

**CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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**BALANCE OF PAYMENTS  
REPORT**

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**October 2004**

## SUMMARY

BALANCE OF PAYMENTS (USD million)						
	October			January-October		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-1	-232	..	-4579	-10719	..
Foreign Trade Balance	-1751	-2259	29,0	-17173	-27591	60,7
Exports	4824	5700	18,2	38688	50568	30,7
Imports	-6575	-7959	21,0	-55861	-78159	39,9
Exports/Imports	73,4%	71,6%	..	69,3%	64,7%	..
Capital and Financial Accounts	-159	-67	..	1619	8585	..
Financial Account (Excl. Off. Reserves)	-1520	506	..	6091	10623	..
Change in Official Reserves <sup>1</sup>	1361	-573	..	-4472	-2038	..

Source: CBRT.

<sup>1</sup> (-) sign refers to the increase in official reserves.

### **In October 2004;**

Exports grew by 18.2 percent compared to same month of the previous year from US dollar 4.8 billion to US dollar 5.7 billion. In the same period, imports increased by 21 percent from US dollar 6.6 billion to US dollar 8 billion. Thus, foreign trade deficit became US dollar 2.3 billion and the ratio of exports to imports realized as 71.6 percent. While current account produced a deficit of US dollar 232 million, financial account excluding official reserves provided a surplus of US dollar 506 million.

### **In January-October 2004;**

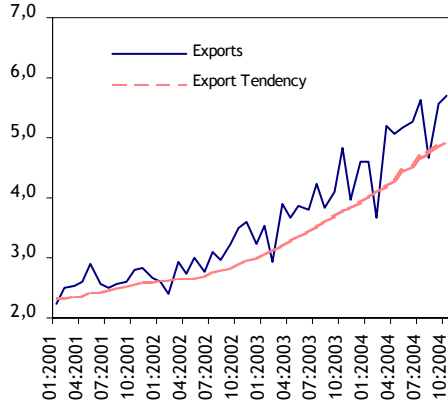
Exports grew by 30.7 percent compared to the same month of the previous year from US dollar 38.7 billion to US dollar 50.6 billion. In the same period, imports increased by 39.9 percent from US dollar 55.9 billion to US dollar 78.2 billion. Thus, foreign trade deficit became US dollar 27.6 billion and the ratio of imports to exports decreased compared to the previous year to 64.7 percent. While current account produced a deficit of US dollar 10.7 billion, financial account excluding official reserves provided a surplus of US dollar 10.6 billion.

### **In the twelve-month period;**

Exports increased by 29.9 percent compared to the same period of the previous year and reached US dollar 59.1 billion. In the same period, imports rose by 38.4 percent and reached US dollar 91.6 billion. Foreign trade deficit realized as US dollar 32.5 billion and the ratio of exports to imports became 64.5 percent. The current account produced a deficit of US dollar 14.2 billion, while financial account excluding the official reserves provided a surplus of US dollar 11.6 billion.

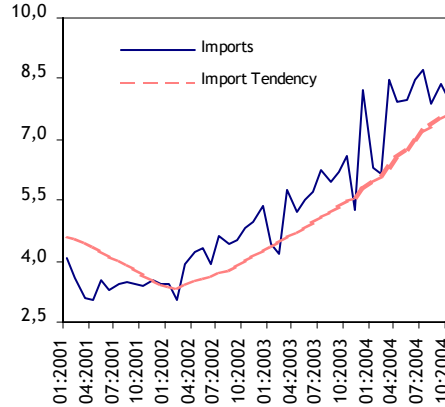
## SUMMARY

### EXPORTS (USD billion)



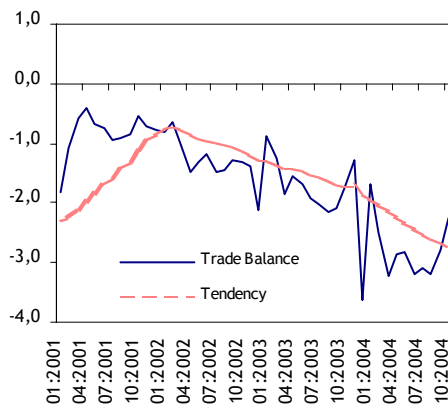
Source: SIS.

### IMPORTS (USD billion)



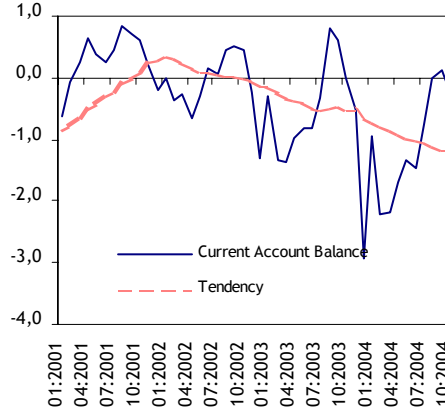
Source: SIS.

### TRADE BALANCE (USD billion)



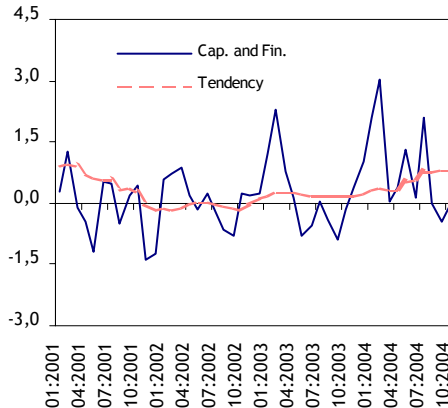
Source: SIS.

### CURRENT ACCOUNT BALANCE (USD billion)



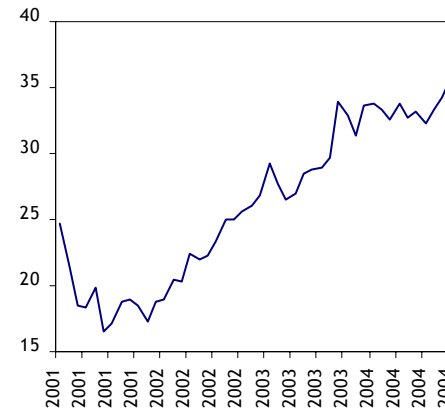
Source: CBRT.

### CAPITAL and FINANCIAL ACCOUNT (USD billion)



Source: CBRT.

### CBRT INTERNATIONAL RESERVES (USD billion)



Source: CBRT.

/ Trends are calculated with 12-month moving average.

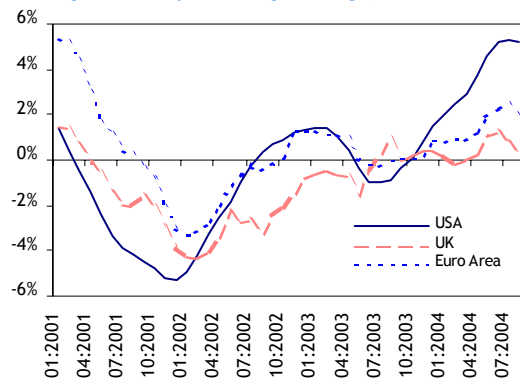
## I. FACTORS AFFECTING FOREIGN TRADE

### External Demand Developments

1. The rapid growth observed in global economy throughout 2003 and in the beginning of 2004 has been replaced by more moderate growth rates. Despite price hikes in crude oil prices in the second half of 2004, global growth is deemed to be positive. Revival in global trade volume is considered to become the determinant factor in growth trend in global economy. Hence, World Trade Organization forecasts indicate that global trade volume grew by 8.4 percent in 2004. Another factor contributing to growth is the low level of interest rates. Meanwhile, inflationary pressures were not observed throughout the world despite climbing crude oil prices.

#### INDUSTRIAL PRODUCTION

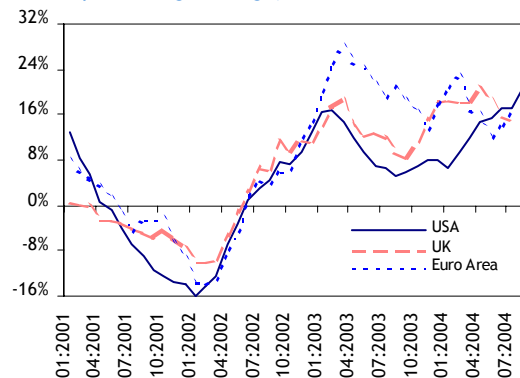
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

#### IMPORTS

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



Source: IMF, ECB.

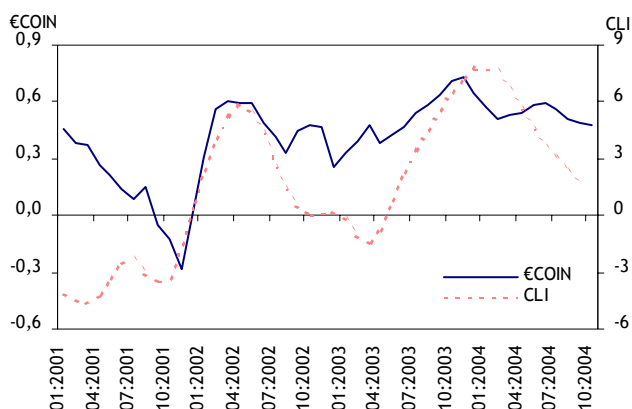
2. United States' growth and employment figures increased less-than-expected in the second quarter of the year. Annualized US GDP, which grew by 3.3 percent in the second quarter compared to the previous quarter, increased by 3.7 percent in the third quarter according to preliminary estimations. Revival in private consumption expenditures and the decline in imports became the main factors that affected growth. In spite of the depreciation of USD, current account deficit is still high due to growth resulting in rising imports. It is estimated that the ratio of current account deficit to GDP for end-2004 will be 5 percent. Meanwhile, the Federal Reserve is gradually raising interest rates for the sake of sustainable growth and price stability.

3. The year-on-year growth in Japanese economy in the third quarter, which was recorded as 0.3 percent, remained below the expected level. The drop-off in investment expenditures and exports affected the growth performance. Decreasing growth rates in Japan's export markets –the USA, euro zone and China– due to rising energy prices, coupled with appreciation of Japanese yen against USD, are expected to reduce the contribution of the net exports to growth. Actually, the data for August reveal that foreign trade surplus decreased compared to previous months.

4. According to preliminary data, British economy grew by 0.4 percent in the third quarter compared to the second quarter. Domestic demand was the primary factor in the mentioned growth. The Bank of England raised its lending rate by 0.25 percentage points to 4.75 percent on 5 August 2004, taking into account a possible rise in inflationary pressure triggered by ongoing economic growth and economic surveys pointing to expansion.

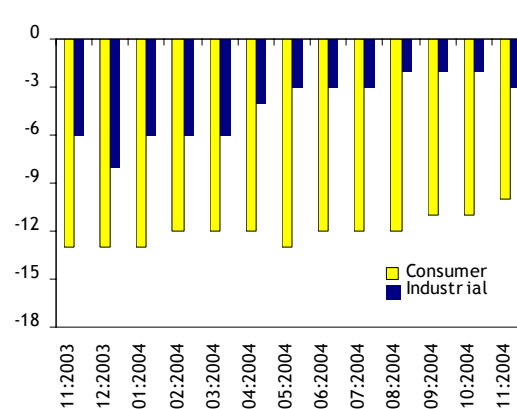
5. The euro area enjoyed economic growth in the first two quarters of 2004, especially owing to the increase in exports and recovery in consumption expenditures. The coincident indicator (EuroCOIN), which provides forecasts for quarterly GDP growth for the euro area, points at the fact that growth in euro area that accelerated in the March-June 2004 period has been declining since July. Meanwhile, despite climbing energy prices, the ECB kept interest rates unchanged at its meeting of 4 November 2004 owing to the facts that domestic price pressure has not generated yet and that the outlook was deemed to be stable in the medium term.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU  
(seasonally adjusted)



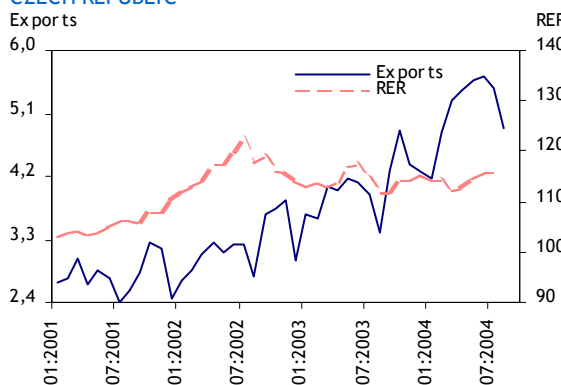
Source: Eur ostat.

6. Although the Composite Leading Indicators Index (CLI) issued by the OECD is still high compared to previous years, the decline observed in the six-month growth rates since the turn of the year indicates that growth performance is decelerating in the OECD zone.

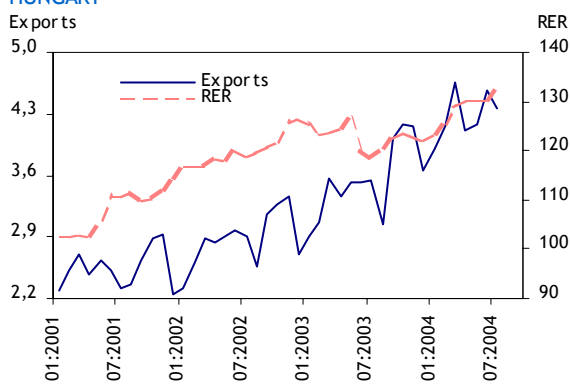
7. Economic outlook in the new EU member states is strengthening. Poland is enjoying robust growth. This growth, which is mainly export-based, has been lately accompanied by the rise in domestic demand. The Czech Republic grew by 3.8 percent in the first half of the year, exceeding the expectations. Hungarian GDP, which grew by 2.3 percent in 2003, increased by 4.2 percent and 4 percent in Q1 and Q2, respectively. This growth mainly originated from the fixed capital investments and rise in exports. Meanwhile, growth in Slovakian economy continues backed mainly by exports and domestic demand.

