

CENTRAL BANK OF THE REPUBLIC OF TURKEY

**BALANCE OF PAYMENTS
REPORT**



2006 -IV

SUMMARY

In 2006, export and import growth rates were 16.1% and 17.6%, respectively. In the first quarter of the year, imports rose sharply while exports slowed down. However, starting from May, the overall export performance grew stronger and the annual growth rate in exports prevailed over imports, which can be attributed to the brisk demand from EU and the appreciation of Euro against US dollar. On the other hand, the slowdown in domestic demand following the market fluctuations of May and June and the drop in oil prices in the last quarter, in particular, curbed import growth. In this respect, external trade deficit widened to USD 40.1 billion and current account deficit reached USD 31.5 billion in 2006. The decline in services revenues and the large income deficit, led by the drop in tourism revenues, further widened the current account deficit throughout the year.

During 2006, motor vehicles and basic metals industry made the highest contribution to export growth. In addition, exports of textiles and clothing, with the largest share in overall exports, grew in May and June, after a sluggish performance since the last quarter of 2005, but this growth remained below the overall rate. Moreover, it is quite noteworthy that the share of capital-intensive sectors increases and the share of labor-intensive sectors in total exports shrinks, which altogether point to a structural transformation.

After a moderation in the first quarter, the growth rate of imports of intermediate goods accelerated on the back of price hikes in the remainder of the year. The highest contribution to total imports came from this sector through the entire year. The growth rate of imports of capital goods, on the other hand, slowed down starting from May and remained below the total import growth, although it surpassed the imports of intermediate goods in the first quarter. Besides, imports of consumer goods, which exceeded both intermediate and capital goods in the first quarter, decreased by 3.4% in the August-December period, compared to the same period of 2005.

Despite a decline in the first quarter of 2006, the export unit value index started to ascend by April and contributed to the nominal export growth, but over 2006, import prices rose more than export prices, causing terms of trade to be detrimental to exports. The rise in import prices is mainly due to price hikes in basic metals and mining and quarrying sector, which includes crude oil and natural gas. Price-adjusted real export growth accelerated by April. In particular, the export quantity index prevailed over the import quantity index starting from June. Indeed, during the third quarter of 2006, foreign trade deficit got wider at current prices, while net exports of goods and services improved at fixed prices, as suggested by national income accounting, and contributed to GDP growth.

Apart from reserve changes (CBT + banks) and IMF loans, the capital inflow to Turkey amounted USD 55.5 billion in 2006. The financing structure over this period was substantially determined by direct investments and long-term loans extended to private enterprises and commercial banks, which, in net terms, amounted USD 19.2 billion and USD 28 billion, respectively.

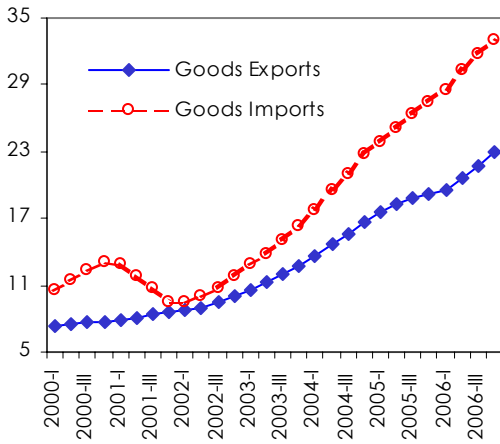
Against this background, in 2006, CBT reserves and commercial-bank reserves increased by USD 6.1 billion and USD 10.3 billion, respectively.

Balance of Payments
(bn USD)

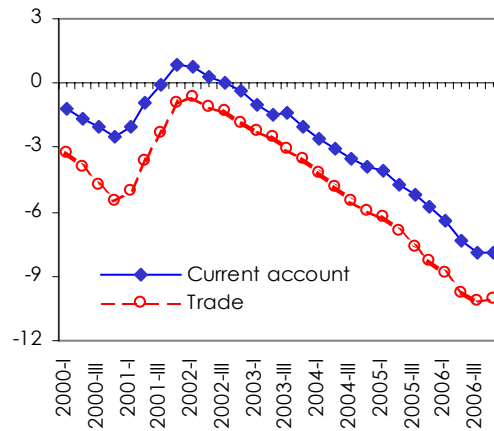
	2005	2006	% Change
Current Account	-22.6	-31.5	..
Goods	-33.4	-40.1	..
Exports	77.0	91.7	19.0
Exports (fob)	73.5	85.3	16.1
Shuttle trade	3.5	6.4	84.5
Imports	-110.5	-131.8	19.3
Imports (cif)	-116.8	-137.3	17.6
Coverage adjustment	6.9	6.6	..
Services	15.2	13.5	..
Tourism (net)	15.3	14.1	-7.7
Credit	18.2	16.9	-7.2
Debit	-2.9	-2.7	-4.5
Other services revenues(net)	-0.1	-0.6	..
Income	-5.8	-6.6	..
Wages and salaries(net)	-0.1	-0.1	..
Direct investment income (net)	-0.7	-1.0	..
Portfolio investment income (net)	-0.9	-0.7	..
Other investment income (net)	-4.0	-4.9	..
Interest	1.0	1.5	44.6
Interest	-5.1	-6.4	25.8
Current transfers	1.5	1.7	..
Workers	0.9	1.1	30.6
...			
Capital and Financial Account	20.4	34.6	..
Financial Account (excl. reserve assets)	38.3	40.8	..
Direct investment (net)	8.7	19.2	..
Abroad	-1.1	-0.9	..
In Turkey	9.8	20.2	..
Portfolio investments (net)	13.4	7.3	..
Assets	-1.2	-4.1	..
Liabilities	14.6	11.4	..
Equity securities	5.7	1.9	..
Debt securities	9.0	9.5	..
Non-residents' buyings in Turkey	5.9	6.1	..
Eurobond issues of	3.4	3.3	..
Borrowing	6.5	5.8	..
Repayment	-3.1	-2.5	..
Other investments (net)	16.2	14.2	..
Assets	0.3	-12.4	..
Trade credits	0.4	-1.4	..
Credits	0.2	-0.7	..
Banks FX assets (- increase)	-0.3	-10.3	..
Liabilities	15.9	26.5	..
Trade credits	3.1	2.3	..
Credits	12.0	19.3	..
Central bank	-2.9	0.0	..
General	-4.7	-5.2	..
IMF	-2.5	-4.5	..
Long-term	-2.2	-0.7	..
Banks	9.2	5.8	..
Long-term	6.5	9.8	..
Short-term	2.7	-4.0	..
Other sectors	10.3	18.8	..
Long-term	9.9	18.2	..
Short-term	0.4	0.5	..
Deposits of	0.5	4.6	..
In CBT	-0.8	-1.3	..
In banks	1.3	5.9	..
Change in Official Reserves (- increase)	-17.8	-6.1	..
Net Errors and Omissions	2.2	-3.2	..

Source: CBT.

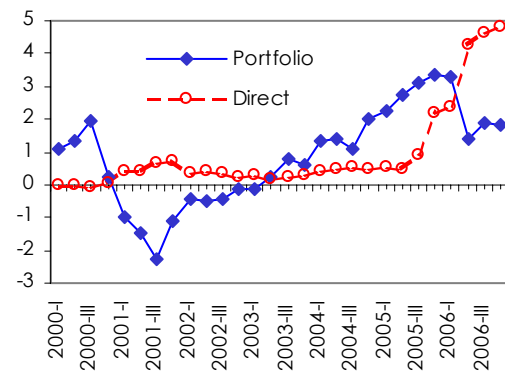
Goods Exports and Imports
(12-month ave., billion US dollars)



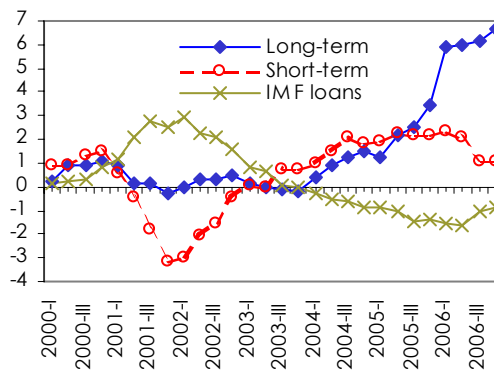
Trade and Current Account
(12-month ave., billion US dollars)



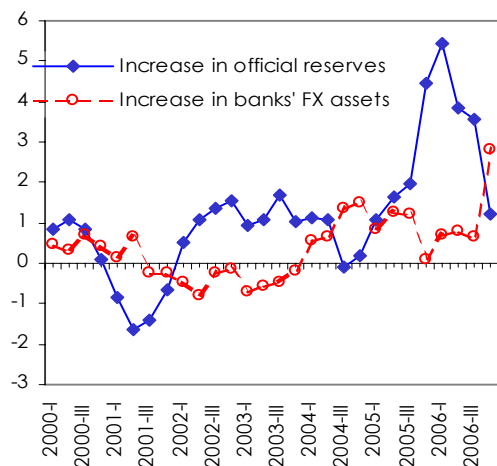
Direct and Portfolio Investments
(12-month ave., billion US dollars)



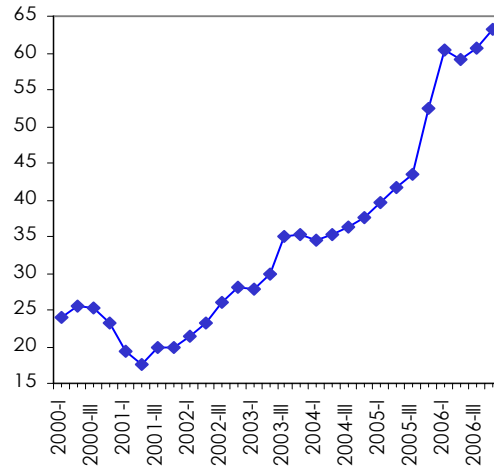
Term Structure of Capital Flows
(12-month ave., billion US dollars)



Reserves
(12-month ave., billion US dollars)



CBT International Reserves
(billion US dollars)



Source: CBT, TURKSTAT.

I. EXTERNAL ECONOMIC DEVELOPMENTS

1. The world economy grew further in 2006 despite high energy prices. China, in particular, and the ongoing growth in EU and Japanese economies have helped maintain this strong growth.

2. Negative impacts on the growth of world economy in 2006 were the uncertainties over oil prices and global liquidity conditions, and global imbalances. The record-high crude oil prices of August started to descend in September, but displayed a slight increase towards end 2006. This downfall was driven by the larger-than-expected US crude oil supplies. Yet, seasonally high demand in winter coupled with OPEC's quota reduction led crude oil prices to soar towards the end of the year.

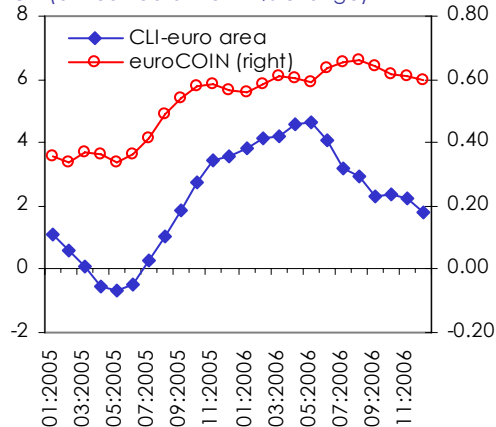
3. Eased inflation pressures in the US and Euro area induced slower interest rate increases. Accordingly, bond yields declined. In Japan, however, yields climbed sharply in response to August inflation rates.

4. On the other hand, cooling real estate and automotive markets set a negative tone for the overall US economic growth, but the recently announced higher-than-expected employment growth of December 2006 indicates that the slowdown is not anticipated to be hard.

Euro Area Leading indicators:

€COIN (3-month % change),

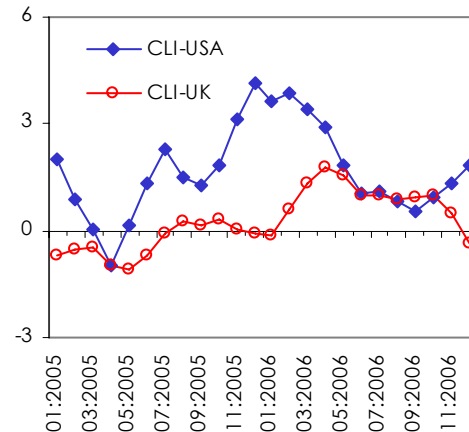
CLI (annualized 6-month % change)



Source: OECD, CEPR.

USA and UK Leading indicators:

CLI (annualized 6-month % change)



Source: OECD.

5. The US economy grew at a 3.7% annual rate in the first quarter of 2006, but lost momentum in the second and third quarters and grew as much as 3.5% and 3%, in annual terms, respectively, due to Fed's high interest rates, housing sector quakes and rising crude oil and energy prices. The US growth averaged 3.3% for the whole year. As the core inflation rate remained uncomfortably high in contrast to the slowdown in US economy in the second and third quarters, Federal Reserve (Fed) decided, at its meeting on 12 December 2006, to keep interests rates unchanged at 5.25%.

6. Euro area GDP grew at an average 2.6% annual rate in the first three quarters of 2006 and at 2.7% for the whole year. Robust domestic demand helped 2006 growth to prevail over its 8-year average. Besides, the downturn in unemployment rates and the growing credit volume are expected to further boost Euro area demand in the upcoming period. However, falling, but still fluctuating oil prices pose an ongoing risk to growth. On the other hand, as of August, Euro area inflation remained below the annual average rate (2%) along with the slump in crude oil prices and the base effect. Moreover, growing investment expenditures are expected to help ease inflation pressures. On 7 December 2006, the European Central Bank (ECB) raised its interest rates by 25 basis points to 3.50%. Growth will remain robust after 2006, despite the reinforced expectation that ECB will resort to further rate hikes. In fact, the Euro-COIN index, a Euro area-leading indicator, of December suggests that the favorable outlook persists.

