

**CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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**BALANCE OF PAYMENTS  
REPORT**

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**August 2004**

## SUMMARY

BALANCE OF PAYMENTS (USD million)						
	August			January-August		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	920	118	..	-4404	-9822	..
Foreign Trade Balance	-2146	-3252	51,5	-13331	-22571	69,3
Exports	3829	4594	20,0	29749	39220	31,8
Imports	-5975	-7846	31,3	-43080	-61791	43,4
Exports/Imports	64,1%	58,6%	..	69,1%	63,5%	..
Capital and Financial Accounts	-416	-22	..	2576	8553	..
Financial Account (Excl. Off. Reserves)	1014	1203	..	5022	9318	..
Change in Official Reserves <sup>i</sup>	-1430	-1225	..	-2446	-765	..

Source: CBRT.

<sup>i</sup> (-) sign refers to the increase in official reserves.

### **In August 2004;**

Exports increased by 20 percent compared to the same month of the previous year and rose to US dollar 4.6 billion from US dollar 3.8 billion. During the same period, imports grew by 31.3 percent and increased to US dollar 7.8 billion from US dollar 6 billion. Hence, foreign trade deficit realized as US dollar 3.3 billion and the ratio of exports to imports became 58.6 percent. Current account and financial account excluding official reserves provided surpluses of US dollar 118 million and US dollar 1.2 billion, respectively.

### **In January-August 2004;**

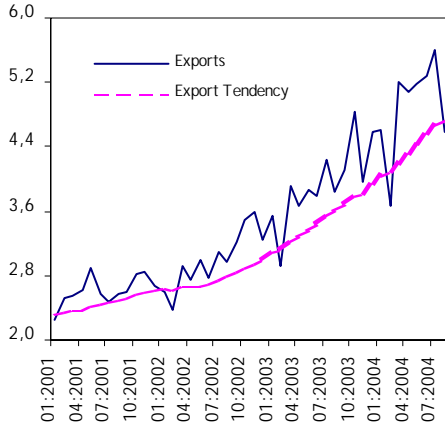
Exports increased by 31.8 percent compared to the same period of previous year and rose from US dollar 29.7 billion to US dollar 39.2 billion. During the same period, imports rose by 43.4 percent from US dollar 43.1 billion to US dollar 61.8 billion. Hence, foreign trade deficit realized as US dollar 22.6 billion and the ratio of exports to imports dropped compared to the previous year and became 63.5 percent. Current account produced a deficit of US dollar 9.8 billion, while financial account excluding official reserves provided a surplus of US dollar 9.3 billion.

### **In the twelve-month period;**

Exports increased by 31 percent in the twelve-month period compared to the same period of previous year and rose to US dollar 56.7 billion. During the same period imports rose by 40.3 percent to reach US dollar 88.1 billion. Hence, foreign trade deficit realized as US dollar 31.3 billion and the ratio of exports to imports became 64.4 percent. Current account yielded a deficit of US dollar 12.3 billion, whereas financial account excluding official reserves produced a surplus of US dollar 11.2 billion.

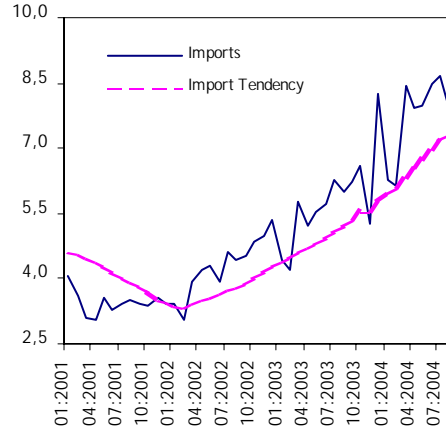
## SUMMARY

### EXPORTS (USD billion)



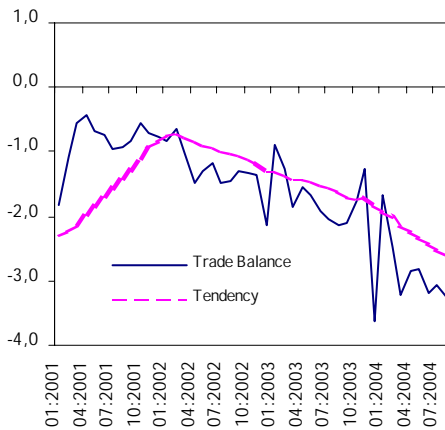
Source: SIS.

### IMPORTS (USD billion)



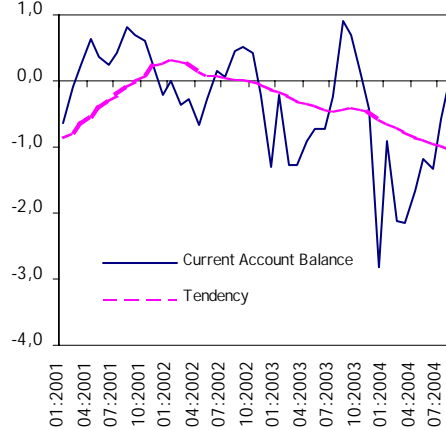
Source: SIS.

### TRADE BALANCE (USD billion)



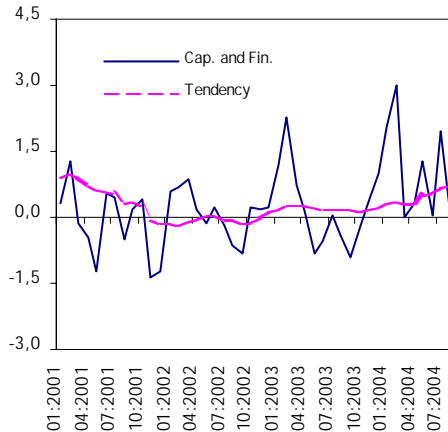
Source: SIS.

### CURRENT ACCOUNT BALANCE (USD billion)



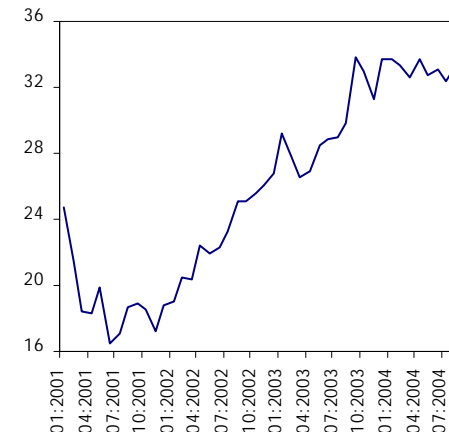
Source: CBRT.

### CAPITAL and FINANCIAL ACCOUNT (USD billion)



Source: CBRT.

### CBRT INTERNATIONAL RESERVES (USD billion)



Source: CBRT.

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

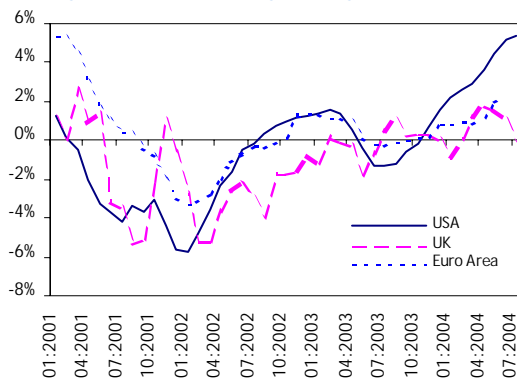
## I. FACTORS AFFECTING FOREIGN TRADE

### Foreign Demand Developments

1. Growth trend in the world economy, which recorded a growth performance above expectations in the first quarter of 2004, continued at a slower pace in the second quarter of 2004. As the USA and Asian countries continue to lead the global economic growth, the contribution of other countries and regions are increasing. However, the persistence of acceleration tendency in oil prices as of October, which had manifested itself especially after July, constitutes a risk factor for global economic growth in the second half of the year.

#### INDUSTRIAL PRODUCTION

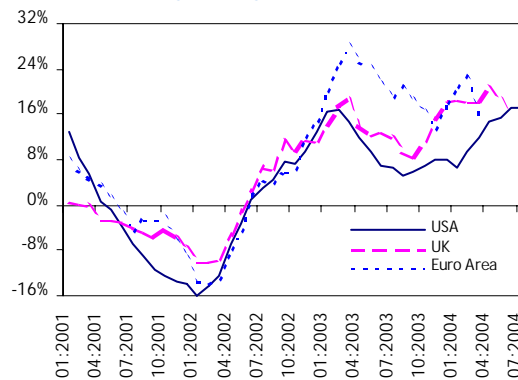
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

#### IMPORTS

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



Source: IMF, ECB.

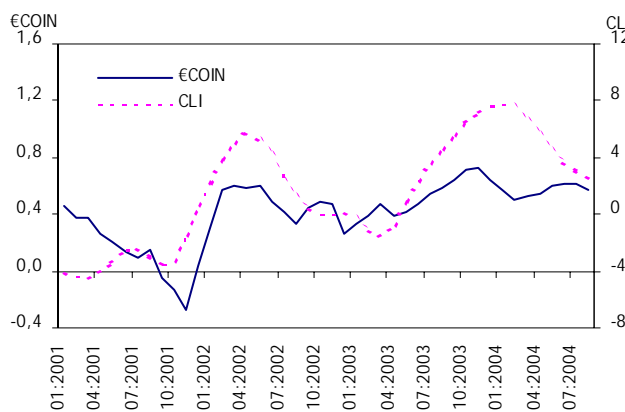
2. US growth and employment figures for the second quarter of the year recorded a less-than-expected increase. The annualized US GDP that rose by 4.5 percent in the first quarter of the year grew by 2.8 percent in the second quarter of the year. The slowdown in growth in the second quarter resulted from private consumption expenditures. The widening in current account deficit continues despite the relative improvement in foreign trade deficit in July. In the second quarter of the year, the current account deficit increased by 24 percent compared to the same period of the previous year. The Federal Reserve Bank of the USA raises interest rates gradually, taking the expectations for a rise in inflation and the increasing energy prices into account. On 21 September 2004, the Federal Reserve raised its intended federal funds rate by 25 basis points to 1.75 percent. Leading indicators for August and September [less-than-expected employment rises, decline in consumer credits, etc.] point out that the growth in the USA economy would lose momentum in the second half of the year. In line with these indicators, emergence of downward risks for growth is expected to force the FED to adopt a more conservative attitude in the process of raising the interest rates. Announcements made by the FED affirm this view as well.

3. Economic growth in Japan also slowed down in the second quarter compared to the first quarter of 2004. Foreign demand and investment expenditures continued to influence the growth in the second quarter. As a result of the relative deceleration in imports, net exports contributed positively to economic growth. For the second half of the year, the contribution of net exports to growth is expected to diminish due to the downward trend in growth rates of Japan's important exports markets – namely, the USA, the Euro area and China – resulting from climbing energy prices. As a matter of fact, data for August indicate that the foreign trade surplus decreased compared to previous months.

4. Economic growth in the UK continued in the first half of 2004. Annual GDP rose by 3.7 percent in the first quarter and 3.9 percent in the second quarter of the year. Main factors in growth were domestic demand and investment expenditures. The Bank of England raised its lending interest rate by 25 basis points to 4.75 percent on 5 August 2004 due to the aggravating inflationary pressures caused by ongoing robust economic growth and business surveys pointing at expansion. However, the Bank of England is not expected to raise its interest rates in the short run thanks to the ease of concerns about inflation as a result of the realization of August and September inflation rates (1.3 percent and 1.1 percent, respectively), below the official target (2 percent).

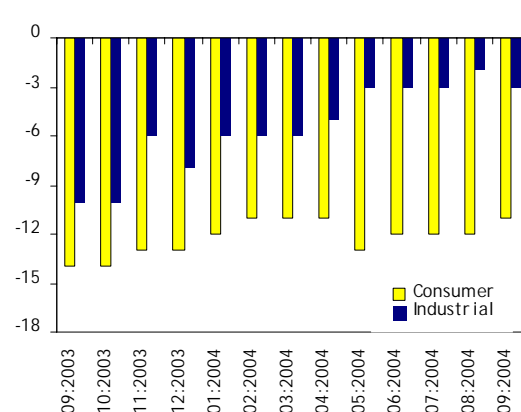
5. The euro area enjoyed economic growth in the first two quarters of 2004, especially owing to the increase in exports and buoyancy in consumption expenditures. Recently published data show that the revival in the euro area continued in the third quarter of the year as well. The coincident indicator (EuroCOIN), which provides forecasts for quarterly GDP growth for the euro area, points at the fact that in August, the growth in euro area that accelerated in the March-June 2004 period recorded a limited amount of decline compared to July. Within the context of the said indicator, there is a weakening in growth indicators in August, except industrial production. Despite climbing energy prices, the European Central Bank (ECB) kept interest rates unchanged at its meeting of 2 September 2004 on account of the stable outlook in the medium-term and the lack of a domestic price pressure. However, at its last monetary policy board meeting, the ECB gave the signals for a likely rise in interest rates in case the rise in oil prices exerts an upward pressure on production costs in the euro area economy.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU  
(seasonally adjusted)



Source: Eurostat.

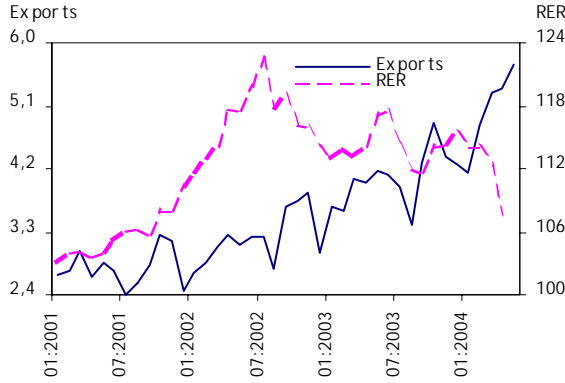
6. Although the six-month growth rate of Composite Leading Indicators (CLI) issued by OECD, which was in an upward trend since April 2003, has been declining since February, the index still maintains its high level compared to previous years.

7. During the recent months, economic outlook got stronger in the new EU member states. Compared to the previous year, GDP of Poland rose by 6.9 percent in the first quarter of 2004. Growth, which was mainly export-based, lately accompanied by the increase in domestic demand. Annual CPI inflation rose in summer due to food and energy prices coupled with indirect taxes that have increased as a result of EU membership. Owing to these developments, National Bank of Poland raised interest rates three times in June-August period, totaling to 1.25 points. In the first quarter, the Czech Republic GDP grew by 3.1 percent. The indicators related to economic activity point out the continuation of growth in the second quarter of 2004. Along with negative influence of indirect taxes, public prices and petroleum prices inflation rates rose this year. Hence, Czech National Bank increased interest rates by 0.25 points both in June and August. As a result of increases in fixed capital investments and imports, GDP in Hungary rose by 4.2 percent and 4 percent, respectively, in the first two quarters of 2004. Considering the decline in risk premium in assets in terms of its national currency and the improvement in the composition of economic growth as well as the decrease in inflation, National Bank of Hungary dropped interest rates by 0.25 point and announced as 2.5 percent on 26 August 2004. In line with the tendencies of appreciation in national currency, National Bank of Slovakia announced its interest rates as 4.5 percent, following a cut by 0.5 point.

