

**CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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**BALANCE OF PAYMENTS  
REPORT**

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**November 2004**

**SUMMARY**

BALANCE OF PAYMENTS (USD million)						
	November			January-November		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-519	-2029	..	-5098	-12741	..
Foreign Trade Balance	-1275	-2962	132,3	-18448	-30597	65,9
Exports	3970	5452	37,3	42658	56227	31,8
Imports	-5245	-8414	60,4	-61106	-86824	42,1
Exports/Imports	75,7%	64,8%	..	69,8%	64,8%	..
Capital and Financial Accounts	368	749	..	1987	8943	..
Financial Account (Excl. Off. Reserves)	-1474	-630	..	4617	9602	..
Change in Official Reserves <sup>1</sup>	1842	1379	..	-2630	-659	..

Source: CBRT.

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

Exports grew by 37.3 percent compared to the same month of the previous year and increased from USD 4 billion to USD 5.5 billion in November 2004. In the same month, imports increased by 60.4 percent and rose from USD 5.2 billion to USD 8.4 billion. Thus, the foreign trade deficit became USD 3 billion and the ratio of exports to imports was recorded as 64.8 percent. While the current account yielded a deficit of USD 2 billion, financial account excluding official reserves resulted in a deficit of USD 630 million.

**In January-November 2004;**

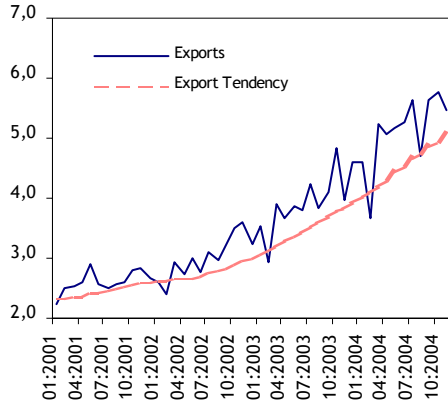
Exports grew by 31.8 percent compared to the same month last year and increased to USD 56.2 billion from USD 42.7 billion. In the same period, imports rose by 42.1 percent, increasing from USD 61.1 billion to USD 86.8 billion. Thus, the foreign trade deficit became USD 30.6 billion and the ratio of exports to imports came down to 64.8 percent. While the current account yielded a deficit of USD 12.7 billion, the financial account excluding official reserves registered a surplus of US 9.6 billion.

**In the twelve-month period;**

Exports increased by 32.5 percent compared to the same period last year and reached USD 60.8 billion. In the same period, imports rose by 43 percent and were registered as USD 95.1 billion. In the said period, the foreign trade deficit was recorded as USD 34.2 billion and the ratio of exports to imports became 64 percent. The current account yielded a deficit of USD 15.7 billion, while the financial account excluding the official reserves recorded a surplus of USD 12 billion.

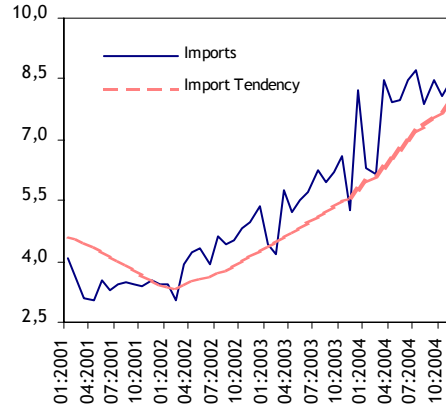
## SUMMARY

### EXPORTS (USD billion)



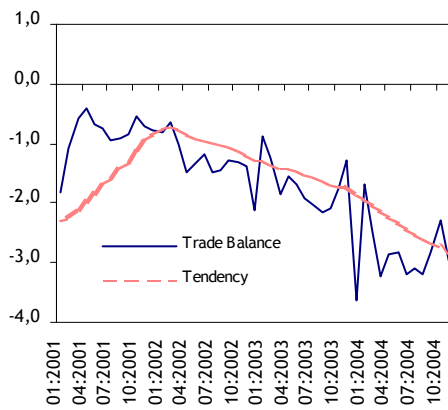
Source: SIS.

### IMPORTS (USD billion)



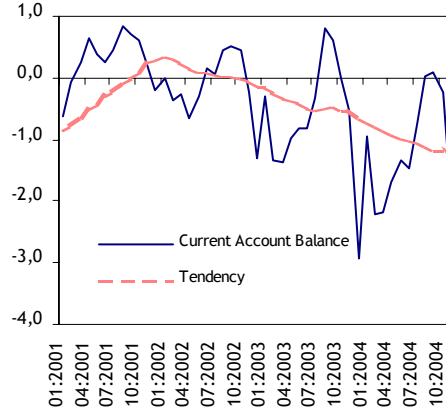
Source: SIS.

### TRADE BALANCE (USD billion)



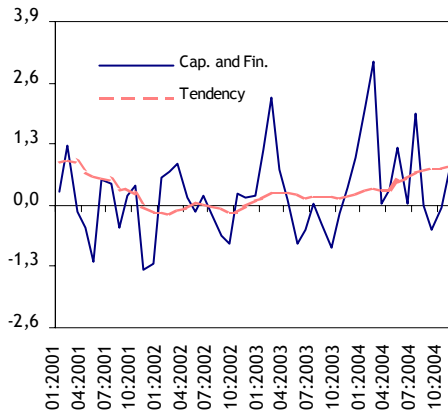
Source: SIS.

### CURRENT ACCOUNT BALANCE (USD billion)



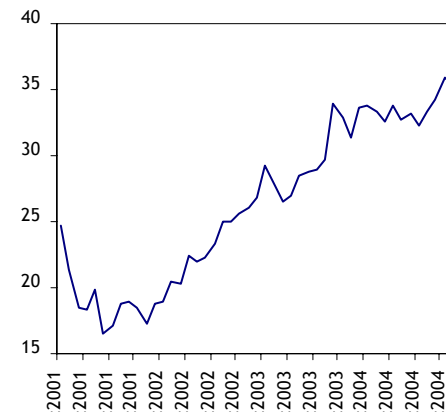
Source: CBRT.

### CAPITAL and FINANCIAL ACCOUNT (USD billion)



Source: CBRT.

### CBRT INTERNATIONAL RESERVES (USD billion)



Source: CBRT.

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

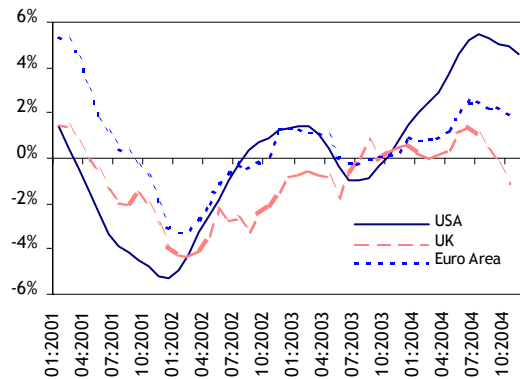
## I. FACTORS AFFECTING FOREIGN TRADE

### External Demand Developments

1. The rapid growth rates recorded in the global economy in early 2004 were replaced by more moderate figures. The decline in crude oil prices in November and December after a steep rise in the third quarter of 2004 helped global economic growth increase, despite at a slower pace. Low interest rates became one of the determining factors that supported growth. Although central banks started to gradually increase interest rates as of the second half of the year, it can be observed that financing conditions are still favorable. Excluding food and energy prices, consumer prices have displayed no high figures of inflation in general.

#### INDUSTRIAL PRODUCTION

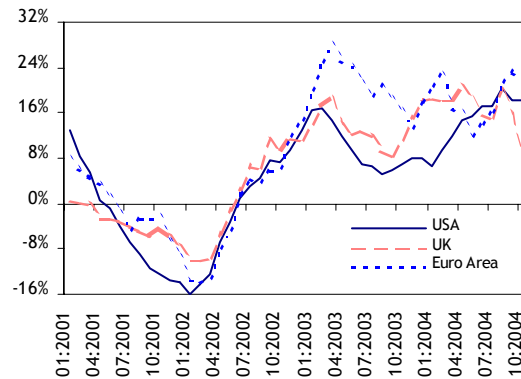
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

#### IMPORTS

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



Source: IMF, ECB.

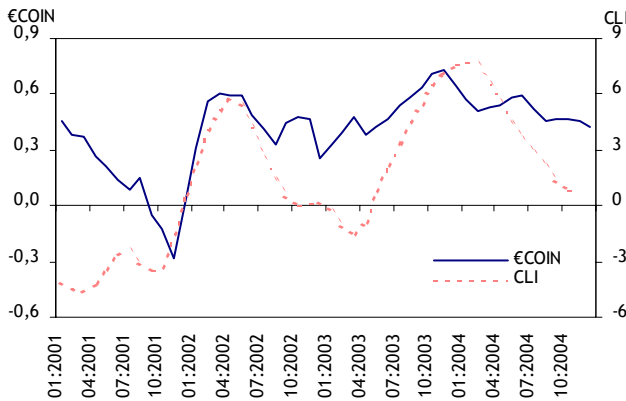
2. The US economy continued to grow in the third quarter of 2004. While the year-on-year US GDP grew by 3.1 percent in the second quarter compared to the previous quarter, the US GDP increased by 4.4 percent in the third quarter annually. Private consumption, the hardware-software sector, general government expenditures and fixed capital investment became the factors that affected growth in the third quarter. The increase in inflation rates pushed up by the rise in energy prices continued in November. The Federal Reserve is gradually raising interest rates in order to sustain growth and price stability.

3. Growth rates in the Japanese economy remained low in the second and third quarter. The Japanese GDP, which dropped by 0.1 percentage points in second quarter of 2004, increased by 0.1 percent in the third quarter. The preliminary data indicates that growth in the manufacturing sector and services sector also remained weak. Meanwhile, a more moderate, deflationary trend continued in the last quarter as well. Annual consumer price inflation became 0.8 percent in November. The subject increase can be attributed mostly to the rise in the prices of fresh fruits, as consumer prices excluding fresh fruits fell by 0.2 percent.

4. Growth in the British economy significantly slowed down in the second half of 2004. While the British GDP grew by 0.8 percent in the second quarter, the quarter-on-quarter increase in GDP became 0.5 percent in the third quarter. Slowdown in the economy stemmed from decreasing investment expenditure and net exports. Annual consumer price inflation, which was recorded as 1.5 percent in November, stays below the 2 percent target.

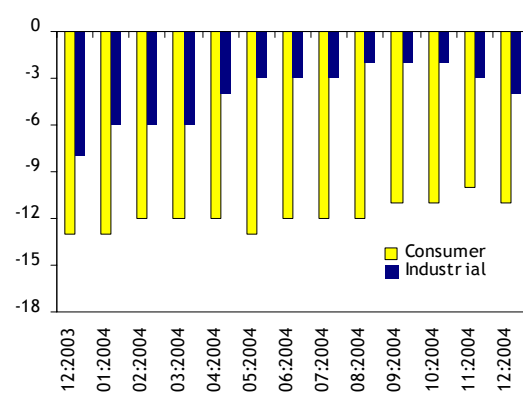
5. The growth rate in the Euro zone decreased compared to the first half of the year in quarter three. This decline mainly stemmed from the deterioration in export performance and decrease in private consumption expenditures. The coincident indicator (EuroCOIN), which provides forecasts for quarterly GDP growth for the Euro zone, points to the fact that growth in the Euro zone that accelerated in the March-June 2004 period has been declining since July. Meanwhile, according to preliminary data, annual consumer prices inflation in the Euro zone was 2.3 percent in December.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU  
(seasonally adjusted)



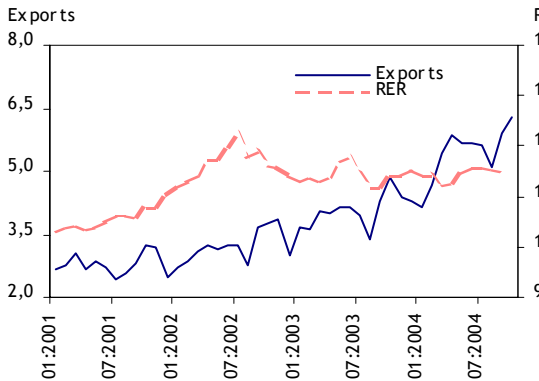
Source: Eurostat.

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

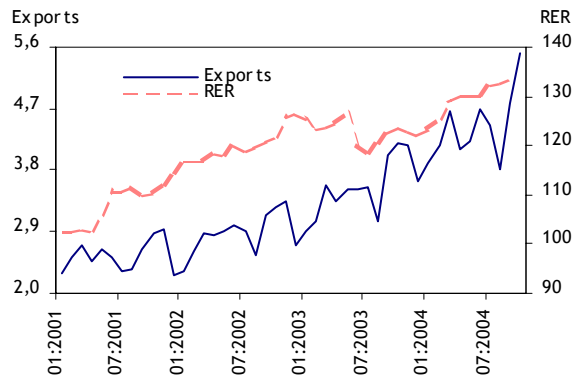
7. Although they have started to decelerate, new EU-member states are still enjoying high growth rates. Consumer price inflation, which accelerated in early 2004 started to head down in the following period owing to the developments in food and energy prices.

