

# **THE CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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## **BALANCE OF PAYMENTS REPORT**

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## SUMMARY

High course of investment expenditures as of 2002 and the resulting productivity gains have contributed to the decline in real unit labor costs and this speeded up the strong export growth. Moreover, geographical proximity to the EU, top trade partner, the brisk demand from the said countries besides the appreciation of euro against US dollar accelerated the increase in exports remarkably. Despite the expectation that the probable slowdown at the global level will curb the import demand by the afore-mentioned countries, access to new markets in countries like Russia and United Arab Emirates with increasing oil revenues was influential in maintaining the high performance of exports.

The largest contribution to the increase in exports in January-March period was attributable to motor vehicles and basic metal sectors. The share of the said two items within total exports rose to 34.2 percent contributing 22.1 percentage points to the total increase in exports. Additionally, export growth was mostly concentrated in sectors such as machinery-equipment, clothing, textiles and refined petroleum and products.

In the first quarter of 2008, both real and nominal imports were recovered, albeit remaining below the increase in exports. The upsurge in import prices, primarily energy, in the afore-mentioned period highly contributed to the rise in nominal imports and imports rose by 39.5 percent compared to the same period of the previous year. The import quantity index in the first quarter of the year went up by 13.4 percent, while import prices increased by 22.8 percent.

An item-by-item analysis reveals that the highest contributors to increase in imports were crude oil and natural gas, driven by price increases in the first quarter of the year. Basic metals sector, another sector with high price rises, contributed significantly to the total import increase as well. The other items contributing relatively highly to the increase in imports were chemicals and chemical products, machinery and equipment, motor vehicles and refined petroleum products.

Parallel to the global price elevations, prices of both exports and imports pointed to high increases in the January-March period. The upsurge in import and export prices of 22.8 and 20.7 percent respectively, led to the persistence of deterioration in terms of trade in the said period.

Consequently, current account deficit started to re-increase in the third quarter of 2007. As the growth rate of export quantity remained above that of imports in this period, the negative impact of net exports on growth is estimated to decrease in the first quarter of 2008 compared to the second half of 2007.

Tourism revenues, which declined in 2006 and reassumed an upward trend by 2007, maintained this trend in the first quarter of 2008 and rose by 28.4 percent compared to the same period of the previous year and restricted the expansion in the current account deficit. However, as the annual growth in import prices exceeded that of exports particularly due to the rise in energy prices, the current account deficit continued to expand despite the high-rated growth in exports and the recovery in tourism revenues.

Excluding the changes in reserves and IMF loans, net capital inflows reached USD 12.3 billion in this period. The financing during this period was mainly composed of direct investments and long-term loans drawn by private sector. Capital inflows were mainly affected by the global financial turmoil that emerged particularly following August. As a matter of fact, while the annualized current account deficit continued to expand, capital inflows displayed a slowdown, resulting in limited increase in FX assets.

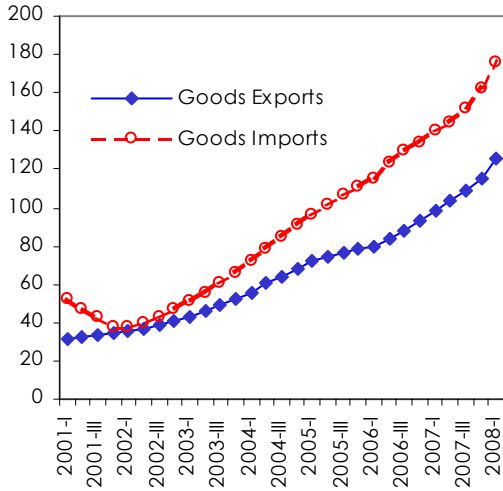
Against this background, the CBT net reserves rose from USD 76.4 billion at end-2007 to USD 80 billion by March 2008 and bank's corresponding accounts. FX assets remained the same at the level of USD 31.8 billion in the same period.

**Balance of Payments**  
(USD billion)

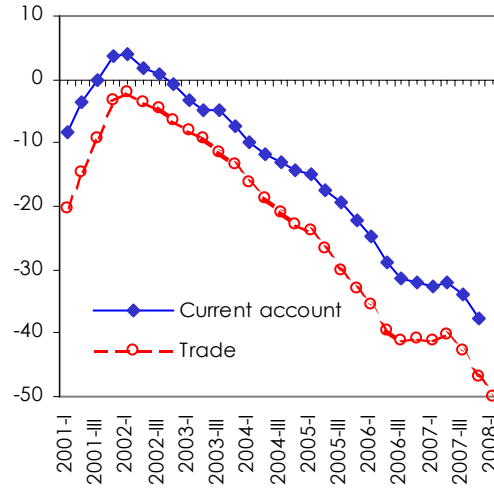
	Jan-March			March (12-month)		
	2007	2008	% change	2007	2008	% change
Current Account	-9.2	-12.0	..	-32.5	-40.4	..
Goods	-8.9	-12.1	..	-41.2	-49.9	..
Exports	24.9	35.2	41.1	98.6	125.5	27.3
Exports (fob)	23.2	33.1	42.9	90.1	117.1	30.0
Shuttle trade	1.3	1.4	12.5	6.7	6.2	-8.6
Imports	-33.8	-47.2	39.5	-139.8	-175.4	25.4
Imports (cif)	-35.2	-49.1	39.5	-145.2	-184.0	26.7
Coverage adjustment	1.8	2.6	..	7.2	10.8	..
Services	1.2	1.4	..	13.9	14.0	..
Tourism (net)	1.5	2.0	32.3	14.2	15.7	10.9
Credit	2.2	2.8	28.4	17.0	19.1	12.3
Debit	-0.7	-0.8	19.8	-2.8	-3.4	19.2
Other services revenues (net)	-0.3	-0.6	..	-0.3	-1.7	..
Income	-1.9	-1.9	..	-7.1	-6.9	..
Wage Payments	0.0	0.0	..	-0.1	-0.1	0.0
Direct investment income (net)	-0.3	-0.5	..	-1.2	-2.0	..
Portfolio investment income (net)	-0.6	0.0	..	-0.8	1.0	..
Other investment income (net)	-1.0	-1.4	..	-5.0	-5.7	..
Interest income	0.5	0.6	5.4	1.7	2.2	29.0
Interest expenditure	-1.5	-2.0	27.0	-6.7	-7.9	18.6
Current transfers	0.4	0.5	..	1.9	2.4	..
Workers remittances	0.2	0.4	53.5	1.1	1.3	19.8
Capital and financial account	8.5	12.3	..	33.0	40.3	..
Financial account (excl. reserve assets)	14.9	12.4	..	38.5	42.0	..
Direct investment (net)	8.2	4.0	..	25.8	15.8	..
Abroad	-1.2	-0.3	..	-2.3	-1.2	..
In Turkey	9.4	4.4	..	28.2	17.0	..
Portfolio investment (net)	4.5	-1.3	..	8.3	-5.1	..
Assets	-0.7	-0.5	..	-4.4	-1.9	..
Liabilities	5.2	-0.8	..	12.7	-3.2	..
Equity securities	-0.7	-0.7	..	0.6	5.1	..
Debt securities	5.8	-0.1	..	12.0	-8.3	..
Non-residents' buyings in Turkey	2.4	0.8	..	7.6	-5.0	..
Eurobond issues of Treasury	3.4	-0.9	..	4.4	-3.3	..
Borrowing	3.4	2.0	..	6.8	3.3	..
Repayment	0.0	-2.9	..	-2.4	-6.6	..
Other investments (net)	2.2	9.6	..	4.3	31.2	..
Assets	-0.4	-0.9	..	-13.7	-5.3	..
Trade credits	-0.2	-1.2	..	-1.6	-2.4	..
Credits	0.0	-0.2	..	-0.4	-0.1	..
Banks FX assets (- increase)	-0.2	0.4	..	-11.7	-2.8	..
Liabilities	2.7	10.6	..	18.0	36.5	..
Trade credits	0.8	1.4	..	2.3	4.9	..
Credits	5.2	8.1	..	15.7	30.4	..
Central Bank	0.0	0.0	..	0.0	0.0	..
General Government	-2.1	-1.0	..	-5.4	-2.7	..
IMF	-2.3	-0.5	..	-5.0	-2.2	..
Long-term	0.1	-0.5	..	-0.4	-0.5	..
Banks	0.9	1.9	..	4.3	6.7	..
Long-term	2.1	1.7	..	10.6	6.9	..
Short-term	-1.3	0.2	..	-6.3	-0.2	..
Other sectors	6.4	7.2	..	16.8	26.5	..
Long-term	6.5	7.1	..	16.4	26.0	..
Short-term	-0.1	0.1	..	0.4	0.4	..
Deposits of non-residents	-3.4	0.9	..	-0.2	0.9	..
In CBT	-0.3	-0.3	..	-1.3	-1.5	..
In banks	-3.2	1.2	..	1.1	2.5	..
Change in official reserves (- increase)	-6.4	-0.1	..	-5.4	-1.7	..
Net errors and omissions	0.9	-0.2	..	-0.5	0.0	..

Source: CBT.

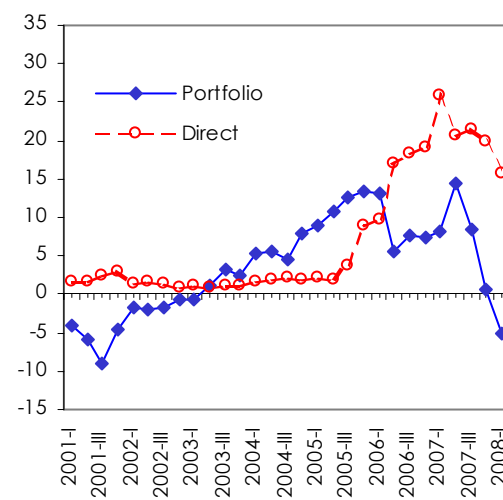
**Goods Exports and Imports**  
(12-month ave., billion US dollars)



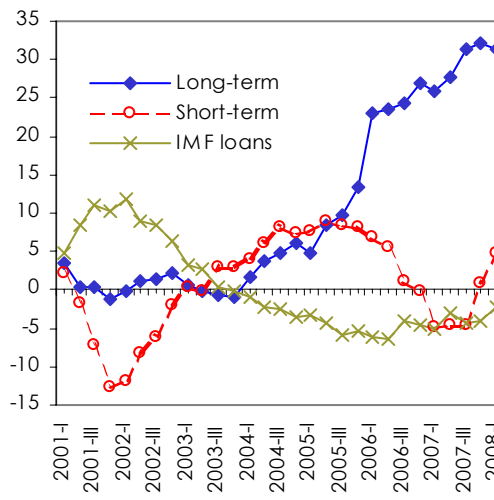
**Trade and Current Account**  
(12-month ave., billion US dollars)



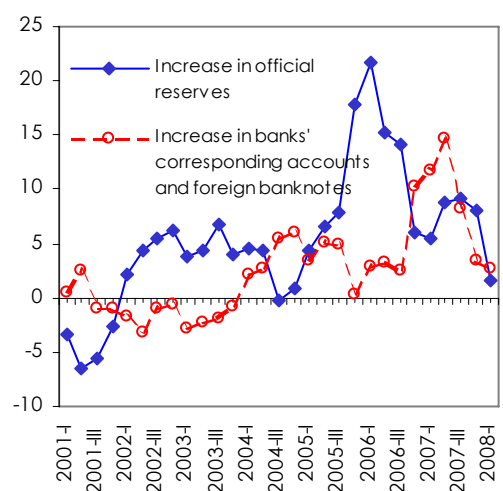
**Direct and Portfolio Investments**  
(12-month ave., billion US dollars)



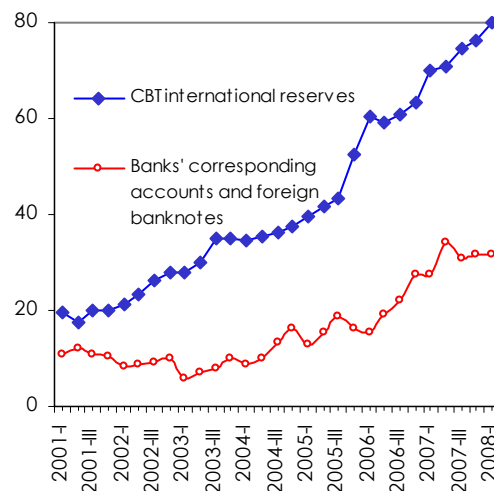
**Other Capital Flows**  
(12-month ave., billion US dollars)



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



**International Reserves**  
( billion US dollars)



Source: CBT, TURKSTAT.

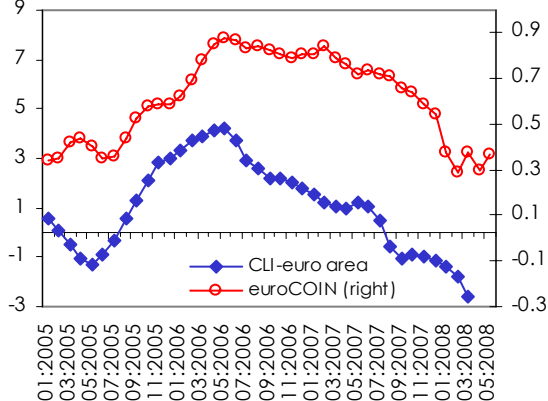
## I. EXTERNAL ECONOMIC DEVELOPMENTS

1. While economic activities in developed countries display a poor outlook, those of the developing countries keep supporting global economic growth. The downward trend in growth rates is more apparent in USA and Japan. In contrast, domestic demand besides the external demand that is driven by emerging markets in the euro area exhibit a relatively brisk outlook. Meanwhile, the upward trend of commodity prices, which was mainly driven by prices of crude oil and food, continues. Reactions of the central banks diversify against these circumstances. Considering the turmoil in financial markets, the Federal Reserve (Fed) cut interest rates considerably; whereas the European Central Bank (ECB), putting emphasis on inflationary risks, opted for keeping the rates unchanged. While the Bank of Japan kept interest rates unchanged, the Bank of England has implemented moderate rate cuts since December 2007 at certain intervals.

