

CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE OF PAYMENTS

REPORT



April 2004

SUMMARY

BALANCE OF PAYMENTS (USD million)						
	April			January-April		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-896	-1677	..	-3657	-6881	..
Foreign Trade Balance	-1549	-3019	94,9	-5551	-10419	87,7
Exports	3662	4930	34,6	14028	18209	29,8
Imports	-5211	-7949	52,5	-19579	-28628	46,2
Exports/Imports	70,3%	62,0%	..	71,6%	63,6%	..
Capital and Financial Accounts	113	773	..	4151	5670	..
Financial Account (Excl. Off. Reserves)	193	2175	..	3570	6858	..
Change in Official Reserves ⁱ	-80	-1402	..	581	-1188	..

Source: CBRT.

ⁱ (-) sign refers to the increase in official reserves.**In April 2004;**

Exports increased by 34.6 percent compared to the same month of previous year and rose to US dollar 4.9 billion from US dollar 3.7 billion. During the same period, imports rose by 52.5 percent from US dollar 5.2 billion to US dollar 7.9 billion. Hence, foreign trade deficit realized as US dollar 3 billion and the ratio of exports to imports became 62 percent. Current account yielded a deficit of US dollar 1.7 billion, while financial account excluding official reserves produced a surplus of US dollar 2.2 billion.

In the January-April 2004 period;

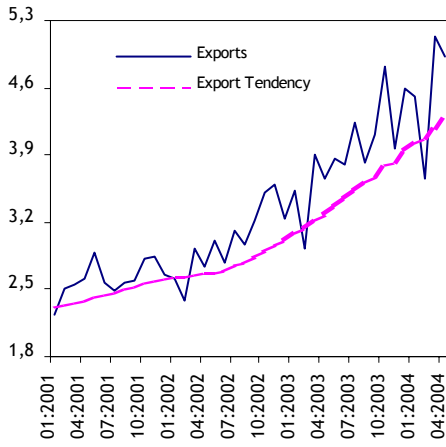
Exports increased by 29.8 percent compared to the same period of previous year and rose from US dollar 14 billion to US dollar 18.2 billion. During the same period, imports rose by 46.2 percent from US dollar 19.6 billion to US dollar 28.6 billion. Hence, foreign trade deficit realized as US dollar 10.4 billion and the ratio of exports to imports dropped compared to the previous year and became 63.6 percent. Current account yielded a deficit of US dollar 6.9 billion, while financial account excluding official reserves provided a surplus of US dollar 6.9 billion.

In the twelve-month period;

Exports increased by 30.4 percent in the twelve-month period compared to the same period of previous year and rose to US dollar 51.4 billion. During the same period imports rose by 38.7 percent to reach US dollar 78.4 billion. Hence, foreign trade deficit and the ratio of exports to imports realized as US dollar 27 billion and 65.6 percent, respectively. Current account yielded a deficit of US dollar 10.1 billion while financial account excluding official reserves produced a surplus of US dollar 9.2 billion.

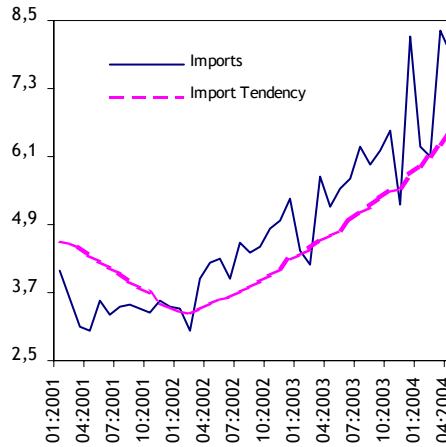
SUMMARY

EXPORTS (USD billion)



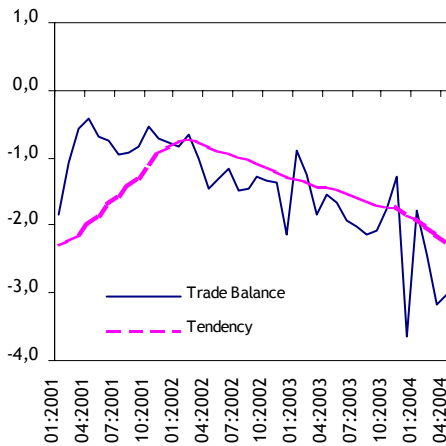
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IMPORTS (USD billion)



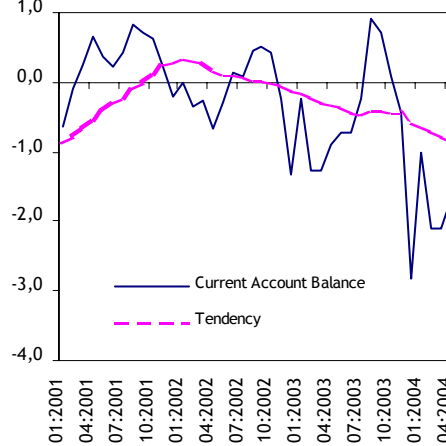
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TRADE BALANCE (USD billion)



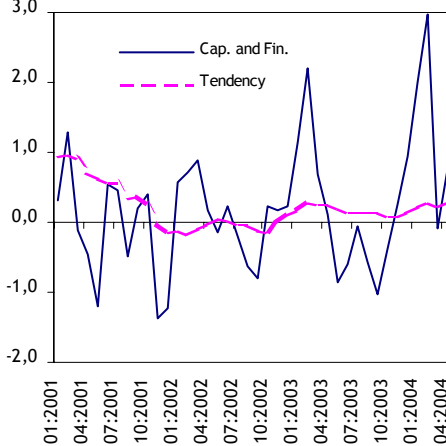
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CURRENT ACCOUNT BALANCE (USD billion)



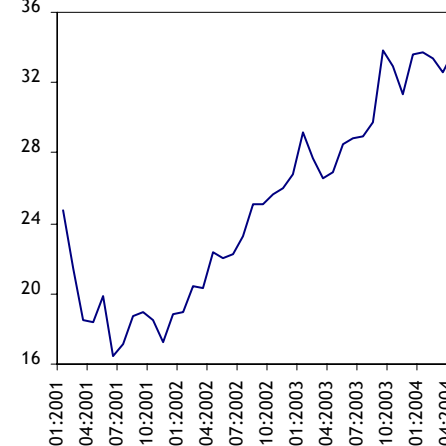
Sour ce: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD billion)



Sour ce: CBRT.

CBRT INTERNATIONAL RESERVES (USD billion)



Sour ce: CBRT.

i Trends are calculated with 12-month moving average.

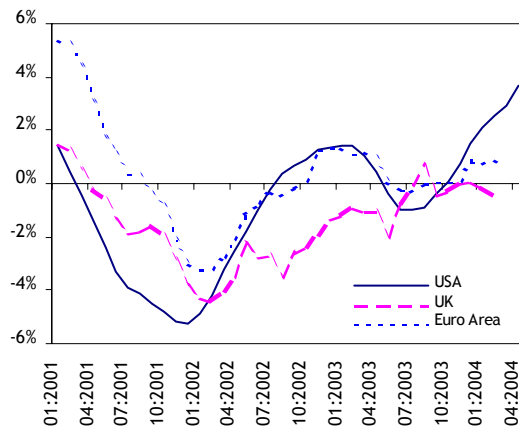
I. FACTORS AFFECTING FOREIGN TRADE

Foreign Demand Developments

1. Recently published data reveal that the revival in global economy that has started in the second half of 2003 maintains its vigor. However, rising oil prices and the upward trend in long-term interest rates appear as risk factors in terms of inflation expectations and economic growth. The recovery in the US economy, the continuation of strong growth in the emerging economies of Asia, especially in China, the ending of contraction process in the Japanese economy and the revival in world trade were the driving engines in global growth. However, growth is still at limited levels in Continental Europe due to weak domestic demand and household expenditures. In this context, international organizations revised their projections for global growth for the years 2004 and 2005 upward. International Monetary Fund forecasts world economy to grow by 4.6 percent and 4.4 percent for 2004 and 2005, respectively. Meanwhile, Organization for Economic Cooperation and Development (OECD) announced its average growth forecasts for member countries to be 3.4 percent for 2004 and 3.3 percent for 2005.¹

INDUSTRIAL PRODUCTION

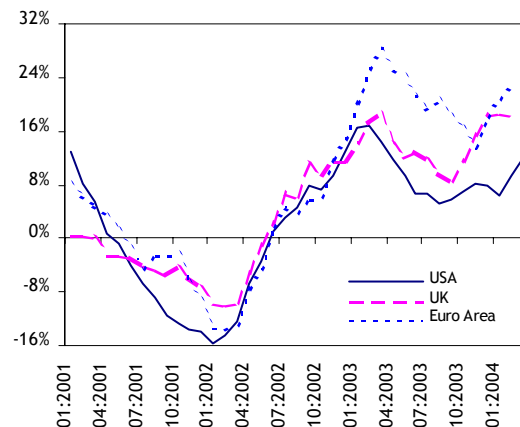
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

IMPORTS

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



Source: IMF, ECB.

2. The US GDP, which increased by 3.1 percent in 2003, grew by 4.8 percent, according to provisional data, in the first quarter of 2004 due to the upsurge in private consumption expenditures and other private investments and public expenditures as well as the rise in exports. Furthermore, the 4.8 percent and 1.1 percent increases in industrial production in April and May, respectively, show that the revival in the economic activity is still continuing. However, the Federal Reserve gave signals of a likely raise in interest rates against the cost-push pressure resulting from rising crude oil prices and the recovery in economic activity. Hence, short-term benchmark interest rates were raised by 25 basis points at the FED meeting of June 30. The ongoing deterioration in foreign trade balance continues to be a risk factor for the US economy. In April, foreign trade deficit realized at an historical level of US dollar 48.3 billion.

3. Recently published data indicate that the expected recovery in the euro zone is on the horizon. According to Eurostat data, the euro zone economy grew by 0.6 percent annually in the first quarter of 2004. The share of net exports in economic growth was 0.4 points. The level of contribution of net exports to economic growth shows that the effects of Euro appreciation have been offset by foreign demand originating from global economic

¹ IMF "World Economic Outlook" April 2004, OECD "Economic Outlook No: 75" May 2004.

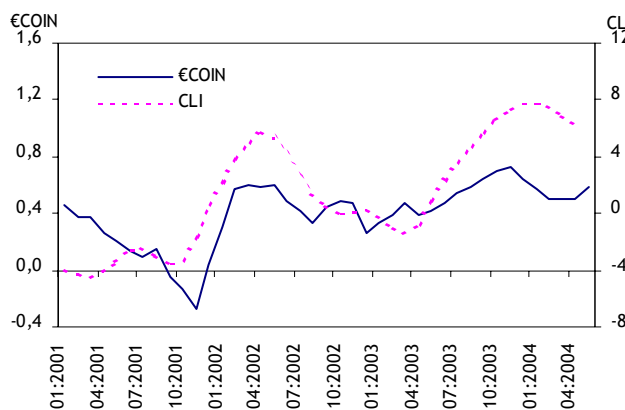
recovery. Rapid global economic growth and the expansion in global trade volume are expected to have positive effect on the euro zone exports and investment expenditures for the rest of the year. In the light of these data, GDP growth in the euro zone in 2004 is forecasted to realize between the range of 1.4-2.0 percent.² Besides, high inflation figures for the euro area in line with the rise in crude oil prices diminishes the possibility of an interest rate cut by the European Central Bank.

4. Despite the improvement in consumer confidence in euro area, especially in France, consumer confidence persists to remain below the long-term average due to the drop in employment level in overall euro area. The rate of growth in imports and investment expenditures slowed down despite the acceleration in exports during this period. As of April, unemployment rate became 9 percent, while consumer prices rose by 2 percent compared to the same month of the previous year. Meanwhile, inflation rate is anticipated to have increased to 2.5 percent in May.

5. The UK economy grew by 0.6 percent in the first quarter of the year owing to higher domestic demand. Fixed capital investments increased by 1.1 percent in the same period. The contribution of net exports to economic growth in the first quarter of 2004 was negative. The upward trend in investments and business surveys, which points at a strong growth in the coming periods, is expected to exert pressure on the 2004 inflation target. In the light of this probability, the Bank of England, once more, raised the borrowing interest rates by a quarter point in May 2004 following February. Furthermore, increasing domestic demand, the appreciation of Sterling and higher imports prices are anticipated to exert an upward pressure on the inflation rate in 2004.

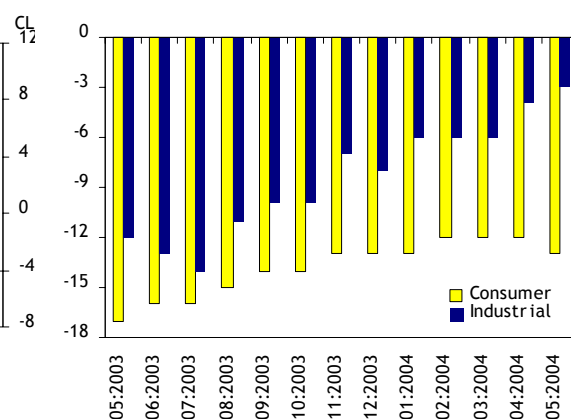
6. Japanese economy maintained its revival trend of 2003 in early 2004 as well. Economic growth realized as 1.4 percent in the first quarter of the year. The briskness in exports and investments continue to play a key role in economic growth. The industrial production and consumer expenditures data for April show that the growth performance continued in the second quarter of the year as well. Besides, the deflationary process that has been observed in the Japanese economy since 2002 is gradually disappearing. Economic growth is expected to continue in Japan throughout 2004 owing to increasing exports as well as the expected recovery in fixed capital investments and consumption.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU
(seasonally adjusted)



Source: Eurostat.

7. The six-month rate of change of Composite Leading Indicators (CLI) issued by OECD, which were in upward trend since April 2003, has been declining for the last three months. Nevertheless, ongoing high level of CLI index reveals that the recovery in the economic performance of OECD countries will continue in the next 6-8 months.

² European Central Bank Monthly Bulletin, June 2004.

