

CENTRAL BANK OF THE REPUBLIC OF TURKEY

**BALANCE OF PAYMENTS
REPORT**



July 2004

SUMMARY

BALANCE OF PAYMENTS (USD million)						
	July			January-July		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-234	-703	..	-5324	-10025	..
Foreign Trade Balance	-2031	-3171	56,1	-11185	-19419	73,6
Exports	4236	5406	27,6	25920	34406	32,7
Imports	-6267	-8577	36,9	-37105	-53825	45,1
Exports/Imports	67,6%	63,0%	..	69,9%	63,9%	..
Capital and Financial Accounts	44	2098	..	2992	8695	..
Financial Account (Excl. Off. Reserves)	527	791	..	4008	8235	..
Change in Official Reserves ¹	-483	1307	..	-1016	460	..

Source: CBRT.

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

In July 2004;

Exports increased by 27.6 percent compared to the same month of previous year and rose to US dollar 5.4 billion from US dollar 4.2 billion. During the same period, imports rose by 36.9 percent from US dollar 6.3 billion to US dollar 8.6 billion. Hence, foreign trade deficit realized as US dollar 3.2 billion and the ratio of exports to imports became 63 percent. Current account produced a deficit of US dollar 703 million, while financial account excluding official reserves provided a surplus of US dollar 791 million.

In January-July 2004;

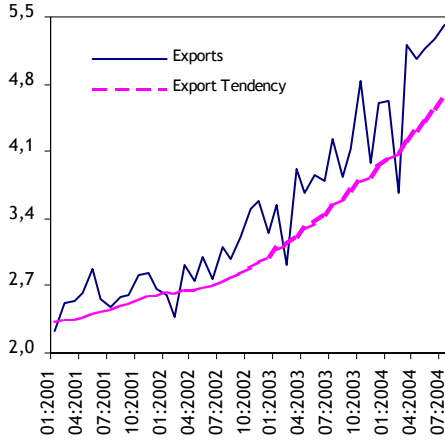
Exports increased by 32.7 percent compared to the same period of previous year and rose from US dollar 25.9 billion to US dollar 34.4 billion. During the same period, imports rose by 45.1 percent from US dollar 37.1 billion to US dollar 53.8 billion. Hence, foreign trade deficit realized as US dollar 19.4 billion and the ratio of exports to imports dropped compared to the previous year and became 63.9 percent. Current account produced a deficit of US dollar 10 billion, while financial account excluding official reserves provided a surplus of US dollar 8.2 billion.

In the twelve-month period;

Exports increased by 31.3 percent in the twelve-month period compared to the same period of previous year and rose to US dollar 55.7 billion. During the same period imports rose by 40.6 percent to reach US dollar 86.1 billion. Hence, foreign trade deficit and the ratio of exports to imports realized as US dollar 30.3 billion and 64.8 percent, respectively. Current account yielded a deficit of US dollar 11.6 billion while financial account excluding official reserves produced a surplus of US dollar 11.1 billion.

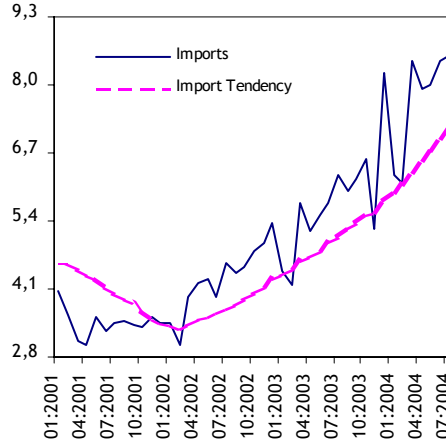
SUMMARY

EXPORTS (USD billion)



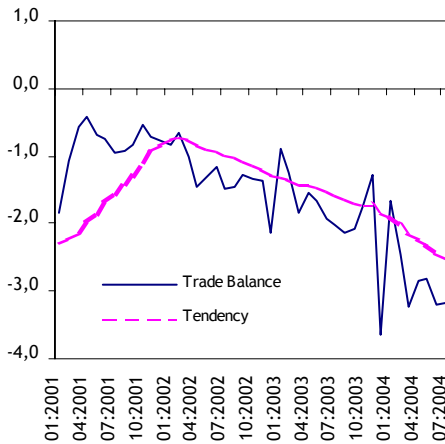
Source: SIS.

IMPORTS (USD billion)



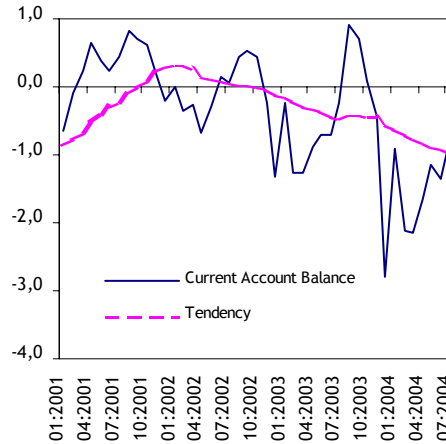
Source: SIS.

TRADE BALANCE (USD billion)



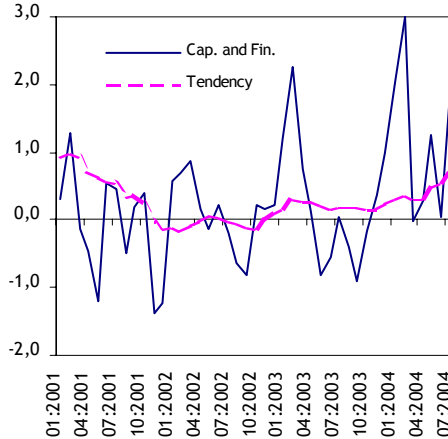
Source: SIS.

CURRENT ACCOUNT BALANCE (USD billion)



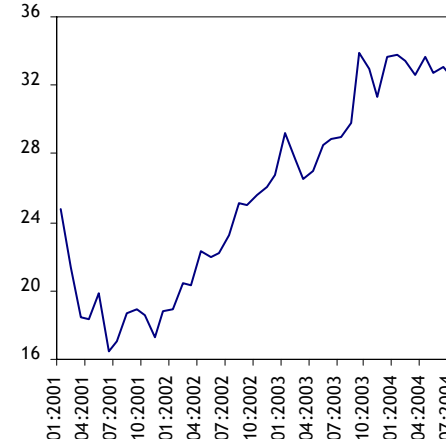
Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD billion)



Source: CBRT.

CBRT INTERNATIONAL RESERVES (USD billion)



Source: CBRT.

i Trends are calculated with 12-month moving average.

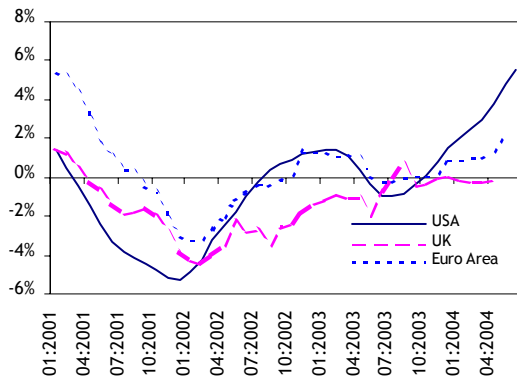
I. FACTORS AFFECTING FOREIGN TRADE

Foreign Demand Developments

1. Growth trend in the world economy, which recorded a growth performance above expectations in the first quarter of 2004, continued with a slower pace in the second quarter of 2004. As the USA and Asian countries lead the global economic growth, the contribution of other countries and regions increase. However, the excessive acceleration in oil prices especially since July constitutes a risk factor for global economic growth starting from the second half of the year.

INDUSTRIAL PRODUCTION

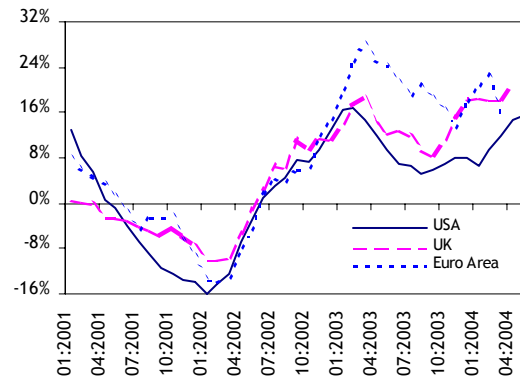
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

IMPORTS

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



Source: IMF, ECB.

