

# **CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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## **BALANCE OF PAYMENTS REPORT**

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**2007 - III**

## SUMMARY

Exports continued to grow strongly during January-September 2007, whereas imports accelerated particularly in the third quarter. Productivity gains helped increase the competitive advantage of Turkey in international trade by reducing real unit labor costs, which has compensated the negative influence of the strong Turkish lira and thus boosted the share of exports in production. Turkey's proximity to its biggest trade partner EU, the brisk demand from EU countries and euro's strength against US dollar were all conducive to export growth. On the other hand, while domestic demand has gained some momentum, imports of both capital goods and consumer goods have been on the rebound since the second and third quarters of 2007, respectively. Besides, imports of intermediate goods have been growing steadily on the back of strong export performance. Hence, the decline in Turkey's current account deficit, which was induced by the global financial turmoil in 2006, ended in the third quarter. The strong export growth and the rebound in tourism revenues could not offset the expansion of the current account deficit, and real imports grew faster than real exports annually between June and September. Therefore, net exports is expected to contribute significantly less to GDP growth during the third quarter.

In the first nine months of 2007, export growth was mostly concentrated in sectors such as motor vehicles, basic metals, machinery and equipment, clothing, textiles and electrical machinery and apparatus. Besides, after a sluggish performance between 2005-fourth quarter and 2006-third quarter, exports of textiles and clothing have been on the rise since the last quarter of 2006 and made an additional contribution to overall export growth.

The basic metals industry made the largest contribution to import growth during the first nine months, mainly on account of the commodity's soaring prices as well as increased import quantity. Other key drivers of this growth were imports of chemicals and chemical products, machinery and equipment, wastes and scrap (recycle products), agricultural and livestock products, and crude oil and natural gas. The automobiles industry was the primary source of decline in imports of consumer goods after the turbulence in May and June 2006. Yet, imports of automobiles jumped during the third quarter of 2007. Gasoline imports also displayed the same pattern. Imports of other durables, semi-durables and non-durables continued to grow substantially during the first three quarters of 2007. Apart from automobiles, the performance of industrial transport vehicles and equipment was rather weak in 2007. Imports of spare parts and supplies for transport vehicles, on the other hand, increased by 15.3 percent during the same period following the robust export growth in the sector.

Export and import performance in 2007 was largely influenced by rising prices. During January-September, export prices increased at an average 10.3 percent while import prices were up 7.9 percent, pushing the US dollar value of both exports and imports higher.

Excluding reserve changes (CBT + banks) and IMF loans, the January-September capital inflow to Turkey has been USD 39.7 billion. The financing structure over this period was substantially composed of direct investments and long-term loans drew by private enterprises and commercial banks. Besides, portfolio investments also recovered in 2007 after some outflow driven by the global financial turmoil in 2006.

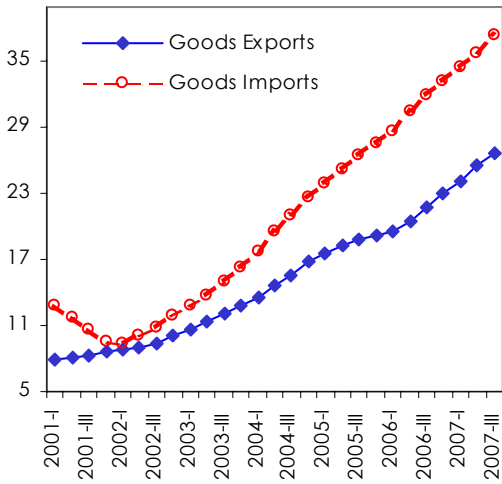
Against this background, during the January-September period, CBT reserves and commercial-bank FX assets with their correspondence abroad increased by USD 7.9 billion and USD 3.1 billion, respectively.

**Balance of Payments**  
 (USD billion)

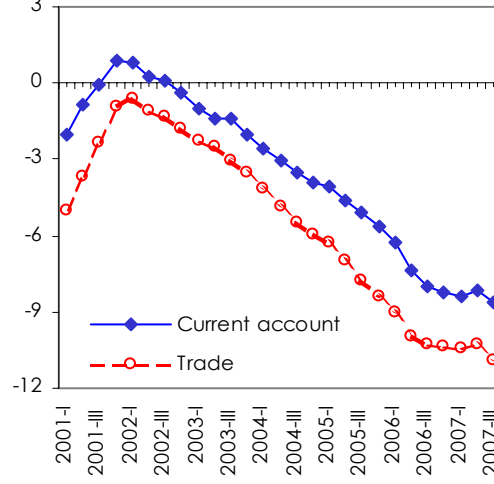
	Jan-Sept			Sept (12-month)		
	2006	2007	% change	2006	2007	% change
Current Account	-24.5	-26.1	..	-31.9	-34.4	..
Goods	-32.2	-34.4	..	-41.2	-43.5	..
Exports	65.9	80.6	22.3	86.8	106.7	22.8
Exports (fob)	61.4	76.2	24.1	81.4	100.3	23.3
Shuttle trade	4.5	4.4	-1.9	5.5	6.3	15.3
Imports	-98.1	-115.0	17.2	-128.0	-150.2	17.3
Imports (cif)	-102.4	-121.5	18.6	-133.9	-158.7	18.5
Coverage adjustment	4.7	6.9	..	6.5	9.0	..
Services	11.3	12.1	..	13.9	14.2	..
Tourism (net)	11.6	12.2	5.5	14.4	14.7	2.2
Credit	13.7	14.6	6.5	17.3	17.7	2.5
Debit	-2.1	-2.4	11.7	-2.9	-3.0	3.7
Other services revenues (net)	-0.3	-0.1	..	-0.5	-0.5	..
Income	-4.8	-5.2	..	-6.2	-6.9	..
Wage Payments	-0.1	-0.1	..	-0.1	-0.1	0.0
Direct investment income (net)	-0.7	-1.3	..	-0.9	-1.5	..
Portfolio investment income (net)	-0.6	-0.3	..	-0.8	-0.3	..
Other investment income (net)	-3.4	-3.5	..	-4.4	-5.0	..
Interest income	1.0	1.6	64.3	1.3	2.1	59.9
Interest expenditure	-4.4	-5.2	18.3	-5.7	-7.1	24.1
Current transfers	1.2	1.3	..	1.6	1.8	..
Workers remittances	0.8	0.8	3.7	1.1	1.1	6.5
Capital and financial account	25.7	25.3	..	33.5	34.7	..
Financial account (excl. reserve assets)	30.6	33.2	..	47.7	43.9	..
Direct investment (net)	12.8	13.5	..	18.4	19.8	..
Abroad	-0.4	-1.8	..	-0.7	-2.4	..
In Turkey	13.1	15.3	..	19.0	22.2	..
Portfolio investment (net)	3.1	3.9	..	7.6	8.1	..
Assets	-1.7	-2.5	..	-1.6	-4.8	..
Liabilities	4.8	6.4	..	9.2	13.0	..
Equity securities	1.6	4.4	..	2.6	4.7	..
Debt securities	3.3	2.0	..	6.6	8.3	..
Non-residents' buyings in Turkey	0.7	0.2	..	2.9	5.6	..
Eurobond issues of Treasury	2.5	1.8	..	3.7	2.6	..
Borrowing	3.2	3.4	..	4.4	6.0	..
Repayment	-0.7	-1.6	..	-0.7	-3.4	..
Other investments (net)	14.7	15.8	..	21.7	15.9	..
Assets	-5.8	-3.2	..	-3.6	-9.9	..
Trade credits	-0.4	-0.2	..	-0.7	-1.2	..
Credits	-0.3	0.1	..	-0.3	-0.3	..
Banks FX assets (- increase)	-5.0	-3.1	..	-2.6	-8.3	..
Liabilities	20.5	19.0	..	25.3	25.8	..
Trade credits	2.4	3.5	..	3.1	3.7	..
Credits	17.2	20.8	..	22.3	23.4	..
Central Bank	0.0	0.0	..	-0.3	0.0	..
General Government	-3.6	-3.3	..	-4.7	-4.8	..
IMF	-3.5	-3.3	..	-3.8	-4.2	..
Long-term	-0.1	0.0	..	-0.9	-0.6	..
Banks	5.7	4.4	..	8.1	4.5	..
Long-term	5.3	6.7	..	6.8	11.2	..
Short-term	0.4	-2.3	..	1.3	-6.6	..
Other sectors	15.2	19.7	..	19.2	23.6	..
Long-term	14.7	18.7	..	19.4	22.6	..
Short-term	0.5	1.0	..	-0.2	1.0	..
Deposits of non-residents	0.7	-5.4	..	-0.4	-1.5	..
In CBT	-0.9	-1.1	..	-1.1	-1.4	..
In banks	1.7	-4.3	..	0.8	-0.1	..
Change in official reserves (- increase)	-4.9	-7.9	..	-14.2	-9.1	..
Net errors and omissions	-1.3	0.6	..	-1.6	-0.4	..

Source: CBT.

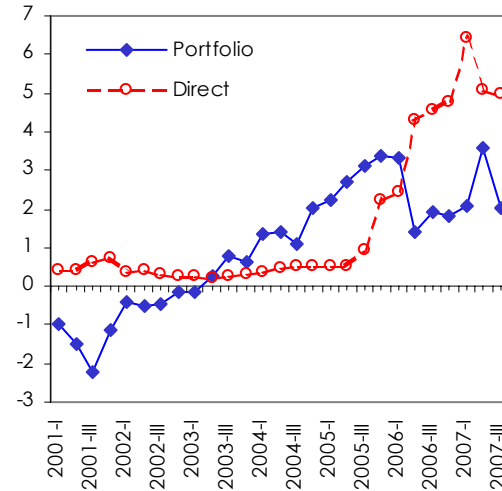
**Goods Exports and Imports**  
(12-month ave., billion US dollars)



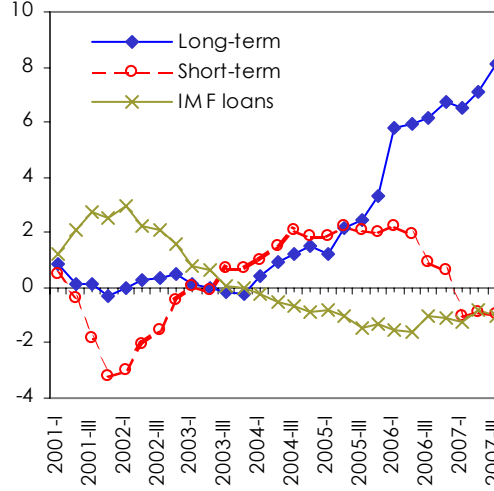
**Trade and Current Account**  
(12-month ave., billion US dollars)



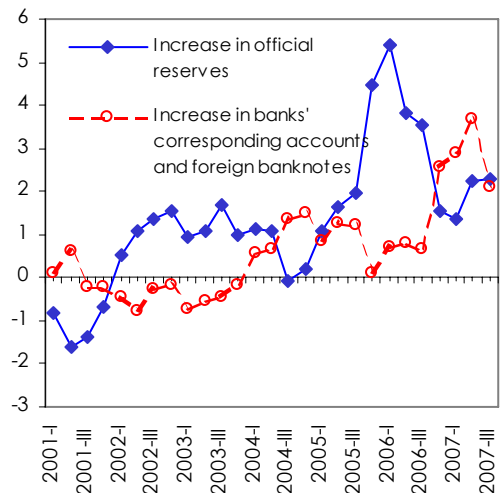
**Direct and Portfolio Investments**  
(12-month ave., billion US dollars)



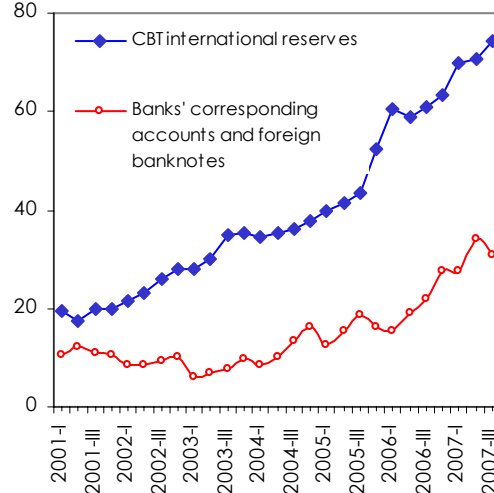
**Other Capital Flows**  
(12-month ave., billion US dollars)



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



**International Reserves**  
( billion US dollars)



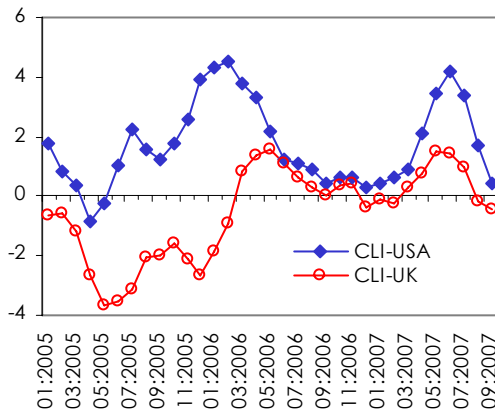
Source: CBT, TURKSTAT.