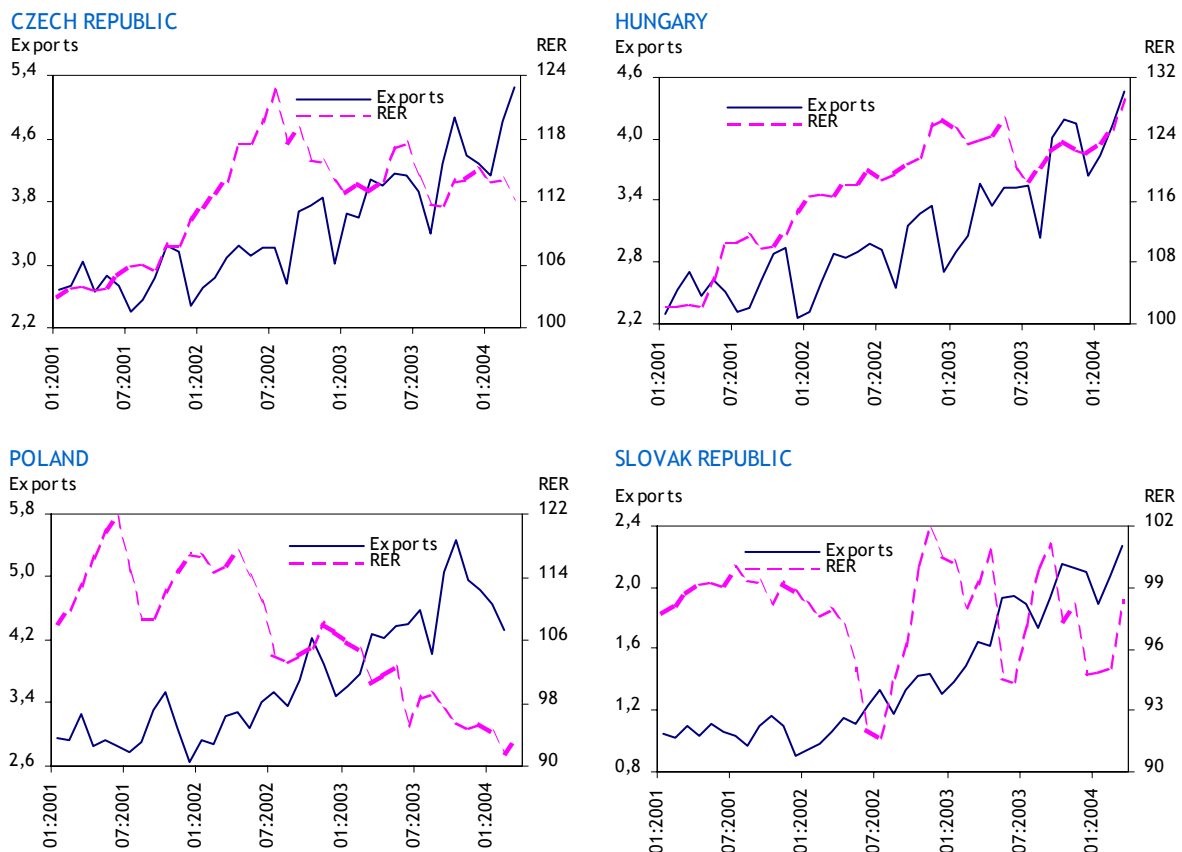
8. May values of Coincident Indicator (EuroCOIN), which provides quarterly GDP growth expectations, give positive signals for 2004. The coincident indicator is calculated by weighing various macroeconomic variables. While surveys and industrial production had a favorable effect on the coincident indicator in May, the impact of interest rates and financial variables was negative.

9. GDP of Czech Republic, one of the new EU members, grew by 2.9 percent in 2003. While final consumption expenditures and fixed capital investments were the determinants of growth, net exports had an adverse effect on economic growth. In line with the depreciation of national currency in real terms, exports adopted an upward trend. Economic revival continued in the first quarter of 2004. On the other hand, consumer prices have been pursuing a steady course since January.

10. The growth of Polish economy in 2003 mainly originated from exports in the manufacturing industry. Poland's GDP grew by 4.7 percent in the last quarter of the year and by 3.7 percent in overall 2003. Ongoing downward trend in real exchange rates since 2002 was the main determinant of the increase in exports. Indicators show that the high rate of growth of the Polish economy has continued in early 2004 as well.

11. Hungarian GDP growth rate, which was 2.9 percent in 2003, reached 4.2 percent in the first quarter of 2004, owing to the rapid rise in investments. The underlying source of growth was private consumption expenditures supported by expansionary fiscal policies. In line with the increase in consumption expenditures, annual inflation rate realized at the level of 7 percent in April.

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



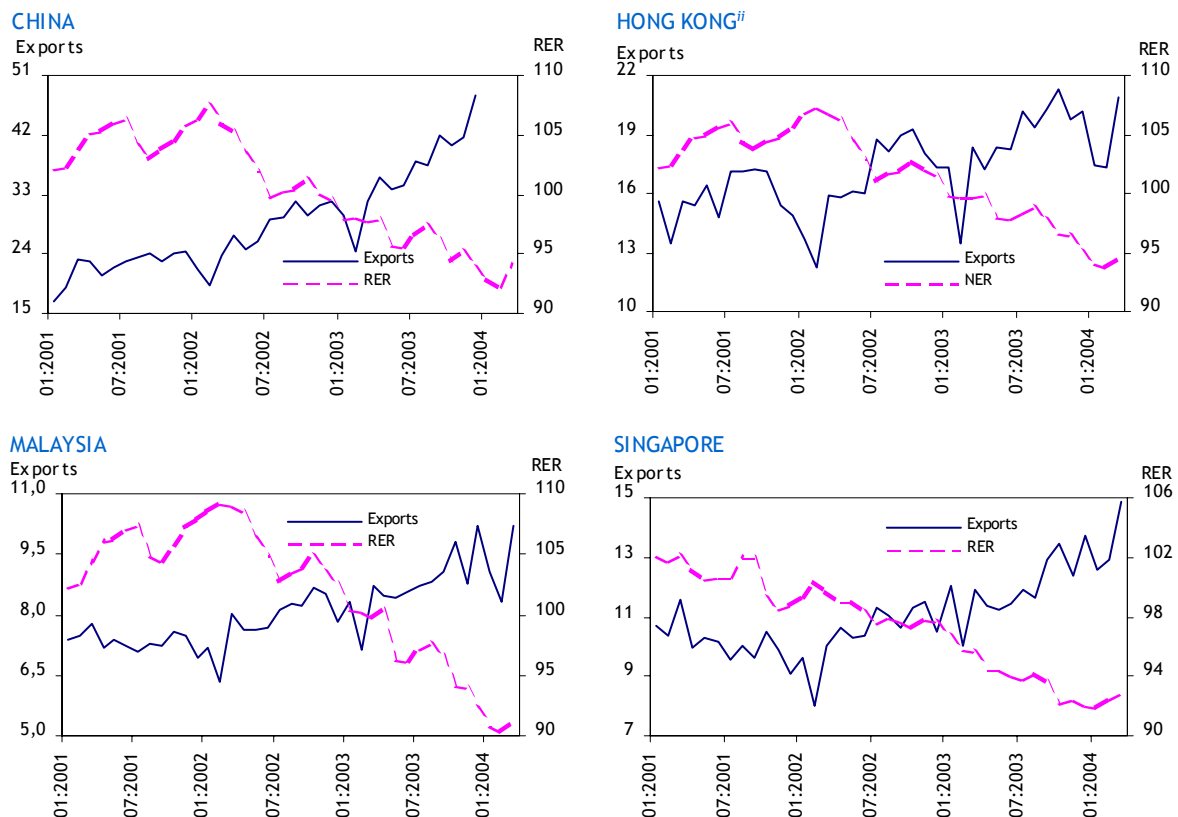
ⁱ Increase in real exchange rate implies appreciation in domestic currency.
Source: IMF.

12. The 7 percent-growth in developing Asian economies in 2003 stemmed from the rise in domestic demand and the hike in exports. These economies have been maintaining their growth performance by the first quarter of 2004. Domestic growth dynamics of the developing Asian economies display a favorable outlook for 2004 in general.

13. Chinese economy, one of the East Asian economies, enjoyed high growth in 2003 as well. According to provisional data, Chinese economy grew by 9.1 percent in 2003. The revival in OECD countries and the direction of production from high-cost regions to China were the determinants of economic growth. Economic growth continued in early 2004 as well. In the first quarter of the year, the Chinese GDP grew by 9.8 percent compared to the previous year. The economic growth target of the Chinese government for 2004 in general is 7 percent. Meanwhile, high increase in imports compared to exports in the first four months of the year resulted in a foreign trade deficit of US dollar 10.7 billion in the this period.

14. The rapid growth in Chinese economy pioneered the general economic revival in the region. South Korea recorded a growth of 5.3 percent in the first quarter of the year. While the upsurge in exports stemming from foreign demand and the depreciation of national currency are the determinants of economic revival, stagnation in consumption and investment expenditures is still persisting. Malaysia and Thailand also enjoyed rapid acceleration in exports in the second half of 2003. In Singapore, significant recovery in domestic demand accompanied the boost in exports.

EXPORTS IN RIVAL COUNTRIES (billions US dollars) AND REAL EXCHANGE RATE (1995=100)ⁱ



ⁱ Increase in real exchange rate index specifies the strengthening of domestic currency.

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

Source: IMF.

Developments in Domestic Demand and Production

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

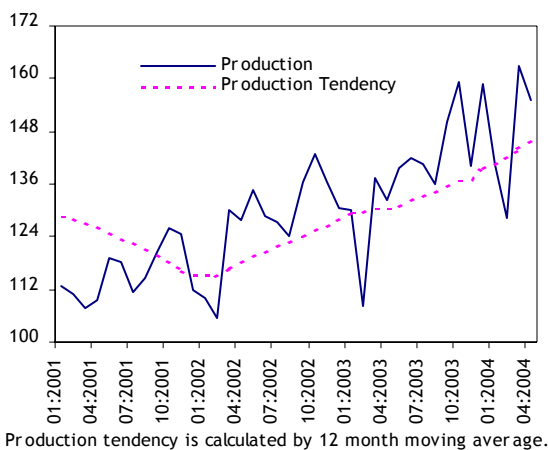
16. Analyzing the economic growth with respect to production, agricultural sector value added declined in the first quarter of 2004 compared to the same period of the last year, while the developments in the industry sector became the determining factors in GDP growth. During this period, the successive increases in construction sector value added in the last quarter of 2003 and the first quarter of 2004 compared to the same period of the last year is considered as a favorable development for the sectoral revival that delayed due to the earthquakes and the economic crises.

17. The upward trend in production continued in April 2004. According to SIS Monthly Industrial Production Index, total industrial and manufacturing industry productions increased by 16.5 percent and 17.3 percent, respectively, in April 2004 compared to the same month of the previous year. First quarter averages reveal that the annual growth in the manufacturing industry realized as 15.6 percent. Furthermore, excluding seasonal factors, it is noted that industrial production is maintaining its favorable course. In this context, total industrial and manufacturing industry productions rose by 0.1 and 0.2 percent, respectively, compared to the previous month according to the seasonally adjusted data. High-rated increases in the production of durable goods and transportation vehicles continued in this period as well. Moreover, rapid increases in investment goods production point at ongoing rise in investment expenditures.

18. However, the low production performance observed especially in oil products sector in the first four months of the year is a remarkable development. It is predicted that this situation stemmed from the increasing international price of the raw material, which is used as the main input in oil products sector. Excluding the oil products, annual rate of increase in total industrial production became 19.7 percent.

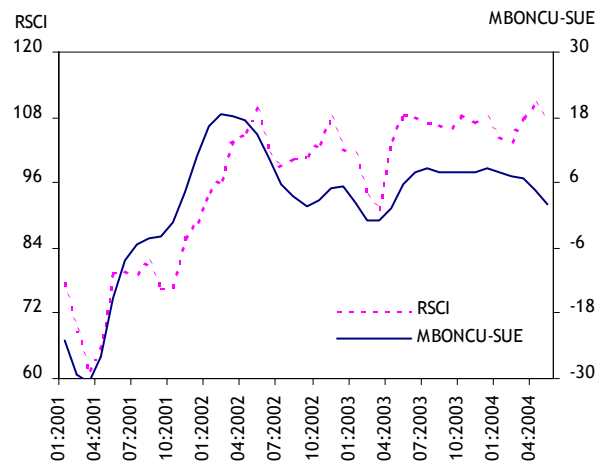
19. Surveys for May 2004 indicate that industrial production will continue to rise. According to the firms, total manufacturing industry production will grow by 15.6 percent in May compared to the same month of the previous year.

MANUFACTURING INDUSTRY PRODUCTION
(1994=100)



Source: SIS.

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

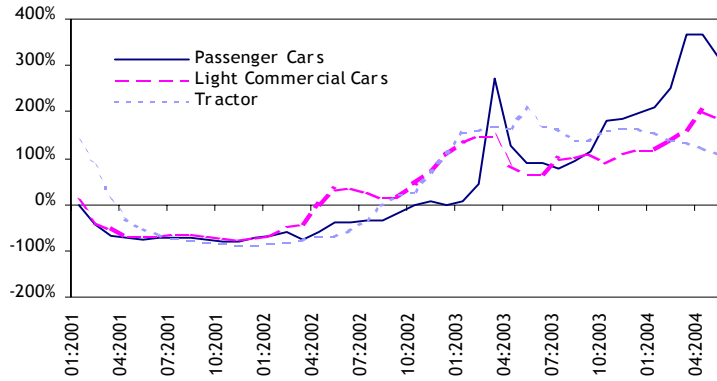


Source: CBRT.

20. Despite a slight decrease, the six-month rate of change in the composite leading indicators index (CBLEADING-IPI) compiled by the Central Bank of the Republic of Turkey maintains its high level in May. The leading indicator reveals that the increase of rate in industrial production will pursue a consistent course with growth forecast for 2004. Meanwhile, real sector confidence index (CBRSCI), which displayed an upward trend as of March, maintained its downward course in May. The value of the index that has remained above 100 since the second half of 2003 points at ongoing confidence of real sector in the economic activities.

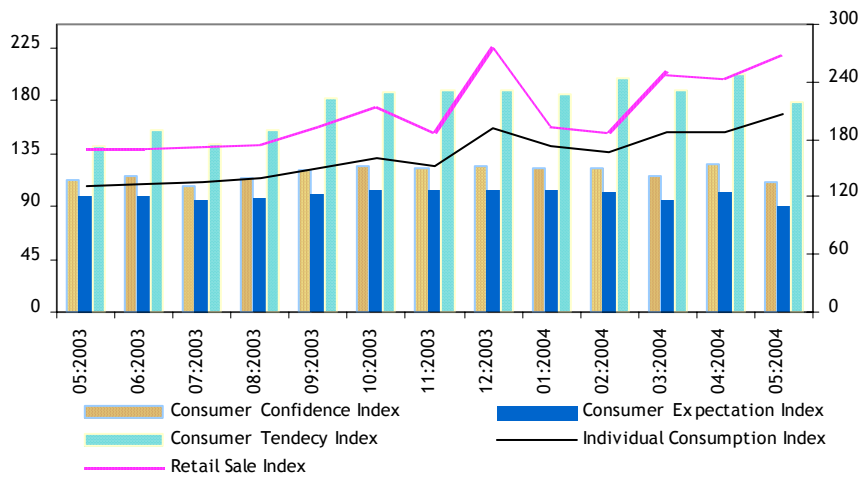
21. Along with the salvage vehicle discount, the rapid upsurge in consumer credit utilization was one of the determining factors that led the automobile sales recorded in the first five months of 2004 to reach its highest level in history. Moreover, an obvious hike in the sales of light commercial vehicles since the beginning of 2004 that had used to pursue a rather modest course compared to automobile sales was remarkable. Sales of light commercial vehicles are considered to be significant indicators of the revival observed in services and manufacturing industry sectors.

