

**CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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**BALANCE OF PAYMENTS  
REPORT**

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**May 2004**

**SUMMARY**

BALANCE OF PAYMENTS (USD million)						
	May			January-May		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-718	-1580	..	-4375	-8811	..
Foreign Trade Balance	-1672	-3207	91,8	-7223	-13835	91,5
Exports	3860	4763	23,4	17888	23123	29,3
Imports	-5532	-7970	44,1	-25111	-36958	47,2
Exports/Imports	69,8%	59,8%	..	71,2%	62,6%	..
Capital and Financial Accounts	-850	1265	..	3301	6318	..
Financial Account (Excl. Off. Reserves)	-217	157	..	3353	6398	..
Change in Official Reserves <sup>i</sup>	-633	1108	..	-52	-80	..

Source: CBRT.

<sup>i</sup> (-) sign refers to the increase in official reserves.**In May 2004;**

Exports increased by 23.4 percent compared to the same month of previous year and rose to US dollar 4.8 billion from US dollar 3.9 billion. During the same period, imports rose by 44.1 percent from US dollar 5.5 billion to US dollar 8.0 billion. Hence, foreign trade deficit realized as US dollar 3.2 billion and the ratio of exports to imports became 59.8 percent. Current account produced a deficit of US dollar 1.6 billion, while financial account excluding official reserves provided a surplus of US dollar 157 million.

**In the January-May 2004 period;**

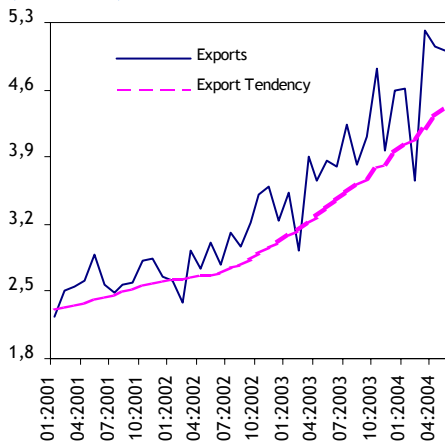
Exports increased by 29.3 percent compared to the same period of previous year and rose from US dollar 17.9 billion to US dollar 23.1 billion. During the same period, imports rose by 47.2 percent from US dollar 25.1 billion to US dollar 37 billion. Hence, foreign trade deficit realized as US dollar 13.8 billion and the ratio of exports to imports dropped compared to the previous year and became 62.6 percent. Current account produced a deficit of US dollar 8.8 billion, while financial account excluding official reserves provided a surplus of US dollar 6.4 billion.

**In the twelve-month period;**

Exports increased by 30.3 percent in the twelve-month period compared to the same period of previous year and rose to US dollar 52.5 billion. During the same period imports rose by 40.6 percent to reach US dollar 81.2 billion. Hence, foreign trade deficit and the ratio of exports to imports realized as US dollar 28.7 billion and 64.7 percent, respectively. Current account yielded a deficit of US dollar 11.3 billion while financial account excluding official reserves produced a surplus of US dollar 9 billion.

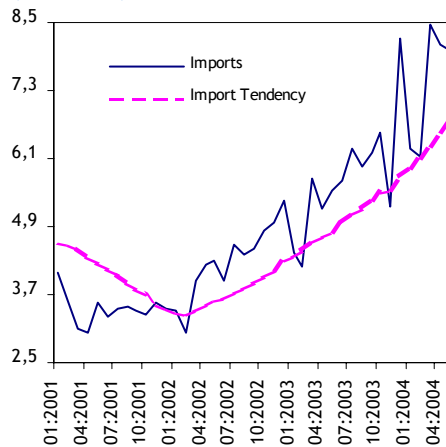
## SUMMARY

### EXPORTS (USD billion)



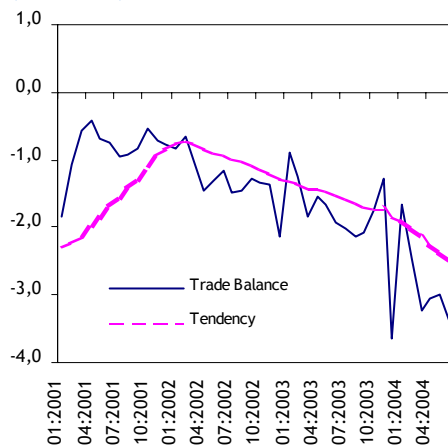
Sour ce: SIS.

### IMPORTS (USD billion)



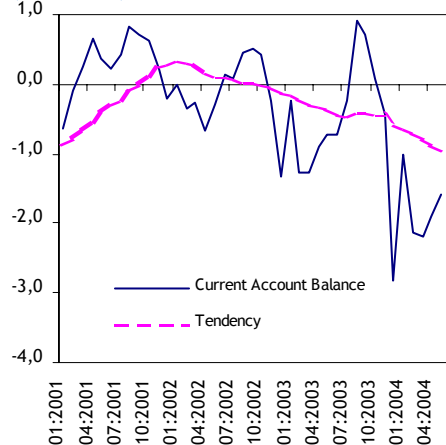
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### TRADE BALANCE (USD billion)



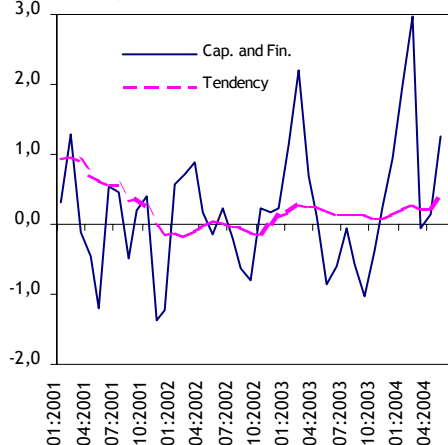
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### CURRENT ACCOUNT BALANCE (USD billion)



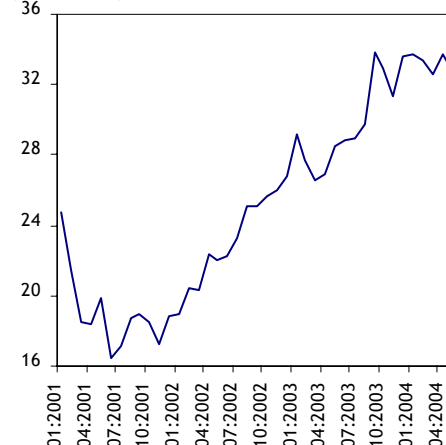
Sour ce: CBRT.

### CAPITAL and FINANCIAL ACCOUNT (USD billion)



Sour ce: CBRT.

### CBRT INTERNATIONAL RESERVES (USD billion)



Sour ce: CBRT.

*i* Trends are calculated with 12-month moving average.

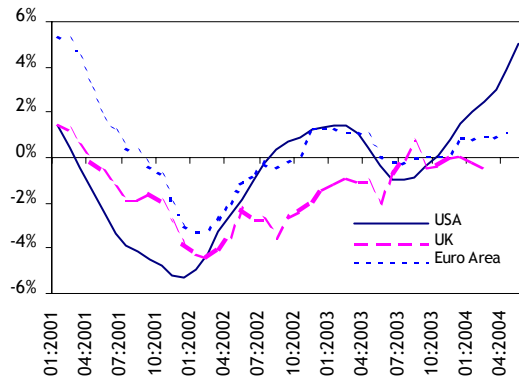
## I. FACTORS AFFECTING FOREIGN TRADE

### Foreign Demand Developments

1. The revival in global economy that has started in the second half of 2003 continued in the first half of 2004. However, the tendency of increase in oil prices that has accelerated especially in the second quarter of the year exerted upward pressure on the prices. Global crude oil prices, which stabilized at a relatively high level in June, re-started to rise in July.

#### INDUSTRIAL PRODUCTION

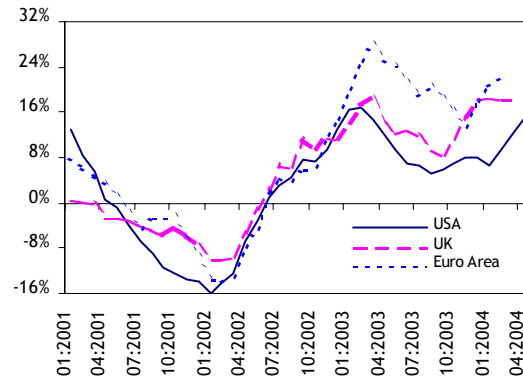
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

#### IMPORTS

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



Source: IMF, ECB.

2. The US data published for the second quarter of the year show that economic growth led by private consumption expenditures, equipment and software sector investments, exports, private fixed investments and government expenditures in the first quarter continued during this period. Industrial production increased by 6.3 percent annually in May, while industrial sector capacity utilization rate reached 77.8 percent. However, annual CPI, which was 2.3 percent in April rose to 3.1 percent in May due to increasing energy and food prices. On 25 June 2004, the Federal Reserve raised its intended federal funds rate by 25 basis points to 1.25 percent.

3. Japanese economy maintained its revival trend of 2003 in early 2004 as well. The basic sources of growth in the first quarter were the recovery in domestic demand and the briskness in exports and investments. The industrial production and consumer expenditures data for April show that the growth performance continued in the second quarter of the year as well. Besides, price developments manifest that the deflationary process that has been observed in the Japanese economy since 2002 still persists. At its meeting of 13 July 2004, the Bank of Japan decided in favor of making no change in its monetary policy.

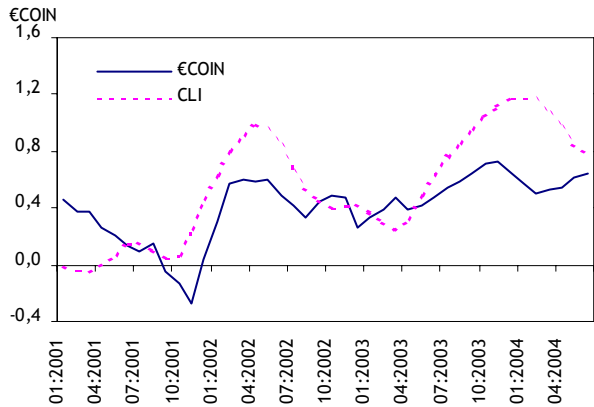
4. Economic growth in the UK continued in the first quarter of 2004 being led by domestic demand and investment expenditures. The increase in revenues and favorable labor market conditions bolstered consumption expenditures. Government expenditures also increased, whereas the contribution of net exports to growth during this period was negative. Annual consumer price inflation rose to 1.5 percent in May, from 1.2 percent in April, especially due to the increase in crude oil prices. The Bank of England raised its minimum lending interest rates to 4.5 percent, increasing by 25 basis points in each of May and June.

5. The euro zone enjoyed economic growth in the first quarter especially owing to the increase in exports and briskness in consumption expenditures. Recently published data show that the revival in the euro area continued in the second quarter of the year as well. The coincident indicator (EuroCOIN), which provides forecasts for quarterly GDP growth for the euro zone point at the acceleration of the euro area growth in May and June 2004 compared to previous months. Within the context of the said indicator, while industrial production, interest rates and financial variables displayed a favorable course in June in terms of growth, surveys pointed to weak economic growth in the area. Predicting that inflation rates would move in consistency with the target in the medium term, the European

Central Bank made no change in the interest rates at its meeting of 1 July 2004, despite the upward pressure on prices in the short-term.

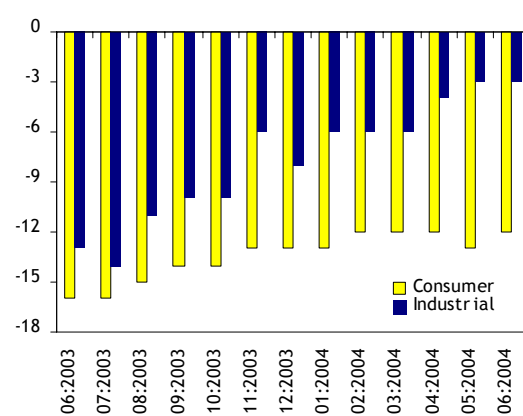
6. Although the six-month growth rate of Composite Leading Indicators (CLI) issued by OECD, which was in upward trend since April 2003, has been declining in recent months, the index still maintains its comparatively high level. The indicator points at weakening growth in May in G7 countries except Canada.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU  
(seasonally adjusted)

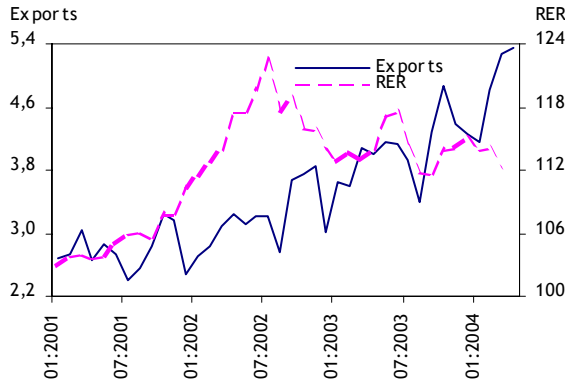


Source: Eurostat.

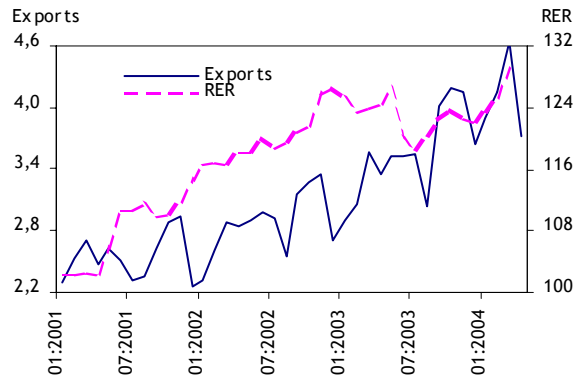
7. While strong GDP growth continued in the three new EU members, Czech Republic, Poland and Hungary, their rates of inflation increased. Although real exchange rates display different tendencies in these countries, exports manifest an upward trend in general.

