

CENTRAL BANK OF THE REPUBLIC OF TURKEY

**BALANCE OF PAYMENTS
REPORT**



December 2003

SUMMARY

BALANCE OF PAYMENTS (USD million)						
	December			January-December		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-1314	-2459	..	-1522	-6808	..
Foreign Trade Balance	-2127	-3563	67.5	-15495	-21856	41.1
Exports	3242	4492	38.5	36059	46878	30.0
Imports	-5370	-8055	50.0	-51554	-68734	33.3
Exports/Imports	60.4%	55.8%	..	69.9%	68.2%	..
Capital and Financial Accounts	220	503	..	1373	1587	..
Financial Account (Excl. Off. Reserves)	328	1920	..	7526	5634	..
Change in Official Reserves†	-108	-1417	..	-6153	-4047	..

Source: CBRT.

† (-) sign refers to the increase in official reserves.

In December 2003;

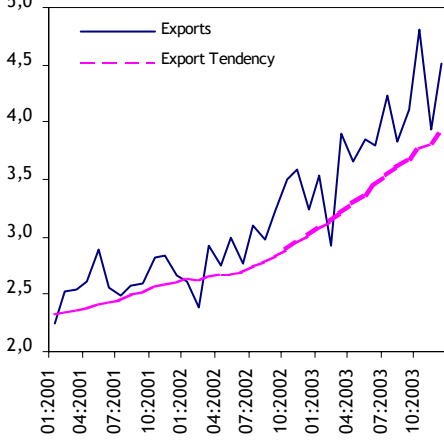
Exports increased by 38.5 percent compared to the same month of the previous year and rose to US dollar 4.5 billion from US dollar 3.2 billion. During the same period, imports rose by 50 percent from US dollar 5.4 billion to US dollar 8.1 billion. Hence, foreign trade deficit realized as US dollar 3.6 billion and the ratio of exports to imports became 55.8 percent. Current account yielded a deficit of US dollar 2.5 billion while financial account excluding official reserves produced a surplus of US dollar 1.9.

In January-December 2003;

Exports increased by 30 percent compared to 2002 and rose from US dollar 36.1 billion to US dollar 46.9 billion. During the same period, imports rose by 33.3 percent from US dollar 51.6 billion to US dollar 68.7 billion. Hence, foreign trade deficit realized as US dollar 21.9 billion and the ratio of exports to imports dropped compared to the previous year and became 68.2 percent. Current account yielded a deficit of US dollar 6.8 billion, while financial account excluding official reserves provided a surplus of US dollar 5.6 billion

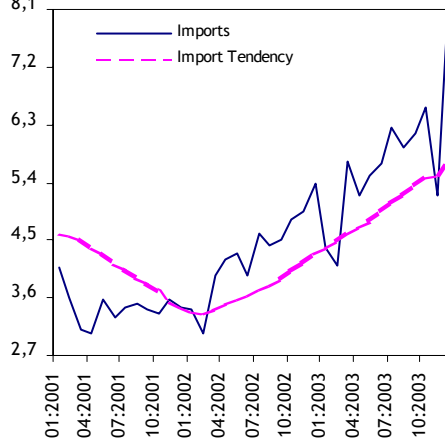
SUMMARY

EXPORTS
(USD billion)



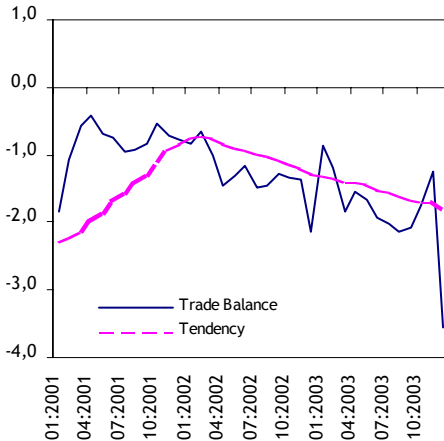
Source: SIS.

IMPORTS
(USD billion)



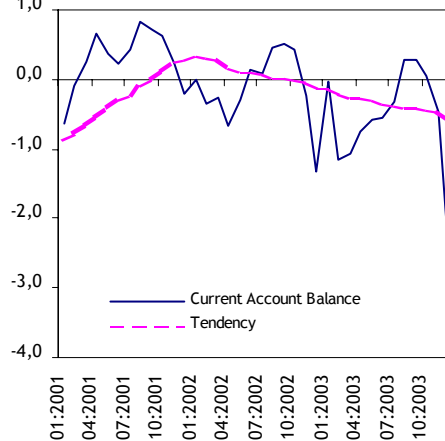
Source: SIS.

TRADE BALANCE
(USD billion)



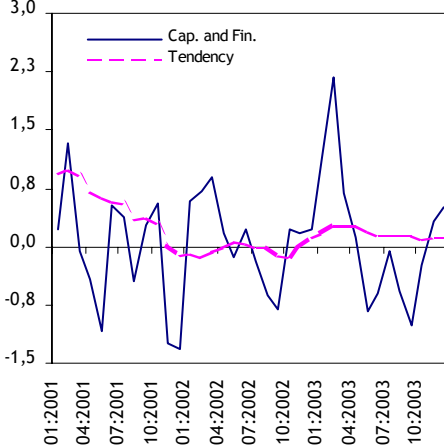
Source: SIS.

CURRENT ACCOUNT BALANCE
(USD billion)



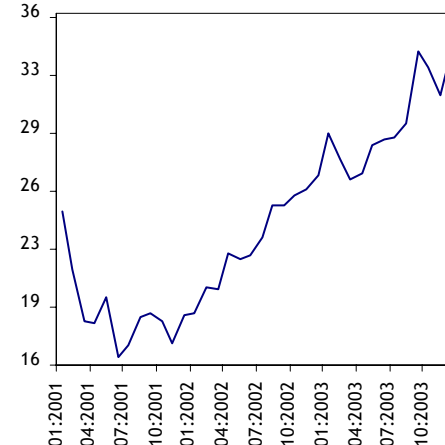
Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT
(USD billion)



Source: CBRT.

CBRT INTERNATIONAL RESERVES
(USD billion)



Source: CBRT.

Trends are calculated with 12-month moving average.

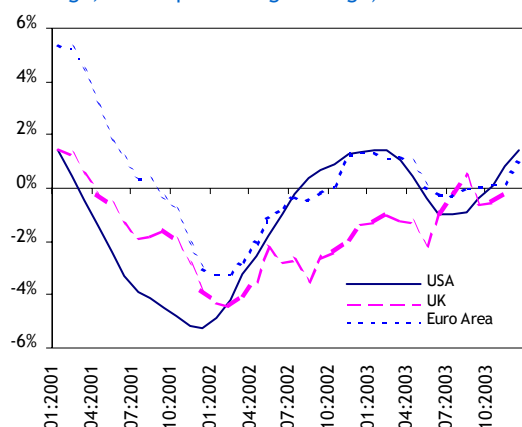
I. FACTORS AFFECTING FOREIGN TRADE

Foreign Demand Developments

1. World economy, which had been instable in the first half of 2003 due to the epidemic SARS disease and the war in Iraq, started to grow again in the second half of the year with lessening uncertainties. The revival in the US economy, acceleration in the activities of high-tech products sector and expansionary policies have become the determining elements of global growth. In recent months, growth has gained momentum with increase in domestic demand and the enhanced confidence of consumers and industrialists globally.

INDUSTRIAL PRODUCTION

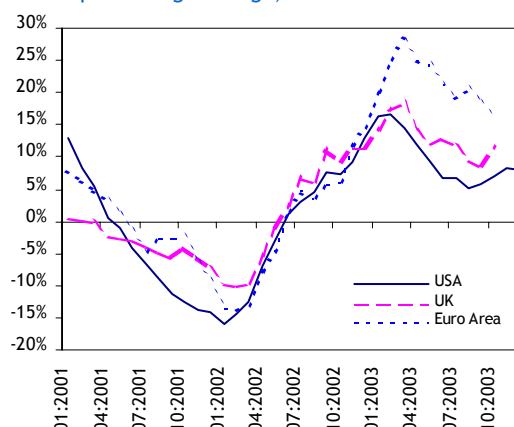
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

IMPORTS

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



Source: IMF, ECB.

2. The war in Iraq and the uncertainties about economic outlook have slowed down the recovery process in the US economy in the first months of the year, but the recovery process has accelerated in the second half of the year with the supportive effect of expanding monetary and fiscal policies on private investment and consumption expenditures. The US GDP increased by 3.1 percent in 2003 while inflation rates remained low (1.9 percent). During the same period, unit labor costs declined and productivity increased in the US. Besides the global recovery in the economic activities in the high-tech products sector, the depreciation of the US dollar has had a favorable effect on US exports. The upward trend in productivity and the expanding macroeconomic policies indicate that the current growth and low inflation rates in US economy will continue in 2004 as well. Meanwhile, US current account deficit has maintained its high level also in the last quarter of the year and has increased from US dollar 481 billion in 2002 to US dollar 542 billion in 2003.

3. Euro area GDP grew by 0.6 percent in the last quarter of 2003 and by 0.4 percent throughout the year. A gradual revival has been noted in area's economy as of the second half of the year. Growth has stemmed mainly from foreign demand, especially from the US. A recovery trend is observed in domestic demand and investment indicators, especially as of the last quarter of the year. During this period, fixed capital investments have increased and business yields have generally risen. In terms of individual countries, the most rapid growth has been noted in Greece, Spain and Finland, respectively. Growth has been relatively low in Germany and France, the two countries with strong economies in the area. Real disposable income, which has increased with tax cuts, and recovery in labor market point out that growth in euro area will continue in the next period due to domestic demand. Unemployment rate became 8.8 percent in 2003. Meanwhile, consumer prices in the area increased by 2 percent and current account produced a surplus of Euro 27.7 billion in this period due to foreign trade surplus.

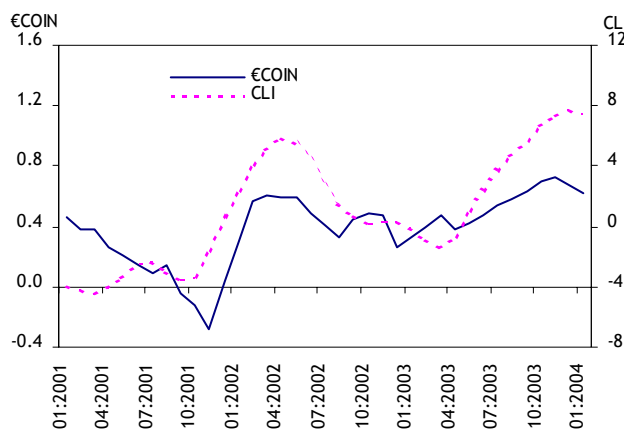
4. According to provisional data, euro area foreign trade surplus decreased by 27.6 percent in 2003 and was recorded as Euro 72.5 billion. This development has mainly stemmed from the decline in exports in the area. Appreciation of euro has caused the euro area imports to shift from euro area countries to other countries. This development has

favorably affected the area's imports from Turkey. Increase in imports from Turkey, Russia and Poland (9 percent) ranked second after China (15 percent) in imports of euro area during January-November 2003 period. Provisional data indicate that euro area foreign trade surplus to non-regional countries has decreased by 17.4 percent and become US dollar 5.7 billion in December.

5. In England, growth, which had weakened in the first quarter of 2003, has started to reaccelerate from the second quarter of the year. Annual GDP growth of England has been affected by services imports and household consumption expenditures, realizing as 2.3 percent compared to 2002. Stagnation in investment expenditures still goes on. Consumer prices inflation realized as 1.3 percent in 2003. Increasing domestic demand and imports prices are anticipated to exert an upward pressure on 2004 inflation rate. The Bank of England increased the borrowing interest rates by a quarter percent in February as in November against this risk.

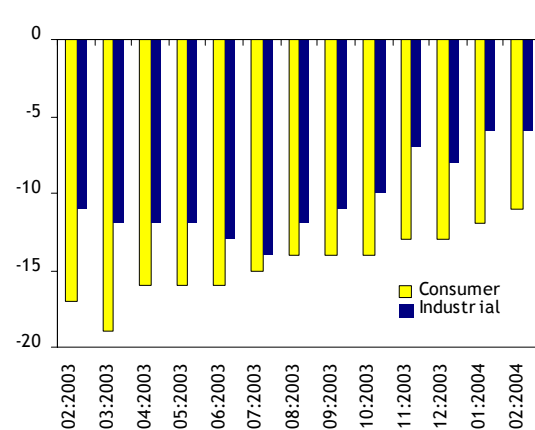
6. Japanese economy grew by 2.7 percent in 2003. Foreign demand, mainly from regional economies, for Japanese exports was the determinant factor in growth. Real goods and services exports have increased by 10 percent during this period. Especially, exports of high-tech products to Asia and the USA; automobile exports to the USA and exports to China have played an important role in Japan's exports performance. Meanwhile, rate of increase in Japan's imports have been relatively low and realized as 4.8 percent. Supported by the revival in fixed capital investments and recovery in consumption, growth in Japan's economy is expected to continue in 2004 in line with the increase in exports.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU
(seasonally adjusted)



Source: Eurostat.

7. Composite Leading Indicators (CLI) issued by OECD for January reveal that the recovery in the economic performance of OECD countries would continue in the next 6-8 months as well. Six-month percentage change of OECD's composite leading indicators, which had been rising since April, slightly declined in January. In this month, the leading indicator has improved for the USA, Canada, England and Japan while it has declined for Italy.

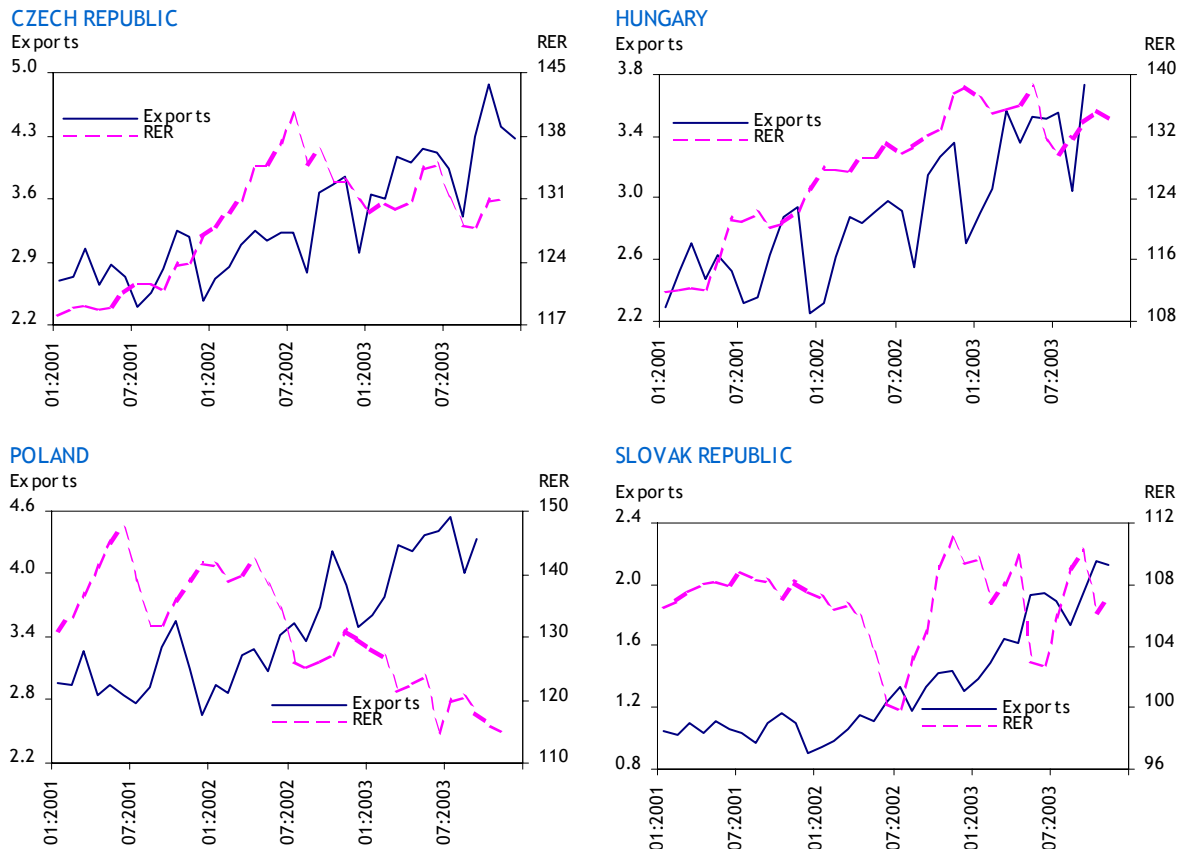
8. Coincident indicator (EuroCOIN) expressing the predictions as to the quarterly GDP growth for euro area point out a limited revival in the economic activity in the Euro area in January.