EXPORTS (billions US dollars) AND REAL EXCHANGE RATE (1995=100) IN NEW EU MEMBERS <sup>1</sup>

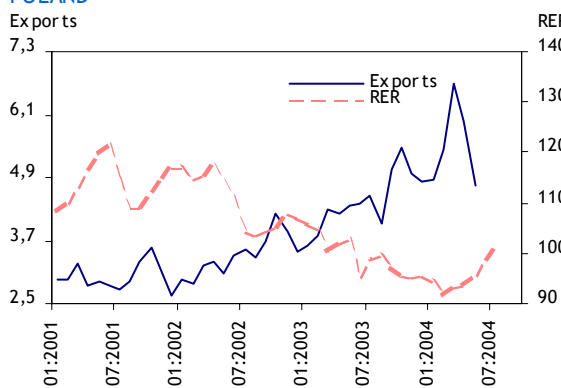
CZECH REPUBLIC



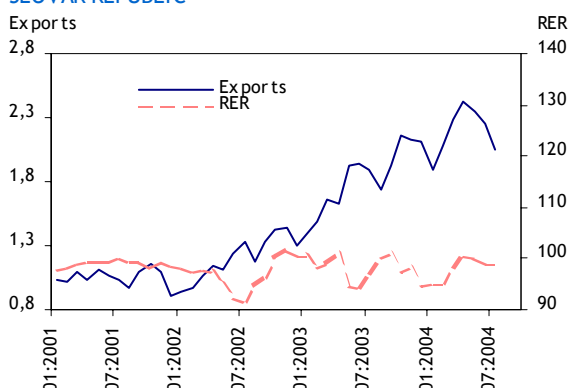
HUNGARY



POLAND



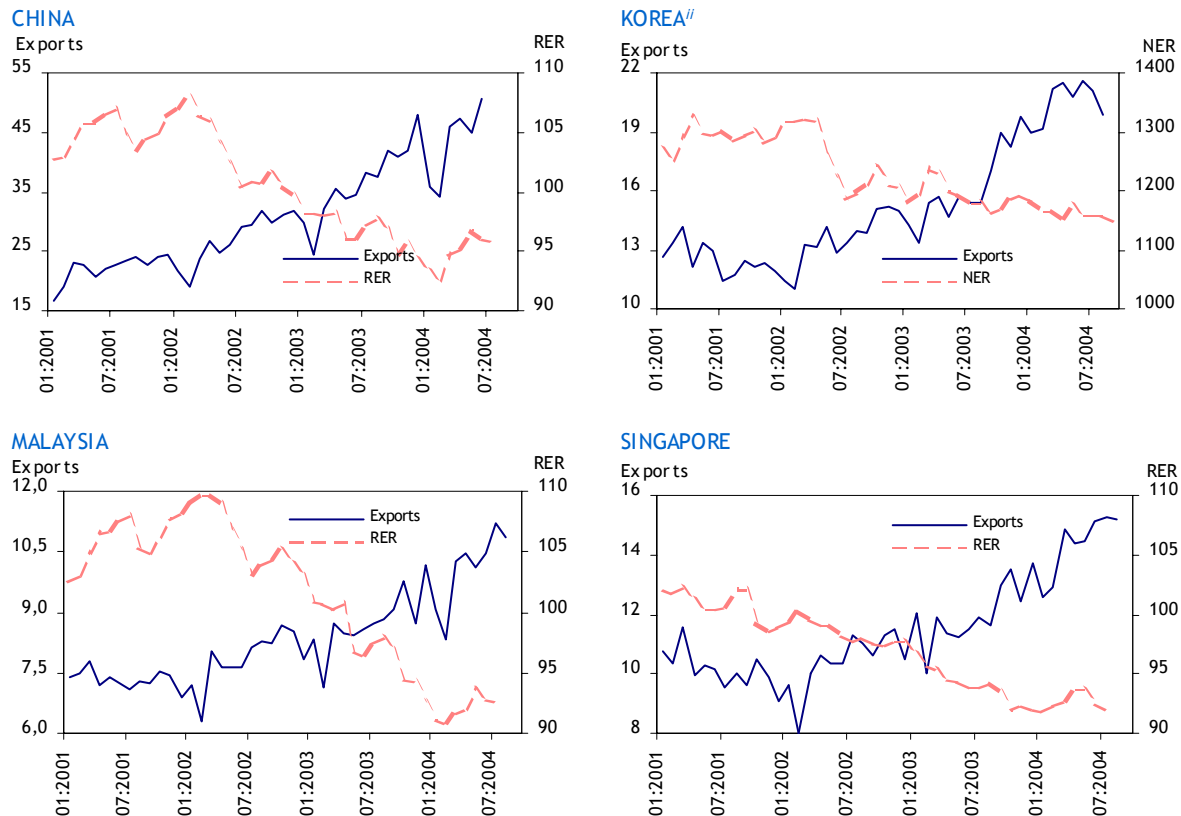
SLOVAK REPUBLIC



<sup>1</sup> Increase in real exchange rate implies appreciation in domestic currency.  
Source: IMF.

8. Growth in developing Asian economies in 2003 mainly stemmed from the rise in domestic demand as well as the bounce in exports. It is observed that growth trend in the mentioned economies is continuing thanks to the rise in exports to the USA, regional trade and domestic demand. Developing Asian economies rely on oil and conduct export-oriented growth policies. Therefore, rise in oil prices and the decline in foreign trade are counted as the primary risks that could push down growth in these countries. Economic growth in China, which lost pace during the first months of the year, picked up again in the following period. Chinese economy grew by 9.1 percent in the third quarter of the year. Excessive growth in Chinese economy led to a rise in indicative interest rates for the first time after nine years.

#### EXPORTS (billions US dollars) AND REAL EXCHANGE RATE (1995=100) IN RIVAL COUNTRIES <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 South Korea is not available.

Source: IMF.

#### Developments in Domestic Demand and Production

9. Turkish economy continued to grow in the third quarter, albeit a significant slowdown compared to the first half of 2004. According to the data issued by the SIS, GDP and GNP grew by 4.5 percent and 4.7 percent, respectively, in the third quarter compared to same period of the last year, realizing below expectations. In the first nine months of the year, GDP and GNP grew by 8.7 percent and 9.7 percent compared to the same period of the previous year. Less than expected growth rates are chiefly attributed to the relative decline in domestic demand in this period as well as the base effect created by high production volume enjoyed by the country in the same period of the last year. Contrary to expectations, the value added created by the agricultural sector dropped compared to the same period of the previous year, having a decreasing impact on growth as well.

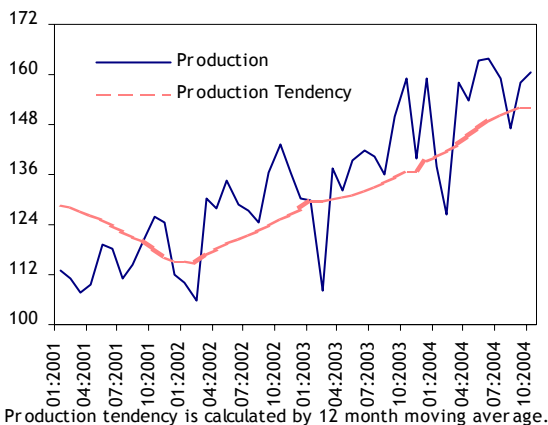
10. When economic growth is analyzed with respect to production in the third quarter, it is observed that the value added of the agricultural sector and construction sector decreased compared to the same period of the previous year, and that the rise in industrial sector and services sector contributed to the GDP growth. An analysis of economic growth by demand components reveals that private expenditures made the largest contribution to the GDP growth. Compared to the first half of the year, it is observed that while private expenditures' contribution to growth shrank in line with the slowdown in economy, its composition did not change. Within this framework, durable, semi-durable and non-durable

consumption goods and machinery-equipment investments became the main expenditure groups that supported growth. Meanwhile, contribution of public expenditures and net exports components to growth was negative. It is also remarkable that the contribution of stock changes to growth became negative for the first time since 2001.

11. According to SIS Monthly Industrial Production Index, total industrial production and manufacturing industry productions rose by 1.5 percent and 0.9 percent in October 2004, respectively, compared to the same month of the previous year. Compared to previous months of 2004, these rises were quite low. Seasonally adjusted total industrial production and production in manufacturing industry dropped by 0.6 and 2 percent, respectively, compared to August. The drop in industrial production is attributed to the deceleration in the rate of increase in domestic demand, especially in transportation vehicles, as well as to the high base effect observed in October 2003 and the relative decline in growth rate of exports compared to previous months.

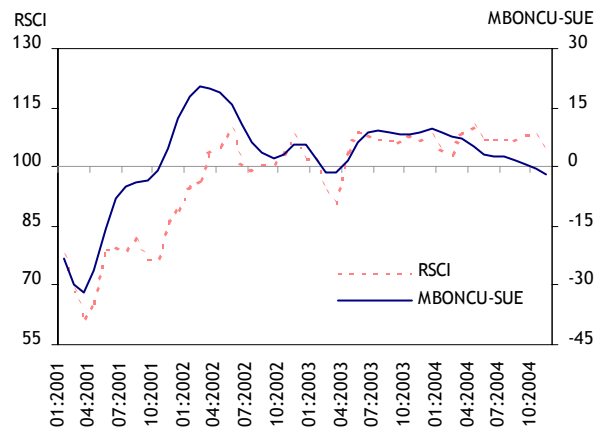
12. Exports figures for November and the results of manufacturing industry tendency survey, together with the low base effect of November 2003, point out that the rate of increase in industrial production will gain pace in November compared to October.

MANUFACTURING INDUSTRY PRODUCTION  
(1994=100)



Source: SIS.

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



Source: CBRT.

13. According to data announced by SIS, the rate of capacity utilization realized as 83 percent in the total manufacturing industry in October 2004. Capacity utilization rate in manufacturing industry dropped by 1.3 points in October compared to the previous month, whereas it increased by 2.5 points compared to the same month of the previous year. Public sector capacity utilization rate hiked by 5.6 points compared to the same month of the previous year and reached 85.8 percent. Meanwhile, private sector capacity utilization rate realized as 80.9 percent with an increase of 0.3 percentage point compared to the same month of the previous year.

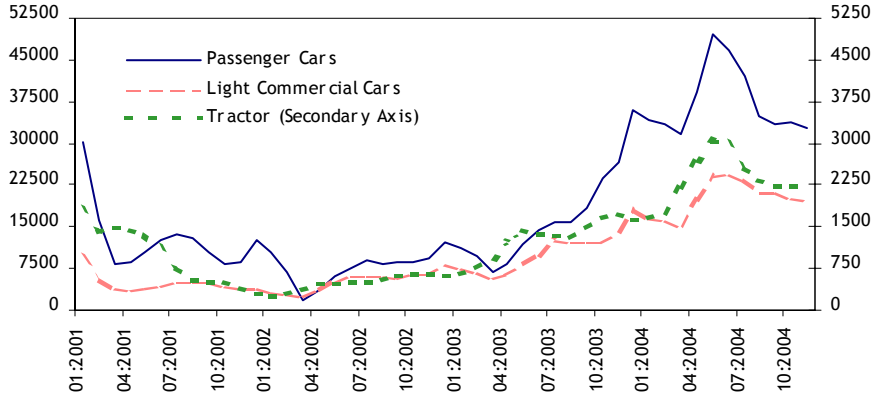
14. Six-month percentage change of the composite leading indicators index (MBONCU-SUE) compiled by the Central Bank of the Republic of Turkey, which dropped in November compared to the previous month, has been declining since the beginning of the year. The index fell by 0.6 percentage point in November compared to October due to the rise in interest rate, the deterioration in expectations for employment, and means of exports as well as the decline in seasonally adjusted amount of electricity generation. Meanwhile, Real Sector Confidence Index (RSCI) fell by 3.9 percentage points compared to the previous month and became 104 in November. The value of the index above 100 denotes continuing confidence of the real sector in economic activities.

15. The rapid upsurge in consumer credit utilization and scrap-car discount were the main factors that led the automobile sales to reach its highest level in history in the first half of 2004. Despite its sluggish pace in June-November period compared to previous months, rate of growth in automobile sales increased by 58.4 percent on average compared to the same period of 2003. Sales figures for November point at a considerable decline in the rate of increase in automobile sales compared to previous months. Automobile sales rose by 18.5 percent in the same month compared to last year. On the other hand, the rate of

growth in light commercial vehicles sales, which pursued a more stable course compared to automobile sales and even displayed an apparent increase since early-2004, lost pace in the last four months. As it is known, light commercial vehicles sales are closely related with the activity volume of manufacturing industry sectors.

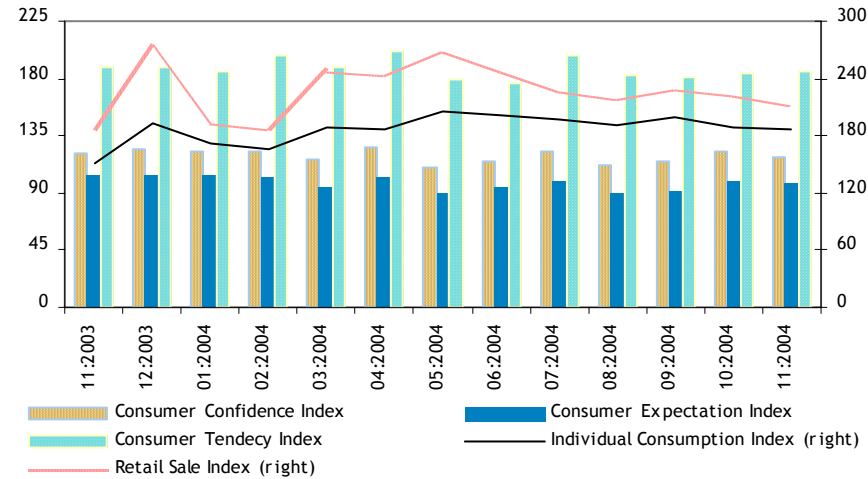
**TRANSPORTATION VEHICLES SALES**

(3-month moving average, unit)



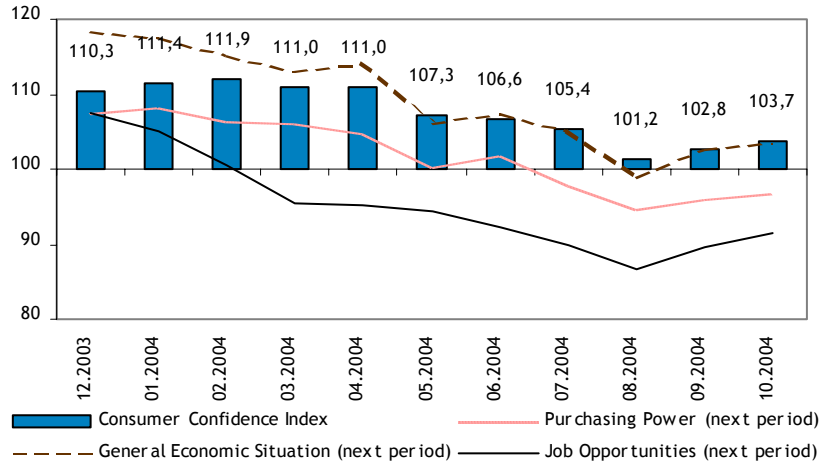
Source: Automobile Industry Association.

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



Source: NTVMSNBC.

**CONSUMER TENDENCY SURVEY**



Source: CBRT, SIS.



16. Consumer confidence and expectations indices compiled by CNBC-e weakened in November compared to the previous month.

17. According to the results of the Consumer Tendency Survey for October compiled by the Central Bank and SIS, consumer confidence index increased compared to September. The value of the index above 100 indicates the positive outlook in consumer confidence.

### Prices

18. Turkish lira, which was in an appreciation trend against nominal exchange rate basket composed of US dollar 1 + 0.77 euro in the first quarter of 2004, depreciated by 11 percent in May and pursued a horizontal course in the following months. On the other hand, real exchange rate indices reveal that, having depreciated in August and September, Turkish lira slightly appreciated in real terms in October and November.

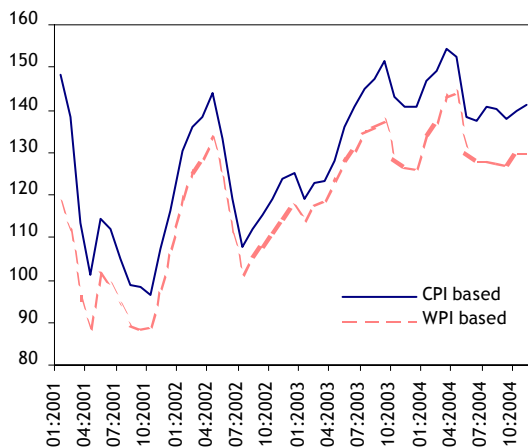
	REAL EFFECTIVE EXCHANGE RATE (monthly percentage change) <sup>i</sup>												
	2003		2004										
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Turkey													
CPI based	-1,7	0,1	4,6	1,4	3,4	-1,1	-9,4	-0,5	2,2	-0,3	-1,4	1,4	1,0
WPI based	-1,7	-0,1	6,1	2,3	4,4	0,7	-9,9	-1,5	0,0	-0,3	-0,5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

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.

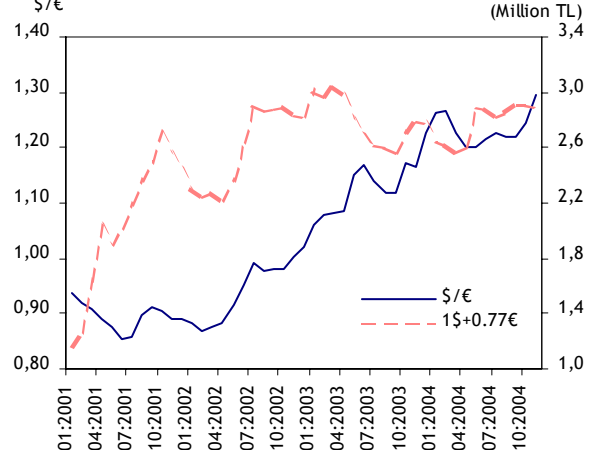
REAL EFFECTIVE EXCHANGE RATE  
(1995=100)<sup>i</sup>



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

Source: CBRT.