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

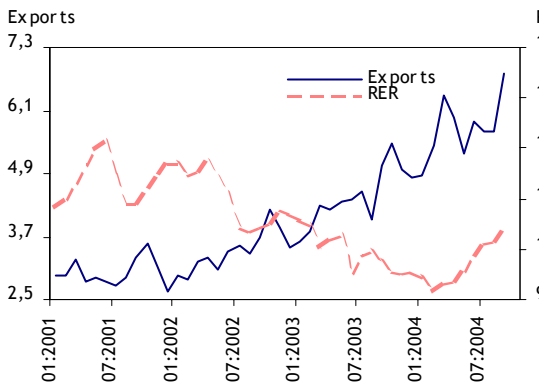
CZECH REPUBLIC



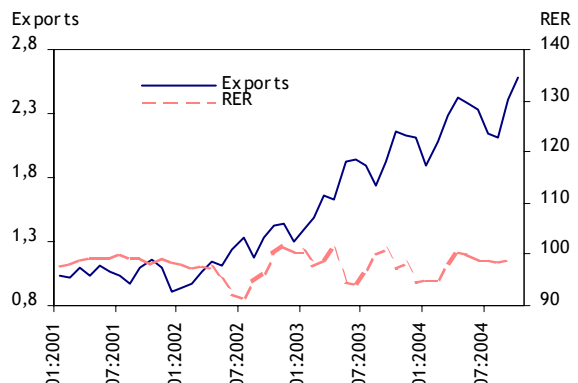
HUNGARY



POLAND

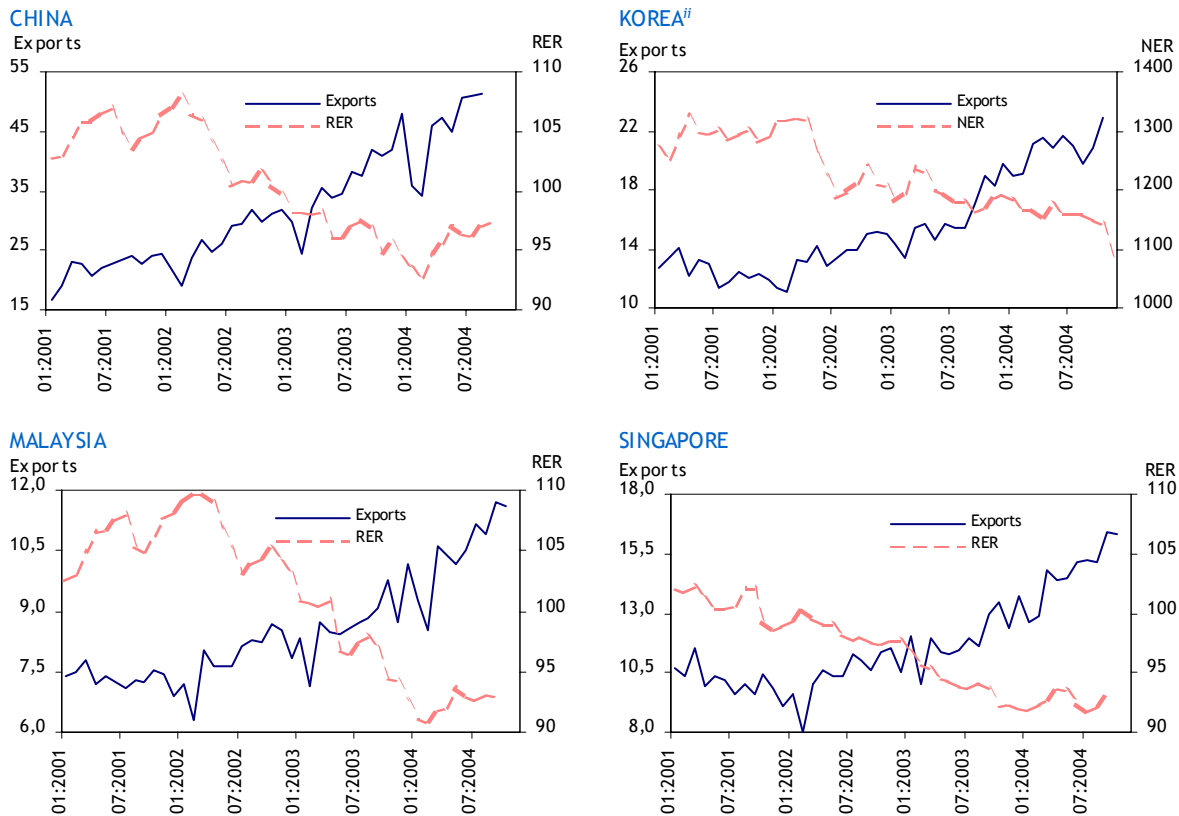


SLOVAK REPUBLIC



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

8. Although there is a relative slow-down, the developing Asian economies are still enjoying high rates of growth. The decline in growth figures mainly stems from the decrease in foreign demand. In November, the inflationary pressures eased due to favorable developments in food prices. Generally, the upward trend in exports in the region continued in the last quarter as well.

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

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

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

Source: IMF.

### Developments in Domestic Demand and Production

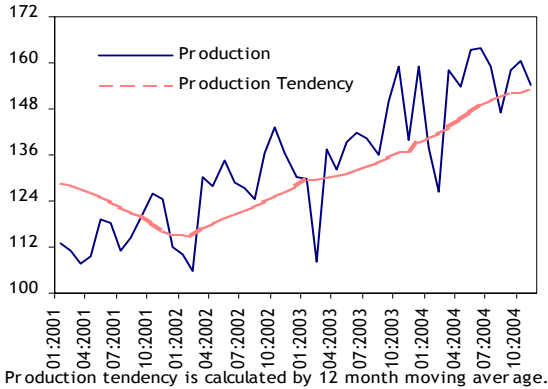
9. The Turkish economy continued to grow in the third quarter, albeit a significant slowdown compared to the first half of 2004. According to the data issued by the SIS, GDP and GNP increased by 4.5 percent and 4.7 percent, respectively, in the third quarter, compared to same period last year, which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

10. When economic growth is analyzed with respect to production in the third quarter, it is observed that the value added effect of the agricultural sector and construction sector decreased compared to the same period of the previous year and that the rise in the industrial sector and services sector contributed to GDP growth. An analysis of growth by demand components reveals that private expenditures made the largest contribution to GDP growth in 2004-Q3. Compared to the first half of the year, it is observed that while the private expenditures' contribution to growth has shrunk in line with the slowdown in the economy, its composition has not changed. Within this framework, durable, semi-durable and non-durable consumption goods and machinery-equipment investments became the expenditure groups that supported growth. Meanwhile, the influence of public expenditure and net export components to growth was negative. It is also remarkable that stock change's contribution to growth became negative for the first time since the end of 2001.

11. According to the SIS Monthly Industrial Production Index, total industrial production and manufacturing industry production rose by 9.6 percent and 10.1 percent, respectively, in November 2004, compared to the same month of the previous year. The rates of increase in industrial production and manufacturing industry production are well above the figures pertaining to October 2004. The low base effect stemming from the low rates of increase in

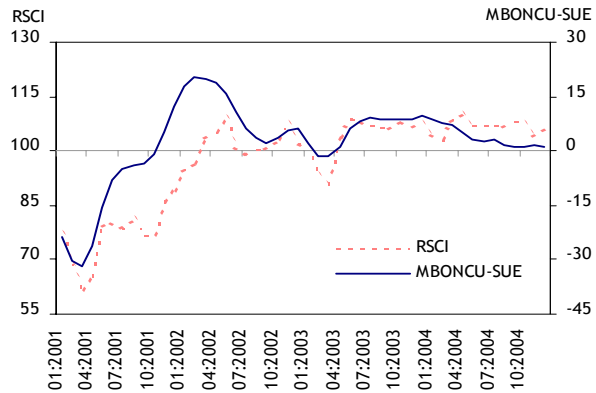
industrial production in November 2003 became the determining factor in the upsurge. Another factor that made a positive impact on industrial production was the high export growth.

**MANUFACTURING INDUSTRY PRODUCTION**  
(1994=100)



Source: SIS.

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



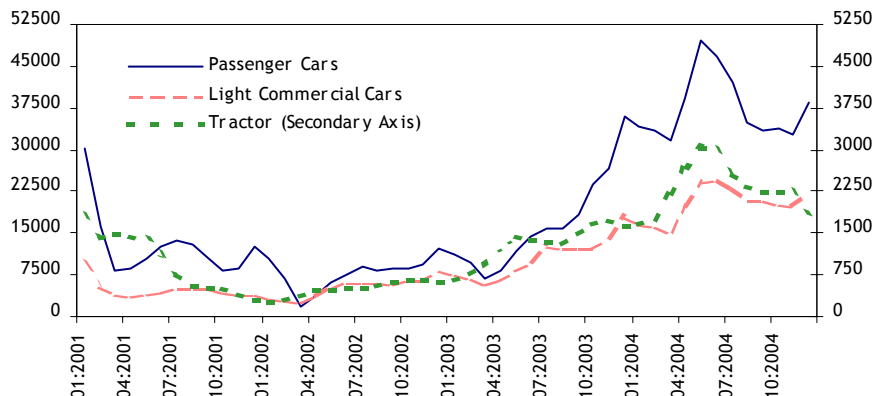
Source: CBRT.

12. According to data announced by the SIS, the rate of capacity utilization in the manufacturing industry was realized as 84 percent in December 2004. The seasonally adjusted capacity utilization rate went up by 0.1 points in December compared to the previous month. According to seasonally adjusted data, the public sector capacity utilization rate dropped by 1.6 points in December and was realized as 85.2 percent, while the private sector capacity utilization rate rose by 0.5 points and was realized as 81.7 percent.

13. The six-month percentage change rate of the composite leading indicators index (MBONCU-SUE) compiled by the Central Bank of the Republic of Turkey, which dropped in December compared to the previous month, recorded a decline, especially in the second half of the year. Meanwhile, The Real Sector Confidence Index (CBRSCI) rose by 2.3 points compared to the previous month and became 106.3 points in December. The value of the index above 100 points denotes the continued confidence of the real sector in economic activities.

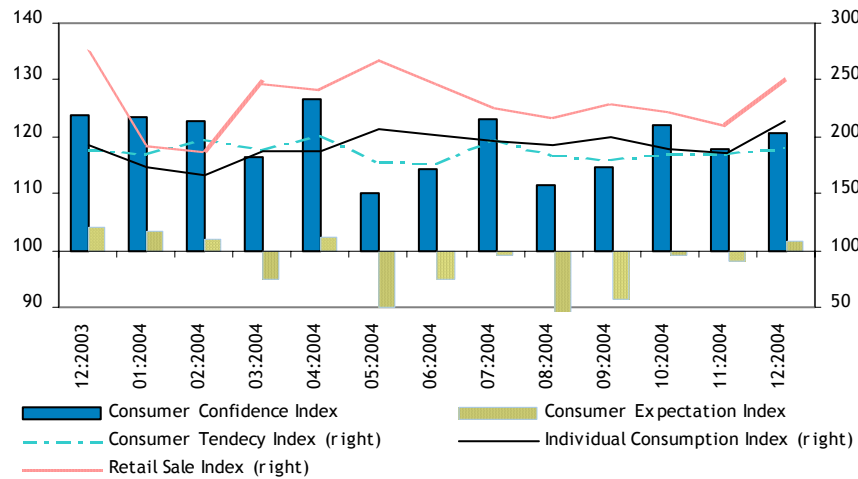
14. Despite a sluggish pace in the second quarter of the year compared to previous months, automobile sales rose by 81.3 percent on average compared to the same period of 2003. Sales figures for the last quarter point to a considerable decline in the rate of increase in automobile sales compared to previous months. Automobile sales increased by 6.7 percent in the said period compared to last year. Meanwhile, the rate of growth in light commercial vehicle sales, which has pursued a more stable course compared to automobile sales and displayed an apparent increase since early-2004, lost pace in the second half of the year. As it is known, light commercial vehicle sales are closely related to the volume of activity of the manufacturing industry sector.

**TRANSPORTATION VEHICLES SALES**  
(3-month moving average, unit)



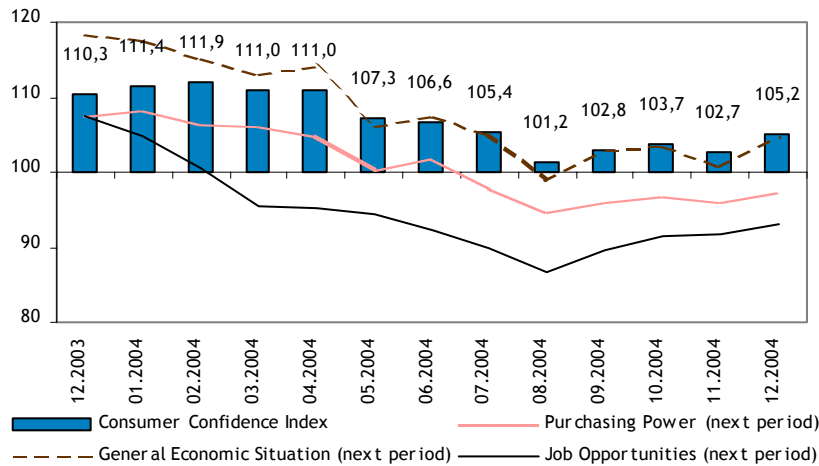
Source: Automobile Industry Association.

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



Source: NTVMSNBC.

## CONSUMER TENDENCY SURVEY



Source: CBRT, SIS.

15. Consumer confidence and expectations indices compiled by CNBC-e rose in December compared to the previous month.

16. According to the results of the Consumer Tendency Survey for December compiled by the Central Bank and SIS, the consumer confidence index increased compared to November. The value of the index above 100 points denotes optimism in consumer confidence.

### Prices

17. The Turkish lira, which was in an appreciation trend in the first quarter of 2004 against the nominal foreign exchange rate basket composed of USD 1 + 0.77 Euro, depreciated by 11 percent in May and pursued a horizontal course in the following months. Meanwhile, real exchange rate indices reveal that having depreciated in August and September, the Turkish lira slightly re-appreciated in real terms in the last quarter of the year.

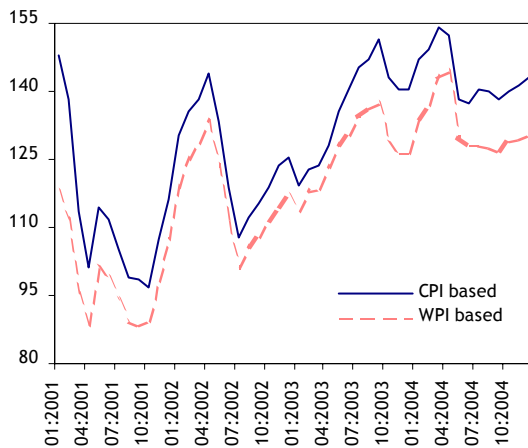
18. The Euro maintains its appreciation trend against the USD. It appreciated by 9.9 percent on average against USD in 2004. Accordingly, average euro/USD parity, which was 1.1313 in 2003, rose to 1.2434 in 2004.



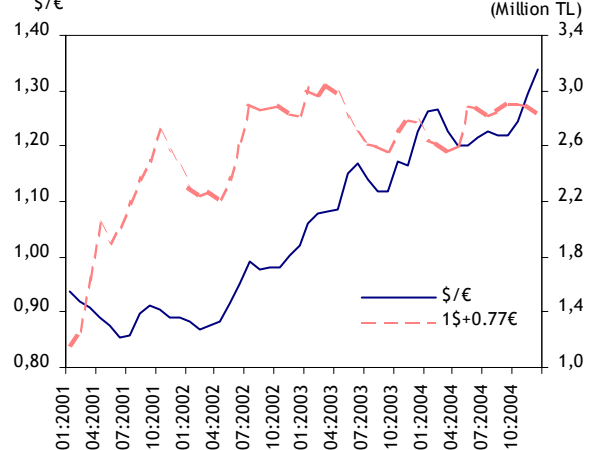
REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)<sup>i</sup>

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

Source: CBRT, IMF.

<sup>i</sup> Increase implies real appreciation of the currency.<sup>ii</sup> Due to data limitations, nominal effective exchange rate is used for Hong Kong.REAL EFFECTIVE EXCHANGE RATE  
(1995=100)<sup>i</sup><sup>i</sup> Increase in real exchange rate index indicates strengthening of Turkish lira.

Source: CBRT.

USD/EURO PARITY and  
NOMINAL EXCHANGE RATE BASKET

19. The terms of trade that entered a recovery trend as of the second half of 2003 pursued a downward course throughout 2004. The index declined by 3.2 percent in November compared to the year-high level recorded in February.

20. In November, export prices rose by 4.7 percent compared to the previous month. The export prices index of the basic metal industry, which increased in the first five months due to the upsurge in world basic metal prices in early 2004, displayed a significant decline in June and July, but picked up in August-November period. Despite the downward trend in export prices of textile products prevailing throughout 2004, they increased by 5.5 percent in November.

21. In November, import prices increased by 0.7 percent compared to the previous month. Textile products, basic metal, machinery-equipment and electrical machinery and equipments manufacturing industry prices were the leading determinants of the said hike in the price index.

