

VI. BALANCE OF PAYMENTS

VI.1. Developments in Foreign Trade

The real depreciation of the Turkish lira and the contraction in the economic activity following the crisis in February 2001 caused imports to decrease substantially and exports to increase. In the first nine months of 2001, imports declined by 23.3 percent while exports increased by 11.8 percent compared to the same period of last year. According to the Turkish Exporters Association figures, exports rose by 14.8 percent and reached US \$25.8 billion in the January-October period.

In the first nine months of 2001 manufacturing goods exports, consisting 90 percent of total exports, increased by 11.7 percent. One of the reasons of this increase is that firms oriented their products towards foreign markets due to the contraction in domestic demand. Likewise, in the January-October period, exports of automobile sector increased by 73 percent while its production fell by 38 percent.

The contraction in domestic demand and the real depreciation of the Turkish lira positively affected exports; however, the recession in foreign markets and the financing problem limited the positive effect.

The second factor to raise exports is the increasing compatibility of Turkey with the real depreciation of the Turkish lira of 15.5 percent according to the real exchange rate index calculated by private manufacturing prices and producer prices for domestic and foreign prices, respectively. Whereas, the high volume of imported output used in the export-led production is an important factor restricting this positive effect. In addition, the increasing cost and the decreasing possibility of financing are the other factors limiting the export-led production and exports.

Table VI.1. Balance of Payments (US \$ million)

	September		January-September	
	2000	2001	2000	2001
Foreign Trade	-1837	-423	-16175	-4110
Other Goods and Services	1211	764	5477	3757
Transfers	372	352	3804	2867
Current Account Balance	-254	693	-6894	2514
Capital Account	-243	381	10936	-10636
Foreign Direct Investment (Net)	210	229	-257	2110
Portfolio (Net)	270	131	6032	-3950
Long Term (Net)	-200	-173	2914	-885
Short Term (Net)	-523	194	2247	-7911
Net Errors and Omissions	445	-963	-1645	-3142
Shuttle Trade	285	280	2071	2253
Tourism Revenues	1056	1143	5885	6648
Workers' Remittances	330	220	3387	2173
Other Invisibles Revenues	1014	429	8853	5592

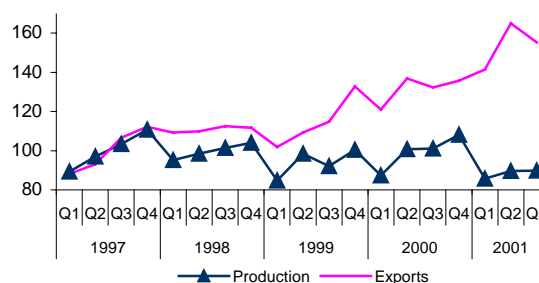
Source: CBRT

Table VI.2. Foreign Trade (US \$ million)

	September			January-September		
	2000	2001	% change	2000	2001	% change
EXPORTS	2403.3	2565.3	6.7	20541.7	22974.8	11.8
Agriculture	185.6	237.4	28.0	1262.0	1539.1	22.0
Fishing	1.5	2.7	73.2	18.4	18.7	1.7
Mining	35.5	24.5	-30.8	305.0	252.9	-17.1
Manufacturing	2166.2	2299.1	6.1	18927.0	21147.2	11.7
Other	14.5	1.5	-89.9	29.4	16.9	-42.5
IMPORTS	4643.5	3310.9	-28.7	39678.7	30452.0	-23.3
Consumption	621.7	304.4	-51.0	5175.5	3076.2	-40.6
Investment	964.6	508.7	-47.3	8154.0	5294.6	-35.1
Intermediate	3042.2	2469.5	-18.8	26195.4	21806.6	-16.8
Crude Oil	305.6	413.4	35.3	2850.7	3058.3	7.3
Other	15.0	28.4	89.2	153.8	274.6	78.5

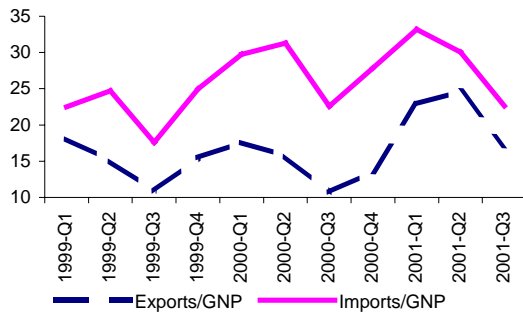
Source: CBRT

Figure VI.1. Manufacturing Export Volume and Production Indices (1997=100)



