

**CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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**BALANCE OF PAYMENTS  
REPORT**

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**July 2003**

**SUMMARY**

BALANCE OF PAYMENTS (USD million)						
	July			January-July		
	2002	2003	% Change	2002	2003	% Change
Current Account Balance	67	-464	..	-1306	-4001	..
Foreign Trade Balance	-1499	-2102	40,2	-7872	-11094	40,9
Exports	3093	4081	32,0	19516	25513	30,7
Imports	-4592	-6183	34,6	-27388	-36607	33,7
Exports/Imports	67,3%	66,0%	..	71,3%	69,7%	..
Capital and Financial Accounts	-185	-88	..	2198	2691	..
Financial Account (Excl. Off. Reserves)	843	395	..	5615	3707	..
Change in Official Reserves†	-1028	-483	..	-3417	-1016	..

Source: CBRT.

† (-) sign refers to the increase in official reserves.

**In July 2003:**

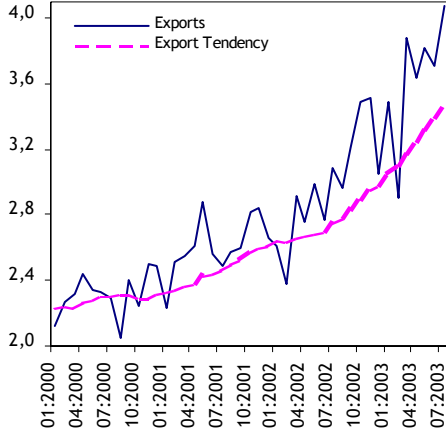
Export increased by 32 percent compared to the same month of the previous year and rose to US dollar 4.1 billion from US dollar 3.1 billion. During the same period, imports rose by 34.6 percent from US dollar 4.6 billion to US dollar 6.2 billion. Hence, foreign trade deficit realized as US dollar 2.1 billion and the ratio of exports to imports dropped compared to the previous month and became 66 percent. Current account produced a deficit of US dollar 464 million, while financial account excluding official reserves provided a surplus of US dollar 395 million.

**In January-July 2003:**

Export increased by 30.7 percent compared to the same period of the previous year and rose to US dollar 25.5 billion from US dollar 19.5 billion. During the same period, imports rose by 33.7 percent from US dollar 27.4 billion to US dollar 36.6 billion. Hence, foreign trade deficit realized as US dollar 11.1 billion and the ratio of exports to imports dropped compared to the same period of the previous year and became 69.7 percent. Current account produced a deficit of US dollar 4 billion, while financial account excluding official reserves provided a surplus of US dollar 3.7 billion.

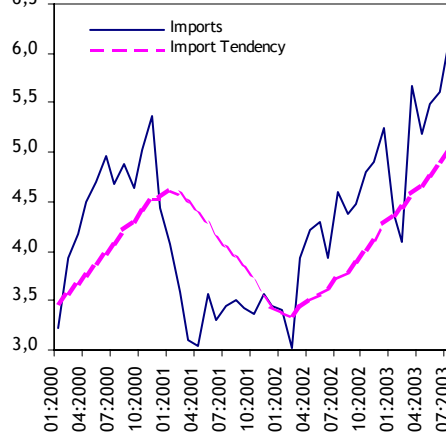
## SUMMARY

### EXPORTS (USD billion)



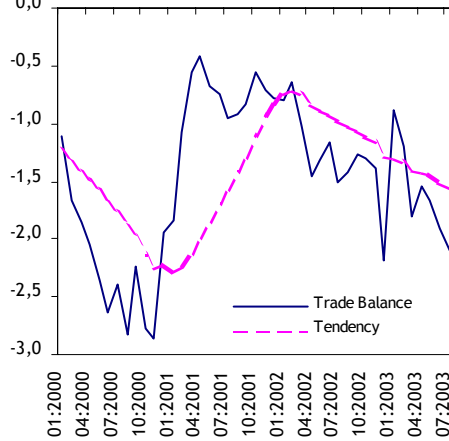
Sour ce: SIS.

### IMPORTS (USD billion)



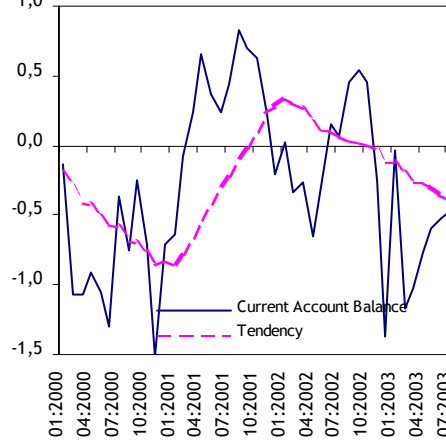
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### TRADE BALANCE (USD billion)



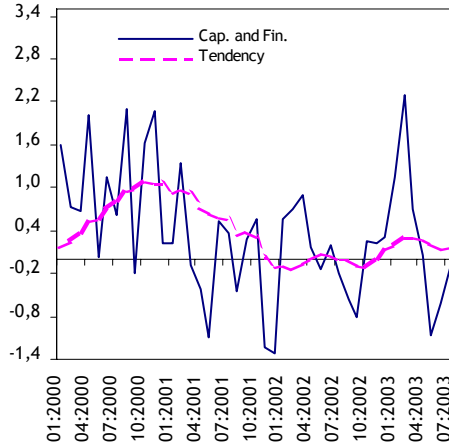
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### CURRENT ACCOUNT BALANCE (USD billion)



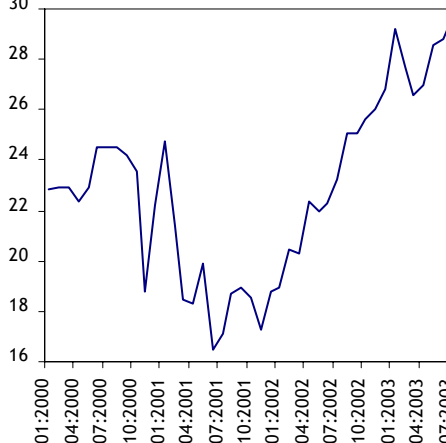
Sour ce: CBRT.

### CAPITAL and FINANCIAL ACCOUNT (USD billion)



Sour ce: CBRT.

### CBRT INTERNATIONAL RESERVES (USD billion)



Sour ce: CBRT.

Trends are calculated with 12-month moving average.

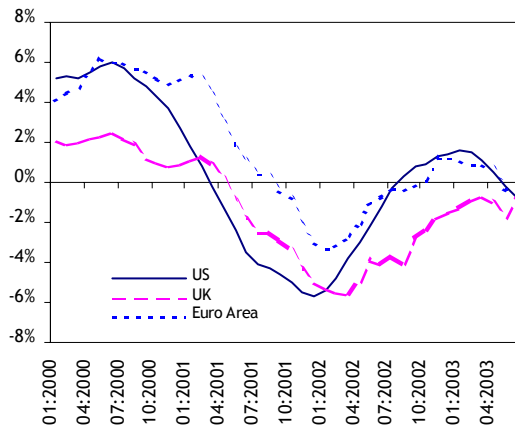
## I. FACTORS AFFECTING FOREIGN TRADE

### Foreign Demand Developments

1. The data announced in August reinforced the optimistic expectations for a recovery trend in the world economy. Due to the US retail sales, which realized higher than expected and Japan's gross domestic product figure (GDP) for the second quarter of the year, growth expectations for the world economy for 2003 was revised upward. Growth forecasts for the USA for the second quarter of the year were raised by 0.3 point and became 2.5 points. In September issue of IMF World Economic Outlook (WEO) report, the USA growth rate for 2003 was predicted as 2.6 percent and the world economy as 3.2 percent.
2. Japan's investment expenditures and export performance are the outstanding determinant factors in the GDP growth recorded in the second quarter. Looking ahead, the ongoing deflation, weaknesses in the balance-sheet structures of business, financial and public sectors stand as significant impediments for a revival trend expected for the second half of the year. According to IMF WEO, Japan economy is predicted to grow by 2 percent in 2003.
3. Preliminary estimations show that European Union (EU) and Euro Area GDP maintained their sluggish course in the second quarter of the year as well. According to these predictions, no growth was recorded in both areas in the second quarter compared to the previous quarter, while annual growth rates reduced notably. In June, industrial production in Euro Area and EU declined by 1.6 percent and 0.7 percent, respectively, compared to the same month of the previous year. Moreover, drops were observed in GDP figures of Germany, France and Italy in the second quarter of the year. According to IMF WEO report, Euro Area is expected to grow by only 0.5 percent in 2003.

#### INDUSTRIAL PRODUCTION

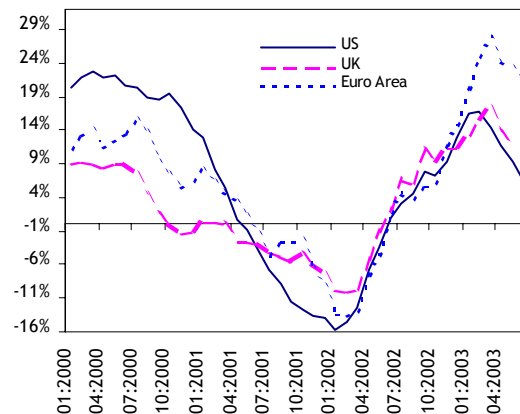
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

#### IMPORTS

(US dollars, 3 month-moving average, annual percentage change)



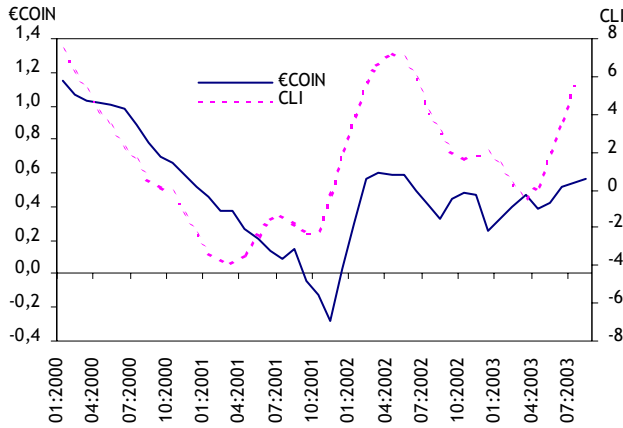
Source: IMF, ECB.

4. The leading indicators issued by OECD in July reveal that the economic performance of OECD countries is continuing to recover. The six-month growth rate of leading indicators of OECD rose four successive months and the rate of increase in July displayed a substantial upsurge compared to the previous three months. When the leading indicators are analyzed by countries, it is observed that while the USA and Japan are giving strong recovery signals, Euro Area's recovery signal is rather weak.

5. EUROCOIN (Coincident Indicator) indicator, which provides monthly GDP (Gross Domestic Product) growth expectations, shows that the economic growth in Euro Area displayed an upward trend throughout July and August. However, the decline in industrial production observed in June led to a downward revision in the June data. These indicators

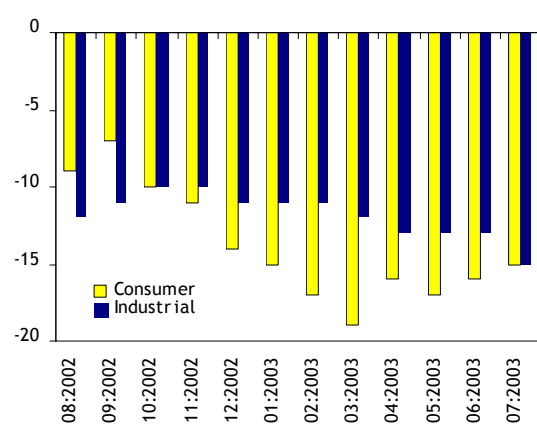
point out that the economic stagnation will gradually come to an end in the second half of the year.

LEADING INDICATORS: €COIN (3-month % change)  
OECD CLI (annualized 6-month % change)



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU  
(seasonally adjusted)

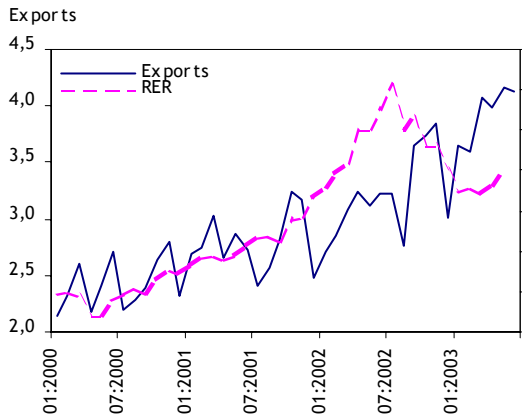


Source: Eurostat.

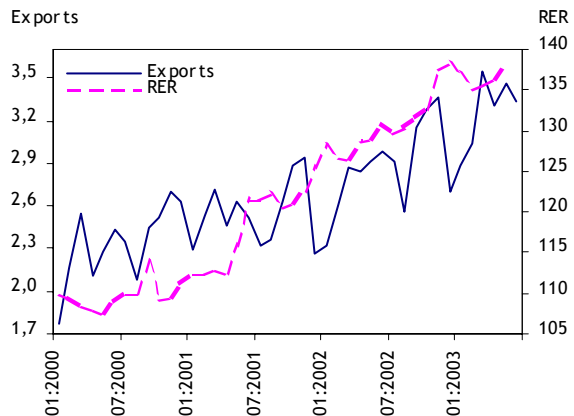
6. Although consumer confidence in EU countries entered in a recovery trend starting from the second quarter of the year compared to the first quarter, it has been displaying a poor performance compared to 2002. Industrialist confidence, which pursued a horizontal course in the same period, deteriorated in July compared to the previous month and fell to its lowest level of the last twelve months.

