

**CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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**BALANCE OF PAYMENTS  
REPORT**

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**September 2003**

**SUMMARY****BALANCE OF PAYMENTS (USD million)**

	September			January-September		
	2002	2003	% Change	2002	2003	% Change
Current Account Balance	516	195	..	-416	-4034	..
Foreign Trade Balance	-1294	-2154	66,4	-10670	-15408	44,4
Exports	3225	4000	24,1	25742	33555	30,4
Imports	-4519	-6154	36,2	-36412	-48963	34,5
Exports/Imports	71,4%	65,0%	..	70,7%	68,5%	..
Capital and Financial Accounts	-787	-1314	..	798	397	..
Financial Account (Excl. Off. Reserves)	-822	2073	..	6001	6230	..
Change in Official Reserves†	35	-3387	..	-5203	-5833	..

Source: CBRT.

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

**In September 2003:**

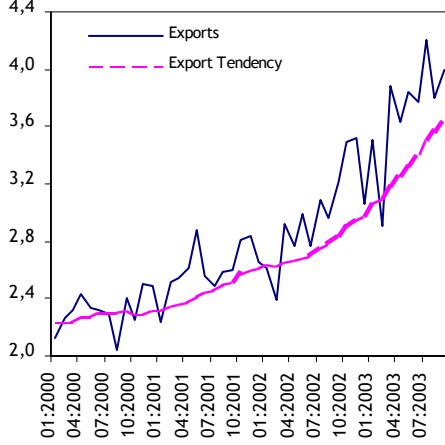
Exports increased by 24.1 percent compared to the same month of the previous year and rose to US dollar 4 billion from US dollar 3.2 billion. During the same period, imports rose by 36.2 percent from US dollar 4.5 billion to US dollar 6.2 billion. Hence, foreign trade deficit realized as US dollar 2.2 billion and the ratio of exports to imports dropped compared to the previous month and became 65 percent. Current account provided a surplus of US dollar 195 million, while financial account excluding official reserves provided a surplus of US dollar 2.1 billion.

**In January-September 2003:**

Exports increased by 30.4 percent compared to the same period of the previous year and rose to US dollar 33.6 billion from US dollar 25.7 billion. During the same period, imports rose by 34.5 percent from US dollar 36.4 billion to US dollar 49 billion. Hence, foreign trade deficit realized as US dollar 15.4 billion and the ratio of exports to imports dropped compared to the same period of the previous year and became 68.5 percent. Current account produced a deficit of US dollar 4 billion, while financial account excluding official reserves provided a surplus of US dollar 6.2 billion.

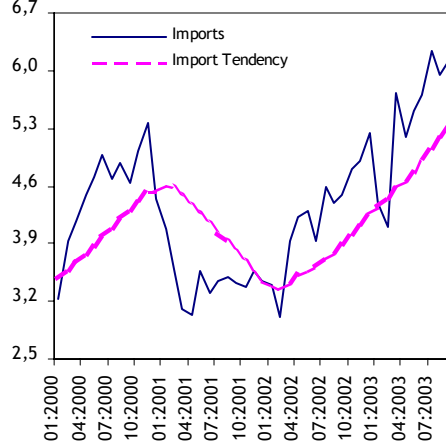
## SUMMARY

### EXPORTS (USD billion)



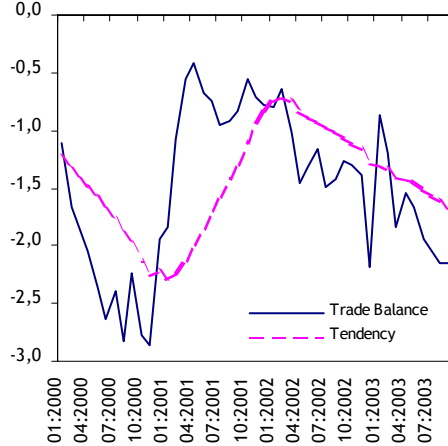
Source: SIS.

### IMPORTS (USD billion)



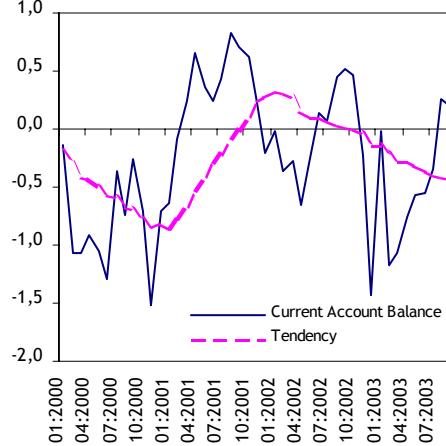
Source: SIS.

### TRADE BALANCE (USD billion)



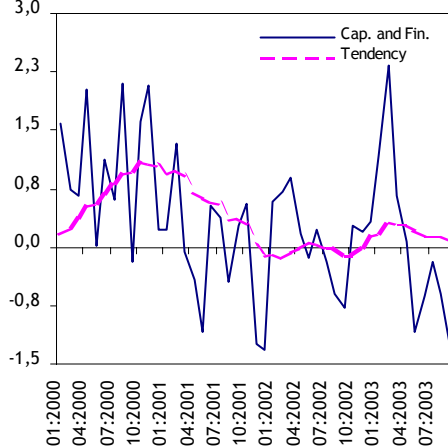
Source: SIS.

### CURRENT ACCOUNT BALANCE (USD billion)



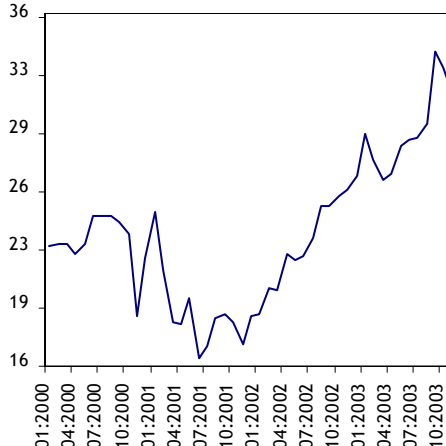
Source: CBRT.

### CAPITAL and FINANCIAL ACCOUNT (USD billion)



Source: CBRT.

### CBRT INTERNATIONAL RESERVES (USD billion)



Source: CBRT.

Trends are calculated with 12-month moving average.

## I. FACTORS AFFECTING FOREIGN TRADE

### Foreign Demand Developments

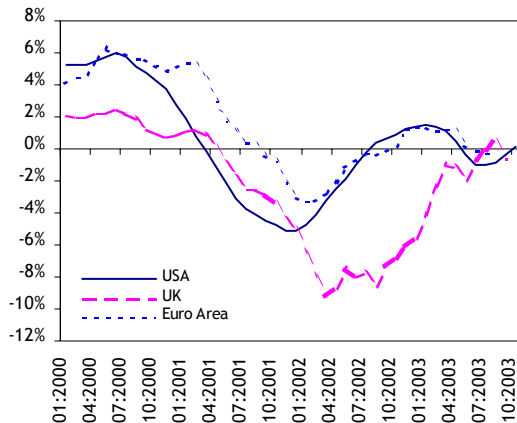
1. Growth expectations for the world economy for 2003 was revised upward especially due to the economic revival observed in the USA, Eastern Asia and Japan in the third quarter of the year. According to various international reports, the world economy is expected to grow by around 3-3.5 percent in 2003. The USA GDP, which has been increasing since 2002, gained pace in the third quarter of the year and grew by 3.5 percent compared to the same period of the year. The main determinant of this growth was the upsurge in consumption expenditures. The USA GDP is generally expected to grow between the 3-4 percent range in the fourth quarter.

2. The third quarter growth rate of 0.3 percent on annual basis in the euro area indicates the ongoing stagnation. The growth in expenditures points out that while domestic demand had a positive effect on growth, the impact of investment expenditures was negative. The weakness in demand in the European Union, especially in continental Europe continued, whereas recovery signs were observed in Britain as of the first half of the year. Although the appreciation of euro may restrict EU's exports in 2004, foreign demand triggered by the growth in the US economy as well as the increase in the world trade volume is expected to offset this impact. Besides, the domestic demand is anticipated to make a significant contribution to the growth.

3. The Japanese economy grew by 2.3 percent in the third quarter of the year. Foreign demand for Japanese exports, mainly from regional economies, stood as the determinant factor in the growth. The recovery in consumer confidence proves that the future growth will be sustained by the support of domestic demand. The Japanese economy is expected to expand by 2 percent in 2003.

#### INDUSTRIAL PRODUCTION

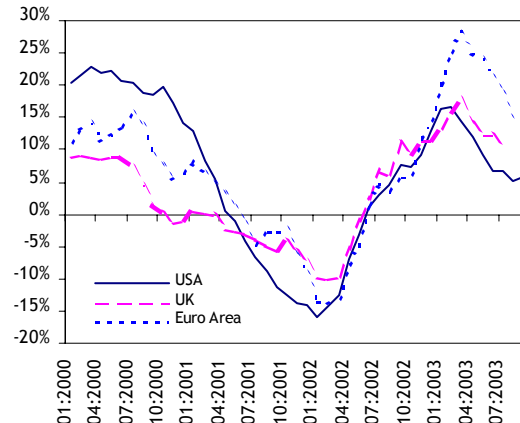
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

#### IMPORTS

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

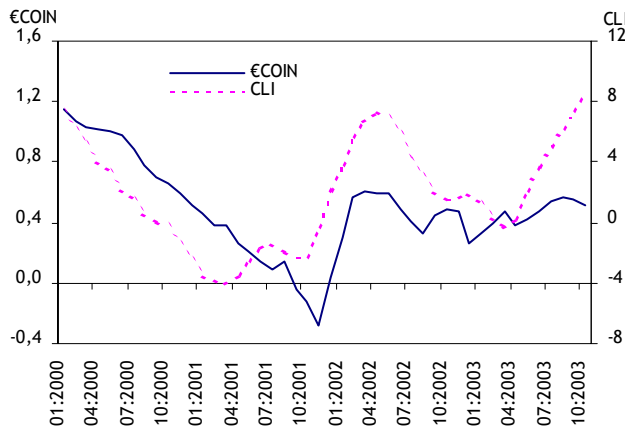


Source: IMF, ECB.

4. The composite leading indicators (CLI) issued by OECD for October reveal that the economic performance of OECD countries is continuing to recover. The six-month growth rate of CLI has been increasing since April. This development confirms the strengthening trend in the world economy. When the composite leading indicators are analyzed by countries, it is observed that the USA, Germany, France and Turkey are giving strong recovery signals.

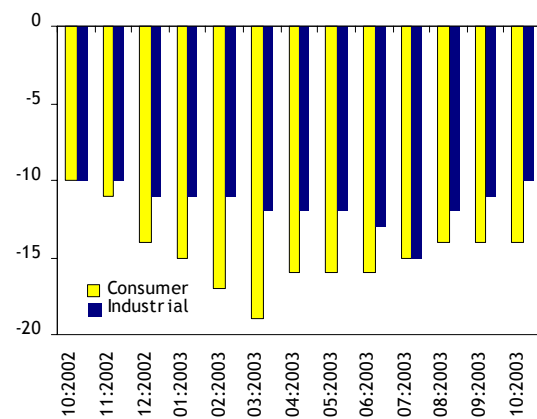
5. EuroCOIN (Coincident Indicator), which provides monthly GDP growth expectations for the euro area, points at a limited revival in the economic activity.

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



Source: CEPR, OECD.

**CONSUMER & INDUSTRIAL CONFIDENCE: EU  
(seasonally adjusted)**

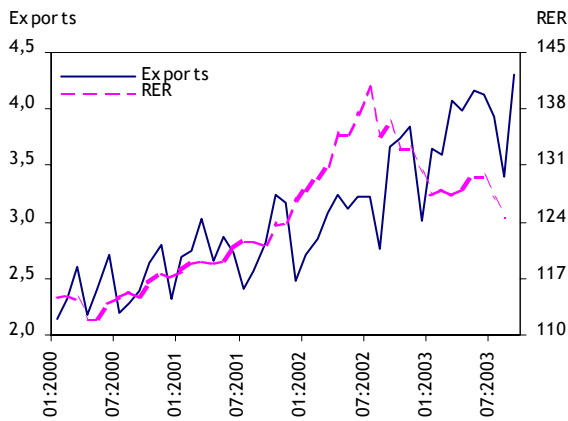


Source: Eurostat.

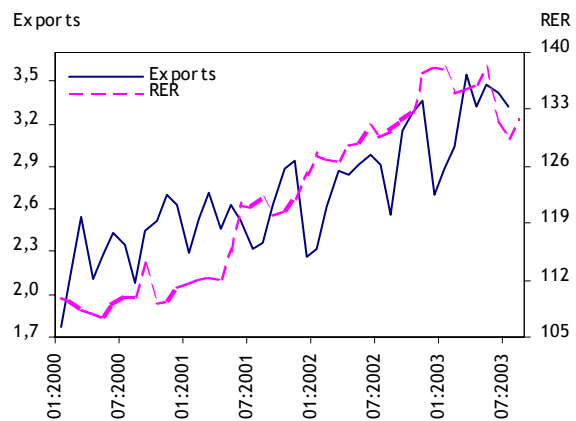
6. Due to the appreciation of euro, euro area imports shifted from regional countries to non-regional countries. This development had a favorable effect on euro area imports from Turkey. Hence, euro area imports from Turkey rose by 10 percent during January-August period and became the highest rate of increase after China (14 percent).