EXPORTS IN NEW EU MEMBERS (billions US dollars) AND REAL EXCHANGE RATE (1995=100)<sup>i</sup>

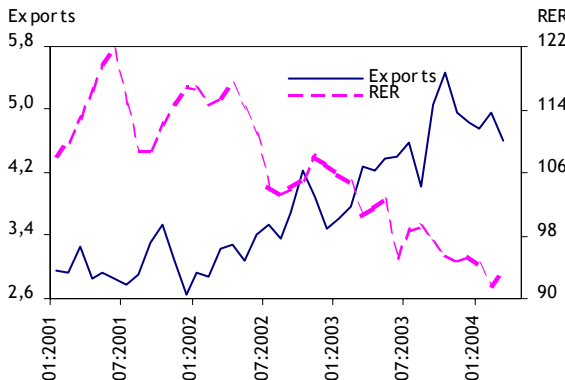
CZECH REPUBLIC



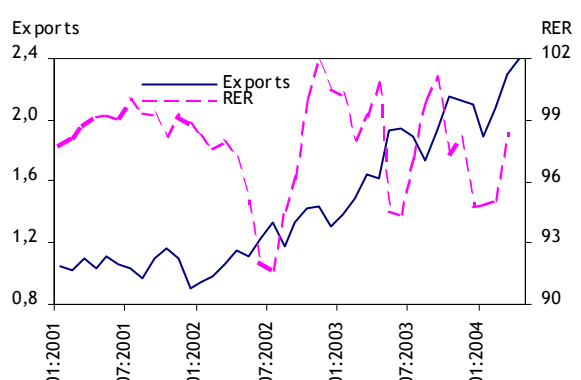
HUNGARY



POLAND



SLOVAK REPUBLIC



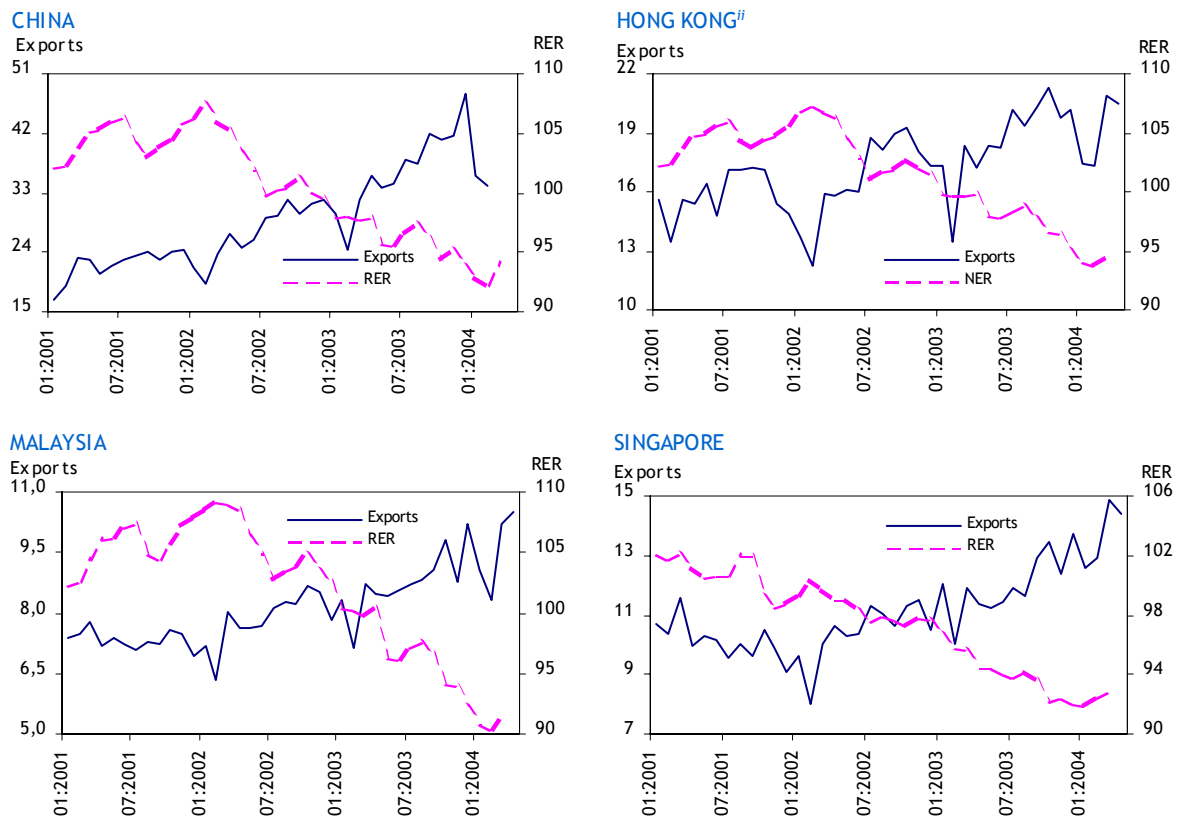
<sup>i</sup> Increase in real exchange rate implies appreciation in domestic currency.  
Source: IMF.

8. The sources of growth in 2003 in developing Asian economies were the increase in domestic demand and the leap in exports. These economies have been maintaining their growth performance by the first quarter of 2004 as well. Domestic growth dynamics of the developing Asian economies display a favorable outlook for 2004 in general.

9. The high rate of growth enjoyed in 2003 by China, one of the East Asian economies, continued in the first quarter of 2004 as well. On the other hand, the effects of macroeconomic measures taken by the Chinese administration to prevent overheating in the economy started to manifest themselves as of May. The annual growth rate of fixed capital investments, which was 47.8 percent in the first quarter of the year, declined to 18.3 percent in May. Besides, growth rates of industrial production, imports, money supply and bank credits dropped in the same period as well. Yet, the increase in retail sales still maintains its pace.

10. The rapid growth in Chinese economy pioneered the general economic revival in the region. Industrial production in South Korea displayed an export-led growth in May. Other East Asian economies have also been experiencing ongoing growth in exports since 2003 in line with the downward trend in real exchange rates.

#### EXPORTS IN RIVAL COUNTRIES (billions US dollars) AND REAL EXCHANGE RATE (1995=100)<sup>i</sup>



<sup>i</sup> Increase in real exchange rate index specifies the strengthening of domestic currency.

<sup>ii</sup> Nominal effective exchange rate has been used since real exchange rate for Hong Kong is not available.

Source: IMF.

#### Developments in Domestic Demand and Production

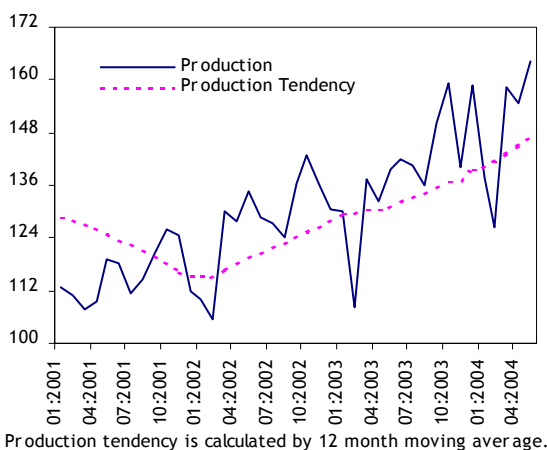
11. GDP growth, which was 5.8 percent in 2003, rose to 10.1 percent in the first quarter of 2004 compared to the same period of the previous year, exceeding the expectations. High-rated increase in exports, the acceleration in industrial production due to the revival in domestic demand that resulted from private consumption, and investment expenditures stood as the underlying factors in growth in the first quarter of 2004. Besides, the 60.6 percent rise in real terms in private sector investments gives the signals of a likely continuation of the increase in both industrial production and exports in 2004 in general. High rates of growth in GNP both in 2002 and 2003 and its high level in the first quarter of 2004 were the outstanding developments on the way to economic stability and most important, sustainable growth after the crisis.

12. Analyzing the economic growth with respect to production, agricultural sector value added declined in the first quarter of 2004 compared to the same period of last year, while the developments in the industrial sector became the determining factors in the GDP growth. During this period, the successive increases in construction sector value added in the last quarter of 2003 and the first quarter of 2004 compared to the same period of the previous year are considered as favorable developments for the sector, the revival of which was delayed due to the earthquakes and the economic crises.

13. The upward trend in the level of production continued in an increasing manner as of April 2004. According to SIS Monthly Industrial Production Index, total industrial production increased by 15.6 percent and 16.5 percent, respectively in April and May 2004 compared to the same months of the previous year, while the manufacturing industry production increased by 16.8 percent and 17.7 percent respectively, in the said months. According to the seasonally adjusted data, total industrial production rose by 1.5 and 2.2 percent respectively in April and May compared to the previous month. High-rated increases in the production of durable consumption goods and transportation vehicles continued during this period. Furthermore, rapid increases in the sectors producing investment goods point at ongoing rise in investment expenditures.

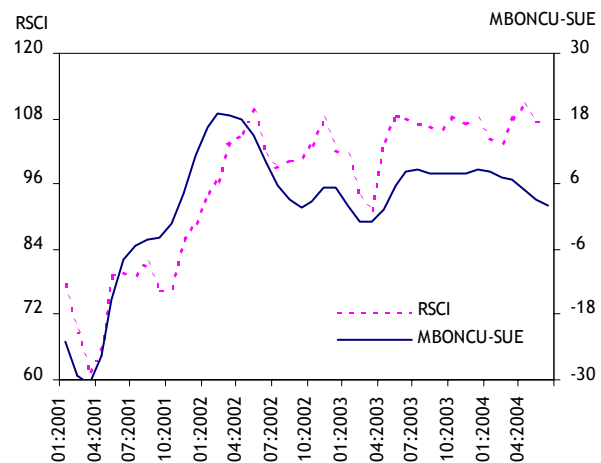
14. SIS Monthly Industrial Production Index for June 2004 indicates that industrial production has continued in this month. According to the survey, manufacturing industry capacity utilization reached 84.5 percent in June.

MANUFACTURING INDUSTRY PRODUCTION  
(1994=100)



Source: SIS.

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

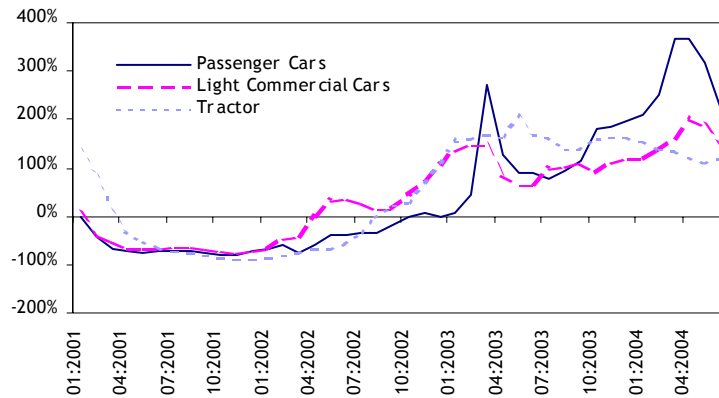


Source: CBRT.

15. Despite a slight decrease, the six-month rate of change in the composite leading indicators index (CBLEADING-IPI) compiled by the Central Bank of the Republic of Turkey maintained its high level in May and June. Meanwhile, real sector confidence index (RSCI), which displayed an upward trend as of the second quarter of 2003 with the end of the war in Iraq, also sustained its course in the first half of 2004. The value of the index that has remained above 100, points at ongoing confidence of real sector in the economic activities.

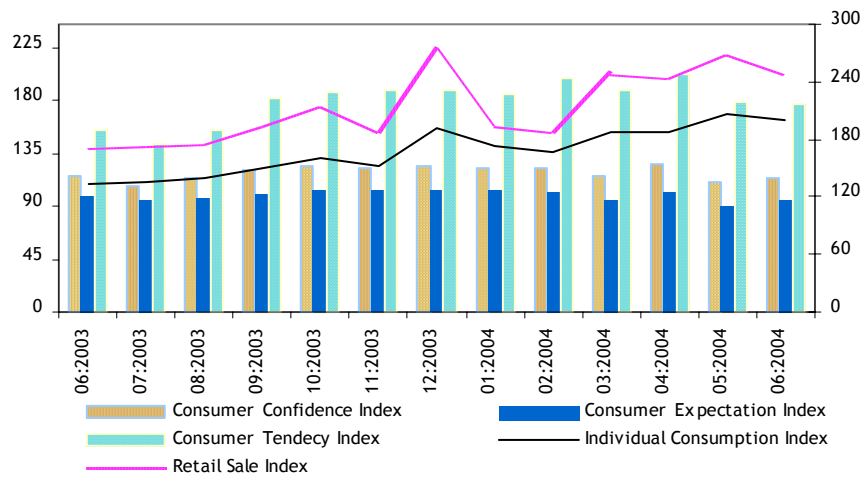
16. The rapid upsurge in consumer credit utilization and scrap-car discount were the determining factors that led the automobile sales recorded in the first half of 2004 to reach its highest level in its history. Car sales, which decelerated in June compared to previous months, increased by 131 percent compared to June 2003. Moreover, an obvious hike in the sales of light commercial vehicles since the beginning of 2004 that had used to pursue a rather modest course compared to automobile sales is remarkable. Sales of light commercial vehicles are considered to be significant indicators of the revival observed in services and manufacturing industry sectors.

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



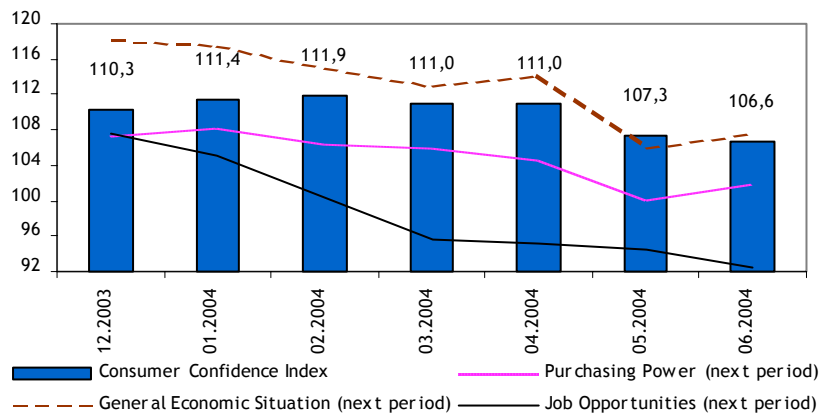
Source: Automobile Industry Association.

### CNBC-e INDICES (January 2002=100)



Source: NTVMNSNBC.

### CONSUMER TENDENCY SURVEY



Source: CBRT, SIS.

17. In June, consumer confidence and tendency indices compiled by CNBC-e reached high levels, while a decline was observed in private consumption and wholesale indices.

18. According to the Consumer Tendency Survey results for June compiled by the Central Bank and SIS, Consumer Confidence Index, which was 107.3 in May 2004, fell to 106.6 in June. This drop resulted from the deterioration in consumers' assessments



concerning employment opportunities in the upcoming periods and the buying time condition for durable goods in the present period. The value of the index that has remained above 100, points at ongoing consumer confidence in general.

### Prices

19. Turkish lira, which appreciated against nominal foreign exchange rate basket composed of USD 1 + 0.77 Euro in the first quarter of 2004, depreciated by 11 percent in May compared to the previous month, whereas it appreciated by 0.3 percent in June. Meanwhile, CPI and WPI-based real exchange rates fell in May in June.

#### REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)<sup>i</sup>

	2003												2004					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Turkey																		
CPI based	-4,9	2,9	0,7	3,6	6,2	3,5	3,2	1,4	2,9	-5,7	-1,7	0,1	4,6	1,4	3,4	-1,1	-9,3	-0,7
WPI based	-2,9	3,6	0,6	4,0	4,1	1,6	3,1	1,1	1,1	-6,4	-1,8	0,0	6,3	2,4	4,7	0,8	-9,6	-1,8
Czech Republic	-0,9	0,8	-0,6	0,7	2,8	0,3	-2,8	-2,2	-0,2	2,1	0,2	0,8	-1,0	0,0	-1,6			
Slovakia	-0,3	-2,3	1,1	1,6	-6,1	-0,2	2,9	3,0	1,0	-3,7	0,8	-3,4	0,1	0,2	3,5			
Hungary	-1,1	-1,5	0,5	0,4	1,7	-5,0	-1,3	1,5	1,7	1,1	-0,9	-0,5	1,1	1,5	3,1			
Poland	-1,1	-1,0	-4,1	1,2	0,8	-7,1	3,9	0,5	-2,0	-1,6	-0,8	0,5	-1,2	-2,8	1,5			
Hong Kong <sup>ii</sup>	-1,6	-0,1	0,0	0,2	-2,0	-0,2	0,6	0,5	-0,9	-1,2	-0,3	-1,3	-1,1	-0,4	0,8			
Malezia	-2,0	-0,3	-0,4	0,7	-4,1	-0,2	1,0	0,5	-1,1	-2,5	-0,1	-1,8	-1,6	-0,6	1,0			
Singapore	-1,0	-1,0	-0,2	-1,2	-0,1	-0,4	-0,4	0,5	-0,6	-1,6	0,3	-0,3	-0,2	0,6	0,4			
China	-1,6	0,1	-0,3	0,2	-2,2	-0,2	1,1	0,8	-1,1	-1,9	0,8	-1,4	-1,0	-0,8	2,1			

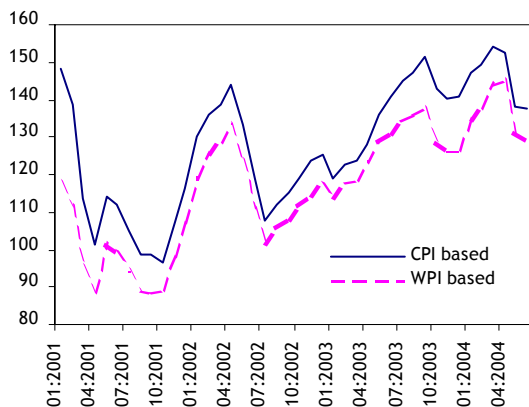
Source: CBRT, IMF.

<sup>i</sup> Increase implies real appreciation of the currency.

<sup>ii</sup> Due to data limitations, nominal effective exchange rate is used for Hong Kong.

20. Euro, which has been depreciating against US dollar in general since May 2004, appreciated in June. Accordingly, monthly average euro/US dollar parity, which rolled back to 1.2 in May, rose to 1.2143 in June. The parity value became 1.2160 at the end of June.

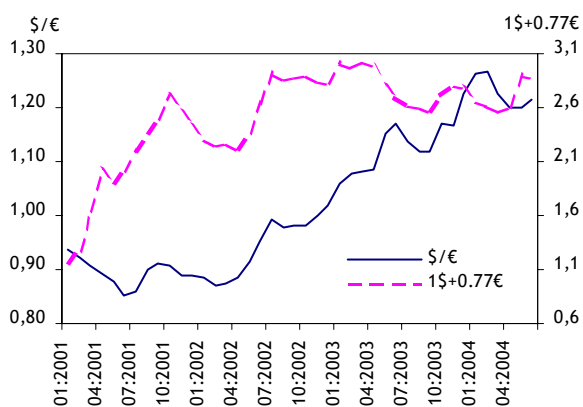
#### REAL EFFECTIVE EXCHANGE RATE (1995=100)<sup>i</sup>



<sup>i</sup> Increase in real exchange rate index indicates strengthening of Turkish lira.

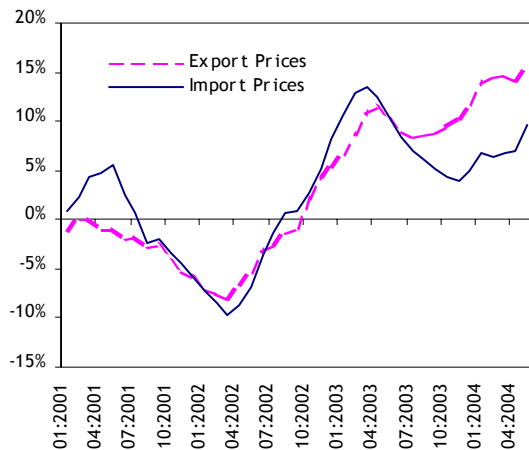
Source: CBRT.

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

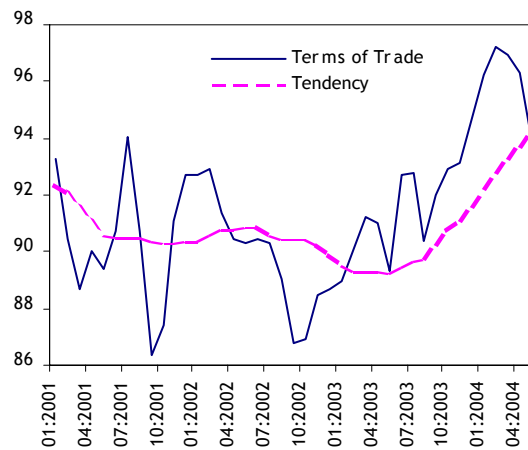


21. Recovery trend in terms of trade, which has started in 2003, continued as of the first quarter of 2004. In April and May, however, terms of trade deteriorated by 0.6 and 2.5 percent, respectively.

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



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



Source: SIS.

22. In May, export prices increased by 1 percent compared to previous month. The hike in the export prices especially in the main metal industry, is remarkable. Meanwhile, the export prices of machinery and equipment displayed a sharp decline in May.

23. In May, import prices rose by 3.7 percent compared to the previous month. The import prices of textile products, main metal industry products and machinery and equipment, were the significant determinants in the rise in import price index.

EXPORT and IMPORT PRICE INDICES (1994=100)

	2003									2004				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	
Export Price Index	89,7	91,4	92,2	90,9	91,6	93,1	95,0	99,2	105,0	104,8	104,3	104,9	104,9	
Manufacturing	89,9	91,8	93,0	91,4	92,0	93,2	94,8	99,0	105,2	105,1	104,2	104,9	104,9	
Textiles	87,3	88,8	90,1	85,9	86,3	88,7	91,6	97,4	102,5	100,7	99,9	98,6	98,6	
Wearing Apparel	91,4	97,3	101,8	97,0	95,6	95,0	98,9	107,8	116,8	123,9	115,6	115,7	115,7	
Chemicals & Products	88,3	89,9	88,1	87,7	90,2	91,9	87,5	91,9	95,6	95,2	91,0	93,3	93,3	
Manufacture of Basic Metals	102,5	100,5	101,3	103,1	105,5	108,3	107,1	108,3	119,2	121,6	127,5	136,9	136,9	
Manufacture of Mach. & Equ.	83,9	85,9	84,8	85,0	85,1	86,5	91,7	93,4	101,8	99,5	98,9	100,1	100,1	
Electrical Mach. & Apparatus	68,4	70,2	68,4	69,6	70,3	67,0	68,3	73,3	79,3	76,0	69,5	70,8	70,8	
Motor Vehicles & Trailers	94,8	98,6	101,6	98,6	102,3	106,3	107,8	109,1	114,1	110,6	110,6	113,0	113,0	
Import Price Index	100,4	98,6	99,4	100,6	99,6	100,2	102,0	104,8	109,1	107,9	107,1	108,9	108,9	
Mining & Quarrying	151,7	158,0	159,5	168,0	169,1	169,3	164,3	168,5	177,1	172,0	178,6	176,8	176,8	
Crude Oil & Natural Gas	162,5	169,8	172,2	179,0	182,1	181,2	176,5	181,8	188,3	182,7	190,7	189,6	189,6	
Manufacturing	95,1	93,2	93,6	93,4	92,3	93,0	94,4	98,2	100,3	100,3	99,4	101,9	101,9	
Textiles	90,3	91,3	89,4	88,2	82,3	84,2	84,0	90,7	91,8	89,9	93,0	95,6	95,6	
Chemicals & Products	104,7	101,5	100,0	99,2	98,8	101,2	101,9	103,3	109,5	109,0	103,6	108,8	108,8	
Manufacture of Basic Metals	95,9	94,7	97,1	98,8	94,4	101,4	102,0	107,2	115,7	123,0	132,3	139,0	139,0	
Manufacture of Mach. & Equ.	94,2	93,5	97,2	94,6	94,6	94,6	96,5	98,9	98,4	90,9	92,8	96,9	96,9	
Electrical Mach. & Apparatus	68,0	68,6	67,3	65,6	65,4	65,9	66,9	70,0	71,7	73,0	72,4	68,2	68,2	
Motor Vehicles & Trailers	93,0	91,6	91,4	91,4	89,2	92,0	94,6	103,5	100,6	106,3	103,3	101,6	101,6	

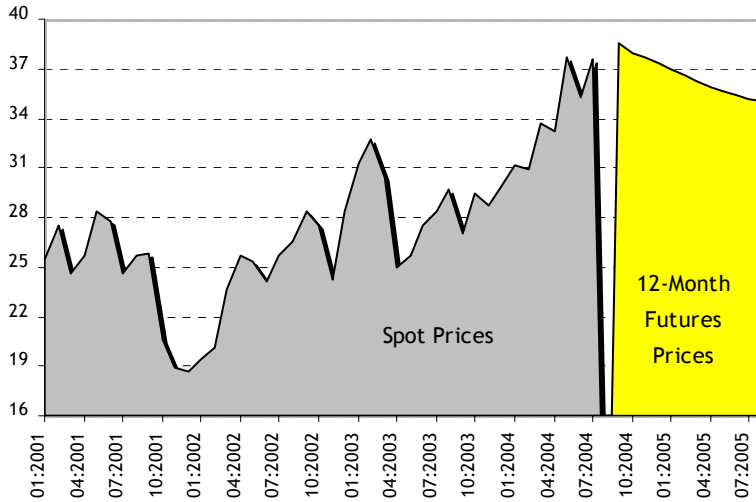
Source: SIS.

24. Oil prices continued to climb in the second quarter despite high supply level. The growth in demand in the USA and China that exceeded expectations, concerns about likely spread of attacks in Middle East to oil facilities and the bottlenecks, which formed in refinery and distribution industries in the zones where crude oil is used became the determining factors in the rise in oil prices.

25. Meanwhile, China's efforts to cool down the economy, steps towards providing security in Iraq and the decision, which was reached in the Extraordinary Conference held

in Beirut on 3 June 2004 concerning an increase in the OPEC production by 2 million barrels per day with effect from July 1, 2004 and by 0.5 million barrels per day with effect from August 1, 2004, were the developments that led to decline in oil prices as of the second half of June. Nevertheless, oil prices started to rise in July.

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



Future Prices	
	27.07.2004
July 2004	38,54
August 2004	37,99
September 2004	37,68
October 2004	37,30
November 2004	36,91
December 2004	36,55
January 2005	36,22
February 2005	35,92
March 2005	35,65
April 2005	35,39
May 2005	35,16
June 2004	34,97

Source: oilnergy.com.

Note: 27.07.2004 future prices of International Petroleum Exchange.

## II. EXPORTS

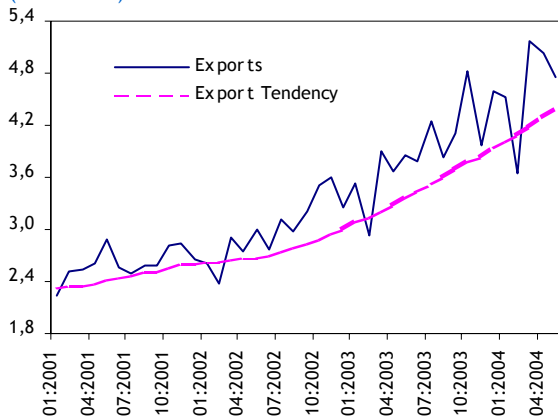
### General Evaluation

26. In May 2004, exports grew by 23.4 percent compared to the same month of the previous year and reached US dollar 4.8 billion. The increase in exports in the first five months of 2004 became 29.3 percent. Moreover, 12-month export rose by 30.3 percent and reached US dollar 52.5 billion.

27. Favorable supply and cost conditions in 2003 continued to improve in 2004 and this had a favorable impact on exports. Low labor and energy costs coupled with increase in productivity provided the Turkish firms with competition power despite the appreciation in Turkish lira. Furthermore, the improvement in financing opportunities, new markets emerging due to the expansion in world economics and rising export prices contributed to this increase.

#### EXPORTS and EXPORTS TENDENCY<sup>i</sup>

(USD billion)

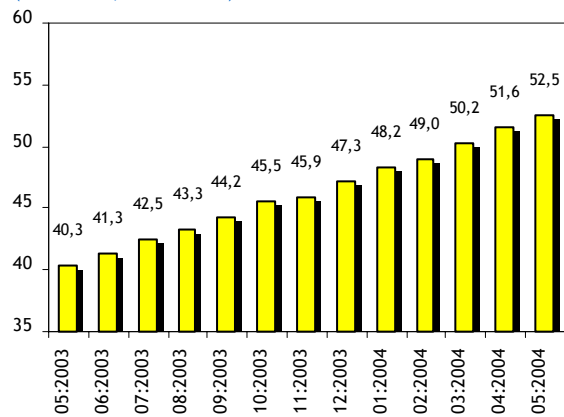


<sup>i</sup> Exports tendency is calculated with 12-month moving average.

Source: SIS.

#### EXPORTS

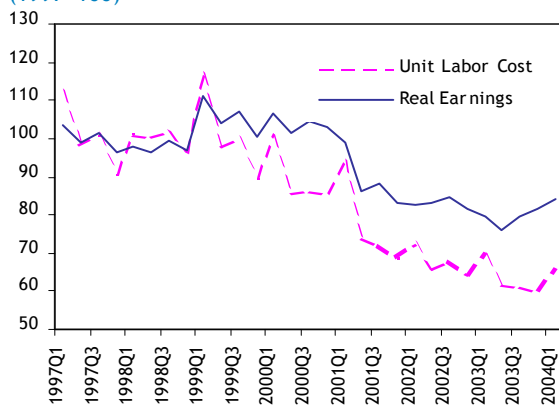
(12 month, USD billion)



Source: SIS.