EXPORTS AND REAL EXCHANGE RATE IN EU CANDIDATE COUNTRIES (1995=100)†

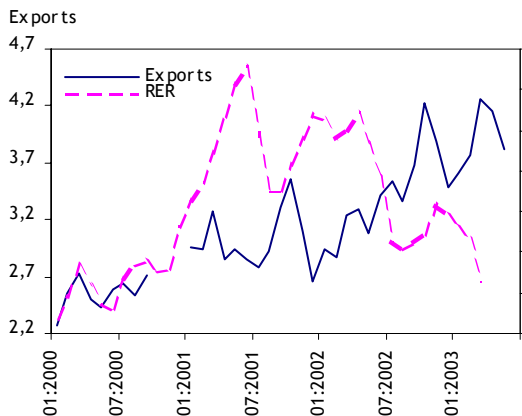
CZECH REPUBLIC



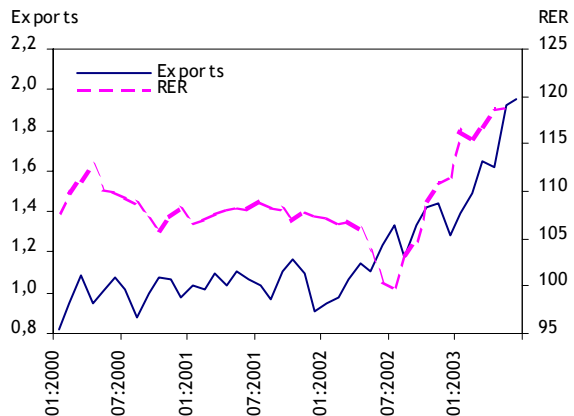
HUNGARY



POLAND



SLOVAK REPUBLIC

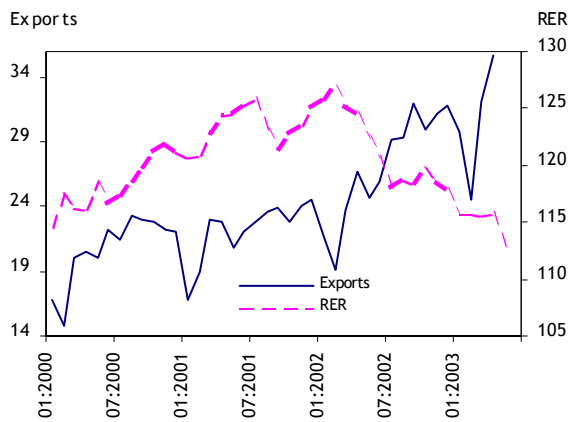


† Increase in real exchange rate index signifies the strengthening of domestic currency.

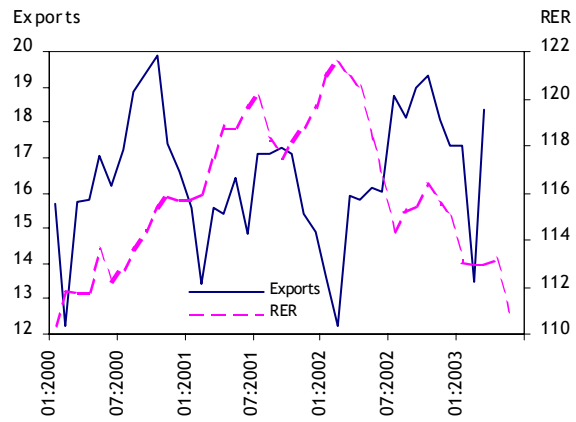
Source: IMF.

EXPORTS IN RIVAL COUNTRIES (billion US dollars) and REAL EXCHANGE RATE (1995=100)†

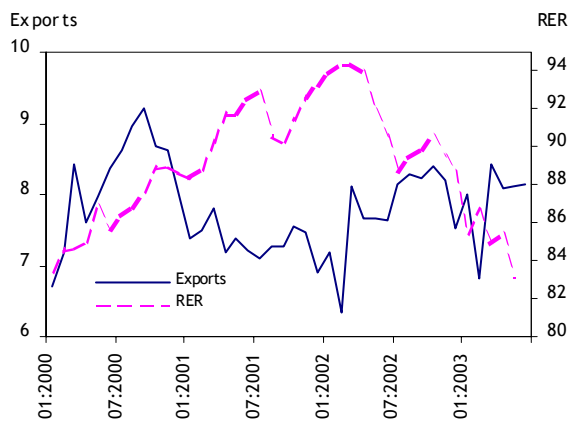
CHINA



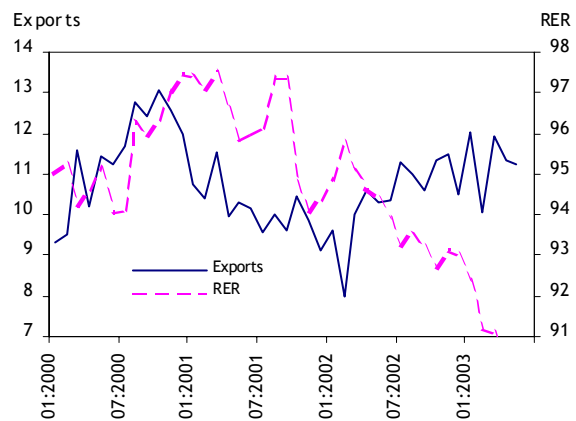
HONG KONG††



MALAYSIA



SINGAPORE



† Increase in real exchange rate indicates the strengthening of domestic currency.

†† Nominal effective exchange rate has been used since real exchange rate for Hong Kong is not available.

Source: IMF.

7. In January-July period, EU's imports from non-EU countries remained unchanged compared to the same period of the previous year and realized as 573 billion euros. EU's imports from Turkey rose by 11 percent in January-July period.

8. The weakening trend in the currencies of Czech Republic and Poland that has started in the second half of the previous year is still continuing in 2003. Due to this development, exports gained pace in these countries. Meanwhile, Hungarian forint and Slovakian crown display an upward trend in real terms. On the other hand, Slovakian Republic's exports have entered in a rapid increase tendency since 2002.

9. Real depreciation in the currencies of leading Asian developing countries such as China, Singapore and Malaysia that have started since 2002 is continuing in an accelerated manner.

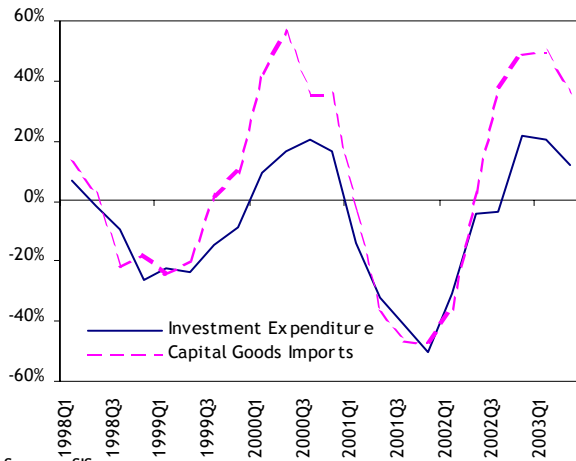
Developments in Domestic Demand and Production

10. In the second quarter of 2003, gross domestic product (GDP) increased by 3.9 percent compared to the same period of the previous year and the growth realized as 5.8 percent in the first half of the year. In the second quarter of 2003, total domestic final demand remained at a low level. During this period, public expenditures recessed, while special consumption and investment expenditures displayed a limited growth.

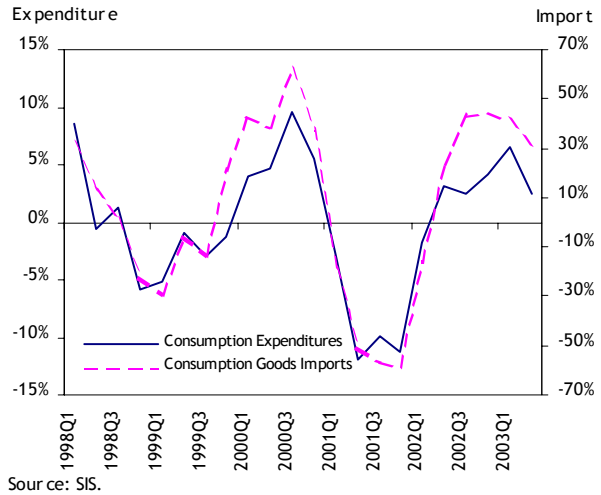
11. In the second quarter of 2003, agricultural sector value added dropped by 2.8 percent compared to the same period of the previous year. This decline stemmed from the drop in the production of cereals, leguminous seeds and field products due to the seasonal factors observed in odd years. On the other hand, industrial sector value added rose by 4.4 percent

in the same period. The upsurge in exports resulting from the private production, which were directed to foreign markets due to limited domestic demand, stood as a significant factor that explains the growth in the industrial sector value added.

**PRIVATE INVESTMENT EXPENDITURES and  
CAPITAL GOODS IMPORTS: REAL  
(annual percentage change)**



**PRIVATE CONSUMPTION EXPENDITURES and  
CONSUMPTION GOODS IMPORTS: REAL  
(annual percentage change)**



12. In July, manufacturing industrial production maintained its upward trend of June and increased by 12.8 percent compared to the same period of the previous year. Export performance became the main determinant of increases in industrial production in July as well.

13. In July, production increases were recorded in the sectors sensitive to domestic demand such as manufacture of food, clothing, textile, paper and chemicals. Besides, the ongoing high-rated increases in manufacture of machinery-equipment support the opinion that firms have accelerated their investment expenditures for the future. Hence, it is considered that domestic demand, which was rather limited in the first three months of the year, started to display a relative recovery.

14. According to the SSI Manufacturing Industry Monthly Business Survey results, the manufacturing industry production in private manufacturing industry is expected to increase at such a high rate of 18.2 percent in August compared to the same month of the previous year. Moreover, the Survey also reveals that capacity utilization rate in private manufacturing industry rose by 0.8 point in August compared to the same month of the previous year and reached 71 percent. These indicators point at an ongoing increase in production in the third quarter as well.

15. The six-month rate of change of Composite Leading Indicators Index (CBLEADING-IPI) compiled by Central Bank of the Republic of Turkey (CBRT) started to acquire positive value as of April and maintained its upward trend. In August, this rate dropped slightly and declined to 6.98. Accordingly, the indicator points out that there will not be any decline in the industrial production in the following period.

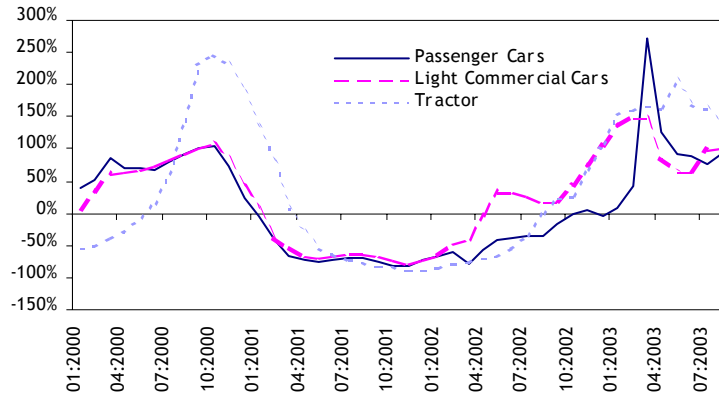
16. Moreover, Real Sector Confidence Index (CBRT-RSCI), which fell slightly in June and July, rose again in August and reached 107.2. According to the indicator, no slowdown is expected in the economic activities in the next period.

17. The rise in passenger and light commercial car sales is another development that manifests the recovery in domestic demand. According to the three-month averages, sales of passenger car and light commercial car boosted by 92.3 percent and 100.1 percent, respectively, in August. In the first eight months of the year, sales of light commercial car gained pace, while the increase in sales of passenger car pursued a horizontal course.

18. Consumer Confidence Index and Consumption Tendency Index compiled by CNBC-e maintained their rapid increase trend that they had entered in following Iraq war in

September as well. In September, the Indices rose by 6.2 percent and 16.6 percent, respectively.

**TRANSPORTATION VEHICLES SALES: GROWTH RATE**  
(3-month moving average, annual % change)



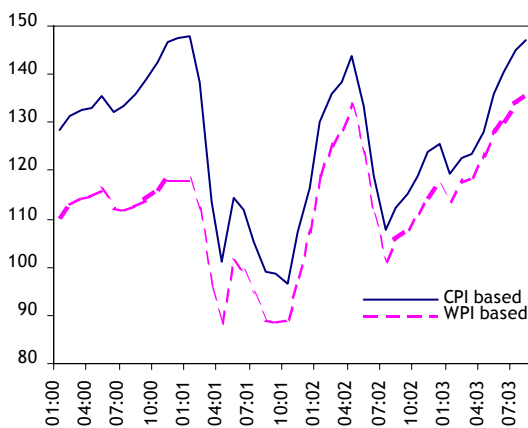
Source: Automobile Industry Association.

**Prices**

19. Nominal foreign exchange basket, which comprises of USD 1 + 0.77 euro, maintained its downward trend since April in August and September as well and fell by 0.9 percent and 1.7 percent, respectively, compared to the previous month. In this period, the real appreciation of Turkish lira maintained its upward trend. In August, the real appreciation rate of Turkish lira against the currencies of her trade partners reached 17.3 percent according to the CPI-based index and 15.8 percent according to the WPI-based index compared to the end-2002.

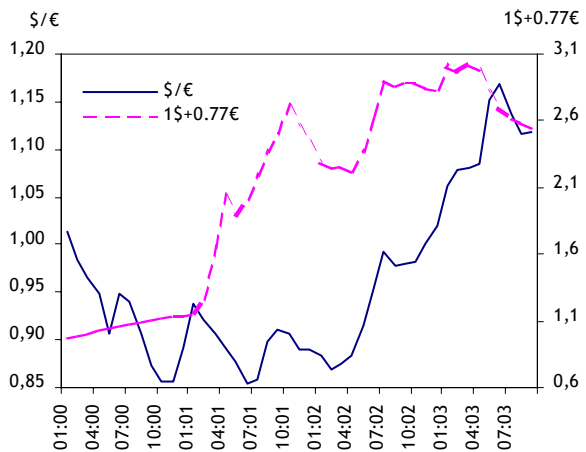
20. Euro, which has been displaying an upward trend against US dollar since 2002, depreciated by 2.7 percent and 1.9 percent against US dollar in July and August, respectively, compared to the previous month. Euro appreciated by 0.1 percent in September and \$/Euro parity reached 1.118.

**REAL EFFECTIVE EXCHANGE RATE**  
(1995=100)†



† Increase in real exchange rate index indicates strengthening of Turkish lira.  
Source: CBRT.

**USD/EURO PARITY and**  
**NOMINAL EXCHANGE RATE BASKET**



21. Terms of foreign trade maintained their recovery trend that has started as of the last quarter of 2002 in June 2003 as well. In June, terms of foreign trade enhanced by 1.9 percent compared to the previous month and by 2.7 percent compared to the same month of the previous year.



REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)†												
	2002				2003							
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Agu
Turkey												
CPI based	2,7	3,3	3,9	1,4	-4,9	2,9	0,7	3,6	6,2	3,5	3,1	1,4
WPI based	2,3	3,0	2,8	2,4	-2,9	3,6	0,7	3,9	4,0	1,8	2,8	1,1
Czech Republic	1,2	-2,6	0,0	-2,2	-2,1	0,5	-0,6	0,7	1,2			
Slovakia	1,6	4,0	1,6	0,6	4,5	-0,8	1,1	1,6	0,2			
Hungary	1,0	0,8	3,6	0,5	-0,8	-1,4	0,3	0,5	1,5			
Poland	0,8	0,8	2,9	-1,0	-1,1	-1,2	-4,1					
Hong Kong ††	0,3	0,7	-0,6	-0,6	-1,6	-0,1	0,0	0,2	-2,0			
Malezia	0,5	0,8	-1,2	-0,9	-3,8	1,6	-2,1	0,6	-2,6			
Singapore	-0,3	-0,6	0,5	-0,1	-0,7	-1,3	-0,1	-1,1	-0,2			
China	-0,2	1,0	-0,9	-0,6	-1,7	-0,1	-0,1	0,2	-2,5			

Source: CBRT, OECD, IMF.

† Increase implies real appreciation of the currency.

†† Due to data limitations, nominal effective exchange rate is used for Hong Kong.

22. In June, export prices rose by 1.8 percent compared to the previous month. Increase tendency in export prices that are calculated on basis of three month-averages continued its downward trend sluggishly in June as well. The downward trend in export prices of textile, clothing, electrical machinery and devices, the leading export items of manufacturing industry, which has been observed since February, reversed in June.

## EXPORT and IMPORT PRICE INDICES (1994=100)

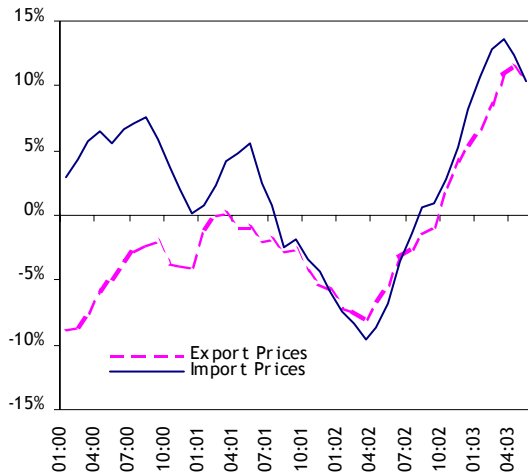
							2003					
	Jul	Agu	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Export Price Index	84,9	83,7	83,9	84,4	85,3	87,7	89,6	92,7	92,3	91,1	89,7	91,4
Manufacturing	85,0	83,6	84,4	84,3	85,1	87,7	89,9	93,4	93,1	91,7	89,9	91,8
Textiles	82,2	78,7	79,0	78,7	82,0	85,2	86,9	90,0	87,5	86,7	87,3	88,8
Wearing Apparel	89,8	89,1	86,6	83,8	85,0	91,7	94,5	99,1	97,5	94,4	91,4	97,3
Chemicals & Products	86,6	85,8	85,4	86,4	87,3	88,2	89,8	92,5	92,9	92,2	88,3	89,9
Manufacture of Basic Metals	85,9	89,8	87,0	88,5	90,6	89,3	90,6	98,7	104,8	107,7	102,5	100,5
Manufacture of Mach. & Equ.	80,0	77,8	80,1	81,2	79,9	83,7	85,2	85,5	83,0	83,2	83,9	85,9
Electrical Mach. & Apparatus	68,8	67,4	72,5	74,1	72,9	75,6	76,3	74,3	72,1	69,0	68,4	70,2
Motor Vehicles & Trailers	91,3	87,7	91,4	93,5	93,5	95,0	93,3	94,2	96,3	96,6	94,8	98,6
Import Price Index	94,0	94,0	96,7	97,1	96,4	98,9	100,7	102,9	101,2	100,1	100,4	98,6
Mining & Quarrying	148,4	153,7	153,9	161,0	145,0	157,1	169,2	179,2	169,6	160,0	151,7	158,0
Crude Oil & Natural Gas	156,4	162,0	163,0	170,2	151,3	166,6	178,5	190,6	181,3	169,1	162,5	169,8
Manufacturing	88,5	87,6	90,3	90,2	91,3	92,4	91,9	93,4	93,6	94,3	95,1	93,2
Textiles	80,6	78,4	82,7	84,8	85,0	88,1	84,0	85,2	87,9	91,6	90,3	91,3
Chemicals & Products	93,6	91,6	94,1	92,9	95,2	97,4	97,1	100,8	100,7	104,1	104,7	101,5
Manufacture of Basic Metals	85,4	86,4	85,2	84,2	89,0	91,5	93,0	95,8	94,9	97,4	95,9	94,7
Manufacture of Mach. & Equ.	87,2	86,8	91,6	91,6	94,7	97,5	92,8	91,6	91,5	93,1	94,2	93,5
Electrical Mach. & Apparatus	69,5	68,8	70,2	70,7	67,7	67,9	67,2	65,8	66,8	67,6	68,0	68,6
Motor Vehicles & Trailers	85,4	90,2	90,3	86,4	85,7	88,7	89,6	88,7	88,4	89,1	93,0	91,6

Source: SIS.

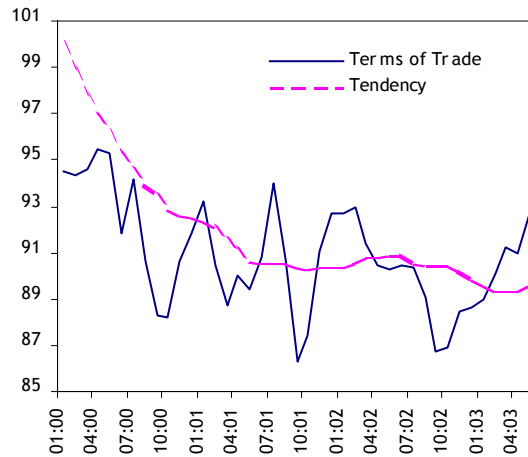
23. In June, import prices rose by 0.3 percent compared to the previous month. Import prices tendency, which is calculated on basis of three-month averages, showed an increase until April. However, this tendency reversed in May and June. Manufacturing industry prices declined by 2 percent in June compared to the previous month.

24. Brent oil prices, which have started to rise in May, reached US dollars 28.40 per barrel in July and US dollars 29.71 per barrel in August. In September, Brent oil prices fell slightly to 26.85 US dollars. On the other hand, futures prices are expected to pursue the horizontal course of September level until the end of 2003, remaining at about US dollars 26.5.

**EXPORT and IMPORT PRICES**  
(3-month moving average, annual % change)

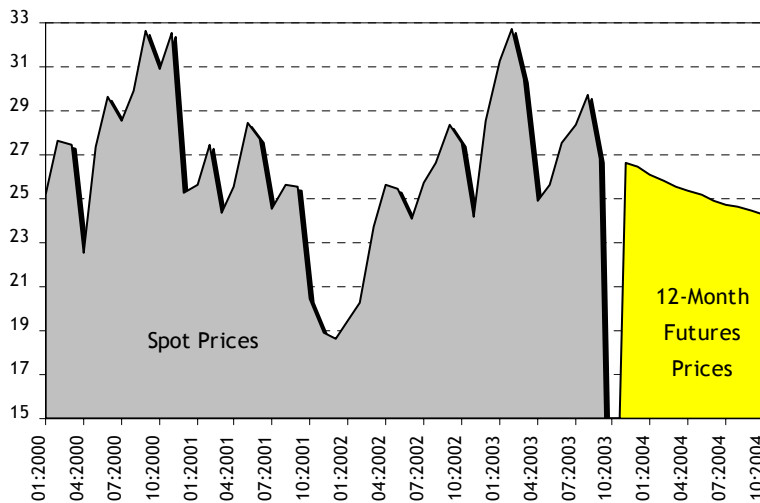


**TERMS OF TRADE (Export Prices/Import Prices) (1994=100)**



Source: SIS.

**CRUDE OIL PRICES: BRENT SPOT and 12-MONTH FUTURES (monthly average, US dollar/barrel)**



Futures Prices	
	24.09.2003
Nov. 2003	26.67
Dec. 2003	26.44
Jan. 2004	26.13
Feb. 2004	25.84
March 2004	25.59
April 2004	25.35
May 2004	25.15
June 2004	24.94
July 2004	24.76
Aug 2004	24.61
Sept 2004	24.46
Oct 2004	24.31

Source: oilnergy.com.

Note: 24.09.2003 future prices of International Petroleum Exchange

25. The seasonal decrease in crude oil demand with the ending of summer led to a partial drop in prices in September. On the other hand, the OECD stocks are still at low levels and price uncertainty is continuing in the market.

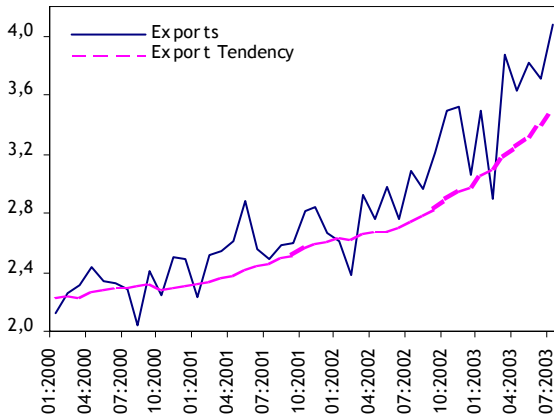
26. At the OECD meeting of 24 September, it was decided that oil production would be reduced by 900 thousands barrel/day. It was also concluded that the production could be re-curbed when deemed necessary and that this possibility would be reviewed at the meeting to be held on 4 December. The uncertainties in the Iraqi oil demand played a significant role in these decisions. The current level of Iraqi oil production, which is below the half of OECD quota, is preventing the significant impact of increase in supply on the prices. Nevertheless, the Iraq Oil Department's target to increase oil production will hopefully exert a downward-pressure on the prices. In summary, OPEC may curb the production in the following period in order to maintain the price level.

## II. EXPORTS

### General Evaluation

27. In July 2003, exports rose by 32 percent compared to the same month of the previous year and reached US dollar 4.1 billion. Hence, in the first seven months of the year, exports rose by 30.7 percent and reached US dollar 25.5 billion compared to the same period of the previous year, while 12-month exports realized as US dollar 41.8 billion, increasing by 26.5 percent.

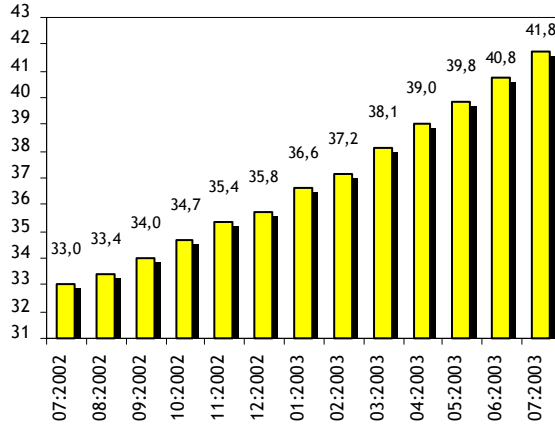
EXPORTS and EXPORTS TENDENCY†  
(USD billion)



† Exports tendency is calculated with 12-month moving average.

Source: SIS.

EXPORTS  
(12 month, USD billion)



Source: SIS.

### EXPORTS (USD million)

	July				January-July			
	2002	2003	% Change	Contrib.	2002	2003	% Change	Contrib.
<b>Total</b>	3093	4081	32,0		19516	25513	30,7	
Agriculture and Forestry	108	111	2,8	0,1	963	1097	14,0	0,7
Fishing	4	2	-42,3	0,0	22	29	29,4	0,0
Mining and Quarrying	41	47	16,2	0,2	217	265	22,3	0,2
Manufacturing	2937	3911	33,2	31,5	18292	24060	31,5	29,6
Other	3	9	195,9	0,2	22	62	179,7	0,2
<b>Important Items:</b>								
Mineral Fuels, Mineral Oils	54	85	58,0	1,0	387	541	39,9	0,8
Cotton, cotton yarn and cotton fabrics	62	61	-1,6	0,0	461	562	21,8	0,5
Articles of Apparel-Clothing; Knitted	465	558	20,0	3,0	2533	3265	28,9	3,8
Articles of Apparel-Clothing; Not Knitted	306	351	14,7	1,5	1843	2219	20,4	1,9
Other made-up textile articles, sets, worn clothing	102	131	28,4	0,9	676	877	29,7	1,0
Iron and Steel	190	225	18,4	1,1	1188	1660	39,8	2,4
Articles of Iron and Steel	77	115	49,4	1,2	763	742	-2,8	-0,1
Boilers, Machinery, Mechanical Equipment	201	272	35,3	2,3	1147	1600	39,5	2,3
Electrical Machinery and Equipment	232	280	20,7	1,6	1484	1681	13,3	1,0
Motor Vehicles and Spare Parts	275	519	88,7	7,9	1703	2928	71,9	6,3

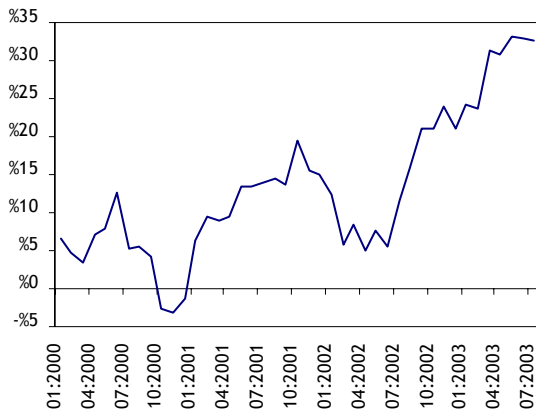
Source: SIS.

28. The three-month tendencies in manufacturing industry and agricultural sector displayed a favorable development in July. Accordingly, the increase tendency in exports of agricultural sector gained pace in July and reached 33.4 percent. On the other hand, the

increase tendency in exports of agricultural sector maintained its relatively sluggish downward trend and declined to 11.6 percent.