USD/EURO PARITY and  
NOMINAL EXCHANGE RATE BASKET



19. Euro maintains its appreciation trend against USD. It appreciated by 2.1 percent and 4 percent in October and November, respectively. Accordingly, monthly average euro/USD parity, which was 1.2185 in August, rose to 1.2962 in November.

20. The terms of trade that entered into a recovery trend as of the second half of 2003 pursued a downward course throughout 2004. The index decreased by 4.5 percent in October compared to end-2003.

21. In October, export prices rose by 2.3 percent compared to the previous month. The export prices index of basic metal industry, which increased in the first five months due to

the upsurge in the world basic metal prices in early 2004, displayed a significant decline in June and July, but re-improved in August-October period. The downward trend in export prices of textile products prevailing throughout 2004 is remarkable.

22. In October, import prices increased by 4 percent compared to the previous month. Crude oil, natural gas, basic metal industry and machinery-equipment manufacturing industry prices were the leading determinants of the said hike in price index.

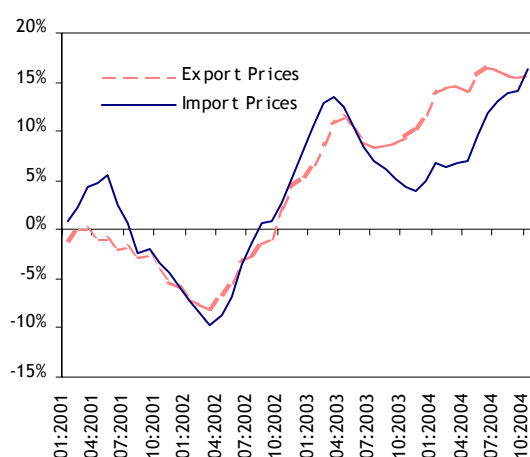
## EXPORT and IMPORT PRICE INDICES (1994=100)

	2003			2004											
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct		
Export Price Index	93,1	95,0	99,2	104,9	105,2	104,8	105,2	106,3	105,5	106,0	106,4	105,2	107,6		
Manufacturing	93,2	94,8	99,0	105,1	105,5	104,6	105,1	106,3	105,5	106,1	105,9	104,3	106,5		
Textiles	88,7	91,6	97,4	102,3	100,7	99,9	98,6	98,6	96,6	99,8	95,7	92,8	94,8		
Wearing Apparel	95,0	98,9	107,8	116,8	124,0	115,7	115,7	114,8	115,4	117,5	112,9	106,5	104,3		
Chemicals & Products	91,9	87,5	91,9	95,4	95,2	91,1	93,5	94,5	95,9	94,6	100,3	105,9	111,7		
Manufacture of Basic Metals	108,3	107,1	108,3	119,4	122,1	128,0	136,9	145,8	132,2	128,8	140,9	144,5	153,9		
Manufacture of Mach. & Equ.	86,5	91,7	93,4	101,8	99,7	98,9	100,1	97,0	97,2	96,9	99,0	97,1	99,8		
Electrical Mach. & Apparatus	67,0	68,3	73,3	79,4	76,0	69,5	70,8	68,2	70,1	68,7	66,9	67,5	72,2		
Motor Vehicles & Trailers	106,3	107,8	109,1	113,8	110,7	110,6	113,0	111,3	115,5	113,5	111,1	113,6	115,3		
Import Price Index	100,2	102,0	104,8	109,0	108,2	108,1	109,2	113,2	112,3	111,7	115,8	114,4	119,0		
Mining & Quarrying	169,3	164,3	168,5	178,1	173,2	177,6	176,4	189,0	190,1	192,0	215,5	209,8	231,9		
Crude Oil & Natural Gas	181,2	176,5	181,8	188,3	182,7	190,7	189,6	203,7	203,0	205,6	232,3	230,0	258,5		
Manufacturing	93,0	94,4	98,2	100,3	100,6	100,6	102,4	105,4	104,8	104,2	105,7	104,9	107,5		
Textiles	84,2	84,0	90,7	91,7	93,8	95,3	95,6	99,4	94,2	102,5	99,5	97,5	94,0		
Chemicals & Products	101,2	101,9	103,3	109,7	109,2	107,3	110,0	110,9	110,1	109,9	113,4	115,4	114,5		
Manufacture of Basic Metals	101,4	102,0	107,2	119,8	123,1	132,3	139,1	143,6	138,8	140,4	144,4	144,3	154,7		
Manufacture of Mach. & Equ.	94,6	96,5	98,9	98,6	90,9	92,5	96,9	104,1	102,3	93,8	96,6	93,1	98,8		
Electrical Mach. & Apparatus	65,9	66,9	70,0	71,8	73,0	72,4	68,2	71,2	68,5	72,2	69,7	73,7	71,7		
Motor Vehicles & Trailers	92,0	94,6	103,5	100,6	106,3	103,4	101,6	102,3	101,2	103,0	102,5	105,2	106,6		

Source: SIS.

## EXPORT and IMPORT PRICES

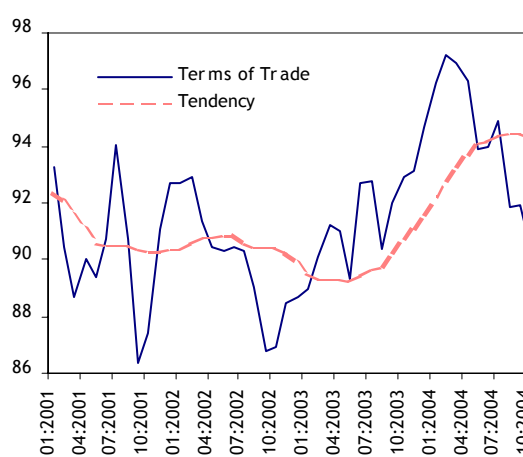
(3-month moving average, annual % change)



Source: SIS.

## TERMS OF TRADE

(Export Prices/Import Prices)



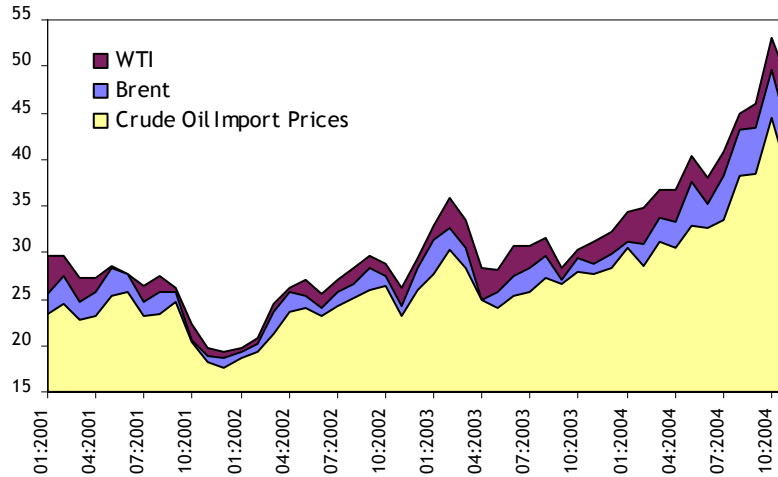
23. The upward trend in oil prices, which started in early 2004, continued in September and October as well. Nevertheless, this tendency reversed in November. Concerns about the supply play an important role in this upsurge. Rapid rise in global oil demand and inflexibility in supply to meet the demand reflect the concerns about supply. In terms of demand, North America, China and Asian countries were the major determinants. Besides, the coming winter causes the demand to increase seasonally. Along with these factors, the partial cease of oil production in Mexico because of Hurricane Ivan, the legal problems concerning Yukos, the second biggest Oil Company in Russia and ongoing tension in Iraq

have imposed an extra pressure on crude oil prices, in an atmosphere where there already exist concerns about supply.

24. At the conference held in Vienna on 15 September 2004, daily production was raised by 1 million barrels as of 1 November 2004. The said increase led to a decline in international oil prices. Meanwhile, boost in crude oil stocks of the USA and milder-than-expected seasonal conditions seem to have relatively eased the concerns about supply.

25. Downward trend in oil prices continued in the first half of December as well.

CRUDE OIL PRICES: WTI, BRENT, and Turkey's Crude Oil Import Prices  
(monthly average, US dollar/ barrel)



Source: CBT, SPO, Energy Information Administration.

## II. EXPORTS

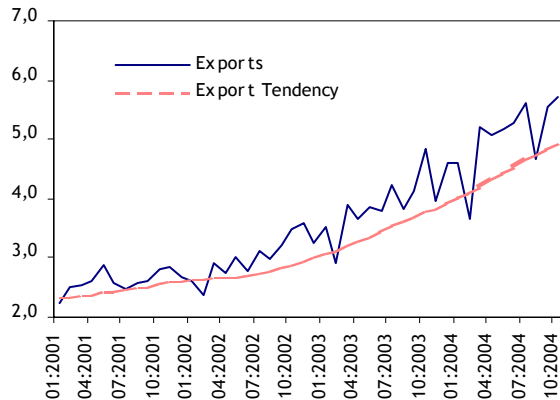
### General Evaluation

26. Exports rose by 18.2 percent in October 2004, compared to the same month of the previous year and reached US dollar 5.7 billion. The rate of increase in exports in the first ten months of the year became 30.7 percent, while 12-month exports increased by 29.9 percent to reach US dollar 59.1 billion.

27. Growth in exports observed in 2003 persisted in 2004 as well due to the decline in real unit labor costs and the upward trend in productivity. In addition, the expansion tendency in global economy and climbing export prices backed this growth.

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

(USD billion)

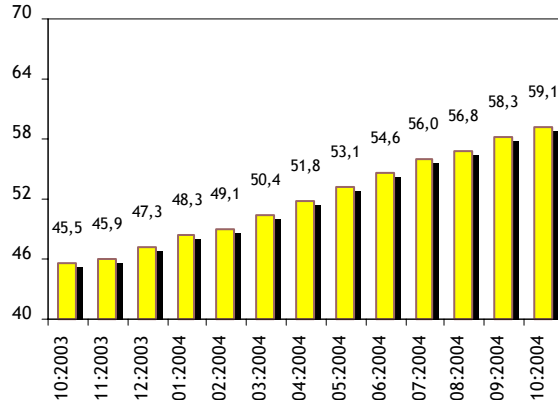


<sup>i</sup> Exports tendency is calculated with 12-month moving average.

Source: SIS.

#### EXPORTS

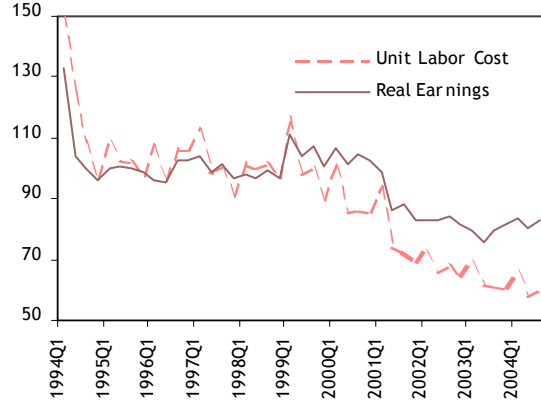
(12 month, USD billion)



Source: SIS.

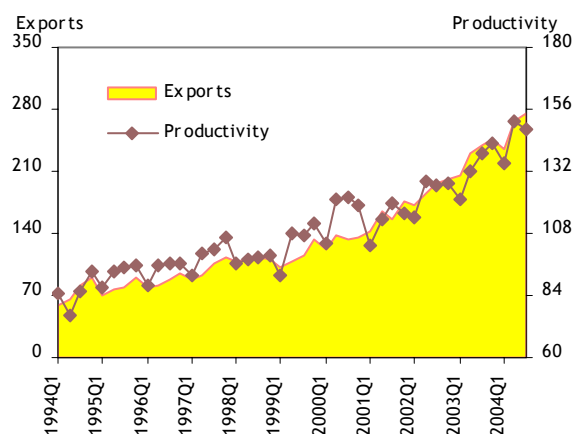
#### PRIVATE MANUFACTURING INDUSTRY REAL UNIT LABOR COSTS AND REAL EARNINGS

(1997=100)



Source: SIS, CBRT.

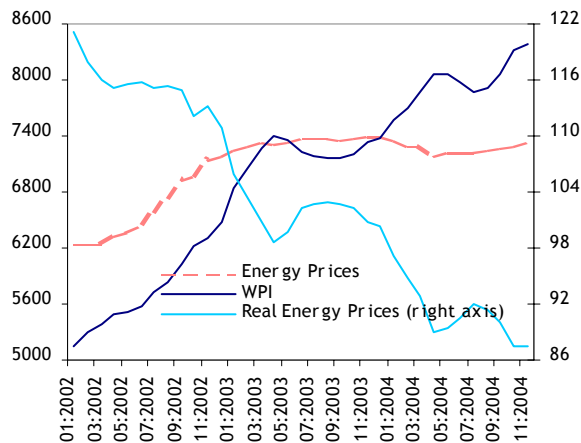
#### PRIVATE MANUFACTURING EXPORT AND PRODUCTIVITY INDICES (1997=100)



Source: SIS.

28. In the first eleven months of 2004, real energy prices maintained their downward trend that had been observed since early-2002. While electricity prices followed a steady course, natural gas and water prices hiked as of the second quarter of 2004. Nevertheless, the prices are at low levels compared to the previous year. According to the eleven-month averages, energy prices (Energy-WPI) fell by 1 percent in 2004, whereas wholesale prices (WPI) upped by 10.8 percent. Meanwhile, price index of refined oil products and coking coal within the WPI, which can be considered as a leading indicator in terms of energy costs, moved up by 7 percent in the first eleven months of the year.

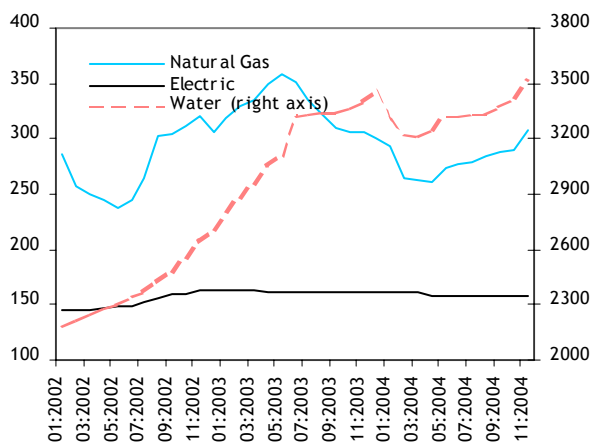
### ENERGY PRICES and WPI<sup>/</sup> (1994=100)



<sup>/</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>/</sup> (thousand TL)

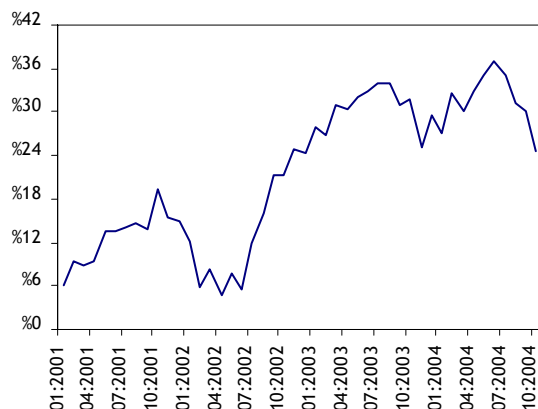


<sup>/</sup> Domestic prices in advance that are taken from WPI, which are electric prices per KWH, natural gas and water prices per ton.

Source: SIS.