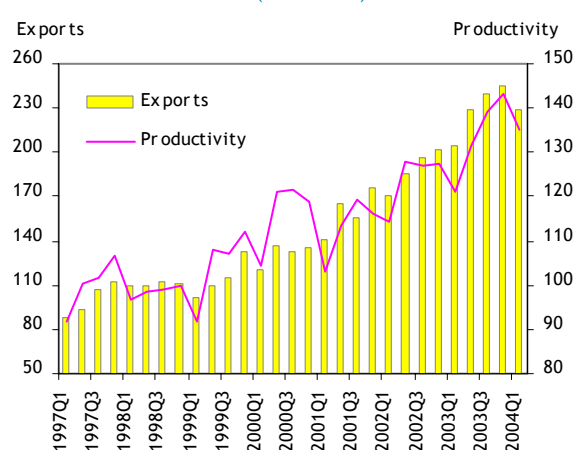
#### PRIVATE MANUFACTURING INDUSTRY REAL UNIT LABOR COSTS AND REAL EARNINGS

(1997=100)



Source: SIS, CBRT.

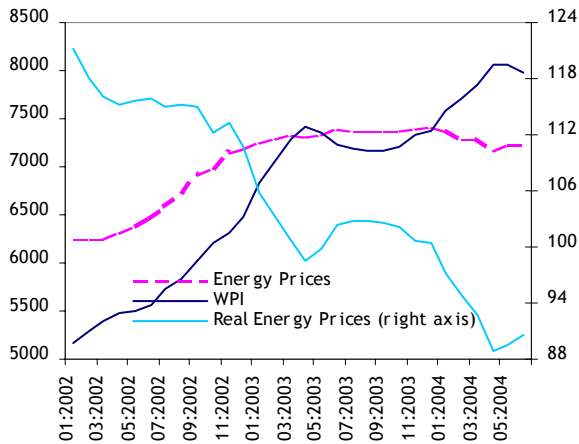
#### PRIVATE MANUFACTURING EXPORT AND PRODUCTIVITY INDICES (1997=100)



Source: SIS.

28. The downward trend in real energy costs has been continuing as of the first half of 2004. Despite a slight increase in real energy costs during May and June, the costs are rather low compared to the previous year. The rise in energy prices, which is below WPI inflation, points at a cost advantage in energy prices in favor of exporters. Electricity prices decreased by 2.2 percent in April 2004, as in April 2003. Natural gas and water prices, however, increased especially in the second quarter of the year.

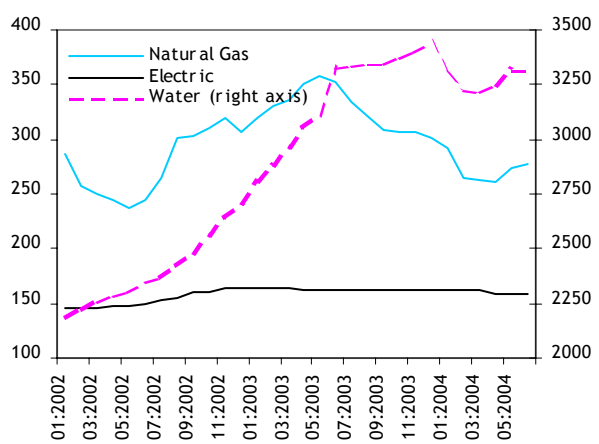
### ENERGY PRICES and WPI<sup>i</sup> (1994=100)



<sup>i</sup> Energy prices are WPI Electric, Gas and Water price index. Real prices are calculated by dividing energy price index to WPI.

Source: SIS.

### ENERGY WHOLESALE PRICES<sup>i</sup> (thousand TL)

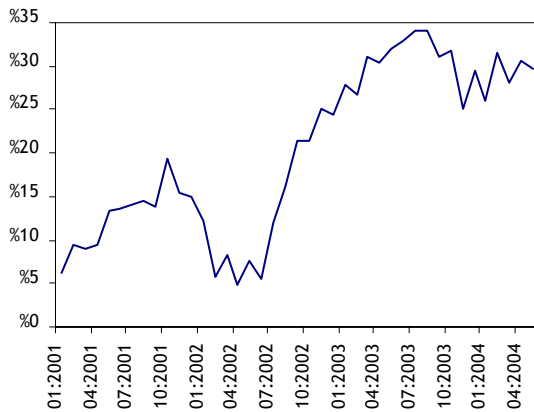


<sup>i</sup> Domestic prices in advance that are taken from WPI, which are electric prices per KWH, natural gas and water prices per ton.

Source: SIS.

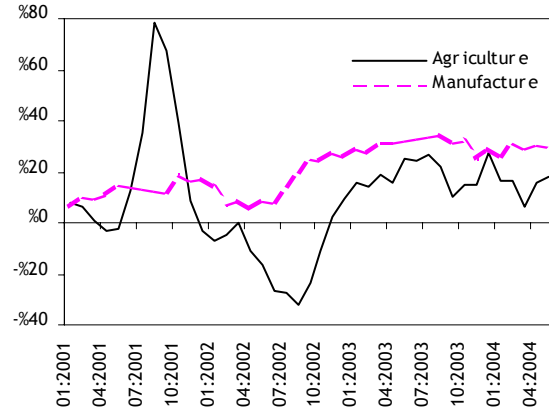
29. The Turkish Eximbank continued to cut down interest rates on the export credits as of the first half of 2004. Interest rates were cut down in 12 February and 19 March 2004. On the other hand, considering the increase in interest rates in international financial markets, Eximbank increased its interest rates on short-term foreign exchange credits by 0.25 percentage points on 5 July 2004.

### EXPORTS: GROWTH RATE (3 month moving average, annual % change)



Source: SIS.

### EXPORTS: SECTORAL GROWTH RATES (3 month moving average, annual % change)



Source: SIS.

30. The three-month tendency of the rates of increase in manufacturing industry exports displayed a favorable progress, whereas exports tendency in agricultural products declined in March, but improved in April and May.

31. The groups contributing largely to export growth in January-May 2004 were motor vehicles and spare parts, iron and steel, electric machinery and devices, boilers-machinery-mechanical devices along with knitted apparel, each in turn.

EXPORTS (USD million)								
	May				January-May			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	3860	4763	23,4		17888	23123	29,3	
Agriculture and Forestry	129	155	19,7	0,7	892	996	11,7	0,6
Fishing	4	2	-48,0	0,0	26	23	-13,0	0,0
Mining and Quarrying	39	45	16,5	0,2	158	216	36,9	0,3
Manufacturing	3665	4528	23,5	22,3	16721	21737	30,0	28,0
Other	24	34	43,3	0,3	91	151	65,1	0,3
Important Items:								
Edible fruit and nuts, peel of citrus fruits or melons	44	77	72,6	0,8	363	492	35,3	0,7
Mineral Fuels, Mineral Oils and products	78	104	32,7	0,7	328	485	47,9	0,9
Cotton, cotton yarn and cotton fabrics	94	101	7,4	0,2	425	508	19,6	0,5
Articles of Apparel-Clothing; Knitted	498	476	-4,5	-0,6	2220	2534	14,1	1,8
Articles of Apparel-Clothing; Not Knitted	325	315	-3,0	-0,2	1563	1768	13,1	1,1
Other made-up textile articles, sets, worn clothing	142	149	4,8	0,2	634	753	18,7	0,7
Iron and Steel	270	519	92,3	6,5	1242	1860	49,7	3,5
Articles of Iron and Steel	123	145	17,8	0,6	521	713	36,8	1,1
Nuclear reactors, boilers, machinery	255	322	26,0	1,7	1097	1534	39,8	2,4
Electrical Machinery and Equipment	232	340	46,6	2,8	1181	1736	47,1	3,1
Motor Vehicles and Spare Parts	458	688	50,1	5,9	1938	2975	53,4	5,8

Source: SIS.

EXPORTS: BY COUNTRY GROUPS (USD million)										
	May					January-May				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	3860	..	4763	..	23,4	17888	..	23123	..	29,3
EU Countries	2080	53,9	2585	54,3	24,3	9964	55,7	12705	54,9	27,5
EU 15	1964	50,9	2445	51,3	24,5	9380	52,4	12013	52,0	28,1
EU 10	116	3,0	140	2,9	20,9	583	3,3	692	3,0	18,6
Other Countries	1631	42,2	1998	42,0	22,5	7217	40,3	9447	40,9	30,9
Turkey Free Trade Areas	150	3,9	180	3,8	19,8	707	4,0	971	4,2	37,3
Selected Countries and Country Groups										
OECD	2461	63,8	3097	65,0	25,8	11734	65,6	14858	64,3	26,6
Germany	606	15,7	648	13,6	7,0	2950	16,5	3387	14,6	14,8
UK	285	7,4	411	8,6	44,3	1331	7,4	1918	8,3	44,1
USA	312	8,1	424	8,9	36,2	1509	8,4	1749	7,6	15,9
Italy	265	6,9	361	7,6	36,0	1250	7,0	1600	6,9	28,0
France	222	5,8	306	6,4	37,5	1038	5,8	1472	6,4	41,8
Spain	135	3,5	220	4,6	62,9	684	3,8	975	4,2	42,6
Netherlands	126	3,3	150	3,2	18,9	581	3,2	769	3,3	32,2
Other OECD	511	13,2	577	12,1	13,1	2391	13,4	2988	12,9	25,0
Middle East Countries	404	10,5	577	12,1	42,9	1703	9,5	2654	11,5	55,8
Russia	105	2,7	129	2,7	23,0	481	2,7	678	2,9	41,0

Source: SIS.

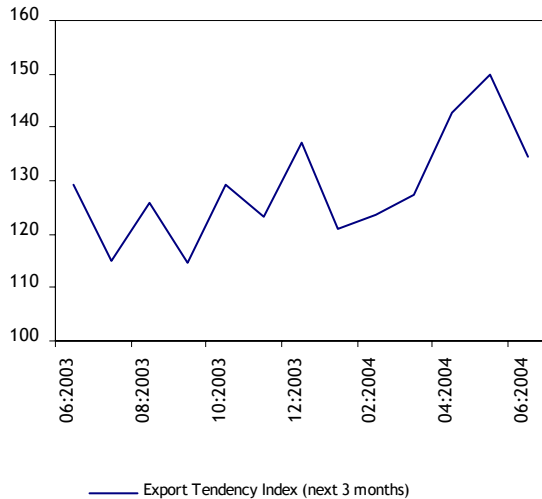
32. Compared to 2003, there was a decline in the share of exports to the European Union countries and an increase in exports to the Middle Eastern countries in the first five months of 2004. Analyzing in terms of selected countries, exports to Germany had the largest share in overall exports during this period, followed by England. In first five-month period of 2004, the share of the USA in overall exports maintained its downward trend of 2003. Furthermore, the high-rated increase in exports to England, Spain, France and Russia during the said period is remarkable.

## Outlook

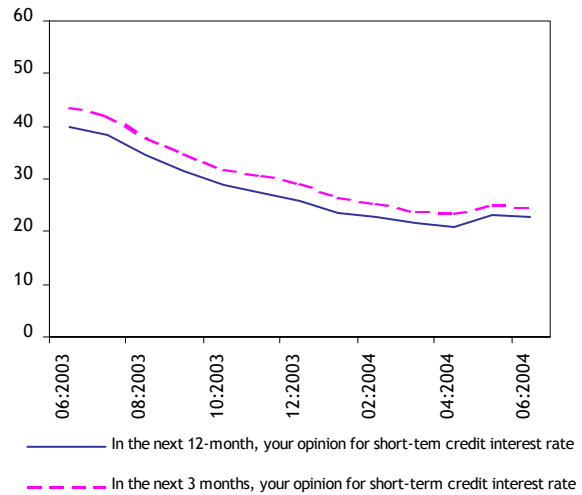
33. According to the CBRT Business Tendency Survey, indicators for the next three months slowed down in June compared to previous months.

34. The downward trend in expectations for credit interest rates for the next three months and twelve months, which can be considered as the export financing cost indicator, persisted in April as well. Nevertheless, this trend stopped in May and in June it displayed a decline in favor of those who expected a downward trend. Accordingly, in June, expectations for credit interest rates for the next three months declined to 24.6 percent, while expectations for credit interest rates for the next twelve months became 22.7 percent.

### EXPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.



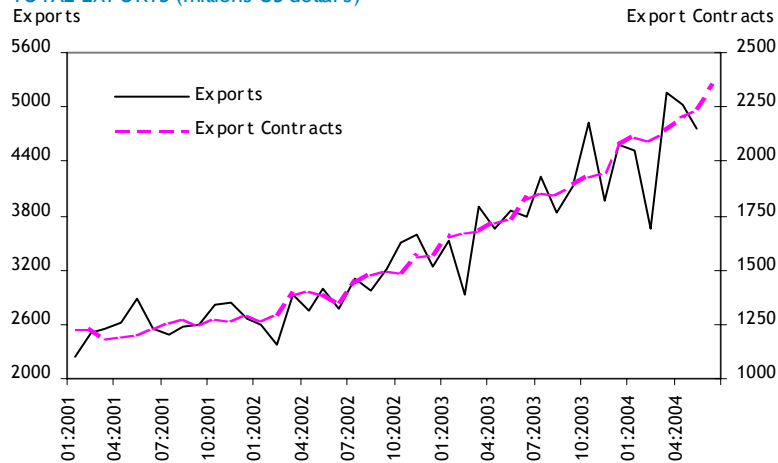
Source: CBRT Business Tendency Survey.

35. Despite its slight decline in last three months, price competition, which is among the factors that has been expected to exert pressure on exports in the next quarter, still maintains its major share. Concerns about foreign economic outlook that could lead to restriction in export orders rose in June, while concerns about credit and financing eased.

36. The volume of export contracts subject to inward processing regime grew by 26 percent in the first half of 2004 compared to the previous year. Meanwhile, imports subject to inward processing regime increased by 31.9 percent.