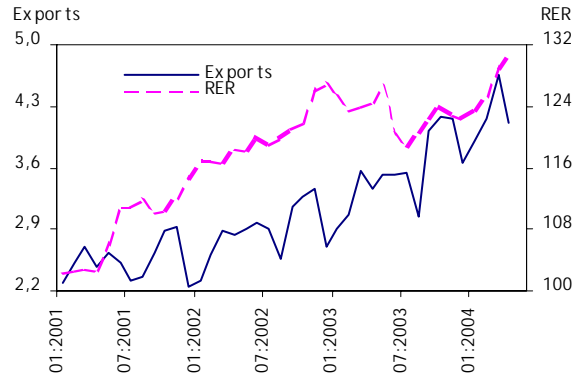
8. The growth in 2003 in developing Asian economies mainly stemmed from the increase in domestic demand and the leap in exports. Growth trend in the said countries is continuing in 2004 as well in line with the increases in exports to the USA, regional trade and domestic demand. In developing Asian economies, where the economic structure relies on oil and export oriented growth policy, rising oil prices and declining foreign demand become the factors that threatened growth.

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

CZECH REPUBLIC



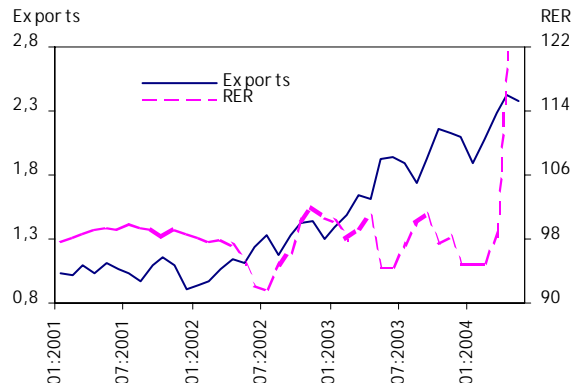
HUNGARY



POLAND



SLOVAK REPUBLIC



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

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

CHINA



KOREA<sup>ii</sup>



MALAYSIA



SINGAPORE



<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.

9. The high rate of growth performed by China in 2003 continued in the first half of 2004 as well. The Chinese Government is taking macroeconomic measures to avert overheating of the economy as well as inflationary pressures. However, the increases in industrial production in July and August (15 and 16 percent, respectively) indicate that effects of these measures are still at a limited level. Economic growth in South Korea is generally strong. Annual industrial production increased by 12.8 percent in July. The upward trend in exports of South Korea, which produces high foreign trade surplus like other regional countries, is still continuing.

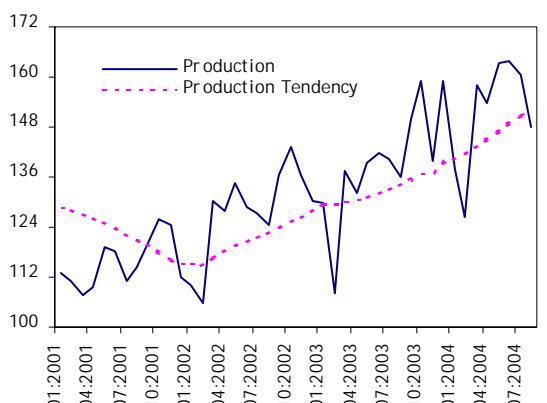
#### Developments in Domestic Demand and Production

10. Following the rapid growth of the first quarter of 2004, Turkish economy maintained its pace in the second quarter as well. According to the SIS data, GDP and GNP increased at high rates compared to the same period of the previous year in the second quarter of 2004 and realized as 13.4 percent and 14.4 percent, respectively. In the first half of 2004, GDP and GNP rose by 11.9 percent and 13.5 percent, respectively, compared to the same period of 2003. High-rated increase in investment and consumption expenditures and rapid increase of industrial production due to the revival of domestic demand stood as underlying factors in significant economic growth in the second quarter of 2004.

11. Analyzing the economic growth with respect to production in the second quarter of 2004, contributions of the agricultural sector value added and high-rated increase in industrial sector became the determinants of GDP growth. Very low increase in construction sector value added observed in the second quarter of 2004 pointed out that the reflections of rapid economic growth on this sector were quite limited.

12. According to SIS Monthly Industrial Production Index, total industrial production and manufacturing industry productions rose by 8.8 percent and 9 percent in August 2004, respectively, compared to the same month of the previous year. Compared to the previous month, seasonally adjusted total industrial production and production in manufacturing industry dropped by 0.8 and 3.2 percent, respectively. Moreover, despite the high-rated increases in the production of durable consumption goods and transportation vehicles during this period, a relative slow down is observed compared to the second quarter of 2004. On the other hand, production and domestic sales expectations of manufacturing industry firms for September indicate that there is no significant stagnation in production and that the rapid economic growth is continuing.

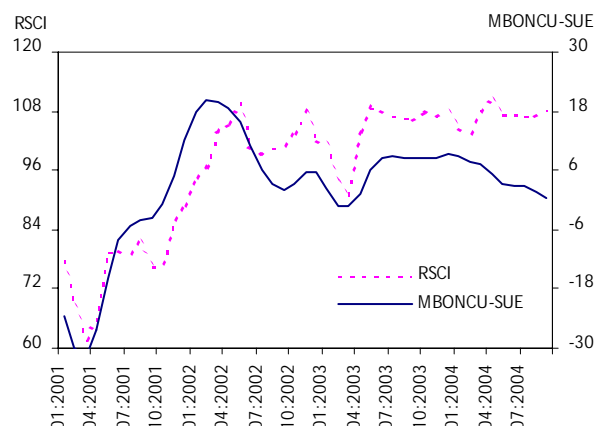
MANUFACTURING INDUSTRY PRODUCTION  
(1994=100)



Production tendency is calculated by 12 month moving average.

Source: SIS.

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



Source: CBRT.

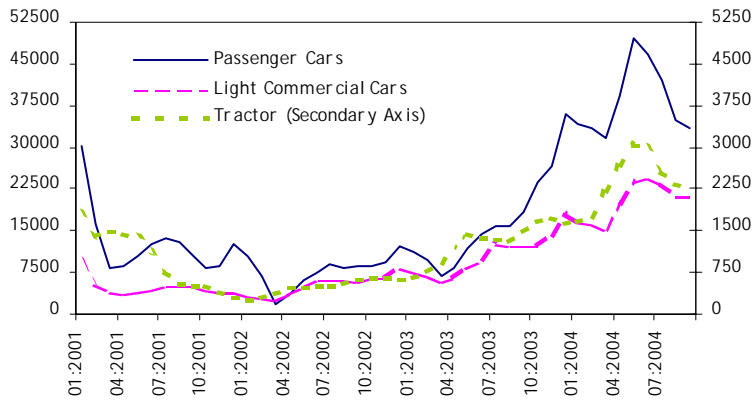
13. According to data announced by SIS, the capacity utilization ratio realized as 81.7 percent in the manufacturing industry in August 2004. Total manufacturing industry capacity utilization ratio dropped by 2.2 points in August compared to the previous month, whereas it increased by 2.4 points compared to the same month of the previous year. With 91.3 percent, public sector capacity utilization ratio remained the same compared to the same month of the previous year. Private sector capacity utilization rate realized as 75.6

percent in the said month and recorded an increase of 3.6 points compared to the same month of the previous year.

14. Six-month rate of change of the composite leading indicators index (MBONCU-SUE) compiled by the Central Bank of the Republic of Turkey, which dropped in September compared to the previous month, has been declining since the beginning of the year. Though the index fell by 0.4 points compared to August due to the improvement in expectations for interest rates and the level of seasonally adjusted finished goods stock as well as the deterioration in expectations for employment, it maintained its horizontal course. Meanwhile, Real Sector Confidence Index (RSCI), which remained unchanged in August, rose by 1.2 points compared to the previous month to realize at 108.2 in September. The index increase by 2.1 points compared to the previous year. The value of the index above 100 points denotes continuing confidence of the real sector in economic activities.

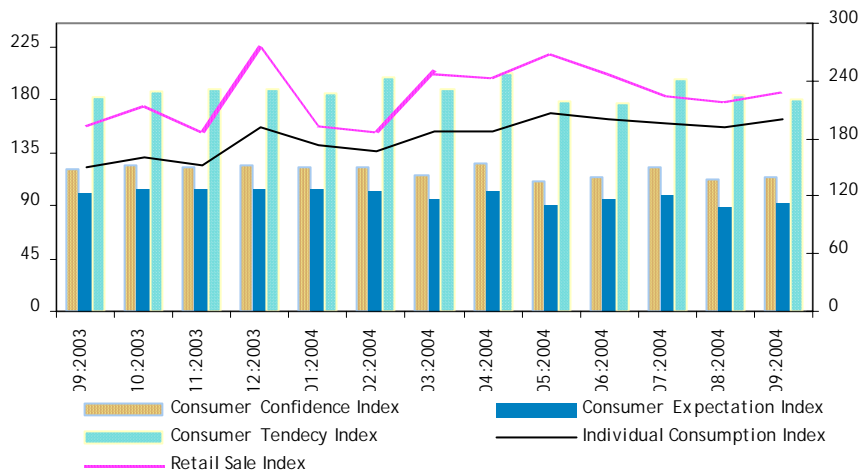
15. The rapid upsurge in consumer credit utilization and scrap-car discount were the main factors that led the automobile sales to reach its highest level in history in the first half of 2004. Despite its sluggish pace in June-August period compared to previous months, growth rate of automobile sales increased by 93 percent on average compared to the same period of 2003. Meanwhile, the decline in the growth rate of light commercial vehicles sales, which pursued a more stable course compared to automobile sales and even displayed an apparent increase since early-2004, is remarkable. As it is known, light commercial vehicles sales has a close relationship with the activity volume of manufacturing industry sectors.

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



Source: Automobile Industry Association.

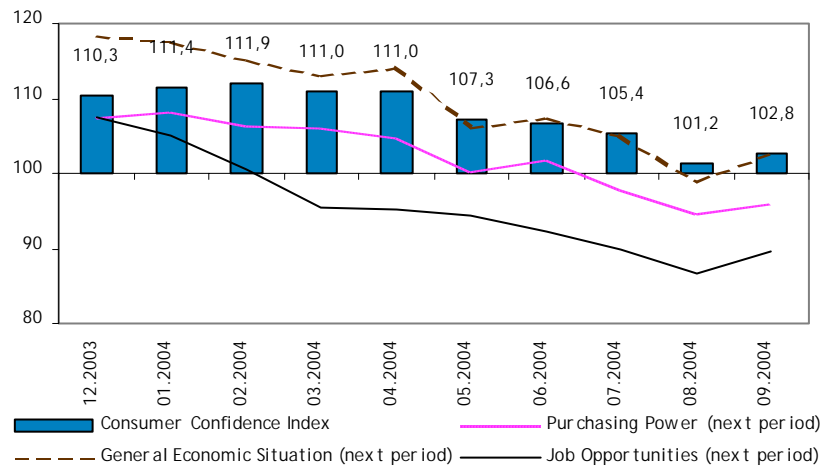
CNBC-e INDICES (January 2002=100)



Source: NTVMSNBC.



## CONSUMER TENDENCY SURVEY



Source: CBRT, SIS.

16. Consumer confidence and expectations indices compiled by CNBC-e boosted by 2.7 percent and 2.9 percent in September, respectively, compared to the previous month.

17. According to the results of the Consumer Tendency Survey for September compiled by the Central Bank and SIS, consumer confidence index, went up compared to August. The value of the index above 100 points denotes an optimism in consumer confidence.

### Prices

18. Turkish lira, which was in appreciation trend against nominal foreign exchange rate basket composed of USD 1 + 0.77 Euro in the first quarter of 2004, depreciated by 11 percent in May and pursued a horizontal course in the following months. Real exchange rate indices reveal that Turkish lira depreciated in real terms in the last five months, except July.

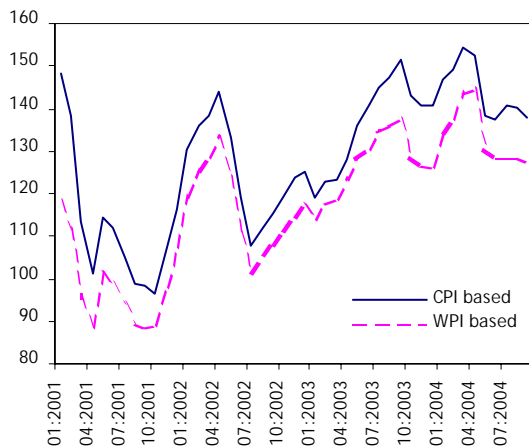
19. Euro, which depreciated against the US dollar in the March-May 2004 period, has been displaying an upward trend in the last four months. Accordingly, average monthly euro/US dollar parity, which was to 1.2185 in August, rose to 1.2204 in September.

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

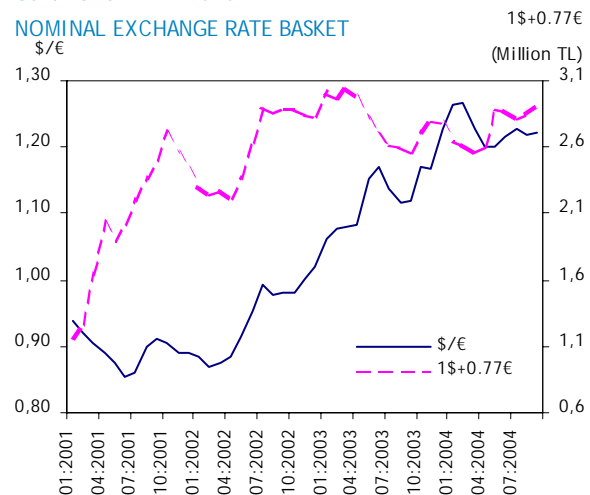
	2003				2004								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Turkey													
CPI based	2,9	-5,7	-1,7	0,1	4,6	1,4	3,4	-1,1	-9,3	-0,6	2,0	-0,3	-1,7
WPI based	1,2	-6,5	-1,7	-0,1	6,3	2,5	4,6	0,7	-9,9	-1,5	0,3	-0,1	-0,7
Czech Republic	-0,2	2,1	0,2	0,9	-1,1	0,0	-1,6	-4,2					
Slovakia	1,0	-3,7	0,8	-3,3	0,0	0,2	3,4	23,1					
Hungary	1,7	1,2	-0,9	-0,4	1,0	1,5	2,9	0,8					
Poland	-2,1	-1,6	-0,8	0,6	-1,2	-2,8	1,5	0,4					
Hong Kong <sup>ii</sup>	-0,2	-1,2	0,3	1,6	0,5	-0,8	-1,4	0,0	-1,2	2,1	-1,5		
Malezia	0,7	-1,3	-2,4	-0,2	-1,8	-1,6	-0,5	1,1	0,3				
Singapore	0,7	-0,9	-1,4	0,1	-0,3	-0,2	0,5	0,4	1,2				
China	2,1	-2,7	-0,6	-0,5	-1,5	-0,9	-0,8	2,2	0,7				

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>/</sup>


<sup>/</sup> Increase in real exchange rate index indicates strengthening of Turkish lira.  
 Source: CBRT.