## I. EXTERNAL ECONOMIC DEVELOPMENTS

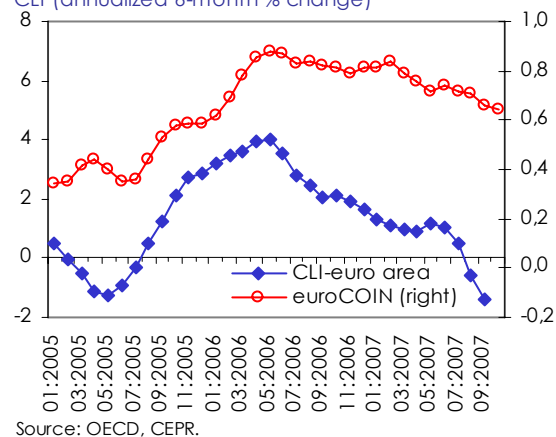
1. The developments in the US mortgage market negatively affected the global financial markets during August and September. The exposure of some European banks to high-risk mortgage debt fuelled worries that the turmoil would spread. Later, the Federal Reserve, the European Central Bank and the Bank of Japan calmed markets by pumping in liquidity and pegging interest rates at lower levels. Growth prospects for 2007 are not affected by the recent financial turmoil, but in 2008, with multiplied uncertainties, global economic growth may slowdown to some extent.

2. After a sluggish first quarter, the US economy regained momentum in the second and third quarters. Although euro-area growth remained quite strong in the first half of the year, leading indicators suggest that second-half growth rates are relatively modest. Similarly, the Japanese economy grew at a slower pace in the second quarter after a robust first quarter. China, India and Russia were the main drivers of the vigorous growth rate in emerging market countries. Inflation remained generally well contained in developed economies despite strong global growth rates. Yet, world oil prices have risen back toward record-highs due to limited spare production capacity, while food prices have been boosted by supply shortages and increased use of bio-fuels. Moreover, the brisk demand in emerging markets pushed inflation rates up in these countries.

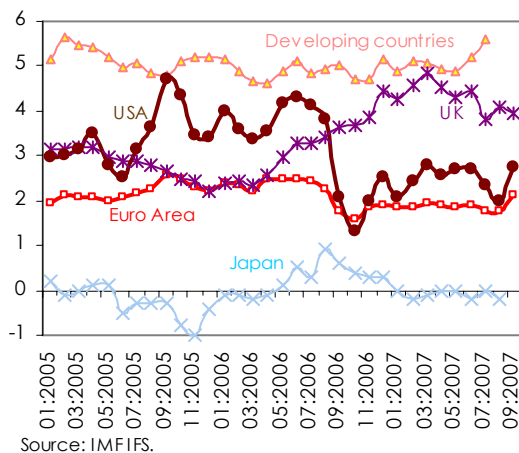
**USA and UK Leading indicators:**  
CLI (annualized 6-month % change)



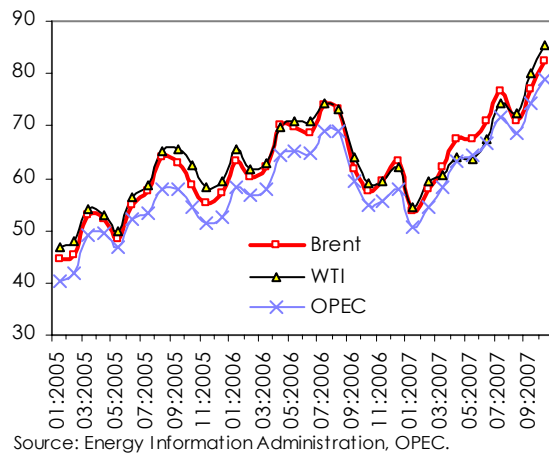
**Euro Area Leading indicators:**  
€COIN (3-month % change),  
CLI (annualized 6-month % change)



**Inflation Rate:**  
CPI, (annual % change)



**Crude Oil Prices:**  
(US dollars, monthly average)



3. Following a 3.8-percent growth in the second quarter of 2007, the US economy grew at a brisk 3.9 percent in the third quarter, boosted by a yearly 3-percent increase in consumer spending and strong exports that hit the highest level since 1996. On the other hand, the

slump in housing starts accelerated over the previous quarter, while imports speeded up. On September 18, 2007, the US Federal Reserve (Fed) cut its benchmark federal funds rate by 50 basis points for the first time since 2003, acknowledging that the credit market stance could hamper the overall economy. Fed lowered its federal funds rate by a further 25 basis points to 4.5 percent at its meeting on October 30/31.

4. Euro area GDP growth improved to 0.7 percent in the third quarter after having moderated to 0.3 percent in the second quarter, mainly on account of growing investments and exports. However, leading indicators suggest that the recovery may be short-lived and the euro-zone economy will slow in the last quarter of 2007. As a matter of fact, retail sales indicators, soaring oil prices and interest rates have been curbing consumer spending since the second quarter. Although inflation rose at a higher-than-expected rate in October, the slowdown in the economic activity is expected to contain inflation risks through labor market conditions and wages. With the vigorous money and credit growth and rising oil prices posing upside risks on price stability, the European Central Bank's (ECB) monetary policy stands tight. At its October and November meetings, the ECB decided to keep the rates unchanged but noted that the outlook for price stability over the medium term is subject to upside risks. Moreover, the ECB also stressed that a thorough examination of additional information is necessary before drawing further conclusions for monetary policy as the financial turmoil has led to continued uncertainty in the economy.

5. The Japanese economy expanded by 2.6 and 1.7 percent at annualized rates in the first and second quarters, respectively. However, as the leading indicator for September fell to zero, the odds have grown that the economy will enter into stagnation in the upcoming period. The Bank of Japan (BoJ) abandoned its 5-year-old excess liquidity policy at its meeting of March 2006 and, in light of subsequent developments, raised interest rates by 25 basis points to 0.5 percent in two consecutive meetings on July 13-14, 2006 and February 20-21, 2007. Despite global and local risks, the BoJ has left the rates unchanged since the latest rate hike.

6. China's economy grew as fast as 11.5 percent at an annualized rate in the first half of 2007. Key drivers of growth were foreign trade and capital inflows-led investments and consumption expenditures. In response to increased inflation expectations, the Chinese Central Bank raised its lending rate for the fifth time in 2007 to 7.29 percent on September 14. Moreover, the appreciation of the yuan since 2005 accelerated in 2007.

## II. CURRENT ACCOUNT

7. The ratio of the current account deficit to GDP that rose to 8.2 percent in end-2006 ended the second quarter of 2007 at an annualized 7.6 percent due to slowing imports.

8. The downward trend in the current account deficit driven by the global financial turbulence in 2006 ended in the third quarter as imports regained momentum after the diminishing of these negative effects and the uncertainty over elections faded. The continued strong export growth and the rebound in tourism revenues could not offset the expansion of the current account deficit, and real imports grew faster than real exports in annual terms between June and September. Therefore, net exports is estimated to have contributed significantly less to GDP growth during the third quarter.

9. Readings on the current account deficit and the financing structure continued to improve during the first three quarters of 2007. The reduced share of short-term sources in total financing increased the ratio of exports and reserves to short-term external debt. Besides, other indicators related to exports and reserves also improved significantly.

### Selected Indicators Related to the Current Account Deficit and Financing Structure

	2000	2001	2002	2003	2004	2005	2006	2007*
Exports / Imports	0.58	0.90	0.85	0.79	0.74	0.70	0.69	0.71
Exports / Short-Term External Debt	1.09	2.10	2.44	2.23	2.10	2.07	2.17	2.64
Exports / External Debt Service	1.40	1.40	1.39	1.84	2.20	2.10	2.31	2.24
Tourism Revenues / Trade Balance	0.35	2.17	1.16	0.94	0.67	0.54	0.41	0.41
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.18	1.41	1.50	1.85
CBT Reserves / Financing Requirement	1.84	-	20.01	11.36	2.81	2.57	1.80	2.14
CBT Reserves / Current Account Balance	2.36	-	18.48	4.38	2.41	2.32	1.93	2.17
CBT Reserves / Imports	0.44	0.52	0.59	0.54	0.41	0.47	0.47	0.50

Source: CBRT, TURKSTAT.

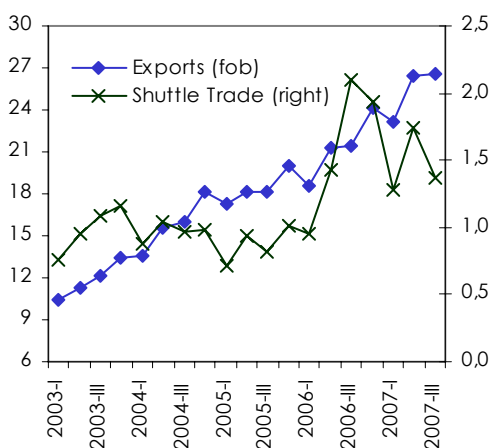
\* 12-month data as of September.

### Exports of Goods

10. According to the statistics released by TURKSTAT, export growth amounted to 24.1 percent during January-September period. The export growth was mainly in real terms, while nominal export growth was also boosted by export price gains. During the first nine months of the year, the export quantity index (real exports) rose by an average 12.5 percent, while the export unit value index increased by 10.3 percent.

#### Exports

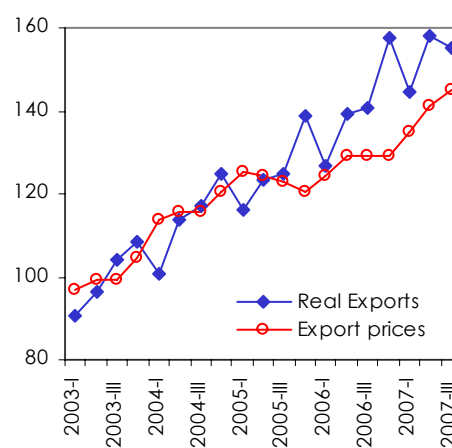
(billion US dollars)



Source: CBRT, TURKSTAT.

#### Exports - Real and Unit Value

(2003=100)

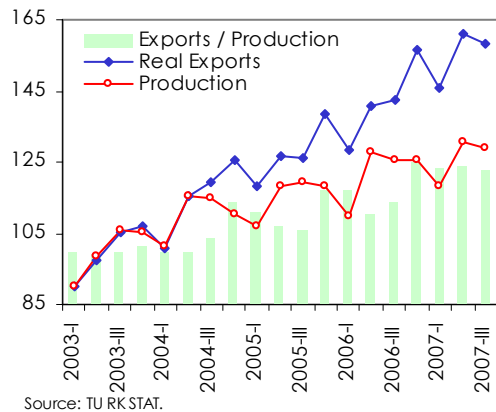


Source: TURKSTAT.

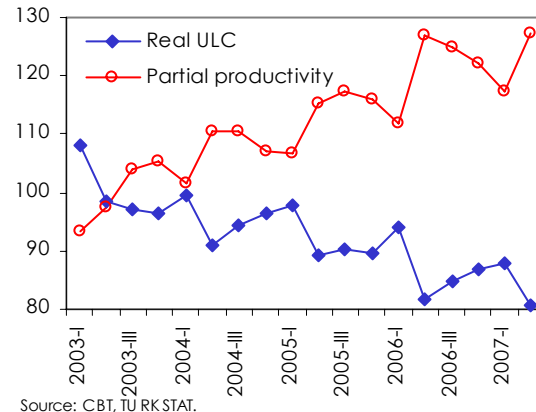
11. The acceleration in investment expenditures after the financial crisis in 2001 and the resulting productivity gains helped reduce real unit labor costs and increase the competitive advantage of Turkey in international trade, and thus raised the share of exports in production by compensating the negative influence of the strong New Turkish lira (YTL) on external

competitiveness. Turkey's proximity to its biggest trade partner EU, the brisk demand from those countries and the euro's strength against the US dollar were other main sources of export growth. Besides, new markets acquired in emerging markets such as Russia, whose income keeps rising due to soaring oil prices, Romania and the United Arab Emirates also enhanced the export performance.

**Production and Exports in Manufacturing Industry (2003=100)**



**Real ULC and Productivity Indices (2003=100)**



12. During the first nine months of 2007, the largest contribution to export growth came from motor vehicles, basic metals, machinery-equipment, clothing, textiles and electrical machinery and apparatus, which altogether accounted for 16.3 percentage points of the total export growth of 24.1 percent for the period.

