decision to decentralize responsibility and to transfer substantial amounts of tax revenues to local authorities. In 1997, total expenditures by local authorities increased to TL1,087.3 trillion from TL522.3 trillion in 1996. In 1998, total expenditures by local authorities were estimated to increase to TL2,016.8 trillion.

The following table presents the operating balance of the local authorities for the years indicated:

Table No. 20

Local Authorities

	1994	1995	1996	1997	1998[1]
		(in billions of Turkish Lira)			
Revenues	120,257	249,079	485,161	1,000,378	1,882,803
Expenditures	(136,125)	(265,149)	(522,291)	(1,087,337)	(2,016,770)
Surplus (Deficit)	(15,868)	(16,070)	(37,130)	(86,959)	(133,967)

(1) Provisional estimate.

Source: SPO

Social Security Institutions

The social security system in Turkey has two components. The first component is a non-contributory scheme financed directly by the Government, which provides means-tested pensions to the disabled and individuals over the age of 65. The second component consists of compulsory, earnings-related contributory schemes run by three separate social security institutions (collectively, the "Social Security Institutions"): SSK, Emekli Shangi and Bağ-Kur.

The following table summarizes the revenues and expenditures of the Social Security Institutions for the years indicated:

Table No. 21

Revenues and Expenditures of Social Security Institutions

	1994	1995	1996	1997	1998[1]
	(in billions of Turkish Lira)				
Revenues	164,793	281,580	691,779	1,417,860	2,649,629
Expenditures	(206,371)	(401,746)	(945,183)	1,991,781	3,816,662
Revenue — Expenditure Differences	(41,579)	(120,166)	(253,404)	(573,921)	(1,167,032)
Budget Transfers	19,010	70,589	218,064	571,370	1,152,000
Borrowing Requirement	(22,569)	(49,577)	35,340	(2,551)	(15,032)

(1) Provisional estimate.

Source: UT

As a measure to help reduce the financial problems of the Social Security Institutions the government has proposed a two-phase social security reform package. The reform package aims to increase minimum retirement ages and premium ceilings. See "Recent Developments."

Public Sector Borrowing Requirement (PSBR)

In 1998, the consolidated budget deficit was approximately TL3,726 trillion, representing 7.0% of GNP, compared to 7.6% of GNP in 1997. Despite this improvement in the budget deficit, PSBR (as a percentage of GNP) is estimated to have been 8.7% in 1998 compared to 7.6% in 1997.

The following table sets forth information as to Turkey's public sector borrowing requirement for the years indicated:

Table No. 22

Public Sector Borrowing Requirement

	1994	1995	1996	1997	1998[1]
	(percentage of GNP)				
Consolidated budget	3.9	4.0	8.3	7.6	7.1
SEEs not under privatization	1.4	(0.2)	(0.5)	(0.3)	1.3
Local administrations	0.4	0.2	0.2	0.3	0.3
Social Security Institutions	0.6	0.6	0.2	0.0	0.0
EBFs	0.9	0.6	0.1	(0.1)	0.1
SEEs under privatization	0.7	(0.1)	0.5	0.1	(0.1)
Total	7.9	5.2	8.8	7.6	8.7

(1) Based on estimates in the 1999 Program published in November 1998.

Source: SPO

DEBT

In 1998, the Treasury continued to be a net repayer on external borrowing. Net external borrowing registered as minus 2.0% of GNP in 1998 compared to minus 1.5% in 1997. Hence, the Treasury had to finance foreign debt service as well as the budget deficit through domestic borrowing. Thus, despite improvements in the cash deficit/GNP ratio, the share of net domestic borrowing rose to 8.7% of GNP in 1998 from 8.5% in 1997. Within total net domestic borrowing, the share of Treasury bills rose to 71.7% in 1998 from 40% in 1997. This was partly due to the efforts to prevent locking in government debt at high nominal interest rates in an environment of decreasing inflation.

In August 1997, the Treasury started announcing its monthly "Cash Management and Borrowing Program" to minimize its financing costs by establishing transparency and predictability. In 1998, quarterly and semi-annual programs have also been made public by the Treasury.

The total internal public debt of Turkey was approximately TL11,613 trillion at 31 December 1998, compared with TL6,283 trillion at 31 December 1997, an increase of 84.8%. Outstanding debt certificates of the Public Participation Fund totaled approximately TL21,608 billion at 31 December 1998. Turkey's total outstanding external public debt was approximately $103.3 billion at 31 December 1998, compared with $90.9 billion at 31 December 1997.