**USD/EURO PARITY and**  
**NOMINAL EXCHANGE RATE BASKET**


20. The terms of foreign trade that entered in recovery trend as of the second half of 2003 has maintained its course in the first eight months of 2004, although it fell in August.

21. In August, export prices rose by 0.4 percent compared to the previous month. The export prices index of basic metal industry, which rose in the first five months due to the upsurge in the world basic metal prices in early 2004, displayed a significant decline in June and July, but re-improved in August. The drop in export prices of textile products in August is remarkable.

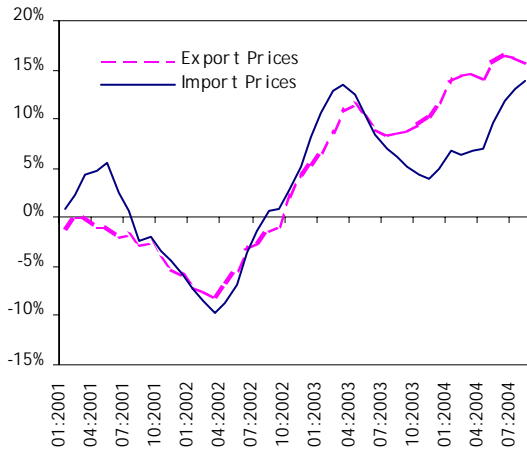
22. In August, import prices rose by 3.7 percent compared to the previous month. Crude oil, natural gas and basic metal industry prices were the leading determinants of the hike in price index.

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

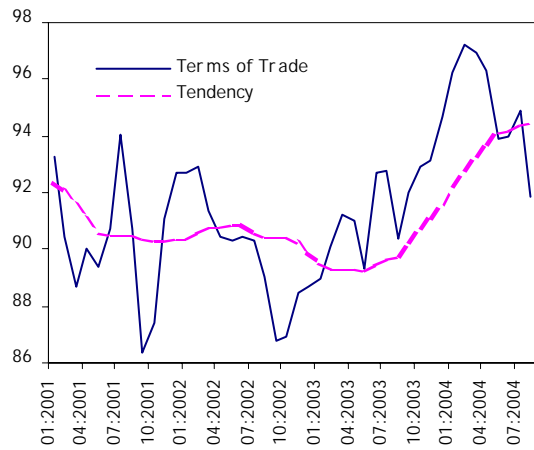
	2003					2004							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Export Price Index	90,9	91,6	93,1	95,0	99,2	104,9	105,2	104,8	105,2	106,3	105,5	106,0	106,4
Manufacturing	91,4	92,0	93,2	94,8	99,0	105,1	105,5	104,6	105,1	106,3	105,5	106,1	105,9
Textiles	85,9	86,3	88,7	91,6	97,4	102,3	100,7	99,9	98,6	98,6	96,6	99,8	95,7
Wearing Apparel	97,0	95,6	95,0	98,9	107,8	116,8	124,0	115,7	115,7	114,8	115,4	117,5	112,9
Chemicals & Products	87,7	90,2	91,9	87,5	91,9	95,4	95,2	91,1	93,5	94,5	95,9	94,6	100,3
Manufacture of Basic Metals	103,1	105,5	108,3	107,1	108,3	119,4	122,1	128,0	136,9	145,8	132,2	128,8	140,9
Manufacture of Mach. & Equ.	85,0	85,1	86,5	91,7	93,4	101,8	99,7	98,9	100,1	97,0	97,2	96,9	99,0
Electrical Mach. & Apparatus	69,6	70,3	67,0	68,3	73,3	79,4	76,0	69,5	70,8	68,2	70,1	68,7	66,9
Motor Vehicles & Trailers	98,6	102,3	106,3	107,8	109,1	113,8	110,7	110,6	113,0	111,3	115,5	113,5	111,1
Import Price Index	100,6	99,6	100,2	102,0	104,8	109,0	108,2	108,1	109,2	113,2	112,3	111,7	115,8
Mining & Quarrying	168,0	169,1	169,3	164,3	168,5	178,1	173,2	177,6	176,4	189,0	190,1	192,0	215,5
Crude Oil & Natural Gas	179,0	182,1	181,2	176,5	181,8	188,3	182,7	190,7	189,6	203,7	203,0	205,6	232,3
Manufacturing	93,4	92,3	93,0	94,4	98,2	100,3	100,6	100,6	102,4	105,4	104,8	104,2	105,7
Textiles	88,2	82,3	84,2	84,0	90,7	91,7	93,8	95,3	95,6	99,4	94,2	102,5	99,5
Chemicals & Products	99,2	98,8	101,2	101,9	103,3	109,7	109,2	107,3	110,0	110,9	110,1	109,9	113,4
Manufacture of Basic Metals	98,8	94,4	101,4	102,0	107,2	119,8	123,1	132,3	139,1	143,6	138,8	140,4	144,4
Manufacture of Mach. & Equ.	94,6	94,6	94,6	96,5	98,9	98,6	90,9	92,5	96,9	104,1	102,3	93,8	96,6
Electrical Mach. & Apparatus	65,6	65,4	65,9	66,9	70,0	71,8	73,0	72,4	68,2	71,2	68,5	72,2	69,7
Motor Vehicles & Trailers	91,4	89,2	92,0	94,6	103,5	100,6	106,3	103,4	101,6	102,3	101,2	103,0	102,5

Source: SIS.

EXPORT and IMPORT PRICES  
(3-month moving average, annual % change)



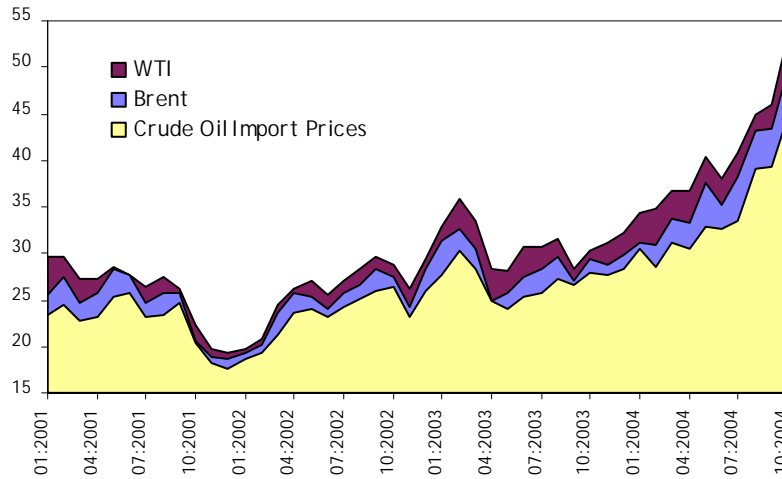
TERMS OF TRADE (Export Prices/Import Prices) (1994=100)



Source: SIS.

23. The upward trend in oil prices, which started in early 2004, continued in September and October as well. Concerns about the supply play an important role in this rise. Rapid rise in global oil demand and inadequate flexibility in supply to meet the demand reflect the concerns about the supply. Moreover, oil prices increase due to seasonality, which is another factor pushing up oil prices. The Ivan hurricane, which struck Mexico and almost partly halted its oil production, has put extra pressure on crude oil prices in an atmosphere where concerns about supply are increasing.

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



Source: CBT, SPO, Energy Information Administration.

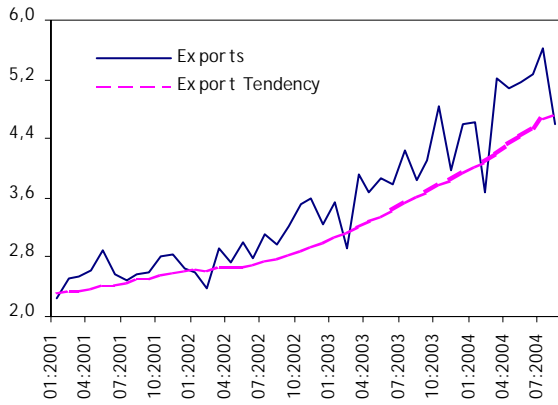
## II. EXPORTS

### General Evaluation

24. Exports rose by 20 percent in August 2004, compared to the same month last year and reached US dollar 4.6 billion. Rate of increase in exports in the first eight months of the year became 31.8 percent, while 12-month exports reached US dollar 56.7 billion by a 31 percent-rise.

25. The persistence of improvement in demand and costs in 2004, which had started in 2003, stood as the main factor in the upsurge in exports. Low labor costs and real energy costs coupled with rise in productivity became two supporting factors that enhanced the competitiveness of firms despite the appreciation of TL. Meanwhile, the expansion trend in global economy and climbing export prices backed this rise.

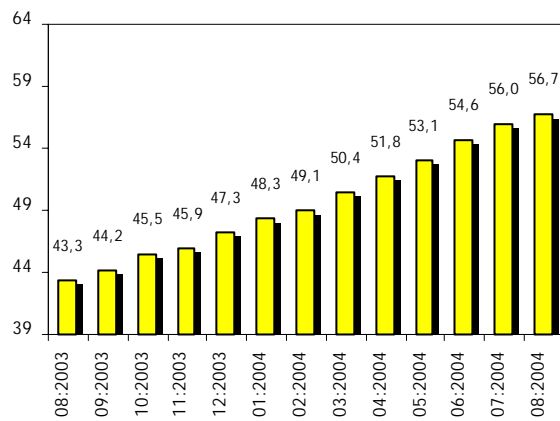
EXPORTS and EXPORTS TENDENCY/  
(USD billion)



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

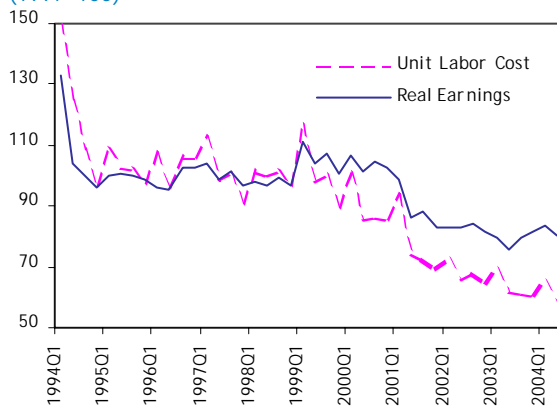
Source: SIS.

EXPORTS  
(12 month, USD billion)



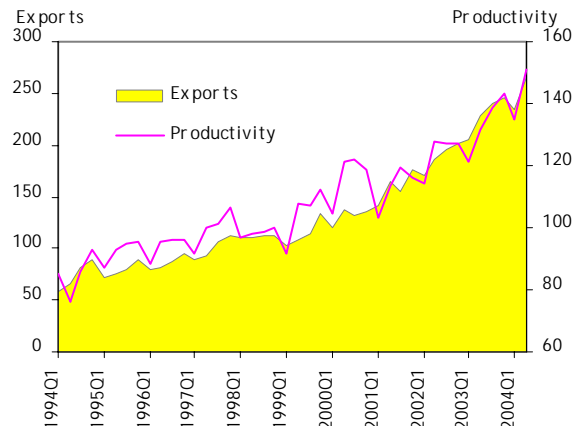
Source: SIS.

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



Source: SIS, CBRT.

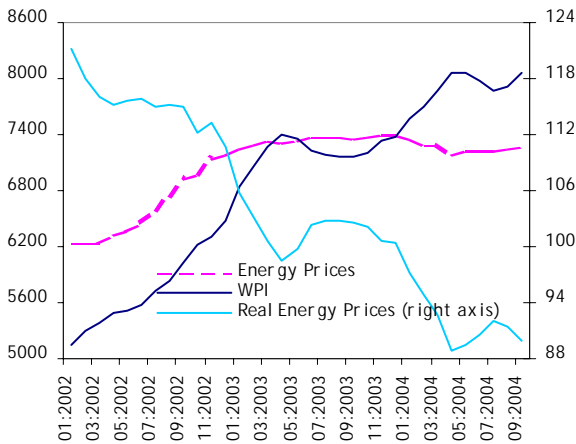
PRIVATE MANUFACTURING EXPORT AND  
PRODUCTIVITY INDICES (1997=100)



Source: SIS.

26. Real energy prices, which had displayed a downward trend until April 2004, started to rise in May and re-declined in August and September. While electricity prices followed a steady course, price hikes were observed in natural gas and water as of the second quarter of 2004. Nevertheless, the prices are at low levels compared to the previous year.

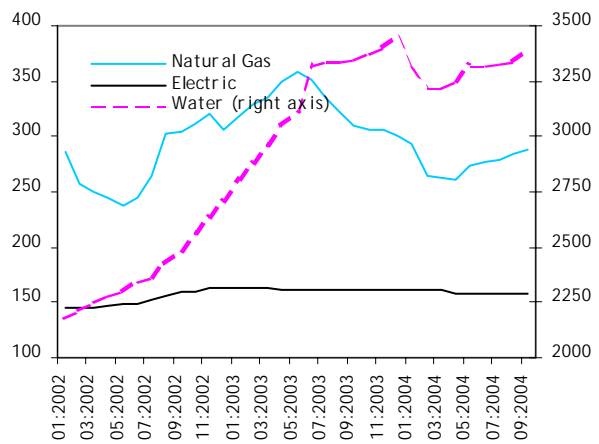
ENERGY PRICES and WPI/  
(1994=100)



/ Energy prices are WPI Electric, Gas and Water price index. Real prices are calculated by dividing energy price index to WPI.

Source: SIS.

ENERGY WHOLESALE PRICES/  
(thousand TL)

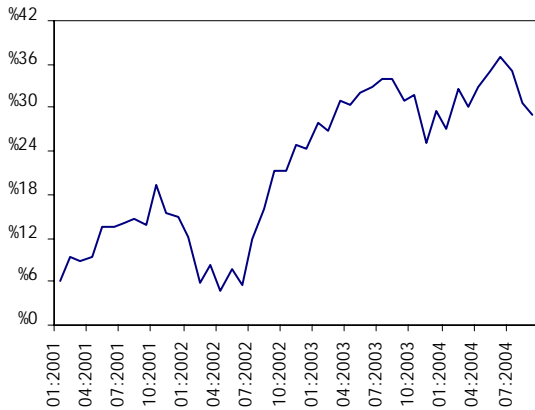


/ Domestic prices in advance that are taken from WPI, which are electric prices per KWH, natural gas and water prices per ton.