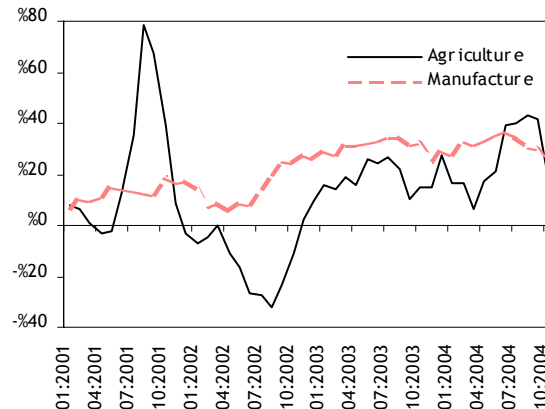
29. Eximbank has continued to support the exports sector in 2004. The decline in Eximbank interest rates applicable to export credits persisted in 2004 as well. Interest rates were cut on 12 February and then on 19 March. On the other hand, considering the upward trend in interest rates in international markets, Eximbank raised short-term interest rates applicable to FX loans by a quarter percentage point on 5 July 2004. Later, it made a 2-percentage point cutback on 9 September 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 still maintains its high level, despite a decline in August-October period. Exports tendency of agricultural products weakened significantly in October.

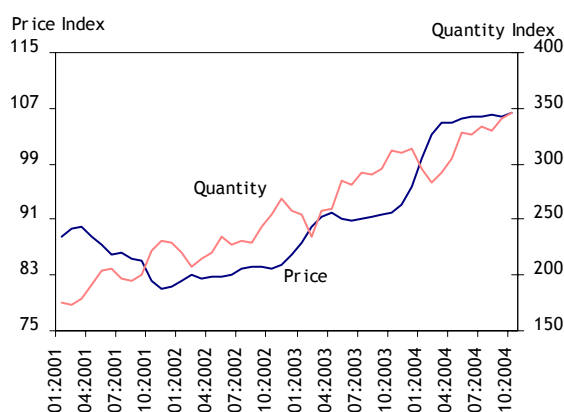
31. The groups of goods that made the major contribution to the boost in exports in the first ten months of the year were motor vehicles and spare parts, iron and steel, electrical machinery and equipment, machinery-mechanical devices, and exports of goods made of iron and steel. While the contribution of these five items to the 30.7 percent-growth in exports amounted to 17.2-points, 6.1 points of this contribution stemmed from the rise in exports of motor vehicles and spare parts.

EXPORTS (USD million)								
	October				January-October			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	4824	5700	18,2	..	38688	50568	30,7	..
Agriculture and Forestry	388	365	-5,9	-0,5	1889	2276	20,5	1,0
Fishing	8	10	33,3	0,1	50	62	24,2	0,0
Mining and Quarrying	49	57	17,1	0,2	383	503	31,5	0,3
Manufacturing	4349	5232	20,3	18,3	36152	47405	31,1	29,1
Other	31	36	16,1	0,1	215	322	49,5	0,3
Important Items:								
Edible fruit and nuts, peel of citrus fruits or melons	288	274	-5,0	-0,3	1042	1423	36,5	1,0
Preparations of vegetables, fruits and other plants	97	103	6,6	0,1	525	735	40,0	0,5
Salt, sulphur, earths and stone	68	79	16,0	0,2	621	744	19,8	0,3
Mineral fuels, mineral oils and products	76	61	-19,1	-0,3	808	1100	36,2	0,8
Plastics and articles thereof	94	122	29,2	0,6	754	1069	41,7	0,8
Cotton, cotton yarn and cotton fabrics	97	102	6,0	0,1	791	980	23,9	0,5
Articles of apparel-clothing; knitted	501	500	-0,2	0,0	4765	5159	8,3	1,0
Articles of apparel-clothing; not knitted	342	386	13,0	0,9	3211	3721	15,9	1,3
Other made-up textile articles, sets, worn clothing	170	169	-0,7	0,0	1342	1504	12,1	0,4
Pearl and other precious stone and products	100	104	4,0	0,1	665	833	25,3	0,4
Iron and steel	311	485	56,0	3,6	2506	4266	70,3	4,6
Articles of iron and steel	144	202	39,9	1,2	1127	1759	56,2	1,6
Nuclear reactors, boilers, machinery	319	369	15,4	1,0	2449	3338	36,3	2,3
Electrical machinery and equipment	396	509	28,5	2,3	2696	3711	37,6	2,6
Motor vehicles and spare parts	510	745	46,0	4,9	4264	6613	55,1	6,1

Source: SIS.

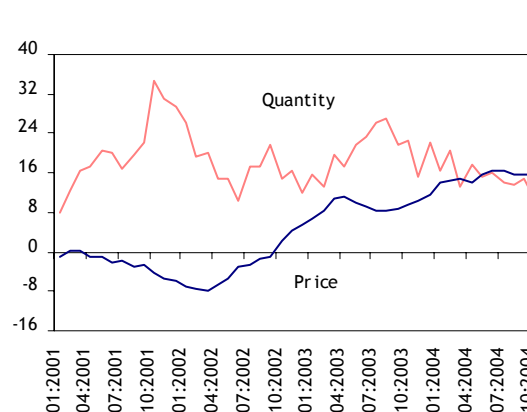
32. In 2004, the upward tendency of exports prices has been an important determinant of the nominal increase in exports. In fact, according to the 10-month averages, export prices rose by 15.6 percent in October 2004. Excluding price movements, according to the calculations made on basis of quantity indices, the real growth in exports became 13.7 percent in the January-October period.

EXPORT PRICE and QUANTITY INDICES  
(3-month moving average, 1994=100)



Source: SIS.

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



Source: SIS.

33. The increase in demand for steel led by China, the world's major steel importer, became the main determinant of the rise in iron prices in 2003 and 2004. Meanwhile, steel production in Turkey, which ranks 12th in world steel production, increased by 13.3 percent in the first ten months of 2004 compared to the same period of the previous year. In this context, favorable demand and price conditions have a remarkable effect on Turkey's iron and steel exports. As a matter of fact, the annual rate of increase of iron and steel

exports realized as 70.3 percent in the January-October period, above the rate of increase in total exports.

## EXPORTS: BY COUNTRY GROUPS (USD million)

	October					January-October				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	4824	..	5700	..	18,2	38688	..	50568	..	30,7
EU Countries	2688	55,7	3168	55,6	17,9	21253	54,9	27541	54,5	29,6
EU 15	2531	52,5	2981	52,3	17,7	20085	51,9	26048	51,5	29,7
EU 10	156	3,2	187	3,3	19,6	1168	3,0	1493	3,0	27,8
Other Countries	1932	40,1	2321	40,7	20,1	15894	41,1	21004	41,5	32,2
Turkey Free Trade Areas	204	4,2	212	3,7	3,8	1541	4,0	2023	4,0	31,3
Selected Countries and Country Groups										
OECD	3079	63,8	3641	63,9	18,3	25034	64,7	32569	64,4	30,1
Germany	754	15,6	793	13,9	5,2	6188	16,0	7157	14,2	15,7
UK	390	8,1	520	9,1	33,5	2988	7,7	4412	8,7	47,7
USA	319	6,6	374	6,6	17,1	3162	8,2	4036	8,0	27,6
Italy	351	7,3	464	8,1	32,3	2646	6,8	3657	7,2	38,2
France	305	6,3	316	5,5	3,4	2295	5,9	2982	5,9	30,0
Spain	183	3,8	237	4,2	29,6	1450	3,7	2075	4,1	43,1
Netherland	147	3,0	189	3,3	28,5	1247	3,2	1688	3,3	35,4
Other OECD	630	13,1	749	13,1	18,8	5059	13,1	6561	13,0	29,7
Middle East Countries	544	11,3	654	11,5	20,4	4113	10,6	5794	11,5	40,9
Russia	147	3,0	198	3,5	34,3	1107	2,9	1498	3,0	35,3

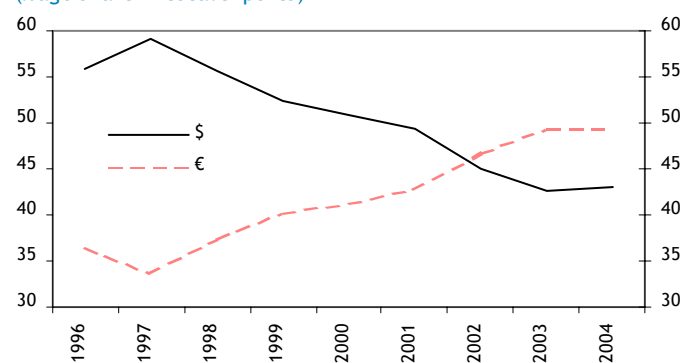
Source: SIS.

34. In this period, the share of exports to the European Union countries slightly declined, whereas exports to the Middle Eastern countries rose compared to the same period of 2003. The share of exports to Germany, an OECD country which ranks first with respect to foreign trade volume of Turkey, declined to 14.2 percent from 16 percent in this period. Meanwhile, UK, Italy and Spain were the OECD countries that had the largest increase in the share in exports of Turkey. Middle Eastern countries and Russia increased their shares in exports to 40.9 percent and 35.3 percent, respectively.

35. In the January-October period, 49.4 percent of overall exports realized in terms of euro, while 43 percent of exports realized in terms of USD. In 2003, the mentioned ratios were 49.3 and 42.6 percent, respectively.

## EXPORTS in US DOLLAR and EURO

(%age share in total exports)

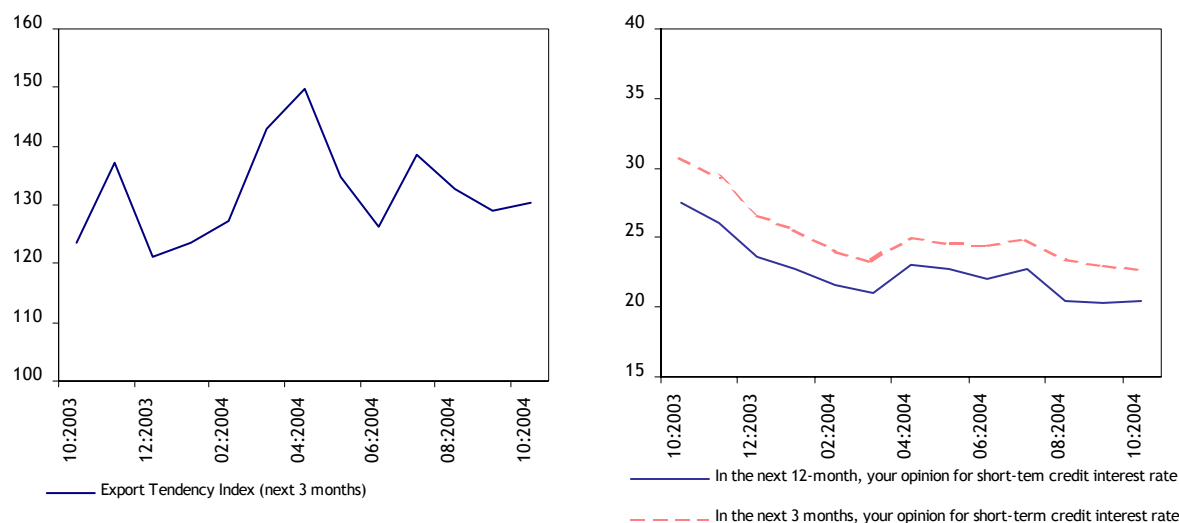


Source: SIS.

## Outlook

36. According to the CBRT Business Tendency Survey, export performance indicators for the next three months improved in November compared to the previous month.

### EXPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

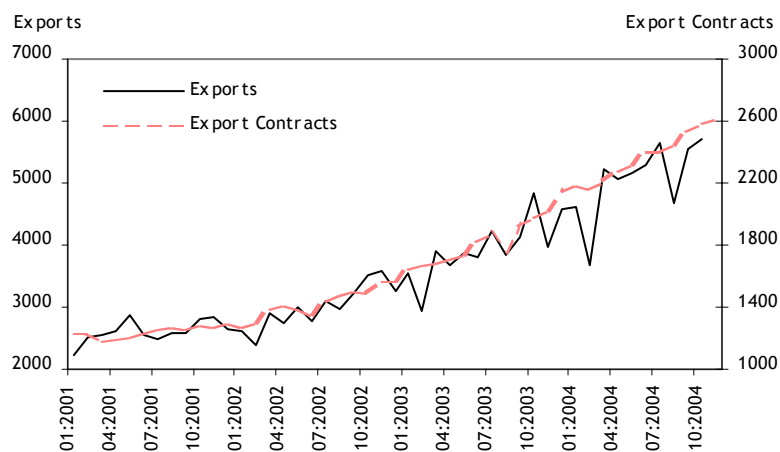
37. The deterioration in expectations for credit interest rates for the next three months and twelve months, which can be considered as the export financing cost indicators, ceased in May. However, the expectations reversed in September and the following months. Accordingly, the expected credit interest rates for the next three months and the next twelve months became 22.7 percent and 20.4 percent, respectively, in October.

38. Price competition, one of the factors that may exert pressure on exports in the next three months, maintains its significant share although it has reached its lowest level since the beginning of the year. With respect to the limitation of export orders, concerns about credit and financing, quotas and similar limitations as well as foreign economic situation increased in November.

39. The volume of export contracts subject to inward processing regime grew by 24.7 percent in the first eleven months of 2004 compared to the same period of the previous year. Meanwhile, imports subject to inward processing regime grew by 29.5 percent.

### EXPORT CONTRACTS BY INWARD PROCESSING REGIME

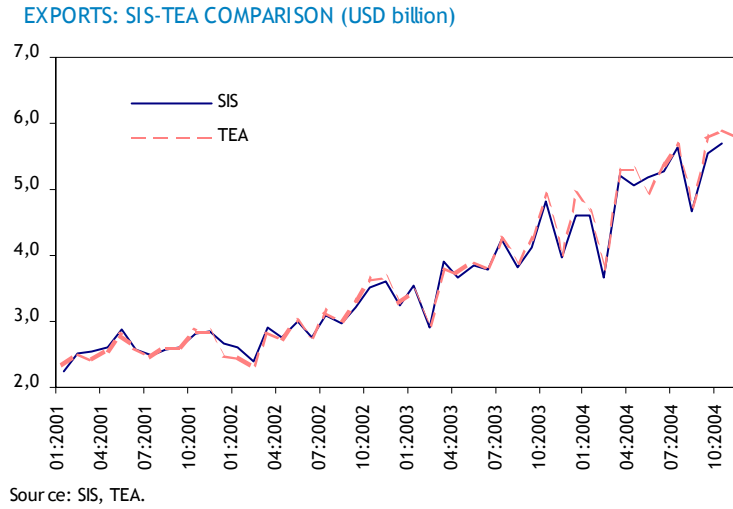
(12 months moving average) and  
TOTAL EXPORTS (millions US dollars)



Source: UFT.



40. According to the data issued by the Turkish Exporters' Assembly (TEA), exports grew by 45.3 percent and reached US dollar 5.8 billion in November. Hence, 12-month export volume reached US dollar 62.3 billion in November. The daily export data for December point at ongoing high-rated rise in exports.

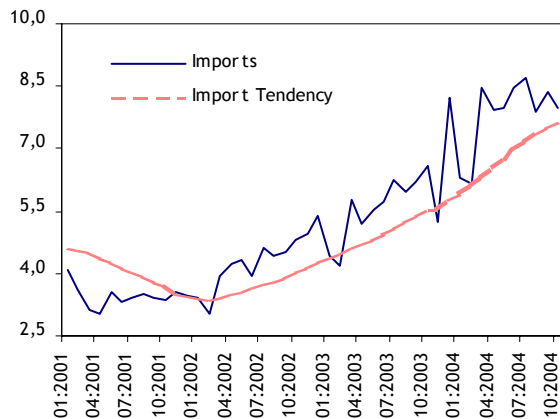


### III. IMPORTS

#### General Evaluation

41. In October 2004, imports increased by 21 percent and became US dollar 8 billion compared to same period of the previous year. Hence, imports reached US dollar 78.2 billion in January-October 2004, while twelve-month imports became US dollar 91.6 billion by a 38.4 percent rise.

