

# CENTRAL BANK OF THE REPUBLIC OF TURKEY

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## BALANCE OF PAYMENTS REPORT

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2005 - IV

## SUMMARY

Following the high rates of increases observed in 2004, increases in imports and exports lost pace in 2005. The slowdown in exports became more apparent, especially in the second quarter of the year and the growth rates of exports remained below those of imports. Hence, the foreign trade deficit within the definition of the balance of payments, which was USD 23.9 billion in 2004, was realized as USD 32.6 billion in 2005. The rise in tourism revenues restricted further expansion of the current account deficit. Accordingly, the current account deficit increased to USD 22.9 billion in 2005.

When analyzed by sectors, it is observed that the increase in imports mainly resulted from imports of intermediate goods including the mineral fuels and oils item. Meanwhile, a recovery was observed in the imports of capital and consumption goods in the second half of the year. In fact, the imports of capital and consumption goods, which grew by 13.6 and 2.7 percent, respectively, in the first half of 2005, compared to the same period of the previous year, increased by 18.7 and 27.1 percent, respectively, in the second half of the year. Though remaining below the growth in total exports, the increase in exports of textile products and apparel, which made up the largest share of total exports, continued as of the January-September period. However, no significant increase was observed in the exports of these sectors in the last quarter of the year. The increase in exports of textile products and apparel throughout the year was registered as 7.5 percent.

It is observed that both exports and imports were highly influenced by price movements in 2005. Hence, export prices increased by 4.7 percent, while import prices rose by 7 percent compared to the previous year. Excluding the impact of price movements, the real increase in exports and imports became 8.1 and 10.7 percent, respectively. The impact of prices was stronger in crude oil, the metal industry, communication devices and food sectors due to their larger shares in foreign trade.

Excluding IMF loans and official reserve changes (CBRT + banks), capital inflow became USD 44.3 billion in 2005. In this period, portfolio investments, long-term credits used by the private sector and banks and trade credits became the primary determinants of the financing structure. A significant rise was observed in direct investments, as well. In 2005, direct domestic investments reached USD 9.7 billion. In this period, net long-term and short-term capital inflows, excluding portfolio, direct investments and IMF loans, were realized as USD 13.4 and USD 8.6 billion, respectively. Besides, the net errors and omissions item became USD 2 billion.

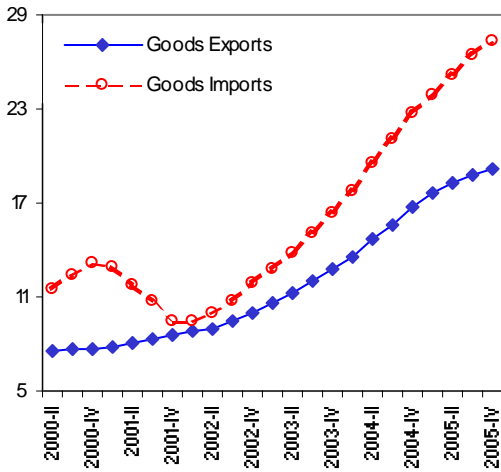
As a result of these developments, Central Bank reserves increased by USD 17.8 billion, while the banks' reserves grew by USD 0.3 billion in 2005.

**Balance of Payments**  
(billion USD)

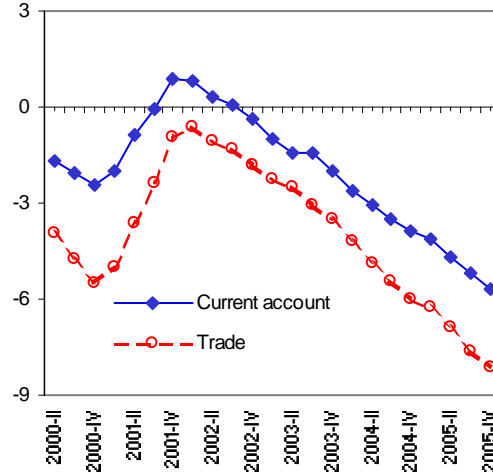
	Jan-Dec		
	2004	2005	% change
Current Account	-15.6	-22.9	..
Goods	-23.9	-32.6	..
Exports	67.0	76.6	14.3
Exports (fob)	63.1	73.1	15.8
Shuttle trade	3.9	3.5	-10.5
Imports	-90.9	-109.2	20.1
Imports (cif)	-97.5	-116.0	19.0
Coverage adjustment	5.8	6.9	..
Services	12.8	14.0	..
Tourism (net)	13.4	15.3	14.3
Credit	15.9	18.2	14.2
Debit	-2.5	-2.9	13.8
Other services revenues (net)	-0.6	-1.3	..
Income	-5.6	-5.7	..
Direct investment income (net)	-0.8	-0.8	..
Portfolio investment income (net)	-1.2	-0.9	..
Other investment income (net)	-3.6	-4.0	..
Interest income	0.7	1.0	44.2
Interest expenditure	-4.3	-5.0	15.4
Current transfers	1.1	1.5	..
Workers remittances	0.8	0.9	5.8
Capital and financial account	13.1	20.6	..
Financial account (excl. reserve assets)	14.0	38.4	..
Direct investment (net)	1.9	8.6	..
Abroad	-0.9	-1.0	..
In Turkey	2.8	9.7	..
Portfolio investment (net)	8.0	13.7	..
Assets	-1.4	-1.0	..
Liabilities	9.4	14.7	..
Equity securities	1.4	5.7	..
Debt securities	8.0	9.0	..
Non-residents' buyings in Turkey	6.0	5.9	..
Eurobond issues of Treasury	2.0	3.4	..
Borrowing	5.8	6.5	..
Repayment	-3.8	-3.1	..
Other investments (net)	4.0	16.1	..
Assets	-7.0	0.5	..
Trade credits	-1.6	0.6	..
Credits	0.6	0.2	..
Banks FX assets (- increase)	-6.0	-0.3	..
Liabilities	11.0	15.6	..
Trade credits	4.2	3.4	..
Credits	6.1	11.7	..
Central Bank	-4.4	-2.9	..
General Government	-0.3	-4.6	..
IMF	0.9	-2.5	..
Long-term	-1.2	-2.2	..
Banks	5.7	9.1	..
Long-term	2.4	6.4	..
Short-term	3.3	2.7	..
Other sectors	5.1	10.1	..
Long-term	4.8	9.7	..
Short-term	0.3	0.4	..
Deposits of non-residents	0.6	0.5	..
In CBT	-0.2	-0.8	..
In banks	0.9	1.3	..
Change in official reserves (- increase)	-0.8	-17.8	..
Net errors and omissions	2.3	2.0	..

Source: CBT.

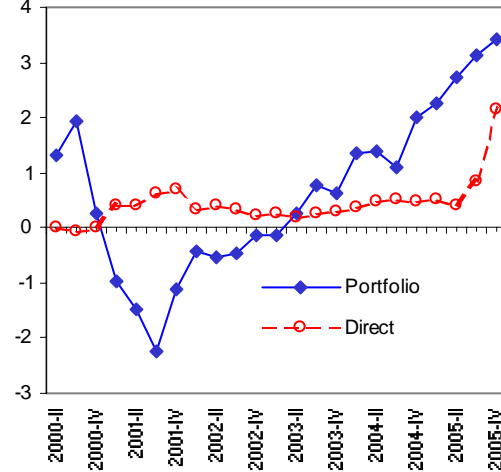
**Goods Exports and Imports**  
(12-month ave., billion US dollars)



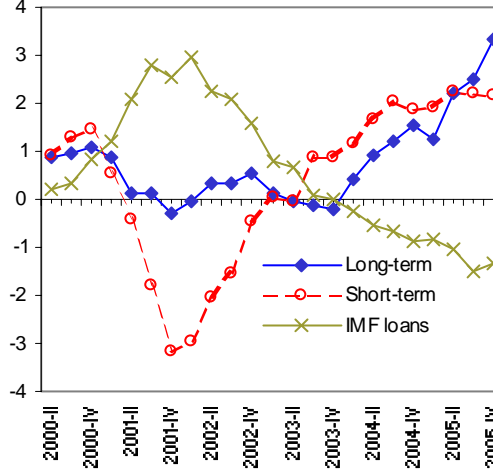
**Trade and Current Account**  
(12-month ave., billion US dollars)



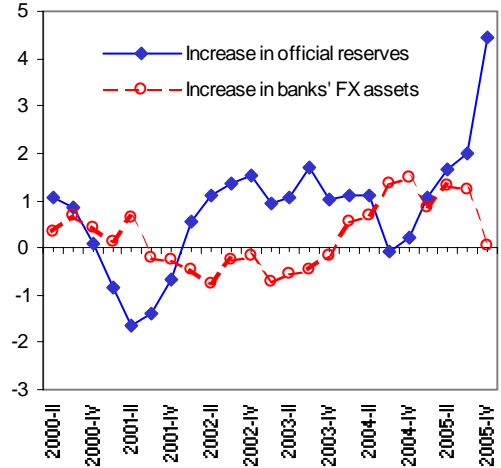
**Direct and Portfolio Investments**  
(12-month ave., billion US dollars)



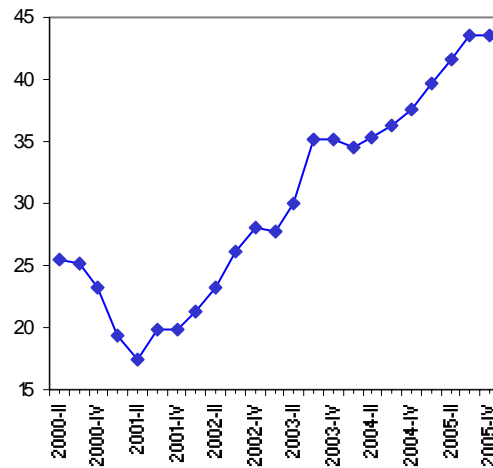
**Term Structure of Capital Flows**  
(12-month ave., billion US dollars)



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



**CBT International Reserves**  
(billion US dollars)



Source: CBT, TURKSTAT.

## I. EXTERNAL ECONOMIC DEVELOPMENTS

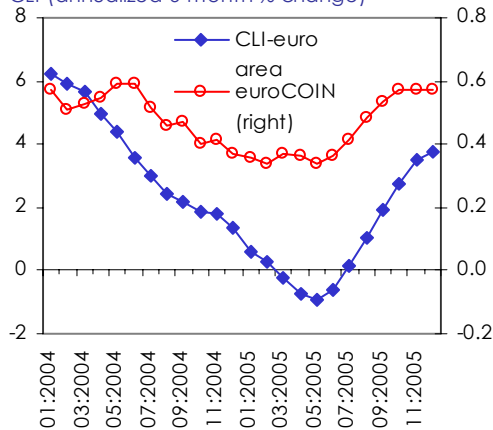
1. The world economy maintained its growth trend in 2005. Despite the increased commodity and oil prices due to high growth, there were no strong inflationary pressures experienced in the world.

2. The factors that impeded global economic growth in 2005 were the increases in crude oil prices and the prices of other goods and services subject to foreign trade. Particularly, the *secondary effects* of crude oil prices (inflationary pressure generated by the upsurge in crude oil prices through production costs) and the likely pressure created by the rise in the prices of goods and services on global supply and demand stand as the factors that may pose a risk to global growth.

### Euro Area Leading indicators:

€COIN (3-month % change),

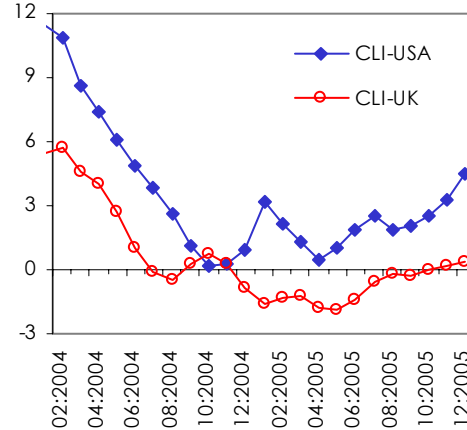
CLI (annualized 6-month % change)



Source: OECD, CEPR.

### USA and UK Leading indicators:

CLI (annualized 6-month % change)



Source: OECD.

3. The US economy maintained its strong growth performance in the third quarter of 2005, despite increasing oil prices and the hurricanes that occurred. The US GDP, which grew by 3.6 percent in the third quarter of 2005, compared to the same period of the previous year, increased by 3.1 percent in the last quarter. Meanwhile, for the sake of sustainable growth and price stability, the FED raised interest rates for the fourteenth time since 30 June 2004, by 25 basis points, at its meeting on 31 January 2006.

