

CENTRAL BANK OF THE REPUBLIC OF TURKEY

**BALANCE OF PAYMENTS
REPORT**



2006 - III

SUMMARY

From the second half of 2005 onwards, export growth slowed down, whereas import growth gained pace. The said tendency continued in the first quarter of 2006 as well. During this period, annual increases in exports and imports were realized as 13.4 percent and 17.8 percent, respectively. Hence, the foreign trade deficit, which was USD 24.3 billion in the January-September period of 2005, within the framework of the balance of payments definition, reached USD 32 billion in the same period of 2006. The decline in tourism revenues during the said period led to further increase in current account deficit.

Exports of the textile and clothing sector, having the largest share in overall exports, which had been displaying low performance since the last quarter of 2005, boosted in May and June. However, export growth of the sector remained below overall export growth. In the first three quarters of the year, the largest contribution to overall exports came from exports of the basic metal industry, which increased by 32.3 percent, displaying growth above overall export performance. Exports of motor vehicles, machinery and equipment, coke, refined petroleum products and nuclear fuels were the other sectors that contributed significantly to total exports.

Imports of capital and consumer goods, which sustained their high-rated increases as of August 2005, rose by 9.9 percent and 20.8 percent, respectively, in the first nine months of 2006. Meanwhile, imports of intermediate goods were realized as 19.5 percent in the January-September period. Imports of crude oil and natural gas under this item made the highest contribution to overall import growth owing to price increases.

Starting from the last quarter of 2005, the contribution of export prices to nominal exports slowed down. The exports unit value index, which declined by 0.9 percent in the first quarter of 2006, increased by 3.7 percent and 4.7 percent in the second and third quarters of the year, respectively. Meanwhile, import prices rose by 7.7 percent in the first nine months of 2006. The increase in import prices mainly resulted from the 39.8 percent rise in prices of the mining and quarrying sector that includes crude oil and natural gas. Moreover, import prices in the manufacturing industry, which declined in the first quarter of the year, rose by 4.1 percent and 11.1 percent in the second and third quarters of 2006, respectively. Adjusting for the price effect, annual increases in imports and exports during the January-September period were seen to have realized as 6.6 percent and 7.6 percent, respectively.

Excluding IMF loans and official reserve changes (CBT + banks), capital inflows became USD 39.5 billion in the first nine months of 2006. In this period, direct investments and long-term credits and trade credits used by the private sector and banks became the primary determinants of the financing structure. In this period, net long-term and short-term capital inflows, excluding portfolio, direct investments and IMF loans, were realized as USD 19.4 and USD 0.9 billion, respectively. Besides, the item of net errors and omissions was negative, amounting to USD 0.7 billion.

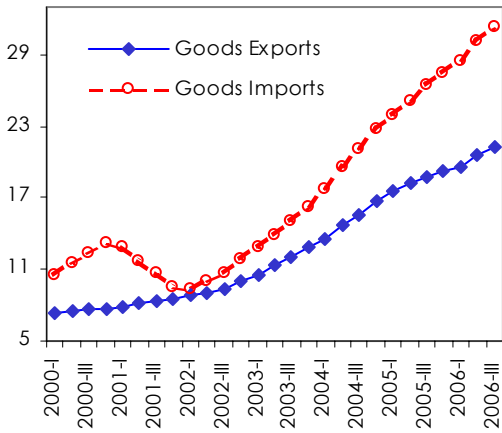
As a result of these developments, Central Bank reserves and banks' reserves increased by USD 4.9 billion and USD 5 billion, respectively, in the first nine months of 2006.

Balance of Payment
(billion USD)

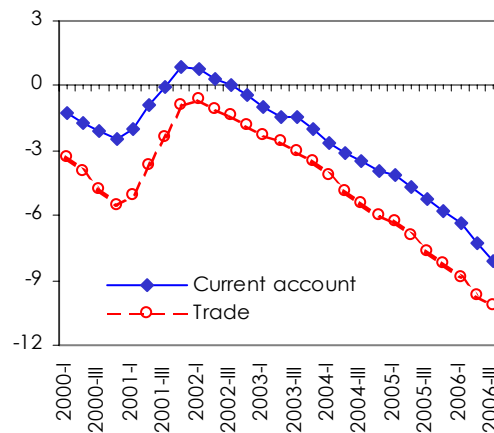
	Jan-Sep			Sep (12-month)		
	2005	2006	% change	2005	2006	% change
Current Account	-15.9	-25.3	..	-20.9	-32.6	..
Goods	-24.3	-32.0	..	-30.7	-40.7	..
Exports	56.0	63.9	14.2	75.1	84.9	13.0
Exports (fob)	53.5	60.7	13.4	71.7	80.7	12.6
Shuttle trade	2.5	3.2	30.4	3.5	4.2	22.3
Imports	-80.2	-95.9	19.5	-105.8	-125.6	18.7
Imports (cif)	-85.3	-100.5	17.8	-112.5	-132.0	17.4
Coverage adjustment	5.1	4.6	..	6.7	6.4	..
Services	11.6	10.1	..	14.2	12.4	..
Tourism (net)	12.5	11.6	-6.9	15.1	14.4	-4.3
Credit	14.6	13.7	-5.8	17.8	17.3	-2.8
Debit	-2.1	-2.1	0.7	-2.7	-2.9	5.6
Other services revenues (net)	-0.8	-1.5	..	-0.9	-2.0	..
Income	-4.3	-4.6	..	-5.7	-6.0	..
Direct investment income (net)	-0.6	-0.7	..	-0.8	-0.8	..
Portfolio investment income (net)	-0.7	-0.5	..	-0.9	-0.7	..
Other investment income (net)	-3.0	-3.4	..	-4.0	-4.4	..
Interest income	0.7	1.0	43.7	0.9	1.3	44.8
Interest expenditure	-3.7	-4.4	19.5	-4.9	-5.7	16.9
Current transfers	1.1	1.2	..	1.3	1.6	..
Workers remittances	0.6	0.8	36.7	0.8	1.1	35.2
Capital and financial account	13.0	25.8	..	16.1	33.7	..
Financial account (excl. reserve assets)	21.6	30.8	..	24.0	47.9	..
Direct investment (net)	3.1	12.4	..	3.5	18.1	..
Abroad	-0.8	-0.4	..	-1.0	-0.7	..
In Turkey	3.9	12.8	..	4.4	18.7	..
Portfolio investment (net)	8.9	3.6	..	12.5	8.1	..
Assets	-1.4	-1.2	..	-2.2	-1.1	..
Liabilities	10.3	4.8	..	14.7	9.2	..
Equity securities	4.7	1.6	..	5.4	2.6	..
Debt securities	5.6	3.3	..	9.3	6.6	..
Non-residents' buyings in Turkey	3.7	0.7	..	6.4	2.9	..
Eurobond issues of Treasury	2.3	2.5	..	3.3	3.7	..
Borrowing	5.3	3.2	..	6.8	4.4	..
Repayment	-3.1	-0.7	..	-3.6	-0.7	..
Other investments (net)	9.6	14.7	..	8.0	21.8	..
Assets	-1.9	-5.6	..	-5.2	-3.4	..
Trade credits	0.8	-0.2	..	-0.2	-0.6	..
Credits	0.1	-0.3	..	0.0	-0.3	..
Banks FX assets (- increase)	-2.8	-5.0	..	-5.0	-2.6	..
Liabilities	11.5	20.3	..	13.2	25.2	..
Trade credits	2.7	2.7	..	3.5	3.6	..
Credits	7.0	16.6	..	8.1	21.6	..
Central Bank	-2.6	0.0	..	-3.7	-0.3	..
General Government	-3.6	-3.6	..	-4.3	-4.7	..
IMF	-2.2	-3.5	..	-2.3	-3.8	..
Long-term	-1.3	-0.1	..	-2.0	-0.9	..
Banks	6.8	5.7	..	8.9	8.1	..
Long-term	5.0	5.3	..	6.4	6.8	..
Short-term	1.8	0.4	..	2.5	1.3	..
Other sectors	6.3	14.6	..	7.1	18.5	..
Long-term	5.3	14.1	..	6.2	18.7	..
Short-term	1.0	0.5	..	0.9	-0.2	..
Deposits of non-residents	1.6	0.9	..	1.3	-0.3	..
In CBT	-0.6	-0.9	..	-0.7	-1.1	..
In banks	2.2	1.8	..	2.0	0.9	..
Change in official reserves (- increase)	-8.6	-4.9	..	-7.9	-14.2	..
Net errors and omissions	2.7	-0.7	..	4.9	-1.1	..

Source: CBT.

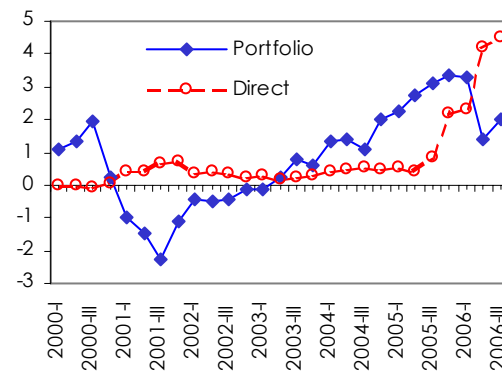
Goods Exports and Imports
(12-month ave., billion US dollars)



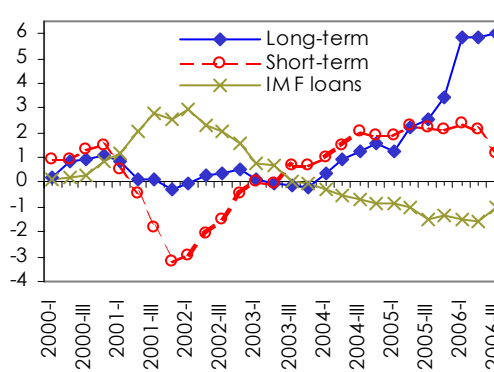
Trade and Current Account
(12-month ave., billion US dollars)



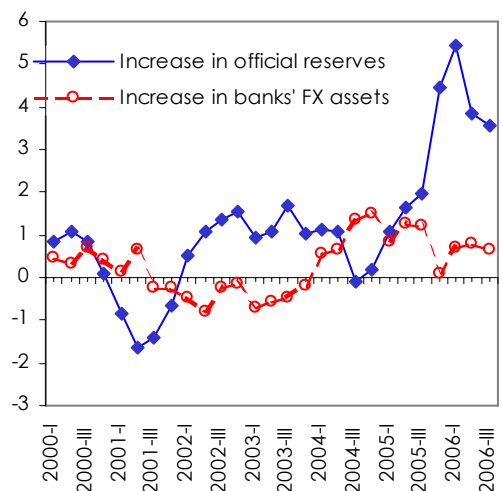
Direct and Portfolio Investments
(12-month ave., billion US dollars)



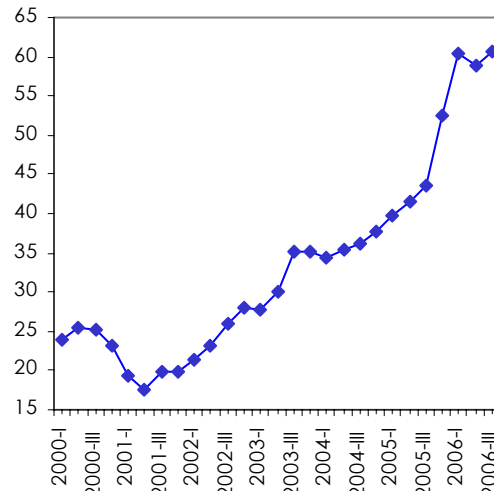
Term Structure of Capital Flows
(12-month ave., billion US dollars)



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



CBT International Reserves
(billion US dollars)



Source: CBT, TÜRKSTAT.

I. EXTERNAL ECONOMIC DEVELOPMENTS

1. Despite high energy prices, the world economy maintained its high-rated growth of 2005 in the first nine months of 2006. While China continued to become the main determinant of the ongoing strong growth tendency of the world economy, stable growth in the economies of the European Union (EU) and Japan also contributed to the growth in the world economy.

2. Uncertainties about oil prices and international liquidity conditions and global instabilities are the leading risks for growth of the world economy throughout 2006. Crude oil prices, which reached historical record levels in August due to geopolitical uncertainties, the political tension in the Middle East and increasing production uncertainties arising from the technical problems experienced in the Alaska oil drilling zone, entered a downward trend by September. The said decline mainly stemmed from higher US crude oil reserves than expected. Nevertheless, seasonal high demand in the winter months and the Organization of the Petroleum Exporting Countries (OPEC)'s attempts to reduce quotas strengthen the possibility of re-increase of crude oil prices in the future.

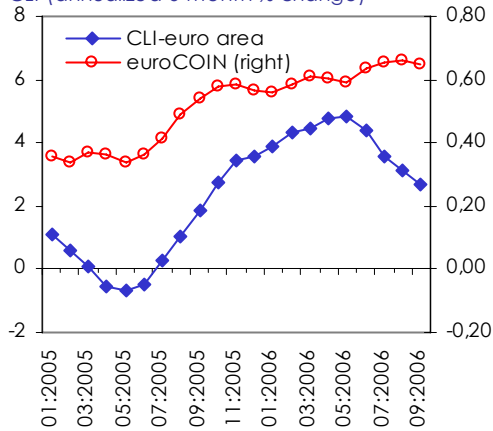
3. It is considered that interest rate hikes in the USA and the EU have started slowdown tendency due to the ease of inflationary pressures. Accordingly, the rates of bond yields have declined. On the other hand, a rapid upsurge was observed in yield rates in Japan owing to August inflation developments.

4. Meanwhile, even though the contraction in the US real estate market has an unfavorable impact on US economic growth, the slowdown in the economy is not expected to be so severe.