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



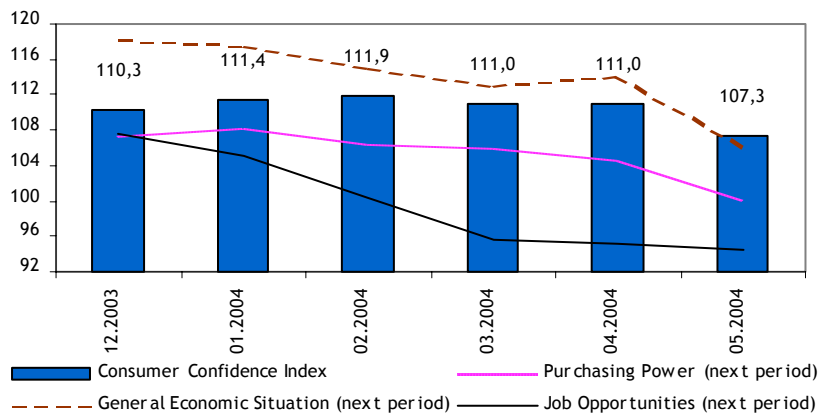
Source: Automobile Industry Association.

CNBC-e INDICES (January 2002=100)



Source: NTVMSNBC.

CONSUMER TENDENCY SURVEY



Source: CBRT, SIS.

22. Consumer Confidence Index and Consumption Tendency Index compiled by CNBC-e maintain their high levels despite the decline in May in general.

23. According to the Consumer Tendency Survey results for May, which are compiled by the Central Bank and SIS, consumers' assessments concerning their purchasing power in the present and upcoming periods improved, whereas their expectations for employment opportunities deteriorated. Moreover, their assessments for general economic situation in the next period and the buying time condition for durable goods in the present period remained positive.

Prices

24. Turkish lira, which appreciated against nominal foreign exchange rate basket composed of USD 1 + 0.77 Euro in the first quarter of 2004, depreciated by 11 percent in May compared to the previous month and increased by 0.3 percent in June. Meanwhile, CPI-based real foreign exchange index declined by 9.2 percent compared to the previous month due to the high-rated increase in nominal exchange rate in May. WPI-based real foreign exchange index fell by 9.1 percent in May.

REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)ⁱ

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

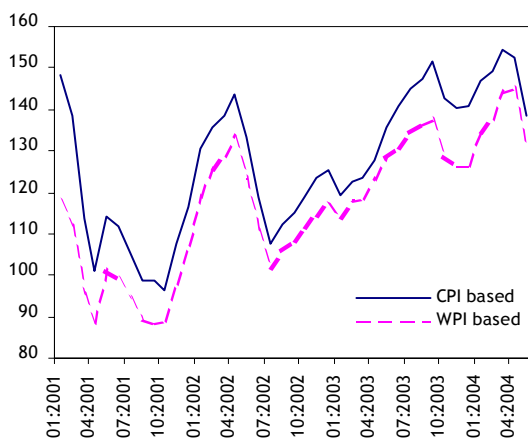
Source: CBRT, IMF.

ⁱ Increase implies real appreciation of the currency.

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

25. Euro, which has been displaying a weakening trend against US dollar since March, started to appreciate in June. Accordingly, monthly euro/US dollar parity, which rolled back to 1.2 in May, rose to 1.2143 in June. The average parity for June became 1.2143.

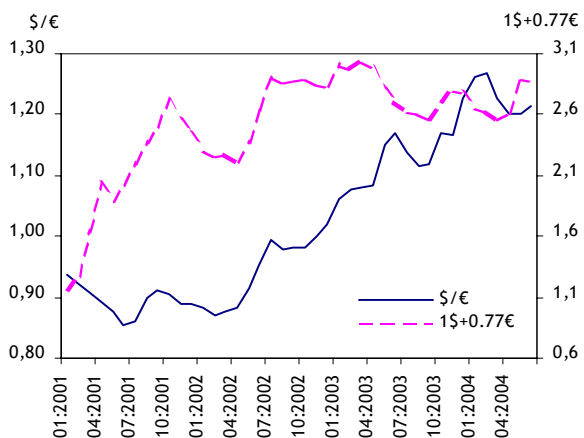
REAL EFFECTIVE EXCHANGE RATE (1995=100)ⁱ



ⁱ Increase in real exchange rate index indicates strengthening of Turkish lira.

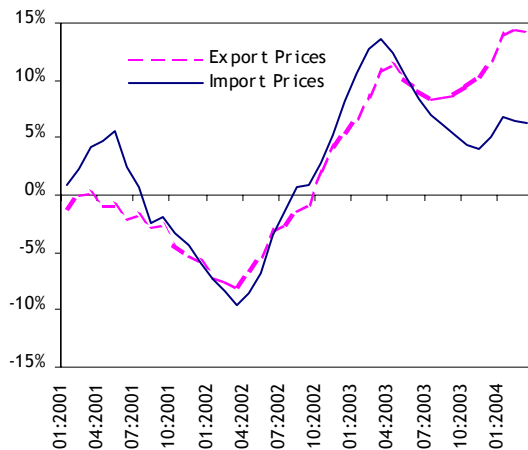
Source: CBRT.

USD/EURO PARITY and NOMINAL EXCHANGE RATE BASKET

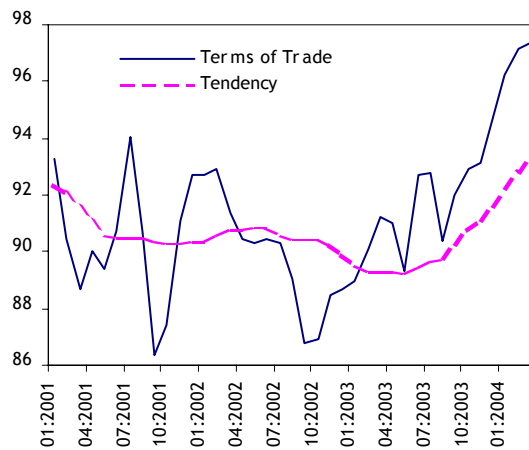


EXPORT and IMPORT PRICES

(3-month moving average, annual % change)



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



Source: SIS.

26. Recovery trend in terms of foreign trade, which has started in 2003, is continuing as of the first quarter of 2004. In March, terms of foreign trade recovered by 2.9 percent compared to end-2003 and by 0.3 percent compared to the previous month.

27. In March, export prices dropped by 0.4 percent compared to previous month. The export prices of basic metal industry, leading export items of manufacturing industry, displayed an increase in March compared to the previous month.

28. In February, import prices dropped by 0.7 percent compared to the previous month. Exports of land vehicles, their sub-items and chemicals were the significant determinants in the decline in import price index.

EXPORT and IMPORT PRICE INDICES (1994=100)

	2003											2004		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Export Price Index	92,3	91,1	89,7	91,4	92,2	90,9	91,6	93,1	95,0	99,2	105,0	104,8	104,3	
Manufacturing	93,1	91,7	89,9	91,8	93,0	91,4	92,0	93,2	94,8	99,0	105,2	105,1	104,2	
Textiles	87,5	86,7	87,3	88,8	90,1	85,9	86,3	88,7	91,6	97,4	102,5	100,7	99,9	
Wearing Apparel	97,5	94,4	91,4	97,3	101,8	97,0	95,6	95,0	98,9	107,8	116,8	123,9	115,6	
Chemicals & Products	92,9	92,2	88,3	89,9	88,1	87,7	90,2	91,9	87,5	91,9	95,6	95,2	91,0	
Manufacture of Basic Metals	104,8	107,7	102,5	100,5	101,3	103,1	105,5	108,3	107,1	108,3	119,2	121,6	127,5	
Manufacture of Mach. & Equ.	83,0	83,2	83,9	85,9	84,8	85,0	85,1	86,5	91,7	93,4	101,8	99,5	98,9	
Electrical Mach. & Apparatus	72,1	69,0	68,4	70,2	68,4	69,6	70,3	67,0	68,3	73,3	79,3	76,0	69,5	
Motor Vehicles & Trailers	96,3	96,6	94,8	98,6	101,6	98,6	102,3	106,3	107,8	109,1	114,1	110,6	110,6	
Import Price Index	101,2	100,1	100,4	98,6	99,4	100,6	99,6	100,2	102,0	104,8	109,1	107,9	107,1	
Mining & Quarrying	169,6	160,0	151,7	158,0	159,5	168,0	169,1	169,3	164,3	168,5	177,1	172,0	178,6	
Crude Oil & Natural Gas	181,3	169,1	162,5	169,8	172,2	179,0	182,1	181,2	176,5	181,8	188,3	182,7	190,7	
Manufacturing	93,6	94,3	95,1	93,2	93,6	93,4	92,3	93,0	94,4	98,2	100,3	100,3	99,4	
Textiles	87,9	91,6	90,3	91,3	89,4	88,2	82,3	84,2	84,0	90,7	91,8	89,9	93,0	
Chemicals & Products	100,7	104,1	104,7	101,5	100,0	99,2	98,8	101,2	101,9	103,3	109,5	109,0	103,6	
Manufacture of Basic Metals	94,9	97,4	95,9	94,7	97,1	98,8	94,4	101,4	102,0	107,2	115,7	123,0	132,3	
Manufacture of Mach. & Equ.	91,5	93,1	94,2	93,5	97,2	94,6	94,6	94,6	96,5	98,9	98,4	90,9	92,8	
Electrical Mach. & Apparatus	66,8	67,6	68,0	68,6	67,3	65,6	65,4	65,9	66,9	70,0	71,7	73,0	72,4	
Motor Vehicles & Trailers	88,4	89,1	93,0	91,6	91,4	91,4	89,2	92,0	94,6	103,5	100,6	106,3	103,3	

Source: SIS.

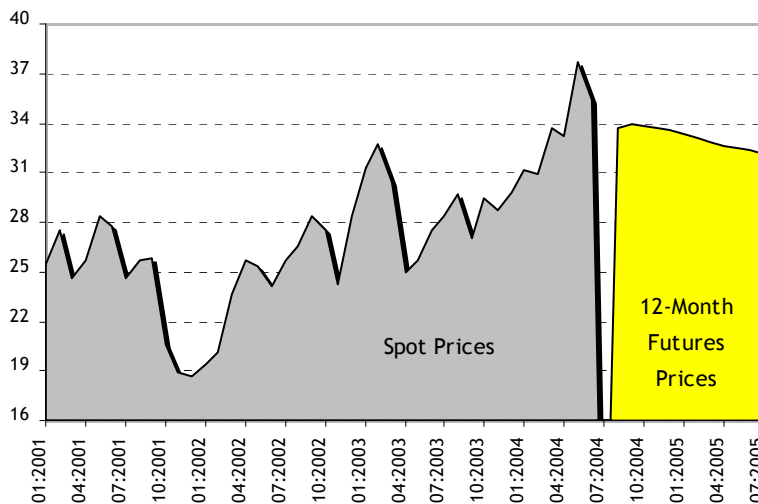
29. Brent oil prices, which increased by 15.7 percent in 2003 and realized as US dollar 30.2 per barrel at the end-2003, reached US dollar 39 per barrel in the beginning of June.

Brent oil prices, which displayed a downward course in overall June, became US dollar 33 at the end of the month.

30. Oil prices continued to climb in the second quarter despite high supply level. The increase in oil demand in the USA and China, concerns about likely spread of attacks in Middle East to oil facilities and general trends in the futures markets became the determining factors in the rise in oil prices. However, China's efforts to cool down the economy, steps towards providing security in Iraq and the decision made at the Extraordinary Conference held in Beirut on 3 June 2004 to increase the OPEC production by 2 million barrels per day with effect from July 1, 2004 and by 0.5 million barrels per day with effect from August 1, 2004, caused a decline in oil prices as of the second quarter of June.

31. Crude oil prices are expected to decrease in the upcoming months. Daily crude oil production is planned to reach 3 million barrels per day with the ease of uncertainties in the government of Iraq, which has the second-biggest oil reserves in the world. The Indonesian Minister of Oil has announced that the situation in Iraq will be a strong determinant of the trend to be followed by oil prices in the next period, in case peaceful environment is provided, the cyclical pressure on oil prices will disappear and that crude oil prices may range between US dollar 22-28 per barrel in the upcoming months.

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



Future Prices	
	02.06.2004
July 2004	36.86
August 2004	36.61
September 2004	36.30
October 2004	35.90
November 2004	35.46
December 2004	35.01
January 2005	34.55
February 2005	34.11
March 2005	33.70
April 2005	33.33
May 2005	33.01
June 2004	32.69

Source: oilenergy.com.

Note: 02.06.2004 future prices of International Petroleum Exchange.

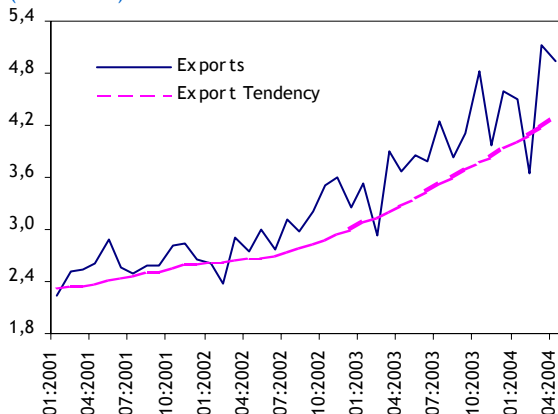
II. EXPORTS

General Evaluation

32. In April 2004, exports grew by 34.6 percent compared to the same month of the previous year and reached US dollar 4.9 billion. The increase in exports in the first quarter of 2004 became 29.8 percent. Moreover, 12-month export rose by 30.4 percent and reached US dollar 51.4 billion.

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

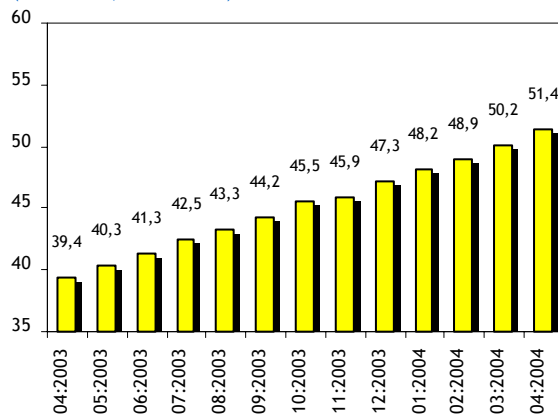
EXPORTS and EXPORTS TENDENCYⁱ
(USD billion)



ⁱ Exports tendency is calculated with 12-month moving average.

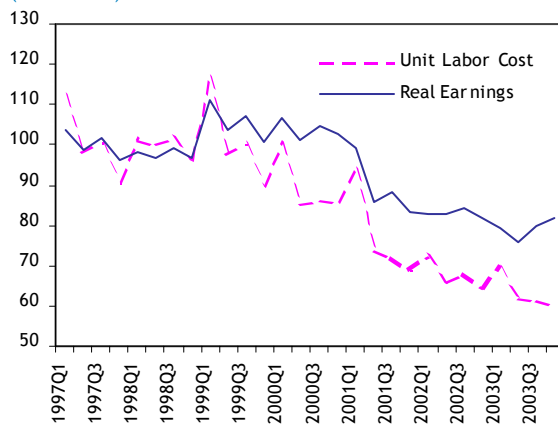
Source: SIS.