4. Preliminary indicators point to a recovery in the euro area by the third and last quarters, following a low rate of growth in the first half of the year. The Euro area GDP, which grew by 1.2 and 1.6 percent in the first two and third quarters of the year, respectively, compared to the corresponding periods in 2004, increased by 1.7 percent in the last quarter, according to the preliminary estimates. Meanwhile, especially high crude oil prices stand as the factor that may lead to a lower euro area growth rate than expected. In the United Kingdom, low-rated growth performance compared to 2004 still persisted in the last quarter of the year. The UK GDP growth, which was registered as 1.8 percent in the first three quarters, became 1.7 percent in the last quarter according to the preliminary estimates.

5. Among the Asian countries, Japan displayed growth due to domestic demand, while the growth observed in China stemmed from both domestic demand and exports in 2005. Other Asian countries, which pursued a sluggish course in general, have entered a stage of recovery in recent months. Nevertheless, consumer prices in the region increased due to oil prices. As a reaction to this development, the central banks in the region raised their interest rates.

6. The growth trend in new EU countries pursued a favorable course, in general, in 2005. The GDP in the Czech Republic and Hungary increased by 4.7 and 4.4 percent on an annual basis, respectively, in the third quarter of the year.

## II. CURRENT ACCOUNT

7. The increases in current account deficit continued in the last quarter of the year, as well. Hence, the current account registered a deficit of USD 22.9 billion in 2005.

8. By the end of 2005, a deterioration was observed in the indicators relating to the current account deficit and financing structure compared to 2004. The ratio of exports to imports and short-term external debt stock fell to 0.70 and 2.09 percent, respectively. Meanwhile, the indicators based on the Central Bank reserves are of great importance with respect to the sustainability of the current account deficit. In 2005, the ratio of reserves to short-term external debt stock and imports increased compared to 2004. In the meantime, the ratio of reserves, which reflect country's ability to repay the external debt, to the current account deficit and the financing requirement consisting of the total of current account deficit and net errors and omissions item decreased.

### Selected indicators related to the current account deficit and financing structure

	2000	2001	2002	2003	2004	2005
Exports / Imports	0.58	0.90	0.85	0.79	0.74	0.70
Exports / Short-Term External Debt	1.09	2.10	2.44	2.23	2.11	2.09
Exports / External Debt Service	1.40	1.40	1.39	1.84	2.20	2.10
Tourism Revenues / Trade Balance	0.35	2.17	1.16	0.94	0.67	0.56
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.18	1.43
CBT Reserves / Financing Requirement	1.84	-	19.97	11.71	2.82	2.51
CBT Reserves / Current Account Balance	2.36	-	18.42	4.38	2.41	2.29
CBT Reserves / Imports	0.44	0.52	0.59	0.54	0.41	0.48

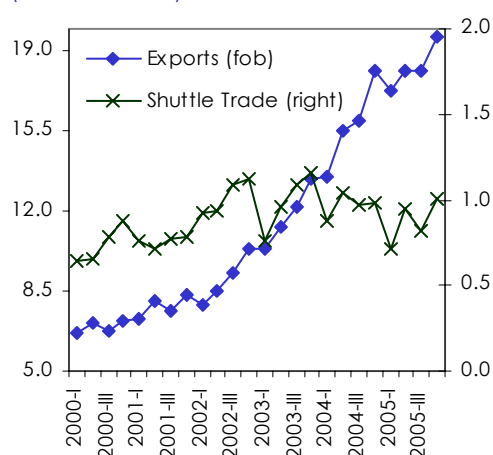
Source: CBRT, TURKSTAT.

### Exports of Goods

9. According to the exports data issued by TURKSTAT (Turkish Statistical Institute), exports increased by 15.8 percent in 2005. However, revenues from shuttle trade fell by 10.5 percent. Thus, growth in total exports of goods became 14.2 percent. Meanwhile, price movements stood as a significant factor in the nominal growth figures of exports. According to index data issued by TURKSTAT, the exports unit value index rose by 4.7 percent in 2005 compared to 2004. Hence, the real increase in exports stayed at 8.1 percent during this period.

#### Exports

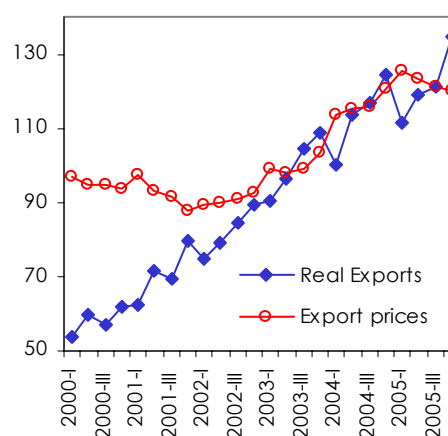
(billion US dollars)



Source: CBT, TURKSTAT.

#### Exports - Real and Unit Value

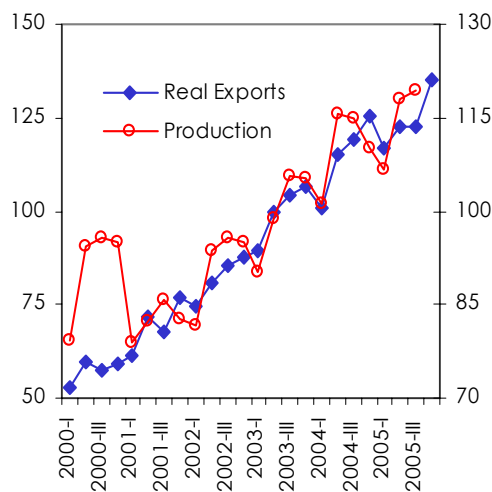
(2003=100)



Source: TURKSTAT.

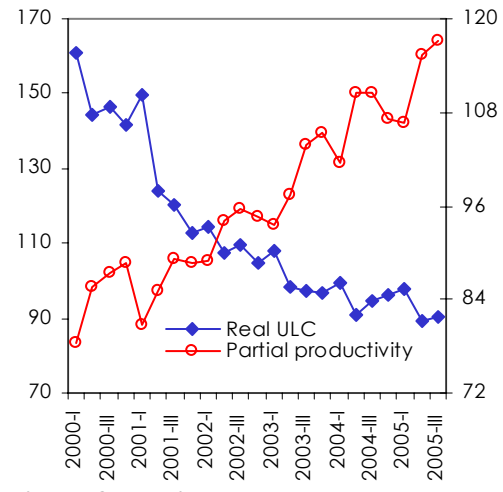
10. The external competitive advantage resulting from the low levels of real labor costs compared to the 2000-2004 average and the productivity level, which is over the last 5-year average, managed to offset the unfavorable impact of the strong position of the New Turkish lira on external competitiveness and became the main factors in the increase in exports.

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



Source: TURKSTAT.

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



Source: CBT, TURKSTAT.

11. Analyzing export developments by sub-items, exports of motor vehicles, refined petroleum and petroleum products, machinery/equipment and food products/beverages also continued to increase in the last quarter of the year and became the sectors that made the largest contribution to the growth in total exports, in general, in 2005. Besides, exports of textile products and apparel, which have a large share in overall exports, contributed with continued increases, albeit remaining below the overall export growth. All sectors mentioned above contributed by a total of 8.9 points to the 15.8-percent growth in exports. In other words, USD 5.6 billion of the USD 10 billion net growth came from these sectors.

**Exports**  
(million US dollar)

	January-December				
	2004	2005	% Change	% Contrib.	\$ Contrib.
Total	63167	73122	15.8		
Capital Goods	6531	7974	22.1	2.3	1443.3
Intermediate Goods	25946	30129	16.1	6.6	4183.6
Consumption Goods	30502	34666	13.7	6.6	4164.1
Other	189	353	86.9	0.3	164.0
<b>Selected Items (ISIC Rev.3):</b>					
Agriculture and farming of animals	2526	3275	29.6	1.2	749
Food products and beverages	3349	4226	26.2	1.4	877
Textiles	7998	8725	9.1	1.2	726
Wearing apparel	9340	9913	6.1	0.9	573
Petroleum products and nuclear fuel	1364	2494	82.8	1.8	1130
Chemicals and chemical products	2556	2805	9.7	0.4	249
Rubber and plastic products	1959	2476	26.4	0.8	517
Other non-metallic minerals	2317	2675	15.4	0.6	358
Manufacture of basic metals	6816	6849	0.5	0.1	33
Manufacture of fabricated metal prod(exc machir	2200	2670	21.4	0.7	470
Manufacture of machinery and equipment	3913	4847	23.9	1.5	934
Electrical machinery and apparatus	1576	1927	22.3	0.6	352
Communication and apparatus	2883	3149	9.2	0.4	266
Motor vehicles and trailers	8813	10187	15.6	2.2	1375
Other transport	1349	1691	25.4	0.5	342

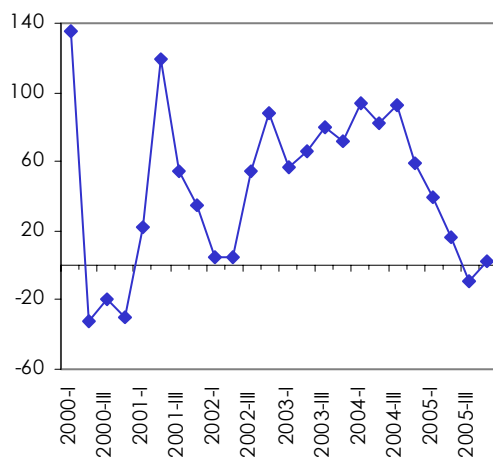
Source: TURKSTAT.

12. Although the greatest contribution to the growth in total exports came from motor vehicles throughout the year, exports in this sector started to decrease in the second half.

Automobile exports considerably decreased in the third quarter of the year and dropped by 3 percent in the second half compared to the same period of the previous year, despite a recovery in the last quarter. As a result of the 37 percent increase in automobile imports during this period, the sector lost its net exporter position that was regained in the second half of 2004.

#### Automobile Exports

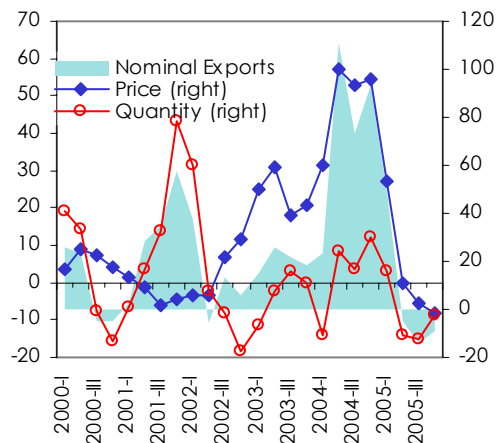
(Annual percentage change)



Source: TURKSTAT.

#### Basic Metal Industry Exports

(Annual percentage change)



Source: TURKSTAT.

13. Exports of textile products and apparel, which are the determinant sectors in exports, displayed low performance throughout 2005 and significantly slowed down in the last quarter. The challenge to compete with such countries as China and India, which especially dominate the US market in terms of exports of textile products and apparel due to low labor costs, led to loss of performance in the sector. As a result of these developments, the share of exports of textile products and apparel in total exports, which was 27.5 percent in 2004, declined to 25.5 percent in 2005.

#### Exports - Unit Value Indices (2003=100)

	2005				2004	2005	Change
	I	II	III	IV			
Total	125.4	123.4	120.9	119.8	116.3	121.7	4.7
Capital Goods	115.3	112.3	109.5	107.9	110.5	111.6	1.0
Intermediate Goods	131.2	129.5	126.2	127.5	121.8	128.7	5.6
Consumption Goods	123.7	121.2	119.8	116.9	114.2	120.4	5.5
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	165	174	174	161	132	168	27.4
Food products and beverages	130	130	133	132	119	130	9.1
Textiles	119	115	111	111	110	114	3.4
Wearing apparel	125	121	118	117	115	120	4.1
Petroleum products and nuclear fuel	143	163	183	176	131	164	25.5
Chemicals and chemical products	121	120	120	119	112	120	6.7
Rubber and plastic products	120	117	113	115	109	116	6.7
Other non-metallic minerals	117	119	123	124	110	120	9.2
Manufacture of basic metals	160	157	143	148	150	148	-1.0
Manufacture of fabricated metal prod(exc machir	132	132	131	132	119	132	10.8
Manufacture of machinery and equipment	118	115	114	114	111	115	3.3
Electrical machinery and apparatus	124	127	126	129	116	126	9.3
Communication and apparatus	93	85	75	75	99	80	-19.1
Motor vehicles and trailers	117	113	111	108	111	112	1.7

Source: TURKSTAT.