**EXPORTS: GROWTH RATE**

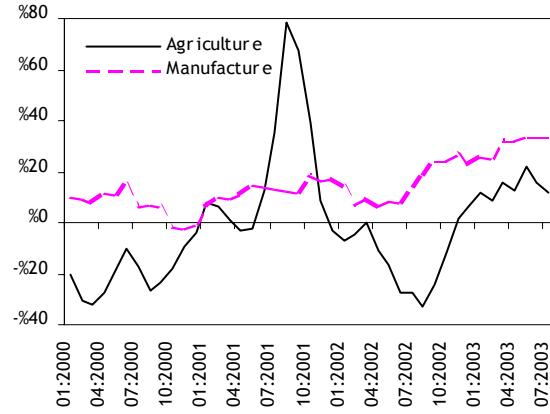
(3 month moving average, annual % change)



Source: SIS.

**EXPORTS: SECTORAL GROWTH RATES**

(3 month moving average, annual % change)



Source: SIS.

29. The largest contribution to the exports growth in July was made by exports of road vehicles, articles of apparel knitted, boilers-machinery-mechanical devices and electrical machinery and devices. In this period, the exports of these sectors comprised 39.9 percent of total exports.

**EXPORTS: BY COUNTRY GROUPS (USD million)**

	July					January-July				
	2002		2003		%	2002		2003		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	3093	..	4081	..	32,0	19516	..	25513	..	30,7
OECD Countries	2072	67,0	2678	65,6	29,2	12751	65,3	16736	65,6	31,3
European Union Countries	1604	51,9	2098	51,4	30,8	9919	50,8	13376	52,4	34,9
EFTA Countries	49	1,6	48	1,2	-2,3	234	1,2	300	1,2	28,3
Other OECD Countries	419	13,6	532	13,0	26,9	2598	13,3	3060	12,0	17,8
Non-OECD Countries	874	28,3	1259	30,9	44,1	6006	30,8	7784	30,5	29,6
European Countries	253	8,2	355	8,7	40,5	1906	9,8	2426	9,5	27,3
African Countries	129	4,2	165	4,0	27,9	954	4,9	1214	4,8	27,2
American Countries	11	0,4	27	0,7	135,3	140	0,7	145	0,6	3,5
Middle East Countries	295	9,5	456	11,2	54,7	1920	9,8	2569	10,1	33,8
Other Asian Countries	168	5,4	254	6,2	51,3	980	5,0	1391	5,5	41,9
Other Countries	18	0,6	3	0,1	-86,0	105	0,5	39	0,2	-63,0
Turkey Free Trade Areas	147	4,7	144	3,5	-1,8	759	3,9	993	3,9	30,9
Selected Countries										
Germany	506	16,3	659	16,1	30,3	3157	16,2	4167	16,3	32,0
USA	309	10,0	408	10,0	32,3	1891	9,7	2173	8,5	14,9
UK	259	8,4	314	7,7	21,4	1540	7,9	1926	7,5	25,0
Italy	177	5,7	260	6,4	47,1	1307	6,7	1775	7,0	35,8
France	204	6,6	253	6,2	23,9	1223	6,3	1509	5,9	23,3
Russia	66	2,1	107	2,6	62,0	706	3,6	689	2,7	-2,4

Source: SIS.

30. In July, exports to EU countries increased by 30.8 percent, and exports to the USA by 32.3 percent. Exports to the Middle East countries that started to boost after the end of operation against Iraq maintained its upward trend in July as well and rose by 54.7 percent compared to the previous month. Exports to Russia, which was in a downward trend since the last quarter of 2002, maintained its upward trend that has started in July and increased by 62 percent compared to the previous month.

31. When analyzed on basis of selected countries, it is observed that exports to Germany made the largest contribution to exports in January-July period. Germany is followed by the USA, England and Italy.

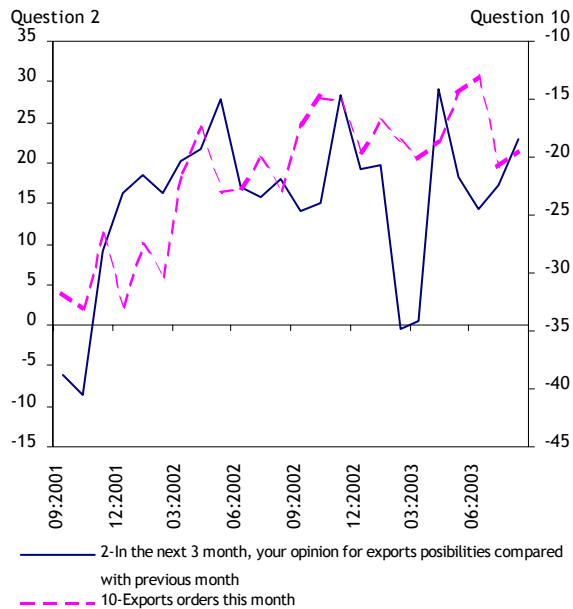
Outlook

32. According to the August results of CBRT Business Tendency Survey, the number of those who expect for an increase in export facilities in the next quarter compared to the previous month, increased compared to July results. Moreover, according to the survey results, the number of those who considered the export orders taken in the current month above its usual level rose in this period.

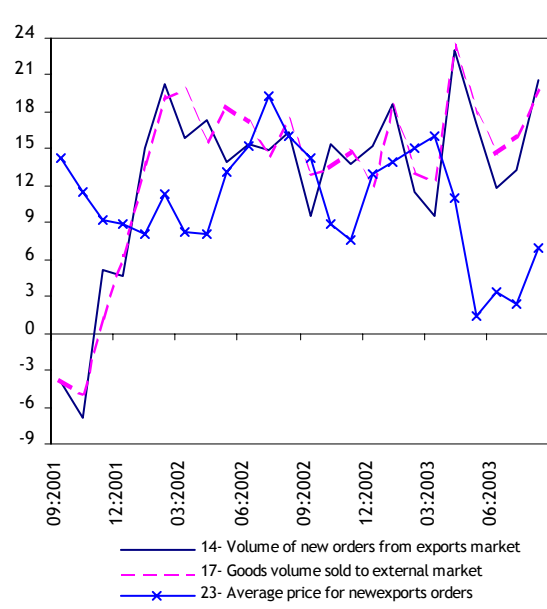
33. The new export orders in the next quarter and the volume of goods that are expected to be sold in this period at foreign markets maintained its upward trend in August. Meanwhile, expected average price for new exports orders rise in August.

34. In line with the strengthening trend of Turkish lira in the second quarter of 2003, price competitiveness leads the factors that have been expected to impede receiving export orders in the next three months. Additionally, foreign business cycles, quota and similar restrictions as well as concerns about credit-financing and delivery date are considered as the possible factors that may confine exports.

EXPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

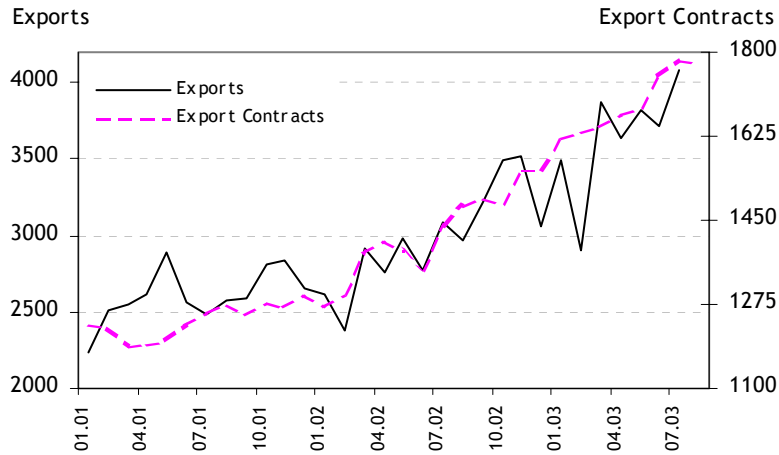


Source: CBRT Business Tendency Survey.

35. In January-August 2003 period, the volume of export contracts within the scope of inward processing regime grew by 24.8 percent compared to the same period of the previous year and reached US dollar 16.1 billion. In this period, imports subject to inward processing regime increased by 27 percent and became US dollar 10.2 billion. When the fact that export contracts within the scope of this regime, which were in an upward trend since mid-2002, should be made not later than 12 months, the high-rated increase in exports is expected to continue in the rest of the year as well.

36. In September, according to the data of Turkish Exporters Assembly (TEA), exports increased by 28.2 percent compared to the same month of the previous year and reached US dollar 4.2 billion. During the same period, the twelve-month exports realized as US dollar 44.6 billion.

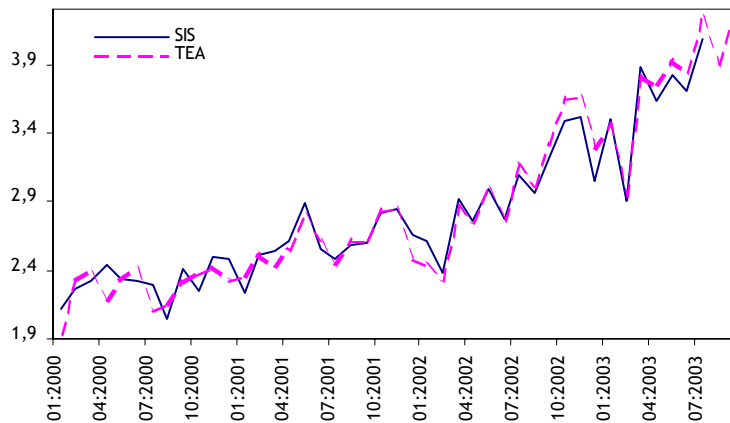
**EXPORT CONTRACTS BY INWARD PROCESSING REGIME**  
(12 months moving average) and  
**TOTAL EXPORTS (millions US dollars)**



Source: UFT.

37. According to TEA's classification, exports of agricultural products rose by 12,2 percent in September compared to the same month of the previous year, while exports of industrial products boosted by 30 percent in the same period according to TEA records. In September, the rate of increase in exports of ready-made clothing realized as 23.4 percent. Exports of motor vehicles and sub-industry grew by 48.1 percent in September.

**EXPORTS: SIS-TEA COMPARISON (USD billion)**



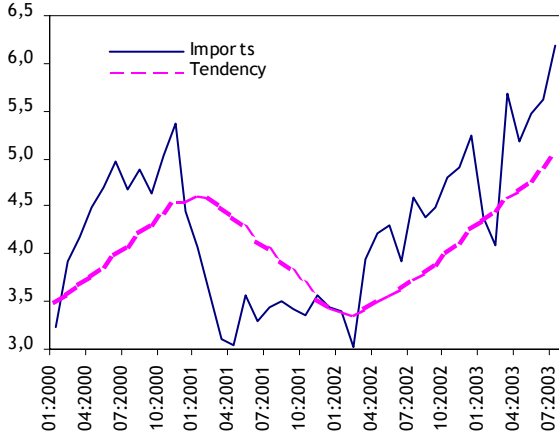
Source: SIS, TEA.

### III. IMPORTS

#### General Evaluation

38. Compared to the same month previous year, imports increased by 34.6 percent in July 2003 and reached US dollar 6.2 billion. Thus, imports grew by 33.7 percent in January-July 2003 compared to the same period last year and reached US dollar 36.6 billion while 12-month imports reached US dollar 60.4 billion.

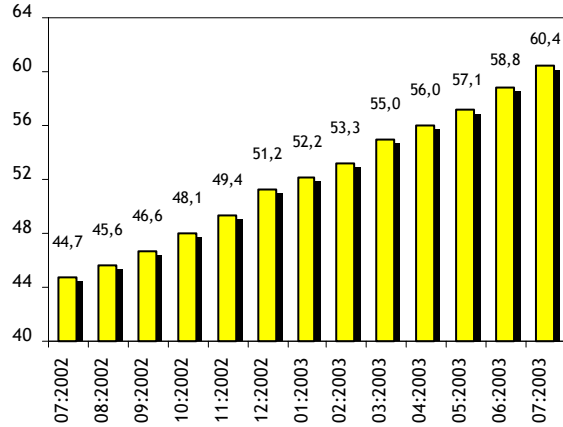
IMPORTS and IMPORTS TENDENCY†  
(USD billion)



† Imports tendency is calculated using 12 month moving average.

Source: SIS.

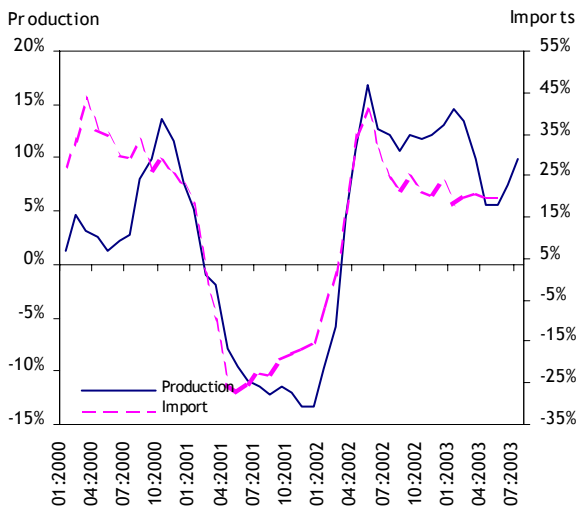
IMPORTS  
(12 month, USD billion)



Source: SIS.

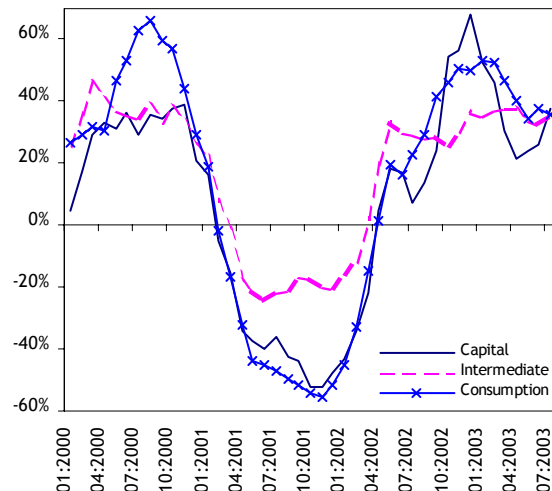
39. The upward trend in imports of intermediary goods continued due to rapid growth in domestic industrial production in July. Moreover, as increased capacity utilization ratios necessitate new investments, the acceleration in imports of capital goods also continued. Meanwhile, the upward trend in imports of consumption goods remained relatively limited.