Source: SIS.

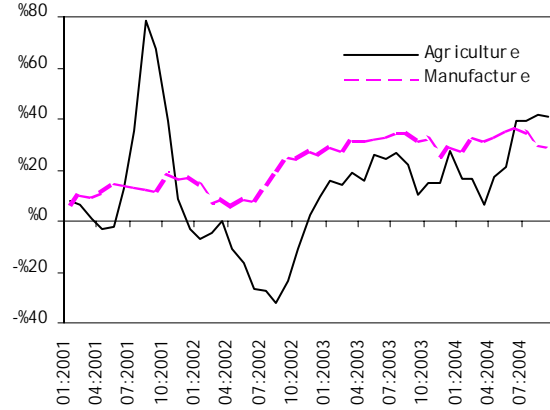
27. Eximbank continued to cut down interest rates applicable to export credits in 2004 as well. Interest rates were cut at first on 12 February and then on 9 March. Meanwhile, considering the upward trend in interest rates in international markets, Eximbank raised short-term interest rates applicable to FX loans by a quarter percentage point on 5 July 2004 and made a 2-point cutback on 9 September 2004.

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



Source: SIS.

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



Source: SIS.

28. The three-month trend of rates of increase in manufacturing industry exports declined in August. Exports tendency of agricultural products, which deteriorated in March, recovered in April and the following months.

29. Goods groups that made the major contribution to the boost in exports in the first eight months of the year were motor vehicles and spare parts, iron and steel, electrical machinery and equipment and boilers-machinery-mechanical devices.

30. In this period, the share of exports to the European Union countries declined, whereas exports to the Middle Eastern countries rose compared to the same period of the previous year. When analyzed in terms of selected countries, exports to Germany had the largest share in overall exports to be followed by UK and the USA. The share of exports to USA, which has been declining since 2003, maintained its downward trend in the first eight months of 2004. Meanwhile, the rise in exports to UK, France, Italy, Spain and Russia is quite remarkable.

EXPORTS (USD million)								
	August				January-August			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	3829	4594	20,0		29749	39220	31,8	
Agriculture and Forestry	116	155	33,4	1,0	1288	1575	22,3	1,0
Fishing	4	3	-29,0	0,0	36	43	17,1	0,0
Mining and Quarrying	47	36	-22,5	-0,3	290	383	32,3	0,3
Manufacturing	3635	4360	19,9	18,9	27974	36966	32,1	30,2
Other	26	38	49,4	0,3	161	253	57,5	0,3
Important Items:								
Edible fruit and nuts, peel of citrus fruits or melons	71	104	45,7	0,8	604	873	44,4	0,9
Mineral Fuels, Mineral Oils and products	84	114	35,5	0,8	650	932	43,5	0,9
Plastics and articles thereof	84	113	35,5	0,8	577	829	43,8	0,8
Cotton, cotton yarn and cotton fabrics	57	80	39,3	0,6	623	777	24,6	0,5
Articles of Apparel-Clothing: Knitted	527	475	-9,9	-1,4	3807	4174	9,6	1,2
Articles of Apparel-Clothing: Not Knitted	332	366	10,5	0,9	2566	2943	14,7	1,3
Other made-up textile articles, sets, worn clothing	133	135	1,3	0,0	1029	1175	14,2	0,5
Pearl and other precious stone and products	67	63	-6,4	-0,1	474	632	33,5	0,5
Iron and Steel	273	380	39,4	2,8	1982	3321	67,5	4,5
Articles of Iron and Steel	105	184	74,5	2,0	857	1326	54,8	1,6
Nuclear reactors, boilers, machinery	253	322	27,2	1,8	1873	2610	39,4	2,5
Electrical Machinery and Equipment	270	335	23,9	1,7	1969	2763	40,3	2,7
Motor Vehicles and Spare Parts	329	513	55,7	4,8	3273	5090	55,5	6,1

Source: SIS.

EXPORTS: BY COUNTRY GROUPS (USD million)										
	August					January-August				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	3829	..	4594	..	20,0	29749	..	39220	..	31,8
EU Countries	2006	52,4	2396	52,2	19,5	16351	55,0	21359	54,5	30,6
EU 15	1910	49,9	2280	49,6	19,4	15473	52,0	20216	51,5	30,7
EU 10	96	2,5	117	2,5	21,6	877	2,9	1143	2,9	30,3
Other Countries	1679	43,9	2022	44,0	20,4	12227	41,1	16282	41,5	33,2
Turkey Free Trade Areas	144	3,8	175	3,8	21,6	1171	3,9	1579	4,0	34,8
Selected Countries and Country Groups										
OECD	2388	62,4	2906	63,3	21,7	19357	65,1	25310	64,5	30,8
Germany	606	15,8	650	14,1	7,2	4817	16,2	5592	14,3	16,1
UK	307	8,0	418	9,1	36,1	2260	7,6	3419	8,7	51,3
USA	310	8,1	423	9,2	36,4	2519	8,5	3172	8,1	25,9
Italy	209	5,5	286	6,2	36,8	2016	6,8	2748	7,0	36,3
France	219	5,7	238	5,2	9,0	1743	5,9	2354	6,0	35,1
Spain	130	3,4	166	3,6	28,3	1126	3,8	1623	4,1	44,2
Netherlands	135	3,5	156	3,4	15,3	977	3,3	1337	3,4	36,8
Other OECD	472	12,3	569	12,4	20,4	3899	13,1	5066	12,9	29,9
Middle East Countries	479	12,5	570	12,4	19,0	3101	10,4	4520	11,5	45,7
Russia	136	3,6	149	3,2	9,7	832	2,8	1119	2,9	34,5

Source: SIS.

## Outlook

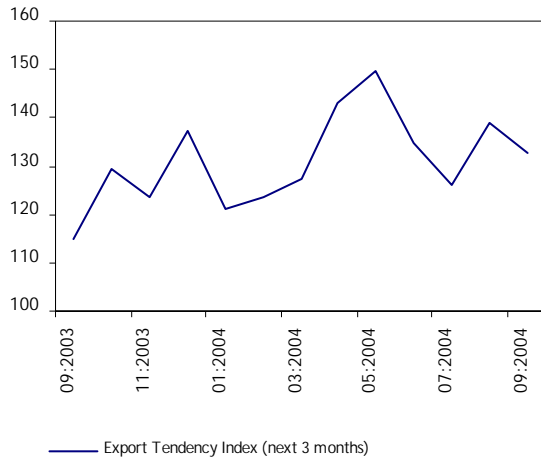
31. According to the CBRT Business Tendency Survey, export performance indicators for the next three months declined in September compared to the previous month.

32. 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 re-entered in downward trend in September. Accordingly,

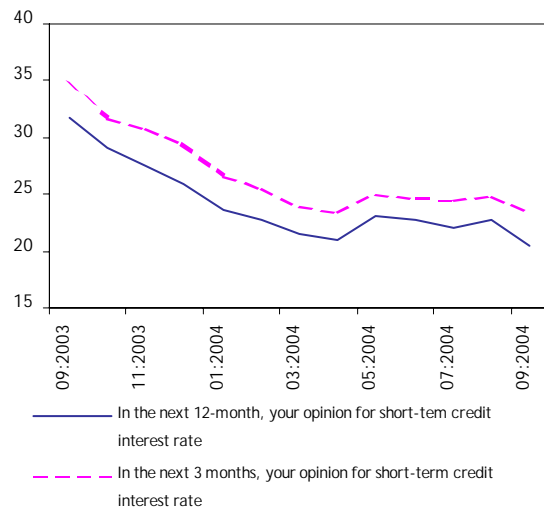
the expected credit interest rates for the next three months and the next twelve months became 23.5 percent and 20.5 percent, respectively, in September.

33. Price competition, one of the factors that may impose pressure on exports in the next three months, still maintains its significant share in exports despite its downward trend in recent months. With respect to limiting export orders, concerns about credit and financing eased, whereas concerns about foreign economic situation as well as delivery deadlines, quotas and similar limitations increased in September.

#### EXPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

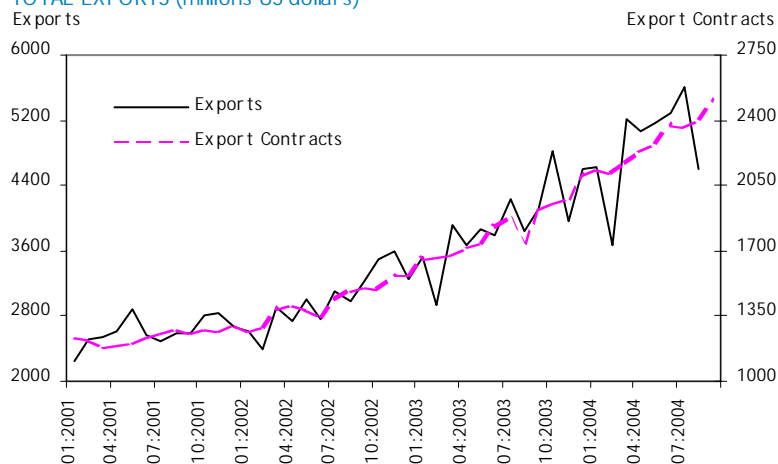


Source: CBRT Business Tendency Survey.

34. The volume of export contracts subject to inward processing regime grew by 25.7 percent in the first nine months of 2004 compared to the same period last year. Meanwhile, imports subject to this regime grew by 30.2 percent.

#### EXPORT CONTRACTS BY INWARD PROCESSING REGIME

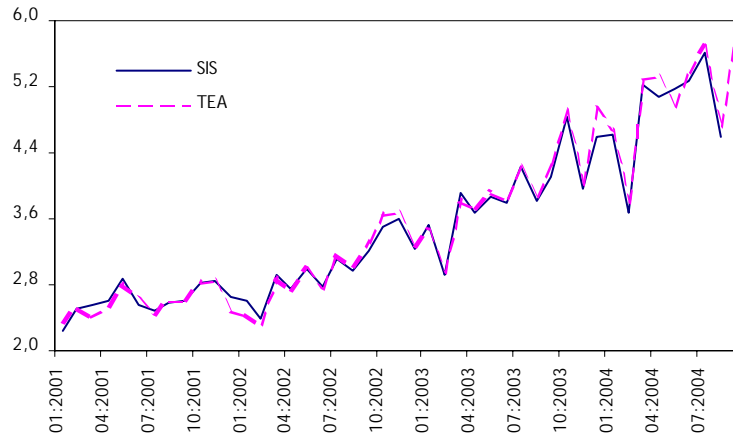
(12 months moving average) and  
TOTAL EXPORTS (millions US dollars)



Source: UFT.

35. According to the data issued by the Turkish Exporters' Assembly (TEA), exports grew by 36.5 percent and reached US dollar 5.8 billion in September. Hence, 12-month exports reached US dollar 59.5 billion by September 2004. The daily TEA data for October indicate that exports continue to rise in this month as well.

EXPORTS: SIS-TEA COMPARISON (USD billion)



Source: SIS, TEA.

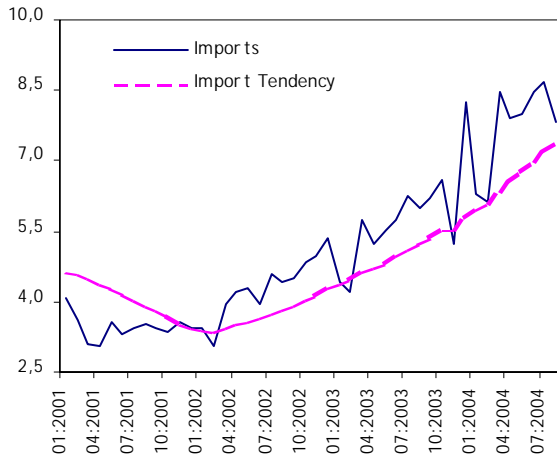


### III. IMPORTS

#### General Evaluation

36. In August 2004, imports increased by 31.3 percent compared to the previous year and became US dollar 7.8 billion. Hence, imports reached US dollar 61.8 billion in January-August 2004, while twelve-month imports rose by 40.3 percent, reaching US dollar 88.1 billion.

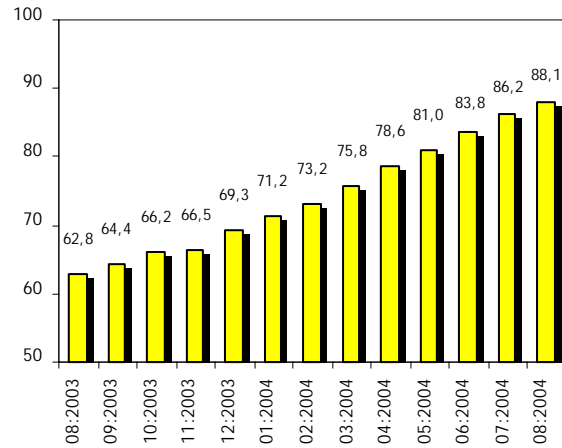
IMPORTS and IMPORTS TENDENCY/  
(USD billion)



/ Imports tendency is calculated using 12 month moving average.

Source: SIS.

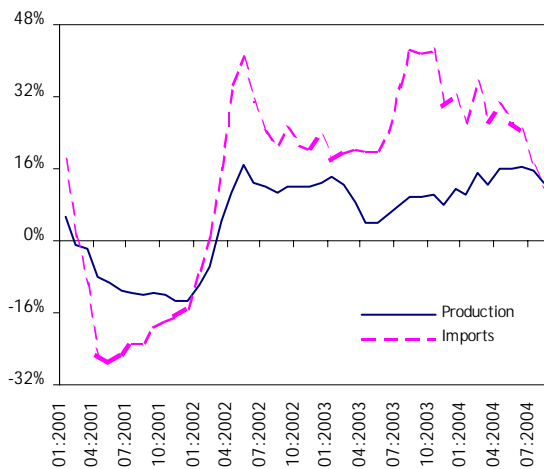
IMPORTS  
(12 month, USD billion)



Source: SIS.