Euro Area Leading indicators:

€COIN (3-month % change),

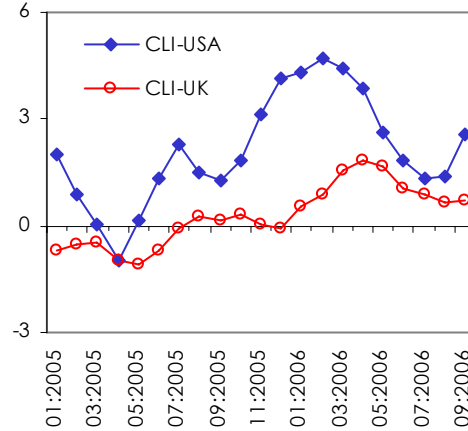
CLI (annualized 6-month % change)



Source: OECD, CEPR.

USA and UK Leading indicators:

CLI (annualized 6-month % change)



Source: OECD.

5. US economic growth, which boosted by 1.4 percent in the first quarter of 2006, lost pace in the second and third quarters and was realized as 0.6 percent and 0.4 percent, respectively. The US economy is predicted to grow by 3.5 percent throughout 2006. The loss of pace in US economic growth reflects the lagged effects of interest rates and the rise in energy prices as well as the impact of the gradual cooling in the housing market. Consumer inflation shows increases as a result of rising energy and commodity prices. At its meeting of 25th October 2006, the Federal Reserve Bank (FED) decided to keep interest rates at 5.25 percent and stated that further decisions on interest rates would be formed in accordance with the inflation and growth indicators.

6. The Euro zone GDP, which had increased by 2.2 percent and 2.8 percent on an annual basis in the first and second quarters of 2006, rose by 2.7 percent in the third quarter of the year. The decline in oil prices is expected to contribute to growth in the zone. Nevertheless, the reoccurrence rising oil prices and the reduction in the risk appetite of global capital are still existent as the risk factors that will slow down the growth rate. Against increasing

inflationary risks, the European Central Bank (ECB) raised its key interest rate by 25 base points to 3.25 percent on 5th December 2006. Despite the strengthening of the possibility of further interest rate hikes by the ECB, strong growth is expected to continue throughout 2006. As a matter of fact, the September data of the ECOIN index, which is the leading indicator of the Euro zone related to economic activity, also points towards an ongoing favorable outlook.

7. The Japanese economy, which had experienced high growth in 2005 by growing 2.7 percent, displayed growth performance in the first three quarters of 2006 by growing 2.5, 2.9 and 1.7 percent, respectively. Meanwhile, the Chinese economy maintained its strong growth in 2006, as well. In the first quarter of the year, the Chinese economy grew by 10.2 percent compared to the same period of the previous year and by 10.9 percent in the second quarter. The Chinese economy is expected to grow by 10 percent throughout 2006. It is observed that the growth in the Chinese economy mainly stems from the rapid increase in fixed investments and industrial production.

8. These developments are believed to indicate a foreign demand structure that will support Turkey's exports throughout 2006.

II. CURRENT ACCOUNT

9. As of September 2006, the current account reached 8.3 percent of the GNP in annual terms. The upward trend in the current account deficit continued in the first three quarters of 2006 and the current account registered a deficit of USD 28 billion.

10. In the first half of 2006, rates of increase of imports and exports were realized as 19 percent and 12.3 percent, respectively. In the third quarter of the year, the rate of increase of imports dropped to 15.7 percent, while the rate of increase of exports reached 15.5 percent. Thus, in September, the ratio of exports to imports and to short-term foreign debt stock was realized as 0.68 and 1.96, respectively in annual terms. The ratio of reserves; the indicators that are based on the Central Bank reserves; to short-term foreign debt stock increased compared to 2005, while the ratio of reserves to current account deficit and to the financing requirement, made up of the current account deficit plus the net errors and omissions item, did not change.

Selected Indicators Related to the Current Account Deficit and Financing Structure

	2000	2001	2002	2003	2004	2005	2006*
Exports / Imports	0.58	0.90	0.85	0.79	0.74	0.70	0.68
Exports / Short-Term External Debt	1.09	2.10	2.44	2.23	2.06	2.01	1.96
Exports / External Debt Service	1.40	1.40	1.39	1.84	2.20	2.11	2.43
Tourism Revenues / Trade Balance	0.35	2.17	1.16	0.94	0.67	0.55	0.43
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.16	1.37	1.40
CBT Reserves / Financing Requirement	1.84	-	19.97	11.71	2.82	2.54	2.24
CBT Reserves / Current Account Balance	2.36	-	18.42	4.38	2.41	2.26	1.86
CBT Reserves / Imports	0.44	0.52	0.59	0.54	0.41	0.48	0.48

Source: CBRT, TURKSTAT.

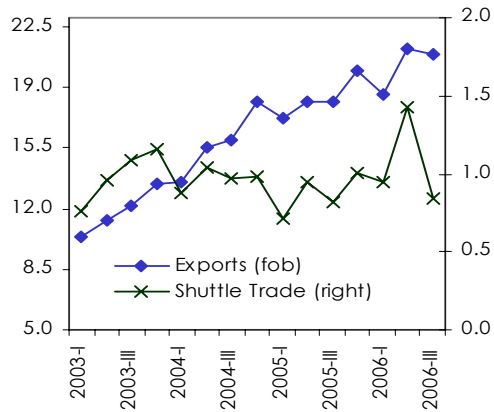
* 12-month data as of September

Exports of Goods

11. According to exports data issued by TURKSTAT (Turkish Statistical Institute), exports (FOB) increased by 13.4 percent in the January-September period of 2006. In the same period, the rate of growth in total exports of goods reached 14.2 percent as a result of the 30.4 percent rise in revenues from shuttle trade. Meanwhile, exports prices that increased in the first half of and in the third quarter by 1.4 percent and 4.7 percent, respectively contributed to the nominal growth in exports. When adjusted according to the price, the real increase in exports was 6.7 percent in the January-September period.

Exports

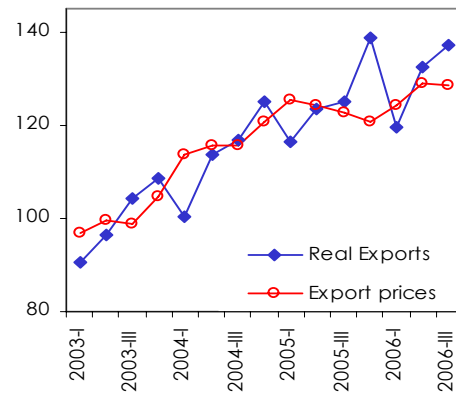
(billion US dollars)



Source: CBT, TURKSTAT.

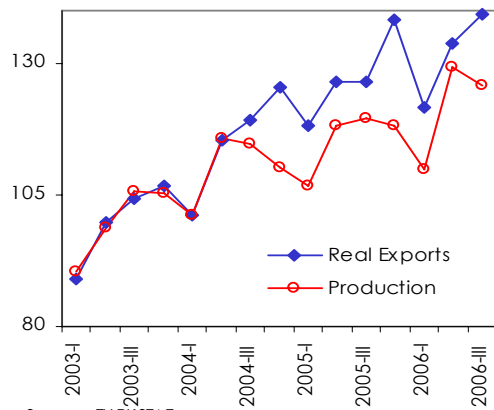
Exports - Real and Unit Value

(2003=100)



Source: TURKSTAT.

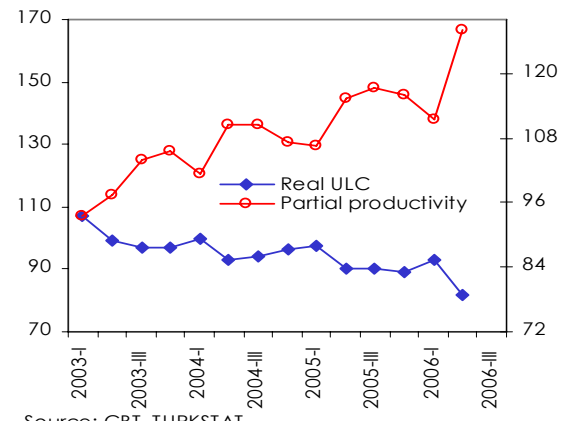
12. Increases in productivity became one of the main determinants of the boost in exports, by means of reducing the unit real labor costs to give way to external competitive advantage besides offsetting the unfavorable impact of the strong position of the New Turkish lira (YTL) on external competitiveness.

Production and Exports in Manufacturing Industry (2003=100)

Source: TURKSTAT.

Real ULC and Productivity Indices (2003=100)

(2003=100)



Source: CBT, TURKSTAT.

13. If developments in exports in the January-September period are analyzed according to sectors, it is observed that the increase in exports of intermediary goods was realized far above (21.8 percent) the increase in total exports. The increases in exports of capital and consumption goods were realized as 11.6 percent and 5.8 percent, respectively. Thus, the share of exports of intermediary goods in total exports increased from 41.5 percent to 44.5 percent, whereas that of exports of capital and consumption goods decreased.

14. Analyzing export developments by sub-items, although exports of the textile and clothing sectors increased in May and June, even if they have displayed a lower performance since the last quarter of 2005. On the other hand, in the first three quarters of the year, basic metal, motor vehicles, electrical machinery and appliances, refined oil, coke coal and nuclear fuel and chemicals and chemical products displayed performance beyond the increase in total exports.

15. In the January-September period of 2006, the greatest contribution to total export growth came from the basic metal sector (3.1 points). The other sectors that contributed to the total export growth are motor vehicles (2.8 points) and trailers, refined oil, coke coal and nuclear fuel (1.4 points) and machinery-equipment (1.3 points) sectors.

16. Analyzing the sectors' shares in total exports, shares of labor-intensive sectors such as food, textiles and clothing dropped, while the increase in the shares of basic metal,

machinery-equipment, electrical machinery and appliances and motor vehicles sectors is noteworthy.

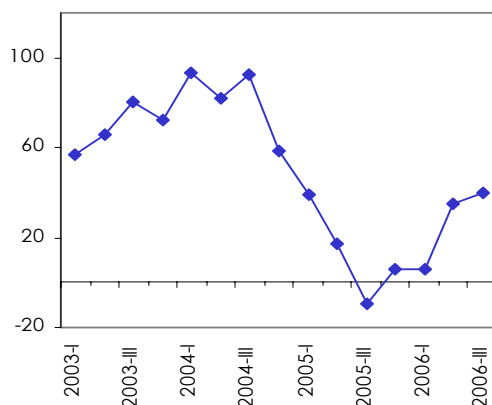
Exports
(million US dollars)

	Jan-Sep						
	2005	2006	% Change	% Contrib.	\$ Contrib.	share	
Total	53515	60697	13.4				
Capital Goods	5870	6550	11.6	1.3	680	11.0	10.8
Intermediate Goods	22191	27033	21.8	9.0	4843	41.5	44.5
Consumption Goods	25241	26697	5.8	2.7	1456	47.2	44.0
Other	214	416	94.4	0.4	202	0.4	0.7
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	2161	2317	7.2	0.3	156	4.0	3.8
Food products and beverages	3000	3057	1.9	0.1	57	5.6	5.0
Textiles	6392	6588	3.1	0.4	196	11.9	10.9
Wearing apparel	7591	7521	-0.9	-0.1	-70	14.2	12.4
Petroleum products and nuclear fuel	1781	2531	42.1	1.4	750	3.3	4.2
Chemicals and chemical products	2099	2528	20.4	0.8	429	3.9	4.2
Rubber and plastic products	1857	2154	16.0	0.6	297	3.5	3.5
Other non-metallic minerals	2034	2044	0.5	0.0	10	3.8	3.4
Manufacture of basic metals	5089	6732	32.3	3.1	1644	9.5	11.1
Manufacture of fabricated metal prod(exc machir	1957	2325	18.8	0.7	368	3.7	3.8
Manufacture of machinery and equipment	3520	4203	19.4	1.3	683	6.6	6.9
Electrical machinery and apparatus	1439	1928	34.0	0.9	489	2.7	3.2
Communication and apparatus	2016	2096	4.0	0.1	80	3.8	3.5
Motor vehicles and trailers	7608	9091	19.5	2.8	1483	14.2	15.0
Other transport	1107	1452	31.3	0.6	346	2.1	2.4

Source: TURKSTAT.

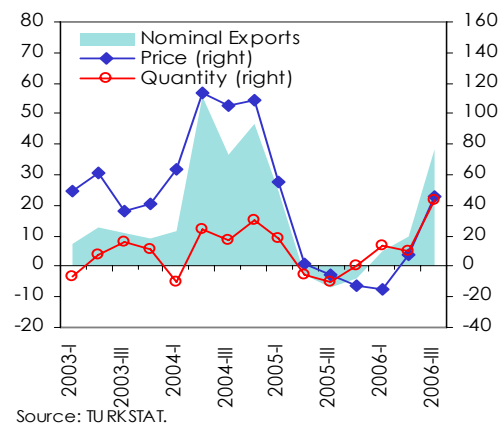
17. Exports of motor vehicles, which rose by 14.7 percent in the first half of 2006, increased by 30.6 percent in the third quarter of the year. The production of new products in the sector is assumed to be effective on the said increase. Automobile exports increased by 27 percent in the January-September period. Despite the 14.1 percent increase in automobile imports during this period, the sector maintained its net exporter position.

Automobile Exports
(Annual percentage change)



Source: TURKSTAT.

Basic Metal Industry Exports
(Annual percentage change)



Source: TURKSTAT.