MANUFACTURING INDUSTRY PRODUCTION and  
INTERMEDIATE GOODS IMPORTS INDICES  
(3 month moving average, annual% change)



Source: SIS.

IMPORTS: GROWTH RATES  
(3 month moving average,  
annual% change)



Source: SIS.

IMPORTS (USD million)									
	July				January-July				
	2002	2003	% Change	% Contrib.	2002	2003	% Change	Contrib.	
Total	4592	6183	34,6	..	27388	36607	33,7	..	
Capital Goods	729	1042	43,0	6,8	4226	5493	30,0	4,6	
Intermediate Goods	3375	4531	34,3	25,2	20360	27268	33,9	25,2	
Consumption Goods	436	582	33,6	3,2	2607	3633	39,3	3,7	
Other	52	27	-47,6	-0,5	194	213	10,1	0,1	
Important Items:									
Mineral fuels,mineral oils and products of their dist.	728	880	20,9	3,3	4782	6095	27,5	4,8	
Crude Oil	341	393	15,2	1,1	2176	2678	23,0	1,8	
Organic chemicals	155	190	22,6	0,8	1065	1313	23,3	0,9	
Pharmaceutical products	133	157	18,5	0,5	801	1116	39,3	1,1	
Plastics and articles thereof	227	318	40,4	2,0	1303	1766	35,5	1,7	
Cotton, cotton yarn and cotton fabrics	117	172	46,1	1,2	838	973	16,0	0,5	
Iron and Steel	275	381	38,4	2,3	1304	2666	104,4	5,0	
Boilers, Machinery, Mechanical Equipment	763	1016	33,2	5,5	4056	5283	30,3	4,5	
Electrical Machinery and Equipment	343	442	28,6	2,1	2316	2807	21,2	1,8	
Motor Vehicles and Spare Parts	203	405	99,5	4,4	1047	2172	107,5	4,1	
Optical, photographic, cinematographic	116	123	5,5	0,1	589	696	18,2	0,4	

Source: SIS.

IMPORTS: BY COUNTRY GROUPS (USD million)										
	July					January-July				
	2002		2003		%	2002		2003		%
	Value	Share (%)	Value	Share (%)	Change	Value	Share (%)	Value	Share (%)	Change
Total	4592	..	6183	..	34,6	27388	..	36607	..	33,7
OECD Countries	3020	65,8	4047	65,5	34,0	17641	64,4	23103	63,1	31,0
European Union Countries:	2156	46,9	2960	47,9	37,3	12274	44,8	16631	45,4	35,5
EFTA Countries	250	5,4	319	5,2	27,6	1386	5,1	1854	5,1	33,8
Other OECD Countries	615	13,4	768	12,4	24,9	3981	14,5	4618	12,6	16,0
Non-OECD Countries	1524	33,2	2081	33,7	36,5	9422	34,4	13187	36,0	40,0
European Countries	577	12,6	738	11,9	28,0	3307	12,1	4567	12,5	38,1
African Countries	194	4,2	214	3,5	10,3	1423	5,2	1816	5,0	27,6
American Countries	54	1,2	104	1,7	92,1	371	1,4	564	1,5	52,0
Middle East Countries	315	6,9	407	6,6	29,2	1925	7,0	2597	7,1	34,9
Other Asian Countries	379	8,3	594	9,6	56,8	2281	8,3	3489	9,5	53,0
Other Countries	6	0,1	24	0,4	331,3	115	0,4	154	0,4	34,3
Turkey Free Trade Areas	48	1,0	55	0,9	15,8	325	1,2	317	0,9	-2,4
Selected Countries										
Germany	625	13,6	874	14,1	39,8	3554	13,0	4760	13,0	33,9
Italy	407	8,9	535	8,6	31,3	2222	8,1	2966	8,1	33,5
Russia	359	7,8	414	6,7	15,3	2004	7,3	2657	7,3	32,6
United Kingdom	159	4,0	271	4,8	71,0	968	4,2	1631	5,3	68,5
France	308	6,7	364	5,9	18,2	1635	6,0	2115	5,8	29,4
USA	266	5,8	304	4,9	14,4	1787	6,5	1906	5,2	6,7

Source: SIS.

40. The groups having the highest contribution to the rise in imports were: boilers, machinery, mechanical equipment followed by land vehicles and their spare parts, mineral



fuels and grease, iron and steel and electrical machinery and equipment. The imports of the listed groups of goods comprised 50.5 percent of the entire imports in July.

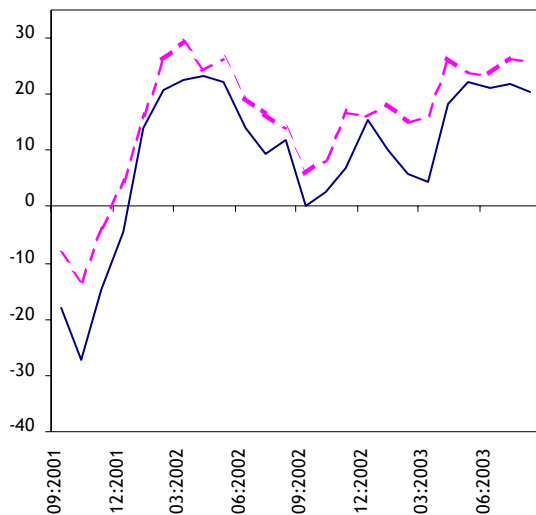
Outlook

41. According to the data compiled by the CBRT Business Tendency Survey in August 2003, the number of participants planning to increase their investments in the next 12 months compared to the past 12 months increased, however, a decline was observed in expectations about the volume of new orders to be taken from domestic markets in the next three months would increase. No significant change was observed in the expectations about volume of production however, the expectations for a rise in the volume of raw material stock in the next three months decreased.

42. Timed imports which added up to US dollar 7.5 billion in January-July 2002 period became US dollar 9.8 billion in the same period in 2003. Meanwhile, as total imports increased by 33.7 percent and timed imports by 30.3 percent, the share of timed imports in total imports dropped down to 26.9 percent from 27.6 percent.

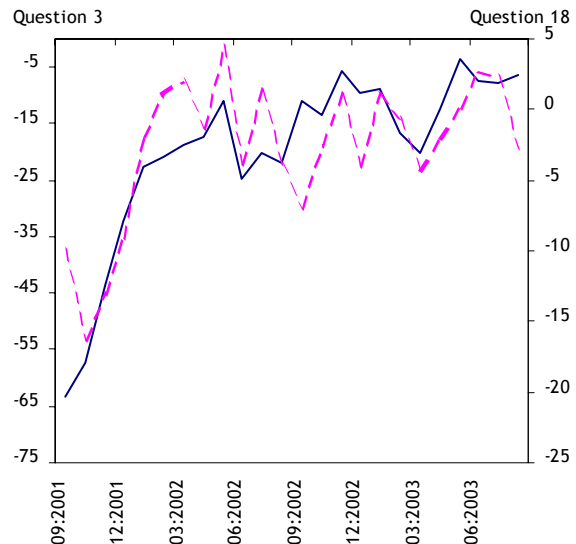
43. According to the data about the value added tax (VAT) levied on imports, imports excluding oil imports is expected to be US dollar 5.7 billion in August.

IMPORT EXPECTATIONS



— 13- New orders from domestic market  
 - - - 15- Production Volume

Source: CBRT Business Tendency Survey.



— 3- In the next 12 months, how much investment expenditures do you expect compared to previous 12 months?  
 - - - 18- Raw material stock volume.

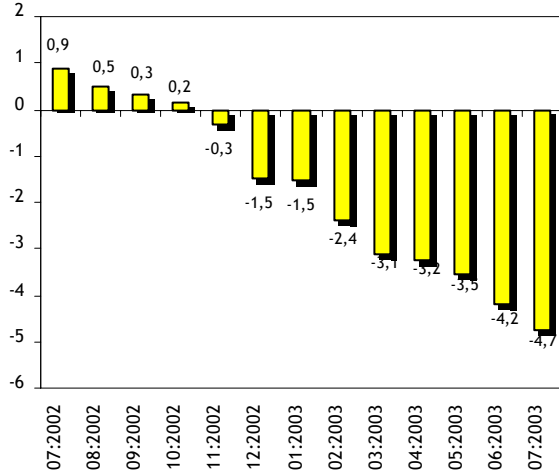
Source: CBRT Business Tendency Survey.

#### IV. CURRENT ACCOUNT

44. The current account had a deficit of US dollar 464 million in July 2003 and US dollar 4.5 billion in the first seven months of the year. The twelve-month current account deficit in July was US dollar 4.7 billion.

##### CURRENT ACCOUNT BALANCE

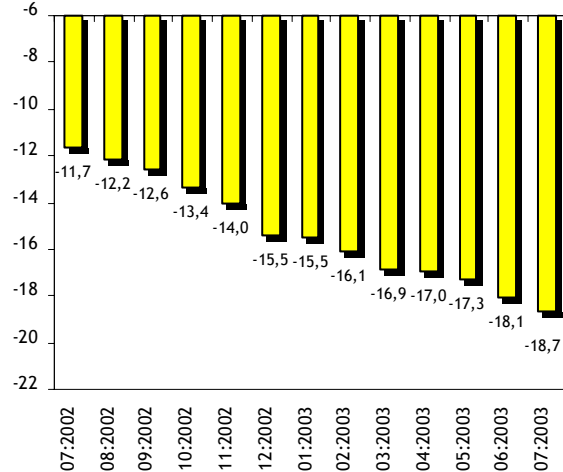
(12 month, USD billion)



Source: CBRT.

##### FOREIGN TRADE BALANCE

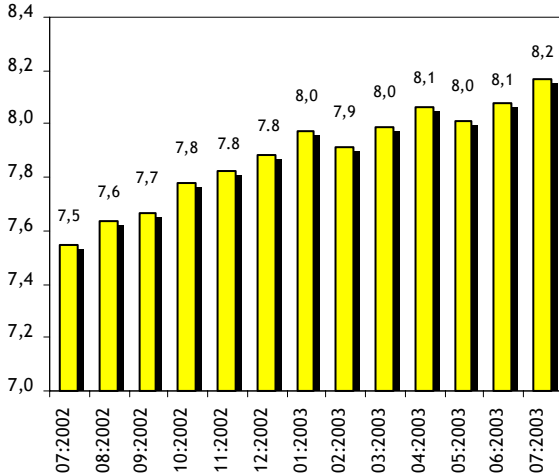
(12 month, USD billion)



Source: CBRT.

##### SERVICES BALANCE

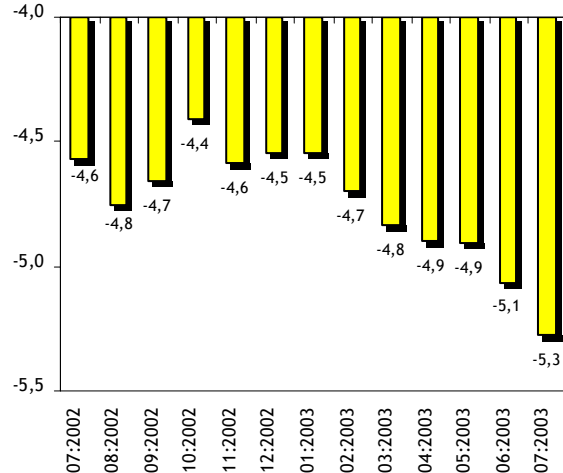
(12 month, USD billion)



Source: CBRT.

##### INVESTMENTS REVENUES BALANCE

(12 month, USD billion)



Source: CBRT.

45. In addition to the continuous expansion of the foreign trade deficit during the January-July 2003 period, the growth in investment revenues deficit has become more distinctive since February. Within this framework, the current account being rather close to the balance in the last quarter of 2002 began to give a rising deficit since January 2003 and maintained this tendency in July as well.

46. The rise in industrial production observed in the first half of the year was accompanied by a rise in exports of manufacturing industry products. On the other hand, imports grew due to the appreciation of the Turkish lira and the increase in import prices. Total exports increased by 30.7 percent in the first seven month of the year. While, imports increased by 33.7 percent in the same period. As a result of these developments, foreign trade deficit,

which was US dollar 4.1 billion in January-July 2002 period, rose to US dollar 8.9 billion in the same period of 2003 in accordance to the balance of payments definition.

CURRENT ACCOUNT (USD million)								
	2002							2003
	Jan-Jul	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
Current Account Balance	-1306	-1171	-1030	-761	-569	-518	-464	-4544
Foreign Trade Balance	-4100	-665	-1176	-962	-988	-1275	-1417	-6943
Total Exports	21641	3200	4172	3923	4174	4017	4417	27560
Total Imports	-25741	-3865	-5348	-4885	-5162	-5292	-5834	-34503
Services Balance	3398	136	331	328	654	805	1093	3684
Credit	7702	726	881	887	1244	1490	1915	8037
Debit	-4304	-590	-550	-559	-590	-685	-822	-4353
Income Balance	-2524	-821	-464	-388	-526	-336	-492	-3254
Credit	1528	163	258	169	211	231	213	1424
Debit	-4052	-984	-722	-557	-737	-567	-705	-4678
Current Transfers	1920	179	279	261	291	288	352	1969
Wrokers' Remittances	1186	114	170	152	202	183	223	1200
<i>Memo items:</i>								
Shuttle Trade	2128	298	296	287	359	308	336	2047
Non Monetary Gold (net)	-763	-209	-253	-156	-172	-260	-354	-1509
Travel Revenues	4109	264	292	329	637	896	1147	3812
Interest Income	485	55	38	42	90	106	33	405
Interest Expenditure	-2410	-471	-492	-313	-487	-308	-262	-2542

Source: CBRT.

47. Due to the ongoing unfavorable impact of the uncertainties created by the Iraq war in the first quarter of the year, exports via shuttle trade fell by 3.8 percent and was US dollar 2 billion in January-July 2003.

48. In regard to the processed gold demand of the market, the upsurge in net imports of non-monetary gold since the beginning of the year continued in July as well. Within this framework, net imports of non-monetary gold, which rose by 97.8 percent in January-July period as to the same period of last year, realized at US dollar 1.5 billion.