7. Japan's GDP grew by 2.7% in 2005, showing a high performance, and is festimated to have grown at 2.4% for 2006. Accordingly, the annual increase in consumer prices is expected to be modest. At its meeting of 13-14 July 2006, the Bank of Japan (BoJ) raised the rates by 25 basis points to 0.25%. In the upcoming periods, BoJ will gradually adjust its rates according to economic growth and price developments.

8. Chinese economy is expected to have grown by 10.6% for 2006. The slowdown in US economy had a restricted effect on China, leaving no doubt that the growth was mainly due to growing fixed capital investments and industrial production. China, with a 27% export growth in 2006, still stands as a serious competitor against Turkey in global trade.

II. CURRENT ACCOUNT

9. By September, the annual current account deficit peaked at 8.1% of GDP. The deficit continued to widen throughout 2006 and amounted to USD 31.5 billion.

10. In the first half of 2006, imports and exports increased by 19.4% and 12.7%, respectively. Starting from the third quarter, imports decelerated while exports continued to rise. In 2006, the exports/imports ratio and the exports/short-term external debt ratio were 0.7% and 2.21%, respectively. The ratio of CBT reserves to short-term external debt and to imports prevailed over the figures of 2005, but their ratio to current account balance and to financing requirement, the sum of current account deficit and the items of net errors and omissions, declined.

Selected Indicators Related to the Current Account Deficit and Financing Structure

	2000	2001	2002	2003	2004	2005	2006*
Exports / Imports	0.58	0.90	0.85	0.79	0.74	0.70	0.70
Exports / Short-Term External Debt	1.09	2.10	2.44	2.23	2.12	2.09	2.21
Exports / External Debt Service	1.40	1.40	1.39	1.84	2.20	2.10	2.31
Tourism Revenues / Trade Balance	0.35	2.17	1.16	0.94	0.67	0.54	0.42
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.19	1.43	1.53
CBT Reserves / Financing Requirement	1.84	-	19.97	11.36	2.81	2.56	1.86
CBT Reserves / Current Account Balance	2.36	-	18.42	4.38	2.41	2.30	2.02
CBT Reserves / Imports	0.44	0.52	0.59	0.54	0.41	0.47	0.48

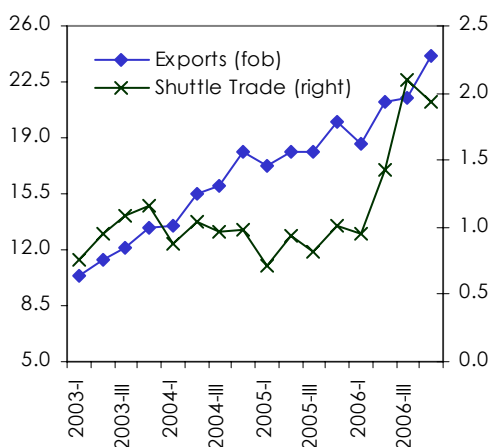
Source: CBRT, TURKSTAT.

Exports of Goods

11. According to the external trade statistics released by the Turkish Statistical Institute (TURKSTAT), exports increased in 2006 by 16.1%. Despite a sluggish performance over the first half of the year, export growth accelerated by the third quarter and prevailed over imports. As the revenues from shuttle trade climbed throughout the year, exports growth (fob) rose to 18.5%. The 3.9% rise in export prices also contributed to the nominal export growth in 2006. Real export growth, on the other hand, gained momentum as of the third quarter and increased by around 12% over the whole year.

Exports

(billion US dollars)



Source: CBT, TURKSTAT.

Exports - Real and Unit Value

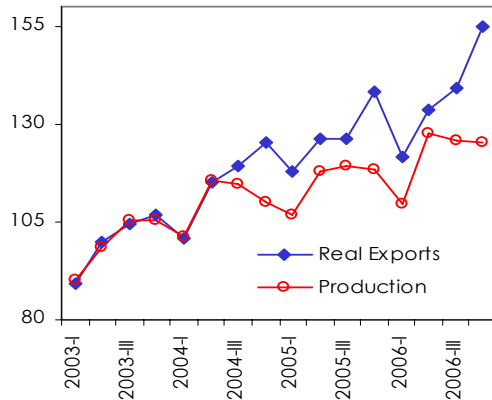
(2003=100)



Source: TURKSTAT.

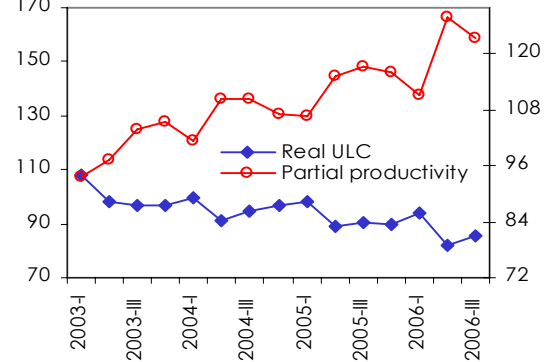
12. Productivity gains helped reduce real unit labor costs and increase the competitive advantage of Turkey in international trade, and became a basic element of export growth by compensating the negative influence of the strong Turkish lira (TRY) on foreign competitiveness.

Production and Exports in Manufacturing Industry (2003=100)



Source: TURKSTAT.

Real ULC and Productivity Indices (2003=100)



Source: CBT, TURKSTAT.

13. An item-by-item analysis would suggest that motor vehicles and basic metals provided the largest contribution to export growth. Both items contributed to the 16.1% total export growth by 6.6 percentage points. Besides, the sub-items of machinery and equipment and electrical machinery and electronics recorded sharp increases for the whole year.

14. On the other hand, exports of textiles and clothing displayed a sluggish performance in 2006 and increased by 4.1%. Although the high quality of textiles and clothing articles and Turkey's proximity to EU produces comparative advantage in competition, the negative influence of the low-cost labor of countries like China and India could not be offset.

Exports
(mln US dollars)

	Jan-Dec						
	2005	2006	% Change	% Contrib.	\$ Contrib.	share	
Total	73476	85279	16.1				
Capital Goods	7998	9273	15.9	1.7	1275	10.9	10.9
Intermediate Goods	30290	37736	24.6	10.1	7446	41.2	44.3
Consumption Goods	34835	37736	8.3	3.9	2900	47.4	44.2
Other	354	534	51.2	0.2	181	0.5	0.6
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	3314	3443	3.9	0.2	129	4.5	4.0
Food products and beverages	4272	4327	1.3	0.1	55	5.8	5.1
Textiles	8743	9261	5.9	0.7	518	11.9	10.9
Wearing apparel	9925	10170	2.5	0.3	245	13.5	11.9
Petroleum products and nuclear fuel	2519	3402	35.1	1.2	883	3.4	4.0
Chemicals and chemical products	2818	3477	23.4	0.9	659	3.8	4.1
Rubber and plastic products	2486	3011	21.1	0.7	525	3.4	3.5
Other non-metallic minerals	2687	2789	3.8	0.1	102	3.7	3.3
Manufacture of basic metals	6888	9324	35.4	3.3	2437	9.4	10.9
Manufactof fabricated metal prod(exc machinery)	2685	3343	24.5	0.9	659	3.7	3.9
Manufacture of machinery and equipment	4865	5994	23.2	1.5	1129	6.6	7.0
Electrical machinery and apparatus	1933	2817	45.8	1.2	884	2.6	3.3
Communication and apparatus	3150	3085	-2.1	-0.1	-65	4.3	3.6
Motor vehicles and trailers	10226	12676	24.0	3.3	2450	13.9	14.9
Other transport	1707	1996	16.9	0.4	289	2.3	2.3

Source: TURKSTAT.

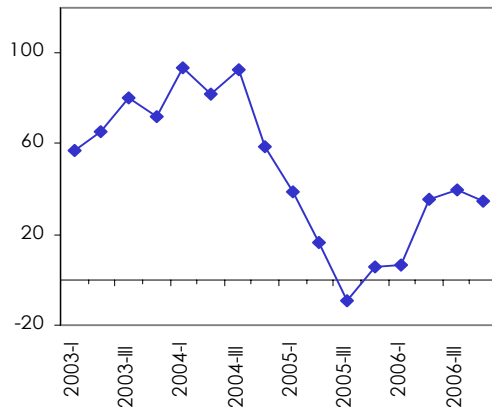
15. It is observed that capital-intensive sectors such as motor vehicles and basic metals prevail over others and their share in total exports gets larger. The share of labor-intensive sectors, on the other hand, such as textiles and clothing, displays a significant downfall. These developments suggest that exports undergo a structural transformation.

16. The increase in automobile exports was markedly high, at 29.1%, over the year. The sector continued to be a net exporter in 2006 as in 2005.

17. The downfall in basic metals industry exports since the second quarter of 2005 halted in 2006 and its exports increased by 35.4%. The surge in basic metal prices, starting from the second quarter of 2006, made a notable contribution to the industry's export value.

Automobile Exports

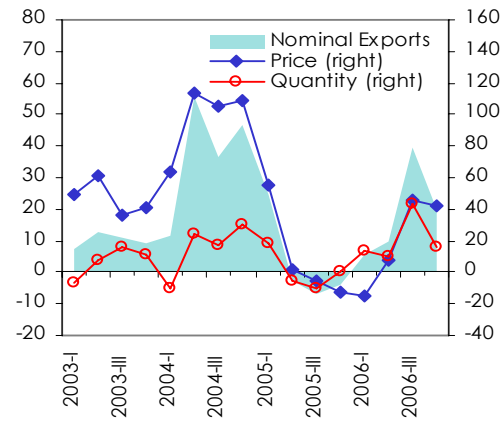
(Annual percentage change)



Source: TURKSTAT.

Basic Metal Industry Exports

(Annual percentage change)



Source: TURKSTAT.

18. Although the exports unit value index decreased, in annual terms, by 0.9% in the first quarter of 2006, it recovered in the remainder of the year and displayed an annual increase of 3.9%. This increase was generated by the price hikes in coke, refined petroleum products and nuclear fuels, basic metals, electrical machinery and electronics, and fabricated metal products.

Exports – Unit Value Indices (2003=100) Annual Percentage Change

	2005	2006				2006
		I	II	III	IV	
Total	5.7	-0.9	3.9	5.0	6.8	3.9
Capital Goods	1.5	-3.0	4.6	8.9	11.7	5.4
Intermediate Goods	6.4	-1.4	6.2	13.4	14.6	8.1
Consumption Goods	6.3	-0.7	1.3	-3.1	-0.6	-0.8
Selected Items (ISIC Rev.3):						
Agriculture and farming of animals	27.8	-0.6	-13.9	-22.7	-13.7	-13.9
Food products and beverages	9.8	0.4	-0.3	-7.4	-6.7	-2.9
Textiles	4.6	-3.0	0.9	1.1	4.0	0.9
Wearing apparel	4.7	1.4	2.0	-2.8	0.6	0.1
Petroleum products and nuclear fuel	25.0	28.2	28.8	15.8	1.7	19.1
Chemicals and chemical products	7.7	-0.2	3.2	5.8	8.2	4.5
Rubber and plastic products	7.7	0.1	4.5	8.4	9.8	6.0
Other non-metallic minerals	9.6	7.4	7.1	5.0	6.0	6.5
Manufacture of basic metals	2.3	-7.3	4.2	22.6	20.8	10.7
Manufacture of fabricated metal prod(exc machir	11.7	2.1	9.2	13.1	17.9	10.7
Manufacture of machinery and equipment	4.7	-1.9	1.0	5.3	7.6	3.4
Electrical machinery and apparatus	10.2	10.4	19.3	27.8	29.0	22.6
Communication and apparatus	-18.3	-16.8	-9.3	-6.6	-7.5	-9.4
Motor vehicles and trailers	1.9	-4.8	5.0	5.9	11.4	4.2

Source: TURKSTAT.

Exports – Quantity Indices (2003=100)
Annual Percentage Change

	2005	2006				2006
		I	II	III	IV	
Total	10.5	8.9	12.9	12.5	13.6	12.0
Capital Goods	20.9	-0.4	14.4	11.0	14.2	9.9
Intermediate Goods	10.6	14.3	14.5	18.8	13.5	15.2
Consumption Goods	7.9	4.7	11.3	7.6	13.8	9.6
Selected Items (ISIC Rev.3):						
Agriculture and farming of animals	3.3	18.3	51.7	6.8	13.1	21.0
Food products and beverages	16.8	8.8	5.2	3.6	5.3	4.8
Textiles	4.1	3.7	4.9	3.8	7.8	5.2
Wearing apparel	1.7	-7.6	0.2	7.4	10.1	2.4
Petroleum products and nuclear fuel	53.7	-3.7	27.2	20.3	20.0	14.5
Chemicals and chemical products	4.5	14.2	19.9	18.3	20.6	18.3
Rubber and plastic products	18.1	16.5	8.8	11.0	22.4	14.4
Other non-metallic minerals	6.1	-5.5	-3.3	-3.4	3.6	-2.3
Manufacture of basic metals	-0.1	20.1	15.2	45.9	16.6	22.6
Manufacture of fabricated metal prod(exc machi	9.4	12.8	7.0	13.5	16.7	12.9
Manufacture of machinery and equipment	18.7	19.7	20.2	15.6	22.6	19.4
Electrical machinery and apparatus	11.4	8.5	10.8	18.9	37.7	19.1
Communication and apparatus	33.9	36.3	24.9	-7.6	-5.9	8.1
Motor vehicles and trailers	13.5	8.3	19.6	23.7	24.3	19.4

Source: TURKSTAT.