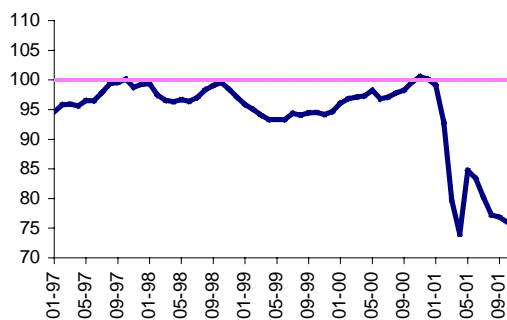
Source: SIS

Figure VI.2: Exports/GNP and Imports/GNP (Percentage)



Source: SIS

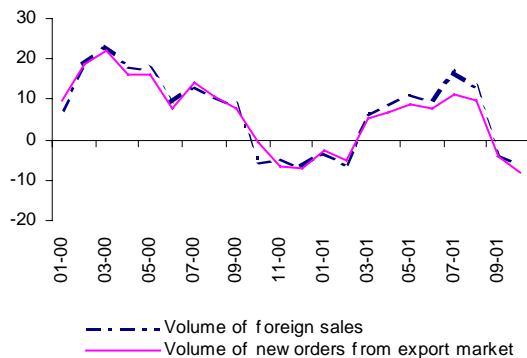
Figure VI.3. Real Effective Exchange Rate (1987=100)



The currency basket, composed of 1.5 German mark and 1 US dollar is used in the calculation of real effective exchange rate. Price index for Germany and the USA is WPI and private manufacturing price index for Turkey. The increase in the index value indicates the real appreciation of the Turkish lira against related currencies.

Source: CBRT, SIS

Figure VI.4. Exports Expectations for the Next Three Months (Optimists minus Pessimists)



Source: CBRT Business Survey

According to the CBRT October Business Survey results, a gradual decline is observed in the volume of goods sold in foreign market and new orders from the exports market in the last three months. Accordingly, the recovery in the export possibilities for the next three months will decelerate.

In the rest of the year, it is expected that unfavorable developments in the external environment will limit the improvement of exports. With the adverse impact of terrorist attack in September, the recession in the US economy starting in the second half of 2000 and augmenting in 2001 would weaken the foreign demand. According to the IMF projections, in 2001 the US economy will grow by 1.1 percent. Therefore, it is anticipated that Turkish exports to the US will decelerate. Moreover, a sign of slowdown in our major trade partner, European Union, is observed. It is expected that the deceleration of the US economy will have negative impacts on the EU economy, which is estimated to grow by 1.7 percent. As a result, the imports of these countries will decelerate. For 2001, the IMF projected the world growth as 2.4 percent and the world trade growth as 1.3, which was realized as 12.4 percent in 2000. Like other developing countries, it is expected that Turkey's foreign trade will suffer from this unfavorable situation.

The terms of trade deterioration continued in the first nine months of 2001. In that period, export prices decreased by 1.5 percent whereas import prices increased by 1.7 percent. In the rest of 2001, it is anticipated that the deterioration will continue with the low world commodity prices.

Regarding the sub-items of imports, it is observed that the turn down of the consumption goods imports accelerated since March. Also, the investment and intermediate goods imports declined by 35.1 percent and 16.8 percent, respectively. The CBRT Business Survey October results show that new orders from the domestic market will decrease in the next three months. Therefore, the decline in the domestic demand and the imports will continue in the last quarter of 2001.

Besides, the intermediate goods imports, which constitute 70 percent of total imports, are led to the manufacturing sector production. The decrease in the manufacturing sector production will reduce the import demand. Similarly, the considerable decline in the investment goods imports signals that the production capacity of the economy will be adversely influenced.

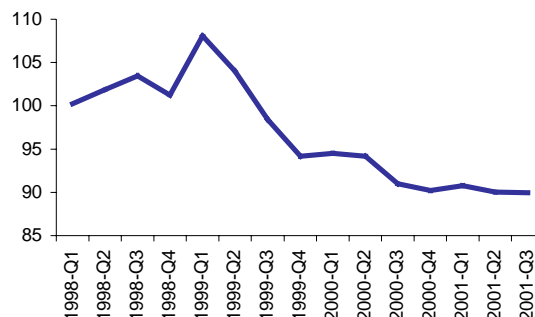
The decrease in both national income and manufacturing sector production as well as the depreciation of the Turkish lira caused imports to decline.

It is expected that the foreign trade deficit will continue to decrease in the last quarter of 2001, which narrowed by 60.9 percent and was realized as US \$7.5 billion in the first nine months of 2001.