9. The GDP of Czech Republic, the largest economy among the EU candidate countries, grew by 2.9 percent in 2003. While ultimate consumption expenditures and fixed capital investments were the determinant factors in growth, net exports adversely affected the growth. Parallel to the appreciation of real exchange rates in recent months, exports have lost pace compared to the previous months. In 2003, consumer prices increased by 1 percent. Economic recovery continued in early 2004 as well. In January, industrial production increased by 5.9 percent in an annual terms. However, consumer prices accelerated in the same month and annual inflation rate reached 2.3 percent.

10. Growth observed in Polish economy in 2003 mainly stemmed from exports in manufacturing industry. Poland's GDP grew by 4.7 percent in the last quarter of the year and by 3.7 percent throughout 2003. The ongoing depreciation trend in real exchange rates since 2002 has been the main determinant in the increase in exports. Meanwhile, the 14.3 percent increase in industrial production in January compared to the previous year points out that the high level of growth continued in early 2004 as well.

11. Hungarian GDP growth rate, which was 3.5 percent in 2002, declined to 2.9 percent in 2003. After the stagnation in the first half of the year, growth has regained momentum as of the second half of the year. The underlying factor in growth has been the private consumption expenditures supported by expanding fiscal policies. Industrial production increased by 6.4 percent during this period. In addition, the expansion in foreign trade deficit leads to a current account deficit of Euro 4.2 billion in 2003.

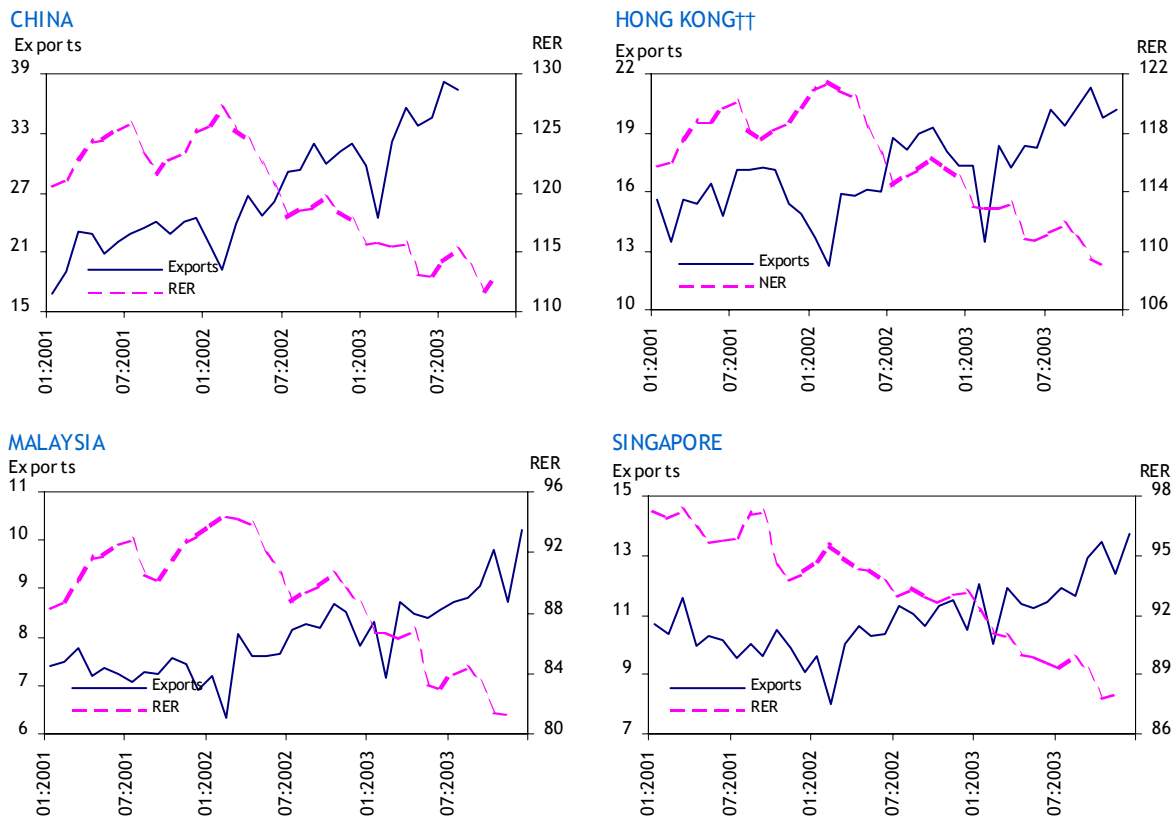
EXPORTS IN EU CANDIDATES (billions US dollars) AND REAL EXCHANGE RATE (1995=100)†



12. China, one of the East Asian economies, sustained its high growth performance in 2003 as well. According to provisional data, Chinese economy grew by 9.1 percent in 2003. The revival observed in OECD countries and the shift of production from high-cost regions to China have been the determinant factors in economic growth. Economic growth continued in early 2004 as well. Affected by fixed capital investments, China's industrial production increased by 19.1 percent in January.

13. The rapid growth in Chinese economy has been a leading factor for economic revival in the region. In South Korea, industrial production rose by 11.9 percent in the last quarter of the year. While the economic revival has been determined by the increasing exports due to foreign demand and depreciation in exchange rates, stagnation in consumption and investment expenditures continues. Malaysia and Thailand also staged rapid increases in exports in the second half of 2003. A significant recovery was observed in domestic demand besides exports in Singapore.

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



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

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

Source: IMF.

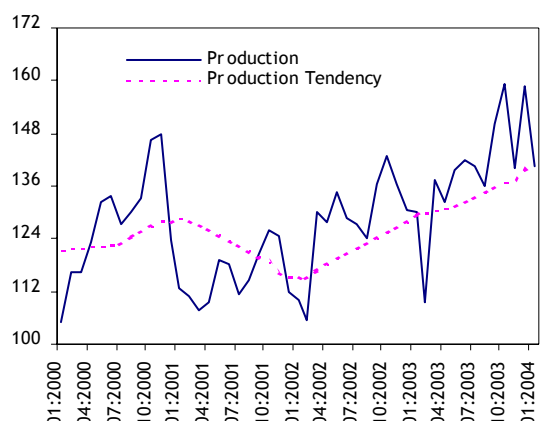
Developments in Domestic Demand and Production

14. GDP increased by 4.8 percent in the third quarter of 2003 compared to the same period of the previous year. Growth in the first three quarters of the year was recorded as 5.4 percent. Growth in the third quarter of 2003 mainly stemmed from the limited recovery in domestic demand and the industrial production that improved due to rapid increase in exports. However, the decline in agricultural sector value added in this period slowed down economic growth.

15. Agricultural sector value added declined by 1 percent in the third quarter of 2003 compared to the same period of the previous year. The mentioned decline has resulted from the decrease in the production of cereals, leguminous seeds and field products due to the seasonal factors observed in odd years. Meanwhile, industrial sector value added rose by 8.1 percent in the same period. The recovery in domestic demand, the downward trend observed in real interest rates and the upsurge in exports have been the leading factors that explained the growth in the industrial sector value added.

16. The increase in production level continues in 2004 as well. According to SIS Monthly Industrial Production Index results, in January 2004, total industrial and manufacturing industry productions increased by 6.5 percent and 7.5 percent, respectively, compared to the same month of the previous year. However, excluding the oil products, annual rate of increase in total industrial production and manufacturing industry production rose by 8.1 percent and 9.5 percent. Meanwhile, according to the seasonally adjusted data, total industrial and manufacturing industry productions declined by 1.8 percent compared to the previous month. The positive developments in the machinery-equipment and office tools sectors indicate that investment expenditures, which bear significance with regard to the sustainability of the increase in exports and productions, have continued to rise. Moreover, increases in the production of durable goods and transportation vehicles have maintained their high trend during this period.

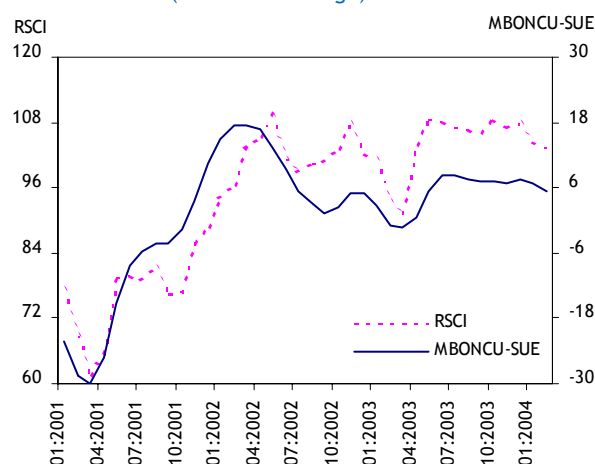
MANUFACTURING INDUSTRY PRODUCTION (1994=100)



Production tendency is calculated by 12 month moving average.

Source: SIS.

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

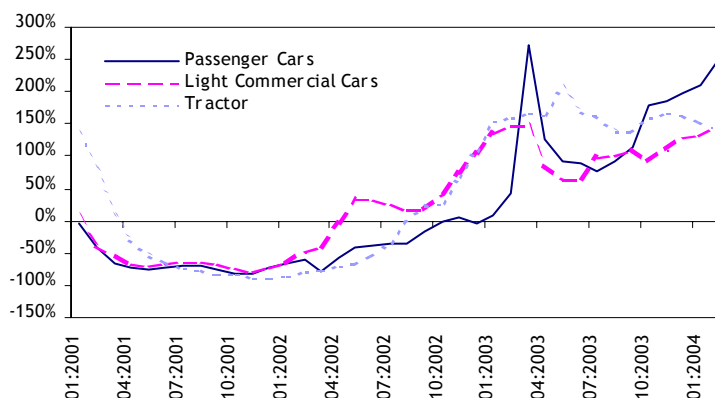


Source: CBRT.

17. The six-month rate of change in the composite leading indicators index (CBLEADING-IPI) compiled by the Central Bank of the Republic of Turkey (CBT) has acquired positive values and started to rise since April. The index maintained its high level in November and December and decreased in January and February to 6.7 percent and 5.2 percent, respectively. The mentioned leading indicator reveals that the upward trend in industrial production may lose pace after reaching a peak in the following months.

18. Besides, the real sector confidence index (CBRSCI) has assumed high values as of the second quarter of the year and remained above 100 despite a decline in January and February. The mentioned indicator shows that the increase in production activities continues in this period as well.

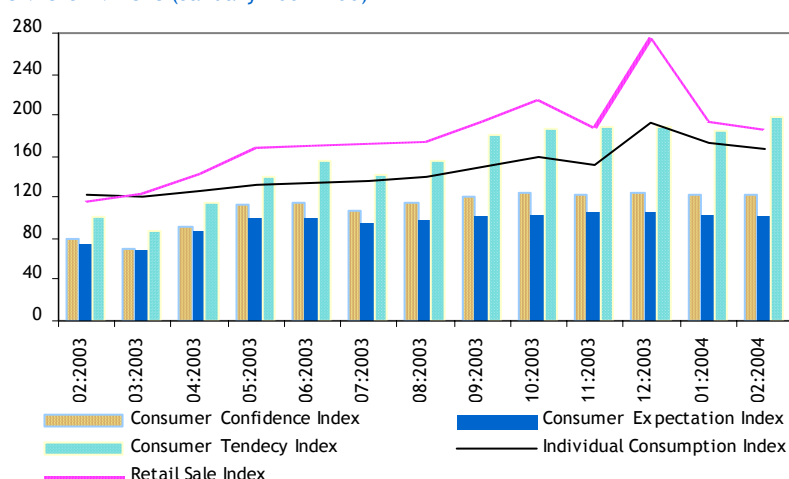
TRANSPORTATION VEHICLES SALES: GROWTH RATE (3-month moving average, annual % change)



Source: Automobile Industry Association.

19. The increase in the sales of transportation vehicles is considered to be an indicator of the recovery in domestic demand. Especially the increase in automobile sales continues in an accelerated manner. According to quarterly averages, automobile sales rose by 249.7 percent in February while the sales of light commercial vehicles increased by 149.3 percent.

CNBC-e INDICES (January 2002=100)



Source: NTVMNSNBC.

20. Leading indicators of consumption demand such as Consumer Confidence Index and Consumption Tendency Index compiled by CNBC-e maintain their high levels although they generally declined in the first quarter. Consumption tendency index is maintaining its upward trend.

Prices

21. Following the rise in October and November, a downward trend was observed in nominal foreign exchange rate basket composed of USD 1 + 0.77 Euro in December. Nominal foreign exchange rate basket depreciated by 4.7 percent and 1.3 percent against Turkish lira in January and February, respectively. Turkish lira, which displayed a significant appreciation in January, maintained its upward trend in February and appreciated by 1.1 percent according to CPI-based index and 2 percent according to WPI-based index compared to January figures. In February, real appreciation compared to end-2003 increased to 5.7 percent and 7.9 percent, according to CPI-based index and WPI-based index, respectively.

REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)†

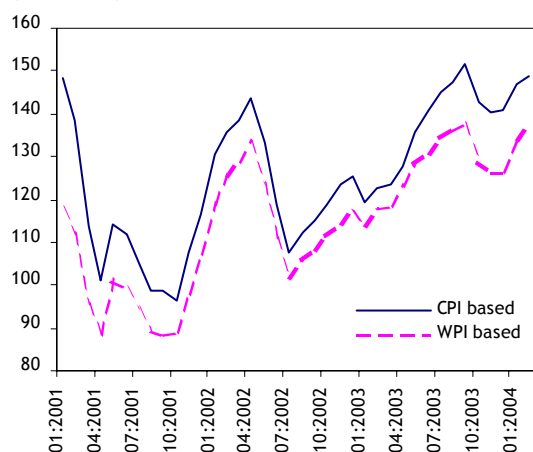
	2003												2004	
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	
Turkey														
CPI based	2.9	0.7	3.6	6.2	3.5	3.2	1.4	2.9	-5.7	-1.7	0.1	4.6	1.1	
WPI based	3.6	0.6	4.0	4.1	1.6	3.1	1.1	1.1	-6.5	-1.6	-0.3	5.8	2.0	
Czech Republic	1.0	-0.6	0.6	2.8	0.4	-2.8	-2.1	-0.1	2.1	0.3				
Slovakia	-2.5	1.0	1.7	-6.1	-0.3	2.9	3.0	1.0	-3.6	0.8				
Hungary	-2.2	0.4	0.4	1.5	-5.1	-1.4	1.5	1.8	1.2	-0.7				
Poland	-1.1	-4.2	1.2	0.7	-7.2	4.3	0.5	-2.0	-1.6	-0.8				
Hong Kong ††	-0.1	0.0	0.2	-2.0	-0.2	0.6	0.5	-0.9	-1.2	-0.3				
Malezia	-0.1	-0.5	0.5	-4.1	-0.2	1.0	0.6	-1.0	-2.2	-0.3				
Singapore	-1.2	-0.3	-0.9	-0.2	-0.3	-0.4	0.6	-0.7	-1.6	0.1				
China	0.2	-0.3	0.2	-2.2	-0.2	1.1	0.9	-1.2	-1.9	0.9				

Source: CBRT, OECD, IMF.