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

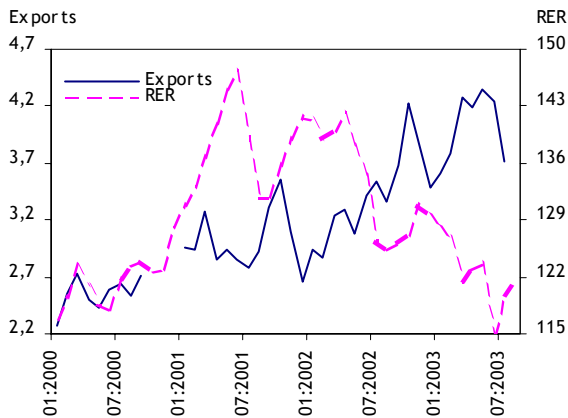
**CZECH REPUBLIC**



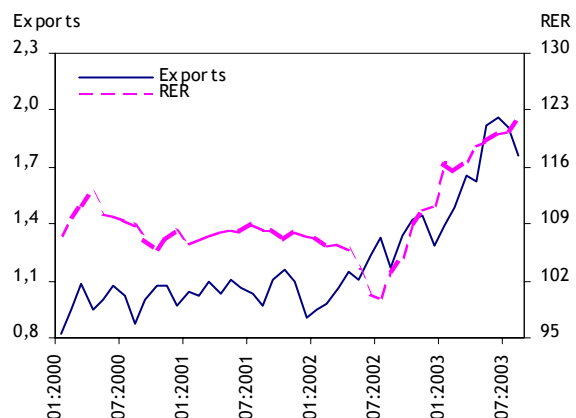
**HUNGARY**



**POLAND**



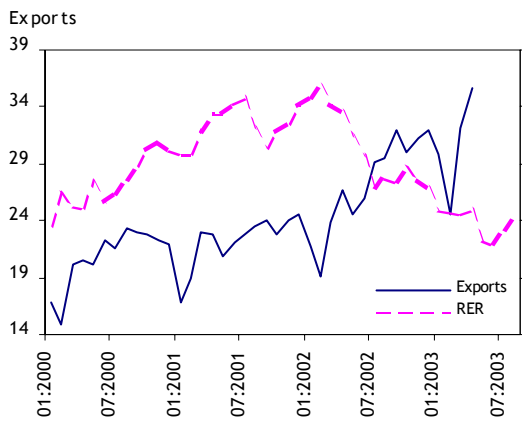
**SLOVAK REPUBLIC**



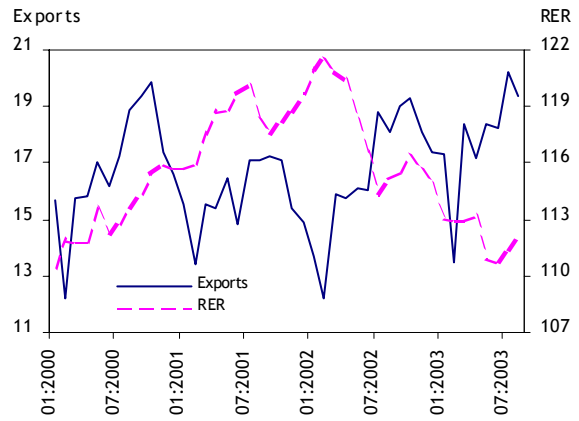
† Increase in real exchange rate index signifies the strengthening of domestic currency.  
Source: IMF.

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

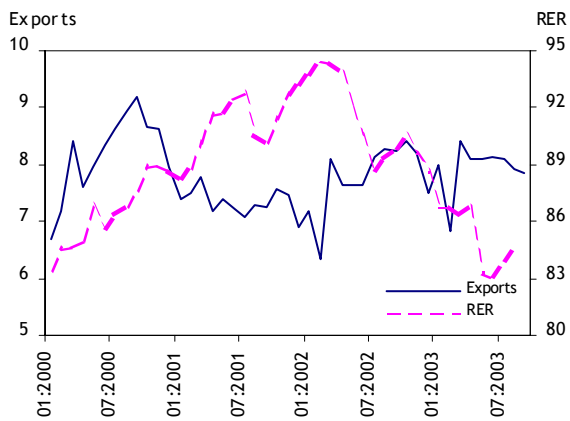
CHINA



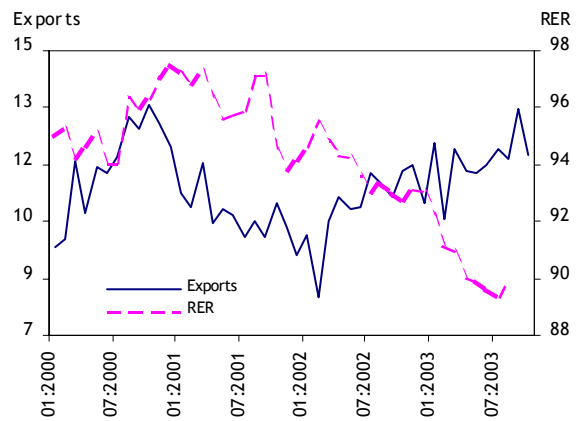
HONG KONG††



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. The real exchange rate in Czech Republic, the largest economy among the EU candidates, has depreciated in recent months and the rate of increase in its exports has accelerated in line with this development.

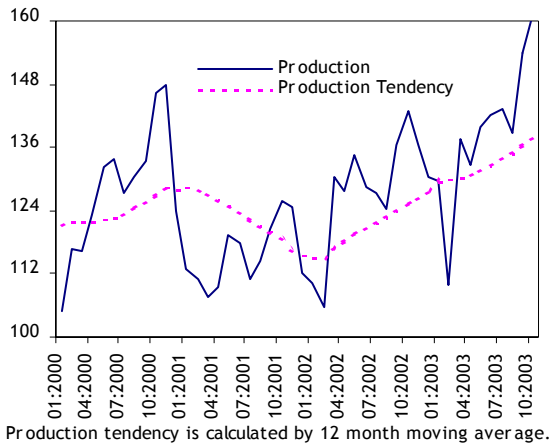
8. In China, although the depreciation of yuan has slowed down, the real exchange rate is still at lower levels compared to the previous years and the exports have increased rapidly. A similar development is observed in other major Asian countries as well.

Developments in Domestic Demand and Production

9. In the third quarter of 2003, GDP grew by 4.8 percent compared to the same period of the previous year. In the first three quarters of the year, the growth became 5.4 percent compared to the same period of the previous year. In the third quarter of the year, the increase in private consumption and investment expenditures realized above the GDP growth, whereas public consumption and investment expenditures declined in real terms.

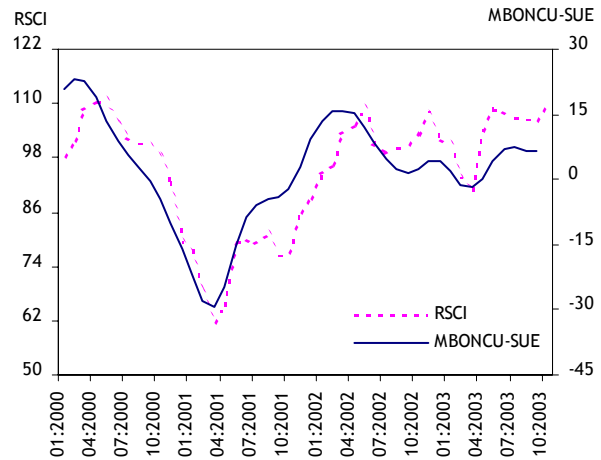
10. In the third quarter of 2003, agricultural sector value added dropped by 1 percent compared to the same period of the previous year. This decline stemmed from the drop in the production of cereals, leguminous seeds and field products due to the seasonal factors observed in odd years. On the other hand, industrial sector value added rose by 8.1 percent in the same period. The recovery in domestic demand, the downward trend observed in real interest rates and the upsurge in exports were the leading factors that have explained the growth in the industrial sector value added.

MANUFACTURING INDUSTRY PRODUCTION  
(1994=100)



Source: SIS.

LEADING INDICATORS for TURKEY: RSCI,  
MBONCU-SUE (6-month % change)



Source: CBRT.

11. Despite the high base-effect caused by the rapid increases observed following March 2002, total industrial production maintained its high-rated upward trend in October that has initiated in June. In October, manufacturing industrial production rose by 12.3 percent compared to the same month of the previous year and by 8.9 percent in January-October period. Moreover, monthly data reveal that total industrial production increased by 11.9 percent in the third quarter of the year compared to the same period of the previous year. This development proves that the growth process in the economy has continued increasingly in the third quarter of the year as well. During this period, high export performance became the main determinant of the rapid increase in industrial production.

12. The limited recovery in the first ten months of the year have started to strengthen relatively in recent months. In January-October period, production increased in the sectors sensitive to domestic demand such as manufacture of food, clothing, textile, paper and chemicals compared to the same period of the previous year. Moreover, the high-rated increases in manufacture of machinery-equipment since March support the opinion that firms have accelerated their investment expenditures. The limited recovery in domestic demand was observed especially in durable consumption goods. Hence, the increases in consumer credits recorded in recent months support these developments.

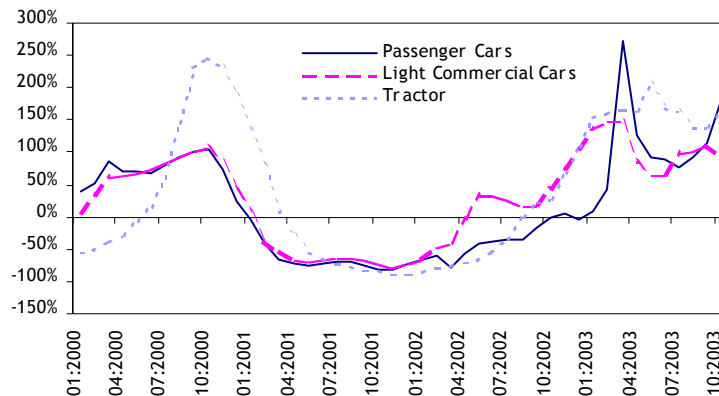
13. According to the SIS Manufacturing Industry Monthly Business Survey results, the manufacturing industry production in private manufacturing industry is expected to increase by 17.2 percent in November compared to the same month of the previous year. The Survey anticipates that manufacturing industry production will display a rapid increase in the last quarter of 2003 similar to the third quarter of the year. Besides, according to the SIS data, capacity utilization rate in manufacturing industry realized as 80.8 percent in October.

14. The six-month rate of change of Composite Leading Indicators Index (MBONCU-SUE) compiled by Central Bank of the Republic of Turkey (CBRT) started to acquire positive value as of April and displayed an upward trend. Despite a slight drop in August and September compared to July, the index is still maintaining its high level, which indicates that there will be no decline in industrial production in the following period.

15. Moreover, Real Sector Confidence Index (RSCI) is at higher levels compared to the recent years, although it has been declining since June. According to the index, no slowdown is expected in economic activities in the following period.

16. The rise in passenger and light commercial car sales is another development that supports the recovery in domestic demand. According to the three-month averages, sales of passenger car and light commercial car boosted by 180.2 percent and 91.2 percent in October, respectively.

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



Source: Automobile Industry Association.

17. Leading indicators of consumption demand such as Consumer Confidence Index and Consumption Tendency Index compiled by CNBC-e maintained their increasing trend in November that has initiated by the end of Iraq war. In November, the indices rose by 1.1 and 1.2 percent, respectively. The upward trend in Individual Consumption and Retail Sale Indices compiled by CNBC-e, gained pace in October. In this month, the indices increased by 7.2 percent and 11.2 percent, respectively.

#### Prices

18. The downward trend that had initiated by April in nominal foreign exchange basket, which comprises of USD 1 + 0.77 euro, reversed in October and November and increased by 5.8 percent and 3.4 percent in the related months compared to the previous month, respectively. In November, the real depreciation of Turkish lira became 1.8 percent according to the CPI-based index and 1.6 percent according to the WPI-based index. Nevertheless, the value of real exchange rate is still higher by 11.9 percent according to the CPI-based index and by 7.9 percent according to the WPI-based index compared to the end-2002.

19. Euro, which has been appreciating against US dollar since 2002, displayed a volatile course in November. Euro that displayed a downward trend in the first weeks of November appreciated in the last two weeks. Accordingly, euro/US dollar parity realized as 1.1662 in November and rose to 1.1887 by the end-November.

#### REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)†

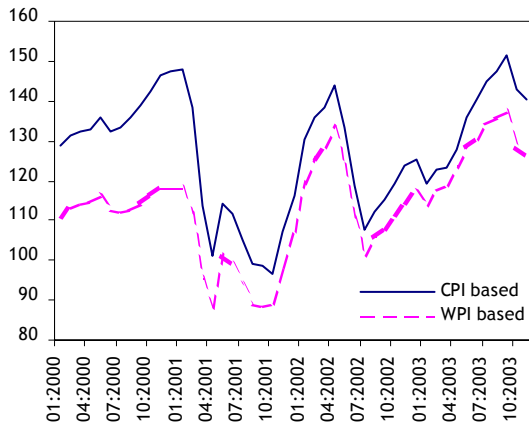
	2003											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Agu	Sep	Oct	Nov
Turkey												
CPI based	1,4	-4,9	2,9	0,7	3,6	6,2	3,5	3,2	1,4	2,9	-5,7	-1,8
WPI based	2,4	-2,8	3,6	0,6	4,1	4,1	1,6	3,0	1,2	1,1	-6,6	-1,6
Czech Republic	-2,3	-2,1	0,6	-0,6	0,7	1,2	0,2	-2,2	-1,8			
Slovakia	0,5	4,5	-0,8	1,1	1,7	0,3	0,8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

Source: CBRT, OECD, IMF.

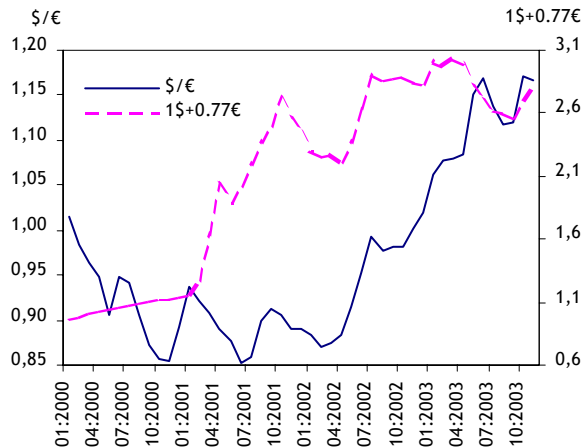
† Increase implies real appreciation of the currency.

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



**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**


20. The deterioration observed in the terms of trade in 2002 reversed in 2003 and the terms of trade improved by 4.6 percent in July compared to the end-2002.