EXPORTS
(12 month, USD billion)



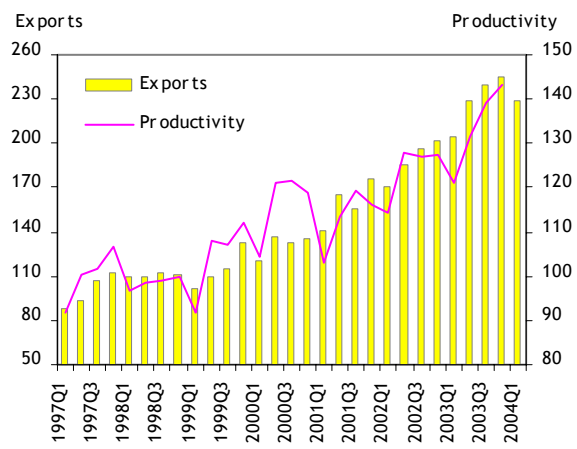
Source: SIS.

PRIVATE MANUFACTURING INDUSTRY REAL
UNIT LABOR COSTS AND REAL EARNINGS
(1997=100)



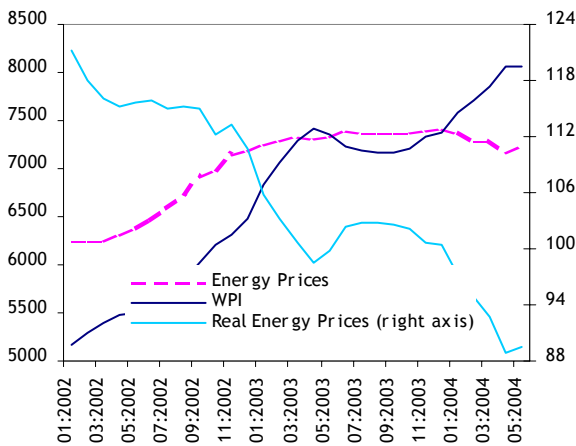
Source: SIS, CBRT.

PRIVATE MANUFACTURING EXPORT AND
PRODUCTIVITY INDICES (1997=100)



Source: SIS.

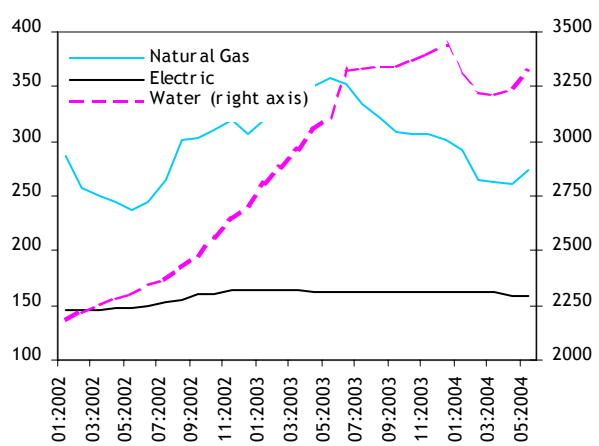
ENERGY PRICES and WPIⁱ
(1994=100)



ⁱ 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 PRICESⁱ
(thousand TL)



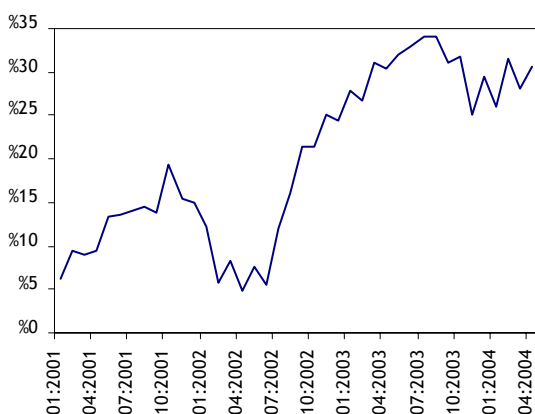
ⁱ Domestic prices in advance that are taken from WPI, which are electric prices per KWH, natural gas and water prices per ton.

Source: SIS.

34. The downward trend in real energy costs has been continuing since January-May period. Despite a slight increase in real energy costs during May, the costs are rather low compared to the previous year. The rise in energy prices, which is below WPI inflation, points at a cost advantage in energy prices in favor of exporters. Electricity prices remained the same after declining in April 2003. Appreciation of the Turkish lira exerted a downward-push on natural gas prices in 2004.

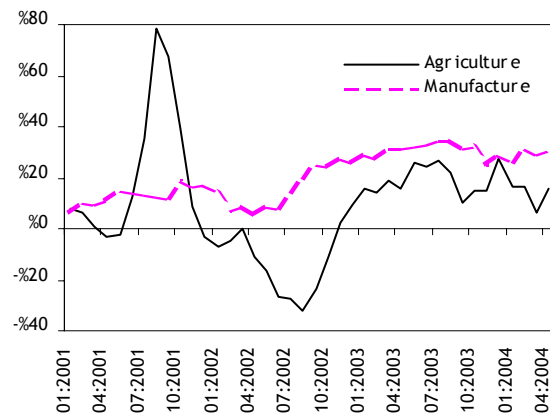
35. Both Turkish Eximbank credit interest rates and nominal credit interests rates decreased in 2003. The Turkish Eximbank continued to cut down interest rates on the export credits in 2004. In the first five months of 2004, Turkish Eximbank cut its interest rates by 7 percent. Accordingly, one-year pre-shipment export credit interest rate fell to 16 percent.

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



Source: SIS.

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



Source: SIS.

36. The three-month trend in the rates of increase in manufacturing industry exports displayed a favorable progress, whereas exports tendency in agricultural products declined in March but increased in April.

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

EXPORTS (USD million)									
	April				January-April				
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.	
Total	3662	4930	34,6		14028	18209	29,8		
Agriculture and Forestry	160	197	23,1	1,0	763	838	9,9	0,5	
Fishing	5	2	-57,5	-0,1	22	20	-9,9	0,0	
Mining and Quarrying	29	34	17,7	0,1	119	160	33,8	0,3	
Manufacturing	3449	4664	35,2	33,2	13056	17075	30,8	28,7	
Other	19	32	69,6	0,4	68	117	72,0	0,3	
Important Items:									
Edible fruit and nuts, peel of citrus fruits or melons	48	83	71,7	0,9	319	413	29,4	0,7	
Mineral Fuels, Mineral Oils and products	71	113	59,9	1,2	250	380	52,2	0,9	
Cotton, cotton yarn and cotton fabrics	87	106	22,1	0,5	331	405	22,5	0,5	
Articles of Apparel-Clothing; Knitted	426	482	13,3	1,5	1722	2053	19,2	2,4	
Articles of Apparel-Clothing; Not Knitted	303	347	14,5	1,2	1239	1447	16,9	1,5	
Other made-up textile articles, sets, worn clothing	128	155	21,1	0,7	492	602	22,5	0,8	
Iron and Steel	236	422	78,9	5,1	973	1329	36,6	2,5	
Articles of Iron and Steel	104	169	63,2	1,8	398	567	42,5	1,2	
Nuclear reactors, boilers, machinery	242	340	40,9	2,7	842	1206	43,3	2,6	
Electrical Machinery and Equipment	223	413	85,1	5,2	949	1395	47,0	3,2	
Motor Vehicles and Spare Parts	450	679	50,7	6,2	1480	2281	54,1	5,7	

Source: SIS.

EXPORTS: BY COUNTRY GROUPS (USD million)										
	April					January-April				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)	Change	Value	Share (%)	Value	Share (%)	Change
Total	3662	..	4930	..	34,6	14028	..	18209	..	29,8
OECD Countries	2360	64,4	3150	63,9	33,5	9273	66,1	11693	64,2	26,1
European Union Countries	1877	51,3	2534	51,4	35,0	7417	52,9	9524	52,3	28,4
EFTA Countries	50	1,4	63	1,3	26,3	159	1,1	189	1,0	19,0
Other OECD Countries	433	11,8	553	11,2	27,8	1697	12,1	1980	10,9	16,7
Non-OECD Countries	1141	31,2	1572	31,9	37,8	4197	29,9	5739	31,5	36,7
European Countries	369	10,1	474	9,6	28,7	1340	9,6	1839	10,1	37,2
African Countries	208	5,7	284	5,8	36,5	701	5,0	848	4,7	21,0
American Countries	16	0,4	28	0,6	78,0	78	0,6	94	0,5	20,1
Middle East Countries	332	9,1	559	11,3	68,4	1300	9,3	2041	11,2	57,1
Other Asian Countries	214	5,8	225	4,6	5,0	747	5,3	909	5,0	21,6
Other Countries	3	0,1	2	0,0	-28,0	31	0,2	9	0,0	-72,4
Turkey Free Trade Areas	161	4,4	208	4,2	29,3	557	4,0	777	4,3	39,3
Selected Countries										
Germany	566	15,5	690	14,0	21,9	2344	16,7	2727	15,0	16,3
UK	286	7,8	415	8,4	45,0	1046	7,5	1504	8,3	43,8
USA	299	8,2	364	7,4	21,8	1198	8,5	1304	7,2	8,9
Italy	234	6,4	339	6,9	44,7	985	7,0	1226	6,7	24,4
France	206	5,6	289	5,9	40,5	816	5,8	1165	6,4	42,8
Spain	138	3,8	220	4,5	59,5	549	3,9	752	4,1	37,0
Netherlands	106	2,9	168	3,4	58,0	455	3,2	617	3,4	35,7
Russia	101	2,8	148	3,0	46,4	376	2,7	545	3,0	44,9

Source: SIS.

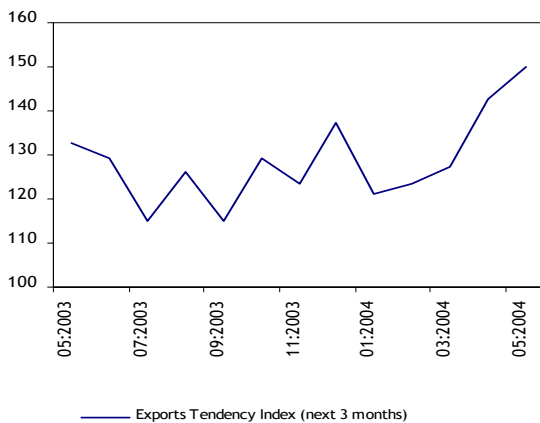
38. Compared to 2003, the share of exports to non-OECD European and Middle Eastern countries expanded in the first four months of 2004. Analyzing in terms of selected countries, exports to Germany had the largest share in overall exports during this period, followed by England. In the first quarter of 2004, the share of the USA in overall exports maintained its downward trend of 2003, albeit slight increase in April. Furthermore, the high-rated increase in exports to France and Russia during the said period is remarkable.

Outlook

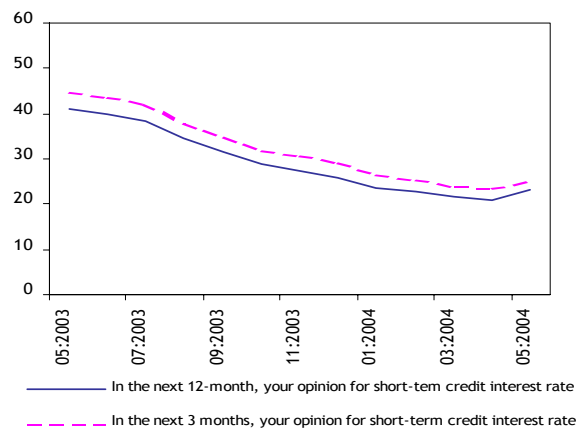
39. According to the CBRT Business Tendency Survey, indicators for the next three months improved in May compared to previous months. The cumulative export tendency indices point at an ongoing rise in exports.

40. The downward trend in expectations for credit interest rates for the next three months and twelve months, which can be considered as the export financing cost indicator, persisted in April as well. Nevertheless, this trend stopped in May. Accordingly, expectations for credit interest rates for the next three months declined to 25.1 percent, while expectations for credit interest rates for the next twelve months became 23.1 percent in May.

EXPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

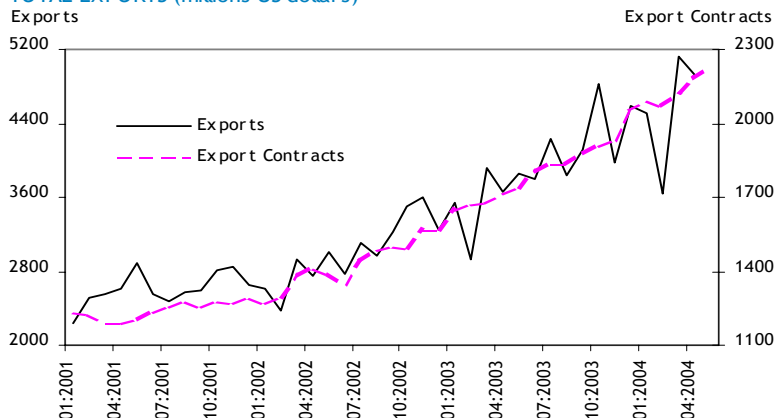


Source: CBRT Business Tendency Survey.

41. Despite its slight decline in April and May, price competition, which is among the factors that has been expected to impose pressure on exports in the next quarter, still maintains its major share. On the other hand, concerns about foreign business cycles that could lead to restriction in export orders rose in May, while concerns about delivery dates, credit and financing eased.

EXPORT CONTRACTS BY INWARD PROCESSING REGIME

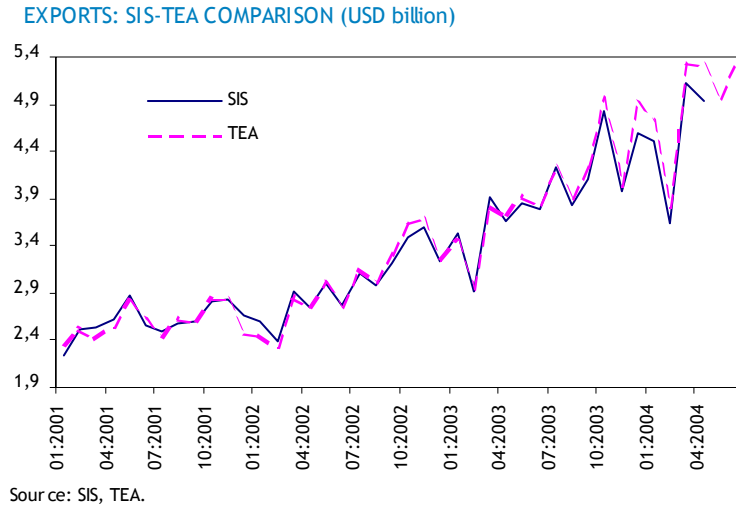
(12 months moving average) and
TOTAL EXPORTS (millions US dollars)



Source: UFT.