14. Exports of the basic metal industry started to fall as of the second quarter of the year, following the high rate of growth observed in the first quarter. Taken together with the increase of imports in the sector, it is observed that the revival in the domestic construction sector had an unfavorable effect on exports.

15. The increase in export prices in 2005 led to a nominal export growth beyond the real growth. The increase in prices was more apparent in some sectors. Petroleum products, agriculture and the farming of animals, food and beverages, fabricated metal products, electrical machinery and appliance and mineral products were among these sectors.

16. Analyzing exports developments by country groups, it is observed that the growth in exports to EU countries, which have the largest share in total exports, remained below the growth in total exports. The share of this group in total exports dropped by 2.1 points. This development is related to the effect of the low levels of domestic demand in EU countries throughout 2005. Meanwhile, the share of exports to Middle Eastern countries increased. The exports to the said countries were boosted by 27 percent, contributing to the 15.8 percent growth in exports by 3.4 points. Analyzing by country, apart from Germany, increases in exports to Italy, England and Russia are also remarkable. The highest contribution to the increase in exports to these countries came from motor vehicles and fruit and vegetables sectors.

#### Exports – Country Decomposition (million US dollar)

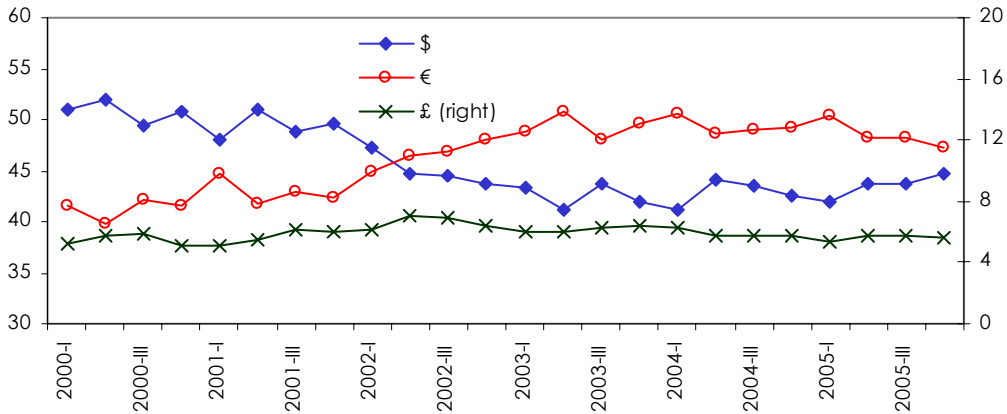
	January-December						
	2004		2005		% Change	% Contrib.	\$ Contrib.
	Value	Share (%)	Value	Share (%)			
Total	63167	..	73122	..	15.8		
EU countries	34451	54.5	38312	52.4	11.2	6.1	3861
EU 15	32589	51.6	35790	48.9	9.8	5.1	3201
EU 10	1862	2.9	2522	3.4	35.5	1.0	660
Other countries	26152	41.4	31855	43.6	21.8	9.0	5702
Other European	6637	10.5	8740	12.0	31.7	3.3	2102
East Asian	2544	4.0	3026	4.1	18.9	0.8	482
Other	16971	26.9	20089	27.5	18.4	4.9	3118
Free Zones in Turkey	2564	4.1	2955	4.0	15.3	0.6	392
Selected countries and country groups							
OECD	40,518	64.1	44,232	60.5	9.2	5.9	3714
Germany	8,745	13.8	9,436	12.9	7.9	1.1	691
UK	5,544	8.8	5,916	8.1	6.7	0.6	372
USA	4,860	7.7	4,877	6.7	0.4	0.0	17
Italy	4,648	7.4	5,601	7.7	20.5	1.5	953
France	3,668	5.8	3,789	5.2	3.3	0.2	121
Spain	2,620	4.1	3,005	4.1	14.7	0.6	385
Netherlands	2,138	3.4	2,465	3.4	15.3	0.5	327
Other OECD	8,294	13.1	9,144	12.5	10.2	1.3	849
Middle East countries	7,921	12.5	10,064	13.8	27.0	3.4	2142
Russian Fed.	1,859	2.9	2,371	3.2	27.6	0.8	512

Source: TURKSTAT.

17. In terms of the foreign exchange composition of exports, the share of the euro declined while that of the US dollar increased as of the second quarter of the year. No remarkable movement was observed in the share of Sterling.

### Currency Composition of Exports

(% share)

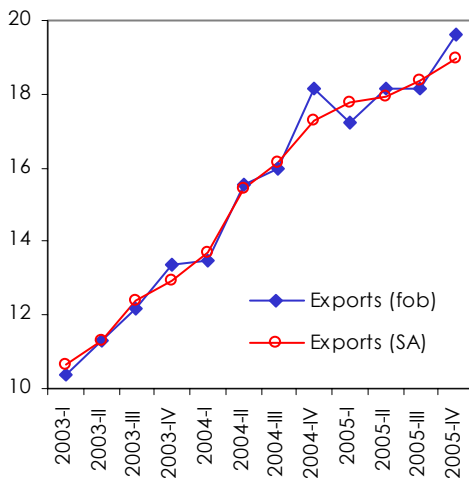


Source: TURKSTAT.

18. According to seasonally adjusted data, US dollar-denominated nominal exports increased by 3.3 percent in the last quarter of 2005 compared to the previous quarter. Meanwhile, seasonally adjusted real exports based on the amount index rose by 5.8 percent during this period.

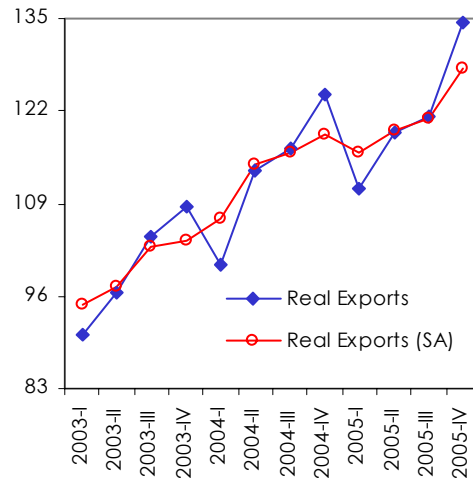
### Seasonally Adjusted Exports

(billion US dollars)



### Seasonally Adjusted Exports

(Real, 2003=100)



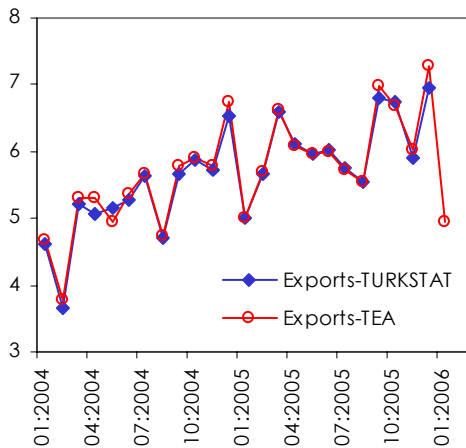
Note: Seasonally adjusted data are calculated by using Tramo-Seats methodology.

19. The data announced by the Turkish Exporters' Assembly (TEA) on exports realized in January 2006 indicate that exports dropped by 1.1 percent compared to the same month of the previous year. However, temporary seasonal developments such as the religious holiday and severe weather conditions are considered to have affected the said decline.

20. Indicators of exports for the next period given in the Business Tendency Survey for January does not point to an important change in export growth in the next quarter.

### Exports - TURKSTAT and TEA data

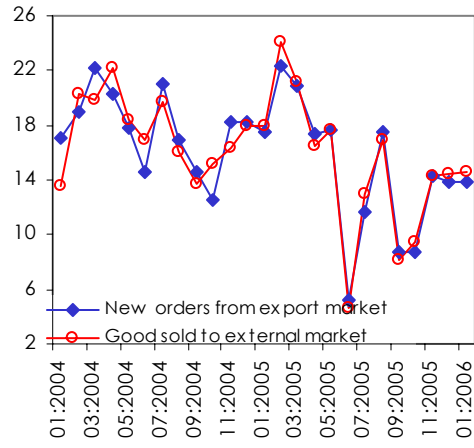
(billion US dollars)



Source: TURKSTAT, TEA.

### Export Expectations

Next 3 months (Optimists-pessimists)



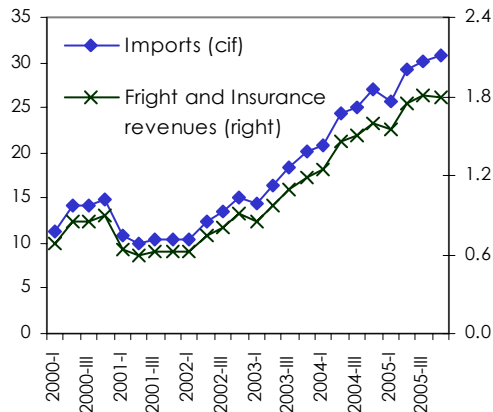
Source: CBT Business Tendency Survey.

### Imports of Goods

21. Imports, as announced by TURKSTAT (including freight and insurance cost), increased by 19 percent in 2005. Adding the "other goods" item related to freight and insurance revenues and financial leasing, the rate of growth in the total imports of goods amounts to 20.1 percent. In 2005 overall, price movements were influential in the nominal growth of imports. According to foreign trade index data released by TURKSTAT, the imports unit value index rose by 7 percent. According to the quantity index excluding price movements, the real increase in imports was 10.7 percent.

### Imports

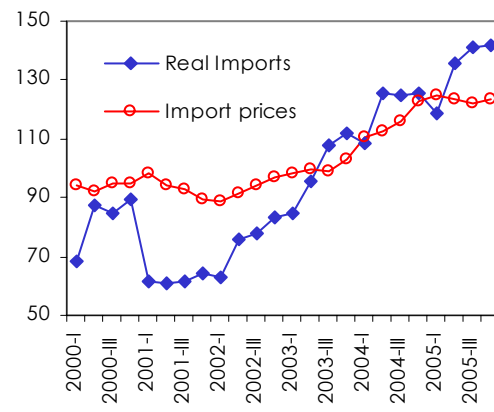
(billion US dollars)



Source: CBT, TURKSTAT.

### Imports- Real and Unit Value

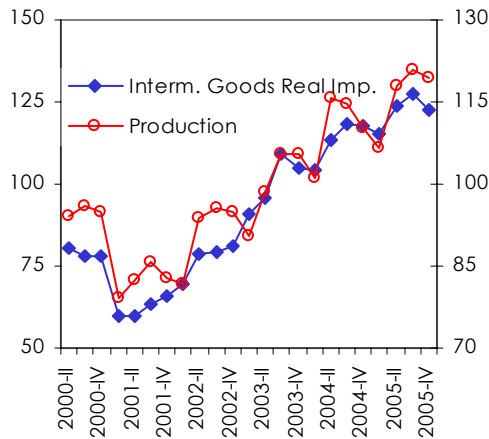
(2003=100)



Source: TURKSTAT.

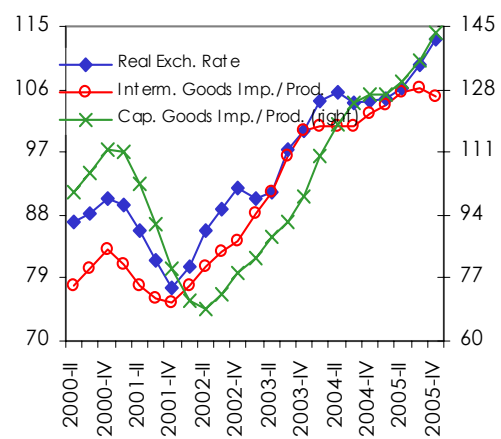
22. YTL maintained its strong position, while the increase in industrial production was the main factor behind the growth of imports of intermediate goods, which comprise 70 percent of total imports. In fact, in 2005, the annual increase rates of total industry and manufacturing industry production were realized as 5.5 percent and 4.9 percent, respectively.

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



Source: TURKSTAT.