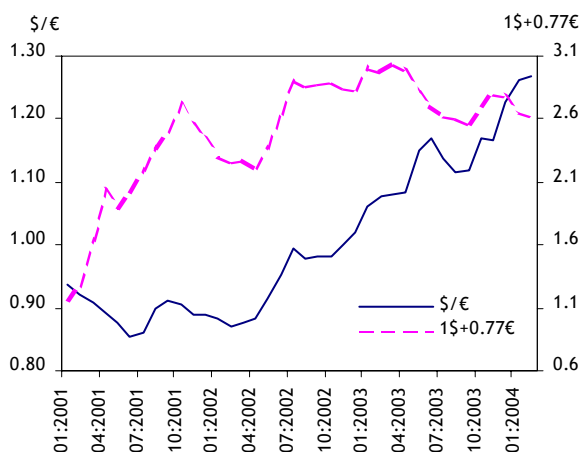
† Increase implies real appreciation of the currency.

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

22. Euro, which has been displaying an upward trend against US dollar in general since 2002, maintained this trend with a certain level of decline in February. Euro appreciated by 0.4 percent against USD in February, accordingly, euro/US dollar parity rose to 1.2670 in February from 1.2626 of January.

**REAL EFFECTIVE EXCHANGE RATE
(1995=100)†**


† Increase in real exchange rate index indicates strengthening of Turkish lira.
Source: CBRT.

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


23. The ongoing deterioration in terms of trade since 1999 ceased by 2003. In December, terms of foreign trade recovered by 6.7 percent compared to end-2002 and by 1.6 percent compared to the previous month.

24. In December, export prices rose by 4.4 percent compared to previous month. The downward trend in export prices, which are calculated according to quarterly averages, turned upwards in August. Main textile products, clothing and electrical machinery and equipment, which are among the most important items of manufacturing industry, played an important role in the rise in exports prices indices.

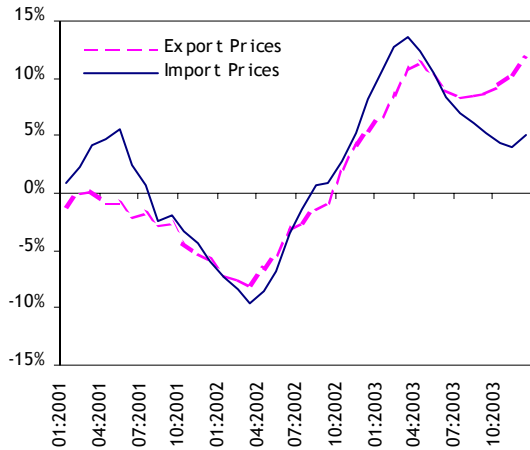
25. In December, import prices increased by 2.8 percent compared to the previous month. Exports of motor vehicles and electrical machinery and equipment became the significant determinants in the rise of import price index.

EXPORT and IMPORT PRICE INDICES (1994=100)

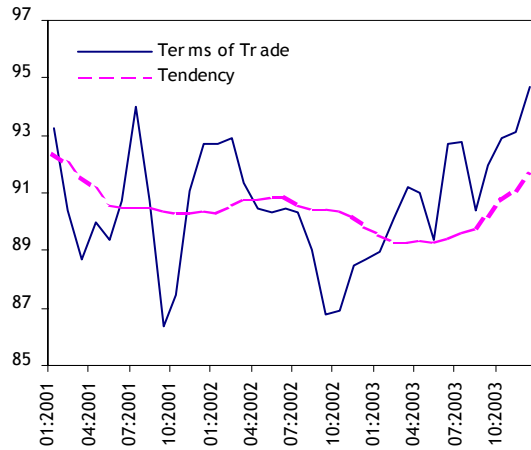
	Dec	2003											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Export Price Index	87.7	89.6	92.7	92.3	91.1	89.7	91.4	92.2	90.9	91.6	93.1	95.0	99.2
Manufacturing	87.7	89.9	93.4	93.1	91.7	89.9	91.8	93.0	91.4	92.0	93.2	94.8	99.0
Textiles	85.2	86.9	90.0	87.5	86.7	87.3	88.8	90.1	85.9	86.3	88.7	91.6	97.4
Wearing Apparel	91.7	94.5	99.1	97.5	94.4	91.4	97.3	101.8	97.0	95.6	95.0	98.9	107.8
Chemicals & Products	88.2	89.8	92.5	92.9	92.2	88.3	89.9	88.1	87.7	90.2	91.9	87.5	91.9
Manufacture of Basic Metals	89.3	90.6	98.7	104.8	107.7	102.5	100.5	101.3	103.1	105.5	108.3	107.1	108.3
Manufacture of Mach. & Equ.	83.7	85.2	85.5	83.0	83.2	83.9	85.9	84.8	85.0	85.1	86.5	91.7	93.4
Electrical Mach. & Apparatus	75.6	76.3	74.3	72.1	69.0	68.4	70.2	68.4	69.6	70.3	67.0	68.3	73.3
Motor Vehicles & Trailers	95.0	93.3	94.2	96.3	96.6	94.8	98.6	101.6	98.6	102.3	106.3	107.8	109.1
Import Price Index	98.9	100.7	102.9	101.2	100.1	100.4	98.6	99.4	100.6	99.6	100.2	102.0	104.8
Mining & Quarrying	157.1	169.2	179.2	169.6	160.0	151.7	158.0	159.5	168.0	169.1	169.3	164.3	168.5
Crude Oil & Natural Gas	166.6	178.5	190.6	181.3	169.1	162.5	169.8	172.2	179.0	182.1	181.2	176.5	181.8
Manufacturing	92.4	91.9	93.4	93.6	94.3	95.1	93.2	93.6	93.4	92.3	93.0	94.4	98.2
Textiles	88.1	84.0	85.2	87.9	91.6	90.3	91.3	89.4	88.2	82.3	84.2	84.0	90.7
Chemicals & Products	97.4	97.1	100.8	100.7	104.1	104.7	101.5	100.0	99.2	98.8	101.2	101.9	103.3
Manufacture of Basic Metals	91.5	93.0	95.8	94.9	97.4	95.9	94.7	97.1	98.8	94.4	101.4	102.0	107.2
Manufacture of Mach. & Equ.	97.5	92.8	91.6	91.5	93.1	94.2	93.5	97.2	94.6	94.6	94.6	96.5	98.9
Electrical Mach. & Apparatus	67.9	67.2	65.8	66.8	67.6	68.0	68.6	67.3	65.6	65.4	65.9	66.9	70.0
Motor Vehicles & Trailers	88.7	89.6	88.7	88.4	89.1	93.0	91.6	91.4	91.4	89.2	92.0	94.6	103.5

Source: SIS.

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



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

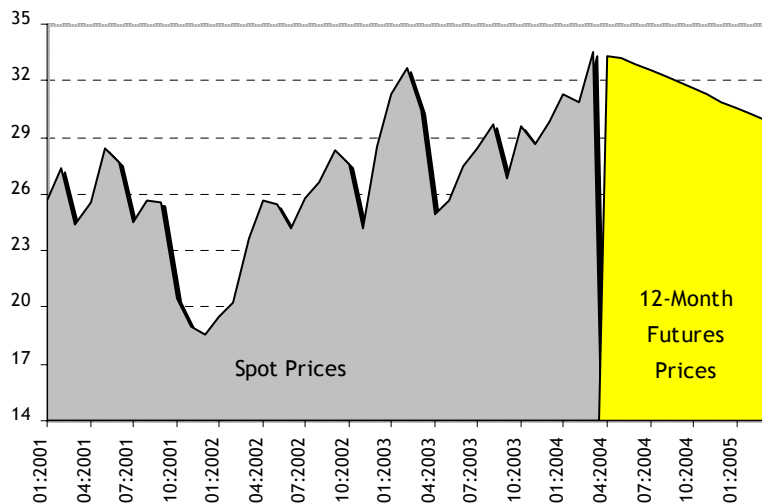


Source: SIS.

26. Brent oil prices, which had declined substantially after the termination of the war in Iraq, has been generally displaying an upward trend since May. In 2003, Brent oil prices increased by 15.3 percent in the average and reached US dollar 30.2 by the end of the year. The upward trend in prices continued as of March as well.

27. At the Extraordinary OPEC Meeting of 10 February 2004 held in Vienna, it was decided that, despite increasing crude oil prices, current crude oil supply was adequate in the first quarter of the year with respect to price stability. Moreover, it was decided to take a number of measures against a likely downward pressure on prices by excess oil supply that may result from the decline in world crude oil demand due to seasonal factors in the second quarter of the year. Within this framework, it was concluded to keep the production at its current level until the end of March and to reduce it as of the beginning of April. It was also decided that the next ordinary meeting would be held on 31 March 2004 in Vienna-Austria, while Beirut-Lebanon- would host the next extraordinary meeting of OPEC on 3 June 2004.

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



Future Prices	
	16.03.2004
Apr 2004	33.45
May 2004	32.68
June 2004	32.30
July 2004	31.96
Aug 2004	31.66
Sep 2004	31.36
Oct 2004	31.08
Nov 2004	30.80
Dec 2004	30.53
Jan 2005	30.23
Feb 2005	29.95
Mar 2005	29.69

Source: oilnergy.com.

Note: 16.03.2004 future prices of International Petroleum Exchange.

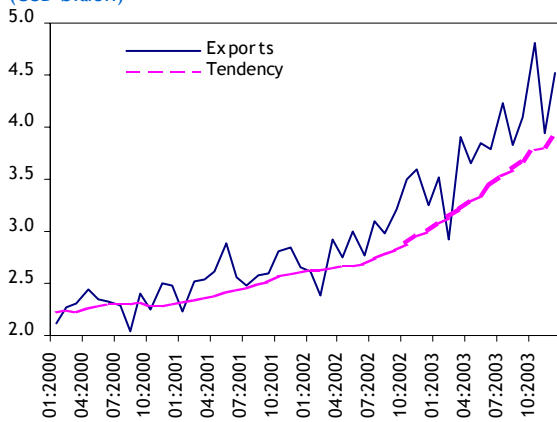
II. EXPORTS

General Evaluation

28. In December, exports rose by 38.5 percent compared to the same month of the previous year and reached US dollar 4.5 billion. Hence, exports reached US dollar 46.9 billion in 2003. The mentioned export level indicates a 30-percent increase with respect to 2002.

29. The realized growth in exports in 2003 is believed to have derived from the improvement in supply and cost conditions. Low labor and energy costs coupled with increase in productivity helped Turkish firms to compete globally despite appreciation of Turkish lira in real terms. Besides, the improvement in financing opportunities, increase in export prices and USD/Euro parity effect have contributed to the mentioned increase.

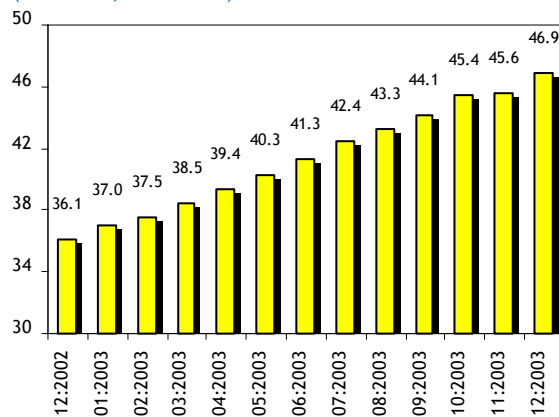
EXPORTS and EXPORTS TENDENCY†
(USD billion)



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

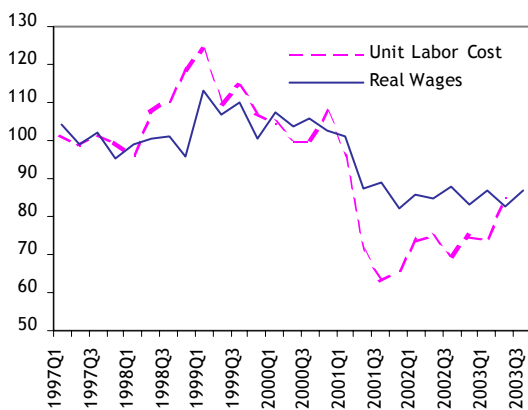
Source: SIS.

EXPORTS
(12 month, USD billion)



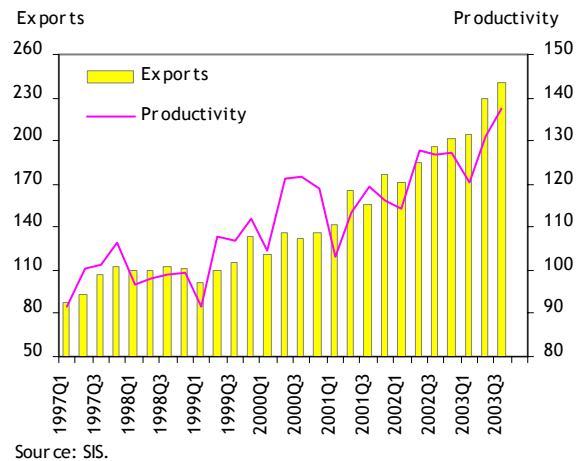
Source: SIS.

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



Source: SPO, SIS.

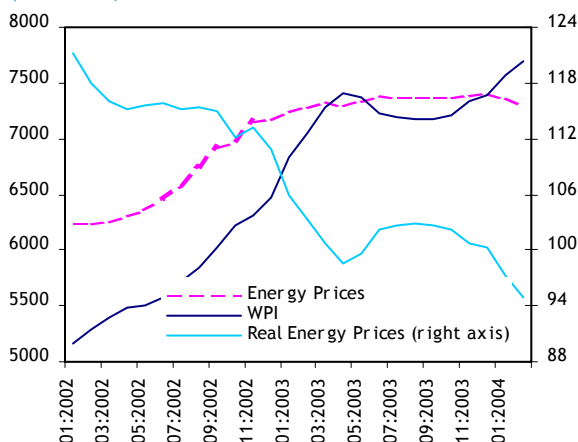
PRIVATE MANUFACTURING EXPORT AND
PRODUCTIVITY INDICES (1997=100)



Source: SIS.

30. As of the first three quarters of 2003, real wages per hour and real earnings per worker in the manufacturing industry production declined by 3.3 percent and 8.2 percent, respectively, as to the same period of the previous year. Despite the relative increase compared to the previous year, unit labor costs index is still at a low level compared to past years' figures.

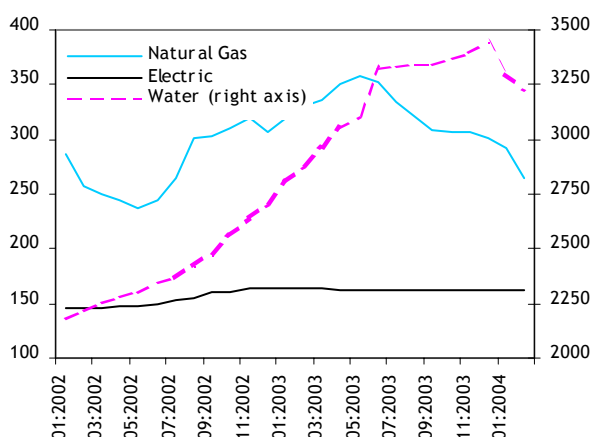
ENERGY PRICES and WPI†
(1994=100)



† 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)



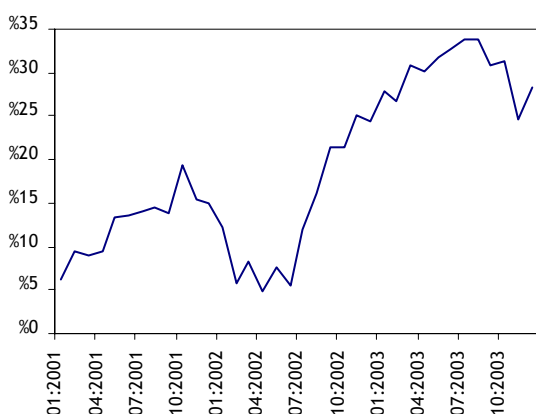
† Domestic prices in advance that are taken from WPI, which are electric prices per KWH, natural gas and water prices per ton.

