

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

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## **BALANCE OF PAYMENTS REPORT**

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**2007 - II**

## SUMMARY

In the first half of 2007, exports continued to grow strongly while imports slowed down. The brisk demand from EU has bolstered exports since mid-2006. The appreciation of Euro against US dollar also increased the dollar value of exports. On the other hand, the slowdown in domestic demand and the oil prices, which realized below year-ago levels, curbed import growth. In light of these developments, for the first-half of 2007, foreign trade deficit in balance of payments definition narrowed from a year earlier and the current account recorded a deficit of USD 19.6 billion.

An item-by-item analysis shows that motor vehicles and basic metals, both capital-intensive industries, provided the largest contribution to export growth. These items together contributed to the 23.9% first-half export growth by 9.3 percentage points. Besides, the exports of machinery and equipment and electrical machinery and electronics industries also recorded sharp increases. Exports of textiles and clothing were strong especially in the second quarter and added some momentum in the overall export growth.

In the first half of the year, the import growth of intermediate goods made the largest contribution, 15.4 percentage points, to the 16.8% rise in overall imports. Imports of capital goods recovered in the second quarter and the import growth of consumer goods stopped slowing during the same period.

The rate of increase in export prices was higher than that of import prices in the first half, altering the terms of trade in favor of exports. Price-adjusted real export growth accelerated and prevailed over real import growth. In this regard, net exports of goods and services continued to drive overall growth in the second quarter, albeit at a less robust rate than in the first quarter of 2007.

With the release of June 2007 foreign trade statistics, the data for 2006 have been substantially revised, particularly imports figures. Accordingly, December 2006 imports grew by USD 0.8 billion, and total imports for 2006 by USD 0.9 billion. This growth was mostly concentrated in sectors such as refined petroleum products, chemicals and chemical products, machinery and equipment, motor vehicles and basic metals. The related items in the balance of payments table were duly corrected and the current account deficit accordingly widened.

Apart from reserve changes (CBT + banks) and IMF loans, the first-half capital inflow to Turkey amounted USD 32.2 billion. The financing structure over this period was substantially composed of direct investments and long-term loans extended to private enterprises and commercial banks, which, in net terms, amounted USD 10.3 billion and USD 18.4 billion, respectively.

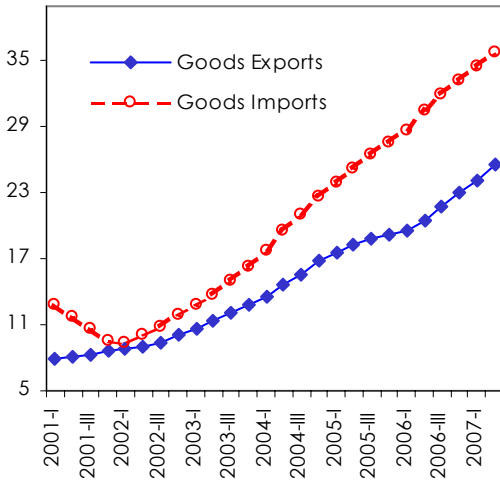
Against this background, during the January-June period, CBT reserves and commercial-bank reserves increased by USD 6.9 billion and USD 6.3 billion, respectively.

**Balance of Payments**  
(USD billion)

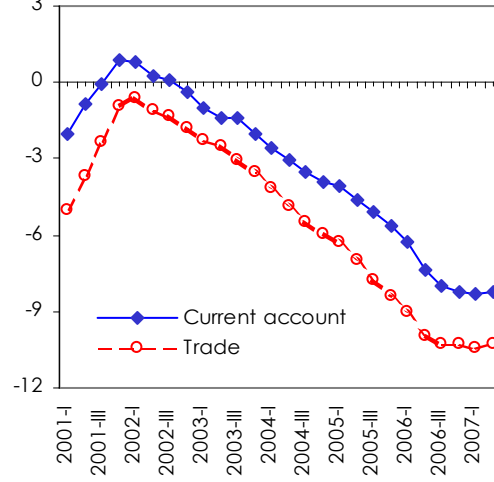
	Jan-June			June (12-month)		
	2006	2007	% change	2006	2007	% change
Current Account	-19,6	-19,6 ..		-29,3	-32,8 ..	
Goods	-21,1	-21,0 ..		-39,7	-41,1 ..	
Exports	42,3	52,5	24,1	82,2	102,1	24,2
Exports (fob)	39,9	49,5	23,9	78,0	95,1	21,9
Shuttle trade	2,4	3,0	27,1	4,2	7,1	68,0
Imports	-63,4	-73,5	15,8	-121,9	-143,2	17,5
Imports (cif)	-66,3	-77,4	16,8	-128,0	-150,6	17,7
Coverage adjustment	3,1	4,2 ..		6,7	7,9 ..	
Services	4,0	4,2 ..		14,8	13,5 ..	
Tourism (net)	4,4	4,3	-1,5	15,3	14,0	-8,0
Credit	5,7	5,9	3,4	18,1	17,0	-5,8
Debit	-1,3	-1,6	19,8	-2,8	-3,0	6,1
Other services revenues (net)	-0,4	-0,1 ..		-0,5	-0,5 ..	
Income	-3,1	-3,4 ..		-5,9	-6,9 ..	
Wage Payments	0,0	-0,1 ..		-0,1	-0,1	0,0
Direct investment income (net)	-0,5	-0,9 ..		-0,7	-1,3 ..	
Portfolio investment income (net)	-0,5	-0,2 ..		-0,8	-0,4 ..	
Other investment income (net)	-2,1	-2,3 ..		-4,2	-5,0 ..	
Interest income	0,6	1,1	78,1	1,2	1,9	55,8
Interest expenditure	-2,7	-3,3	22,3	-5,4	-7,0	27,9
Current transfers	0,7	0,6 ..		1,5	1,6 ..	
Workers remittances	0,5	0,5	-10,6	1,0	1,1	4,8
Capital and financial account	18,6	16,7 ..		29,5	33,3 ..	
Financial account (excl. reserve assets)	22,8	23,6 ..		44,8	42,2 ..	
Direct investment (net)	9,1	10,3 ..		17,0	20,4 ..	
Abroad	0,0	-1,5 ..		-0,7	-2,4 ..	
In Turkey	9,1	11,8 ..		17,6	22,8 ..	
Portfolio investment (net)	-1,0	6,1 ..		5,6	14,4 ..	
Assets	-0,4	-1,0 ..		-0,6	-4,7 ..	
Liabilities	-0,5	7,2 ..		6,2	19,1 ..	
Equity securities	1,0	2,7 ..		3,8	3,7 ..	
Debt securities	-1,5	4,4 ..		2,4	15,4 ..	
Non-residents' buyings in Turkey	-3,2	2,1 ..		-0,7	11,4 ..	
Eurobond issues of Treasury	1,7	2,4 ..		3,1	4,0 ..	
Borrowing	2,4	3,4 ..		4,3	6,8 ..	
Repayment	-0,7	-1,0 ..		-1,2	-2,8 ..	
Other investments (net)	14,6	7,2 ..		22,2	7,4 ..	
Assets	-3,2	-6,7 ..		-4,5	-16,0 ..	
Trade credits	-0,6	-0,3 ..		-1,2	-1,1 ..	
Credits	-0,4	-0,1 ..		-0,1	-0,5 ..	
Banks FX assets (- increase)	-2,2	-6,3 ..		-3,2	-14,4 ..	
Liabilities	17,8	13,9 ..		26,7	23,3 ..	
Trade credits	2,3	2,0 ..		3,6	2,3 ..	
Credits	13,6	15,8 ..		21,1	21,9 ..	
Central Bank	0,0	0,0 ..		-0,9	0,0 ..	
General Government	-4,0	-2,5 ..		-7,1	-3,8 ..	
IMF	-3,6	-2,2 ..		-5,5	-3,1 ..	
Long-term	-0,4	-0,3 ..		-1,5	-0,6 ..	
Banks	5,4	4,0 ..		9,9	4,4 ..	
Long-term	4,5	4,5 ..		7,2	9,8 ..	
Short-term	0,9	-0,6 ..		2,7	-5,4 ..	
Other sectors	12,2	14,4 ..		19,2	21,3 ..	
Long-term	12,0	13,9 ..		19,0	20,4 ..	
Short-term	0,2	0,6 ..		0,3	0,9 ..	
Deposits of non-residents	1,8	-4,1 ..		1,7	-1,2 ..	
In CBT	-0,5	-0,5 ..		-1,0	-1,3 ..	
In banks	2,3	-3,5 ..		2,7	0,1 ..	
Change in official reserves (- increase)	-4,1	-6,9 ..		-15,3	-8,9 ..	
Net errors and omissions	1,0	2,9 ..		-0,1	-0,5 ..	

Source: CBT.

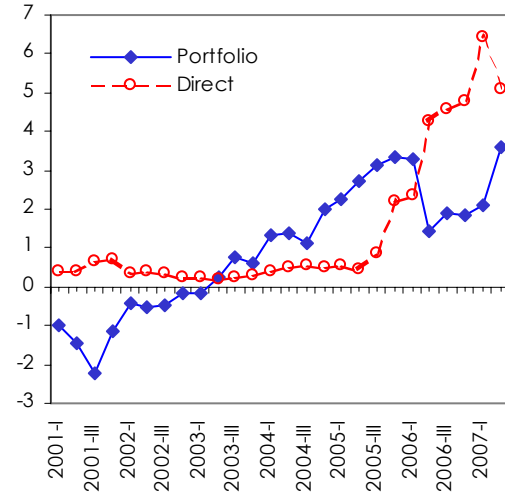
**Goods Exports and Imports**  
(12-month ave., billion US dollars)



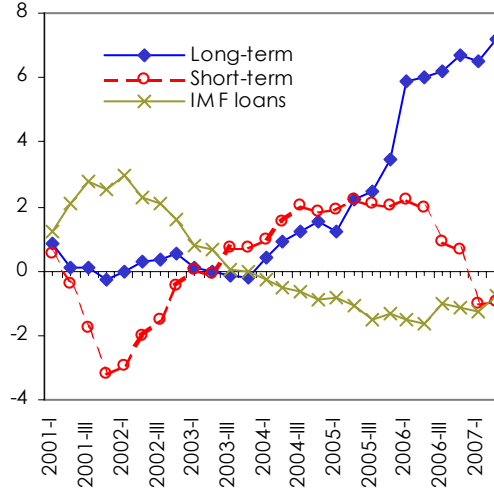
**Trade and Current Account**  
(12-month ave., billion US dollars)



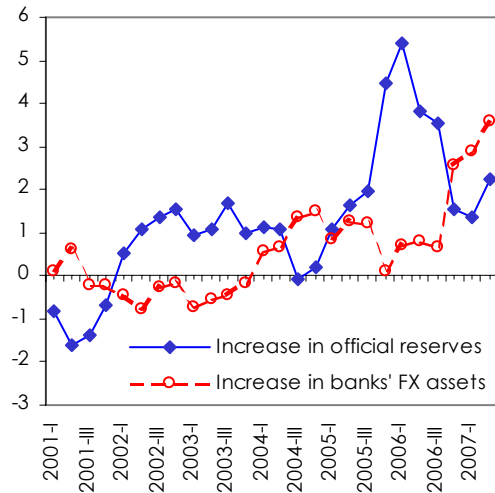
**Direct and Portfolio Investments**  
(12-month ave., billion US dollars)



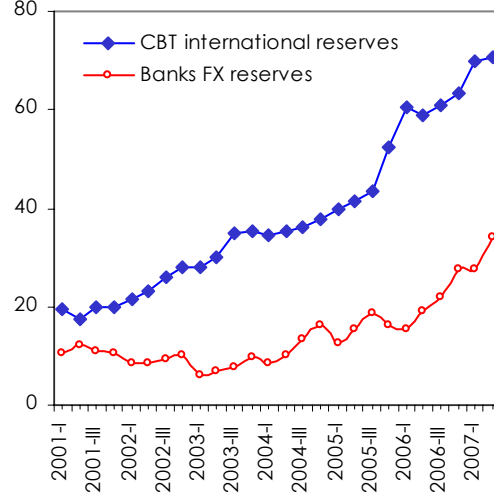
**Other Capital Flows**  
(12-month ave., billion US dollars)



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



**International Reserves**  
( billion US dollars)



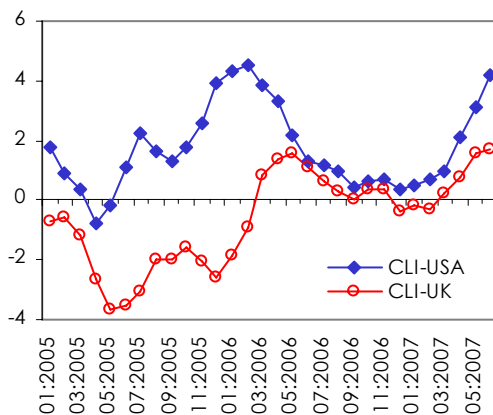
Source: CBT, TURKSTAT.