**Exports**  
(Million US dollars)

	Jan-September					Share	
	2006	2007	% Change	% Contrib.	\$ Contrib.	2006	2007
Total	61401	76201	24.1				
Capital Goods	6619	9680	46.3	5.0	3061	10.8	12.7
Intermediate Goods	27328	35462	29.8	13.2	8134	44.5	46.5
Consumption Goods	27038	30802	13.9	6.1	3764	44.0	40.4
Other	416	257	-38.3	-0.3	-159	0.7	0.3
<b>Selected Items (ISIC Rev.3):</b>							
Agriculture and farming of animals	2345	2299	-1.9	-0.1	-46	3.8	3.0
Food products and beverages	3101	3535	14.0	0.7	434	5.1	4.6
Textiles	6640	7729	16.4	1.8	1089	10.8	10.1
Wearing apparel	7594	8838	16.4	2.0	1244	12.4	11.6
Petroleum products and nuclear fuel	2532	3128	23.5	1.0	596	4.1	4.1
Chemicals and chemical products	2548	2932	15.0	0.6	383	4.2	3.8
Rubber and plastic products	2175	2874	32.2	1.1	699	3.5	3.8
Other non-metallic minerals	2085	2465	18.2	0.6	379	3.4	3.2
Manufacture of basic metals	6815	9021	32.4	3.6	2206	11.1	11.8
Manufacture of fabricated metal prod(exc mac	2361	3050	29.2	1.1	689	3.8	4.0
Manufacture of machinery and equipment	4243	5755	35.6	2.5	1512	6.9	7.6
Electrical machinery and apparatus	1950	2935	50.5	1.6	985	3.2	3.9
Communication and apparatus	2100	1775	-15.5	-0.5	-325	3.4	2.3
Motor vehicles and trailers	9100	12052	32.4	4.8	2951	14.8	15.8
Other transport	1498	1908	27.3	0.7	409	2.4	2.5

Source: TURKSTAT.

13. After a weak performance between 2005-fourth quarter and 2006-third quarter, exports of textiles and clothing began to recover in the final quarter of 2006 and grew 16.4 percent during the first nine months of 2007, contributing 3.8 percentage points to total

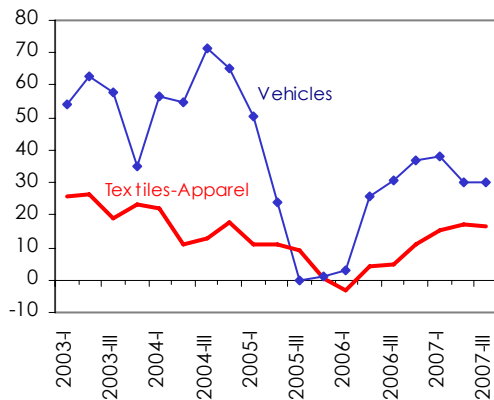


export growth. Relying on productivity gains boosted the performance of the textiles industry. Moreover, Turkey's proximity to EU and high quality textiles and clothing articles with fast delivery time have lessened the competitive pressure from China.

14. The key drivers for the strong performance of motor vehicle exports since the second quarter of 2006 have been productivity gains, reliance on exports to offset weak domestic demand and new model launches. Exports of basic metals, on the other hand, grew mainly due to both productivity gains from privatization and price hikes. The January-September export growth in the basic metals industry reached 32.4 percent, with volume and prices up 9.6 and 20.8 percent, respectively.

#### M. Vehicles and Textiles-Apparel

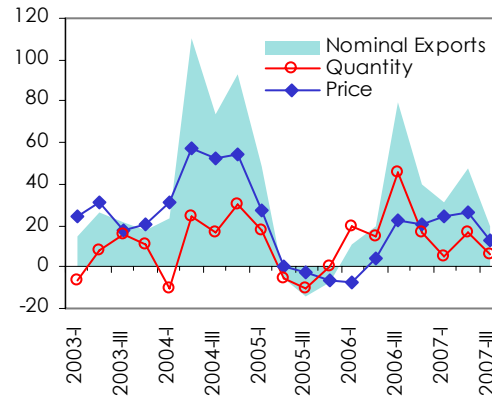
Exports (Annual percentage change)



Source: TURKSTAT.

#### Basic Metal Industry Exports

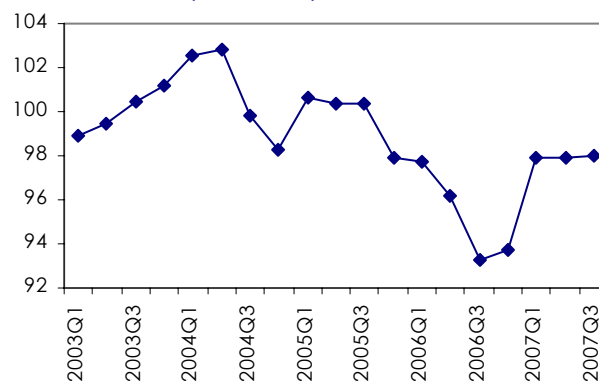
(Annual percentage change)



Source: TURKSTAT.

15. The export unit value index rising since mid-2006 accelerated in 2007 and increased at an annualized 10.3 percent during January-September period. Besides, the fact that import price gains stood at 7.9 percent during the same period altered the terms of trade to the advantage of exports.

#### Terms of Trade (2003=100)



Source: TURKSTAT.

16. The most significant growth in export prices was seen in the basic metals industry. Similarly, export prices in industries such as fabricated metal products, machinery-equipment, and electrical machinery and apparatus also saw marked increases. The third-quarter price gains in agriculture and livestock as well as in food and beverages, driven by the low base effect from a year earlier, were also quite noteworthy. On the other hand, export prices of radio, TV and communication equipment have been in a downward trend since 2004.

17. The export quantity index gained significant momentum compared to the yearly average of 2006, largely owing to exports of capital goods. As regards items included in the index, machinery-equipment, electrical machinery and apparatus and motor vehicles displayed sharp increases. Exports of clothing and textiles also grew in quantity. Yet, the real

export performance in agriculture and food-related industries were rather weak, which shows the nominal growth to be mainly price growth-dependant.

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

	2006				2006	2007		
	I	II	III	IV		I	II	III
Total	-0.9	3.9	5.0	6.8	3.9	8.4	9.1	12.5
Capital Goods	-3.0	5.3	10.0	15.4	7.2	14.9	9.8	10.0
Intermediate Goods	-1.4	6.2	13.6	13.8	8.3	15.1	14.5	11.8
Consumption Goods	-0.6	1.4	-2.9	-1.6	-1.0	3.5	4.0	12.6
Selected Items (ISIC Rev.3):								
Agriculture and farming of animals	-0.6	-13.9	-22.7	-13.7	-13.9	-4.5	3.8	25.5
Food products and beverages	0.4	-0.3	-7.4	-6.7	-2.9	-1.3	3.6	21.2
Textiles	-3.0	0.9	1.1	4.0	0.9	7.7	7.8	10.6
Wearing apparel	1.4	2.0	-2.8	0.6	0.1	0.4	0.9	12.2
Petroleum products and nuclear fuel	28.2	28.8	15.8	1.7	19.1	-5.3	5.8	8.7
Chemicals and chemical products	-0.2	3.2	5.8	8.2	4.5	8.1	7.5	7.6
Rubber and plastic products	0.1	4.5	8.4	9.8	6.0	9.4	8.8	12.8
Other non-metallic minerals	7.4	7.1	5.0	6.0	6.5	5.0	6.0	9.1
Manufacture of basic metals	-7.3	4.2	22.6	20.8	10.7	24.1	26.4	13.0
Manufacture of fabricated metal prod(exc mach	2.1	9.2	13.1	17.9	10.7	14.7	14.3	12.5
Manufacture of machinery and equipment	-1.9	1.0	5.3	7.6	3.4	12.3	13.3	13.5
Electrical machinery and apparatus	10.4	19.3	27.8	29.0	22.6	20.0	14.0	11.2
Communication and apparatus	-16.8	-9.3	-6.6	-7.5	-9.4	-12.9	-15.2	-4.8
Motor vehicles and trailers	-4.8	5.0	5.9	11.4	4.2	9.7	4.3	7.5

Source: TURKSTAT.

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

	2006				2006	2007		
	I	II	III	IV		I	II	III
Total	8.9	12.9	12.5	13.6	12.0	14.1	13.2	10.3
Capital Goods	-0.4	14.4	11.0	14.2	9.9	36.0	24.9	34.2
Intermediate Goods	14.3	14.5	18.8	13.5	15.2	14.0	15.2	13.2
Consumption Goods	4.7	11.3	7.6	13.8	9.6	10.1	7.8	2.9
Selected Items (ISIC Rev.3):								
Agriculture and farming of animals	18.3	51.7	6.8	13.1	21.0	10.7	-17.1	-19.3
Food products and beverages	8.8	5.2	3.6	5.3	4.8	9.1	1.1	6.8
Textiles	3.7	4.9	3.8	7.8	5.2	8.9	6.4	6.0
Wearing apparel	-7.6	0.2	7.4	10.1	2.4	13.4	18.6	3.0
Petroleum products and nuclear fuel	-3.7	27.2	20.3	20.0	14.5	22.7	17.8	16.6
Chemicals and chemical products	14.2	19.9	18.3	20.6	18.3	10.2	5.4	5.2
Rubber and plastic products	16.5	8.8	11.0	22.4	14.4	27.0	21.7	12.4
Other non-metallic minerals	-5.5	-3.3	-3.4	3.6	-2.3	9.8	10.5	11.8
Manufacture of basic metals	20.1	15.2	45.9	16.6	22.6	5.2	16.6	5.9
Manufacture of fabricated metal prod(exc machit	12.8	7.0	13.5	16.7	12.9	15.2	18.3	8.3
Manufacture of machinery and equipment	19.7	20.2	15.6	22.6	19.4	26.5	19.8	14.4
Electrical machinery and apparatus	8.5	10.8	18.9	37.7	19.1	36.7	33.5	25.6
Communication and apparatus	36.3	24.9	-7.6	-5.9	8.1	-14.7	-10.6	13.9
Motor vehicles and trailers	8.3	19.6	23.7	24.3	19.4	25.8	24.6	20.8

Source: TURKSTAT.

18. Russia, Romania and the United Arab Emirates made up the fastest growing share of Turkish exports during January-September 2007. Exports to EU countries further increased their share in total exports in 2007 as a result of the continued strong domestic demand and robust

economic activity in EU. On the other hand, exports to the United States slowed during the first nine months, accounting for a 4.1 percent share in total exports, down from 6.3 percent a year ago. The share of exports to Italy and to the Iraq also declined notably.

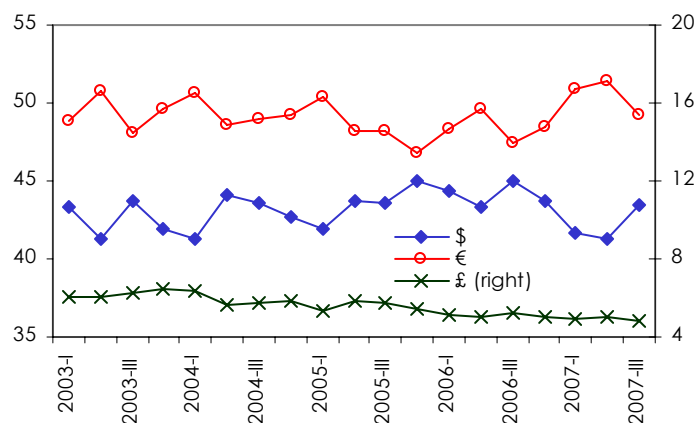
#### Export – Country Decomposition (Million US dollars)

	2006		2007		Jan-Sept		
	Value	Share (%)	Value	Share (%)	% Change	% Contrib.	\$ Contrib.
Total	61401	..	76201	..	24.1	..	..
EU countries (27)	34456	56.1	43122	56.6	25.2	14.1	8666
Other countries	24735	40.3	30951	40.6	25.1	10.1	6216
Other European	5614	9.1	7561	9.9	34.7	3.2	1947
East Asian	2798	4.6	3775	5.0	34.9	1.6	977
Other	16323	26.6	19616	25.7	20.2	5.4	3293
Free Zones in Turkey	2210	3.6	2128	2.8	-3.7	-0.1	-82
<i>Selected countries and country groups:</i>							
OECD	39,406	64.2	47,172	61.9	19.7	12.6	7766
Germany	7,026	11.4	8,708	11.4	23.9	2.7	1682
UK	4,821	7.9	6,097	8.0	26.4	2.1	1275
Italy	4,969	8.1	5,287	6.9	6.4	0.5	318
France	3,368	5.5	4,182	5.5	24.1	1.3	813
Spain	2,724	4.4	3,384	4.4	24.2	1.1	660
USA	3,862	6.3	3,126	4.1	-19.1	-1.2	-737
Netherlands	1,823	3.0	2,158	2.8	18.4	0.5	335
Greece	1,166	1.9	1,627	2.1	39.6	0.8	462
Other OECD	9,646	15.7	12,604	16.5	30.7	4.8	2958
Middle East countries	7,969	13.0	10,440	13.7	31.0	4.0	2471
UAE	1,324	2.2	2,195	2.9	65.8	1.4	871
Iraq	1,923	3.1	2,028	2.7	5.5	0.2	105
Russian Fed.	2,189	3.6	3,349	4.4	53.0	1.9	1160
Romania	1,602	2.6	2,617	3.4	63.4	1.7	1015
Bulgaria	1,069	1.7	1,485	1.9	38.9	0.7	416
China	504	0.8	747	1.0	48.1	0.4	242

Source: TURKSTAT.