2. US growth and employment data for the second quarter of the year recorded a less-than-expected increase. The annualized US GDP that rose by 4.5 percent in the first quarter of the year rose by 2.8 percent in the second quarter of the year. In growth mainly private fixed capital investments were the determining factors and slowing down of private consumption expenditures in real terms slowed down the growth rate. Since exports grew faster than imports, net exports contributed negatively to growth. The Federal Reserve raises interest rates gradually, taking the expectations of an increase in inflation into account. On 21 September 2004, the Federal Reserve raised its intended federal funding rate by 25 basis points to 1.75 percent.

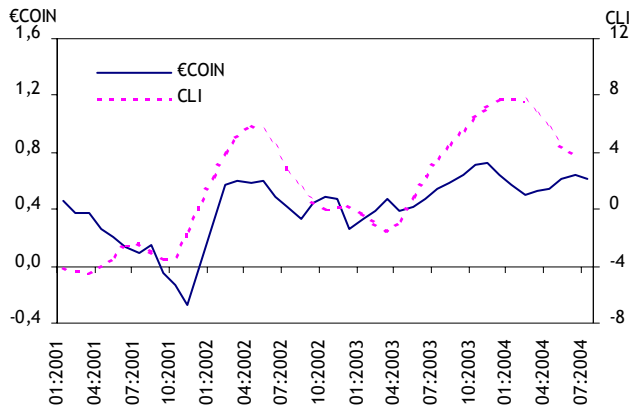
3. Economic growth in Japan compared to the first quarter of 2004, slowed down in the second quarter. Foreign demand continued to influence the growth in the second quarter. As a result of the slowdown in exports, net imports contributed positively to economic growth. In domestic markets private consumption expenditures increased due to favorable conditions in labor market and disposable income.

4. Economic growth in the UK continued in the first half of 2004. In the first quarter of the year annual GDP rose by 3.7 percent and 3.9 percent in the second quarter. Main factors in growth were domestic demand and investment expenditures. The Bank of England raised its lending interest rate by 25 basis points to 4.75 percent on 5 August 2004, due to higher inflationary pressures caused by ongoing robust economic growth and business surveys pointing at expansion.

5. The euro zone enjoyed economic growth in the first two quarters of 2004, especially owing to the increase in exports and briskness in consumption expenditures. Recent published data show that the revival in the euro area continued in the third quarter of the year as well. The coincident indicator (EuroCOIN), which provides forecasts for quarterly GDP growth for the euro zone, points at the fact that in July, the growth in euro zone that accelerated in the March-June period of 2004 remained the same as the previous month. Within the context of the said indicator, there is a weakening in growth indicators excluding industrial production in July. Although there are risk factors in connection with the rising oil prices that may push up prices in the Euro zone in the short term, ECB left interest rates

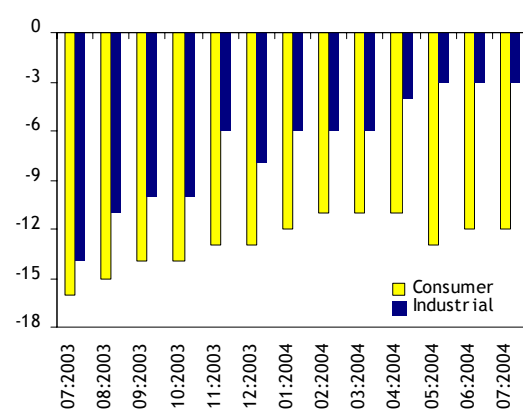
unchanged at its meeting of 2 September 2004 on account of stable outlook in the medium-term.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU
(seasonally adjusted)

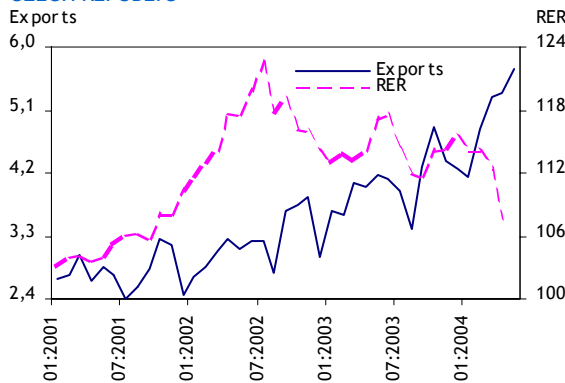


Source: Eurostat.

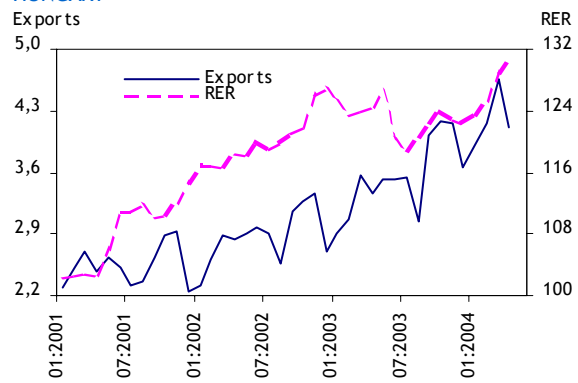
6. Although the six-month growth rate of Composite Leading Indicators (CLI) issued by OECD, which was in upward trend since April 2003, has been declining in recent months, the index still maintains its comparatively high level.

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

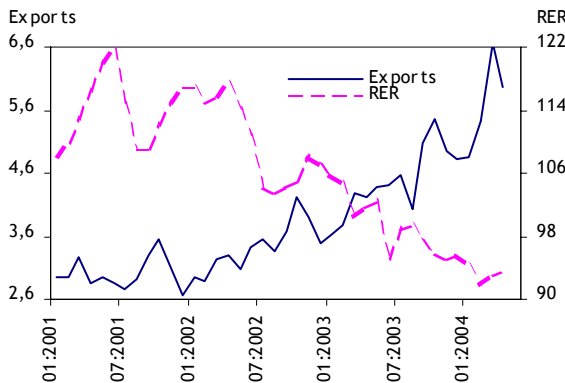
CZECH REPUBLIC



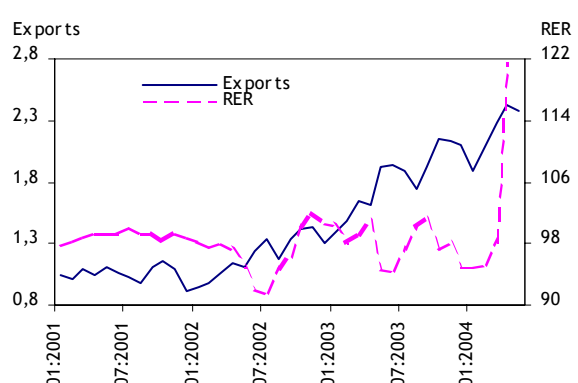
HUNGARY



POLAND



SLOVAK REPUBLIC



ⁱ Increase in real exchange rate implies appreciation in domestic currency.
Source: IMF.