Internal Debt

From 1992 to 1994, the Treasury increased its market borrowing, which resulted in the increase in the ratio of marketable debt to total internal public debt to approximately 70%. In 1994, the ability of the Treasury to borrow from domestic sources was substantially reduced due to the environment of financial uncertainty and high inflation. The Treasury was unable to borrow enough funds from the domestic market in spite of interest rates as high as 406% on an annual compound basis. After the implementation of the 1994 Stabilization Program, the market for Treasury bills improved and interest rates on three month Treasury bills fell sharply to 150% in December 1994. By December 1995, Treasury bill rates had risen to 205.8% but subsequently declined to 125.5% in December 1996.

In December 1995, political uncertainties caused the Treasury to borrow internally at higher interest rates and for shorter maturities. The rate began to decline slowly in January 1996 after the 1995 elections. In 1997, the Treasury ceased its Central Bank borrowing and was able to borrow in internal markets at lower interest rates and for longer maturities. In 1997, the Government simultaneously lengthened the average maturity of its domestic debt which reached 11.9 months at year-end 1997 from 8.1 months at year-end 1996, and lowered the average annual cost of borrowing to 109.7% at year-end 1997, from an average of 140.1% at year-end 1996.

For 1998, the statutory limit on the Treasury's use of short-term advances from the Central Bank was 3% of the increase in the consolidated budget appropriations over the previous year, representing 0.4% of targeted GNP. See "Public Finance — Consolidated Central Government Budget." In 1998, the Treasury used short-term advances only to smooth out temporary cash shortfalls and it repaid the amounts used promptly.

In 1998, the domestic debt market was affected by the adverse impact of the Asian and Russian crises on international markets, which produced high and volatile interest rates and decreased maturities. The average interest rate reached 131.5% in February 1998, while the average maturity of borrowing declined to 5.5 months. The improvement in the primary budget balance and the signing of the Staff Monitored Program with the IMF caused interest rates to decline to 85.0% in July 1998. However, following the Russian crisis, the cost of borrowing increased to 137.6% in September 1998 and 145.2% in December 1998. See "Public Finance — Consolidated Central Government Budget" and "Financial System — Monetary Policy." At year-end 1998, the average annual interest rate was 118.1% and the average maturity of domestic debt as 7.7 months.

Generally, the Treasury issues and sells government securities through auctions. The majority of the borrowing is conducted through weekly auctions at which three, six and nine month Treasury bills, and one-year government bonds are sold on a discount basis. In September 1995, the Treasury began to issue Treasury bills of varying maturities, depending on the market conditions. In order to establish an evenly distributed repayment schedule, in 1996, Treasury started to determine maturities according to domestic and external debt servicing requirements.

Interest income from Treasury bills has, since 1994, been subject to tax when received by certain investors. A new regulation was introduced in September 1996 that made interest income from Treasury bills and government bonds sold after 1 November 1996 subject to withholding tax at the rate of 10% per annum. This rate was increased to 12% on 1 January 1997 in respect of Treasury bills and government bonds sold after 1 January 1997. In 1 January 1998 the rate was reduced to 6% and in October 1998 was abolished.

In addition, in March 1997, the Treasury introduced bonds linked to CPI inflation. These bonds have a maturity of one year.

The ratio of non-marketable debt to total internal debt decreased from 32.0% in 1994 to 0% in 1998. This was primarily a result of the Treasury's issuance of marketable securities to the Central Bank in exchange for its outstanding debt to the Central Bank. The following table sets forth information as to the internal public debt of Turkey outstanding as at the dates indicated:

Table No. 23

Internal Public Debt

	1994	1995	1996	1997	1998[1]
Marketable Debt					
Treasury bills	304,230	631,299	1,527,837	2,374,990	5,840,906
Government bonds	239,384	511,769	1,250,154	3,570,812	5,771,980
Non-Marketable Debt					
Central Bank advances to Treasury[2]	122,278	192,000	370,953	337,623	0
Consolidated debt of the Treasury to the Central Bank[3]	133,417	25,940	40	0	0
Total	799,309	1,361,007	3,148,983	6,283,424	11,612,886

(1) Provisional.

(2) Central Bank advances to the Treasury were limited by statute to 12% and 10% of the increase in budget appropriations in 1995 and 1996, respectively. In 1998, this ratio declined to 3%. See "Financial System — Monetary Policy".