Source: SIS.

31. Electricity prices remained constant after declining in April. Appreciation of the Turkish Lira coupled with the government's decision not to make any price adjustments caused a downward pressure on natural gas prices in 2003. The mentioned tendency prevailed in the first two months of 2004 as well. The rise in energy prices in 2003 remained below WPI inflation, indicating a cost advantage in energy prices in favor of exporters.

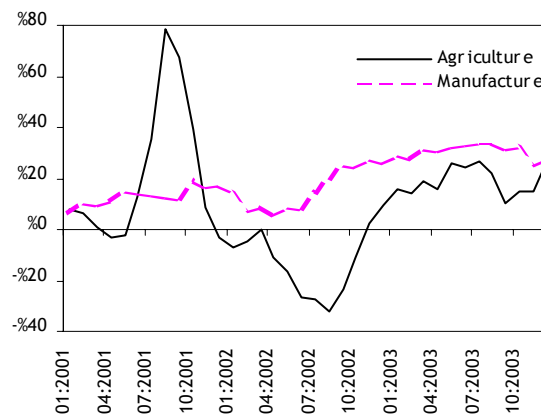
32. In the scope of financing costs, along with Turkish Eximbank credit interest rates, nominal credit interest rates decreased in 2003. The Turkish Eximbank decreased its pre-shipment export credits interest rate seven times throughout the year.

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



Source: SIS.

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



Source: SIS.

33. As the three-month trend in the rate of increase in exports of manufacturing industry displayed progress, export tendency of agricultural products remained below total exports tendency throughout the year.

34. The largest contribution to exports growth in 2003 came from exports of motor vehicles, knitted apparel, boilers-machinery-mechanical devices along with iron and steel.

EXPORTS (USD million)								
	December				January-December			
	2002	2003	% Change	% Contrib.	2002	2003	% Change	% Contrib.
Total	3242	4492	38.5		36059	46878	30.0	
Agriculture and Forestry	197	284	43.8	2.7	2038	2451	20.3	1.1
Fishing	9	23	167.8	0.4	51	74	43.9	0.1
Mining and Quarrying	24	47	98.2	0.7	387	532	37.4	0.4
Manufacturing	3011	4126	37.0	34.4	33549	43699	30.3	28.1
Other	2	13	467.7	0.3	34	122	258.5	0.2
Important Items:								
Mineral Fuels, Mineral Oils	85	76	-10.7	-0.3	692	923	33.4	0.6
Cotton, cotton yarn and cotton fabrics	67	110	64.8	1.3	811	991	22.2	0.5
Articles of Apparel-Clothing; Knitted	369	504	36.5	4.2	4443	5724	28.8	3.6
Articles of Apparel-Clothing; Not Knitted	254	319	25.5	2.0	3254	3798	16.7	1.5
Other made-up textile articles, sets, worn clothing	104	150	44.5	1.4	1255	1628	29.8	1.0
Iron and Steel	236	246	4.4	0.3	2270	2904	27.9	1.8
Articles of Iron and Steel	88	143	62.6	1.7	1244	1381	11.0	0.4
Boilers, Machinery, Mechanical Equipment	208	303	45.7	2.9	2142	2964	38.3	2.3
Electrical Machinery and Equipment	285	432	51.7	4.5	2867	3456	20.5	1.6
Motor Vehicles and Spare Parts	378	515	36.2	4.2	3304	5245	58.7	5.4

Source: SIS.

EXPORTS: BY COUNTRY GROUPS (USD million)

	December					January-December				
	2002		2003		%	2002		2003		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	3242	..	4492	..	38.5	36059	..	46878	..	30.0
OECD Countries	2114	65.2	2799	62.3	32.4	23553	65.3	30263	64.6	28.5
European Union Countries	1667	51.4	2282	50.8	36.8	18459	51.2	24350	51.9	31.9
EFTA Countries	34	1.1	50	1.1	44.7	409	1.1	533	1.1	30.3
Other OECD Countries	412	12.7	468	10.4	13.5	4686	13.0	5380	11.5	14.8
Non-OECD Countries	990	30.5	1489	33.1	50.4	11068	30.7	14722	31.4	33.0
European Countries	311	9.6	489	10.9	57.4	3447	9.6	4681	10.0	35.8
African Countries	152	4.7	188	4.2	23.8	1697	4.7	2111	4.5	24.4
American Countries	19	0.6	22	0.5	19.2	241	0.7	255	0.5	5.9
Middle East Countries	288	8.9	548	12.2	90.7	3576	9.9	5037	10.7	40.9
Other Asian Countries	209	6.4	239	5.3	14.2	1940	5.4	2577	5.5	32.9
Other Countries	12	0.4	2	0.1	-79.1	167	0.5	61	0.1	-63.6
Turkey Free Trade Areas	139	4.3	204	4.5	47.1	1438	4.0	1893	4.0	31.6
Selected Countries										
Germany	499	15.4	655	14.6	31.2	5869	16.3	7453	15.9	27.0
USA	285	8.8	313	7.0	9.7	3356	9.3	3736	8.0	11.3
UK	269	8.3	346	7.7	28.3	3025	8.4	3659	7.8	20.9
Italy	226	7.0	262	5.8	16.2	2376	6.6	3167	6.8	33.3
France	183	5.6	286	6.4	56.5	2135	5.9	2818	6.0	32.0
Spain	103	3.2	187	4.2	80.9	1125	3.1	1781	3.8	58.3
Netherlands	104	3.2	154	3.4	47.1	1056	2.9	1520	3.2	44.0
Russia	83	2.6	125	2.8	50.0	1172	3.3	1363	2.9	16.3

Source: SIS.

35. Compared to 2002, the share of exports to EU-member states and Middle Eastern countries increased in 2003. Analyzing in terms of selected countries, exports to Germany had the largest share in overall exports during 2003, followed by the USA and England. However, the share of exports to the mentioned countries has declined compared to total

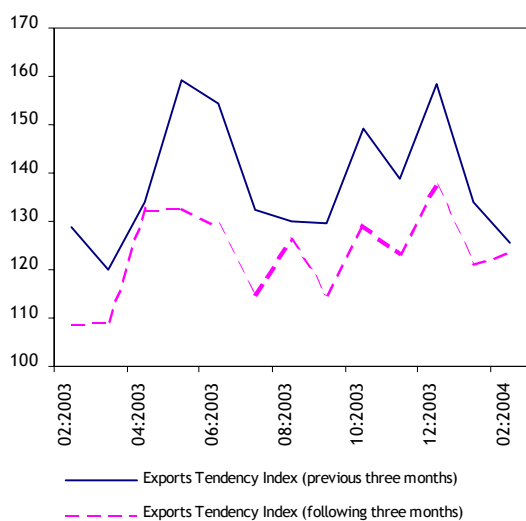
exports. Furthermore, a major increase is observed in exports to Spain and Holland for the said period.

Outlook

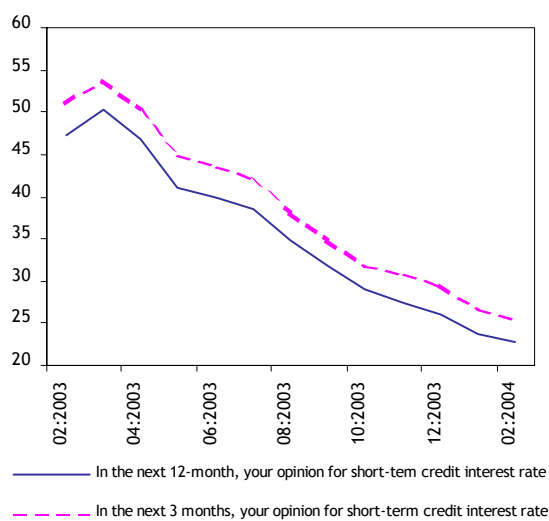
36. According to the CBRT Business Tendency Survey, in February, export indicators for the last three months deteriorated compared to the previous month. However, there is an upward trend in new export orders and sales for the next three months. The high level of assembled export tendency indices indicates that the increase in exports will maintain its upward trend.

37. Expectations regarding credit interest rates for the next three months and the twelve-month period, which can be considered as the export financing cost indicator, pursued a downward course in February. Hence, expected credit interest rate for the next three months dropped down to 25.6 percent and expected credit interest rate for the next twelve months down to 22.8 percent.

EXPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

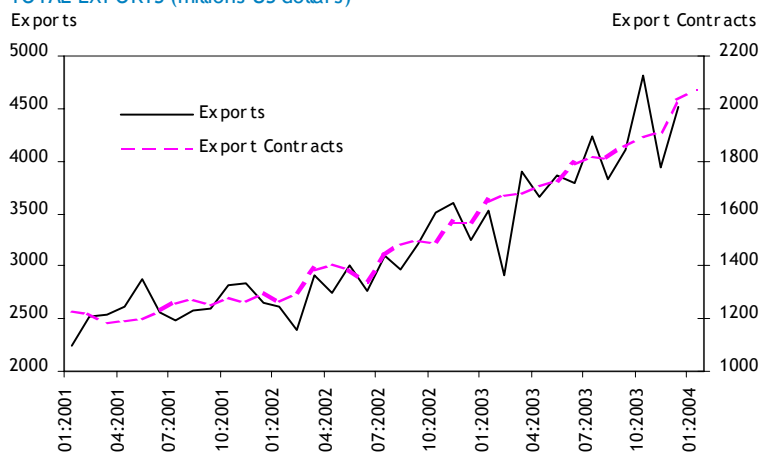


Source: CBRT Business Tendency Survey.

38. The appreciation of Turkish lira in 2003 undermines the competition advantage provided by the decrease in unit labor and energy costs. Hence, price competition still ranks first among the factors that might limit export orders over the next quarter. Meanwhile, worries about external developments that could limit export orders that have been gradually easing after the termination of the Iraqi war, maintained this trend in February as well.

EXPORT CONTRACTS BY INWARD PROCESSING REGIME

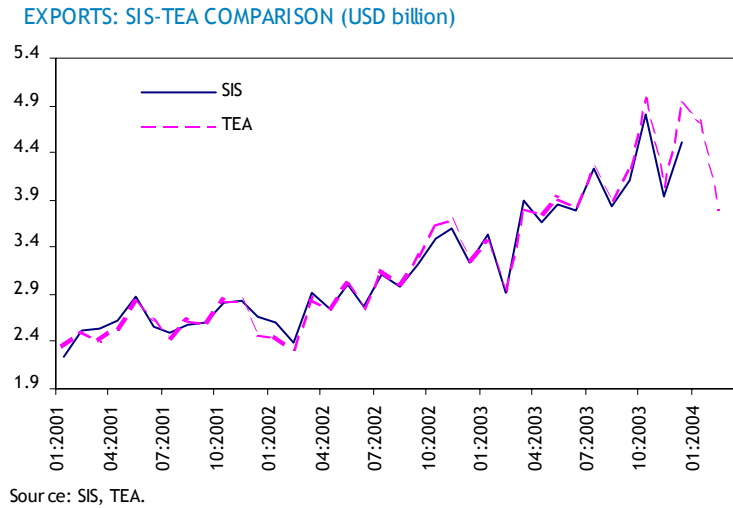
(12 months moving average) and
TOTAL EXPORTS (millions US dollars)



Source: UFT.

39. The volume of export contracts subject to inward processing regime, which is an important indicator for forward-looking export, grew by 32.6 percent in 2003 compared to last year. Meanwhile, imports subject to inward processing regime increased by 36 percent. On the other hand, export contracts, which maintained their upward trend in January, decreased in February.

40. According to the data compiled by the Turkish Exporters Assembly (TEA), exports became US dollar 4.7 billion and US dollar 3.8 billion in January and February, respectively. As a result, exports increased by 33.5 percent in the first two months in 2004 compared to the same period of the previous year. Meanwhile, twelve-month export was marked as US dollar 50.1 billion. Data related to the first half of March, indicate that the upward trend in exports continue in March as well.



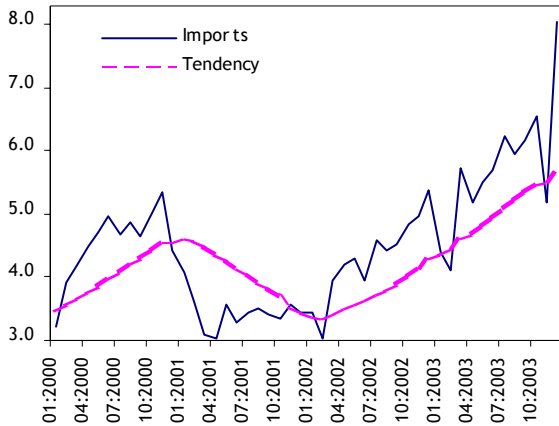
41. It is targeted to maintain the acceleration achieved in exports in 2003, in 2004 as well. In line with this target, with the aim of supporting the competitive power of exporters, Turkish Eximbank cut down short-term interest rates for TL-denominated credits on February 12, 2004 and March 19, 2004. Hence, interest rate applicable to pre-shipment export credits with one-year maturity was decreased to 16 percent.

III. IMPORTS

General Evaluation

42. Compared to the same month of the previous year, imports increased by 50 percent and reached US dollar 8.1 billion in December 2003. Thus, imports during 2003 increased by 33.3 percent compared to 2002 and reached US dollar 68.7 billion.

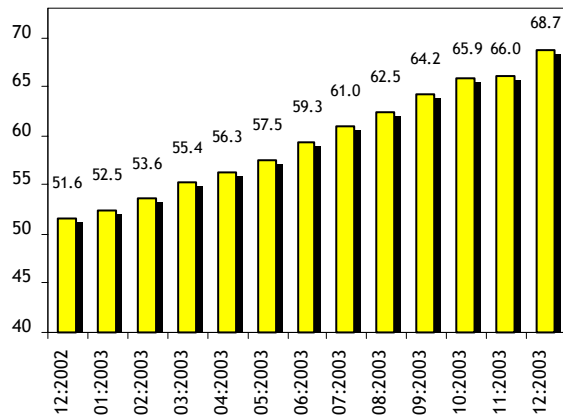
IMPORTS and IMPORTS TENDENCY†
(USD billion)



† Imports tendency is calculated using 12 month moving average.

Source: SIS.

IMPORTS
(12 month, USD billion)

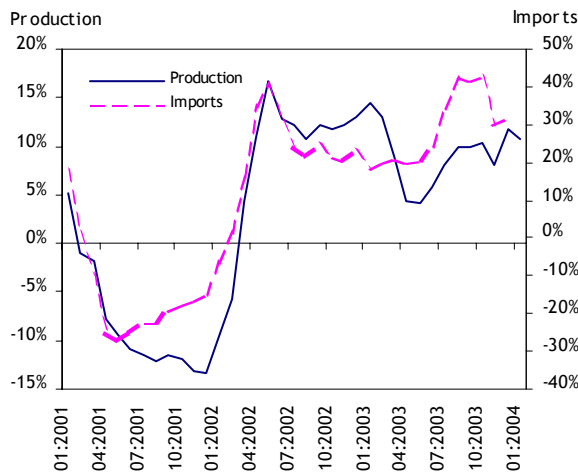


Source: SIS.

43. In 2003, appreciation of the Turkish lira by 8.8 percent according to the WPI-based real exchange rate index and increase in domestic industrial production became the factors that affected the rise in imports. Furthermore, appreciation of euro against US dollar had an increasing effect on the US dollar equivalent of imports in euro terms. (see box)

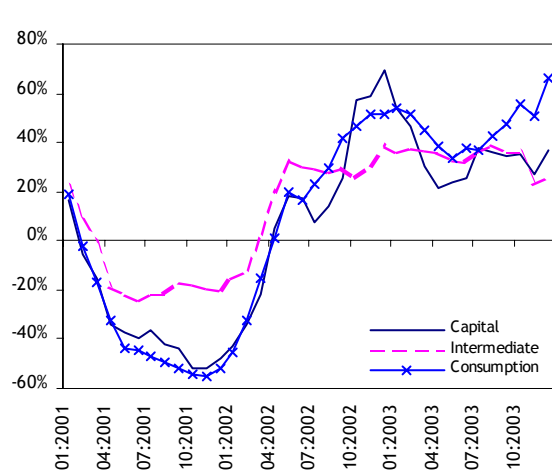
44. In November, the imports transactions were postponed to December due to the long holiday at the end of the month. Therefore, the acceleration in the upward trend in imports in December can mostly be attributed to this development.