19. As to the currency composition of exports, the use of the euro increased, while that of the US dollar decreased during January-September in line with developments in country groups. This was also due to the recent euro appreciation against the US dollar. In fact, at the exchange rate held constant at end-2006, changes in the euro/dollar parity increased the dollar value of exports by USD 0.7 billion (1.1 percentage points of total export growth) in the first nine months of 2007. The share of the pound sterling, on the other hand, has been on the decline in recent years.

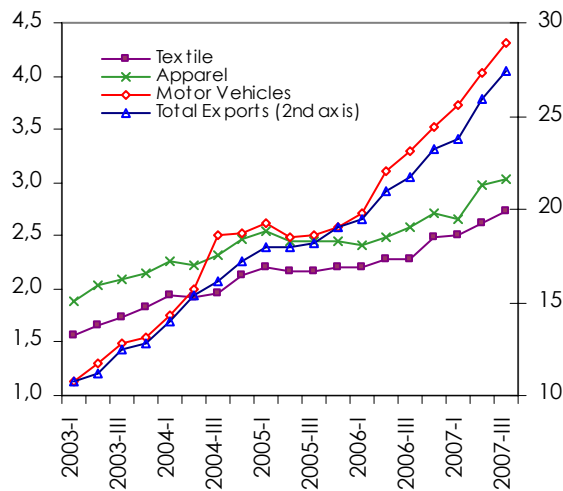
Currency Composition of Exports (% share)



Source: TU RK STAT.

20. According to seasonally adjusted data, nominal exports grew 5.4 percent in the third quarter over the previous quarter. During this period, seasonally adjusted nominal exports of motor vehicles, a leading export industry, increased by 6.6 percent, while textile and clothing exports were up 3.3 percent over the preceding quarter.

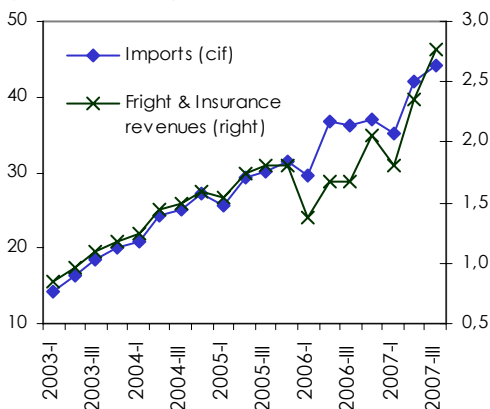
**Seasonally Adjusted Exports and Sub-Sectors (Billion US dollars)**



### Imports of Goods

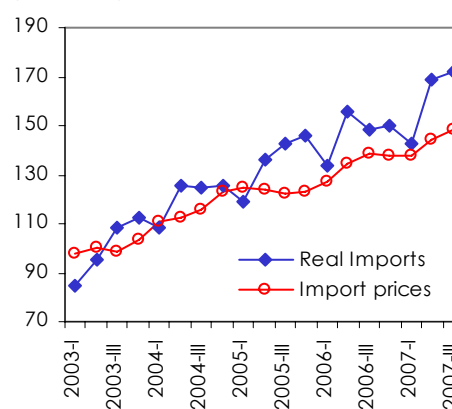
21. As a result of recovery in domestic demand, imports of both capital goods and consumption goods have been on the rebound since the second and third quarters of 2007, respectively. Besides, imports of intermediate goods have been growing steadily on the back of strong export performance. Hence, imports grew as high as 18.6 percent during January-September 2007. Import prices contributed 8.7 percentage points to total import growth.

**Imports (Billion US dollars)**



Source: CBT, TURKSTAT.

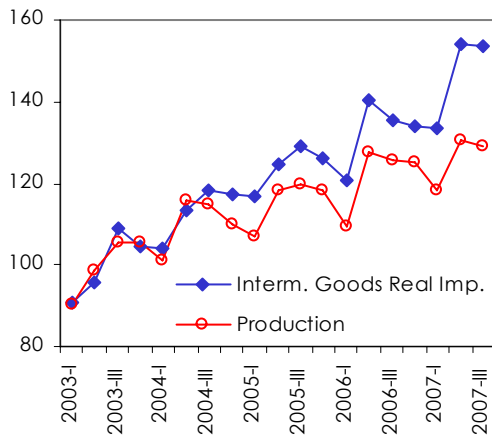
**Imports- Real and Unit Value (2003=100)**



Source: TURKSTAT.

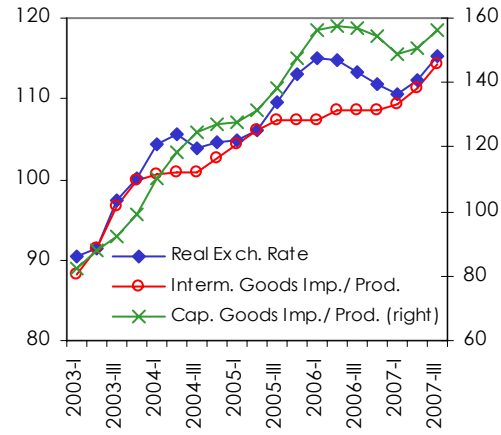
22. After a 0.8-percent decline in the first half of 2007, imports of consumption goods were up 21 percent in the third quarter, driven by the low base effect from 2006. The growth rate for imports of capital goods went down as low as 4.3 percent in the first quarter, but was back on the rise again in the second and third quarters, up 8.1 and 15.1 percent, respectively. The improvement in imports of capital goods is of particular importance as it signals a significant acceleration in investment expenditures.

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



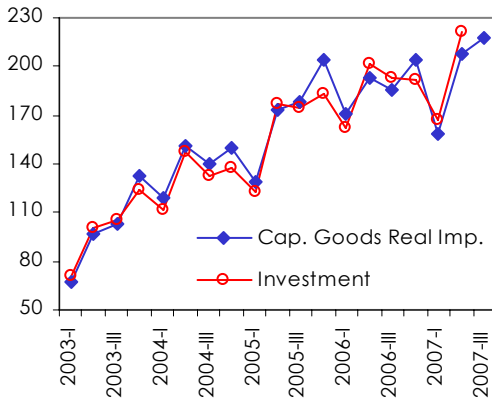
Source: TÜRKSTAT.

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



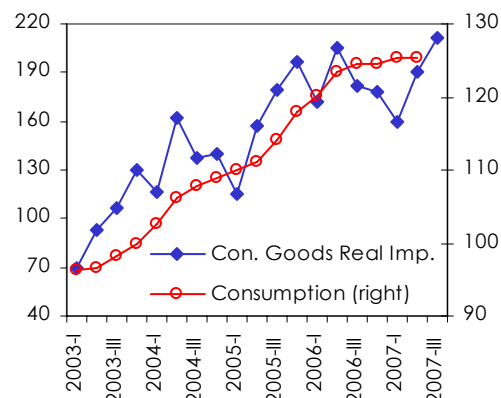
Source: TÜRKSTAT, CBT.

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



Source: TÜRKSTAT.

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



Source: TÜRKSTAT.

23. Among all industries, basic metals made the largest contribution to import growth in the first nine months of the year, mainly on account of both the commodity's increased import quantity and soaring prices. In fact, prices of basic metals climbed 18.8 percent and the real import growth of basic metals jumped 16.8 percent. Other key drivers of import growth were imports of chemicals and chemical products, machinery and equipment, wastes (for recycling), agricultural and farming of animals' products, and crude oil and natural gas.

24. The automobiles industry was the primary source of decline in imports of consumption goods after the turbulence in May and June 2006. Imports of automobiles dropped by 26.2 and 21 percent in the first and second quarters, respectively, but eventually grew as high as 17.8 percent in the third quarter. Motor gasoline imports also displayed the same pattern. Besides, imports of durables, semi-durables and non-durables continued to grow at a rapid pace during January-September.

25. Apart from automobiles, imports of industrial transport vehicles and equipment also displayed a rather weak performance in 2007 and fell 21.6 percent between January and September. Imports of spare parts and supplies for transport vehicles, on the other hand, increased by 15.3 percent during the same period following the robust growth in motor vehicle exports. Accordingly, the export growth of automobiles amounted to 19.9 percent.

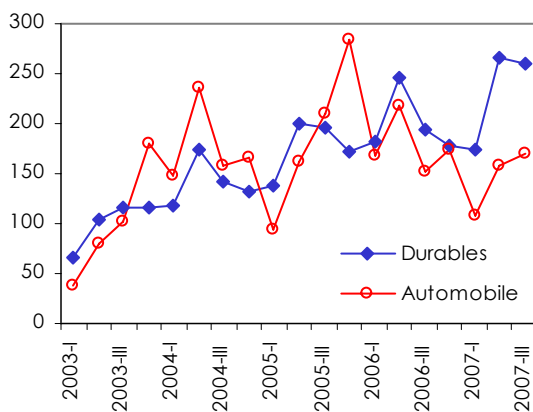
## Imports (Million US dollars)

	Jan-Sept					Share	
	2006	2007	% Change	% Contr.	\$ Contr.	2006	2007
	Total	102432	121506	18.6			
Capital Goods	16914	18516	9.5	1.6	1603	16.5	15.2
Intermediate Goods	73060	89192	22.1	15.7	16132	71.3	73.4
Consumption Goods	12135	12917	6.4	0.8	782	11.8	10.6
Other	323	880	172.6	0.5	557	0.3	0.7
Selected Items (ISIC Rev.3):							
Mining and Quarrying	15860	17579	10.8	1.7	1719	15.5	14.5
Crude oil and natural gas	14076	15172	7.8	1.1	1096	13.7	12.5
Textiles	3115	3935	26.3	0.8	819	3.0	3.2
Paper and paper products	1714	2082	21.5	0.4	368	1.7	1.7
Coke, petroleum products and nuclear fuel	5815	6385	9.8	0.6	569	5.7	5.3
Chemicals and chemical products	14479	17336	19.7	2.8	2857	14.1	14.3
Rubber and plastic products	1917	2255	17.6	0.3	338	1.9	1.9
Manufacture of basic metals	12475	17310	38.8	4.7	4835	12.2	14.2
Manufacture of fabricated metal prod(exc machir	1800	1994	10.8	0.2	194	1.8	1.6
Manufacture of machinery and equipment	10516	12173	15.8	1.6	1657	10.3	10.0
Electrical machinery and apparatus	3607	4429	22.8	0.8	822	3.5	3.6
Communication and apparatus	3471	4138	19.2	0.7	667	3.4	3.4
Medical, precision and opt. instr., watches	2071	2329	12.5	0.3	258	2.0	1.9
Motor vehicles and trailers	9863	10022	1.6	0.2	159	9.6	8.2
Other transport	1933	1321	-31.6	-0.6	-612	1.9	1.1
Waste and scrap (Wholesale and retail)	3010	4486	49.0	1.4	1476	2.9	3.7

Source: TURKSTAT.

### Durables & Automobile Imports

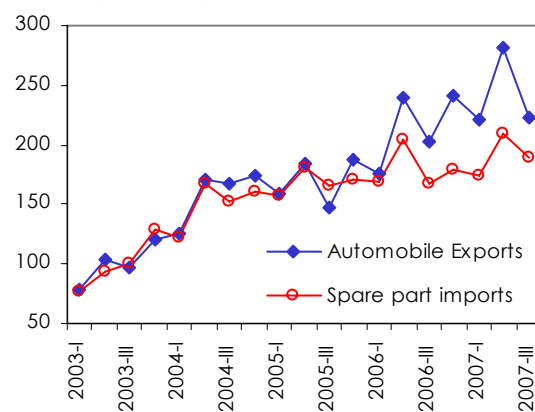
(2003=100)



Source: TURKSTAT.