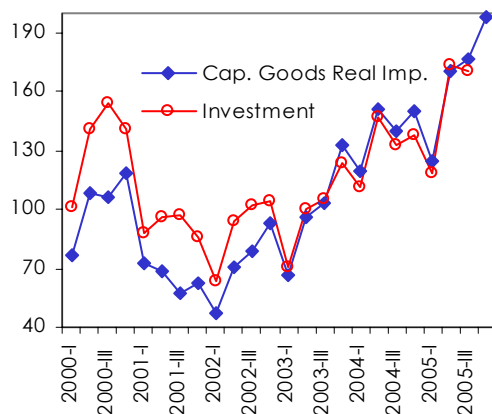
**Intern. & Cap. Imp./Manuf. Ind. P. Ratio and REER (PPI) (12-month, ave.)**



Source: TURKSTAT, CBT.

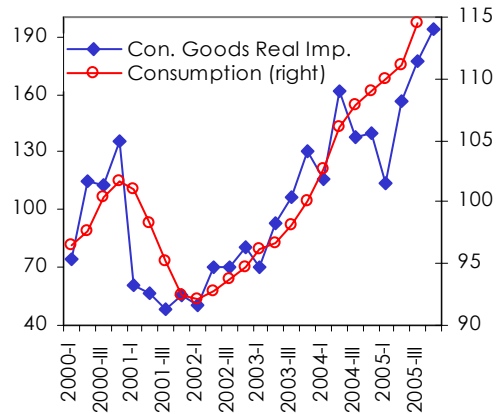
23. The increase rate of imports of intermediate goods, which made the biggest contribution to the increase in imports, slowed down in the last quarter of the year. Meanwhile, imports of investment goods continued to grow as of August by higher rates compared to imports of intermediate goods. This development indicates that investment expenditures continued in the last quarter of the year, as well.

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



Source: TURKSTAT.

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

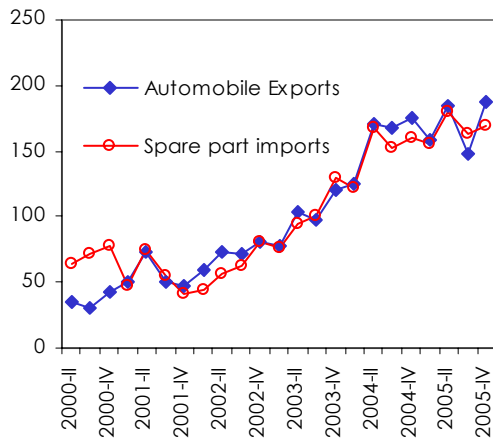


Source: TURKSTAT.

24. Analyzing by amount indices, the high-rated decline in imports of automobiles, which takes up an important share in the imports of consumption goods, came to a halt and imports of automobiles started to improve as of August. Imports of automobiles, which declined by 33.1 percent in the first half of 2005, rose by 51 percent in the second half of the year. Furthermore, imports of durable and non-durable goods, which had increased by 11.7 and 7.9 percent, respectively, in the first half of 2005, rose by 30.1 percent and 23.6 percent in the second half of the year. The base effect, which was observed in the said items due the fact that imports increased remarkably in the first half of 2004 but slowed down in the second half, made the increases in imports lower in the first half of 2005 and higher in the second half of the year.

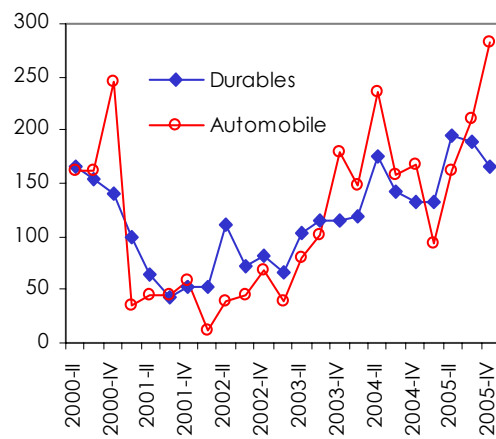
25. Analyzing by consumption tendencies, consumer confidence indices compiled by the CBT, TURKSTAT and the CNBCE have followed a downward trend in the first three quarters of the year, however they improved in the last quarter. In January 2006, the CNBCE index declined, whereas the consumer confidence index (CBT/SIS) increased by 2.3 percent compared to the previous month.

**Spare part imp. of trans. vehicles & Auto. Exports (2003=100)**



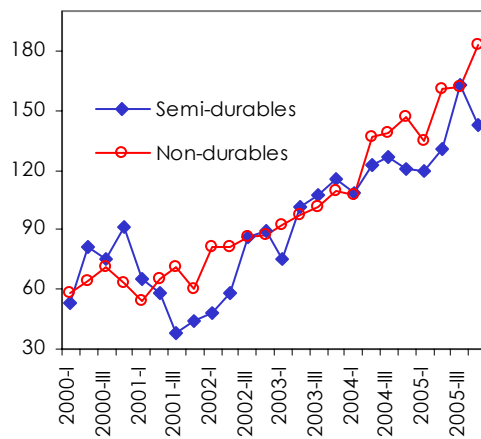
Source: TURKSTAT.

**Durables & Automobile Imports (2003=100)**



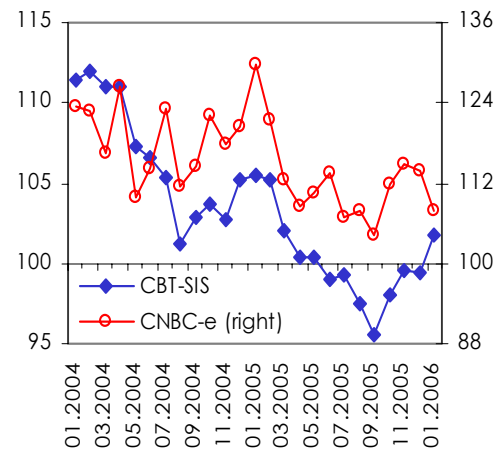
Source: TURKSTAT.

**Semi and non-durables Imp. (2003=100)**



Source: TURKSTAT.

**Confidence Index**



Source: CBT, TURKSTAT, NTVMSNBC.

26. In addition to imports of basic metal industry products, chemicals and chemical products and machinery-equipment, the mining and quarrying sector which includes crude oil, made the biggest contribution to the increase in imports. Imports of the basic metal industry, which displayed a significant rise as of the last quarter of 2004, grew by 22.4 percent in 2005. The revival observed in the domestic construction sector was effective in the increase in the imports of the basic metal industry. Moreover, increases in world metal prices led to nominal rises in the imports of the sector. In the same period, import prices and real imports of the said sector grew by 9.8 percent and 10.9 percent, respectively.

27. Imports of land vehicles and spare parts, which increased significantly in the first half of 2004, slowed down in the second half of the year. Compared to 2004, a sluggish trend was observed in the imports of the sector in the first half of 2005. In the said period, imports of automobiles declined by 29.9 percent, whereas imports of transportation vehicles' spare parts increased by 20.6 percent. This increase presents a parallel outlook to the growth rate in exports of the sector. Nevertheless, in the second half of the year, imports of transportation vehicles' spare parts declined parallel to the decline in automobile exports. In the same period, automobile imports grew by 37 percent.

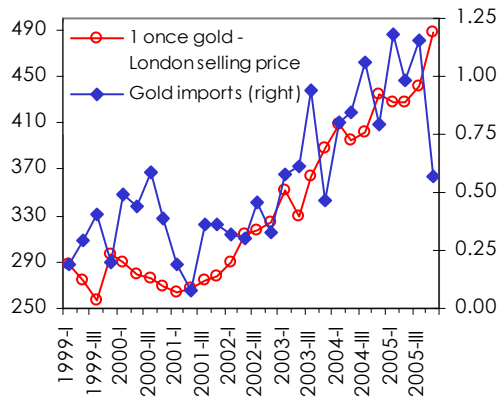
28. Imports of gold, which has recorded high rates of growth since 2002, maintained its upward trend in the first nine months of 2005, however it rolled back compared to the same period of the previous year. Hence, imports of gold increased by 11.1 percent throughout the year. Especially the depreciation of the US dollar, which has been observed as of 2002, led to a demand for gold as well as an increase in gold prices.

**Imports**  
(million US dollars)

	January-December				
	2004	2005	% Change	% Contr.	\$ Contr.
Total	97540	116048	19.0		
Capital Goods	17397	20236	16.3	2.9	2838.6
Intermediate Goods	67549	81320	20.4	14.1	13770.6
Consumption Goods	12100	13926	15.1	1.9	1826.0
Other	493	566	14.9	0.1	73.3
<b>Selected Items (ISIC Rev.3):</b>					
Mining and Quarrying	10981	16301	48.4	5.5	5319.6
Crude oil	6091	8649	42.0	2.6	2558.9
Natural gas	3275	5491	67.6	2.3	2215.4
Textiles	3786	3955	4.5	0.2	169.1
Paper and paper products	1712	1988	16.1	0.3	276.0
Coke, petroleum products and nuclear fuel	3797	5431	43.0	1.7	1633.8
Chemicals and chemical products	15134	17339	14.6	2.3	2204.5
Rubber and plastic products	1941	2132	9.8	0.2	190.9
Manufacture of basic metals	11084	13570	22.4	2.5	2486.4
Manufacture of fabricated metal prod(exc machin	1574	1935	23.0	0.4	361.7
Manufacture of machinery and equipment	10363	12133	17.1	1.8	1770.4
Electrical machinery and apparatus	3175	4190	32.0	1.0	1014.6
Communication and apparatus	4530	4587	1.3	0.1	57.3
Medical, precision and opt. instr., watches	2054	2596	26.4	0.6	542.6
Motor vehicles and trailers	11796	12305	4.3	0.5	509.4
Other transport	1890	1898	0.4	0.0	7.6
Waste and scrap (Wholesale and retail)	3320	3340	0.6	0.0	19.9

Source: TURKSTAT.

**Gold Imports (billion US dollars) and Gold Prices (3-month ave., US dollars)**



Source: CBT, TURKSTAT.

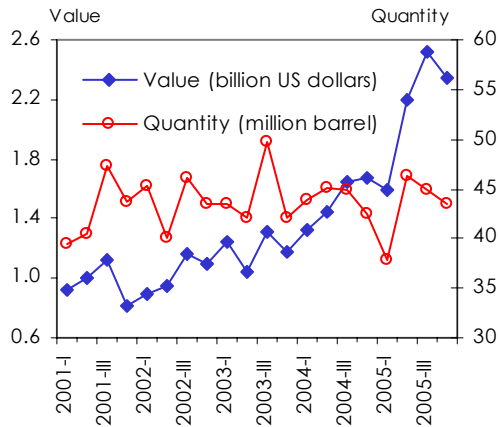
**USD/EUR Parity and Gold Prices (monthly ave., US dollars)**



Source: CBT.

29. Similar to 2004, crude oil prices displayed an upward trend in the first three quarters of 2005. The increase in crude oil prices mainly stemmed from increasing demand for oil due to the high course of global growth rates and insufficient oil supply, especially in non-OPEC countries. Moreover, further pressure has been placed on crude oil prices by the investors' tendency towards the oil markets for protection purposes because of their expectations for likely increases in oil prices. However, crude oil prices dropped in the last quarter of the year. In January 2006, oil prices rose again owing to the increase in demand caused by severe winter conditions, political tendencies related to Iran and the sabotage regarding oil reserves in Nigeria.

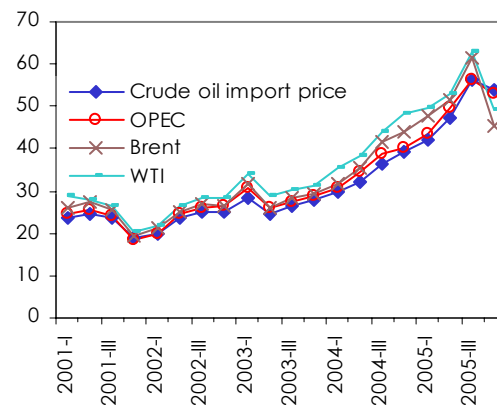
### Crude Oil Imports



Source: TURKSTAT, SPO.

### Crude Oil Prices

(US dollar per barrel, average)



Source: SPO, OPEC, EIA.

30. Although the volume of crude oil imports declined by 2.2 percent due to the reasons stated in the previous paragraph, import expenditures increased by 42 percent in 2005. In this context, the additional burden imposed by the 45.3 percent increase of the price of crude oil price per barrel on crude oil imports was realized as approximately USD 2.7 billion in 2005.