42. The volume of export contracts subject to inward processing regime, which is a significant indicator of forward-looking exports, grew by 19.9 percent in the first five months of 2004 compared to the previous year. Meanwhile, imports subject to inward processing regime increased by 27.5 percent.

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



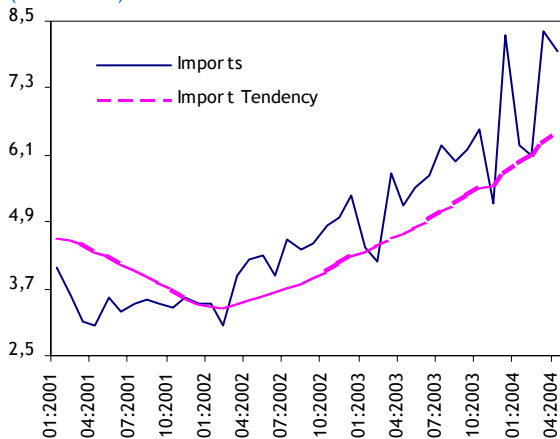
III. IMPORTS

General Evaluation

44. Compared to the previous year, imports increased by 52.5 percent and reached US dollar 7.9 billion in April 2004. Hence, imports became US dollar 28.6 billion in the first four months of the year, while twelve-month imports rose by 38.7 percent and reached US dollar 78.4 billion.

IMPORTS and IMPORTS TENDENCYⁱ

(USD billion)

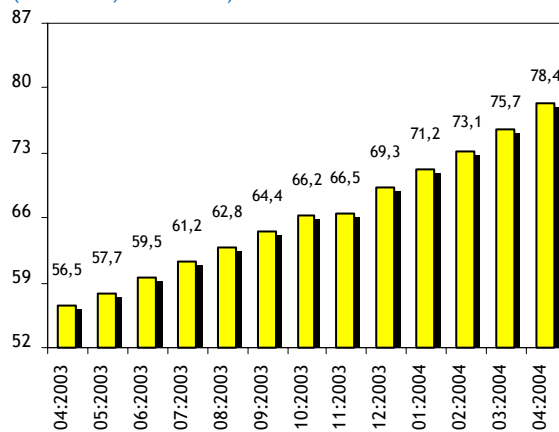


ⁱ Imports tendency is calculated using 12 month moving average.

Source: SIS.

IMPORTS

(12 month, USD billion)

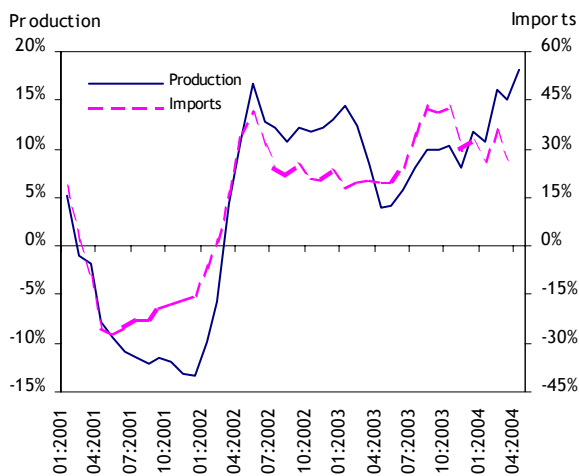


Source: SIS.

45. The appreciation of Turkish lira by 7.2 percent as of the first four months of 2004 compared to end-2003 according to the CPI-based real exchange rate index and the rise in domestic industrial production stood as the factors that had an effect on the growth in imports. Furthermore, the upward trend in import prices during this period exerted an upward pressure on imports.

MANUFACTURING INDUSTRY PRODUCTION and INTERMEDIATE GOODS IMPORTS INDICES

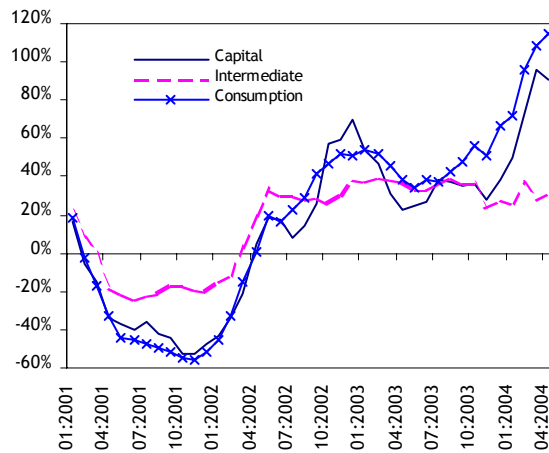
(3 month moving average, annual % change)



Source: SIS.

IMPORTS: GROWTH RATES

(3 month moving average, annual % change)

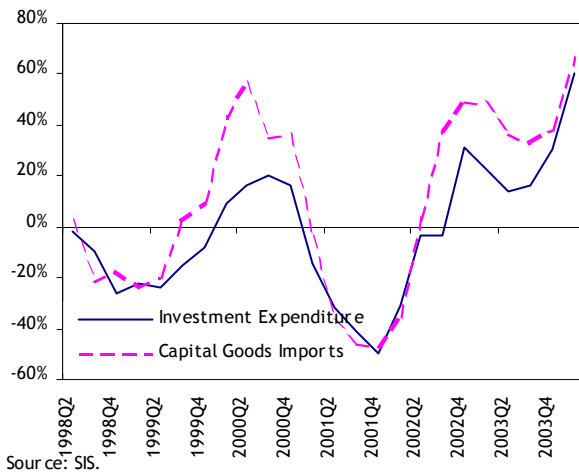


Source: SIS.

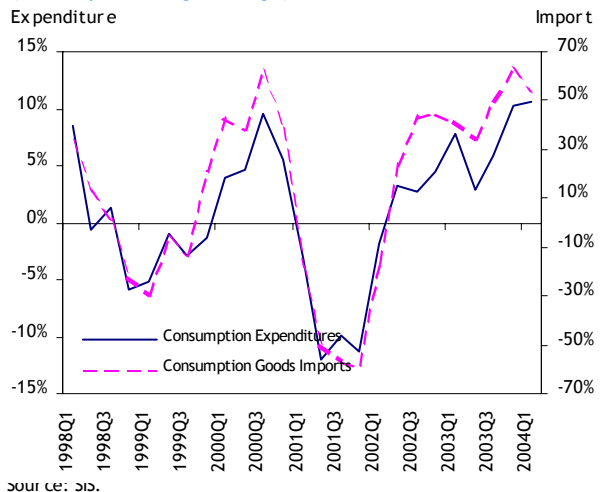
46. Although imports of intermediary goods became the growth engine of total imports in January-April 2004, the rate of increase in imports of intermediary goods remained below that of total imports. Meanwhile, imports of consumption goods and capital goods displayed a rate of increase above the growth in total imports and their shares in total imports

reached 13.5 percent and 17.8 percent, respectively. The high-rated increase in demand for durable goods and transportation vehicles resulting from the appreciation of Turkish lira contributed to the hike in imports of consumption goods.

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



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



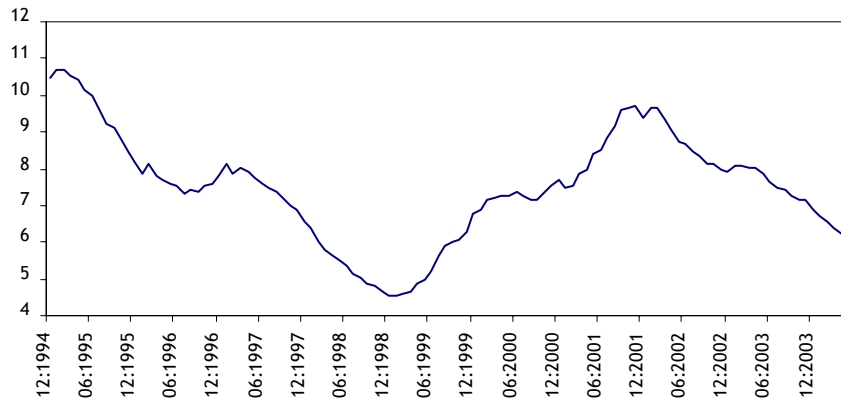
47. In the first four months of 2004, the largest contribution to the rise in imports came from imports of motor vehicles and spare parts, boilers-machinery-mechanical devices, electrical machinery and devices along with iron and steel. Ongoing decline in the share of imports of crude oil in total imports that has been continuing since 2001 is remarkable. The share of imports of crude oil in total imports, which was 8.1 percent in January-April 2003, dropped to 6 percent in the same period of 2004.

IMPORTS (USD million)

	April				January-April			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	5211	7949	52,5	..	19578	28628	46,2	..
Capital Goods	806	1506	86,8	13,4	2633	5093	93,5	12,6
Intermediate Goods	3795	5208	37,2	27,1	14957	19489	30,3	23,1
Consumption Goods	576	1168	102,6	11,3	1869	3862	106,6	10,2
Other	34	68	100,3	0,7	120	183	53,4	0,3
Important Items:								
Mineral fuels,mineral oils and products of their dist.	848	871	2,7	0,4	3798	4003	5,4	1,0
Crude Oil	349	405	16,1	1,1	1594	1726	8,3	0,7
Organic chemicals	206	229	10,9	0,4	760	922	21,3	0,8
Pharmaceutical products	172	226	31,5	1,0	615	798	29,6	0,9
Plastics and articles thereof	244	364	49,5	2,3	931	1343	44,3	2,1
Cotton, cotton yarn and cotton fabrics	142	172	20,9	0,6	483	637	32,0	0,8
Pearl, other precious stone and products	175	379	116,1	3,9	785	1233	57,1	2,3
Iron and Steel	406	717	76,7	6,0	1612	2262	40,3	3,3
Nuclear reactors, boilers, machinery	773	1174	51,9	7,7	2580	3997	54,9	7,2
Electrical Machinery and Equipment	381	680	78,4	5,7	1481	2510	69,5	5,3
Motor Vehicles and Spare Parts	339	932	175,3	11,4	986	2940	198,1	10,0

Source: SIS.

SHARE OF CRUDE OIL in TOTAL IMPORTS
(annual, percent)



Source: SIS.

48. In January-April 2004, the share of imports from the OECD-member states and the non-OECD member European countries increased compared to 2003, whereas a decline was observed in the share of imports from the Middle Eastern countries. By selected countries, imports from Germany had the largest share in overall imports to be followed by Russia. The rapid rise in imports from China continues in 2004 as well.

IMPORTS: BY COUNTRY GROUPS (USD million)

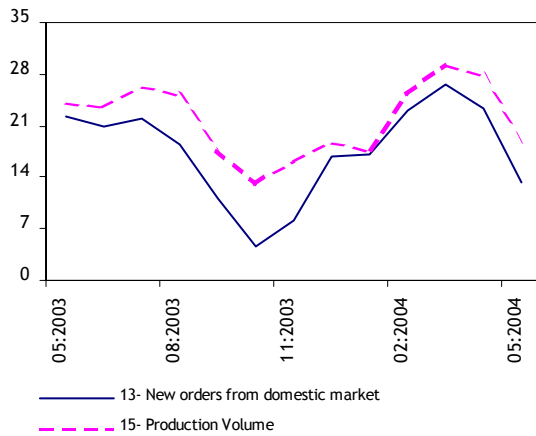
	April					January-April				
	2003		2004		% Change	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	5211	..	7949	..	52,5	19578	..	28628	..	46,2
OECD Countries	3326	63,8	5092	64,1	53,1	11970	61,1	17907	62,6	49,6
European Union Countries	2410	46,2	3716	46,7	54,2	8605	44,0	12891	45,0	49,8
EFTA Countries	246	4,7	306	3,8	24,1	1015	5,2	1222	4,3	20,4
Other OECD Countries	670	12,9	1071	13,5	59,9	2351	12,0	3794	13,3	61,4
Non-OECD Countries	1837	35,2	2785	35,0	51,7	7452	38,1	10459	36,5	40,3
European Countries	662	12,7	1054	13,3	59,2	2599	13,3	4126	14,4	58,7
African Countries	265	5,1	316	4,0	19,0	1202	6,1	1451	5,1	20,7
American Countries	62	1,2	93	1,2	49,9	249	1,3	347	1,2	39,3
Middle East Countries	316	6,1	417	5,2	31,9	1481	7,6	1456	5,1	-1,7
Other Asian Countries	484	9,3	901	11,3	86,0	1832	9,4	3061	10,7	67,1
Other Countries	47	0,9	5	0,1	-89,6	89	0,5	18	0,1	-79,3
Turkey Free Trade Areas	49	0,9	72	0,9	47,1	156	0,8	262	0,9	68,1
Selected Countries										
Germany	694	13,3	1044	13,1	50,5	2396	12,2	3722	13,0	55,3
Russia	387	7,4	576	7,2	48,8	1547	7,9	2434	8,5	57,4
France	302	5,8	585	7,4	93,9	1072	5,5	2028	7,1	89,1
Italy	433	8,3	587	7,4	35,6	1518	7,8	2023	7,1	33,3
USA	292	5,6	391	4,9	34,0	1014	5,2	1369	4,8	35,0
United Kingdom	295	4,0	379	4,8	71,0	1094	4,2	1314	5,3	68,5
China	159	3,0	431	5,4	171,8	620	3,2	1286	4,5	107,5
Switzerland	226	4,3	290	3,6	28,1	885	4,5	1054	3,7	19,2
Spain	135	4,0	311	4,8	71,0	501	4,2	937	5,3	68,5

Source: SIS.

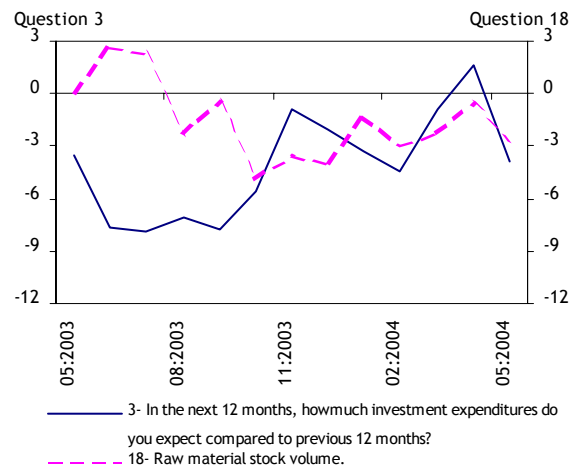
Outlook

49. An analysis of the domestic demand over the upcoming period according to the May results of the CBRT Business Tendency Survey reveals that albeit a slowdown in their expectations, private companies are optimistic about domestic demand. Despite the decline compared to April, investment expenditures tendency is still high compared to previous years. The deterioration in expectations in May compared to April is believed to be the result of short-term fluctuations observed in the markets in May.

IMPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

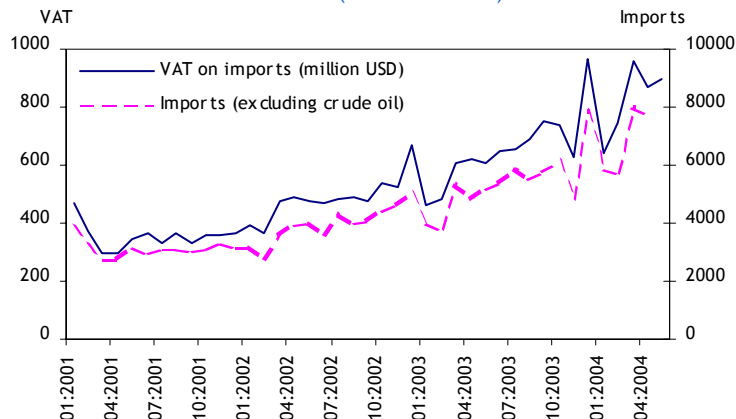


Source: CBRT Business Tendency Survey.

50. Timed imports increased from US dollar 5.4 billion in January-April 2003 to US dollar 8.1 billion in the same period of 2004. As total imports grew by 46.2 percent and timed imports increased by 51.5 percent, the share of timed imports in total imports rose to 28.4 percent. Meanwhile, timed exports calculated the same way recorded a 33.9 percent rise and reached 62.8 percent of total exports.

51. According to the data appertaining to Value Added Tax on imports, imports are expected to reach US dollar 8 billion in May.

VALUE ADDED TAX ON IMPORTS and IMPORTS EXCLUDING CRUDE OIL (million US dollar)



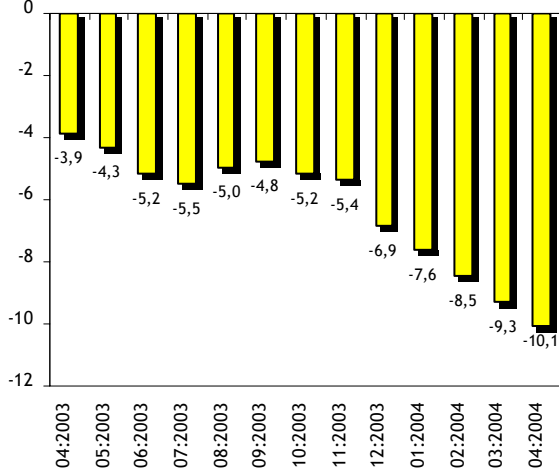
Source: Ministry of Finance, SIS.

IV. CURRENT ACCOUNT

52. Current account balance yielded a deficit of US dollar 1.7 billion in April and US dollar 6.9 billion in the first four months of the year. Thus, twelve-month current account deficit became US dollar 10.1 billion.

CURRENT ACCOUNT BALANCE

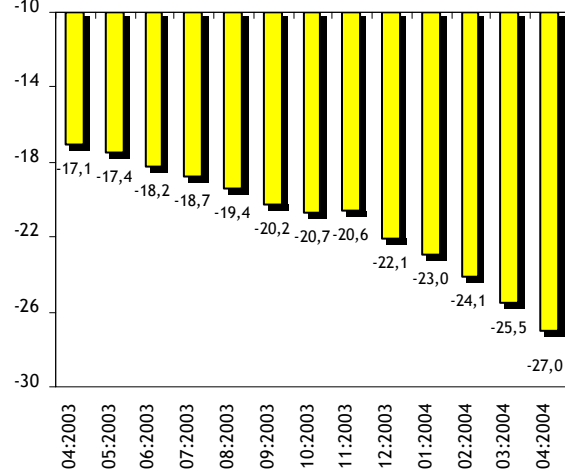
(12 month, USD billion)



Source: CBRT.

FOREIGN TRADE BALANCE

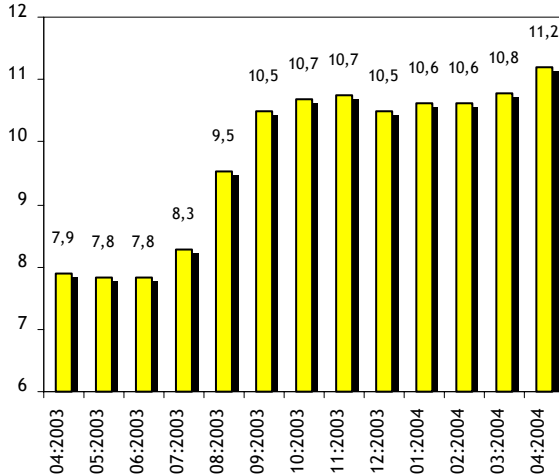
(12 month, USD billion)



Source: CBRT.

SERVICES BALANCE

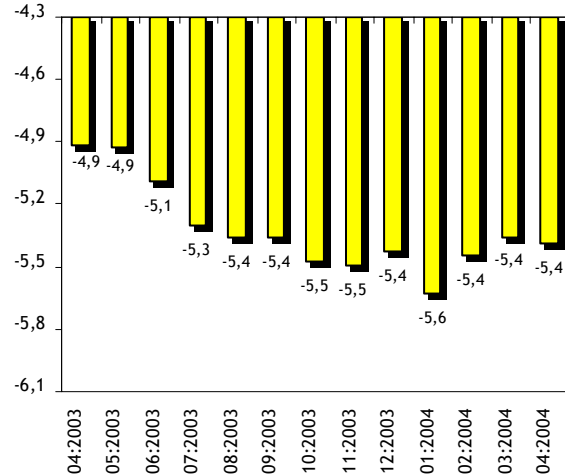
(12 month, USD billion)



Source: CBRT.

INVESTMENTS REVENUES BALANCE

(12 month, USD billion)



Source: CBRT.

53. In the first four months of 2004, services revenues increased by 46 percent in annual terms thanks to the remarkable rise in tourism revenues. However, the determining factor in the current account balance was the foreign trade deficit that increased by 123 percent compared to the same period of 2003.

54. Compared to 2003, the rate of increase in imports accelerated in this period. Appreciation of Turkish lira, rapid rise in industrial production and the recovery observed in domestic consumption were the factors that pushed up imports. As a result of these developments, according to the balance of payments definition, foreign trade deficit

increased from US dollar 3.4 billion in the first four months of 2003 to US dollar 7.5 billion in the same period in 2004.

CURRENT ACCOUNT (USD million)						
	2003					2004
	Jan-Apr	Jan	Feb	Mar	Apr	Jan-Apr
Current Account Balance	-3657	-1007	-2102	-2095	-1677	-6881
Foreign Trade Balance	-3358	-1138	-1803	-2349	-2194	-7484
Total Exports	15072	4763	3926	5467	5281	19437
Total Imports	-18430	-5901	-5729	-7816	-7475	-26921
Services Balance	969	388	162	395	709	1654
Credit	3278	1122	913	1187	1562	4784
Debit	-2309	-734	-751	-792	-853	-3130
Income Balance	-1918	-451	-631	-382	-416	-1880
Credit	769	271	229	268	147	915
Debit	-2687	-722	-860	-650	-563	-2795
Current Transfers	650	194	170	241	224	829
Wrokers' Remittances	183	81	54	58	69	262
<i>Memo items:</i>						
Shuttle Trade	1044	256	280	341	351	1228
Non Monetary Gold (net)	-723	-207	-296	-281	-358	-1142
Travel Revenues	1643	602	503	608	911	2624
Interest Income	176	41	64	49	39	193
Interest Expenditure	-1483	-219	-412	-310	-261	-1202

Source: CBRT.

55. Compared to 2003, the volume of shuttle trade increased in January-April 2004. However, taking into account the base effect caused by the Iraq war in the same period of 2003, it can be asserted that the rise in the volume of shuttle trade is rather limited.

56. Because of the regional instabilities in 2003, demand for processed gold increased in international markets and led to 15 percent rise in prices. This trend continued in January-April 2004 as well. Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to 2002, rose by 55.7 percent in the first four months of 2004.

57. Based on the figures announced by SIS, tourism revenues increased by 59.7 percent compared to the previous year and reached US dollar 2.6 billion in January-April 2004. During the same period, the number of tourists departing from Turkey rose by 43.1 percent. According to provisional figures, the average expenditure per tourist increased in April.

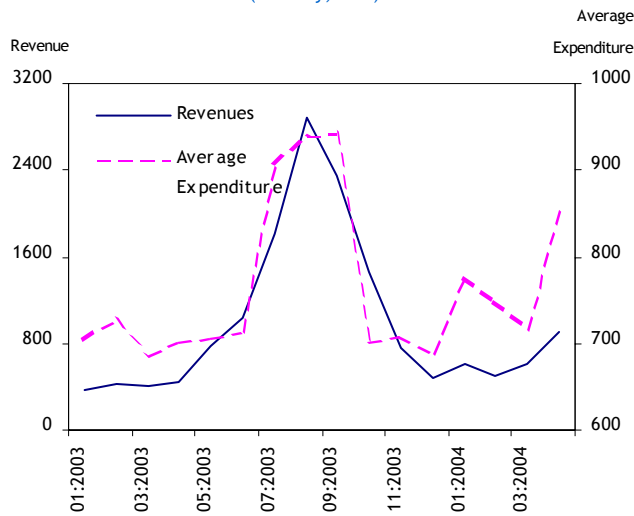
TRAVEL REVENUES						
	2003					2004
	Jan-Apr	Jan	Feb	Mar	Apr	Jan-Apr
Travel Revenues (USD million)	1643	602	503	608	911	2624
Number of Visitors (thousand)	2331	776	672	850	1067	3366
Average Spending (USD)	705	775	749	715	854	780

Source: SIS.

58. According to the figures announced by SIS for May, the rapid rise in the number of tourists visiting Turkey persists. Meanwhile, the number of tourists visiting Turkey increased by 57.8 percent in May compared to the same month of 2003.

59. Based on the data pertaining to the number of tourists visiting Turkey in May, tourism revenues are expected to stand between US dollar 1.2 billion and 1.4 billion.

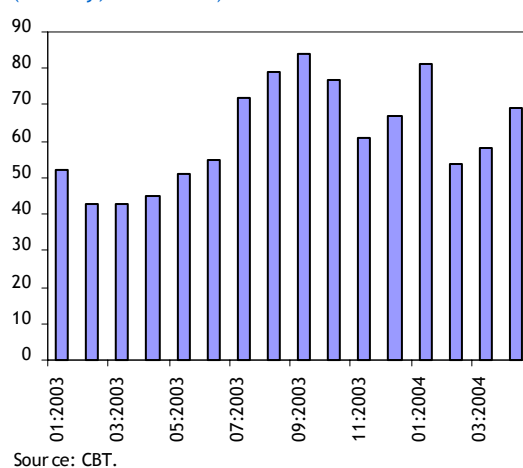
TRAVEL REVENUES (monthly, billion USD),
AVERAGE EXPENDITURE (monthly, USD)



60. The investment revenues account registered a deficit of US dollar 1.9 billion in January-April 2004. Portfolio investment expenditures and interest expenditures were the primary factors of this deficit. The decline in the costs of borrowing during this period compared to the previous year brought along a decline in interest expenditures. The decline in interest expenditures of non-bank private sector is particularly note-worthy.

61. Worker's remittances rose by 43.2 percent in the first quarter of 2004 compared to the same period of the previous year. Imports with waiver increased in the same period as well.

WORKERS REMITTANCES: Private
(monthly, million USD)



V. CAPITAL MOVEMENTS

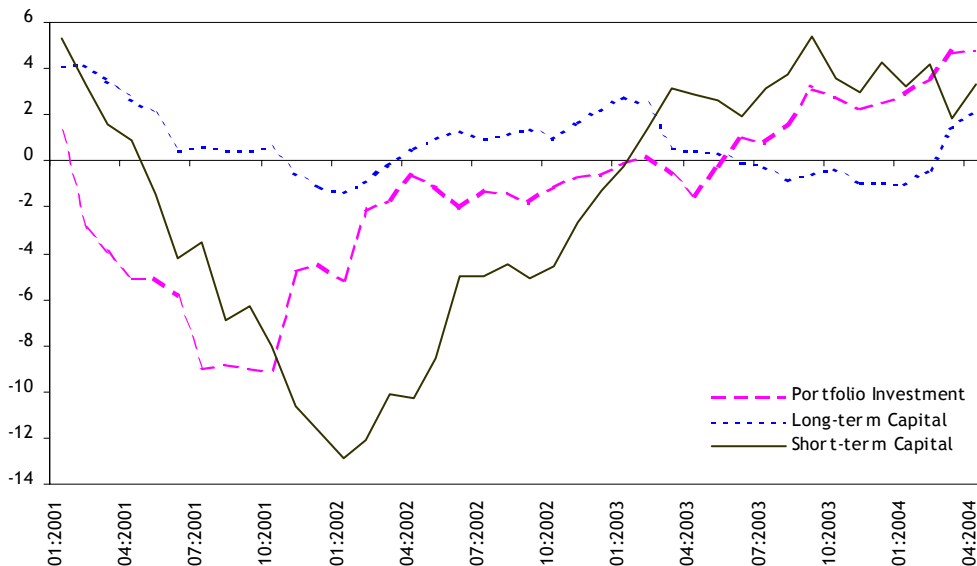
62. The financial account registered a surplus of US dollar 773 million in April 2004. Excluding the IMF loans and official reserve changes, net capital inflow was recorded as US dollar 1.9 billion. Thus, the net capital inflow became US dollar 7.8 billion in the first four months of the year while twelve-month net capital inflow reached US dollar 10.7 billion.

63. April 2004 witnessed an outflow through portfolio investments while net errors and omissions item yielded a surplus of US dollar 904 million. Despite the current account deficit amounting to US dollar 6.9 billion, a certain amount of capital inflow through direct investments, portfolio investments and other investments was observed in January-April 2004. The net errors and omissions item registered a surplus of US dollar 1.2 billion during this period. All these developments led to a rise of US dollar 1.2 billion in official reserves.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)								
	2003							2004
	Jan-Apr	Nov	Dec	Jan	Feb	Mar	Apr	Jan-Apr
Capital and Financial Account	4151	257	939	2000	2972	-75	773	5670
Financial Account	4151	257	939	2000	2972	-75	773	5670
Direct Investments	-27	53	61	18	286	-64	-59	181
Portfolio Investments	-367	-552	402	1401	311	341	-216	1837
Other Investments	3964	-1086	1893	773	2079	-462	2450	4840
Reserve Assets	581	1842	-1417	-192	296	110	-1402	-1188
Net Errors & Omissions	-494	174	1869	-993	-870	2170	904	1211
<i>Memorandum items:</i>								
Short-term	4640	-423	1262	711	2096	-437	1305	3675
Long-term	-1140	-233	251	287	474	436	904	2101
IMF credit	464	-430	380	-225	-491	-461	241	-936

Source: CBRT.

CAPITAL FLOWS (12-month. billion US dollar)

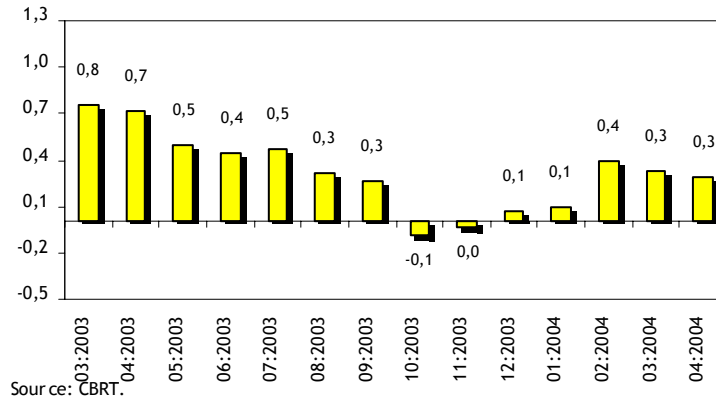


Source: CBRT.