### Euro Area Leading Indicators:

€COIN (3-month % change),

CLI (annualized 6-month % change)



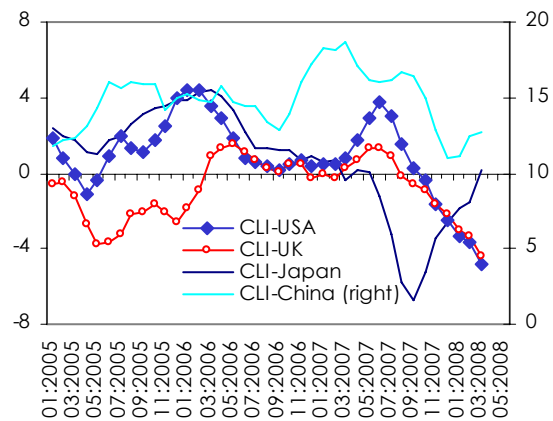
Source: OECD, CEPR.

CLI: Composite Leading Indicator

EuroCOIN: Coincident Indicator of the Euro Area Business Cycle

### Selected Countries Leading Indicators:

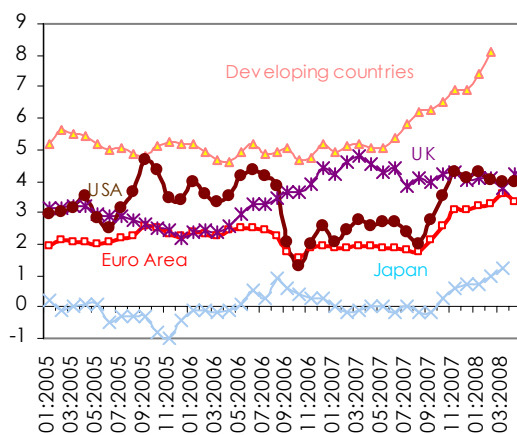
CLI (annualized 6-month % change)



Source: OECD.

### Inflation Rate:

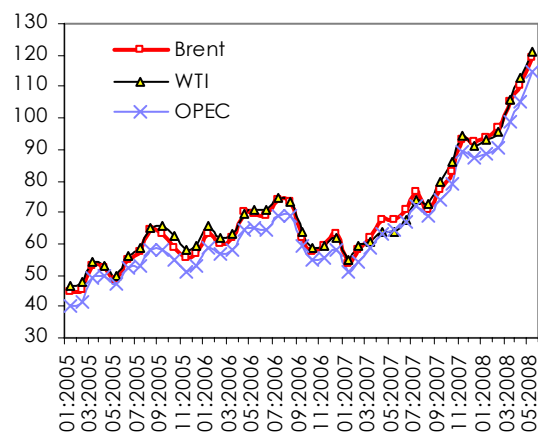
CPI, (annual % change)



Source: IMFIFS.

### Crude Oil Prices:

(US dollars, monthly average)



Source: Energy Information Administration, OPEC.

2. The most recent data relating to the US economy points that the slowdown in growth will not be as sharp as expected. As a matter of fact, annualized GDP growth became 0.6 percent in the first quarter of 2008 as it did in the last quarter of 2007. The mentioned growth was highly attributable to personal consumption expenditures and net exports, while other consumption and investment expenditures affected the growth negatively. On the other hand, the expectation of slowdown in the US economy is maintained according to the May

2008 survey of the Consensus Economics USA. The same survey reveals an expectation that growth in the USA, which was 2.2 percent in 2007, will decline to 1.3 percent in 2008. Annual inflation in consumer prices, which was 2.9 percent in 2007, is expected to reach 3.8 percent in average by end-2008. The unemployment rate, which was 4.4 percent in March 2006, rose to 5 percent by December 2007. This rate has remained at the same level since April. The non-manufacturing index by the Institute for Supply Management went up to 52 in April. A lower-than-50 percent value in the index in the first three months of the year exceeded 50 in April, which refers to an expansion in the services sector. Coupled with the above-mentioned probability of contraction, the concerns, which resulted from the problems in sub-prime mortgage loans and intensified in August 2007, prompted the Fed to cut the benchmark federal funds rate twice in January 2008 by 75 and 50 basis points, by 75 basis points in March and 25 basis points in April, bringing down the benchmark federal funds rate to 2 percent. As a result, the euro-dollar parity, which reached the highest level of the year on April 17, assumed a downward trend, following the appreciation of the US dollar that was observed especially till mid-May and backed up by better-than-expected growth figures and the expected suspension of federal rate cuts by the Fed.

3. It is estimated that the euro-area growth, which was 2.9 percent in 2006 and 2.6 percent in 2007, is expected to lose pace and stand at 1.5 percent in 2008 (Consensus Economics). The decline in euro-area growth in the last quarter of 2007 was triggered by the weakened competitiveness due to the strong euro and also by the negative impacts of credit squeeze. Leading indicators such as the OECD's composite leading indicators index and the euroCOIN suggest that the slowdown in the euro area will also continue in the upcoming period. The consumer prices inflation in the euro area, which had been fluctuating around 2 percent in recent years, started to increase in the last quarter of 2007 due to the rise in commodity prices – particularly in crude oil and food prices – and reached 3.6 percent by March 2008. Though the inflation rate declined slightly in April (by 3.3 percent), it is still above the target level. While the expected recession in the US economy is anticipated to affect the financial markets of the euro area and especially the area's exports to the US negatively, the non-US exports of the area have not registered a significant slowdown yet. On the other hand, moderate course of wages and economic growth boosted employment and labor force participation rate. Moreover, euro area unemployment rate fell to 7.2 percent in 2007, the lowest level of the last 25 years. The European Central Bank (ECB) did not change the policy rates, which have been standing at 4 percent since June 2007, at the meeting held on May 8, 2008 based on the expectation that upside risks in inflation in the short run would not be transmitted to the medium-term inflation trend.

4. Economic activity in Japan slowed down significantly in recent months. Industrial sector production declined especially starting from the second half of 2007. In addition, data derived from the Tankan survey (Short-Period Economic Observation) of the Bank of Japan (BoJ) suggest a negative outlook in the business environment in terms of firms, for the first half of 2008. The fact that Japanese exports increased chiefly based on the developing Asian countries helped constrain the negative effect of the slowdown in the US economy on Japan's exports. Meanwhile, the appreciation of the Japanese yen since mid-2007 stands as a risk factor for the exports performance of Japan. Consumer prices in Japan picked up starting from the last quarter of 2007, due to the rise in import prices of raw material. The Bank of Japan (BoJ) kept the benchmark interest rates unchanged at the level of 0.5 percent at the meeting held in May 2008.

5. China's economy has grown above 10 percent for the last five successive years. Chinese growth rate, which stood at 11.9 percent in 2007, was realized as 10.6 percent according to provisional data for the first quarter of 2008, due mainly to retail sales. This development reveals that domestic demand counterbalanced the slowdown in exports. Consumer prices inflation in China exceeded the 3 percent target and became 6.5 percent in 2007, and 8.5 percent in April 2008. In response to the increased inflation, the government introduced price controls and determined a ceiling for prices of essential goods through a decree. Additionally, with a view to mopping up the excessive liquidity and containing inflation, the Chinese Central Bank raised the required reserve ratio by 50 basis points for the fourth time since the start of the year and declared it as 16.5 percent, at the meeting held in May 2008.

## II. CURRENT ACCOUNT

6. As the economic boundaries of Turkey were extended to include the free trade zones in Turkey in the new national income series with base year 1998 announced by the TURKSTAT, Turkey's exports to and imports from free trade zones have been excluded from the scope of balance of payments by the CBT. Instead, foreign trade relations of free trade zones with the rest of the world have been included in this scope. However, since the TURKSTAT continues to issue monthly exports and imports data within the former definition framework, the said adjustment has been reflected on balance of payments via the adjustment: coverage ("Other Commodities").

7. Since "net exports of free trade zones to the rest of the world" included in balance of payments have been usually higher than "net exports of Turkey to free trade zones" excluded in balance of payments in recent years, the above-mentioned adjustment has had a reducing effect on current account deficit. For instance, the change in the definition of free trade zone reduced the current account deficit by USD 711 million in 2007. Accordingly, the ratio of current account deficit to the GDP declined to 5.6 from 5.7 percent.

8. The widening of the current account deficit persisted in the first quarter of 2008 as well. The current account deficit, which was USD 37.6 billion in end-2007, reached USD 40.4 billion on an annual basis as of March.

9. In this period, export growth in quantity exceeded import growth. As a result, in the first quarter of 2008, the negative impact of net exports on growth was predicted to diminish compared to the second half of 2007. Nevertheless, the high-rated export growth and the rebound in tourism revenues could not offset the expansion of the current account deficit due to the export prices surpassed by annual import prices growth, which was mainly resulted from the rises in energy prices.

10. The recovery in indicators on the current account deficit and the financing structure stagnated in the first quarter of 2008. On the other hand, the export/import coverage and the coverage ratio of short-term external debt and foreign debt service by exports continued to improve. However, the ratios relating to the Central Bank reserves displayed a slight decline. Despite the fact that the relative contraction in foreign financing facilities as of the second half of 2007 restricted reserve increase, financing requirement continued to increase, thus resulting in a limited decline in the indicators based on the Central Bank reserves.

### Selected Indicators Related to the Current Account Deficit and Financing Structure

	2000	2001	2002	2003	2004	2005	2006	2007	2008*
Exports / Imports	0.58	0.91	0.86	0.80	0.75	0.70	0.70	0.71	0.71
Exports / Short-Term External Debt	1.09	2.12	2.48	2.28	2.15	2.11	2.32	2.76	2.55
Exports / External Debt Service	1.41	1.41	1.41	1.88	2.25	2.14	2.35	2.37	2.75
Tourism Revenues* / Trade Balance	0.35	2.41	1.33	0.72	0.53	0.42	0.31	0.30	0.28
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.18	1.41	1.57	1.83	1.50
CBT Reserves / Financing Requirement	1.84	-	20.02	11.36	2.81	2.58	1.97	2.09	1.52
CBT Reserves / Current Account Balance	2.34	-	44.87	4.68	2.61	2.37	1.98	2.03	1.73
CBT Reserves / Imports	0.44	0.52	0.60	0.53	0.41	0.47	0.47	0.47	0.42

Source: CBRT, TURKSTAT.

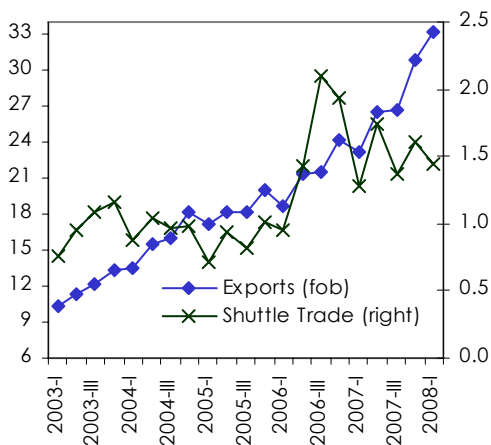
\* Tourism revenues from foreigners.

### Exports of Goods

11. According to the statistics released by TURKSTAT, exports showed strong growth of 42.9 percent in the first quarter of 2008. The contribution of price movements to the increase in question was realized above real export growth. Accordingly, in the January-March period, while quantity index (real exports) rose by 18.1 percent, export unit value boosted by 20.7 percent.

**Exports**

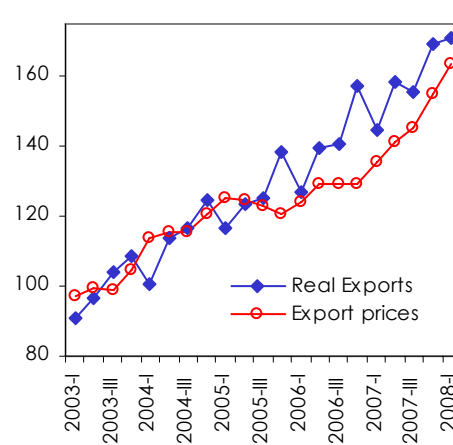
(billion US dollars)



Source: TURKSTAT.

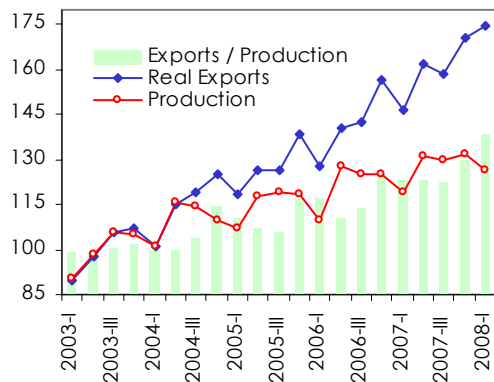
**Exports - Real and Unit Value**

(2003=100)



Source: TURKSTAT.