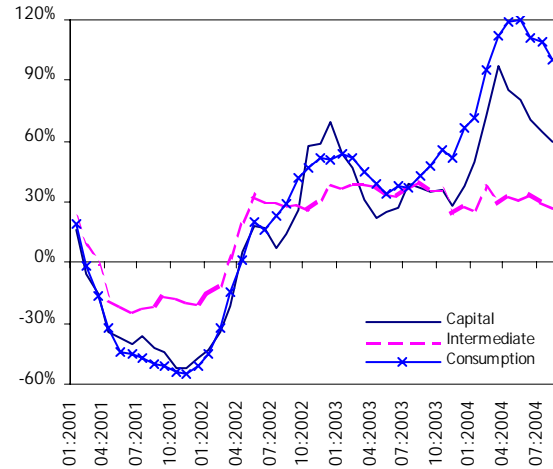
37. According to the WPI-based real exchange rate index, the growth in imports mainly stemmed from the appreciation of Turkish Lira by 6.5 percent in the first eight months of 2004 compared to end-2003, the rise in domestic industrial production and consumption as well as the rapid upsurge in investment expenditures. Moreover, the upward trend in import prices pushed the volume of imports in the same period.

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



Source: SIS.

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

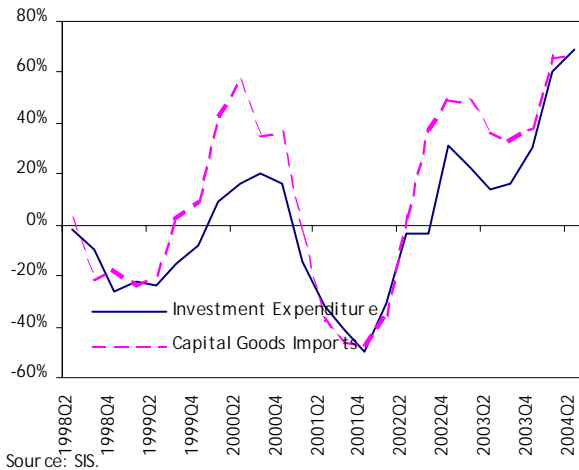


Source: SIS.

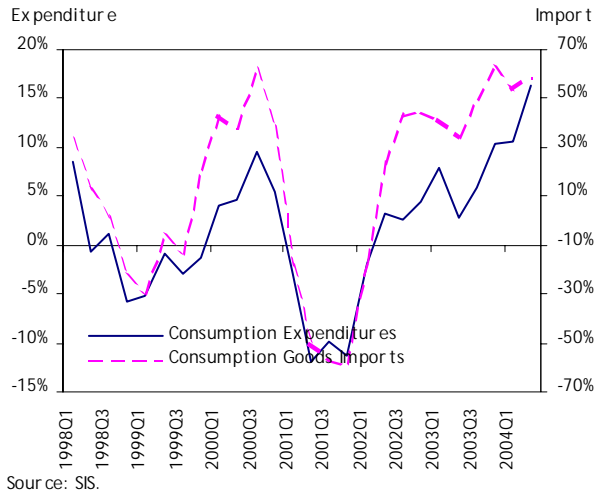
38. Although imports of intermediate goods became the determinant factor in the growth of total imports in January-August 2004, the rate of increase in imports of intermediate goods remained below that of total imports. Meanwhile, rate of increase in imports of consumption goods and capital goods exceeded that of total imports and their shares in

total imports reached 14.3 percent and 18 percent, respectively. Increased demand for durable goods and motor vehicles stemming from appreciation of Turkish lira, rise in consumer credits and decline in interest rates contributed to the growth in imports of durable goods. Moreover, since increasing ratios of capacity utilization necessitate new investments for a sustainable production growth, imports of capital goods maintained its upward trend.

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



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



39. In January-August 2004, major contribution to the rise in imports came from imports of motor vehicles and spare parts, boilers-machinery-mechanical devices, electrical machinery and devices, along with iron and steel. The growth rate in imports of crude oil remained below that of total imports.

#### IMPORTS (USD million)

	August				January-August			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	5975	7846	31,3	..	43080	61791	43,4	..
Capital Goods	880	1355	54,0	7,9	6430	11140	73,2	10,9
Intermediate Goods	4434	5283	19,2	14,2	32115	41500	29,2	21,8
Consumption Goods	629	1181	87,8	9,2	4288	8854	106,5	10,6
Other	33	28	-16,0	-0,1	246	297	20,8	0,1
Important Items:								
Mineral fuels,mineral oils & products of their dist.	1011	1310	29,5	5,0	7363	8636	17,3	3,0
Crude Oil	481	607	26,2	2,1	3159	3912	23,8	1,7
Organic chemicals	191	245	28,7	0,9	1547	1917	23,9	0,9
Pharmaceutical products	168	229	36,3	1,0	1287	1779	38,2	1,1
Plastics and articles thereof	279	387	38,9	1,8	2044	2938	43,7	2,1
Paper and paperboard	104	132	27,0	0,5	738	967	31,0	0,5
Cotton, cotton yarn and cotton fabrics	152	158	4,0	0,1	1125	1349	19,9	0,5
Pearl, other precious stone and products	347	313	-9,7	-0,6	1989	2559	28,7	1,3
Iron and Steel	357	618	73,3	4,4	3064	4762	55,4	3,9
Nuclear reactors, boilers, machinery	808	1021	26,4	3,6	6139	8465	37,9	5,4
Electrical Machinery and Equipment	451	603	33,8	2,5	3279	5218	59,1	4,5
Motor Vehicles and Spare Parts	390	729	87,0	5,7	2576	6716	160,7	9,6
Aircraft, spacecraft and parts thereof	8	103	1143,9	1,6	98	1089	1010,3	2,3
Optical, photographic, measuring instruments	99	136	37,4	0,6	802	1178	46,8	0,9

Source: SIS.

40. In January-August 2004, the share of imports from the European Union countries and Asian countries increased compared to 2003, whereas a decline was observed in the share of imports from the Middle Eastern countries. Analyzing in terms of selected countries, imports from Germany had the largest share in overall imports to be followed by Russia, Italy and France. The rapid rise in imports from China continued in the first eight months of the year.

## IMPORTS: BY COUNTRY GROUPS (USD million)

	August					January-August				
	2003		2004		% Change	2003		2004		% Change
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	5975	..	7846	..	31,3	43080	..	61791	..	43,4
EU Countries	2700	45,2	3499	44,6	29,6	20392	47,3	29483	47,7	44,6
EU 15	2549	42,7	3301	42,1	29,5	19316	44,8	27590	44,7	42,8
EU 10	151	2,5	198	2,5	31,0	1076	2,5	1894	3,1	76,0
Other Countries	3227	54,0	4292	54,7	33,0	22322	51,8	31776	51,4	42,4
Turkey Free Trade Areas	48	0,8	55	0,7	14,5	366	0,8	532	0,9	45,3
Selected Countries and Country Groups										
OECD	3758	62,9	4638	59,1	23,4	27122	63,0	38764	62,7	42,9
Germany	797	13,3	998	12,7	25,1	5589	13,0	8049	13,0	44,0
Italy	465	7,8	562	7,2	20,9	3442	8,0	4523	7,3	31,4
France	298	5,0	484	6,2	62,5	2417	5,6	4195	6,8	73,6
USA	382	6,4	362	4,6	-5,2	2341	5,4	3194	5,2	36,4
United Kingdom	269	4,0	328	4,8	71,0	2307	4,2	2752	5,3	68,5
Switzerland	319	5,3	275	3,5	-13,8	1991	4,6	2232	3,6	12,1
Spain	152	4,0	249	4,8	71,0	1187	4,2	2103	5,3	68,5
Japan	179	4,0	247	4,8	71,0	1157	4,2	1695	5,3	68,5
Other OECD	896	15,0	1132	14,4	26,3	6691	15,5	10021	16,2	49,8
Middle East Countries	338	5,7	425	5,4	25,7	2942	6,8	3224	5,2	9,6
Russia	549	9,2	858	10,9	56,5	3249	7,5	5425	8,8	67,0
China	228	3,8	400	5,1	75,3	1478	3,4	2699	4,4	82,6

Source: SIS.

## Outlook

41. An analysis of domestic demand over the upcoming period according to August results of the CBRT Business Tendency Survey reveals that private firms are expecting a rise in demand, albeit at a lower rate. The investment expenditure tendency rose compared to August, whereas tendency of the volume of raw-material stock declined.

### IMPORT EXPECTATIONS



— 13- New orders from domestic market  
 - - - 15- Production Volume

Source: CBRT Business Tendency Survey.



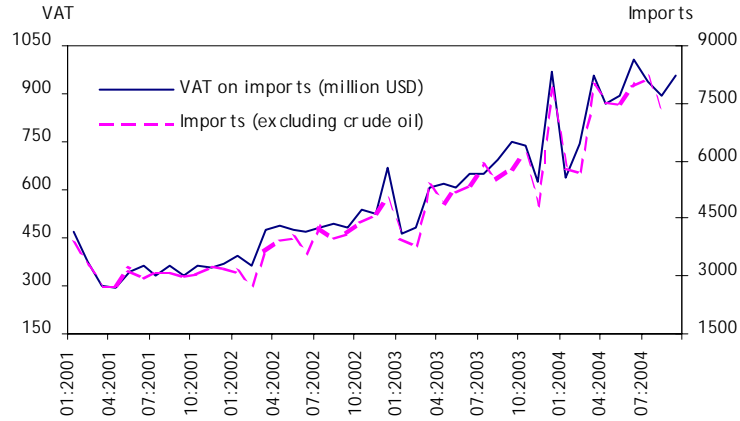
— 3- In the next 12 months, how much investment expenditures do you expect compared to previous 12 months?  
 - - - 18- Raw material stock volume.

Source: CBRT Business Tendency Survey.

42. Timed imports, which were US dollar 11.6 billion in January-August 2003, rose to US dollar 16.3 in the same period of 2004. Meanwhile, timed exports increased by 34 percent and reached US dollar 24.7 billion.

43. According to the VAT data on imports, imports are expected to realize around US dollar 8.3 billion in September, increasing by 33.8 percent compared to the same period of the previous year.

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

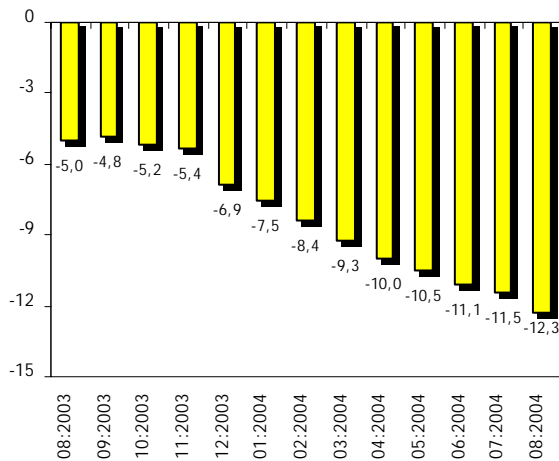


Source: Ministry of Finance, SIS.

#### IV. CURRENT ACCOUNT

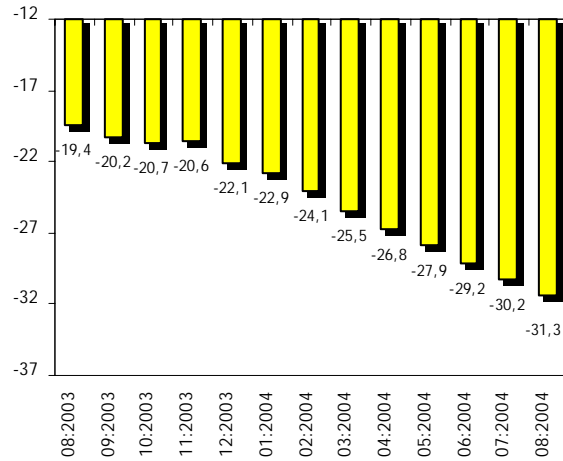
44. The current account balance produced a surplus of US dollar 118 million in August, while it recorded a deficit of US dollar 9.8 billion in the January-August period. Thus, the twelve-month current account deficit realized as US dollar 12.3 billion.

**CURRENT ACCOUNT BALANCE**  
(12 month, USD billion)



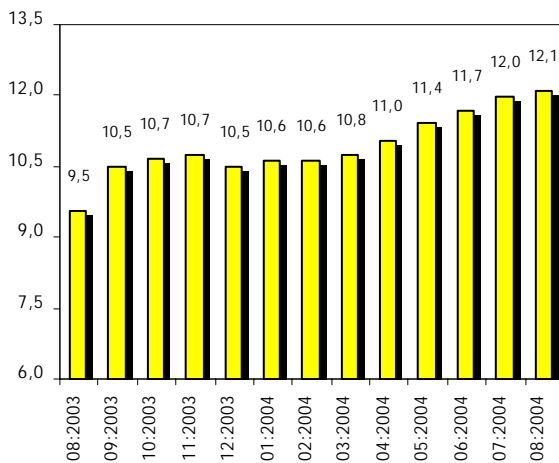
Source: CBRT.

**FOREIGN TRADE BALANCE**  
(12 month, USD billion)



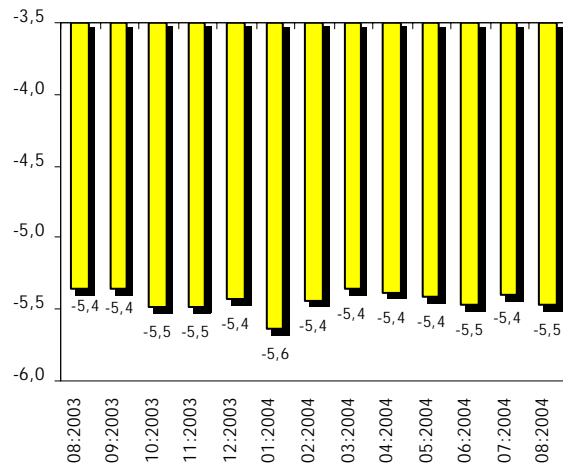
Source: CBRT.

**SERVICES BALANCE**  
(12 month, USD billion)



Source: CBRT.

**INVESTMENTS REVENUES BALANCE**  
(12 month, USD billion)



Source: CBRT.

45. Foreign trade developments were the main determinant of the current account deficit in the first eight months of 2004. The services revenues, which were recorded as US dollar 6.4 billion in January-August 2003 period, reached US dollar 8 billion in the same period in 2004 period as a result of the significant increase rise in the tourism revenues. Meanwhile, income balance stood at the same level as in the previous year and produced a deficit of US dollar 3.8 billion. Current transfers increased by 65 percent compared to previous year and reached US dollar 2.3 billion due to of the increase in workers' remittances and imports with waiver revenues.

46. In January-August 2004, volume of shuttle trade increased by 10.3 percent compared to the same period previous year. It is quite remarkable that shuttle trade displayed an increase, albeit slight, in June-August 2004 (the period during which the base

effect caused by the Iraq war in 2003 was over) compared to the same period of the previous year.