49. In January-July period, revenues from services increased by 8 percent as to the same period of the previous year. Due to the growth in foreign trade volume, revenues and expenses relating to freight and other transportation services rose as to the same period of the previous year, whereas financial service expenses dropped by 52 percent as to the same period of the previous year.

TRAVEL REVENUES								
	2002							2003
	Jan-Jul	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
Travel Revenues (USD million)	4109	264	292	329	637	896	1147	3812
Number of Visitors (thousand)	6106	444	494	539	985	1343	1691	5920
Average Spending (USD)	673	594	590	611	646	667	678	644

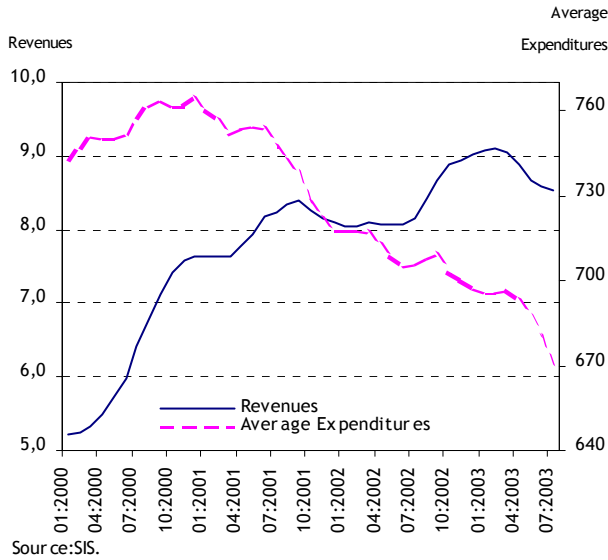
Source: SIS.

50. Following a 7.2 percent decline as to the same period of the previous year, travel revenues announced by the SIS was realized at US dollar 3.8 billion in the January-July period. The number of non-resident departures fell by 3 percent during the same period. Hence, the rising trend since the beginning of the year in the average amount of expenditures per visitor continued in July as well.

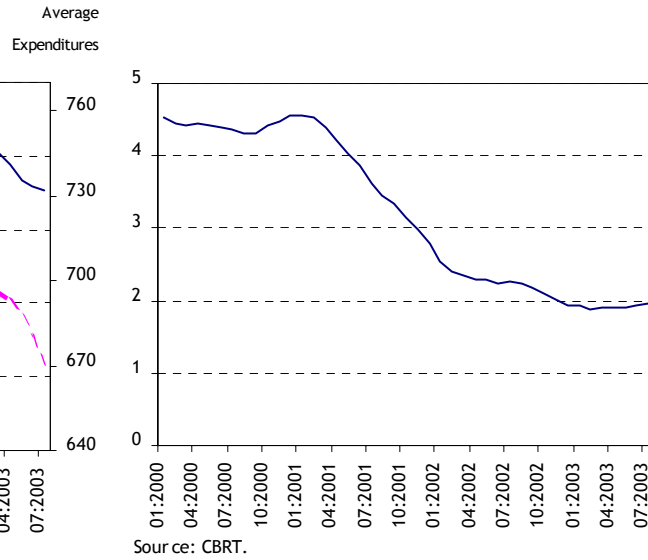
51. As a result of the Iraq war there was a reduction in the number of visitors and travel revenues till April. Consequently, with the end of the war as the uncertainties in the region

diminished and the tourism season that began, a revival has been observed in the tourism sector. As a matter of fact, the August statistics of the SIS reveal that the number of foreign visitors rose by 17.7 percent as to the same month of the previous year. According to the assumption that the trend in average amount of expenditures in July has been maintained in August, then the tourism revenues of August is expected to be approximately US dollar 1.7 billion.

TRAVEL REVENUES (12 month, USD billion),  
AVERAGE EXPENDITURES (12 month, USD)



WORKERS REMITTANCES: PRIVATE  
(12 month, USD billion)



52. The investment revenues account ran a deficit of US dollar 3.3 billion in January-July 2003. The deficit mainly stemmed from the portfolio investment expenditures and interest expenses. In this period, due to especially the increase in interest payments of long term borrowing of the government in general and other sectors, the interest expenses increased and realized at US dollar 2.5 billion. During the same period, portfolio investment expenditures, comprising of interest paid for bills/bonds issued by the Treasury and dividend payments to foreigners holding securities, rose as well reaching US dollar 1.8 billion.

53. Current transfers did not display a significant increase in the first seven months of 2003 as to the same period of 2002 and was at US dollar 2 billion. In the same period, workers' remittances recorded a small scale increase as to January-July 2002.

**V. CAPITAL MOVEMENTS**

54. The financial account ran a deficit of US dollar 88 million in July 2003. Excluding the IMF loans and official reserves, net capital inflow was recorded as US dollar 458 million and US dollar 3.2 billion in January-June period respectively, and 12-month capital inflow became US dollar 4.2 billion.

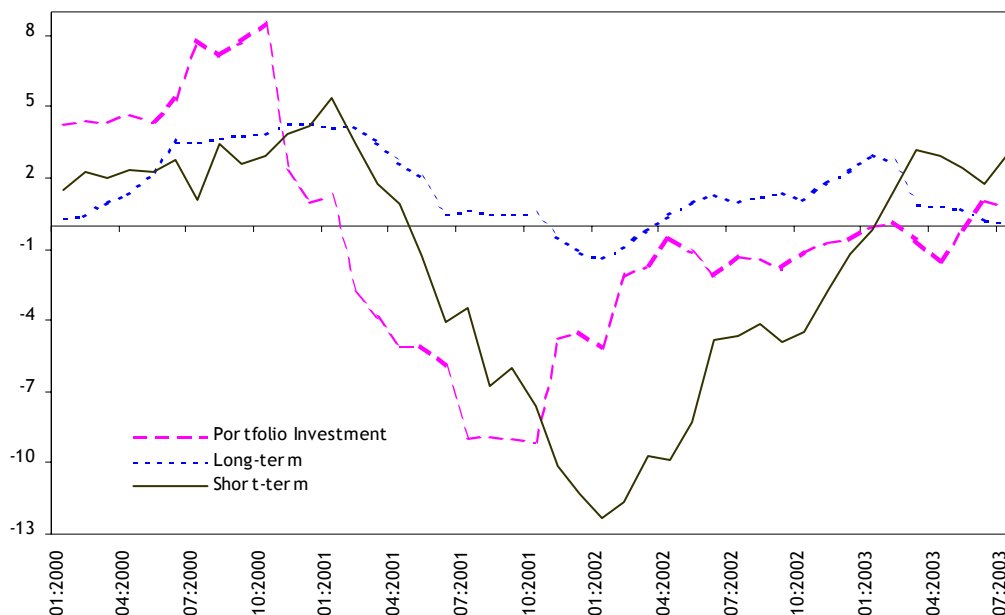
55. While direct foreign investment remained quite limited in January-July period, portfolio investments that exhibited an upward trend following the end of the Iraq war in May and June ran a deficit in July. However, other investments item, which ran a deficit due to short-term credit payment back of banks in May and rise in the foreign assets of the banks in June, ran a surplus in July due to the rise in the banks' short-term borrowings in July.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)

	2002							2003
	Jan-Jul	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
Capital and Financial Account	2198	2304	710	47	-1050	-613	-88	2457
Financial Account	2198	2304	710	47	-1050	-613	-88	2457
Direct Investments	401	-5	3	-4	31	-5	-4	22
Portfolio Investments	-770	-381	-802	-292	592	635	-242	618
Other Investments	5984	1084	445	423	-1040	-762	641	2833
Reserve Assets	-3417	1606	1064	-80	-633	-481	-483	-1016
Net Errors & Omissions	-892	-1133	320	714	1619	1131	552	2087
<i>Memorandum items:</i>								
Short-term	-484	1129	1830	-193	-1168	-136	530	3746
Long-term	1114	-45	-1272	-23	167	-509	174	-1158
IMF credit	5223	0	-113	639	-39	-117	-63	245

Source: CBRT.

CAPITAL FLOWS (12-month, billion US dollar)

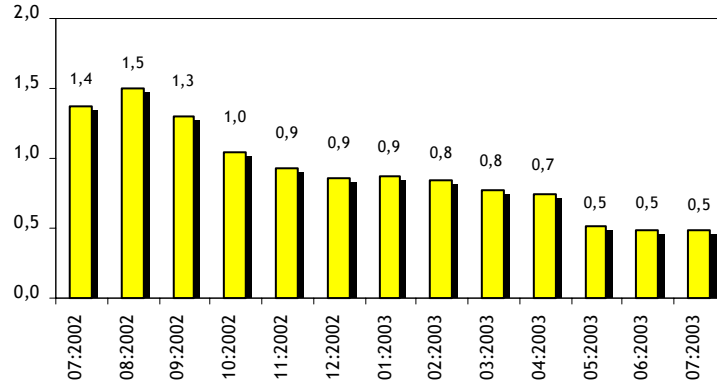


Source: CBRT.

56. The decline in the volume of net direct foreign capital inflow investments in the first seven months of the year can be attributed to the rise in the volume of direct investments

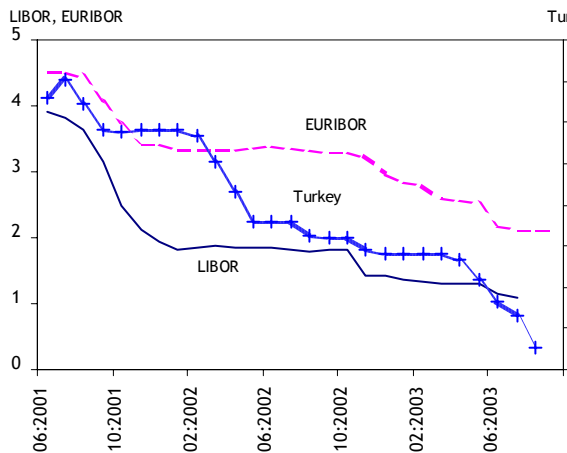
made abroad overwhelmingly by residents. Furthermore, it is observed that the volume of long-term credits extended to the foreign companies by their affiliates abroad declined substantially in the same period.

**DIRECT INVESTMENTS**  
(12-month, billion US dollar)



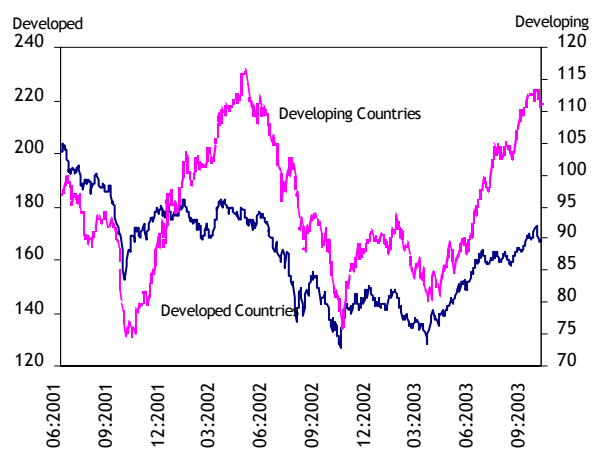
Source: CBRT.

**INTEREST RATES (monthly average, %)**



LIBOR: Proposed interest rate for USD deposits with 1-month maturity. EURIBOR: Proposed interest rate for euro deposits with 1-month. For Turkey, overnight interest rate resulted in interbank money market.  
Source: IMF, www.euribor.org, CBRT.

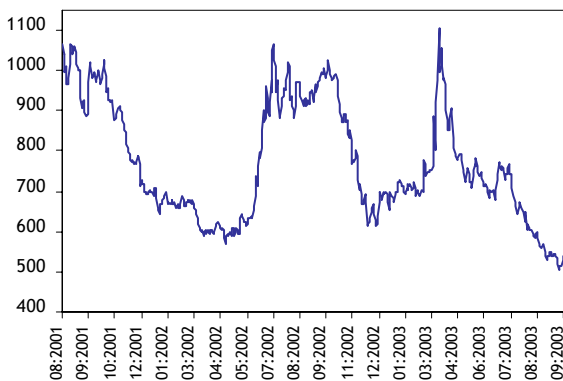
**DOW JONES STOCK PRICE INDICES**



Source: Dow Jones.

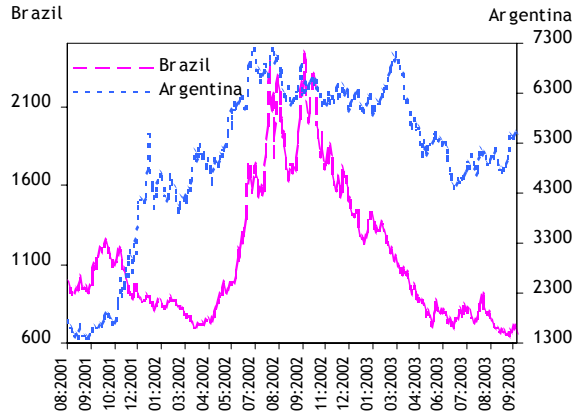
**SECONDARY MARKET BOND SPREADS (basis points)**

**TURKEY**



Source: JP Morgan.

**BRAZIL and ARGENTINA**



Source: JP Morgan.

*Spread: The difference between the returns on relevant country's government bonds and USA Treasury bonds*

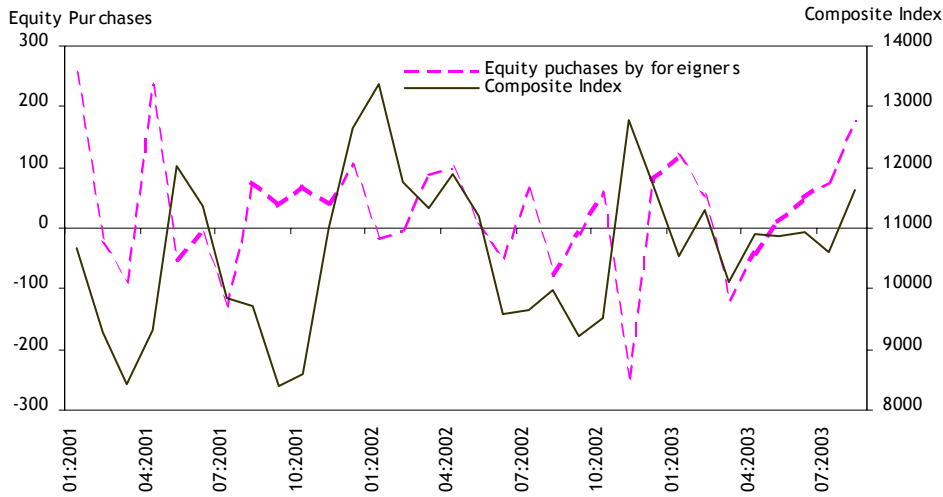
57. Interest rates in international markets continue to decline parallel to the policies of the central banks. The Federal Reserve and the European Central Bank decreased the interest rates in June and the Bank of England in July. Therefore, LIBOR and EURIBOR interest rates decreased in June and July.