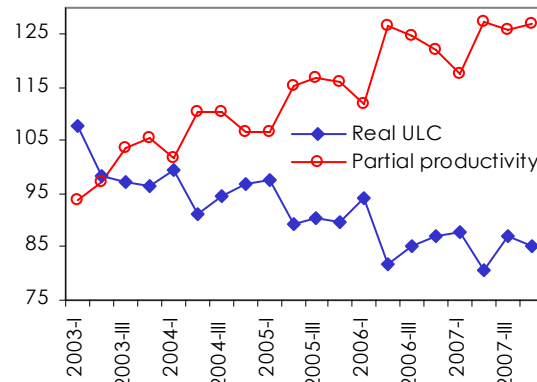
12. Productivity gains, which have also been supported by investment expenditures since 2002, played a significant role in the decline of real unit labor costs, thus contributing to the rapid export growth. Moreover, the geographical closeness to the EU, Turkey's biggest trade partner, coupled with revived demand in the EU countries and the appreciation of euro against the US dollar considerably contributed to the upsurge in exports. Even though the slowdown foreseen at global level is expected to curtail the EU countries' demand for imports, countries with increased oil revenues such as Russia and United Arab Emirates as well as the emergence of new markets such as Switzerland and the Republic of South Africa were other key drivers of strong export performance.

**Production and Exports in****Manufacturing Industry (2003=100)**

Source: TURKSTAT.

**Real ULC and Productivity Indices**

(2003=100)



Source: CBT, TURKSTAT.

13. In the first quarter of 2008, the largest contribution to export growth came from motor vehicles and basic metals. While the two items in question accounted for 34.2 percentage points of the total exports, their contribution to overall export growth was realized as 22.1 percentage points. Besides, machinery-equipment, clothing, textiles and refined oil products were other sectors that played a significant role in export growth.

14. Exports of textiles and clothing have started to recover as of the last quarter of 2006. Total exports of sectors grew by 18.6 percent in the first quarter of 2008, contributing 4.1 percentage points to overall export growth. Nevertheless, the downward trend in production and employment of these sectors still persist and the imports of these sectors increases.

15. Strong performance of motor vehicle exports from the second quarter of 2006 onwards was mainly driven by shrinking domestic demand and the ongoing productivity



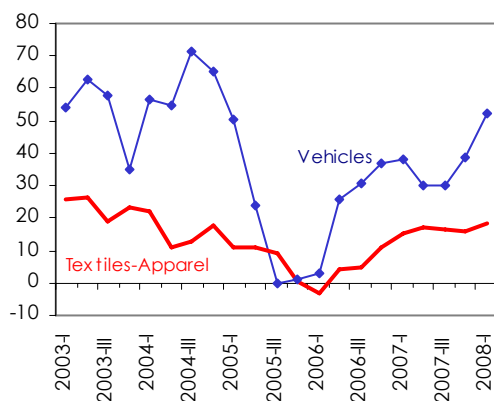
gains accompanied with new models of production. Meanwhile, privatization-related production increases and price increases realized at global level were the key drivers of rapid growth in basic metals industry. Nonetheless, the recent rise in real exports of basic metal products was drastically above price increases. Hence, in the January-March period, exports of basic metals grew by 126.1 percent, while the export quantity of the sector and export prices increased by 77.3 and 27.2 percent, respectively.

### Exports (Million US dollars)

	2007	Jan-Mar			Share		
		2008	% Change	% Contrib.	\$ Contrib.	2007	2008
Total	23178	33113	42.9				
Capital Goods	3051	4375	43.4	5.7	1323	13.2	13.2
Intermediate Goods	10537	16562	57.2	26.0	6024	45.5	50.0
Consumption Goods	9529	12080	26.8	11.0	2550	41.1	36.5
Other	60	97	61.0	0.2	37	0.3	0.3
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	916	957	4.5	0.2	41	4.0	2.9
Food products and beverages	1139	1537	34.9	1.7	397	4.9	4.6
Textiles	2348	2839	20.9	2.1	491	10.1	8.6
Wearing apparel	2781	3245	16.7	2.0	464	12.0	9.8
Petroleum products and nuclear fuel	798	1599	100.5	3.5	801	3.4	4.8
Chemicals and chemical products	876	1151	31.5	1.2	276	3.8	3.5
Rubber and plastic products	866	1113	28.5	1.1	247	3.7	3.4
Other non-metallic minerals	722	935	29.6	0.9	213	3.1	2.8
Manufacture of basic metals	2525	5709	126.1	13.7	3185	10.9	17.2
Manufacture of fabricated metal prod(exc mac	902	1292	43.2	1.7	389	3.9	3.9
Manufacture of machinery and equipment	1714	2323	35.5	2.6	609	7.4	7.0
Electrical machinery and apparatus	863	1173	36.0	1.3	311	3.7	3.5
Communication and apparatus	576	605	5.0	0.1	29	2.5	1.8
Motor vehicles and trailers	3678	5604	52.4	8.3	1927	15.9	16.9
Other transport	710	796	12.1	0.4	86	3.1	2.4

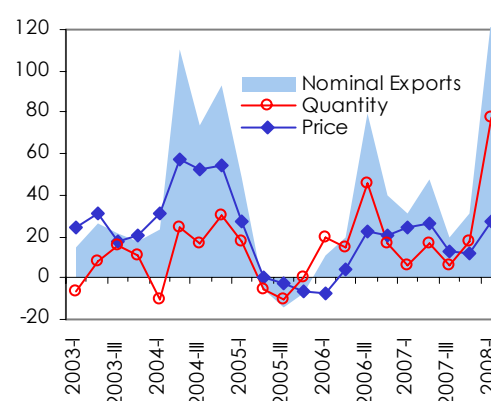
Source: TURKSTAT.

### M. Vehicles and Textiles-Apparel Exports (Annual percentage change)



Source: TURKSTAT.

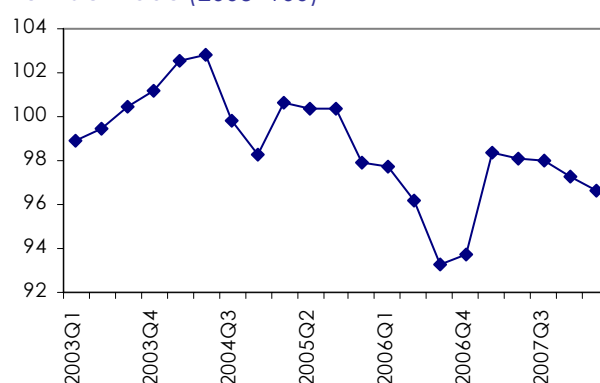
### Basic Metal Industry Exports (Annual percentage change)



Source: TURKSTAT.

16. In line with price increases realized at global level, both import and export prices showed substantial increases in the first quarter of 2008. However, the 22.8 percent and 20.7 percent rises in import and export prices, respectively, led to the realization of terms of trade in the said period, once more, in favor of imports.

Terms of Trade (2003=100)



Source: TURKSTAT.

17. The upward trend in food prices in the first quarter of 2008 was also reflected in the export prices. Hence, export prices of agricultural and livestock products as well as those of food and beverages rose considerably. Moreover, exports of basic metals, machinery-equipment, electrical machinery and apparatus and motor vehicles showed sharp increases. Besides, due to the record-high level of energy prices in the first quarter of 2008, export prices of refined oil and coke coal rose by an annualized rate of 61.9 percent in the same period.

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

	2007				2007	2008 I
	I	II	III	IV		
Total	9.0	9.4	12.4	20.0	13.1	20.7
Capital Goods	12.3	9.7	10.2	12.9	18.0	15.9
Intermediate Goods	14.2	13.9	11.6	16.6	14.1	22.2
Consumption Goods	3.1	4.1	12.5	22.7	11.0	20.9
Selected Items (ISIC Rev.3):						
Agriculture and farming of animals	-3.9	3.9	25.2	43.5	20.4	22.5
Food products and beverages	-1.3	3.5	21.1	39.4	17.0	46.3
Textiles	7.7	7.8	10.6	14.7	10.3	11.9
Wearing apparel	0.3	0.9	12.2	17.3	7.4	19.8
Petroleum products and nuclear fuel	-5.2	5.2	7.4	49.8	15.5	61.9
Chemicals and chemical products	8.3	7.5	7.7	12.8	8.9	17.0
Rubber and plastic products	9.5	8.8	12.8	17.8	11.9	17.5
Other non-metallic minerals	4.9	5.9	9.1	12.7	8.4	14.6
Manufacture of basic metals	24.1	26.4	13.0	12.2	18.7	27.2
Manufacture of fabricated metal prod(exc mach	17.5	14.0	12.3	13.7	14.8	18.2
Manufacture of machinery and equipment	12.4	13.5	13.3	17.7	14.6	16.3
Electrical machinery and apparatus	19.9	13.9	11.1	13.2	14.1	17.2
Communication and apparatus	-12.9	-15.2	-4.8	5.4	-5.5	16.9
Motor vehicles and trailers	9.7	4.3	7.5	12.6	8.5	13.0

Source: TURKSTAT.

18. The rise in the export quantity index, which slowed down from the second half of 2002 onwards, re-gained pace in the first quarter of 2008 and real exports rose by an average of 18.1 percent. Analyzing by item, refined petroleum products and basic metals quantity indices, which displayed sharp increases along with machinery-equipment and motor vehicles, rose significantly. Meanwhile, it is observed that real exports of agriculture and food-related industries having displayed high export prices lost ground and that nominal growth in these sectors basically resulted from price increases.

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

	2007				2007	2008
	I	II	III	IV	I	I
Total	14.4	13.5	10.8	7.4	10.7	18.1
Capital Goods	39.1	25.5	34.5	27.8	31.2	23.7
Intermediate Goods	14.9	15.9	13.9	13.5	14.5	28.6
Consumption Goods	10.6	7.7	3.0	-2.5	4.2	4.8
Selected Items (ISIC Rev.3):						
Agriculture and farming of animals	12.7	-16.8	-18.8	-12.1	-11.2	-14.9
Food products and beverages	9.7	1.5	7.1	-5.5	1.6	-8.0
Textiles	9.0	6.4	6.1	2.3	5.7	7.9
Wearing apparel	13.5	18.6	3.0	-2.2	7.9	-2.7
Petroleum products and nuclear fuel	23.1	19.1	21.7	34.9	24.1	23.7
Chemicals and chemical products	10.4	5.6	5.3	6.8	6.9	12.0
Rubber and plastic products	27.4	22.0	12.5	6.5	16.3	9.1
Other non-metallic minerals	10.6	10.7	12.1	15.9	11.9	12.8
Manufacture of basic metals	5.9	16.9	6.1	17.2	11.1	77.3
Manufacture of fabricated metal prod(exc machin	12.8	18.8	8.7	7.2	10.6	20.5
Manufacture of machinery and equipment	27.0	20.3	14.8	8.8	16.2	16.3
Electrical machinery and apparatus	37.4	33.9	25.9	18.7	27.4	15.7
Communication and apparatus	-14.6	-10.5	13.9	-4.7	-5.1	-10.2
Motor vehicles and trailers	26.1	24.8	21.0	23.0	23.5	34.6

Source: TURKSTAT.

19. In the first quarter of 2008, the share of exports to the USA and EU countries declined whereas the share of exports to petroleum exporting countries and countries other than the EU and the USA rose. This development is significant in terms of new markets and external demand in a period where a global slowdown is expected. An analysis on country basis demonstrates that Russia and the United Arab Emirates made up the highest share of exports from Turkey in the January-March period.

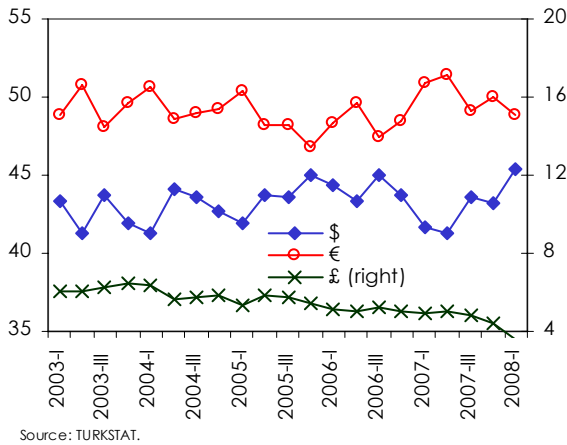
**Export – Country Decomposition**  
(Million US dollars)

	2007		2008		% Change	% Contrib.	\$ Contrib.
	Jan-Mar						
	Value	Share (%)	Value	Share (%)			
Total	23178	..	33111	..	42.9	..	..
EU countries (27)	13380	57.7	16937	51.2	26.6	15.3	3557
Other countries	9135	39.4	15381	46.5	68.4	27.0	6247
Other European	2240	9.7	4545	13.7	102.9	9.9	2305
East Asian	1081	4.7	1657	5.0	53.3	2.5	576
Other	8054	34.7	9180	27.7	14.0	4.9	1126
Free Zones in Turkey	663	2.9	792	2.4	19.5	0.6	129
Selected countries and country groups:							
OECD	14,662	63.3	19,339	58.4	31.9	20.2	4677
Germany	2,719	11.7	3,402	10.3	25.1	2.9	682
UK	1,779	7.7	2,107	6.4	18.4	1.4	328
Italy	1,765	7.6	2,108	6.4	19.4	1.5	342
France	1,312	5.7	1,830	5.5	39.5	2.2	518
Spain	1,054	4.5	1,151	3.5	9.2	0.4	97
USA	976	4.2	1,057	3.2	8.3	0.3	81
Netherlands	651	2.8	887	2.7	36.2	1.0	235
Greece	481	2.1	611	1.8	27.2	0.6	131
Other OECD	4,405	19.0	6,186	18.7	40.4	7.7	1781
Middle East countries	3,193	13.8	4,869	14.7	52.5	7.2	1675
UAE	703	3.0	1,420	4.3	102.0	3.1	717
Iraq	676	2.9	731	2.2	8.1	0.2	55
Russian Fed.	967	4.2	1,553	4.7	60.7	2.5	587
Romania	815	3.5	1,052	3.2	29.0	1.0	237
Bulgaria	426	1.8	490	1.5	15.1	0.3	64
China	192	0.8	260	0.8	35.7	0.3	69

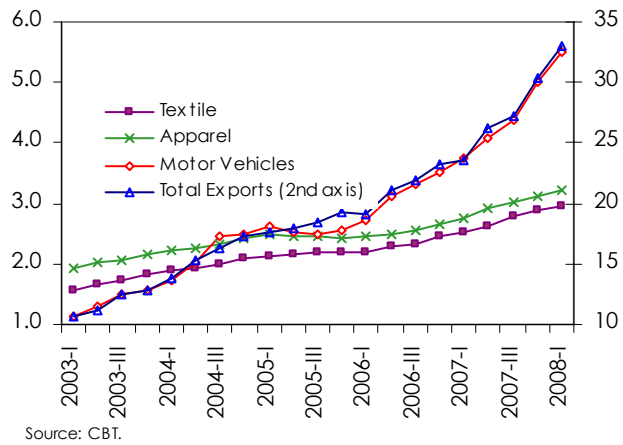
Source: TURKSTAT.