19. Real export growth in 2006 accelerated by the second quarter. Particularly by June, the import quantity index was markedly exceeded by the export quantity index. Indeed, during the third quarter of 2006, foreign trade deficit got wider at current prices, while net exports of goods and services improved at fixed prices, as suggested by national income accounting, and contributed positively to overall growth.

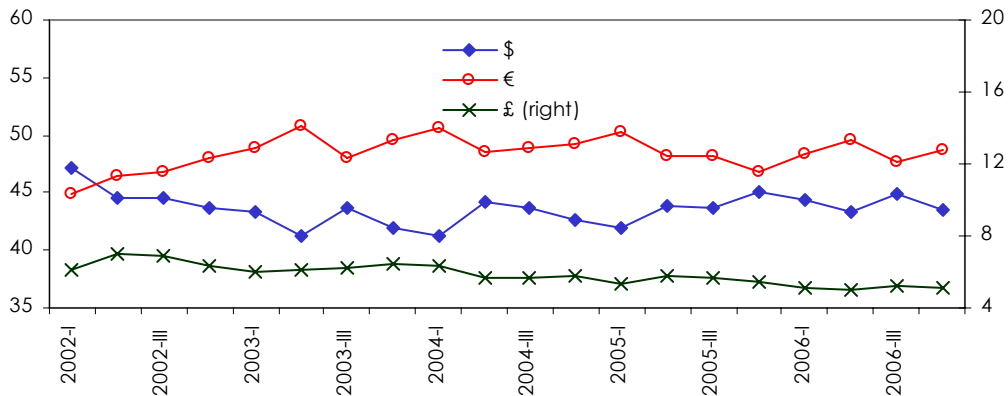
Export – Country Decomposition
(mln US dollars)

	January-December						
	2005		2006		% Change	% Contrib.	\$ Contrib
	Value	Share (%)	Value	Share(%)			
Total	73476	..	85299	..	16,1		
EU countries (27)	41365	56,3	47875	56,1	15,7	8,9	6510
Other countries	29138	39,7	34437	40,4	18,2	7,2	5299
Other European	5855	8,0	7868	9,2	34,4	2,7	2013
East Asian	3029	4,1	3941	4,6	30,1	1,2	912
Other	20254	27,6	22628	26,5	11,7	3,2	2374
Free Zones in Turkey	2973	4,0	2967	3,5	-0,2	0,0	-6
Selected countries and country groups							
OECD	44.355	60,4	54.329	63,7	22,5	13,6	9974
Germany	9.455	12,9	9.680	11,3	2,4	0,3	225
UK	5.917	8,1	6.813	8,0	15,1	1,2	895
Italy	5.617	7,6	6.751	7,9	20,2	1,5	1135
USA	4.911	6,7	5.009	5,9	2,0	0,1	99
France	3.806	5,2	4.604	5,4	21,0	1,1	798
Spain	3.011	4,1	3.682	4,3	22,3	0,9	671
The Netherlands	2.470	3,4	2.537	3,0	2,7	0,1	68
Other OECD	9.169	12,5	15.253	17,9	66,4	8,3	6084
Middle-East countries	10.184	13,9	11.303	13,3	11,0	1,5	1118
China	550	0,7	693	0,8	26,1	0,2	143
Russia	2.377	3,2	3.235	3,8	36,1	1,2	858

Source: TURKSTAT.

20. A country-group based export analysis suggests that the exports to EU countries, with the largest share in total exports, continued to increase in 2006, which is believed to be influenced by the strong domestic demand and robust economic activity in EU since early 2006. On a country-by-country basis, exports to Germany, top trade partner of Turkey, increased by no more than 2.4%, while exports to France, Italy, Russia and Spain remained elevated.

Currency Composition of Exports
(% share)

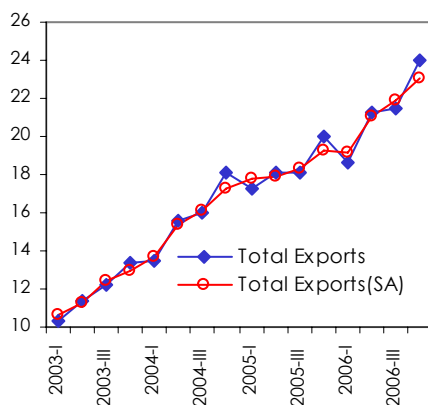


Source: TURKSTAT.

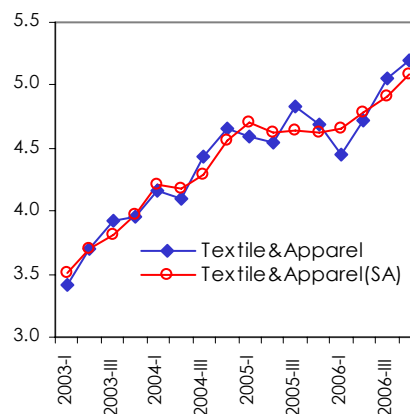
21. As regards the currency composition of exports, Euro's share increased in 2006 parallel to the growth of exports to EU countries. Euro's share in exports rose to 48.6% in 2006 up from 48.3% in 2005. At the same time, the share of USD-denominated exports increased but that of GBP-denominated exports declined.

22. According to seasonally adjusted (SA) data, nominal export growth of the last quarter of 2006 prevailed over the previous quarter by 5.2%. During this period, SA nominal exports of motor vehicles, a leading export industry, also increased by 5.7%. SA data suggest that textile and clothing exports remained below the overall export performance and grew by no more than 3.7%, compared to the previous period.

Total Exports
(billion US dollar)

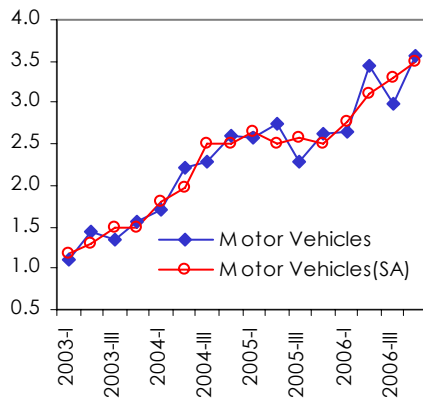


Textile&Apparel Exports
(billion US dollar)

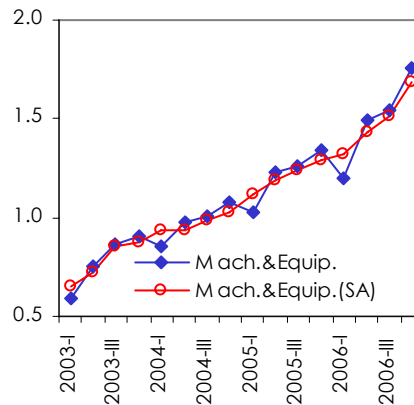


Motor Vehicles

(billion US dollar)

**Machinery&Equipment Exports**

(billion US dollar)

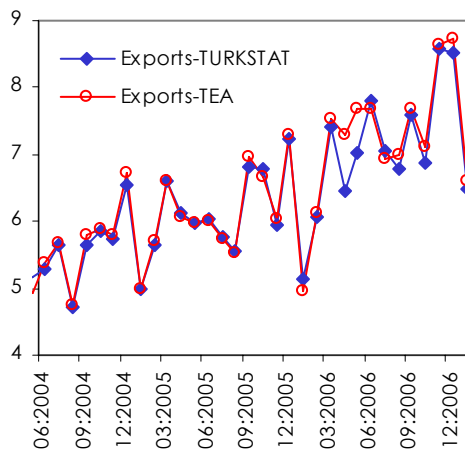


Source: TURKSTAT, CBT.
SA: Seasonally adjusted.

23. The January-February 2007 export data released by the Turkish Exporters' Assembly (TEA) indicate that exports continued to grow in the first two months of 2007. According to TEA data, exports in this period exceeded the year-ago figures of the same period by 28.8%. This increase made a notable contribution to total exports, coupled with the remarkable increase in exports of motor vehicles, machinery and equipment, and iron and steel products.

Exports - TURKSTAT and TEA data

(billion US dollars)



Source: TURKSTAT, TEA.

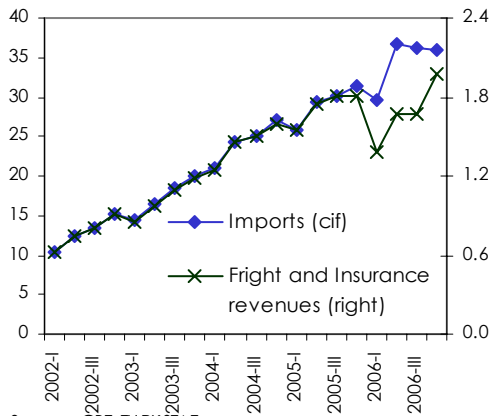
Imports of Goods

24. According to the data released by TURKSTAT, imports slowed down in the last quarter and rose by 14%, ending up in an annual increase of 17.6%. Total imports of goods grew at 19.3%, including the "other goods" item related to freight and insurance revenues and financial leasing. In the first half of 2006, import growth was nominally less affected by price developments compared to real growth, but the effect of prices prevailed by mid-2006. Import prices increased by 8.8% over the year while the real import growth realized as 8.5%.

25. In 2006, total industry and manufacturing industry growth rates were 5.8% and 5.6%, respectively. While TRY continued to strengthen, the increase in industrial production fostered the imports of intermediate goods, which take up 71.7% of total imports.

Imports

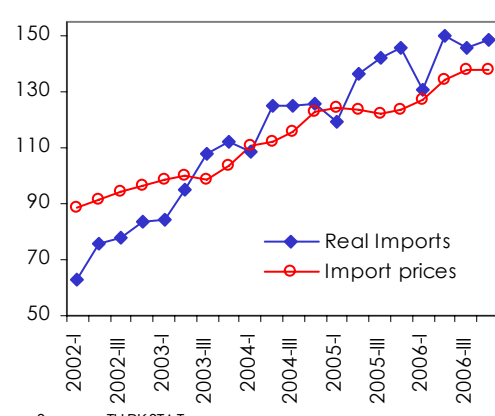
(billion US dollars)



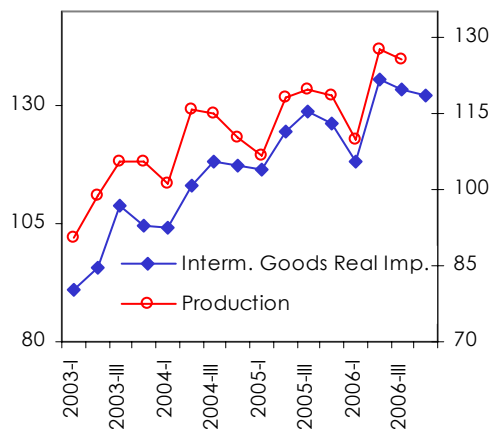
Source: CBT, TURKSTAT.

Imports- Real and Unit Value

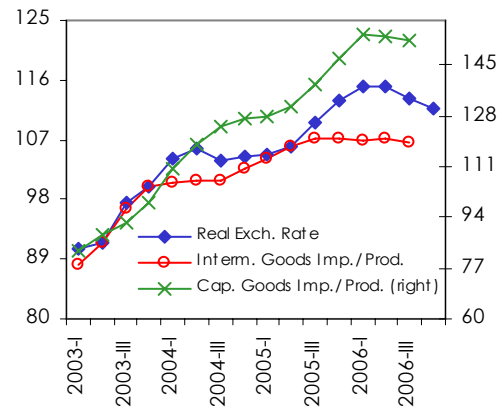
(2003=100)



Source: TURKSTAT.

Man. Ind. Prod. & Int. Goods**Imports (2003=100)**

Source: TURKSTAT.

Intern. & Cap. Imp./Manuf. Ind. P.**Ratio and REER (PP) (12-month, ave.)**

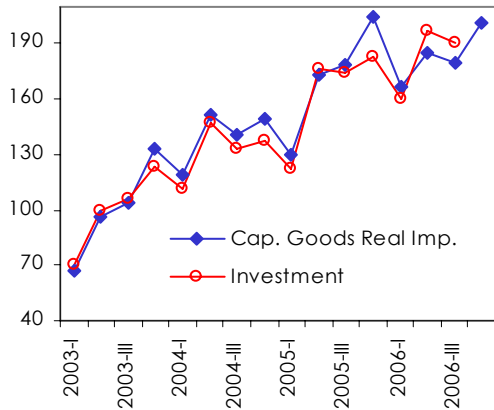
Source: TURKSTAT, CBT.

26. After a slowdown in the first quarter, imports of intermediate goods picked up along with price hikes in the remainder of the year and made the largest contribution to total import growth throughout 2006. The growth rate of capital goods imports, on the other hand, surpassed the former in the first quarter but started to drop off as of May and remained below the total import growth. This indicates that investment expenditures began to slacken by the second quarter of the year. Imports of consumption goods, growing faster than both intermediate and capital goods during the first half of 2006, started to decline in August and fell by 3.4% during the August-December period compared to same period of the previous year, which was mainly influenced by the turbulence-driven by TRY depreciation and the high base effect stemming from the same period of the previous year.

27. As regards quantity indices, automobile imports, with a notable share in imports of consumption goods, rose by 50.2% in the first half, but decreased 36.3% by mid-2006, and thus, the annual automobile imports declined by 6.7%. On the other hand, imports of durable and semi-durable goods surged by 21% and 30.2%, respectively, in the first half of the year, but in the remainder, durable goods dropped by 3.3% while semi-durable goods grew at 17.5%.