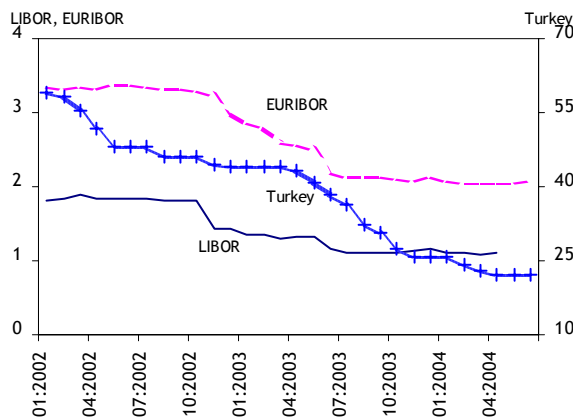
64. Analyzing capital movements in April by maturities, an inflow tendency is observed both in short and long-term maturities. Nevertheless, capital inflows realized as of the first quarter of the year were chiefly of short-term nature.

65. In January-April period, net direct capital investment of US dollar 181 million mainly stemmed from conversion of foreign credit utilized by a firm into capital in February. Net investments made abroad by residents increased during this period compared to the same period of the previous year. Moreover, long-term credits extended to foreign companies by their affiliates abroad, which are listed under other capital item and considered as direct capital investment, became US dollar 59 million.

DIRECT INVESTMENTS
(12-month, billion US dollar)

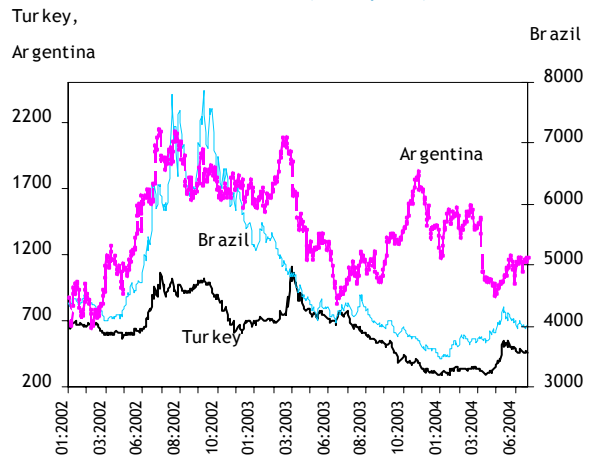


INTEREST RATES (monthly average, %)



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

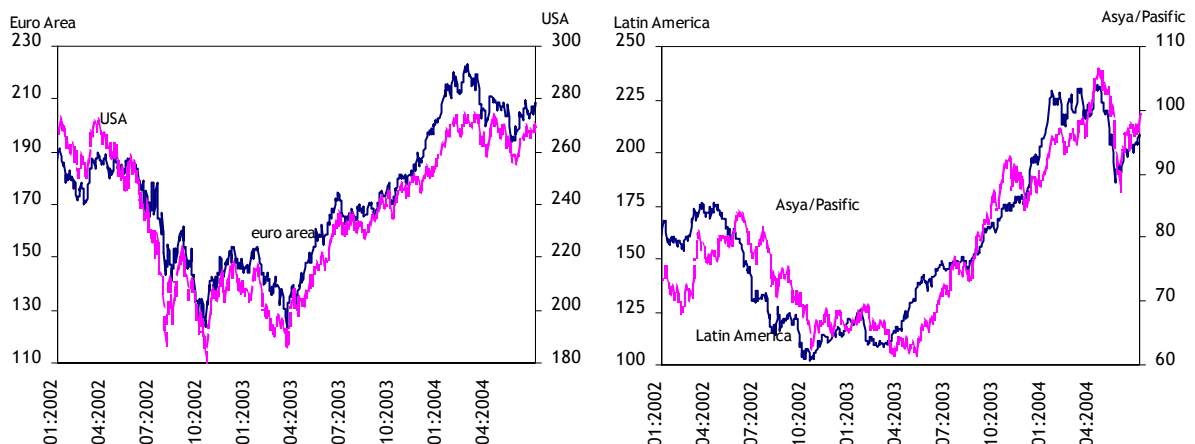
SECONDARY MARKET SPREADS (basis point)



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

Source: JP Morgan.

DOW JONES EQUITY PRICE INDICES



Source: Dow Jones.

66. LIBOR and EURIBOR interest rates, which had displayed a downward trend throughout 2003 in line with the policies adopted by individual central banks, pursued a steady course in the first half of 2004. Besides, the spreads especially in developing countries entered into downward trend in June following the FED announcements about a likely increase in interest rates, whereas stock prices recovered, albeit slight. FED raised interest rates by 0.25 point on June 30, 2004. Hence, FED funding rate reached 1.25 percent.

67. Considering the consistency of future trend of inflation with the end-year inflation target, CBRT cut short-term interest rates by 2 points to be effective as of 17 March 2003.

68. The Turkish bond spreads, which had been fluctuating as of early 2003, have been displaying a downward trend since April 2003 with the end of Iraq war. With the achievement of economic stability, the spreads have displaying a rapid decline especially since September. On the other hand, the spreads have started to rise as of the second half of April 2004 due to the expectations for an increase in international interest rates that emerged in line with FED's future interest rate policies. The bond spreads continued to decline in June as well.

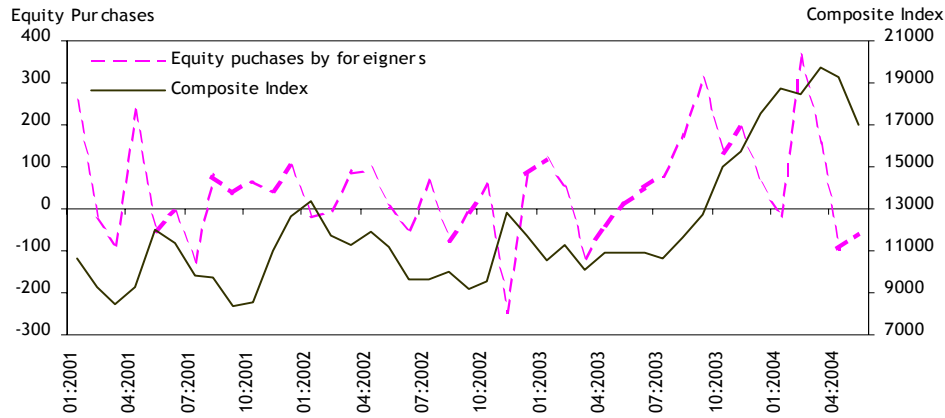
PORTFOLIO INVESTMENT (monthly, USD million)								
	2003							2004
	Jan-Apr	Nov	Dec	Jan	Feb	Mar	Apr	Jan-Apr
Portfolio Investment	-367	-552	402	1401	311	341	-216	1837
Assets	-58	-316	-189	-105	-267	512	250	390
General Government	-6	-2	-5	0	0	0	-6	-6
Banks	175	-309	-227	224	-59	346	404	915
Other Sectors	-227	-5	43	-329	-208	166	-148	-519
Liabilities	-309	-236	591	1506	578	-171	-466	1447
Equity Securities	10	192	57	-18	364	157	-96	407
Debt Securities	-319	-428	534	1524	214	-328	-370	1040
Monetary Authority	0	0	0	0	0	0	0	0
General Government	-157	-428	534	1524	214	-328	-370	1040
In Turkey	-470	31	534	24	501	896	-370	1051
Abroad	313	-459	0	1500	-287	-1224	0	-11
Banks	-162	0	0	0	0	0	0	0

Source: CBRT.

69. The increase in non-residents' demand for securities became the determinant factor in the movements of portfolio investments in the first four months of the year. Especially in March, securities portfolio composed of non-residents' government securities and equity securities increased by US dollar 1.1 billion. In April, however, non-residents became net sellers in securities market, thus resulting in net capital outflow in portfolio movements.

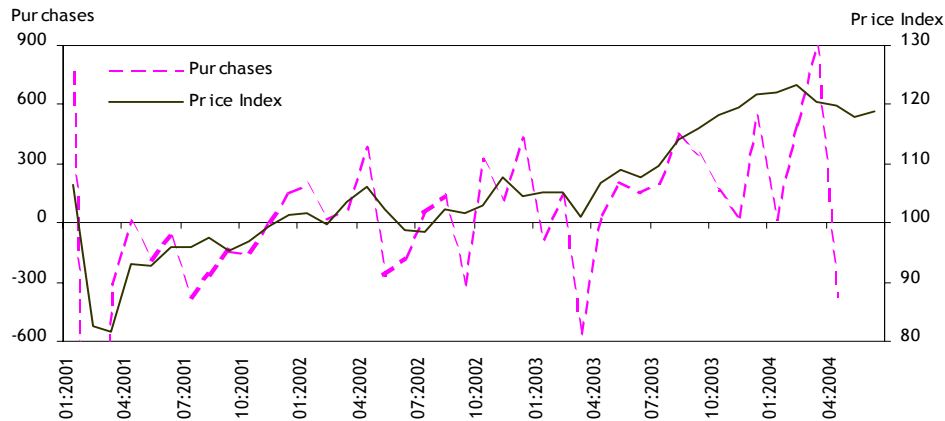
70. The decline in non-residents' demand for equity securities continued in May as well. According to the data compiled by the ISE, non-residents sold US dollar 59.6 million worth of securities in May. Meanwhile, the government securities price index, which had been in upward trend since the second half of 2003, declined in May to be followed by an upward trend in June.

ISE EQUITY PRICES AND FOREIGNERS' NET PURCHASES



Source: CBRT, ISE.

GOVERNMENT DEBT SECURITY PRICES AND FOREIGNERS' NET PURCHASES

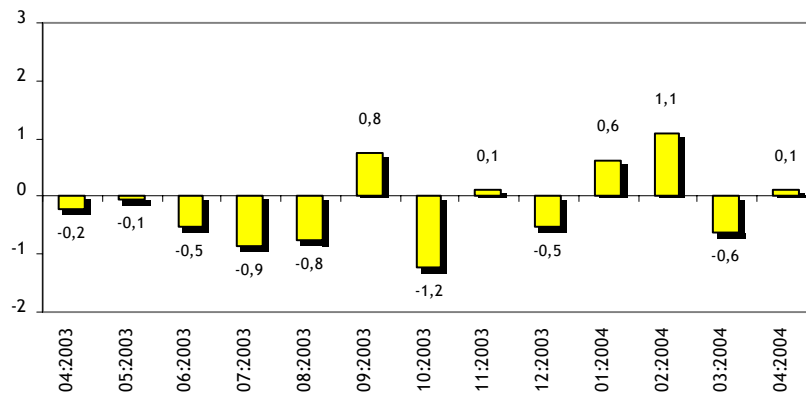


Source: CBRT, ISE.

71. The Treasury issued US dollar 750 million-worth of bonds in June. Therefore, the total value of bonds issued by the Treasury in the first half, including the US dollar 2.8 billion-worth of bonds issued in the first quarter, reached US dollar 3.5 billion.

72. Banks' FX assets composed of current and deposit accounts, which are held with their correspondents abroad, pursued a volatile course in the first four months of the year. In this period, banks' FX assets decreased by US dollar 1.2 leading to a capital inflow of the same amount.

CHANGE IN DEPOSIT MONEY BANKS' FX HOLDINGSⁱ
(USD billion)

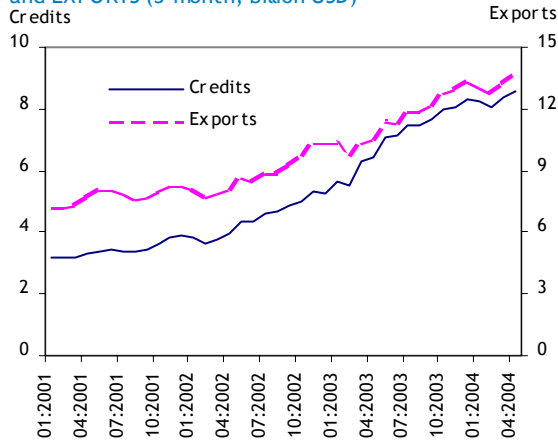


Source: CBRT.

i (+) sign indicates a decrease.

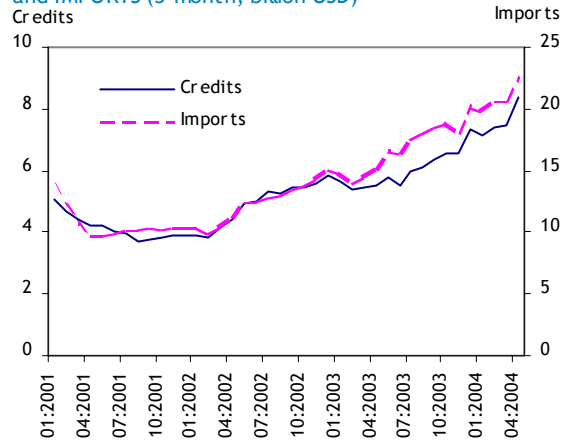
73. Rapid growth in foreign trade volume in January-April period encouraged commercial loan utilization. In this period, exports grew by 29.8 percent, while commercial loans extended abroad increased by 33.9 percent. Moreover, imports expanded by 46.2 percent and commercial loan utilization rose by 47.2 percent.

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



Source: CBRT, SIS.

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

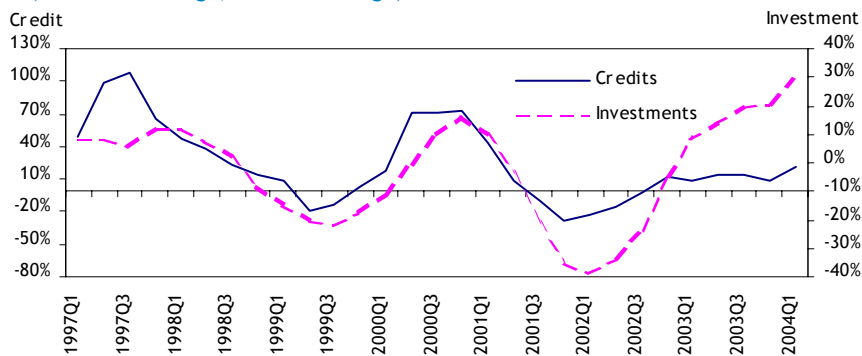


Source: CBRT, SIS.

74. The banking sector maintained its tendency towards financing via short-term credits in 2004 as in 2003. The banks, which used net US dollar 2 billion-worth of short-term loans in 2003, utilized net US dollar 1.1 billion-worth of short-term loans in January-April 2004. A large amount of these loans was used in April 2004.