## I. EXTERNAL ECONOMIC DEVELOPMENTS

1. Despite the strong growth and relatively low inflation rates in the world economy in the first half of 2007, the recent sub-prime mortgage crisis in the US that caused serious trouble in some hedge funds has posed a major risk to financial markets. The announcement by BNP Paribas Investment Partners in Europe that it had suspended trading in three funds sent further shock waves to the entire world market. The Federal Reserve, the European Central Bank and the Bank of Japan supplied liquidity to markets to manage the liquidity crisis resulting from sub-prime credit crunches and to allay concerns over the financial markets.

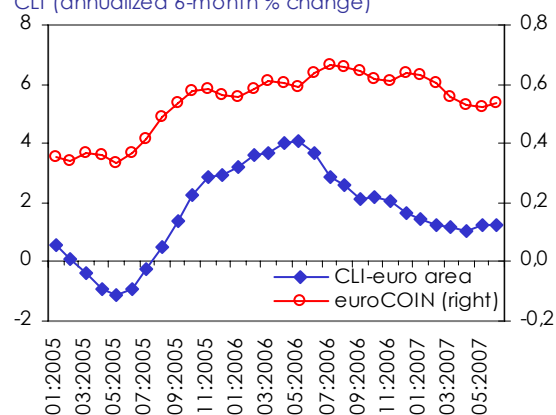
2. Although growth in the United States slowed in the first quarter, recent indicators suggest that the economy regained momentum in the second quarter. Similarly, in the Eurozone and Japan, growth remained quite strong in the first half of the year. China, India and Russia were the main drivers of the robust growth rate in emerging market countries. Inflation remains generally well contained despite strong global growth, although some developing countries have faced rising inflation pressures, especially from food and energy prices. On the other hand, world oil prices have risen back toward record-highs due to limited spare production capacity, while food prices have been boosted by supply shortages and increased use of bio-fuels.<sup>1</sup>

**USA and UK Leading indicators:**  
CLI (annualized 6-month % change)



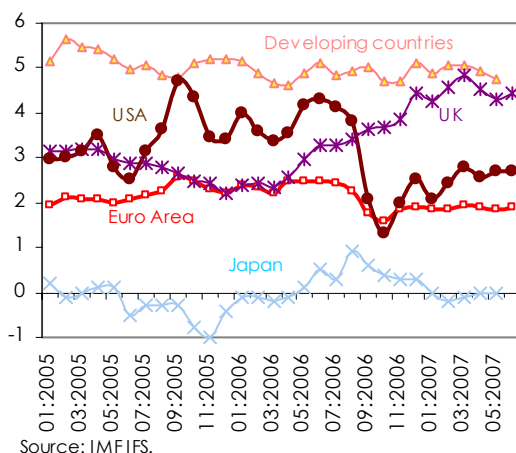
Source: OECD.

**Euro Area Leading indicators:**  
€COIN (3-month % change),  
CLI (annualized 6-month % change)



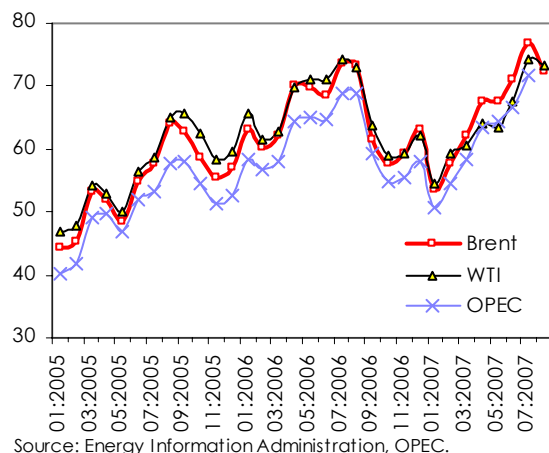
Source: OECD, CEPR.

**Inflation Rate:**  
CPI, (annual % change)



Source: IMFIFS.

**Crude Oil Prices:**  
(US dollars, monthly average)



Source: Energy Information Administration, OPEC.

3. Following a 2.9 percent growth in 2006, the US economy grew only by 1.5 and 1.9 percent at annualized rates in the first and second quarter, respectively. This was mainly

<sup>1</sup> World Economic Outlook Update, 25 July 2007.

driven by slowing imports, robust exports, non-housing construction and public spending. On the other hand, housing investment and consumer spending weakened in the second quarter, foreign trade deficit narrowed in annual terms compared to the previous quarter. Despite the recent financial market volatility, the US Federal Reserve (Fed) left the benchmark federal funds rate at 5.25 percent while stating that some inflation risks remain, and announced on August 17, 2007 a discount rate cut of 50 basis points to 5.75 percent. On September 18, 2007, Fed lowered the federal funds rate by 50 basis points, acknowledging that credit market conditions have the potential to restrain economic growth.

4. After a 2.9 percent year-on-year rise in 2006, Euro area GDP grew by 3 percent in the first quarter of 2007 compared to the same period last year, on the back of investments and exports. The growth is expected to be modest in 2007. As a matter of fact, retail sales indicators, soaring oil prices and interest rates have been curbing consumer spending since the second quarter. Besides, the Euro-COIN index, the leading coincident indicator of the Euro area business cycle, points to a further attenuation in the pace of economic expansion. Given the pressure on prices resulting from capacity constraints, tight labor markets that fuel wage increases, strong money and credit expansion and rising oil prices, the European Central Bank's (ECB) monetary policy continued to be on the accommodative side. At its August meeting, the ECB decided to keep the rates unchanged and noted, along with the above issues, the risks caused by financial market volatility.

5. Following a 2.2 percent growth rate in 2006 driven by business fixed investments rising on the back of high corporate profits and by the strong export performance, the Japanese economy expanded by 2.6 and 1.7 percent at annualized rates in the first and second quarter, respectively. The Bank of Japan (BoJ) abandoned its 5-year-old excess liquidity policy at its meeting of March 2006 and, in light of the subsequent developments, raised interest rates by 25 basis points each to 0.5 percent in two consecutive meetings on July 13-14, 2006 and February 20-21, 2007. The BoJ has left the rates unchanged since the latest rate hike.

6. Although fixed capital investments declined in the second half of 2006 in response to monetary tightening, China's economy expanded as fast as 11.1 and 11.5 percent at annualized rates in 2006 and in the first quarter of 2007, respectively, on the back of rapid investment growth and robust exports. Key drivers of the economy were foreign trade and investment and consumer spending. To curb rising inflation, the Chinese Central Bank raised its lending rate for the fifth time this year on September 14, 2007 to 7.29 percent.

## II. CURRENT ACCOUNT

7. According to the updated foreign trade statistics released by Turkish Statistical Institute (TURKSTAT), the ratio of the current account deficit to GDP rose to 8.2 percent from 8 percent at the end of 2006. By the second quarter of 2007, however, the ratio declined to 7.6 percent in annual terms.

8. The downward trend in the current account deficit that was seen in the January-May period weakened by the foreign trade expansion in June, leaving the first-half current account deficit unchanged from its year-ago level. The annual account deficit amounted to USD 32.8 billion in June. In the first half of the year, export growth surpassed import growth and the exports/imports ratio increased. The exports/short-term external debt ratio rose as well. Besides, the CBT reserves-based indices that are important for assessing current account sustainability improved.

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

	2000	2001	2002	2003	2004	2005	2006	2007*
Exports / Imports	0.58	0.90	0.85	0.79	0.74	0.70	0.69	0.71
Exports / Short-Term External Debt	1.09	2.10	2.44	2.23	2.10	2.07	2.17	2.52
Exports / External Debt Service	1.40	1.40	1.39	1.84	2.20	2.10	2.32	2.30
Tourism Revenues / Trade Balance	0.35	2.17	1.16	0.94	0.67	0.54	0.41	0.41
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.18	1.41	1.50	1.74
CBT Reserves / Financing Requirement	1.84	-	19.97	11.36	2.81	2.56	1.80	2.12
CBT Reserves / Current Account Balance	2.36	-	18.46	4.38	2.41	2.32	1.93	2.16
CBT Reserves / Imports	0.44	0.52	0.59	0.54	0.41	0.47	0.48	0.49

Source: CBRT, TURKSTAT.

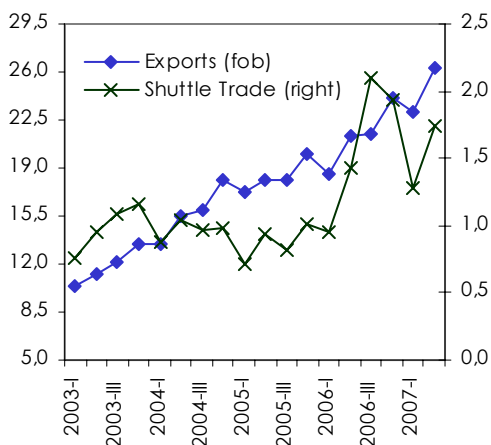
\* 12-month data as of June.

### Exports of Goods

9. According to the statistics released by TURKSTAT, in the January-June period, nominal exports increased by 23.9 percent, while real export growth equaled 13.6 percent. During this period, export price increases also contributed to the nominal export growth. The exports unit value index rose by 9 percent over the first half of the year.

#### Exports

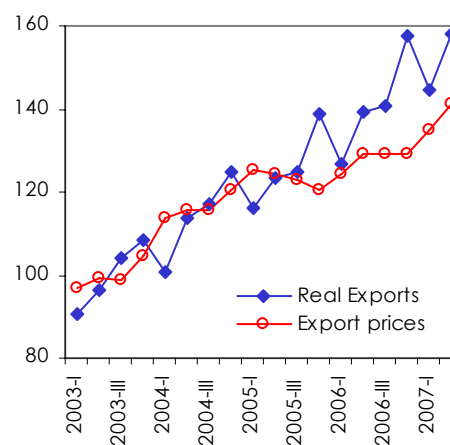
(billion US dollars)



Source: CBT, TURKSTAT.

#### Exports - Real and Unit Value

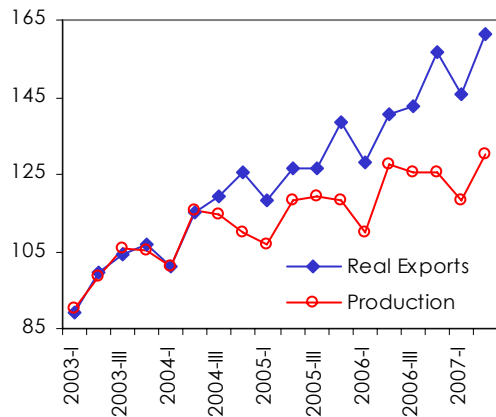
(2003=100)



Source: TURKSTAT.