20. As to the currency composition of exports, the use of the euro decreased while that of the US dollar increased in January-March period in line with the developments in country groups. Meanwhile, parity changes also had a significant effect on the nominal value of both exports and imports. At the exchange rate held constant at end-2007, changes in euro/dollar parity increased the USD value of exports and imports by USD 0.4 and 0.5 billion respectively in the January-March 2008. The increase in the parity up to 1.55 in March from 1.46 in end-2007 fuelled these developments.

Currency Composition of Exports (% share)



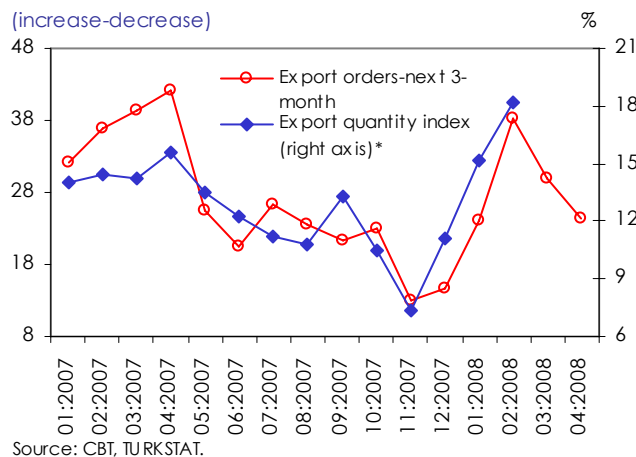
Seasonally Adjusted Exports and Sub-Sectors (Billion US dollars)



21. Seasonally adjusted data supports the strong performance of exports. Nominal exports grew 8.4 percent in the first quarter of 2008 compared to the previous quarter. During this period, seasonally adjusted nominal exports of motor vehicles, a leading export industry, increased by 10 percent, while textile and clothing exports were up 2.5 percent compared to the preceding quarter.

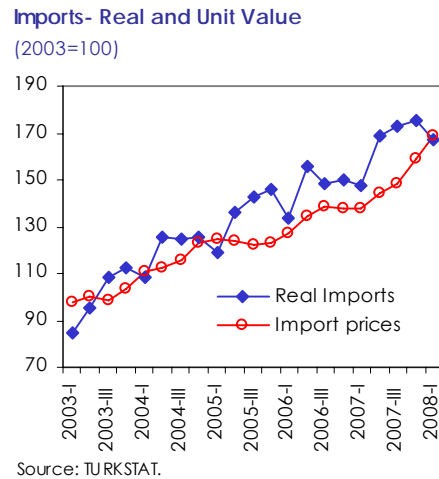
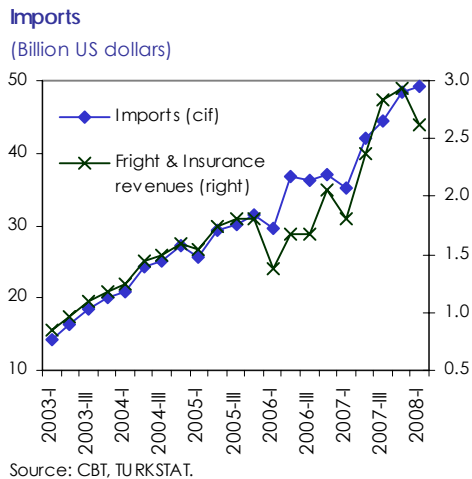
22. Although the "Expected orders over the next quarter" included in the CBT Business Tendency Survey (BTS) declined slightly in April, it suggests that the high performance in exports will persist.

Export Expectations- Next 3-month



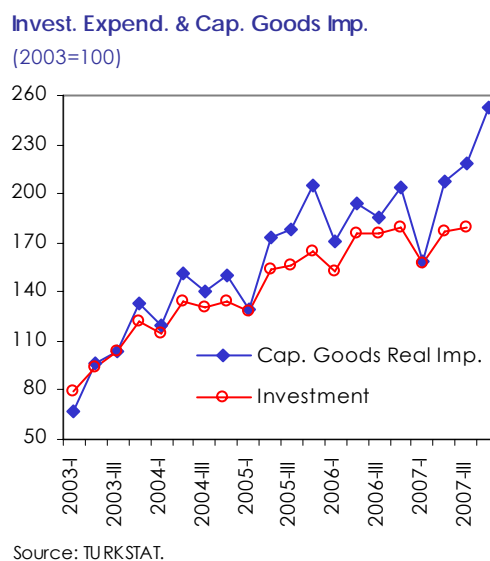
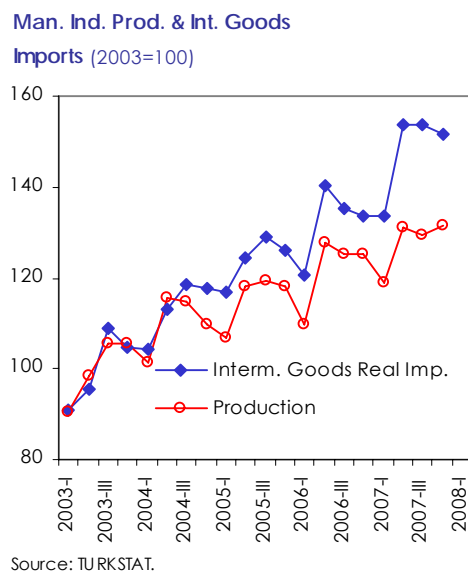
## Imports of Goods

23. Despite lagging behind the export growth, both real and nominal imports exhibited recovery in the first quarter of 2008. The upsurge in prices of imports, primarily the energy, contributed significantly to the nominal import growth in the said period and the imports picked up by 39.5 percent compared to the same period of the previous year. The import quantity index rose by 13.4 percent in the first quarter of the year, while import prices went up 22.8 percent.

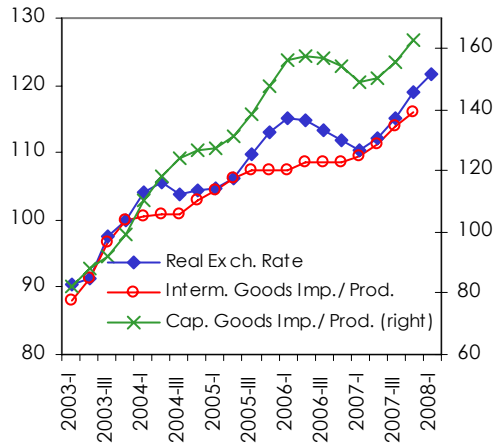


24. In the January-March period, imports of intermediate goods picked up by 39.1 percent due to the strong performance of exports and became the main determinant of import growth. Besides, soaring oil prices in record levels in the same period accelerated imports of energy and made a significant contribution to the import of intermediate goods.

25. Driven by the low base effect of the same period of the previous year, imports of consumption and capital goods increased by 36 and 46.1 percent respectively in the first quarter of the year. However, it is considered that in case of a persisting slowdown in domestic demand and a possible depreciation of YTL in the forthcoming period, the recovery in imports of consumption and capital goods will be replaced by a slowdown.

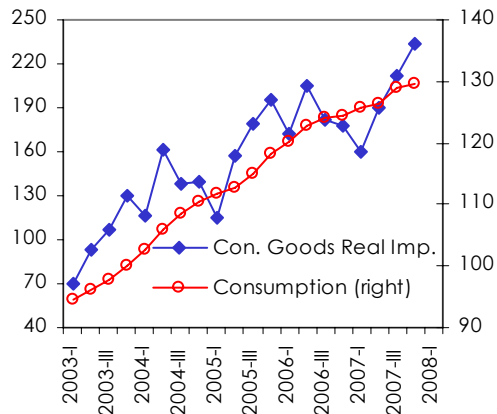


**Interm. & Cap. Imp./Manuf. Ind. P.  
Ratio and REER (PPI) (12-month, ave.)**



Source: TURKSTAT, CBT.

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



Source: TURKSTAT.

26. The item-to-item analysis reveals that crude oil and natural gas made the largest contribution to import growth in the first quarter due to price hikes. Basic metals industry, another sector incurring high price hikes also contributed considerably to the total import growth. Other key drivers of import growth were imports of chemicals and chemical products, machinery and equipment, motor vehicles and refined petroleum products.

**Imports**  
(Million US dollars)

	Jan-Mar					Share	
	2007	2008	% Change	% Contr.	\$ Contr.	2007	2008
Total	35209	49124	39.5				
Capital Goods	5133	6979	36.0	5.2	1846	14.6	14.2
Intermediate Goods	26303	36588	39.1	29.2	10285	74.7	74.5
Consumption Goods	3652	5337	46.1	4.8	1684	10.4	10.9
Other	120	220	82.7	0.3	100	0.3	0.4
Selected Items (ISIC Rev.3):							
Mining and Quarrying	5493	8323	51.5	8.0	2829	15.6	16.9
Crude oil and natural gas	4932	7572	53.5	7.5	2640	14.0	15.4
Textiles	1143	1324	15.8	0.5	181	3.2	2.7
Paper and paper products	605	750	23.9	0.4	145	1.7	1.5
Coke, petroleum products and nuclear fuel	1663	2778	67.0	3.2	1115	4.7	5.7
Chemicals and chemical products	5167	6721	30.1	4.4	1554	14.7	13.7
Rubber and plastic products	642	872	35.8	0.7	230	1.8	1.8
Manufacture of basic metals	4688	6254	33.4	4.4	1567	13.3	12.7
Manufacture of fabricated metal prod(exc machir	544	798	46.8	0.7	254	1.5	1.6
Manufacture of machinery and equipment	3361	4191	24.7	2.4	830	9.5	8.5
Electrical machinery and apparatus	1227	1967	60.4	2.1	741	3.5	4.0
Communication and apparatus	1265	1566	23.8	0.9	301	3.6	3.2
Medical, precision and opt. instr., watches	668	949	42.0	0.8	281	1.9	1.9
Motor vehicles and trailers	2854	4114	44.2	3.6	1260	8.1	8.4
Other transport	434	588	35.6	0.4	154	1.2	1.2
Waste and scrap (Wholesale and retail)	1494	2138	43.1	1.8	644	4.2	4.4

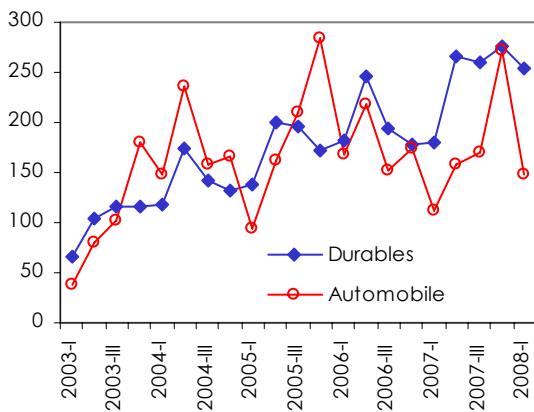
Source: TURKSTAT.

27. Imports of automobiles, increasing since July 2007 with the contribution of the recovery in domestic demand and low base effect, were up 57.5 percent in the first quarter

of 2008. Meanwhile, imports of durables, semi-durables and non-durables continue to grow steadily.

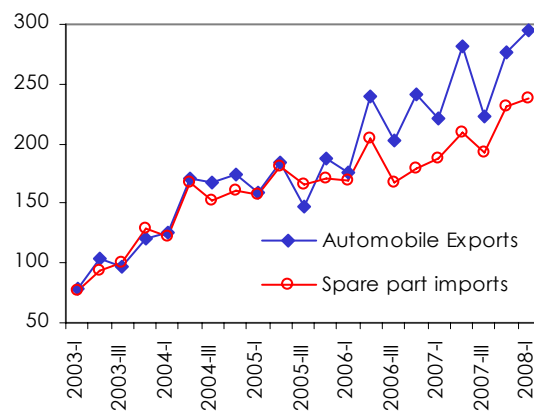
28. Imports of industrial transport vehicles and equipment have begun to recover since the last quarter of 2007 and grew by 45.8 percent in the January-March period. Imports of parts and supplies of transport vehicles increased by 39.2 percent in the same period in line with the robust growth of automobile exports.

**Durables & Automobile Imports**  
(2003=100)



Source: TURKSTAT.