### Spare part imp. of trans. vehicles & Auto.

Exports (2003=100)

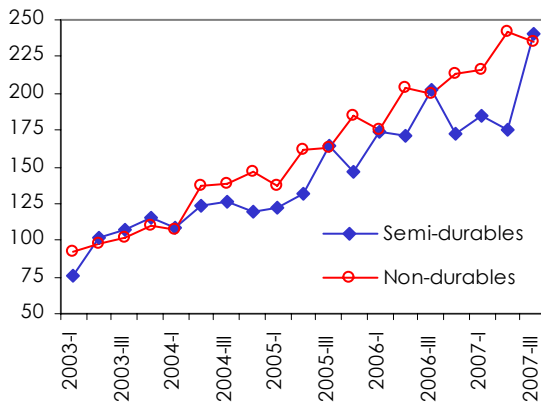


Source: TURKSTAT.

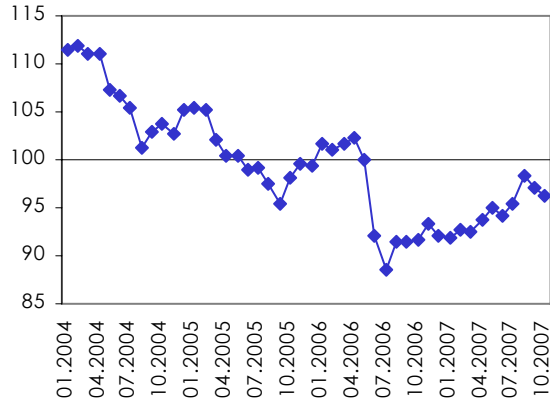
26. The consumer confidence index released by CBT/TURKSTAT suggests that private consumption rebounded slightly during April-June and significantly during July-September. Yet, the index still lags behind its level before 2006.

**Semi and non-durables Imp.**

(2003=100)



Source: TURKSTAT.

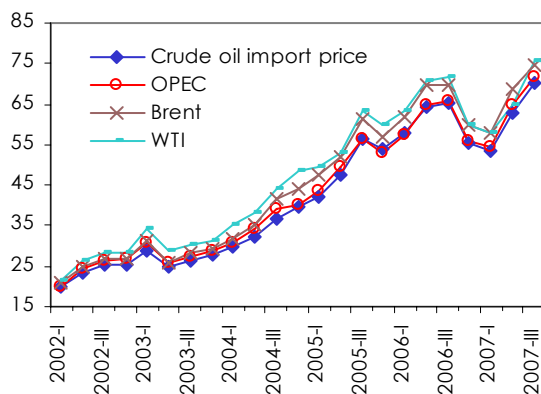
**Confidence Index (CBT-TURKSTAT)**

Source: CBT, TURKSTAT, NTVMSNBC.

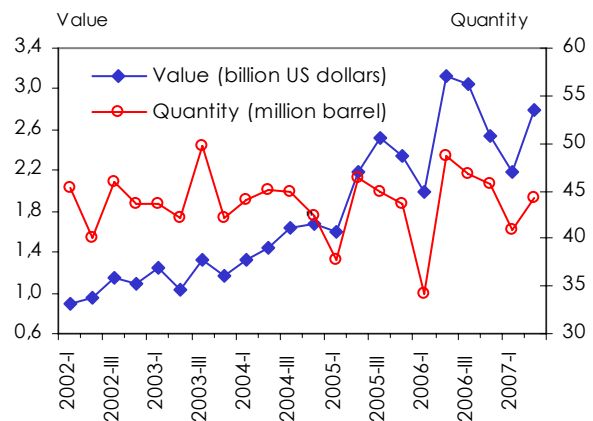
27. Oil prices have been on the rise again since early 2007 after a fall in the last quarter of 2006. Production cuts by OPEC, higher-than-expected demand, ongoing tensions in the Middle East and fluctuations in the dollar exchange rate have recently driven crude prices to record highs. The upturn in oil prices strengthens the possibility that the dollar value of imports of intermediate goods will gain momentum in the upcoming period.

**Crude Oil Prices**

(US dollar per barrel, average)



Source: SPO, OPEC, EIA.

**Crude Oil Imports**

Source: TURKSTAT.

28. Apart from basic metals, import prices of food and beverages, wastes (for recycling), chemicals and chemical products, plastic and rubber products and paper products also picked up during 2007. Import prices of crude oil, natural gas and electrical machinery and apparatus rose again in the third quarter after the first-half downside.

29. As regards import quantity indices, imports of basic metals, electrical machinery and apparatus, communication equipment (radio, TV, etc) and textiles grew faster than the total import growth in the second quarter. On the other hand, the import volume of food and beverages has been on the decline since the last quarter of 2006. The real imports of motor vehicles have soared again in the third quarter of 2007, reversing the downtrend since the third quarter of 2006.

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

	2006				2006	2007		
	I	II	III	IV		I	II	III
Total	2.0	8.4	13.0	11.5	8.8	8.2	7.2	7.0
Capital Goods	-8.5	3.3	10.1	10.2	4.3	12.7	0.6	-2.3
Intermediate Goods	6.5	13.2	17.5	17.2	13.8	13.6	8.1	8.0
Consumption Goods	-7.4	-1.2	5.0	6.8	1.3	7.6	6.0	4.4
Selected Items (ISIC Rev.3):								
Food products and beverages	-2.5	-5.7	1.3	8.2	0.2	10.2	19.7	19.2
Textiles	-2.5	-1.9	5.1	7.5	2.4	5.5	3.5	2.9
Paper and paper products	-3.0	4.3	9.3	10.3	5.3	10.9	8.1	8.2
Coke, petroleum products and nuclear fuel	29.1	22.9	17.1	-1.1	15.9	-3.6	5.1	6.3
Chemicals and chemical products	-6.8	-1.8	7.0	7.5	1.6	5.9	7.0	8.2
Rubber and plastic products	-4.1	4.4	8.2	9.1	4.6	8.7	7.1	6.1
Manufacture of basic metals	3.5	20.8	40.7	39.1	24.2	26.1	16.6	11.5
Man. of fabricated metal prod(exc mach)	-3.2	4.2	7.7	11.6	6.3	10.0	2.0	4.6
Manufacture of machinery and equipment	-8.7	-1.8	1.9	6.3	0.2	8.3	0.9	2.5
Electrical machinery and apparatus	-2.4	2.3	0.1	-4.2	-1.4	-4.1	-2.3	6.1
Communication and apparatus	-15.9	-5.5	4.2	3.8	-3.8	5.1	13.8	4.1
Medical, precision and opt. instr., watches	-3.8	-0.3	-7.4	8.9	-0.5	2.7	7.2	16.2
Motor vehicles and trailers	-5.3	4.2	10.8	11.8	5.7	9.2	6.6	4.9
Waste and scrap (Wholesale and retail)	-11.5	5.5	29.8	16.3	10.0	31.5	32.5	20.0

Source: TURKSTAT.

**Import – Quantity Indices (2003=100)**  
(Annual Percentage Change)

	2006				2006	2007		
	I	II	III	IV		I	II	III
Total	12.5	14.3	4.4	3.3	8.5	6.2	8.2	15.5
Capital Goods	32.4	11.9	3.7	-0.4	10.0	-7.5	7.5	17.8
Intermediate Goods	3.4	12.9	5.0	6.1	6.9	10.8	9.6	13.6
Consumption Goods	48.6	30.3	1.9	-9.0	13.8	-7.0	-7.1	15.8
Selected Items (ISIC Rev.3):								
Food products and beverages	10.5	35.7	18.6	-1.8	15.8	-7.9	-18.5	-15.0
Textiles	3.8	3.1	6.6	1.5	3.6	15.8	27.7	19.8
Paper and paper products	11.3	7.0	12.9	9.5	10.2	1.3	15.3	14.3
Coke, petroleum products and nuclear fuel	28.3	22.7	19.6	-2.3	15.9	-6.3	-0.4	8.0
Chemicals and chemical products	12.2	12.0	7.4	8.7	9.8	6.3	12.6	11.8
Rubber and plastic products	21.5	18.1	12.4	7.7	14.5	2.4	6.4	15.8
Manufacture of basic metals	-14.2	11.5	-7.0	3.2	-0.3	13.2	9.6	28.3
Man. of fabricated metal prod(exc mach)	22.3	16.6	21.2	15.4	17.7	-1.3	8.7	4.8
Manufacture of machinery and equipment	24.4	25.4	13.9	5.5	16.1	2.2	13.4	14.0
Electrical machinery and apparatus	37.2	10.1	21.5	12.0	19.5	2.6	33.0	28.0
Communication and apparatus	24.8	8.0	6.5	2.0	10.0	1.1	5.0	21.5
Medical, precision and opt. instr., watches	25.3	13.8	5.2	0.8	10.3	-6.0	4.2	7.4
Motor vehicles and trailers	32.4	17.4	-11.1	-19.9	1.2	-16.3	-11.5	9.9
Waste and scrap (Wholesale and retail)	-7.0	32.1	-2.4	31.5	11.8	40.8	13.1	-0.5

Source: TURKSTAT.

30. The share of imports from EU in overall imports declined between January and September compared to year-ago levels, following the increased volume of imports from Russia and China. Imports from Ukraine and India also acquired an increased share in Turkey's total imports. Only these four countries added 7.7 percentage points to the overall 18.6-percent import growth. On the other hand, imports from Libya have fallen sharply. Thus, the January-September share of imports from Libya in overall imports narrowed to 0.2 percent from 1.7 percent a year earlier.



### Imports – Country Decomposition (Million US dollars)

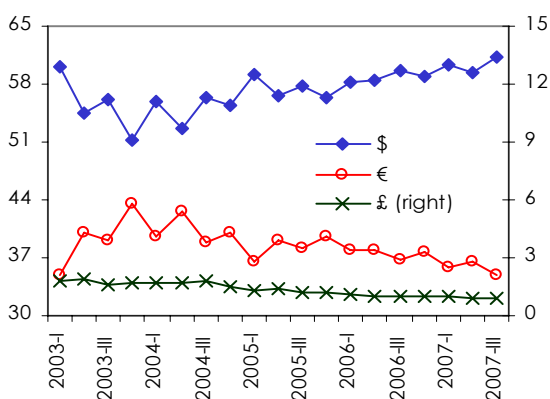
	Jan-Sept						
	2006		2007		%	%	\$
	Value	Share (%)	Value	Share (%)	Change	Contrib.	Contrib.
Total	102432	..	121506	..	18.6		
EU countries	43821	42.8	48912	40.3	11.6	5.0	5092
Other countries	57947	56.6	71709	59.0	23.7	13.4	13762
Other European	18628	18.2	24680	20.3	32.5	5.9	6052
East Asian	18617	18.2	24026	19.8	29.1	5.3	5409
Other	20702	20.2	23003	18.9	11.1	2.2	2301
Free Zones in Turkey	664	0.6	884	0.7	33.2	0.2	220
Selected countries and country groups							
OECD	57348	56.0	65739	54.1	14.6	8.2	8392
Germany	10996	10.7	12598	10.4	14.6	1.6	1602
Italy	6333	6.2	7195	5.9	13.6	0.8	862
USA	4506	4.4	5917	4.9	31.3	1.4	1411
France	5453	5.3	5445	4.5	-0.2	0.0	-8
Switzerland	3176	3.1	4141	3.4	30.4	0.9	965
İngiltere	3740	3.7	3926	3.2	5.0	0.2	186
Spain	2874	2.8	3019	2.5	5.1	0.1	145
Belgium	1810	1.8	2105	1.7	16.3	0.3	294
Other OECD	18460	18.0	21394	17.6	15.9	2.9	2934
Middle East countries	8190	8.0	8844	7.3	8.0	0.6	654
Iran	4429	4.3	4970	4.1	12.2	0.5	541
Russian Fed.	12541	12.2	16429	13.5	31.0	3.8	3888
China	7090	6.9	9380	7.7	32.3	2.2	2291
Ukraine	2325	2.3	3438	2.8	47.9	1.1	1113
S. Korea	2537	2.5	3051	2.5	20.3	0.5	514
Japan	2388	2.3	2535	2.1	6.2	0.1	147
Romania	1992	1.9	2286	1.9	14.8	0.3	294
India	1128	1.1	1690	1.4	49.8	0.5	562
Libya	1725	1.7	270	0.2	-84.4	-1.4	-1456

Source: TURKSTAT.

31. Following the decline in imports from EU, the use of the euro in imports during 2007 lagged behind its year-ago level, while the US dollar's share in imports grew larger. This trend was mainly attributable to the shift in imports towards Russia, Iran and countries of East Asia. The share of the pound sterling in imports, on the other hand, still displays a steady decline.