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)

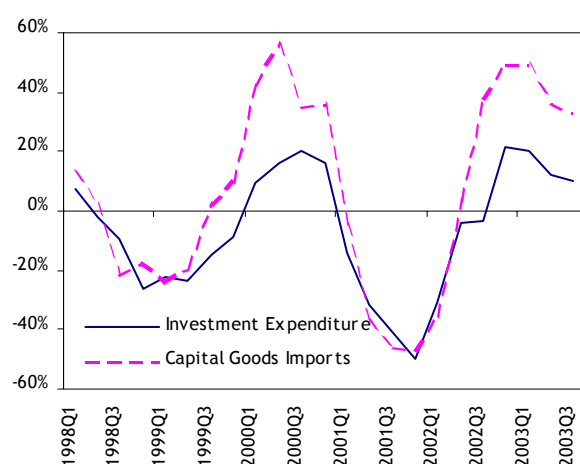


Source: SIS.

45. In January-December period, imports of intermediary goods became the determining factor for the growth in total imports. Meanwhile, imports of consumption goods constituting approximately 11 percent of overall imports, exhibited a rate of increase above the growth in total imports. Rapid growth in domestic industrial production and need for

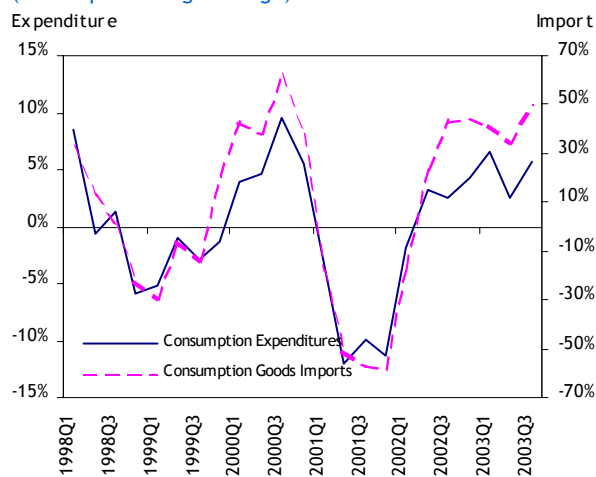
imported input that increased due to rising exports helped the upward trend in imports of intermediary goods continue in 2003. Furthermore, as appreciation of Turkish lira boosted demand for durable goods and transportation vehicles, imports of consumption goods increased as well. Meanwhile, accelerating trend in the imports of capital goods continued due to the increased capacity utilization ratio, which brings in new investment needs for continuation of production growth.

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



Source: SIS.

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



Source: SIS.

46. The biggest contribution to the rise in imports came from imports of motor vehicles, mineral fuels and greases along with boilers-machinery-mechanical devices along with iron and steel. The listed groups comprised 46 percent of overall imports in 2003.

IMPORTS (USD million)								
	December				January-December			
	2002	2003	% Change	% Contrib.	2002	2003	% Change	% Contrib.
Total	5370	8055	50.0	..	51554	68734	33.3	..
Capital Goods	1207	1857	53.8	12.1	8492	11222	32.1	5.3
Intermediate Goods	3588	5094	42.0	28.0	37443	49536	32.3	23.5
Consumption Goods	516	1036	100.7	9.7	5008	7511	50.0	4.9
Other	59	69	17.3	0.2	610	466	-23.7	-0.3
Important Items:								
Mineral fuels,mineral oils and products of their dist.	976	1090	11.7	2.1	9204	11399	23.8	4.3
Crude Oil	362	364	0.5	0.0	4088	4777	16.8	1.3
Organic chemicals	156	203	29.5	0.9	1888	2250	19.2	0.7
Pharmaceutical products	112	203	82.1	1.7	1439	2013	39.8	1.1
Plastics and articles thereof	212	360	69.6	2.8	2382	3233	35.7	1.7
Cotton, cotton yarn and cotton fabrics	90	153	69.6	1.2	1293	1637	26.6	0.7
Iron and Steel	418	484	15.9	1.2	2905	4686	61.3	3.5
Boilers, Machinery, Mechanical Equipment	1109	1548	39.5	8.2	8174	10188	24.6	3.9
Electrical Machinery and Equipment	457	694	51.9	4.4	4356	5487	26.0	2.2
Motor Vehicles and Spare Parts	352	1001	184.1	12.1	2333	5369	130.2	5.9
Optical, photographic, cinematographic	133	209	57.8	1.4	1089	1350	24.0	0.5

Source: SIS.

47. Compared to 2002, the share of imports from the EU member states and the OECD countries in overall imports increased in 2003. Analyzing in terms of selected countries, imports from Germany had the largest share in overall imports during 2003 to be followed by Italy and Russia. However, the share of exports to the related countries has declined compared to total exports. Imports from China displayed a real hike in 2003. By sectors, the most significant increases were realized in imports of electrical machines and devices (98.1 percent); nuclear reactors, boilers, machines and mechanical devices (163.5 percent); special textile products (153.7 percent) and shoes (106.2 percent) from China. Imports of other consumer goods China displayed significant hikes as well.

IMPORTS: BY COUNTRY GROUPS (USD million)

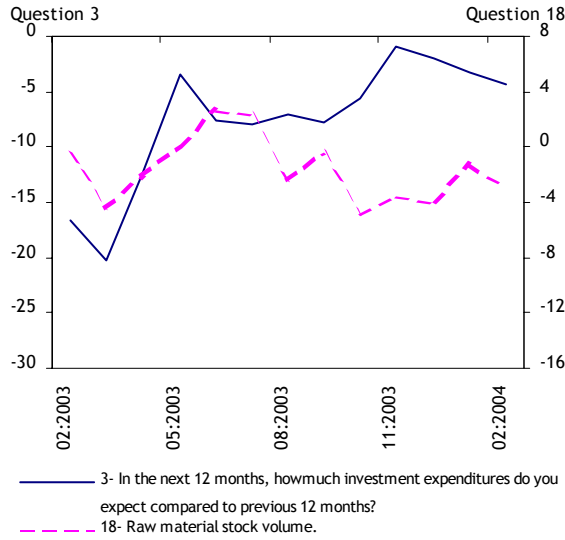
	December					January-December					
	2002		2003			2002		2003			%
	Value	Share (%)	Value	Share (%)	% Change	Value	Share (%)	Value	Share (%)	Change	
Total	5370	..	8055	..	50.0	51554	..	68734	..	33.3	
OECD Countries	3484	64.9	5365	66.6	54.0	32984	64.0	43544	63.4	32.0	
European Union Countries:	2620	48.8	4056	50.3	54.8	23321	45.2	31495	45.8	35.1	
EFTA Countries	205	3.8	287	3.6	39.7	2512	4.9	3355	4.9	33.6	
Other OECD Countries	659	12.3	1023	12.7	55.3	7151	13.9	8693	12.6	21.6	
Non-OECD Countries	1847	34.4	2629	32.6	42.4	17995	34.9	24604	35.8	36.7	
European Countries	698	13.0	1003	12.4	43.6	6343	12.3	8818	12.8	39.0	
African Countries	342	6.4	247	3.1	-27.9	2696	5.2	3244	4.7	20.3	
American Countries	46	0.9	114	1.4	146.7	592	1.1	1070	1.6	80.6	
Middle East Countries	287	5.3	367	4.6	28.1	3682	7.1	4334	6.3	17.7	
Other Asian Countries	454	8.4	848	10.5	87.0	4367	8.5	6765	9.8	54.9	
Other Countries	20	0.4	50	0.6	145.7	316	0.6	374	0.5	18.4	
Turkey Free Trade Areas	39	0.7	62	0.8	57.2	575	1.1	586	0.9	2.1	
Selected Countries											
Germany	883	16.4	1327	16.5	50.2	7042	13.7	9400	13.7	33.5	
Italy	436	8.1	659	8.2	51.1	4097	7.9	5446	7.9	32.9	
Russia	429	8.0	642	8.0	49.6	3892	7.5	5420	7.9	39.3	
France	284	5.3	562	7.0	97.6	3053	5.9	4158	6.0	36.2	
United Kingdom	298	5.5	345	4.3	16.0	2438	4.7	3471	5.1	42.4	
USA	262	4.9	344	4.3	31.4	3099	6.0	3420	5.0	10.4	
Switzerland	155	2.9	243	3.0	56.8	2143	4.2	2957	4.3	38.0	
China	151	4.0	371	4.8	71.0	1368	4.2	2596	5.3	68.5	

Source: SIS.

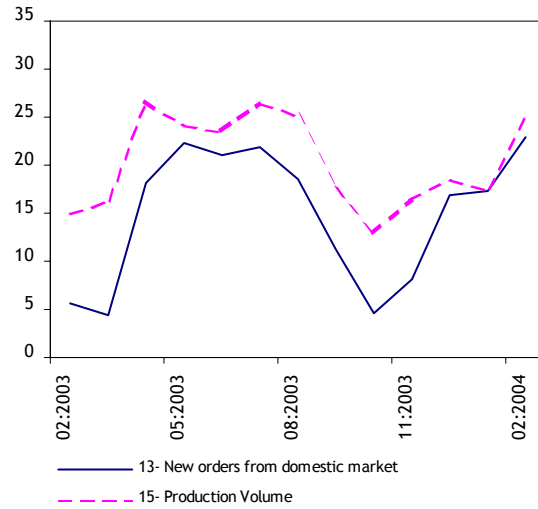
Outlook

48. An analysis of the domestic demand over the next three months according to the results of the CBRT Business Tendency Survey conducted in February reveals that private companies are optimistic about domestic demand. Despite the deterioration observed especially in the three-month indicators in January and February, the optimistic expectations about production and demand over the next three months indicate that the rise observed in imports of intermediary goods and consumption goods in 2003 will continue in 2004 as well. Comparably high level of investment expenditure tendency and the declining share of those stating that they do not intend to make any investments point out that investment expenditures, which are important for the sustainability of productivity growth and economic growth, continue.

IMPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

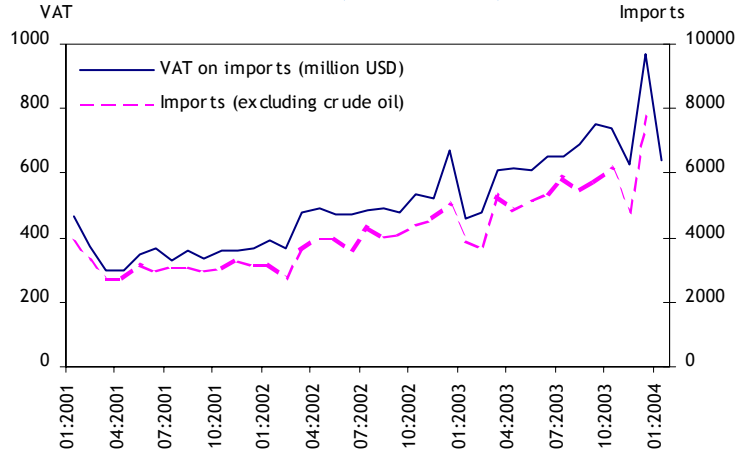


Source: CBRT Business Tendency Survey.

49. Timed imports, which was US dollar 14.5 billion in 2002, increased to US dollar 18.3 billion in 2003. However, as total imports grew by 33.3 percent while timed imports grew by 26.3 percent, the share of timed imports in total imports dropped to 26.7 percent. Meanwhile, timed exports calculated the same way recorded a rise of 38.2 percent and reached 62.2 percent of total imports.

50. According to Value Added Tax on imports figures, imports are expected to reach US dollar 6 billion in January.

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



Source: Ministry of Finance, SIS.

PARITY CHANGES AND THEIR EFFECT ON FOREIGN TRADE

Although Turkey's foreign trade data is published in US dollars, US dollar is not the only currency unit used in Turkey's foreign trade transactions. Therefore, any changes in parities between the currencies may lead to significant changes in foreign trade statistics recorded in US dollars. The degree of impact of such changes depends on the share of the currencies other than US dollars in exports and imports figures.

FOREIGN EXCHANGE DECOMPOSITION OF EXPORTS (percentage share)

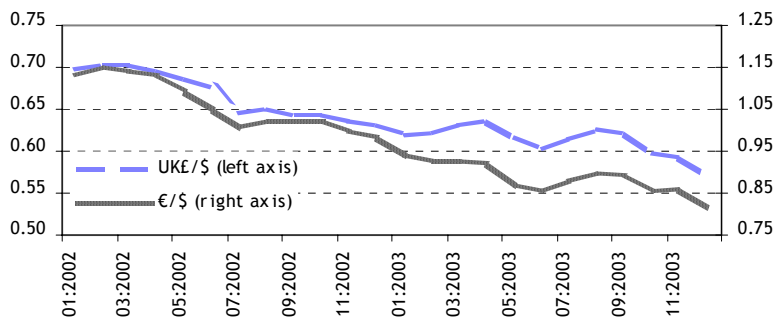
	Exports			Imports		
	2001	2002	2003	2001	2002	2003
US dollar	49.5	44.9	42.4	61.2	56.7	55.0
Euro*	42.9	46.7	49.5	33.0	37.2	39.8
British pound	5.7	6.6	6.2	2.2	2.0	1.7
Other	2.0	1.8	1.9	3.7	4.1	3.5

Source: SIS

*Including euro and currencies constituting euro.

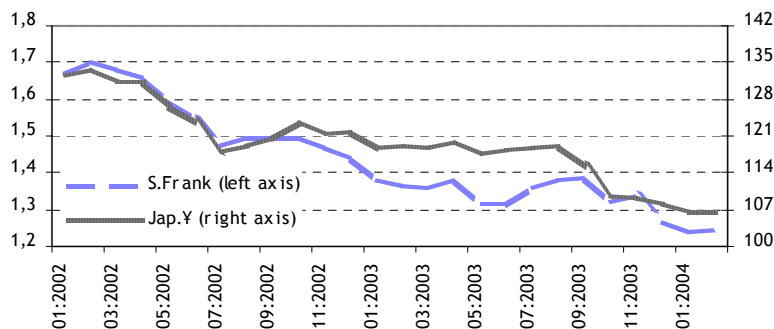
There have been significant changes in parities in 2003. Euro and Pound, the two currencies that have considerable shares in Turkish foreign trade, have appreciated significantly against USD in 2002 and 2003. Other currencies used in Turkish foreign trade have also followed a similar course.

€/ \$ and £/\$ PARITIES



Source: CBRT.

¥/\$ and SFr/\$ PARITIES



Kaynak: TCMB.

Assuming that the parity between other currencies and US dollars remained at the average value of December 2002, it can be asserted that US dollar 2480 million of the total rise in exports and US dollar 3059 million of the rise in imports stemmed from the parity changes. Free from the parity effect, growth in imports and exports in 2003 became 27.4 percent and 23.1 percent, respectively.

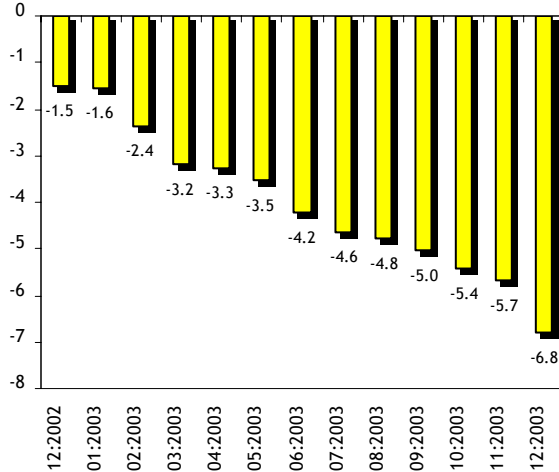
As the parity effect had a stronger impact on imports than on exports, the parity effects in 2003 increased the foreign trade deficit by US dollar 579 million.