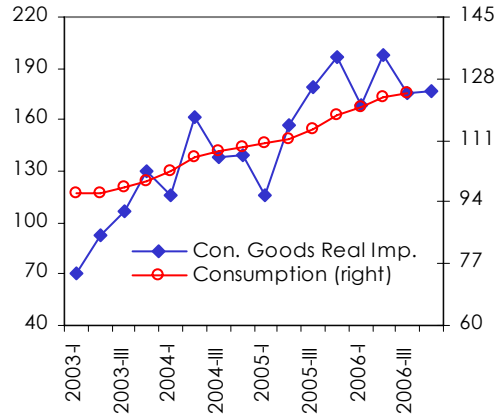
28. The consumer confidence indices released by CNBCE and CBT/TURKSTAT suggest that consumption rates fell starting from November 2006.

Invest. Expend. & Cap. Goods Imp.
(2003=100)



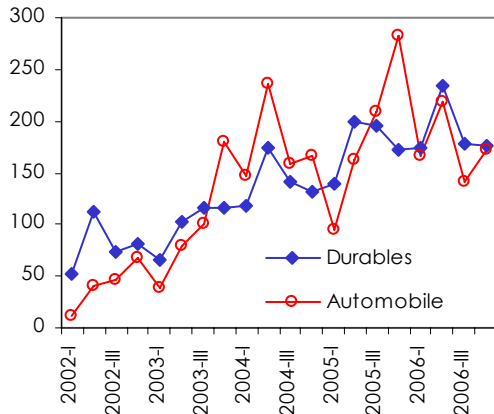
Source: TURKSTAT.

Consum. Exp. & Con. Goods Imp.
(2003=100, 12-month ave. for cons.)



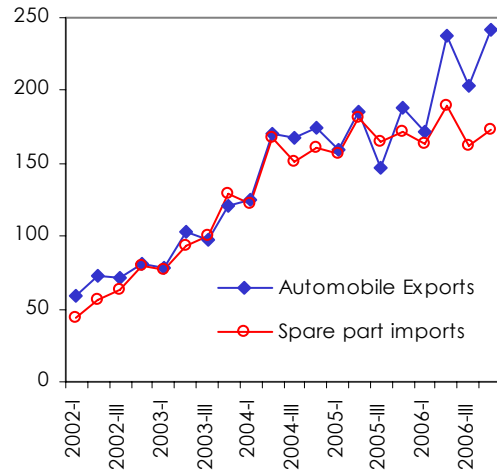
Source: TURKSTAT.

Durables & Automobile Imports
(2003=100)



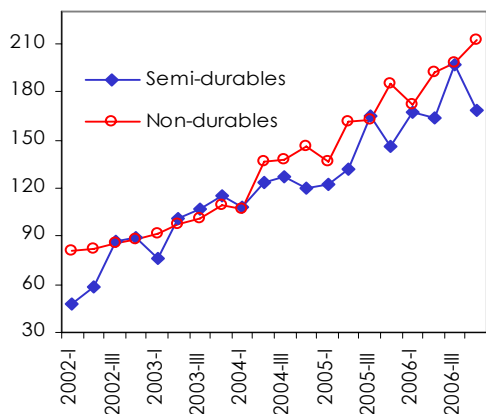
Source: TURKSTAT.

Spare part imp. of trans. vehicles & Auto. Exports (2003=100)



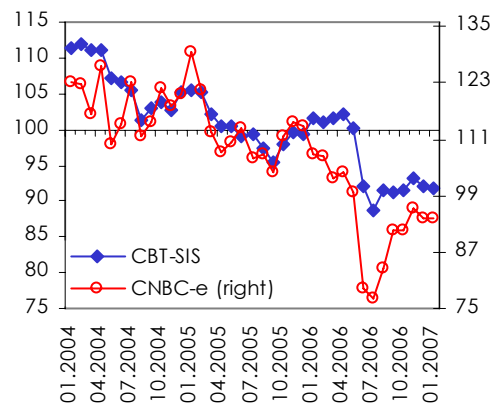
Source: TURKSTAT.

Semi and non-durables Imp.
(2003=100)



Source: TURKSTAT.

Confidence Index



Source: CBT, TURKSTAT, NTVMSNBC.

29. Among all sectors, mining and quarrying, including crude oil and natural gas, made the largest contribution to import growth in 2006. Furthermore, refined petroleum and petroleum products, basic metals industry, machinery and equipment and chemicals significantly contributed to imports growth.

30. In 2006, imports of motor vehicles grew by 6.8% while automobile imports itself fell by 1%. Imports of spare parts for transportation vehicles increased by 15.6% parallel to the export growth in motor vehicles.

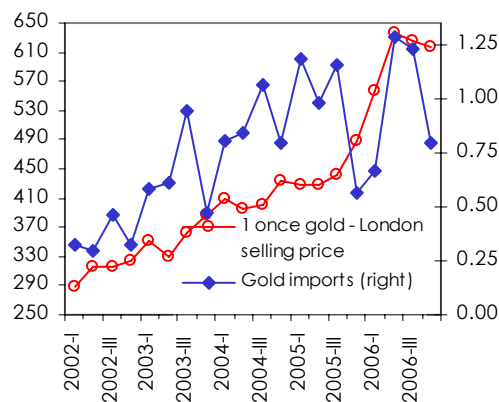
Imports
(million USD)

	Jan-Dec					Share	
	2005	2006	% Change	% Contr.	\$ Contr.	2005	2006
	Total	116774	137321	17.6			
Capital Goods	20363	22182	8.9	1.6	1819	17.4	16.2
Intermediate Goods	81868	98483	20.3	14.2	16615	70.1	71.7
Consumption Goods	13975	15990	14.4	1.7	2015	12.0	11.6
Other	567	665	17.3	0.1	98	0.5	0.5
Selected Items (ISIC Rev.3):							
Mining and Quarrying	16321	21966	34.6	4.8	5645	14.0	16.0
Crude oil and natural gas	14140	19220	35.9	4.4	5080	12.1	14.0
Textiles	3974	4202	5.7	0.2	227	3.4	3.1
Paper and paper products	2010	2314	15.1	0.3	304	1.7	1.7
Coke, petroleum products and nuclear fuel	5507	7363	33.7	1.6	1857	4.7	5.4
Chemicals and chemical products	17477	19423	11.1	1.7	1946	15.0	14.1
Rubber and plastic products	2140	2556	19.4	0.4	416	1.8	1.9
Manufacture of basic metals	13683	16821	22.9	2.7	3138	11.7	12.2
Manufacture of fabricated metal prod(exc machir	1943	2425	24.8	0.4	482	1.7	1.8
Manufacture of machinery and equipment	12210	14160	16.0	1.7	1950	10.5	10.3
Electrical machinery and apparatus	4207	4938	17.4	0.6	732	3.6	3.6
Communication and apparatus	4605	4862	5.6	0.2	257	3.9	3.5
Medical, precision and opt. instr., watches	2616	2858	9.2	0.2	242	2.2	2.1
Motor vehicles and trailers	12332	13172	6.8	0.7	841	10.6	9.6
Other transport	1927	1615	-16.2	-0.3	-312	1.6	1.2
Waste and scrap (Wholesale and retail)	3379	4119	21.9	0.6	740	2.9	3.0

Source: TURKSTAT.

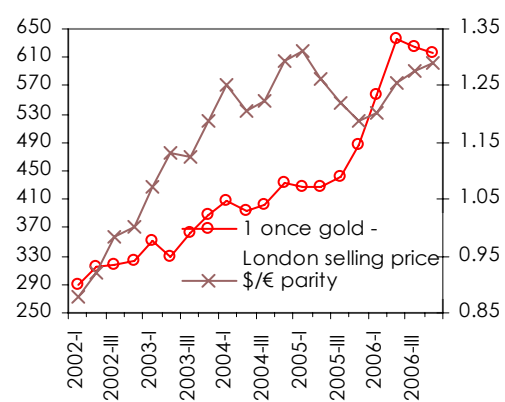
31. Gold prices continued to soar in 2006 and the selling rate of gold per oz. in international markets peaked at 36.4%, on average. Although the quantity reduced, as a result of this rise, gold imports grew by 2.5% in 2006.

**Gold Imports (billion US dollars) and
Gold Prices (3-month ave., US dollars)**



Source: CBT, TURKSTAT.

**USD/EUR Parity and
Gold Prices (monthly ave., US dollars)**



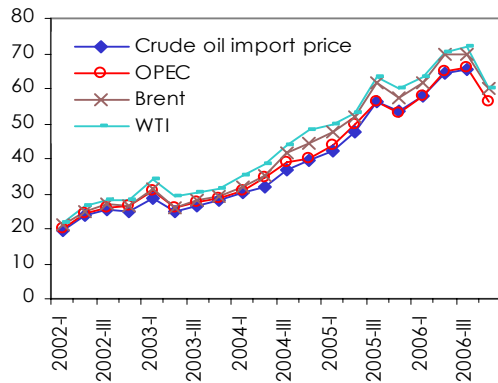
Source: CBT.

32. Crude oil prices in international markets jumped during the first three quarters of 2006, mainly on the robust demand boosted by the high-rated global growth and on the uncertainties over Iran and Nigeria. Later, reduced demand, resulting from the removal of

uncertainties and from temperatures above seasonal norms, caused oil prices to descend in the last quarter of the year. So in the first eleven-months of 2006, crude prices surged by 23.1% per barrel, along with a 1.9% crude oil real-import growth.

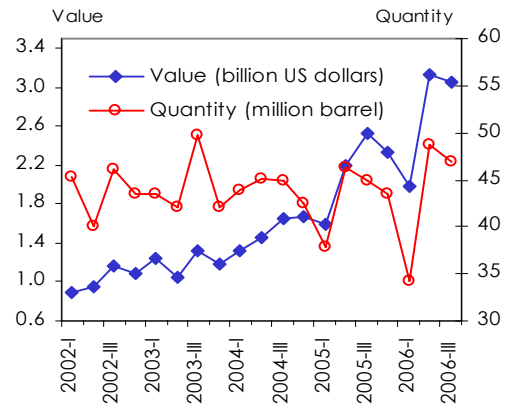
Crude Oil Prices

(US dollar per barrel, average)



Source: SPO, OPEC, EIA.

Crude Oil Imports



Source: TURKSTAT, SPO.

33. Like crude oil, natural gas and other energy prices also surged, contributing to nominal import growth in 2006. According to the International Standard Industrial Classification (ISIC Rev.3), total energy imports composed of crude oil, natural gas, coal, lignite and peat, under "mining and quarrying" industry, and of coke, refined petroleum products and nuclear fuel, under manufacturing industry, rose by 34.5% on annual terms and contributed to the 17.6% overall import growth by 6.3 percentage points.

34. Apart from energy, import prices of basic metals, motor vehicles and fabricated metals picked up, whereas prices of electrical machinery, electronics and radio, TV and communication equipments displayed a noteworthy decline.

Import – Unit Value Indices (Annual Percentage Change)

	2005	2006				2006
		I	II	III	IV	
Total	7.1	2.0	8.4	13.0	11.5	8.8
Capital Goods	-3.7	-8.6	-2.3	1.8	4.8	-1.2
Intermediate Goods	11.0	6.5	13.0	17.4	14.3	12.8
Consumption Goods	-0.3	-7.3	-1.2	4.5	4.8	0.0
Selected Items (ISIC Rev.3):						
Food products and beverages	-7.8	-2.5	-5.7	1.3	8.2	0.2
Textiles	2.6	-2.5	-1.9	5.1	7.5	2.4
Paper and paper products	3.4	-3.0	4.3	9.3	10.3	5.3
Coke, petroleum products and nuclear fuel	29.3	29.1	22.9	17.1	-1.1	15.9
Chemicals and chemical products	5.0	-6.8	-1.8	7.0	7.5	1.6
Rubber and plastic products	8.8	-4.1	4.4	8.2	9.1	4.6
Manufacture of basic metals	9.7	3.5	20.8	40.7	39.1	24.2
Man. of fabricated metal prod(exc mach)	7.7	-3.2	4.2	7.7	11.6	6.3
Manufacture of machinery and equipment	-1.1	-8.7	-1.8	1.9	6.3	0.2
Electrical machinery and apparatus	-7.4	-2.4	2.3	0.1	-4.2	-1.4
Communication and apparatus	-6.0	-15.9	-5.5	4.2	3.8	-3.8
Medical, precision and opt. instr., watches	-0.3	-3.8	-0.3	-7.4	8.9	-0.5
Motor vehicles and trailers	-1.6	-5.3	4.2	10.8	11.8	5.7
Waste and scrap (Wholesale and retail)	1.2	-11.5	5.5	29.8	16.3	10.0

Source: TURKSTAT.

35. Import quantity indices suggest that soaring basic metal imports lost pace in real terms. Imports of electrical machinery and electronics, machinery and equipment, and fabricated metal products, on the other hand, grew in quantity.