CURRENT ACCOUNT (USD million)										
	2003									2004
	Jan-Aug	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jan-Aug
Current Account Balance	-4404	-904	-2126	-2138	-1666	-1187	-1329	-590	118	-9822
Foreign Trade Balance	-8401	-1042	-1826	-2391	-2028	-1977	-2365	-2301	-2325	-16255
Total Exports	32136	4871	3944	5555	5428	5539	5597	5868	5050	41852
Total Imports	-40537	-5913	-5770	-7946	-7456	-7516	-7962	-8169	-7375	-58107
Services Balance	6406	390	159	393	560	1011	1000	1732	2757	8002
Credit	11744	1125	914	1190	1429	1819	1960	2701	3624	14762
Debit	-5338	-735	-755	-797	-869	-808	-960	-969	-867	-6760
Income Balance	-3777	-451	-631	-382	-417	-550	-384	-436	-571	-3822
Credit	1572	271	229	268	147	183	181	234	197	1710
Debit	-5349	-722	-860	-650	-564	-733	-565	-670	-768	-5532
Current Transfers	1368	199	172	242	219	329	420	415	257	2253
Wrokers' Remittances	440	81	54	58	63	64	54	47	61	482
<i>Memo items:</i>										
Shuttle Trade	2387	256	280	341	358	369	316	256	456	2632
Non Monetary Gold (net)	-1835	-212	-298	-280	-357	-224	-218	-442	-291	-2322
Travel Revenues	8151	602	503	608	773	1165	1332	2174	3029	10186
Interest Income	437	41	64	49	39	58	64	47	52	414
Interest Expenditure	-3063	-219	-412	-310	-262	-447	-282	-264	-577	-2773

Source: CBRT.

47. As a result of regional instabilities in 2003, demand for processed gold increased in international markets, leading to a 15 percent rise on the average in prices. Gold prices continued to increase in 2004. The price of gold per ounce rose by 15.1 percent in the January-September period compared to the same period of 2003. Within this framework, Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to 2002, rose by 27.3 percent in the first eight months of 2004.

48. Based on the figures announced by SIS, tourism revenues increased by 20.5 percent in the first nine months of 2004 compared to the previous year and reached US dollar 12.6 billion. In the said period, the number of tourists departing from Turkey rose by 27.3 percent. As of the first nine months, average per capita expenditure of tourists declined to US dollar 799 in 2004 from US dollar 844 of 2003.

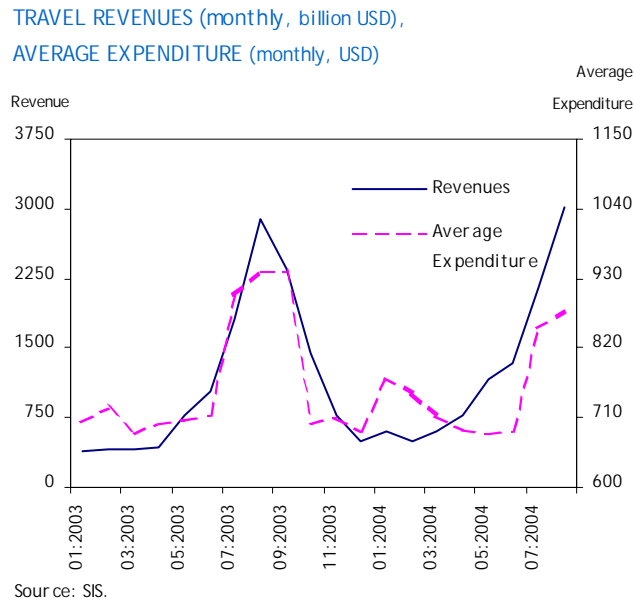
TRAVEL REVENUES											
	2003										2004
	Jan-Sep	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Jan-Sep
Travel Revenues (USD million)	10492	602	503	608	773	1165	1332	2154	3024	2483	12644
Number of Visitors (thousand)	12437	776	672	850	1118	1696	1932	2525	3437	2824	15831
Average Spending (USD)	844	775	749	715	691	687	689	853	880	879	799

Source: SIS.

49. According to the data on Departing Visitors from Turkey compiled by SIS, in the January-September period, US dollar 9.6 billion of the tourism revenues were obtained from foreign visitors, while US dollar 3 billion came from the visits of Turkish citizens living abroad.

50. According to the same survey, 27.7 percent of tourism revenues from tourists departing from Turkey in the said period were obtained through package tour organizations. This amount mainly stemmed from foreign visitors, while revenues from Turkish visitors primarily consisted of personal expenditures. Survey results reveal that 13.1 percent of total

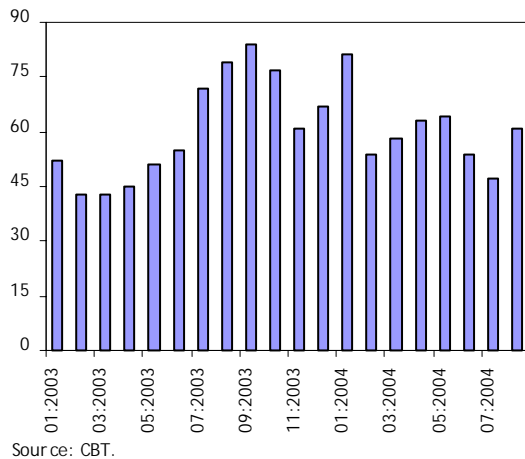
visitors in the first nine months of the year belonged to high-income group, while 75.5 percent and 11.4 percent were in median and lower income groups, respectively.



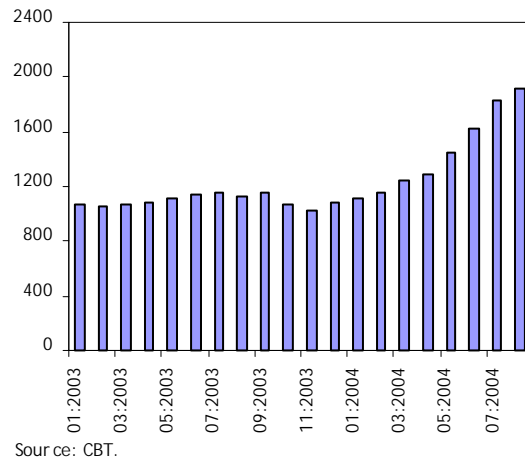
51. Income balance account produced a deficit of US dollar 3.8 billion in January-August 2004. Portfolio investment expenditures and interest expenditures were the determining factors in this deficit. Interest expenditures declined during this period compared to 2003. This decline mainly resulted from the drop in interest expenditures of the sectors excluding the Central Bank, the General Government and banks.

52. In the January-August period 2004, there was a significant increase in imports with waiver. In the first eight months of 2004, the volume of imports with waiver increased by 117 percent compared to the same period last year and reached US dollar 1.5 billion. The workers' remittances rose by 9.5 percent in this period.

WORKERS REMITTANCES: Private  
(monthly, million USD)



IMPORTS WITH WAIVERS  
(12-month, million USD)



## V. CAPITAL MOVEMENTS

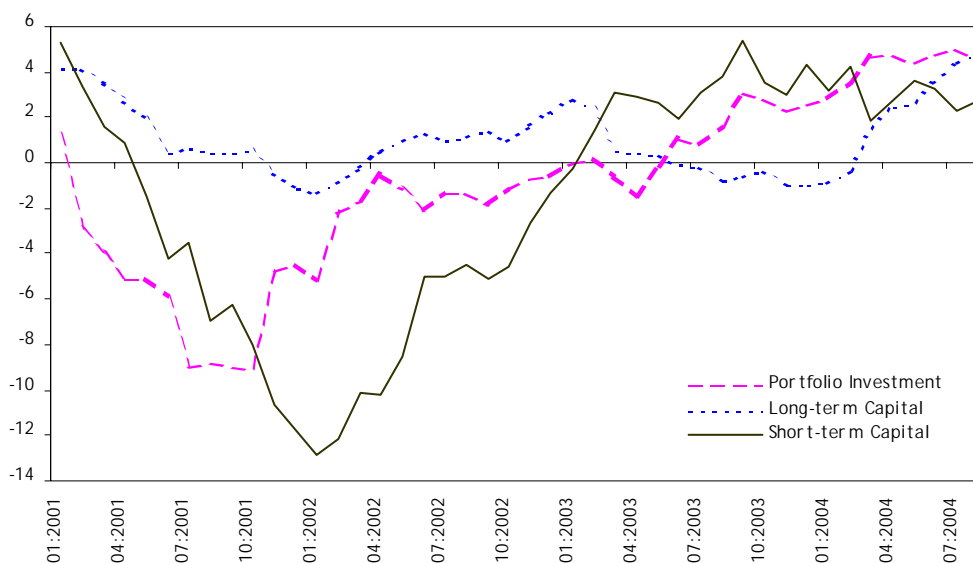
53. The financial account produced a deficit of US dollar 22 million in August 2004. Excluding the IMF loans and official reserve changes, there was net capital inflow of US dollar 1 billion in this month. Net capital inflow became US dollar 11.2 billion in the January-August period and 13.5 billion in the twelve-month period.

54. In August, capital inflow through portfolio investments realized as US dollar 103 million, while capital inflow through other investments became US dollar 1.1 billion. On the other hand, net errors and omissions item produced a deficit of US dollar 96 million. In the January-August period, current account deficit was calculated as US dollar 9.8 billion, whereas capital inflows through direct investments, portfolio investments and other investments became US dollar 1.4 billion, US dollar 3.2 billion and US dollar 4.8 billion, respectively. Meanwhile, net errors and omissions item yielded a surplus of US dollar 1.3 billion in the said period. Hence, official reserves rose by US dollar 765 million.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)										
	2003									2004
	Jan-Aug	Jan	Feb	Mar	Apr	May	June	Jul	Aug	Jan-Aug
Capital and Financial Account	2576	2025	3009	-18	305	1254	52	1948	-22	8553
Financial Account	2576	2025	3009	-18	305	1254	52	1948	-22	8553
Direct Investments	574	60	363	-32	66	181	391	304	25	1358
Portfolio Investments	1249	1401	311	341	-193	195	1010	17	103	3185
Other Investments	3199	756	2039	-437	1834	-230	-582	320	1075	4775
Reserve Assets	-2446	-192	296	110	-1402	1108	-767	1307	-1225	-765
Net Errors & Omissions	1828	-1121	-883	2156	1361	-67	1277	-1358	-96	1269
<i>Memorandum items:</i>										
Long-term	-1357	286	431	437	907	350	395	994	314	4114
Short-term	4182	695	2099	-413	686	-147	-520	-451	580	2529
IMF credit	374	-225	-491	-461	241	-433	-457	-223	181	-1868

Source: CBRT.

CAPITAL FLOWS (12-month, billion US dollar)



Source: CBRT.

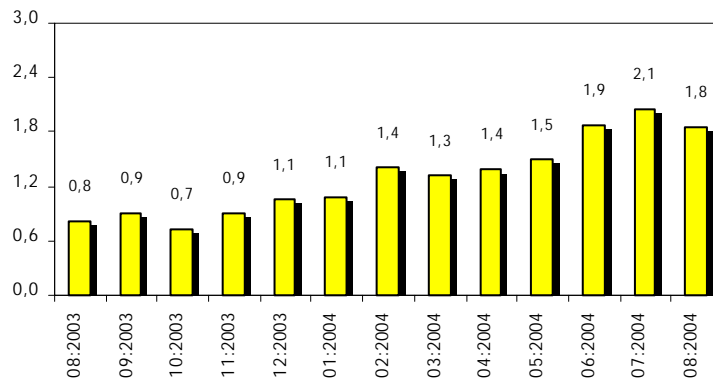
55. The analysis of capital flows by maturities reveal that the share of long-term capital inflows has been increasing especially since the second quarter of the year. US dollar 2.5



billion of the capital inflow<sup>1</sup> registered in the first eight months of the year came from short-term capital, while US dollar 4.1 billion was of long-term nature. Long-term credits used by other sectors became the determinant in long-term capital movements, while short-term credits used by the banks were the determining factor in short-term capital movements.

56. In the January-August period, net direct investments amounting to US dollar 1.4 billion mainly originated from non-residents' capital investments and real estate purchases in homeland. Meanwhile, net direct investments the residents made abroad increased by 130 percent during this period compared to the same period of the previous year and reached US dollar 612 million. Besides, long-term credits extended to foreign companies by their affiliates abroad, which are registered under the other capital items and considered as direct capital investment, became net US dollar 187 million.

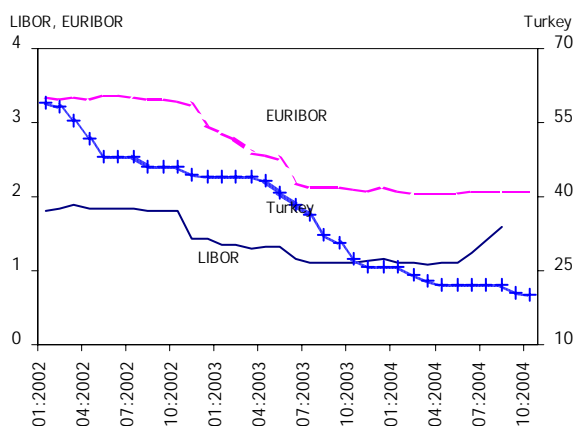
**DIRECT INVESTMENTS**  
(12-month, billion US dollar)



Source: CBRT.

57. LIBOR and EURIBOR interest rates, which had declined throughout 2003 in line with the policies adopted by central banks, followed a steady course in the first half of 2004. However, LIBOR interest rates started to rise following the implications by the Federal Reserve of the USA for a likely rise in interest rates. Spreads, which rose particularly in developing countries in May, re-started to drop in June. Meanwhile, a recovery was observed in the prices of securities by June and afterwards.