IV. CURRENT ACCOUNT

51. Current account balance yielded a deficit of US dollar 6.8 billion in 2003. The mentioned deficit mainly stemmed from US dollar 21.7 billion of foreign trade deficit.

CURRENT ACCOUNT BALANCE

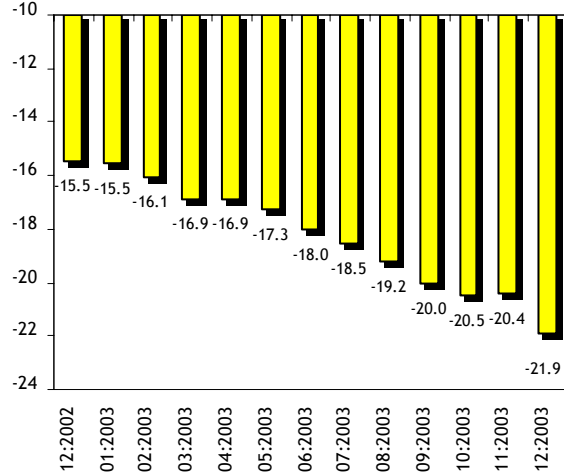
(12 month, USD billion)



Source: CBRT.

FOREIGN TRADE BALANCE

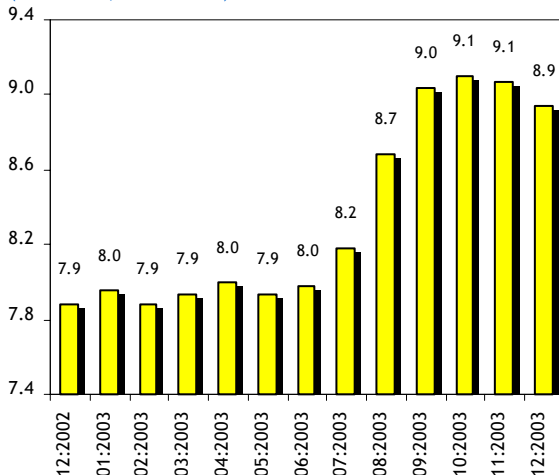
(12 month, USD billion)



Source: CBRT.

SERVICES BALANCE

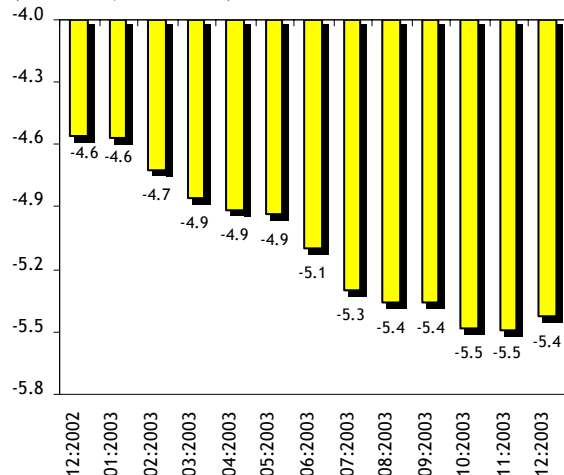
(12 month, USD billion)



Source: CBRT.

INVESTMENTS REVENUES BALANCE

(12 month, USD billion)



Source: CBRT.

52. Expanding foreign trade deficit coupled with increasing portfolio investment expenditures involving the dividend and interest payments of stocks and government securities purchased by foreigners pushed up current account deficit in January-December period. Meanwhile, services revenues displayed a significant rise thanks to the increase in tourism revenues (especially in August and September).

53. The 30-percent increase recorded in exports during this period, mainly stemmed from the exports of manufacturing industry products that form the bulk of overall exports. The low level of labor costs and energy costs, the decline in financing costs, productivity increase and the upward trend observed in export prices all helped the hike in exports. As for the 33.3 percent increase in total imports, this mainly stemmed from imports of intermediary and investment goods. The upward trend in real exchange rates also supported the rise in imports in this period. Accordingly, foreign trade deficit, according to the balance of payments definition, reached US dollar 13.9 billion in the 2003 from US dollar 8.3 billion in 2002.

CURRENT ACCOUNT (USD million)								
	2002							2003
	Jan-Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan-Dec
Current Account Balance	-1522	-326	279	281	47	-476	-2459	-6808
Foreign Trade Balance	-8337	-1389	-1400	-1323	-966	-632	-2735	-13934
Total Exports	40124	4504	4222	4496	5192	4213	4846	50831
Total Imports	-48461	-5893	-5622	-5819	-6158	-4845	-7581	-64765
Services Balance	7879	1203	1850	1578	1065	513	227	8936
Credit	14783	2148	2622	2264	1944	1117	1232	17436
Debit	-6904	-945	-772	-686	-879	-604	-1005	-8500
Income Balance	-4554	-493	-505	-347	-360	-582	-359	-5428
Credit	2486	213	148	171	145	113	245	2246
Debit	-7040	-706	-653	-518	-505	-695	-604	-7674
Current Transfers	3490	353	334	373	308	225	408	3618
Wrokers' Remittances	1936	223	233	277	219	141	251	2321
<i>Memo items:</i>								
Shuttle Trade	4065	274	402	406	451	355	354	3953
Non Monetary Gold (net)	-1355	-354	-326	-237	-247	-56	-144	-2519
Travel Revenues	8479	1346	1967	1599	1204	572	323	9676
Interest Income	784	33	32	46	40	36	75	634
Interest Expenditure	-4417	-262	-524	-348	-315	-500	-358	-4587

Source: CBRT.

54. Volume of shuttle trade, which dropped in the first quarter of the year due to the negative impact of uncertainties caused by the war in Iraq, caught up with its former pace starting from May onwards with the ease of uncertainties. Compared to the same period of last year, exports via shuttle trade decreased by 2.8 percent in 2003 and came down to US dollar 4 billion.

55. Because of the depreciation of US dollar and regional instabilities throughout the year, the demand for processed gold increased in international markets, leading to a rise in the international gold prices in 2003. In line with these developments, net imports of non-monetary gold accelerated as of the beginning of the year.

56. Along with exports, the performance of balance of services helped current account deficit remain below the targeted level of US dollar 7.7 billion. Balance of services surplus increased by 13.4 percent in 2003. Due to growth in the foreign trade volume, revenues and expenses items pertaining to freight and other shipment services increased compared to the same period last year.

TRAVEL REVENUES										
	2002									2003
	Jan-Dec	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Jan-Dec
Travel Revenues (USD million)	8479	1346	1967	1599	1204	572	323			9676
Number of Visitors (thousand)	12921	1691	2453	1984	1861	915	569	592	547	13701
Average Spending (USD)	656	796	802	806	647	625	568			706

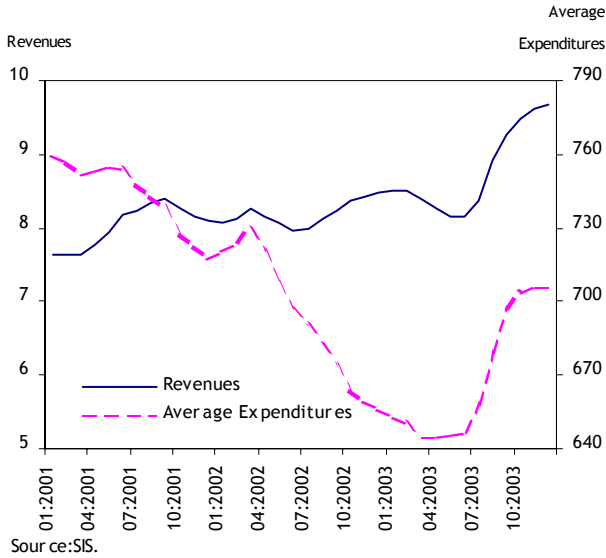
Source: SIS, Ministry of Tourism

57. Based on the figures announced by SIS, tourism revenues increased by 14.1 percent compared to last year and reached US dollar 9.7 billion in 2003. Meanwhile, the number of tourists departing from Turkey increased by 6 percent. The upward trend observed in the average expenditure per tourist since the turn of the year came to a halt in the last quarter. Appreciation of US dollar against TL in the last quarter is thought to have led to the decline in the US dollar equivalent of expenditures.

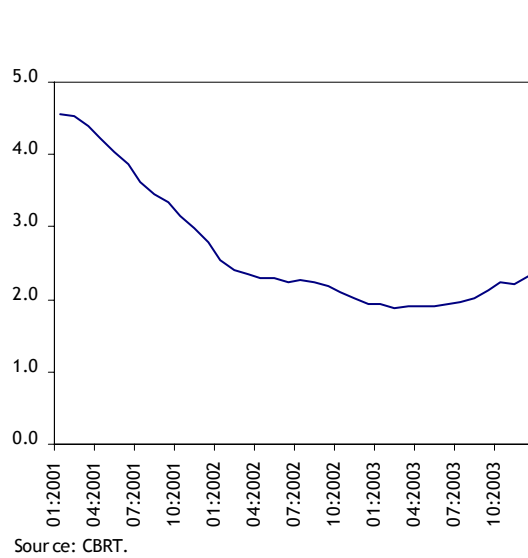
58. The number of tourists visiting Turkey displayed a sharp rise in January and February. However, the subject rise resulted mainly from the decline in the number of

tourists in the same period of the previous year due to the uneasiness caused by the war in Iraq.

TRAVEL REVENUES (12 month, USD billion),
AVERAGE EXPENDITURES (12 month, USD)



WORKERS REMITTANCES: PRIVATE
(12 month, USD billion)



59. The investment revenues account produced a deficit of US dollar 5.4 billion in 2003. The portfolio investment expenditures and interest expenditures were the primary determinants of this deficit. In this period, interest expenditures increased due to the rise in long-term interest payments of especially the General Government and reached US dollar 4.6 billion. Meanwhile, portfolio investment expenditures comprising interest payments for bills and bonds issued by the Treasury and dividend payments for the securities purchased by foreigners increased as well.

60. Compared to 2002, worker's remittances increased by 19.9 percent in 2003 and reached US dollar 2.3 billion thanks to the upward trend observed since July. During the same period, imports with waiver and official transfers have declined.

V. CAPITAL MOVEMENTS

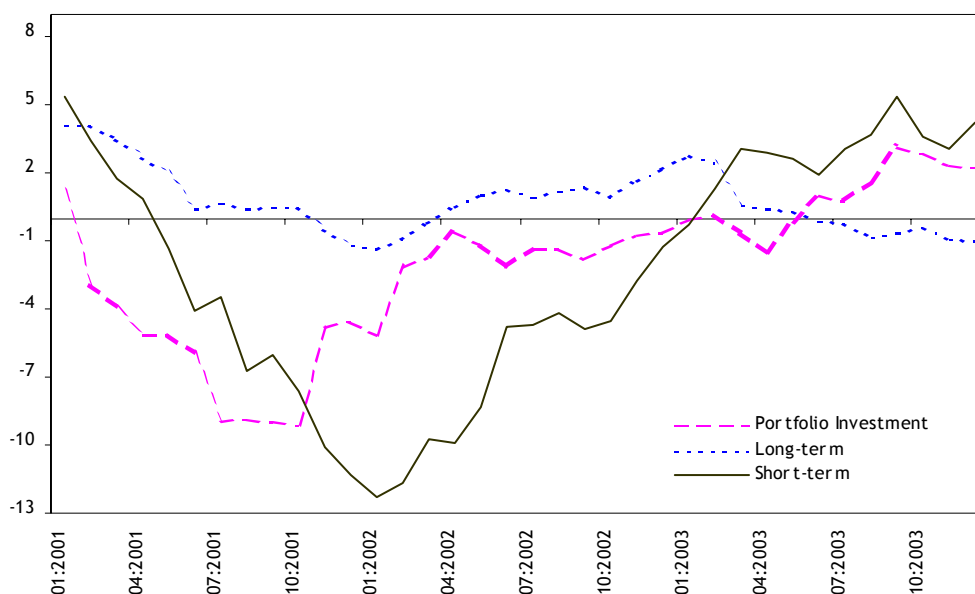
61. The financial account yielded a surplus of US dollar 503 million in December 2003. Excluding the IMF loans and official reserve changes, net capital inflow became US dollar 1.5 billion in December 2003 while net capital inflow reached US dollar 5.7 billion in entire 2003.

62. Capital inflow through portfolio investments and other investments was observed in 2003. Net error and omissions item has been producing a surplus since March. As a consequence of these developments, the official reserves increased by US dollar 4 billion in the mentioned period.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)								
	2002							2003
	Jan-Dec	Jul	Agu	Sep	Oct	Nov	Dec	Jan-Dec
Capital and Financial Account	1373	-67	-583	-1015	-242	318	503	1587
Financial Account	1373	-67	-583	-1015	-242	318	503	1587
Direct Investments	863	23	63	-30	-77	53	60	79
Portfolio Investments	-593	-242	631	1217	326	-552	48	2287
Other Investments	7256	635	153	1185	-1852	-1025	1812	3268
Reserve Assets	-6153	-483	-1430	-3387	1361	1842	-1417	-4047
Net Errors & Omissions	149	393	304	734	195	158	1956	5221
<i>Memorandum items:</i>								
Short-term	-1279	533	135	1053	-1742	-369	1178	4269
Long-term	2170	165	-111	250	146	-226	254	-951
IMF credit	6365	-63	129	-118	-256	-430	380	-50

Source: CBRT.

CAPITAL FLOWS (12-month. billion US dollar)

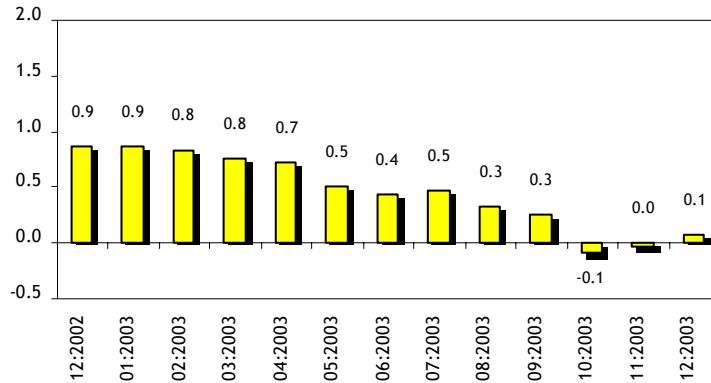


Source: CBRT.

63. Direct capital movements in 2003 were mostly composed of direct investments carried out abroad by residents. The amount of capital outflow exceeded the amount of investments carried out by foreigners in Turkey. Moreover, the volume of long-term credits extended to the foreign companies by their affiliates abroad, which is recorded under the

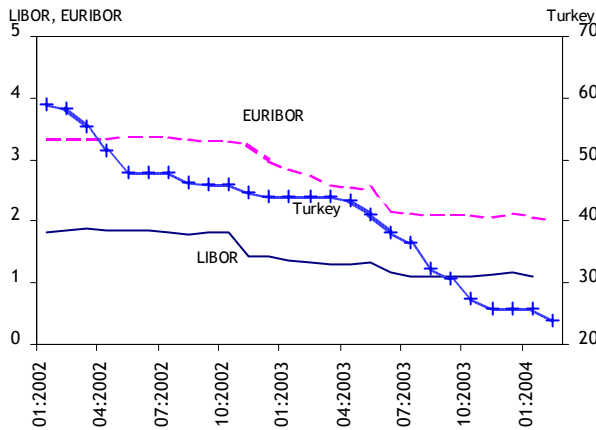
other capital item and accepted as a direct capital investment, decreased by 62.7 percent during the same period.