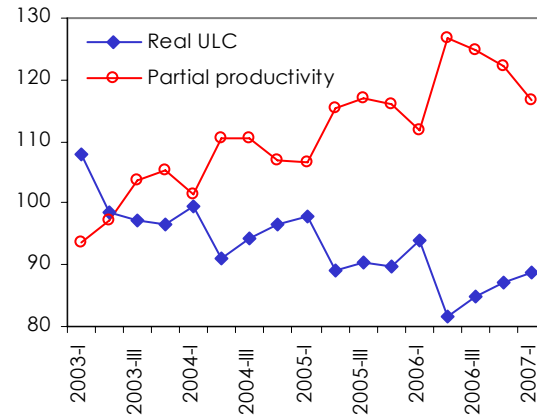
10. The acceleration in investment expenditures since 2002 and the resulting productivity gains helped reduce real unit labor costs and increase the competitive advantage of Turkey in international trade, and became the main factor of export growth by compensating the negative influence of the strong Turkish lira (YTL) on external competitiveness. Furthermore, Turkey's proximity to its biggest trade partner EU, the brisk demand from EU countries and Euro's strength against US dollar continued to support export growth.

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



Source: TURKSTAT.

**Real ULC and Productivity Indices (2003=100)**



Source: CBT, TURKSTAT.

11. An item-by-item analysis would suggest that capital-intensive industries such as motor vehicles and basic metals provided the largest contribution to export growth. During the first half, both items contributed to the total export growth by 9.3 percentage points.

12. Exports of textiles and clothing increased by 16.4 percent in the first half of 2007 after a sluggish performance in 2006 and contributed to the total export growth by 3.8 percentage points. The high quality of textiles and clothing articles and Turkey's proximity to EU continue to produce comparative advantage, even though the low-cost labor of countries like China and India has an adverse effect on competition.

**Exports**  
(Million US dollars)

	Jan-June					Share	
	2006	2007	% Change	% Contrib.	\$ Contrib.	2006	2007
<b>Total</b>	39915	49460	23,9				
Capital Goods	4426	6437	45,4	5,0	2011	11,1	13,0
Intermediate Goods	17463	22939	31,4	13,7	5477	43,7	46,4
Consumption Goods	17696	19915	12,5	5,6	2219	44,3	40,3
Other	331	170	-48,8	-0,4	-162	0,8	0,3
<b>Selected Items (ISIC Rev.3):</b>							
Agriculture and farming of animals	1655	1592	-3,8	-0,2	-63	4,1	3,2
Food products and beverages	2065	2200	6,5	0,3	135	5,2	4,4
Textiles	4214	4886	15,9	1,7	672	10,6	9,9
Wearing apparel	4959	5793	16,8	2,1	834	12,4	11,7
Petroleum products and nuclear fuel	1604	1950	21,5	0,9	345	4,0	3,9
Chemicals and chemical products	1629	1892	16,1	0,7	263	4,1	3,8
Rubber and plastic products	1359	1844	35,6	1,2	484	3,4	3,7
Other non-metallic minerals	1350	1573	16,6	0,6	224	3,4	3,2
Manufacture of basic metals	4200	5877	39,9	4,2	1676	10,5	11,9
Manufacture of fabricated metal prod(exc machin	1466	1963	33,9	1,2	497	3,7	4,0
Manufacture of machinery and equipment	2698	3749	38,9	2,6	1050	6,8	7,6
Electrical machinery and apparatus	1183	1867	57,8	1,7	684	3,0	3,8
Communication and apparatus	1503	1129	-24,9	-0,9	-374	3,8	2,3
Motor vehicles and trailers	6104	8159	33,7	5,1	2055	15,3	16,5
Other transport	1174	1272	8,4	0,2	99	2,9	2,6

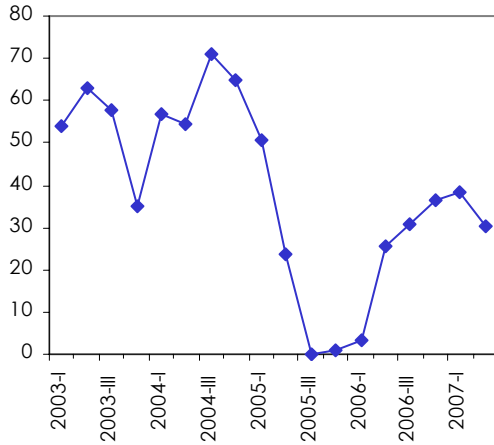
Source: TURKSTAT.

13. Productivity gains and new model launches, as well as the reliance on exports to offset weak domestic demand, have all boosted the exports of motor vehicles since April 2006.



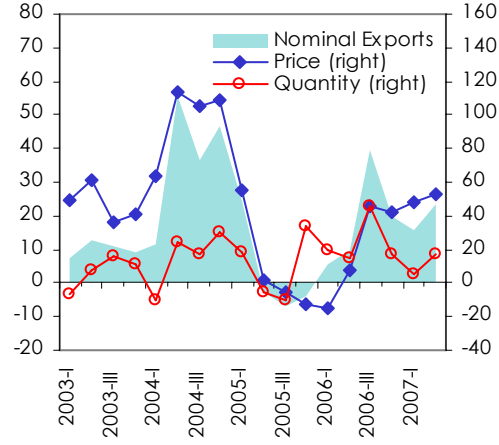
14. Exports of basic metals grew mainly due to both productivity gains from privatization and price hikes. The export growth in the basic metals industry in the first half of the year amounted to 39.9 percent, with export prices up 26 percent.

**Motor Vehicles Exports**  
(Annual percentage change)



Source: TURKSTAT.

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



Source: TURKSTAT.

15. The exports unit value index rising since mid-2006 accelerated in the first half of 2007 and displayed an annual increase of 9 percent. Besides, import prices slowed down, altering the terms of trade in favor of exports. The increase in the exports unit value index was generated by the price hikes in basic metals, electrical machinery and electronics, and fabricated metal products.

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

	2006				2006	2007	
	I	II	III	IV		I	II
Total	-0,9	3,9	5,0	6,8	3,9	8,4	9,1
Capital Goods	-3,0	4,6	8,9	11,7	5,4	12,1	10,2
Intermediate Goods	-1,4	6,2	13,4	14,6	8,1	14,3	14,0
Consumption Goods	-0,7	1,3	-3,1	-0,6	-0,8	2,4	3,8
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	-0,6	-13,9	-22,7	-13,7	-13,9	-4,5	3,8
Food products and beverages	0,4	-0,3	-7,4	-6,7	-2,9	-1,3	3,6
Textiles	-3,0	0,9	1,1	4,0	0,9	7,7	7,8
Wearing apparel	1,4	2,0	-2,8	0,6	0,1	0,4	0,9
Petroleum products and nuclear fuel	28,2	28,8	15,8	1,7	19,1	-5,3	5,8
Chemicals and chemical products	-0,2	3,2	5,8	8,2	4,5	8,1	7,5
Rubber and plastic products	0,1	4,5	8,4	9,8	6,0	9,4	8,8
Other non-metallic minerals	7,4	7,1	5,0	6,0	6,5	5,0	6,0
Manufacture of basic metals	-7,3	4,2	22,6	20,8	10,7	24,1	26,4
Manufacture of fabricated metal prod(exc machir	2,1	9,2	13,1	17,9	10,7	14,7	14,3
Manufacture of machinery and equipment	-1,9	1,0	5,3	7,6	3,4	12,3	13,3
Electrical machinery and apparatus	10,4	19,3	27,8	29,0	22,6	20,0	14,0
Communication and apparatus	-16,8	-9,3	-6,6	-7,5	-9,4	-12,9	-15,2
Motor vehicles and trailers	-4,8	5,0	5,9	11,4	4,2	9,7	4,3

Source: TURKSTAT.

16. By June 2006, real import growth was markedly exceeded by real export growth. As already suggested by national income accounting, net exports made a positive contribution to overall growth during the second half of 2006 and in the first quarter of 2007. According to foreign trade quantity indices, real exports continued to grow beyond real imports between

April and June. Thus, net exports are expected to make further contributions to overall growth in this period.

17. Regarding the sub-items, it is quite noteworthy that industries such as radio, TV and communication equipment, and agriculture and farming of animals have experienced low real growth rates.

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

	2006				2006	2007	
	I	II	III	IV		I	II
Total	8,9	12,9	12,5	13,6	12,0	14,1	13,2
Capital Goods	-0,4	14,4	11,0	14,2	9,9	36,0	24,9
Intermediate Goods	14,3	14,5	18,8	13,5	15,2	14,0	15,2
Consumption Goods	4,7	11,3	7,6	13,8	9,6	10,1	7,8
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	18,3	51,7	6,8	13,1	21,0	10,7	-17,1
Food products and beverages	8,8	5,2	3,6	5,3	4,8	9,1	1,1
Textiles	3,7	4,9	3,8	7,8	5,2	8,9	6,4
Wearing apparel	-7,6	0,2	7,4	10,1	2,4	13,4	18,6
Petroleum products and nuclear fuel	-3,7	27,2	20,3	20,0	14,5	22,7	17,8
Chemicals and chemical products	14,2	19,9	18,3	20,6	18,3	10,2	5,4
Rubber and plastic products	16,5	8,8	11,0	22,4	14,4	27,0	21,7
Other non-metallic minerals	-5,5	-3,3	-3,4	3,6	-2,3	9,8	10,5
Manufacture of basic metals	20,1	15,2	45,9	16,6	22,6	5,2	16,6
Manufacture of fabricated metal prod(exc machi	12,8	7,0	13,5	16,7	12,9	15,2	18,3
Manufacture of machinery and equipment	19,7	20,2	15,6	22,6	19,4	26,5	19,8
Electrical machinery and apparatus	8,5	10,8	18,9	37,7	19,1	36,7	33,5
Communication and apparatus	36,3	24,9	-7,6	-5,9	8,1	-14,7	-10,6
Motor vehicles and trailers	8,3	19,6	23,7	24,3	19,4	25,8	24,6

Source: TURKSTAT.

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

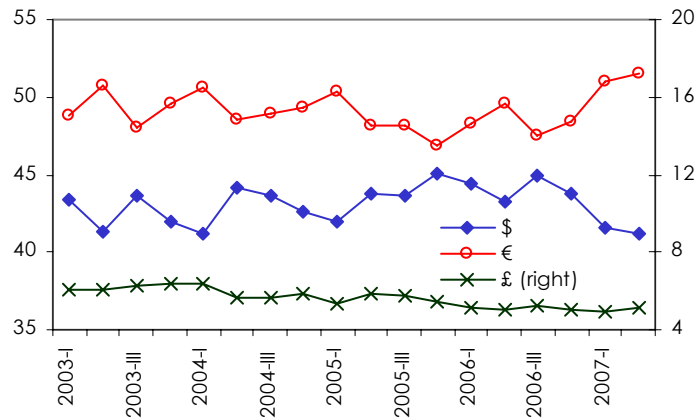
	Jan-June						
	2006		2007		%	% Contrib.	\$ Contrib.
	Value	Share (%)	Value	Share (%)	Change		
Total	39915	..	49460	..	23,9	..	..
EU countries	22673	56,8	28382	57,4	25,2	14,3	5708
Other countries	15784	39,5	19668	39,8	24,6	9,7	3884
Other European	3486	8,7	4812	9,7	38,0	3,3	1326
East Asian	1760	4,4	2367	4,8	34,4	1,5	606
Other	10538	26,4	12490	25,3	18,5	4,9	1952
Free Zones in Turkey	1458	3,7	1410	2,9	-3,3	-0,1	-48
Selected countries and country groups							
OECD	25918	64,9	30991	62,7	19,6	12,7	5073
Germany	4642	11,6	5620	11,4	21,1	2,5	979
UK	3149	7,9	3858	7,8	22,5	1,8	709
Italy	3410	8,5	3658	7,4	7,3	0,6	248
USA	2595	6,5	2079	4,2	-19,9	-1,3	-516
France	2333	5,8	2794	5,6	19,8	1,2	461
Spain	1766	4,4	2283	4,6	29,3	1,3	517
Netherlands	1169	2,9	1383	2,8	18,3	0,5	214
Other OECD	6854	17,2	9316	18,8	35,9	6,2	2461
Middle East countries	5061	12,7	6597	13,3	30,4	3,8	1537
China	306	0,8	455	0,9	48,7	0,4	149
Russian Fed.	1332	3,3	2135	4,3	60,3	2,0	803

Source: TURKSTAT.