Import – Quantity Indices (Annual Percentage Change)

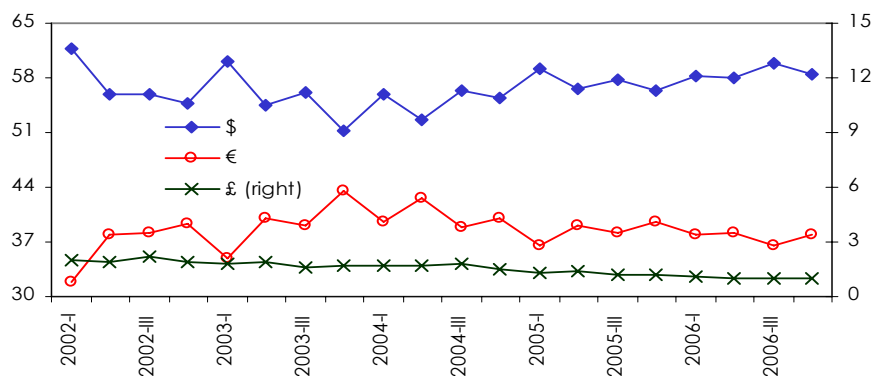
	2005	2006				2006
		I	II	III	IV	
Total	11.9	12.5	14.3	4.4	3.3	8.5
Capital Goods	22.2	32.4	11.9	3.7	-0.4	10.0
Intermediate Goods	9.4	3.4	12.9	5.0	6.1	6.9
Consumption Goods	16.6	48.6	30.3	1.9	-9.0	13.8
Selected Items (ISIC Rev.3):						
Food products and beverages	20.7	10.5	35.7	18.6	-1.8	15.8
Textiles	2.3	3.8	3.1	6.6	1.5	3.6
Paper and paper products	12.9	11.3	7.0	12.9	9.5	10.2
Coke, petroleum products and nuclear fuel	13.1	28.3	22.7	19.6	-2.3	15.9
Chemicals and chemical products	10.1	12.2	12.0	7.4	8.7	9.8
Rubber and plastic products	1.1	21.5	18.1	12.4	7.7	14.5
Manufacture of basic metals	12.1	-14.2	11.5	-7.0	3.2	-0.3
Man. of fabricated metal prod(exc mach)	14.4	22.3	16.6	21.2	15.4	17.7
Manufacture of machinery and equipment	19.1	24.4	25.4	13.9	5.5	16.1
Electrical machinery and apparatus	43.3	37.2	10.1	21.5	12.0	19.5
Communication and apparatus	7.8	24.8	8.0	6.5	2.0	10.0
Medical, precision and opt. instr., watches	27.4	25.3	13.8	5.2	0.8	10.3
Motor vehicles and trailers	6.2	32.4	17.4	-11.1	-19.9	1.2
Waste and scrap (Wholesale and retail)	0.8	-7.0	32.1	-2.4	31.5	11.8

Source: TURKSTAT.

36. The share of imports from EU in overall imports narrowed to 42.4% in 2006, down from 45.1% in 2005. On the contrary, non-EU countries in Europe and countries of Asia and Middle East contributed substantially to import growth. On a country-by-country basis, the rise in imports from Russia and China is worth noting, contributing to total import growth by 3.9 and 2.5 percentage points, respectively.

37. Parallel to the decline in imports from EU, the share of Euro-denominated imports descended in 2006 while USD-denominated imports grew larger. In this regard, the share of USD-denominated imports rose to 58.7% in 2006, up from 57.4% in 2005 whereas the share of Euro-denominated imports fell to 37.7% in 2006, down from 38.5% in 2005. GBP's share in imports, on the other hand, displays a firm downfall. The share of GBP-denominated imports declined to 1% in 2006, down from 1.3% in 2005.

Currency Composition of Imports
(% share)



Source: TURKSTAT.

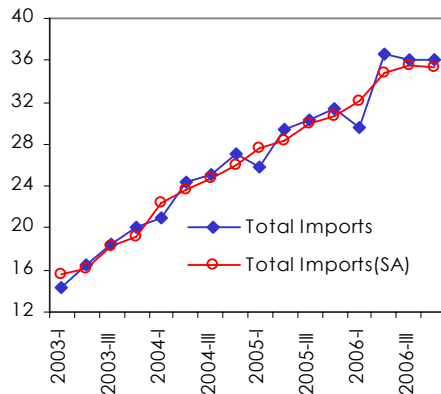
38. According to seasonally adjusted data, in the last quarter, USD-denominated nominal imports remained 0.9% below third-quarter level. As regards sub-items, imports of intermediate goods and capital goods increased by 3.5% and 0.6%, respectively, while imports of consumption goods fell by 10.6%.

Imports – Country Decomposition (mn US dollar)

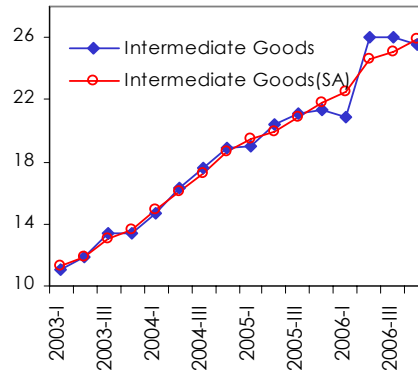
	Jan-Dec						% Change	% Contrib.	\$ Contrib.
	2005		2006		Value	Share (%)			
	Value	Share (%)	Value	Share (%)					
Total	116774	..	137321	..		17.6			
EU countries	52696	45.1	58247	42.4		10.5	4.8	5552	
Other countries	63318	54.2	78137	56.9		23.4	12.7	14819	
Other European	20386	17.5	25314	18.4		24.2	4.2	4928	
East Asian	20581	17.6	25381	18.5		23.3	4.1	4800	
Other	22351	19.1	27442	20.0		22.8	4.4	5091	
Free Zones in Turkey	760	0.7	937	0.7		23.3	0.2	177	
Selected countries and country groups									
OECD	66107	56.6	76203	55.5		15.3	8.6	10096	
Germany	13634	11.7	14576	10.6		6.9	0.8	942	
Italy	7566	6.5	8581	6.2		13.4	0.9	1015	
France	5888	5.0	6639	4.8		12.8	0.6	751	
USA	5376	4.6	5929	4.3		10.3	0.5	554	
İngiltere	4696	4.0	5094	3.7		8.5	0.3	398	
Spain	3555	3.0	3809	2.8		7.1	0.2	254	
Other OECD	25393	21.7	31575	23.0		24.3	5.3	6183	
Middle East countries	7967	6.8	10501	7.6		31.8	2.2	2534	
Russian Fed.	12906	11.1	17505	12.7		35.6	3.9	4599	
China	6885	5.9	9581	7.0		39.1	2.3	2695	

Source: TURKSTAT.

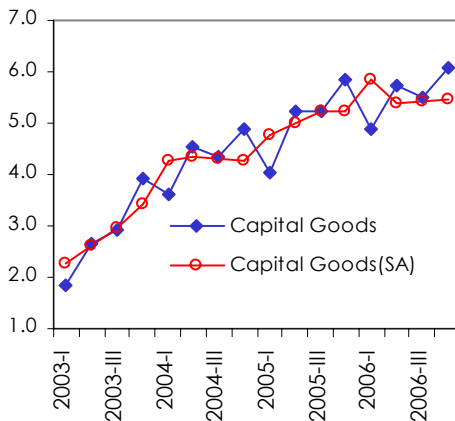
Total Imports
(billion US dollar)



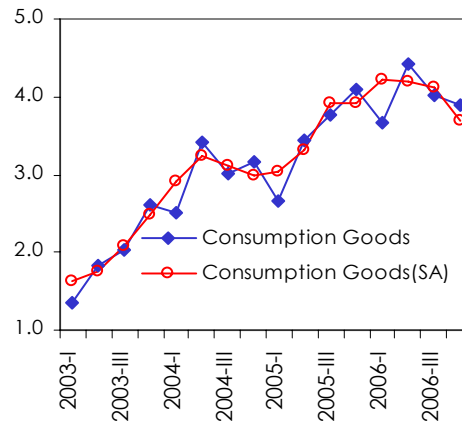
Intermediate Goods Imports
(billion US dollar)



Capital Goods Imports
(billion US dollar)



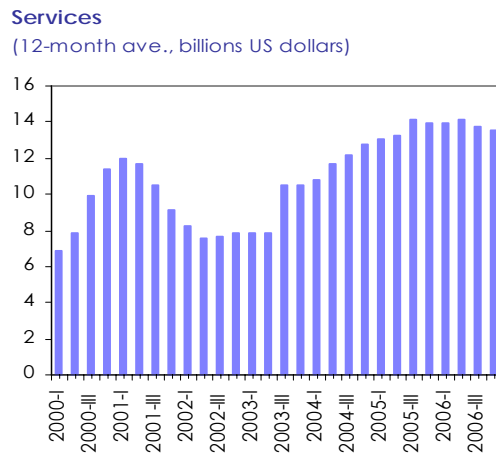
Consumption Goods Imports
(billion US dollar)



Source: TURKSTAT, CBT. (SA: Seasonally adjusted)

Services Account

39. In 2006, the services account fell behind its level in 2005 by 10.7%, mainly on the 7.2% decline in tourism revenues. Revenues from construction services, on the other hand, increased while transportation revenues fell.



Source: CBT.

40. According to the data released by TURKSTAT, tourism revenues fell 12.8% in the last quarter of 2006. Since the number of visitors departing Turkey (citizen+foreigner) and the average spending per tourist decreased by 4% and 0.6%, respectively, tourism revenues declined by 7.2% over the whole year. Besides, tourism expenditures went 4.5% down, reducing net tourism revenues by 7.7%.

Services Account (mln US dollars)

	2005				2006			
	I	II	III	IV	I	II	III	IV
Services	1365	3098	8114	2587	1202	2886	7318	2132
Total income	3875	5802	11160	5694	3460	5652	10301	4956
Total Expenses	-2510	-2704	-3046	-3107	-2258	-2766	-2983	-2824
Transportation	-143	-7	145	-38	-119	-6	406	-204
Credit	935	1179	1428	1146	712	982	1392	1028
Debit	-1078	-1186	-1283	-1184	-831	-988	-986	-1232
Tourizm	1316	3082	8054	2828	1434	2946	7219	2511
Credit	1995	3760	8817	3580	2002	3693	8038	3120
Debit	-679	-678	-763	-752	-568	-747	-819	-609
Construction serv.	162	216	256	240	212	249	234	184
Credit	162	216	256	240	212	249	234	184
Debit	0	0	0	0	0	0	0	0
Financial serv.	-8	-22	1	-12	-82	-53	-74	-38
Credit	82	88	89	86	61	67	69	80
Debit	-90	-110	-88	-98	-143	-120	-143	-118
Other serv.	38	-171	-342	-431	-243	-250	-467	-321
Credit	701	559	570	642	473	661	568	544
Debit	-663	-730	-912	-1073	-716	-911	-1035	-865

Source: CBT.

Tourism Statistics

	2005				2006			
	I	II	III	IV	I	II	III	IV
Tourism Revenues (mn US dollars)	1995	3760	8817	3580	2002	3693	8038	3120
Departing intl. visitors (x1000)	2376	5340	8452	4355	2138	4912	8302	3924
Departing domestic visitors (x1000)	480	546	1826	750	597	629	1838	808
Tourism Expenditures (mn US dollars)	-679	-678	-763	-752	-568	-747	-819	-609
Arriving domestic visitors (x1000)	889	1159	1045	1137	905	1170	1161	827

Source: TURKSTAT CBT.

Income Account

41. The investment income account posted a deficit of USD 4.6 billion between January and September. The deficit got wider than the same period in 2005 since banks raised their loan volume in 2004 and 2005, and private sector interest debits swung up.

Income Account (mln US dollars)

	2005				2006			
	I	II	III	IV	I	II	III	IV
Income account	-1410	-1659	-1355	-1375	-1498	-1641	-1696	-1787
Wage payments (net)	-24	-24	-24	-24	-22	-26	-29	-30
Investment income (net)	-1386	-1635	-1331	-1351	-1476	-1615	-1667	-1757
Total income	1084	742	1046	812	1184	957	1227	1105
Total expenses	-2470	-2377	-2377	-2163	-2660	-2572	-2894	-2862
Direct investments	-79	-435	-102	-118	-138	-374	-212	-228
Credit	83	123	43	28	59	65	43	52
Debit	-162	-558	-145	-146	-197	-439	-255	-280
Portfolio investments	-405	-143	-198	-178	-426	-29	-162	-45
Credit	814	436	687	465	829	591	795	586
Debit	-1219	-579	-885	-643	-1255	-620	-957	-631
Other investments	-902	-1057	-1031	-1055	-912	-1212	-1293	-1484
Interest income	187	183	316	319	296	301	389	467
Interest expenses	-1089	-1240	-1347	-1374	-1208	-1513	-1682	-1951
Long-term	-980	-1112	-1181	-1224	-1066	-1310	-1448	-1724
Central Bank	-262	-201	-394	-192	-186	-135	-364	-159
Government	-372	-510	-374	-509	-359	-531	-367	-550
Banks	-42	-40	-77	-98	-109	-136	-191	-177
Other sectors	-304	-361	-336	-425	-412	-508	-526	-838
Short-term	-109	-128	-166	-150	-142	-203	-234	-227

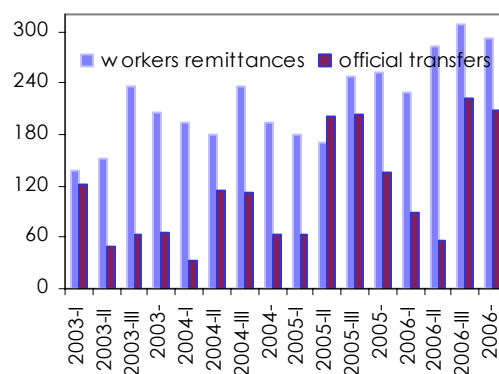
Source: CBT.

42. In 2006, portfolio credits and portfolio debits increased by 16.6% and 4.1%, respectively. Thanks to Eurobond yields, credits grew larger than debits, allowing a narrower deficit in portfolio income.