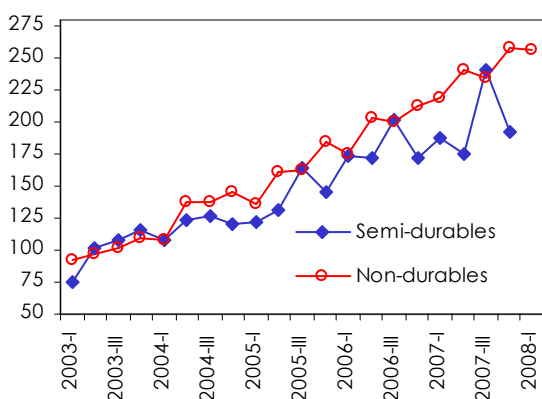
**Spare part imp. of trans. vehicles & Auto. Exports** (2003=100)



Source: TURKSTAT.

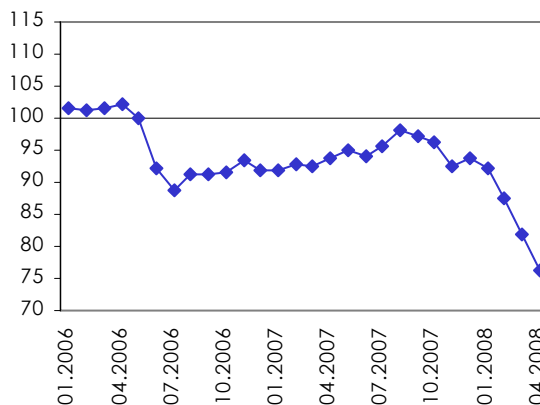
29. Consumer confidence index released by the CBT/TURKSAT suggests a decline in private consumption since the last quarter of 2007. The index continued its downward trend in April 2008 as well. This situation invigorates the expectation that the acceleration in the imports of consumption goods is temporary.

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



Source: TURKSTAT.

**Confidence Index (CBT-TURKSTAT)**

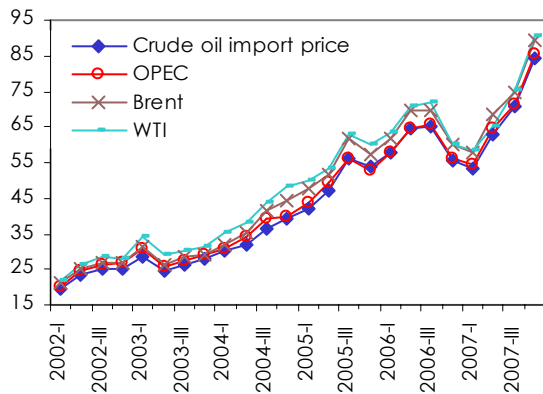


Source: CBT, TURKSTAT.

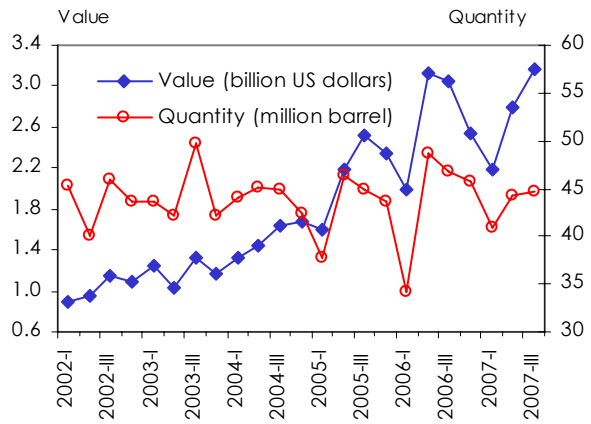
30. International crude oil prices, following an upward trend since early 2007, reached a historically high level in the first quarter of 2008 owing to the supply constraints expected as a result of the announcement that OPEC would not increase production amounts and due to depreciation of US dollar. Consequently, energy imports increased by 56.5 percent in the first quarter of the year and contributed to the total imports by 11.2 points. Brent type crude oil prices, which were USD 120 per barrel in end-April, surpassed the level of USD 130 per barrel in May. Persisting high course of oil prices increases the possibility of acceleration of intermediate goods imports in US dollar.

**Crude Oil Prices**

(US dollar per barrel, average)



Source: SPO, OPEC, EIA.

**Crude Oil Imports**

Source: TURKSTAT.

31. Along with crude oil, natural gas and basic metals sector, agriculture, food products and beverages; chemicals and chemical products; waste and scrap were among sectors, which recorded high increases in the January-March period.

**Import – Unit Value Indices**  
 (Annual Percentage Change)

	2007				2007	2008
	I	II	III	IV		
Total	8.3	7.2	7.0	15.7	9.7	22.8
Capital Goods	6.2	-0.9	-2.3	4.9	2.1	10.0
Intermediate Goods	9.9	7.7	7.7	12.9	9.6	26.8
Consumption Goods	4.1	5.8	4.0	10.0	6.5	16.5
Selected Items (ISIC Rev.3):						
Food products and beverages	11.0	19.6	19.2	29.9	20.5	35.4
Textiles	5.6	3.5	2.9	5.2	4.2	7.5
Paper and paper products	11.3	8.3	8.4	11.8	9.9	12.2
Coke, petroleum products and nuclear fuel	-3.9	5.1	6.9	40.4	12.8	58.3
Chemicals and chemical products	6.3	7.0	8.1	12.5	8.8	19.0
Rubber and plastic products	9.7	7.1	6.2	14.5	9.3	14.2
Manufacture of basic metals	26.0	16.5	11.5	15.3	16.4	20.3
Man. of fabricated metal prod(exc mach)	11.1	2.3	1.3	8.7	6.1	12.9
Manufacture of machinery and equipment	7.5	1.0	2.4	9.8	5.1	10.2
Electrical machinery and apparatus	-4.2	-2.2	6.2	12.4	3.5	10.5
Communication and apparatus	5.3	13.7	4.0	12.1	8.7	12.8
Medical, precision and opt. instr., watches	3.3	7.4	16.0	2.0	7.2	0.5
Motor vehicles and trailers	8.7	6.9	5.1	10.1	8.3	12.9
Waste and scrap (Wholesale and retail)	31.4	32.4	20.0	25.6	26.3	40.2

Source: TURKSTAT.

32. Real import growth surpassing the real export growth in the second half of 2007 reversed in the first quarter of 2008. This was mainly attributable to the strong export performance, rather than the slowdown of imports.

33. As regards sub-items, imports of food products, basic metals, fabricated metal products, electrical machinery and apparatus, machinery and equipment, medical and optical and precision devices along with motor vehicles exhibited significant increases.



**Import – Quantity Indices**  
 (Annual Percentage Change)

	2007				2007	2008
	I	II	III	IV		I
Total	10.1	8.3	16.2	16.6	11.7	13.4
Capital Goods	-1.0	9.0	19.8	24.3	13.5	23.7
Intermediate Goods	14.5	10.0	15.4	13.7	13.3	9.7
Consumption Goods	-4.0	-6.9	16.9	31.4	8.9	25.5
Selected Items (ISIC Rev.3):						
Food products and beverages	-4.3	-18.3	-14.9	4.5	-10.3	24.0
Textiles	17.7	27.9	19.9	20.7	21.1	7.0
Paper and paper products	5.3	15.5	15.9	8.3	9.8	9.9
Coke, petroleum products and nuclear fuel	9.2	0.0	21.7	29.5	6.3	5.5
Chemicals and chemical products	10.4	13.0	12.6	11.9	10.5	9.1
Rubber and plastic products	6.0	6.6	16.1	16.4	10.3	18.7
Manufacture of basic metals	19.4	9.7	29.4	13.2	16.3	10.9
Man. of fabricated metal prod(exc mach)	1.5	8.8	9.0	19.4	8.2	29.4
Manufacture of machinery and equipment	7.9	14.0	14.5	22.3	13.6	12.5
Electrical machinery and apparatus	7.0	33.3	28.3	25.8	22.5	44.9
Communication and apparatus	4.2	7.4	22.2	8.7	9.1	9.6
Medical, precision and opt. instr., watches	-2.6	5.1	7.8	28.7	8.6	40.5
Motor vehicles and trailers	-10.8	-11.4	9.9	38.4	4.5	27.3
Waste and scrap (Wholesale and retail)	45.9	14.1	0.3	11.9	15.3	2.1

Source: TURKSTAT.

34. The share of imports from the EU in overall imports declined from 2007 onwards, whereas the share of imports from Russia, China and Ukraine rose. Furthermore, in the January-March period, the share of imports from Iran decreased, while the share of imports from Middle Eastern countries increased. These developments were driven by the upsurge in energy imports from these countries due to the hike in oil prices.

**Imports – Country Decomposition**  
 (Million US dollars)

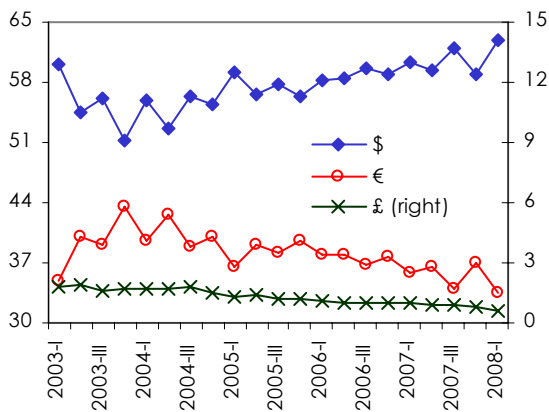
	Jan-Mar						
	2007		2008		%	%	\$
	Value	Share (%)	Value	Share (%)	Change	Contrib.	Contrib.
Total	35209	..	49124	..	39.5		
EU countries	14548	41.3	18996	38.7	30.6	12.6	4448
Other countries	20390	57.9	29772	60.6	46.0	26.6	9382
Other European	7135	20.3	10598	21.6	48.5	9.8	3463
East Asian	6756	19.2	9888	20.1	46.4	8.9	3132
Other	6499	18.5	9285	18.9	42.9	7.9	2786
Free Zones in Turkey	271	0.8	357	0.7	31.5	0.2	85
Selected countries and country groups							
OECD	18998	54.0	25218	51.3	32.7	17.7	6220
Germany	3452	9.8	4688	9.5	35.8	3.5	1236
Italy	2048	5.8	2731	5.6	33.4	1.9	683
USA	1749	5.0	2412	4.9	37.9	1.9	662
France	1742	4.9	2149	4.4	23.3	1.2	406
Switzerland	869	2.5	1172	2.4	34.9	0.9	303
İngiltere	1278	3.6	1527	3.1	19.5	0.7	249
Spain	896	2.5	1125	2.3	25.5	0.6	228
Belgium	649	1.8	812	1.7	25.2	0.5	163
Other OECD	6314	17.9	8602	17.5	36.2	6.5	2288
Middle East countries	2358	6.7	3629	7.4	53.9	3.6	1270
Iran	1401	4.0	1666	3.4	18.9	0.8	265
Russian Fed.	5006	14.2	7596	15.5	51.7	7.4	2590
China	2620	7.4	3964	8.1	51.3	3.8	1345
Ukraine	1028	2.9	1555	3.2	51.3	1.5	527
S. Korea	874	2.5	1141	2.3	30.6	0.8	267
Japan	701	2.0	1021	2.1	45.5	0.9	319
Romania	713	2.0	937	1.9	31.4	0.6	224
India	492	1.4	721	1.5	46.7	0.7	229
Libya	108	0.3	36	0.1	-66.6	-0.2	-72

Source: TURKSTAT.

35. Following the decline in imports from the EU, the use of the euro in imports during the first quarter of 2008 lagged behind its year-ago level, while the share of imports in US dollar grew. This trend was mainly attributable to the rise in the share of imports from Russia and other countries of Middle East and East Asia. The share of the pound sterling in imports, on the other hand, still displays a steady decline.

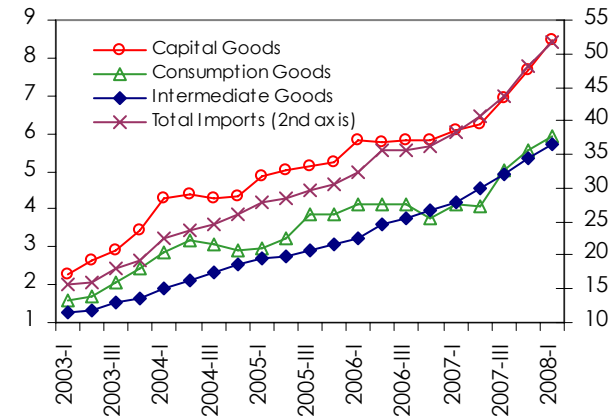
36. In seasonally adjusted terms, imports grew by 7.5 percent in the January-March period compared to the previous quarter. High increases in imports of capital goods were especially influential in the said development. Moreover, seasonally adjusted imports of intermediate goods increased by 6 percent compared to the previous quarter, while imports of capital and consumption goods increased by 10.1 percent and 6.6 percent, respectively.

**Currency Composition of Imports**  
(% share)



Source: TURKSTAT.

**Seasonally Adjusted Imports and Sub-Sectors**  
(Billion US dollars)



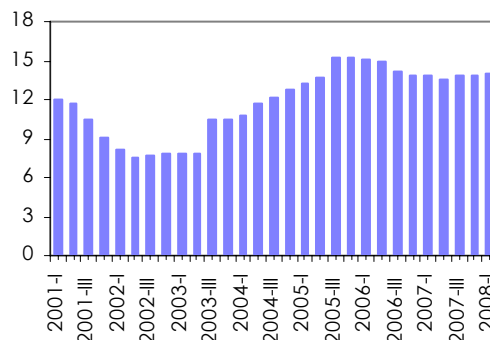
Source: CBT.