DIRECT INVESTMENTS
(12-month, billion US dollar)



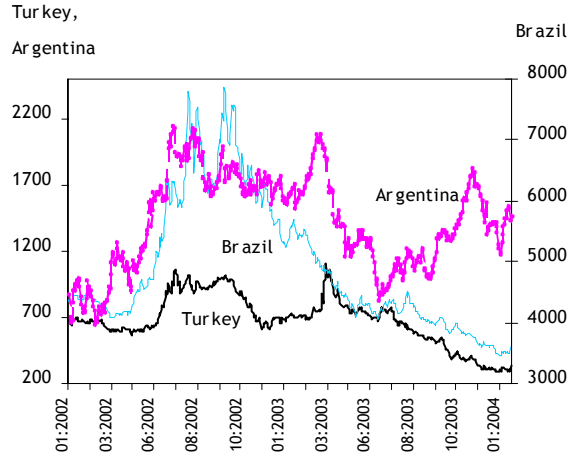
Source: CBRT.

INTEREST RATES (monthly average, %)



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

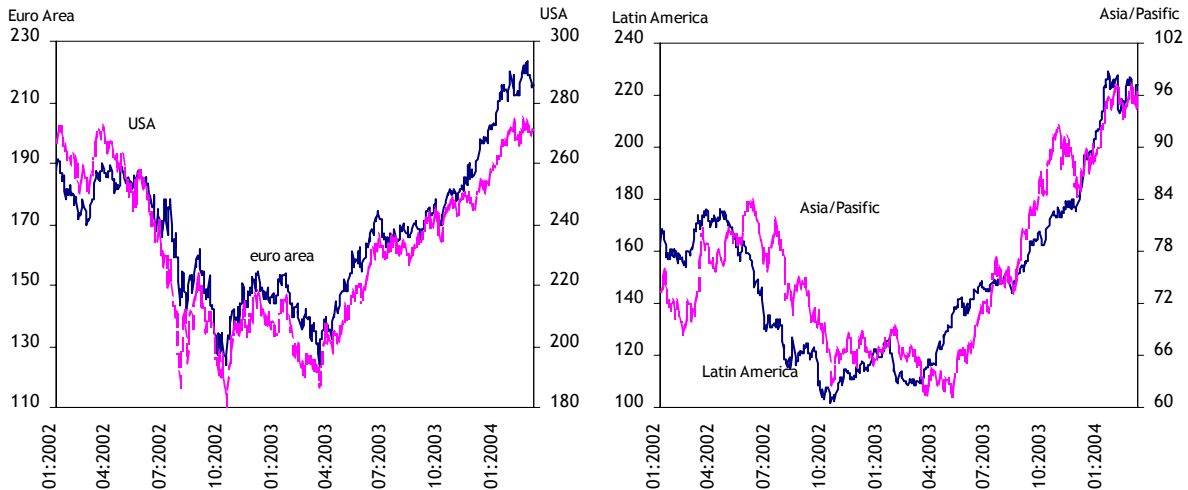
SECONDARY MARKET SPREADS (basis point)



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

Source: JP Morgan.

DOW JONES EQUITY PRICE INDICES



Source: Dow Jones.

64. As a result of the decline in interest rates in the international markets parallel to the policies of the central banks, interest rates for LIBOR and EURIBOR declined in 2003. Meanwhile, as of November, the central banks started to raise interest rates again in order to offset the inflationary effects of economic recovery. The Reserve Bank of Australia raised interest rates on November 5 and December 3, 2003, while the Bank of England raised interest rates on November 6, 2003 and February 5, 2004. The Federal Reserve Bank and the European Central Bank have made no changes on interest rates.

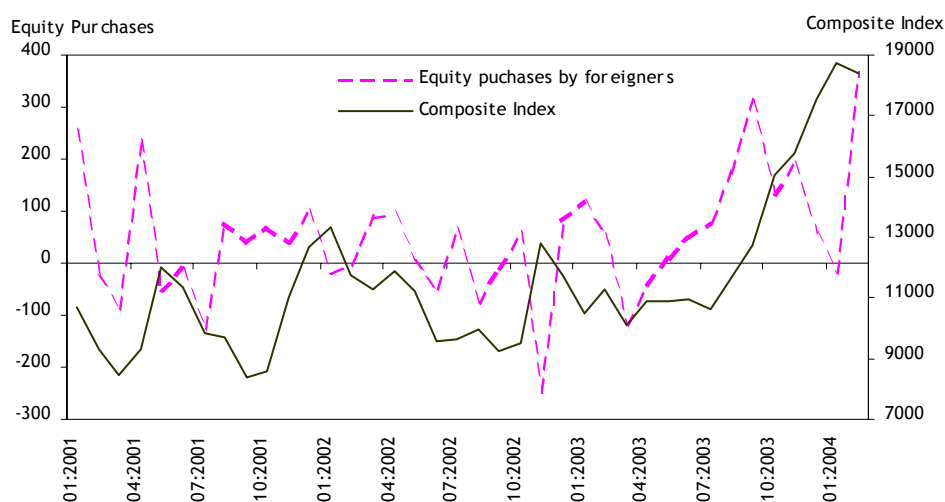
65. Taking into account the decline in expected future inflation rates, the CBRT has decided on a 2 -points cut in short-term interest rates to be effective as of March 17, 2004.

66. The Turkish bond spreads, which had been fluctuating since early 2003, have been generally displaying a downward trend since April with the end of the war in Iraq. Upon the establishment of stability, a rapid decline has been noted in spreads, especially after September. This decline is expected to decrease the borrowing cost for Treasury in international markets in 2004 as well. Meanwhile, the international rating agency Standard & Poor's upgraded Turkey's long-term credit ratings and local currency rating in March 8, 2004 upon seeing the steps taken by the government for budget discipline and the unthreatening quality of current account deficit due to the strong position of official reserves. Japanese rating agency JCR has not changed the credit rating of Turkey, but changed the steady outlook from stable to positive.

PORTFOLIO INVESTMENT (monthly, USD million)								
	2002							2003
	Jan-Dec	Jul	Agu	Sep	Oct	Nov	Dec	Jan-Dec
Portfolio Investment	-593	-242	631	1217	326	-552	48	2287
Assets	-2096	67	19	-692	245	-316	-543	-1670
General Government	-42	-7	-9	0	-2	-2	-5	-33
Banks	-1437	119	101	-601	266	-309	-581	-1214
Other Sectors	-617	-45	-73	-91	-19	-5	43	-423
Liabilities	1503	-309	612	1909	81	-236	591	3957
Equity Securities	-16	77	175	311	132	192	57	1011
Debt Securities	1519	-386	437	1598	-51	-428	534	2946
Monetary Authority	0	0	0	0	0	0	0	0
General Government	1958	-371	437	1598	-51	-428	534	3123
In Turkey	929	207	437	348	161	31	534	1614
Abroad	1029	-578	0	1250	-212	-459	0	1509
Banks	-439	-15	0	0	0	0	0	-177

Source: CBRT.

ISE EQUITY PRICES AND FOREIGNERS' NET PURCHASES

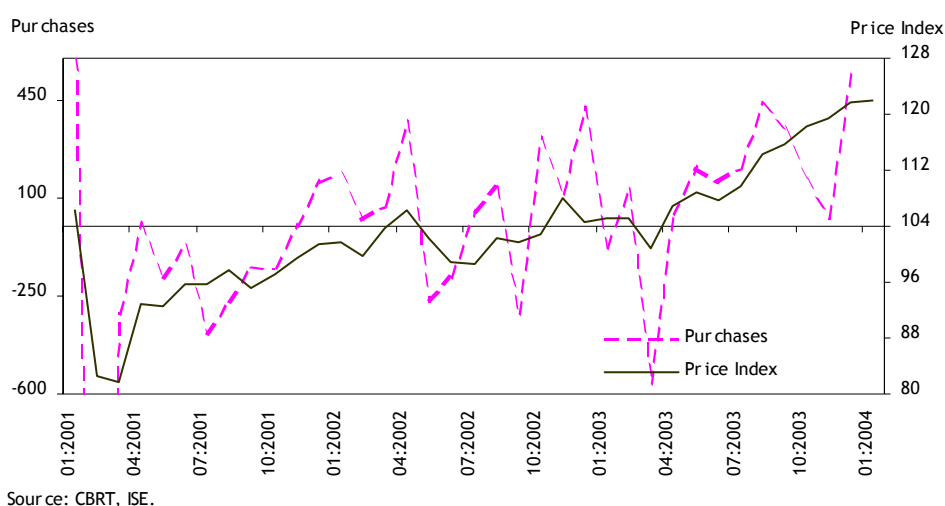


Source: CBRT, ISE.

67. The securities portfolio of foreigners, which is composed of government bonds and equity securities, displayed a rapid rise in 2003. The still-high real interest rates coupled with the downward trend in inflation projections boosted demand for government bonds especially in the second half of the year. Moreover, the rise in the ISE index and the government bonds prices index have been the driving force behind foreigners' portfolio decisions.

68. The foreigner's demand for equity securities displayed a rapid rise especially in February 2004. According to the data compiled by the ISE, foreigners purchased net US dollar 364 million worth of equity securities in February. Meanwhile, the ISE government bonds prices index has been rising since the second half of 2003. Within this framework, a capital inflow through portfolio movements is expected in the first quarter of 2004.

GOVERNMENT DEBT SECURITY PRICES AND FOREIGNERS' NET PURCHASES

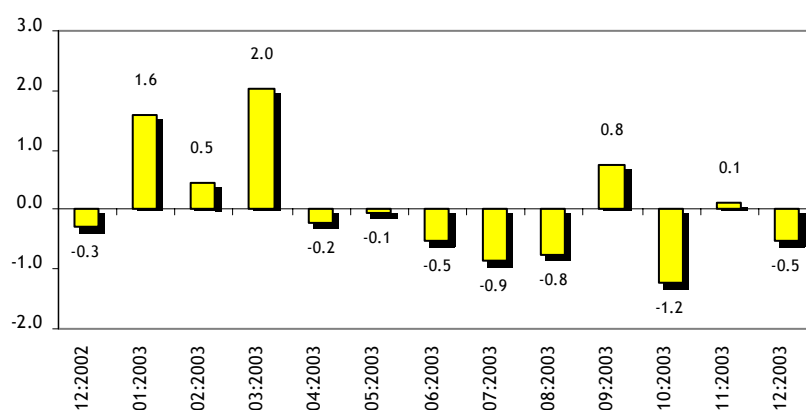


69. The Treasury held two important bond auctions in January 2004. As a result of these auctions, US dollar 1.5 billion entered into account on January 14, 2004 and Euro 1 billion on February 10, 2004. The mentioned bond auctions have been recorded as the ones having the lowest rates of interest between all the US dollar and Euro-denominated bond auctions ever held.

70. The banks' FX assets item composed of current and deposit accounts held by resident banks with their correspondent banks abroad has been volatile throughout the year. The mentioned item decreased by US dollar 4.1 billion in the first quarter of 2003 and increased by US dollar 3.3 billion during the rest of the year, leading to a capital outflow of the same amount.

CHANGE IN DEPOSIT MONEY BANKS' FX HOLDINGS†

(USD billion)

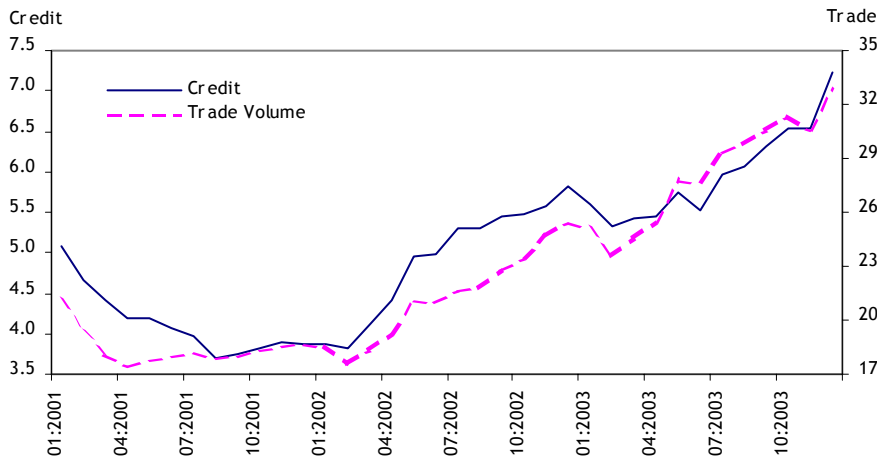


† (+) sign indicates a decrease.

71. The rise in foreign trade volume in 2003 increased commercial credit utilization as well. During this period, foreign trade volume grew by 32 percent compared to the same period of the previous year while commercial credit utilization rose by 20.3 percent and reached US dollar 24.5 billion. US dollar 23.5 billion portion of this amount is composed of short-term commercial credits with maturities shorter than a year.

PRIVATE SECTOR COMMERCIAL CREDIT DRAWINGS and TRADE VOLUME

(3-month, USD billion)

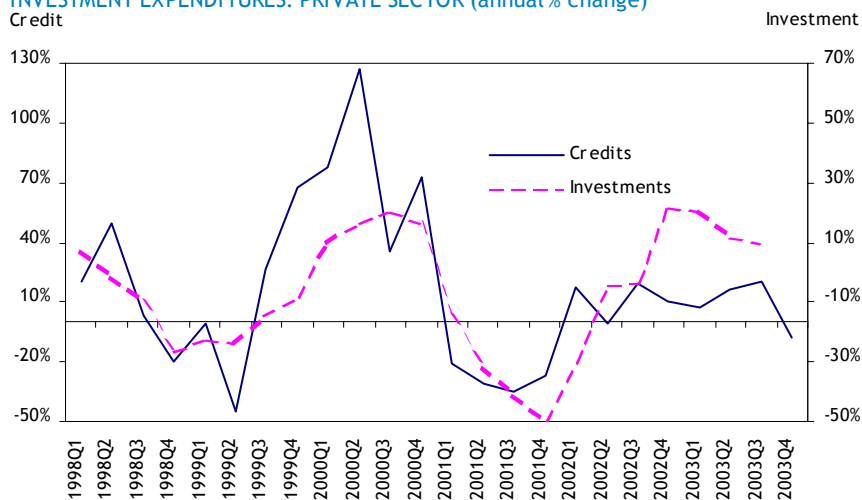


Source: CBRT.

72. The banking sector realized its financing mainly through short-term credits in 2003. The banks, which acted as net payers of short-term credits in 2002, used US dollar 2 billion-worth of short-term credits in 2003 and US dollar 1.3 billion of this amount belongs to December. The banks, which were net payers of long-term credits in the first three quarters of 2003, became long-term credit net borrowers in the last quarter of the year.

73. Despite the decline observed in all sectors excluding the Central Bank, the Treasury and the banking sector in the last quarter of 2003 compared to the previous year, long-term credit utilization has increased throughout the year. The rise in long-term credit utilization indicates that investment expenditures retain their high level.

LONG TERM CREDIT DRAWINGS and INVESTMENT EXPENDITURES: PRIVATE SECTOR (annual % change)



Source: CBRT, SIS.

74. In 2003, the Central Bank continued the repayment of the IMF loans used in 2001 and earlier. Thus, the total amount repayed in 2003 reached US dollar 1.5 billion.