18. Textile and clothing exports that increased by 0.2 percent in annual terms in the January-June period of 2006 rose by 2.2 percent in the July-September period. The difficulty in competing with countries like China and India, that especially dominate the US market in terms of exports of textile and clothing owing to their low labor costs, was the main development leading to loss of performance in the sector. On the other hand, high quality and geographical closeness to Europe continue to give advantage to the textile and

clothing exports to EU countries. In addition, the sector's access to new markets had a favorable impact on its latest performance.

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

	2005	2006		
		I	II	III
Total	5.7	-0.9	3.7	4.7
Capital Goods	1.5	-3.0	4.6	8.8
Intermediate Goods	6.9	-1.5	6.0	13.4
Consumption Goods	6.3	-0.7	1.0	-3.7
Selected Items (ISIC Rev.3):				
Agriculture and farming of animals	27.8	-0.8	-13.9	-22.6
Food products and beverages	9.8	1.7	-0.3	-7.4
Textiles	4.6	-3.1	1.0	1.1
Wearing apparel	4.7	1.8	1.8	-3.1
Petroleum products and nuclear fuel	25.0	24.7	28.7	15.8
Chemicals and chemical products	7.7	-0.3	3.3	5.4
Rubber and plastic products	7.7	0.0	4.4	8.2
Other non-metallic minerals	9.6	7.4	6.4	5.2
Manufacture of basic metals	2.3	-7.3	4.1	22.6
Manufacture of fabricated metal prod(exc machir	11.7	2.6	9.2	13.1
Manufacture of machinery and equipment	4.7	-1.8	1.1	5.2
Electrical machinery and apparatus	10.2	10.6	19.5	27.8
Communication and apparatus	-18.3	-16.8	-9.4	-6.6
Motor vehicles and trailers	1.9	-4.8	5.1	5.9

Source: TURKSTAT.

19. The decline that had been observed in exports of the basic metal industry since the second quarter of 2005 came to a halt in 2006, and the sectors' exports rose by 32.3 percent in the first nine months of the year. In the third quarter of the year, the rapid increase in basic metal industry prices made a major contribution to the exports value.

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

	2005	2006		
		I	II	III
Total	10.5	2.9	7.2	9.7
Capital Goods	20.9	-3.7	11.1	9.3
Intermediate Goods	10.6	7.1	8.3	15.7
Consumption Goods	7.9	-0.9	5.4	4.6
Selected Items (ISIC Rev.3):				
Agriculture and farming of animals	3.3	9.7	43.0	4.4
Food products and beverages	16.8	-4.8	-3.4	0.7
Textiles	4.1	0.0	-0.6	1.4
Wearing apparel	1.7	-11.1	-6.4	4.0
Petroleum products and nuclear fuel	53.7	-14.4	14.8	20.2
Chemicals and chemical products	4.5	6.5	13.7	16.2
Rubber and plastic products	18.1	13.0	3.5	8.8
Other non-metallic minerals	6.1	-12.2	-8.1	-7.7
Manufacture of basic metals	-0.1	13.2	10.5	43.5
Manufacture of fabricated metal prod(exc machi	9.4	7.2	0.5	9.5
Manufacture of machinery and equipment	18.7	15.8	14.0	13.2
Electrical machinery and apparatus	11.4	2.4	5.0	15.4
Communication and apparatus	33.9	35.3	23.8	-7.9
Motor vehicles and trailers	13.5	5.1	18.0	23.2

Source: TURKSTAT.

20. The exports unit value index, which decreased by 0.9 percent in annual terms in the first quarter of 2006, increased by 3.7 percent and 4.7 percent, respectively, in the second and third quarters. In the third quarter of 2006, the exports unit value index declined in sectors such as agriculture and livestock, food products and beverages, clothing, radio, television and communication tools and rose in other sectors. It is observed that the increase in the exports unit value index of basic metal exports was far above the former price increases in the sector.

21. In the first three quarters of 2006, the increase in the exports quantity index was realized quite above the price increases. The highest increase in the quantity index was realized in the basic metal industry.

Export- Country Decomposition
(million US dollar)

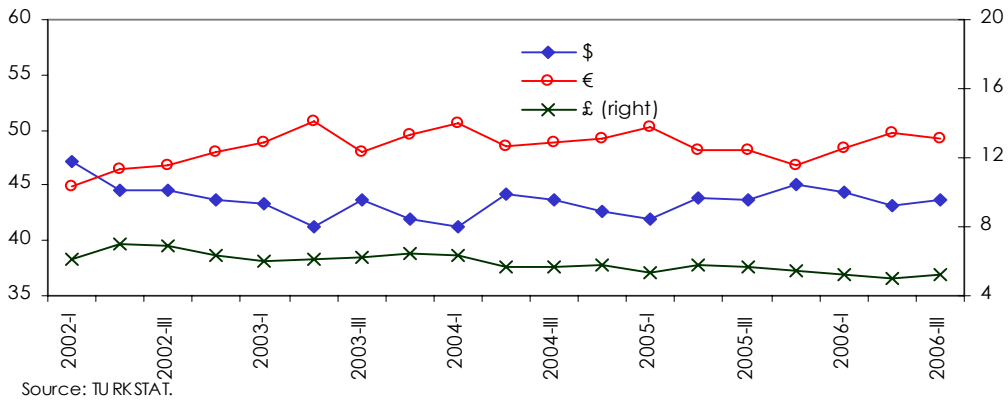
	Jan-Sep						
	2005		2006		% Change	% Contrib.	\$ Contrib.
	Value	Share (%)	Value	Share (%)			
Total	53515	..	60697	..	13.4		
EU countries	27832	52.0	31625	52.1	13.6	7.1	3793
EU 15	26070	48.7	29502	48.6	13.2	6.4	3432
EU 10	1761	3.3	2123	3.5	20.5	0.7	362
Other countries	23483	43.9	26935	44.4	14.7	6.5	3452
Other European	6302	11.8	8082	13.3	28.2	3.3	1780
East Asian	2223	4.2	2780	4.6	25.0	1.0	557
Other	14957	27.9	16072	26.5	7.5	2.1	1115
Free Zones in Turkey	2201	4.1	2137	3.5	-2.9	-0.1	-64
Selected countries and country groups							
OECD	32,286	60.3	36,534	60.2	13.2	7.9	4248
Germany	6,924	12.9	6,977	11.5	0.8	0.1	53
UK	4,262	8.0	4,809	7.9	12.8	1.0	547
USA	3,694	6.9	3,818	6.3	3.4	0.2	124
Italy	3,948	7.4	4,954	8.2	25.5	1.9	1006
France	2,839	5.3	3,358	5.5	18.3	1.0	519
Spain	2,174	4.1	2,713	4.5	24.8	1.0	539
Netherlands	1,836	3.4	1,816	3.0	-1.0	0.0	-19
Other OECD	6,609	12.3	8,088	13.3	22.4	2.8	1480
Middle East countries	7,485	14.0	7,800	12.9	4.2	0.6	315
Russian Fed.	1,704	3.2	2,163	3.6	27.0	0.9	459

Source: TURKSTAT.

22. Analyzing exports developments by country groups, it is observed that growth in exports to EU countries, which comprises the largest share in total exports, continued to increase in a stable manner in the third quarter of the year. Increasing trend in domestic demand, since the beginning of 2006, and economic activities of EU countries are effective in this development. In the first nine months of the year, exports to the said country group, including France, Ireland, Spain, Italy, Greece and Portugal displayed high increases, while exports to Germany, the biggest trade partner, increased only by 1 percent. Similarly, it is observed that exports to Middle Eastern countries displayed a limited increase and their share in total exports dropped.

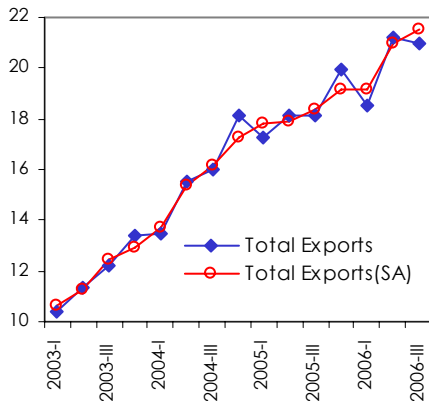
23. In terms of the foreign exchange composition of exports, the share of the euro increased in the first nine months of 2006 in line with the increase in exports with EU countries. The share of Euro with 48.3 percent in 2005 rose to 49.6 in the January-October 2006 period. Moreover, a decline was observed in the share of US dollar and Sterling in the same period.

Currency Composition of Exports
(% share)

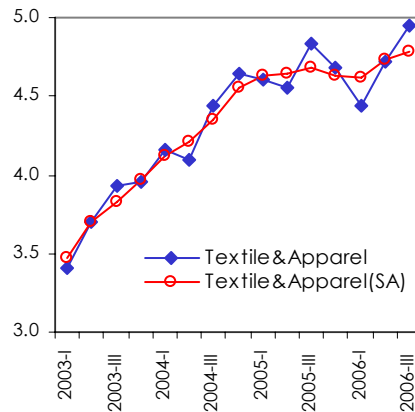


24. According to seasonally adjusted (SA) series, US dollar-denominated nominal exports increased by 3 percent in the third quarter of 2006 compared to the previous quarter. Seasonally adjusted nominal exports of the textile and clothing sector – one of the leading export sectors – remained below the general exports performance and rose by 1 percent compared to the previous period, while the seasonally adjusted nominal exports of motor vehicles and machinery-equipment rose by 5 percent and 3.9 percent, respectively.

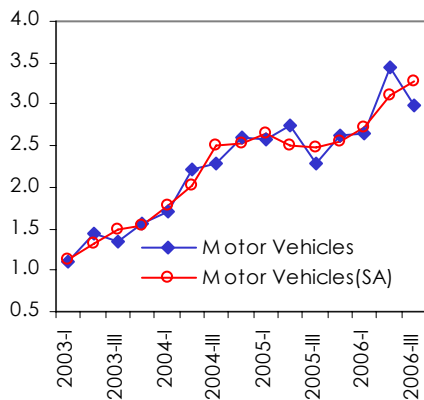
Total Exports
(billion US dollar)



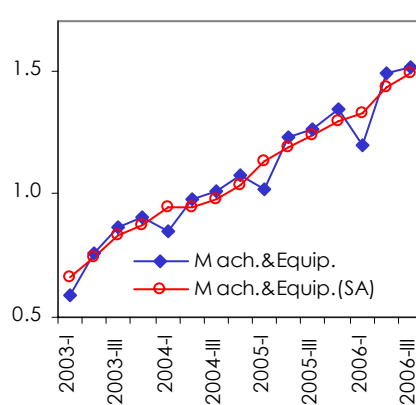
Textile&Apparel Exports
(billion US dollar)



Motor Vehicles
(billion US dollar)



Machinery&Equipment Exports
(billion US dollar)



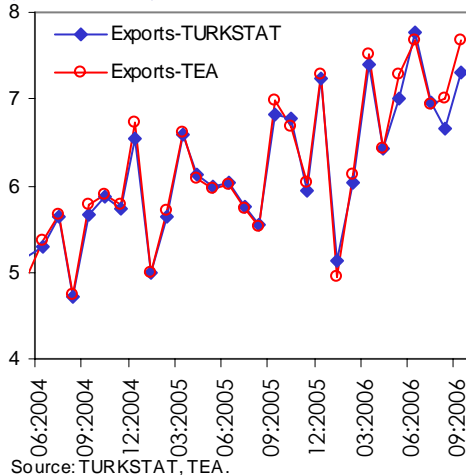
Source: TURKSTAT, CBT.
SA: Seasonally Adjusted.

25. In October, the Ramadan holiday negatively affected exports but this effect was temporary. However, data announced by the Turkish Exporters Assembly (TIM) on exports in October 2006 – based on October-November data – show that the increasing trend continued. According to data by TIM, exports of motor vehicles, electrics-electronics, and machinery-equipment sectors increased remarkably in October, continuing to make the largest contribution to total exports.

26. Indicators in the April Business Tendency Survey for exports in the upcoming period show that in the next quarter orders to be received from the exports market and growth in the volume of goods sold to foreign markets is decreasing.

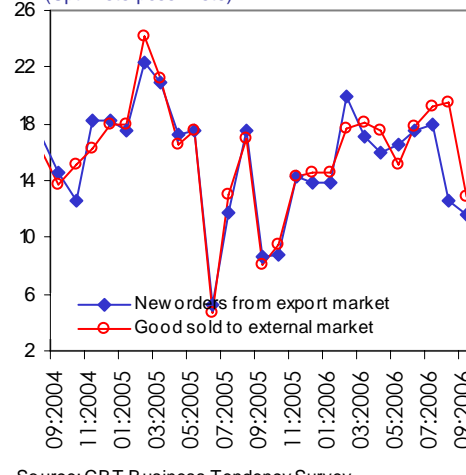
Exports - TURKSTAT and TEA data

(billion US dollars)



Export Expectations-Next 3 months

(Optimists-pessimists)

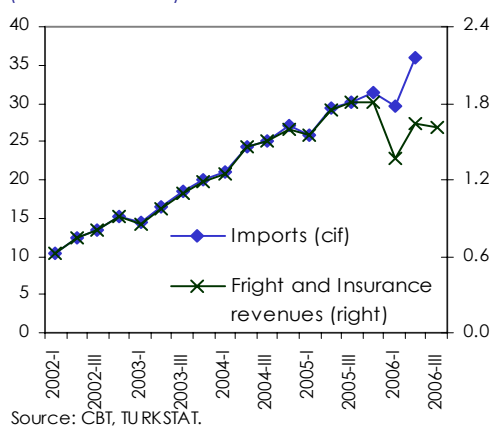


Imports of Goods

27. Imports, as announced by TURKSTAT (including freight and insurance cost), increased by 15.7 percent in the first quarter of 2006. With the addition of the "other goods" item related to freight and insurance revenues and financial leasing, the rate of growth for the total imports of goods amounts to 17.4 percent. While the impact of price changes on the growth of nominal imports was lower than that of quantity changes in the first half of 2006, it is observed that the price effect gained momentum in the third quarter. Imports price index increased by 12.9 percent and the imports quantity index rose by 2.4 during this quarter.