18. Exports to EU countries further increased their share in total exports in the January-June period as a result of the continued strong domestic demand and robust economic activity in EU. On the other hand, exports to the United States slowed down, accounting for a 4.2 percent share in total exports, down from 6.5 percent a year ago. The share of exports to Russia and to the Middle East, however, grew notably stronger.

#### Currency Composition of Exports

(% share)



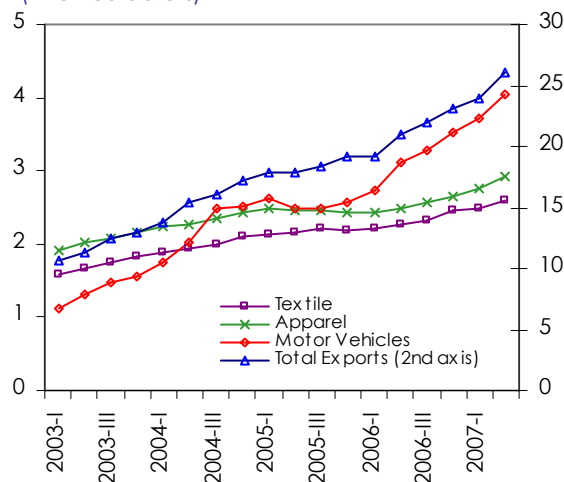
Source: TU RK STAT.

19. In line with developments in country groups, the use of euro in exports increased, while that of the US dollar decreased during January-June 2007.

20. According to seasonally adjusted data, nominal export growth accelerated in the second quarter with a 9.2 percent rise compared with the previous quarter. During this period, seasonally adjusted nominal exports of motor vehicles, a leading export industry, increased by 8.6 percent. Similarly, textile and clothing exports were up 4.4 percent compared with the previous quarter.

#### Seasonally Adjusted Exports and Sub-Sectors

(Billion US dollars)



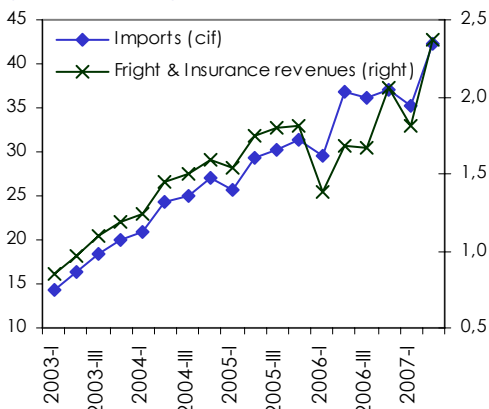
## Imports of Goods

21. Import growth has decelerated since mid-2006 as domestic demand weakened and oil prices have declined annually, even though they have started to rise again. The slowdown was present throughout the first half of 2007, ending up in an import growth of 16.8 percent. Total imports of goods grew 15.8 percent, excluding freight and insurance revenues and gold imports. Import prices increased by 8.9 percent over the period while the real import growth equaled 7.3 percent.

22. Growth in imports was boosted by the robust first-half performance in exports and the resulting strong industrial production. Accordingly, imports of intermediate goods were the main driver of the total import growth, while imports of consumption goods fell in the January-June period and imports of capital goods increased only slightly.

### Imports

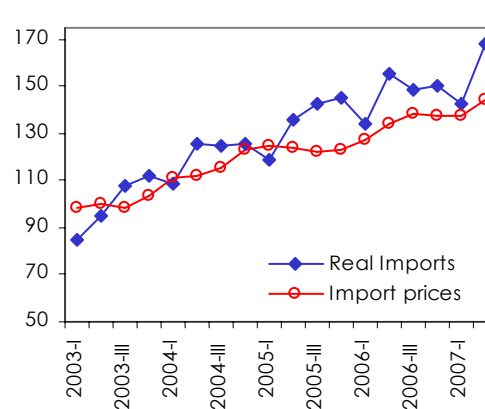
(Billion US dollars)



Source: CBT, TURKSTAT.

### Imports- Real and Unit Value

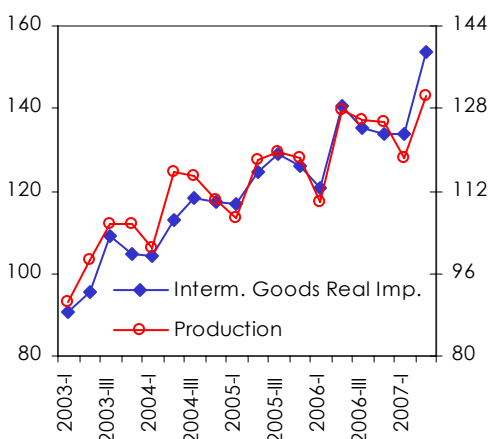
(2003=100)



Source: TURKSTAT.

### Man. Ind. Prod. & Int. Goods

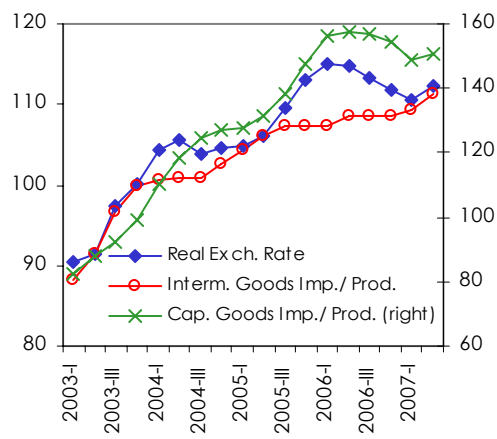
Imports (2003=100)



Source: TURKSTAT.

### Interm. & Cap. Imp./Manuf. Ind. P.

Ratio and REER (PPI)(12-month,ave.)



Source: TURKSTAT, CBT.

23. In the first half, imports of intermediate goods grew 21.7 percent, contributing to the 16.8 percent total import growth by 15.4 percentage points. Imports of capital goods picked up in the second quarter after a sluggish first-quarter performance. Likewise, the decline observed in imports of consumption goods since August 2006 was replaced by minor increases in May and June.

24. Among all sectors, basic metals made the largest contribution to import growth in the first half, with price hikes higher than quantity increases. Indeed, prices of basic metals jumped 22.6 percent whereas the real import growth of basic metals was only 11.2 percent. Besides, imports of crude oil and natural gas, holding last year's largest share, only

contributed 1.3 percentage points to total import growth, since their recently resurging prices lagged behind the first-half of 2006 level, though the recent increases.

### Imports (Million US dollars)

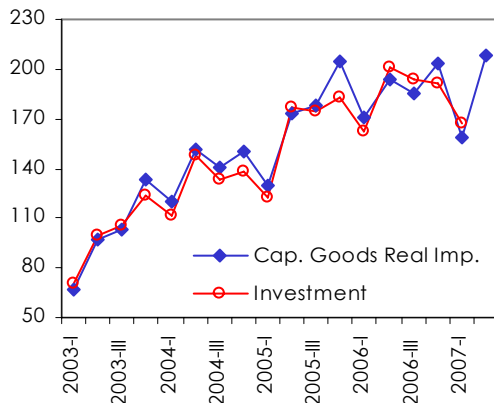
	Jan-June					Share	
	2006	2007	% Change	% Contr.	\$ Contr.	2006	2007
Total	66294	77439	16,8				
Capital Goods	10953	11654	6,4	1,1	701	16,5	15,0
Intermediate Goods	47043	57238	21,7	15,4	10195	71,0	73,9
Consumption Goods	8092	8005	-1,1	-0,1	-87	12,2	10,3
Other	205	542	164,3	0,5	337	0,3	0,7
Selected Items (ISIC Rev.3):							
Mining and Quarrying	10293	11353	10,3	1,6	1060	15,5	14,7
Crude oil and natural gas	9058	9911	9,4	1,3	852	13,7	12,8
Textiles	1957	2513	28,4	0,8	556	3,0	3,2
Paper and paper products	1096	1323	20,6	0,3	226	1,7	1,7
Coke, petroleum products and nuclear fuel	3610	3774	4,5	0,2	164	5,4	4,9
Chemicals and chemical products	9435	11233	19,1	2,7	1798	14,2	14,5
Rubber and plastic products	1247	1433	14,9	0,3	186	1,9	1,9
Manufacture of basic metals	7799	10629	36,3	4,3	2831	11,8	13,7
Manufacture of fabricated metal prod(exc machir	1118	1247	11,5	0,2	129	1,7	1,6
Manufacture of machinery and equipment	6808	7843	15,2	1,6	1035	10,3	10,1
Electrical machinery and apparatus	2359	2736	16,0	0,6	377	3,6	3,5
Communication and apparatus	2293	2635	14,9	0,5	342	3,5	3,4
Medical, precision and opt. instr., watches	1410	1508	7,0	0,1	98	2,1	1,9
Motor vehicles and trailers	6789	6482	-4,5	-0,5	-307	10,2	8,4
Other transport	1175	981	-16,5	-0,3	-193	1,8	1,3
Waste and scrap (Wholesale and retail)	1912	3176	66,1	1,9	1263	2,9	4,1

Source: TURKSTAT.

25. The quantity index for automobile imports, with a notable share in imports of consumption goods, dropped by 31.2 percent in the first half, which was mainly influenced by the turbulence-driven rate hikes and the slowdown in domestic demand. However, the 50.8 percent growth of automobile imports of January-June 2006 suggests that the high base from the first half of 2007 was also influential in this downturn. On the other hand, imports of durables and semi-durables continue to grow at a moderate pace.

#### Invest. Expend. & Cap. Goods Imp.

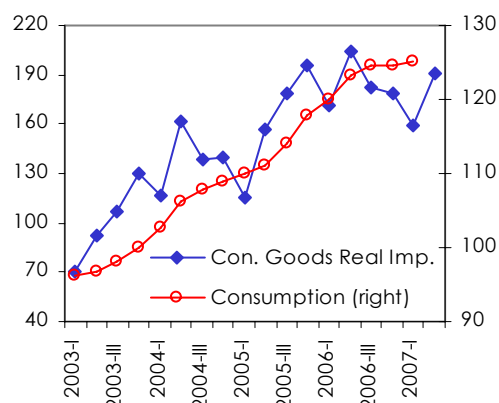
(2003=100)



Source: TURKSTAT.

#### Consum. Exp. & Con. Goods Imp.

(2003=100, 12-month ave. for cons.)



Source: TURKSTAT.

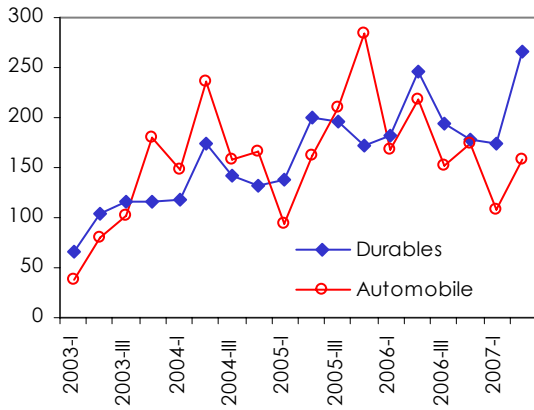
26. During January-June, imports of automobiles and imports of industrial transport vehicles and equipment fell by 23.2 and 27.2 percent, respectively. On the other hand,

imports of spare parts and supplies for transport vehicles increased by 13.4 percent following the robust growth in motor vehicle exports. Thus, the decline in motor vehicle imports that comprise all related items amounted to 4.5 percent.

27. The consumer confidence indices released by CBT/TURKSTAT suggest that private consumption rebounded slightly during April-June 2007.