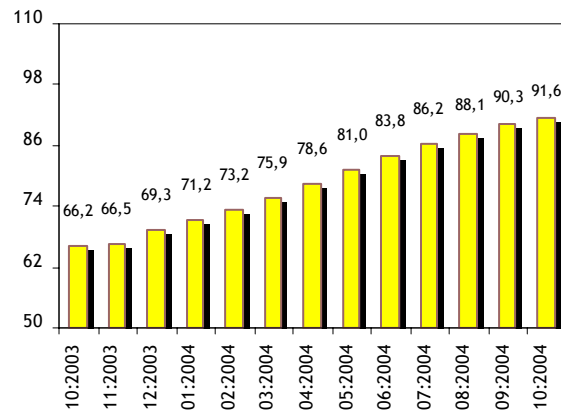
IMPORTS and IMPORTS TENDENCY<sup>i</sup>  
(USD billion)



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

Source: SIS.

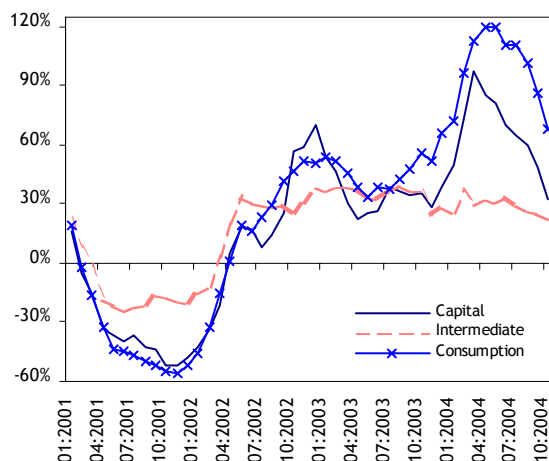
IMPORTS  
(12 month, USD billion)



Source: SIS.

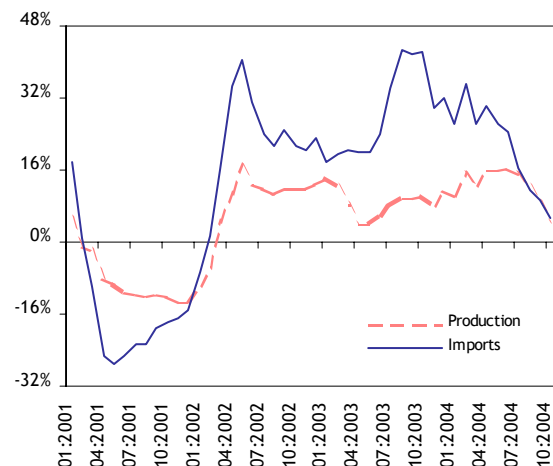
42. The upsurge in investment expenditures as well as the increase in domestic industrial production and consumption demand provided a lift to the imports in 2004. Moreover, the upward trend in import prices pushed up imports during this period.

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



Source: SIS.

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



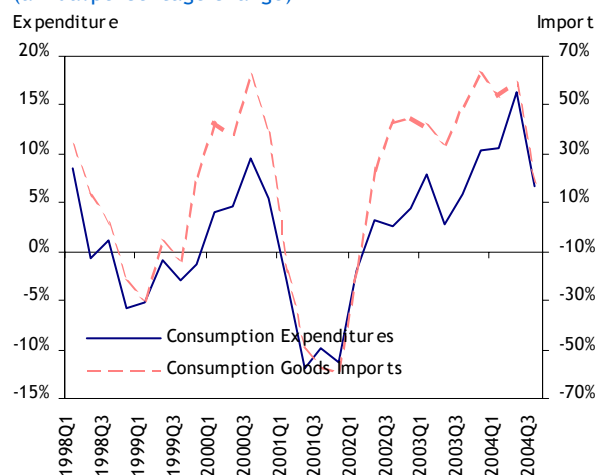
Source: SIS.

43. The high rate of increase observed in imports in the first half of 2004 has slowed down in recent months. Imports of capital goods, intermediary goods and consumption goods, which rose by 68.5 percent, 29.4 percent and 101.8 percent, respectively, in the first nine months of 2004, increased by 13.8 percent, 16.5 percent and 50 percent in October compared to the same period of the previous year. Especially the course of the automobile imports was a determinant in these developments. In fact, automobile imports, which grew by 166.5 percent in the first nine months of the year, declined by 4 percent in October

compared to the previous year and 6.8 percent compared to September as a result of meeting the delayed demand as well as necessary measures. Meanwhile, imports of durable goods, semi-durable goods and non-durable goods increased by 12.7 percent, 29.6 percent and 23.4 percent, respectively.

#### PRIVATE CONSUMPTION EXPENDITURES and CONSUMPTION GOODS IMPORTS: REAL

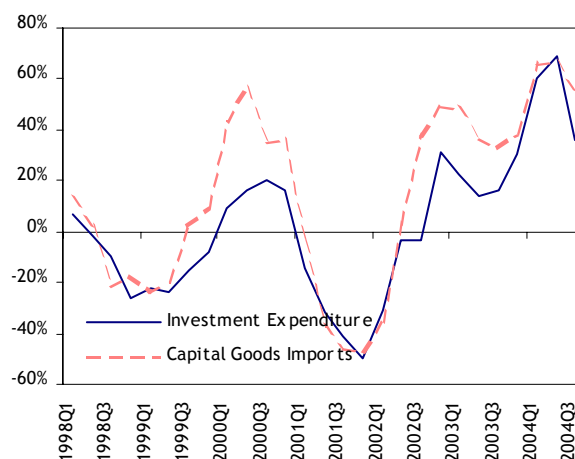
(annual percentage change)



Source: SIS.

#### PRIVATE INVESTMENT EXPENDITURES and CAPITAL GOODS IMPORTS: REAL

(annual percentage change)



Source: SIS.

44. The groups of goods that made the major contribution to the boost in imports in January-October 2004 were motor vehicles and spare parts, machinery-mechanical devices and electrical machinery and equipment, iron and steel imports, and imports of fuel and oil including crude oil. While the contribution of these five items to the 39.9 percent growth in imports amounted to 24.3 points, 8.1 points of this contribution stemmed from the rise in imports of motor vehicles and spare parts.

#### IMPORTS (USD million)

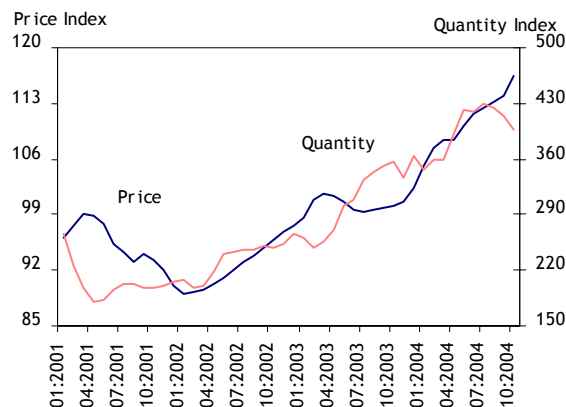
	October				January-October			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	6575	7959	21,0	..	55860	78159	39,9	..
Capital Goods	1159	1319	13,8	2,4	8571	13806	61,1	9,4
Intermediate Goods	4597	5356	16,5	11,5	41138	52625	27,9	20,6
Consumption Goods	800	1199	50,0	6,1	5802	11293	94,6	9,8
Other	20	85	334,0	1,0	351	435	24,2	0,2
Important Items:								
Mineral fuels,mineral oils & products of their dist.	1063	1378	29,7	4,8	9485	11328	19,4	3,3
Crude Oil	422	563	33,3	2,1	4023	4979	23,8	1,7
Organic chemicals	194	222	14,6	0,4	1948	2386	22,5	0,8
Pharmaceutical products	194	227	16,8	0,5	1660	2248	35,5	1,1
Plastics and articles thereof	310	424	36,6	1,7	2648	3827	44,5	2,1
Paper and paperboard	115	126	9,6	0,2	961	1230	28,0	0,5
Cotton, cotton yarn and cotton fabrics	123	117	-4,8	-0,1	1384	1622	17,2	0,4
Pearl, other precious stone and products	272	233	-14,5	-0,6	2523	3120	23,6	1,1
Iron and Steel	381	618	62,2	3,6	3866	6128	58,5	4,0
Nuclear reactors, boilers, machinery	986	1064	7,9	1,2	7990	10602	32,7	4,7
Electrical Machinery and Equipment	577	739	28,1	2,5	4382	6720	53,4	4,2
Motor Vehicles and Spare Parts	683	779	14,1	1,5	3766	8280	119,8	8,1
Aircraft, spacecraft and parts thereof	20	11	-45,1	-0,1	123	1167	845,1	1,9
Optical, photographic, measuring instruments	122	143	17,2	0,3	1046	1472	40,7	0,8

Source: SIS.

45. In 2004, the upward trend in import prices has been an important determinant of the nominal increase in imports. According to the 10-month averages, imports prices rose

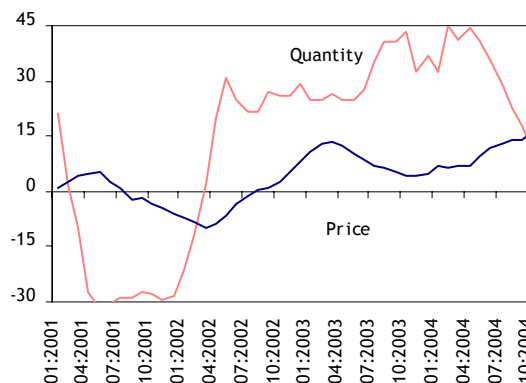
by 11.7 percent in October 2004. Excluding price movements, according to the calculations made on basis of quantity indices, real growth in imports became 27.3 percent in the January-October period.

**IMPORT PRICE and QUANTITY INDICES**  
(3-month moving average, 1994=100)



Source: SIS.

**IMPORTS INDICES: GROWTH RATE**  
(3 month moving average, annual % change)



Source: SIS.

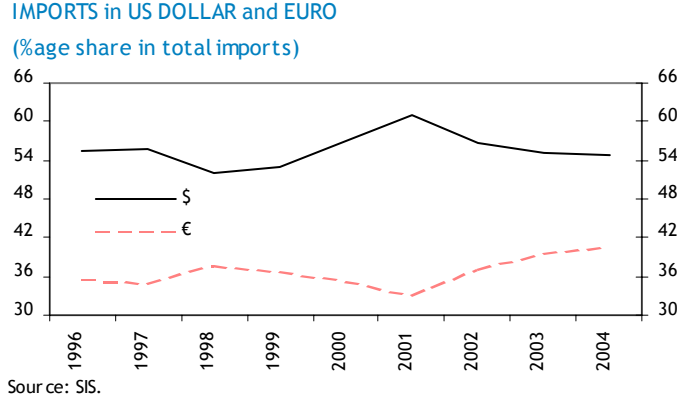
46. In this period, the share of imports to the European Union and Middle Eastern countries declined compared to 2003. Meanwhile, the increase in the shares of Japan, Korea, China, Ukraine and Russia are remarkable.

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

	October					January-October				
	2003		2004		% Change	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	6575	..	7959	..	21,0	55860	..	78159	..	39,9
EU Countries	3285	50,0	3707	46,6	12,9	26622	47,7	36857	47,2	38,4
EU 15	3090	47,0	3438	43,2	11,3	25168	45,1	34431	44,1	36,8
EU 10	195	3,0	268	3,4	38,0	1454	2,6	2425	3,1	66,8
Other Countries	3231	49,1	4188	52,6	29,6	28756	51,5	40638	52,0	41,3
Turkey Free Trade Areas	60	0,9	64	0,8	6,7	482	0,9	664	0,8	37,9
Selected Countries and Country Groups										
OECD	4249	64,6	4696	59,0	10,5	35243	63,1	48357	61,9	37,2
Germany	898	13,7	1009	12,7	12,4	7388	13,2	10073	12,9	36,3
Italy	551	8,4	584	7,3	5,8	4391	7,9	5551	7,1	26,4
France	450	6,8	482	6,1	7,1	3252	5,8	5164	6,6	58,8
USA	287	4,4	276	3,5	-3,9	2923	5,2	3877	5,0	32,6
United Kingdom	338	4,0	354	4,8	71,0	2901	4,2	3492	5,3	68,5
Switzerland	301	4,6	252	3,2	-16,2	2580	4,6	2787	3,6	8,0
Spain	201	4,0	266	4,8	71,0	1554	4,2	2634	5,3	68,5
Japan	184	4,0	207	4,8	71,0	1527	4,2	2150	5,3	68,5
Korea	141	2,2	199	2,5	40,4	1025	1,8	2041	2,6	99,1
Other OECD	898	13,7	1067	13,4	18,8	8726	15,6	12631	16,2	44,7
Middle East Countries	401	6,1	469	5,9	16,7	3677	6,6	4143	5,3	12,7
Russia	459	7,0	701	8,8	52,7	4234	7,6	6956	8,9	64,3
China	276	4,2	392	4,9	41,9	2029	3,6	3520	4,5	73,5
Ukraine	98	1,5	218	2,7	122,2	1072	1,9	1937	2,5	80,7

Source: SIS.

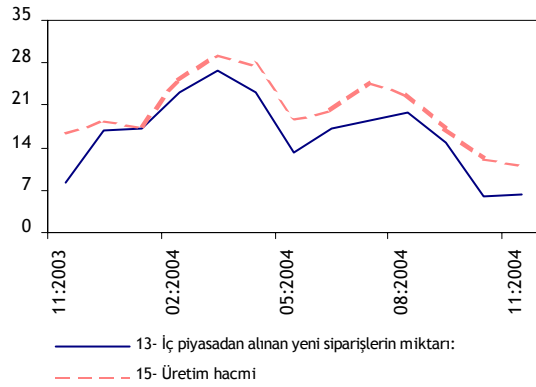
47. In the January-October period, 40.4 percent of overall imports realized in terms of euro, while 54.8 percent of imports realized in terms of USD. In 2003, the said ratios were 39.7 percent and 55.1 percent, respectively.



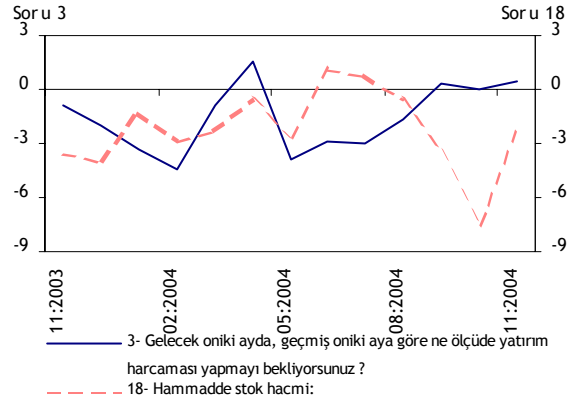
## Outlook

48. Analyzing domestic demand tendency in the next period in the light of November results of the CBRT Business Tendency Survey, private firms' expectations are rising, albeit at a lower rate. While the downward trend in the volume of raw-material stock, which had started in June, ceased in November, the investment expenditure tendency slightly increased.

## IMPORT EXPECTATIONS



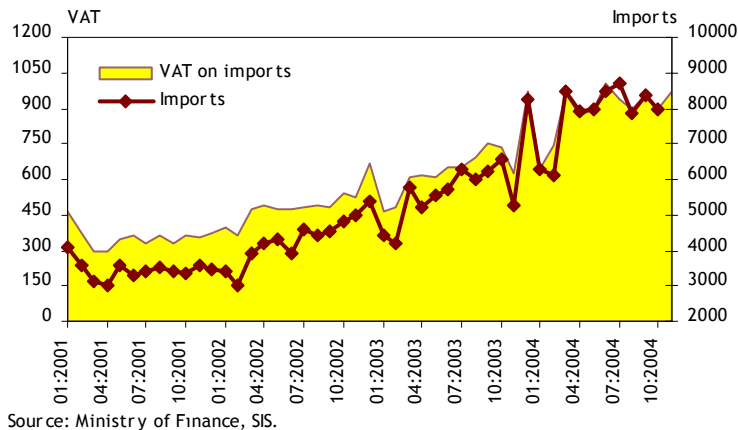
Kaynak: TCMB İktisadi Yönelim Anketi.