(3) Attributable primarily to the funding of currency exchange losses of the Central Bank.

Sources: CBT, UT

Turkey's total internal public debt rose by 84.8% from TL6,283 trillion as at 31 December 1997 to TL11,613 trillion as at 31 December 1998, of which TL5,841 trillion was comprised of Treasury bills with a maturity of less than one year and TL5,772 trillion was comprised by bonds with a maturity of one year or longer.

The following table presents the amount of outstanding debt certificates of the Public Participation Fund for the years indicated:

Table No. 24

Debt Certificates of the Public Participation Fund

	31 December				
	1994	1995	1996	1997	1998
	(in billions of Turkish Lira)				
Debt certificates of the Public Participation Fund	76,447	113,595	119,600	29,648	21,608

Sources: UT

In 1997, the Government was able to pay off a considerable portion of the debt it had previously issued to finance public projects, which resulted in a decrease in the outstanding amount of debt certificates of the Public Participation Fund. As at 31 December 1998, the outstanding debt certificates of the Public Participation Fund amounted to TL 21,608 billion.

External Debt and Debt Management

The Treasury is currently modernizing its external debt data base system primarily through the implementation of improved data recording mechanisms and revised historical data and exchange rates that were formerly not recorded. The modernization in data and exchange rate records and the inclusion in external debt accounts of military aid borrowings from the United States and other TL denominated borrowings has resulted in revised external debt figures which were published in a new series using 1996 as the base year. Under the new series, the recorded external debt figure for 1996 changed from $79.8 billion to approximately $83.9 billion.

As of 31 December 1998, Turkey's outstanding external debt was approximately $104.0 billion, which represented an increase of approximately $12.8 billion from approximately $91.1 billion as at 31 December 1997. The 31 December 1998 amount represented approximately 50.8% of GNP, 333.9% of merchandise exports and 166% of total foreign exchange receipts.

The following table sets forth information as to the external public and private debt of Turkey at the end of the periods indicated:

Table No. 25

External Public and Private Debt

	Old Series			New Series[1][2]		
	1994	1995	1996	1996	1997	1998
	(in millions of dollars)					
BY MATURITY						
Total Outstanding Debt	65,601	73,278	79,767	83,962	91,109	103,956
Medium-Long Term	54,291	57,577	59,231	63,445	68,475	76,720
Short Term	11,310	15,701	20,536	20,517	22,634	27,236
BY BORROWER						
Medium-Long Term	54,291	57,577	59,231	63,445	68,475	76,720
Public Sector	30,416	31,095	30,230	40,702	39,767	40,901
Direct Borrowings	21,108	22,215	16,941	16,586	16,674	17,482
Treasury	6,727	6,557	10,795	12,756	11,980	12,622
Annexed Budget	2,581	2,322	2,494	2,404	2,299	2,403
Other Public Sector[3]	17,731	18,863	18,585	1,085	939	686
Central Bank of Turkey	8,597	10,486	10,728	10,728	10,273	11,685
Dresdner Bank Program[4]	8,308	10,397	10,720	10,720	10,267	11,681
State Economic Enterprises	5,483	4,811	4,369	3,274	3,517	3,667
Extra Budgetary Funds	1,045	1,127	1,237	1,146	979	804
Local Administrations	2,549	2,414	2,236	2,774	2,776	2,838
Universities	57	25	15	16	9	10
Private Sector	6,144	7,619	10,416	12,016	18,434	24,134
Short Term	11,310	15,701	20,536	20,517	22,634	27,236
Central Bank	828	993	984	984	889	905
Dresdner Bank Program	823	973	942	942	859	898
Deposit Money Banks	4,684	6,659	8,522	8,419	8,503	11,159
Other Sectors	5,798	8,049	11,030	11,114	13,242	15,172
BY LENDER						
Medium-Long Term	54,291	57,577	59,231	63,445	68,475	76,720
Multilateral Agencies	9,183	9,081	8,148	9,067	8,221	8,056
International Monetary Fund	344	573	663	661	595	388
IBRD, IDA, IFC	5,380	5,191	4,620	5,035	4,622	4,585
European Investment Bank	264	86	65	419	494	599
European Resettlement Fund	3,065	3,114	2,676	2,676	2,227	2,176
Islamic Development Bank	117	108	115	266	275	301
International Fund for Agricultural Development	13	9	9	11	8	6
Bilateral Lenders	20,678	21,558	23,264	8,853	8,255	8,833
Bond Issues	13,788	14,186	14,780	13,081	13,731	14,577
Private Lenders	8,317	10,406	10,729	32,444	38,267	45,253
Commercial Banks	2,325	2,346	2,310	15,273	19,446	22,967