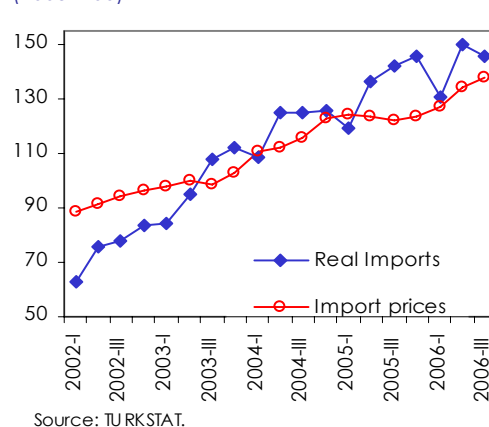
Imports

(billion US dollars)



Imports- Real and Unit Value

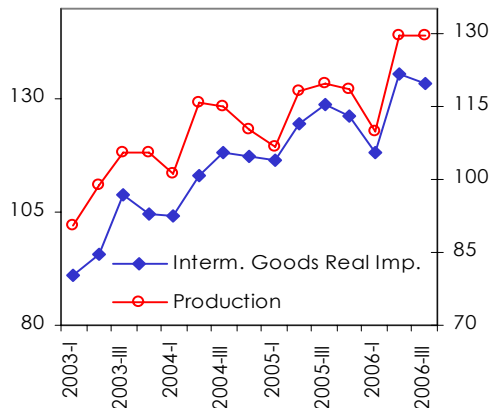
(2003=100)



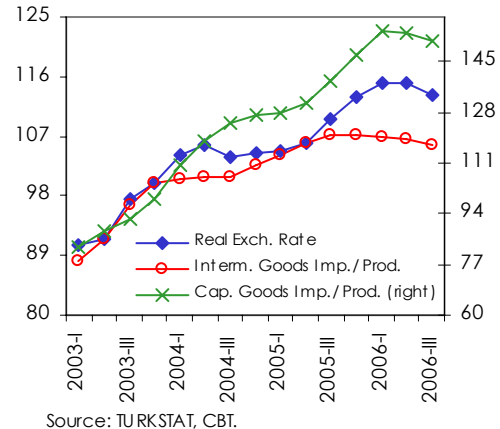
28. Annual growth rates of total industrial production and manufacturing industry production, that were respectively realized as 5.3 percent and 4.8 percent in 2005, were 6.3

percent and 5.9 percent, respectively in the January-October period of 2006. Pursuing the strong position of the YTL together with the increase in industrial production was instrumental in the growth of imports of intermediate goods, which comprise 71 percent of total imports. Imports of intermediate goods closely followed the fluctuations in industrial production. The growth rate of intermediate goods imports, which increased in the second quarter of 2006, dropped in the third quarter, as a result of the slowdown in industrial production. However, it is observed that the slow down in the imports of intermediate goods was slightly lower than that of production tendencies.

Man. Ind. Prod. & Int. Goods Imports (2003=100)

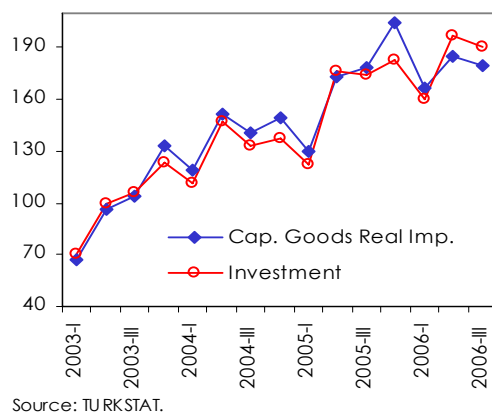


Interm. & Cap. Imp./Manuf. Ind. P. Ratio and REER (PPI) (12-month, ave.)

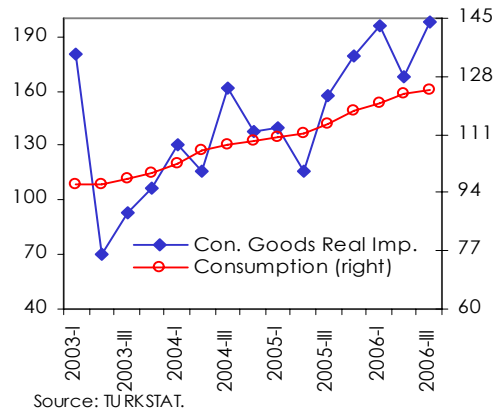


29. Although the growth rate of imports of intermediate goods declined, with the impact of the rise in prices, this group of goods continued to make the largest contribution to the increase in total imports in the January-September period. The capital goods imports, with their high-rated upsurge, left their mark on 2005 and also continued to increase at a rate higher than the increase in imports of intermediate goods in the first quarter of 2006, while the rate of growth remained below the rate of increase of intermediate goods imports in both the second quarter and third quarter. This development shows that investment expenditures slowed down in the second quarter of 2006. Another striking development in the first half of 2006 is that of consumer goods imports - recording an increase of 31.1 percent, which is above not only the intermediate, but also capital goods imports. In the third quarter consumer goods imports had a growth rate below capital goods imports.

Invest. Expend. & Cap. Goods Imp. (2003=100)



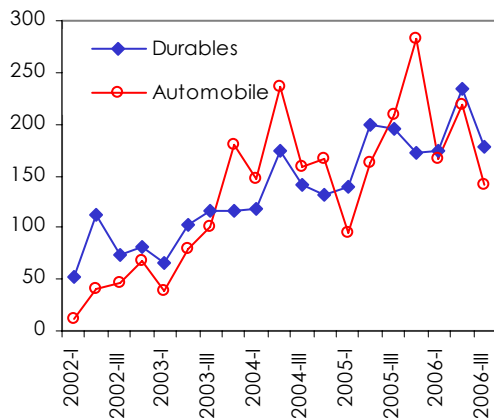
Consum. Exp. & Con. Goods Imp. (2003=100, 12-month, ave. for cons.)



30. Analyzing quantity indices, imports of automobiles, which occupy an important share of the imports of consumer goods, rose by 50.2 percent in the first half of 2006, whereas they dropped by 32.4 percent in the third quarter. Thus, the increase in imports of automobiles was realized as 13 percent. Meanwhile, imports quantity indices of durable and semi-durable consumer goods rose by 21 percent and 30.2 percent in the first half of 2006, but in the third quarter imports of durable goods declined by 8.8 percent and imports of semi-durable goods rose by 19.4 percent. The increases in imports of the mentioned sectors in the January-October period of 2006 were recorded as 10.1 percent and 26 percent, respectively.

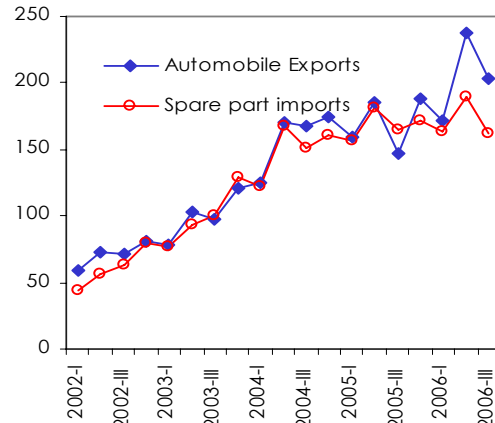
31. When the consumer confidence indices released by CNBCe and CBRT/TURKSTAT are analyzed, it is seen that consumption tendencies, which had been in a declining trend since the beginning of 2006, changed its direction and display an increasing tendency as of July.

Durables & Automobile Imports
(2003=100)



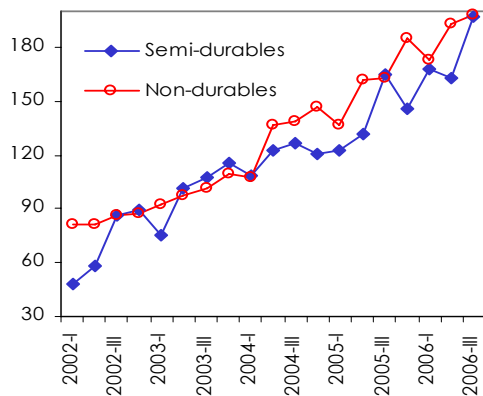
Source: TURKSTAT.

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



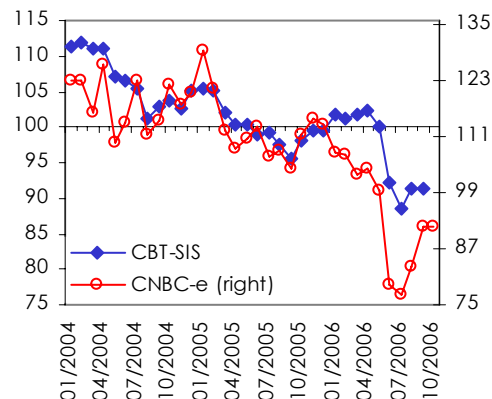
Source: TURKSTAT.

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



Source: TURKSTAT.

Confidence Index



Source: CBT, TURKSTAT, NTVMSNBC.

32. In the first nine-month period of 2006, imports of intermediate goods and imports of consumer goods were above the increase in total imports. Imports of intermediate goods made the highest contribution to the increase in imports. In the said period, while the share of imports of intermediate goods and consumer goods within total imports increased, the share of capital goods imports declined.

33. If analyzed per item, it is seen that in the January-September period of 2006, the mining and quarrying sector, including crude oil, and motor vehicles-and-trailers with refined petroleum products, basic metal industry, and machinery and equipment made the biggest contribution to the increase in imports. When compared to the same period of 2005, it is noted that the share of imports of the mining and quarrying sector and refined petroleum products within total imports has increased and at the same time the share of imports of

basic metal industry, machinery and equipment, and motor vehicles-and-trailers has decreased.

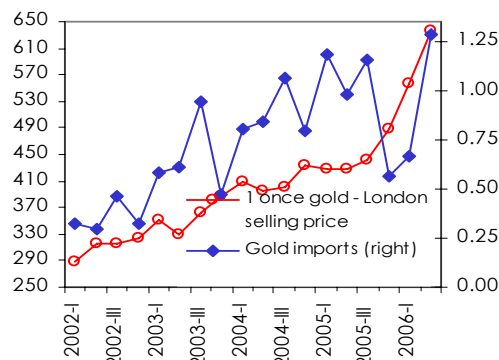
Imports
(million US dollar)

	Jan-Sep					Share	
	2005	2006	% Change	% Contr.	\$ Contr.	2005	2006
Total	85329	100540	17.8				
Capital Goods	14500	15932	9.9	1.7	1432	17.0	15.8
Intermediate Goods	60529	72315	19.5	13.8	11786	70.9	71.9
Consumption Goods	9880	11933	20.8	2.4	2053	11.6	11.9
Other	420	361	-14.0	-0.1	-59	0.5	0.4
Selected Items (ISIC Rev.3):							
Mining and Quarrying	11341	15854	39.8	5.3	4513	13.3	15.8
Crude oil and natural gas	9838	14076	43.1	5.0	4237	11.5	14.0
Textiles	2962	3049	2.9	0.1	87	3.5	3.0
Paper and paper products	1501	1702	13.4	0.2	201	1.8	1.7
Coke, petroleum products and nuclear fuel	3864	5723	48.1	2.2	1859	4.5	5.7
Chemicals and chemical products	13181	14334	8.7	1.4	1153	15.4	14.3
Rubber and plastic products	1590	1899	19.5	0.4	310	1.9	1.9
Manufacture of basic metals	10543	12287	16.5	2.0	1744	12.4	12.2
Manufacture of fabricated metal prod(exc machir	1451	1780	22.7	0.4	329	1.7	1.8
Manufacture of machinery and equipment	8916	10381	16.4	1.7	1465	10.4	10.3
Electrical machinery and apparatus	2951	3564	20.8	0.7	613	3.5	3.5
Communication and apparatus	3275	3403	3.9	0.2	128	3.8	3.4
Medical, precision and opt. instr., watches	1883	2037	8.2	0.2	154	2.2	2.0
Motor vehicles and trailers	8595	9698	12.8	1.3	1103	10.1	9.6
Other transport	1554	1186	-23.7	-0.4	-368	1.8	1.2
Waste and scrap (Wholesale and retail)	2614	2974	13.8	0.4	360	3.1	3.0

Source: TURKSTAT.

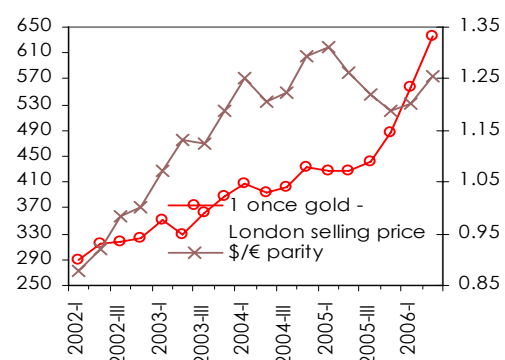
34. In the first nine-month period of 2006, imports of motor vehicles increased by 12.8 percent, automobile imports rose by 14.1 percent, whereas imports of transport vehicles' spare parts increased by 14 percent.

Gold Imports (billion US dollars) and Gold Prices (3-month ave., US dollars)



Source: CBT, TURKSTAT.