Current Transfers

43. In 2006, current transfers, composed of workers' remittances and official transfers, rose by 16% to USD 1.7 billion.

Current Transfers (million US dollars)



Source: CBT.

III. CAPITAL MOVEMENTS

44. In the fourth quarter of 2006, external financing requirement, defined as the sum of current account plus net errors and omissions, realized as USD 8.9 billion. Net errors and omissions amounting to USD 1.7 billion outflow added to the financing requirement. During this period, the financing structure was heavily shaped by direct investments, portfolio investments and long-term credit inflows. Although the turbulence in financial markets led to a portfolio-based outflow in the second quarter, nonresidents' buying in the securities market recovered as of the third quarter, accelerating the portfolio inflow.

45. As a result, CBT reserves reached USD 63.2 billion at end-December with a USD 1.2 billion rise in the October-December period. Banks' FX assets, however, increased by USD 5.3 billion during the same period.

External Financing Requirements and Resources (bn US dollars)

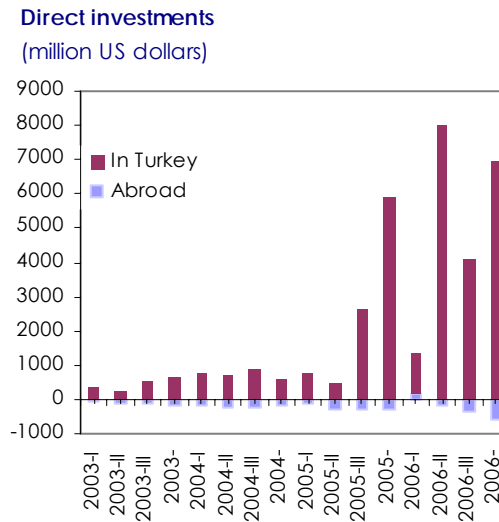
	2004	2005	2005				2006			
			I	II	III	IV	I	II	III	IV
1. Current Account	-15.6	-22.7	-6.1	-6.8	-2.4	-7.4	-8.7	-10.7	-4.9	-7.2
2. Net Errors and Omissions	2.2	2.2	0.6	2.7	-0.7	-0.3	-0.8	1.7	-2.4	-1.7
I. Total Financing Requirement (=1+2)	-13.4	-20.5	-5.6	-4.1	-3.1	-7.7	-9.5	-8.9	-7.3	-8.9
II. Total Financing (=1+2+3)	13.4	20.5	5.6	4.1	3.1	7.7	9.5	8.9	7.3	8.9
1. Capital Flows (net)	23.7	44.0	6.2	11.9	10.8	15.1	17.3	11.1	10.8	16.3
Direct Investment (net)	2.0	8.7	0.7	0.2	2.3	5.6	1.4	7.8	3.7	6.4
Portfolio Investment (net)	8.0	13.4	3.8	3.1	2.1	4.5	3.6	-4.5	4.1	4.2
General Gov. Eurobond Issues	2.0	3.4	1.8	0.2	0.3	1.2	2.3	-0.6	0.8	0.8
Nonresidents' Security Buyings in Turkey	7.5	11.6	3.5	2.8	2.1	3.2	1.6	-3.8	4.6	5.7
Residents' Security Buyings Abroad	-1.4	-1.2	-1.1	0.1	-0.3	0.2	-0.3	-0.1	-1.3	-2.3
Credit Drawing (excl. IMF loan, net)	13.9	20.5	1.3	7.6	5.2	6.4	11.2	8.0	3.7	3.2
General Government	-1.2	-2.2	-0.4	-0.6	-0.3	-0.8	-0.2	-0.2	0.3	-0.6
Banks	5.7	9.2	0.8	4.1	2.0	2.5	2.4	3.0	0.3	0.1
Long-term	2.4	6.5	-0.1	4.0	1.1	1.6	1.3	3.2	0.7	4.5
Short-term	3.3	2.7	0.8	0.1	0.9	0.9	1.1	-0.2	-0.5	-4.4
Other Sector	9.3	13.4	0.9	4.1	3.6	4.8	9.0	5.2	3.1	3.7
Long-term	4.8	9.9	0.5	2.5	2.2	4.8	8.7	3.1	2.7	3.7
Short-term	0.3	0.4	-0.1	0.4	0.8	-0.7	0.1	0.1	0.3	0.0
Trade Credits	4.2	3.1	0.5	1.3	0.6	0.7	0.2	1.9	0.2	-0.1
Deposits	0.6	0.5	-0.1	0.7	1.0	-1.1	1.5	0.3	-1.1	3.9
in Central Bank	-0.2	-0.8	-0.1	-0.2	-0.3	-0.2	-0.2	-0.3	-0.5	-0.3
in banks	0.9	1.3	0.0	0.9	1.3	-0.9	1.6	0.6	-0.6	4.2
Other	-0.8	0.9	0.6	0.5	0.1	-0.3	-0.4	-0.5	0.4	-1.3
2. IMF Loans	-3.5	-5.4	-1.0	-1.5	-2.3	-0.6	-1.8	-1.8	0.1	-1.0
Central Bank	-4.4	-2.9	-1.0	-0.9	-0.6	-0.3	0.0	0.0	0.0	0.0
General Government	0.9	-2.5	0.0	-0.6	-1.7	-0.3	-1.8	-1.8	0.1	-1.0
3. Change in Reserves (- increase)	-6.8	-18.2	0.3	-6.3	-5.4	-6.8	-6.0	-0.3	-3.6	-6.4
Banks' FX assets	-6.0	-0.3	3.6	-3.0	-3.5	2.4	1.1	-3.3	-2.8	-5.3
Official Reserves	-0.8	-17.8	-3.3	-3.4	-1.9	-9.3	-7.1	3.0	-0.8	-1.2

Source: CBT.

Direct Investments

46. The continuous wave of privatization and mergers from 2005 to late 2006 helped raise the rate of direct investments (see Box). In 2006, net direct investment inflows realized as USD 19.2 billion. The weight of direct investments, accounting for over one-third of capital inflows, in financing the balance of payment grew gradually in 2006. The high-rated increase in direct investments as non-debt capital inflows, remains important for securing the sustainable financing of the current account deficit.

47. Apart from privatizations and mergers, nonresidents' real estate buying in Turkey constitutes another significant item within direct investment inflows. Real estate buying yielded a USD 2.9bn-worth direct capital inflow in 2006.



Source: CBT.

BOX: FOREIGN DIRECT INVESTMENT INFLOWS IN TURKEY IN 2006

Direct investments to Turkey hit a record-high increase in the last two years, on account of privatizations and mergers. Net foreign direct investment inflows amounted to USD 20.2 billion in 2006, out of which equity capital investments represented USD 17.2 billion. In 2006, investments equaled to USD 17.8 billion, but on the other hand, showed an outflow of USD 0.6 billion from the existing investments. Of the remainder, USD 2.9 billion came from nonresidents' net real estate purchase in Turkey and USD 0.1 billion from foreign-capital companies' long-term borrowings from their affiliates abroad.

Table 1. Foreign Direct Investment in Turkey in 2006
(million US dollars)

<u>Investor:</u>	<u>Capital Owner:</u>	<u>Sector:</u>	<u>Investment:</u>
Vodafone International Holdings	Vodafone / Telsim	Transportation, Storage, Communication	4690
National Bank of Greece	Finansbank	Financial Intermediation	2774
Dexia	Denizbank	Financial Intermediation	3220
Oger Telecom	Oger / Turk Telekom	Transportation, Storage, Communication	1500
OMV Aktiengesellschaft	Doğan Holding / POAŞ	Wholesale and Retail Trade	1054
Goldman Sachs / Babcock&Brown / Global Inv. House / Islamic Dev. Bank	TEPE/Akfen/TAV	Transportation, Storage, Communication	395
TPG Partners IV LP	Martini / Mey İçki	Wholesale and Retail Trade	333
Groupama International	Başak Sigorta&Emeklilik	Financial Intermediation	268
Fortis Banque	Fortisbank	Financial Intermediation	201
Tarshish Hapoalim & Investments	Bankpozitif	Financial Intermediation	93
Cadbury Schweppes	Kent Gıda	Food, Beverages and Tobacco	95
The International Investor	Adabank	Financial Intermediation	29
Other Direct Capital Investments			3165
Total			17,817

Note: The table shows the capital transfers realized during 2006.
Source: CBT.

The greatest foreign direct investment capital inflow in 2006 came from the transfer of Telsim's assets to Vodafone in May, with a USD 4.7bn-worth capital investment. Another significant direct capital inflow in the communication sector was Oger Telecommunication's USD 1.5 billion installments in November for its acquisition of 55% stake in Turk Telekom (Table 1).

Particularly during the second half of the year, capital investments prevailed in financial sector. In August, National Bank of Greece acquired 46% stake in Finansbank, resulting in a USD 2.8bn direct capital inflow, and in October and December, Dexia acquired 75% of the shares of Denizbank, producing a USD 3.2bn capital inflow.

As seen from Table 1 above, the majority of direct foreign investments in 2006 were much attracted to services sectors such as transportation, communication, wholesale/retail trade and financial intermediation. 90.1% of the capital inflow was directed to investments in services, 8.5% in manufacturing, particularly chemicals and food, 0.7% in mining and quarrying, 0.6% in electricity, gas and water supply, and 0.03% in agriculture.

As regards the investors presented in Table 1, a great deal of investments originated from EU member states, supported by a significant volume of capital inflow from the Gulf and the United States (Table 2).

Table 2. Country Decomposition of Direct Capital Investment in Turkey
(million US dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>
EU	1028	5001	14,882
The Netherlands	568	381	5171
Belgium	25	1088	3456
Greece	38	11	2787
Austria	1	9	1108
UK	126	165	883
France	34	2107	444
Germany	73	391	366
Luxembourg	0	39	246
Italy	15	692	209
Other EU	148	118	212
EFTA	6	41	69
Other European	100	1609	15
USA	36	88	693
The Gulf	43	1675	1791
Other Countries	78	120	367
Total	1291	8534	17,817

Note: The table shows the countries where capital transfers are made, rather than the countries where investors are located.

Source: CBRT.

2006 has been a year of considerable increases in direct investment inflows for Turkey as well as for the rest of the world. In 2006, global direct investments climbed to USD 1.2 trillion, with a 34.3% rise over the previous year. Direct investments to developed countries reached USD 0.8 trillion, with a 47.7% rise, while those to developing countries increased by 10%, amounting to USD 0.4 trillion (Table 3).

Among individual developing countries, China is the one that attracts direct investments the most, followed by Hong Kong, Russia and Singapore. Turkey, on the other hand, attracted a record-high level of direct investments in 2006, ranking the fifth among developing countries ahead of Mexico, Brazil, Chile, India, Romania and Thailand.

Table 3. Direct Investments Worldwide
(billion US dollars)

	<u>2004</u>	<u>2005</u>	<u>2006</u>
World	710.8	916.3	1230.4
Developed economies	396.1	542.3	800.7
UK	56.2	164.5	169.8
France	31.4	63.6	88.4
Italy	16.8	20.0	30.0
Germany	-15.1	32.7	8.1
Poland	12.9	7.7	16.2
Hungary	4.7	6.7	6.2
Czech Rep.	5.0	11.0	5.4
Other EU	101.8	115.7	224.9
USA	122.4	99.4	177.3
Japan	7.8	2.8	-8.2
Other Dev. Countries	52.2	18.2	82.6
Developing economies	275.0	334.3	367.7
China	60.6	72.4	70.0
Hong Kong	34.0	35.9	41.4
Singapore	14.8	20.1	31.9
Russia	15.4	14.6	28.4
Turkey	2.8	9.7	17.1
Mexico	18.7	18.1	16.5
Brazil	18.1	15.1	14.8
Chile	7.2	6.7	9.9
India	5.5	6.6	9.5
Romania	6.5	6.4	8.6
Thailand	1.4	3.7	7.9
Kazakhstan	4.1	1.7	6.5
Nigeria	2.1	3.4	5.4
Egypt	2.2	5.4	5.3
Other Dev.ing Countries	81.6	114.5	94.5

Note: The 2006 data are UNCTAD's preliminary estimates.

Source: UNCTAD Investment Brief, Number 1- 2007.

As suggested by UNCTAD, the continued rise in direct investments largely reflects high economic growth and strong economic performance in both developed and developing countries. Increased corporate profits and resulting higher stock prices have boosted the value of cross-border mergers and acquisitions. Continued liberalization of trade regimes and investment policies added further stimulus. On the other hand, maintenance of the recent high performance of direct investments might be hindered by several risks such as the projected partial slowdown in global economy in 2007, wide current-account deficits, abrupt exchange-rate shifts, rising global interest rates, added inflationary pressures and high commodity prices.¹

¹ UNCTAD press release UNCTAD/PRESS/PR/2007/001. "Foreign Direct Investment Rose By 34% In 2006".

Portfolio Investments

48. Government securities acquired by nonresidents amounted to USD 0.9 billion in the first quarter of 2006, but the subsequent market fluctuations raised the disposal of securities to USD 4.2 billion in the second quarter. By July, with the removal of abrupt changes in financial markets through measures taken, nonresident investors returned as net buyers of securities, and bought government securities worth USD 9.4bn and stocks worth USD 0.9bn in the second half of 2006. As a whole, in 2006, nonresidents bought a net USD 6.1bn-worth government securities and USD 1.9bn-worth stocks.