21. In July, export prices rose by 0.9 percent compared to the previous month. Increase in export prices that are calculated on basis of three month-averages continued its sluggish downward trend in July as well. Increases in export price indices of textile, clothing and motor vehicles, the leading export items of manufacturing industry, were above the general index increase.

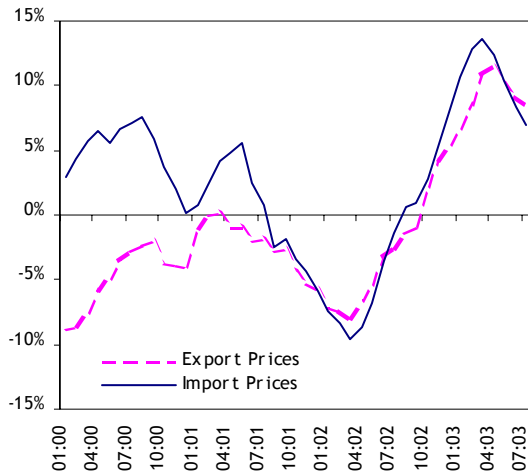
22. In July, import prices rose by 0.8 percent compared to the previous month. Import prices, which are calculated on basis of three-month averages, displayed an increasing tendency until April. However, this tendency reversed in the following months. In July, manufacturing industry prices remained almost unchanged compared to the previous month.

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

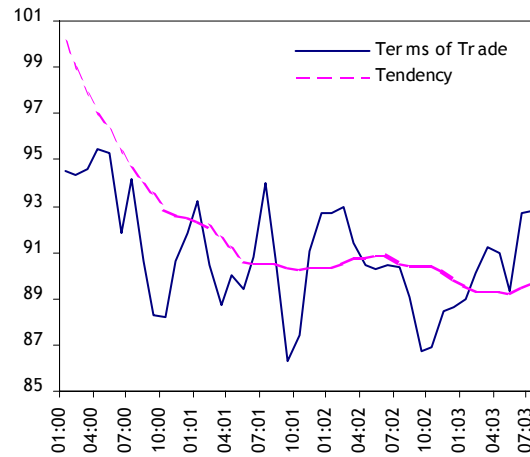
						2003						
	Agu	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Export Price Index	83,7	83,9	84,4	85,3	87,7	89,6	92,7	92,3	91,1	89,7	91,4	92,2
Manufacturing	83,6	84,4	84,3	85,1	87,7	89,9	93,4	93,1	91,7	89,9	91,8	93,0
Textiles	78,7	79,0	78,7	82,0	85,2	86,9	90,0	87,5	86,7	87,3	88,8	90,1
Wearing Apparel	89,1	86,6	83,8	85,0	91,7	94,5	99,1	97,5	94,4	91,4	97,3	101,8
Chemicals & Products	85,8	85,4	86,4	87,3	88,2	89,8	92,5	92,9	92,2	88,3	89,9	88,1
Manufacture of Basic Metals	89,8	87,0	88,5	90,6	89,3	90,6	98,7	104,8	107,7	102,5	100,5	101,3
Manufacture of Mach. & Equ.	77,8	80,1	81,2	79,9	83,7	85,2	85,5	83,0	83,2	83,9	85,9	84,8
Electrical Mach. & Apparatus	67,4	72,5	74,1	72,9	75,6	76,3	74,3	72,1	69,0	68,4	70,2	68,4
Motor Vehicles & Trailers	87,7	91,4	93,5	93,5	95,0	93,3	94,2	96,3	96,6	94,8	98,6	101,6
Import Price Index	94,0	96,7	97,1	96,4	98,9	100,7	102,9	101,2	100,1	100,4	98,6	99,4
Mining & Quarrying	153,7	153,9	161,0	145,0	157,1	169,2	179,2	169,6	160,0	151,7	158,0	159,6
Crude Oil & Natural Gas	162,0	163,0	170,2	151,3	166,6	178,5	190,6	181,3	169,1	162,5	169,8	172,2
Manufacturing	87,6	90,3	90,2	91,3	92,4	91,9	93,4	93,6	94,3	95,1	93,2	93,5
Textiles	78,4	82,7	84,8	85,0	88,1	84,0	85,2	87,9	91,6	90,3	91,3	89,4
Chemicals & Products	91,6	94,1	92,9	95,2	97,4	97,1	100,8	100,7	104,1	104,7	101,5	100,0
Manufacture of Basic Metals	86,4	85,2	84,2	89,0	91,5	93,0	95,8	94,9	97,4	95,9	94,7	97,1
Manufacture of Mach. & Equ.	86,8	91,6	91,6	94,7	97,5	92,8	91,6	91,5	93,1	94,2	93,5	97,2
Electrical Mach. & Apparatus	68,8	70,2	70,7	67,7	67,9	67,2	65,8	66,8	67,6	68,0	68,6	67,3
Motor Vehicles & Trailers	90,2	90,3	86,4	85,7	88,7	89,6	88,7	88,4	89,1	93,0	91,6	91,4

Source: SIS.

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



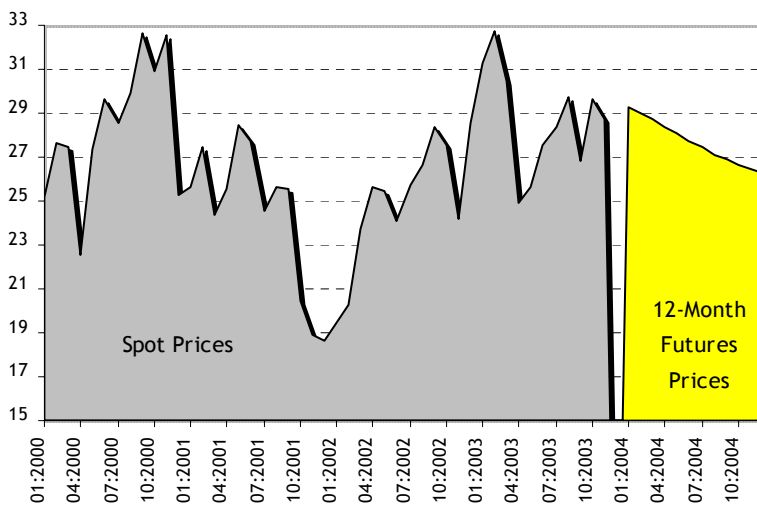
**TERMS OF TRADE (Export Prices/Import Prices) (1994=100)**



Source: SIS.

23. Brent oil prices, which rose in October following a decline in September, dropped in November again and became 28.69 US dollars per barrel on the average. On the other hand, futures prices indicate that prices are expected to realize at a level of around 29 US dollar per barrel in early-2004.

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



Futures Prices	
	04.12.2003
Jan 2004	29,23
Feb 2004	28,99
March 2004	28,72
April 2004	28,38
May 2004	28,05
June 2004	27,74
July 2004	27,43
Aug 2004	27,13
Sept 2004	26,87
Oct 2004	26,64
Nov 2004	26,42
Dec 2004	26,25

Source: oilnergy.com.

Note: 04.12.2003 future prices of International Petroleum Exchange

24. Oil prices, which increased following the OPEC decision of 24 September to reduce the production quotas, declined slightly in early-November owing to the higher temperatures than seasonal averages in the USA. At the extraordinary OPEC meeting held on 4 December 2003 in Vienna, it has been decided to maintain the current production level regarding that world crude oil supply is adequate when the supply-demand expectations for the rest of 2003 and the first half of 2004 are taken into consideration despite the increasing demand for crude oil. Oil demand is expected to increase due to heating purposes in the coming winter. Since the OPEC decision not to increase the oil production will have a diminishing impact on stocks, a cost-push effect is expected on crude oil prices in the rest of the year.

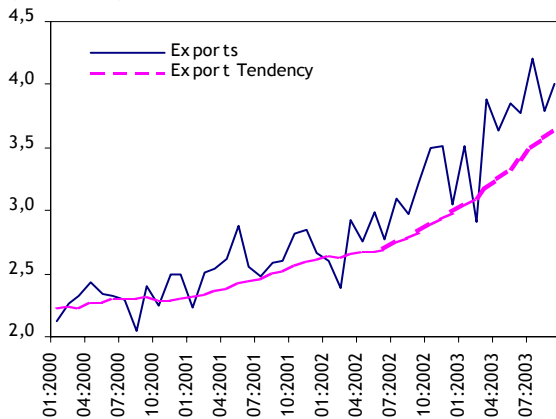
## II. EXPORTS

### General Evaluation

25. In September 2003, exports rose by 24.1 percent compared to the same month of the previous year and reached US dollar 4 billion. Hence, in the first seven months of the year, exports expanded by 30.4 percent compared to the same period of the previous year and reached US dollar 33.6 billion, while 12-month exports realized as US dollar 43.6 billion, increasing by 28.2 percent.

26. Low level of labor costs has become one of the main determinants in the increase in export supply in 2003 by allowing firms to participate in price competition despite the real appreciation of Turkish lira. In the first half of the year, real wages per hour and real earnings per worker in manufacturing industry production declined by 3.2 percent and 8.1 percent, respectively, compared to the same period of the previous year. Unit wage index is still at lower levels compared to the past years despite its increase compared to the previous year.

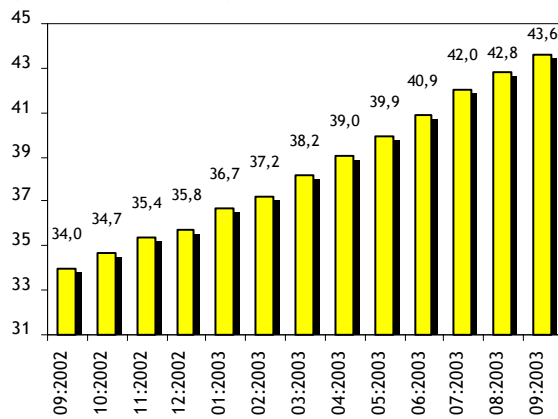
EXPORTS and EXPORTS TENDENCY†  
(USD billion)



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

Source: SIS.

EXPORTS  
(12 month, USD billion)



Source: SIS.

### EXPORTS (USD million)

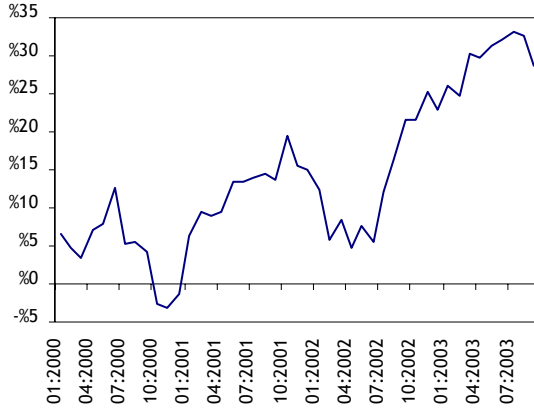
	September				January-September			
	2002	2003	% Change	Contrib.	2002	2003	% Change	Contrib.
<b>Total</b>	3225	4000	24,1		25741	33555	30,4	
Agriculture and Forestry	215	203	-5,4	-0,4	1282	1430	11,5	0,6
Fishing	5	3	-34,4	-0,1	30	39	27,3	0,0
Mining and Quarrying	29	44	54,3	0,5	283	378	33,4	0,4
Manufacturing	2975	3739	25,7	23,7	24119	31624	31,1	29,2
Other	1	10	639,8	0,3	27	85	218,2	0,2
<b>Important Items:</b>								
Mineral Fuels, Mineral Oils	65	67	3,0	0,1	490	715	45,8	0,9
Cotton, cotton yarn and cotton fabrics	70	68	-1,9	0,0	589	691	17,4	0,4
Articles of Apparel-Clothing; Knitted	354	451	27,5	3,0	3307	4248	28,4	3,7
Articles of Apparel-Clothing; Not Knitted	279	294	5,2	0,5	2428	2855	17,6	1,7
Other made-up textile articles, sets, worn clothing	110	137	24,3	0,8	903	1147	26,9	0,9
Iron and Steel	222	209	-5,6	-0,4	1617	2188	35,3	2,2
Articles of Iron and Steel	97	126	29,8	0,9	947	982	3,7	0,1
Boilers, Machinery, Mechanical Equipment	180	254	40,6	2,3	1517	2114	39,4	2,3
Electrical Machinery and Equipment	261	326	25,0	2,0	1985	2282	14,9	1,2
Motor Vehicles and Spare Parts	321	474	47,3	4,7	2205	3731	69,2	5,9

Source: SIS.

27. While the three-month averages in exports of manufacturing industry displayed a favorable trend, the downward trend in agricultural sector that has been continuing since May persisted in September as well.

#### EXPORTS: GROWTH RATE

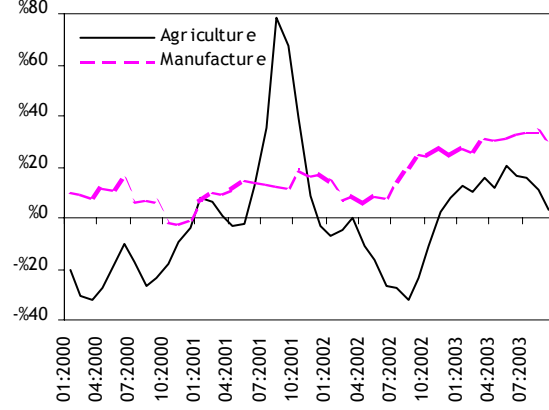
(3 month moving average, annual % change)



Source: SIS.

#### EXPORTS: SECTORAL GROWTH RATES

(3 month moving average, annual % change)



Source: SIS.

28. The largest contribution to the exports growth in September was made by exports of motor vehicles, articles of apparel knitted, boilers-machinery-mechanical devices and electrical machinery and equipments. In this period, the exports of these sectors comprised 37.6 percent of total exports.