**Durables & Automobile Imports**

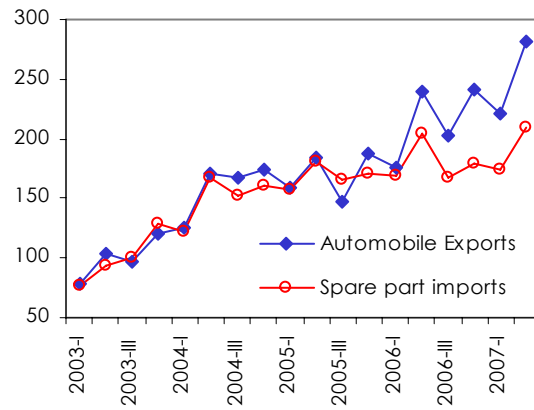
(2003=100)



Source: TURKSTAT.

**Spare part imp. of trans. vehicles & Auto. Exports**

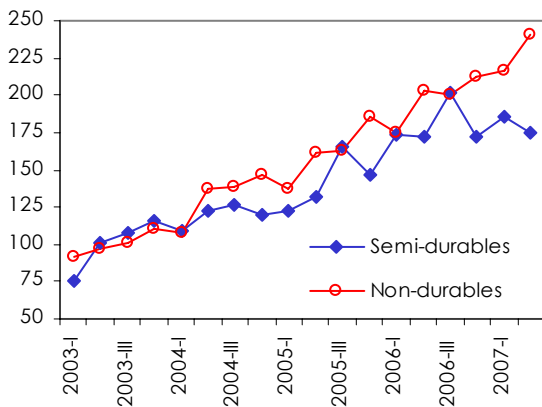
(2003=100)



Source: TURKSTAT.

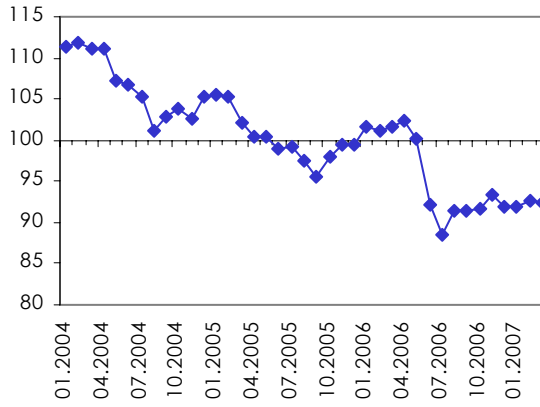
**Semi and non-durables Imp.**

(2003=100)



Source: TURKSTAT.

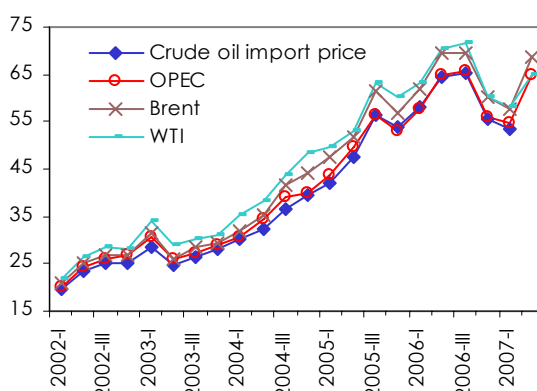
**Confidence Index**



Source: CBT, TURKSTAT, NTVMSNBC.

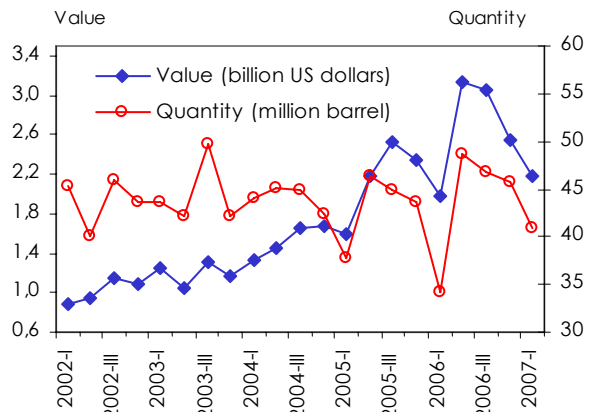
**Crude Oil Prices**

(US dollar per barrel, average)



Source: SPO, OPEC, EIA.

**Crude Oil Imports**



Source: TURKSTAT.

28. Crude oil prices have been rising again since early 2007 after a fall in the last quarter of 2006. Production cuts by OPEC, higher-than-expected demand and ongoing tensions in

the Middle East and Nigeria have recently driven crude prices to record high levels. The upturn in oil prices raises the possibility that imports of intermediate goods will gain momentum in the upcoming period.

29. Apart from basic metals, import prices of radio, TV and communication equipment, motor vehicles, food products and beverages also picked up, whereas those of crude oil, natural gas, electrical machinery and electronics decreased. As regards import quantity indices, imports of electrical machinery and electronics, machinery and equipment, basic metals and textiles grew faster than the total import growth in the second quarter.

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

	2006				2006	2007	
	I	II	III	IV		I	II
Total	2,0	8,4	13,0	11,5	8,8	8,2	7,2
Capital Goods	-8,6	-2,3	1,8	4,8	-1,2	6,2	5,1
Intermediate Goods	6,5	13,0	17,4	14,3	12,8	10,0	8,2
Consumption Goods	-7,3	-1,2	4,5	4,8	0,0	3,4	5,9
Selected Items (ISIC Rev.3):							
Food products and beverages	-2,5	-5,7	1,3	8,2	0,2	10,2	19,7
Textiles	-2,5	-1,9	5,1	7,5	2,4	5,5	3,5
Paper and paper products	-3,0	4,3	9,3	10,3	5,3	10,9	8,1
Coke, petroleum products and nuclear fuel	29,1	22,9	17,1	-1,1	15,9	-3,6	5,1
Chemicals and chemical products	-6,8	-1,8	7,0	7,5	1,6	5,9	7,0
Rubber and plastic products	-4,1	4,4	8,2	9,1	4,6	8,7	7,1
Manufacture of basic metals	3,5	20,8	40,7	39,1	24,2	26,1	16,6
Man. of fabricated metal prod(exc mach)	-3,2	4,2	7,7	11,6	6,3	10,0	2,0
Manufacture of machinery and equipment	-8,7	-1,8	1,9	6,3	0,2	8,3	0,9
Electrical machinery and apparatus	-2,4	2,3	0,1	-4,2	-1,4	-4,1	-2,3
Communication and apparatus	-15,9	-5,5	4,2	3,8	-3,8	5,1	13,8
Medical, precision and opt. instr., watches	-3,8	-0,3	-7,4	8,9	-0,5	2,7	7,2
Motor vehicles and trailers	-5,3	4,2	10,8	11,8	5,7	9,2	6,6
Waste and scrap (Wholesale and retail)	-11,5	5,5	29,8	16,3	10,0	31,5	32,5

Source: TURKSTAT.

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

	2006				2006	2007	
	I	II	III	IV		I	II
Total	12,5	14,3	4,4	3,3	8,5	6,2	8,2
Capital Goods	32,4	11,9	3,7	-0,4	10,0	-7,5	7,5
Intermediate Goods	3,4	12,9	5,0	6,1	6,9	10,8	9,6
Consumption Goods	48,6	30,3	1,9	-9,0	13,8	-7,0	-7,1
Selected Items (ISIC Rev.3):							
Food products and beverages	10,5	35,7	18,6	-1,8	15,8	-7,9	-18,5
Textiles	3,8	3,1	6,6	1,5	3,6	15,8	27,7
Paper and paper products	11,3	7,0	12,9	9,5	10,2	1,3	15,3
Coke, petroleum products and nuclear fuel	28,3	22,7	19,6	-2,3	15,9	-6,3	-0,4
Chemicals and chemical products	12,2	12,0	7,4	8,7	9,8	6,3	12,6
Rubber and plastic products	21,5	18,1	12,4	7,7	14,5	2,4	6,4
Manufacture of basic metals	-14,2	11,5	-7,0	3,2	-0,3	13,2	9,6
Man. of fabricated metal prod(exc mach)	22,3	16,6	21,2	15,4	17,7	-1,3	8,7
Manufacture of machinery and equipment	24,4	25,4	13,9	5,5	16,1	2,2	13,4
Electrical machinery and apparatus	37,2	10,1	21,5	12,0	19,5	2,6	33,0
Communication and apparatus	24,8	8,0	6,5	2,0	10,0	1,1	5,0
Medical, precision and opt. instr., watches	25,3	13,8	5,2	0,8	10,3	-6,0	4,2
Motor vehicles and trailers	32,4	17,4	-11,1	-19,9	1,2	-16,3	-11,5
Waste and scrap (Wholesale and retail)	-7,0	32,1	-2,4	31,5	11,8	40,8	13,1

Source: TURKSTAT.

30. The share of imports from EU in overall imports declined in the January-June period compared to year-ago levels, following the increased volume of imports from Russia and

China. The first-half share of imports from EU in overall imports narrowed to 41.2 percent from 43.5 percent. On the other hand, imports from Russia and China contributed total imports 5.6 percentage points.

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

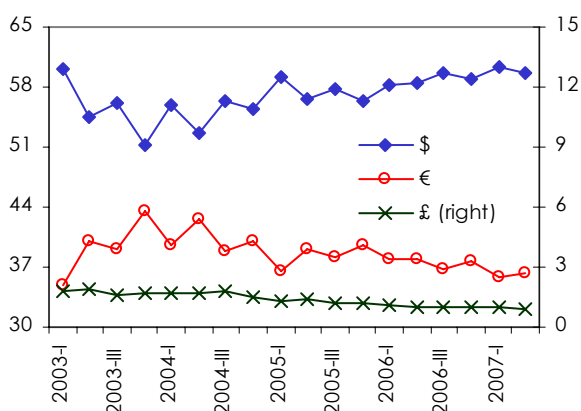
	Jan-June						
	2006		2007		% Change	% Contrib.	\$ Contrib.
	Value	Share (%)	Value	Share (%)			
Total	66294	..	77439	..	16,8		
EU countries	28827	43,5	31871	41,2	10,6	4,6	3044
Other countries	37049	55,9	44968	58,1	21,4	11,9	7919
Other European	12136	18,3	15486	20,0	27,6	5,1	3350
East Asian	11994	18,1	14950	19,3	24,6	4,5	2956
Other	12919	19,5	14532	18,8	12,5	2,4	1613
Free Zones in Turkey	418	0,6	601	0,8	43,5	0,3	182
Selected countries and country groups							
OECD	37734	56,9	42396	54,7	12,4	7,0	4662
Germany	7194	10,9	7834	10,1	8,9	1,0	640
Italy	4132	6,2	4635	6,0	12,2	0,8	503
France	3665	5,5	3602	4,7	-1,7	-0,1	-63
USA	2797	4,2	3743	4,8	33,8	1,4	945
İngiltere	2542	3,8	2716	3,5	6,8	0,3	174
Spain	1935	2,9	1989	2,6	2,8	0,1	54
Other OECD	15468	23,3	17878	23,1	15,6	3,6	2409
Middle East countries	4952	7,5	5429	7,0	9,6	0,7	477
Russian Fed.	8066	12,2	10538	13,6	30,6	3,7	2472
China	4516	6,8	5728	7,4	26,8	1,8	1212

Source: TURKSTAT.

31. Following the slowdown in the share of imports from EU, the use of euro in imports during the January-June period lagged behind its year-ago level, while US dollar's share in imports increased comparably. GBP's share in imports, on the other hand, displays a steady decline.