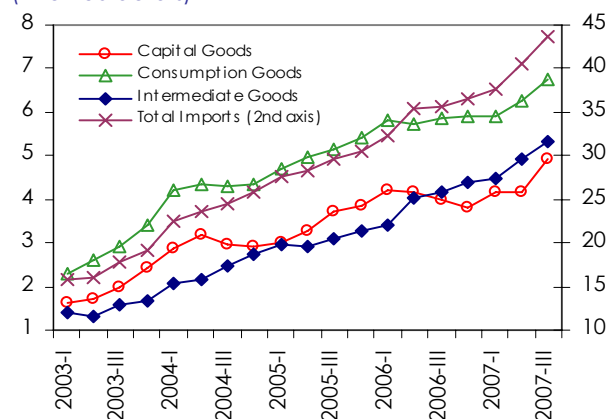
32. In seasonally adjusted terms, (USD-denominated) imports grew by 8 percent in the third quarter following the 7.8-percent growth in the second quarter. As regards sub-items, seasonally adjusted imports of capital goods registered the largest gain during the third quarter.

### Currency Composition of Imports (% share)



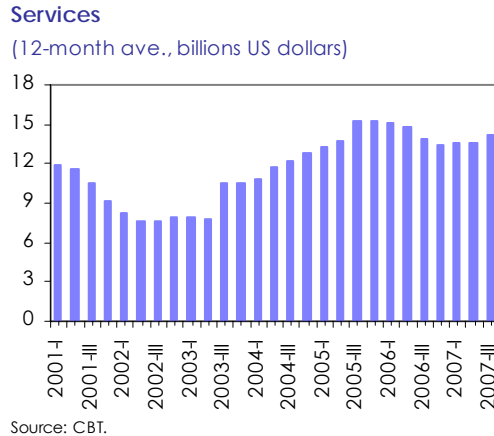
Source: TURKSTAT.

### Seasonally Adjusted Imports and Sub-Sectors (Billion US dollars)



## Services Account

33. After a weak performance in 2006 due to falling tourism revenues, the surplus in the services account has been growing again since January 2007. Yet, revenues from construction services, which have maintained an increased share in services revenues in recent years, were generally low in 2007.



## Services Account

(Million US dollars)

	2006				2007		
	I	II	III	IV	I	II	III
Services	1162	2847	7284	2069	1319	2835	7989
Total income	3466	5675	10328	5027	4097	6292	11901
Total Expenses	-2304	-2828	-3044	-2958	-2778	-3457	-3912
Transportation	-155	-40	370	-254	36	109	269
Credit	718	998	1410	1104	1083	1576	2125
Debit	-873	-1038	-1040	-1358	-1047	-1467	-1856
Tourizm	1434	2946	7219	2511	1490	2825	7923
Credit	2002	3693	8038	3120	2162	3728	8732
Debit	-568	-747	-819	-609	-672	-903	-809
Construction serv.	212	249	234	184	190	228	139
Credit	212	249	234	184	190	228	139
Debit	0	0	0	0	0	0	0
Financial serv.	-82	-53	-74	-38	-79	-41	-26
Credit	61	67	69	80	73	88	114
Debit	-143	-120	-143	-118	-152	-129	-140
Other serv.	-247	-255	-465	-334	-318	-286	-316
Credit	473	668	577	539	589	672	791
Debit	-720	-923	-1042	-873	-907	-958	-1107

Source: CBT.

34. Tourism revenues registered a growth of only 6.5 percent between January and September since the average spending per tourist decreased by 9 percent although the number of departing citizens and foreigners increased by 17 percent. Moreover, tourism expenditures were up 11.7 percent, raising net tourism revenues by 5.5 percent.

## Tourism Statistics

	2006				2007		
	I	II	III	IV	I	II	III
Tourism Revenues (million US dollars)	2002	3693	8037	3119	2163	3727	8732
Departing foreigner visitors (x1000)	2138	4912	8302	3924	2552	5777	9941
Departing citizen visitors (x1000)	597	629	1838	808	640	710	1930
Tourism Expenditures (million US dollars)	568	747	819	609	671	903	809
Arriving citizen visitors (x1000)	905	1170	1161	827	1174	1356	1137

Source: TURKSTAT, CBT.

## Income Account

35. The investment income account posted a deficit of USD 5.2 billion with a 7.3 percent rise in the January-September period. The deficit widened mainly because of growing interest payments driven by long-term borrowings by the private sector, and increased outward transfer of profits due to the large direct investment inflow in recent years. Gains from portfolio investments and interests could partly compensate for the deficit.

### Income Account (Million US dollars)

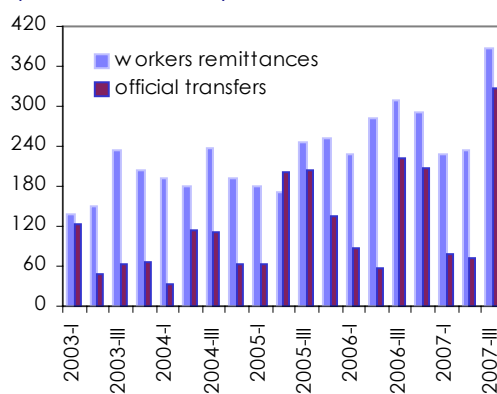
	2006				2007		
	I	II	III	IV	I	II	III
Income (net)	-1490	-1632	-1685	-1782	-1908	-1466	-1784
Compensation of Employees (net)	-22	-26	-29	-30	-29	-28	-27
Investment Income	-1468	-1606	-1656	-1752	-1879	-1438	-1757
Total income	1184	957	1227	1105	1675	1394	1664
Total Expenses	-2652	-2563	-2883	-2857	-3554	-2832	-3421
Direct investment	-143	-377	-218	-230	-308	-568	-389
Credit	59	65	43	52	53	75	42
Debit	-202	-442	-261	-282	-361	-643	-431
Portfolio investment	-426	-29	-162	-45	-566	372	-74
Credit	829	591	795	586	1084	794	1065
Debit	-1255	-620	-957	-631	-1650	-422	-1139
Other investment	-899	-1200	-1276	-1477	-1005	-1242	-1294
Interest income	296	301	389	467	538	525	557
interest expenses	-1195	-1501	-1665	-1944	-1543	-1767	-1851
Long-term	-1053	-1298	-1431	-1717	-1367	-1625	-1649
Monetary A.	-186	-135	-364	-159	-123	-91	-230
Gen. Gov.	-359	-531	-367	-550	-394	-498	-316
Banks	-109	-136	-191	-177	-216	-279	-317
Other sector	-399	-496	-509	-831	-634	-757	-786
Short-term	-142	-203	-234	-227	-176	-142	-202

Source: CBT.

## Current Transfers

36. During January-September 2007, current transfers, composed of workers' remittances and official transfers, increased by 11.6 percent to USD 1.3 billion. The share of official transfers still lags behind that of workers' remittances, but keeps growing at a steady pace.

### Current Transfers (Million US dollars)



Source: CBT.

### III. CAPITAL MOVEMENTS

37. In the first nine months of 2007, external financing requirement, defined as the sum of current account plus net errors and omissions, was equivalent to USD 25.5 billion. During this period, the net capital inflow (excluding reserve shifts and IMF loans) amounted to USD 39.7 billion. The financing structure was heavily shaped by direct investments and long-term credit inflows. Long-term borrowings by commercial banks and the purchase of shares by foreign investors have also been important sources of financing.

38. As a result, gold-included CBT reserves increased to USD 74.5 billion at end-September from USD 63.3 billion at end-2006, foreign exchange assets of commercial banks rose from USD 27.5 billion to USD 31 billion during the same period.

#### External Financing Requirements and Resources (Billion US dollars)

	2006	2006				2007			(12-month)
		I	II	III	IV	I	II	III	2007-III
<b>1. Current Account</b>	<b>-32.9</b>	<b>-8.7</b>	<b>-10.9</b>	<b>-4.9</b>	<b>-8.3</b>	<b>-9.3</b>	<b>-10.1</b>	<b>-6.7</b>	<b>-34.4</b>
<b>2. Net Errors and Omissions</b>	<b>-2.2</b>	<b>-0.7</b>	<b>1.8</b>	<b>-2.3</b>	<b>-1.0</b>	<b>1.0</b>	<b>2.1</b>	<b>-2.6</b>	<b>-0.4</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-35.1</b>	<b>-9.4</b>	<b>-9.1</b>	<b>-7.2</b>	<b>-9.3</b>	<b>-8.2</b>	<b>-7.9</b>	<b>-9.3</b>	<b>-34.8</b>
<b>II. Total Financing (=1+2+3)</b>	<b>35.1</b>	<b>9.4</b>	<b>9.1</b>	<b>7.2</b>	<b>9.3</b>	<b>8.2</b>	<b>7.9</b>	<b>9.3</b>	<b>34.8</b>
<b>1. Capital Flows (net)</b>	<b>56.0</b>	<b>17.2</b>	<b>11.3</b>	<b>10.8</b>	<b>16.7</b>	<b>17.2</b>	<b>14.8</b>	<b>7.8</b>	<b>56.5</b>
<b>Direct Investment (net)</b>	<b>19.0</b>	<b>1.4</b>	<b>7.8</b>	<b>3.5</b>	<b>6.3</b>	<b>8.1</b>	<b>2.5</b>	<b>3.0</b>	<b>19.8</b>
<b>Portfolio Investment (net)</b>	<b>7.4</b>	<b>3.6</b>	<b>-4.5</b>	<b>4.1</b>	<b>4.2</b>	<b>4.5</b>	<b>1.5</b>	<b>-2.1</b>	<b>8.1</b>
General Gov. Eurobond Issues	3.3	2.3	-0.6	0.8	0.8	3.4	-1.0	-0.5	2.6
Nonresidents' Security Buyings in Turkey	8.1	1.6	-3.8	4.6	5.7	1.8	2.9	-0.1	10.3
Residents' Security Buyings Abroad	-4.0	-0.3	-0.1	-1.3	-2.3	-0.7	-0.4	-1.5	-4.8
<b>Credit Drawing (excl. IMF loan, net)</b>	<b>26.9</b>	<b>11.2</b>	<b>8.1</b>	<b>3.9</b>	<b>3.7</b>	<b>7.9</b>	<b>11.8</b>	<b>7.9</b>	<b>31.3</b>
General Government	-0.7	-0.2	-0.2	0.3	-0.6	0.1	-0.4	0.3	-0.6
Banks	5.8	2.4	3.0	0.3	0.1	0.9	3.3	0.2	4.5
Long-term	9.8	1.3	3.2	0.7	4.5	2.1	2.6	1.9	11.2
Short-term	-4.0	1.1	-0.2	-0.5	-4.4	-1.3	0.7	-1.7	-6.6
Other Sector	21.8	8.9	5.3	3.3	4.2	6.9	8.9	7.4	27.3
Long-term	18.6	8.6	3.2	2.9	3.9	6.7	6.3	5.7	22.6
Short-term	0.5	0.1	0.1	0.3	0.0	-0.1	0.6	0.5	1.0
Trade Credits	2.6	0.2	2.0	0.1	0.2	0.3	2.0	1.2	3.7
<b>Deposits</b>	<b>4.6</b>	<b>1.5</b>	<b>0.3</b>	<b>-1.1</b>	<b>3.9</b>	<b>-3.4</b>	<b>-0.5</b>	<b>-1.5</b>	<b>-1.5</b>
in Central Bank	-1.3	-0.2	-0.3	-0.5	-0.3	-0.3	-0.3	-0.6	-1.4
in banks	5.9	1.6	0.6	-0.6	4.2	-3.2	-0.3	-0.9	-0.1
<b>Other</b>	<b>-1.9</b>	<b>-0.4</b>	<b>-0.5</b>	<b>0.4</b>	<b>-1.4</b>	<b>0.1</b>	<b>-0.4</b>	<b>0.5</b>	<b>-1.2</b>
<b>2. IMF Loans</b>	<b>-4.5</b>	<b>-1.8</b>	<b>-1.8</b>	<b>0.1</b>	<b>-1.0</b>	<b>-2.3</b>	<b>0.0</b>	<b>-1.0</b>	<b>-4.2</b>
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Government	-4.5	-1.8	-1.8	0.1	-1.0	-2.3	0.0	-1.0	-4.2
<b>3. Change in Reserves (- increase)</b>	<b>-16.4</b>	<b>-6.0</b>	<b>-0.3</b>	<b>-3.6</b>	<b>-6.5</b>	<b>-6.6</b>	<b>-6.9</b>	<b>2.5</b>	<b>-17.5</b>
Banks' FX assets	-10.3	1.1	-3.3	-2.8	-5.3	-0.2	-6.4	3.6	-8.3
Official Reserves	-6.1	-7.1	3.0	-0.8	-1.2	-6.4	-0.5	-1.0	-9.1

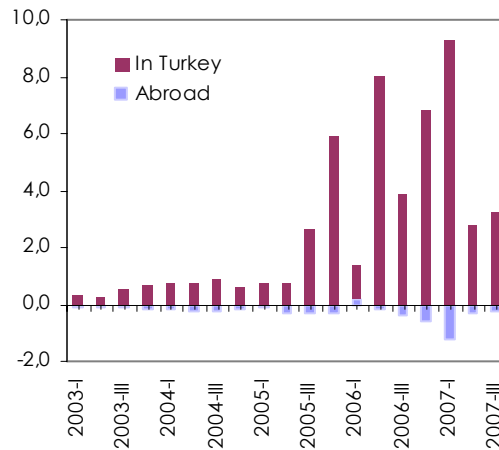
Source: CBT.