75. An upward trend is observed in long-term credit utilization in all sectors except the Central Bank, the Treasury and the banking sector. The upsurge in long-term credit utilization, which has been continuing since 2003, points at ongoing high level of investment expenditures.

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



Source: CBRT, SIS.

76. In 2004, the Central Bank carried out the repayment of IMF loans utilized in 2001 and earlier. The amount repaid to IMF reached US dollar 1.3 billion in January-April period.

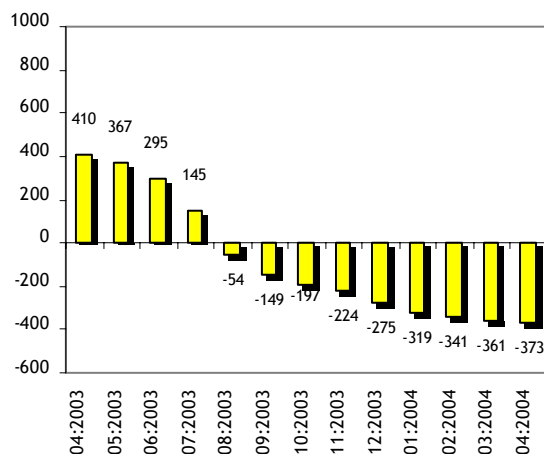
OTHER INVESTMENTS (monthly, USD million)								
	2003							2004
	Jan-Apr	Nov	Dec	Jan	Feb	Mar	Apr	Jan-Apr
Other Investment	3964	-1086	1893	773	2079	-462	2450	4840
Assets	2856	279	-737	557	1821	-1289	-225	864
Trade Credits	-318	134	-158	-181	590	-617	-331	-539
Credits	-540	77	-12	147	181	-17	30	341
Currency and Deposits	3819	104	-532	617	1078	-621	111	1185
Liabilities	1108	-1365	2630	216	258	827	2675	3976
Trade Credits	352	-123	622	44	212	656	1053	1965
Credits	-227	-1274	1867	247	57	180	1596	2080
Monetary Authority	-113	-430	-123	-158	-491	-461	-194	-1304
General Government	-74	-211	236	-166	-108	-286	664	104
IMF Credits	577	0	503	-67	0	0	435	368
Long Term	-651	-211	-267	-99	-108	-286	229	-264
Banks	517	-348	1397	240	287	127	527	1181
Long Term	-142	212	61	-14	198	-149	37	72
Short Term	659	-560	1336	254	89	276	490	1109
Other Sectors	-557	-285	357	331	369	800	599	2099
Long Term	-687	-307	356	326	310	778	570	1984
Short Term	130	22	1	5	59	22	29	115
Deposits	981	31	141	-75	1	-12	16	-70
Monetary Authority	90	12	6	1	10	-5	-20	-14
Long Term	19	-14	-13	-23	-8	-20	-28	-79
Short Term	71	26	19	24	18	15	8	65
Banks	891	19	135	-76	-9	-7	36	-56

Source: CBRT.

77. Since April 2003, an outflow is observed in the volume of long-term FX deposit accounts with credit letters and super FX accounts held at the Central Bank by the workers abroad. The interest rate cut-down operations, which were concentrated in the second half of 2003, are believed to be the primary factor in this outflow. The interest rates on these accounts were re-cut as of 1 March 2004. On the other hand, no significant movement is observed in short-term accounts.

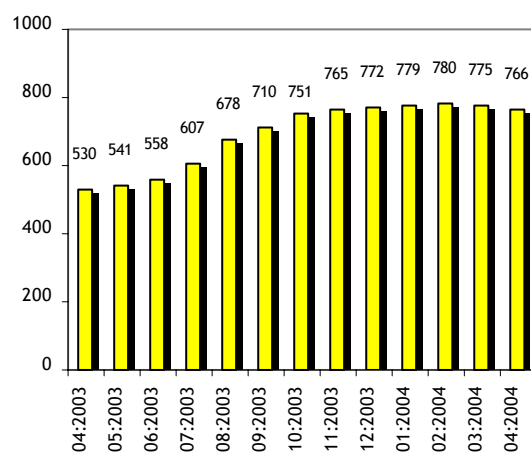
INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS (12-month, USD billion)

LONG TERM



Source: CBRT.

SHORT TERM



Source: CBRT.

78. The FX deposits held with the domestic banks by foreign banks, which pursued an inflow course throughout 2003, declined by net US dollar 56 million in the first four months of the year leading to a capital outflow of the same amount.

79. The Central Bank continued to hold foreign exchange buying auctions in March-April period as well. However, these auctions were suspended as of 27 April 2004. Meanwhile, the Central Bank intervened in the markets via direct foreign exchange selling due to the excessive volatility in exchange rates on 11 May 2004. Thus, the Central Bank reserves, which were US dollar 33.6 billion by the end of 2003, declined to US dollar 32.4 billion by June 25, 2004.

80. External financing requirement, which is defined as the sum of the current account balance and the net errors and omissions item, became US dollar 5.7 billion in January-April 2004. Although the net errors and omissions item yielded a surplus, financing requirement increased due to the current account deficit. Financing requirement was mainly met by portfolio movements, long-term credits and commercial loans utilized by non-banking private sector as well as short-term credits utilized by the banking sector.

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

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)										
	2003									2004
	Jan-Apr	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	Jan-Apr
1. Current Account Balance	-3657	705	88	-431	-2808	-1007	-2102	-2095	-1677	-6881
2. Net Error and Omission	-494	325	274	174	1869	-993	-870	2170	904	1211
I. Total Financing Requirement (=1+2)	-4151	1030	362	-257	-939	-2000	-2972	75	-773	-5670
II. Total Financing (=1+2+3)	4151	-1030	-362	257	939	2000	2972	-75	773	5670
1. Capital Flows (net)	-713	1715	-229	-1259	2508	1800	2089	897	1823	6609
Portfolio Investments (net)	-367	1217	253	-552	402	1401	311	341	-216	1837
General Government Bond Issues	313	1250	-212	-459	0	1500	-287	-1224	0	-11
Foreigners' Buying of Bonds and Stocks in Turkey	-460	659	292	223	591	6	865	1053	-466	1458
Residents Buying of Bonds and Stocks Abroad	-58	-692	173	-316	-189	-105	-267	512	250	390
Credits (excl. IMF credits)	-339	516	545	-967	2109	516	760	1297	2408	4981
General Government	-651	-289	-172	-211	-267	-99	-108	-286	229	-264
Banks	517	257	33	-348	1397	240	287	127	527	1181
Long Term	-142	133	79	212	61	-14	198	-149	37	72
Short Term	659	124	-46	-560	1336	254	89	276	490	1109
Other Sectors	-205	548	684	-408	979	375	581	1456	1652	4064
Long Term	-687	323	199	-307	356	326	310	778	570	1984
Short Term	130	17	-1	22	1	5	59	22	29	115
Trade Credits	352	208	486	-123	622	44	212	656	1053	1965
Deposits	981	102	-571	31	141	-75	1	-12	16	-70
Central Bank	90	66	43	12	6	1	10	-5	-20	-14
Banks	891	36	-614	19	135	-76	-9	-7	36	-56
Others	-988	-120	-456	229	-144	-42	1017	-729	-385	-139
2. IMF Credits	464	-118	-256	-430	380	-225	-491	-461	241	-936
Central Bank	-113	-118	-191	-430	-123	-158	-491	-461	-194	-1304
General Government	577	0	-65	0	503	-67	0	0	435	368
3. Change in Reserves (- increase)	4400	-2627	123	1946	-1949	425	1374	-511	-1291	-3
Banks' FX Holdings	3819	760	-1238	104	-532	617	1078	-621	111	1185
Official Reserves	581	-3387	1361	1842	-1417	-192	296	110	-1402	-1188

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	-8337	36059	4065	-51554	7879	8480	-4554	-4417	3490	1936
2003*	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
<i>(quarterly)</i>											
2002 I	-637	-956	7910	919	-10409	702	896	-1227	-1059	844	477
II	-809	-2260	8514	933	-12454	1698	2087	-1016	-1082	769	505
III	1030	-2329	9298	1090	-13529	3573	3813	-1078	-1116	864	539
IV	-1106	-2792	10337	1123	-15162	1906	1684	-1233	-1160	1013	415
2003 I	-2761	-2399	10366	757	-14368	683	1201	-1531	-1171	486	138
II	-2329	-3229	11318	954	-16470	1662	2259	-1248	-1106	486	151
III	1391	-4088	12180	1082	-18448	6241	7032	-1345	-1134	583	235
IV	-3151	-4318	13389	1160	-20054	1919	2711	-1303	-1175	551	205
2004 I	-5204	-5290	13279	877	-20679	945	1713	-1464	-941	605	193
<i>(monthly)</i>											
2003 May	-718	-986	3860	359	-5532	639	773	-525	-486	154	51
Jun	-715	-1284	3796	308	-5727	737	1044	-336	-308	168	55
Jul	-234	-1388	4236	274	-6267	1438	1811	-493	-262	209	72
Agu	920	-1385	3829	402	-5975	2623	2880	-505	-524	187	79
Sep	705	-1315	4115	406	-6206	2180	2341	-347	-348	187	84
Oct	88	-910	4824	451	-6575	1185	1454	-360	-315	173	77
Nov	-431	-608	3970	355	-5245	612	767	-582	-500	147	61
Dec	-2808	-2800	4595	354	-8234	122	490	-361	-360	231	67
2004 Jan	-1007	-1138	4507	256	-6276	388	602	-451	-219	194	81
Feb	-2102	-1803	3646	280	-6092	162	503	-631	-412	170	54
Mar	-2095	-2349	5126	341	-8311	395	608	-382	-310	241	58
Apr	-1677	-2194	4930	351	-7949	709	911	-416	-261	224	69
<i>(12-month)</i>											
2003 May	-4310	-10143	40294	3868	-57739	7830	8790	-4926	-4495	2929	1358
Jun	-5166	-10749	41319	3924	-59529	7824	8957	-5090	-4553	2849	1243
Jul	-5473	-11193	42451	3922	-61196	8263	9642	-5299	-4546	2756	1111
Agu	-4993	-11798	43304	3926	-62752	9539	11072	-5359	-4567	2625	1014
Sep	-4805	-12508	44201	3916	-64448	10492	12176	-5357	-4571	2568	939
Oct	-5151	-12791	45524	3955	-66193	10677	12652	-5477	-4606	2440	898
Nov	-5356	-12711	45900	3928	-66476	10743	12984	-5490	-4561	2102	807
Dec	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
2004 Jan	-7635	-14704	48226	4046	-71190	10617	13428	-5631	-4596	2083	758
Feb	-8473	-15789	48948	4028	-73096	10619	13513	-5441	-4537	2138	769
Mar	-9293	-16925	50166	4073	-75651	10767	13715	-5360	-4356	2225	784
Apr	-10074	-18160	51434	4137	-78389	11190	14184	-5389	-4305	2285	808

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						Deposits	
						Equity Securities	Debt Securities			Net	Trade Credits	Credits				Monetary Authority	Banks
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
		(annual)															
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1719	-1719	2769	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1373	1373	863	-593	-2096	-16	1519	7256	594	8033	2483	-6138	11834	-1028	437	1336	-988
2003	1875	1875	76	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
		(quarterly)															
2002 I	2157	2157	95	-59	-1232	66	1107	3821	1778	2391	274	-6138	8752	-443	43	402	-502
II	236	236	312	-736	-265	50	-521	1349	-112	1903	743	0	769	252	239	195	-332
III	-1633	-1633	236	-468	-245	-22	-201	1413	-486	2406	738	0	2617	-1184	-76	614	-362
IV	613	613	220	670	-354	-110	1134	673	-586	1333	728	0	-304	347	231	125	208
2003 I	4038	4038	-17	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1326	-1326	1	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1671	-1671	55	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	834	834	37	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	4897	4897	240	2053	140	503	1410	2390	1074	1301	912	-1110	-560	654	1500	6	-92

Kaynak: TCMB.

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account

	Financial Account																
	Net		Foreign Direct Investment	Portfolio Investment				Other Investment									
	Net	Net		Assets	Liabilities		Net	Currency and Deposits	Liabilities				Deposits				
					Equity Securities	Debt Securities			Net	Trade Credits	Credits		Monetary Authority	Banks			
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
	(monthly)																
2003 May	-850	-850	41	592	-77	9	660	-850	-55	-636	143	-39	-158	-776	324	23	-165
Jun	-589	-589	-30	634	-315	48	901	-712	-512	-216	131	-117	-327	-99	92	1	88
Jul	-58	-58	22	-242	67	77	-386	645	-870	1592	310	0	-150	630	232	108	438
Agu	-583	-583	63	632	21	174	437	152	-752	903	52	-348	445	364	174	148	43
Sep	-1030	-1030	-30	1217	-692	311	1598	1170	760	521	208	-118	-289	257	340	66	36
Oct	-362	-362	-77	253	173	131	-51	-1899	-1238	-274	486	-191	-237	33	198	43	-614
Nov	257	257	53	-552	-316	192	-428	-1086	104	-1365	-123	-430	-211	-348	-285	12	19
Dec	939	939	61	402	-189	57	534	1893	-532	2630	622	-123	236	1397	357	6	135
2004 Jan	2000	2000	18	1401	-105	-18	1524	773	617	216	44	-158	-166	240	331	1	-76
Feb	2972	2972	286	311	-267	364	214	2079	1078	258	212	-491	-108	287	369	10	-9
Mar	-75	-75	-64	341	512	157	-328	-462	-621	827	656	-461	-286	127	800	-5	-7
Apr	773	773	-59	-216	250	-96	-370	2450	111	2675	1053	-194	664	527	599	-20	36
	(12-month)																
2003 May	2501	2501	500	-196	-633	-164	601	5753	3022	4420	2139	-152	1940	-1049	-130	908	678
Jun	1692	1692	440	1061	-1049	-65	2175	4488	2180	3995	2092	-269	1754	-1195	14	853	660
Jul	1825	1825	467	796	-968	-52	1816	4315	2005	3950	2016	-269	540	-381	30	752	1173
Agu	1878	1878	318	1578	-734	198	2114	3343	675	4054	1999	-617	-690	763	392	624	1487
Sep	1654	1654	259	3136	-1408	519	4025	5042	1804	4605	1924	-735	-857	1240	836	561	1539
Oct	1065	1065	-92	2798	-1455	594	3659	3234	1021	3753	2287	-926	-1025	1024	1058	554	682
Nov	1156	1156	-36	2306	-1345	1033	2618	1624	956	2099	1865	-1356	-1144	973	516	541	603
Dec	1875	1875	76	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
2004 Jan	2740	2740	100	2862	-1273	872	3263	2008	-237	4051	2271	-1637	-763	2023	991	460	598
Feb	3503	3503	398	3554	-1653	1184	4023	3091	381	4018	2513	-2128	-691	2086	1283	439	420
Mar	2734	2734	333	4697	-1317	1460	4554	2198	-2255	5390	2780	-2476	-770	1929	3184	414	229
Apr	3394	3394	284	4773	-938	1406	4305	4153	-1910	7131	3794	-2670	-587	2639	3531	393	-76

Source: CBRT.