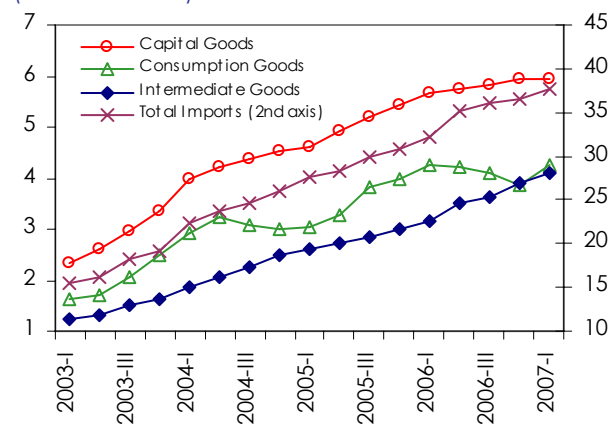
32. According to seasonally adjusted data, in the second quarter, USD-denominated nominal imports grew 7.8 percent over the previous quarter. As regards sub-items, imports of intermediate goods and capital goods increased by 5.5 and 4.3 percent, respectively, whereas imports of consumption goods decreased by 2.6 percent.

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



Source: TURKSTAT.

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



#### Services Account

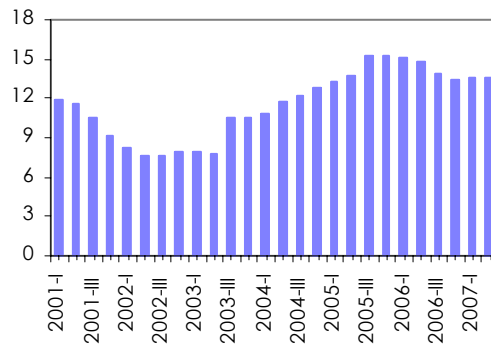
33. In the second quarter of 2007, the surplus in services account remained practically unchanged from its second-quarter level in 2006 as the rise in transportation and tourism revenues were almost negated by growing tourism expenditures. However, with the 13.6



percent growth in the first quarter, the January-June surplus in services account rose by 4.6 percent from a year earlier.

### Services

(12-month ave., billions US dollars)



Source: CBT.

34. According to the statistics released by TURKSTAT, tourism revenues registered a growth of only 3.4 percent during the January-June period since the average spending per visitor decreased by 11.6 percent although the number of departing citizens and foreigners increased by 16.9 percent. Besides, tourism expenditures surged 19.7 percent up, raising net tourism revenues only by 1.5 percent.

### Services Account (Million US dollars)

	2006				2007	
	I	II	III	IV	I	II
Services	1162	2847	7277	2075	1320	2873
Total income	3466	5673	10321	5030	4098	6324
Total Expenses	-2304	-2826	-3044	-2955	-2778	-3451
Transportation	-155	-40	370	-253	35	140
Credit	718	998	1410	1104	1083	1596
Debit	-873	-1038	-1040	-1357	-1048	-1456
Tourizm	1434	2946	7219	2511	1490	2825
Credit	2002	3693	8038	3120	2162	3728
Debit	-568	-747	-819	-609	-672	-903
Construction serv.	212	249	234	184	190	228
Credit	212	249	234	184	190	228
Debit	0	0	0	0	0	0
Financial serv.	-82	-53	-74	-38	-79	-41
Credit	61	67	69	80	73	88
Debit	-143	-120	-143	-118	-152	-129
Other serv.	-247	-255	-472	-329	-316	-279
Credit	473	666	570	542	590	684
Debit	-720	-921	-1042	-871	-906	-963

Source: CBT.

### Tourism Statistics

	2006				2007	
	I	II	III	IV	I	II
Tourism Revenues (million US dollars)	2002	3693	8038	3120	2162	3728
Departing foreigner visitors (x1000)	2138	4912	8302	3924	2552	5777
Departing citizen visitors (x1000)	597	629	1838	808	640	710
Tourism Expenditures (million US dollars)	-568	-747	-819	-609	-671	-903
Arriving citizen visitors (x1000)	905	1170	1161	827	1174	1356

Source: TURKSTAT, CBT.

### Income Account

35. The investment income account posted a deficit of USD 3.4 billion with a 9.2 percent rise in the January-June period. The deficit widened due to the private sector-driven increase in the external debt stock, the hikes in international rates, the interest expenses and the increased profit transfers due to large direct investment inflow in recent years.

#### Income Account (Million US dollars)

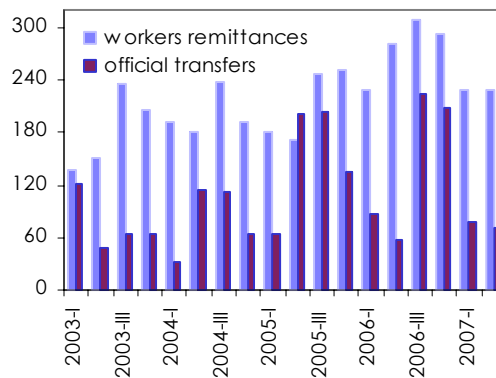
	2006				2007	
	I	II	III	IV	I	II
Income (net)	-1488	-1632	-1684	-1780	-1900	-1507
Compensation of Employees (net)	-22	-26	-29	-30	-29	-27
Investment Income	-1466	-1606	-1655	-1750	-1871	-1480
Total income	1184	957	1227	1105	1675	1346
Total Expenses	-2650	-2563	-2882	-2855	-3546	-2826
Direct investment	-128	-365	-203	-219	-288	-605
Credit	59	65	43	52	53	27
Debit	-187	-430	-246	-271	-341	-632
Portfolio investment	-426	-29	-162	-45	-566	372
Credit	829	591	795	586	1084	794
Debit	-1255	-620	-957	-631	-1650	-422
Other investment	-912	-1212	-1290	-1486	-1017	-1247
Interest income	296	301	389	467	538	525
interest expenses	-1208	-1513	-1679	-1953	-1555	-1772
Long-term	-1066	-1310	-1445	-1726	-1379	-1630
Monetary A.	-186	-135	-364	-159	-123	-91
Gen. Gov.	-359	-531	-367	-550	-394	-498
Banks	-109	-136	-191	-177	-216	-279
Other sector	-412	-508	-523	-840	-646	-762
Short-term	-142	-203	-234	-227	-176	-142

Source: CBT.

### Current Transfers

36. In the first half of 2007, current transfers, composed of workers' remittances and official transfers, fell by 7.6 percent to USD 605 million.

#### Current Transfers (Million US dollars)



Source: CBT.

### III. CAPITAL MOVEMENTS

37. In the first half of 2007, external financing requirement, defined as the sum of current account plus net errors and omissions, was equivalent to USD 16.7 billion. During this period, the financing structure was heavily shaped by direct investments, long-term credit inflows, and finally by portfolio investments.

38. As a result, gold-included CBT reserves increased to USD 70.7 billion at end-June from USD 63.3 billion at end-2006, and foreign exchange assets of commercial banks rose from USD 27.5 billion to USD 33.8 billion during the same period.

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

	2006	2006				2007		(12-month)
		I	II	III	IV	I	II	2007-II
<b>1. Current Account</b>	<b>-32,8</b>	<b>-8,7</b>	<b>-10,9</b>	<b>-4,9</b>	<b>-8,3</b>	<b>-9,3</b>	<b>-10,3</b>	<b>-32,8</b>
<b>2. Net Errors and Omissions</b>	<b>-2,4</b>	<b>-0,8</b>	<b>1,8</b>	<b>-2,3</b>	<b>-1,1</b>	<b>1,0</b>	<b>1,9</b>	<b>-0,5</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-35,2</b>	<b>-9,5</b>	<b>-9,1</b>	<b>-7,2</b>	<b>-9,3</b>	<b>-8,3</b>	<b>-8,4</b>	<b>-33,3</b>
<b>II. Total Financing (=1+2+3)</b>	<b>35,2</b>	<b>9,5</b>	<b>9,1</b>	<b>7,2</b>	<b>9,3</b>	<b>8,3</b>	<b>8,4</b>	<b>33,3</b>
<b>1. Capital Flows (net)</b>	<b>56,1</b>	<b>17,2</b>	<b>11,3</b>	<b>10,8</b>	<b>16,7</b>	<b>17,2</b>	<b>15,0</b>	<b>59,7</b>
<b>Direct Investment (net)</b>	<b>19,1</b>	<b>1,3</b>	<b>7,8</b>	<b>3,7</b>	<b>6,4</b>	<b>7,9</b>	<b>2,4</b>	<b>20,4</b>
<b>Portfolio Investment (net)</b>	<b>7,4</b>	<b>3,6</b>	<b>-4,5</b>	<b>4,1</b>	<b>4,2</b>	<b>4,6</b>	<b>1,5</b>	<b>14,4</b>
General Gov. Eurobond Issues	3,3	2,3	-0,6	0,8	0,8	3,4	-1,0	4,0
Nonresidents' Security Buyings in Turkey	8,1	1,6	-3,8	4,6	5,7	1,9	2,9	15,1
Residents' Security Buyings Abroad	-4,0	-0,3	-0,1	-1,3	-2,3	-0,7	-0,4	-4,7
<b>Credit Drawing (excl. IMF loan, net)</b>	<b>26,8</b>	<b>11,3</b>	<b>8,2</b>	<b>3,7</b>	<b>3,6</b>	<b>8,0</b>	<b>12,1</b>	<b>27,4</b>
General Government	-0,7	-0,2	-0,2	0,3	-0,6	0,1	-0,4	-0,6
Banks	5,8	2,4	3,0	0,3	0,1	0,9	3,1	4,4
Long-term	9,8	1,3	3,2	0,7	4,5	2,1	2,4	9,8
Short-term	-4,0	1,1	-0,2	-0,5	-4,4	-1,3	0,7	-5,4
Other Sector	21,7	9,1	5,4	3,1	4,1	7,0	9,5	23,7
Long-term	18,6	8,8	3,3	2,7	3,9	6,8	7,1	20,4
Short-term	0,5	0,1	0,1	0,3	0,0	-0,1	0,6	0,9
Trade Credits	2,6	0,2	2,0	0,1	0,2	0,3	1,7	2,3
<b>Deposits</b>	<b>4,6</b>	<b>1,5</b>	<b>0,3</b>	<b>-1,1</b>	<b>3,9</b>	<b>-3,4</b>	<b>-0,6</b>	<b>-1,2</b>
in Central Bank	-1,3	-0,2	-0,3	-0,5	-0,3	-0,3	-0,3	-1,3
in banks	5,9	1,6	0,6	-0,6	4,2	-3,2	-0,4	0,1
<b>Other</b>	<b>-1,9</b>	<b>-0,4</b>	<b>-0,5</b>	<b>0,4</b>	<b>-1,4</b>	<b>0,1</b>	<b>-0,4</b>	<b>-1,3</b>
<b>2. IMF Loans</b>	<b>-4,5</b>	<b>-1,8</b>	<b>-1,8</b>	<b>0,1</b>	<b>-1,0</b>	<b>-2,3</b>	<b>0,0</b>	<b>-3,1</b>
Central Bank	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
General Government	-4,5	-1,8	-1,8	0,1	-1,0	-2,3	0,0	-3,1
<b>3. Change in Reserves (- increase)</b>	<b>-16,4</b>	<b>-6,0</b>	<b>-0,3</b>	<b>-3,6</b>	<b>-6,5</b>	<b>-6,6</b>	<b>-6,6</b>	<b>-23,3</b>
Banks' FX assets	-10,3	1,1	-3,3	-2,8	-5,3	-0,2	-6,1	-14,4
Official Reserves	-6,1	-7,1	3,0	-0,8	-1,2	-6,4	-0,5	-8,9

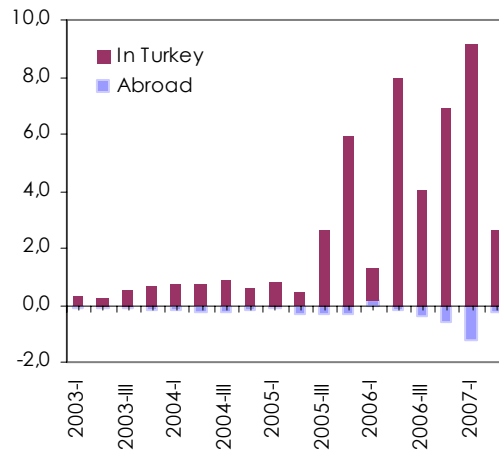
Source: CBT.