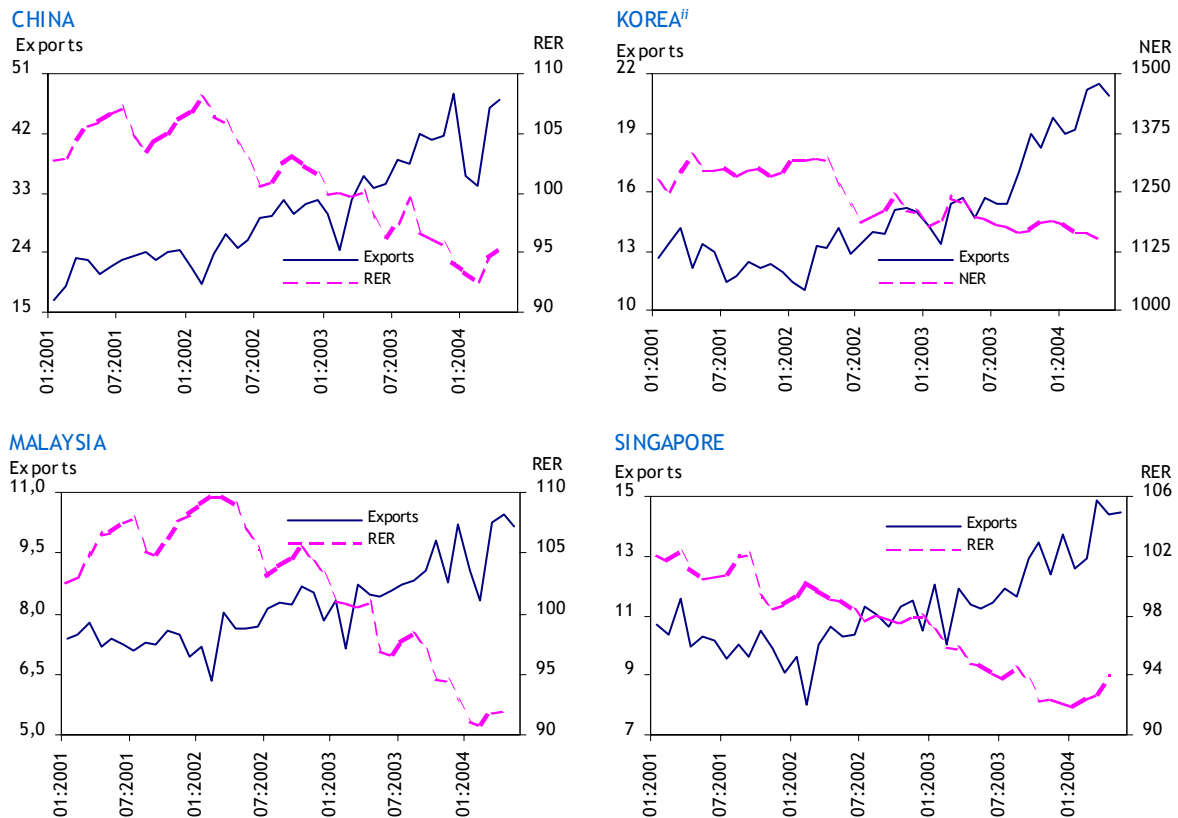
7. During the recent months, economic outlook got stronger in the new EU member states. Compared to the previous year, GDP of Poland rose by 6.9 percent in the first quarter of 2004. Growth, which was mainly export-based, lately accompanied by the increase in domestic demand. Annual CPI inflation rose to 4.7 percent due to food and energy prices coupled with indirect taxes that have increased as a result of EU membership.

Owing to these developments, National Bank of Poland raised interest rates three times in June-August period, totalling to 1.25 points. In the first quarter, the Czech Republic GDP grew by 3.1 percent. The indicators related to economic activity point out the continuation of growth in the second quarter of 2004. Along with negative influence of indirect taxes, public prices and petroleum prices inflation rates rose this year. Hence, Czech National Bank increased interest rates by 0.25 points both in June and August. As a result of fixed capital investments and increase in imports, GDP in Hungary rose by 4.2 percent and 4 percent respectively in the first two quarters of 2004. Considering the decline in risk premium in assets in terms of its national currency, the improved conditions in the composition of economic growth as well as the decrease in inflation, National Bank of Hungary dropped interest rates by 0.25 point and announced as 2.5 percent. In line with the tendencies of appreciation in national currency, National Bank of Slovakia announced its interest rates as 4.5 percent following a reduction of 0.5 point.

8. The growth in 2003 in developing Asian economies mainly stemmed from the increase in domestic demand and the leap in exports. Growth trend in the said countries in line with imports to the USA, regional trade and increase in domestic demand is continuing in 2004 as well.

9. The high rate of growth enjoyed in 2003 by China continued in the first half of 2004 as well. The effects of macroeconomic measures taken by the Chinese administration to prevent overheating in the economy began to be felt, albeit still at a limited level. Economic growth in South Korea is generally strong. Annual industrial production increased by 12.8 percent in July 2004. The increase trend of 2003 in exports continued in 2004.

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



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

ⁱⁱ Nominal effective exchange rate has been used since real exchange rate for South Korea is not available.

Source: IMF.

Developments in Domestic Demand and Production

10. Following the rapid growth of the first quarter of 2004, Turkish economy maintained its pace in the second quarter as well. According to the SIS, GDP and GNP increased at high rates compared to the same period last year in the second quarter of 2004 and realized as 13.4 percent and 14.4 percent, respectively. In the first half of 2004, GDP and GNP rose by 11.9 percent and 13.5 percent, respectively, compared to the same period of 2003. High-

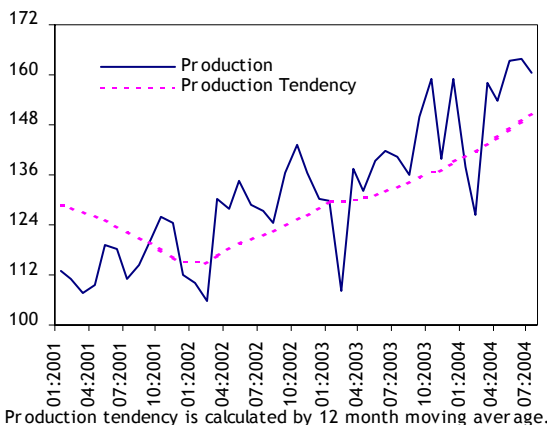
rated increase in investment and consumption expenditures and rapid increase of industrial production due to the revival of domestic demand stood as underlying factors in significant economic growth in the second quarter of 2004.

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

12. The upward trend in the level of production continued in July as well. According to SIS Monthly Industrial Production Index, total industrial production and manufacturing industry productions increased by 12.8 percent and 14.2 percent, respectively, in July 2004 compared to the same months of the previous year. Compared to the previous month, seasonally adjusted total industrial production in July 2004 remained the same and production in manufacturing industry increased by 0.8 percent. High-rated increases in the production of durable consumption goods and transportation vehicles continued during this period. Furthermore, rapid increases in the sectors producing investment goods point at ongoing rise in the investment expenditures.

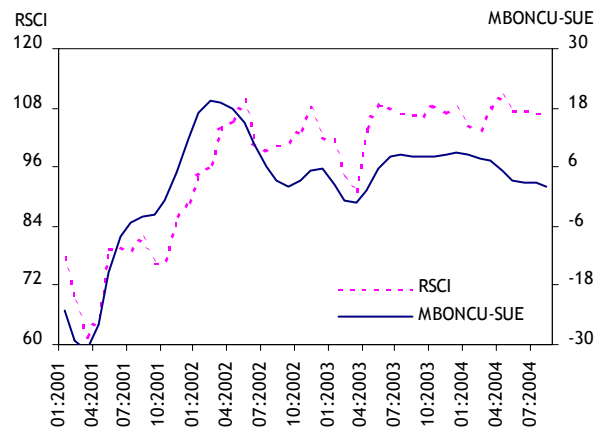
13. According to data announced by SIS, the rate of capacity utilization realized as 81.7 percent in the manufacturing industry in August 2004. Total manufacturing industry capacity utilization rate dropped by 2.2 points in August compared to the previous month, whereas it increased by 2.4 points compared to the same month of the previous year. With 91.3 percent, public sector capacity utilization rate remained unchanged in July compared to the same month of the previous year. Private sector capacity utilization rate realized as 75.6 percent in July and recorded an increase of 3.6 points compared to the same month of the previous year.

MANUFACTURING INDUSTRY PRODUCTION
(1994=100)



Source: SIS.

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



Source: CBRT.

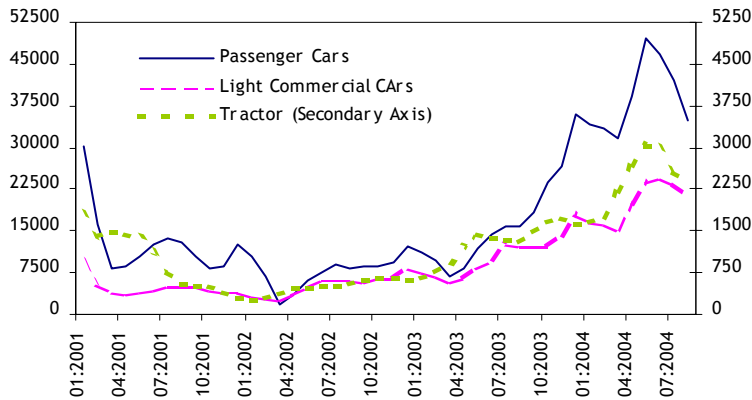
14. The composite leading indicators index (CBLEADING-IPI) compiled by the Central Bank of the Republic of Turkey remained the same in August. On the other hand, the six-month rate of change is declining since the beginning of the year. Despite the increases in August, the index displayed slight changes in most of the series that constitute the index compared to July due to the improvement in expectations concerning the seasonally adjusted finished goods stock level and the deterioration in expectations concerning employment. Meanwhile, Real Sector Confidence Index (CBRSCI) dropped by 0.5 points compared to the previous month to realize at 107 in July, and retained this level in August as well. The index is observed to maintain its high level compared to the previous year. The value of the index above 100 points denotes continuing confidence of the real sector in economic activities.