### EXPORT CONTRACTS BY INWARD PROCESSING REGIME

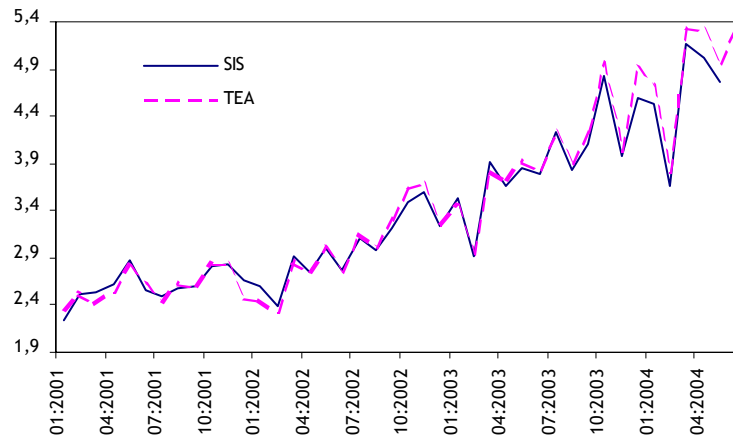
(12 months moving average) and  
TOTAL EXPORTS (millions US dollars)



Source: UFT.

37. According to the data issued by the Turkish Exporters' Assembly (TEA), exports grew by 35.5 percent and realized as US dollar 29.4 billion in the first half of 2004. Hence, twelve-month exports reached US dollar 55.6 billion in June.

EXPORTS: SIS-TEA COMPARISON (USD billion)



Source: SIS, TEA.



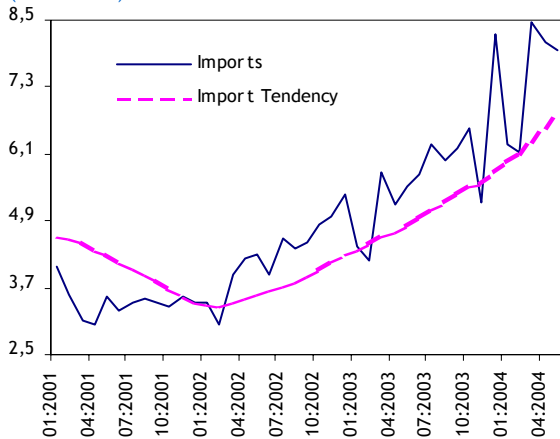
### III. IMPORTS

#### General Evaluation

38. Compared to the previous year, imports increased by 44.1 percent and reached US dollar 8 billion in May 2004. Hence, imports became US dollar 37 billion in the first five months of the year, while twelve-month imports rose by 40.6 percent and reached US dollar 81.2 billion.

#### IMPORTS and IMPORTS TENDENCY<sup>i</sup>

(USD billion)

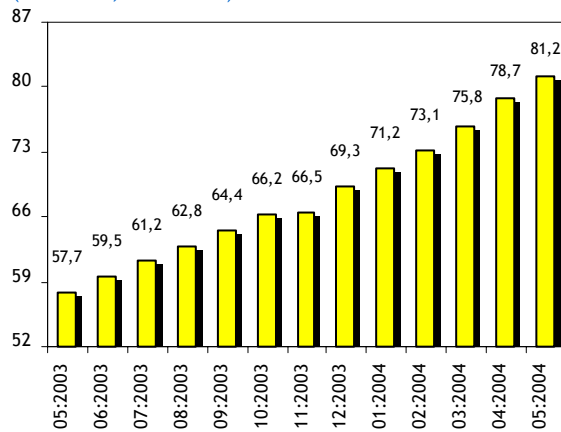


<sup>i</sup> Imports tendency is calculated using 12 month moving average.

Source: SIS.

#### IMPORTS

(12 month, USD billion)

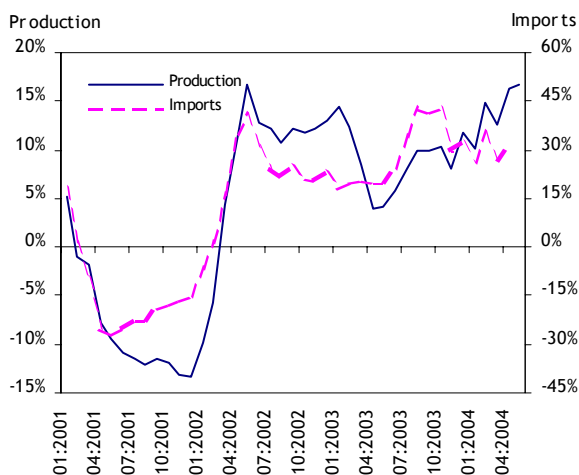


Source: SIS.

39. The appreciation of Turkish lira by 5.4 percent as of the first five months of 2004 compared to end-2003 according to the CPI-based real exchange rate index and the rise in domestic industrial production stood as the factors affecting the growth in imports. Furthermore, the upward trend in import prices during this period has an impact on the increase in imports.

#### MANUFACTURING INDUSTRY PRODUCTION and INTERMEDIATE GOODS IMPORTS INDICES

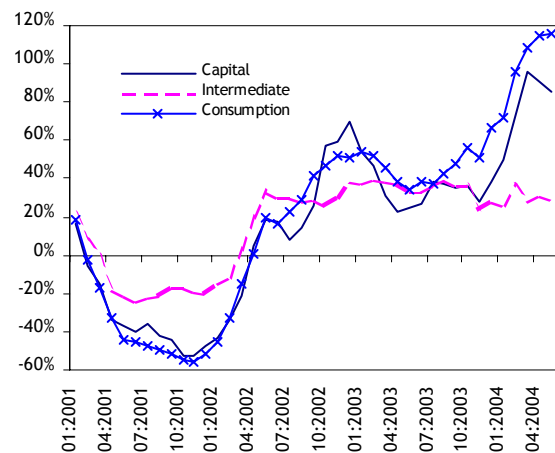
(3 month moving average, annual % change)



Source: SIS.

#### IMPORTS: GROWTH RATES

(3 month moving average, annual % change)

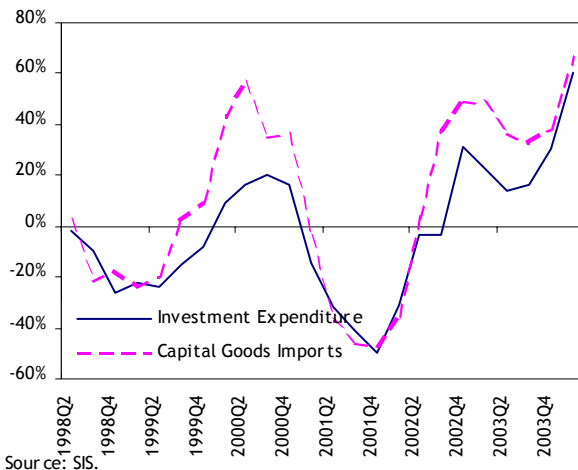


Source: SIS.

40. Although imports of intermediary goods became dominant in the growth of total imports in January-May 2004, the rate of increase in imports of intermediary goods remained below that of total imports. Meanwhile, imports of consumption goods and capital goods displayed a rate of increase above the growth in total imports and their shares in total imports reached 14.1 percent and 18.1 percent, respectively. The high-rated increase in

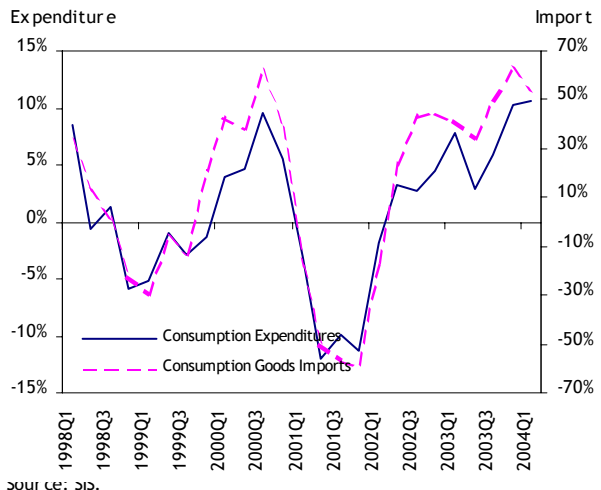
demand for durable goods and transportation vehicles following the appreciation of Turkish lira contributed to the hike in imports of consumption goods. Moreover, upward trend in imports of capital goods continued due to the increased capacity utilization rates, which bring in new investment needs for sustained production growth.

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



Source: SIS.

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



Source: SIS.

41. In the first five months of 2004, the largest contribution to the rise in imports came from imports of motor vehicles and spare parts, boilers-machinery-mechanical devices, electrical machinery and devices along with iron and steel. The growth rate of crude oil imports remained below the growth of total imports.

**IMPORTS (USD million)**

	May				January-May			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	5532	7970	44,1	..	25110	36753	46,4	..
Capital Goods	927	1572	69,6	11,7	3559	6690	88,0	12,5
Intermediate Goods	3961	5070	28,0	20,0	18918	24841	31,3	23,6
Consumption Goods	612	1307	113,6	12,6	2481	5222	110,5	10,9
Other	32	21	-32,9	-0,2	152	0	-99,9	-0,6
Important Items:								
Mineral fuels,mineral oils and products of their dist.	836	1071	28,1	4,2	4634	5109	10,3	1,9
Crude Oil	341	512	50,0	3,1	1935	2238	15,6	1,2
Organic chemicals	212	245	15,7	0,6	972	1200	23,5	0,9
Pharmaceutical products	176	242	37,4	1,2	791	1067	34,8	1,1
Plastics and articles thereof	250	369	47,7	2,2	1181	1717	45,5	2,1
Cotton, cotton yarn and cotton fabrics	158	198	25,6	0,7	641	838	30,8	0,8
Pearl, other precious stone and products	196	250	28,0	1,0	980	1492	52,2	2,0
Iron and Steel	357	514	43,9	2,8	1970	2827	43,5	3,4
Nuclear reactors, boilers, machinery	858	1181	37,7	5,9	3437	5199	51,2	7,0
Electrical Machinery and Equipment	434	702	61,8	4,9	1915	3216	67,9	5,2
Motor Vehicles and Spare Parts	374	1043	178,5	12,1	1361	4011	194,8	10,6

Source: SIS.

42. In the first five months of 2004, the share of imports from the EU-member countries and Asian countries increased compared to 2003, whereas a decline was observed in the share of imports from the Middle Eastern countries. By selected countries, imports from Germany had the largest share in overall imports to be followed by Russia. The rapid rise in imports from China is continuing in 2004 as well.

## IMPORTS: BY COUNTRY GROUPS (USD million)

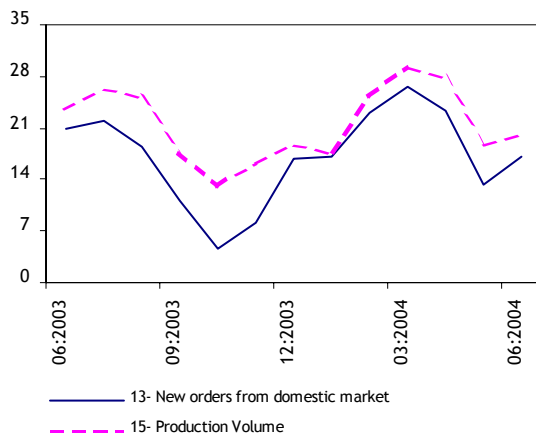
	May					January-May				
	2003		2004		% Change	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	5532	..	7970	..	44,1	25110	..	36958	..	47,2
EU Countries	2662	48,1	3910	49,1	46,9	11732	46,7	17780	48,1	51,5
EU 15	2526	45,7	3627	45,5	43,6	11131	44,3	16634	45,0	49,4
EU 10	135	2,4	283	3,5	109,0	601	2,4	1146	3,1	90,6
Other Countries	2815	50,9	3986	50,0	41,6	13167	52,4	18840	51,0	43,1
Turkey Free Trade Areas	55	1,0	74	0,9	35,0	211	0,8	338	0,9	60,5
Selected Countries and Country Groups										
OECD	3579	64,7	5142	64,5	43,7	15550	61,9	23248	62,9	49,5
Germany	751	13,6	1118	14,0	48,9	3147	12,5	4873	13,2	54,8
Italy	439	7,9	624	7,8	42,2	1957	7,8	2658	7,2	35,8
France	336	6,1	506	6,3	50,5	1408	5,6	2554	6,9	81,3
USA	327	5,9	437	5,5	33,7	1341	5,3	1845	5,0	37,6
United Kingdom	287	4,0	333	4,8	71,0	1380	4,2	1666	5,3	68,5
Switzerland	209	3,8	229	2,9	9,5	1094	4,4	1287	3,5	17,6
Spain	153	4,0	315	4,8	71,0	653	4,2	1261	5,3	68,5
Other OECD	1078	19,5	1580	19,8	46,6	4569	18,2	7104	19,2	55,5
Middle East Countries	378	6,8	447	5,6	18,4	1858	7,4	1915	5,2	3,0
Russia	351	6,3	612	7,7	74,2	1898	7,6	3131	8,5	65,0
China	189	3,4	372	4,7	96,8	809	3,2	1661	4,5	105,4

Source: SIS.

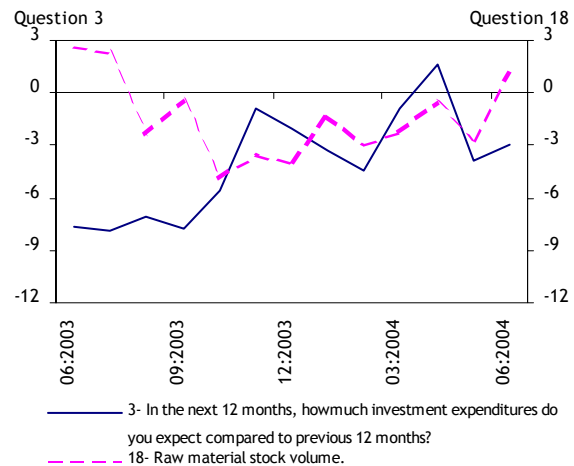
Outlook

43. An analysis of the domestic demand over the upcoming period according to the June results of the CBRT Business Tendency Survey reveals that private companies have expectations in favor of an increase but at a lower rate. Investment expenditures tendency is higher compared to May.

## IMPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.



Source: CBRT Business Tendency Survey.

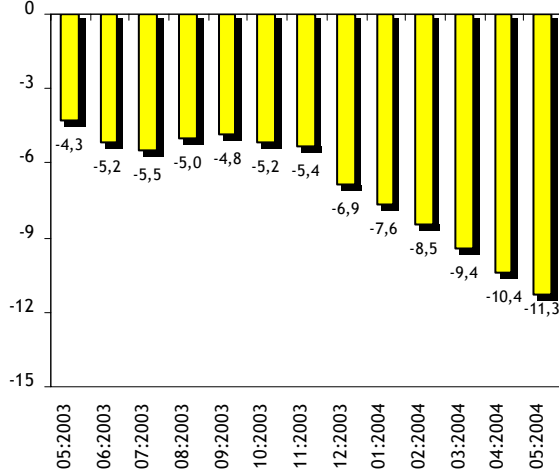
44. Timed imports increased from US dollar 6.9 billion of January-May 2003 to US dollar 9.6 billion in the same period of 2004. However, as total imports grew by 47.2 percent while timed imports grew by 40.1 percent, the share of timed imports in total imports dropped to 26.1 percent. Meanwhile, timed exports that are calculated by the same way increased by 33.7 percent and reached 63.4 percent of total exports.