49. Timed imports increased to US dollar 21 billion in January-October 2004 from US dollar 14.9 billion of the same period of 2003. Meanwhile, timed import, which is calculated by the same method, rose by 31.3 percent and reached US dollar 31.5 billion.

50. According to the VAT data on imports, imports are expected to realize within a range of US dollar 8.5-8.8 billion in November.

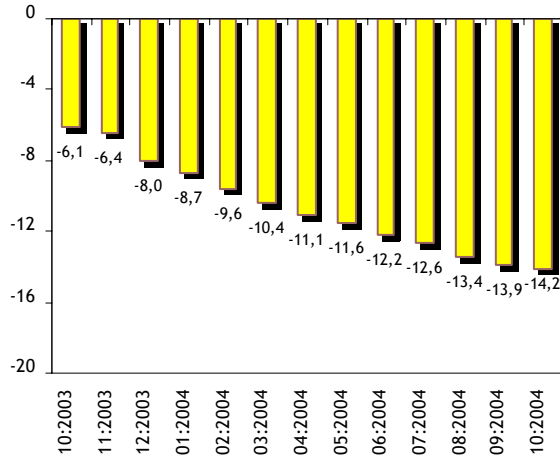
## VALUE ADDED TAX ON IMPORTS and IMPORTS (million USD)



#### IV. CURRENT ACCOUNT

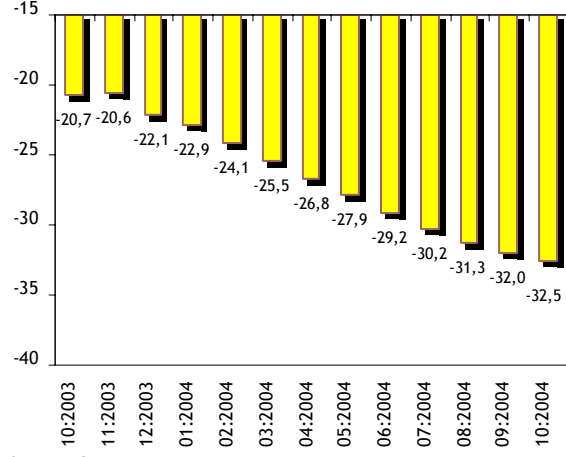
51. The current account resulted in a deficit of US dollar 232 million in October and a deficit of US dollar 10.7 billion in the January-October period. Thus, the twelve-month current account deficit realized as US dollar 14.2 billion.

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



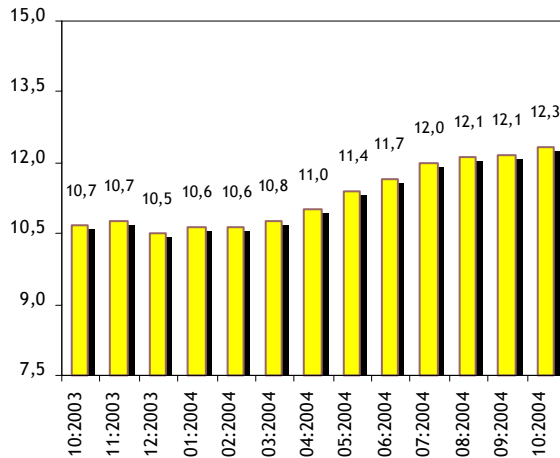
Source: CBRT.

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



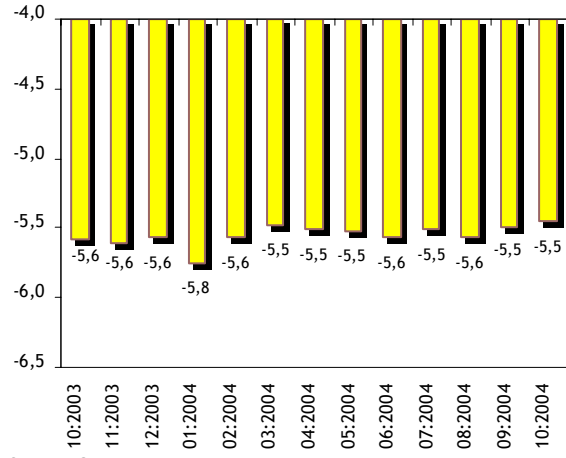
Source: CBRT.

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



Source: CBRT.

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



Source: CBRT.

52. Foreign trade developments were the main determinant of the current account deficit of the first ten months of 2004. The services, which realized as US dollar 9.8 billion surplus in the January-October 2003 period, reached US dollar 11.6 billion during the same period of this year as a result of substantial increase in the travel revenues. Meanwhile, investment revenues recorded a moderate decline compared to the previous year and recorded a deficit of US dollar 4.5 billion. Current transfers increased by 11 percent compared to last year due to the increase in workers' remittances and official transfers and reached US dollar 939 million.

53. The revenues from shuttle trade, which had increased by 12.2 percent in the first half of 2004, declined by about 8 percent on the average in the last four months.

CURRENT ACCOUNT (USD million)												
	2003											2004
	Jan-Oct	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Jan-Oct
Current Account Balance	-4579	-939	-2215	-2186	-1702	-1328	-1483	-741	-2	109	-232	-10719
Foreign Trade Balance	-10602	-970	-1796	-2256	-1915	-1859	-2234	-2169	-2281	-1943	-1349	-18772
Total Exports	41932	4871	3944	5558	5429	5539	5597	5878	5033	5912	6137	53898
Total Imports	-52534	-5841	-5740	-7814	-7344	-7398	-7831	-8047	-7314	-7855	-7486	-72670
Services Balance	9771	390	159	393	560	1011	1000	1744	2749	2219	1381	11606
Credit	16681	1125	914	1190	1429	1819	1960	2744	3662	3371	2285	20499
Debit	-6910	-735	-755	-797	-869	-808	-960	-1000	-913	-1152	-904	-8893
Income Balance	-4594	-458	-638	-390	-424	-557	-391	-443	-577	-281	-333	-4492
Credit	1888	271	229	268	147	183	181	234	197	223	181	2114
Debit	-6482	-729	-867	-658	-571	-740	-572	-677	-774	-504	-514	-6606
Current Transfers	846	99	60	67	77	77	142	127	107	114	69	939
Wrokers' Remittances	601	81	54	58	63	64	54	70	83	84	58	669
<i>Memo items:</i>												
Shuttle Trade	3244	256	280	341	358	369	316	247	369	357	437	3330
Non Monetary Gold (net)	-2321	-212	-298	-280	-357	-224	-218	-442	-295	-297	-204	-2827
Travel Revenues	11946	602	503	608	773	1165	1332	2154	3024	2483	1642	14286
Interest Income	523	41	64	49	39	58	64	47	52	68	62	544
Interest Expenditure	-3726	-219	-412	-310	-262	-447	-282	-264	-576	-328	-309	-3409

Source: CBRT.

54. The upward trend observed in gold prices in 2003 continues in 2004 as well. Demand for gold has been increasing in recent months, together with especially the depreciation of the USD against currencies of other developed countries. It is interesting to note the historical relation between international gold prices and the course of the USD. Actually, while the USD depreciated by 58 percent against the Euro since October 2000, gold prices increased by 72 percent in the same period.

55. The effects of the increase in gold prices have been felt on Turkey's gold imports. Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to the previous year, rose by 22.2 percent in the first ten months of 2004. This increase mainly stems from the price effect. The price of gold per ounce rose by 14.7 percent in the same period.

56. Based on the figures announced by SIS, tourism revenues increased by 19.6 percent in the first ten months of 2004 compared to the previous year and reached US dollar 14.3 billion. In the first three quarters of the year, the number of departing tourists rose by 27.3 percent. As of the first nine months, average per capita expenditure of tourists declined to US dollar 799 in 2004 from US dollar 844 of 2003.

TRAVEL REVENUES												
	2003											2004
	Jan-Oct	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*	Jan-Oct
Travel Revenues (USD million)	10492	602	503	608	773	1165	1332	2154	3024	2483	1642	12644
Number of Visitors (thousand)	12437	776	672	850	1118	1696	1932	2525	3437	2824	0	15831
Average Spending (USD)	844	775	749	715	691	687	689	853	880	879	0	799

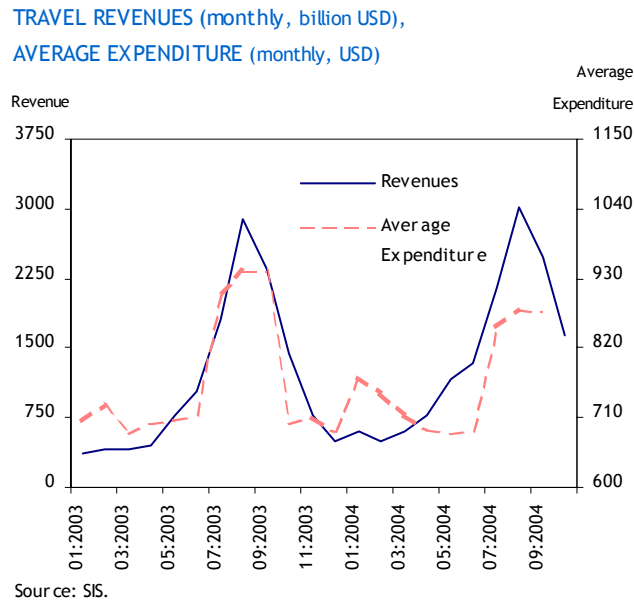
Source: SIS.

\* Provisional.

57. According to the data of the Survey on Departing Visitors from Turkey compiled by SIS, in the January-September period, US dollar 9.6 billion of the tourism revenues were obtained from foreign visitors, while US dollar 3 billion came from the visits of Turkish citizens living abroad.

58. According to the same survey, package tour organizations account for 27.7 percent of tourism revenues generated by tourists departing from Turkey in the said period. This amount mainly stemmed from foreign visitors, while revenues from Turkish visitors consisted primarily of personal expenditures. Survey results reveal that 13.1 percent of total

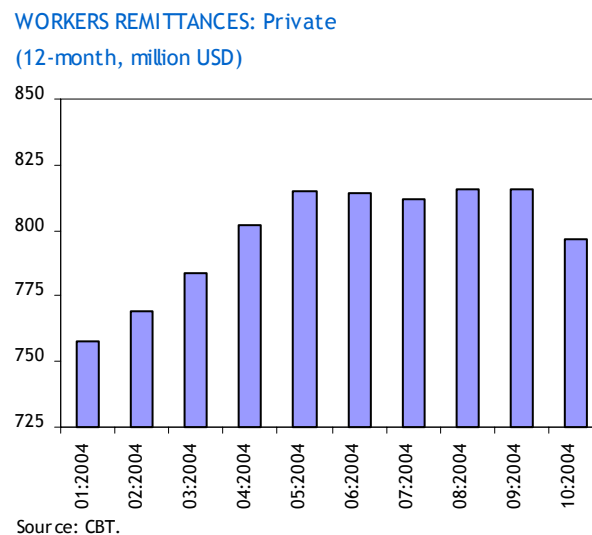
visitors in the first nine months of the year belonged to high-income group, while 75.5 percent and 11.4 percent were in median and lower income groups, respectively.



59. Based on the provisional figures announced by the Ministry of Tourism, foreign visitors departing from Turkey increased by 9.1 percent in November. The corresponding figure is 8.9 percent for the departing Turkish citizens living abroad.

60. Investment revenues account recorded a deficit of US dollar 4.5 billion in January-October 2004. Portfolio investment and interest expenditures were the main determining factors in this deficit. Interest expenditures declined during this period compared to 2003. This decline mainly resulted from the drop in interest expenditures of other sectors excluding the Central Bank, the Government and banks.

61. Workers' remittances, which were US dollar 601 million for the first ten months of 2003, realized as US dollar 669 million during the same period of this year.





## V. CAPITAL MOVEMENTS

62. The finance account yielded a deficit of US dollar 67 million in October 2004. Excluding IMF loans and official reserve changes, there was a net capital inflow of US dollar 728 million in October, while net capital inflow adds up to US dollar 13.2 billion in the January-October period and 14.2 billion in the twelve-month period.

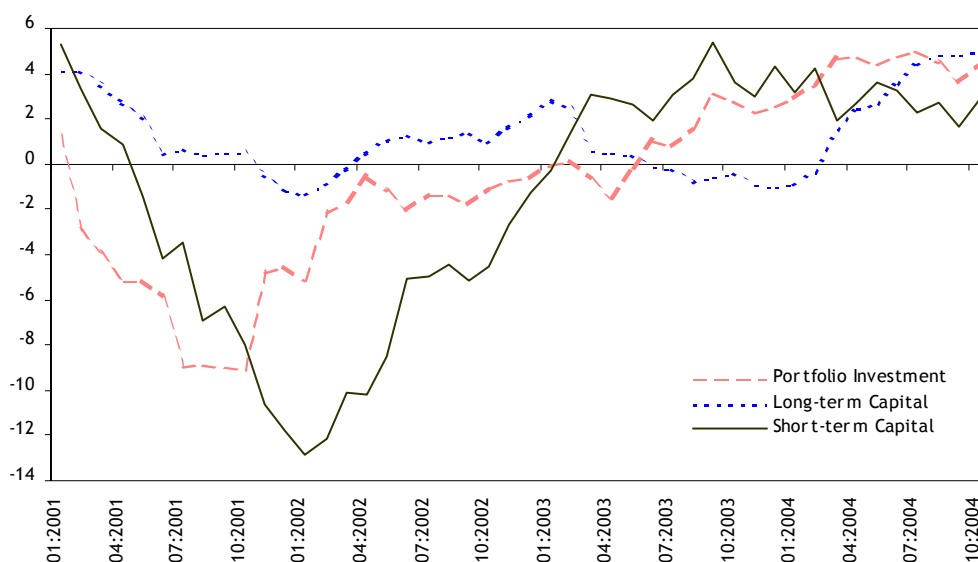
63. In the January-October period, a capital inflow of US dollar 1.7 billion in direct investments, US dollar 4.5 billion in portfolio investments and US dollar 4.4 billion in other investments were recorded against current account deficit of US dollar 10.7 billion. While official reserves rose by US dollar 2 billion during this period, net errors and omissions item resulted in a surplus of US dollar 2.1 billion.

### CAPITAL AND FINANCIAL ACCOUNT (USD billion)

	2003												2004
	Jan-Oct	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Sep	Oct	Jan-Oct	
Capital and Financial Account	1619	2117	3026	40	378	1324	139	2096	-7	-461	-67	8585	
Financial Account	1619	2117	3026	40	378	1324	139	2096	-7	-461	-67	8585	
Direct Investments	902	67	371	-24	73	188	398	397	32	172	-4	1670	
Portfolio Investments	2719	1401	311	341	-193	195	1010	17	103	333	1025	4543	
Other Investments	2470	841	2048	-387	1900	-167	-502	375	1083	-266	-515	4410	
Reserve Assets	-4472	-192	296	110	-1402	1108	-767	1307	-1225	-700	-573	-2038	
Net Errors & Omissions	2960	-1178	-811	2146	1324	4	1344	-1355	9	352	299	2134	
<i>Memorandum items:</i>													
Long-term	-974	371	437	489	974	349	474	1050	321	208	281	4954	
Short-term	3444	695	2102	-415	685	-83	-519	-452	581	-18	-574	2002	
IMF credit	0	-225	-491	-461	241	-433	-457	-223	181	-456	-222	-2546	

Source: CBRT.

### CAPITAL FLOWS (12-month. billion US dollar)

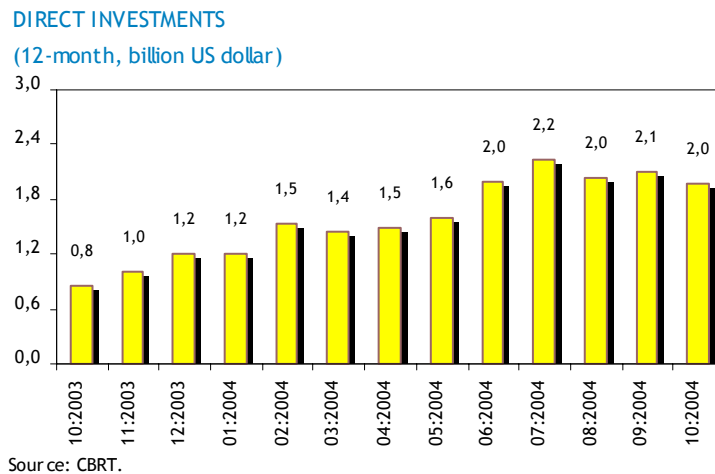


Source: CBRT.