15. The rapid upsurge in consumer credit utilization and scrap discount were the main factors that led the automobile sales to its sluggish pace in June-August period compared to

previous months, realized as 118 percent on average compared to the same period of 2003. Moreover, an evident increase since the beginning of 2004 is outstanding in the light commercial vehicles sales, which had used to pursue a more stable course compared to automobile sales. Sales of light commercial vehicles are considered to be significant indicators affirming the revival observed in the services and manufacturing industry sectors.

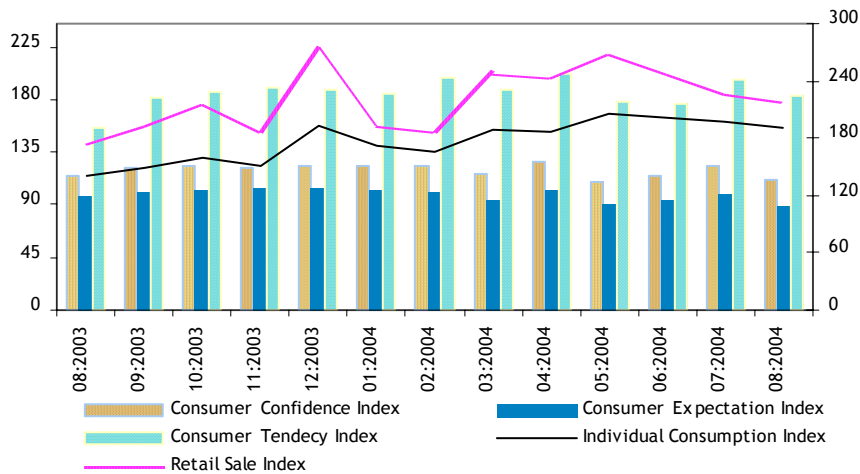
TRANSPORTATION VEHICLES SALES

(3-month moving average, unit)



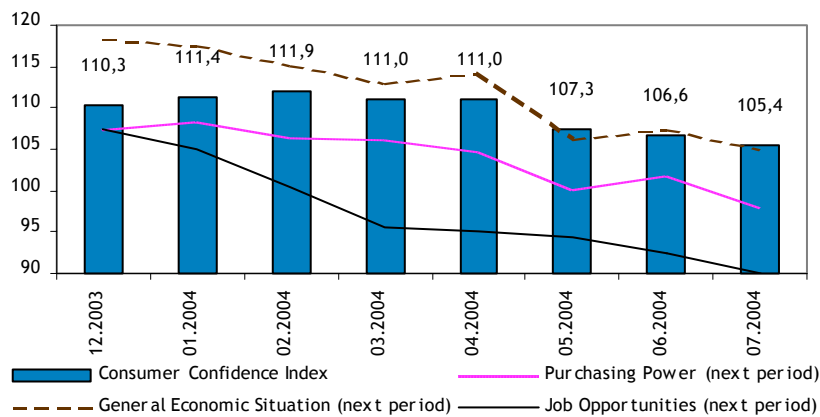
Source: Automobile Industry Association.

CNBC-e INDICES (January 2002=100)



Source: NTVMSNBC.

CONSUMER TENDENCY SURVEY



Source: CBRT, SIS.

16. Consumer Confidence, Expectations and Tendency Indices compiled by CNBC-e dropped by 9.3 percent, 10.4 percent and 7.4 percent, respectively, in August compared to the previous month.

17. According to the results of the Consumer Tendency Survey for July compiled by the Central Bank and SIS, consumer confidence index, which was 106.6 in June 2004, declined to 105.4 in July.

Prices

18. Turkish lira, which was in appreciation trend against nominal foreign exchange rate basket composed of USD 1 + 0.77 Euro in the first quarter of 2004, depreciated by 11 percent in May and pursued a volatile course in the following months. Meanwhile, CPI and WPI-based real exchange rate indices show that Turkish lira depreciated in real terms in the last four months, except July.

19. Euro, which depreciated against the US dollar in March-May 2004 period, appreciated in June and July, but resumed its decline in August. Accordingly, average monthly euro/US dollar parity, which rose to 1.2273 in July, rolled back to 1.2185 in August.

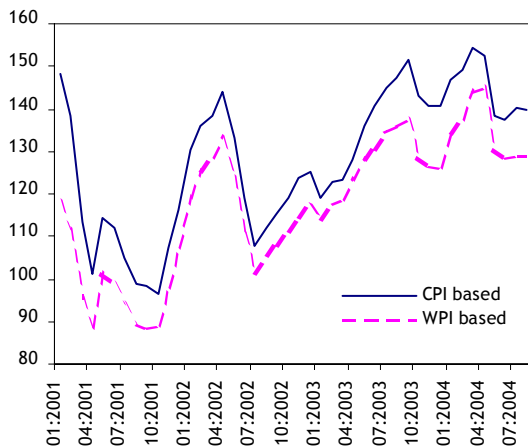
REAL EFFECTIVE EXCHANGE RATE (monthly percentage change) ⁱ													
	2003					2004							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Turkey													
CPI based	1,4	2,9	-5,7	-1,7	0,1	4,6	1,4	3,4	-1,1	-9,3	-0,6	2,0	-0,3
WPI based	1,1	1,2	-6,5	-1,7	-0,1	6,3	2,5	4,6	0,7	-9,9	-1,5	0,3	-0,1
Czech Republic	-2,1	-0,2	2,1	0,2	0,9	-1,1	0,0	-1,6	-4,2				
Slovakia	3,0	1,0	-3,7	0,8	-3,3	0,0	0,2	3,4	23,1				
Hungary	1,6	1,7	1,2	-0,9	-0,4	1,0	1,5	2,9	0,8				
Poland	0,5	-2,1	-1,6	-0,8	0,6	-1,2	-2,8	1,5	0,4				
Hong Kong ⁱⁱ	0,5	-0,9	-1,2	-0,3	-1,3	-1,1	-0,4	0,8	0,1				
Malezia	0,7	-1,3	-2,4	-0,2	-1,8	-1,6	-0,5	1,1	0,3				
Singapore	0,7	-0,9	-1,4	0,1	-0,3	-0,2	0,5	0,4	1,2				
China	2,1	-2,7	-0,6	-0,5	-1,5	-0,9	-0,8	2,2	0,7				

Source: CBRT, IMF.

ⁱ Increase implies real appreciation of the currency.

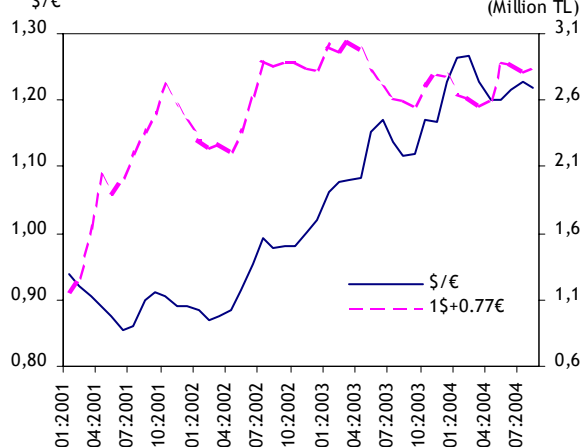
ⁱⁱ Due to data limitations, nominal effective exchange rate is used for Hong Kong.