#### Direct Investments

39. Having accounted for over one-third of capital inflows in 2006, the weight of direct investments in total financing continued to grow over the first quarter. During this period, 32 percent of the net capital inflow (excluding IMF loans and reserve shifts) was generated by direct investments. The increased share of direct investments as a non-debt capital inflows remains important for securing the sustainable financing of the current account deficit.

40. Apart from privatizations and mergers, nonresidents' real estate buying in Turkey stands as another significant item within direct investment inflows. Real estate buying yielded a USD 1.3 bn-worth direct capital inflow in the January-June period.

### Direct investments (Billion US dollars)

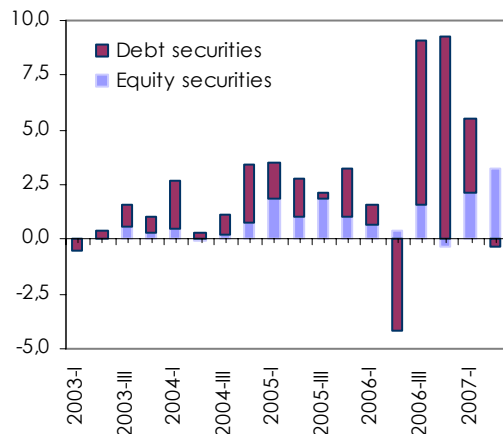


Source: CBT.

### Portfolio Investments

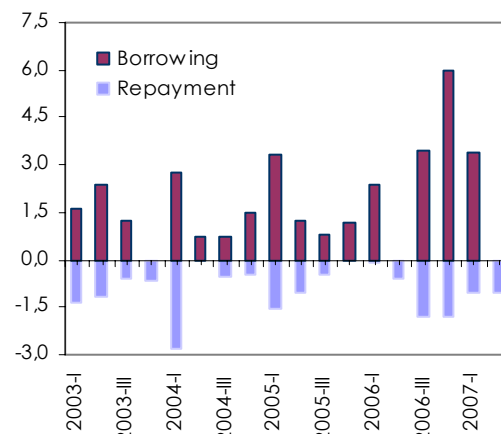
41. The first-half net capital inflow in terms of portfolio investments equaled USD 6.1 billion. In the same period, government securities and equity securities acquired by nonresidents amounted to USD 2.1 billion and USD 2.7 billion, respectively, while the Treasury issued USD 3.4 billion worth bonds abroad.

#### Security buyings of non-residents (billion US dollars)



Source: CBT, ISE.

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



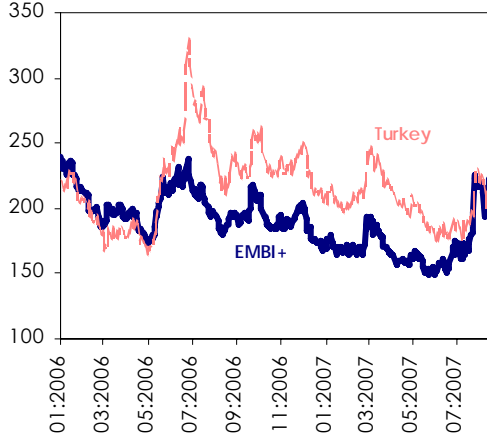
Source: CBT.

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

43. Recently, the changes in global liquidity conditions and in credit markets have widened yield spreads in emerging markets. Turkey was relatively less affected by the latest turbulence as compared to the extreme volatility in May 2006 and the most dramatically changing yield spreads were seen in Argentina and Venezuela.

#### Secondary Market Spreads

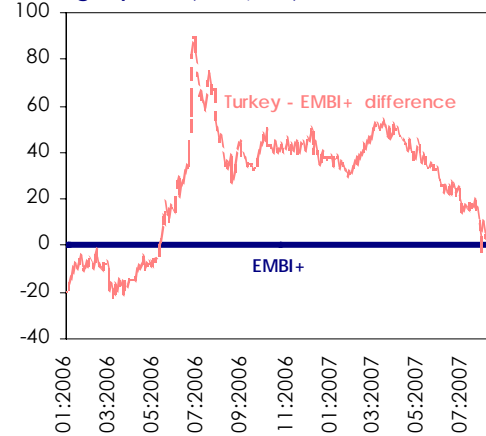
(basis point)



Source: JPM organ.

#### 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.

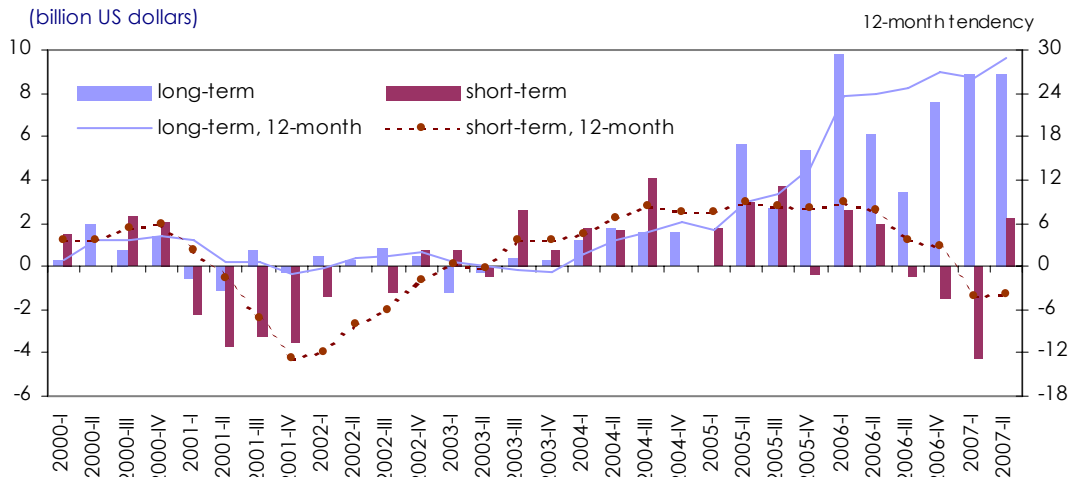
#### Other Investments

44. The upsurge in the share of long-term credits in total financing that began in 2005 and 2006 continued in 2007. Short-term loans have been flowed in net terms, albeit at low levels, since April 2007.

45. Turkey enjoyed USD 7.2 billion worth of net capital inflow registered under the "other investments" item in the first half of 2007. Private companies and banks located in Turkey borrowed long-term external loans worth USD 18.4 billion. Besides, net trade credits used through the entire period amounted to USD 2 billion on timed imports. Private companies and banks repaid an amount of USD 1.3 billion of short-term loans in the first quarter, and borrowed the same amount of short-term loans in the second quarter.

#### Long and Short-term capital

(billion US dollars)



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

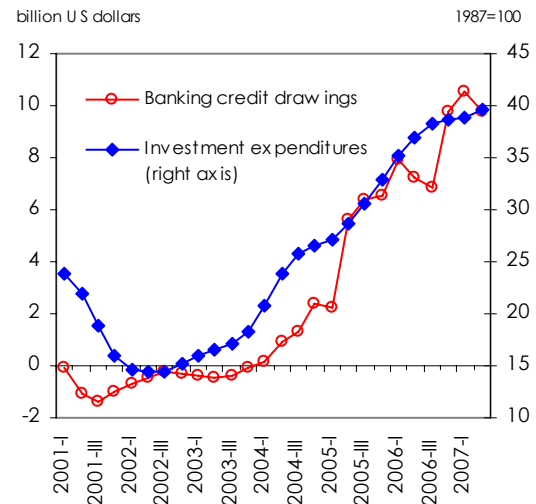
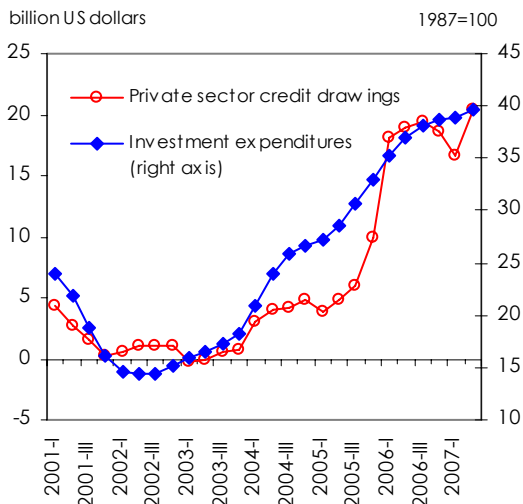
Source: CBT.

46. Long-term credit utilization displayed a sharp increase in 2006 along with the 6.1 percent GDP growth and the 17.4 percent rise in private sector investment expenditures. In May and June, however, the uncertainty stemming from financial-market fluctuations and

the monetary tightening adversely affected the pace of investment expenditures in the third and fourth quarters of 2006.

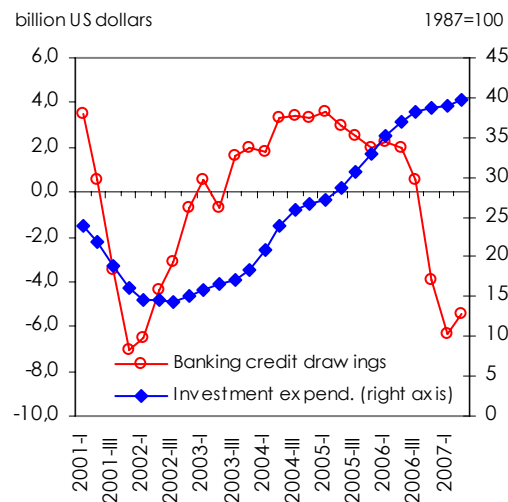
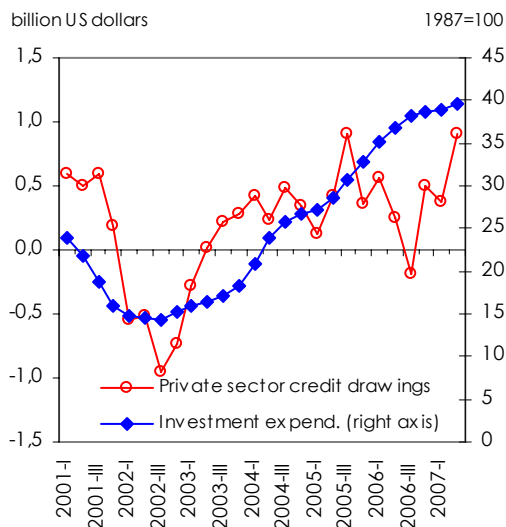
47. Long-term credit utilization gets moderated as imports of investment goods slow. Besides, the quantity index of imports of investment goods declined at an average rate of 7.5 percent in the first quarter of 2007, which is also consistent with the first-quarter slowdown in investment expenditures. However, parallel with the revival of investment expenditures in the second quarter, long-term credit utilization regained momentum. While, the link between short-term credit utilization and investment expenditures, which holds a reduced share in total financing, has weakened.

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



Source: CBT, TURKSTAT.

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



Source: CBT, TURKSTAT.

48. At the end of 2005, the CBT completed the repayment of IMF loans used before and during 2001. The Treasury, on the contrary, continued to repay some of its IMF loans in 2007. In the January-June period, the amount repaid to IMF equaled USD 2.2 billion in net.

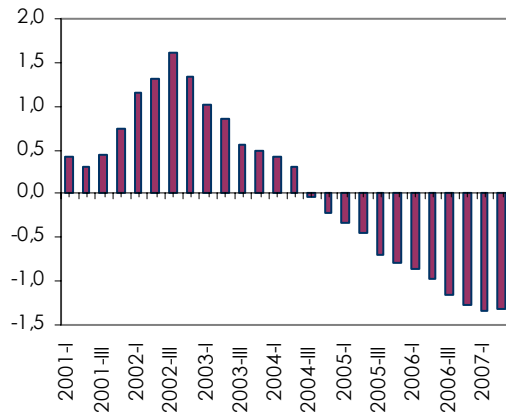
49. The outflow from long-term FX deposit accounts and super FX accounts opened by nonresident Turkish workers at CBT continues since April 2003. As a result, the related deposits at CBT decreased by USD 0.5 billion in the first half of 2007. These outflows can be attributed to the gradual interest rate cut on both FX deposit accounts and super FX accounts. As a matter of fact, 1-, 2- and 3-year maturity Euro-denominated super FX account rates, which

were, in 2002, 8, 9 and 10 percent, respectively, reduced, on March 6, 2006, to 2.25, 3.25 and 3.75 percent, respectively.