64. The analysis of capital flows by maturities reveal that the share of long-term capital inflows has been increasing especially since the second quarter of the year. US dollar 2 billion of the capital inflow registered in the first ten months of the year came from short-term maturities, while US dollar 5 billion was of long-term nature. Long-term credits used by other sectors excluding banking sector became the determining factor in long-term

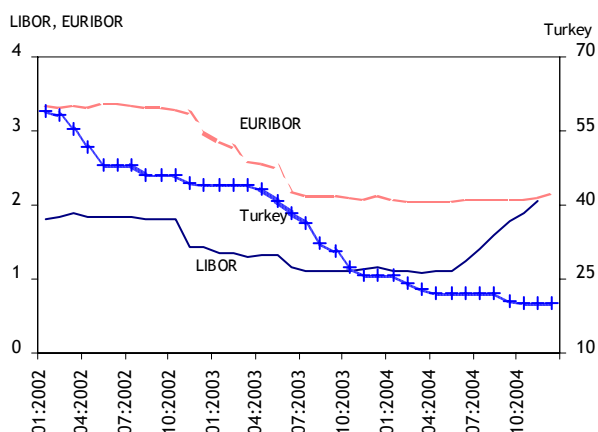
capital movements, while short-term credits used by the banks were effective in short-term capital movements.

65. In the first ten months of 2004, net direct investments amounting to US dollar 1.7 billion originated mainly from non-residents' capital investments and real estate purchases in homeland. Meanwhile, net direct investments the residents made abroad increased by 77.7 percent during this period compared to the same period of the previous year and reached US dollar 716 million. Besides, long-term credits extended to foreign companies by their affiliates abroad, which are registered under the other capital items and considered as direct capital investment, became net US dollar 299 million.

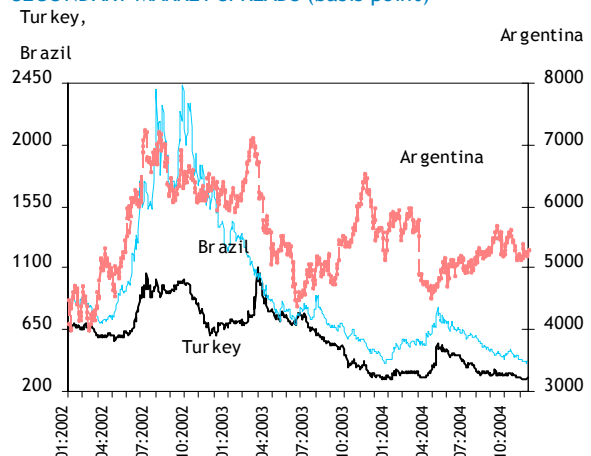


66. While the upward trend in LIBOR interest rates in line with the FED policy of interest rate hikes continues as of the last quarter of the year, EURIBOR interest rates follow a steady course. Spreads, which widened especially in the developing countries in May, started to shrink in June. Also, a recovery was observed in the prices of equity securities since June. The yield spreads in the secondary market declined to their prior level owing to the macroeconomic stability as well as the signals sent by the Federal Reserve implying that they would adopt a cautious approach in raising interest rates.

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



**SECONDARY MARKET SPREADS (basis point)**

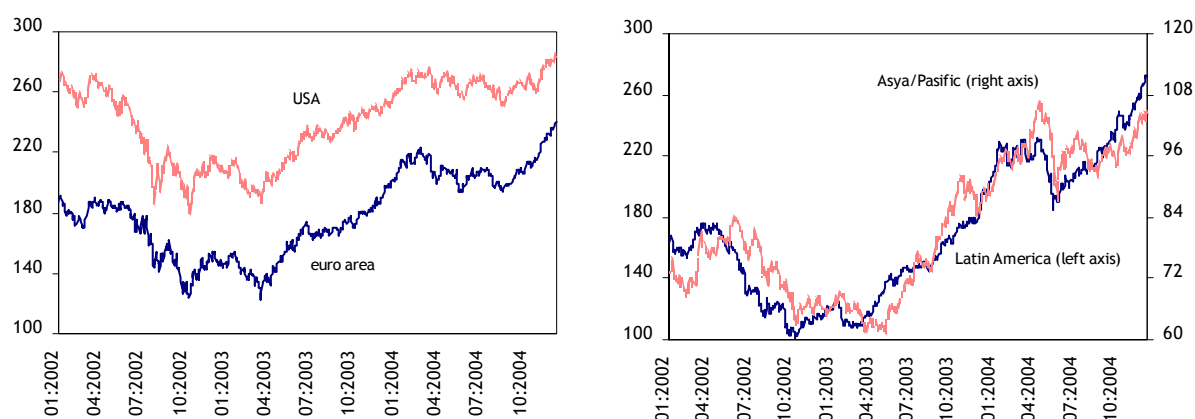


LIBOR: Proposed interest rate for USD deposits with 1-month maturity. Spread: The difference between the returns on relevant country's government bonds and USA Treasury bonds.  
EURIBOR: Proposed interest rate for euro deposits with 1-month maturity. For Turkey, overnight interest rate resulted in interbank money market.

Source: IMF, www.euribor.org, CBRT.

Source: JP Morgan.

## DOW JONES EQUITY PRICE INDICES



Source: Dow Jones.

67. The indicative short-term interest rates raised by the FED four times in 2004 (30 June, 10 August, 21 September, and 10 November) reached 2.25 percent with an additional increase of 0.25 point on 14 December. Meanwhile, the Bank of England raised interest rates to 4.75 by a 0.25-point rise on 5 August 2004 in its fourth increment since the turn of the year. The Bank of Canada, which cut its interest rates three times throughout the year, raised its interest rates on 8 September and 19 October by 0.25 point each time. Meanwhile, the ECB has made no changes in interest rates in 2004.

68. The short-term interest rates applicable at Interbank Money Market and ISE Repo/Reverse Repo Market, which were cut by CBRT on 17 March 2004, were re-reduced on 8 September 2004. Accordingly, O/N borrowing interest rate declined to 20 percent from 22 percent, while lending interest rate dropped to 24 percent from 27 percent.

## PORTFOLIO INVESTMENT (monthly, USD million)

	2003												2004 Jan-Oct
	Jan-Oct	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct		
Portfolio Investment	2466	1401	311	341	-193	195	1010	17	103	333	1025	3518	
Assets	-1054	-105	-267	512	273	56	-145	-180	-317	-401	-505	-574	
General Government	-24	0	0	0	-6	-5	-4	-5	0	-2	-1	-22	
Banks	-590	224	-59	346	427	157	-21	-37	-344	-303	-309	390	
Other Sectors	-440	-329	-208	166	-148	-96	-120	-138	27	-96	-195	-942	
Liabilities	3520	1506	578	-171	-466	139	1155	197	420	734	1530	4092	
Equity Securities	629	-18	364	157	-96	-60	131	90	-47	183	37	704	
Debt Securities	2891	1524	214	-328	-370	199	1024	107	467	551	1493	3388	
Monetary Authority	0	0	0	0	0	0	0	0	0	0	0	0	
General Governmei	3068	1524	214	-328	-370	199	1024	107	467	551	1493	3388	
In Turkey	888	24	501	896	-370	199	274	616	467	-178	493	2429	
Abroad	2180	1500	-287	-1224	0	0	750	-509	0	729	1000	959	
Banks	-177	0	0	0	0	0	0	0	0	0	0	0	

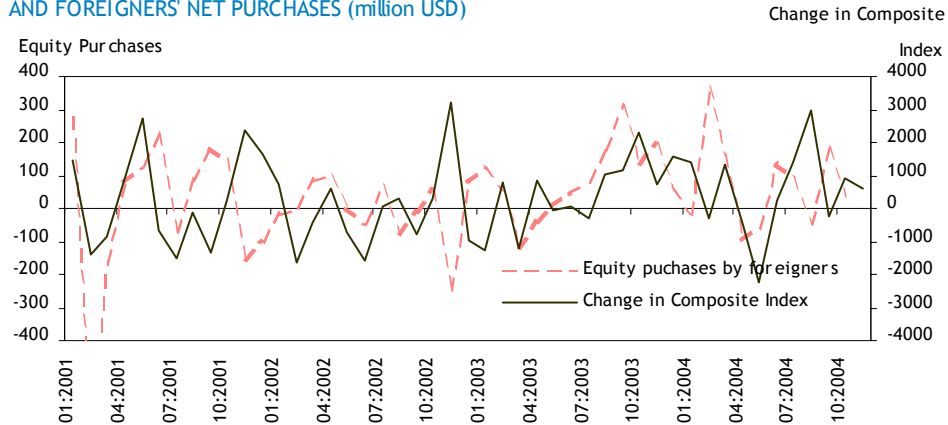
Source: CBRT.

69. In the January-October period, the Treasury held US dollar 5.3 billion worth of bond auction and made a bond repayment of US dollar 3.3 billion. Meanwhile, the Treasury held a new bond auction amounting to US dollar 500 million in November. Thus, the total amount auctioned since the beginning of the year reached US dollar 5.8 billion.

70. In 2004, there has been a significant increase in non-residents' purchases of securities in Turkey. These purchases were mainly composed of government securities. In the January-October period, non-residents' net purchases of equities in the Istanbul Stock Exchange and net purchases of government securities realized as US dollar 704 million and US dollar 2.4 billion, respectively. Meanwhile, the price index of government securities, which was in an upward trend since the second half of 2003, declined in the March-May

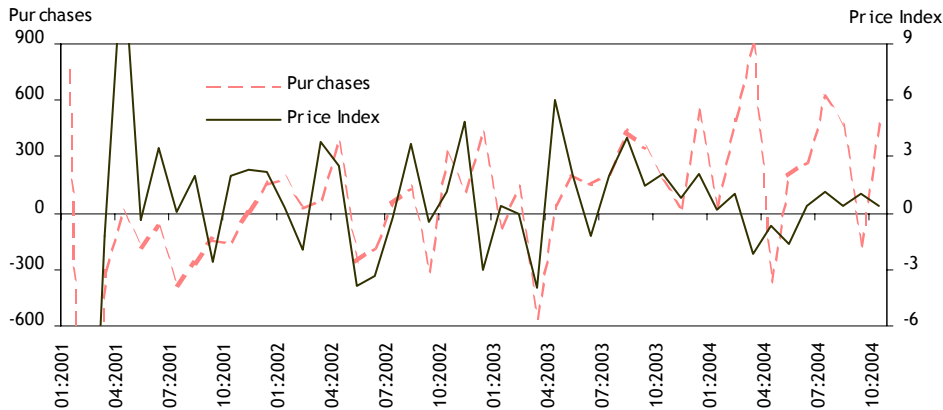
period. But it resumed its previous trend in the following months. According to the ISE data, non-residents purchased net US dollar 212 million worth of equities in November.

**ISE EQUITY PRICES (change in monthly averages)  
AND FOREIGNERS' NET PURCHASES (million USD)**



Source: CBRT, ISE.

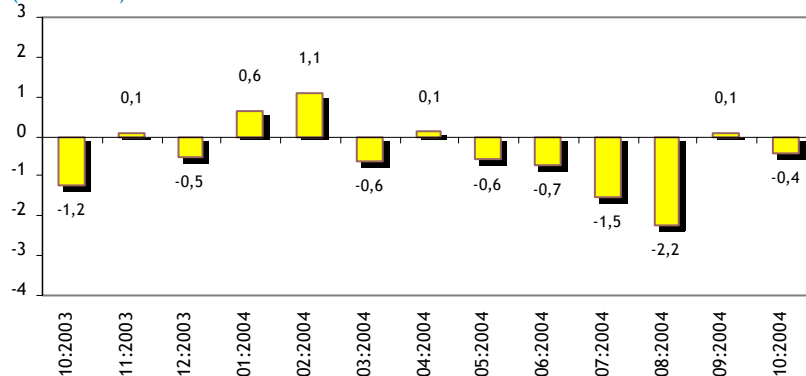
**GOVERNMENT DEBT SECURITY PRICES (monthly %age change)  
AND FOREIGNERS' NET PURCHASES**



Source: CBRT, ISE.

71. Despite its volatile course in the first ten months of the year, the FX-holdings item composed of current and deposit accounts that are held by the banks with their correspondent banks abroad increased steadily in the May-August period. In the first ten months, FX assets of banks rose by net US dollar 4.2 billion leading to a capital outflow of the same amount.

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

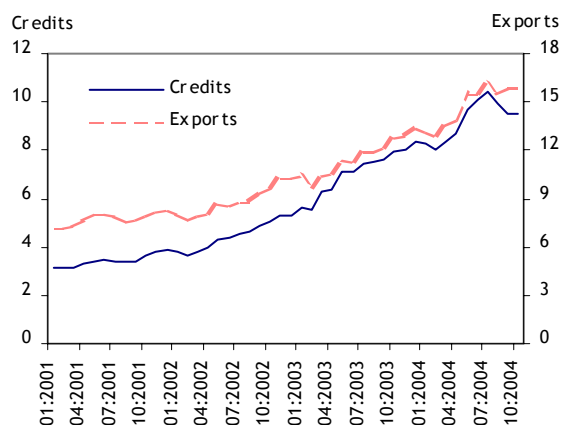


Source: CBRT.

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

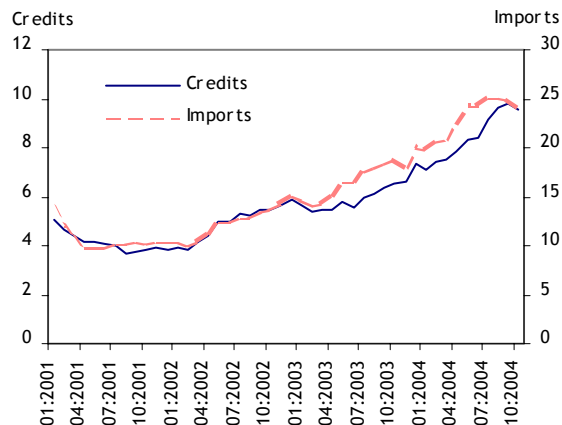
72. Rapid growth in foreign trade stimulated commercial credit utilization as well. In the January-October period, exports increased by 30.7 percent, while the commercial credits extended abroad expanded by 31.3 percent. Similarly, commercial credit utilization boosted by 45.2 percent in the same period, while the imports grew by 39.9 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.

73. The banking sector maintained its tendency to meet its financing needs through short-term credits in 2004 as well. The banks, which drew net US dollar 2 billion worth of short-term credits in 2003, utilized net US dollar 2.3 billion worth of short-term credits in January-October 2004.