VI.2. Current Account

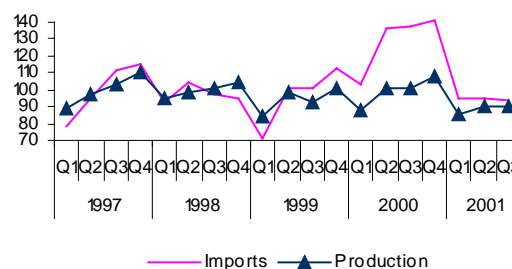
Current account surplus reached US \$2.5 billion as a result of the narrowing trade deficit in the first nine months of 2001. In this period, tourism revenues increased by 13 percent. However the balance of other goods and services decreased due to the declining other official and private goods and services income. The declining trend of workers' remittances and unrequited transfers continued in 2001. The depreciation of the euro against the US dollar is the most important factor behind this trend. In addition, the rapid depreciation of the Turkish lira and the problems in the banking sector adversely influenced the workers' remittances.

Figure VI.5. Terms of Trade (Export Prices/Import Prices)



Source: CBRT, SIS

Figure VI.6. Manufacturing Import Volume and Production Indices (1987=100)



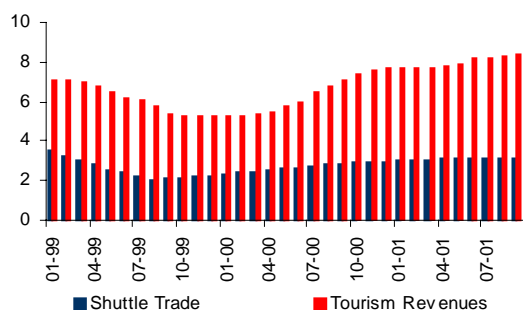
Source: SIS

Figure VI.7. Exports and Imports (Annual, US \$ Billion)



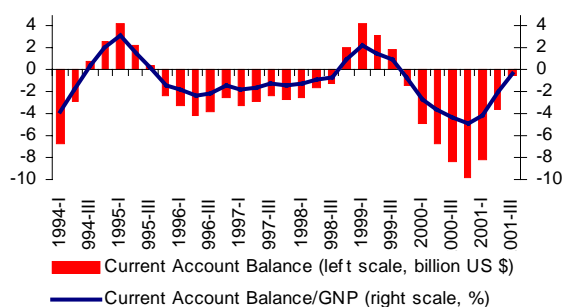
Source: SIS

Figure VI.8. Shuttle Trade and Tourism Revenues (Annual Percentage Change, US \$ Billion)



Source: CBRT

Figure VI.9. Current Account Balance (Annualized)



Source: CBRT, SIS

Table VI.3. Net Capital Inflow by Sub sectors (US\$ Million)

	September		January-September	
	2000	2001	2000	2001
NET CAPITAL INFLOW	-243	381	10936	-10636
GENERAL GOVERNMENT	474	-119	4918	-1271
Bond Issues	627	0	5662	-169
Medium and Long Term	-153	-119	-744	-102
Short Term	0	0	0	-1000
BANKS	-136	-1219	3432	-6750
Bond Issues	0	0	292	-3
Medium and Long Term	-393	-217	-162	-1161
Short Term	257	-1002	3302	-5586
PRIVATE SECTOR	215	332	4180	-1009
Bond Issues	0	0	0	0
Medium and Long Term	303	77	3309	25
Short Term	-88	255	871	-1034
OTHER	-796	1387	-1594	-1606
Securities	-21	37	682	-3717
Direct Investments (in Turkey)	219	253	464	2488
Other	-994	1097	-2740	-377

Source: SIS

The impact of the terrorist attack in the US on the Turkish tourism sector is to be mainly observed in 2002.

A surplus in the current account is estimated for the rest of the year as a result of narrowing trade deficit. It is expected that the terrorist attack in the US will negatively affect tourism revenues. However, it will not influence tourism revenues of 2001, which will decrease seasonally in the last quarter of the year. It is anticipated that the impact will mainly be observed next year related to lower tourism owing to safety concerns.

VI.3. Capital Account

In the first nine months of 2001, a capital outflow of US \$10.6 billion was realized. Contrary to the inflow of US \$10.9 billion in the same period of 2000, this high volume of outflow was an important factor preventing the stability in the exchange rates and the decrease in the interest rates.

In the January-September period of 2001, the capital outflow was mostly due to the short-term capital movements and the security transactions of non-residents.

The capital outflow was primarily due to the short-term capital movements and the security transactions of non-residents. The short-term capital outflow stemmed from the repayments of syndicated credit of banks, which were received last year with a maturity of 1 year. Moreover, the loans received by banks were less than the repayments in that period. This trend is expected to continue in the last quarter of 2001.