58. The Turkish bonds spreads, which had been fluctuating as of the beginning of 2003, have been exhibiting a tendency to decrease since July. Especially the slump in bond spreads in September is expected to accelerate capital inflow by decreasing borrowing cost of the Treasury.

PORTFOLIO INVESTMENT (monthly, USD million)								
	2002							2003
	Jan-Jul	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
Portfolio Investment	-770	-381	-802	-292	592	635	-242	618
Assets	-1509	113	176	-129	-77	-314	67	-382
General Government	-21	-6	0	0	0	-2	-7	-15
Banks	-1124	168	264	-97	-35	-348	119	-89
Other Sectors	-364	-49	-88	-32	-42	36	-45	-278
Liabilities	739	-494	-978	-163	669	949	-309	1000
Equity Securities	180	52	-119	-42	9	48	77	144
Debt Securities	559	-546	-859	-121	660	901	-386	856
Monetary Authority	0	0	0	0	0	0	0	0
General Government	746	-546	-859	41	660	901	-371	1033
In Turkey	253	131	-561	41	210	156	207	103
Abroad	493	-677	-298	0	450	745	-578	930
Banks	-187	0	0	-162	0	0	-15	-177

Source: CBRT.

ISE EQUITY PRICES AND FOREIGNERS' NET PURCHASES

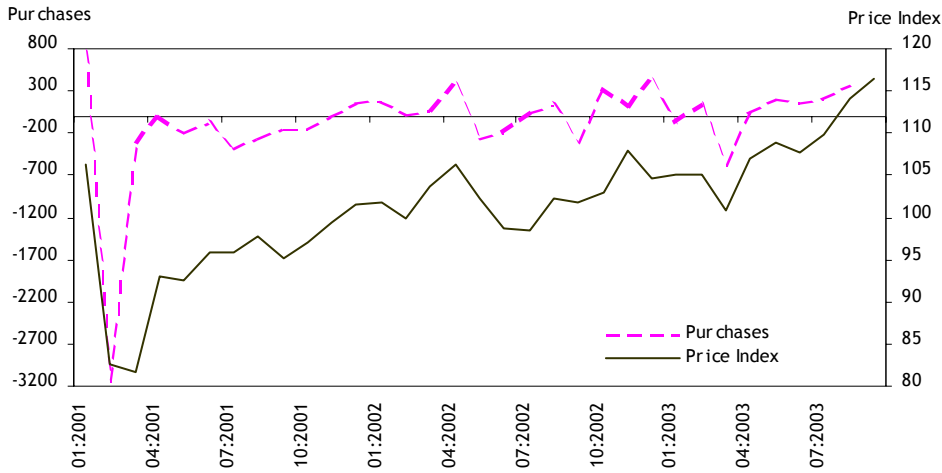


Source: CBRT, ISE.

59. Portfolio investment inflows in May and June have been reversed in July. While, Treasury's payment of a net US 578 million for the bonds abroad became the main factor of the outflow in portfolio investments, as the demand of foreigners for government papers increased, US 207 million capital inflow was recorded. The equity securities item under portfolio investments indicate the sale-purchases activities of foreigners at Istanbul Stock Exchange. Accordingly, in March and April, during which the war in Iraq dominated the headlines, non-residents acted as net sellers and started to purchase as of May.

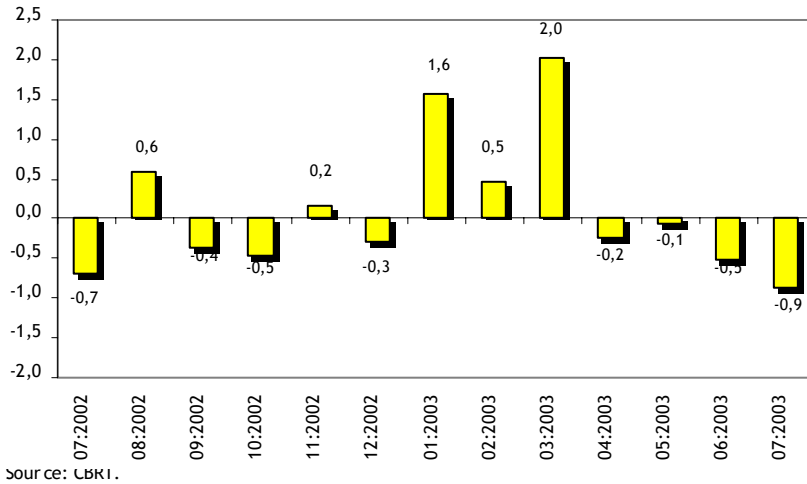
60. General Government, which did not issue bonds abroad in July and August, borrowed a total amount of US dollar 1.25 billion in September.

GOVERNMENT DEBT SECURITY PRICES AND FOREIGNERS' NET PURCHASES



61. The Banks' FX holdings item, which shows the foreign assets that the banks keep with their correspondent banks or branches abroad, decreased by US dollar 3.3 billion in the first half of the year to be followed by a US dollar 869 million increase in July. In balance of payments presentations, a decline in the banks' FX holdings is described as capital inflow while any increase in FX holdings as capital outflow. Accordingly, the capital outflow in July can be attributed to the rise in foreign assets kept by the banks with their correspondent banks abroad.

CHANGE IN DEPOSIT MONEY BANKS' FX HOLDINGS†  
(USD billion)

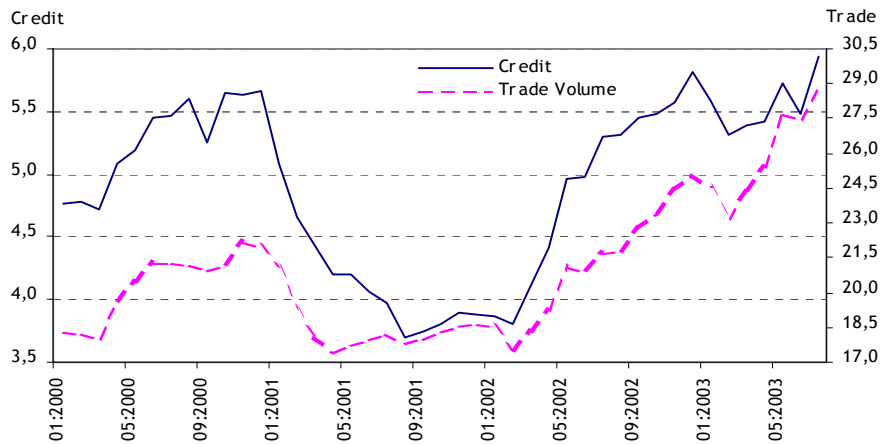


† (+) sign indicates a decrease.

62. The rapid increase in foreign trade volume in the first seven months of 2003 boosts commercial credit utilization as well. In the mentioned period, while foreign trade volume grew by 32.4 percent compared to the same period last year, commercial credit increased by 18.7 percent and reached US dollar 13.1 billion. Out of this, US dollar 12.6 billion comprises the short-term credits with a maturity of shorter than 1 year, therefore repayment commercial credits is scheduled within the same year.



**PRIVATE SECTOR COMMERCIAL CREDIT DRAWINGS and TRADE VOLUME**  
(3-month, USD billion)



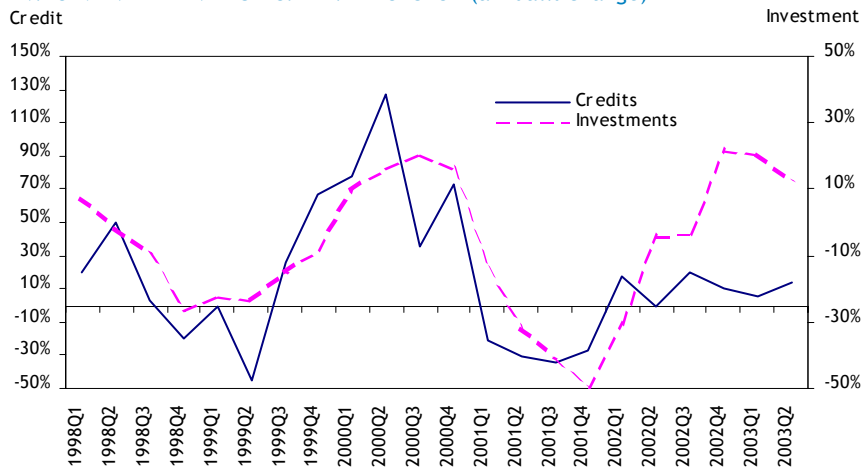
Source: CBRT.

63. Use of syndicated loan and repayment of principal by the banks comprise an important item of the capital and financial account. It is observed that the banks tend to prefer short-term resources. While capital inflow and outflow movements arising from long-term credit utilization remain insignificant and stagnant, short-term credit utilization is quite vigorous.

64. While the banks were net short-term borrowers in the first quarter of 2003, they became net payers because of the repayment obligations of matured syndicated loans. In July, banks used US dollar 585 million worth of short-term credits and US dollar 45 million of long-term credits from abroad.

65. The uncertainties in Turkish economy triggered by the war in Iraq in the first quarter of 2003 adversely affected investment expenditures. Therefore, the volume of long-term credits utilized by private sector excluding banks decreased. However, with the decline in the uncertainties owing to the early end of Iraq war, the results of the CBRT Business Tendency Survey since April have been indicating that investment tendency would accelerate. In July, private sector excluding the banking sector utilized US dollar 945 million worth of long-term credits, thus, long-term credit utilization in the first seven months of the year increased by 9.5 percent compared to the previous year.

**LONG TERM CREDIT DRAWINGS and INVESTMENT EXPENDITURES: PRIVATE SECTOR (annual % change)**

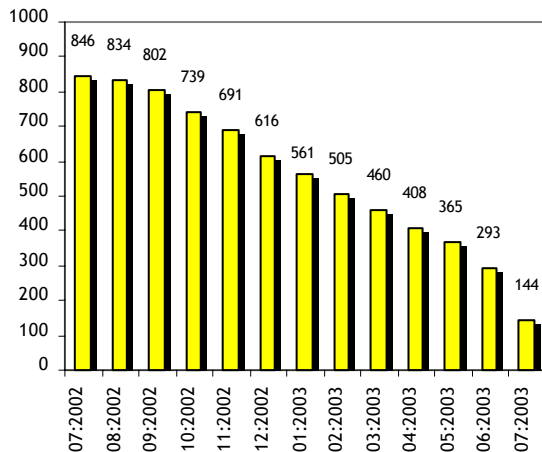


Source: CBRT, SIS.

66. In January-July 2003 period, the Central Bank paid back US dollar 269 million for IMF loans while the General Government borrowed US 514 million from the IMF.

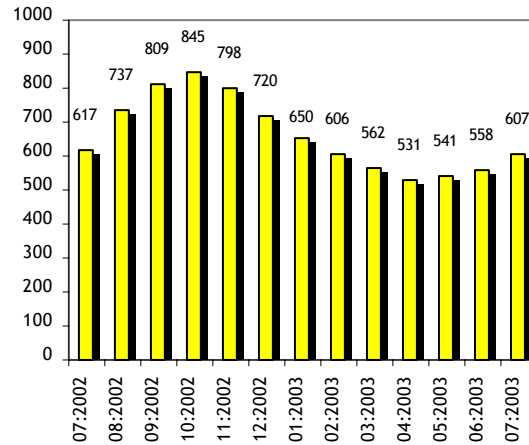
LONG AND SHORT TERM FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTER AND SUPER FX ACCOUNTS  
(12-month, USD Billion)

LONG TERM



Source: CBRT.

SHORT TERM



Source: CBRT.

OTHER INVESTMENTS (monthly, USD million)

	2002							2003
	Jan-Jul	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
Other Investment	5984	1084	445	423	-1040	-762	641	2833
Assets	55	745	917	-521	-412	-479	-955	850
Credits	-126	65	-663	-54	-45	106	73	-406
Currency and Deposits	971	460	2015	-234	-55	-514	-869	2381
Liabilities	5929	339	-472	944	-628	-283	1596	1983
Trade Credits	1399	-24	381	62	158	123	310	981
Credits	4569	163	-1056	537	-656	-510	717	-524
Monetary Authority	-6138	0	-113	0	-39	-117	0	-269
General Government	10584	-180	-207	481	-158	-327	-150	-709
IMF Credits	11361	0	0	639	0	0	-63	514
Long Term	-777	-180	-207	-158	-158	-327	-87	-1223
Short Term	0	0	0	0	0	0	0	0
Banks	-375	224	284	-183	-776	-99	630	272
Long Term	-65	-36	-100	13	-12	-151	45	-260
Short Term	-310	260	384	-196	-764	52	585	532
Other Sectors	498	119	-1020	239	317	33	237	182
Long Term	939	100	-1070	64	265	-11	215	-68
Short Term	-441	19	50	175	52	44	22	250
Deposits	-100	200	204	342	-142	89	546	1474
Monetary Authority	807	31	20	1	23	1	108	222
Long Term	347	14	0	-16	-32	-62	-50	-125
Short Term	460	17	20	17	55	63	158	347
Banks	-907	169	184	341	-165	88	438	1252

Source: CBRT.

67. The decline observed since the last quarter of 2002 in FX accounts of Turkish citizens working abroad, which comprises letter of credit deposits and super FX accounts, persisted in July as well and net outflow was observed in long-term accounts in the last four months. The Central Bank cut down interest rates on these accounts effective as of August 20, 2003.

68. The FX deposits kept with domestic banks by the foreign banks, having a deficit in 2002, led to US dollar 1.1 billion of capital inflow in January-July 2003 period. The capital inflow stemming from the increase in deposit accounts kept by the foreign banks with the domestic banks became US dollar 348 million.