REAL EFFECTIVE EXCHANGE RATE
(1995=100)ⁱ



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

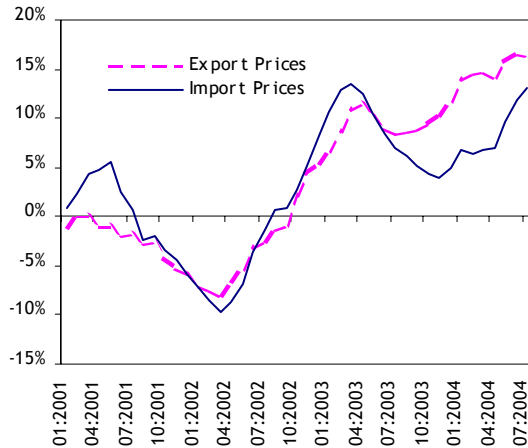
USD/EURO PARITY and
NOMINAL EXCHANGE RATE BASKET



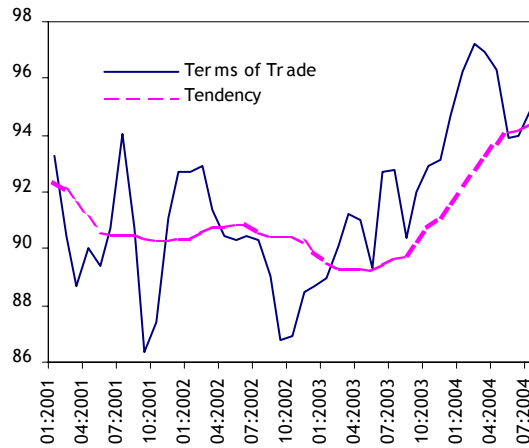
20. The recovery tendency in the terms of foreign trade in 2003 continued as of the first quarter of 2004, but began to lose ground in the second quarter of the year. The terms of foreign trade are observed to have re-improved in recent months.

EXPORT and IMPORT PRICES

(3-month moving average, annual % change)



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



Source: SIS.

21. In July, export prices rose by 0.5 percent compared to the previous month. The export prices index of main metal industry, which rose in the first five months of the year as a result of the increase in world main metal prices in early 2004, displayed a substantial decline in June and July. The export prices of motor land vehicles also dropped in July.

22. In July, import prices fell by 0.5 percent compared to the previous month. The import prices of machinery and equipment as well as agricultural and food prices were the significant determinants of the decline in price index.

EXPORT and IMPORT PRICE INDICES (1994=100)

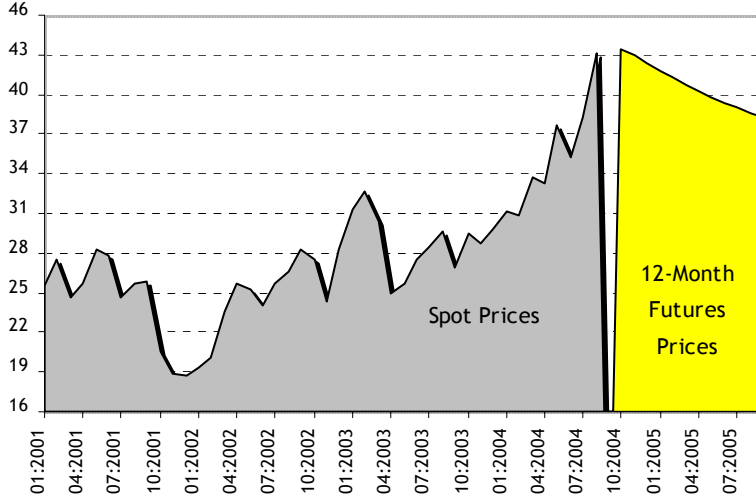
	2003						2004						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Export Price Index	92,2	90,9	91,6	93,1	95,0	99,2	104,9	105,2	104,8	105,2	106,3	105,5	106,0
Manufacturing	93,0	91,4	92,0	93,2	94,8	99,0	105,1	105,5	104,6	105,1	106,3	105,5	106,1
Textiles	90,1	85,9	86,3	88,7	91,6	97,4	102,3	100,7	99,9	98,6	98,6	96,6	99,8
Wearing Apparel	101,8	97,0	95,6	95,0	98,9	107,8	116,8	124,0	115,7	115,7	114,8	115,4	117,5
Chemicals & Products	88,1	87,7	90,2	91,9	87,5	91,9	95,4	95,2	91,1	93,5	94,5	95,9	94,6
Manufacture of Basic Metals	101,3	103,1	105,5	108,3	107,1	108,3	119,4	122,1	128,0	136,9	145,8	132,2	128,8
Manufacture of Mach. & Equ.	84,8	85,0	85,1	86,5	91,7	93,4	101,8	99,7	98,9	100,1	97,0	97,2	96,9
Electrical Mach. & Apparatus	68,4	69,6	70,3	67,0	68,3	73,3	79,4	76,0	69,5	70,8	68,2	70,1	68,7
Motor Vehicles & Trailers	101,6	98,6	102,3	106,3	107,8	109,1	113,8	110,7	110,6	113,0	111,3	115,5	113,5
Import Price Index	99,4	100,6	99,6	100,2	102,0	104,8	109,0	108,2	108,1	109,2	113,2	112,3	111,7
Mining & Quarrying	159,5	168,0	169,1	169,3	164,3	168,5	178,1	173,2	177,6	176,4	189,0	190,1	192,0
Crude Oil & Natural Gas	172,2	179,0	182,1	181,2	176,5	181,8	188,3	182,7	190,7	189,6	203,7	203,0	205,6
Manufacturing	93,6	93,4	92,3	93,0	94,4	98,2	100,3	100,6	100,6	102,4	105,4	104,8	104,2
Textiles	89,4	88,2	82,3	84,2	84,0	90,7	91,7	93,8	95,3	95,6	99,4	94,2	102,5
Chemicals & Products	100,0	99,2	98,8	101,2	101,9	103,3	109,7	109,2	107,3	110,0	110,9	110,1	109,9
Manufacture of Basic Metals	97,1	98,8	94,4	101,4	102,0	107,2	119,8	123,1	132,3	139,1	143,6	138,8	140,4
Manufacture of Mach. & Equ.	97,2	94,6	94,6	94,6	96,5	98,9	98,6	90,9	92,5	96,9	104,1	102,3	93,8
Electrical Mach. & Apparatus	67,3	65,6	65,4	65,9	66,9	70,0	71,8	73,0	72,4	68,2	71,2	68,5	72,2
Motor Vehicles & Trailers	91,4	91,4	89,2	92,0	94,6	103,5	100,6	106,3	103,4	101,6	102,3	101,2	103,0

Source: SIS.

23. Oil prices, which was in upward trend since the beginning of 2004 mainly due to the instability in the Middle East, especially in Iraq, as well as the significant increase in global demand and the high rate of capacity utilizations, gained pace in July-August period.

24. Forward prices in the London International Petroleum Exchange indicate that the price of Brent oil per barrel, which was US dollar 43.2 on average in August, is expected to realize around US dollar 42 at the end of the year.

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



Future Prices	
	20.09.2004
October 2004	43.49
November 2004	42.91
December 2004	42.34
January 2005	41.78
February 2005	41.25
March 2005	40.74
April 2005	40.24
May 2005	39.80
June 2005	39.39
July 2005	39.00
August 2005	38.61
September 2005	38.25

Source: Energy Information Administration, The International Petroleum Exchange.
 Note: 20.09.2004 future prices of International Petroleum Exchange.

II. EXPORTS

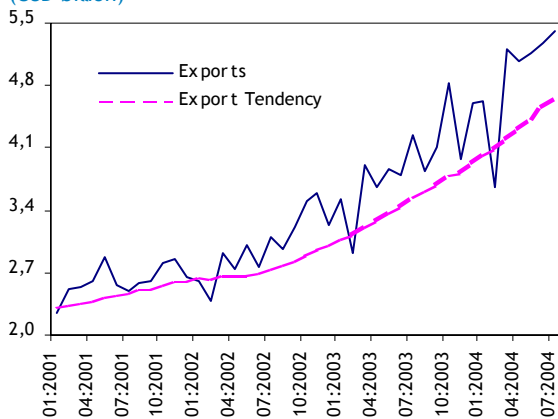
General Evaluation

25. In July 2004, exports grew by 27.6 percent compared to the same month of the previous year and reached US dollar 5.4 billion. The increase in exports in the first seven months of 2004 was 32.7 percent. Meanwhile, 12-month exports rose by 31.3 percent and realized as US dollar 55.7 billion.