## Services Account

37. Following a decline in 2006 and a rebound in 2007, tourism revenues continued to rise in the first quarter of 2008, as well and increased by 28.4 percent on a year-on-year basis. In the said period, the number of departing citizens and foreigners increased by 16.7 percent, and average spending that fell in recent years rose by 10 percent, thus contributing to tourism revenues. Moreover, tourism expenditures were up 19.9 percent, raising net tourism revenues by 32.3 percent.

38. In the first quarter of 2008, revenues from construction and financial services increased moderately, while revenues from transportation services grew rapidly. The developments in these items limited the rise in the services account surplus. Hence, underpinned by tourism revenues, the services account surplus increased by 12.5 percent in the said period.

**Services**  
(12-month ave., billions US dollars)



Source: CBT.

### Services Account (Million US dollars)

	2007				2007	2008
	I	II	III	IV		I
Services	1225	2651	7714	2278	13868	1378
Total income	4130	6325	11772	6502	28729	5216
Total Expenses	-2905	-3674	-4058	-4224	-14861	-3838
Transportation	0	28	-32	-357	-361	-239
Credit	1064	1561	1959	1575	6159	1346
Debit	-1064	-1533	-1991	-1932	-6520	-1585
Tourizm	1490	2825	7923	2989	15227	1971
Credit	2162	3728	8732	3865	18487	2776
Debit	-672	-903	-809	-876	-3260	-805
Construction serv.	190	228	139	202	759	231
Credit	190	228	139	202	759	231
Debit	0	0	0	0	0	0
Financial serv.	-79	-41	-26	-82	-228	-31
Credit	73	88	114	120	395	180
Debit	-152	-129	-140	-202	-623	-211
Other serv.	-376	-389	-290	-474	-1529	-554
Credit	641	720	828	740	2929	683
Debit	-1017	-1109	-1118	-1214	-4458	-1237

Source: CBT.

### Tourism Statistics

	2007				2007	2008
	I	II	III	IV		I
Tourism Revenues (million US dollars)	2163	3727	8732	3865	18487	2776
Departing foreigner visitors (x1000)	2552	5777	9941	4746	23017	3000
Departing citizen visitors (x1000)	640	710	1930	918	4198	726
Tourism Expenditures (million US dollars)	671	903	809	876	3260	805
Arriving citizen visitors (x1000)	1174	1356	1137	1289	4956	1065

Source: TURKSTAT, CBT.

### Income Account

39. In the first quarter of 2008, growing interest payments were driven by long-term borrowings by the private sector and outward transfer of profits increased due to the large direct investment inflow in recent years. However, gains from portfolio investments compensated for the said expenditures. As a result, in the January-March period, income account deficit narrowed slightly compared to same period last year.

### Current Transfers

40. The presentation of current transfers in the balance of payments has been changed in such a way so as to cover net income related to other insurance and reinsurance transactions with non-residents except freight insurance. Accordingly, the "official transfers" heading is named as "General Government" and workers' remittances are shown under the "Other Sectors" heading. The abovementioned net income related to the other insurance and reinsurance transactions has also been shown under the "Other Sectors" heading along with workers' remittances.

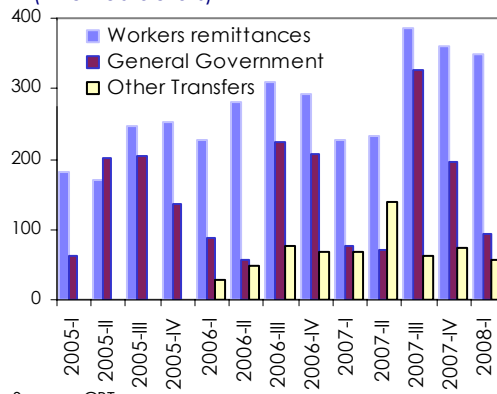
41. In the January-March period, current transfers increased by 34 percent. In this period, General Government transfers and workers' remittances increased by 20.8 percent and 53.5 percent, respectively, while other transfer revenues decreased by 15.9 percent.

### Income Account (Million US dollars)

	2007				2007	2008
	I	II	III	IV		I
Income (net)	-1919	-1598	-1806	-1618	-6941	-1856
Compensation of Employees (net)	-29	-28	-25	-24	-106	-27
Investment Income	-1890	-1570	-1781	-1594	-6835	-1829
Total income	1644	1371	1644	1725	6384	2161
Total Expenses	-3534	-2941	-3425	-3319	-13219	-3990
Direct investment	-322	-610	-408	-545	-1885	-473
Credit	22	52	22	12	108	72
Debit	-344	-662	-430	-557	-1993	-545
Portfolio investment	-566	372	-74	651	383	33
Credit	1084	794	1065	1175	4118	1522
Debit	-1650	-422	-1139	-524	-3735	-1489
Other investment	-1002	-1332	-1299	-1700	-5333	-1389
Interest income	538	525	557	538	2158	567
Interest expenses	-1540	-1857	-1856	-2238	-7491	-1956
Long-term	-1364	-1715	-1654	-2064	-6797	-1798
Monetary A.	-123	-91	-230	-119	-563	-115
Gen. Gov.	-394	-503	-319	-504	-1720	-360
Banks	-216	-299	-317	-410	-1242	-376
Other sector	-631	-822	-788	-1031	-3272	-947
Short-term	-176	-142	-202	-174	-694	-158

Source: CBT.

### Current Transfers (Billion US dollars)



Source: CBT.

### III. CAPITAL MOVEMENTS

42. In the first quarter of 2008, external financing requirement, defined as the sum of current account plus net errors and omissions, was equivalent to USD 12.2 billion. During this period, the net capital inflow (excluding reserve shifts and IMF loans) amounted to USD 12.3 billion. The financing structure was heavily shaped by direct investments and long-term credit inflows.

43. Following these developments, there was a USD 0.1 billion inflow to official reserves and a USD 0.4 billion outflow from banks' corresponding accounts. However, as a result of the exchange rate effect stemming from the change in the value of current stock and FX composition, gold included CBT reserves increased to USD 80 billion in March 2008 from USD 76.4 billion at end-2007, FX assets of commercial banks did not change and remained at USD 31.8 billion during the same period.

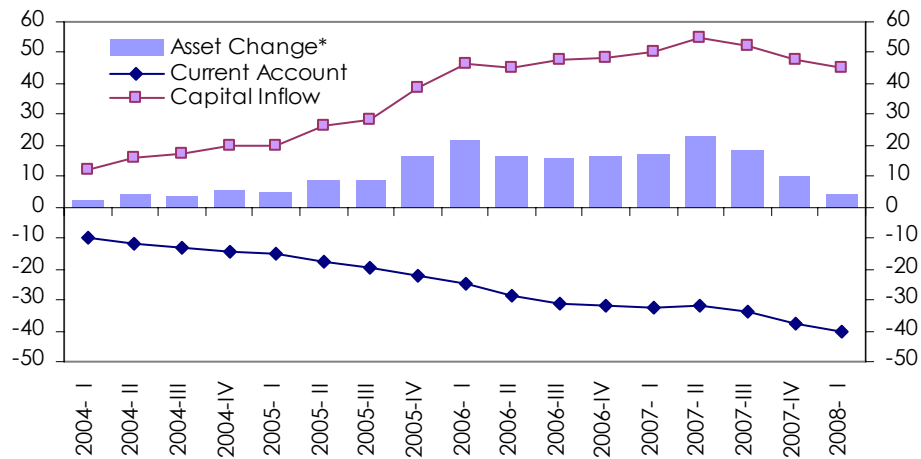
#### External Financing Requirements and Resources (Billion US dollars)

	2006				2006	2007				2007	2008
	I	II	III	IV		I	II	III	IV		I
<b>1. Current Account</b>	<b>-8.6</b>	<b>-10.7</b>	<b>-4.8</b>	<b>-7.8</b>	<b>-31.9</b>	<b>-9.2</b>	<b>-10.0</b>	<b>-6.8</b>	<b>-11.6</b>	<b>-37.6</b>	<b>-12.0</b>
<b>2. Net Errors and Omissions</b>	<b>1.2</b>	<b>2.0</b>	<b>-2.1</b>	<b>-1.2</b>	<b>-0.2</b>	<b>0.9</b>	<b>2.9</b>	<b>-3.6</b>	<b>0.9</b>	<b>1.1</b>	<b>-0.2</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-7.4</b>	<b>-8.7</b>	<b>-6.9</b>	<b>-9.1</b>	<b>-32.1</b>	<b>-8.4</b>	<b>-7.0</b>	<b>-10.4</b>	<b>-10.7</b>	<b>-36.5</b>	<b>-12.2</b>
<b>II. Total Financing (=1+2+3)</b>	<b>7.4</b>	<b>8.7</b>	<b>6.9</b>	<b>9.1</b>	<b>32.1</b>	<b>8.4</b>	<b>7.0</b>	<b>10.4</b>	<b>10.7</b>	<b>36.5</b>	<b>12.2</b>
<b>1. Capital Flows (net)</b>	<b>15.2</b>	<b>10.9</b>	<b>10.5</b>	<b>16.5</b>	<b>53.0</b>	<b>17.3</b>	<b>13.9</b>	<b>8.9</b>	<b>11.9</b>	<b>52.0</b>	<b>12.3</b>
<b>Direct Investment (net)</b>	<b>1.4</b>	<b>7.8</b>	<b>3.5</b>	<b>6.3</b>	<b>19.1</b>	<b>8.2</b>	<b>2.7</b>	<b>4.3</b>	<b>4.7</b>	<b>19.9</b>	<b>4.0</b>
<b>Portfolio Investment (net)</b>	<b>3.6</b>	<b>-4.5</b>	<b>4.1</b>	<b>4.2</b>	<b>7.4</b>	<b>4.5</b>	<b>1.5</b>	<b>-1.9</b>	<b>-3.4</b>	<b>0.7</b>	<b>-1.3</b>
General Gov. Eurobond Issues	2.3	-0.6	0.8	0.8	3.3	3.4	-1.0	-0.5	-0.9	0.9	-0.9
Nonresidents' Security Buyings in Turkey	1.6	-3.8	4.6	5.7	8.1	1.8	2.9	-0.1	-2.7	1.9	0.0
Residents' Security Buyings Abroad	-0.3	-0.1	-1.3	-2.3	-4.0	-0.7	-0.4	-1.3	0.3	-2.1	-0.5
<b>Credit Drawing (excl. IMF loan, net)</b>	<b>10.1</b>	<b>7.6</b>	<b>3.8</b>	<b>3.3</b>	<b>24.8</b>	<b>8.2</b>	<b>10.6</b>	<b>7.1</b>	<b>9.7</b>	<b>35.6</b>	<b>10.1</b>
General Government	-0.2	-0.2	0.3	-0.6	-0.7	0.1	-0.4	0.3	0.1	0.1	-0.5
Banks	2.4	3.0	0.3	0.1	5.8	0.9	3.3	-0.1	1.5	5.6	1.9
Long-term	1.3	3.2	0.7	4.5	9.8	2.1	2.6	1.9	0.6	7.3	1.7
Short-term	1.1	-0.2	-0.5	-4.4	-4.0	-1.3	0.7	-2.0	0.9	-1.7	0.2
Other Sector	7.9	4.8	3.3	3.8	19.7	7.2	7.7	6.9	8.1	29.9	8.6
Long-term	8.6	3.1	2.8	3.9	18.5	6.5	5.8	5.4	7.8	25.5	7.1
Short-term	0.0	0.1	0.3	0.0	0.5	-0.1	0.6	0.2	-0.5	0.2	0.1
Trade Credits	-0.8	1.5	0.1	-0.2	0.7	0.8	1.3	1.3	0.8	4.2	1.4
<b>Deposits</b>	<b>1.5</b>	<b>0.3</b>	<b>-1.1</b>	<b>3.9</b>	<b>4.6</b>	<b>-3.4</b>	<b>-0.5</b>	<b>-1.0</b>	<b>1.6</b>	<b>-3.3</b>	<b>0.9</b>
in Central Bank	-0.2	-0.3	-0.5	-0.3	-1.3	-0.3	-0.3	-0.6	-0.4	-1.5	-0.3
in banks	1.6	0.6	-0.6	4.2	5.9	-3.2	-0.3	-0.4	2.0	-1.9	1.2
<b>Other</b>	<b>-1.3</b>	<b>-0.3</b>	<b>0.1</b>	<b>-1.3</b>	<b>-2.9</b>	<b>-0.2</b>	<b>-0.4</b>	<b>0.3</b>	<b>-0.6</b>	<b>-1.0</b>	<b>-1.4</b>
<b>2. IMF Loans</b>	<b>-1.8</b>	<b>-1.8</b>	<b>0.1</b>	<b>-1.0</b>	<b>-4.5</b>	<b>-2.3</b>	<b>0.0</b>	<b>-1.0</b>	<b>-0.7</b>	<b>-4.0</b>	<b>-0.5</b>
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Government	-1.8	-1.8	0.1	-1.0	-4.5	-2.3	0.0	-1.0	-0.7	-4.0	-0.5
<b>3. Change in Reserves (- increase)</b>	<b>-6.0</b>	<b>-0.3</b>	<b>-3.6</b>	<b>-6.5</b>	<b>-16.4</b>	<b>-6.6</b>	<b>-6.9</b>	<b>2.6</b>	<b>-0.5</b>	<b>-11.5</b>	<b>0.4</b>
Banks' FX assets	1.1	-3.3	-2.8	-5.3	-10.3	-0.2	-6.4	3.6	-0.4	-3.5	0.4
Official Reserves	-7.1	3.0	-0.8	-1.2	-6.1	-6.4	-0.5	-1.0	-0.1	-8.0	-0.1

Source: CBT.