69. Total external debt stock increased by US dollar 4.9 billion compared to the first quarter and by US dollar 6.7 billion compared to the end-year figures and reached US dollar 137.9 billion by June 2003. Compared to the end-year figures of 2002, medium-long term debt constituting 87.8 percent of entire external debt stock increased by 4.4 percent and short-term debt by 10.5 percent. The exchange rate effect stemming from the changes in the parity in the first half caused US dollar 2.9 billion of increase in foreign debt stock. Meanwhile, owing to the rise in net short-term credit utilization of the banks, short-term debt stock increased by US dollar 1.3 billion compared to the previous month and reached US dollar 18.1 billion by July 2003.

70. There has been a repayment of principal and interest on external debt of US dollar 2.2 billion in July and a total of US dollar 16.4 billion in January-July 2003 period. The Central Bank's net share in this payment was US dollar 966 million. Meanwhile, the Treasury borrowed US dollar 930 million by issuing bonds abroad in the same period. In May-September 2003 period, the Central Bank mopped up US dollar 4.3 billion via foreign exchange purchasing auctions and US dollar 4.2 billion via direct purchasing intended to settle extreme volatility in exchange rates. Thus, the Central Bank reserves increased to US dollar 33.9 billion by September 26, 2003 from US dollar 26.7 billion by end-2002.

71. Foreign financing requirement defined as the sum of current account balance and net errors and omissions items, which was US dollar 2.2 billion in the first seven months of 2002, reached US 2.5 billion in the same period in 2003. Despite the increase in current account deficit in the mentioned period, the net errors and omissions item's level of US dollar 2.1 billion limited financing requirement. Net errors and omissions item, which was running a deficit of US dollar 2.2 billion in January-February period, started to run a surplus in the following months and reached US dollar 4.3 billion in March-July period. The financing requirement has been mostly met by the decline in FX deposits kept by the banks with their correspondent banks abroad, increase in the FX deposits kept by foreign banks with domestic banks, issue of bonds and by commercial credits.

72. In July, foreign financing balance ran a surplus of US dollar 88 million owing to US dollar 552 million of capital inflow stemming from net errors and omissions. Foreign financing surplus coupled with increase in credits and deposits boosted FX assets in banking sector and official reserves.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)								
	2002							2003
	Jan-Jul	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
<b>1. Current Account Balance</b>	<b>-1306</b>	<b>-1171</b>	<b>-1030</b>	<b>-761</b>	<b>-569</b>	<b>-518</b>	<b>-464</b>	<b>-4544</b>
<b>2. Net Error and Omission</b>	<b>-892</b>	<b>-1133</b>	<b>320</b>	<b>714</b>	<b>1619</b>	<b>1131</b>	<b>552</b>	<b>2087</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-2198</b>	<b>-2304</b>	<b>-710</b>	<b>-47</b>	<b>1050</b>	<b>613</b>	<b>88</b>	<b>-2457</b>
<b>II. Total Financing (=1+2+3)</b>	<b>2198</b>	<b>2304</b>	<b>710</b>	<b>47</b>	<b>-1050</b>	<b>-613</b>	<b>-88</b>	<b>2457</b>
<b>1. Capital Flows (net)</b>	<b>-579</b>	<b>238</b>	<b>-2256</b>	<b>-278</b>	<b>-323</b>	<b>499</b>	<b>1327</b>	<b>847</b>
<b>Portfolio Investments (net)</b>	<b>-770</b>	<b>-381</b>	<b>-802</b>	<b>-292</b>	<b>592</b>	<b>635</b>	<b>-242</b>	<b>618</b>
General Government Bond Issues	493	-677	-298	0	450	745	-578	930
Foreigners' Buying of Bonds and Stocks in Turkey	433	183	-680	-1	219	204	284	247
Residents Buying of Bonds and Stocks Abroad	-1509	113	176	-129	-77	-314	67	-382
<b>Credits (excl. IMF credits)</b>	<b>745</b>	<b>139</b>	<b>-562</b>	<b>-40</b>	<b>-459</b>	<b>-270</b>	<b>1090</b>	<b>212</b>
General Government	-777	-180	-207	-158	-158	-327	-87	-1223
Banks	-375	224	284	-183	-776	-99	630	272
Long Term	-65	-36	-100	13	-12	-151	45	-260
Short Term	-310	260	384	-196	-764	52	585	532
Other Sectors	1897	95	-639	301	475	156	547	1163
Long Term	939	100	-1070	64	265	-11	215	-68
Short Term	-441	19	50	175	52	44	22	250
Trade Credits	1399	-24	381	62	158	123	310	981
<b>Deposits</b>	<b>-100</b>	<b>200</b>	<b>204</b>	<b>342</b>	<b>-142</b>	<b>89</b>	<b>546</b>	<b>1474</b>
Central Bank	807	31	20	1	23	1	108	222
Banks	-907	169	184	341	-165	88	438	1252
<b>Others</b>	<b>-454</b>	<b>280</b>	<b>-1096</b>	<b>-288</b>	<b>-314</b>	<b>45</b>	<b>-67</b>	<b>-1457</b>
<b>2. IMF Credits</b>	<b>5223</b>	<b>0</b>	<b>-113</b>	<b>639</b>	<b>-39</b>	<b>-117</b>	<b>-63</b>	<b>245</b>
Central Bank	-6138	0	-113	0	-39	-117	0	-269
General Government	11361	0	0	639	0	0	-63	514
<b>3. Change in Reserves (- increase)</b>	<b>-2446</b>	<b>2066</b>	<b>3079</b>	<b>-314</b>	<b>-688</b>	<b>-995</b>	<b>-1352</b>	<b>1365</b>
Banks' FX Holdings	971	460	2015	-234	-55	-514	-869	2381
Official Reserves	-3417	1606	1064	-80	-633	-481	-483	-1016

Source: CBRT.

## 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>											
1999	-1360	-10484	26587	2255	-40687	7486	5203	-3537	-4533	5175	4529
2000	-9819	-22410	27775	2946	-54503	11368	7636	-4002	-4825	5225	4560
2001	3390	-4543	31334	3039	-41399	9130	8090	-5000	-5497	3803	2786
2002	-1481	-8312	35753	4065	-51203	7884	8481	-4549	-4417	3496	1936
<i>(quarterly)</i>											
2001 III	1968	-1310	7659	772	-10364	3455	3555	-1040	-1307	863	611
IV	640	-641	8314	787	-10364	1693	1433	-1339	-1312	927	649
2002 I	-582	-905	7912	919	-10358	703	896	-1226	-1059	846	477
II	-791	-2245	8511	933	-12436	1697	2087	-1015	-1082	772	505
III	1067	-2295	9264	1090	-13457	3573	3813	-1075	-1116	864	539
IV	-1175	-2867	10066	1123	-14952	1911	1685	-1233	-1160	1014	415
2003 I	-2232	-2301	10272	757	-14144	804	803	-1512	-1172	777	440
II	-1848	-3225	11160	954	-16280	1787	1862	-1250	-1108	840	537
<i>(monthly)</i>											
2002 Agu	461	-761	2963	398	-4385	1348	1450	-444	-503	318	176
Sep	539	-584	3211	416	-4480	1227	1237	-348	-344	244	159
Oct	457	-607	3493	412	-4799	1000	978	-238	-280	302	118
Nov	-256	-718	3517	382	-4912	547	435	-570	-545	485	152
Dec	-1376	-1542	3056	329	-5241	364	272	-425	-335	227	145
2003 Jan	-31	-460	3494	163	-4373	337	247	-227	-209	319	156
Feb	-1171	-665	2902	298	-4098	136	264	-821	-471	179	114
Mar	-1030	-1176	3876	296	-5673	331	292	-464	-492	279	170
Apr	-761	-962	3636	287	-5187	328	329	-388	-313	261	152
May	-569	-988	3815	359	-5480	654	637	-526	-487	291	202
Jun	-518	-1275	3709	308	-5613	805	896	-336	-308	288	183
Jul	-464	-1417	4081	336	-6183	1093	1147	-492	-262	352	223
<i>(12-month)</i>											
2002 Agu	499	-5845	33386	3593	-45560	7635	8119	-4751	-4722	3460	2229
Sep	334	-6086	34001	3729	-46615	7666	8229	-4655	-4569	3409	2170
Oct	171	-6638	34682	3846	-48050	7777	8382	-4408	-4281	3440	2112
Nov	-313	-7136	35357	3945	-49403	7825	8433	-4585	-4461	3583	2029
Dec	-1481	-8312	35753	4065	-51203	7884	8481	-4549	-4417	3496	1936
2003 Jan	-1533	-8407	36638	4005	-52174	7977	8515	-4542	-4360	3439	1928
Feb	-2369	-8951	37156	3972	-53255	7916	8517	-4701	-4339	3367	1874
Mar	-3131	-9708	38113	3903	-54989	7985	8388	-4835	-4530	3427	1899
Apr	-3246	-9856	38988	3806	-55964	8060	8266	-4895	-4499	3445	1903
May	-3522	-10085	39819	3868	-57146	8013	8144	-4906	-4498	3456	1918
Jun	-4188	-10688	40762	3924	-58833	8075	8163	-5070	-4556	3495	1931
Jul	-4719	-11155	41753	3984	-60424	8170	8184	-5279	-4549	3545	1950

Source: CBRT.

**CAPITAL and FINANCIAL ACCOUNT (USD million)**

Capital and Financial Account																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Liabilities								
					Equity Securities	Debt Securities			Net	Trade Credits	Credits				Deposits		
						Monetary Authority	General Government	Banks			Other Sectors	Monetary Authority	Banks				
	<i>(annual)</i>																
1999	-271	-271	138	3429	-759	428	3760	1888	-1454	4086	719	518	-1932	2187	2284	-229	468
2000	12607	12607	112	1022	-593	489	1126	11827	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1719	-1719	2769	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1618	1618	862	-590	-2093	-16	1519	7499	593	8151	2432	-6138	11834	-1027	603	1336	-986
	<i>(quarterly)</i>																
2001 III	174	174	427	-741	-135	192	-798	2176	1631	1201	-429	3034	919	-2677	321	325	-335
IV	-2204	-2204	659	-558	-720	-114	276	-1993	-191	-1427	-439	1972	-875	-1967	-30	399	-492
2002 I	2146	2146	95	-59	-1232	66	1107	3810	1778	2384	263	-6138	8751	-442	46	403	-502
II	237	237	311	-735	-264	50	-521	1350	-112	1904	747	0	769	251	235	196	-331
III	-1559	-1559	236	-466	-243	-22	-201	1486	-486	2477	757	0	2617	-1184	-24	613	-361
IV	794	794	220	670	-354	-110	1134	853	-587	1386	665	0	-303	348	346	124	208
2003 I	4161	4161	4	-75	71	52	-198	3571	4053	354	328	-113	-555	700	-644	89	550
II	-1616	-1616	22	935	-520	15	1440	-1379	-803	33	343	-156	-4	-1058	589	25	264

Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																		
Net	Financial Account																	
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment										
			Net	Assets	Liabilities		Net	Currency and Deposits	Liabilities						Deposits			
					Equity Securities	Debt Securities			Net	Trade Credits	Credits				Monetary Authority	Banks		
											Monetary Authority	General Government	Banks	Other Sectors				
																		(monthly)
2002	Agu	-551	-551	212	-149	-212	-76	139	1208	578	883	123	0	1675	-780	-158	276	-271
	Sep	-823	-823	29	-341	-18	-10	-313	-546	-369	-47	245	0	-122	-220	-83	129	-16
	Oct	258	258	274	590	219	56	315	-59	-455	607	95	0	-69	249	33	50	243
	Nov	222	222	-3	-60	-426	-247	613	580	169	309	285	0	-91	-296	290	24	98
	Dec	314	314	-51	140	-147	81	206	332	-301	470	285	0	-143	395	23	50	-133
2003	Jan	1147	1147	6	1108	-218	119	1207	2042	1578	487	-29	0	-168	192	257	38	197
	Feb	2304	2304	-5	-381	113	52	-546	1084	460	339	-24	0	-180	224	119	31	169
	Mar	710	710	3	-802	176	-119	-859	445	2015	-472	381	-113	-207	284	-1020	20	184
	Apr	47	47	-4	-292	-129	-42	-121	423	-234	944	62	0	481	-183	239	1	341
	May	-1050	-1050	31	592	-77	9	660	-1040	-55	-628	158	-39	-158	-776	317	23	-165
	Jun	-613	-613	-5	635	-314	48	901	-762	-514	-283	123	-117	-327	-99	33	1	88
	Jul	-88	-88	-4	-242	67	77	-386	641	-869	1596	310	0	-150	630	237	108	438
																		(on iki aylık)
2002	Agu	-354	-354	1501	-1346	-2347	171	830	5153	2072	5254	1116	-4166	11265	-3810	597	1571	-1416
	Sep	-1380	-1380	1301	-1818	-2459	-20	661	4653	989	5338	1328	-4166	11262	-3342	227	1611	-1686
	Oct	-1529	-1529	1038	-1115	-2127	-112	1124	4847	-1046	7619	1658	-4166	11404	-2103	207	1584	-1070
	Nov	70	70	922	-707	-2146	-203	1642	7489	367	8457	2007	-4166	11770	-2800	600	1489	-547
	Dec	1618	1618	862	-590	-2093	-16	1519	7499	593	8151	2432	-6138	11834	-1027	603	1336	-986
2003	Jan	2214	2214	873	-15	-2073	121	1937	9114	694	9596	2463	-6138	11716	-504	1044	1211	-293
	Feb	3815	3815	841	176	-1563	176	1563	7476	1064	7323	2573	0	2584	-296	1323	1111	-68
	Mar	3633	3633	771	-606	-790	-30	214	7260	2868	6121	2497	-113	2528	115	-87	1022	66
	Apr	3512	3512	741	-1500	-1053	-170	-277	6431	1525	6657	2396	-113	2040	318	-10	939	997
	May	2602	2602	517	-194	-631	-164	601	5835	3021	4729	2143	-152	1941	-1049	175	906	679
	Jun	1780	1780	482	1064	-1046	-65	2175	4531	2177	4250	2093	-269	1755	-1194	267	851	661
	Jul	1877	1877	483	798	-966	-52	1816	4348	2003	4205	2014	-269	541	-380	287	751	1173

Source: CBRT.