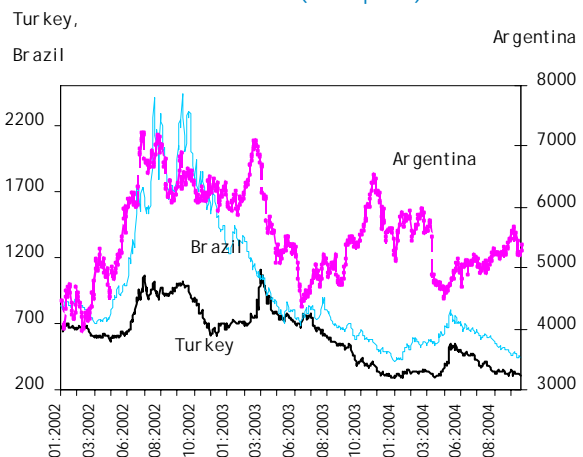
**INTEREST RATES (monthly average, %)**



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

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

**SECONDARY MARKET SPREADS (basis point)**

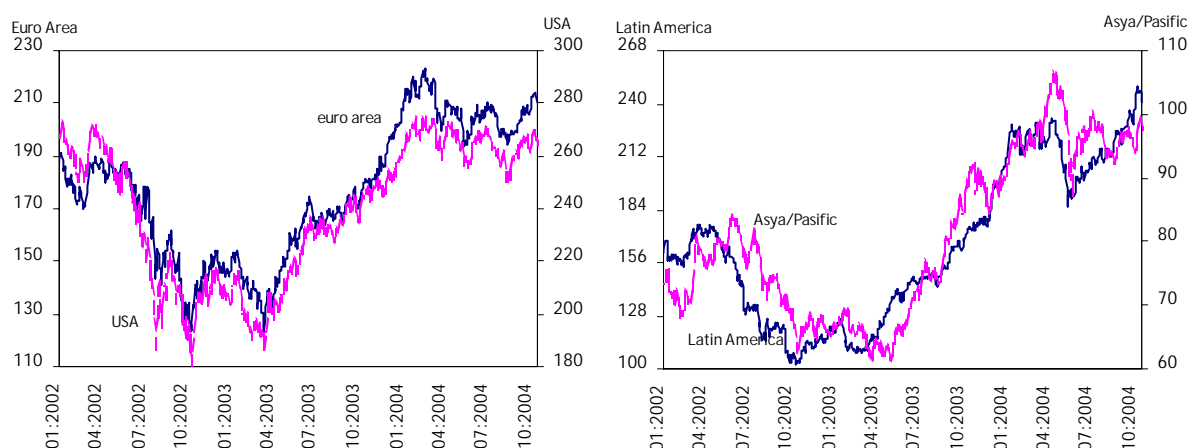


Spread: The difference between the returns on relevant country's government bonds and USA Treasury bonds.

Source: JP Morgan.

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

## DOW JONES EQUITY PRICE INDICES



Source: Dow Jones.

58. The Federal Reserve raised indicative short-term interest rates to 1.75 percent by 0.25 point each on 30 June, 10 August and 21 September. Meanwhile, the Bank of England raised its interest rates by a 0.25 point rise to 4.75 on 5 August 2004 for the fourth time since the beginning of the year. The Bank of Canada, which had cut its interest rates three times throughout the year, raised its interest rates by 0.25 point on 8 September 2004. Meanwhile, the ECB made no changes in interest rates in 2004.

59. The CBRT cut the short-term interest rates applicable at Interbank Monetary Market and ISE Repo/Reverse Repo Market as of 8 September 2004.

## PORTFOLIO INVESTMENT (monthly, USD million)

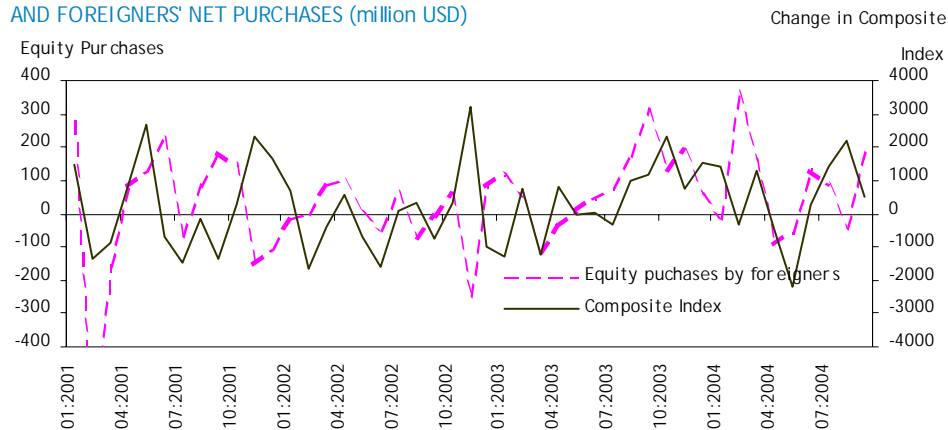
	2003									2004
	Jan-Aug	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jan-Aug
Portfolio Investment	1249	1401	311	341	-193	195	1010	17	103	3185
Assets	-362	-105	-267	512	273	56	-145	-180	-317	-173
General Government	-24	0	0	0	-6	-5	-4	-5	0	-20
Banks	11	224	-59	346	427	157	-21	-37	-344	693
Other Sectors	-349	-329	-208	166	-148	-96	-120	-138	27	-846
Liabilities	1611	1506	578	-171	-466	139	1155	197	420	3358
Equity Securities	318	-18	364	157	-96	-60	131	90	-47	521
Debt Securities	1293	1524	214	-328	-370	199	1024	107	467	2837
Monetary Authority	0	0	0	0	0	0	0	0	0	0
General Government	1470	1524	214	-328	-370	199	1024	107	467	2837
In Turkey	540	24	501	896	-370	199	274	616	467	2607
Abroad	930	1500	-287	-1224	0	0	750	-509	0	230
Banks	-177	0	0	0	0	0	0	0	0	0

Source: CBRT.

60. The upsurge in non-residents' demands for securities became the determining factor in portfolio movements in the January-August period. Non-residents' purchases of government securities and equity securities increased especially in February, March and July. Meanwhile, the price index of government securities, which was on the rise since the second half of 2003, declined in March-May period, but picked up its upward trend in the following months.

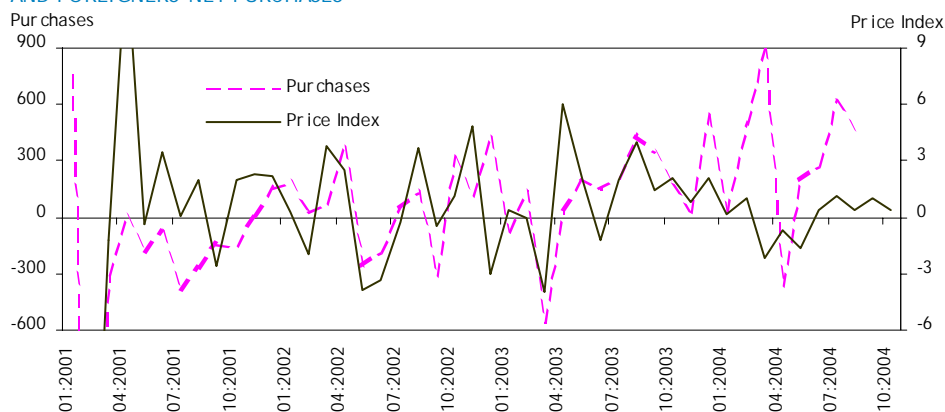
61. In the January-August period, the Treasury held US dollar 3.5 billion-worth of bond auction in international markets and made a bond repayment of US dollar 3.3 billion. Moreover the Treasury held two bond auctions amounting to 600 million euros and US dollar 1 billion, respectively, in September. Thus, the total amount auctioned since the beginning of the year reached US dollar 5.3 billion.

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



Source: CBRT, ISE.

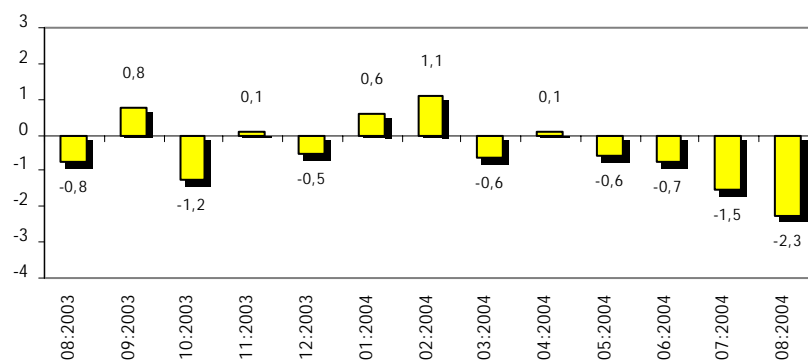
GOVERNMENT DEBT SECURITY PRICES (monthly %age change)  
AND FOREIGNERS' NET PURCHASES



Source: CBRT, ISE.

62. Though the FX-holdings item composed of current and deposit accounts that are held by the banks with their correspondent banks abroad pursued a volatile course in the first eight months of the year, it increased steadily in the May-August period. In the first eight months, FX assets of banks rose by net US dollar 3.9 billion leading to a capital outflow of the same amount.

CHANGE IN DEPOSIT MONEY BANKS' FX HOLDINGS/  
(USD billion)



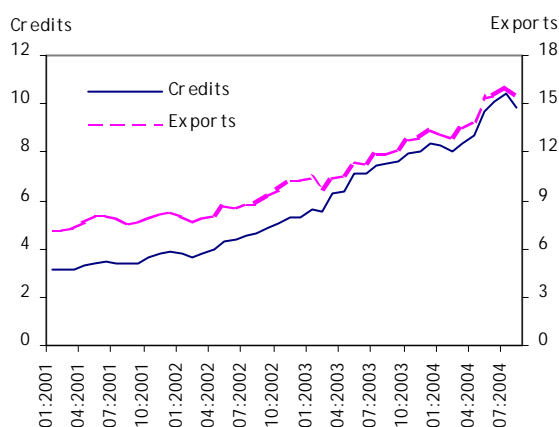
Source: CBRT.

i (+) sign indicates a decrease.

63. Rapid growth in foreign trade volume stimulated commercial credit utilization as well. In the January-August period, volume of exports increased by 31.8 percent, while the volume of commercial credits extended abroad expanded by 34 percent. Similarly, the

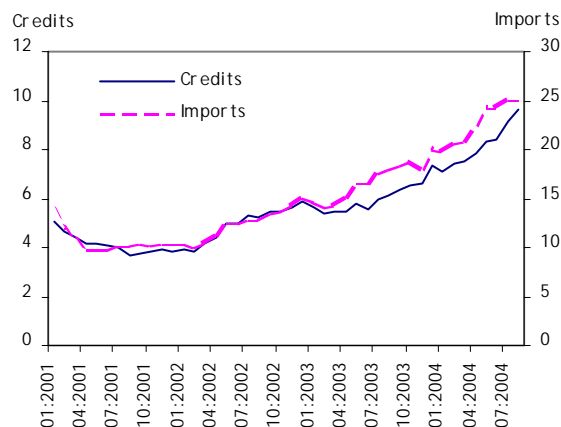
volume of imports increased by 43.4 percent in the same period, while commercial credit utilization boosted by 48.1 percent.

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.

64. The banking sector maintained its tendency to meet its financing needs through short-term credits in 2004 as well. The banks, which used net US dollar 2 billion-worth of short-term credits in 2003, drew net US dollar 2.7 billion-worth of short-term credits in January-August 2004.

OTHER INVESTMENTS (monthly, USD million)

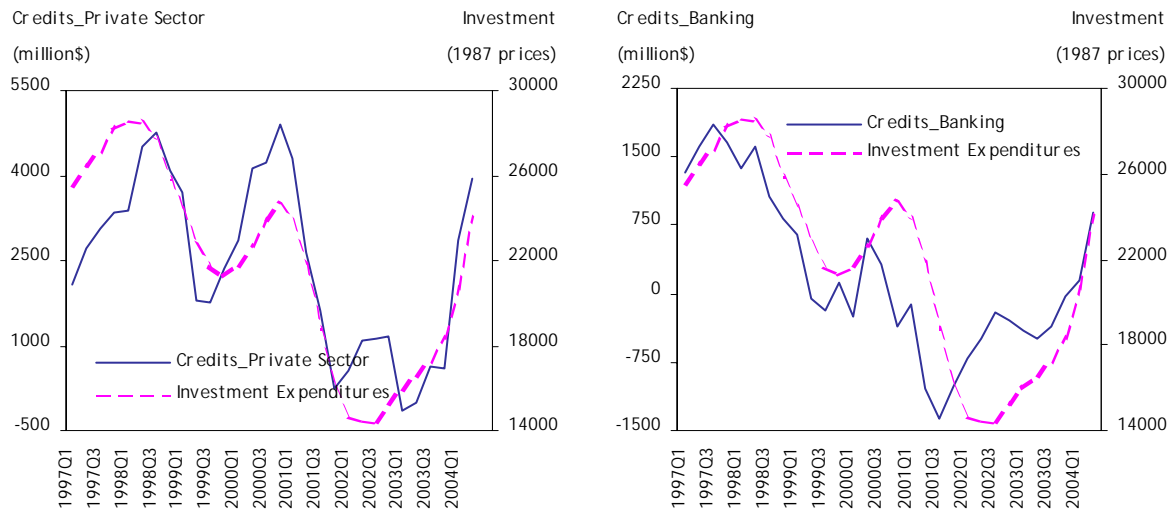
	2003									2004
	Jan-Aug	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jan-Aug
Other Investment	3199	756	2039	-437	1834	-230	-582	320	1075	4775
Assets	448	546	1820	-1307	-275	-842	-1097	-1307	-1714	-4176
Trade Credits	-534	-192	589	-637	-380	-167	-400	78	729	-380
Credits	-409	147	181	-17	30	-44	82	152	-136	395
Currency and Deposits	1630	617	1078	-619	111	-594	-747	-1511	-2261	-3926
Liabilities	2751	210	219	870	2109	612	515	1627	2789	8951
Trade Credits	988	45	216	695	467	261	369	676	515	3244
Credits	20	240	14	184	1616	304	-203	1101	1728	4984
Monetary Authority	-617	-158	-491	-461	-194	-433	-457	-156	-481	-2831
General Government	-264	-166	-108	-286	664	-222	-324	477	552	587
IMF Credits	991	-67	0	0	435	0	0	-67	662	963
Long Term	-1255	-99	-108	-286	229	-222	-324	544	-110	-376
Banks	636	240	287	126	527	399	319	309	1206	3413
Long Term	-525	-14	198	-150	37	50	506	26	20	673
Short Term	1161	254	89	276	490	349	-187	283	1186	2740
Other Sectors	265	324	326	805	619	560	259	471	451	3815
Long Term	16	325	267	780	569	538	239	403	267	3388
Short Term	249	-1	59	25	50	22	20	68	184	427
Deposits	1665	-75	1	-12	16	25	316	-182	515	604
Monetary Authority	370	1	10	-5	-20	-36	-19	36	7	-26
Long Term	-174	-23	-8	-20	-28	-34	-25	22	-4	-120
Short Term	544	24	18	15	8	-2	6	14	11	94
Banks	1295	-76	-9	-7	36	61	335	-218	508	630

Source: CBRT.

65. In 2004, the CBRT continued to repay the IMF loans used in 2001 and earlier. Thus, the total repayment by CBRT in the January-August period reached US dollar 2.8 billion.