	Old Series			New Series(1)(2)		
	1994	1995	1996	1996	1997	1998
			(in millions of dollars)			
Short Term	11,310	15,701	20,536	20,517	22,634	27,236
Commercial Bank Credits	2,901	4,263	5,037	4,940	5,969	6,511
Private Lender Credits	8,409	11,438	15,499	15,577	16,665	20,725

(1) Provisional. New series resulted from, among other things, the implementation of improved data recording mechanisms, revised historical data and more accurate exchange rates and the inclusion in external debt accounts of military aid borrowing from the United States and other TL denominated borrowing.

(2) IBRD loan data is derived from the "Statement of Loans" document issued by the Central Bank.

(3) T. Development Bank, T. Eximbank, T. Vakifbank.

(4) For a description of this program, see "Foreign Trade and Balance of Payments — Capital Account."

Source: UT, CBT

Since 1988, the Government's general policy has been to limit annual external borrowings by the public sector to the amount of principal repaid during the year and to refinance high interest borrowings at lower current rates. It is also the Government's general policy to extend the maturities of its external borrowings where permitted by market conditions.

The following table presents the breakdown of currency composition of Turkey's outstanding public and private external debt at the end of the periods indicated:

Table No. 26

External Debt by Currency

	Old Series			New Series(1)		
	1993	1994	1995	1996	1997	1998
			(percentage of total)			
United States dollars	46.3	33.0	34.0	40.3	47.1	49.0
Deutsche marks	28.4	33.9	34.8	34.0	32.5	33.7
Japanese yen	15.1	20.5	19.2	15.0	11.2	8.7
Swiss francs	2.8	3.5	3.3	1.8	1.5	1.3
Pounds sterling	1.1	1.2	1.1	1.2	1.1	1.1
French francs	1.6	1.7	1.8	1.7	1.5	1.5
Dutch guilders	1.0	1.4	1.5	1.1	1.0	1.0
Special Drawing Rights	0.0	0.5	0.8	0.8	0.7	0.4
Others	3.6	4.1	3.6	4.0	3.6	3.4
Total	100.0	100.0	100.0	100.0	100.0	100.0

(1) Provisional.

Sources: UT, CBT

In 1978, 1979 and 1980, Turkey rescheduled an aggregate amount of approximately $3.95 billion of its external debt. Such rescheduling was initiated by Turkey as a means of avoiding a possible default on its external debt. Turkey completed all payments under the rescheduling in July 1992. Since that rescheduling, Turkey has paid when due the full amount of principal and interest on its direct and indirect external debt.

Turkey did not raise funds in the international public debt markets for general purpose financing requirements during the period February 1994 to April 1995, although project financing continued without interruption, reaching a total of $3.3 billion in 1994.

In April 1995, Turkey raised $500 million in the Euromarkets, comprising $255 million of floating rate notes with maturities of between one and three years and a $245 million syndicated loan. In July 1995, Turkey raised ¥70 billion and DM500 million in the Eurobond market. In addition, Turkey issued a $300 million Eurobond in October 1995 and in the same month established a medium-term note program ("MTN Program"). Under the MTN Program, Turkey has made a series of U.S. dollar, Japanese yen, Deutsche mark and Italian Lira issues between November 1995 and May 1997 totaling an equivalent of approximately $5.6 billion. The MTN Program limit was increased from $1.5 billion to $4 billion in May 1996, to $5 billion in March 1997 and to $10 billion in February 1998. In addition, Turkey has made issues outside the MTN Program; a ¥75 billion Samurai issue in April 1996, a $500 million Eurobond in June 1996, a $400 million Eurobond in May 1997 and a $600 million Eurobond in September 1997.

In February 1998, Turkey issued a DM1,000 million Eurobond and a $400 million Eurobond which was increased to $500 million in April 1998. In April 1998, Turkey issued a step-down structured DM1,000 million bond, and in May 1998, a $300 million bond. In November 1998, Turkey issued a DM600 million bond which was increased to DM1,000 million in December 1998. Turkey also issued a 10 year $200 million bond with a put option in December 1998.