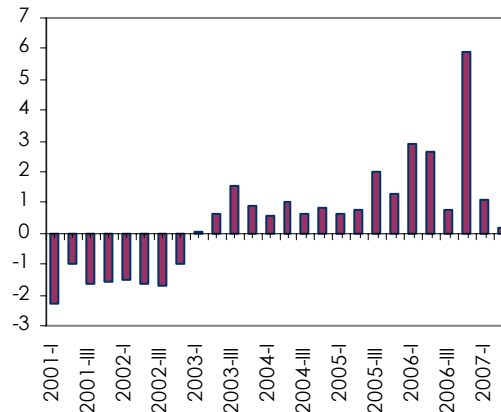
50. Domestic banks attracted USD 5.9 billion of nonresidents' deposits over 2006, but saw a USD 3.5 billion outflow in the January-June period.

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

FX deposits with credit letter and Super FX accounts



Deposits in commercial banks



Source: CBT.

51. By the first quarter of 2007, total external debt stock rose by 2.9 percent to USD 213.4 billion compared to end-2006. USD 4.5 billion of the rise was private sector-originated, whereas public sector added only USD 1.5 billion to the rise. USD 176.5 billion of the total external debt stock involves medium- and long-term external debts, while short-term debts amount to USD 36.9 billion. Thus, the share of long-term debts in total external debt stock has widened to 82.7 percent, whereas the share of short-term debts has narrowed to 17.3 percent.

52. The improvement seen in external debt indicators in 2005 reversed in the first half of 2006. The ratio of external debt stock to GDP that was reduced to 46.7 percent at end-2005 moved up to 51.9 percent at end-2006, and has remained unchanged since then.

#### Selected External Debt Indicators (%)

	2005				2006				2007
	I	II	III	IV	I	II	III	IV	I
External Debt Stock / GDP	51,7	50,0	48,2	46,7	49,6	50,1	50,3	51,9	51,9
External Debt Stock / Exports*	240,4	234,5	232,8	229,8	245,9	245,4	241,4	242,5	237,0
Debt Service / GDP	9,7	10,2	10,2	10,1	9,5	9,4	9,1	9,9	10,4
Long-term / External Debt	79,3	78,6	77,0	78,0	78,3	77,9	78,7	79,7	82,7
Short-term / External Debt	20,2	20,9	22,4	22,0	21,7	22,2	21,3	20,4	17,8
<i>Memo:</i>									
External Debt Stock (billion \$)	160,9	163,0	166,8	168,8	184,0	191,4	196,4	207,4	213,4
GDP (billion \$)	311,2	326,2	346,3	361,5	370,9	382,3	390,3	400,0	411,2

\* 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	
	<i>(annual)</i>										
2000	-9823	-21960	27775	2946	-54503	11375	7636	-4002	-4825	4764	4560
2001	3393	-3730	31334	3039	-41399	9136	8090	-5000	-5497	2987	2786
2002	-1521	-7283	36059	4065	-51554	7885	8479	-4556	-4416	2433	1936
2003*	-8036	-14010	47253	3953	-69340	10511	13203	-5557	-4579	1020	729
2004	-15601	-23878	63167	3880	-97540	12797	15888	-5637	-4343	1117	804
2005	-22603	-33530	73476	3473	-116774	15272	18152	-5799	-5050	1454	851
2006	-32774	-41238	85528	6408	-139480	13361	16853	-6584	-6353	1687	1111
	<i>(quarterly)</i>										
2006 II	-10893	-12447	21313	1430	-36747	2847	3693	-1632	-1513	339	282
III	-4921	-11046	21482	2096	-36127	7277	8038	-1684	-1679	532	309
IV	-8255	-9050	24131	1931	-37059	2075	3120	-1780	-1953	500	292
2007 I	-9299	-9024	23132	1285	-35163	1320	2162	-1900	-1555	305	228
II	-10313	-11979	26328	1742	-42276	2873	3728	-1507	-1772	300	228
	<i>(monthly)</i>										
2006 Jul	-1776	-3567	7067	591	-11709	2064	2356	-401	-457	128	91
Aug	-1582	-4160	6808	774	-12265	2924	3163	-599	-662	253	110
Sep	-1563	-3319	7607	731	-12153	2289	2519	-684	-560	151	108
Oct	-2239	-3169	6886	565	-11193	1170	1450	-391	-546	151	103
Nov	-3048	-2861	8642	698	-12897	473	888	-835	-842	175	90
Dec	-2968	-3020	8603	668	-12969	432	782	-554	-565	174	99
2007 Jan	-2960	-3100	6560	392	-10549	469	727	-431	-426	102	71
Feb	-3233	-2745	7638	418	-11393	261	624	-843	-517	94	71
Mar	-3106	-3179	8934	475	-13221	590	811	-626	-612	109	86
Apr	-3288	-3471	8289	556	-12925	696	921	-580	-563	67	83
May	-3708	-4294	9112	649	-14937	915	1270	-437	-634	108	79
Jun	-3317	-4214	8927	537	-14414	1262	1537	-490	-575	125	66
	<i>(12-month)</i>										
2006 Jul	-30122	-40203	79310	4586	-130087	14496	17846	-5868	-5594	1453	1022
Aug	-30628	-40523	80565	5053	-132080	14209	17556	-5869	-5604	1555	1047
Sep	-31877	-41164	81358	5482	-133867	13892	17313	-6179	-5774	1574	1071
Oct	-33291	-41930	81472	5681	-134970	13282	16864	-6231	-5900	1588	1081
Nov	-33733	-41905	84171	6051	-138194	13058	16808	-6553	-6215	1667	1097
Dec	-32774	-41238	85528	6408	-139480	13361	16853	-6584	-6353	1687	1111
2007 Jan	-33481	-41918	86955	6562	-141883	13399	16858	-6632	-6461	1670	1105
Feb	-33437	-41703	88535	6652	-143480	13418	16933	-6826	-6469	1674	1108
Mar	-33368	-41567	90058	6742	-145096	13519	17013	-6996	-6700	1676	1111
Apr	-32729	-40876	91891	6838	-146434	13612	16997	-7137	-6806	1672	1123
May	-32339	-40555	93961	6992	-148677	13515	17022	-6924	-6839	1625	1076
Jun	-32788	-41099	95073	7054	-150625	13545	17048	-6871	-6959	1637	1057

Source: CBT.

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



## CAPITAL and FINANCIAL ACCOUNT (USD million)

	Capital and Financial Account																
	Net		Financial Account														
	Net	Foreign Direct Investment	Portfolio Investment					Net	Currency and Deposits	Other Investment							
			Net	Assets	Liabilities		Net			Trade Credits	Credits				Deposits		
	Equity Securities	Debt Securities			Monetary Authority	General Gov.		Banks	Other Sectors		Monetary Authority	Banks					
	(annual)																
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1633	-1633	2855	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1406	1406	962	-593	-2096	-16	1519	7190	594	7967	2483	-6138	11834	-1028	371	1336	-988
2003	3095	3095	1253	2465	-1386	905	2946	3424	724	4410	2181	-1479	-765	1975	1022	497	871
2004	13410	13410	2024	8023	-1388	1427	7984	4187	-5965	11142	4201	-4414	-267	5708	5109	-209	856
2005	20487	20487	8725	13437	-1233	5669	9001	16172	-342	15913	3074	-2881	-4637	9248	10307	-787	1276
2006	35169	35169	19136	7373	-4029	1939	9463	14774	-10288	27194	2594	0	-5223	5813	19106	-1268	5890
	(quarterly)																
2006 II	9141	9141	7767	-4528	-109	367	-4786	2919	-3328	6828	2041	0	-2012	2983	3366	-296	632
III	7229	7229	3707	4078	-1305	591	4792	246	-2827	2849	123	0	361	252	3018	-453	-598
IV	9313	9313	6353	4245	-2308	340	6213	-98	-5268	6560	184	0	-1579	145	3910	-335	4221
2007 I	8310	8310	7910	4607	-655	-543	5805	2207	-215	2322	300	0	-2138	873	6692	-250	-3168
II	8428	8428	2386	1510	-383	3266	-1373	5008	-6091	11612	1726	0	-406	3085	7729	-269	-375
	(monthly)																
2006 Jul	1479	1479	202	1716	117	324	1275	-687	-1289	262	226	0	-316	71	646	-78	-339
Aug	3957	3957	3261	1616	-543	85	2074	-552	-1615	777	75	0	853	-1176	1140	-202	29
Sep	1793	1793	244	746	-879	182	1443	1485	77	1810	-178	0	-176	1357	1232	-173	-288
Oct	3398	3398	2802	4024	67	492	3465	-4483	-4682	205	-253	0	-813	-800	682	-95	1469
Nov	1506	1506	1921	1093	-294	469	918	-1935	-203	-943	-41	0	-1574	-841	939	-130	705
Dec	4409	4409	1630	-872	-2081	-621	1830	6320	-383	7298	478	0	808	1786	2289	-110	2047
2007 Jan	2252	2252	5256	3229	425	-1182	3986	-3650	-187	-4657	-563	0	-190	102	-113	-71	-3823
Feb	2600	2600	1557	3280	-506	470	3316	-673	-37	-477	-17	0	-1735	497	912	-86	-51
Mar	3458	3458	1097	-1902	-574	169	-1497	6530	9	7456	880	0	-213	274	5893	-93	706
Apr	1833	1833	603	2526	-154	760	1920	-2166	-2553	345	549	0	-947	419	1368	-82	-980
May	2555	2555	734	8	80	1909	-1981	1363	-4725	6329	777	0	647	1823	4293	-96	-1166
Jun	4040	4040	1049	-1024	-309	597	-1312	5811	1187	4938	400	0	-106	843	2068	-91	1771
	(12-month)																
2006 Jul	29679	29679	16089	6320	231	3588	2501	19322	-4175	24673	3742	-775	-7140	9046	18395	-1011	2118
Aug	33083	33083	18864	8555	-281	3172	5664	20339	-3499	24984	3507	-661	-4899	7719	18757	-1095	1358
Sep	33563	33563	18370	7645	-1571	2598	6618	21761	-2576	25362	3094	-325	-4728	8127	19299	-1147	754
Oct	36163	36163	20934	11913	-1342	3264	9991	13489	-12095	26328	2380	-325	-4920	8071	19855	-1169	2154
Nov	36623	36623	19742	10535	-1962	2756	9741	12288	-10987	25330	2520	-325	-4782	5487	19203	-1236	4181
Dec	35169	35169	19136	7373	-4029	1939	9463	14774	-10288	27194	2594	0	-5223	5813	19106	-1268	5890
2007 Jan	34503	34503	23668	8533	-3453	292	11694	9051	-8204	18811	2621	0	-5108	6151	14234	-1289	1919
Feb	32428	32428	24926	10602	-4243	563	14282	1202	-10100	13049	2401	0	-5436	5300	12070	-1320	-251
Mar	33993	33993	25737	8402	-4377	755	12024	5274	-11638	18559	2648	0	-5368	4253	16986	-1334	1087
Apr	32840	32840	25815	11513	-4370	1292	14591	-330	-15366	16819	2724	0	-5845	3619	17895	-1331	-533
May	32013	32013	19829	14628	-4070	2975	15723	2595	-17838	22547	2646	0	-3590	4807	20387	-1309	-689
Jun	33280	33280	20356	14440	-4651	3654	15437	7363	-14401	23343	2333	0	-3762	4355	21349	-1307	80

Source: CBT.