26. The improvement in demand and cost conditions, which started in 2003 and continued in 2004, was effective in the increase in exports. Especially low labor and energy costs coupled with the increase in productivity provided Turkish firms with competitiveness despite the appreciation in the Turkish lira. Furthermore, the expansion tendency in the world economy and rising export prices contributed to this increase.

EXPORTS and EXPORTS TENDENCYⁱ

(USD billion)

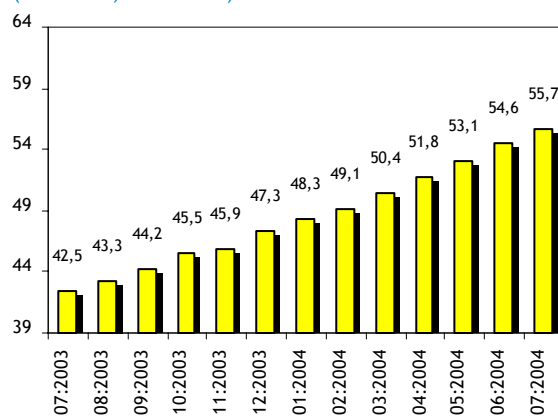


ⁱ Exports tendency is calculated with 12-month moving average.

Source: SIS.

EXPORTS

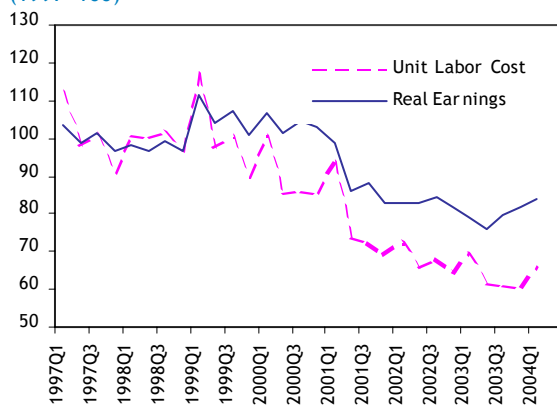
(12 month, USD billion)



Source: SIS.

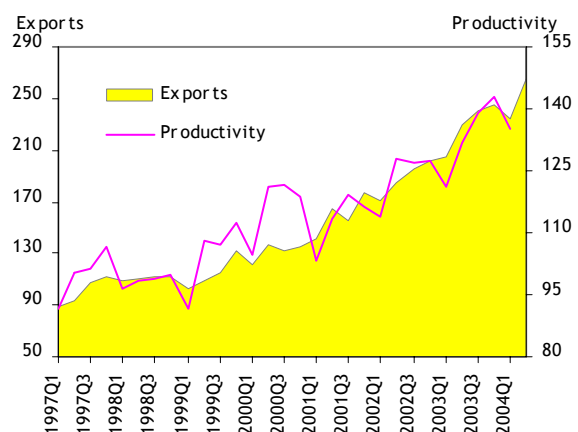
PRIVATE MANUFACTURING INDUSTRY REAL UNIT LABOR COSTS AND REAL EARNINGS

(1997=100)



Source: SIS, CBRT.

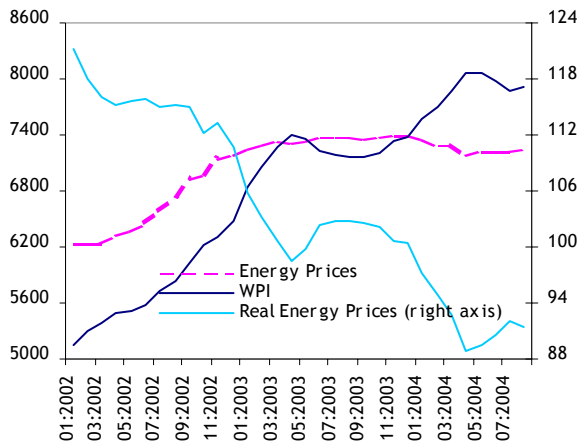
PRIVATE MANUFACTURING EXPORT AND PRODUCTIVITY INDICES (1997=100)



Source: SIS.

27. The downward trend in real energy costs continued until April 2004, but started to decline by May. Despite the stable course of electricity prices, natural gas and water prices increased especially as of the second quarter of the year. Nonetheless, prices are at lower levels compared to last year.

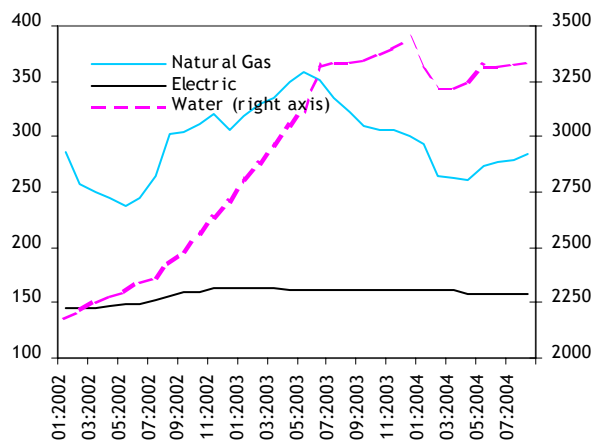
ENERGY PRICES and WPIⁱ
(1994=100)



ⁱ 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 PRICESⁱ
(thousand TL)

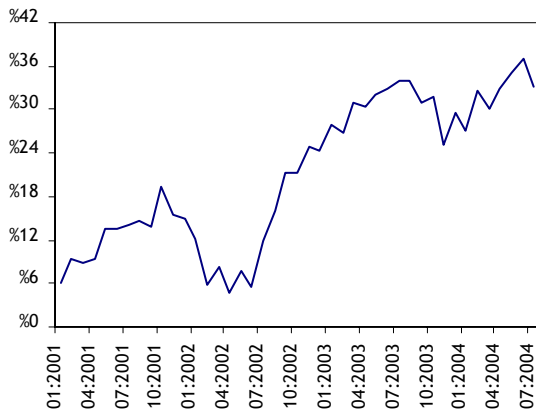


ⁱ Domestic prices in advance that are taken from WPI, which are electric prices per KWH, natural gas and water prices per ton.

Source: SIS.

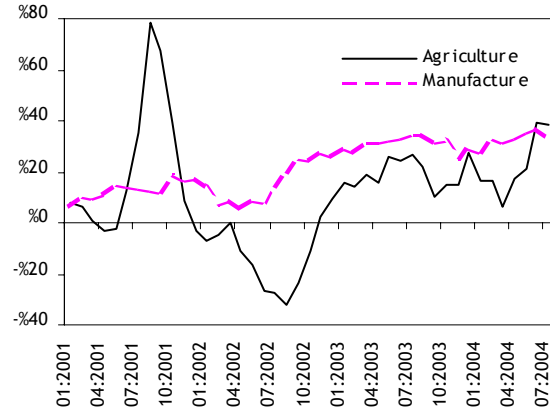
28. The Turkish Eximbank continued to cut down the interest rates on the export credits in 2004. Interest rates were cut down on 12 February and 19 March 2004. On the other hand, taking into account the increase in interest rates in international financial markets, Eximbank raised its short-term interest rates of foreign exchange credits by 0.25 points on 5 July 2004, but re-cut them by 2 points on 9 September.

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



Source: SIS.

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



Source: SIS.

29. The three-month trend in the rates of increase in manufacturing industry exports displayed a favorable progress, whereas export tendency in agricultural products declined in March, but re-improved in April-July period.

30. The groups contributing largely to export growth in the first seven months of 2004 were motor vehicles and spare parts, iron and steel, electrical machinery and vehicles, boilers-machinery-mechanical equipment, respectively.

31. In this period, there was a decline in the share of exports to the European Union countries and an increase in exports to the Middle Eastern countries compared to the same period of the previous year. Analyzing in terms of selected countries, exports to Germany had the largest share in overall exports during this period, followed by England and the USA. In first seven-month period of 2004, the share of the USA in overall exports maintained its downward trend of 2003. Furthermore, the high-rated increase in exports to England, France, Spain and Russia during the said period is remarkable.