31. In addition to basic metals and crude oil, import prices of plastic and rubber products and manufactured metals also increased. Meanwhile, import prices of food products as well as those of radio, TV, communication equipments and appliances and electrical machinery and appliances decreased remarkably.

### Imports-Unit Value Indices (million US dollars)

	2005				2004	2005	% Change
	I	II	III	IV			
Total	124.6	123.4	122.4	123.6	115.1	123.2	7.0
Capital Goods	110.9	107.6	103.2	101.7	109.1	105.8	-3.0
Intermediate Goods	130.8	131.7	131.6	134.8	119.1	132.2	11.0
Consumption Goods	117.9	112.1	107.9	106.5	111.4	111.1	-0.3
Selected Items (ISIC Rev.3):							
Food products and beverages	106	108	103	98	112	103	-7.8
Textiles	115	118	110	111	110	113	2.6
Paper and paper products	117	115	112	111	110	114	3.4
Coke, petroleum products and nuclear fuel	153	167	185	199	137	176	29.1
Chemicals and chemical products	124	117	113	114	112	116	3.7
Rubber and plastic products	122	117	117	115	108	117	8.9
Manufacture of basic metals	148	147	135	138	131	144	9.8
Manufacture of fabricated metal prod(exc mac	123	122	118	116	110	118	7.8
Manufacture of machinery and equipment	111	110	106	104	106	107	0.5
Electrical machinery and apparatus	100	96	95	94	103	95	-7.4
Communication and apparatus	112	104	95	95	107	100	-5.9
Medical, precision and opt. instr., watches	108	102	102	104	104	103	-0.8
Motor vehicles and trailers	113	107	104	104	108	106	-1.6
Waste and scrap (Wholesale and retail)	176	169	149	166	162	164	1.2

Source: TURKSTAT.

32. Compared to 2004, imports from the European Union (EU) countries increased at a level below the total growth in imports. Hence, the share of imports from EU in total imports decreased in 2005. Nevertheless, non-member European countries and Asian and Middle Eastern countries made the greatest contribution to growth in imports. Analyzed in terms of countries, the high-rated increases in imports from China are remarkable. The increase in imports from China made a contribution of 2.4 points to the total growth in imports. In

addition to China, the large share of Germany continued, while imports from Russia, South Korea, Switzerland, Iran and Saudi Arabia recorded high-rated increases.

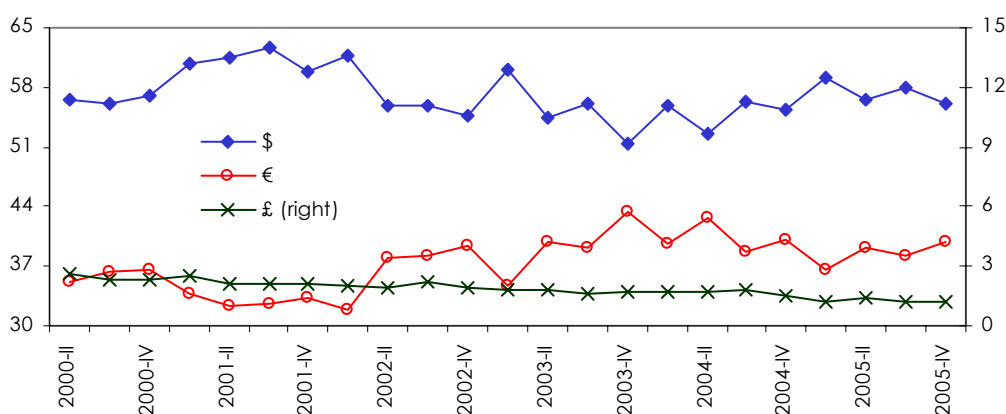
#### Imports - Country Decomposition (million US dollars)

	January-December							
	2004		2005		% Change	% Contrib.	\$ Contrib.	
	Value	Share (%)	Value	Share (%)				
Total	97540	..	116048	..	19.0			
EU countries	45444	46.6	48958	42.2	7.7	3.6	3514	
EU 15	42359	43.4	45220	39.0	6.8	2.9	2861	
EU 10	3084	3.2	3738	3.2	21.2	0.7	653	
Other countries	51285	52.6	66337	57.2	29.3	15.4	15052	
Other European	18416	18.9	23708	20.4	28.7	5.4	5292	
East Asian	15500	15.9	20457	17.6	32.0	5.1	4957	
Other	17368	17.8	22171	19.1	27.7	4.9	4803	
Free Zones in Turkey	811	0.8	754	0.6	-7.1	-0.1	-58	
Selected countries and country groups								
OECD	59,650	61.2	65,751	56.7	10.2	6.3	6101	
Germany	12,516	12.8	13,573	11.7	8.4	1.1	1057	
Italy	6,866	7.0	7,524	6.5	9.6	0.7	658	
France	6,201	6.4	5,871	5.1	-5.3	-0.3	-331	
USA	4,745	4.9	5,316	4.6	12.0	0.6	570	
İngiltere	4,317	4.4	4,663	4.0	8.0	0.4	346	
Switzerland	3,405	3.5	4,051	3.5	19.0	0.7	646	
Spain	3,254	3.3	3,537	3.0	8.7	0.3	283	
Japan	2,684	2.8	3,097	2.7	15.4	0.4	413	
Korea	2,573	2.6	3,473	3.0	35.0	0.9	901	
Other OECD	13,089	13.4	14,646	12.6	11.9	1.6	1557	
Middle East countries	5,585	5.7	7,945	6.8	42.3	2.4	2360	
Russian Fed.	9,033	9.3	12,818	11.0	41.9	3.9	3784	
China	4,476	4.6	6,831	5.9	52.6	2.4	2355	
Ukraine	2,509	2.6	2,618	2.3	4.3	0.1	109	

Source: TURKSTAT.

33. The share of US dollar imports, which dropped in the 2002-2003 period, has showed an upward trend as of 2004, whereas the share of euro imports has declined. Meanwhile, the share of Sterling continues to decrease steadily.

#### Currency Composition of Imports (% share)

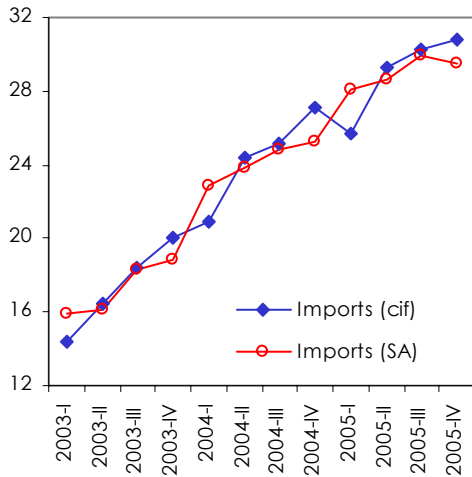


Source: TURKSTAT.

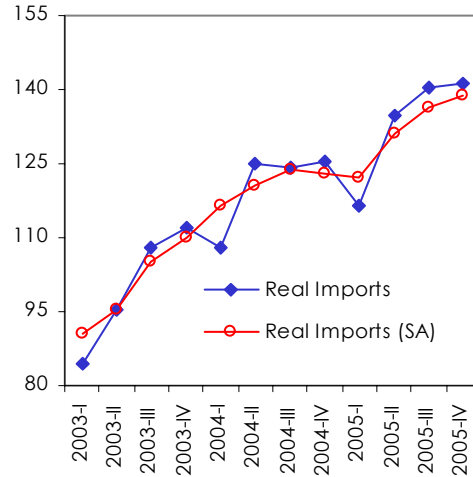


34. According to the seasonally adjusted data, nominal imports in terms of USD decreased by 1.4 percent in the last quarter of 2005 compared to the previous quarter. Meanwhile, real imports based on the quantity index increased by 1.7 percent in this period.

**Seasonally Adjusted Imports**  
(billion US dollars)



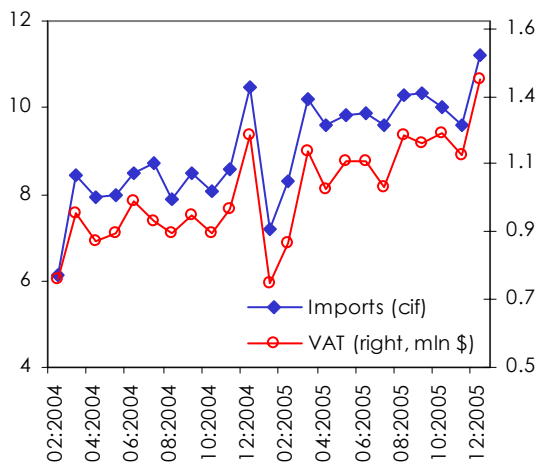
**Seasonally Adjusted Imports**  
(Real, 2003=100)



Note: Seasonally adjusted data are calculated by using Tramo-Seats methodology.

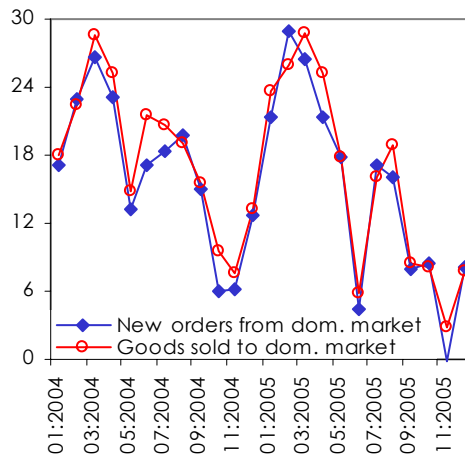
35. In the Business Tendency Survey, indicators related to imports of the period ahead point to an increase in imports in January.

**VAT on Imports**  
(million US dollars)



Source: TURKSTAT, Ministry of Finance.

**Import Expectations**  
Next 3 months (optimists-pessimists)



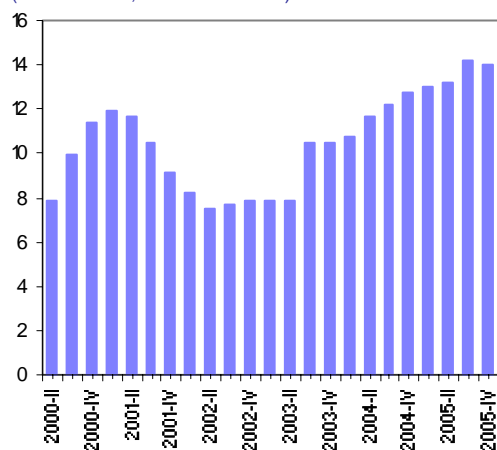
Source: CBT Business Tendency Survey.

### Services Balance

36. The upward tendency, which has prevailed in the services balance for the last two years, continued in 2005. Due to the fact that tourism and construction revenues increased by 14.2 percent and 20.7 percent, respectively, the services balance increased by 9.5 percent compared to the previous year and became USD 14 billion in 2005. However, the decline that is observed in the balances of financial and other services in the same period is remarkable.

37. Based on the figures announced by TURKSTAT, tourism revenues rose by 14.2 percent in 2005. In this period, although the number of departing tourists increased by 19.1 percent, the average propensity to spend displays a downward trend. In 2005, average spending per tourist declined by 4.1 percent and went down to USD 752.

**Services**  
(12-month ave., billions US dollars)



Source: CBT.

**Services Balance**  
(million US dollars)

	2005				Annual	
	I	II	III	IV	2004	2005
Services	1195	2755	7682	2372	12786	14004
Total income	3777	5568	10769	5740	24028	25854
Total Expenses	-2582	-2813	-3087	-3368	-11242	-11850
Transportation	-325	-360	-302	-310	-1064	-1297
Credit	840	955	1042	1179	3267	4016
Debit	-1165	-1315	-1344	-1489	-4331	-5313
Tourizm	1316	3082	8054	2828	13364	15280
Credit	1995	3760	8817	3580	15888	18152
Debit	-679	-678	-763	-752	-2524	-2872
Construction serv.	162	216	256	240	724	874
Credit	162	216	256	240	724	874
Debit	0	0	0	0	0	0
Financial serv.	-8	-22	1	-12	-89	-41
Credit	82	88	89	86	288	345
Debit	-90	-110	-88	-98	-377	-386
Other serv.	50	-161	-327	-374	-149	-812
Credit	698	549	565	655	3861	2467
Debit	-648	-710	-892	-1029	-4010	-3279

Source: CBT.