44. The turbulence that was observed especially after August in international markets has a growing impact on the capital inflow to Turkey. In fact, current account deficit continued to expand on annual basis in this period, whereas capital inflow failed to increase at the same pace. Accordingly, FX assets showed a limited increase.

### Current Account and Its Financing (12-month cum., billion US dollar)



Source: CBT.

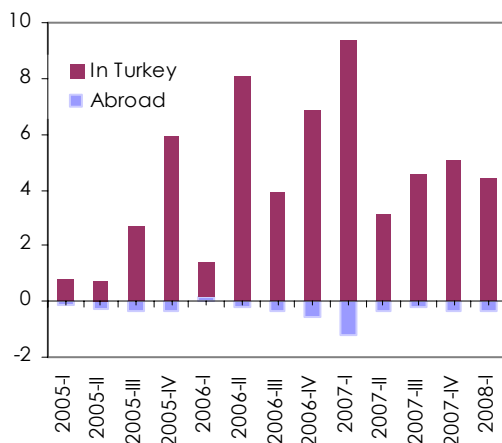
\* Asset change is defined as the sum of official reserves, banks' FX assets and net errors and omission, with an inverse sign.

### Direct Investments

45. Direct investments, which continued to grow in 2007 following the sizeable increase in 2006 slowed down slightly in the first quarter of 2008. During this period, direct investments made in Turkey amounted to USD 4.4 billion, while residents' direct investments abroad reached USD 0.3 billion. Such an amount of direct investments is deemed remarkable in a period during which external financing opportunities are limited.

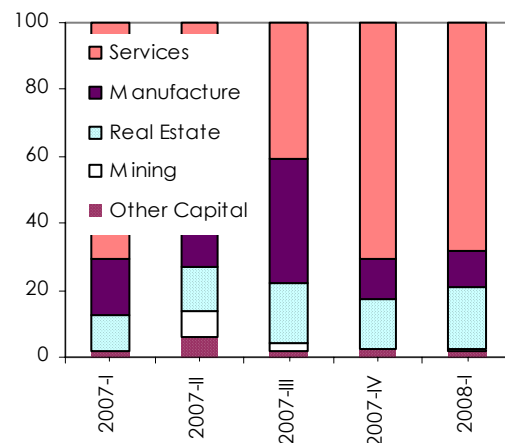
46. The services sector had the largest share in direct investments through the banking sector. The services sector comprised 68.5 percent of total direct investments in the first quarter of 2008. Meanwhile, the investments to the manufacturing industry comprised 10.4 percent of direct investments including real estate and other capital due to the direct investments made in food-tobacco and plastic-rubber manufacturing industries. Nonresidents' real estate purchases in Turkey stands as another significant item within direct investment inflows. Real estate purchases yielded a USD 0.8 billion worth direct capital inflow in this period.

#### Direct investments (Billion US dollars)



Source: CBT.

#### Inward FDI (percentage share)



Source: CBT.

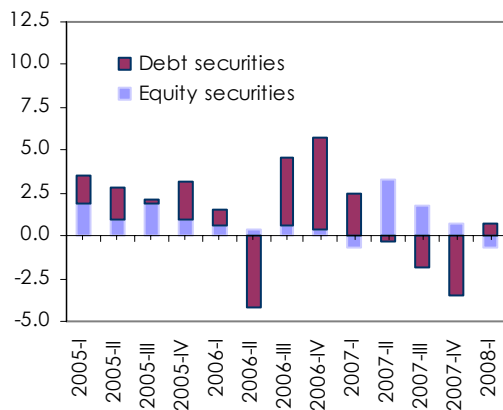
## Portfolio Investments

47. The increased risk perceptions in international credit markets from August 2007 onwards led to an outflow in portfolio investment. Nonresidents mostly sold domestic government debt securities and in the period following September, they purchased equity securities.

48. In the first quarter of 2008, nonresidents sold net USD 0.7 billion worth of equity securities on the ISE. Meanwhile, after purchasing USD 1.9 billion worth of domestic government debt securities in January, nonresidents started to sell back securities in the following months. Hence, nonresidents sold net USD 3.3 billion worth of government domestic borrowing securities in the February-April period.

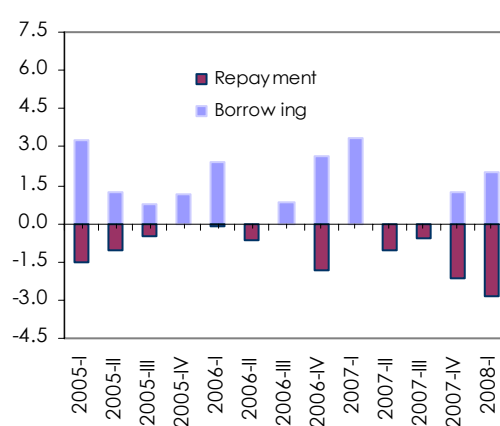
49. In the first quarter of 2008, the Treasury issued USD 2 billion worth of bonds abroad and repaid USD 2.9 billion.

**Security purchases of non-residents**  
(billion US dollars)



Source: CBT.

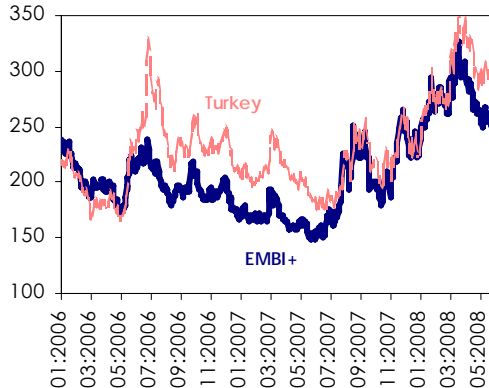
**Eurobond issues of General Gov.**  
(billion US dollars)



Source: CBT.

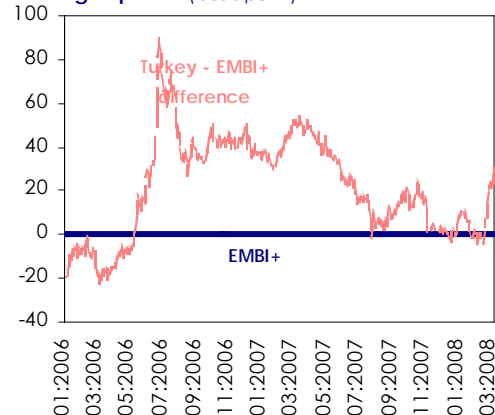
50. In the second half of the year, the volatility in global financial markets reduced investors' appetite for emerging market assets and widened yield spreads between local and US bonds. After hitting 149 basis points on June 1, 2007, the JP Morgan Emerging Markets Bond Index (EMBI+) reached 308 basis points by March 2008 and slightly declined in April and May 2008. Meanwhile, Turkey's yield spread, which has generally been in the same level with the EMBI+ since last quarter of 2007, was again above the EMBI+ as of March 2008.

**Secondary Market Spreads**  
(basis point)



Source: JPMorgan.

**Turkey's position compared to EMBI+ average spread** (basis point)



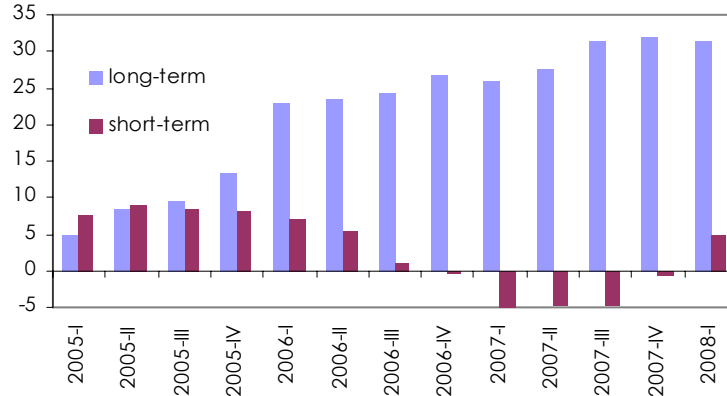
Spread: The difference between the quoted rates of return on countries' security issues and US bonds.

## Other Investments

51. The recent upsurge in the share of long-term capital in total financing continued in 2007 as well. Nevertheless, particularly as of the last quarter of 2007, there was an increase in the short-term capital inflow, though still remarkably lagging behind the long-term inflows.

**Long and Short-term capital**

(billion US dollars)



Note: Excluding direct and portfolio investment, IMF loans and banks' FX assets.

Source: CBT.

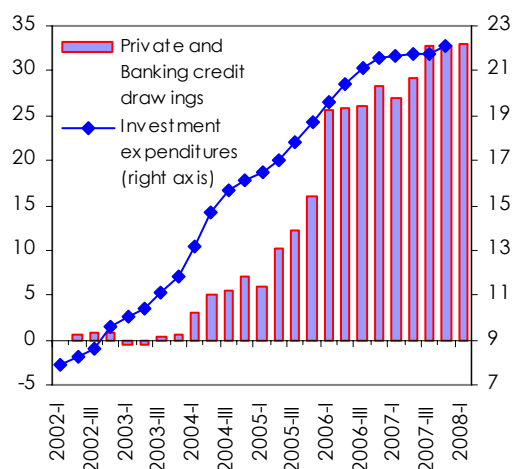
52. In the first quarter of 2008, "Other sectors" mostly comprising the non-banking private sector borrowed net USD 7.1 billion worth of long-term and net USD 0.1 billion worth of short-term foreign credit. The banks' external borrowings in this period were mainly long-term borrowings (net USD 1.7 billion) and their short-term foreign credit utilization was net USD 0.2 billion. Private and banking sectors' borrowings mostly on long-term basis are of importance in terms of financing domestic investment expenditures and improving the quality of financing of the current account deficit.

53. Though long-term credits are rather borrowed by big exporter firms, the level of the said debts maintains its importance in respect of exchange rate risk. It is anticipated that the net short position of the non-banking private sector, which was USD 36.5 billion by end-2006, increased to USD 60.8 billion by end-2007.

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

billion US dollars

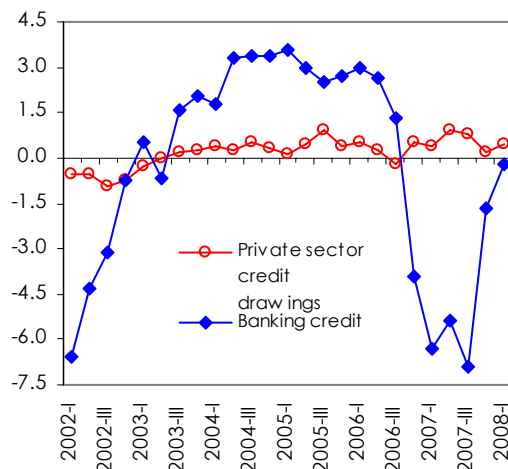
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Source: CBRT, TURKSTAT.

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

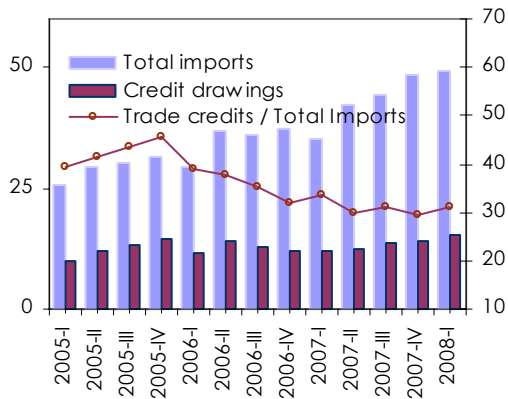
billion US dollars





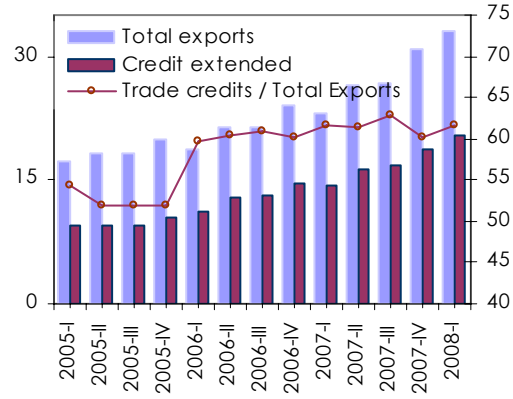
54. The ratio of imports trade credits to total imports, which was 45.5 percent in the last quarter of 2005, dropped to 29.3 percent in the last quarter of 2007 and re-climbed to 31.1 percent in the first quarter of 2008. Meanwhile, the ratio of trade credits extended abroad to total exports increased recently and became 61.6 percent in the first quarter of 2008 against a ratio of 52 percent in the last quarter of 2005. It is considered that the increase in the trade credits extended abroad contributed to exports performance observed in 2006 and onwards.

**Trade credit drawings and imports**  
(billion US dollars) (%)



Source: CBT, TU RK STAT.

**Trade credits extended abroad & exports**  
(billion US dollars) (%)



Source: CBT, TU RK STAT.

55. The Treasury continued to repay some of its IMF loans in 2008. In the first quarter of 2008, though there was no credit utilization, the repayment to the IMF in this period amounted to USD 0.5. The Treasury's other long-term borrowings (World Bank, etc.) and repayment were realized as USD 0.3 billion and USD 0.7 billion, respectively.