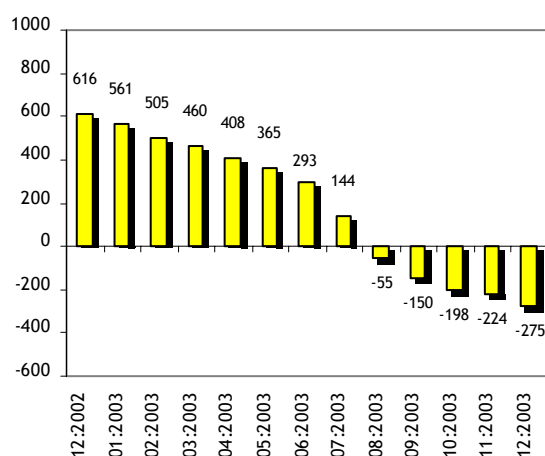
OTHER INVESTMENTS (monthly, USD million)								
	2002							2003
	Jan-Dec	Jul	Agu	Sep	Oct	Nov	Dec	Jan-Dec
Other Investment	7256	635	153	1185	-1852	-1025	1812	3268
Assets	-777	-950	-754	660	-1583	348	-763	-911
Trade Credits	-921	-121	48	-20	-266	208	-173	-769
Credits	19	73	-3	-33	-27	77	-12	-404
Currency and Deposits	594	-870	-752	760	-1238	104	-537	719
Liabilities	8033	1585	907	525	-269	-1373	2575	4179
Trade Credits	2483	308	55	207	483	-137	568	2098
Credits	5105	708	636	195	-189	-1267	1866	607
Monetary Authority	-6138	0	-348	-118	-191	-430	-123	-1479
General Government	11834	-150	445	-289	-237	-211	236	-765
IMF Credits	12503	-63	477	0	-65	0	503	1429
Long Term	-669	-87	-32	-289	-172	-211	-267	-2194
Short Term	0	0	0	0	0	0	0	0
Banks	-1028	630	364	257	33	-348	1397	1975
Long Term	-297	45	-265	133	79	212	65	-36
Short Term	-731	585	629	124	-46	-560	1332	2011
Other Sectors	437	228	175	345	206	-278	356	876
Long Term	1165	206	172	328	207	-300	355	588
Short Term	-728	22	3	17	-1	22	1	288
Deposits	348	546	191	102	-571	31	141	1368
Monetary Authority	1336	108	148	66	43	12	6	497
Long Term	618	-50	-49	-41	-33	-14	-13	-275
Short Term	718	158	197	107	76	26	19	772
Banks	-988	438	43	36	-614	19	135	871

Source: CBRT.

75. An outflow is observed in the volume of long-term FX deposit accounts with credit letters and super FX accounts held at the Central Bank by the workers abroad since April. Especially, the interest rate cut-down operations concentrated in the second half of the year are believed to be the primary factor in this outflow. On the other hand, the decline in short-term FX accounts halted with the beginning of summer. Meanwhile, the interest rates on these accounts were reduced as of March 1, 2004. The ongoing decline in interest rates indicate that the outflow in long-term accounts will continue in 2004 as well.

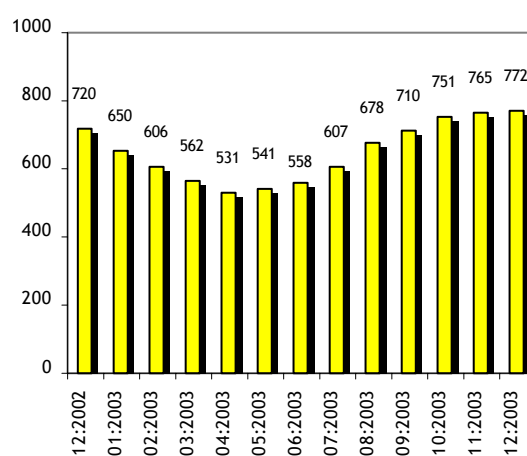
INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS (12-month, USD billion)

LONG TERM



Source: CBRT.

SHORT TERM



Source: CBRT.

76. The FX deposits held at the domestic banks by foreign banks, which had a deficit account throughout 2002, displayed an upward trend through inflows and reached a financing amount of US dollar 871 million.

77. Total external debt stock has increased by US dollar 9 billion compared to end-year figures and reached US dollar 142 billion by September. Compared to the end-2002 figures, the medium-long term debts, which comprise 86.9 percent of the total external debt stock, increased by 6.4 percent and short-term debts increased by 22.4 percent. The parity effect has led to a US dollar 5.2 billion increase in external debt stock during the first nine months of the year. Meanwhile, the short-term debt stock announced monthly by the Central Bank reached US dollar 22.9 billion by the end of 2003.¹ The rise in short-term debt stock is determined mainly by the short-term credits extended to banks by foreign countries.

78. The amount of external debt principal and interest repayments in 2003 was US dollar 27.8 billion. Meanwhile, the Central Bank drew up US dollar 5.7 billion worth of foreign exchange by means of foreign exchange buying auctions and US dollar 4.2 billion by direct interventions carried out due to excessive volatility in foreign exchange market. Thus, the Central Bank reserves, which was recorded as US dollar 26.7 billion by the end of 2002 reached US dollar 33.6 billion by December 26, 2003.

79. The Central Bank, which had suspended foreign exchange buying auctions in October 2003 resumed the auctions on January 23, 2004 and these auctions continued in February. US dollar 286 million and US dollar 805 million worth of foreign exchange were purchased in January and February, respectively, by means of these auctions. Moreover, upon excessive volatility in foreign exchange rates, US dollar 1.3 billion were purchased through direct purchasing intervention carried out in February 16, 2004. Thus, total amount of foreign exchange purchased through FX purchasing auctions and direct purchasing intervention reached US dollar 2.4 billion in January and February. By the end of February, Central Bank reserves had reached US dollar 33.4 billion. The mentioned auctions continued in March as well.

80. External financing requirement, defined as the sum of the current account balance and the net errors and omissions item, became US dollar 1.6 billion in 2003. In the same period, despite the rise in current account deficit, financing requirement remained limited thanks to the US dollar 5.2 billion surplus in the net errors and omissions item. Financing requirement was dominantly covered with short-term capital movements. These were mainly composed of foreigners' security purchases, banks' short-term credit utilization and the rise in short-term deposit accounts of foreigners. As capital inflow surpassed financing requirement, the Central Bank reserves increased by US dollar 4 billion in this period.

81. In December, external financing requirement ran a deficit of US dollar 503 million due to the current account deficit. Financing requirement was covered mainly with banks' short-term credit utilization and commercial credits. As capital inflow exceeded financing requirement, the Central Bank reserves increased by US dollar 1.5 billion in December.

¹ Short-term external debt announced monthly along with balance of payments statistics has increased as a result of corrections made in form of conversion from long-term to short-term in FX deposit accounts with credit letters. Corrections have been reflected on backward data as well.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)								
	2002							2003
	Jan-Dec	Jul	Agu	Sep	Oct	Nov	Dec	Jan-Dec
1. Current Account Balance	-1522	-326	279	281	47	-476	-2459	-6808
2. Net Error and Omission	149	393	304	734	195	158	1956	5221
I. Total Financing Requirement (=1+2)	-1373	67	583	1015	242	-318	-503	-1587
II. Total Financing (=1+2+3)	1373	-67	-583	-1015	-242	318	503	1587
1. Capital Flows (net)	567	1349	1470	1730	-109	-1198	2077	4965
Portfolio Investments (net)	-593	-242	631	1217	326	-552	48	2287
General Government Bond Issues	1029	-578	0	1250	-212	-459	0	1509
Foreigners' Buying of Bonds and Stocks in Turkey	913	284	612	659	293	223	591	2625
Residents Buying of Bonds and Stocks Abroad	-2096	67	19	-692	245	-316	-543	-1670
Credits (excl. IMF credits)	1223	1079	562	520	550	-974	2054	2755
General Government	-669	-87	-32	-289	-172	-211	-267	-2194
Banks	-1028	630	364	257	33	-348	1397	1975
Long Term	-297	45	-265	133	79	212	65	-36
Short Term	-731	585	629	124	-46	-560	1332	2011
Other Sectors	2920	536	230	552	689	-415	924	2974
Long Term	1165	206	172	328	207	-300	355	588
Short Term	-728	22	3	17	-1	22	1	288
Trade Credits	2483	308	55	207	483	-137	568	2098
Deposits	348	546	191	102	-571	31	141	1368
Central Bank	1336	108	148	66	43	12	6	497
Banks	-988	438	43	36	-614	19	135	871
Others	-411	-34	86	-109	-414	297	-166	-1445
2. IMF Credits	6365	-63	129	-118	-256	-430	380	-50
Central Bank	-6138	0	-348	-118	-191	-430	-123	-1479
General Government	12503	-63	477	0	-65	0	503	1429
3. Change in Reserves (- increase)	-5559	-1353	-2182	-2627	123	1946	-1954	-3328
Banks' FX Holdings	594	-870	-752	760	-1238	104	-537	719
Official Reserves	-6153	-483	-1430	-3387	1361	1842	-1417	-4047

Source: CBRT.

VI. APPENDIX

CURRENT ACCOUNT (USD million)

Current Account											
Net	Foreign Trade				Services		Income		Transfers		
	Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances	
<i>(annual)</i>											
2000	-9819	-22410	27775	2946	-54503	11368	7636	-4002	-4825	5225	4560
2001	3390	-4543	31334	3039	-41399	9130	8090	-5000	-5497	3803	2786
2002	-1522	-8337	36059	4065	-51554	7879	8480	-4554	-4417	3490	1936
2003	-6808	-13934	46878	3953	-68734	8936	9676	-5428	-4587	3618	2321
<i>(quarterly)</i>											
2001 IV	640	-641	8314	787	-10364	1693	1433	-1339	-1312	927	649
2002 I	-637	-956	7910	919	-10409	702	896	-1227	-1059	844	477
II	-809	-2260	8514	933	-12454	1698	2087	-1016	-1082	769	505
III	1030	-2329	9298	1090	-13529	3573	3813	-1078	-1116	864	539
IV	-1106	-2792	10337	1123	-15162	1906	1684	-1233	-1160	1013	415
2003 I	-2291	-2289	10345	757	-14208	753	803	-1532	-1172	777	440
II	-1863	-3200	11302	954	-16405	1747	1862	-1250	-1108	840	537
III	234	-4112	12140	1082	-18381	4631	4912	-1345	-1134	1060	733
IV	-2888	-4333	13091	1160	-19740	1805	2099	-1301	-1173	941	611
<i>(monthly)</i>											
2003 Jan	-45	-435	3528	163	-4382	318	247	-247	-209	319	156
Feb	-1169	-651	2919	298	-4101	124	264	-821	-471	179	114
Mar	-1077	-1203	3898	296	-5725	311	292	-464	-492	279	170
Apr	-741	-942	3656	287	-5187	328	329	-388	-313	261	152
May	-580	-974	3855	359	-5508	629	637	-526	-487	291	202
Jun	-542	-1284	3791	308	-5710	790	896	-336	-308	288	183
Jul	-326	-1389	4230	274	-6246	1203	1346	-493	-262	353	223
Agu	279	-1400	3820	402	-5960	1850	1967	-505	-524	334	233
Sep	281	-1323	4090	406	-6175	1578	1599	-347	-348	373	277
Oct	47	-966	4741	451	-6535	1065	1204	-360	-315	308	219
Nov	-476	-632	3858	355	-5150	513	572	-582	-500	225	141
Dec	-2459	-2735	4492	354	-8055	227	323	-359	-358	408	251
<i>(12-month)</i>											
2003 Jan	-1555	-8376	36980	4005	-52504	7953	8514	-4566	-4360	3433	1928
Feb	-2367	-8886	37515	3972	-53567	7881	8516	-4725	-4339	3362	1874
Mar	-3176	-9670	38494	3903	-55353	7930	8387	-4859	-4530	3423	1899
Apr	-3254	-9779	39407	3806	-56327	8002	8265	-4919	-4499	3442	1903
May	-3547	-10004	40262	3868	-57531	7932	8143	-4929	-4498	3454	1918
Jun	-4230	-10610	41282	3924	-59304	7979	8162	-5093	-4556	3494	1931
Jul	-4629	-11055	42408	3922	-60950	8183	8382	-5302	-4549	3545	1950
Agu	-4790	-11675	43252	3926	-62491	8686	8899	-5362	-4570	3561	2007
Sep	-5026	-12393	44124	3916	-64156	9037	9261	-5360	-4574	3690	2125
Oct	-5413	-12732	45364	3955	-65861	9102	9487	-5480	-4609	3697	2226
Nov	-5663	-12676	45628	3928	-66049	9069	9624	-5493	-4564	3437	2215
Dec	-6808	-13934	46878	3953	-68734	8936	9676	-5428	-4587	3618	2321

Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account

	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Liabilities								
					Equity Securities	Debt Securities			Net	Trade Credits	Credits				Deposits		
						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	1587	1587	79	2287	-1670	1011	2946	3268	719	4179	2098	-1479	-765	1975	876	497	871
	<i>(quarterly)</i>																
2001 IV	-2204	-2204	659	-558	-720	-114	276	-1993	-191	-1427	-439	1972	-875	-1967	-30	399	-492
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	4005	4005	-15	-75	71	52	-198	3434	4053	146	286	-113	-555	700	-810	89	550
II	-1332	-1332	2	934	-521	15	1440	-1074	-801	83	328	-156	-4	-1058	654	25	264
III	-1665	-1665	56	1606	-606	563	1649	1973	-862	3017	570	-466	6	1251	748	322	517
IV	579	579	36	-178	-614	381	55	-1065	-1671	933	914	-744	-212	1082	284	61	-460

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	Liabilities							Deposits	
					Equity Securities	Debt Securities			Net	Trade Credits	Credits				Monetary Authority	Banks	
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
(monthly)																	
2003 Jan	1128	1128	-6	1108	-218	119	1207	2035	1578	423	-51	0	-168	192	215	38	197
Feb	2184	2184	-11	-381	113	52	-546	970	460	268	-52	0	-180	224	76	31	169
Mar	693	693	2	-802	176	-119	-859	429	2015	-545	389	-113	-207	284	-1101	20	184
Apr	117	117	-10	-292	-129	-42	-121	499	-234	940	47	0	481	-183	250	1	341
May	-844	-844	42	592	-77	9	660	-845	-55	-628	151	-39	-158	-776	324	23	-165
Jun	-605	-605	-30	634	-315	48	901	-728	-512	-229	130	-117	-327	-99	80	1	88
Jul	-67	-67	23	-242	67	77	-386	635	-870	1585	308	0	-150	630	228	108	438
Agu	-583	-583	63	631	19	175	437	153	-752	907	55	-348	445	364	175	148	43
Sep	-1015	-1015	-30	1217	-692	311	1598	1185	760	525	207	-118	-289	257	345	66	36
Oct	-242	-242	-77	326	245	132	-51	-1852	-1238	-269	483	-191	-237	33	206	43	-614
Nov	318	318	53	-552	-316	192	-428	-1025	104	-1373	-137	-430	-211	-348	-278	12	19
Dec	503	503	60	48	-543	57	534	1812	-537	2575	568	-123	236	1397	356	6	135
(on iki aylık)																	
2003 Jan	1925	1925	862	-18	-2076	121	1937	8839	695	9401	2478	-6138	11716	-504	836	1211	-295
Feb	3408	3408	824	173	-1566	176	1563	7089	1065	7056	2556	0	2584	-296	1075	1111	-70
Mar	3221	3221	753	-609	-793	-30	214	6869	2869	5788	2495	-113	2527	115	-416	1023	64
Apr	3176	3176	717	-1502	-1055	-170	-277	6121	1526	6328	2386	-113	2039	318	-328	940	996
May	2478	2478	503	-196	-633	-164	601	5727	3022	4406	2128	-152	1940	-1049	-133	908	678
Jun	1653	1653	443	1061	-1049	-65	2175	4446	2180	3968	2080	-269	1754	-1195	-1	853	660
Jul	1777	1777	471	796	-968	-52	1816	4263	2005	3916	2002	-269	540	-381	11	752	1173
Agu	1830	1830	322	1577	-736	199	2114	3292	675	4024	1988	-617	-690	763	374	624	1487
Sep	1621	1621	263	3135	-1410	520	4025	5006	1804	4579	1912	-735	-857	1240	823	561	1539
Oct	1152	1152	-88	2870	-1385	596	3659	3245	1021	3732	2272	-926	-1025	1024	1053	554	682
Nov	1304	1304	-32	2378	-1275	1035	2618	1696	956	2070	1836	-1356	-1144	973	518	541	603
Dec	1587	1587	79	2287	-1670	1011	2946	3268	719	4179	2098	-1479	-765	1975	876	497	871

Source: CBRT.