49. In January and March, the Treasury issued 30-year bonds worth USD 1.5 billion and 10-year notes worth EUR 750 million, respectively, and in July, it re-opened an additional USD 500 million of such securities. The fourth was carried out in September, with a total USD 1.5bn-worth issue, out of which the amount of USD 1.17 billion was issued in exchange of USD-denominated notes with a maturity over the period 2006-2010, and the amount of USD 0.3 billion against cash. The Treasury released three more issues in October and November amounting EUR 0.5 billion, USD 1.25 billion and USD 0.75 billion. In all, the Treasury borrowed a total of USD 5.8 billion via such issues in 2006 and repaid an amount of USD 2.5 billion.

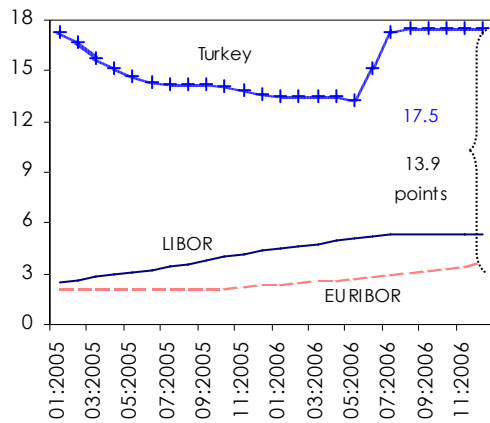
50. Fund outflows from emerging markets to developed economies in May 2006 destabilized global liquidity conditions, by which Turkey was more severely affected due to the structure of nonresidents' portfolio. Prices started to reflect changes in the exchange rate as a result of the financial-market turbulence. In order to avoid any damage to medium-term expectations and pricing behaviors, the Monetary Policy Committee (MPC) called for two extraordinary meetings on 7th and 25th June 2006, and raised policy rates by 1.75 and 2.25 percentage points, respectively. The MPC, at its meeting of July 20, 2006, evaluated that a modest tightening was required against the soaring oil and other commodity prices and the gap between expectations and targets, and decided to increase policy rates by 0.25 percentage points. Accordingly, by July 20, 2006, the overnight borrowing rate and lending rate applied in CBT's Interbank Money Market and Istanbul Stock Exchange Repo/Reverse Repo Market were raised to 17.5% and 22.5%, respectively.

51. Federal Reserve continued to raise indicative interest rates in 2006. The Fed hiked interest rates to 5.25%, by 25 basis points four times in a row – on 31st January, 28th March, 10th May and 29th June, while ECB raised its lending rate to 3.0%, by 0.25 points three times – on 8th March, 15th June and 9th August. The Bank of England lifted its lending rate to 4.75% on 16th August by 0.25 points, up from its year-ago level of 4.5%. BoJ, on the other hand, raised its zero overnight interest rate to 0.25% in July in response to financial-market fluctuations.

52. In emerging economies, the inflow of portfolio investments continued through 2005, although yield spreads fell and interest rates declined. This demonstrates that the differences in interest rates across developing countries as well as the ongoing economic stability secured by structural reforms and the forward-looking positive expectations significantly influenced the investments in question. In the second quarter of 2006, interest rates surged up in response to the fluctuations in financial markets. Correspondingly, the downfall in yield spreads was replaced by an upturn.

Interest rates

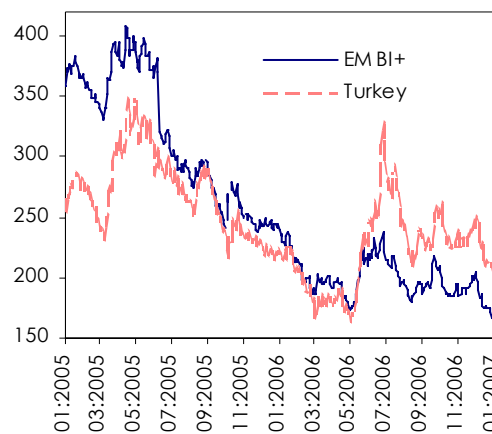
(monthly average, percent)



Source: IMF, www.euribor.org, CBRT.

Secondary Market Spreads

(basis point)



Source: JPM organ.

LIBOR: One-month maturity based on USD deposits.
 EURIBOR: One-month maturity based on EUR deposits.
 Turkey: Overnight rate in Interbank money market

Spread: The difference between the quoted rates of return on countries' security issues and US bonds

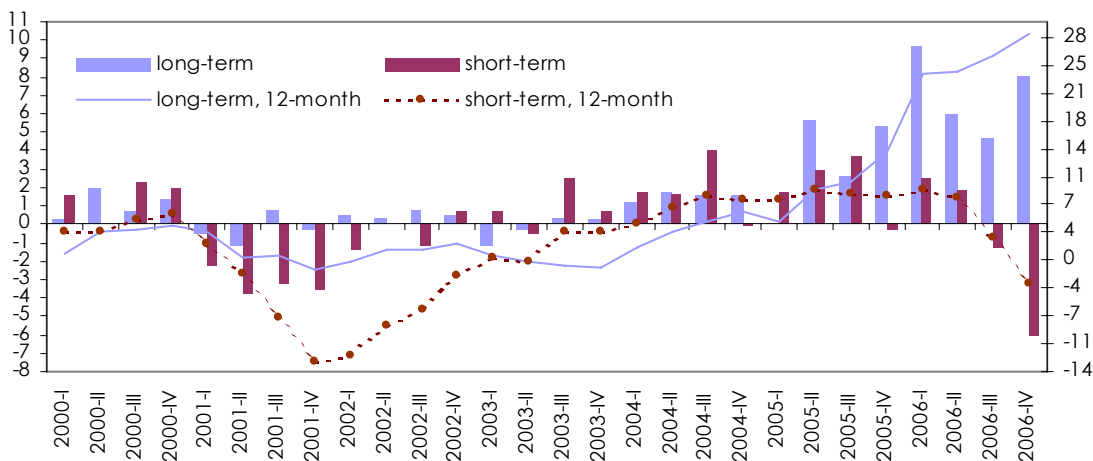
Other Investments

53. Turkey enjoyed a net capital inflow of around USD 14.2 billion in 2006 registered under the "other investments" item. Over the year, private firms and banks located in Turkey borrowed long-term external loans worth USD 28 billion. Besides, net trade credits used through 2006 amounted to USD 2.3 billion on timed imports.

54. The upsurge in the share of long-term credits in total financing that began in 2005 continued in 2006. Throughout the year, banks borrowed long-term loans amounting to USD 9.8 billion net and repaid an amount of USD 4 billion of short-term loans. Private companies, on the other hand, borrowed a net amount of USD 18.2 billion in long-term and USD 0.5 billion in short-term.

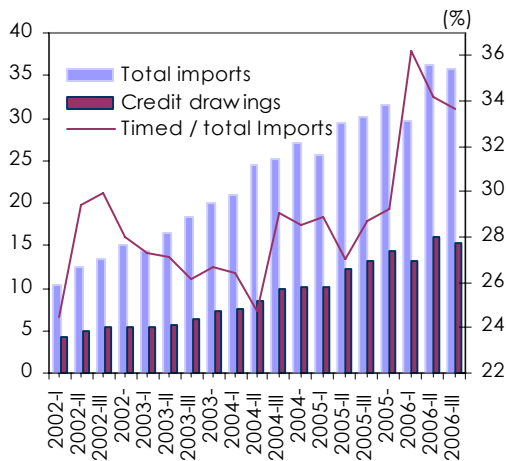
Long and Short-term capital

(billion US dollars)



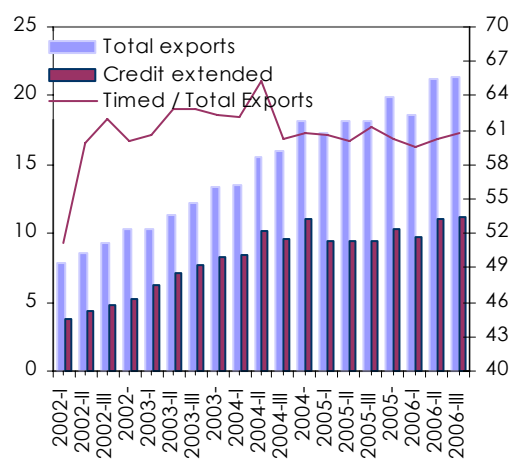
55. Parallel to the import growth in 2006, timed imports and trade credit transactions showed an increase of 15.5% and 17.9%, respectively, over the previous year. Likewise, along with the 16.1% export growth, cross-border trade credits increased by 14.8% compared to year-ago rates.

Trade credit drawings and imports
(billion US dollars)



Source: CBT, TURKSTAT.

Trade credits extended abroad & exports
(billion US dollars)

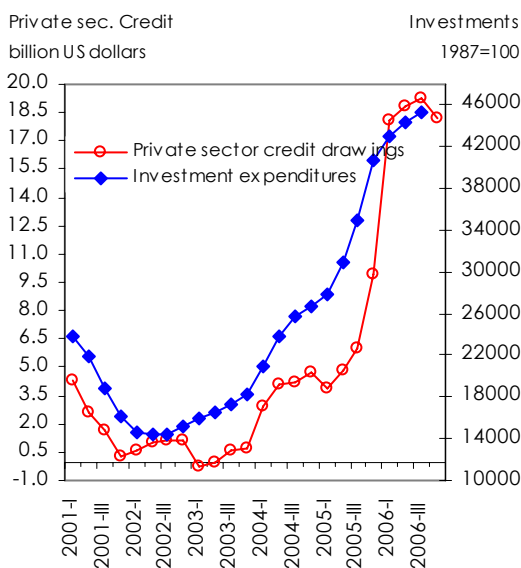


Source: CBT, TURKSTAT.

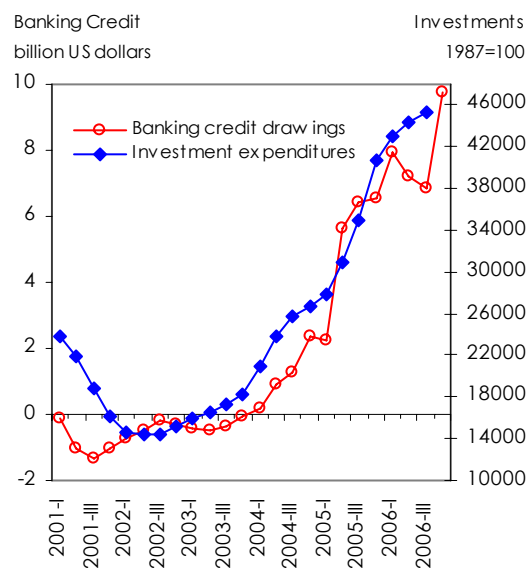
56. Long-term credit utilization displayed a sharp increase in 2006 along with the 7.4% GDP growth and the 23.6% rise in private sector investment expenditures in 2005. This increase continued into the first two quarters of 2006, raising private investment expenditures by 21.5%. In the third quarter, investment expenditures remained on the rise, together with the continued increase in long-term credit utilization. In May and June, however, the uncertainty stemming from financial-market fluctuations adversely affected the pace of investment expenditures in the third quarter.

57. In 2006, privatization-related foreign loans utilized by the private sector took up a significant proportion of long-term credit transactions.

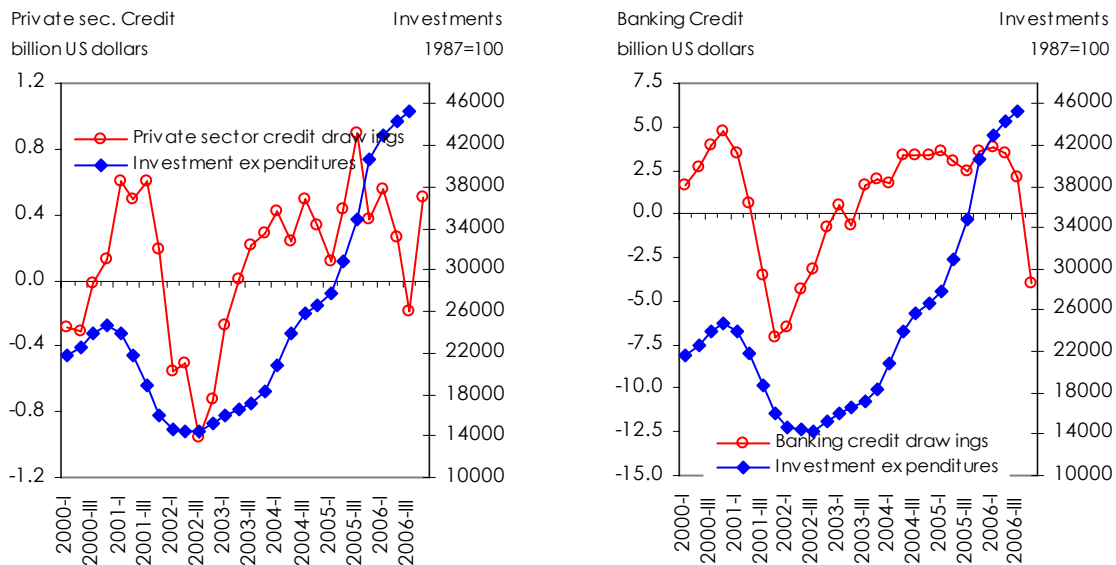
Long-term net credit use and private sector investment expenditures
(12-month cumulative)



Source: CBT, TURKSTAT.



Short-term net credit use and private sector investment expenditures (12-month cumulative)



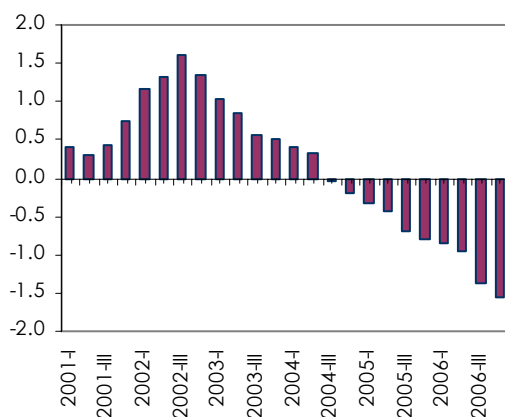
Source: CBT, TURKSTAT.