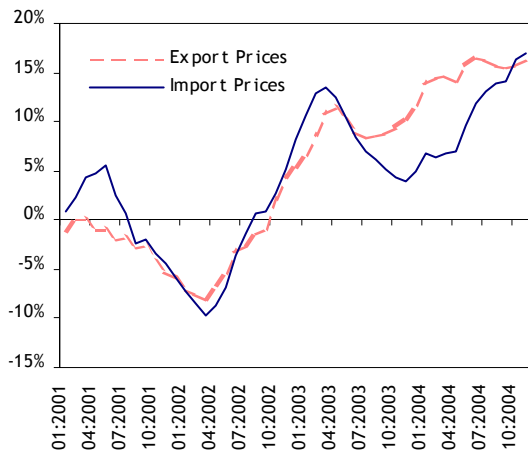
## EXPORT and IMPORT PRICE INDICES (1994=100)

	2004												
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Export Price Index	95,0	99,2	104,9	105,2	104,8	105,2	106,3	105,5	106,0	106,4	105,2	107,6	112,7
Manufacturing	94,8	99,0	105,1	105,5	104,6	105,1	106,3	105,5	106,1	105,9	104,3	106,5	111,5
Textiles	91,6	97,4	102,3	100,7	99,9	98,6	98,6	96,6	99,8	95,7	92,8	94,8	100,0
Wearing Apparel	98,9	107,8	116,8	124,0	115,7	115,7	114,8	115,4	117,5	112,9	106,5	104,3	113,0
Chemicals & Products	87,5	91,9	95,4	95,2	91,1	93,5	94,5	95,9	94,6	100,3	105,9	111,7	113,2
Manufacture of Basic Metals	107,1	108,3	119,4	122,1	128,0	136,9	145,8	132,2	128,8	140,9	144,5	153,9	162,1
Manufacture of Mach. & Equ.	91,7	93,4	101,8	99,7	98,9	100,1	97,0	97,2	96,9	99,0	97,1	99,8	104,2
Electrical Mach. & Apparatus	68,3	73,3	79,4	76,0	69,5	70,8	68,2	70,1	68,7	66,9	67,5	72,2	72,0
Motor Vehicles & Trailers	107,8	109,1	113,8	110,7	110,6	113,0	111,3	115,5	113,5	111,1	113,6	115,3	123,2
Import Price Index	102,0	104,8	109,0	108,2	108,1	109,2	113,2	112,3	111,7	115,8	114,4	119,0	119,8
Mining & Quarrying	164,3	168,5	178,1	173,2	177,6	176,4	189,0	190,1	192,0	215,5	209,8	237,9	228,5
Crude Oil & Natural Gas	176,5	181,8	188,3	182,7	190,7	189,6	203,7	203,0	205,6	232,3	230,0	258,5	245,2
Manufacturing	94,4	98,2	100,3	100,6	100,6	102,4	105,4	104,8	104,2	105,7	104,9	107,5	109,5
Textiles	84,0	90,7	91,7	93,8	95,3	95,6	99,4	94,2	102,5	99,5	97,5	94,0	97,5
Chemicals & Products	101,9	103,3	109,7	109,2	107,3	110,0	110,9	110,1	109,9	113,4	115,4	114,5	121,5
Manufacture of Basic Metals	102,0	107,2	119,8	123,1	132,3	139,1	143,6	138,8	140,4	144,4	144,3	154,7	161,4
Manufacture of Mach. & Equ.	96,5	98,9	98,6	90,9	92,5	96,9	104,1	102,3	93,8	96,6	93,1	98,8	99,1
Electrical Mach. & Apparatus	66,9	70,0	71,8	73,0	72,4	68,2	71,2	68,5	72,2	69,7	73,7	71,7	74,1
Motor Vehicles & Trailers	94,6	103,5	100,6	106,3	103,4	101,6	102,3	101,2	103,0	102,5	105,2	106,6	105,4

Source: SIS.

## EXPORT and IMPORT PRICES

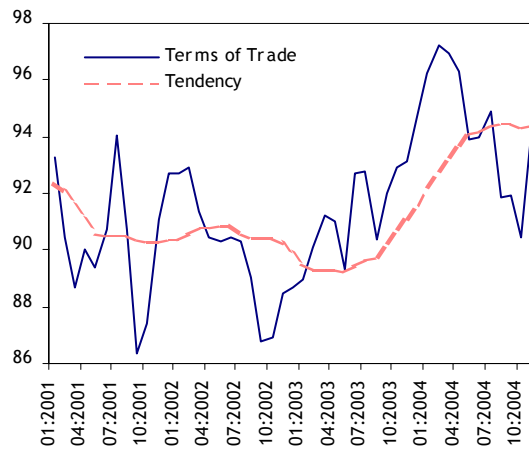
(3-month moving average, annual % change)



Source: SIS.

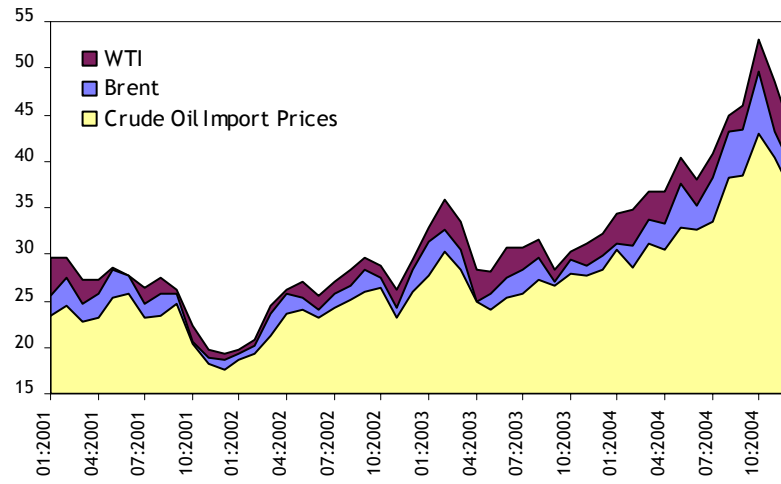
## TERMS OF TRADE

(Export Prices/Import Prices)



22. The upward trend in oil prices, which started in early 2004, also continued in September and October, but reversed itself in November and December, due to better than expected weather conditions. However, crude oil prices resumed their rise from the beginning of 2005 onwards. Although this rise mainly stemmed from seasonal movements, harsh winter conditions in the northern hemisphere and the accompanying depletion in crude oil and other heating fuel stocks in the USA also influenced this development.

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



Source: CBT, SPO, Energy Information Administration.

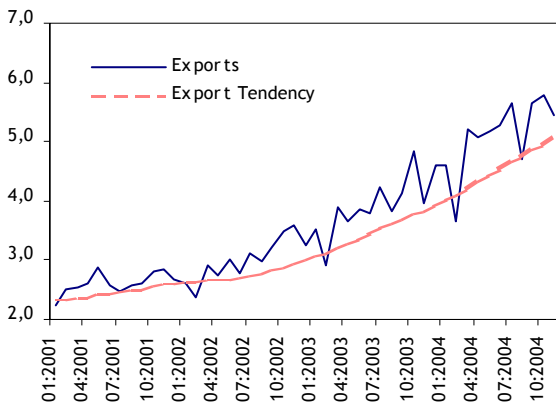
## II. EXPORTS

### General Evaluation

23. Exports rose by 37.3 percent in November 2004, compared to the same month of the previous year and reached USD 5.5 billion. The rate of increase in exports in the first eleven months of the year became 31.8 percent, while 12-month exports increased by 32.5 percent to reach USD 60.8 billion.

24. Growth in exports observed in 2003 also persisted in 2004, owing to the real decline in unit labor costs, as well as the upward trend in production. Meanwhile, the increase in productivity, the expansion tendency in the global economy and rising export prices backed this growth.

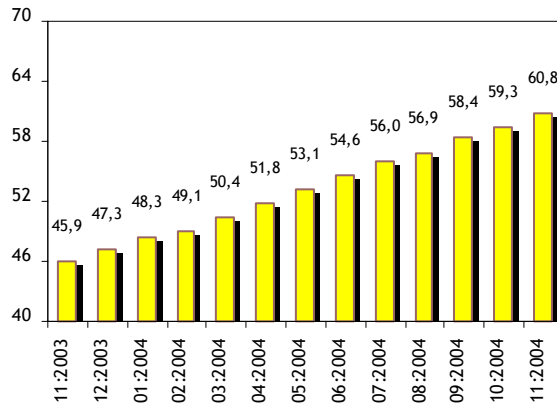
EXPORTS and EXPORTS TENDENCY<sup>i</sup>  
(USD billion)



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

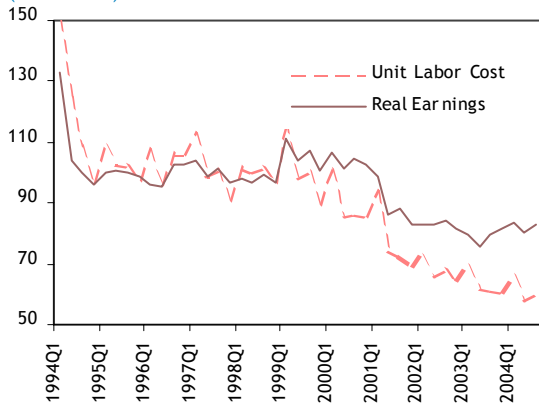
Source: SIS.

EXPORTS  
(12 month, USD billion)



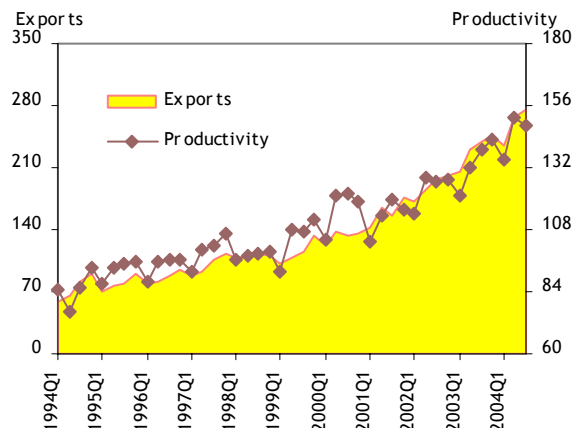
Source: SIS.

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



Source: SIS, CBRT.

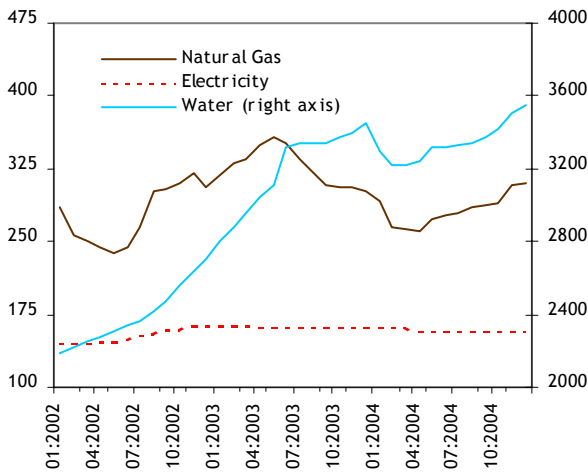
PRIVATE MANUFACTURING EXPORT AND  
PRODUCTIVITY INDICES (1997=100)



Source: SIS.

25. As of 2004, real energy prices maintained their downward trend that had been observed since early-2002. While electricity prices followed a steady course, natural gas and water prices rose, especially from the second quarter of 2004 onwards. Nevertheless, the prices are at lower levels compared to the previous year. Energy prices (Energy-WPI) fell by 1 percent on average in 2004, whereas wholesale prices (WPI) increased by 11.1 percent. Meanwhile, the price index of refined oil products and coke within the WPI, which can be considered as a leading indicator in terms of energy costs, rose by 9.1 percent on average in 2004.

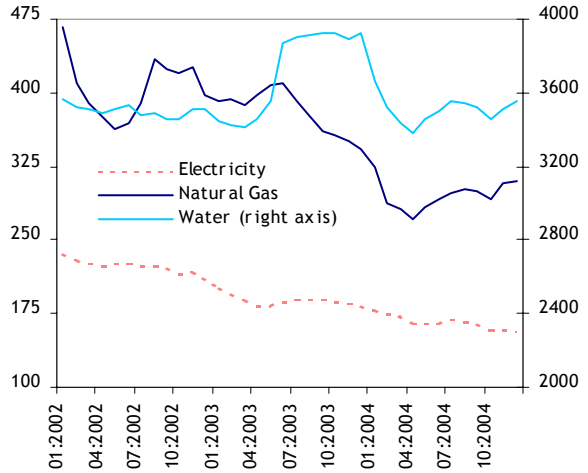
**ENERGY WHOLESALE PRICES<sup>i</sup>**  
(thousand TL)



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

Source: SIS.

**ENERGY REAL PRICES<sup>i</sup>**  
(thousand TL)

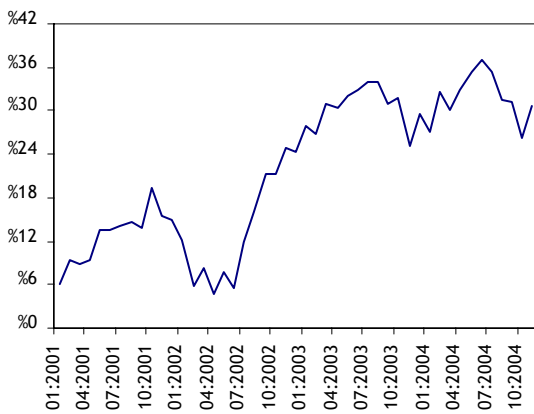


<sup>i</sup> Real prices are calculated by deflating electricity, gas and water unit prices with WTI values on December 2004=100 basis.

Source: SIS.

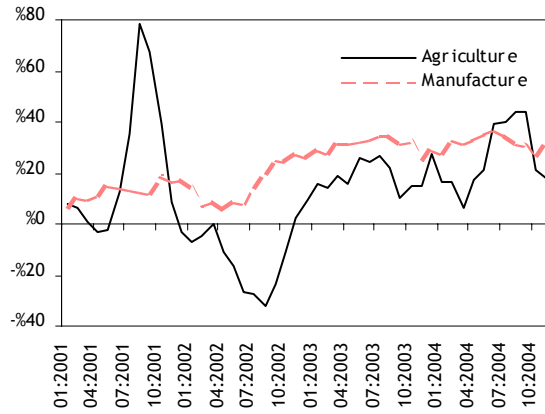
26. Eximbank has continued to support the exports sector in 2004. The interest rates applicable to export credits by Eximbank retreated in 2004. The interest rate reduction policy of Eximbank is expected to continue in 2005 as well. In fact, taking into account the decline foreseen in resource costs for 2005, Eximbank reduced short-term interest rates on loans on 3 January 2005.

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



Source: SIS.

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



Source: SIS.

27. The three-month trend of increase in rates of the manufacturing industry exports still maintains its high level, despite a decline in the August-October period. Exports tendency of agricultural products weakened significantly in October and November.

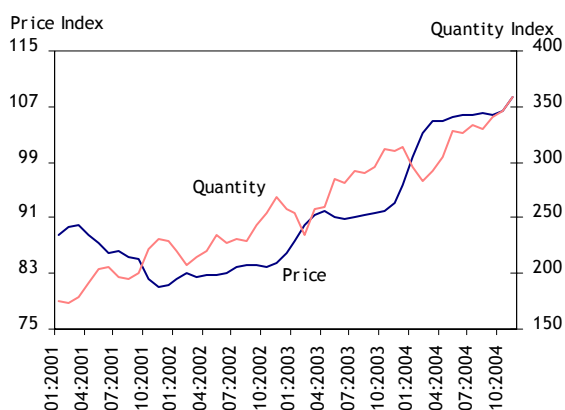
28. The groups of goods that made the major contribution to the boost in exports in the first eleven months of the year were motor vehicles and parts, iron and steel, electrical machinery and equipment, boilers-machinery-mechanical devices and exports of goods made of iron and steel, respectively. While the total contribution of these five items to the 31.8 percent-growth in exports amounted to 17.6-points, 6.1 points of this stemmed from the rise in exports of motor vehicles and spare parts.