USD/EUR Parity and Gold Prices (monthly ave., US dollars)



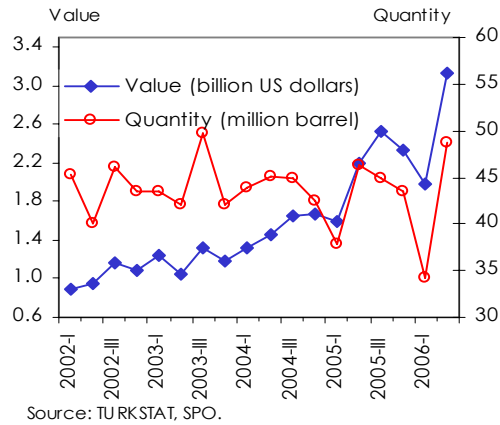
Source: CBT.

35. Gold imports have recorded high-rated growth since 2002, except for the last quarter of 2005. The increase in the price of gold had accelerated as of the last quarter of 2005. Moreover, in the third quarter of 2006 while the gold quantity imports declined by 1 percent in comparison to the same period of 2005, the prices of gold rose by 4.1 percent.

36. In the first half of 2006, higher international demand as a result of the high level of global growth and the uncertainties related to Iran and Nigeria caused crude oil prices, which had

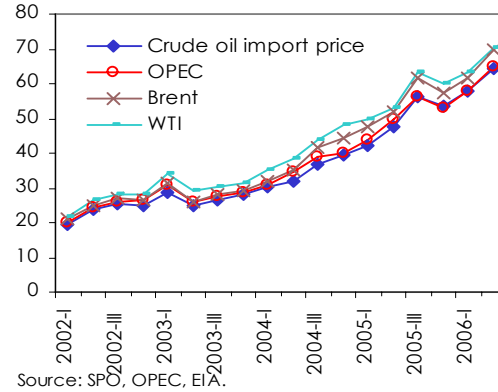
decreased at the end of 2005, to resume their ascent. In the first eight-month period of 2006, although the crude oil import quantity index declined by 1.3 percent, imports of crude oil increased by 32.8 percent in value, due to the fact that the crude oil import price per barrel rose by 31 percent.

Crude Oil Imports



Crude Oil Prices

(US dollar per barrel, average)



37. The increase in prices of natural gas and other energy items as well as those of crude oil made a significant contribution to the rise in imports in the first three quarters of 2006. According to the international standard of industrial classification (ISIC Rev.3), total imports of energy, which is composed of crude oil, natural gas, black coal, lignite and turf in the mining and quarrying sector and coke coal, refined petroleum products and nuclear fuels in the manufacturing industry sector, climbed by 39.8 percent during this period. This increase contributed by 3.9 percentage points to the 17.8-percent increase in total imports.

38. In addition to the import prices of basic metals and crude oil, the import prices of refined petroleum and by-products, motor vehicles, trailers, waste and scrap also registered high rates of increases. Meanwhile, import prices of electrical machines and devices as well as medical and optical instruments decreased considerably.

Import- Unit Value Indices Annual Percentage Change

	2005	2006		
		I	II	III
Total	7.1	2.0	8.3	12.9
Capital Goods	-3.7	-9.0	-2.1	1.8
Intermediate Goods	11.0	6.5	13.0	17.3
Consumption Goods	-0.3	-6.9	-1.7	4.3
Selected Items (ISIC Rev.3):				
Food products and beverages	-7.8	-2.0	-5.7	1.3
Textiles	2.6	-2.4	-2.1	4.7
Paper and paper products	3.4	-3.0	4.2	9.4
Coke, petroleum products and nuclear fuel	29.3	29.1	22.7	17.1
Chemicals and chemical products	5.0	-6.8	-2.2	6.5
Rubber and plastic products	8.8	-4.2	3.6	8.7
Manufacture of basic metals	9.7	3.5	20.8	40.5
Man. of fabricated metal prod(exc mach)	7.7	-3.2	4.1	7.0
Manufacture of machinery and equipment	-1.1	-9.1	-2.1	2.0
Electrical machinery and apparatus	-7.4	-2.7	2.2	-0.5
Communication and apparatus	-6.0	-16.2	-4.8	3.7
Medical, precision and opt. instr., watches	-0.3	-4.4	-0.7	-7.9
Motor vehicles and trailers	-1.6	-5.6	3.6	11.0
Waste and scrap (Wholesale and retail)	1.2	-11.5	5.3	29.8

Source: TURKSTAT.

39. When the import quantity indices by sectors are analyzed, it is observed that import quantities in sectors excluding basic metal industry, motor vehicles and trailers, waste water and scrap, which registered high price increases, went up significantly.

Import – Quantity Indices

Annual Percentage Change

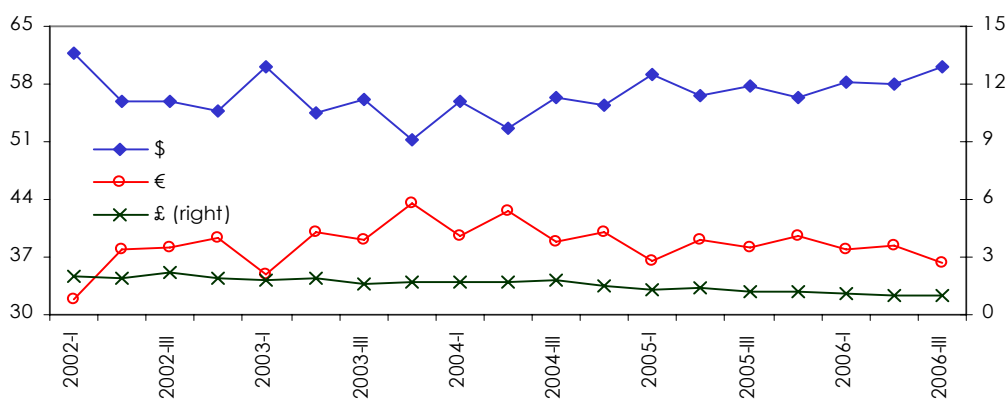
	2005	2006		
		I	II	III
Total	11.9	10.0	10.3	2.4
Capital Goods	22.2	29.2	6.9	0.6
Intermediate Goods	9.4	1.2	9.1	3.5
Consumption Goods	16.6	45.5	25.9	-1.8
Selected Items (ISIC Rev.3):				
Food products and beverages	20.7	6.0	31.3	17.9
Textiles	2.3	0.8	-5.4	2.6
Paper and paper products	12.9	10.4	5.7	12.1
Coke, petroleum products and nuclear fuel	13.1	22.6	16.8	19.5
Chemicals and chemical products	10.1	9.1	7.7	5.6
Rubber and plastic products	1.1	18.6	12.4	9.7
Manufacture of basic metals	12.1	-14.9	8.4	-9.2
Man. of fabricated metal prod(exc mach)	14.4	19.7	11.4	19.7
Manufacture of machinery and equipment	19.1	20.2	18.4	10.6
Electrical machinery and apparatus	43.3	35.3	2.8	19.8
Communication and apparatus	7.8	21.7	3.1	2.8
Medical, precision and opt. instr., watches	27.4	20.7	10.1	1.5
Motor vehicles and trailers	6.2	28.8	12.9	-14.9
Waste and scrap (Wholesale and retail)	0.8	-7.5	29.5	-2.4

Source: TURKSTAT.

40. Compared to the first nine months of 2005, the total share of imports from the EU decreased. On the other hand, non-member European countries and Asian and Middle Eastern countries made a significant contribution to the growth in imports. When analyzed on a country basis, the high-rated increases in imports from Russia and China attract particular attention. The increase in imports from these countries made a contribution of 3.9 points and 2.5 points to total growth in imports, respectively. In addition to Russia and China, the large share of Germany continued, while imports from Italy, France, Japan, Spain and Ukraine recorded high-rated increases. However, the decline in imports, especially from Switzerland, the USA and South Korea is also noteworthy.

41. The share of US dollar imports, which dropped in the 2002-2003 period, resumed an upward trend as of 2004, whereas the share of Euro imports has been in decline. Accordingly, the share of US dollar imports in the total imports, which was 55.0 percent in 2004, rose to 57.5 percent in 2005 and was realized as 58.8 percent in the first three quarters of 2006. The share of Euro imports in total, which was 40.3 percent in 2004, dropped to 38.4 percent in 2005 and became 37.5 percent in the first three quarters of 2006. Meanwhile, the share of Sterling imports in total imports continues to decline steadily. The share of Sterling imports dropped to 1 percent in the first nine months of 2006 from 1.7 percent in 2004.

Currency Composition of Imports
(% share)



Source: TURKSTAT.

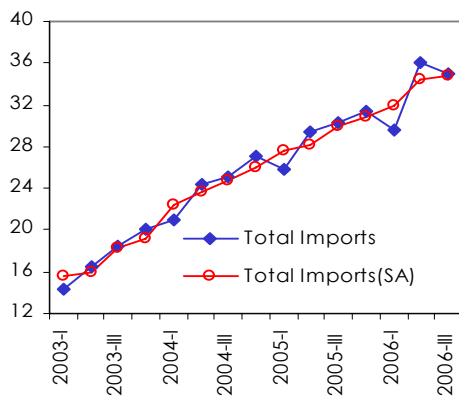
Imports- Country Composition (million US dollar)

	Jan-Sep						
	2005		2006		% Change	% Contrib.	\$ Contrib.
	Value	Share (%)	Value	Share (%)			
Total	85329	..	100540	..	17.8		
EU countries	35973	42.2	39694	39.5	10.3	4.4	3721
EU 15	33272	39.0	36668	36.5	10.2	4.0	3396
EU 10	2701	3.2	3026	3.0	12.0	0.4	325
Other countries	48803	57.2	60192	59.9	23.3	13.3	11389
Other European	17673	20.7	21593	21.5	22.2	4.6	3919
East Asian	14756	17.3	18346	18.2	24.3	4.2	3589
Other	16373	19.2	20254	20.1	23.7	4.5	3880
Free Zones in Turkey	553	0.6	654	0.7	18.4	0.1	102
Selected countries and country groups							
OECD	48,898	57.3	52,703	52.4	7.8	4.5	3804
Germany	9,945	11.7	10,788	10.7	8.5	1.0	843
Italy	5,539	6.5	6,247	6.2	12.8	0.8	708
France	4,349	5.1	5,008	5.0	15.2	0.8	659
USA	4,108	4.8	4,164	4.1	1.4	0.1	56
İngiltere	3,463	4.1	3,693	3.7	6.6	0.3	230
Switzerland	3,385	4.0	3,101	3.1	-8.4	-0.3	-284
Spain	2,570	3.0	2,841	2.8	10.6	0.3	272
Japan	2,274	2.7	2,356	2.3	3.6	0.1	82
Korea	2,591	3.0	2,506	2.5	-3.3	-0.1	-84
Other OECD	10,674	12.5	11,997	11.9	12.4	1.6	1323
Middle East countries	5,851	6.9	8,144	8.1	39.2	2.7	2293
Russian Fed.	9,098	10.7	12,466	12.4	37.0	3.9	3368
China	4,817	5.6	6,982	6.9	44.9	2.5	2165
Ukraine	2,037	2.4	2,289	2.3	12.4	0.3	252

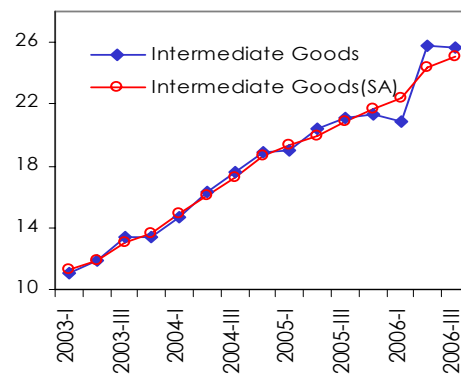
Source: TURKSTAT.

42. According to seasonally adjusted data, nominal imports in terms of USD increased by 1.1 percent in the third quarter of 2006 compared to the previous quarter. When analyzed in terms of sub-items, imports of intermediate goods increased by 2.9 percent, while imports of capital goods and consumer goods decreased by 0.8 percent and 5.1 percent, respectively.

Total Imports
(billion US dollar)

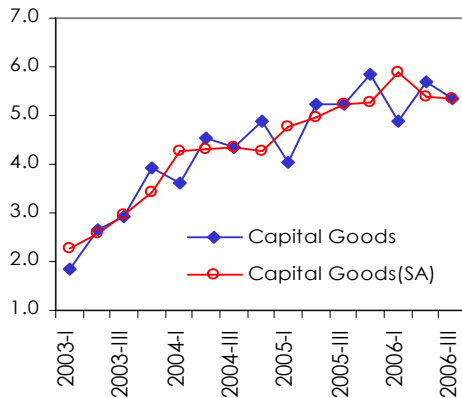


Intermediate Goods Imports
(billion US dollar)

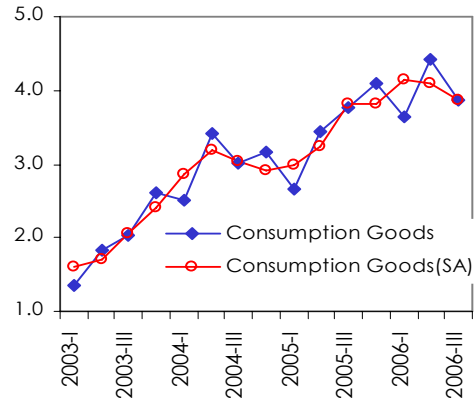


Capital Goods Imports

(billion US dollar)

**Consumption Goods Imports**

(billion US dollar)

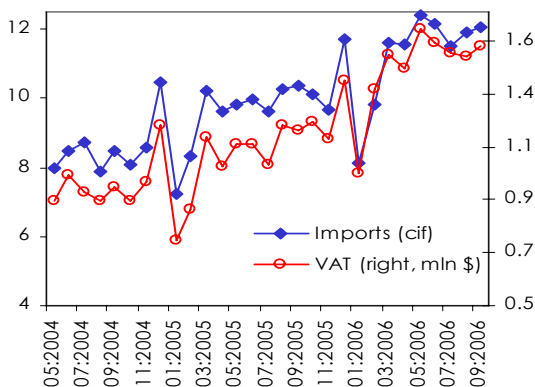


43. VAT on imports has been rising rapidly since the beginning of 2006 and VAT rates on imports that declined during the last months of 2005 seem to have been offset. In the third quarter of 2006, the rates seem to stabilize around 1.6 million US dollars.