66. Long term credit drawings in other sectors excluding banking, CBRT and Treasury, rose significantly. The upward trend in long-term credit drawings, 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)

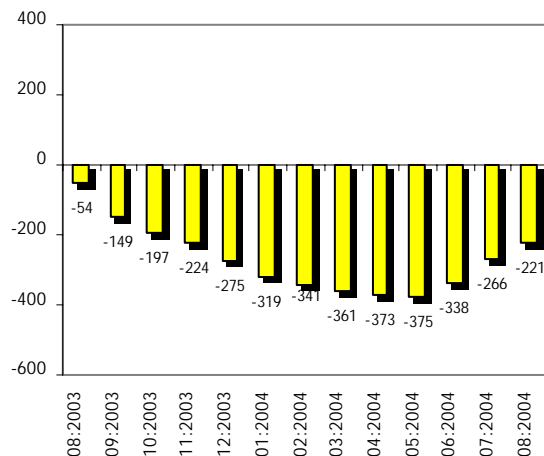


Source: CBRT, SIS.

67. 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 interest rates on super FX accounts were re-cut as of 1 March and 31 August 2004. Meanwhile, the inflow trend in short-term accounts continued despite steep decline in recent months.

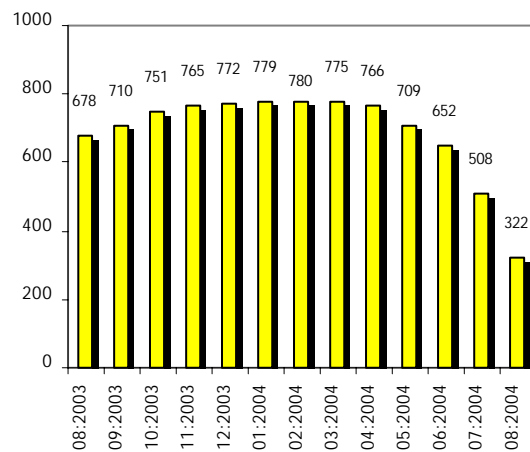
**INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS**  
(12-month, USD billion)

**LONG TERM**



Source: CBRT.

**SHORT TERM**



Source: CBRT.

68. The FX deposits held with domestic banks by residents abroad, which pursued an inflow course throughout 2003 displayed an increasing tendency, albeit volatile, in 2004. In August, deposits held with domestic banks by individuals and banks residents abroad and banks rose to US dollar 508 billion.

69. The Central Bank reserves, which were US dollar 33.6 billion by the end of 2003, realized as US dollar 34.6 billion by 8 October 2004.

70. External financing requirement, which is defined as the sum of the current account balance and the net errors and omissions item, became US dollar 8.6 billion in January-August 2004. Although the net errors and omissions item yielded surplus in this period, the

widening current account deficit boosted financing requirement. Financing requirement was mainly met by portfolio investments as well as long-term credits and commercial loans used by non-banking private sector. Short-term credits extended to banks from abroad and direct investments were the other main financing resources.

71. Monthly short-term external debt stock announced by the CBRT increased to US dollar 29.2 billion by the end of August from US dollar 26.8 billion in July. The increase in short-term international loans utilized by banks and short-term commercial credits utilized for import financing became the determining factor in the expansion of external debt stock.

72. Standard & Poor's raised Turkey's foreign currency long-term credit rating to BB- from B+ and local currency long-term credit rating to BB from BB- on 17 August 2004. On the same date, Standard & Poor's announced foreign and local currency short-term credit ratings as B and the macroeconomic stability outlook as stable. Meanwhile, Fitch confirmed Turkey's credit rating as B+ and upgraded the stable outlook to positive on 25 August 2004. On 30 September, Moody's raised Turkey's local currency credit rating to B3 from B2. Foreign currency credit rating, which was B, remained the same.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)										
	2003									2004
	Jan-Aug	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Jan-Aug
<b>1. Current Account Balance</b>	<b>-4404</b>	<b>-904</b>	<b>-2126</b>	<b>-2138</b>	<b>-1666</b>	<b>-1187</b>	<b>-1329</b>	<b>-590</b>	<b>118</b>	<b>-9822</b>
<b>2. Net Error and Omission</b>	<b>1828</b>	<b>-1121</b>	<b>-883</b>	<b>2156</b>	<b>1361</b>	<b>-67</b>	<b>1277</b>	<b>-1358</b>	<b>-96</b>	<b>1269</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-2576</b>	<b>-2025</b>	<b>-3009</b>	<b>18</b>	<b>-305</b>	<b>-1254</b>	<b>-52</b>	<b>-1948</b>	<b>22</b>	<b>-8553</b>
<b>II. Total Financing (=1+2+3)</b>	<b>2576</b>	<b>2025</b>	<b>3009</b>	<b>-18</b>	<b>305</b>	<b>1254</b>	<b>52</b>	<b>1948</b>	<b>-22</b>	<b>8553</b>
<b>1. Capital Flows (net)</b>	<b>3018</b>	<b>1825</b>	<b>2126</b>	<b>952</b>	<b>1355</b>	<b>1173</b>	<b>2023</b>	<b>2375</b>	<b>3283</b>	<b>15112</b>
Portfolio Investments (net)	574	60	363	-32	66	181	391	304	25	1358
Portfolio Investments (net)	1249	1401	311	341	-193	195	1010	17	103	3185
General Government Bond Issues	930	1500	-287	-1224	0	0	750	-509	0	230
Foreigners' Buying of Bonds and Stocks in Turk	858	6	865	1053	-466	139	405	706	420	3128
Residents Buying of Bonds and Stocks Abroad	-362	-105	-267	512	273	56	-145	-180	-317	-173
<b>Credits (excl. IMF credits)</b>	<b>634</b>	<b>510</b>	<b>721</b>	<b>1340</b>	<b>1842</b>	<b>998</b>	<b>623</b>	<b>2000</b>	<b>2062</b>	<b>10096</b>
General Government	-1255	-99	-108	-286	229	-222	-324	544	-110	-376
Banks	636	240	287	126	527	399	319	309	1206	3413
Long Term	-525	-14	198	-150	37	50	506	26	20	673
Short Term	1161	254	89	276	490	349	-187	283	1186	2740
Other Sectors	1253	369	542	1500	1086	821	628	1147	966	7059
Long Term	16	325	267	780	569	538	239	403	267	3388
Short Term	249	-1	59	25	50	22	20	68	184	427
Trade Credits	988	45	216	695	467	261	369	676	515	3244
<b>Deposits</b>	<b>1665</b>	<b>-75</b>	<b>1</b>	<b>-12</b>	<b>16</b>	<b>25</b>	<b>316</b>	<b>-182</b>	<b>515</b>	<b>604</b>
Central Bank	370	1	10	-5	-20	-36	-19	36	7	-26
Banks	1295	-76	-9	-7	36	61	335	-218	508	630
<b>Others</b>	<b>-1104</b>	<b>-71</b>	<b>730</b>	<b>-685</b>	<b>-376</b>	<b>-226</b>	<b>-317</b>	<b>236</b>	<b>578</b>	<b>-131</b>
<b>2. IMF Credits</b>	<b>374</b>	<b>-225</b>	<b>-491</b>	<b>-461</b>	<b>241</b>	<b>-433</b>	<b>-457</b>	<b>-223</b>	<b>181</b>	<b>-1868</b>
Central Bank	-617	-158	-491	-461	-194	-433	-457	-156	-481	-2831
General Government	991	-67	0	0	435	0	0	-67	662	963
<b>3. Change in Reserves (- increase)</b>	<b>-816</b>	<b>425</b>	<b>1374</b>	<b>-509</b>	<b>-1291</b>	<b>514</b>	<b>-1514</b>	<b>-204</b>	<b>-3486</b>	<b>-4691</b>
Banks' FX Holdings	1630	617	1078	-619	111	-594	-747	-1511	-2261	-3926
Official Reserves	-2446	-192	296	110	-1402	1108	-767	1307	-1225	-765

Source: CBRT.

## VI. APPENDIX

### CURRENT ACCOUNT (USD million)

Current Account											
	Net	Foreign Trade				Services		Income		Transfers	
		Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances
<i>(annual)</i>											
2000	-9819	-22410	27775	2946	-54503	11368	7636	-4002	-4825	5225	4560
2001	3390	-4543	31334	3039	-41399	9130	8090	-5000	-5497	3803	2786
2002	-1522	-8337	36059	4065	-51554	7879	8479	-4554	-4417	3490	1936
2003*	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
<i>(quarterly)</i>											
2002 I	-637	-956	7910	919	-10409	702	895	-1227	-1059	844	477
II	-809	-2260	8514	933	-12454	1698	2087	-1016	-1082	769	505
III	1030	-2329	9298	1090	-13529	3573	3813	-1078	-1116	864	539
IV	-1106	-2792	10337	1123	-15162	1906	1684	-1233	-1160	1013	415
2003 I	-2761	-2399	10366	757	-14368	683	1201	-1531	-1171	486	138
II	-2329	-3229	11318	954	-16470	1662	2259	-1248	-1106	486	151
III	1391	-4088	12180	1082	-18448	6241	7032	-1345	-1134	583	235
IV	-3151	-4318	13389	1160	-20054	1919	2711	-1303	-1175	551	205
2004 I	-5168	-5259	13493	877	-20875	942	1713	-1464	-941	613	193
II	-4182	-6370	15521	1043	-24385	2571	3270	-1351	-991	968	181
<i>(monthly)</i>											
2003 Sep	705	-1315	4115	406	-6206	2180	2341	-347	-348	187	84
Oct	88	-910	4824	451	-6575	1185	1454	-360	-315	173	77
Nov	-431	-608	3970	355	-5245	612	767	-582	-500	147	61
Dec	-2808	-2800	4595	354	-8234	122	490	-361	-360	231	67
2004 Jan	-904	-1042	4615	256	-6289	390	602	-451	-219	199	81
Feb	-2126	-1826	3664	280	-6136	159	503	-631	-412	172	54
Mar	-2138	-2391	5214	341	-8450	393	608	-382	-310	242	58
Apr	-1666	-2028	5070	358	-7926	560	773	-417	-262	219	63
May	-1187	-1977	5170	369	-7991	1011	1165	-550	-447	329	64
Jun	-1329	-2365	5281	316	-8468	1000	1332	-384	-282	420	54
Jul	-590	-2301	5612	256	-8685	1732	2174	-436	-264	415	47
Aug	118	-2325	4594	456	-7846	2757	3029	-571	-577	257	61
<i>(12-month)</i>											
2003 Sep	-4805	-12508	44201	3916	-64448	10492	12176	-5357	-4571	2568	939
Oct	-5151	-12791	45524	3955	-66193	10677	12652	-5477	-4606	2440	898
Nov	-5356	-12711	45900	3928	-66476	10743	12984	-5490	-4561	2102	807
Dec	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
2004 Jan	-7532	-14608	48334	4046	-71203	10619	13428	-5631	-4596	2088	758
Feb	-8394	-15716	49074	4028	-73153	10618	13513	-5441	-4537	2145	769
Mar	-9257	-16894	50380	4073	-75847	10764	13715	-5360	-4356	2233	784
Apr	-10027	-17963	51788	4144	-78562	11038	14046	-5390	-4306	2288	802
May	-10496	-18954	53098	4154	-81021	11410	14438	-5415	-4267	2463	815
Jun	-11110	-20035	54583	4162	-83762	11673	14726	-5463	-4241	2715	814
Jul	-11466	-20948	55959	4144	-86180	11967	15089	-5406	-4243	2921	789
Aug	-12268	-21888	56724	4198	-88051	12101	15238	-5472	-4296	2991	771

Source: CBRT.

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

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Liabilities							Deposits	
					Equity Securities	Debt Securities			Net	Trade Credits	Credits				Monetary Authority	Banks	
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
	<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	2862	2862	1063	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	4192	4192	137	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1244	-1244	83	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1269	-1269	457	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	1183	1183	386	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	5016	5016	391	2053	140	503	1410	2358	1076	1299	956	-1110	-560	653	1455	6	-92
II	1611	1611	638	1012	184	-25	853	1022	-1230	3236	1097	-1084	118	1245	1438	-75	432

Source: CBRT.



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	Liabilities				Deposits		
					Equity Securities	Debt Securities					Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks	
																	Credits
(monthly)																	
2003 Sep	-897	-897	103	1217	-692	311	1598	1170	760	521	208	-118	-289	257	340	66	36
Oct	-170	-170	115	253	173	131	-51	-1899	-1238	-274	486	-191	-237	33	198	43	-614
Nov	357	357	153	-552	-316	192	-428	-1086	104	-1365	-123	-430	-211	-348	-285	12	19
Dec	996	996	118	402	-189	57	534	1893	-532	2630	622	-123	236	1397	357	6	135
2004 Jan	2025	2025	60	1401	-105	-18	1524	756	617	210	45	-158	-166	240	324	1	-76
Feb	3009	3009	363	311	-267	364	214	2039	1078	219	216	-491	-108	287	326	10	-9
Mar	-18	-18	-32	341	512	157	-328	-437	-619	870	695	-461	-286	126	805	-5	-7
Apr	305	305	66	-193	273	-96	-370	1834	111	2109	467	-194	664	527	619	-20	36
May	1254	1254	181	195	56	-60	199	-230	-594	612	261	-433	-222	399	560	-36	61
Jun	52	52	391	1010	-145	131	1024	-582	-747	515	369	-457	-324	319	259	-19	335
Jul	1948	1948	304	17	-180	90	107	320	-1511	1627	676	-156	477	309	471	36	-218
Aug	-22	-22	25	103	-317	-47	467	1075	-2261	2789	515	-481	552	1206	451	7	508
(12-month)																	
2003 Sep	2292	2292	897	3136	-1408	519	4025	5042	1804	4605	1924	-735	-857	1240	836	561	1539
Oct	1895	1895	738	2798	-1455	594	3659	3234	1021	3753	2287	-926	-1025	1024	1058	554	682
Nov	2086	2086	894	2306	-1345	1033	2618	1624	956	2099	1865	-1356	-1144	973	516	541	603
Dec	2862	2862	1063	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
2004 Jan	3705	3705	1082	2862	-1273	872	3263	1991	-237	4045	2272	-1637	-763	2023	984	460	598
Feb	4451	4451	1403	3554	-1653	1184	4023	3034	381	3973	2518	-2128	-691	2086	1233	439	420
Mar	3686	3686	1317	4697	-1317	1460	4554	2166	-2253	5388	2824	-2476	-770	1928	3139	414	229
Apr	3865	3865	1380	4796	-915	1406	4305	3505	-1908	6563	3252	-2670	-587	2638	3506	393	-76
May	5941	5941	1492	4399	-782	1337	3844	4125	-2447	7811	3370	-3064	-651	3813	3742	334	150
Jun	6541	6541	1872	4775	-612	1420	3967	4255	-2682	8542	3608	-3404	-648	4231	3909	314	397
Jul	8445	8445	2052	5034	-859	1433	4460	3930	-3323	8577	3974	-3560	-21	3910	4148	242	-259
Aug	8839	8839	1847	4505	-1197	1212	4490	4853	-4832	10463	4437	-3693	86	4752	4425	101	206

Source: CBRT.