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

	September					January-September				
	2002		2003		%	2002		2003		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
<b>Total</b>	3225	..	4000	..	24,1	25741	..	33555	..	30,4
<b>OECD Countries</b>	2073	64,3	2549	63,7	23,0	16786	65,2	21754	64,8	29,6
European Union Countries:	1646	51,1	2038	51,0	23,8	13067	50,8	17389	51,8	33,1
EFTA Countries	30	0,9	43	1,1	44,2	306	1,2	389	1,2	26,8
Other OECD Countries	397	12,3	468	11,7	18,0	3412	13,3	3977	11,9	16,6
<b>Non-OECD Countries</b>	1020	31,6	1303	32,6	27,8	7936	30,8	10488	31,3	32,2
European Countries	310	9,6	414	10,3	33,6	2470	9,6	3263	9,7	32,1
African Countries	143	4,4	169	4,2	18,2	1225	4,8	1564	4,7	27,7
American Countries	13	0,4	23	0,6	73,2	177	0,7	197	0,6	11,5
Middle East Countries	328	10,2	440	11,0	34,2	2583	10,0	3522	10,5	36,3
Other Asian Countries	216	6,7	255	6,4	18,5	1350	5,2	1889	5,6	40,0
Other Countries	11	0,3	2	0,1	-79,8	132	0,5	53	0,2	-59,4
<b>Turkey Free Trade Areas</b>	132	4,1	148	3,7	12,2	1020	4,0	1313	3,9	28,8
<b>Selected Countries</b>										
Germany	519	16,1	600	15,0	15,7	4178	16,2	5376	16,0	28,7
USA	295	9,1	318	7,9	7,7	2491	9,7	2814	8,4	13,0
UK	285	8,8	336	8,4	17,8	2107	8,2	2579	7,7	22,4
Italy	212	6,6	274	6,8	28,9	1664	6,5	2277	6,8	36,9
France	171	5,3	244	6,1	42,6	1551	6,0	1972	5,9	27,2
Spain	95	3,0	137	3,4	44,1	798	3,1	1254	3,7	57,1
Russia	98	3,0	127	3,2	30,1	886	3,4	953	2,8	7,6

Source: SIS.

29. In September, the share of exports to OECD member countries in total exports declined, whereas the share of exports to non-OECD countries increased. This increase mainly stemmed from the upward trend in exports to Middle East countries that has

initiated by the end of war. Exports to Russia, which has been declining since the last quarter of 2002, maintained its recovery trend continuing since June and increased by 30.1 percent in September compared to the previous month.

30. Analyzing by selected countries, exports to Germany made the largest contribution to the overall export performance. Germany was followed by USA and England.

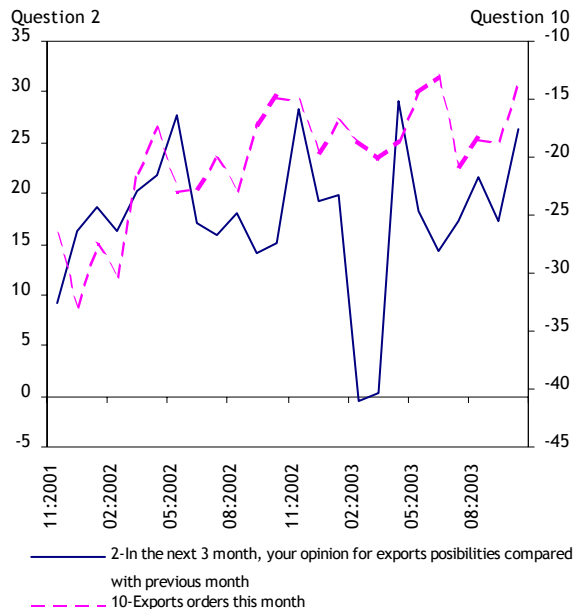
Outlook

31. According to the results of the CBRT Business Tendency Survey (BTS) of October, expectations for the export prospects over the next three months became more optimistic. Moreover, a rise was observed in the volume of new orders received in October.

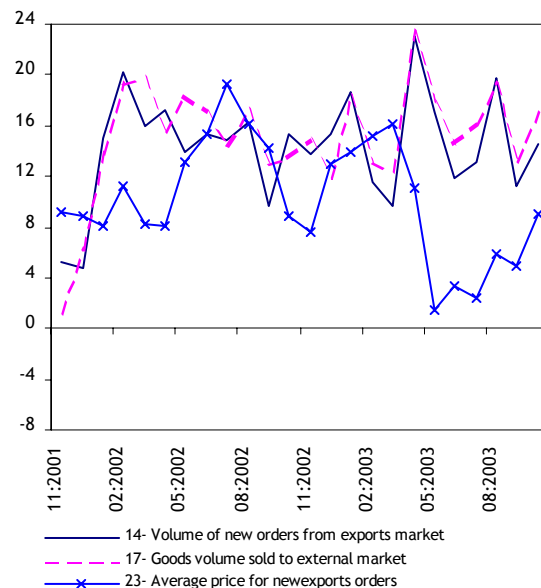
32. According to the BTS, expected new orders to be received from exports markets as well as expected volume of goods to be exported in the next quarter increased in October. Meanwhile, expected average price for new exports orders over the next three months incremented.

33. Parallel to the appreciation in Turkish lira in 2003, price competition ranks first among factors that might limit export orders over the next quarter. Meanwhile, worries about the external developments, which are important for the limitations on export orders, continued to ease since April.

EXPORT EXPECTATIONS



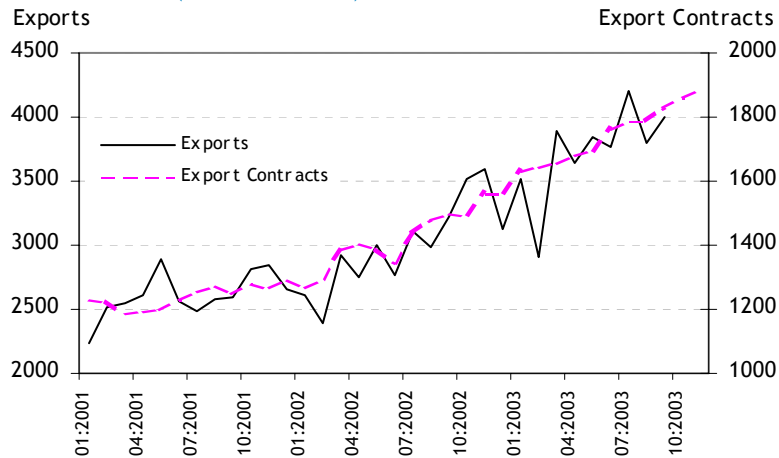
Source: CBRT Business Tendency Survey.



Source: CBRT Business Tendency Survey.

34. Compared to the same period last year, the volume of export contracts within the scope of the inward processing regime grew by 25.8 percent and reached US dollar 22.2 billion in January-October 2003. In the same period, imports subject to inward processing regime increased by 27.5 percent and reached US dollar 14.1 billion. As it is required that exports committed within the scope of the inward processing regime have to be fulfilled within twelve months the latest, exports, which was on the rise as of mid-2002, is expected to continue to grow in the rest of the year as well as next year.

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

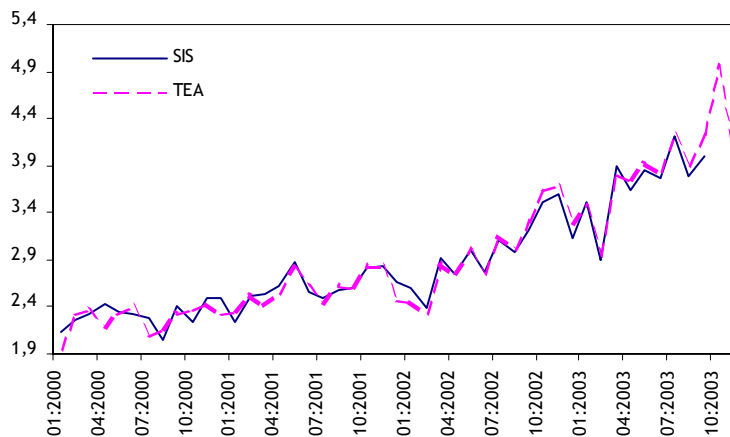


Source: UFT.

35. The data compiled by the Turkish Exporters Assembly (TEA) also indicate that the upward trend in exports will accelerate further. According to TEA figures, exports in October and November 2003 became US dollar 5 billion and 4 billion, respectively. In November, 12-month exports reached US dollar 46.3 billion.

36. According to TEA's classification, exports of industrial products increased by 8.9 percent in November compared to the same month last year. Rate of increase in exports of ready-to-wear clothes was 3,8 percent. Meanwhile, exports of transportation vehicles and by-products grew by 11.9 percent in November. According to TEA's data, exports of agricultural products went up by 15 percent in the same period.

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



Source: SIS, TEA.

37. Taking into account the cost of resources, the Turk Eximbank (the Export Credit Bank of Turkey) cut down short-term interest rates for TL-denominated credits effective as of October 31, 2003, with the aim of supporting the exporters. The Turk Eximbank had six interest rate cuts earlier in 2003. These cut-down operations are believed to have made an important contribution to the exports performance in 2003.

## PARITY CHANGES AND THEIR EFFECT ON FOREIGN TRADE

Although Turkey's foreign trade data is published in US dollars, US dollars is not the only currency unit used in Turkey's foreign trade transactions. Therefore, any changes in parity between the currencies may lead to significant changes in foreign trade statistics that are recorded in US dollars. The degree of impact of such changes depends on the share of the currencies other than US dollars in exports and imports figures.

### FOREIGN EXCHANGE DECOMPOSITION OF EXPORTS (percentage share)

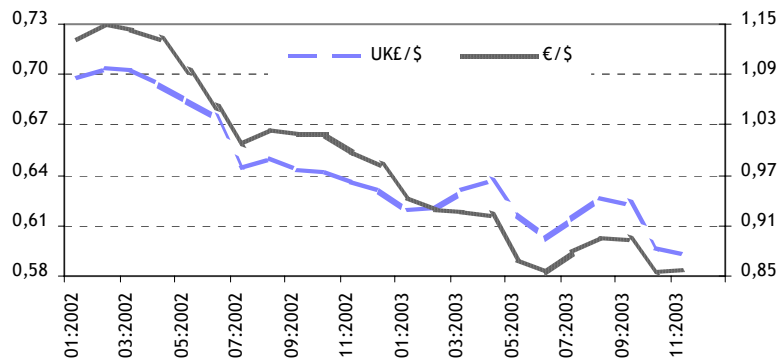
	Exports			Imports		
	2001	2002	Jan-Sep 2003	2001	2002	Jan-Sep 2003
US dollar	49,5	44,9	42,7	61,2	56,7	56,6
Euro*	42,9	46,7	49,3	33,0	37,2	38,2
British pound	5,7	6,6	6,1	2,2	2,0	1,8
Other	2,0	1,8	1,9	3,7	4,1	3,4

Source: SIS

\*Including euro and currencies constituting euro.

January-September 2003 period witnessed significant changes in parities. As was the case in 2002, euro and sterling, which are two main currency units for Turkey's exports activities, continued to appreciate vis-à-vis US dollars in 2003 as well. Other currency units used in foreign trade transactions followed a similar course.

### €/ \$ and £/ \$ PARITIES



Source: CBRT.

Assuming that the parity between other currencies and US dollars remained at the average value of December 2002, it can be asserted that US dollar 1450 million of the total rise in exports and US dollar 1699 million of the total rise in imports stemmed from the parity changes. Free from the parity effect, exports and imports increased by 24.7 percent 29.8 percent, respectively, in the first nine months of the year.

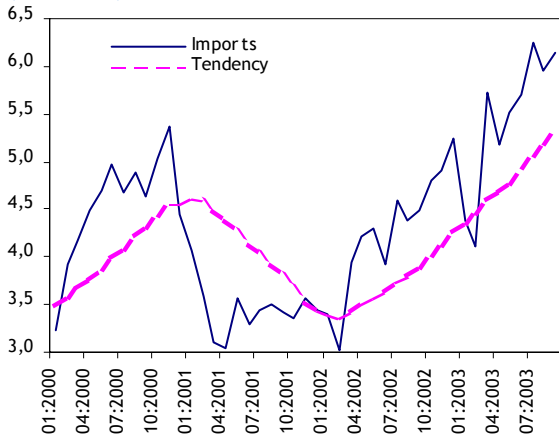
As the impact of parity is greater in imports than it is on exports, the parity changes in this period swelled foreign trade deficit by US dollar 250 million.

### III. IMPORTS

#### General Evaluation

38. Compared to the same month last year, imports increased by 36.2 percent and reached US dollar 6.2 billion in September 2003. Thus, imports during the January-September period increased by 34.5 percent compared to the same period last year and reached US dollar 49 billion and 12-month imports became US dollar 63.9 billion.

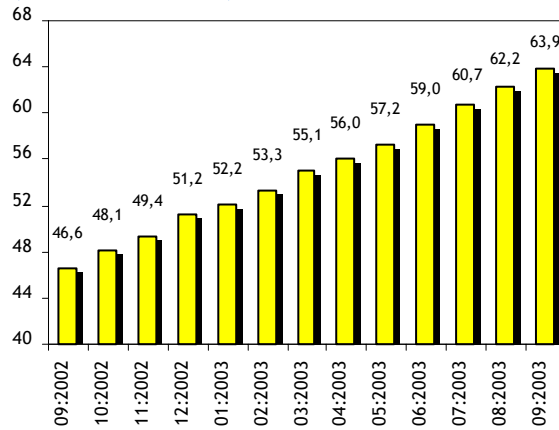
IMPORTS and IMPORTS TENDENCY†  
(USD billion)



† Imports tendency is calculated using 12 month moving average.

Source: SIS.

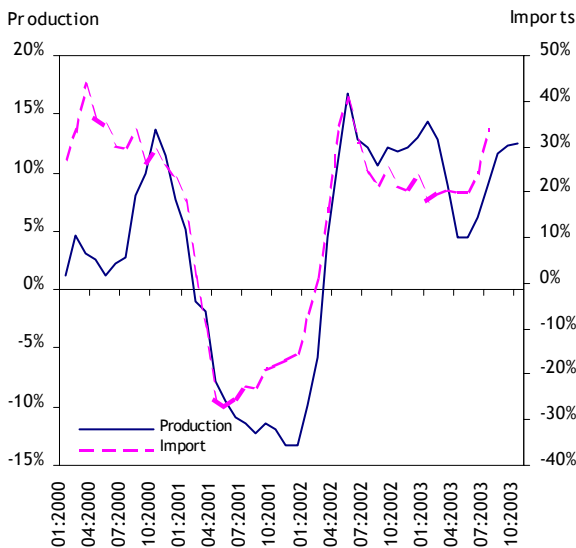
IMPORTS  
(12 month, USD billion)



Source: SIS.