EXPORTS (USD million)								
	November				January-November			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	3970	5452	37,3	..	42658	56227	31,8	..
Agriculture and Forestry	288	342	18,6	1,3	2177	2634	21,0	1,1
Fishing	6	18	202,7	0,3	56	86	53,3	0,1
Mining and Quarrying	45	51	11,5	0,1	428	569	32,9	0,3
Manufacturing	3611	5012	38,8	35,3	39763	52584	32,2	30,1
Other	19	29	55,8	0,3	234	353	51,0	0,3
Important Items:								
Edible fruit and nuts, peel of citrus fruits or melons	172	225	30,3	1,3	1215	1661	36,8	1,0
Preparations of vegetables, fruits and other plants	76	97	28,6	0,5	601	854	42,1	0,6
Salt, sulphur, earths and stone	59	63	8,0	0,1	680	822	21,0	0,3
Mineral fuels, mineral oils and products	61	100	65,2	1,0	868	1201	38,3	0,8
Plastics and articles thereof	78	117	49,3	1,0	833	1188	42,7	0,8
Cotton, cotton yarn and cotton fabrics	96	113	18,1	0,4	886	1101	24,2	0,5
Articles of apparel-clothing; knitted	463	482	4,2	0,5	5228	5646	8,0	1,0
Articles of apparel-clothing; not knitted	283	349	23,2	1,7	3494	4083	16,9	1,4
Other made-up textile articles, sets, worn clothing	140	169	20,5	0,7	1482	1676	13,1	0,5
Pearl and other precious stone and products	91	107	16,9	0,4	756	969	28,2	0,5
Iron and steel	182	452	148,3	6,8	2688	4728	75,9	4,8
Articles of iron and steel	119	187	57,6	1,7	1246	1951	56,6	1,7
Nuclear reactors, boilers, machinery	239	345	44,2	2,7	2689	3691	37,3	2,3
Electrical machinery and equipment	344	494	43,6	3,8	3040	4209	38,5	2,7
Motor vehicles and spare parts	491	723	47,1	5,8	4755	7337	54,3	6,1

Source: SIS.

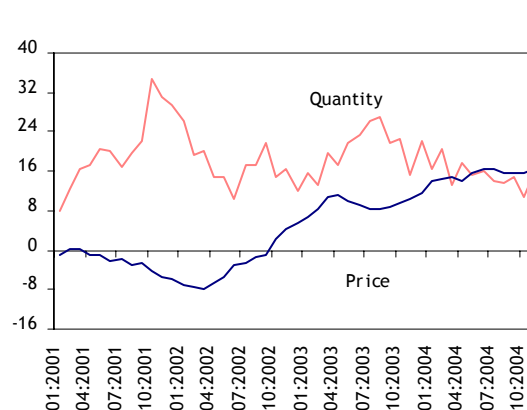
29. In 2004, the upward tendency of exports prices has been a main determinant of the nominal increase in exports. Thus, according to the 11-month averages, export prices rose by 15.9 percent as of November 2004. Excluding price movements, according to the calculations made on basis of quantity indices, the real growth in exports became 14.3 percent in the January-November period.

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



Source: SIS.

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



Source: SIS.

30. The increase in demand for steel led by China, the world's major steel importer, became the main determinant of the rise in steel prices in 2003 and 2004. Meanwhile, steel production in Turkey, which ranks 12th in world steel production, increased by 12 percent in 2004 compared to the previous year. In this context, favorable global demand and price conditions have had a remarkable effect on Turkey's iron and steel exports. Hence, the

annual rate of increase of iron and steel exports was realized as 75.9 percent in the January-November period, above the total rate of increase in total exports.

## EXPORTS: BY COUNTRY GROUPS (USD million)

	November					January-November				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	3970	..	5452	..	37,3	42658	..	56227	..	31,8
EU Countries	2204	55,5	3021	55,4	37,1	23458	55,0	30648	54,5	30,7
EU 15	2081	52,4	2849	52,3	36,9	22166	52,0	28975	51,5	30,7
EU 10	124	3,1	172	3,2	39,5	1292	3,0	1674	3,0	29,5
Other Countries	1585	39,9	2208	40,5	39,3	17479	41,0	23311	41,5	33,4
Turkey Free Trade Areas	180	4,5	223	4,1	23,7	1721	4,0	2267	4,0	31,7
Selected Countries and Country Groups										
OECD	2549	64,2	3484	63,9	36,7	27583	64,7	36147	64,3	31,0
Germany	640	16,1	715	13,1	11,8	6828	16,0	7901	14,1	15,7
UK	336	8,5	510	9,3	51,8	3324	7,8	4927	8,8	48,2
USA	274	6,9	363	6,7	32,6	3436	8,1	4405	7,8	28,2
Italy	275	6,9	429	7,9	56,3	2921	6,8	4102	7,3	40,5
France	245	6,2	305	5,6	24,2	2540	6,0	3289	5,8	29,5
Spain	149	3,7	235	4,3	58,0	1599	3,7	2315	4,1	44,8
Netherland	123	3,1	193	3,5	56,0	1370	3,2	1888	3,4	37,8
Other OECD	508	12,8	735	13,5	44,8	5567	13,1	7320	13,0	31,5
Middle East Countries	434	10,9	603	11,1	38,9	4548	10,7	6435	11,4	41,5
Russia	134	3,4	183	3,4	36,3	1241	2,9	1685	3,0	35,7

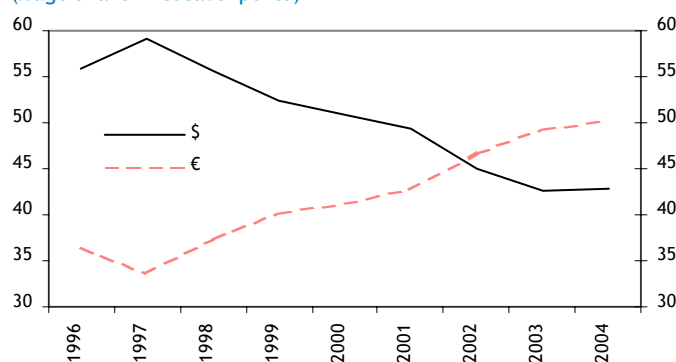
Source: SIS.

31. As of the January-November period of 2004, the share of exports to European Union countries slightly declined, whereas exports to Middle Eastern countries rose compared to the same period of 2003. The share of exports to Germany, an OECD country, which ranks first with respect to the foreign trade volume of Turkey, declined to 14.1 percent from 16 percent in this period. Meanwhile, England, Italy and Spain were the OECD countries whose share in exports from Turkey recorded the highest increase. Exports to Middle Eastern countries and Russia rose by 41,5 and 35,7 percent, respectively, and increased their share in exports.

32. The share of exports realized in terms of euro continue to increase. In the January-November period, 50.2 percent of overall exports were realized in terms of euro, while 42.9 percent of exports were realized in terms of USD. In 2003, the said ratios were 49.3 and 42.6, respectively.

## EXPORTS in US DOLLAR and EURO

(%age share in total exports)

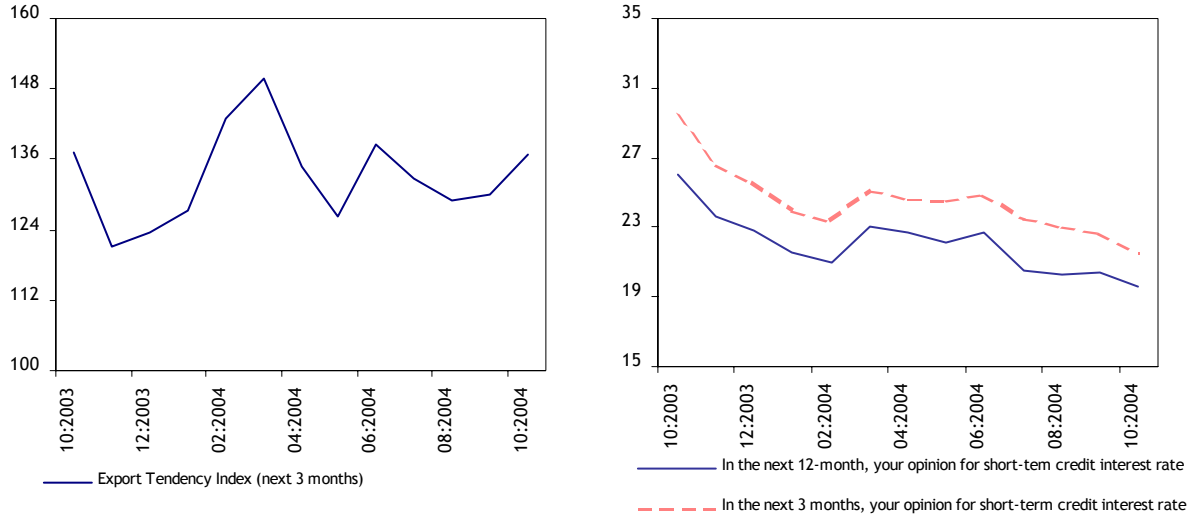


Source: SIS.

Outlook

33. According to the CBRT Business Tendency Survey, the exports tendency index, which is considered as an indicator for the next three months, improved in December compared to the previous month.

EXPORT EXPECTATIONS

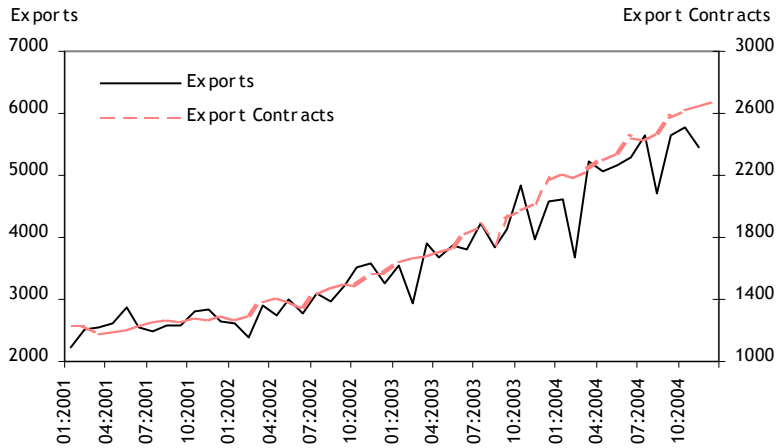


Source: CBRT Business Tendency Survey.

34. The deterioration in expectations for credit interest rates for the next three months and twelve months, which can be considered as the export financing cost indicator, ceased in May. However, the expectations reversed in September and the following months. Accordingly, the expected credit interest rates for the next three months and the next twelve months became 21.5 percent and 19.6 percent, respectively, in December.

35. The volume of export contracts subject to the inward processing regime grew by 23.1 percent in 2004 compared to the previous year. Meanwhile, imports subject to the inward processing regime grew by 26.8 percent.

EXPORT CONTRACTS BY INWARD PROCESSING REGIME  
(12 months moving average) and  
TOTAL EXPORTS (millions US dollars)

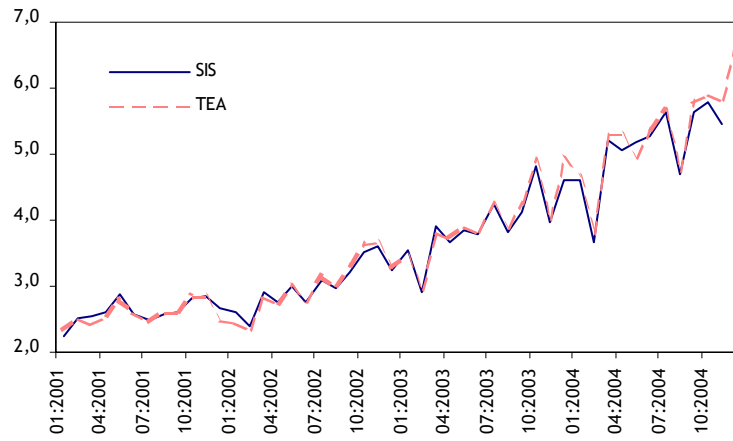


Source: UFT, SIS.

36. According to data issued by the Turkish Exporters' Assembly (TEA), exports grew by 36.7 percent and reached USD 6.7 billion in December. Hence, exports reached USD 64 billion in 2004. The daily export data for the first three weeks of January 2005 point to an ongoing high rise in exports.



## EXPORTS: SIS-TEA COMPARISON (USD billion)



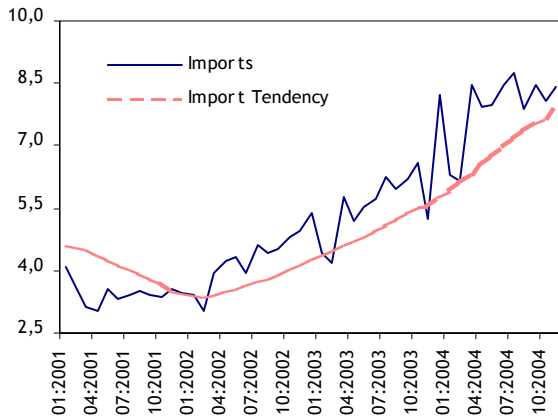
Source: SIS, TEA.

### III. IMPORTS

#### General Evaluation

37. In November 2004, imports increased by 60.4 percent compared to the same period of the previous year and became USD 8.4 billion. Hence, imports reached USD 86.8 billion in January-November 2004, while twelve-month imports became USD 95.1 billion with a 43 percent rise.

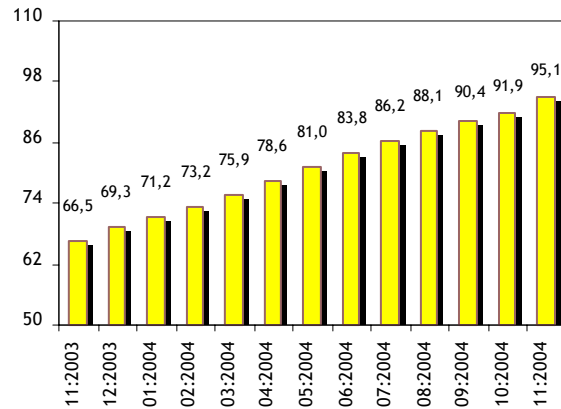
IMPORTS and IMPORTS TENDENCY<sup>i</sup>  
(USD billion)



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

Source: SIS.

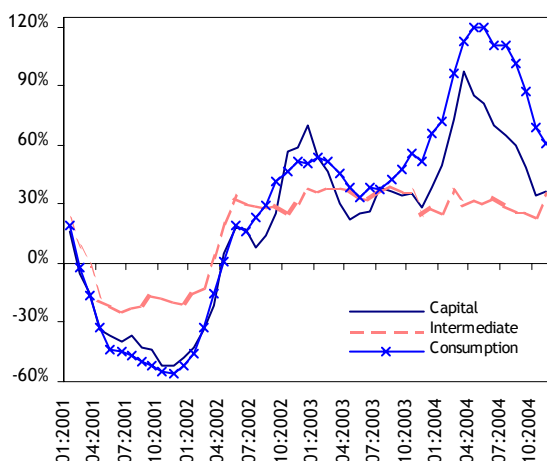
IMPORTS  
(12 month, USD billion)



Source: SIS.

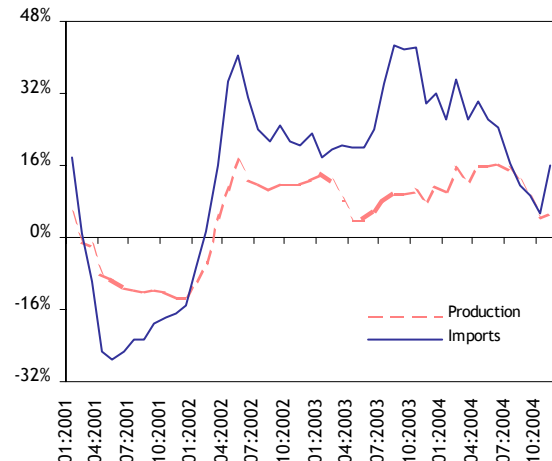
38. The upsurge in investment expenditures as well as the increase in domestic industrial production and consumption demand provided a further boost to the imports in 2004. Moreover, the upward trend in import prices pushed up the imports during the same period.