EXPORTS (USD million)

	July				January-July			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	4236	5406	27,6		25920	34406	32,7	
Agriculture and Forestry	140	171	21,5	0,7	1172	1415	20,7	0,9
Fishing	4	3	-27,3	0,0	32	38	18,2	0,0
Mining and Quarrying	46	52	15,0	0,2	243	337	39,0	0,4
Manufacturing	4025	5147	27,9	26,5	24339	32402	33,1	31,1
Other	21	33	56,3	0,3	135	215	58,9	0,3
Important Items:								
Edible fruit and nuts, peel of citrus fruits or melons	100	120	20,5	0,5	533	765	43,5	0,9
Mineral Fuels, Mineral Oils and products	92	120	29,6	0,6	566	799	41,3	0,9
Plastics and articles thereof	89	115	30,2	0,6	493	715	45,1	0,9
Cotton, cotton yarn and cotton fabrics	63	85	35,1	0,5	566	694	22,6	0,5
Articles of Apparel-Clothing; Knitted	565	562	-0,5	-0,1	3280	3633	10,8	1,4
Articles of Apparel-Clothing; Not Knitted	359	413	14,9	1,3	2234	2534	13,4	1,2
Other made-up textile articles, sets, worn clothing	135	144	6,7	0,2	896	1037	15,7	0,5
Iron and Steel	260	390	50,2	3,1	1709	2914	70,4	4,6
Articles of Iron and Steel	119	222	85,8	2,4	752	1142	52,0	1,5
Nuclear reactors, boilers, machinery	277	390	41,0	2,7	1620	2288	41,2	2,6
Electrical Machinery and Equipment	283	349	23,4	1,6	1699	2428	42,9	2,8
Motor Vehicles and Spare Parts	521	858	64,8	8,0	2944	4577	55,5	6,3
Pearl and otjher precious stone and products	57	83	44,7	0,6	407	564	38,6	0,6

Source: SIS.

EXPORTS: BY COUNTRY GROUPS (USD million)

	July					January-July				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	4236	..	5406	..	27,6	25920	..	34406	..	32,7
EU Countries	2258	53,3	2991	55,3	32,4	14345	55,3	18823	54,7	31,2
EU 15	2159	51,0	2864	53,0	32,6	13563	52,3	17801	51,7	31,2
EU 10	99	2,3	127	2,3	28,5	781	3,0	1022	3,0	30,8
Other Countries	1815	42,8	2197	40,6	21,1	10548	40,7	14183	41,2	34,5
Turkey Free Trade Areas	163	3,9	218	4,0	33,9	1027	4,0	1400	4,1	36,2
Selected Countries and Country Groups										
OECD	2751	64,9	3553	65,7	29,1	16970	65,5	22252	64,7	31,1
Germany	669	15,8	784	14,5	17,2	4212	16,2	4897	14,2	16,3
UK	326	7,7	479	8,9	46,8	1953	7,5	2976	8,6	52,4
USA	417	9,9	413	7,6	-1,1	2209	8,5	2738	8,0	24,0
Italy	271	6,4	428	7,9	58,1	1807	7,0	2450	7,1	35,6
France	258	6,1	313	5,8	21,5	1524	5,9	2103	6,1	38,0
Spain	141	3,3	237	4,4	68,7	996	3,8	1447	4,2	45,2
Netherland	142	3,3	186	3,4	31,2	842	3,2	1170	3,4	38,9
Other OECD	528	12,5	712	13,2	34,9	3427	13,2	4471	13,0	30,5
Middle East Countries	479	11,3	517	9,6	7,9	2622	10,1	3910	11,4	49,1
Russia	108	2,5	152	2,8	40,9	696	2,7	966	2,8	38,9

Source: SIS.

Outlook

32. According to the CBRT Business Tendency Survey, although the indicators for the exports in the next three months started to fall as of May, they maintained their high level in August compared to 2003.

33. The deterioration in expectations for credit interest rates for the next three months and twelve months, which can be considered as the export financing cost indicator, stopped

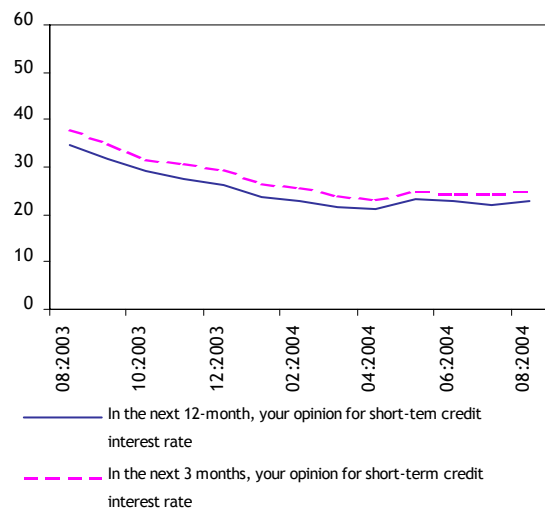
in May and in June. Nevertheless, it displayed a decline in favor of those who expected a downward trend. Accordingly, expectations for credit interest rates for the next three months declined to 24.9 percent in August, while expectations for credit interest rates for the next twelve months became 22.7 percent.

34. Despite its slight decline in recent months, price competition, which is among the factors that has been expected to exert pressure on exports in the next quarter, still maintains its major share. Concerns about credit and financing that could lead to restriction in export orders rose in August, while concerns about foreign business cycles, quota and similar restrictions eased.

EXPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

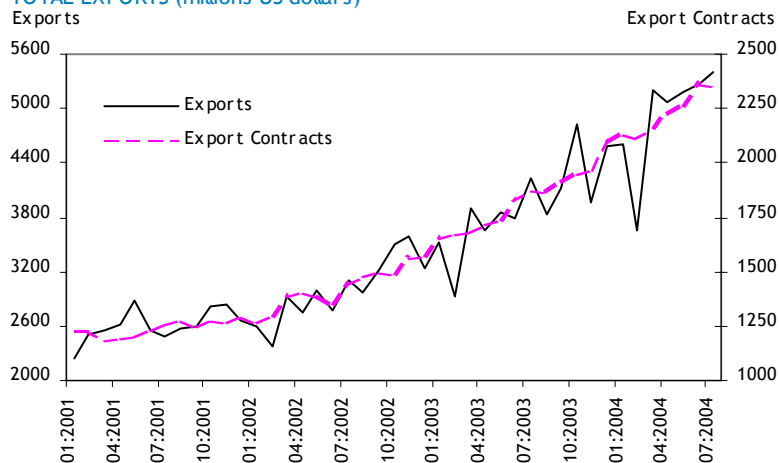


Source: CBRT Business Tendency Survey.

35. The volume of export contracts subject to inward processing regime grew by 20.9 percent in the first seven months of 2004 compared to the previous year. Meanwhile, imports subject to inward processing regime increased by 26.2 percent.

EXPORT CONTRACTS BY INWARD PROCESSING REGIME

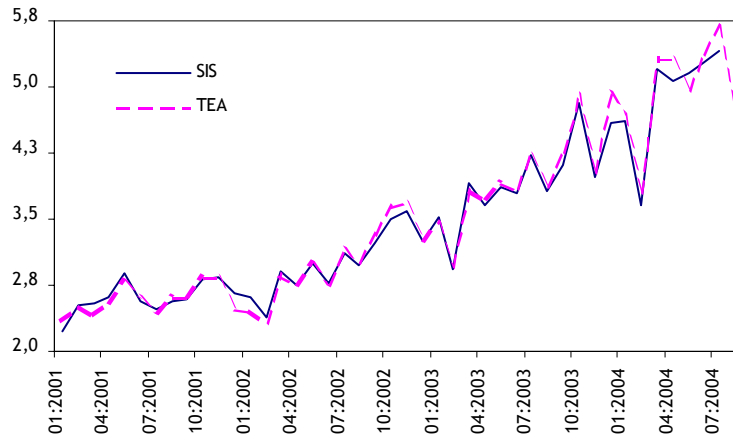
(12 months moving average) and
TOTAL EXPORTS (millions US dollars)



Source: UFT.

36. According to the data issued by the Turkish Exporters' Assembly (TEA), exports grew by 22.1 percent and realized as US dollar 4.7 billion in August. Hence, twelve-month exports reached US dollar 57.9 billion in August. Daily TEA data for September indicate that exports will continue to rise in this month as well.