#### Direct Investments

39. Following the sizeable increase in 2006, direct investments continued to grow between January and September. During this period, 34.1 percent of the net capital inflow (excluding IMF loans and reserve shifts) was generated by direct investments. The increased share of direct investments as non-debt capital inflows remains important for securing the sustainability and financing of the current account deficit.

40. In this period, while the share of banking sector in total direct capital inflows is high, nonresidents' real estate buying in Turkey stands as another significant item within direct investment inflows. Real estate buying yielded a USD 2.2bn-worth direct capital inflow between January and September.

### Direct investments (Billion US dollars)

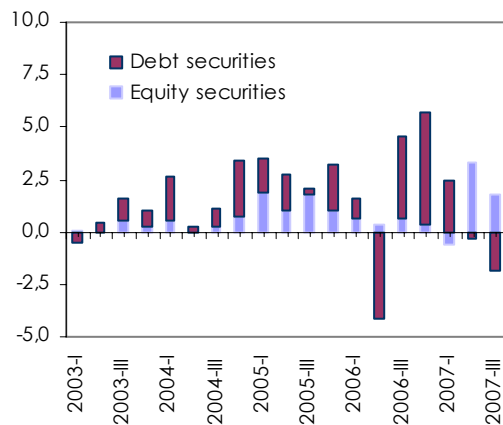


Source: CBT.

### Portfolio Investments

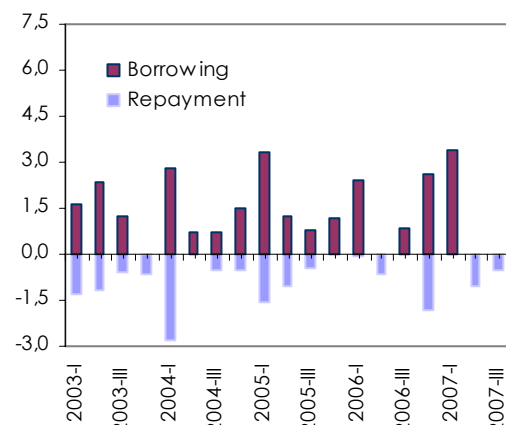
41. The capital inflow dominated by portfolio investments remained elevated during the first seven months of 2007, but the worsened risk perceptions in international credit markets during August-September and the heightened concerns over their spillover effect into the broader economy led to fluctuations in financial markets and an outflow in portfolio capitals. Between August and September, nonresidents sold USD 3.6 billion worth of government securities and bought USD 0.6 billion worth of equity securities. Accordingly, government securities and equity securities acquired by nonresidents in the first nine months of the year amounted to USD 0.2 billion and USD 4.4 billion, respectively. Besides, the Treasury issued USD 3.4 billion worth of bonds abroad and repaid USD 1.6 billion.

#### Security buyings of non-residents (billion US dollars)



Source: CBT, ISE.

#### Eurobond issues of General Gov. (billion US dollars)



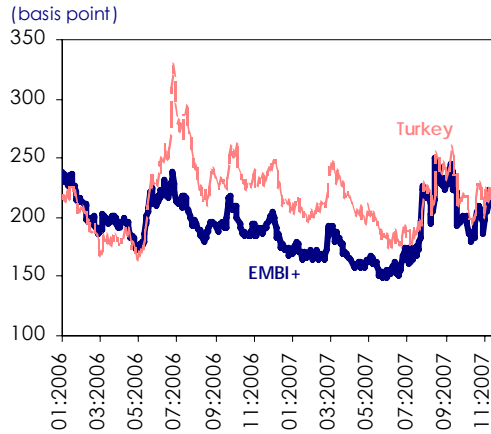
Source: CBT.

42. Acknowledging that the recent data on domestic growth signal a benign medium-term inflation outlook and that changes in the global economy might restrain both domestic and foreign demand growth, the Monetary Policy Committee (MPC) started to cut rates steadily after a long period of unchanged policy. The rate cuts in September, October and November totaled 125 basis points, and thus, effective from November 15, 2007, the overnight borrowing rate and lending rate applied in CBT's Interbank Money Market and Istanbul Stock Exchange Repo/Reverse Repo Market were lowered to 16.25 and 20.75 percent, respectively.

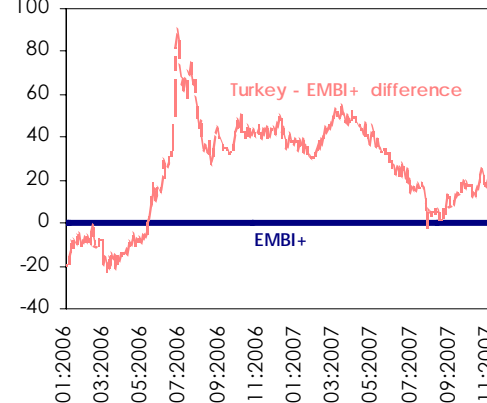
43. In the third quarter, the volatility in global financial markets reduced investors' appetite for emerging market assets and widened yield spreads between local and US

bonds. After hitting 149 basis points on June 1, 2007, the JPMorgan Emerging Markets Bond Index (EMBI+) reached 251 basis points in August. Later, liquidity injections and rate cuts by the Fed and ECB brought relative stability to financial markets and strengthened the risk appetite.

### Secondary Market Spreads



### Turkey's position compared to EMBI+ average spread (basis point)



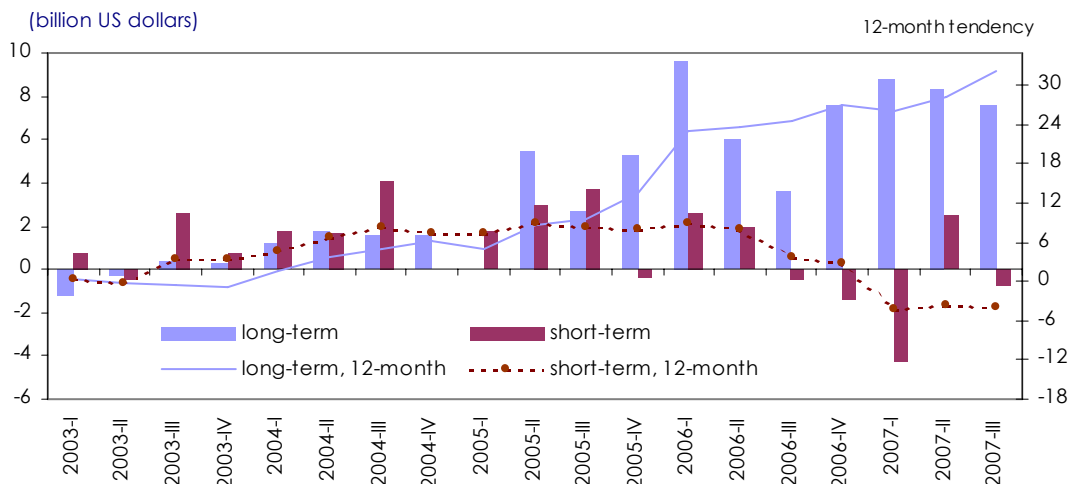
Spread: The difference between the quoted rates of return on countries' security issues and US bonds.

### Other Investments

44. The recent upsurge in the share of long-term credits in total financing continued in the third quarter of 2007. Accordingly, during the January-September period, long-term credits made up 62.2 percent of the net capital inflows excluding reserve shifts and IMF loans. In addition, net repayment was done in short-term loans.

45. The private sector borrowed at long-term USD 18.7 billion during January-September 2007, which also includes Oger Telecom's long-term external borrowing in March to finance the acquisition of Turk Telecom. Long-term borrowings by commercial banks amounted to USD 6.7 billion through the entire period. The banks repaid their short-term loans, while the private sector borrowed an amount of USD 1 billion of short-term loans.

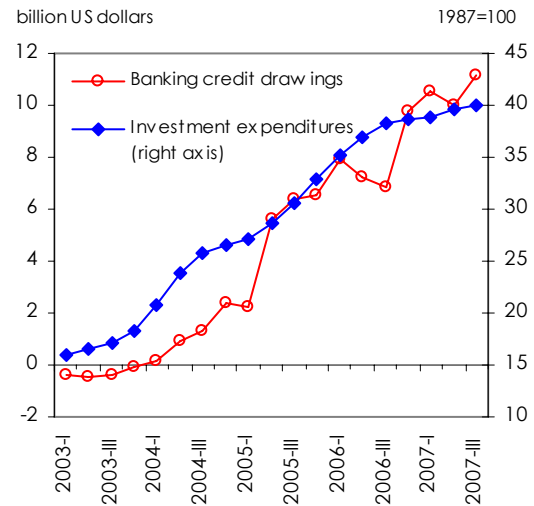
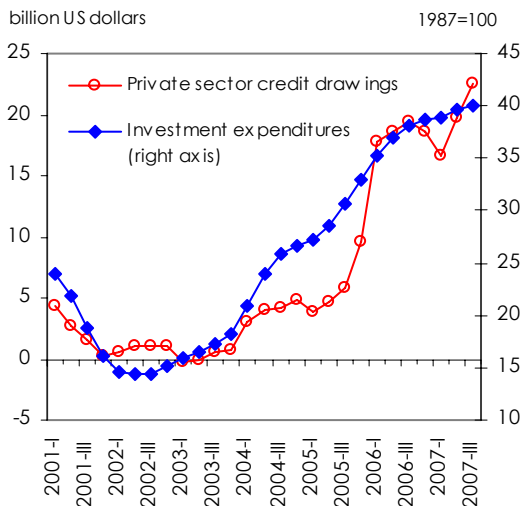
### Long and Short-term capital



46. Long-term borrowing displayed a sharp increase along with the 6.1 percent GDP growth and the 17.4 percent rise in private sector investment expenditures in 2006. In May and June, however, the uncertainty arising from global financial instability and the monetary tightening adversely affected the pace of investment expenditures in the third and fourth quarters of 2006.

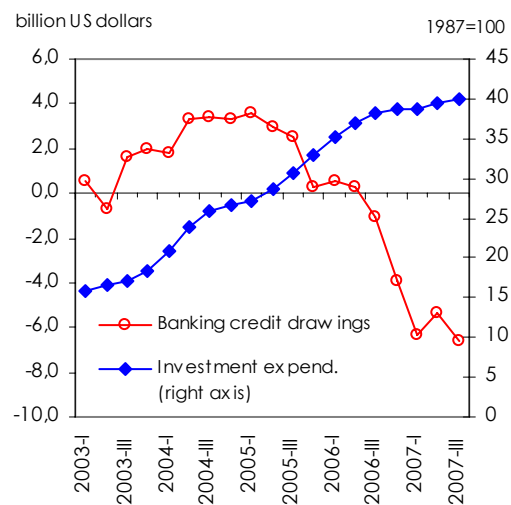
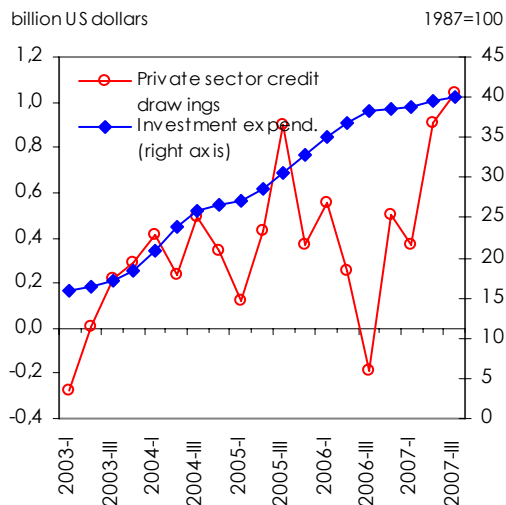
47. Investment expenditures gained significant momentum in the second quarter following the first-quarter slowdown, as long-term borrowing and imports of investment goods grew at a rapid pace. In the third quarter, long-term credit borrowing was strong which signals an ongoing recovery of investment expenditures. Besides, the link between short-term borrowing, which holds a reduced share in total financing, and investment expenditures has weakened.

#### Long-term net credit use and private sector investment expenditures (12-month cumulative)



Source: CBT, TURKSTAT.

#### Short-term net credit use and private sector investment expenditures (12-month cumulative)



Source: CBT, TURKSTAT.