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



Source: SIS.

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



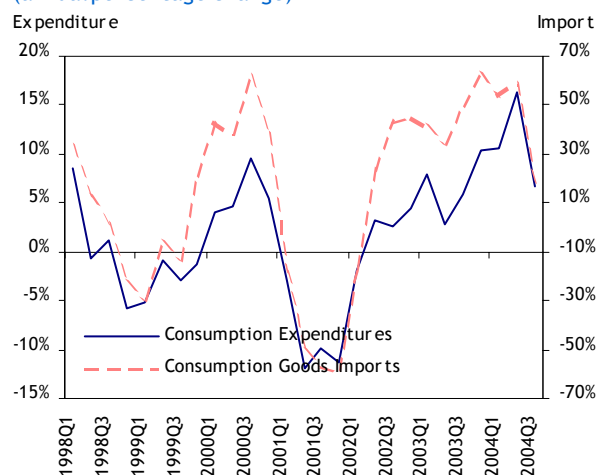
Source: SIS.

39. The rate of increase observed in imports of intermediate goods, which slowed down compared to overall imports in the January-November period, climbed swiftly in November compared to past months. Meanwhile, imports of capital goods and consumption goods, which increased their share in overall imports in 2004, started to decrease as of the second half of the year. Due to the satisfaction of the delayed demand and other certain measures, automobile imports, which holds the largest share in consumption goods import, only

managed to rise by 6.1 percent in the last two months of the year compared to the same period of the previous year. Thus, automobile imports grew by 166.5 percent in the first nine months of the year. Whereas imports of durable goods, semi-durable goods and non-durable goods increased by 78.5 percent, 72.6 percent and 50.1 percent, respectively.

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

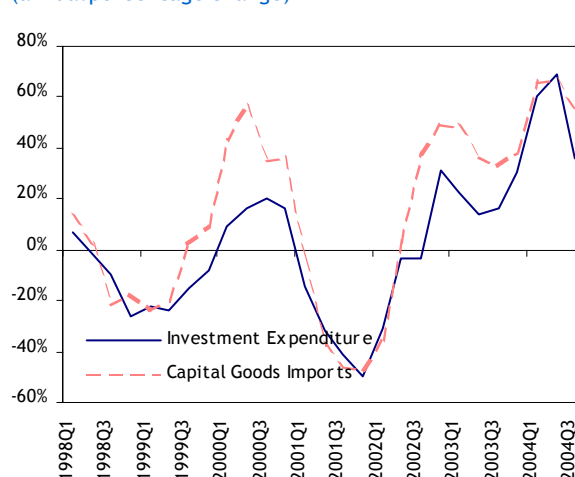
(annual percentage change)



Source: SIS.

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

(annual percentage change)



Source: SIS.

40. The groups of goods that made the major contribution to the boost in imports in January-November 2004, were motor vehicles and parts, boilers-machinery-mechanical devices and electrical machinery and equipment, iron and steel imports and imports of mineral fuel and oil, including crude oil. While the contribution of these five items to the 42.1 percent growth in imports amounted to 25.4-points, 7.8 points of this contribution stemmed from the rise in imports of motor vehicles and parts.

#### IMPORTS (USD million)

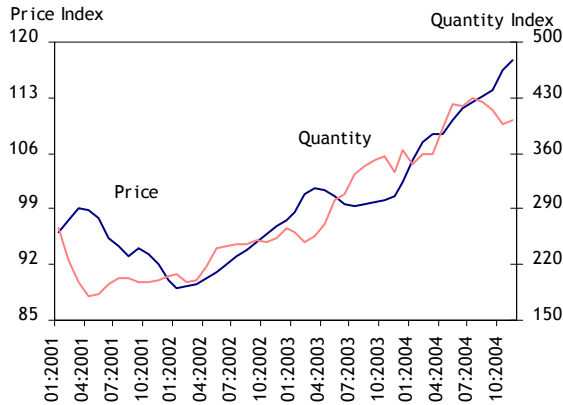
	November				January-November			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
<b>Total</b>	5245	8414	60,4	..	61105	86824	42,1	..
Capital Goods	873	1432	64,1	10,7	9443	15278	61,8	9,5
Intermediate Goods	3630	5815	60,2	41,7	44768	58626	31,0	22,7
Consumption Goods	696	1127	62,0	8,2	6497	12446	91,5	9,7
Other	46	39	-14,9	-0,1	397	475	19,6	0,1
<b>Important Items:</b>								
Mineral fuels,mineral oils & products of their dist.	952	1330	39,8	7,2	10437	12671	21,4	3,7
Crude Oil	390	593	52,2	3,9	4413	5572	26,3	1,9
Organic chemicals	159	256	61,1	1,9	2107	2665	26,5	0,9
Pharmaceutical products	155	231	48,9	1,4	1815	2480	36,6	1,1
Plastics and articles thereof	226	442	95,4	4,1	2874	4277	48,8	2,3
Paper and paperboard	83	138	66,0	1,0	1045	1370	31,2	0,5
Cotton, cotton yarn and cotton fabrics	102	164	61,0	1,2	1486	1800	21,1	0,5
Pearl, other precious stone and products	72	224	209,8	2,9	2596	3357	29,4	1,2
Iron and Steel	370	779	110,3	7,8	4237	6925	63,5	4,4
Nuclear reactors, boilers, machinery	732	1185	61,9	8,6	8722	11835	35,7	5,1
Electrical Machinery and Equipment	437	752	72,0	6,0	4819	7484	55,3	4,4
Motor Vehicles and Spare Parts	615	893	45,2	5,3	4381	9176	109,4	7,8
Aircraft, spacecraft and parts thereof	18	24	32,7	0,1	142	1192	740,5	1,7
Optical, photographic, measuring instruments	103	170	65,4	1,3	1149	1647	43,3	0,8

Source: SIS.

41. In 2004, the upward trend in import prices has been an important determinant of the nominal increase in imports. According to the 11-month averages, imports prices rose

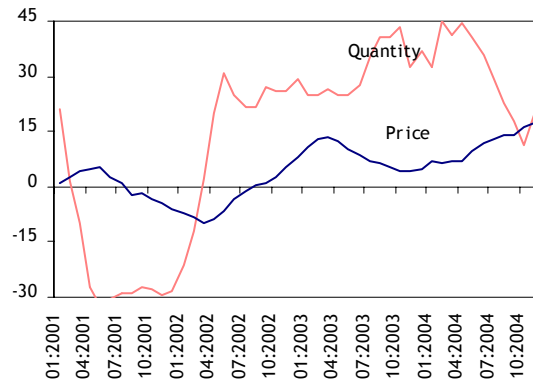
by 12.2 percent in November 2004. Excluding price movements, according to calculations made on basis of quantity indices, real growth in imports became 28.6 percent in the January-November period.

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



Source: SIS.

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



Source: SIS.

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

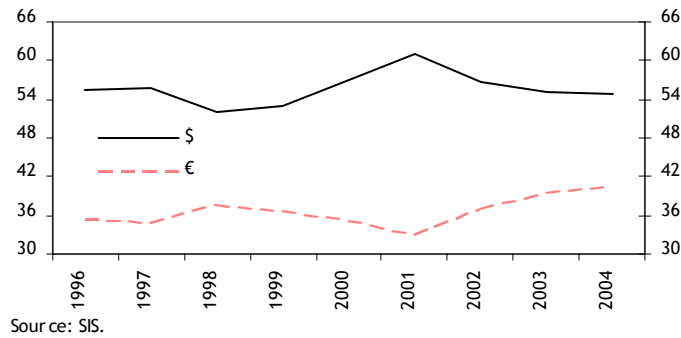
**IMPORTS: BY COUNTRY GROUPS (USD million)**

	November					January-November				
	2003		2004		% Change	2003		2004		% Change
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	5245	..	8414	..	60,4	61105	..	86824	..	42,1
EU Countries	2559	48,8	3897	46,3	52,2	29182	47,8	40830	47,0	39,9
EU 15	2425	46,2	3631	43,2	49,8	27593	45,2	38135	43,9	38,2
EU 10	135	2,6	266	3,2	97,1	1589	2,6	2696	3,1	69,6
Other Countries	2641	50,4	4453	52,9	68,6	31397	51,4	45257	52,1	44,1
Turkey Free Trade Areas	44	0,8	65	0,8	46,4	526	0,9	737	0,8	40,1
Selected Countries and Country Groups										
OECD	3187	60,8	4962	59,0	55,7	38431	62,9	53436	61,5	39,0
Germany	731	13,9	1069	12,7	46,2	8120	13,3	11167	12,9	37,5
Italy	413	7,9	596	7,1	44,2	4805	7,9	6157	7,1	28,1
France	349	6,7	529	6,3	51,7	3601	5,9	5697	6,6	58,2
USA	204	3,9	310	3,7	52,5	3127	5,1	4209	4,8	34,6
United Kingdom	242	4,0	380	4,8	71,0	3143	4,2	3885	5,3	68,5
Switzerland	142	2,7	250	3,0	76,3	2721	4,5	3040	3,5	11,7
Spain	165	4,0	276	4,8	71,0	1719	4,2	2913	5,3	68,5
Japan	135	4,0	225	4,8	71,0	1662	4,2	2384	5,3	68,5
Korea	107	2,0	245	2,9	130,1	1132	1,9	2291	2,6	102,4
Other OECD	699	13,3	1082	12,9	54,7	9532	15,6	13983	16,1	46,7
Middle East Countries	296	5,6	502	6,0	69,8	3972	6,5	4660	5,4	17,3
Russia	560	10,7	777	9,2	38,8	4793	7,8	7751	8,9	61,7
China	207	3,9	396	4,7	91,4	2236	3,7	3936	4,5	76,0
Ukraine	99	1,9	242	2,9	144,0	1172	1,9	2194	2,5	87,3

Source: SIS.

43. In the January-November period, 40.5 percent of overall imports were realized in terms of euro, while 54.8 percent of imports were realized in terms of USD. In 2003, the said ratios were 39.7 and 55.1, respectively.

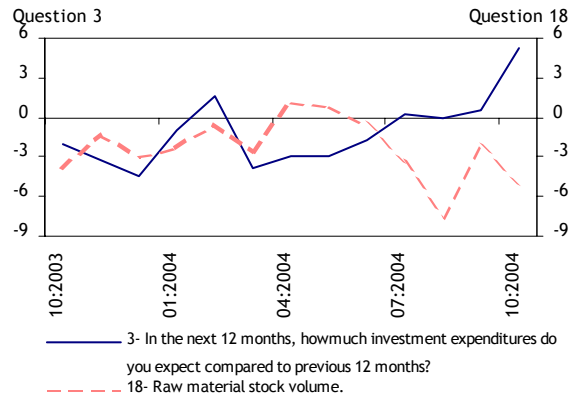
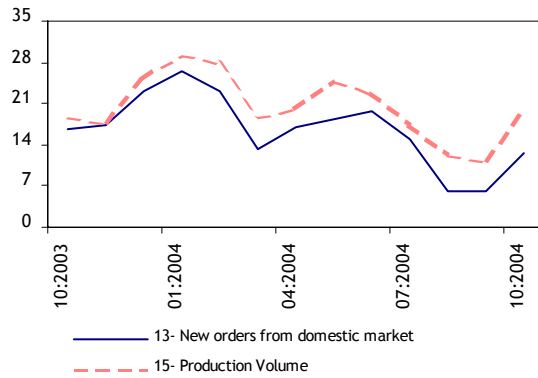
**IMPORTS in US DOLLAR and EURO**  
(%age share in total imports)



**Outlook**

44. Analyzing the domestic demand tendency in the next period according to December results of the CBRT Business Tendency Survey, expectations for production volume and orders to be received from the domestic market improved. The investment expenditure tendency slightly increased.

**IMPORT EXPECTATIONS**



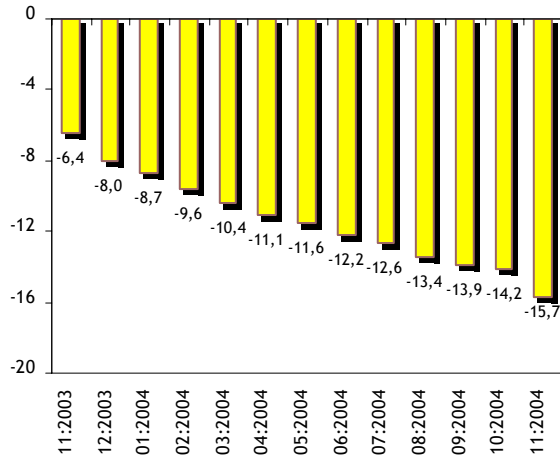
Source: CBRT Business Tendency Survey.

#### IV. CURRENT ACCOUNT

45. The current account balance produced a deficit of USD 2 billion in November and a deficit of USD 12.7 billion in the January-November period. Thus, the twelve-month current account deficit was realized as USD 15.7 billion.

##### CURRENT ACCOUNT BALANCE

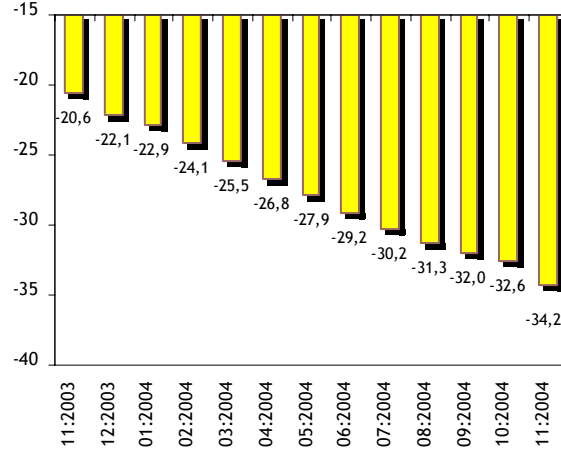
(12 month, USD billion)



Source: CBRT.

##### FOREIGN TRADE BALANCE

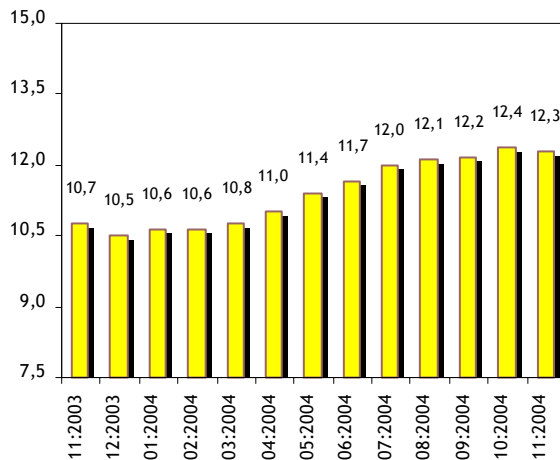
(12 month, USD billion)



Source: CBRT.