**Tourism Statistics**

	2005				Annual	
	I	II	III	IV	2004	2005
Tourism Revenues (million US dollars)	1995	3760	8817	3580	15888	18152
Departing foreigner visitors (x1000)	2376	5340	8452	4355	17203	20523
Departing citizen visitors (x1000)	480	546	1826	750	3060	3602
Tourism Expenditures (million US dollars)	-678	-678	-763	-751	-2524	-2870
Arriving citizen visitors (x1000)	889	1159	1045	1137	3993	4230

Source: TURKSTAT, CBT.

38. Based on the January 2006 data released by TURKSTAT, the number of foreign visitors departing from Turkey that is taken as the basis in the calculation of tourism revenues,

decreased by 4.8 percentage points compared to the same month of the previous year. The factors behind this decline are that bird flu cases increased in this month and weather conditions were more severe compared to the previous year.

### Investment Revenues Account

39. The main determinant of the deficit of USD 5.7 billion in the investment revenues account observed in 2005 was interest expenditures. The increase in the interest expenditures of the private sector, excluding the banking sector and the Government, stood as the basic factor in the change in total interest expenditures.

#### **Investment Revenues Account** (million US dollars)

	2005				Annual	
	I	II	III	IV	2004	2005
Income (net)	-1401	-1643	-1344	-1358	-5636	-5746
Total income	1084	742	1046	812	2651	3684
Total Expenses	-2485	-2385	-2390	-2170	-8287	-9430
Direct investment	-101	-456	-123	-137	-796	-817
Credit	83	123	43	28	244	277
Debit	-184	-579	-166	-165	-1040	-1094
Portfolio investment	-405	-143	-198	-178	-1195	-924
Credit	814	436	687	465	1710	2402
Debit	-1219	-579	-885	-643	-2905	-3326
Other investment	-895	-1044	-1023	-1043	-3645	-4005
Interest income	187	183	316	319	697	1005
Interest expenses	-1082	-1227	-1339	-1362	-4342	-5010
Long-term	-973	-1099	-1173	-1212	-3946	-4457
Monetary A.	-262	-201	-394	-192	-1098	-1049
Gen. Gov.	-372	-510	-374	-509	-1609	-1765
Banks	-42	-40	-77	-98	-103	-257
Other sector	-297	-348	-328	-413	-1136	-1386
Short-term	-109	-128	-166	-150	-396	-553

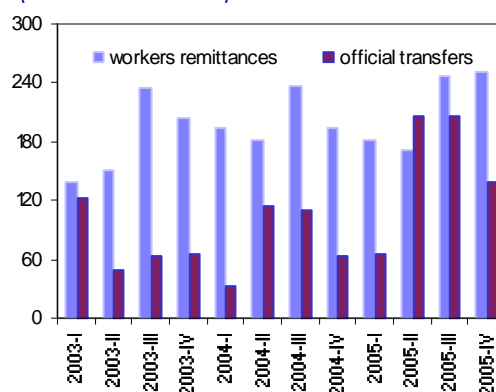
Source: CBT.

40. Portfolio revenues rose by 40.5 percent in 2005 and became USD 2.4 billion, whereas portfolio expenditures rose by 14.5 percent in the same period and were realized as USD 3.3 billion. Hence, net portfolio revenues displayed a negative balance in 2005.

### Current Transfers

41. The current transfers item composed of workers' remittances and official transfers increased by 30.3 percent and yielded a surplus of USD 1.5 billion in 2005.

#### **Current Transfers** (million US dollars)



Source: CBT.

### III. CAPITAL MOVEMENTS

42. In 2005, the external financing requirement, defined as the sum of the current account item and net errors and omissions, became USD 20.9 billion. Despite the fact that the net errors and omissions item realized as a credit item of USD 2.0 billion, the widening of the current account deficit, compared to the same period last year, increased the financing requirement. When the financing structure is analyzed, it is observed that the banking sector as well as other sectors opted overwhelmingly for long-term sources. In this period, the financing requirement was met by portfolio investments, long-term credits utilized by the real sector and the banking sector and commercial credits. Meanwhile, there has been a substantial rise in direct investments.

43. Accordingly, Central Bank reserves, which had increased by USD 8.6 billion in the first three quarters rose by USD 9.3 billion in the last quarter and reached USD 52.4 billion. Meanwhile, the FX assets of the banks, which rose by USD 2.8 billion in the first three quarters of the year, dropped by USD 2.6 billion in the last quarter.

#### External Financing Requirements and Sources (billion US dollar)

	2003	2004	2005	2005			
				Q1	Q2	Q3	Q4
<b>1. Current Account</b>	<b>-8.0</b>	<b>-15.6</b>	<b>-22.9</b>	<b>-6.2</b>	<b>-7.0</b>	<b>-2.7</b>	<b>-7.0</b>
<b>2. Net Errors and Omissions</b>	<b>5.0</b>	<b>2.3</b>	<b>2.0</b>	<b>0.5</b>	<b>2.8</b>	<b>-0.6</b>	<b>-0.8</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-3.0</b>	<b>-13.3</b>	<b>-20.9</b>	<b>-5.7</b>	<b>-4.1</b>	<b>-3.2</b>	<b>-7.8</b>
<b>II. Total Financing (=1+2+3)</b>	<b>3.0</b>	<b>13.3</b>	<b>20.9</b>	<b>5.7</b>	<b>4.1</b>	<b>3.2</b>	<b>7.8</b>
<b>1. Capital Flows (net)</b>	<b>6.4</b>	<b>23.6</b>	<b>44.3</b>	<b>6.4</b>	<b>12.0</b>	<b>10.9</b>	<b>15.1</b>
<b>Direct Investment (net)</b>	<b>1.2</b>	<b>2.0</b>	<b>8.6</b>	<b>0.6</b>	<b>0.1</b>	<b>2.3</b>	<b>5.6</b>
<b>Portfolio Investment (net)</b>	<b>2.5</b>	<b>8.0</b>	<b>13.7</b>	<b>3.8</b>	<b>3.1</b>	<b>2.1</b>	<b>4.8</b>
General Gov. Eurobond Issues	1.5	2.0	3.4	1.8	0.2	0.3	1.2
Nonresidents' Security Buyings in Turkey	2.5	7.5	11.6	3.5	2.8	2.1	3.2
Residents' Security Buyings Abroad	-1.4	-1.4	-1.0	-1.1	0.1	-0.3	0.4
<b>Credit Drawing (excl. IMF loan, net)</b>	<b>2.9</b>	<b>13.8</b>	<b>20.5</b>	<b>1.5</b>	<b>7.7</b>	<b>5.3</b>	<b>6.0</b>
General Government	-2.2	-1.2	-2.2	-0.4	-0.6	-0.3	-0.8
<b>Banks</b>	<b>2.0</b>	<b>5.7</b>	<b>9.1</b>	<b>0.8</b>	<b>4.1</b>	<b>2.0</b>	<b>2.3</b>
Long-term	0.0	2.4	6.4	-0.1	4.0	1.1	1.5
Short-term	2.0	3.3	2.7	0.8	0.1	0.9	0.9
<b>Other Sector</b>	<b>3.1</b>	<b>9.3</b>	<b>13.5</b>	<b>1.1</b>	<b>4.2</b>	<b>3.7</b>	<b>4.5</b>
Long-term	0.7	4.7	9.7	0.6	2.5	2.2	4.5
Short-term	0.3	0.3	0.4	-0.1	0.4	0.8	-0.7
Trade Credits	2.2	4.2	3.4	0.7	1.3	0.7	0.7
<b>Deposits</b>	<b>1.4</b>	<b>0.6</b>	<b>0.5</b>	<b>-0.1</b>	<b>0.7</b>	<b>1.0</b>	<b>-1.1</b>
in Central Bank	0.5	-0.2	-0.8	-0.1	-0.2	-0.3	-0.2
in banks	0.9	0.9	1.3	0.0	0.9	1.3	-0.9
<b>Other</b>	<b>-1.6</b>	<b>-0.8</b>	<b>1.1</b>	<b>0.6</b>	<b>0.5</b>	<b>0.1</b>	<b>-0.1</b>
<b>2. IMF Loans</b>	<b>-0.1</b>	<b>-3.5</b>	<b>-5.4</b>	<b>-1.0</b>	<b>-1.5</b>	<b>-2.3</b>	<b>-0.6</b>
Central Bank	-1.5	-4.4	-2.9	-1.0	-0.9	-0.6	-0.3
General Government	1.4	0.9	-2.5	0.0	-0.6	-1.7	-0.3
<b>3. Change in Reserves (- increase)</b>	<b>-3.3</b>	<b>-6.8</b>	<b>-18.1</b>	<b>0.3</b>	<b>-6.3</b>	<b>-5.4</b>	<b>-6.7</b>
Banks' FX assets	0.7	-6.0	-0.3	3.6	-2.9	-3.5	2.6
official Reserves	-4.0	-0.8	-17.8	-3.3	-3.4	-1.9	-9.3

Source: CBT.

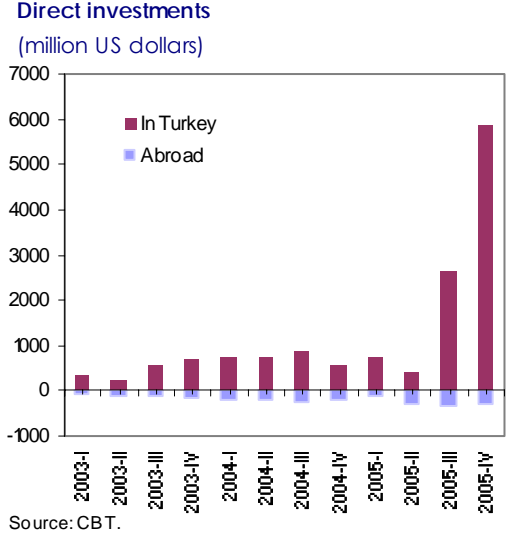
#### Direct Investments

44. Direct investments increased threefold in 2005 compared to last year and reached USD 8.6 billion. The USD 9.7 billion worth of direct investments in Turkey played an important

role in this increase. The rise in direct investments is noticeable, especially in the last quarter of the year. The most important source of the inflow came from the finance package that the Russian Alfa Groups provided to the Çukurova Group for the indirect stake purchase of 13.2 percent of Turkcell Telecommunication Company in November and Ojer Communication Company's payment of the first installment for 55 percent of the shares of Türk Telekom which were transferred to the Ojer Group at the end of the privatization tender. The USD 1.8 billion portion of the capital investment that was realized in December stemmed from General Electric's purchase of Garanti Bank's shares.

45. It is observed that non-residents' real estate purchases in Turkey increased by 36.3 percent. In 2005, 80.4 percent of all direct capital investments in Turkey came from OECD countries. 8.5 percent of capital investments were made in the manufacturing industry sector, while 91 percent were made in the services sector. Meanwhile, foreign capital companies, which had borrowed 359 million from their affiliates abroad as long-term credits, which are registered under the other capital item and accepted as direct investments, paid back USD 243 million in 2005.

46. In 2005, residents' net direct investments abroad became USD 1.0 billion. While 52 percent of these investments were made in OECD countries, 46.4 percent were made in Middle Eastern countries. 89.4 percent of these investments were made in the manufacturing industry and 10.2 percent in the services sector.

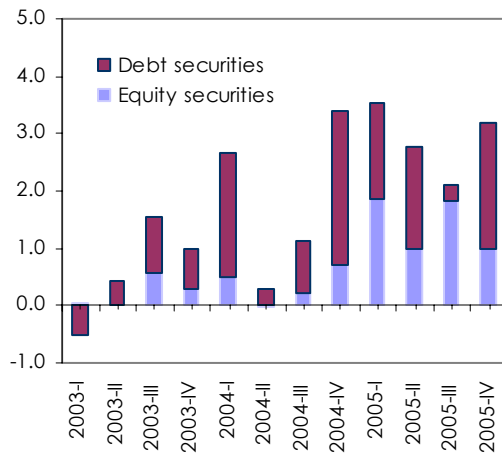


Portfolio Investments

47. Non-residents' security purchases accelerated after Turkey started accession talks with the European Union. Thus, non-residents purchased USD 5.7 billion net-worth of securities from Istanbul Stock Exchange and USD 5.9 billion net -worth of government debt in January-December period. The Treasury borrowed USD 6.5 billion via bond issues and paid back USD 3.1 billion in the same period. Therefore, capital inflow through portfolio investments became USD 13.7 billion. In January 2006, non-residents' demand for government debt and securities continued and they purchased USD 465 million worth of securities and USD 255 worth of government debt.