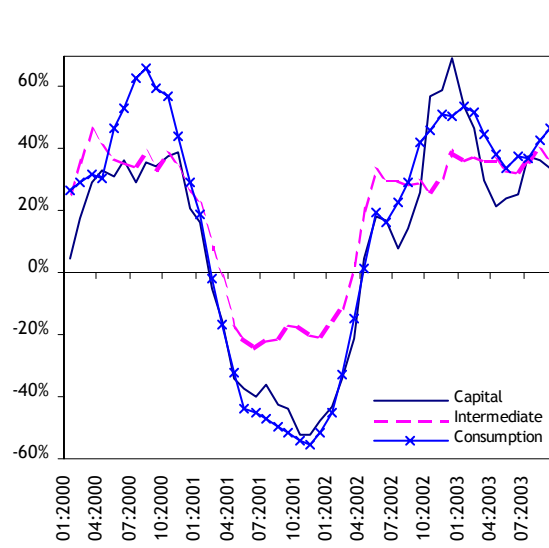
39. Rapid growth in domestic industrial production helped continue the upward trend in imports of intermediary goods in September. Moreover, as increased capacity utilization rate in the third quarter necessitated new investments to carry on with the rise in production, imports of capital goods went up. Meanwhile, the rate of increase in imports of consumption goods was bigger than that of overall imports.

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)

	September				January-September			
	2002	2003	% Change	% Contrib.	2002	2003	% Change	Contrib.
Total	4519	6154	36,2	..	36411	48963	34,5	..
Capital Goods	725	970	33,9	5,4	5662	7353	29,9	4,6
Intermediate Goods	3281	4388	33,7	24,5	26930	36290	34,8	25,7
Consumption Goods	453	711	56,9	5,7	3487	4989	43,1	4,1
Other	61	85	40,1	0,5	332	331	-0,4	0,0
Important Items:								
Mineral fuels,mineral oils and products of their dist.	824	1042	26,5	4,8	6428	8313	29,3	5,2
Crude Oil	413	442	6,9	0,6	2993	3601	20,3	1,7
Organic chemicals	171	202	18,7	0,7	1379	1708	23,9	0,9
Pharmaceutical products	143	178	24,6	0,8	1062	1462	37,6	1,1
Plastics and articles thereof	212	294	38,3	1,8	1717	2337	36,1	1,7
Cotton, cotton yarn and cotton fabrics	88	136	54,7	1,1	1028	1261	22,7	0,6
Iron and Steel	277	420	51,9	3,2	1826	3460	89,5	4,5
Boilers, Machinery, Mechanical Equipment	725	851	17,4	2,8	5467	6938	26,9	4,0
Electrical Machinery and Equipment	386	520	34,9	3,0	3045	3784	24,3	2,0
Motor Vehicles and Spare Parts	203	504	148,0	6,7	1447	3069	112,0	4,5
Optical, photographic, cinematographic	86	122	40,8	0,8	766	917	19,7	0,4

Source: SIS.

## IMPORTS: BY COUNTRY GROUPS (USD million)

	September					January-September				
	2002		2003		%	2002		2003		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	4519	..	6154	..	36,2	36411	..	48963	..	34,5
OECD Countries	2753	60,9	3842	62,4	39,6	23281	63,9	30800	62,9	32,3
European Union Countries	2015	44,6	2740	44,5	36,0	16272	44,7	21963	44,9	35,0
EFTA Countries	194	4,3	319	5,2	64,3	1854	5,1	2564	5,2	38,3
Other OECD Countries	544	12,0	784	12,7	44,0	5155	14,2	6272	12,8	21,7
Non-OECD Countries	1700	37,6	2256	36,7	32,7	12698	34,9	17742	36,2	39,7
European Countries	582	12,9	823	13,4	41,4	4448	12,2	6258	12,8	40,7
African Countries	210	4,6	321	5,2	52,9	1875	5,2	2396	4,9	27,8
American Countries	44	1,0	86	1,4	95,6	469	1,3	810	1,7	72,5
Middle East Countries	437	9,7	332	5,4	-24,1	2692	7,4	3273	6,7	21,6
Other Asian Countries	422	9,3	654	10,6	55,0	3088	8,5	4733	9,7	53,3
Other Countries	5	0,1	39	0,6	700,8	125	0,3	272	0,6	118,1
Turkey Free Trade Areas	66	1,5	56	0,9	-16,1	432	1,2	421	0,9	-2,5
Selected Countries										
Germany	616	13,6	894	14,5	45,2	4767	13,1	6460	13,2	35,5
Italy	303	6,7	395	6,4	30,1	2903	8,0	3827	7,8	31,8
Russia	364	8,1	521	8,5	43,1	2725	7,5	3759	7,7	38,0
USA	233	4,0	291	4,8	71,0	2286	4,2	2597	5,3	68,5
France	286	6,3	384	6,2	34,7	2194	6,0	2797	5,7	27,5
United Kingdom	240	5,3	254	4,1	5,9	1630	4,5	2549	5,2	56,3

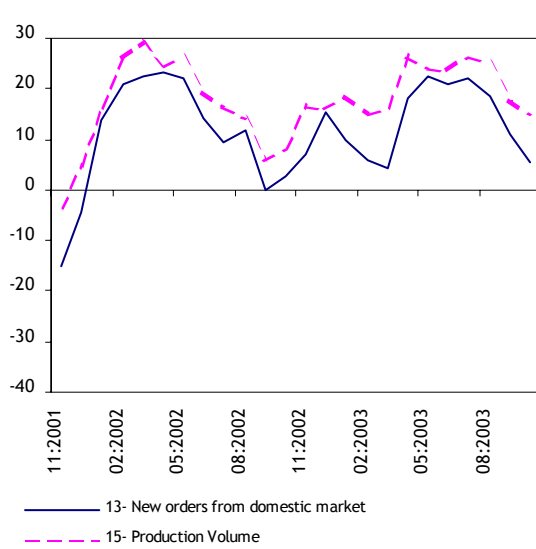
Source: SIS.

40. The biggest contribution to the rise in imports came from imports of motor vehicles, mineral fuels and greases, iron and steel, electrical machinery and equipments, boilers, machinery and mechanical devices. The listed groups comprised 54.2 percent of overall imports in September 2003.

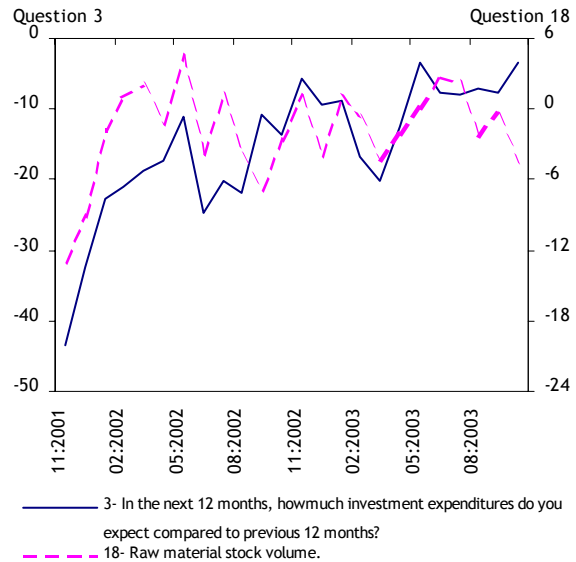
**Outlook**

41. The CBRT Business Tendency Survey data reveal that optimistic expectations of private companies pertaining to domestic demand over next three months, which started an upward trend in March, were reversed in July and started to go down. Those who expected to spend less on investments outnumbered those who expected to spend more on it in October as well. The comparably higher level of investment expenditure tendency coupled with rapid increase in machinery-equipment manufacturing indicates that imports of capital goods will continue to climb in the forth quarter.

**IMPORT EXPECTATIONS**



Source: CBRT Business Tendency Survey.

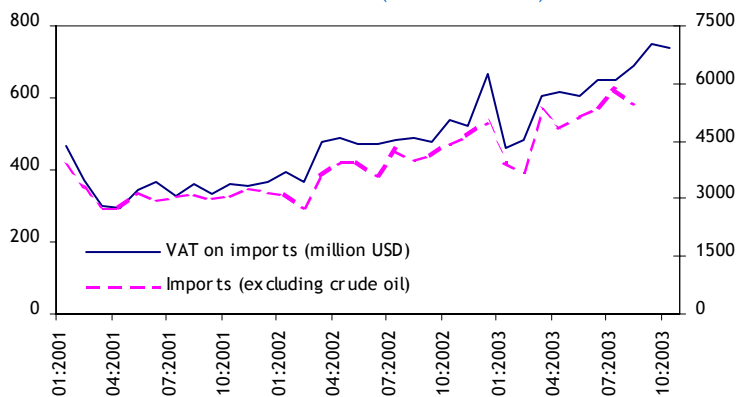


Source: CBRT Business Tendency Survey.

42. Timed imports, which was US dollar 10.3 billion in January-September 2002 period, increased to reach US dollar 13.1 billion in the same period in 2003. However, as total imports grew by 34.5 percent while timed imports grew by 27.7 percent, the share of timed imports in total imports dropped down to 26.8 percent. Meanwhile, timed exports, which is calculated the same way, displayed an increase of 40 percent and reached US dollar 20.9 billion. In the mentioned period, the shares of both exports by way of cash-against –goods and timed letter of credit increased in total exports.

43. According to value added tax on imports figures, imports excluding crude oil is expected to be between US dollar 5.8 billion and 5.9 billion in October.

**VALUE ADDED TAX ON IMPORTS and IMPORTS EXCLUDING CRUDE OIL (million US dollar)**

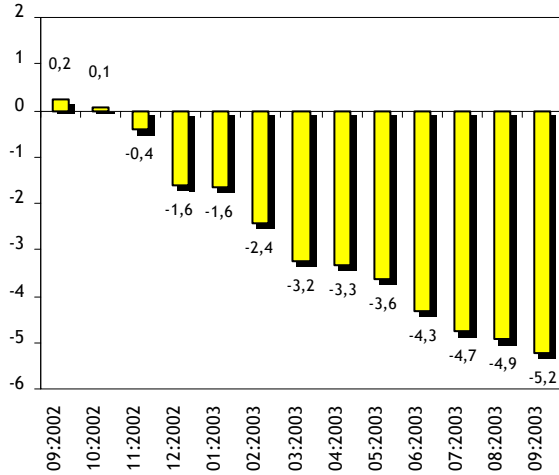


Source: Ministry of Finance, SIS.

#### IV. CURRENT ACCOUNT

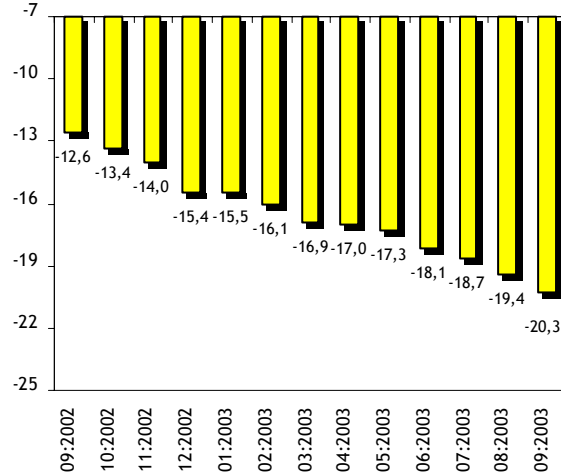
44. Current account balance produced a surplus of US 195 million in September 2003 whereas ran a deficit of US 4 billion in the first three quarters of the year. The twelve-month current account deficit was recorded as US dollar 5.2 billion.

**CURRENT ACCOUNT BALANCE**  
(12 month, USD billion)



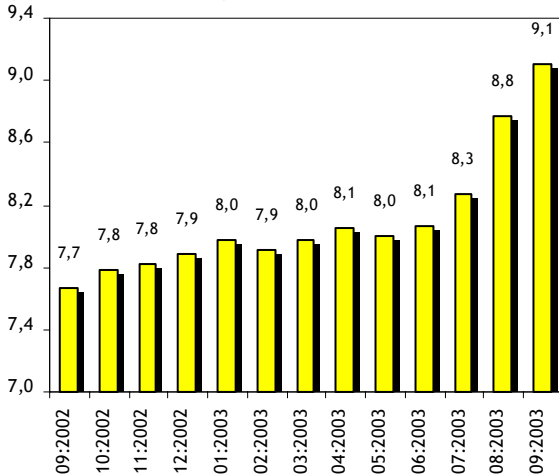
Source: CBRT.

**FOREIGN TRADE BALANCE**  
(12 month, USD billion)



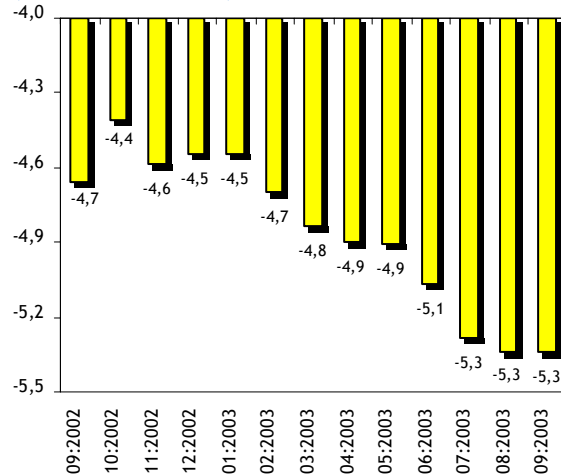
Source: CBRT.

**SERVICES BALANCE**  
(12 month, USD billion)



Source: CBRT.

**INVESTMENTS REVENUES BALANCE**  
(12 month, USD billion)



Source: CBRT.