44. According to the Business Tendency Survey, imports would be in a decreasing trend in upcoming periods.

VAT on Imports

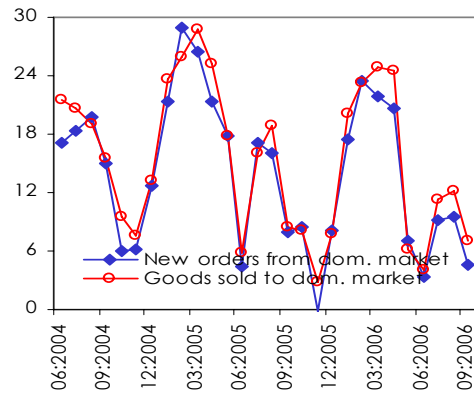
(million US dollars)



Source: TURKSTAT, Ministry of Finance.

Import Expectations

Next 3 months (optimists-pessimists)



Source: CBT Business Tendency Survey.

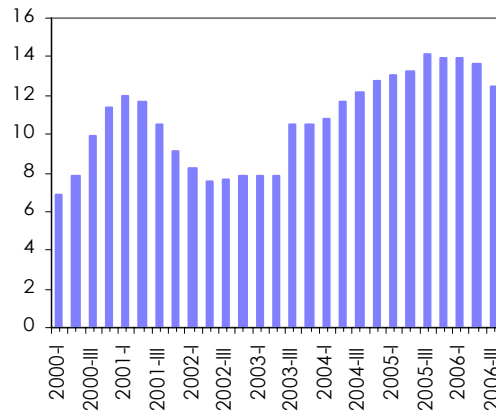
Services Balance

45. The downward trend in the services balance continued in the third quarter of the year and registered a 13.1 percent decline in the January-September period compared to the same period of the last year. The slowdown observed in the growth of tourism revenues was the most important factor in this decline. Revenues from construction services increased during this period, while revenues from transportation services decreased.

46. According to data released by TURKSTAT, tourism revenues dropped by 8.8 percent in the third quarter of 2006. In the first nine months, tourism revenues fell by 5.8 percent due to the 3.2 percent decline in the number of visitors departing from Turkey (citizens + foreigners) and the 2.7 percent decline in average spending per tourist. Meanwhile, tourism expenditures rose by 0.7 percent in the same period, which resulted in a 6.9 percent decline in net tourism revenues.

Services

(12-month ave., billions US dollars)



Source: CBT.

Services account
(million US dollar)

	2005				2006		
	I	II	III	IV	I	II	III
Services	1195	2755	7682	2334	1137	2458	6508
Total income	3777	5568	10769	5735	3606	5289	9595
Total Expenses	-2582	-2813	-3087	-3401	-2469	-2831	-3087
Transportation	-325	-360	-302	-310	-212	-478	-434
Credit	840	955	1042	1190	861	627	699
Debit	-1165	-1315	-1344	-1500	-1073	-1105	-1133
Tourizm	1316	3082	8054	2828	1434	2946	7219
Credit	1995	3760	8817	3580	2002	3693	8038
Debit	-679	-678	-763	-752	-568	-747	-819
Construction serv.	162	216	256	240	212	249	234
Credit	162	216	256	240	212	249	234
Debit	0	0	0	0	0	0	0
Financial serv.	-8	-22	1	-12	-82	-36	-74
Credit	82	88	89	86	61	67	69
Debit	-90	-110	-88	-98	-143	-103	-143
Other serv.	50	-161	-327	-412	-215	-223	-437
Credit	698	549	565	639	470	653	555
Debit	-648	-710	-892	-1051	-685	-876	-992

Source: CBT.

Tourism Statistics

	2005				2006		
	I	II	III	IV	I	II	III
Tourism Revenues (million US dollars)	1995	3760	8817	3580	2002	3693	8037
Departing foreigner visitors (x1000)	2376	5340	8452	4355	2138	4912	8302
Departing citizen visitors (x1000)	480	546	1826	750	597	629	1838
Tourism Expenditures (million US dollars)	-678	-678	-763	-751	-568	-747	-819
Arriving citizen visitors (x1000)	889	1159	1045	1137	905	1170	1161

Source: TURKSTAT, CBT.

Investment Revenues Account

47. The investment revenues account yielded a deficit of USD 4.6 billion in the January-September 2006 period. The determinant of this deficit was the upsurge in interest expenditures of banks and the private sector that increased their credit utilization rates in 2004 and 2005.

Investment Income Accounts (million US dollar)

	2005				2006		
	I	II	III	IV	I	II	III
Income (net)	-1380	-1622	-1324	-1337	-1386	-1608	-1634
Total income	1084	742	1046	812	1263	951	1242
Total Expenses	-2464	-2364	-2370	-2149	-2649	-2559	-2876
Direct investment	-79	-435	-102	-118	-138	-374	-213
Credit	83	123	43	28	59	65	42
Debit	-162	-558	-145	-146	-197	-439	-255
Portfolio investment	-405	-143	-198	-178	-347	-35	-146
Credit	814	436	687	465	908	585	811
Debit	-1219	-579	-885	-643	-1255	-620	-957
Other investment	-896	-1044	-1024	-1041	-901	-1199	-1275
Interest income	187	183	316	319	296	301	389
Interest expenses	-1083	-1227	-1340	-1360	-1197	-1500	-1664
Long-term	-974	-1099	-1174	-1210	-1055	-1297	-1430
Monetary A.	-262	-201	-394	-192	-186	-135	-364
Gen. Gov.	-372	-510	-374	-509	-359	-531	-367
Banks	-42	-40	-77	-98	-109	-136	-191
Other sector	-298	-348	-329	-411	-401	-495	-508
Short-term	-109	-128	-166	-150	-142	-203	-234

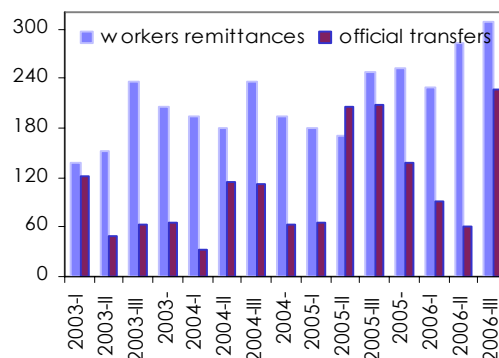
Source: CBT.

48. Portfolio revenues rose by 18.9 percent in the first three quarters of the year, while portfolio expenditures increased by 5.6 percent. During this period, related to the income from the issue of Eurobonds, portfolio revenues increased more rapidly than portfolio expenditures, thereby the deficits in portfolio accounts narrowed

Current Transfers

49. The current transfers item composed of workers' remittances and official transfers increased by 11 percent in the January-September 2006 period and reached USD 1.2 billion.

Current Transfers (million US dollars)



Source: CBT.

III. CAPITAL MOVEMENTS

50. The external financing requirement, which is defined as the sum of the current account item and net errors and omissions, became USD 7.6 billion in the third quarter of 2006. The net errors and omissions item was realized as a debit item of USD 1.4 billion, which raised the financing requirement. The financing structure was mainly determined by inflows of direct investments, portfolio investments and long-term credits during this period. In the second quarter of the year, a portfolio-based outflow was observed due to the financial turbulence in May. However, portfolio inflows picked up again in the third quarter, due to the restart of purchases by foreign investors in the securities market.

51. Accordingly, Central Bank reserves increased by USD 0.8 billion in the July-September period and became USD 60.8 billion by the end of September. Meanwhile, the FX assets of banks increased by USD 2.8 billion.

External Financing Requirements and Sources (billion US dollar)

	2004	2005	2005				2006		
			I	II	III	IV	I	II	III
1. Current Account	-15.6	-23.2	-6.2	-7.0	-2.7	-7.3	-8.6	-10.6	-6.2
2. Net Errors and Omissions	2.3	2.2	0.4	2.8	-0.6	-0.4	-1.1	1.8	-1.4
I. Total Financing Requirement (=1+2)	-13.3	-20.9	-5.7	-4.2	-3.2	-7.7	-9.7	-8.7	-7.6
II. Total Financing (=1+2+3)	13.3	20.9	5.7	4.2	3.2	7.7	9.7	8.7	7.6
1. Capital Flows (net)	23.6	44.5	6.4	12.1	10.9	15.1	17.4	10.9	11.1
Direct Investment (net)	2.0	8.7	0.6	0.2	2.3	5.6	1.2	7.7	3.6
Portfolio Investment (net)	8.0	13.4	3.8	3.1	2.1	4.5	3.6	-4.5	4.6
General Gov. Eurobond Issues	2.0	3.4	1.8	0.2	0.3	1.2	2.3	-0.6	0.8
Nonresidents' Security Buyings in Turkey	7.5	11.6	3.5	2.8	2.1	3.2	1.6	-3.8	4.6
Residents' Security Buyings Abroad	-1.4	-1.2	-1.1	0.1	-0.3	0.2	-0.3	-0.1	-0.8
Credit Drawing (excl. IMF loan, net)	13.8	20.9	1.5	7.7	5.3	6.4	11.5	7.9	3.4
General Government	-1.2	-2.2	-0.4	-0.6	-0.3	-0.8	-0.2	-0.2	0.3
Banks	5.7	9.2	0.8	4.1	2.0	2.5	2.4	3.0	0.3
Long-term	2.4	6.5	-0.1	4.0	1.1	1.6	1.3	3.2	0.7
Short-term	3.3	2.7	0.8	0.1	0.9	0.9	1.1	-0.2	-0.5
Other Sector	9.3	13.8	1.1	4.3	3.7	4.8	9.3	5.1	2.9
Long-term	4.7	9.9	0.6	2.5	2.2	4.6	8.8	3.0	2.3
Short-term	0.3	0.4	-0.1	0.4	0.8	-0.7	0.1	0.1	0.3
Trade Credits	4.2	3.6	0.7	1.4	0.7	0.9	0.4	2.0	0.2
Deposits	0.6	0.5	-0.1	0.7	1.0	-1.1	1.5	0.3	-0.9
in Central Bank	-0.2	-0.8	-0.1	-0.2	-0.3	-0.2	-0.2	-0.3	-0.5
in banks	0.9	1.3	0.0	0.9	1.3	-0.9	1.6	0.6	-0.5
Other	-0.8	0.9	0.6	0.5	0.1	-0.3	-0.4	-0.4	0.5
2. IMF Loans	-3.5	-5.4	-1.0	-1.5	-2.3	-0.6	-1.8	-1.8	0.1
Central Bank	-4.4	-2.9	-1.0	-0.9	-0.6	-0.3	0.0	0.0	0.0
General Government	0.9	-2.5	0.0	-0.6	-1.7	-0.3	-1.8	-1.8	0.1
3. Change in Reserves (- increase)	-6.8	-18.2	0.3	-6.3	-5.4	-6.8	-6.0	-0.3	-3.6
Banks' FX assets	-6.0	-0.4	3.6	-3.0	-3.5	2.4	1.1	-3.3	-2.8
Official Reserves	-0.8	-17.8	-3.3	-3.4	-1.9	-9.3	-7.1	3.0	-0.8

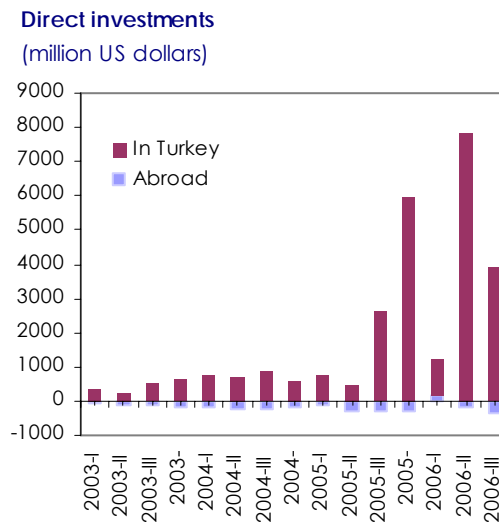
Source: CBT.

Direct investments

52. After 2005, the continuance of privatization and mergers in 2006, led to high levels of direct investment. In the January-September period of 2006, there was a net capital inflow amounting to USD 12.4 billion. The bulk of the said amount is comprised of Telsim acquisition of Vodafone in May, 34 percent of Petrol Ofisi AŞ being sold to Austria based oil and natural gas company OMV Aktiengesellschaft, and National Bank of Greece acquiring 46 percent of Finansbank in August. The high level of increase in direct investment inflow that is defined as a

non-debt creating capital item, is significant in terms of the financing and the sustainability of the current account deficit.

53. Along with privatization and mergers, non-residents' real estate purchases in Turkey form a significant portion of the direct investment inflows. This item accounted for USD 2.3 billion-worth of direct capital inflow in the January-September period of 2006.



Source: CBT.

Portfolio Investments

54. In the first quarter of 2006, non-residents purchased 0.9 billion worth of government securities and, as a result of the activity in financial markets in May-June, non-residents materialized the sale of USD 4.1 billion worth of government securities. As of July, due to the measures taken, the level of activity in the financial markets diminished and non-residents were again in the buyer position in the securities market. In the third quarter non-residents purchased USD 4 billion of government securities and USD 0.6 billion of equities. Accordingly, in the January-September period, non-residents bought a net sum of USD 0.7 billion-worth government securities and net sum of USD 1.6 billion-worth equities.