### Security buyings of non-residents

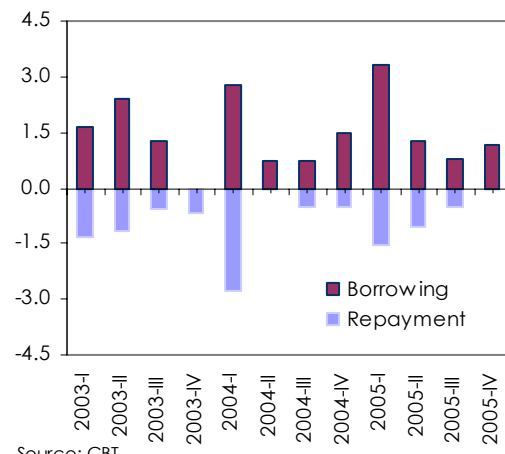
(billion US dollars)



Source: CBT, ISE.

### Eurobond issues of General Gov.

(billion US dollars)



Source: CBT.

48. As a result of the positive outlook of the Turkish economy, the Treasury had the opportunity to borrow from international markets with low costs and issued bonds amounting to USD 5.8 billion in 2004. As this favorable trend in the Turkish economy continued in 2005, the Treasury issued USD 6.5 billion-worth of bonds in 2005. The Treasury did not issue any bonds in July and August. According to the data pertaining to 2006, the Treasury issued USD 1.5 billion worth of bonds with a maturity of 30 years in January 2006. In February 2006, the Treasury issued bonds amounting to EURO 750 million with a maturity of 10 years. Thus, the total amount of foreign resources utilized since the turn of the year reached USD 2.4 billion.

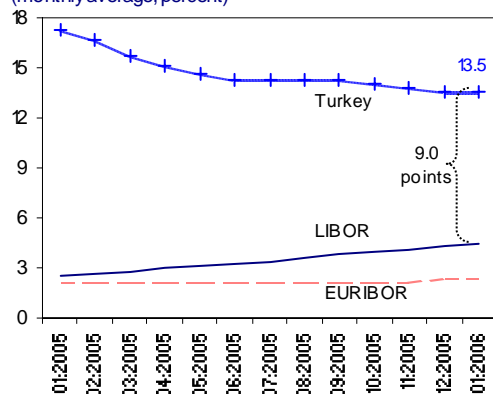
49. Under the assumption that fiscal discipline is maintained, structural reforms are not slowed down and the economy is not exposed to a large-scale exogenous shock, it is projected that the inflation target for 2005 will not be exceeded and the CBT has continued to cut down the short-term interest rate applicable to the Interbank Money Market and the ISE Repo/Reverse Repo Market. The overnight borrowing and lending interest rates, which were cut by 0.25 point each on December 9, 2005, came down to 13.50 percent and 17.50 percent, respectively.

50. The Federal Reserve raised indicative interest rates eight times throughout 2005, each time by 0.25 basis points and announced them as 4.25 points on December 13, 2005. On January 31, 2006, the FED raised interest rates to 4.50 percent. Meanwhile, for the first time since June 2003, the European Central Bank raised lending interest rates by 0.25 percentage point on August 4, 2005. The Bank of England cut lending interest rates by 0.25 percentage point and has made no changes to interest rates ever since.

51. When developing countries are compared, it is observed that even if yield spreads are widening and interest rates are falling, the inflow through portfolio investments continues. This shows that besides interest rate differences, sustained economic stability as a result of structural reforms and positive expectations about the future have an important impact on the investments in question.

### Interest rates

(monthly average, percent)

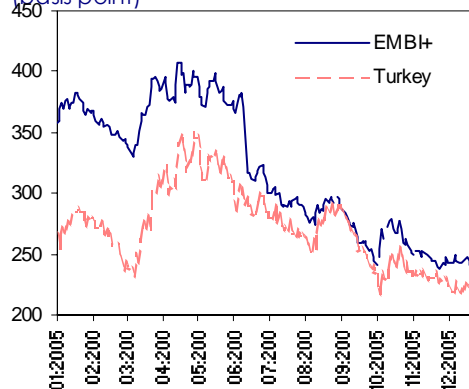


Source: IMF, www.euribor.org, CBRT.

LIBOR: Interest rate for 1-month US dollar deposit  
 EURIBOR: Interest rate for 1-month Euro deposit  
 Turkey: Overnight interest rate in the Interbank Money Market

### Secondary Market Spreads

(basis point)



Source: JP Morgan.

Spread: Difference between government paper yields of countries and US Treasury bond yields.

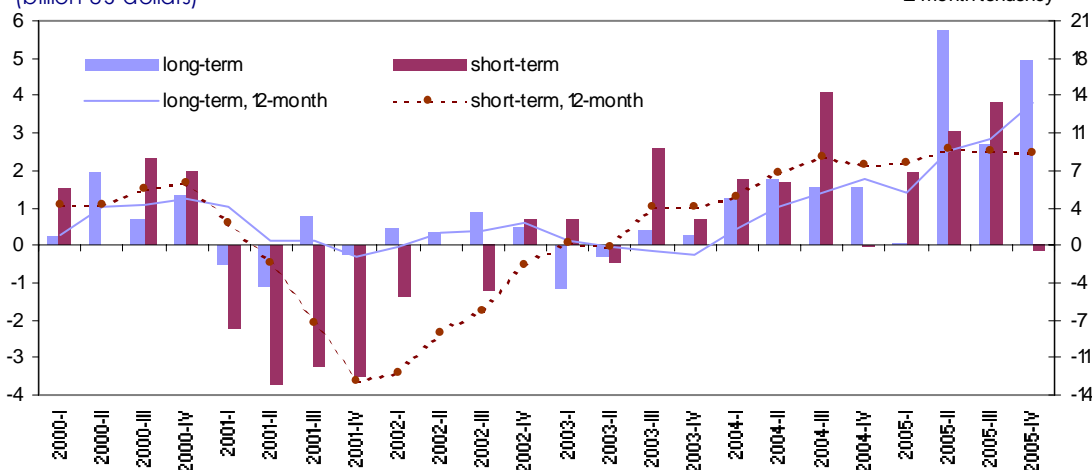
### Other investments

52. There has been capital inflow of net USD 16.4 billion throughout 2005, registered under the other investments item. The main source of this inflow was the net USD 16.1 billion worth of long-term foreign credits drawn by the private sector and the banks. Once again in this period, USD 3.4 billion worth of import-originated short-term commercial credits were used. The commercial credits extended against timed imports were recorded as USD 0.6 billion. In the same period, short-term credits used by the private sector and the banks became USD 3.0 billion.

53. The share of long-term credits, which increased in the overall financing in 2004, fell in the first quarter of 2005 and again had an upward trend in the rest of the year. Thus, the banks utilized long-term credits amounting to USD 8.7 billion net and other sectors, chiefly the private sector, utilized USD 9.7 worth of long-term credits in 2005. Meanwhile, the banks reduced the short-term credit utilization in this period and used short-term credits amounting to USD 2.7 billion. The private sector used short-term credits worth USD 0.4 billion net and commercial credits worth USD 3.4 billion net.

### Long and Short-term capital

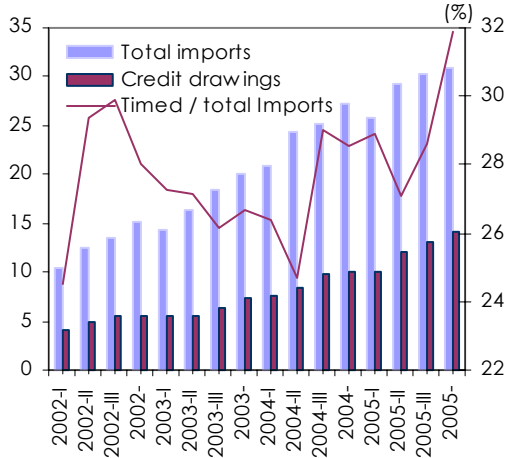
(billion US dollars)



Note: Excluding direct and portfolio investment, IMF loans and banks' FX assets  
 Source: CBRT.

### Trade credit drawings and imports

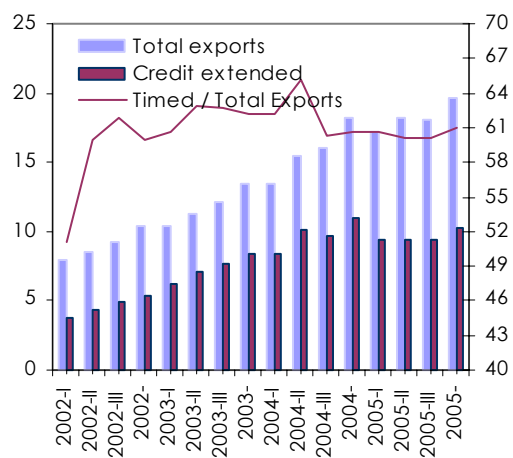
(billion US dollars)



Source: CBT, TURKSTAT.

### Trade credits extended abroad & exports

(billion US dollars)

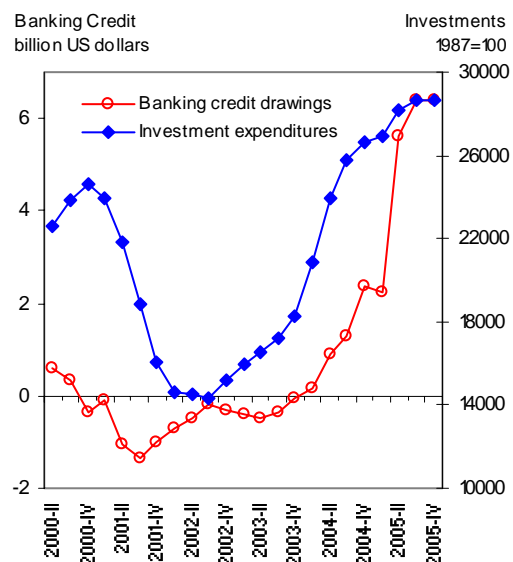
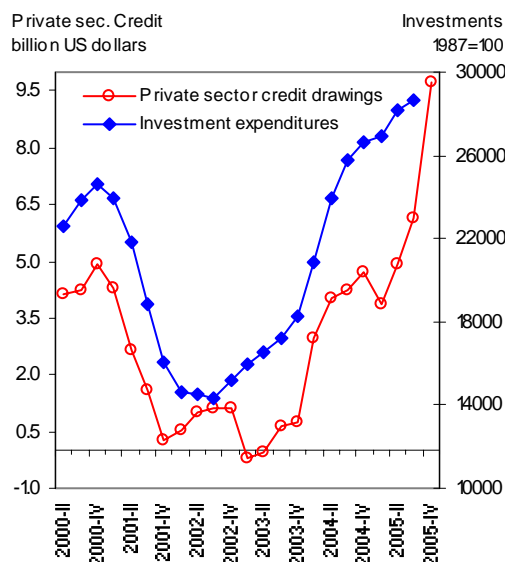


Source: CBT, TURKSTAT.

54. Despite the slow-down in the increase in imports, growth in timed import credits and trade credits continued. While imports grew by 19 percent in 2005, commercial credit utilization increased by 38.5 percent. Despite the growth in exports, there has been a decline in commercial credits extended abroad. While total exports grew by 15.8 percent in this period, commercial credits extended abroad decreased by 1.9 percentage points.

55. Parallel to the 9 percent growth in the GDP and 45.5 percent rise in private sector investment expenditures, long-term credit utilization displayed a substantial rise in 2004. The data released by TURKSTAT suggest that GDP and private sector investment expenditures grew by 5.5 percent and 15.9 percent- respectively, in the first three quarters of 2005, compared to the same period in 2004. The rise in long-term credits utilized by the banking sector and the private sector, especially in the second quarter of 2005, confirms the upward trend in investment expenditures. Meanwhile, the continued rise in long-term credit utilization in the last quarter of the year affirms that the upward trend in investment expenditures continues.