45. In January-September period, expanding foreign trade deficit coupled with increasing portfolio investment expenditures containing dividend payments on equities and interest payments of General Government's bonds resulted in a rise in current account deficit. Meanwhile, services revenues displayed a significant rise thanks to the increase in tourism revenues (especially in August and September).

46. The 30.4 percent increase recorded in exports mainly stemmed from the manufacturing industry products. The low level of unit labor costs played an important role in the rise in exports. The 34.5 percent increase in total imports mainly stemmed from imports of intermediary goods and investment goods. Upward trend in real exchange rates supported rise in imports as well. Consequently, according to the balance of payments definition, foreign trade deficit increased from US dollar 5.5 billion in January-September 2002 period to US dollar 9.8 billion in the same period in 2003.

CURRENT ACCOUNT (USD million)								
	2002							2003
	Jan-Sep	Apr	May	Jun	Jul	Agu	Sep	Jan-Sep
Current Account Balance	-416	-759	-569	-555	-339	253	195	-4034
Foreign Trade Balance	-5545	-959	-985	-1307	-1416	-1417	-1394	-9804
Total Exports	28684	3926	4203	4076	4477	4197	4406	36349
Total Imports	-34229	-4885	-5188	-5383	-5893	-5614	-5800	-46153
Services Balance	5972	327	651	800	1217	1841	1564	7201
Credit	11384	886	1242	1488	2153	2599	2270	13136
Debit	-5412	-559	-591	-688	-936	-758	-706	-5935
Income Balance	-3321	-388	-526	-336	-493	-505	-347	-4107
Credit	1797	169	211	231	213	148	171	1743
Debit	-5118	-557	-737	-567	-706	-653	-518	-5850
Current Transfers	2478	261	291	288	353	334	372	2676
Wrokers' Remittances	1521	152	202	183	223	233	277	1710
<i>Memo items:</i>								
Shuttle Trade	2942	287	359	308	274	403	406	2794
Non Monetary Gold (net)	-1046	-156	-172	-260	-354	-326	-237	-2072
Travel Revenues	6796	329	637	896	1346	1967	1600	7578
Interest Income	571	42	90	106	33	32	46	483
Interest Expenditure	-3257	-313	-487	-308	-262	-524	-348	-3414

Source: CBRT.

47. Volume of shuttle trade, which marked down due to the negative impact of uncertainties caused by the war in Iraq in the first quarter of the year, started to recover as of May with the lowering uncertainties. Compared to the same period last year, exports via shuttle trade decreased by 5 percent and was recorded as US dollar 2.8 billion.

48. The ongoing rise in net imports of non-monetary gold due to demand for processed gold in the market continued in September as well. Accordingly, in January-September period, net imports of non-monetary gold increased by 98.1 percent compared to the same period last year and reached US dollar 2.1 billion.

49. Performance of services balance in January-September 2003 supports the prospects for attaining the end-year current account deficit estimate of US dollar 7.4 billion. Compared to the same period last year, services surplus increased by 20.6 percent in January-September 2003. While costs of freight and other transportation services went up due the expansion in foreign trade volume, costs of financial services decreased by 86.4 percent compared to the same period last year.

TRAVEL REVENUES								
	2002							2003
	Jan-Sep	Apr	May	Jun	Jul	Agu	Sep	Jan-Sep
Travel Revenues (USD million)	6796	329	637	896	1346	1967	1600	7578
Number of Visitors (thousand)	9989	539	985	1343	1691	2453	1984	10357
Average Spending (USD)	680	611	647	667	796	802	807	732

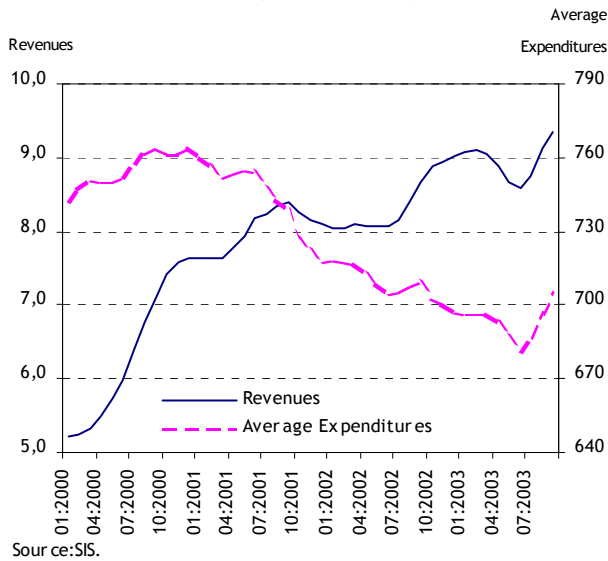
Source: SIS.

50. Compared to the same period last year, tourism revenues announced by State Institute of Statistics (SIS), increased by 11.5 percent in January-September 2003 period and reached US dollar 7.6 billion. In the mentioned period again, the number of departures from Turkey increased by 3.7 percent. Meanwhile, the downward trend in expenditure per tourist since the turn of the year continued in September as well.

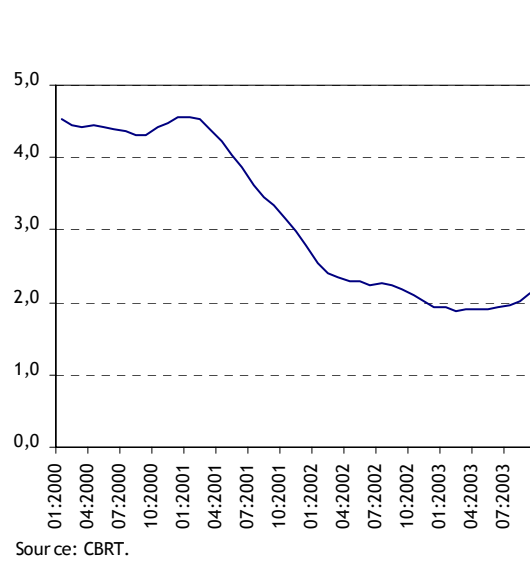
51. Affected by the war in Iraq, the number of tourists and travel revenues declined until April. With the termination of war, uncertainties in the region were eased and a revival was observed in tourism sector with the startup of the new season. Actually, according to SIS'

statistics pertaining to September, the number of foreigners visiting Turkey increased by 10.4 percent compared to the same period last year.

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



WORKERS REMITTANCES: PRIVATE  
(12 month, USD billion)



52. The investment revenues ran a deficit of US 4.1 billion in January-September 2003 period. The main determinants of this deficit were the portfolio investment expenditures and interest expenditures. In the period in question, interest expenditures displayed a significant rise due to increase in long-term interest payments of the General Government and other sectors and reached US dollar 3.4 billion. Meanwhile, portfolio investment expenditures, which are composed of interest payments of Treasury bills and bonds and dividend payments for the securities purchased by non-residents, increased as well and reached US dollar 2.1 billion.

53. In the first nine months of the year, together with the workers' remittances that were on the rise since July, current transfers increased by 8 percent compared to the same period last year and reached US dollar 2.7 billion. In the mentioned period, workers' remittances recorded a 12.4 percent rise compared to January-September 2002.

## V. CAPITAL MOVEMENTS

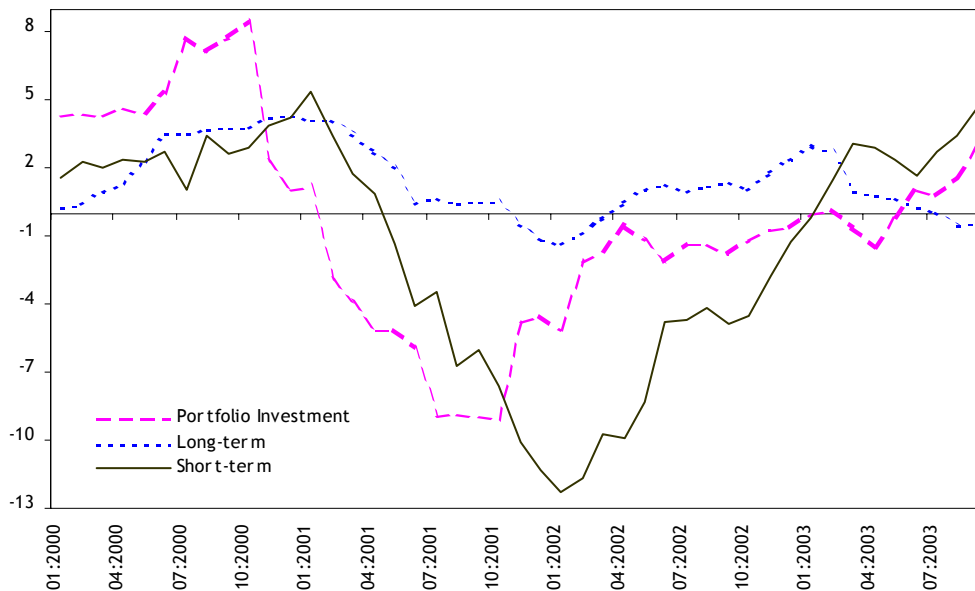
54. The financial account ran a deficit of US dollar 1.3 billion in September 2003. Meanwhile, excluding the IMF loans and official reserve changes, net capital inflow became US dollar 2.2 billion in September, US dollar 6 billion in January-September 2003 period and 12-month net capital inflow was recorded as US dollar 7.7 billion.

55. While direct foreign capital inflow remained quite limited in January-September 2003 period, capital inflow through portfolio investments and other investments increased. Net errors and omissions item has been producing a significant surplus since last March. As a consequence of these developments, reserve assets increased by US dollar 5.8 billion.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)								
	2002							2003
	Jan-Sep	Apr	May	Jun	Jul	Agu	Sep	Jan-Sep
Capital and Financial Account	798	72	-1085	-626	-190	-611	-1314	397
Financial Account	798	72	-1085	-626	-190	-611	-1314	397
Direct Investments	643	-10	27	-30	11	63	-30	16
Portfolio Investments	-1263	-292	592	634	-242	631	1217	2465
Other Investments	6621	454	-1071	-749	524	125	886	3749
Reserve Assets	-5203	-80	-633	-481	-483	-1430	-3387	-5833
Net Errors & Omissions	-382	687	1654	1181	529	358	1119	3637
<i>Memorandum items:</i>								
Short-term	-1426	-172	-1202	-152	424	136	774	4513
Long-term	1682	-13	170	-480	163	-140	230	-1020
IMF credit	6365	639	-39	-117	-63	129	-118	256

Source: CBRT.

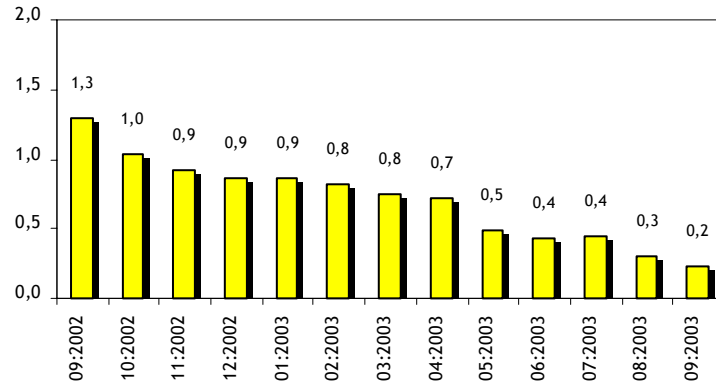
CAPITAL FLOWS (12-month. billion US dollar)



Source: CBRT.

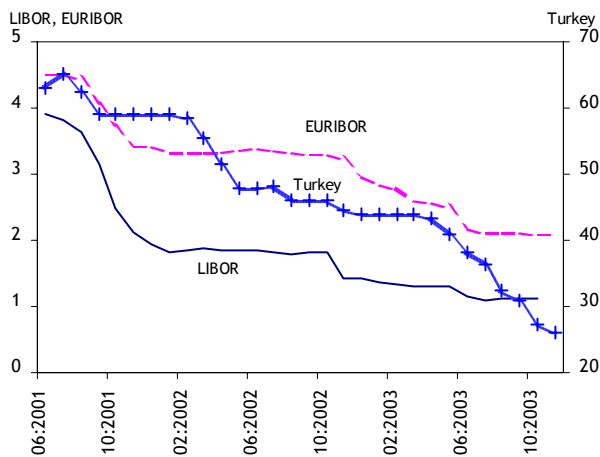
56. The decline in the volume of net direct foreign capital inflow in the first nine months of the year can be attributed to the rise in the volume of direct investments by residents carried out abroad. Moreover, it is observed that there has been a significant decline in the long-term credits extended to the foreign companies by their affiliates abroad.

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



Source: CBRT.

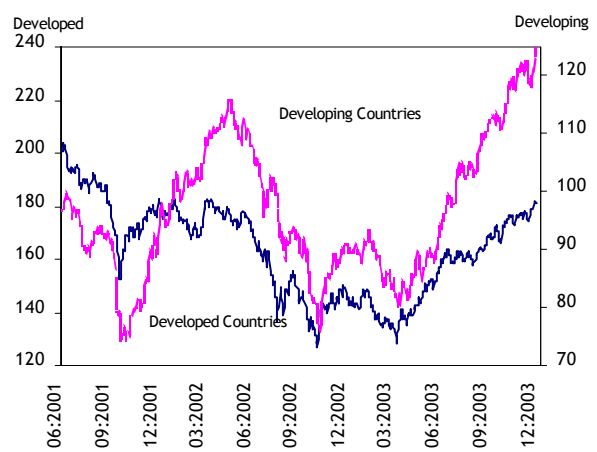
**INTEREST RATES (monthly average, %)**



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.

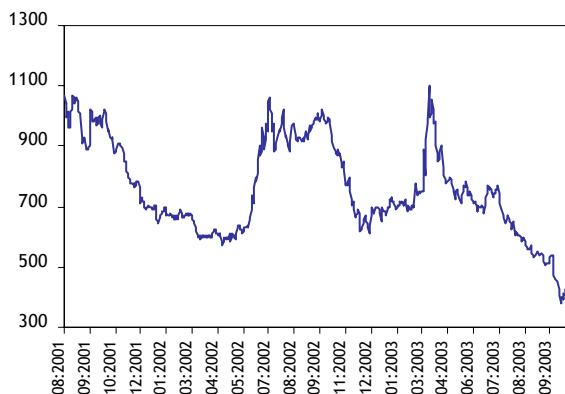
**DOW JONES STOCK PRICE INDICES**



Source: Dow Jones.