OTHER INVESTMENTS (monthly, USD million)

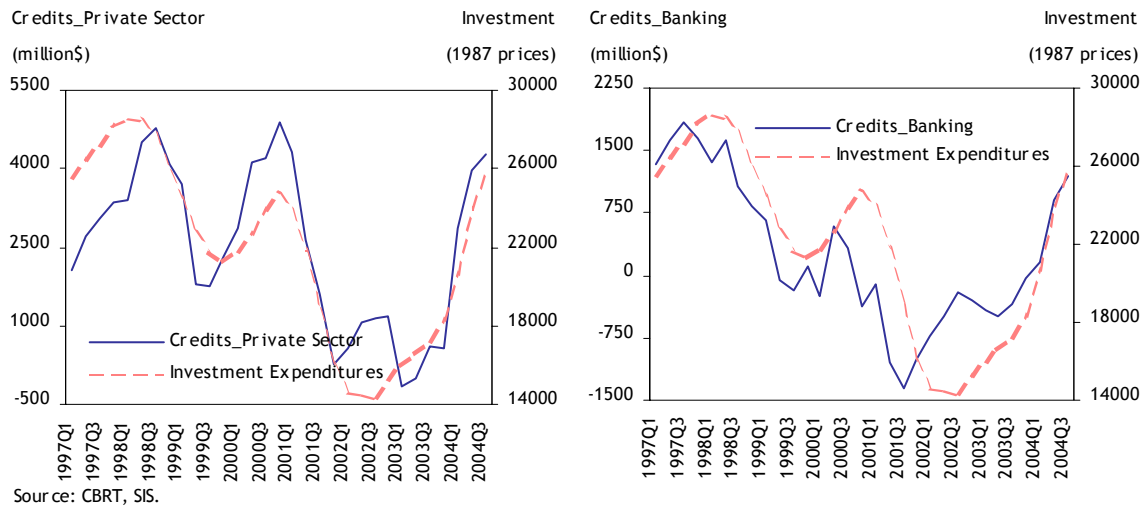
	2003											2004
	Jan-Oct	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Jan-Oct
Other Investment	2470	841	2048	-387	1900	-167	-502	375	1083	-266	-515	4410
Assets	-528	546	1820	-1309	-274	-841	-1096	-1319	-1723	-28	-629	-4853
Trade Credits	-886	-192	589	-639	-379	-166	-399	65	685	-135	-350	-921
Credits	-469	147	181	-17	30	-44	82	152	-136	53	170	618
Currency and Deposits	1152	617	1078	-619	111	-594	-747	-1511	-2235	90	-405	-4215
Liabilities	2998	295	228	922	2174	674	594	1694	2806	-238	114	9263
Trade Credits	1682	45	219	695	465	324	369	687	451	193	133	3581
Credits	13	325	20	236	1683	303	-124	1157	1809	-232	-176	5001
Monetary Authority	-926	-158	-491	-461	-194	-433	-457	-156	-481	-456	-155	-3442
General Government	-790	-166	-108	-286	664	-222	-324	477	552	-157	-279	151
IMF Credits	926	-67	0	0	435	0	0	-67	662	0	-67	896
Long Term	-1716	-99	-108	-286	229	-222	-324	544	-110	-157	-212	-745
Banks	926	240	287	126	527	399	319	309	1216	95	-80	3438
Long Term	-313	-14	198	-150	37	50	506	26	20	172	279	1124
Short Term	1239	254	89	276	490	349	-187	283	1196	-77	-359	2314
Other Sectors	803	409	332	857	686	559	338	527	522	286	338	4854
Long Term	538	410	273	832	636	537	318	459	338	242	264	4309
Short Term	265	-1	59	25	50	22	20	68	184	44	74	545
Deposits	1196	-75	1	-12	16	25	316	-182	515	-230	148	522
Monetary Authority	479	1	10	-5	-20	-36	-19	36	7	-66	-53	-145
Long Term	-248	-23	-8	-20	-28	-34	-25	22	-4	-62	-48	-230
Short Term	727	24	18	15	8	-2	6	14	11	-4	-5	85
Banks	717	-76	-9	-7	36	61	335	-218	508	-164	201	667

Source: CBRT.

74. In 2004, the Central Bank continued the repayments of the IMF loans used in 2001 and earlier. Thus, the total repayments in the first ten months of the year reached US dollar 3.4 billion.

75. Long term credit utilization in banking and other sectors rose significantly. While long-term credit drawings of the banking sector rose by 162.2 percent in the first ten months of the year, the increase was 40.3 percent in the other sectors in the said period. The upward trend in long-term credit drawings, which has been observed since 2003, confirms that investment expenditures maintain their high level.

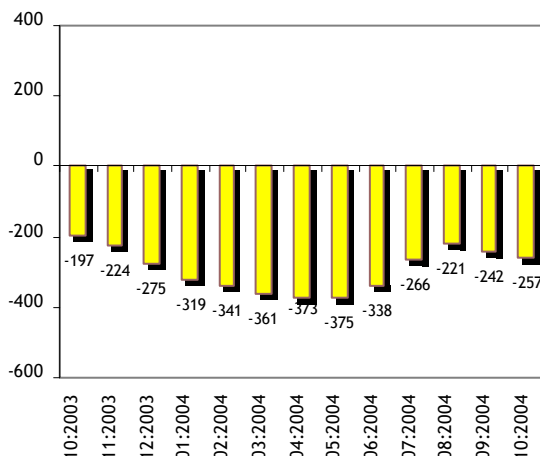
#### LONG-TERM NET CREDIT DRAWINGS and PRIVATE SECTOR INVESTMENT EXPENDITURES (12-month cumulative)



76. Long-term FX deposit accounts with credit letters and super FX accounts held with the Central Bank by the workers abroad have been displaying an outflow trend since April 2003. The interest rate cut-down operations, which intensified especially in the second half of 2003, are considered to be the primary factor in this outflow. Inflow trend in the short-term accounts declined remarkably in the recent months but an outflow was observed in the September-October period.

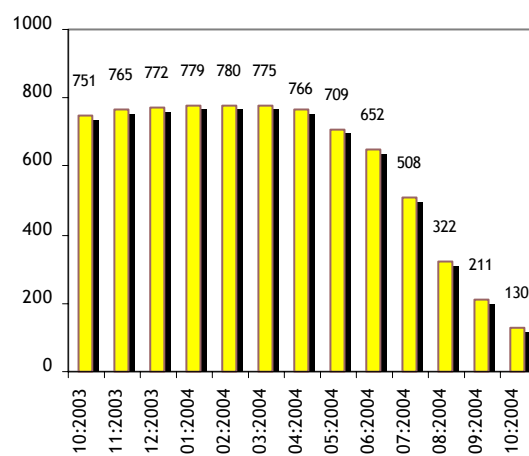
#### INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS (12-month, USD billion)

##### LONG TERM



Source: CBRT.

##### SHORT TERM



77. The FX deposits held with domestic banks by residents abroad, which pursued an inflow course throughout 2003 displayed an increasing tendency in general in 2004. Deposits held with domestic banks by banks and other sectors resident abroad amounted to US dollar 201 billion in October.

78. The Central Bank reserves, which were US dollar 33.6 billion by the end of 2003, dropped to US dollar 35.3 billion by 3 December 2004.

79. External financing requirement, which is defined as the sum of the current account balance and the net errors and omissions item, became US dollar 8.6 billion in January-

October 2004. Financing requirement was chiefly met by portfolio investments, which are mainly composed of foreigners' security purchases, as well as long-term credits and commercial loans used by non-banking private sector. Short-term credits extended to banks from abroad and direct investments were other financing resources.

80. Short-term external debt stock announced by the Central Bank on monthly basis increased to US dollar 29.7 billion in October from US dollar 29.3 billion of September due to the upsurge in short-term commercial credits utilized by non-banking private sector.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)						
	2003	2004				2004
	Jan-Oct	Q1	Q2	Q3	Oct	Jan-Oct
1. Current Account Balance	-4579	-5340	-4513	-634	-232	-10719
2. Net Error and Omission	2960	157	2672	-994	299	2134
I. Total Financing Requirement (=1+2)	-1619	-5183	-1841	-1628	67	-8585
II. Total Financing (=1+2+3)	1619	5183	1841	1628	-67	8585
1. Capital Flows (net)	4939	5070	4781	6400	1133	17384
Portfolio Investments (net)	902	414	659	601	-4	1670
Portfolio Investments (net)	2719	2053	1012	453	1025	4543
General Government Bond Issues	1968	-11	750	220	1000	1959
Foreigners' Buying of Bonds and Stocks in Turkey	1809	1924	78	1131	530	3663
Residents Buying of Bonds and Stocks Abroad	-881	140	184	-898	-505	-1079
Credits (excl. IMF credits)	1695	2717	3669	4563	-292	10657
General Government	-1716	-493	-317	277	-212	-745
Banks	926	653	1245	1620	-80	3438
Long Term	-313	34	593	218	279	1124
Short Term	1239	619	652	1402	-359	2314
Other Sectors	2485	2557	2741	2666	0	7964
Long Term	538	1515	1491	1039	264	4309
Short Term	265	83	92	296	74	545
Trade Credits	1682	959	1158	1331	133	3581
Deposits	1196	-86	357	103	148	522
Central Bank	479	6	-75	-23	-53	-145
Banks	717	-92	432	126	201	667
Others	-1573	-28	-916	680	256	-8
2. IMF Credits	0	-1177	-649	-498	-222	-2546
Central Bank	-926	-1110	-1084	-1093	-155	-3442
General Government	926	-67	435	595	-67	896
3. Change in Reserves (- increase)	-3320	1290	-2291	-4274	-978	-6253
Banks' FX Holdings	1152	1076	-1230	-3656	-405	-4215
Official Reserves	-4472	214	-1061	-618	-573	-2038

Source: CBRT.

## VI. APPENDIX

### CURRENT ACCOUNT (USD million)

Current Account											
	Net	Foreign Trade				Services		Income		Transfers	
		Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances
<i>(annual)</i>											
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	-7283	36059	4065	-51554	7879	8479	-4554	-4417	2436	1936
2003*	-8037	-14010	47253	3953	-69340	10505	13203	-5559	-4586	1027	729
<i>(quarterly)</i>											
2002 III	1030	-2055	9298	1090	-13529	3573	3813	-1078	-1116	590	539
IV	-1106	-2440	10337	1123	-15162	1906	1684	-1233	-1160	661	415
2003 I	-3014	-2393	10366	757	-14368	683	1201	-1564	-1171	260	138
II	-2643	-3223	11318	954	-16470	1662	2259	-1281	-1106	199	151
III	1079	-4082	12180	1082	-18448	6241	7032	-1378	-1134	298	235
IV	-3459	-4312	13389	1160	-20054	1919	2711	-1336	-1175	270	205
2004 I	-5340	-5022	13496	877	-20880	942	1713	-1486	-941	226	193
II	-4513	-6008	15522	1043	-24385	2571	3270	-1372	-991	296	181
III	-634	-6393	15850	973	-24935	6712	7661	-1301	-1168	348	237
<i>(monthly)</i>											
2003 Nov	-519	-608	3970	355	-5245	612	767	-593	-500	70	61
Dec	-2939	-2800	4595	354	-8234	122	490	-372	-360	111	67
2004 Jan	-939	-970	4615	256	-6290	390	602	-458	-219	99	81
Feb	-2215	-1796	3664	280	-6139	159	503	-638	-412	60	54
Mar	-2186	-2256	5217	341	-8451	393	608	-390	-310	67	58
Apr	-1702	-1915	5071	358	-7927	560	773	-424	-262	77	63
May	-1328	-1859	5170	369	-7990	1011	1165	-557	-447	77	64
Jun	-1483	-2234	5281	316	-8468	1000	1332	-391	-282	142	54
Jul	-741	-2169	5631	247	-8715	1744	2154	-443	-264	127	70
Aug	-2	-2281	4664	369	-7864	2749	3024	-577	-576	107	83
Sep	109	-1943	5555	357	-8356	2219	2483	-281	-328	114	84
Oct	-232	-1349	5700	437	-7959	1381	1642	-333	-309	69	58
<i>(12-month)</i>											
2003 Nov	-6412	-12619	45900	3928	-66476	10743	12984	-5611	-4561	1075	807
Dec	-8037	-14010	47253	3953	-69340	10505	13203	-5559	-4586	1027	729
2004 Jan	-8675	-14518	48334	4046	-71204	10619	13428	-5759	-4596	983	758
Feb	-9552	-15596	49074	4028	-73157	10618	13513	-5565	-4537	991	769
Mar	-10363	-16639	50383	4073	-75852	10764	13715	-5481	-4356	993	784
Apr	-11071	-17601	51792	4144	-78568	11038	14046	-5507	-4306	999	802
May	-11574	-18474	53102	4154	-81026	11410	14438	-5528	-4267	1018	815
Jun	-12233	-19424	54587	4162	-83767	11673	14726	-5572	-4241	1090	814
Jul	-12627	-20211	55982	4135	-86215	11979	15069	-5511	-4243	1116	812
Aug	-13449	-21107	56817	4102	-88104	12105	15213	-5572	-4295	1125	816
Sep	-13946	-21735	58257	4053	-90254	12144	15355	-5495	-4275	1140	816
Oct	-14177	-22180	59133	4039	-91638	12340	15543	-5457	-4269	1120	797

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																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Liabilities								
					Equity Securities	Debt Securities			Net	Trade Credits	Credits				Deposits		
						Monetary Authority	General Government	Banks			Other Sectors	Monetary Authority	Banks				
	<i>(annual)</i>																
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	2994	2994	1195	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
	<i>(quarterly)</i>																
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	4225	4225	170	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1211	-1211	116	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1236	-1236	490	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	1216	1216	419	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	5183	5183	414	2053	140	503	1410	2502	1076	1445	959	-1110	-560	653	1598	6	-92
II	1841	1841	659	1012	184	-25	853	1231	-1230	3442	1158	-1084	118	1245	1583	-75	432
III	1628	1628	601	453	-898	226	1125	1192	-3656	4262	1331	-1093	872	1620	1335	-23	126

Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Liabilities								
					Equity Securities	Debt Securities			Net	Trade Credits	Credits				Deposits		
											Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks	
(monthly)																	
2003 Nov	368	368	164	-552	-316	192	-428	-1086	104	-1365	-123	-430	-211	-348	-285	12	19
Dec	1007	1007	129	402	-189	57	534	1893	-532	2630	622	-123	236	1397	357	6	135
2004 Jan	2117	2117	67	1401	-105	-18	1524	841	617	295	45	-158	-166	240	409	1	-76
Feb	3026	3026	371	311	-267	364	214	2048	1078	228	219	-491	-108	287	332	10	-9
Mar	40	40	-24	341	512	157	-328	-387	-619	922	695	-461	-286	126	857	-5	-7
Apr	378	378	73	-193	273	-96	-370	1900	111	2174	465	-194	664	527	686	-20	36
May	1324	1324	188	195	56	-60	199	-167	-594	674	324	-433	-222	399	559	-36	61
Jun	139	139	398	1010	-145	131	1024	-502	-747	594	369	-457	-324	319	338	-19	335
Jul	2096	2096	397	17	-180	90	107	375	-1511	1694	687	-156	477	309	527	36	-218
Aug	-7	-7	32	103	-317	-47	467	1083	-2235	2806	451	-481	552	1216	522	7	508
Sep	-461	-461	172	333	-401	183	551	-266	90	-238	193	-456	-157	95	286	-66	-164
Oct	-67	-67	-4	1025	-505	37	1493	-515	-405	114	133	-155	-279	-80	338	-53	201
(12-month)																	
2003 Nov	2207	2207	1015	2306	-1345	1033	2618	1624	956	2099	1865	-1356	-1144	973	516	541	603
Dec	2994	2994	1195	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
2004 Jan	3918	3918	1210	2862	-1273	872	3263	2076	-237	4130	2272	-1637	-763	2023	1069	460	598
Feb	4670	4670	1528	3554	-1653	1184	4023	3128	381	4067	2521	-2128	-691	2086	1324	439	420
Mar	3952	3952	1439	4697	-1317	1460	4554	2310	-2253	5534	2827	-2476	-770	1928	3282	414	229
Apr	4193	4193	1498	4796	-915	1406	4305	3715	-1908	6774	3253	-2670	-587	2638	3716	393	-76
May	6328	6328	1606	4399	-782	1337	3844	4398	-2447	8084	3434	-3064	-651	3813	3951	334	150
Jun	7004	7004	1982	4775	-612	1420	3967	4608	-2682	8894	3672	-3404	-648	4231	4197	314	397
Jul	9045	9045	2244	5034	-859	1433	4460	4338	-3323	8996	4049	-3560	-21	3910	4492	242	-259
Aug	9443	9443	2035	4505	-1197	1212	4490	5269	-4806	10899	4448	-3693	86	4762	4840	101	206
Sep	9868	9868	2093	3621	-906	1084	3443	3833	-5476	10140	4433	-4031	218	4600	4786	-31	6
Oct	9960	9960	1963	4393	-1584	990	4987	5217	-4643	10528	4080	-3995	176	4487	4926	-127	821

Source: CBRT.