The following tables present the relationship of Turkey's public and private external debt to other financial indicators for, or at the end of, the periods indicated:

Table No. 27

Debt Ratios

	1994	1995	1996	1997	1998(1)
			(in percentages)		
Total external debt/GNP	50.1	42.6	46.2	47.3	50.5
Total external debt/current account receipts (including official grants)	200.1	176.6	162.9	154.8	164.7
Total external debt/current account receipts (excluding official grants)	201.1	179.9	164.7	155.6	165.0
Short-term debt (excluding foreign exchange deposits)/total external debt	13.5	16.7	18.9	20.3	19.9
Short-term debt (including foreign exchange deposits)/total public and private external debt	17.2	21.4	24.5	24.9	26.4
Interest/exports (f.o.b.)	21.3	19.6	18.1	17.5	17.9
Interest/current account receipts	12.0	10.4	8.2	7.8	7.7
External debt service (including IMF)/current account receipts (including official grants)	30.5	28.7	22.2	21.1	26.3
External debt service (including IMF)/GNP	7.6	6.9	6.3	6.5	8.1

(1) Provisional.

Sources: UT, CBT, SIS

Table No. 28

External Debt Service

	1994	1995	1996	1997	1998
Principal(1)	6,070	7,594	7,218	7,830	11,690
Interest	3,923	4,303	4,200	4,588	4,823
Total debt service payments	9,993	11,897	11,418	12,418	16,513

(1) Repayments through bond issues are included.

Sources: UT, CBT

The aggregate amount of scheduled repayment of principal and interest on the medium- and long-term external public and private debt of Turkey (disbursed and undisbursed) is set forth below for the periods indicated:

Table No. 29

Medium and Long-Term External Debt Service[1]

	Interest	Principal	Total
	(in millions of dollars)[2]		
1999			
Private	1,726	7,117	8,844
Public	2,759	6,127	8,886
Total	4,485	13,244	17,729
2000			
Private	1,442	7,940	9,382
Public	2,613	6,852	9,465
Total	4,055	14,792	18,847
2001			
Private	707	4,458	5,165
Public	2,260	7,436	9,696
Total	2,967	11,894	14,861
2002			
Public	500	3,853	4,353
Private	1,885	5,754	7,639
Total	2,384	9,607	11,992
2003			
Private	283	2,700	2,983
Public	1,480	6,383	7,863
Total	1,763	9,083	10,846
2004			
Private	177	1,932	2,109
Public	1,081	4,201	5,283
Total	1,258	6,134	7,391
2005+			
Private	321	3,304	3,625
Public	2,813	16,948	19,761
Total	3,133	20,252	23,385
1999–2005+			
Private	5,156	31,305	36,460
Public	14,891	53,701	68,592
Total	20,046	85,006	105,052

(1) Excluding the Dresdner Bank Program. See "Foreign Trade and Balance of Payments — Capital Account".

(2) U.S. dollar equivalents based on currency cross rates at 31 March 1999.

Source: UT

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

The Temporary Global Note and the Global Note contain provisions which apply to the Notes while they are in global form, some of which modify the effect of the terms and conditions of the Notes set out in this Offering Circular. The following is a summary of certain of those provisions:

1. Exchange

The Temporary Global Note is exchangeable in whole or in part for interests in the Global Note on or after a date which is expected to be 10 January 2000 upon certification as to non-U.S. beneficial ownership in the form set out in the Temporary Global Note. The Global Note is exchangeable in whole but not, except as provided in the next paragraph, in part (free of charge to the holder) for the Definitive Notes described below (i) if the Global Note is held on behalf of a clearing system and such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so or (ii) any of the circumstances in Condition 8 occurs. Thereupon the holder may given notice to the Fiscal Agent of its intention to exchange the Global Note for Definitive Notes on or after the Exchange Date specified in the notice.

If principal in respect of any Notes is not paid when due and payable the holder of the Global Note may by notice to the Fiscal Agent (which may but need not be the default notice referred to in "Default" below) require the exchange of a specified principal amount of the Global Note (which may be equal to or (provided that, if the Global Note is held by or on behalf of a clearing system, that clearing system agrees) less than the outstanding principal amount of Notes represented thereby) for Definitive Notes on or after the Exchange Date (as defined below) specified in such notice.