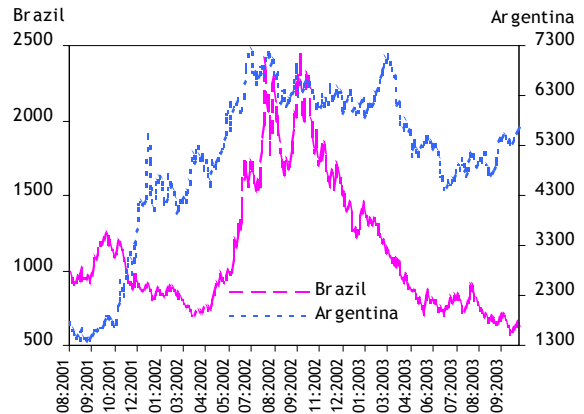
**SECONDARY MARKET BOND SPREADS (basis points)**

**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 at international markets continue to fall parallel to the policies of the central banks. The Federal Reserve and the European Central Bank cut down their interest rates in June and the Bank of England in July. Therefore, LIBOR and EURIBOR interest

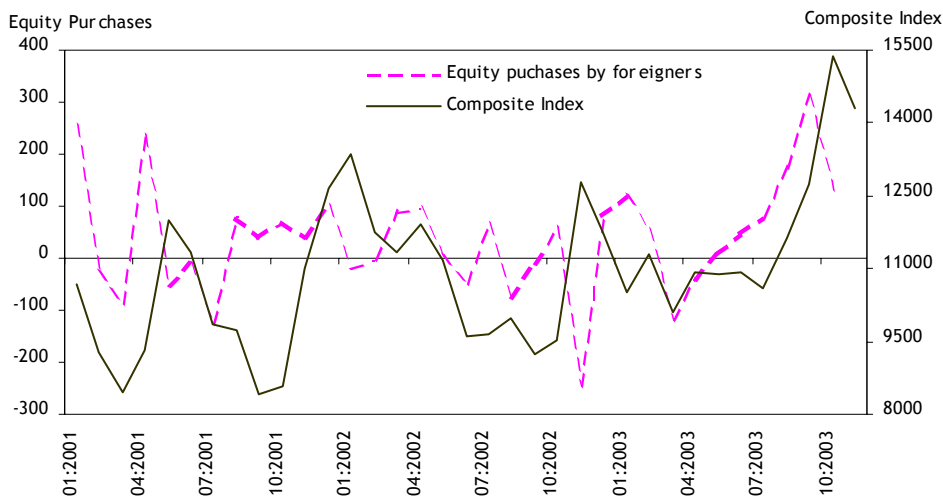
rates declined in June and July. However, in order to avoid the inflationary impacts of economic revival, the central banks started to increase interest rates again. On November the 5<sup>th</sup>, the Reserve Bank of Australia and on November the 6<sup>th</sup> the Bank of England raised interest rates.

58. The Turkish bond spreads, which had been fluctuating since the turn of 2003, has been following a downward trend since the end of the Iraq war. The slump in the spreads especially after September is expected to help increase the capital inflow by decreasing the Treasury's cost of borrowing from international markets.

PORTFOLIO INVESTMENT (monthly, USD million)								
	2002							2003
	Jan-Sep	Apr	May	Jun	Jul	Agu	Sep	Jan-Sep
Portfolio Investment	-1263	-292	592	634	-242	631	1217	2465
Assets	-1742	-129	-77	-315	67	19	-692	-1056
General Government	-26	0	0	-2	-7	-9	0	-24
Banks	-1254	-97	-35	-349	119	101	-601	-590
Other Sectors	-462	-32	-42	36	-45	-73	-91	-442
Liabilities	479	-163	669	949	-309	612	1909	3521
Equity Securities	94	-42	9	48	77	175	311	630
Debt Securities	385	-121	660	901	-386	437	1598	2891
Monetary Authority	0	0	0	0	0	0	0	0
General Government	572	41	660	901	-371	437	1598	3068
In Turkey	79	41	210	156	207	437	348	888
Abroad	493	0	450	745	-578	0	1250	2180
Banks	-187	-162	0	0	-15	0	0	-177

Source: CBRT.

#### ISE EQUITY PRICES AND FOREIGNERS' NET PURCHASES



Source: CBRT, ISE.

59. Rise in non-residents' demand for government securities and equity securities in August and September became the determinant factors of the surplus of portfolio investments. The rise in Istanbul Stock Exchange (ISE) and government securities price indices has been the driving force for non-residents' portfolio decisions.

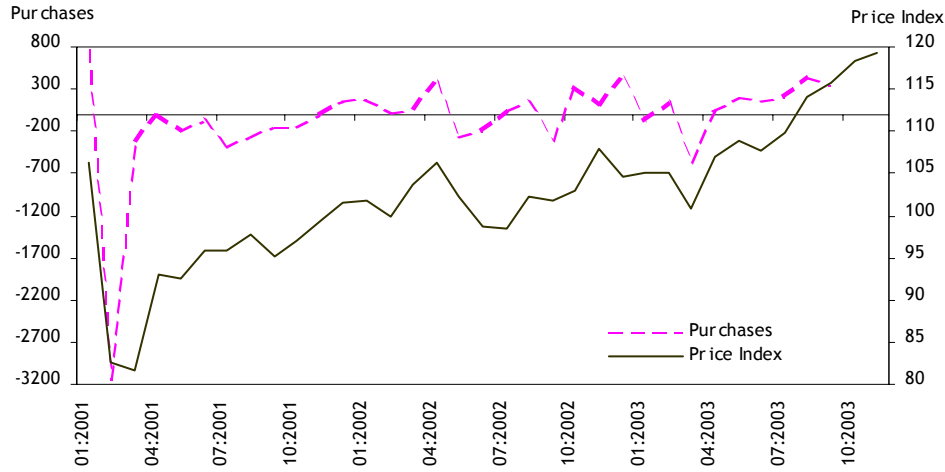
60. The equity securities item under portfolio investments denotes non-residents' sales and purchases activities at the ISE. Accordingly, while non-residents were net sellers in March and April, during which the war in Iraq took place, they started to buy securities as of May again.

61. The demand for equity securities by foreigners has been maintained in October as well. Foreigners have purchased net US dollar 131.4 million equity securities in October. On the



other hand, ISE government securities price index has been in a rising trend since July. Considering that foreign purchase of equity securities are the main determining factor of portfolio investments, capital inflow stemming from portfolio investments are expected in October and November.

**GOVERNMENT DEBT SECURITY PRICES AND FOREIGNERS' NET PURCHASES**

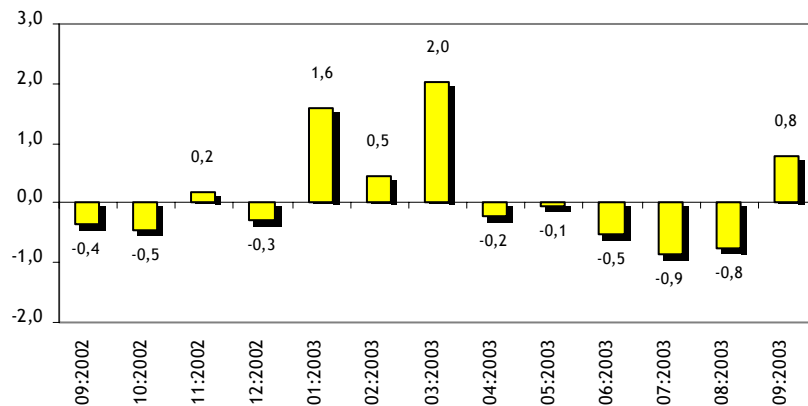


Source: CBRT, ISE.

62. General Government, which did not issue bonds abroad in July and August, borrowed a total amount of US dollar 1.25 billion in September. On the other hand, there was no bond issue in October and November.

63. The Bank's FX holding entries, comprising of current and deposit accounts held at correspondent banks abroad, decreased by US dollar 4.1 billion in the first quarter of the year, followed by an increase totaling US dollar 2.4 billion in April-August resulting in a capital outflow for the said amount. However, in September capital inflow for the amount of US dollar 770 million occurred due to a decline in FX holdings of the bank's with their correspondents abroad.

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

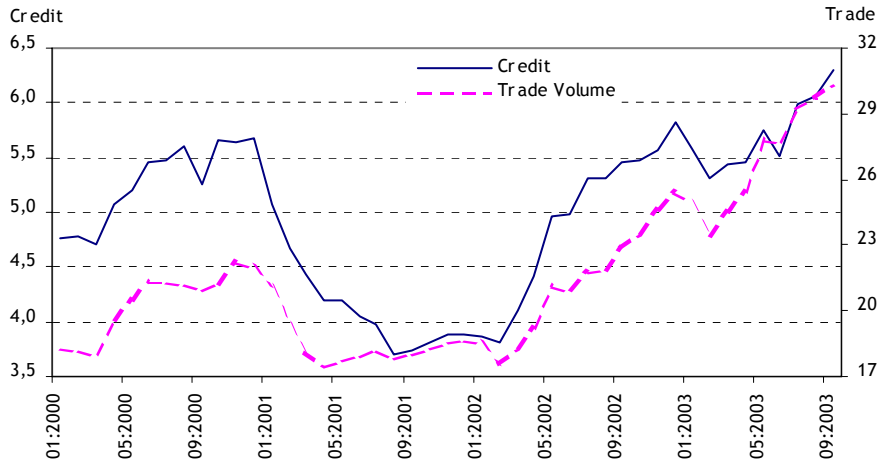


Source: CBRT.

† (+) sign indicates a decrease.

64. The rapid increase in the foreign trade volume during the first nine months of 2003 boosted the commercial credit use. In the said period, while foreign trade volume increased by 32.8 percent as to the same period of last year, commercial credit use increased by 18.6 percent and reached US dollar 17.2 billion. And US dollar 16.5 billion comprise short term trade credits with maturities less than a year.

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

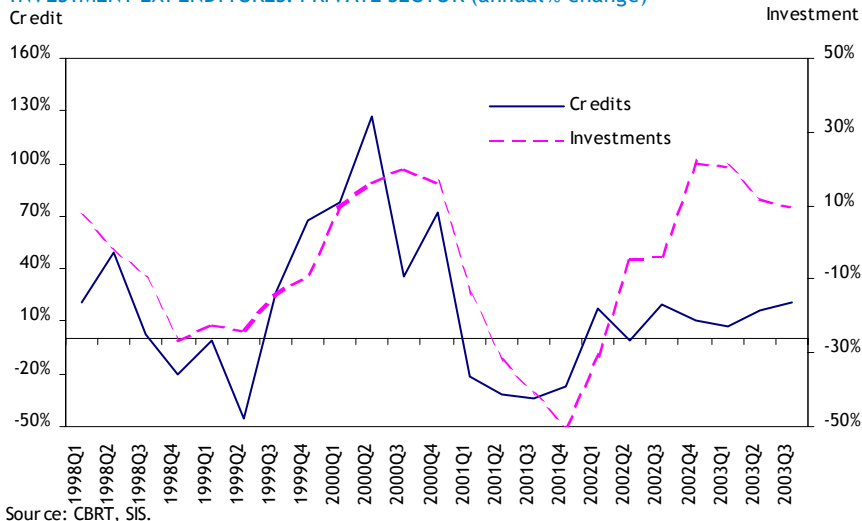


Source: CBRT.

65. The financing of the banking sector has been mainly through short-term credits in 2003. During the year in general excluding September banks were in a position of repayer for long-term credits. In September, contrary to US dollar 291 million of repayment US dollar 424 million were borrowed. In 2002 net US dollar 731 million of short-term credits were repayed, while in the first nine months of 2003 net US dollar 1.3 billion of short-term credits were borrowed.

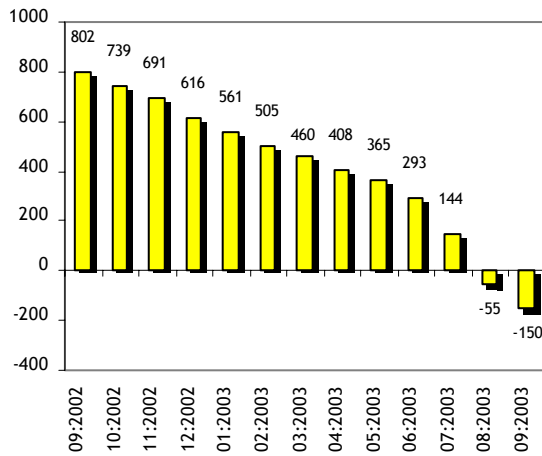
66. As the Iraq war ended in a short period along with the cessation of uncertainties, the volume of long-term credits borrowed by the private sector excluding banks began to increase. In September, private sector excluding banks borrowed US dollar 1.1 billion worth of long-term credits, thus long-term credits in the first nine months of the year increased by 14.7 percent compared to the previous year. The increase in long-term credits indicates the high level of investment expenditures being maintained.

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

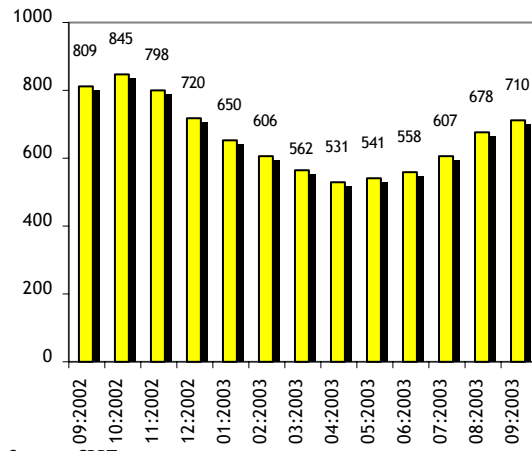


Source: CBRT, SIS.