#### IV. CURRENT ACCOUNTS

45. Current account balance yielded a deficit of US dollar 1.6 billion in May, amounting to a total deficit of US dollar 8.8 billion in the first five months of the year. Thus, twelve-month current account deficit reached US dollar 11.3 billion.

##### CURRENT ACCOUNT BALANCE

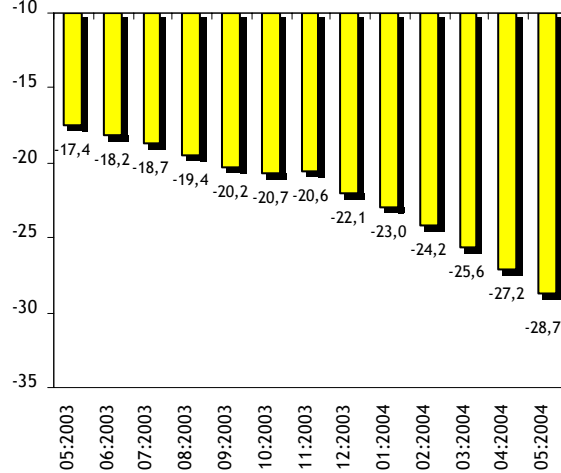
(12 month, USD billion)



Source: CBRT.

##### FOREIGN TRADE BALANCE

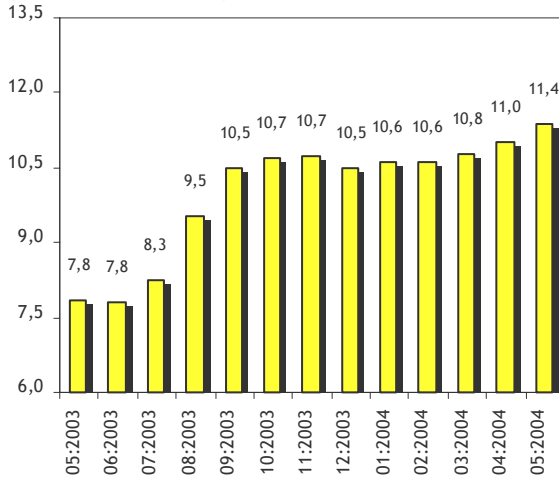
(12 month, USD billion)



Source: CBRT.

##### SERVICES BALANCE

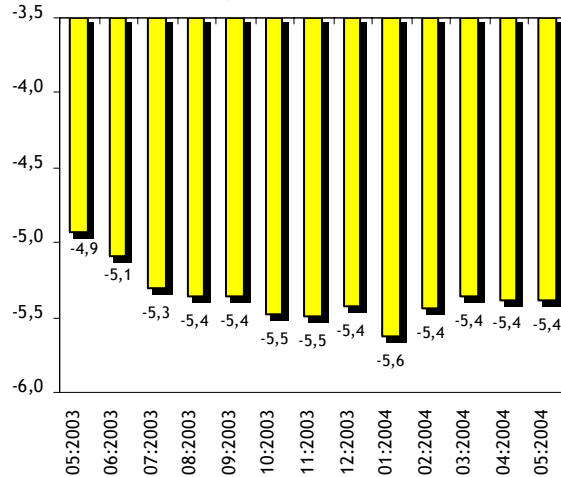
(12 month, USD billion)



Source: CBRT.

##### INVESTMENTS REVENUES BALANCE

(12 month, USD billion)



Source: CBRT.

46. In the first five months of 2004, the main factor determining the current account deficit was foreign trade developments. Services revenues rose from US dollar 1.6 billion in January-May 2003 to US dollar 2.5 billion in the same period of 2004 as a result of the significant rise in tourism revenues. Investment revenues produced a deficit of US dollar 2.4 billion, remaining the same as the previous year. Meanwhile, current transfers rose by 42.3 percent compared to the previous year due to the increase in workers' remittances and imports with waiver and reached US dollar 1.1 billion.

47. Compared to the previous year, volume of shuttle trade increased by 14.3 percent in January- March 2004. However, considering the base effect caused by the Iraq war in the same period of 2003, the rise in the volume of shuttle trade was rather limited.

CURRENT ACCOUNT (USD million)							
	2003						2004
	Jan-May	Jan	Feb	Mar	Apr	May	Jan-May
Current Account Balance	-4375	-998	-2135	-2191	-1907	-1580	-8811
Foreign Trade Balance	-4344	-1133	-1834	-2442	-2256	-2365	-10030
Total Exports	19291	4779	3933	5505	5378	5132	24727
Total Imports	-23635	-5912	-5767	-7947	-7634	-7497	-34757
Services Balance	1608	387	158	391	547	994	2477
Credit	4517	1122	913	1188	1427	1758	6408
Debit	-2909	-735	-755	-797	-880	-764	-3931
Income Balance	-2443	-451	-631	-382	-417	-521	-2402
Credit	980	271	229	268	147	183	1098
Debit	-3423	-722	-860	-650	-564	-704	-3500
Current Transfers	804	199	172	242	219	312	1144
Wrokers' Remittances	234	81	54	58	63	64	320
<i>Memo items:</i>							
Shuttle Trade	1403	256	280	341	358	369	1604
Non Monetary Gold (net)	-895	-212	-298	-280	-357	-221	-1368
Travel Revenues	2416	602	503	608	773	1165	3651
Interest Income	266	41	64	49	39	58	251
Interest Expenditure	-1969	-219	-412	-310	-262	-447	-1650

Source: CBRT.

48. As a result of the regional instabilities in 2003, demand for processed gold increased in international markets, leading to a rise by 15 percent in prices. This trend in gold demand continued in January-May 2004 as well. Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to 2002, rose by 55.7 percent in the first five months of 2004.

49. Based on the figures announced by SIS, tourism revenues increased by 44 percent in the first half of 2004 compared to the previous year and reached US dollar 5 billion. Meanwhile, the number of tourists departing from Turkey rose by 44.1 percent.

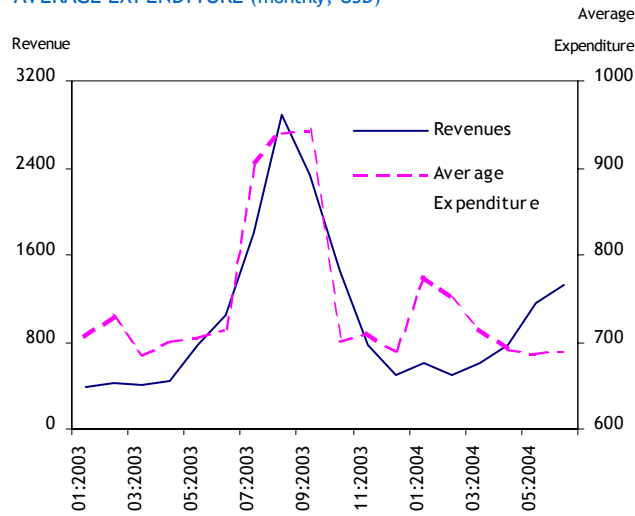
TRAVEL REVENUES								
	2003							2004
	Jan-June	Jan	Feb	Mar	Apr	May	Jun	Jan-June
Travel Revenues (USD million)	3460	602	503	608	773	1165	1332	4983
Number of Visitors (thousand)	4888	776	672	850	1118	1696	1932	7045
Average Spending (USD)	708	775	749	715	691	687	689	707

Source: SIS.

50. According to the results of SIS's Survey on Tourists Departing From Turkey, US dollar 4.1 billion of the tourism revenues in this period consisted of revenues from foreign tourists, while US dollar 900 million of these revenues came from Turkish citizens living abroad.

51. According to the same survey, 17.2 percent of tourism revenues from tourists departing from Turkey in the first half of the year obtained through package tour organizations. This amount mainly stemmed from foreign visitors, whereas revenues from Turkish visitors primarily consisted of personal expenditures. Survey results reveal that 14.5 percent of total visitors in the first half of the year belonged to high-income group, while 72.5 percent and 12.9 percent were in median and lower income groups, respectively.

TRAVEL REVENUES (monthly, billion USD),  
AVERAGE EXPENDITURE (monthly, USD)

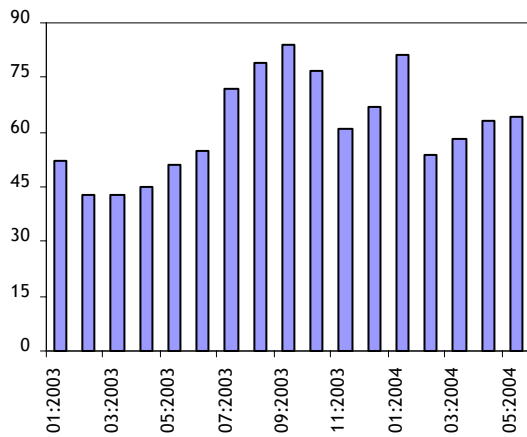


Source: SIS..

52. Investment revenues account produced a deficit of US dollar 2.4 billion in January-May 2004. Portfolio investment expenditures and interest expenditures were the primary determinants of this deficit. In this period, interest expenditures decreased compared to 2003. This decline mainly stemmed from the drop in interest expenditures of the sectors except the Central Bank, the Government and banks.

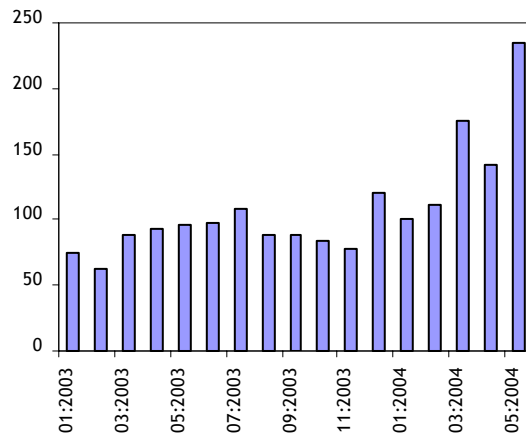
53. Worker's remittances rose by 36.8 percent in the first five months of 2004 compared to the same period of the previous year. In this period, imports with waiver increased as well.

WORKERS REMITTANCES: Private  
(monthly, million USD)



Source: CBT.

IMPORTS WITH WAIVERS  
(monthly, million USD)



Source: CBT.

## V. CAPITAL MOVEMENTS

54. The financial account provided a surplus of US dollar 1.3 billion in May 2004. Excluding the IMF loans and official reserve changes, net capital inflow became US dollar 590 million in May. Thus, net capital inflow in the first five months of the year reached US dollar 7.8 billion and 12-month net capital inflow amounted to US dollar 10.8 billion.

55. While May 2004 staged capital inflow through portfolio investments, net errors and omissions item produced a surplus of US dollar 315 million. Against a current account deficit of US dollar 8.8 billion, capital inflows through direct investments, portfolio investments and other investments were observed in January-May 2004. Meanwhile, net errors and omissions item yielded a surplus of US dollar 2.5 billion. As a consequence of these developments, official reserves increased by US dollar 80 million.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)							
	2003						2004
	Jan-May	Jan	Feb	Mar	Apr	May	Jan-May
Capital and Financial Account	3301	1986	2978	-51	140	1265	6318
Financial Account	3301	1986	2978	-51	140	1265	6318
Direct Investments	14	18	286	-64	-59	-16	165
Portfolio Investments	225	1401	311	341	-216	194	2031
Other Investments	3114	759	2085	-438	1817	-21	4202
Reserve Assets	-52	-192	296	110	-1402	1108	-80
Net Errors & Omissions	1074	-988	-843	2242	1767	315	2493
<i>Memorandum items:</i>							
Short-term	3658	697	2100	-413	667	69	3120
Long-term	-969	287	476	436	909	343	2451
IMF credit	425	-225	-491	-461	241	-433	-1369

Source: CBRT.

CAPITAL FLOWS (12-month. billion US dollar)

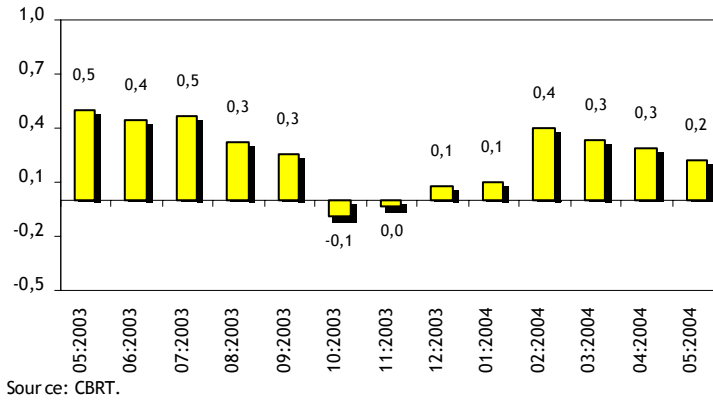


Source: CBRT.

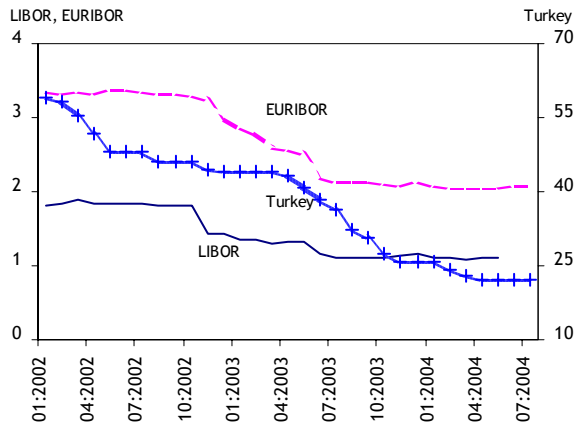
56. Analyzing capital movements by maturities, it is observed that both long-term and short-term maturities displayed inflow tendency in May. Hence, US dollar 3.1 billion of capital inflow in the first five months of the year was with short-term maturities, while capital inflows with long-term maturities constituted US dollar 2.5 billion of the total amount.

57. In January-May period, net direct investment amounting to US dollar 165 million mainly originated from the loan, which was utilized by a firm from abroad and was converted into capital in February. Net investments of residents made abroad increased in this period compared to the same period of the previous year. Meanwhile, long-term credits extended to foreign companies by their affiliates abroad, which are registered under other capital items and accepted as direct investment, became net US dollar 68 million.