55. In January and February 2006, the Treasury issued USD 1.5 billion-worth of bonds with a maturity of 30 years and Euro 750 million-worth of bonds with a maturity of 10 years, respectively. In July, the Treasury released an additional issue amounting USD 500 million. The fourth bond issue was carried out in September. USD 1,17 billion out of USD 1.5 billion-worth of issue in September is related to the exchange of bonds denominated in US dollar having maturities between 2006 and 2010, while the remaining USD 0.3 billion was issued against cash payment. Thus, the Treasury borrowed USD 3.2 billion via bond issues and repaid USD 0.7 billion in the January-September period. In addition, the Treasury made three more bond issues in October and November amounting to Euro 0.5 billion, USD 1.25 billion and USD 0.75 billion, respectively and thereby completed the borrowing schedule for 2006.

56. As part of the funds directed to emerging economies started to move towards developed countries in May 2006, the liquidity conditions started to change and Turkey was more severely affected by this development because of the portfolio structure of non-residents. Due to financial turbulence, the exchange rate movements started to affect prices. With the aim of avoiding any permanent effects on medium-term expectations and pricing behavior that could be caused by these developments, the Monetary Policy Committee (MPC) held two extraordinary meetings on the 7th and 25th of June and decided to raise policy rates by 1.75 and 2.25 percentage points. Taking into account the continued rise in oil and other commodity prices and lack of harmony between medium-term expectations and the targets, the MPC decided to move toward a measured tightening of monetary policy

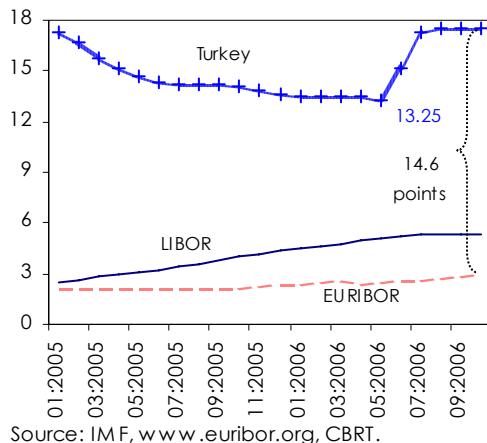
and decided to increase policy rates by 0.25 percentage points. Thus, by July 20, 2006, the short-term interest rates in the Interbank Money Market and the Istanbul Stock Exchange Repo/Reverse Repo Market became 17.5 percent and 22.5 percent.

57. The Federal Reserve also continued to raise indicative interest rates in 2006. The FED raised interest rates four times on 31st January, 28th March, 10th May and 29th June 2006; each time by 25 basis points and finally interest rates became 5.25 percent. Meanwhile, the European Central Bank (ECB) raised lending interest rates three times on 8th March, 15th June and 9th August by 25 basis points each time and finally the lending rate became 3.0 percent. The Bank of England, which cut lending interest rates by 0.25 point on 4th August 2005 and announced them as 4.5 percent, raised lending interest rates by 25 basis points on 16th August, 2005 and announced them as 4.75 percent. Meanwhile, the Bank of Japan raised overnight interest rates from 0 to 0.25 percent in July.

58. Comparative analysis of developing countries demonstrates that even if yield spreads narrowed and interest rates fell throughout 2005, portfolio investments continued to be in the form of inflows. This shows that, besides interest rate differentials, sustained economic stability as a result of structural reforms and positive expectations about the future have an important impact on the investments in question. As for the second quarter of 2006, due to impact of the fluctuations in financial markets the interest rates increased. Thus, the downward trend in the yield spreads turned upward

Interest rates

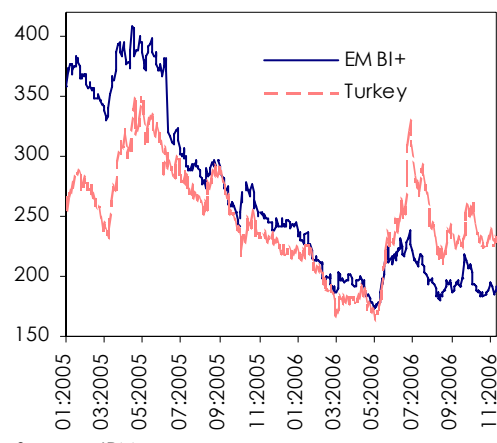
(monthly average, percent)



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

Secondary Market Spreads

(basis point)



Source: JPM organ.

LIBOR: Interest rate for 1-month US dollar deposit.

EURIBOR: Interest rate for 1-month Euro deposit.

Turkey: overnight interest rate in the Interbank Money Market.

Spread: Difference between government paper yields of countries and US Treasury bond yields.

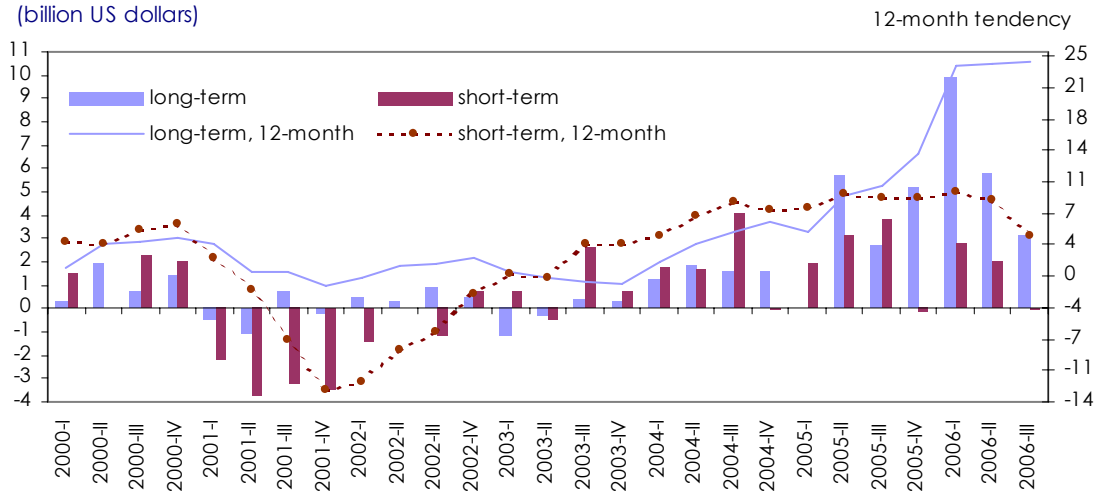
Other Investments

59. There was a capital inflow of net USD 14.7 billion in the January-September period of 2006, registered under the other investments item. Long-term foreign credits obtained by the private sector and the banks in Turkey, which was net USD 15.6 billion in the first two quarters of the year, increased by net USD 3.1 billion in the third quarter. In the same period again, net USD 11.8 billion of commercial credits originating from forward imports were utilized.

60. Long-term credits, the share of which went up significantly in overall financing in 2005, continued to increase in the first nine months of 2006 as well. Foreign credits obtained by the private sector for privatization payments became the primary factor of long-term credit utilization in this period. Banking sector used net USD 0.7 billion of long-term, and paid net USD 0.4 billion of short-term credits in the third quarter of 2006. Thus, in the first nine months of the year, while long-term credits of the banking sector reached USD 5.3 billion, short-term credits became USD 0.4 billion. Meanwhile, the private sector used USD 14.1 billion of long-term and USD 0.5 billion of short-term credits.

Long and Short-term capital

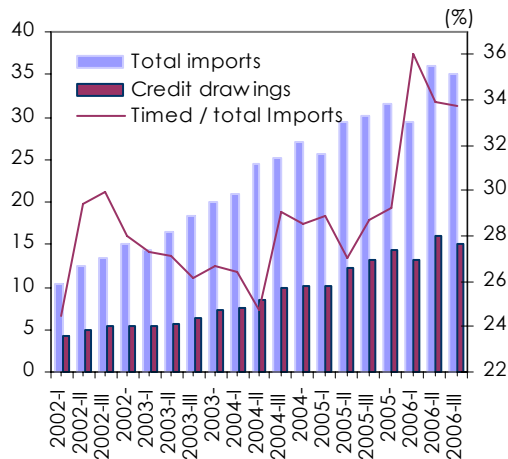
(billion US dollars)



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

Trade credit drawings and imports

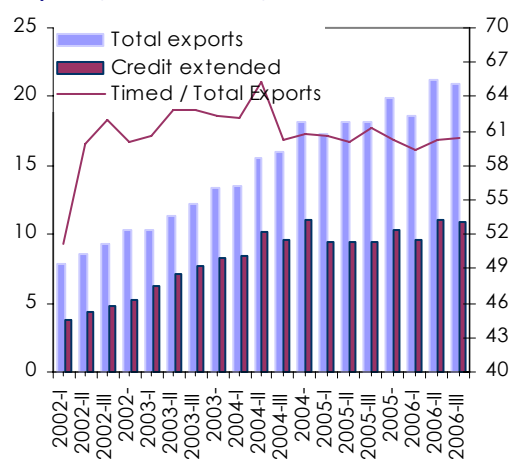
(billion US dollars)



Source: CBT, TURKSTAT.

Trade credits extended abroad &

exports (billion US dollars)

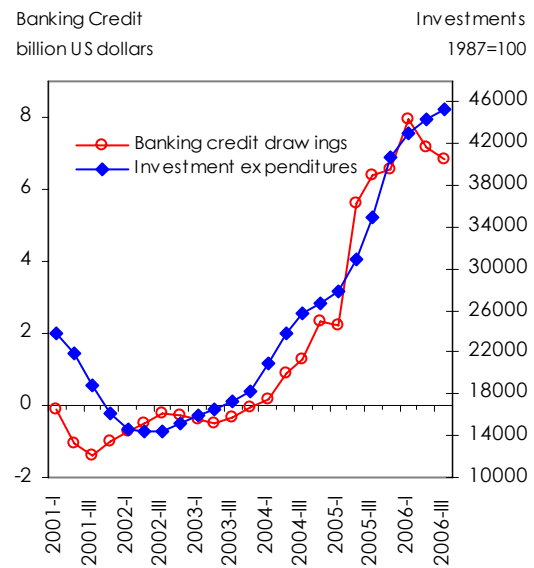
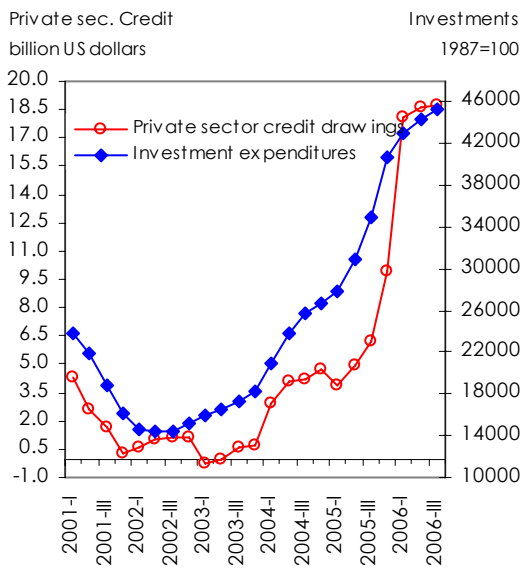


Source: CBT, TURKSTAT.

61. In line with the continued increase in imports in the first nine months of the year, forward imports and trade credit utilization increased by 44.1 percent and 24.4 percent, respectively, compared to the same period of the previous year. Meanwhile, parallel to the 13.4 percent rise in exports, the volume of trade credits extended abroad increased by 11.8 percent compared to the same period last year.

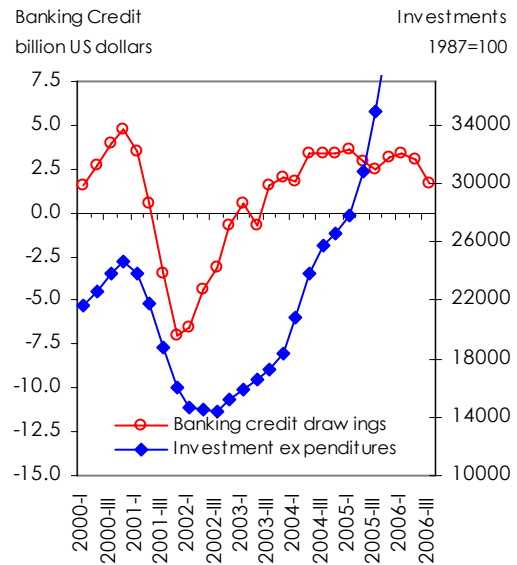
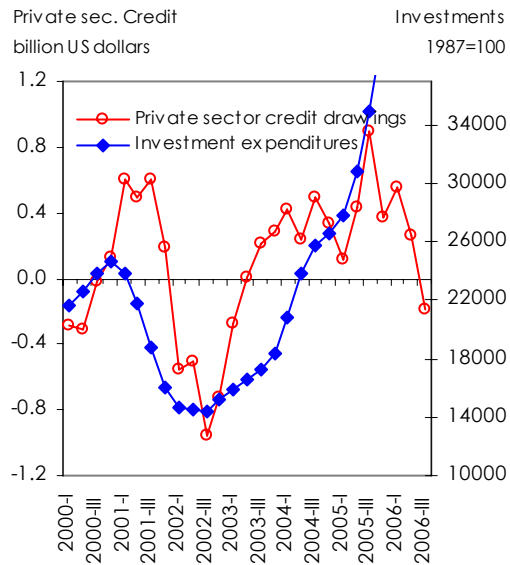
62. Parallel to the 7.4 percent growth in the GDP and 23.6 percent increase in private sector investment expenditures in 2005, long-term credit utilization also displayed a substantial increase. This trend continued in the first two quarters of 2006 as well and private investment expenditures increased by 21.5 percent. The continued rise in long-term credit utilization in the second quarter of 2006 confirms that the upward trend in investment expenditures continues. However, the environment of uncertainty stemming from the financial turbulence in May and June had an adverse impact on investment expenditures in the third quarter.