On or after any Exchange Date (as defined below) the holder of the Global Note may surrender the Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Fiscal Agent. In exchange for the Global Note, or the part thereof to be exchanged, the Issuer will deliver, or procure the delivery of, an equal aggregate principal amount of duly executed and authenticated Definitive Notes security printed in accordance with any applicable legal and stock exchange requirements and in or substantially in the form set out in the Third Schedule to the Fiscal Agency Agreement. On exchange in full of the Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with any relevant Definitive Notes.

"Exchange Date" means a day falling not less than 60 days, or in the case of exchange pursuant to (ii) above 30 days, after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Fiscal Agent is located and, except in the case of exchange pursuant to (i) above, in the cities in which the relevant clearing system is located.

2. Payments

No payment will be made on the Temporary Global Note unless exchange for an interest in the Global Note is improperly withheld or refused. Payments of principal and interest in respect of Notes represented by the Global Note will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of the Global Note to or to the order of the Fiscal Agent or such other Paying Agent as shall have been notified to the Noteholder for such purpose. A record of each payment so made will be endorsed in the appropriate schedule to the Global Note, which endorsement will be *prima facie* evidence that such payment has been made in respect of the Notes.

3. Notices

So long as the Notes are represented by the Global Note and the Global Note is held on behalf of a clearing system, notices to Noteholders may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions except that so long as the Notes are listed on the Luxembourg Stock Exchange and the rules of that Exchange so require, notices shall also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

4. Prescription

Claims against the Issuer in respect of principal and interest of the Notes while the Notes are represented by the Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 7 (Taxation)).

5. Meetings

The holder of the Global Note will be treated as being two persons for the purposes of any quorum requirements of, or the right to demand a poll at, a meeting of Noteholders and, at any such meeting, as having one vote in respect of each €1,000 principal amount of Notes for which the Global Note may be exchanged.

6. Purchase and Cancellation

Cancellation of any Note required by the Conditions to be cancelled following its purchase will be effected by endorsement by or on behalf of the Fiscal Agent of the reduction in the principal amount of the Global Note on the schedule thereto.

7. Default

The Global Note provides that the holder may cause the Global Note or a portion of it to become due and payable in the circumstances described in Condition 8 (Events of Default) by stating in a notice to the Fiscal Agent the principal amount of Notes which is being declared due and payable. If principal in respect of any Note is not paid when due and payable, the holder of the Global Note may elect that the Global Note becomes void as to a specified portion and that the persons entitled to such portion as accountholders with a clearing system acquire direct enforcement rights against the Issuer under further provisions of the Global Note executed by the Issuer as a deed poll.

TURKISH TAXATION

Article 24 of the Corporation Tax Law of The Republic requires The Republic to withhold 25% withholding tax from the interest on notes received by limited tax liability corporations, being corporations resident outside The Republic. However, according to the fourth paragraph of Article 24, the Council of Ministers of The Republic is authorised to reduce such tax to zero or to increase it to 50%. Pertaining to the above noted authorisation and to the Decree of the Council of Ministers issued (Decree No. 93/5147) (as amended), the rate of such withholding tax for limited tax liability corporations has been reduced to 0% on interest on securities issued on or after 1 October 1998.

Article 94/7(a) of the Income Tax Law requires The Republic to withhold 25% withholding tax from the interest on notes received by limited tax liability individuals. However, according to the fifth paragraph of Article 94, the Council of Ministers of The Republic is authorised to reduce such tax to zero or increase it to 50%. Pertaining to the above noted authorisation, and with the Decree of the Council of Ministers (Decree No. 93/5148) (as amended), the rate of such withholding tax for limited tax liability individuals has been reduced to 0% on interest on securities issued on or after 1 October 1998.

The Turkish withholding tax referred to in the paragraphs above is not applicable to interest on the Notes according to Article 34(d) of the Budget Law for the Fiscal Year 1999 (Law No. 4393) since the Notes are issued in accordance with Articles 35(a) and 36(a) of the Budget Law for the Fiscal Year 1999 (Law No. 4393) and accordingly, under Turkish law presently in effect, The Republic will not be required to make any deduction or withholding from any payment in respect of the Notes.

There can be no assurance that such rates will continue to be zero, but in the event of any increase in such rates, The Republic will be obliged to pay additional amounts as specified in Condition 7 of the Terms and Conditions of the Notes.

The withholding taxes mentioned above are also subject to a 10% National Defence Industry Support Fund levy. So long as no withholding tax is payable, such levy will not be applicable.