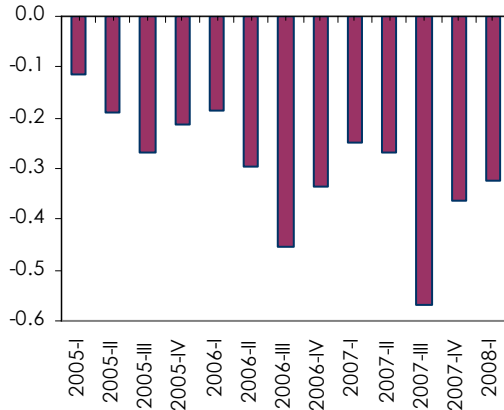
56. Outflows from long-term FX deposit accounts and super FX accounts of nonresident Turkish workers at the CBT have been continuing since April 2003. Outflows from short-term deposit accounts that started in the second quarter of 2004 still persist. As a result, the related deposits at the CBT decreased by USD 0.3 billion in the first quarter of 2008. These outflows can be attributed to the gradual interest rate cuts on both FX deposit accounts and super FX accounts until 2006. In fact, one, two and three-year maturity euro-denominated super FX account rates, which were 8, 9 and 10 percent in 2002, respectively, were reduced on March 6, 2006, to 2.25, 3.25 and 3.75 percent, respectively.

57. Interests on FX deposit accounts and super FX accounts were drastically cut on May 6, 2008. Thus, interest rates of FX deposit accounts with two-year maturity for euro and USD denominated accounts were dropped to 1 percent from 2.75 percent. Interest rate of euro-denominated super FX accounts with two-year maturity was reduced to 2.75 percent from 3.25 percent and that of those with three-year maturity was reduced to 3.25 percent from 3.75 percent. Interest rates of USD-denominated super FX accounts with one-year maturity dropped to 2 percent from 3 percent, with two-year maturity to 2.50 percent from 3.75 percent, and with three-year maturity to 2.75 percent from 4.50 percent.

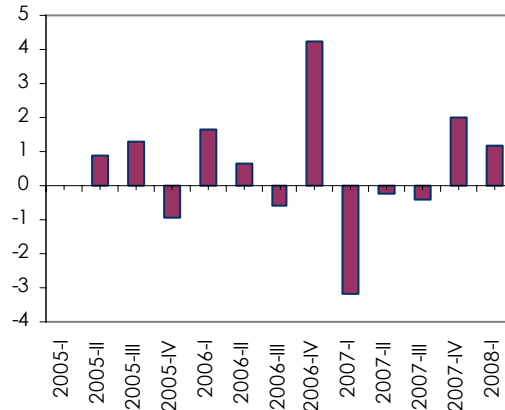
58. Domestic banks had an inflow of USD 1.2 billion of nonresidents' deposits in the first quarter of 2008, but saw a USD 1.9 billion outflow throughout 2007.

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

FX deposits with credit letter and Super FX accounts



Deposits in banks



Source: CBT.

59. At end-2007, total external debt stock rose by 20.3 percent to USD 247.2 billion compared to end-2006. Private sector was the main source of this growth, while public sector only made a limited contribution. USD 205.4 billion of the total external debt stock involves long-term external debt, whereas short-term debt amounts to USD 41.8 billion. Thus, the share of long-term debt in total external debt stock widened to 83.1 percent as of end-2007.

60. The improvement seen in external debt indicators in 2005 reversed in 2006. The ratio of external debt stock to GDP, which fell to 35 percent at the end of 2005, rose to 39 percent at end-2006. In 2007, the said indicators recovered in general except the long-term debt ratio. By end-2007, ratios of external debt stock, external debt service, and short-term external debt stock to GDP dropped to 37.5 percent, 7.4 percent, and 16.9 percent, respectively. In the meantime, it should be underlined that as regards to the maturity breakdown, the improvement in favor of long-term debt still continues.

#### Selected External Debt Indicators (percent)

	2005				2006				2007			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
External Debt Stock / GDP	38.9	37.3	35.7	35.0	36.7	37.2	37.8	39.0	39.2	38.9	38.2	37.5
External Debt Stock / Exports*	238.1	231.6	229.7	229.6	244.4	243.7	240.4	240.3	236.2	234.7	233.7	230.6
Debt Service / GDP	7.4	7.7	7.6	7.6	7.1	7.0	6.9	7.6	7.9	7.9	7.8	7.4
Long-term / External Debt	79.6	78.9	77.3	78.0	78.7	78.5	79.4	80.4	82.9	82.6	83.7	83.1
Short-term / External Debt	20.4	21.1	22.7	22.0	21.3	21.5	20.6	19.6	17.1	17.4	16.3	16.9
<i>Memo:</i>												
External Debt Stock (billion \$)	159.3	161.0	164.6	168.7	182.9	190.1	195.6	205.5	212.8	223.5	234.7	247.2
GDP (billion \$)	409.4	432.1	461.0	481.5	497.8	511.3	517.9	526.4	542.6	573.7	615.0	658.8

\* Excluding shuttle trade and other goods.

Source: TURKSTAT, Undersecretariat of Treasury.

## IV. 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	
	(annual)										
2004	-14431	-22736	63167	3880	-97540	12797	15888	-5609	-4312	1117	804
2005	-22137	-32988	73476	3473	-116774	15272	18152	-5875	-5010	1454	851
2006	-31893	-40941	85535	6408	-139576	13831	16853	-6691	-6336	1908	1111
2007	-37575	-46727	107214	6002	-170057	13868	18487	-6941	-7491	2225	1209
	(quarterly)										
2007 I	-9240	-8920	23178	1287	-35209	1225	2162	-1919	-1540	374	228
II	-9982	-11479	26423	1742	-42119	2651	3728	-1598	-1857	444	234
III	-6787	-13471	26697	1365	-44355	7714	8732	-1806	-1856	776	387
IV	-11566	-12857	30916	1608	-48374	2278	3865	-1618	-2238	631	360
2008 I	-12040	-12063	33112	1448	-49124	1378	2776	-1856	-1956	501	350
	(monthly)										
2007 Mar	-3035	-3082	8956	476	-13234	544	811	-639	-601	142	86
Apr	-3259	-3392	8306	556	-12919	642	921	-617	-566	108	85
May	-3588	-4206	9140	649	-14935	847	1270	-396	-625	167	81
Jun	-3135	-3881	8977	537	-14265	1162	1537	-585	-666	169	68
Jul	-2859	-4891	8933	362	-15214	2077	2583	-417	-464	372	127
Aug	-1637	-4564	8732	523	-14682	3200	3404	-494	-687	221	138
Sep	-2291	-4016	9032	480	-14459	2437	2745	-895	-705	183	122
Oct	-3199	-4260	9891	540	-15622	1454	1855	-556	-733	163	121
Nov	-3242	-3770	11314	557	-16632	683	1135	-333	-698	178	125
Dec	-5125	-4827	9711	511	-16120	141	875	-729	-807	290	114
2008 Jan	-4072	-4590	10629	441	-16337	494	885	-139	-545	163	110
Feb	-3811	-3410	11054	485	-15995	127	801	-686	-667	158	110
Mar	-4157	-4063	11429	522	-16792	757	1090	-1031	-744	180	130
	(12-month)										
2007 Mar	-32547	-41242	90111	6744	-145239	13855	17013	-7098	-6668	1938	1111
Apr	-32013	-40523	91961	6840	-146571	13828	16997	-7271	-6777	1953	1125
May	-31502	-40046	94059	6994	-148812	13610	17022	-7014	-6812	1948	1080
Jun	-31848	-40281	95220	7056	-150611	13491	17048	-7053	-7024	1995	1063
Jul	-32923	-41516	97086	6827	-154116	13428	17275	-7065	-7039	2230	1099
Aug	-33025	-41897	99007	6576	-156522	13653	17516	-6957	-7066	2176	1127
Sep	-33850	-42647	100432	6325	-158828	13802	17742	-7166	-7215	2161	1141
Oct	-34885	-43773	103434	6300	-163250	14036	18147	-7297	-7389	2149	1159
Nov	-35246	-44773	106107	6159	-166985	14192	18394	-6791	-7254	2126	1194
Dec	-37575	-46727	107214	6002	-170057	13868	18487	-6941	-7491	2225	1209
2008 Jan	-38549	-48147	111278	6050	-175802	13968	18645	-6654	-7614	2284	1248
Feb	-39253	-48889	114675	6117	-180414	13808	18822	-6486	-7764	2314	1287
Mar	-40375	-49870	117148	6163	-183972	14021	19101	-6878	-7907	2352	1331

Source: CBT.

## CAPITAL and FINANCIAL ACCOUNT (USD million)

	Capital and Financial Account																
	Net	Financial Account															
		Net	Foreign Direct Investment	Portfolio Investment					Net	Currency and Deposits	Other Investment						
				Net	Assets	Liabilities		Net			Trade Credits	Credits				Deposits	
		Equity Securities	Debt Securities			Monetary Authority	General Gov.		Banks	Other Sectors		Monetary Authority	Banks				
	(annual)																
2004	13388	13388	2005	8023	-1388	1427	7984	4184	-5965	11139	4201	-4414	-267	5708	5106	-209	856
2005	20302	20302	8967	13437	-1233	5669	9001	15745	-342	15486	3074	-2881	-4637	9248	9880	-787	1276
2006	32066	32066	19065	7373	-4029	1939	9463	11742	-10293	25179	674	0	-5223	5814	19010	-1268	5890
2007	36503	36503	19924	717	-2063	5138	-2358	23894	-3472	28677	4228	0	-3901	5607	25714	-1450	-1873
	(quarterly)																
2007 I	8356	8356	8156	4502	-652	-651	5805	2112	-222	2551	798	0	-2138	873	6425	-250	-3168
II	7042	7042	2736	1491	-402	3266	-1373	3291	-6429	10266	1298	0	-406	3338	6447	-269	-264
III	10418	10418	4339	-1911	-1281	1754	-2384	9034	3619	5295	1293	0	-708	-64	5560	-567	-419
IV	10687	10687	4693	-3365	272	769	-4406	9457	-440	10565	839	0	-649	1460	7282	-364	1978
2008 I	12198	12198	4039	-1289	-467	-707	-115	9507	448	10452	1439	0	-978	1943	7181	-323	1174
	(monthly)																
2007 Mar	2699	2699	1133	-1902	-574	169	-1497	5735	9	6885	340	0	-213	274	5862	-93	706
Apr	1365	1365	671	2504	-176	760	1920	-2680	-2566	-286	57	0	-947	418	1229	-82	-979
May	1633	1633	744	8	80	1909	-1981	431	-4568	5307	631	0	647	1819	3421	-96	-1166
Jun	4044	4044	1321	-1021	-306	597	-1312	5540	705	5245	610	0	-106	1101	1797	-91	1881
Jul	4551	4551	1721	2537	-375	1139	1773	1266	1511	-545	999	0	-23	-599	834	-127	-1704
Aug	924	924	1074	-4208	-978	-215	-3015	5844	2430	3179	297	0	-396	863	3057	-261	-451
Sep	4943	4943	1544	-240	72	830	-1142	1924	-322	2661	-3	0	-289	-328	1669	-179	1736
Oct	4338	4338	1030	-277	471	429	-1177	3461	2638	1309	65	0	-580	571	2463	-140	-1096
Nov	750	750	565	-3695	144	-119	-3720	2849	778	2859	464	0	-454	145	2036	-110	779
Dec	5599	5599	3098	607	-343	459	491	3147	-3856	6397	310	0	385	744	2783	-114	2295
2008 Jan	6039	6039	1092	242	-512	-497	1251	5312	3034	2918	1047	0	-211	433	2786	-124	-1012
Feb	2467	2467	667	395	297	160	-62	1034	-1921	3339	309	0	-465	991	1603	-84	981
Mar	3692	3692	2280	-1926	-252	-370	-1304	3161	-665	4195	83	0	-302	519	2792	-115	1205
	(12-month)																
2007 Mar	33024	33024	25837	8297	-4374	647	12024	4310	-11652	17977	2264	0	-5368	4254	16789	-1334	1087
Apr	31626	31626	25983	11386	-4389	1184	14591	-1585	-15393	15821	2056	0	-5845	3619	17566	-1331	-532
May	29618	29618	19987	14501	-4089	2867	15723	169	-17707	20329	1606	0	-3590	4803	19214	-1309	-688
Jun	31371	31371	20729	14316	-4667	3546	15437	5205	-14752	22055	2033	0	-3762	4609	19998	-1307	191
Jul	34634	34634	22241	15137	-5159	4361	15935	7356	-11948	21543	3084	0	-3469	3939	20203	-1356	-1174
Aug	31814	31814	20126	9313	-5594	4061	10846	13893	-7905	23915	3342	0	-4718	5978	22054	-1415	-1654
Sep	34868	34868	21519	8327	-4643	4709	8261	14143	-8303	24387	3219	0	-4831	4293	22410	-1421	370
Oct	35774	35774	19721	4026	-4239	4646	3619	22079	-983	25529	3520	0	-4598	5663	24247	-1466	-2195
Nov	35010	35010	18346	-762	-3801	4058	-1019	26874	-3	29438	4299	0	-3478	6649	25177	-1446	-2121
Dec	36503	36503	19924	717	-2063	5138	-2358	23894	-3472	28677	4228	0	-3901	5607	25714	-1450	-1873
2008 Jan	39549	39549	15603	-2165	-3003	5931	-5093	32167	-244	35695	5163	0	-3922	5938	28730	-1503	938
Feb	39352	39352	14660	-5050	-2200	5621	-8471	33863	-2128	39268	5126	0	-2652	6432	29540	-1501	1970
Mar	40345	40345	15807	-5074	-1878	5082	-8278	31289	-2802	36578	4869	0	-2741	6677	26470	-1523	2469

Source: CBT.