##### SERVICES BALANCE

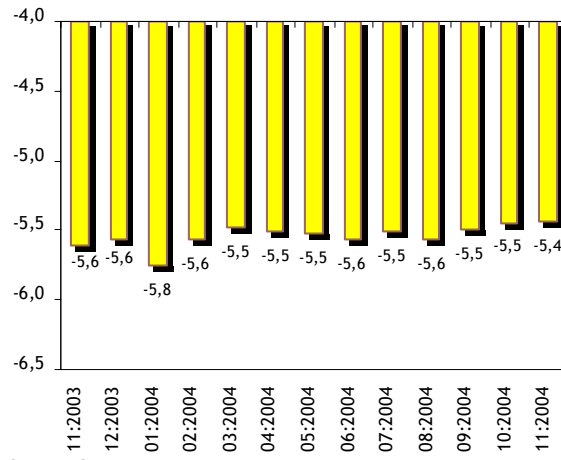
(12 month, USD billion)



Source: CBRT.

##### INVESTMENTS REVENUES BALANCE

(12 month, USD billion)



Source: CBRT.

46. Foreign trade developments were the main determinant of the current account deficit of the first eleven months of 2004. The services balance, which was realized as USD 10.4 billion in the January-November 2003 period, reached USD 12.2 billion during the same period of this year as a result of the substantial increase in tourism revenues. Meanwhile, the investment revenues balance recorded a moderate decline compared to the previous year and produced a deficit of USD 5.1 billion. Current transfers increased by 11.8 percent compared to last year due to the increase in workers' remittances and official transfers and reached USD 1 billion.

47. The revenues from shuttle trade, which had increased by 12.2 percent in the first half of 2004, declined by about 5.5 percent in the last five months of the year.

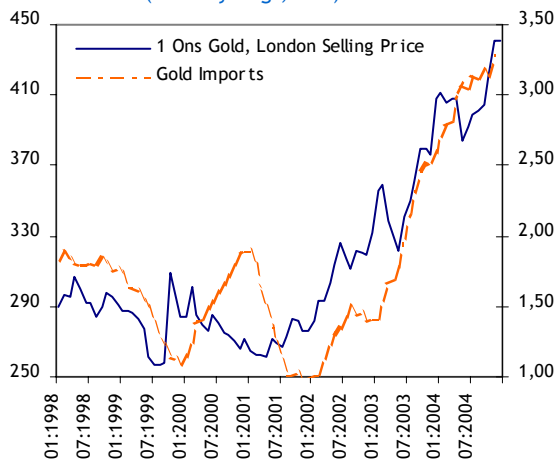
CURRENT ACCOUNT (USD million)													
	2003												2004
	Jan-Nov	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Jan-Nov
Current Account Balance	-5098	-939	-2214	-2186	-1705	-1329	-1483	-739	22	92	-231	-2029	-12741
Foreign Trade Balance	-11210	-970	-1795	-2256	-1918	-1860	-2234	-2173	-2267	-1967	-1362	-2090	-20892
Total Exports	46257	4872	3945	5558	5430	5539	5597	5885	5063	5999	6217	5826	59931
Total Imports	-57467	-5842	-5740	-7814	-7348	-7399	-7831	-8058	-7330	-7966	-7579	-7916	-80823
Services Balance	10383	390	159	393	560	1011	1000	1750	2759	2226	1395	543	12186
Credit	17896	1125	914	1190	1429	1819	1960	2752	3674	3381	2300	1586	22130
Debit	-7513	-735	-755	-797	-869	-808	-960	-1002	-915	-1155	-905	-1043	-9944
Income Balance	-5187	-458	-638	-390	-424	-557	-391	-443	-577	-281	-333	-567	-5059
Credit	2001	271	229	268	147	183	181	234	197	223	181	218	2332
Debit	-7188	-729	-867	-658	-571	-740	-572	-677	-774	-504	-514	-785	-7391
Current Transfers	916	99	60	67	77	77	142	127	107	114	69	85	1024
Wokers' Remittances	662	81	54	58	63	64	54	70	83	84	58	70	739
<b>Memo items:</b>													
Shuttle Trade	3599	256	280	341	358	369	316	247	369	357	437	374	3704
Non Monetary Gold (net)	-2378	-212	-298	-280	-357	-224	-218	-442	-297	-299	-206	-200	-3033
Travel Revenues	12713	602	503	608	773	1165	1332	2154	3024	2483	1642	810	15096
Interest Income	559	41	64	49	39	58	64	47	52	68	62	85	629
Interest Expenditure	-4226	-219	-412	-310	-262	-447	-282	-264	-576	-328	-309	-555	-3964

Source: CBRT.

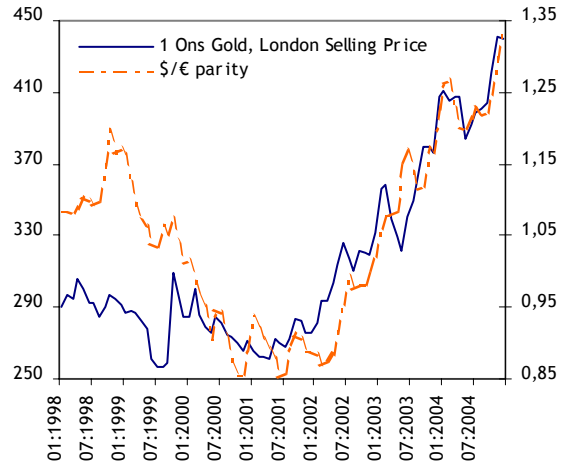
48. The upward trend observed in gold prices in 2003 has continued in 2004 as well. Investors' demand for gold has been increasing in recent months, especially combined with the depreciation of the USD against currencies of other developed countries.

**GOLD IMPORTS**

(12-months, billion USD) and

**GOLD PRICES (monthly avg., USD)**

Kaynak: TCMB, DIE.

**USD/EUR PARITY and****GOLD PRICES (monthly avg., USD)**

49. The effects of the increase in gold prices have been seen in Turkey's gold imports. Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to the previous year, rose by 27.7 percent in the first eleven months of 2004. This increase mainly stems from the price change. The price of gold per ounce rose by 15 percent in the said period compared to the previous year.

50. Based on the figures announced by the SIS, tourism revenues increased by 20.3 percent in 2004 and reached USD 15.9 billion. In the said period, the number of departing tourists rose by 24.3 percent. Average per capita expenditure of tourists declined to USD 784 in 2004 from USD 810 of 2003.

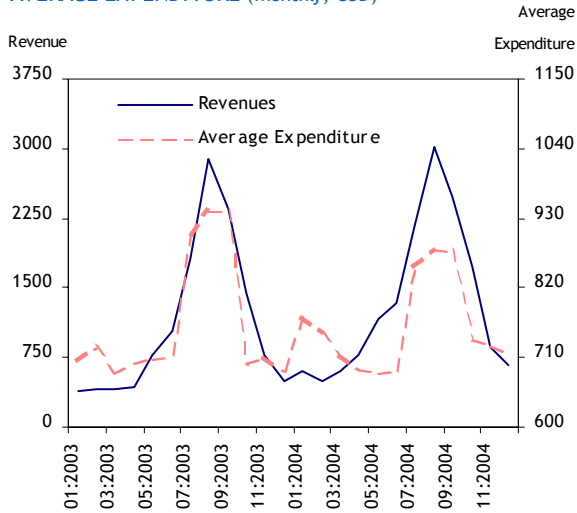
## TRAVEL REVENUES

	2003	2003				2004				2004
	Jan-Dec	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Jan-Dec
Travel Revenues (USD million)	13203	1201	2259	7032	2711	1713	3270	7661	3244	15888
Number of Visitors (thousand)	16302	1702	3186	7549	3866	2299	4747	8786	4432	20263
Average Spending (USD)	810	706	709	931	701	745	689	872	732	784

Source: SIS.

51. According to the data on Departing Visitors from Turkey compiled by SIS, USD 12.1 billion of the tourism revenues were obtained from foreign visitors, while USD 3.8 billion came from the visits of Turkish citizens living abroad.

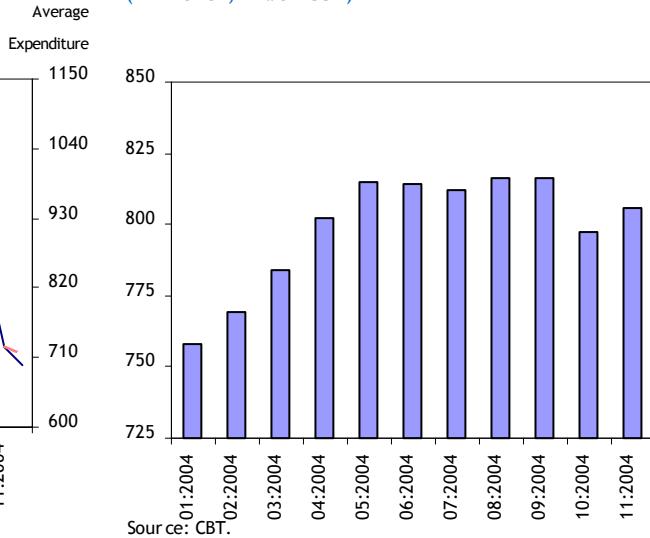
TRAVEL REVENUES (monthly, billion USD),  
AVERAGE EXPENDITURE (monthly, USD)



Source: SIS.

Kaynak: TCMB, DIE.

WORKERS REMITTANCES: Private  
(12-month, million USD)



Source: CBT.

52. The investment revenues account yielded a deficit of USD 5.1 billion in January-November 2004. Portfolio investments and interest expenditures were the main determining factors in this deficit. Interest expenditures declined during this period compared to 2003. This decline mainly resulted from the fall in interest expenditures of the sectors excluding the Central Bank, the Government and banks.

53. Workers' remittances, which were USD 662 million for the first eleven months of 2003, were realized as USD 739 million during the same period of this year.



## V. CAPITAL MOVEMENTS

54. The finance account yielded a deficit of USD 749 million in November 2004. Excluding IMF loans and official reserve changes, there was a net capital outflow of USD 137 million in November. Net capital inflow adds up to USD 12.6 billion in the January-November period and 14.7 billion in the twelve-month period.

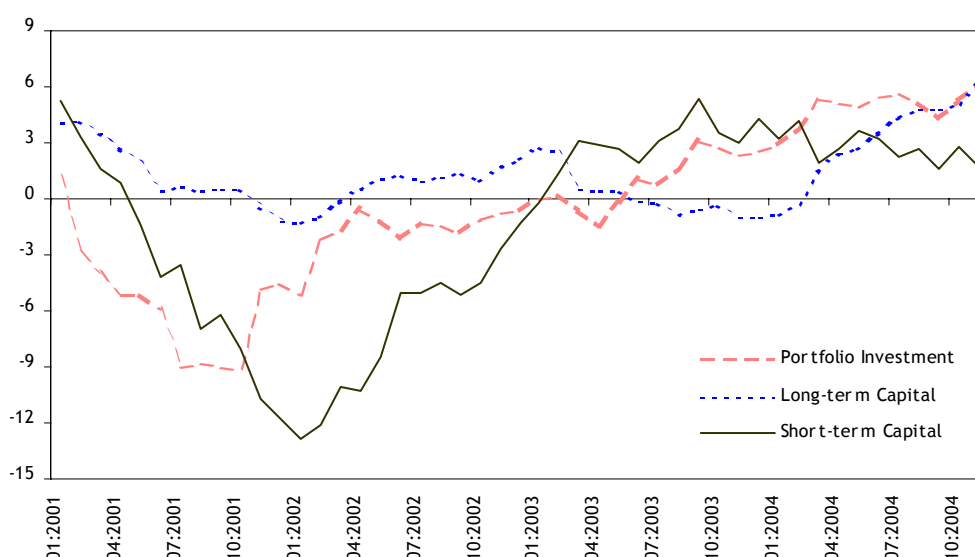
55. In the January-November period, a capital inflow of USD 1.3 in direct investments, USD 4.9 billion in portfolio investments and USD 3.3 billion in other investments were recorded against a current account deficit of USD 12.7 billion. While official reserves rose by USD 0.7 billion during this period, net errors and omission items yielded a surplus of USD 3.8 billion.

### CAPITAL AND FINANCIAL ACCOUNT (USD billion)

	2003										2004
	Jan-Nov	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Jan-Nov
Capital and Financial Account	1987	52	323	1241	45	1961	-16	-507	-72	749	8943
Financial Account	1987	52	323	1241	45	1961	-16	-507	-72	749	8943
Direct Investments	1066	-11	18	105	304	260	40	151	-4	3	1329
Portfolio Investments	2167	341	-193	195	1010	17	103	333	1025	397	4940
Other Investments	1384	-388	1900	-167	-502	377	1066	-291	-520	-1030	3333
Reserve Assets	-2630	110	-1402	1108	-767	1307	-1225	-700	-573	1379	-659
Net Errors & Omissions	3111	2134	1382	88	1438	-1222	-6	415	303	1280	3798
<i>Memorandum items:</i>											
Long-term	-1207	489	973	349	473	1050	324	210	286	852	5814
Short-term	3021	-416	686	-83	-518	-450	561	-45	-584	-1389	558
IMF credit	-430	-461	241	-433	-457	-223	181	-456	-222	-493	-3039

Source: CBRT.

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



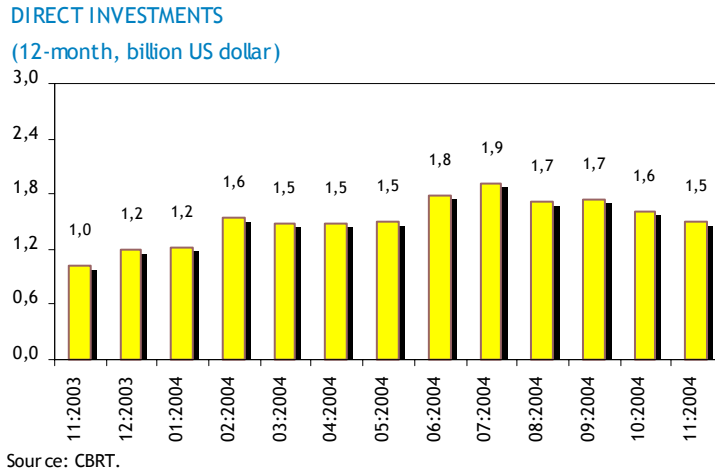
Source: CBRT.

56. The analysis of capital flows by maturities reveal that the share of long-term capital inflows has been increasing, especially since the second quarter of the year. USD 0.6 billion of the capital inflow <sup>1</sup>registered in the first eleven months of the year came from short-term

<sup>1</sup> Excluding direct and portfolio investments.

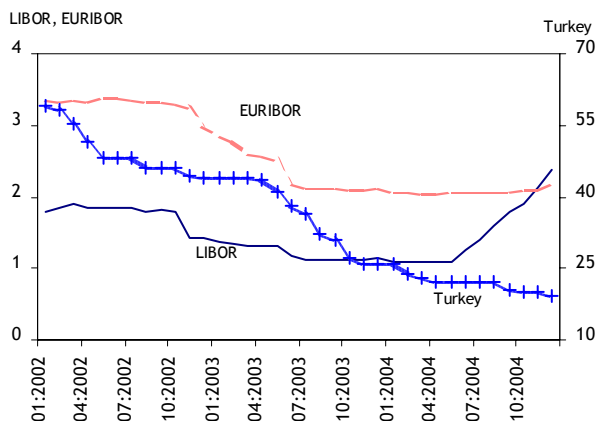
maturities, while USD 5.8 billion was of a long-term nature. Long-term credits used by the banking sector and private sectors excluding the banking sector became the determining factor in long-term capital movements, while short-term credits used by the banks were effective in short-term capital movements.

57. In the first eleven months of 2004, net direct investments amounting to USD 1.3 billion originated mainly from non-residents' capital investments and real estate purchases in Turkey. Meanwhile, net direct investments residents made abroad increased by 79 percent compared to the same period of the previous year and reached USD 788 million. Besides, long-term credits extended to foreign companies by their affiliates abroad, which are registered under other capital item and considered as direct investment, became net USD 305 million.