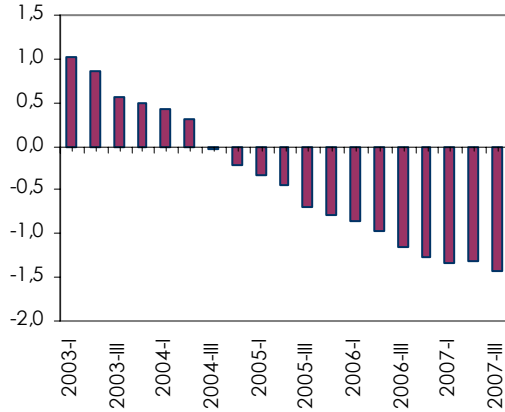
48. At the end of 2005, the CBT completed the repayment of IMF loans used before and during 2001. The Treasury continued to repay some of its IMF loans in 2007. Between January and September, the amount repaid to IMF equaled USD 3.3 billion in net.

49. The outflow from long-term FX deposit accounts and super FX accounts opened by nonresident Turkish workers at CBT continues since April 2003. The outflow from short-term deposit accounts that started in the second quarter of 2004 still continues. As a result, the related deposits at CBT decreased by USD 1.1 billion during January-September. These outflows can be attributed to the gradual interest rate cut on both FX deposit accounts and super FX accounts. In fact, 1-, 2- and 3-year maturity euro-denominated super FX account rates, which were in 2002, 8, 9 and 10 percent, respectively, reduced on March 6, 2006, to 2.25, 3.25 and 3.75 percent, respectively.

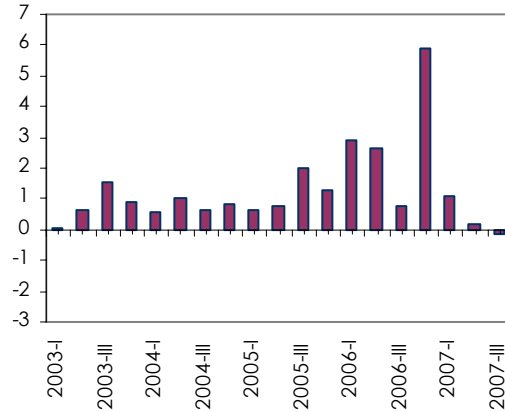
50. Domestic banks attracted USD 5.9 billion of nonresidents' deposits over 2006, but saw a USD 4.3 billion outflow in the January-September period of 2007.

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

FX deposits with credit letter and Super FX accounts



Deposits in banks



Source: CBT.

51. In the second quarter of 2007, total external debt stock rose by 8.9 percent to USD 226.2 billion compared to end-2006. Private sector was the main source of this growth, while public sector only made a limited contribution. USD 185.3 billion of the total external debt stock involves medium- and long-term external debts, whereas short-term debts amount to USD 40.9 billion. Thus, the share of long-term debts in total external debt stock has widened to 81.9 percent.

52. The improvement seen in external debt indicators in 2005 reversed in 2006. The ratio of external debt stock to GDP that was reduced to 46.7 percent at end-2005 increased to 52.8 percent in the second quarter of 2007.

**Selected External Debt Indicators (%)**

	2005				2006				2007	
	I	II	III	IV	I	II	III	IV	I	II
External Debt Stock / GDP	51.2	49.4	47.6	46.7	49.7	50.2	50.6	51.9	52.2	52.8
External Debt Stock / Exports*	238.2	231.7	229.9	229.9	246.1	246.1	242.7	242.9	238.2	237.8
Debt Service / GDP	9.7	10.2	10.2	10.1	9.5	9.4	9.1	9.6	10.4	10.4
Long-term / External Debt	80.0	79.5	77.9	78.0	78.3	77.9	78.8	79.6	82.3	81.9
Short-term / External Debt	20.4	21.1	22.7	22.0	21.7	22.1	21.2	20.4	17.6	18.1
<i>Memo:</i>										
External Debt Stock (billion \$)	159.3	161.1	164.7	168.9	184.2	192.0	197.5	207.8	214.6	226.4
GDP (billion \$)	311.2	326.2	346.3	361.5	370.9	382.3	390.3	400.0	411.0	429.0

\* Excluding shuttle trade and other goods.

Source: TURKSTAT, Undersecretariat of Treasury.



## IV. APPENDIX

## CURRENT ACCOUNT (USD million)

	Current Account										
	Net	Foreign Trade			Services		Income		Transfers		
	Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances	
	(annual)										
2000	-9823	-21960	27775	2946	-54503	11375	7636	-4002	-4825	4764	4560
2001	3393	-3730	31334	3039	-41399	9136	8090	-5000	-5497	2987	2786
2002	-1519	-7283	36059	4065	-51554	7885	8479	-4554	-4395	2433	1936
2003*	-8036	-14010	47253	3953	-69340	10511	13203	-5557	-4544	1020	729
2004	-15599	-23878	63167	3880	-97540	12797	15888	-5635	-4312	1117	804
2005	-22604	-33530	73476	3473	-116774	15272	18152	-5800	-5009	1454	851
2006	-32866	-41326	85534	6408	-139577	13362	16853	-6589	-6305	1687	1111
	(quarterly)										
2006 III	-4922	-11053	21485	2096	-36138	7284	8038	-1685	-1665	532	309
IV	-8344	-9131	24134	1931	-37145	2069	3120	-1782	-1944	500	292
2007 I	-9280	-8996	23176	1285	-35178	1319	2162	-1908	-1543	305	228
II	-10080	-11755	26405	1742	-42127	2835	3728	-1466	-1767	306	234
III	-6694	-13613	26620	1365	-44200	7989	8732	-1784	-1851	714	387
	(monthly)										
2006 Oct	-2247	-3173	6889	565	-11200	1167	1450	-392	-546	151	103
Nov	-3052	-2862	8641	698	-12897	471	888	-836	-833	175	90
Dec	-3045	-3096	8604	668	-13048	431	782	-554	-565	174	99
2007 Jan	-2966	-3097	6565	392	-10551	466	727	-437	-423	102	71
Feb	-3216	-2729	7655	418	-11393	262	624	-843	-517	94	71
Mar	-3098	-3170	8956	475	-13234	591	811	-628	-603	109	86
Apr	-3273	-3456	8304	556	-12926	697	921	-583	-565	69	85
May	-3651	-4265	9140	649	-14938	895	1270	-391	-625	110	81
Jun	-3156	-4034	8961	537	-14263	1243	1537	-492	-577	127	68
Jul	-2797	-4900	8918	362	-15112	2161	2583	-412	-459	354	127
Aug	-2051	-5029	8709	523	-15056	3269	3404	-488	-691	197	138
Sep	-1846	-3684	8993	480	-14032	2559	2745	-884	-701	163	122
	(12-month)										
2006 Oct	-33301	-41941	81478	5681	-134988	13286	16864	-6234	-5850	1588	1081
Nov	-33748	-41917	84176	6051	-138212	13060	16808	-6558	-6166	1667	1097
Dec	-32866	-41326	85534	6408	-139577	13362	16853	-6589	-6305	1687	1111
2007 Jan	-33577	-42003	86966	6562	-141982	13397	16858	-6641	-6422	1670	1105
Feb	-33516	-41772	88563	6652	-143579	13417	16933	-6835	-6430	1674	1108
Mar	-33439	-41627	90108	6742	-145208	13519	17013	-7007	-6653	1676	1111
Apr	-32784	-40921	91956	6838	-146547	13613	16997	-7150	-6761	1674	1125
May	-32336	-40571	94054	6992	-148791	13497	17022	-6891	-6796	1629	1080
Jun	-32626	-40935	95200	7054	-150588	13507	17048	-6841	-6919	1643	1063
Jul	-33650	-42268	97051	6825	-153991	13601	17275	-6852	-6929	1869	1099
Aug	-34114	-43130	98949	6574	-156771	13943	17516	-6740	-6960	1813	1127
Sep	-34398	-43495	100335	6323	-158650	14212	17742	-6940	-7105	1825	1141

Source: CBT.

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

## CAPITAL and FINANCIAL ACCOUNT (USD million)

	Capital and Financial Account																
	Net		Financial Account														
	Net	Foreign Direct Investment	Portfolio Investment				Net	Currency and Deposits	Other Investment								
			Net	Assets	Liabilities				Net	Trade Credits	Liabilities				Deposits		
Equity Securities	Debt Securities	Monetary Authority			General Gov.	Banks	Other Sectors	Monetary Authority			Banks						
	(annual)																
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1633	-1633	2855	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1403	1403	958	-593	-2096	-16	1519	7191	594	7968	2483	-6138	11834	-1028	372	1336	-988
2003	3096	3096	1253	2465	-1386	905	2946	3425	724	4411	2181	-1479	-765	1975	1023	497	871
2004	13410	13410	2026	8023	-1388	1427	7984	4185	-5965	11140	4201	-4414	-267	5708	5107	-209	856
2005	20423	20423	8951	13437	-1233	5669	9001	15882	-342	15623	3074	-2881	-4637	9248	10017	-787	1276
2006	35115	35115	19034	7373	-4029	1939	9463	14822	-10290	27244	2616	0	-5223	5813	19134	-1268	5890
	(quarterly)																
2006 III	7234	7234	3527	4078	-1305	591	4792	431	-2830	3039	125	0	361	252	3206	-453	-598
IV	9306	9306	6269	4245	-2308	340	6213	-21	-5268	6635	204	0	-1579	145	3965	-335	4221
2007 I	8242	8242	8083	4502	-652	-651	5805	2071	-222	2208	282	0	-2138	873	6596	-250	-3168
II	7945	7945	2451	1491	-402	3266	-1373	4479	-6422	11424	1959	0	-406	3339	6943	-269	-264
III	9292	9292	3011	-2110	-1480	1754	-2384	9435	3576	5560	1218	0	-708	184	6141	-567	-908
	(monthly)																
2006 Oct	3384	3384	2801	4024	67	492	3465	-4496	192	-252	0	-813	-800	668	-95	1469	
Nov	1500	1500	1934	1093	-294	469	918	-1954	-203	-963	-42	0	-1574	-841	920	-130	705
Dec	4422	4422	1534	-872	-2081	-621	1830	6429	-383	7406	498	0	808	1786	2377	-110	2047
2007 Jan	2214	2214	5376	3124	428	-1290	3986	-3703	-194	-4700	-570	0	-190	102	-149	-71	-3823
Feb	2583	2583	1608	3280	-506	470	3316	-741	-37	-538	-25	0	-1735	497	859	-86	-51
Mar	3445	3445	1099	-1902	-574	169	-1497	6515	9	7446	877	0	-213	274	5886	-93	706
Apr	1877	1877	614	2504	-176	760	1920	-2111	-2553	398	627	0	-947	419	1342	-82	-979
May	1978	1978	680	8	80	1909	-1981	840	-4566	5652	850	0	647	1819	3547	-96	-1166
Jun	4090	4090	1157	-1021	-306	597	-1312	5750	697	5374	482	0	-106	1101	2054	-91	1881
Jul	4139	4139	1623	2537	-375	1139	1773	952	1517	-878	665	0	-23	-599	835	-127	-1704
Aug	439	439	405	-4407	-1177	-215	-3015	6227	2425	3481	470	0	-396	863	3186	-261	-451
Sep	4714	4714	983	-240	72	830	-1142	2256	-366	2957	83	0	-289	-80	2120	-179	1247
	(12-month)																
2006 Oct	36038	36038	20921	11913	-1342	3264	9991	13377	-12097	26220	2383	-325	-4920	8071	19744	-1169	2154
Nov	36556	36556	19768	10535	-1962	2756	9741	12195	-10989	25240	2522	-325	-4782	5487	19111	-1236	4181
Dec	35115	35115	19034	7373	-4029	1939	9463	14822	-10290	27244	2616	0	-5223	5813	19134	-1268	5890
2007 Jan	34445	34445	23683	8428	-3450	184	11694	9083	-8213	18855	2636	0	-5108	6151	14263	-1289	1919
Feb	32367	32367	24959	10497	-4240	455	14282	1213	-10111	13081	2408	0	-5436	5300	12095	-1320	-251
Mar	33919	33919	25721	8297	-4374	647	12024	5321	-11649	18632	2652	0	-5368	4253	17055	-1334	1087
Apr	32813	32813	25811	11386	-4389	1184	14591	-226	-15377	16947	2806	0	-5845	3619	17940	-1331	-532
May	31409	31409	19751	14501	-4089	2867	15723	2196	-17689	22017	2801	0	-3590	4803	19705	-1309	-688
Jun	32727	32727	20330	14316	-4667	3546	15437	6960	-14742	23306	2570	0	-3762	4609	20710	-1307	191
Jul	35388	35388	21749	15137	-5159	4361	15935	8602	-11932	22165	3009	0	-3469	3939	20898	-1356	-1174
Aug	31865	31865	18965	9114	-5793	4061	10846	15304	-7894	24792	3401	0	-4718	5978	22870	-1415	-1654
Sep	34785	34785	19814	8128	-4842	4709	8261	15964	-8336	25827	3663	0	-4831	4541	23645	-1421	-119

Source: CBT.