58. At the end of 2005, the CBT completed the repayment of IMF loans used before and during 2001. The Treasury, on the contrary, continued to repay its IMF loans in 2006, an amount equal to USD 4.5 billion.

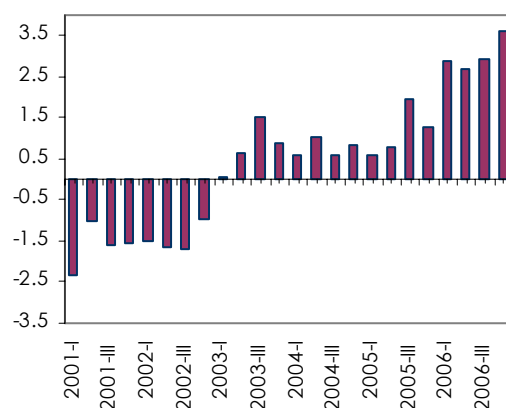
59. The outflow from long-term FX deposit accounts and super FX accounts opened by nonresident workers at CBT continues since April 2003. Likewise, the outflow from short-term accounts that started in the second quarter of 2004 still continues. Consequently, deposits at CBT decreased by USD 1.3 billion in 2006. These outflows can be attributed to the gradual interest rate cuts on both FX deposit accounts and super FX accounts. As a matter of fact, 1-, 2- and 3-year maturity Euro-denominated super FX account rates, which were, in 2002, 8%, 9% and 10%, respectively, dropped, on 6th March 2006, to 2.25%, 3.25% and 3.75%, respectively.

Deposit Belonging to Non-Residents (12-month, million US dollar)

FX deposits with credit letter and Super FX accounts



Non-residents' short-term deposits in banks



Source: CBT.

60. Nonresidents' deposits at domestic banks surged in the last quarter and increased by USD 5.9 billion over the whole year.

61. At the end of the third quarter, total external debt stock rose to USD 196.8 billion, by USD 27.4 billion up from its end-2005 level. USD 26.8 billion of the rise was private-sector

originated, whereas public sector added only USD 0.6 billion to the rise. USD 154.9 billion of the total external debt stock involves medium- and long-term external debts, while short-term debts amount to USD 41.8 billion.

62. The improvement seen in external debt indicators in 2005 reversed in the first half of 2006. The ratio of external debt stock to GDP that was reduced to 47.2% at end-2005 climbed to 51.1% by September 2006. On the other hand, the debt-exports ratio that soared in early 2006 fell down in the third quarter.

Selected External Debt Indicators (%)

	2004		2005				2006		
	III	IV	I	II	III	IV	I	II	III
External Debt Stock / GDP	53.2	54.0	51.7	50.0	48.2	47.2	50.1	50.6	51.1
External Debt Stock / Exports*	260.5	256.8	240.4	234.5	232.8	232.1	248.3	247.9	244.0
Debt Service / GDP	10.5	10.1	9.7	10.2	10.1	10.1	9.5	9.4	9.2
<i>Memo:</i>									
<i>External Debt Stock (billion \$)</i>	<i>152.2</i>	<i>162.2</i>	<i>160.9</i>	<i>163.0</i>	<i>166.8</i>	<i>170.5</i>	<i>185.8</i>	<i>193.3</i>	<i>198.3</i>
<i>GDP (billion \$)</i>	<i>285.7</i>	<i>300.6</i>	<i>311.2</i>	<i>326.2</i>	<i>346.3</i>	<i>361.5</i>	<i>370.5</i>	<i>381.6</i>	<i>388.1</i>

* Excluding shuttle trade and other goods.

Source: TURKSTAT, Undersecretariat of Treasury.

VI. APPENDIX

CURRENT ACCOUNT (USD million)

	Current Account										
	Net	Foreign Trade			Services		Income		Transfers		
		Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances
	<i>(annual)</i>										
2000	-9822	-21959	27775	2946	-54503	11375	7636	-4002	-4825	4764	4560
2001	3390	-3733	31334	3039	-41399	9136	8090	-5000	-5497	2987	2786
2002	-1521	-7283	36059	4065	-51554	7885	8479	-4556	-4416	2433	1936
2003*	-8134	-14010	47253	3953	-69340	10511	13203	-5655	-4579	1020	729
2004	-15604	-23878	63167	3880	-97540	12784	15888	-5637	-4343	1127	804
2005	-22708	-33527	73476	3473	-116774	15164	18152	-5799	-5050	1454	851
2006	-31460	-40063	85279	6408	-137322	13538	16853	-6622	-6354	1687	1111
	<i>(quarterly)</i>										
2005 I	-6113	-6312	17241	713	-25740	1365	1995	-1410	-1089	244	181
II	-6809	-8621	18144	942	-29354	3098	3760	-1659	-1240	373	171
III	-2411	-9620	18130	813	-30234	8114	8817	-1355	-1347	450	247
IV	-9615	-11392	25093	1243	-39586	3033	4302	-1762	-1692	506	329
2006 I	-8676	-8696	18597	951	-29539	1202	2002	-1498	-1208	316	228
II	-10652	-12236	21276	1430	-36270	2886	3693	-1641	-1513	339	282
III	-4885	-11039	21424	2096	-35669	7318	8038	-1696	-1682	532	309
IV	-7247	-8092	23982	1931	-35844	2132	3120	-1787	-1951	500	292
	<i>(monthly)</i>										
2006 Jan	-2240	-2418	5132	238	-8140	446	722	-387	-318	119	77
Feb	-3268	-2963	6056	328	-9797	257	549	-652	-509	90	68
Mar	-3168	-3315	7409	385	-11602	499	731	-459	-381	107	83
Apr	-3923	-4170	6444	460	-11581	618	937	-442	-457	71	71
May	-3996	-4522	7020	495	-12466	1024	1245	-653	-601	155	126
Jun	-2733	-3544	7812	475	-12223	1244	1511	-546	-455	113	85
Jul	-1785	-3583	7053	591	-11555	2074	2356	-404	-457	128	91
Aug	-1536	-4128	6789	774	-11979	2942	3163	-603	-663	253	110
Sep	-1564	-3328	7582	731	-12135	2302	2519	-689	-562	151	108
Oct	-2339	-3297	6866	565	-11303	1201	1450	-394	-546	151	103
Nov	-2931	-2779	8593	698	-12749	511	888	-838	-842	175	90
Dec	-1977	-2016	8523	668	-11792	420	782	-555	-563	174	99
	<i>(12-month)</i>										
2006 Jan	-23517	-34337	73611	3505	-117694	15090	18184	-5755	-5089	1485	868
Feb	-24509	-35343	74015	3597	-119167	15130	18185	-5802	-5099	1506	878
Mar	-25271	-35911	74832	3711	-120573	15001	18159	-5887	-5169	1526	898
Apr	-26712	-37491	75148	3842	-122559	14974	18236	-5716	-5296	1521	910
May	-28496	-39036	76191	4029	-125213	14826	18081	-5756	-5339	1470	978
Jun	-29114	-39526	77964	4199	-127489	14789	18092	-5869	-5442	1492	1009
Jul	-29910	-40007	79254	4586	-129448	14534	17846	-5890	-5594	1453	1022
Aug	-30351	-40295	80490	5053	-131155	14284	17556	-5895	-5605	1555	1047
Sep	-31588	-40945	81258	5482	-132924	13993	17313	-6210	-5777	1574	1071
Oct	-33091	-41839	81352	5681	-134137	13425	16864	-6265	-5903	1588	1081
Nov	-33412	-41733	84002	6051	-137213	13244	16808	-6590	-6218	1667	1097
Dec	-31460	-40063	85279	6408	-137322	13538	16853	-6622	-6354	1687	1111

Source: CBT.

* Due to the change in definition, 2003 travel revenues revised upward, while workers' remittances revised downward. Since this change is not applied to previous years, travel revenues and workers remittances should not be compared.

CAPITAL and FINANCIAL ACCOUNT (USD million)

	Capital and Financial Account																
	Net		Financial Account														
	Net	Foreign Direct Investment	Portfolio Investment				Net	Currency and Deposits	Other Investment								
			Net	Assets	Liabilities				Net	Trade Credits	Credits			Deposits			
Equity Securities	Debt Securities	Monetary Authority			General Gov.	Banks	Other Sectors	Monetary Authority			Banks						
	(annual)																
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1633	-1633	2855	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1406	1406	962	-593	-2096	-16	1519	7190	594	7967	2483	-6138	11834	-1028	371	1336	-988
2003	3095	3095	1253	2465	-1386	905	2946	3424	724	4410	2181	-1479	-765	1975	1022	497	871
2004	13410	13410	2024	8023	-1388	1427	7984	4187	-5965	11142	4201	-4414	-267	5708	5109	-209	856
2005	20487	20487	8723	13437	-1233	5669	9001	16174	-342	15915	3074	-2881	-4637	9248	10309	-787	1276
2006	34619	34619	19234	7349	-4053	1939	9463	14150	-10279	26508	2260	0	-5223	5813	18754	-1268	5890
	(quarterly)																
2005 I	5562	5562	655	3796	-1138	1851	3083	4386	3622	179	510	-1008	-381	754	394	-113	11
II	4087	4087	174	3062	90	991	1981	4230	-2954	6854	1263	-945	-1189	4056	2868	-191	870
III	3131	3131	2307	2062	-335	1828	569	669	-3454	4154	617	-603	-1983	1979	2944	-269	1310
IV	7707	7707	5587	4517	150	999	3368	6889	2444	4728	684	-325	-1084	2459	4103	-214	-915
2006 I	9490	9490	1361	3578	-307	641	3244	11659	1135	10909	246	0	-1993	2433	8764	-184	1635
II	8943	8943	7795	-4528	-109	367	-4786	2693	-3328	6595	1934	0	-2012	2983	3240	-296	632
III	7254	7254	3716	4078	-1305	591	4792	262	-2827	2857	160	0	361	252	2989	-453	-598
IV	8932	8932	6362	4221	-2332	340	6213	-464	-5259	6147	-80	0	-1579	145	3761	-335	4221
	(monthly)																
2006 Jan	2915	2915	727	2069	-151	465	1755	2067	-2271	3720	-592	0	-305	-236	4755	-50	148
Feb	4678	4678	305	1211	284	199	728	7173	1859	5282	204	0	-1407	1348	3072	-55	2119
Mar	1897	1897	329	298	-440	-23	761	2419	1547	1907	634	0	-281	1321	937	-79	-632
Apr	2993	2993	533	-585	-161	223	-647	3437	1175	2079	471	0	-470	1053	455	-85	640
May	3259	3259	6737	-3107	-220	226	-3113	-1702	-2253	453	795	0	-1608	635	1713	-118	-1010
Jun	2691	2691	525	-836	272	-82	-1026	958	-2250	4063	668	0	66	1295	1072	-93	1002
Jul	1487	1487	205	1716	117	324	1275	-682	-1289	267	227	0	-316	71	650	-78	-339
Aug	3909	3909	3264	1616	-543	85	2074	-603	-1615	721	54	0	853	-1176	1105	-202	29
Sep	1858	1858	247	746	-879	182	1443	1547	77	1869	-121	0	-176	1357	1234	-173	-288
Oct	3455	3455	2805	4013	56	492	3465	-4418	-4682	270	-182	0	-813	-800	676	-95	1469
Nov	1383	1383	1924	1093	-294	469	918	-2061	-206	-1080	-63	0	-1574	-841	824	-130	705
Dec	4094	4094	1633	-885	-2094	-621	1830	6015	-371	6957	165	0	808	1786	2261	-110	2047
	(12-month)																
2006 Jan	21041	21041	9314	12438	-528	5281	7685	16994	-3515	20041	2785	-2719	-4809	8624	15174	-800	1475
Feb	23982	23982	9275	12170	-290	4954	7506	24838	-2063	26635	3240	-2222	-6084	10514	17994	-826	3709
Mar	24415	24415	9429	13219	-402	4459	9162	23447	-2829	26645	2810	-1873	-6249	10927	18679	-858	2900
Apr	25009	25009	9861	12759	-307	4371	8695	25227	-955	26452	2545	-1714	-6390	11407	18324	-890	2864
May	26926	26926	16634	8674	-955	4501	5128	23875	-1465	25683	2961	-1264	-7276	11483	19109	-925	1296
Jun	29271	29271	17050	5629	-601	3835	2395	21910	-3203	26386	3481	-928	-7072	9854	19051	-963	2662
Jul	29493	29493	16172	6320	231	3588	2501	19053	-4175	24397	3636	-775	-7140	9046	18225	-1011	2118
Aug	32849	32849	18950	8555	-281	3172	5664	20019	-3499	24652	3380	-661	-4899	7719	18552	-1095	1358
Sep	33394	33394	18459	7645	-1571	2598	6618	21503	-2576	25089	3024	-325	-4728	8127	19096	-1147	754
Oct	36051	36051	21026	11902	-1353	3264	9991	13296	-12095	26120	2381	-325	-4920	8071	19646	-1169	2154
Nov	36388	36388	19837	10524	-1973	2756	9741	11969	-10990	24985	2499	-325	-4782	5487	18879	-1236	4181
Dec	34619	34619	19234	7349	-4053	1939	9463	14150	-10279	26508	2260	0	-5223	5813	18754	-1268	5890

Source: CBT.