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

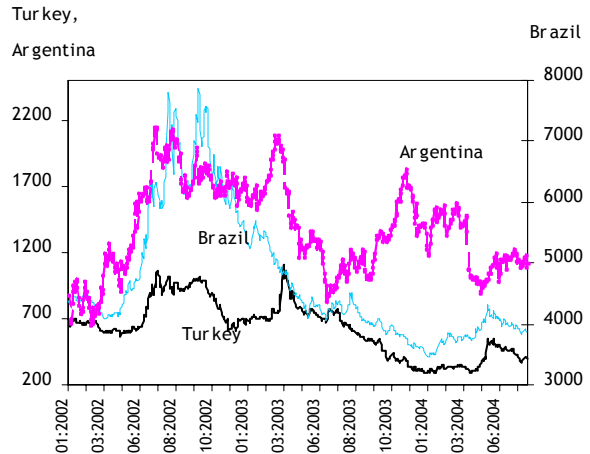


**INTEREST RATES (monthly average, %)**



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

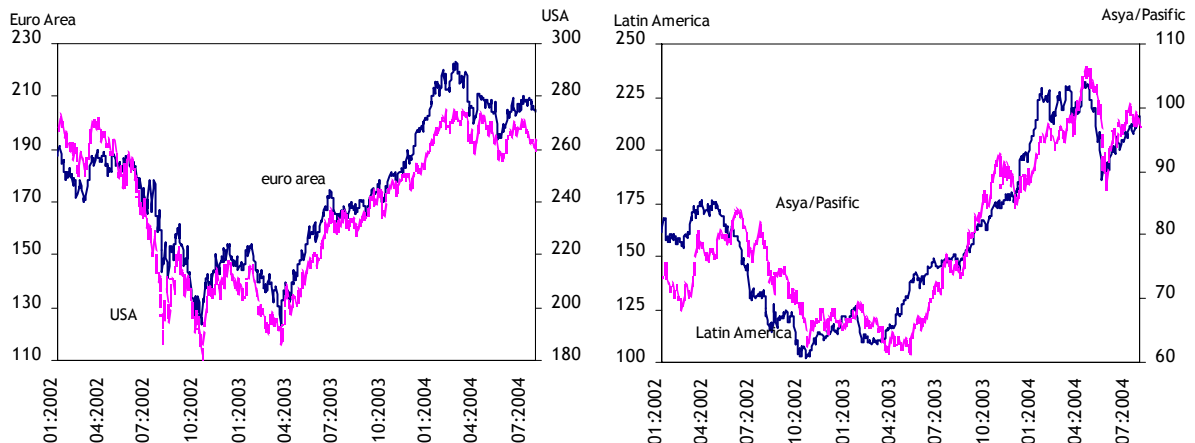
**SECONDARY MARKET SPREADS (basis point)**



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

Source: JP Morgan.

**DOW JONES EQUITY PRICE INDICES**



Source: Dow Jones.



58. LIBOR and EURIBOR interest rates, which declined throughout 2003 in line with the policies adopted by central banks, followed a steady course in the first half of the year. Spreads, which rose particularly in developing countries in May following the implications by the Federal Reserve for a likely rise in interest rates, entered into a downward trend in June again. Meanwhile, a recovery was observed in the prices of securities.

59. Projecting that the future trend of inflation will be compatible with the end-year inflation target, CBRT cut short-term interest rates by 2 points to be effective from 17 March 2004.

60. The Turkish bond spreads, which had been fluctuating as of early 2003, have been displaying a downward trend since April 2003, which was marked by the end of the war in Iraq. A rapid decline has been observed in spreads, especially as of September, with the effect of restoration of economic stability. Meanwhile, the spreads started to climb as of April 2004 due to the expectations for a likely upward trend in interest rates in international markets in line with FED's future interest rate policies. However, spreads continued with its downward trend in June.

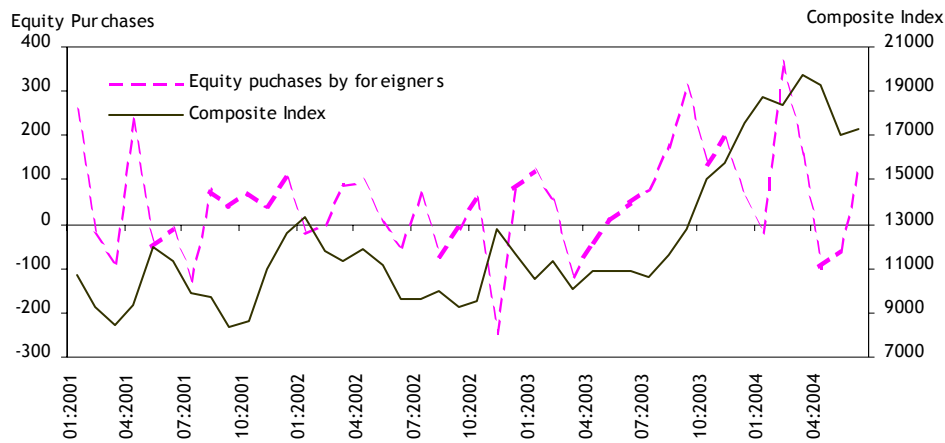
PORTFOLIO INVESTMENT (monthly, USD million)							
	2003						2004
	Jan-May	Jan	Feb	Mar	Apr	May	Jan-May
Portfolio Investment	225	1401	311	341	-216	194	1837
Assets	-135	-105	-267	512	250	55	390
General Government	-6	0	0	0	-6	-5	-6
Banks	140	224	-59	346	404	156	915
Other Sectors	-269	-329	-208	166	-148	-96	-519
Liabilities	360	1506	578	-171	-466	139	1447
Equity Securities	19	-18	364	157	-96	-60	407
Debt Securities	341	1524	214	-328	-370	199	1040
Monetary Authority	0	0	0	0	0	0	0
General Government	503	1524	214	-328	-370	199	1040
In Turkey	-260	24	501	896	-370	199	1051
Abroad	763	1500	-287	-1224	0	0	-11
Banks	-162	0	0	0	0	0	0

Source: CBRT.

61. The rise in non-residents' demands for securities became the determining factor in portfolio movements in the first five months of the year. Securities portfolio, which is composed of non-residents' government securities and equity securities, increased by US dollar 1.1 billion especially in March. In April, non-residents' net sales in the securities market led to a certain amount of net capital outflow in capital movements. The decline in non-residents' demands for equity securities continued in May, whereas a purchase-oriented movement was observed in government securities market.

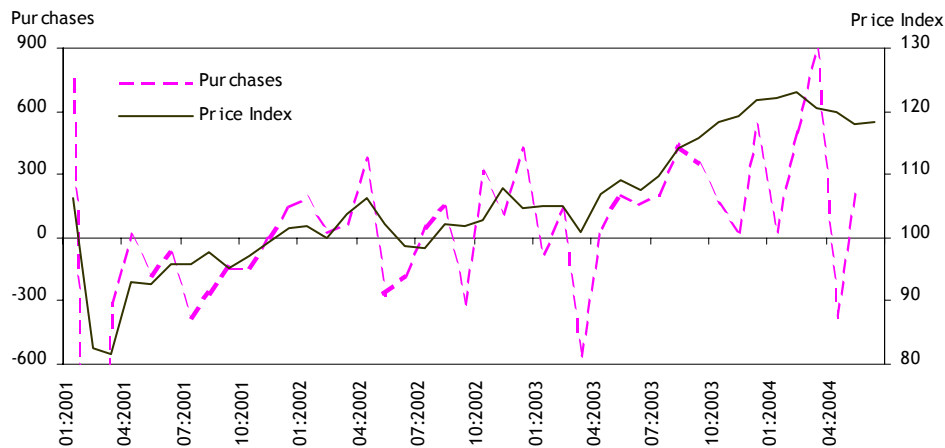
62. Non-residents continued to act as net borrowers in the equity securities market in June as well. According to the data compiled by the ISE, non-residents purchased net US dollar 131 million-worth of securities in this month. Meanwhile, the price index of government securities, which was on the rise as of the second half of 2003, picked up its upward trend in June again after declining in April and May, consecutively.

## ISE EQUITY PRICES AND FOREIGNERS' NET PURCHASES



Source: CBRT, ISE.

## GOVERNMENT DEBT SECURITY PRICES AND FOREIGNERS' NET PURCHASES



Source: CBRT, ISE.

63. The Treasury held a US dollar 750 million-worth of bond auction in June. Added to the US dollar 2.8 billion-worth of bond auction in the first quarter, the total amount auctioned in the first half of the year reached US dollar 3.5 billion.

64. The FX-holdings item composed of FX assets held by the banks with their correspondent banks abroad displayed a volatile course in the first five months of the year. During this period, FX assets of banks dropped by US dollar 650 million leading to a capital inflow of the same amount.

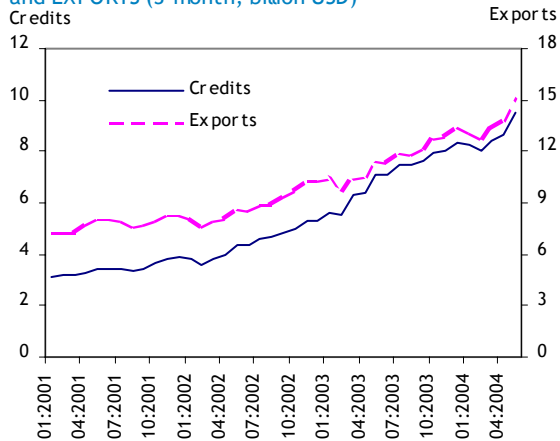
CHANGE IN DEPOSIT MONEY BANKS' FX HOLDINGS<sup>i</sup>  
(USD billion)

Source: LBKİ.

<sup>i</sup> (+) sign indicates a decrease.

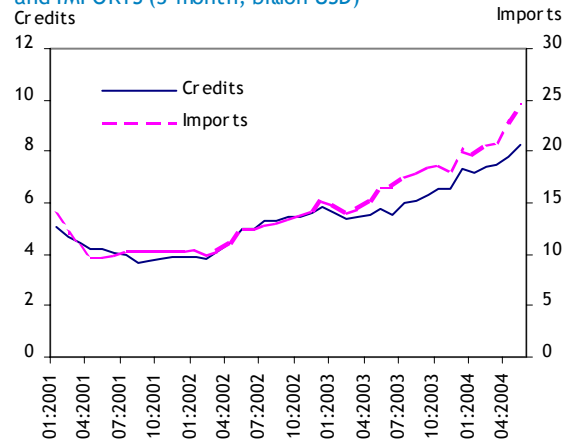
65. High-rated increases in foreign trade volume in January-May period reflected on trade credit utilization as well. In this period, exports increased by 29.3 percent, while the volume of trade credits extended abroad expanded by 33.7 percent. Similarly, trade credit utilization boosted by 40.2 percent in the same period, while imports increased by 44.1 percent.

**TRADE CREDITS EXTENDED ABROAD  
and EXPORTS (3-month, billion USD)**



Source: CBRT, SIS.

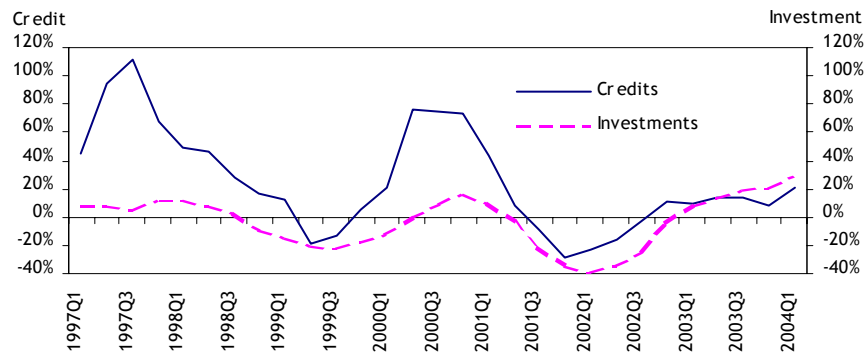
**TRADE CREDITS DRAWINGS  
and IMPORTS (3-month, billion USD)**



Source: CBRT, SIS.

66. The banking sector maintained its tendency to meet its financing needs through short-term credits in the first five months of 2004 as well. The banks, which used net US dollar 2 billion-worth of short-term credits in 2003, utilized net US dollar 1.5 billion-worth of short-term credits in January-May 2004. A large portion of this amount realized in April.

**LONG TERM CREDIT DRAWINGS and  
INVESTMENT EXPENDITURES: PRIVATE SECTOR  
(12-month average, annual % change)**



Source: CBRT, SIS.

67. Long-term credit utilization in sectors except the Central Bank, the Treasury and the banking sector rose significantly. The upward trend in long-term credit utilization, which has been observed since 2003, confirms that investment expenditures retain their high level.

68. In 2004, the Central Bank continued to repay the IMF loans used in 2001 and earlier. Thus, the repayments in January-May period reached US dollar 1.7 billion.

## OTHER INVESTMENTS (monthly, USD million)

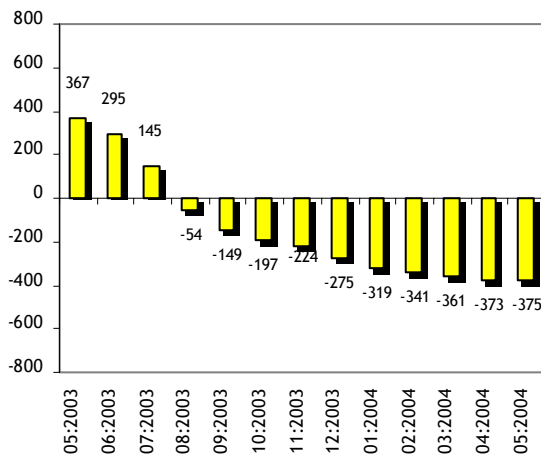
	2003						2004
	Jan-May	Jan	Feb	Mar	Apr	May	Jan-May
Other Investment	3964	759	2085	-438	1817	-21	4202
Assets	2856	548	1821	-1299	-257	-620	193
Trade Credits	-318	-190	590	-629	-362	-2	-593
Credits	-540	147	181	-17	30	-44	297
Currency and Deposits	3819	617	1078	-619	111	-537	650
Liabilities	1108	211	264	861	2074	599	4009
Trade Credits	352	45	216	690	429	255	1635
Credits	-227	241	59	180	1619	297	2396
Monetary Authority	-113	-158	-491	-461	-194	-433	-1737
General Government	-74	-166	-108	-286	664	-222	-118
IMF Credits	577	-67	0	0	435	0	368
Long Term	-651	-99	-108	-286	229	-222	-486
Banks	517	240	287	127	527	401	1582
Long Term	-142	-14	198	-149	37	52	124
Short Term	659	254	89	276	490	349	1458
Other Sectors	-557	325	371	800	622	551	2669
Long Term	-687	326	312	778	571	529	2516
Short Term	130	-1	59	22	51	22	153
Deposits	981	-75	1	-12	16	25	-45
Monetary Authority	90	1	10	-5	-20	-36	-50
Long Term	19	-23	-8	-20	-28	-34	-113
Short Term	71	24	18	15	8	-2	63
Banks	891	-76	-9	-7	36	61	5

Source: CBRT.