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

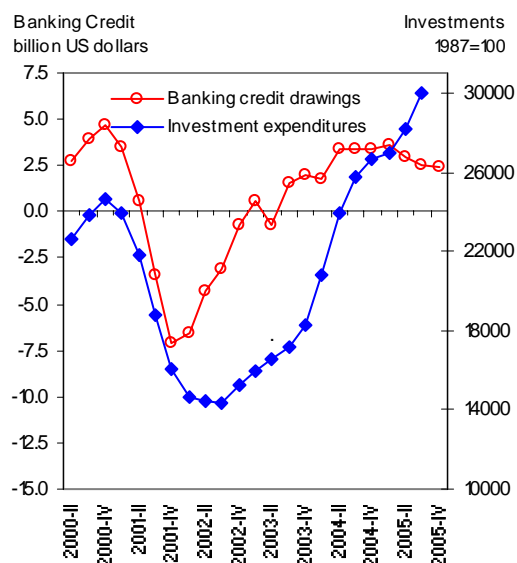
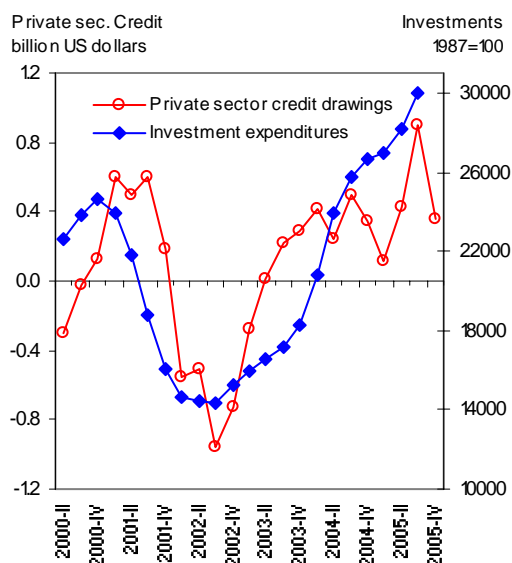


Source: TCMB, TÜİK.

56. Throughout 2005, the net short-term credit utilization of the banking sector fell by 19.2 percentage points while net short-term credits used by other sectors rose by 5.3 percentage points.



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



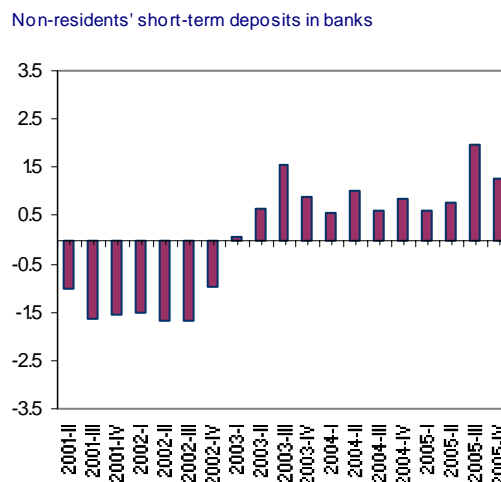
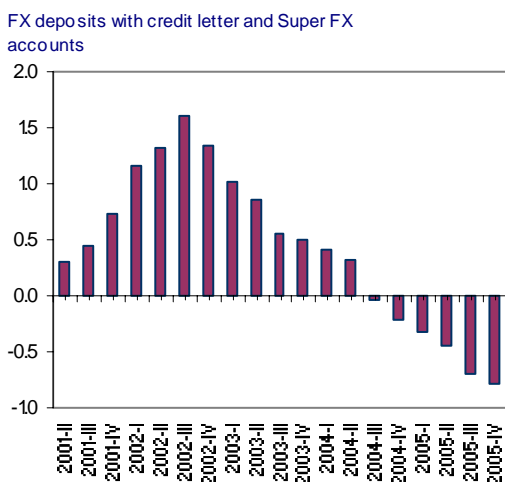
Source: TCMB, TÜİK.

57. In 2005, the Central Bank continued to repay IMF credits that were extended in 2001 and before. The amount repaid to the IMF amounted to USD 2.9 billion. Meanwhile, the Treasury utilized USD 2.4 billion worth of IMF credits and repaid IMF credits totaling USD 4.9 billion.

58. There has been an outflow from long-term FX deposit accounts with credit letters and super FX accounts opened at the Central Bank by Turkish workers abroad since April 2003. Outflows from short-term accounts, which started in the second quarter of 2004, continued in 2005 as well. Accordingly, deposits with the Central Bank dropped by USD 787 million net in 2005. The outflow is attributed to the gradual interest rate cuts in both FX deposit accounts with credit letters and super FX accounts. Hence, while interest rates of the euro-denominated super FX accounts with 1, 2 and 3-year maturities were 8, 9 and 10 percent, respectively, the said rates were reduced to 3, 3.5 and 4 percent, respectively, as of 20 June 2005.

59. FX deposits of non-residents in domestic banks, which increased by USD 856 million in 2004, rose by USD 2.2 billion in the first three quarters of 2005, however with the USD 915 million drop in the last quarter, came down to USD 1.3 billion.

**Deposit belonging to non-residence**  
(12-month, million US dollar)



Source: TCMB.

60. As of the third quarter of 2005, total external debt stock was USD 165.3 billion. While the medium and long-term external debt decreased by 1.0 percent compared to end-2004, short-term external debt stock rose by 1.2 percent. The increase in short-term debt stock stemmed from the rise in commercial credits utilized by the private sector, short-term credits utilized by banks and deposits of banks located abroad.

61. The improvement in external debt indicators throughout 2004 and in the first half of 2005 is remarkable. Despite the current account deficit, which was USD 21 billion on an annual basis by June, the ratio of external debt stock to GNP declined (10.6 percent). Similarly, the ratio of external debt stock to exports decreased in the first three quarters of 2005.

**External debt ratios  
(Percentage)**

	2000	2001	2002	2003	2004				2005		
					Q1	Q2	Q3	Q4	Q1	Q2	Q3
External Debt Stock / GDP	59.4	78.1	70.6	60.2	55.1	53.4	53.3	53.8	51.5	51.3	49.4
External Debt Stock / Exports	426.9	362.7	361.1	307.6	287.8	270.2	260.7	256.3	239.2	233.8	215.8
Debt Service / GDP	11.0	16.9	15.6	11.5	11.4	10.7	10.5	10.1	9.7	10.5	10.9
<i>Memo:</i>											
<i>External Debt Stock (billion \$)</i>	<i>118.6</i>	<i>113.7</i>	<i>130.2</i>	<i>145.4</i>	<i>145.0</i>	<i>147.5</i>	<i>152.2</i>	<i>161.8</i>	<i>159.9</i>	<i>162.1</i>	<i>165.3</i>
<i>GDP (billion \$)</i>	<i>199.7</i>	<i>145.6</i>	<i>184.4</i>	<i>241.3</i>	<i>263.1</i>	<i>276.3</i>	<i>285.7</i>	<i>300.6</i>	<i>310.3</i>	<i>316.0</i>	<i>334.3</i>

Source: TURKSTAT, Undersecretariat of Treasury.

## 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	-9821	-21959	27775	2946	-54503	11366	7636	-4002	-4825	4774	4560
2001	3392	-3733	31334	3039	-41399	9132	8090	-5000	-5497	2993	2786
2002	-1524	-7283	36059	4065	-51554	7879	8479	-4556	-4416	2436	1936
2003*	-8036	-14010	47253	3953	-69340	10504	13203	-5557	-4579	1027	729
2004	-15604	-23878	63167	3880	-97540	12784	15888	-5637	-4343	1127	804
2005	-22852	-32576	73122	3473	-116048	14004	18152	-5748	-5012	1468	851
<i>(quarterly)</i>											
2004 I	-5398	-5056	13503	877	-20921	947	1713	-1515	-940	226	193
II	-4538	-6009	15527	1043	-24391	2579	3270	-1404	-991	296	181
III	-647	-6402	15995	973	-25098	6740	7662	-1333	-1170	348	237
IV	-5021	-6411	18142	987	-27130	2518	3243	-1385	-1242	257	193
2005 I	-6194	-6234	17241	713	-25731	1195	1995	-1402	-1083	247	181
II	-6957	-8446	18139	942	-29272	2755	3760	-1643	-1227	377	171
III	-2674	-9465	18127	813	-30208	7682	8817	-1345	-1340	454	247
IV	-7027	-8431	19615	1005	-30837	2372	3580	-1358	-1362	390	252
<i>(monthly)</i>											
2005 Jan	-1464	-1578	4997	206	-7212	453	690	-428	-277	89	60
Feb	-2266	-1935	5652	236	-8323	200	548	-601	-496	70	58
Mar	-2464	-2721	6592	271	-10196	542	757	-373	-310	88	63
Apr	-2538	-2560	6128	329	-9594	547	860	-602	-320	77	59
May	-2311	-2944	5977	308	-9812	1037	1400	-611	-557	207	58
Jun	-2108	-2942	6034	305	-9866	1171	1500	-430	-350	93	54
Jul	-1124	-3056	5763	204	-9593	2143	2602	-380	-303	169	78
Aug	-1198	-3789	5552	307	-10266	3033	3453	-594	-649	152	85
Sep	-352	-2620	6812	302	-10349	2506	2762	-371	-388	133	84
Oct	-857	-2314	6755	366	-10026	1648	1899	-329	-411	138	93
Nov	-2602	-2822	5897	328	-9598	636	944	-513	-530	97	74
Dec	-3568	-3295	6963	311	-11213	88	737	-516	-421	155	85

Source: CBT.

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

**CAPITAL and FINANCIAL ACCOUNT (USD million)**

## Capital and Financial Account

	Net		Financial Account														
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Trade Credits	Liabilities				Deposits			
					Equity Securities	Debt Securities				Net	Monetary Authority	General Gov.	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	-1633	-1633	2855	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1406	1406	962	-593	-2096	-16	1519	7190	594	7967	2483	-6138	11834	-1028	371	1336	-988
2003	3095	3095	1253	2465	-1386	905	2946	3424	724	4410	2181	-1479	-765	1975	1022	497	871
2004	13337	13337	1988	8023	-1388	1427	7984	4150	-5965	11105	4201	-4414	-267	5708	5072	-209	856
2005	20869	20869	8603	13709	-961	5669	9001	16404	-270	15914	3434	-2881	-4637	9116	10080	-787	1276
<i>(quarterly)</i>																	
2004 I	6441	6441	543	2799	140	503	2156	2885	1079	1739	969	-1110	-560	657	1531	6	255
II	2215	2215	495	1207	184	-25	1048	1574	-1230	3677	1149	-1084	118	1254	1547	-75	703
III	1925	1925	591	449	-898	226	1121	1503	-3647	4247	1352	-1093	872	1680	1252	-23	113
IV	2756	2756	359	3568	-814	723	3659	-1812	-2167	1442	731	-1127	-697	2117	742	-117	-215
2005 I	5669	5669	609	3797	-1137	1851	3083	4538	3572	381	650	-1008	-381	754	456	-113	11
II	4147	4147	123	3062	90	991	1981	4341	-2949	6958	1347	-945	-1189	4057	2887	-191	870
III	3244	3244	2316	2062	-335	1828	569	773	-3460	4266	724	-603	-1983	1978	2950	-269	1310
IV	7809	7809	5555	4788	421	999	3368	6752	2567	4309	713	-325	-1084	2327	3787	-214	-915
<i>(monthly)</i>																	
2005 Jan	2411	2411	142	3068	-856	853	3071	1291	866	-326	-220	-162	-133	388	-113	-37	-51
Feb	1750	1750	326	1479	46	526	907	-640	392	-1266	-230	-497	-132	-542	277	-29	-115
Mar	1508	1508	141	-750	-327	472	-895	3887	2314	1973	1100	-349	-116	908	292	-47	177
Apr	2454	2454	70	-125	-256	311	-180	1743	-696	2355	792	-159	-329	573	837	-53	676
May	1361	1361	-42	978	428	96	454	-325	-1741	1245	408	-450	-722	559	922	-83	558
Jun	332	332	95	2209	-82	584	1707	2923	-512	3358	147	-336	-138	2925	1128	-55	-364
Jul	1307	1307	1098	1025	-715	571	1169	2202	-317	2284	107	-153	-248	879	1469	-30	205
Aug	595	595	484	-619	-31	501	-1089	-1525	-2291	512	351	-114	-1388	150	784	-118	789
Sep	1342	1342	734	1656	411	756	489	96	-852	1470	266	-336	-347	949	697	-121	316
Oct	889	889	277	-244	-162	-174	92	3841	4836	-718	510	0	-621	-801	177	-73	69
Nov	1098	1098	3125	2471	326	977	1168	-694	-1185	-49	-153	0	-1712	1743	1459	-63	-1322
Dec	5822	5822	2153	2561	257	196	2108	3605	-1084	5076	356	-325	1249	1385	2151	-78	338

Source: CBT.