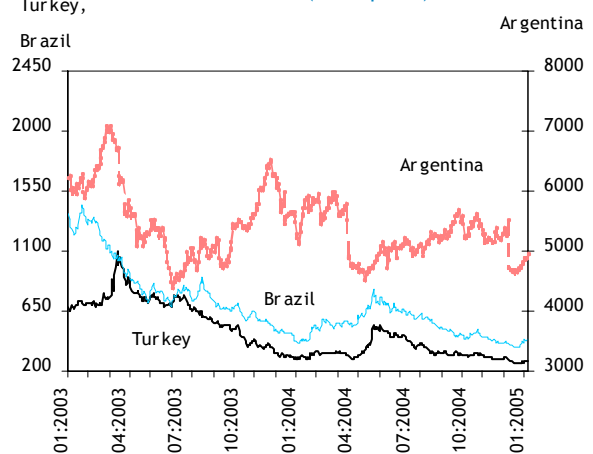


58. While the upward trend in LIBOR interest rates observed in line with the FED policy of interest rate hikes continues as of the last quarter of the year, EURIBOR interest rates follow a steady course. Spreads, which widened especially in the developing countries in May, started to re-shrink in June.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

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

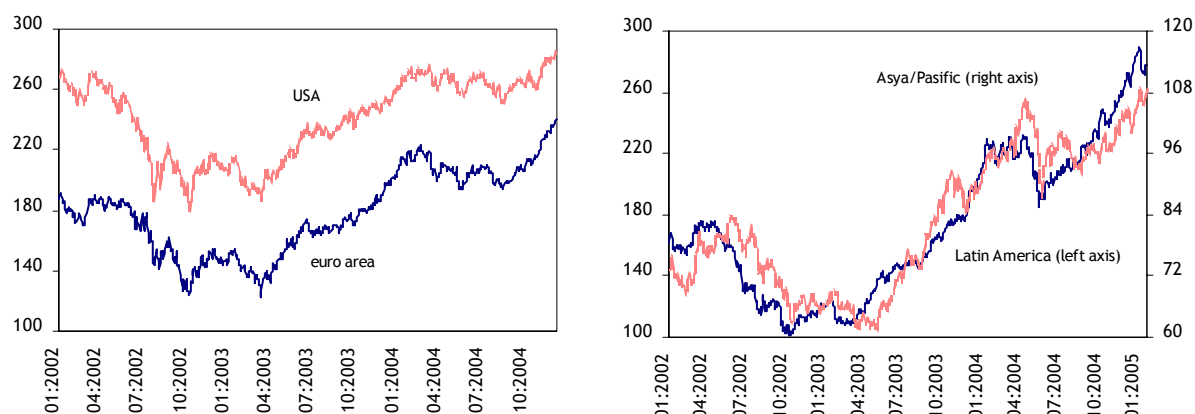


**SECONDARY MARKET SPREADS (basis point)**



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

## DOW JONES EQUITY PRICE INDICES



Source: Dow Jones.

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

60. The O/N borrowing interest rate, which was 26 percent at the start of 2004, has been cut four times throughout the year as a result of the decline in inflation expectations, the favorable course of relationships with the European Union and the IMF and according to assumptions that there would be no deviations from fiscal discipline and structural reforms. The short-term interest rates applicable at Interbank Money Market and ISE Repo/Reverse Repo Market, which were cut by the CBRT on 20 December 2004, were further reduced on 11 January 2005. Accordingly, the O/N borrowing interest rate declined to 17 percent from 18 percent, while the lending interest rate dropped to 21 percent from 22 percent.

## PORTFOLIO INVESTMENT (monthly, USD million)

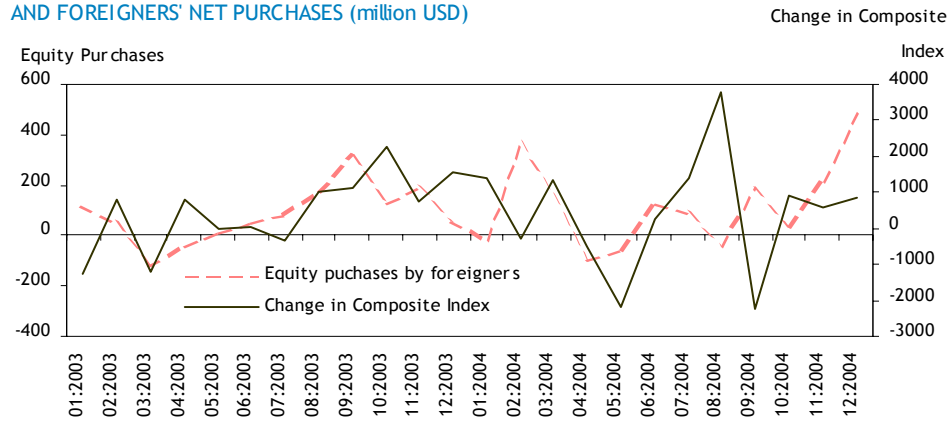
	2003	2004										2004
	Jan-Nov	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Jan-Nov	
Portfolio Investment	2167	341	193	195	1010	17	103	333	1025	397	4940	
Assets	-1197	512	273	56	-145	-180	-317	-401	-505	-253	-1332	
General Government	-28	0	-6	-5	-4	-5	0	-2	-1	0	-23	
Banks	-705	346	427	157	-21	-37	-344	-303	-309	-346	-265	
Other Sectors	-464	166	-148	-96	-120	-138	27	-96	-195	93	-1044	
Liabilities	3364	-171	-466	139	1155	197	420	734	1530	650	6272	
Equity Securities	952	157	-96	-60	131	90	-47	183	37	212	953	
Debt Securities	2412	-328	-370	199	1024	107	467	551	1493	438	5319	
General Governme	2589	-328	-370	199	1024	107	467	551	1493	438	5319	
In Turkey	1080	896	-370	199	274	616	467	-178	493	438	3360	
Abroad	1509	-1224	0	0	750	-509	0	729	1000	0	1959	
Banks	-177	0	0	0	0	0	0	0	0	0	0	

Source: CBRT.

61. Turkish bonds appreciated in 2004 as a result of the favorable outlook in foreign markets about the Turkish economy. In line with these favorable developments, the Treasury had the chance to borrow from foreign markets through six bond auctions with a record-low cost. In 2004, the Treasury held USD 5.8 billion worth of bond auction and made a bond repayment of USD 3.8 billion. Subsequently, the Treasury held a new bond auction amounting to USD 2 billion in January 2005. One third of the borrowing program for 2005 has been met with this 20-year-maturity bond auction.

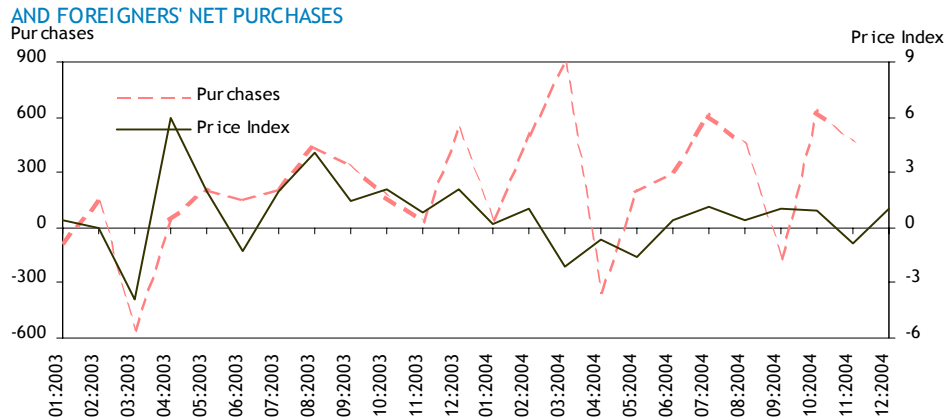
62. In 2004, there has been a significant increase in non-residents' purchases of securities in Turkey. These purchases were mainly composed of government securities. In the January-November period, non-residents' net purchases of equities in the Istanbul Stock Exchange and net purchases of government securities are realized as USD 953 million and USD 3.4 billion, respectively. Meanwhile, according to ISE data, non-residents purchased net USD 475 million worth of equities in December.

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



Source: ISE.

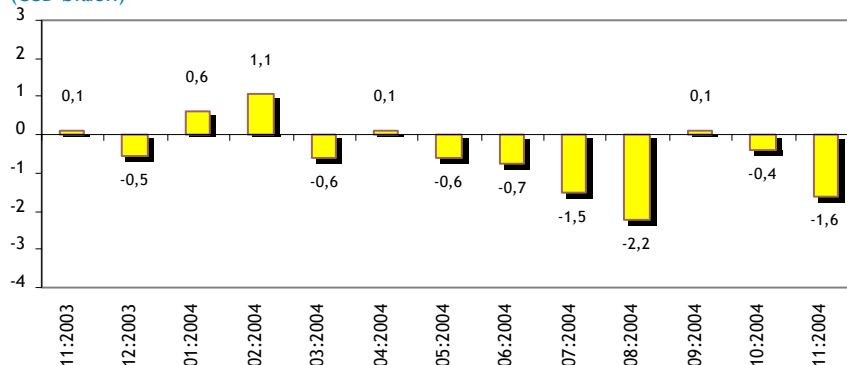
GOVERNMENT DEBT SECURITY PRICES (monthly %age change)  
AND FOREIGNERS' NET PURCHASES



Source: ISE.

63. Despite its volatile course in the first eleven months of the year, the FX-holdings item composed of current and deposit accounts that are held by the banks with their correspondent banks abroad increased throughout 2004. In the first eleven months, FX assets of banks rose by net USD 5.8 billion leading to a capital outflow of the same amount.

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

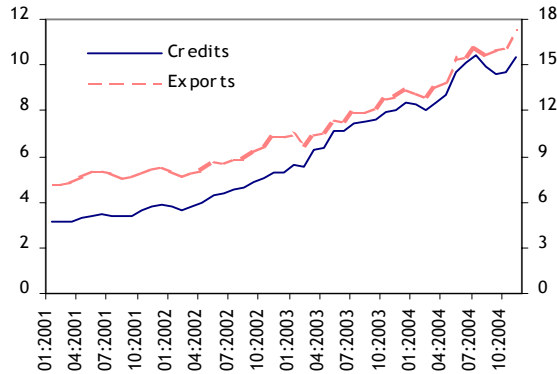


Source: CBRT.

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

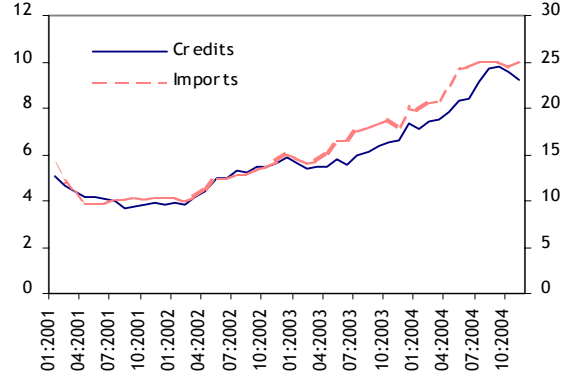
64. Rapid growth in foreign trade volume stimulated commercial credit utilization as well. In the January-November period, the volume of exports increased by 31.8 percent, while the volume of commercial credits extended abroad expanded by 32 percent. Similarly, commercial credit utilization boosted by 45.9 percent in the same period, while imports grew by 42.1 percent.

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



Source: CBRT, SIS.

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



Source: CBRT, SIS.

65. In 2004, the Central Bank continued to repay the IMF loans used in 2001 and earlier. Thus, the total amount repaid in the first eleven months of the year reached USD 3.9 billion.

66. The banking sector maintained its tendency to meet its financing needs through short-term credits in 2004. However, financing through long-term credits increased significantly as well. USD 2.1 billion of the USD 5.3 billion worth of credit used in the January-November period belonged to long-term credits while USD 3.1 billion of it was of short-term nature.

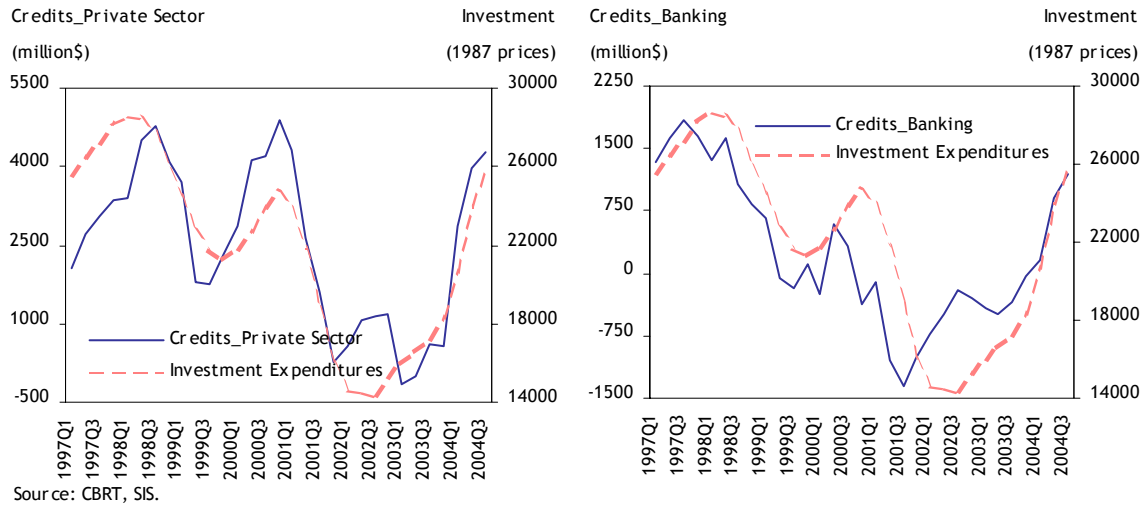
OTHER INVESTMENTS (monthly, USD million)

	2003	2004										2004
	Jan-Nov	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Jan-Nov	
Diğer Yatırımlar	1384	-388	1900	-167	-502	377	1066	-291	-520	-1030	3333	
Varlıklar	-249	-1310	-274	-840	-1095	-1324	-1743	-69	-619	-1678	-6587	
Ticari Krediler	-752	-640	-379	-165	-399	61	665	-176	-358	36	-959	
Krediler	-392	-17	30	-44	82	152	-136	53	170	-122	496	
Bankaların Döviz Varlıkları	1256	-619	111	-594	-746	-1512	-2235	90	-387	-1555	-5752	
Yükümlülükler	1633	922	2174	673	593	1701	2809	-222	99	648	9920	
Ticari Krediler	1559	695	466	323	369	694	452	207	141	-182	3429	
Krediler	-1261	236	1682	303	-125	1157	1811	-230	-199	1169	6149	
Merkez Bankası	-1356	-461	-194	-433	-457	-156	-481	-456	-155	-493	-3935	
Genel Hükümet	-1001	-286	664	-222	-324	477	552	-157	-279	-193	-42	
IMF Kredileri	926	0	435	0	0	-67	662	0	-67	0	896	
Uzun Vade	-1927	-286	229	-222	-324	544	-110	-157	-212	-193	-938	
Bankalar	578	126	527	399	319	309	1216	95	-80	1838	5276	
Uzun Vade	-101	-150	37	50	506	26	20	172	279	1024	2148	
Kısa Vade	679	276	490	349	-187	283	1196	-77	-359	814	3128	
Diğer Sektörler	518	857	6685	559	337	527	524	288	315	17	4850	
Uzun Vade	231	832	635	537	317	459	341	244	269	48	4365	
Kısa Vade	287	25	50	22	20	68	183	44	46	-31	485	
Mevduatlar	1227	-12	16	25	316	-182	515	-230	148	-339	183	
Merkez Bankası	491	-5	-20	-36	-19	36	7	-66	-53	-47	-192	
Uzun Vade	-262	-20	-28	-34	-25	22	-4	-62	-48	-40	-270	
Kısa Vade	753	15	8	-2	6	14	11	-4	-5	-7	78	
Bankalar	736	-7	36	61	335	-218	508	-164	201	-292	375	

Source: CBRT.