67. The Central Bank continued to reimburse IMF loans borrowed until 2001 in September as well. Thus, IMF reimbursements reached US dollar 735 million in January-September 2003. On the other hand, the General Government borrowed net US dollars 991 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-Sep	Apr	May	Jun	Jul	Agu	Sep	Jan-Sep
Other Investment	6621	454	-1071	-749	524	125	886	3749
Assets	-129	-485	-442	-504	-1059	-753	671	680
Trade Credits	-703	-164	-301	-62	-230	49	-19	-955
Credits	-267	-54	-45	106	73	-3	-33	-442
Currency and Deposits	1180	-234	-55	-512	-870	-752	770	2400
Liabilities	6750	939	-629	-245	1583	878	215	3069
Trade Credits	1758	47	151	137	308	54	-92	892
Credits	4878	547	-650	-486	706	607	176	303
Monetary Authority	-6138	0	-39	-117	0	-348	-118	-735
General Government	12138	481	-158	-327	-150	445	-289	-553
IMF Credits	12503	639	0	0	-63	477	0	991
Long Term	-365	-158	-158	-327	-87	-32	-289	-1544
Short Term	0	0	0	0	0	0	0	0
Banks	-1375	-183	-776	-99	630	364	257	893
Long Term	-335	13	-12	-151	45	-265	133	-392
Short Term	-1040	-196	-764	52	585	629	124	1285
Other Sectors	253	249	323	57	226	146	326	698
Long Term	934	74	268	18	204	143	309	432
Short Term	-681	175	55	39	22	3	17	266
Deposits	15	342	-142	89	546	191	110	1775
Monetary Authority	1211	1	23	1	108	148	66	436
Long Term	552	-16	-32	-62	-50	-49	-41	-215
Short Term	659	17	55	63	158	197	107	651
Banks	-1196	341	-165	88	438	43	44	1339

Source: CBRT.

68. The Central Bank FX accounts of Turkish citizens working abroad, comprising of letter of credit deposits and super FX accounts, has been in a declining trend since the last quarter of 2002 due to the Iraq war along with its negative impacts on the economy. The declining trend in the said short-term accounts has been drawn to an end by the summer.

69. On the other hand, the declining trend continued for the long-term accounts of Turkish citizens working abroad and these accounts have been displaying a negative balance since April causing net capital outflow. The cut down of interest rates by the Central Bank in April, August and November 2003 is considered to be the most significant determinant of the said declines. The Central Bank cut down the interest rates on super FX accounts effective as of November 5, 2003.

70. The FX deposits of foreign banks held at domestic banks that had a deficit account in 2002, became a significant source of capital inflow in 2003. The said accounts increased by net US dollar 1.1 billion in January-September 2003.

71. Total external debt stock increased by US dollar 4.9 billion as to the first quarter of 2003 and by US dollar 6.7 billion as to the end-year figures and reached US dollar 137.9 billion by June 2003. When compared to the end-year figures of 2002, medium-long term debt constituting 87.7 percent of the 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 increase in foreign debt stock. On the other hand, owing to the rise in net short-term credit utilization of the banks', short-term debt stock increased by US dollar 18.6 billion by September 2003.

72. External debt repayment of principle and interest amounting to US dollar 2 billion in September and a total of US dollar 20.5 billion in January-September 2003 has been carried out. On the other hand, during the period of May-October 2003, the Central Bank intervention of US dollar 5.6 billion via foreign exchange purchasing auction and US dollar 4.2 billion via direct purchasing intended to settle extreme volatility in exchange rates. Thus, the Central Bank reserves, which were US dollar 26.7 billion by end 2002, increased to US dollar 31.3 billion by November 2003.

73. Foreign financing requirement defined as the sum of current account balance and net errors and omissions was US dollar 397 million in the first nine months of 2003. Despite the increase in current account deficit in the said period, a positive net errors and omissions entry of US dollar 3.6 billion has restricted the financing requirements. The net errors and omissions entry, running a deficit of US dollar 2.3 billion in January-February period, started to run a surplus in the following months. The financing requirement for the first nine months has been mostly met by the decline in FX deposits held by banks with their correspondent banks abroad, the increase in the FX deposits held by foreign banks with domestic banks, Government's bond issues and through foreigners purchase of equities and government securities from ISE. As a result of capital inflows exceeding the financing requirements, the Central Bank reserves in this period increased by US dollar 5.8 billion.

74. In September, foreign financing balance ran a surplus of US dollar 1.3 billion due to the current account surplus and through a capital inflow of US dollar 1.1 billion in net errors and omissions. As a result of the bond issue of the Government and decrease in FX holdings of the banks', the Central Bank reserves boosted by US dollar 3.4 billion in September.

## EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)

	2002							2003
	Jan-Sep	Apr	May	Jun	Jul	Agu	Sep	Jan-Sep
<b>1. Current Account Balance</b>	<b>-416</b>	<b>-759</b>	<b>-569</b>	<b>-555</b>	<b>-339</b>	<b>253</b>	<b>195</b>	<b>-4034</b>
<b>2. Net Error and Omission</b>	<b>-382</b>	<b>687</b>	<b>1654</b>	<b>1181</b>	<b>529</b>	<b>358</b>	<b>1119</b>	<b>3637</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-798</b>	<b>-72</b>	<b>1085</b>	<b>626</b>	<b>190</b>	<b>611</b>	<b>1314</b>	<b>-397</b>
<b>II. Total Financing (=1+2+3)</b>	<b>798</b>	<b>72</b>	<b>-1085</b>	<b>-626</b>	<b>-190</b>	<b>-611</b>	<b>-1314</b>	<b>397</b>
<b>1. Capital Flows (net)</b>	<b>-1544</b>	<b>-253</b>	<b>-358</b>	<b>484</b>	<b>1226</b>	<b>1442</b>	<b>1421</b>	<b>3574</b>
<b>Portfolio Investments (net)</b>	<b>-1263</b>	<b>-292</b>	<b>592</b>	<b>634</b>	<b>-242</b>	<b>631</b>	<b>1217</b>	<b>2465</b>
General Government Bond Issues	493	0	450	745	-578	0	1250	2180
Foreigners' Buying of Bonds and Stocks in Turkey	173	-1	219	204	284	612	659	1518
Residents Buying of Bonds and Stocks Abroad	-1742	-129	-77	-315	67	19	-692	-1056
<b>Credits (excl. IMF credits)</b>	<b>271</b>	<b>-45</b>	<b>-460</b>	<b>-232</b>	<b>1077</b>	<b>532</b>	<b>202</b>	<b>939</b>
General Government	-365	-158	-158	-327	-87	-32	-289	-1544
Banks	-1375	-183	-776	-99	630	364	257	893
Long Term	-335	13	-12	-151	45	-265	133	-392
Short Term	-1040	-196	-764	52	585	629	124	1285
Other Sectors	2011	296	474	194	534	200	234	1590
Long Term	934	74	268	18	204	143	309	432
Short Term	-681	175	55	39	22	3	17	266
Trade Credits	1758	47	151	137	308	54	-92	892
<b>Deposits</b>	<b>15</b>	<b>342</b>	<b>-142</b>	<b>89</b>	<b>546</b>	<b>191</b>	<b>110</b>	<b>1775</b>
Central Bank	1211	1	23	1	108	148	66	436
Banks	-1196	341	-165	88	438	43	44	1339
<b>Others</b>	<b>-567</b>	<b>-258</b>	<b>-348</b>	<b>-7</b>	<b>-155</b>	<b>88</b>	<b>-108</b>	<b>-1605</b>
<b>2. IMF Credits</b>	<b>6365</b>	<b>639</b>	<b>-39</b>	<b>-117</b>	<b>-63</b>	<b>129</b>	<b>-118</b>	<b>256</b>
Central Bank	-6138	0	-39	-117	0	-348	-118	-735
General Government	12503	639	0	0	-63	477	0	991
<b>3. Change in Reserves (- increase)</b>	<b>-4023</b>	<b>-314</b>	<b>-688</b>	<b>-993</b>	<b>-1353</b>	<b>-2182</b>	<b>-2617</b>	<b>-3433</b>
Banks' FX Holdings	1180	-234	-55	-512	-870	-752	770	2400
Official Reserves	-5203	-80	-633	-481	-483	-1430	-3387	-5833

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	-1344	-10469	26587	2255	-40671	7487	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	-1624	-8441	35966	4065	-51565	7880	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	-637	-956	7910	919	-10409	702	896	-1226	-1059	846	477
II	-809	-2260	8515	933	-12455	1698	2087	-1015	-1082	772	505
III	1030	-2329	9317	1090	-13548	3572	3813	-1076	-1116	865	539
IV	-1208	-2896	10224	1123	-15153	1908	1685	-1233	-1160	1013	415
2003 I	-2260	-2326	10307	757	-14207	801	803	-1512	-1172	777	440
II	-1883	-3251	11251	954	-16405	1778	1862	-1250	-1108	840	537
III	109	-4227	11997	1083	-18351	4622	4913	-1345	-1134	1059	733
<i>(monthly)</i>											
2002 Oct	462	-600	3508	412	-4809	1001	978	-240	-280	301	118
Nov	-231	-693	3596	382	-4969	546	435	-569	-545	485	152
Dec	-1439	-1603	3120	329	-5375	361	272	-424	-335	227	145
2003 Jan	-22	-449	3513	163	-4381	335	247	-227	-209	319	156
Feb	-1166	-662	2908	298	-4101	138	264	-821	-471	179	114
Mar	-1072	-1215	3886	296	-5725	328	292	-464	-492	279	170
Apr	-759	-959	3639	287	-5187	327	329	-388	-313	261	152
May	-569	-985	3844	359	-5508	651	637	-526	-487	291	202
Jun	-555	-1307	3768	308	-5710	800	896	-336	-308	288	183
Jul	-339	-1416	4203	274	-6246	1217	1346	-493	-262	353	223
Agu	253	-1417	3794	403	-5951	1841	1967	-505	-524	334	233
Sep	195	-1394	4000	406	-6154	1564	1600	-347	-348	372	277
<i>(12-month)</i>											
2002 Oct	66	-6731	34752	3846	-48221	7777	8382	-4411	-4281	3440	2112
Nov	-393	-7204	35506	3945	-49631	7824	8433	-4587	-4461	3583	2029
Dec	-1624	-8441	35966	4065	-51565	7880	8481	-4550	-4417	3496	1936
2003 Jan	-1635	-8494	36872	4005	-52514	7971	8515	-4543	-4360	3439	1928
Feb	-2444	-9015	37396	3972	-53577	7913	8517	-4702	-4339	3367	1874
Mar	-3247	-9811	38363	3903	-55363	7979	8388	-4836	-4530	3427	1899
Apr	-3343	-9937	39259	3806	-56337	8050	8266	-4896	-4499	3445	1903
May	-3625	-10173	40102	3868	-57540	8002	8144	-4907	-4498	3456	1918
Jun	-4321	-10802	41099	3924	-59313	8059	8163	-5071	-4556	3495	1931
Jul	-4734	-11275	42192	3922	-60954	8277	8383	-5281	-4549	3546	1950
Agu	-4921	-11913	43004	3927	-62481	8772	8900	-5342	-4570	3562	2007
Sep	-5242	-12700	43779	3917	-64116	9109	9263	-5340	-4574	3689	2125

Source: CBRT.



CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
	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			Deposits			
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
									(monthly)								
2002 Oct	275	275	274	591	220	56	315	-43	-455	627	113	0	-69	249	35	50	243
Nov	208	208	-3	-60	-426	-247	613	566	169	327	302	0	-92	-297	292	25	98
2003 Dec	330	330	-51	139	-148	81	206	350	-300	497	310	0	-143	395	25	50	-133
Jan	1163	1163	-6	1108	-218	119	1207	2070	1578	479	-49	0	-168	192	269	38	197
Feb	2326	2326	-11	-381	113	52	-546	1112	460	312	-53	0	-180	224	121	31	169
Mar	662	662	2	-802	176	-119	-859	398	2015	-463	389	-113	-207	284	-1019	20	184
Apr	72	72	-10	-292	-129	-42	-121	454	-234	939	47	0	481	-183	249	1	341
May	-1085	-1085	27	592	-77	9	660	-1071	-55	-629	151	-39	-158	-776	323	23	-165
Jun	-626	-626	-30	634	-315	48	901	-749	-512	-245	137	-117	-327	-99	57	1	88
Jul	-190	-190	11	-242	67	77	-386	524	-870	1583	308	0	-150	630	226	108	438
Agu	-611	-611	63	631	19	175	437	125	-752	878	54	-348	445	364	146	148	43
Sep	-1314	-1314	-30	1217	-692	311	1598	886	770	215	-92	-118	-289	257	326	66	44
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2002 Oct	-1548	-1548	1038	-1114	-2126	-112	1124	4827	-1046	7603	1640	-4166	11404	-2103	209	1584	-1070
Nov	37	37	922	-706	-2145	-203	1642	7455	367	8459	2006	-4166	11769	-2801	604	1490	-547
Dec	1601	1601	862	-590	-2093	-16	1519	7483	594	8180	2456	-6138	11833	-1028	609	1337	-986
2003 Jan	2213	2213	861	-15	-2073	121	1937	9126	695	9617	2467	-6138	11715	-505	1062	1212	-293
Feb	3836	3836	823	176	-1563	176	1563	7516	1065	7317	2548	0	2583	-297	1343	1112	-68
Mar	3606	3606	752	-606	-790	-30	214	7253	2869	6124	2480	-113	2527	114	-66	1023	66
Apr	3510	3510	716	-1500	-1053	-170	-277	6455	1526	6655	2364	-113	2039	317	21	940	997
May	2565	2565	488	-194	-631	-164	601	5828	3022	4726	2104	-152	1940	-1050	212	907	679
Jun	1730	1730	428	1063	-1047	-65	2175	4537	2180	4285	2068	-269	1754	-1195	328	852	661
Jul	1725	1725	444	797	-967	-52	1816	4237	2005	4227	1987	-269	540	-381	337	752	1173
Agu	1719	1719	295	1577	-736	199	2114	3208	675	4276	1972	-617	-690	763	641	624	1487
Sep	1210	1210	236	3135	-1410	520	4025	4622	1814	4520	1617	-735	-857	1240	1050	561	1547

Source: CBRT.