69. Long-term FX deposit accounts with credit letters and super FX accounts held at the Central Bank by the workers abroad have been displaying an outflow trend since April 2003. The interest rate cut operations, which intensified especially in the second half of 2003, are considered to be the primary determining factor in this outflow. The interest rates on these accounts were re-dropped as of March 1, 2004. Meanwhile, the inflow in short-term accounts continued with a gradual decline until recent months, and May staged an outflow in these accounts.

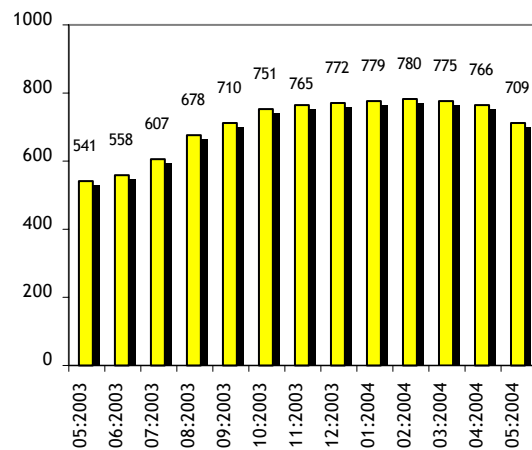
INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS  
(12-month, USD billion)

## LONG TERM



Source: CBRT.

## SHORT TERM



Source: CBRT.

70. The FX deposits held at domestic banks by foreign banks, which pursued an inflow course throughout 2003, declined in the first quarter of 2004. However, the said deposits re-started to rise in April-May period.

71. The Central Bank continued to hold foreign exchange buying auctions in March and April. However, these auctions were suspended as of April 27, 2004. Meanwhile, the Central Bank intervened in the markets on 11 May 2004 by directly selling foreign exchange due to the excess volatility in foreign exchange market. The Central Bank reserves, which were US dollar 33.6 billion by the end of 2003, dropped to US dollar 32.5 billion by July 23, 2004.

72. External financing requirement, which is defined as the sum of the current account balance and the net errors and omissions item, became US dollar 6.3 billion in January-May 2004. Although the net errors and omissions item yielded a surplus in this period, financing requirement increased due to the current account deficit. Financing requirement was extensively covered by portfolio movements along with the long-term credits and commercial credits used by the non-banking private sector and short-term credits used by banks.

73. Total external debt stock decreased by US dollar 525 million compared to 2003 and realized as US dollar 146.5 billion by the end of the first quarter of 2004. The decline in total external debt stock mainly stemmed from the decline in medium-long term debts, which constituted 83.7 percent of the total external debt stock. Meanwhile, short-term external debts increased. During the same period, the parity effect caused by the parity changes led to a US dollar 1.2 billion drop in external debt stock. Hence, excluding the parity effect, external debt stock rose by US dollar 715 million. On the other hand, monthly short-term debt stock announced by the Central Bank, which realized as US dollar 23.9 billion by the end of the first quarter, reached US dollar 25.2 billion by April 2004. The increase in short-term credits utilized by banks and short-term international trade credits used by non-banking private sector for import financing became the determining factors in the expansion of external debt stock.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)							
	2003						2004
	Jan-May	Jan	Feb	Mar	Apr	May	Jan-May
<b>1. Current Account Balance</b>	<b>-4375</b>	<b>-998</b>	<b>-2135</b>	<b>-2191</b>	<b>-1907</b>	<b>-1580</b>	<b>-8811</b>
<b>2. Net Error and Omission</b>	<b>1074</b>	<b>-988</b>	<b>-843</b>	<b>2242</b>	<b>1767</b>	<b>315</b>	<b>2493</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-3301</b>	<b>-1986</b>	<b>-2978</b>	<b>51</b>	<b>-140</b>	<b>-1265</b>	<b>-6318</b>
<b>II. Total Financing (=1+2+3)</b>	<b>3301</b>	<b>1986</b>	<b>2978</b>	<b>-51</b>	<b>140</b>	<b>1265</b>	<b>6318</b>
<b>1. Capital Flows (net)</b>	<b>-836</b>	<b>1786</b>	<b>2095</b>	<b>919</b>	<b>1190</b>	<b>1127</b>	<b>7117</b>
<b>Portfolio Investments (net)</b>	<b>225</b>	<b>1401</b>	<b>311</b>	<b>341</b>	<b>-216</b>	<b>194</b>	<b>2031</b>
General Government Bond Issues	763	1500	-287	-1224	0	0	-11
Foreigners' Buying of Bonds and Stocks in Turkey	-241	6	865	1053	-466	139	1597
Residents Buying of Bonds and Stocks Abroad	-135	-105	-267	512	250	55	445
<b>Credits (excl. IMF credits)</b>	<b>-806</b>	<b>511</b>	<b>766</b>	<b>1331</b>	<b>1807</b>	<b>985</b>	<b>5400</b>
General Government	-809	-99	-108	-286	229	-222	-486
Banks	-259	240	287	127	527	401	1582
Long Term	-154	-14	198	-149	37	52	124
Short Term	-105	254	89	276	490	349	1458
Other Sectors	262	370	587	1490	1051	806	4304
Long Term	-418	326	312	778	571	529	2516
Short Term	185	-1	59	22	51	22	153
Trade Credits	495	45	216	690	429	255	1635
<b>Deposits</b>	<b>839</b>	<b>-75</b>	<b>1</b>	<b>-12</b>	<b>16</b>	<b>25</b>	<b>-45</b>
Central Bank	113	1	10	-5	-20	-36	-50
Banks	726	-76	-9	-7	36	61	5
<b>Others</b>	<b>-1094</b>	<b>-51</b>	<b>1017</b>	<b>-741</b>	<b>-417</b>	<b>-77</b>	<b>-269</b>
<b>2. IMF Credits</b>	<b>425</b>	<b>-225</b>	<b>-491</b>	<b>-461</b>	<b>241</b>	<b>-433</b>	<b>-1369</b>
Central Bank	-152	-158	-491	-461	-194	-433	-1737
General Government	577	-67	0	0	435	0	368
<b>3. Change in Reserves (- increase)</b>	<b>3712</b>	<b>425</b>	<b>1374</b>	<b>-509</b>	<b>-1291</b>	<b>571</b>	<b>570</b>
Banks' FX Holdings	3764	617	1078	-619	111	-537	650
Official Reserves	-52	-192	296	110	-1402	1108	-80

Source: CBRT.

## VI. APPENDIX

### CURRENT ACCOUNT (USD million)

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	-9819	-22410	27775	2946	-54503	11368	7636	-4002	-4825	5225	4560
2001	3390	-4543	31334	3039	-41399	9130	8090	-5000	-5497	3803	2786
2002	-1522	-8337	36059	4065	-51554	7879	8479	-4554	-4417	3490	1936
2003*	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
<i>(quarterly)</i>											
2002 I	-637	-956	7910	919	-10409	702	895	-1227	-1059	844	477
II	-809	-2260	8514	933	-12454	1698	2087	-1016	-1082	769	505
III	1030	-2329	9298	1090	-13529	3573	3813	-1078	-1116	864	539
IV	-1106	-2792	10337	1123	-15162	1906	1684	-1233	-1160	1013	415
2003 I	-2761	-2399	10366	757	-14368	683	1201	-1531	-1171	486	138
II	-2329	-3229	11318	954	-16470	1662	2259	-1248	-1106	486	151
III	1391	-4088	12180	1082	-18448	6241	7032	-1345	-1134	583	235
IV	-3151	-4318	13389	1160	-20054	1919	2711	-1303	-1175	551	205
2004 I	-5324	-5409	13340	877	-20872	936	1713	-1464	-941	613	193
<i>(monthly)</i>											
2003 Jun	-715	-1284	3796	308	-5727	737	1044	-336	-308	168	55
Jul	-234	-1388	4236	274	-6267	1438	1811	-493	-262	209	72
Agu	920	-1385	3829	402	-5975	2623	2880	-505	-524	187	79
Sep	705	-1315	4115	406	-6206	2180	2341	-347	-348	187	84
Oct	88	-910	4824	451	-6575	1185	1454	-360	-315	173	77
Nov	-431	-608	3970	355	-5245	612	767	-582	-500	147	61
Dec	-2808	-2800	4595	354	-8234	122	490	-361	-360	231	67
2004 Jan	-998	-1133	4523	256	-6288	387	602	-451	-219	199	81
Feb	-2135	-1834	3653	280	-6133	158	503	-631	-412	172	54
Mar	-2191	-2442	5164	341	-8451	391	608	-382	-310	242	58
Apr	-1907	-2256	5020	358	-8116	547	773	-417	-262	219	63
May	-1580	-2365	4763	369	-7970	994	1165	-521	-447	312	64
<i>(12-month)</i>											
2003 Jun	-5166	-10749	41319	3924	-59529	7824	8957	-5090	-4553	2849	1243
Jul	-5473	-11193	42451	3922	-61196	8263	9642	-5299	-4546	2756	1111
Agu	-4993	-11798	43304	3926	-62752	9539	11072	-5359	-4567	2625	1014
Sep	-4805	-12508	44201	3916	-64448	10492	12176	-5357	-4571	2568	939
Oct	-5151	-12791	45524	3955	-66193	10677	12652	-5477	-4606	2440	898
Nov	-5356	-12711	45900	3928	-66476	10743	12984	-5490	-4561	2102	807
Dec	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
2004 Jan	-7626	-14699	48242	4046	-71202	10616	13428	-5631	-4596	2088	758
Feb	-8497	-15815	48971	4028	-73149	10614	13513	-5441	-4537	2145	769
Mar	-9413	-17044	50227	4073	-75844	10758	13715	-5360	-4356	2233	784
Apr	-10424	-18341	51585	4144	-78749	11019	14046	-5390	-4306	2288	802
May	-11286	-19720	52488	4154	-81187	11374	14438	-5386	-4267	2446	815

Source: CBRT.

\* 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

	Financial Account																
	Net		Portfolio Investment					Other Investment									
	Net	Foreign Direct Investment	Net	Assets	Liabilities		Net	Currency and Deposits	Net	Trade Credits	Credits				Deposits		
					Equity Securities	Debt Securities					Monetary Authority	General Government	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	-1719	-1719	2769	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1373	1373	863	-593	-2096	-16	1519	7256	594	8033	2483	-6138	11834	-1028	437	1336	-988
2003	1875	1875	76	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
(quarterly)																	
2002 I	2157	2157	95	-59	-1232	66	1107	3821	1778	2391	274	-6138	8752	-443	43	402	-502
II	236	236	312	-736	-265	50	-521	1349	-112	1903	743	0	769	252	239	195	-332
III	-1633	-1633	236	-468	-245	-22	-201	1413	-486	2406	738	0	2617	-1184	-76	614	-362
IV	613	613	220	670	-354	-110	1134	673	-586	1333	728	0	-304	347	231	125	208
2003 I	4038	4038	-17	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1326	-1326	1	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1671	-1671	55	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	834	834	37	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	4913	4913	240	2053	140	503	1410	2406	1076	1336	951	-1110	-560	654	1496	6	-92

Kaynak: TCMB.



## CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Net	Trade Credits	Credits				Deposits		
					Equity Securities	Debt Securities					Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks	
(monthly)																	
2003 Jun	-589	-589	-30	634	-315	48	901	-712	-512	-216	131	-117	-327	-99	92	1	88
Jul	-58	-58	22	-242	67	77	-386	645	-870	1592	310	0	-150	630	232	108	438
Agu	-583	-583	63	632	21	174	437	152	-752	903	52	-348	445	364	174	148	43
Sep	-1030	-1030	-30	1217	-692	311	1598	1170	760	521	208	-118	-289	257	340	66	36
Oct	-362	-362	-77	253	173	131	-51	-1899	-1238	-274	486	-191	-237	33	198	43	-614
Nov	257	257	53	-552	-316	192	-428	-1086	104	-1365	-123	-430	-211	-348	-285	12	19
Dec	939	939	61	402	-189	57	534	1893	-532	2630	622	-123	236	1397	357	6	135
2004 Jan	1986	1986	18	1401	-105	-18	1524	759	617	211	45	-158	-166	240	325	1	-76
Feb	2978	2978	286	311	-267	364	214	2085	1078	264	216	-491	-108	287	371	10	-9
Mar	-51	-51	-64	341	512	157	-328	-438	-619	861	690	-461	-286	127	800	-5	-7
Apr	140	140	-59	-216	250	-96	-370	1817	111	2074	429	-194	664	527	622	-20	36
May	1265	1265	-16	194	55	-60	199	-21	-537	599	255	-433	-222	401	551	-36	61
(12-month)																	
2003 Jun	1692	1692	440	1061	-1049	-65	2175	4488	2180	3995	2092	-269	1754	-1195	14	853	660
Jul	1825	1825	467	796	-968	-52	1816	4315	2005	3950	2016	-269	540	-381	30	752	1173
Agu	1878	1878	318	1578	-734	198	2114	3343	675	4054	1999	-617	-690	763	392	624	1487
Sep	1654	1654	259	3136	-1408	519	4025	5042	1804	4605	1924	-735	-857	1240	836	561	1539
Oct	1065	1065	-92	2798	-1455	594	3659	3234	1021	3753	2287	-926	-1025	1024	1058	554	682
Nov	1156	1156	-36	2306	-1345	1033	2618	1624	956	2099	1865	-1356	-1144	973	516	541	603
Dec	1875	1875	76	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
2004 Jan	2726	2726	100	2862	-1273	872	3263	1994	-237	4046	2272	-1637	-763	2023	985	460	598
Feb	3495	3495	398	3554	-1653	1184	4023	3083	381	4019	2518	-2128	-691	2086	1279	439	420
Mar	2750	2750	333	4697	-1317	1460	4554	2214	-2253	5425	2819	-2476	-770	1929	3180	414	229
Apr	2777	2777	284	4773	-938	1406	4305	3536	-1908	6565	3209	-2670	-587	2639	3550	393	-76
May	4892	4892	227	4375	-806	1337	3844	4365	-2390	7800	3321	-3064	-651	3816	3777	334	150

Source: CBRT.