There are no Turkish taxes currently applicable to payments of principal of notes. Furthermore, capital gains realised from the sale or other disposition of notes between non-residents of The Republic, whether corporations or individuals, are exempt from any and all Turkish taxes.

According to Article 69.i.1 of the Budget Law for Fiscal Year 1999 of The Republic (Law No.4393), the Notes are exempt from Turkish stamp tax.

Residents of The Republic and persons otherwise subject to Turkish taxation are advised to consult their own tax advisors in determining any consequences to them of the purchase, ownership or disposition of the Notes.

SUBSCRIPTION AND SALE

Chase Manhattan International Limited, Salomon Brothers International Limited, ABN AMRO Bank N.V., Bank Austria Aktiengesellschaft, Bayerische Hypo-und Vereinsbank AG, Caboto Holding SIM S.p.A., Commerzbank Aktiengesellschaft, Deutsche Bank Aktiengesellschaft, DG BANK Deutsche Genossenschaftsbank AG, Dresdner Bank AG London Branch, ING Bank N.V., London Branch, Lehman Brothers International (Europe), J.P. Morgan Securities Ltd., Paribas and Westdeutsche Landesbank Girozentrale (the "Managers") have, in a subscription agreement (the "Subscription Agreement"), dated 29 November 1999, jointly and severally agreed to subscribe and pay for the Notes at the issue price of 99.386 per cent. of their principal amount less a selling concession of 0.40 per cent. of such principal amount. The Republic has agreed to pay to the Managers a combined management and underwriting fee of 0.20 per cent. of such principal amount. In addition, The Republic has agreed to reimburse the Managers for certain of their expenses in connection with the management of the issue of the Notes. The managers are entitled in certain circumstances to be released and discharged from their obligations under the Subscription Agreement prior to the issue of the Notes. The Republic has agreed to indemnify the Managers against certain liabilities in connection with the issue of the Notes.

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possession or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code and regulations thereunder.

Each manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the issue date of the Notes within the United States or to, or for the account or benefit of, United States persons, and that it will have sent to each dealer to which it sells Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by a dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act.

Each Manager has agreed that it has complied and will comply with all applicable provisions of the Financial Services Act 1986 with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

No action has been or will be taken in any jurisdiction by the Issuer or any Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Offering Circular or any other offering material, in any country or jurisdiction where action for that purpose is required. Persons into whose hands this Offering Circular comes are required by the Issuer and the Managers to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver Notes or have in their possession, distribute or publish this Offering Circular or any other offering material relating to the Notes, in all cases at their own expense.

GENERAL INFORMATION

1. The Notes have been accepted for clearance through Euroclear and Cedelbank under Common Code No. 010445361. The ISIN for the Notes is XS0104453617.

2. The Republic has obtained all necessary consents, approvals and authorisations in The Republic of Turkey in connection with the issue and performance of the Notes. The issue of the Notes was authorised, pursuant to the provisions of Articles 35A and 36A of the Budget Law No. 4393 for the fiscal year 1999.

3. The Republic is not involved in any litigation or arbitration proceedings relating to claims or amounts which are material to The Republic or in the context of the issue of the Notes nor so far as The Republic is aware is any such litigation or arbitration pending or threatened.

4. Save as disclosed in this Offering Circular, since 31 December 1998, there has been no material adverse change, or any development reasonably likely to involve an adverse change, in the condition (economic or otherwise) or general affairs of The Republic that is material in the context of the issue of the Notes.

5. Application has been made to list the Notes on the Luxembourg Stock Exchange. Copies (and certified English translations where the documents in question are not in English) of the following documents may be inspected during normal business hours at the offices of the Paying Agent in Luxembourg so long as any of the Notes are listed on the Luxembourg Stock Exchange:

(i) the Fiscal Agency Agreement which includes the forms of the Temporary Global Note, Global Note and Definitive Notes; and

(ii) the Deed of Covenant.

6. Under the International Private and Procedural Law of The Republic (Law No. 2675), a judgment of a court established in a country other than The Republic may not be enforced in the Turkish courts unless (i) there is in effect a treaty between such country and The Republic providing for reciprocal enforcement of judgments or (ii) there is de facto reciprocity in the field of enforcement of judgments between such country and The Republic or (iii) there is a provision in the laws of such country which provides for the enforcement of judgments of the Turkish courts. No international treaty exists between The Republic and the United Kingdom concerning the recognition and enforcement of judgments in civil cases.

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