67. Long-term credit utilization in banking and private sectors rose significantly. While long-term credit utilization of the banking sector tripled in the first eleven months of the year, the increase was 41 percent in the private sector in the said period. The upward trend in long-term credit utilization in the private sector, which has been observed since 2003, confirms that investment expenditures maintain their high level.

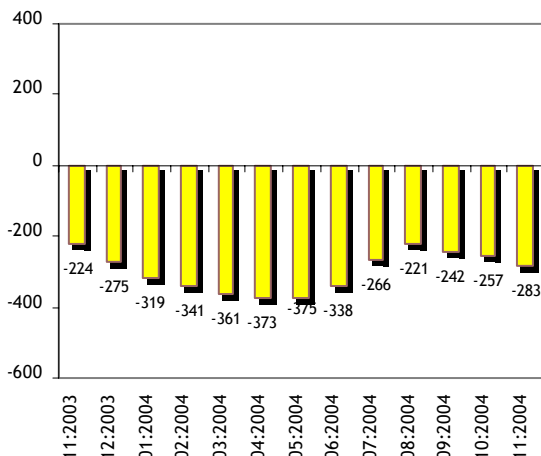
**LONG-TERM NET CREDIT DRAWINGS and PRIVATE SECTOR INVESTMENT EXPENDITURES (12-month cumulative)**



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

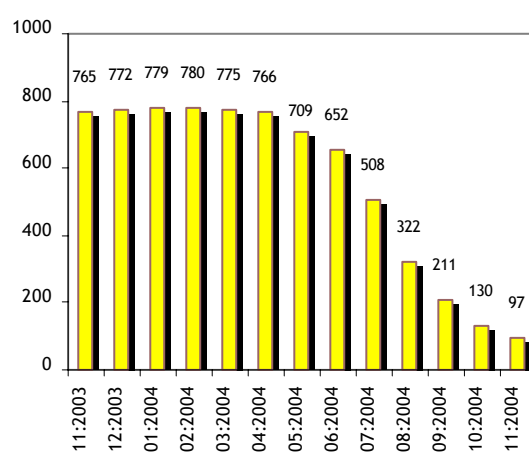
**INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS (12-month, USD billion)**

**LONG TERM**



Source: CBRT.

**SHORT TERM**



69. The FX deposits held with domestic banks by residents abroad, which pursued a volatile course in the second half of the year, displayed a general tendency to increase throughout 2004. A total amount of USD 292 million worth of outflow was observed in these deposits in November.

70. The Central Bank reserves, which were USD 33.6 billion by the end of 2003, increased to USD 36 billion by the end of 2004.

71. The external financing requirement, which is defined as the sum of the current account balance and the net errors and omissions item, became USD 8.9 billion in January-

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

72. Total external debt stock, which was USD 145.8 billion by the end of 2003, increased by 5 percent and reached USD 153.2 billion by September 2004. During this period, medium and long-term external debts rose by 0.9 percent while short-term external debts increased by 27.4 percent. Short-term external debt stock announced by the Central Bank on a monthly basis increased to USD 30.5 billion in November from USD 29.8 billion of October due to the upsurge in short-term FX credits of the banking sector.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)							
	2003	2004			2004		2004
	Jan-Nov	Q1	Q2	Q3	Oct	Nov	Jan-Nov
<b>1. Current Account Balance</b>	<b>-5098</b>	<b>-5339</b>	<b>-4517</b>	<b>-625</b>	<b>-231</b>	<b>-2029</b>	<b>-12741</b>
<b>2. Net Error and Omission</b>	<b>3111</b>	<b>120</b>	<b>2908</b>	<b>-813</b>	<b>303</b>	<b>1280</b>	<b>3798</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-1987</b>	<b>-5219</b>	<b>-1609</b>	<b>-1438</b>	<b>72</b>	<b>-749</b>	<b>-8943</b>
<b>II. Total Financing (=1+2+3)</b>	<b>1987</b>	<b>5219</b>	<b>1609</b>	<b>1438</b>	<b>-72</b>	<b>749</b>	<b>8943</b>
<b>1. Capital Flows (net)</b>	<b>3791</b>	<b>5106</b>	<b>4548</b>	<b>6211</b>	<b>1110</b>	<b>1418</b>	<b>18393</b>
<b>Direct Investments (net)</b>	<b>1066</b>	<b>452</b>	<b>427</b>	<b>451</b>	<b>-4</b>	<b>3</b>	<b>1329</b>
<b>Portfolio Investments (net)</b>	<b>2167</b>	<b>2053</b>	<b>1012</b>	<b>453</b>	<b>1025</b>	<b>397</b>	<b>4940</b>
General Government Bond Issues	1509	-11	750	220	1000	0	1959
Foreigners' Buying of Bonds and Stocks in Turkey	2032	1924	78	1131	530	650	4313
Residents Buying of Bonds and Stocks Abroad	-1197	140	184	-898	-505	-253	-1332
<b>Credits (excl. IMF credits)</b>	<b>728</b>	<b>2650</b>	<b>4102</b>	<b>5184</b>	<b>97</b>	<b>1480</b>	<b>13513</b>
General Government	-1927	-560	118	872	-279	-193	-42
Banks	578	653	1245	1620	-80	1838	5276
Long Term	-101	34	593	218	279	1024	2148
Short Term	679	619	652	1402	-359	814	3128
Other Sectors	2077	2557	2739	2692	456	-165	8279
Long Term	231	1515	1489	1044	269	48	4365
Short Term	287	83	92	295	46	-31	485
Trade Credits	1559	959	1158	1353	141	-182	3429
<b>Deposits</b>	<b>1227</b>	<b>-86</b>	<b>357</b>	<b>103</b>	<b>148</b>	<b>-339</b>	<b>183</b>
Central Bank	491	6	-75	-23	-53	-47	-192
Banks	-1397	37	-1350	-20	-156	-123	375
<b>Others</b>	<b>-1397</b>	<b>37</b>	<b>-1350</b>	<b>20</b>	<b>-156</b>	<b>-123</b>	<b>-1572</b>
<b>2. IMF Credits</b>	<b>-430</b>	<b>-1177</b>	<b>-649</b>	<b>-498</b>	<b>-222</b>	<b>-493</b>	<b>-3039</b>
Central Bank	-1356	-1110	-1084	-1093	-155	-493	-3935
General Government	926	-67	435	595	-67	0	896
<b>3. Change in Reserves (- increase)</b>	<b>-1374</b>	<b>1290</b>	<b>-2290</b>	<b>-4275</b>	<b>-960</b>	<b>-176</b>	<b>-6411</b>
Banks' FX Holdings	1256	1076	-1229	-3657	-387	-1555	-5752
Official Reserves	-2630	214	-1061	-618	-573	1379	-659

Source: CBRT

## VI. APPENDIX

### CURRENT ACCOUNT (USD million)

Current Account											
	Net	Foreign Trade				Services		Income		Transfers	
		Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances
<i>(annual)</i>											
2000	-9819	-22410	27775	2946	-54503	11368	7636	-4002	-4825	5225	4560
2001	3390	-4543	31334	3039	-41399	9130	8090	-5000	-5497	3803	2786
2002	-1522	-7283	36059	4065	-51554	7879	8479	-4554	-4417	2436	1936
2003*	-8037	-14010	47253	3953	-69340	10505	13203	-5559	-4586	1027	729
<i>(quarterly)</i>											
2002 III	1030	-2055	9298	1090	-13529	3573	3813	-1078	-1116	590	539
IV	-1106	-2440	10337	1123	-15162	1906	1684	-1233	-1160	661	415
2003 I	-3014	-2393	10366	757	-14368	683	1201	-1564	-1171	260	138
II	-2643	-3223	11318	954	-16470	1662	2259	-1281	-1106	199	151
III	1079	-4082	12180	1082	-18448	6241	7032	-1378	-1134	298	235
IV	-3459	-4312	13389	1160	-20054	1919	2711	-1336	-1175	270	205
2004 I	-5339	-5021	13498	877	-20881	942	1713	-1486	-941	226	193
II	-4517	-6012	15523	1043	-24390	2571	3270	-1372	-991	296	181
III	-625	-6407	15974	973	-25082	6735	7661	-1301	-1168	348	237
<i>(monthly)</i>											
Dec	-2939	-2800	4595	354	-8234	122	490	-372	-360	111	67
2004 Jan	-939	-970	4616	256	-6291	390	602	-458	-219	99	81
Feb	-2214	-1795	3665	280	-6139	159	503	-638	-412	60	54
Mar	-2186	-2256	5217	341	-8451	393	608	-390	-310	67	58
Apr	-1705	-1918	5072	358	-7931	560	773	-424	-262	77	63
May	-1329	-1860	5170	369	-7991	1011	1165	-557	-447	77	64
Jun	-1483	-2234	5281	316	-8468	1000	1332	-391	-282	142	54
Jul	-739	-2173	5638	247	-8727	1750	2154	-443	-264	127	70
Aug	22	-2267	4694	369	-7881	2759	3024	-577	-576	107	83
Sep	92	-1967	5642	357	-8474	2226	2483	-281	-328	114	84
Oct	-231	-1362	5780	437	-8057	1395	1642	-333	-309	69	58
Nov	-2029	-2090	5452	374	-8414	543	810	-567	-555	85	70
<i>(12-month)</i>											
Dec	-8037	-14010	47253	3953	-69340	10505	13203	-5559	-4586	1027	729
2004 Jan	-8675	-14518	48335	4046	-71205	10619	13428	-5759	-4596	983	758
Feb	-9551	-15595	49076	4028	-73158	10618	13513	-5565	-4537	991	769
Mar	-10362	-16638	50385	4073	-75853	10764	13715	-5481	-4356	993	784
Apr	-11073	-17603	51795	4144	-78573	11038	14046	-5507	-4306	999	802
May	-11577	-18477	53105	4154	-81032	11410	14438	-5528	-4267	1018	815
Jun	-12236	-19427	54590	4162	-83773	11673	14726	-5572	-4241	1090	814
Jul	-12628	-20218	55992	4135	-86233	11985	15069	-5511	-4243	1116	812
Aug	-13426	-21100	56857	4102	-88139	12121	15213	-5572	-4295	1125	816
Sep	-13940	-21752	58384	4053	-90407	12167	15355	-5495	-4275	1140	816
Oct	-14170	-22210	59340	4039	-91889	12377	15543	-5457	-4269	1120	797
Nov	-15680	-23692	60822	4058	-95058	12308	15586	-5431	-4324	1135	806

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	Net	Trade Credits	Credits				Deposits		
					Equity Securities	Debt Securities					Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks	
<i>(annual)</i>																	
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1719	-1719	2769	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1373	1373	863	-593	-2096	-16	1519	7256	594	8033	2483	-6138	11834	-1028	437	1336	-988
2003	2994	2994	1195	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
<i>(quarterly)</i>																	
2002 I	2157	2157	95	-59	-1232	66	1107	3821	1778	2391	274	-6138	8752	-443	43	402	-502
II	236	236	312	-736	-265	50	-521	1349	-112	1903	743	0	769	252	239	195	-332
III	-1633	-1633	236	-468	-245	-22	-201	1413	-486	2406	738	0	2617	-1184	-76	614	-362
IV	613	613	220	670	-354	-110	1134	673	-586	1333	728	0	-304	347	231	125	208
2003 I	4225	4225	170	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1211	-1211	116	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1236	-1236	490	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	1216	1216	419	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	5219	5219	452	2053	140	503	1410	2500	1076	1445	959	-1110	-560	653	1598	6	-92
II	1609	1609	427	1012	184	-25	853	1231	-1229	3440	1158	-1084	118	1245	1581	-75	432
III	1438	1438	451	453	-898	226	1125	1152	-3657	4288	1353	-1093	872	1620	1339	-23	126

Source: CBRT.

## CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																			
	Financial Account																		
	Net	Net	Foreign Direct Investment	Portfolio Investment				Other Investment											
				Net	Assets	Liabilities		Net	Currency and Deposits	Net	Trade Credits	Credits				Deposits			
						Equity Securities	Debt Securities					Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks		
									(monthly)										
2004	Dec	1007	1007	129	402	-189	57	534	1893	-532	2630	622	-123	236	1397	357	6	135	
	Jan	2129	2129	80	1401	-105	-18	1524	840	617	295	45	-158	-166	240	409	1	-76	
	Feb	3038	3038	383	311	-267	364	214	2048	1078	228	219	-491	-108	287	332	10	-9	
	Mar	52	52	-11	341	512	157	-328	-388	-619	922	695	-461	-286	126	857	-5	-7	
	Apr	323	323	18	-193	273	-96	-370	1900	111	2174	466	-194	664	527	685	-20	36	
	May	1241	1241	105	195	56	-60	199	-167	-594	673	323	-433	-222	399	559	-36	61	
	Jun	45	45	304	1010	-145	131	1024	-502	-746	593	369	-457	-324	319	337	-19	335	
	Jul	1961	1961	260	17	-180	90	107	377	-1512	1701	694	-156	477	309	527	36	-218	
	Aug	-16	-16	40	103	-317	-47	467	1066	-2235	2809	452	-481	552	1216	524	7	508	
	Sep	-507	-507	151	333	-401	183	551	-291	90	-222	207	-456	-157	95	288	-66	-164	
	Oct	-72	-72	-4	1025	-505	37	1493	-520	-387	99	141	-155	-279	-80	315	-53	201	
	Nov	749	749	3	397	-253	212	438	-1030	-1555	648	-182	-493	-193	1838	17	-47	-292	
									(12-month)										
	2004	Dec	2994	2994	1195	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
		Jan	3930	3930	1223	2862	-1273	872	3263	2075	-237	4130	2272	-1637	-763	2023	1069	460	598
		Feb	4694	4694	1553	3554	-1653	1184	4023	3127	381	4067	2521	-2128	-691	2086	1324	439	420
		Mar	3988	3988	1477	4697	-1317	1460	4554	2308	-2253	5534	2827	-2476	-770	1928	3282	414	229
		Apr	4174	4174	1481	4796	-915	1406	4305	3713	-1908	6774	3254	-2670	-587	2638	3715	393	-76
		May	6226	6226	1506	4399	-782	1337	3844	4396	-2447	8083	3434	-3064	-651	3813	3950	334	150
		Jun	6808	6808	1788	4775	-612	1420	3967	4606	-2681	8892	3672	-3404	-648	4231	4195	314	397
		Jul	8714	8714	1913	5034	-859	1433	4460	4338	-3323	9001	4056	-3560	-21	3910	4490	242	-259
		Aug	9103	9103	1712	4505	-1197	1212	4490	5252	-4806	10907	4456	-3693	86	4762	4840	101	206
		Sep	9482	9482	1749	3621	-906	1084	3443	3791	-5476	10164	4455	-4031	218	4600	4788	-31	6
		Oct	9569	9569	1619	4393	-1584	990	4987	5170	-4625	10537	4110	-3995	176	4487	4905	-127	821
		Nov	9950	9950	1458	5342	-1521	1010	5853	5226	-6284	12550	4051	-4058	194	6673	5207	-186	510

Source: CBRT.