Long Term Net Credit Use and Private Sector Investment Expenditures (12-month cumulative)



Source: CBT, TÜRSTAT.

Short Term Net Credit Use and Private Sector Investment Expenditures (12-month cumulative)



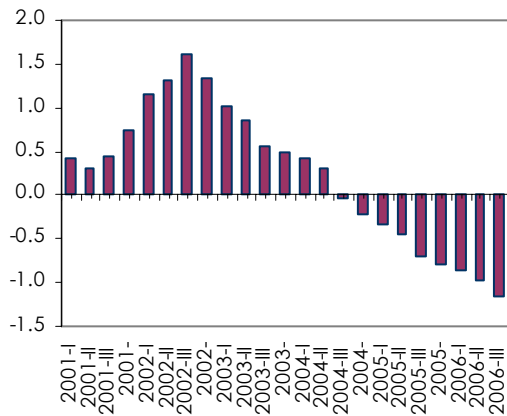
Source: CBT, TÜRSTAT.

63. By the end of 2005, the Central Bank completed the repayment of all IMF credits that were extended in 2001 and before. Meanwhile, the Treasury continued to repay IMF credits totaling USD 3.5 billion in the first three quarters of the year.

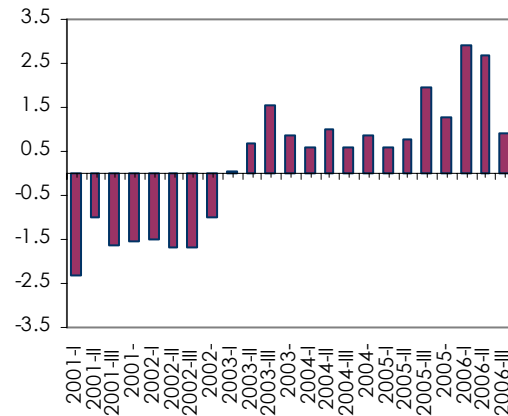
64. Since April 2003, there has been an outflow from long-term FX deposit accounts with credit letters and super FX accounts opened at the Central Bank by Turkish workers abroad. Outflow from short-term accounts, which started in the second quarter of 2004, also continues. Accordingly, deposits with the Central Bank dropped by net USD 0.9 billion in the first three quarters of 2006. The outflows are attributed to the gradual cuts in interest rates in both FX deposit accounts with credit letters and super FX accounts. Hence, while interest rates of euro-denominated super FX accounts with 1, 2 and 3-year maturities were 8, 9 and 10 percent in 2002, respectively, the said rates were reduced to 2.25, 3.25 and 3.75 percent, respectively, on the 6th of March 2006.

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

FX deposits with credit letter and Super FX accounts



Non-residents' short-term deposits in banks



Source: CBT.

65. FX deposits of non-residents in domestic banks, which increased by USD 1.3 billion in 2005, increased by USD 2.3 billion in January-April 2006 period, but this rise was followed by decline of USD 1 billion in May due to financial turbulence. In June, non-residents' deposits in domestic banks once again increased by USD 1 billion, thus capital inflow through the item in question became USD 2.3 billion by the end of the first half of the year. In the third quarter, non-residents' deposits in domestic banks decreased by USD 0.5 billion.

66. By the end of the first half of 2006, total external debt stock increased by USD 22.6 billion compared to the same period last year and became USD 193.6 billion. Medium and long-term external debt stock constituted USD 149.9 billion and short-term external debt stock constituted 43.8 billion of the total debt stock.

67. The improvement in external debt indicators, which started in 2005, deteriorated in the first half of 2006. The ratio of external debt stock to GDP, which had decreased to 47.3 percent by the end of 2005, again rose to 50.8 percent in June. Meanwhile, the ratio of external debt stock to exports increased in the first half of 2006.

Selected External Debt Indicators

	2004		2005				2006	
	III	IV	I	II	III	IV	I	II
External Debt Stock / GDP	53.2	54.0	51.7	50.0	48.2	47.3	50.2	50.8
External Debt Stock / Exports*	260.5	256.8	240.4	234.5	232.8	233.0	248.8	249.2
Debt Service / GDP	10.5	10.1	9.7	10.2	10.1	10.1	9.4	9.3
<i>Memo:</i>								
External Debt Stock (billion \$)	152.2	162.2	160.9	163.0	166.8	171.1	186.0	193.6
GDP (billion \$)	285.7	300.6	311.2	326.2	346.3	361.5	370.6	381.3

* Excluding shuttle trade and other goods.

Source: TURKSTAT, Undersecretariat of Treasury.

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	
	(annual)										
2000	-9821	-21959	27775	2946	-54503	11366	7636	-4002	-4825	4774	4560
2001	3392	-3733	31334	3039	-41399	9132	8090	-5000	-5497	2993	2786
2002	-1524	-7283	36059	4065	-51554	7879	8479	-4556	-4416	2436	1936
2003*	-8036	-14010	47253	3953	-69340	10504	13203	-5557	-4579	1027	729
2004	-15604	-23878	63167	3880	-97540	12784	15888	-5637	-4343	1127	804
2005	-23157	-32926	73476	3473	-116774	13966	18152	-5665	-5012	1468	851
	(quarterly)										
2005 I	-6181	-6243	17241	713	-25740	1195	1995	-1380	-1083	247	181
II	-7014	-8523	18144	942	-29354	2755	3760	-1623	-1228	377	171
III	-2676	-9488	18130	813	-30234	7682	8817	-1324	-1340	454	247
IV	-7286	-8672	19961	1005	-31446	2334	3580	-1338	-1361	390	252
2006 I	-8531	-8602	18596	951	-29523	1138	2002	-1386	-1197	319	228
II	-10629	-11802	21263	1430	-36138	2440	3693	-1610	-1502	343	282
III	-5129	-10534	21377	2096	-35650	6509	8038	-1639	-1669	535	309
	(monthly)										
2005 Oct	-896	-2361	6772	366	-10090	1649	1899	-322	-411	138	93
Nov	-2626	-2851	5943	328	-9673	631	944	-503	-525	97	74
Dec	-3764	-3460	7246	311	-11683	54	737	-513	-425	155	85
2006 Jan	-2210	-2389	5132	238	-8140	379	722	-320	-315	120	77
Feb	-3222	-2940	6056	328	-9797	258	549	-631	-506	91	68
Mar	-3099	-3273	7408	385	-11586	501	731	-435	-376	108	83
Apr	-3995	-4136	6439	460	-11577	496	937	-426	-454	71	71
May	-3910	-4309	7017	495	-12388	886	1245	-644	-599	157	126
Jun	-2724	-3357	7807	475	-12173	1058	1511	-540	-449	115	85
Jul	-1865	-3390	7033	591	-11544	1794	2356	-398	-455	129	91
Aug	-1541	-3861	6777	774	-11977	2655	3163	-588	-658	253	110
Sep	-1723	-3283	7567	731	-12129	2060	2519	-653	-556	153	108
	(12-month)										
2005 Oct	-21607	-31644	72562	3461	-114460	14324	17985	-5691	-4995	1404	827
Nov	-22303	-32479	72771	3478	-115565	14378	18073	-5617	-4967	1415	830
Dec	-23157	-32926	73476	3473	-116774	13966	18152	-5665	-5012	1468	851
2006 Jan	-23902	-33729	73611	3505	-117694	13892	18184	-5564	-5050	1499	868
Feb	-24864	-34733	74015	3597	-119167	13950	18185	-5601	-5060	1520	878
Mar	-25507	-35285	74831	3711	-120557	13909	18159	-5671	-5126	1540	898
Apr	-26969	-36860	75142	3842	-122539	13858	18236	-5501	-5259	1534	910
May	-28575	-38225	76182	4029	-125115	13707	18081	-5541	-5301	1484	978
Jun	-29122	-38564	77950	4199	-127341	13594	18092	-5658	-5400	1506	1009
Jul	-29867	-38895	79220	4586	-129289	13245	17846	-5683	-5552	1466	1022
Aug	-30212	-38962	80444	5053	-130994	12867	17556	-5684	-5561	1567	1047
Sep	-31575	-39610	81197	5482	-132757	12421	17313	-5973	-5729	1587	1071

Source: CBT.

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

CAPITAL and FINANCIAL ACCOUNT (USD million)

	Capital and Financial Account																
	Net	Financial Account															
		Net	Foreign Direct Investment	Portfolio Investment				Net	Currency and Deposits	Other Investment							
				Net	Assets	Liabilities				Net	Trade Credits	Credits				Deposits	
Equity Securities	Debt Securities	Monetary Authority	General Gov.			Banks	Other Sectors	Monetary Authority	Banks								
	(annual)																
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1633	-1633	2855	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1406	1406	962	-593	-2096	-16	1519	7190	594	7967	2483	-6138	11834	-1028	371	1336	-988
2003	3095	3095	1253	2465	-1386	905	2946	3424	724	4410	2181	-1479	-765	1975	1022	497	871
2004	13410	13410	2024	8023	-1388	1427	7984	4187	-5965	11142	4201	-4414	-267	5708	5109	-209	856
2005	20941	20941	8708	13437	-1233	5669	9001	16643	-342	16384	3581	-2881	-4637	9248	10271	-787	1276
	(quarterly)																
2005 I	5732	5732	620	3796	-1138	1851	3083	4591	3622	384	650	-1008	-381	754	459	-113	11
II	4234	4234	174	3062	90	991	1981	4377	-2954	7001	1368	-945	-1189	4056	2910	-191	870
III	3250	3250	2307	2062	-335	1828	569	788	-3454	4273	709	-603	-1983	1979	2971	-269	1310
IV	7725	7725	5607	4517	150	999	3368	6887	2444	4726	854	-325	-1084	2459	3931	-214	-915
2006 I	9566	9566	1224	3578	-307	641	3244	11872	1135	11113	421	0	-1993	2433	8793	-184	1635
II	8780	8780	7651	-4528	-109	367	-4786	2674	-3328	6569	2079	0	-2012	2983	3069	-296	632
III	7085	7085	3631	4118	-1265	591	4792	138	-2827	2724	360	0	361	252	2656	-453	-598
	(monthly)																
2005 Oct	919	919	238	-244	-162	-174	92	3910	4837	-640	525	0	-621	-744	183	-73	69
Nov	1092	1092	3113	2471	326	977	1168	-688	-1311	101	-140	0	-1712	1743	1596	-63	-1322
Dec	5714	5714	2256	2290	-14	196	2108	3665	-1082	5265	469	-325	1249	1460	2152	-78	338
2006 Jan	2952	2952	677	2069	-151	465	1755	2154	-2271	3799	-516	0	-305	-236	4758	-50	148
Feb	4675	4675	237	1211	284	199	728	7238	1859	5347	256	0	-1407	1348	3085	-55	2119
Mar	1939	1939	310	298	-440	-23	761	2480	1547	1967	681	0	-281	1321	950	-79	-632
Apr	2970	2970	454	-585	-161	223	-647	3493	1175	2132	514	0	-470	1053	465	-85	640
May	3147	3147	6680	-3107	-220	226	-3113	-1757	-2253	393	829	0	-1608	635	1619	-118	-1010
Jun	2663	2663	517	-836	272	-82	-1026	938	-2250	4044	736	0	66	1295	985	-93	1002
Jul	1367	1367	148	1716	117	324	1275	-745	-1289	195	284	0	-316	71	521	-78	-339
Aug	3766	3766	3258	1616	-543	85	2074	-740	-1615	584	129	0	853	-1176	893	-202	29
Sep	1952	1952	225	786	-839	182	1443	1623	77	1945	-53	0	-176	1357	1242	-173	-288
	(12-month)																
2005 Oct	16973	16973	3483	11076	-1854	5182	7748	12746	497	12314	3841	-3528	-4592	8242	6941	-710	1807
Nov	17341	17341	6521	13224	-1275	5947	8552	13111	631	11828	3867	-3035	-6111	8122	8485	-726	914
Dec	20941	20941	8708	13437	-1233	5669	9001	16643	-342	16384	3581	-2881	-4637	9248	10271	-787	1276
2006 Jan	21437	21437	9249	12438	-528	5281	7685	17455	-3515	20494	3285	-2719	-4809	8624	15127	-800	1475
Feb	24343	24343	9142	12170	-290	4954	7506	25332	-2063	27121	3771	-2222	-6084	10514	17949	-826	3709
Mar	24775	24775	9312	13219	-402	4459	9162	23924	-2829	27113	3352	-1873	-6249	10927	18605	-858	2900
Apr	25260	25260	9665	12759	-307	4371	8695	25674	-955	26887	3074	-1714	-6390	11407	18230	-890	2864
May	27031	27031	16381	8674	-955	4501	5128	24233	-1465	26024	3495	-1264	-7276	11483	18916	-925	1296
Jun	29321	29321	16789	5629	-601	3835	2395	22221	-3203	26681	4063	-928	-7072	9854	18764	-963	2662
Jul	29382	29382	15854	6320	231	3588	2501	19260	-4175	24579	4246	-775	-7140	9046	17797	-1011	2118
Aug	32552	32552	18626	8555	-281	3172	5664	20046	-3499	24654	4030	-661	-4899	7719	17904	-1095	1358
Sep	33156	33156	18113	7685	-1531	2598	6618	21571	-2576	25132	3714	-325	-4728	8127	18449	-1147	754

Source: CBT.