EXPORTS: SIS-TEA COMPARISON (USD billion)



Source: SIS, TEA.

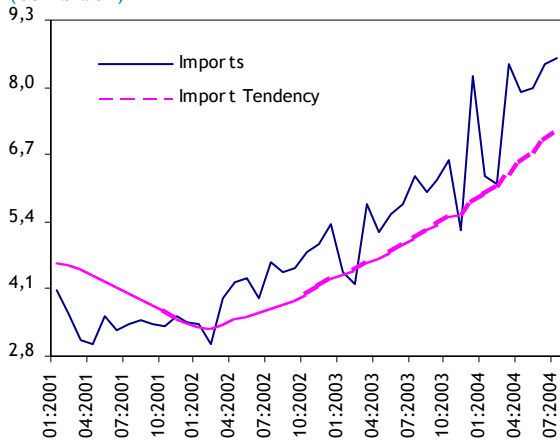
III. IMPORTS

General Evaluation

37. In July 2004, imports increased by 36.9 percent and reached US dollar 8.6 billion compared to the previous year. Hence, imports became US dollar 53.8 billion in January-July 2004, while twelve-month imports rose by 40.6 percent and reached US dollar 86.1 billion.

IMPORTS and IMPORTS TENDENCYⁱ

(USD billion)

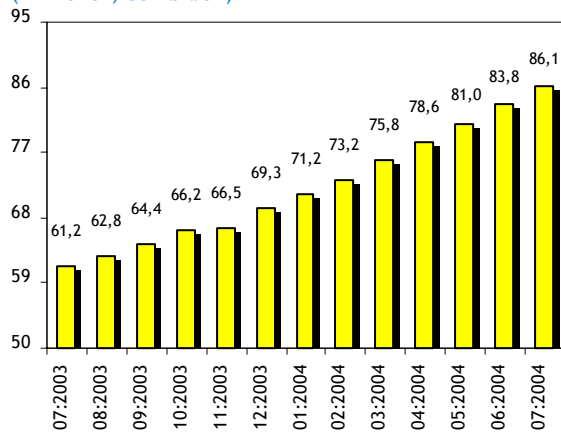


ⁱ Imports tendency is calculated using 12 month moving average.

Source: SIS.

IMPORTS

(12 month, USD billion)

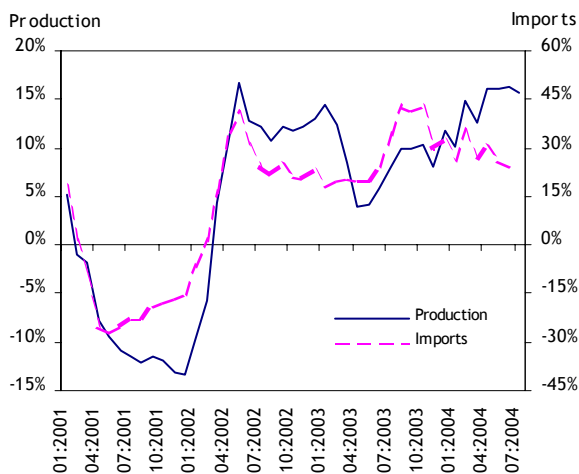


Source: SIS.

38. The appreciation of Turkish lira by 6.6 percent as of the first seven months of 2004 compared to end-2003 according to the WPI-based real exchange rate index, the rise in domestic industrial production as well as the increase in consumption and rapid upsurge in investment expenditures stood as the determining factors in the growth in imports. Furthermore, the upward trend in import prices during this period had an effect on the increase in imports.

MANUFACTURING INDUSTRY PRODUCTION and INTERMEDIATE GOODS IMPORTS INDICES

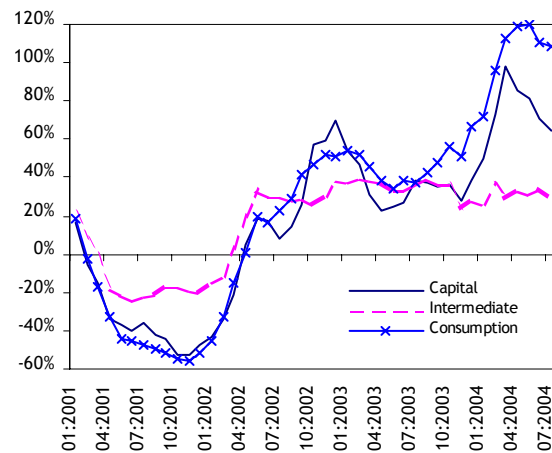
(3 month moving average, annual % change)



Source: SIS.

IMPORTS: GROWTH RATES

(3 month moving average, annual % change)

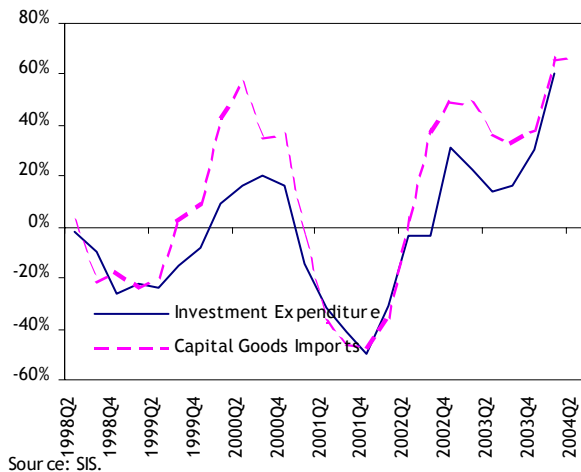


Source: SIS.

39. Although imports of intermediary goods became an indicator in the growth of total imports in January-July 2004, the rate of increase in imports of intermediary goods remained below that of total imports. Meanwhile, imports of consumption goods and capital goods displayed a rate of increase above the growth in total imports and their shares in total

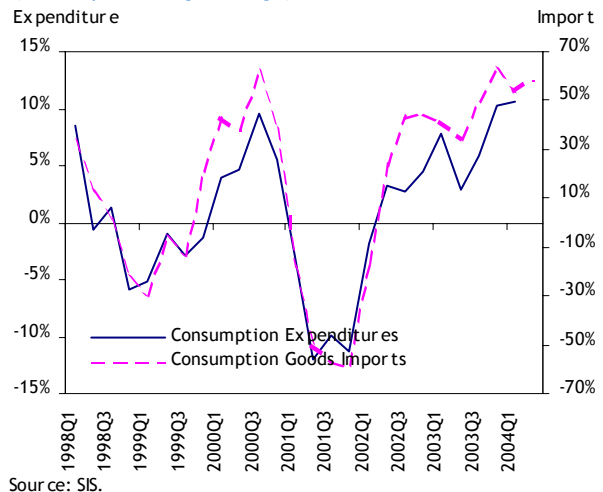
imports reached 14.2 percent and 18.2 percent, respectively. The high-rated increase in demand for durable goods and transportation vehicles resulting from the appreciation of Turkish lira, increase in consumer credits and decline in interests contributed to the hike in imports of consumption goods. Moreover, upward trend in imports of capital goods continued due to the increased capacity utilization rates, which bring in new investment needs for sustained 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.

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

IMPORTS (USD million)

	July				January-July			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	6267	8577	36,8	..	37105	53825	45,1	..
Capital Goods	1052	1620	54,0	9,1	5550	9779	76,2	11,4
Intermediate Goods	4596	5748	25,0	18,4	27681	36122	30,5	22,7
Consumption Goods	592	1178	99,0	9,3	3660	7654	109,2	10,8
Other	27	32	16,3	0,1	213	270	26,4	0,2
Important Items:								
Mineral fuels,mineral oils and products of their dist.	901	1166	29,3	4,2	6351	7303	15,0	2,6
Crude Oil	393	536	36,5	2,3	2678	3305	23,4	1,7
Organic chemicals	195	232	18,9	0,6	1356	1664	22,6	0,8
Pharmaceutical products	158	248	57,1	1,4	1118	1549	38,5	1,2
Plastics and articles thereof	317	417	31,5	1,6	1765	2549	44,4	2,1
Paper and paperboard	116	136	17,4	0,3	634	834	31,6	0,5
Cotton, cotton yarn and cotton fabrics	172	175	2,2	0,1	973	1185	21,7	0,6
Pearl, other precious stone and products	379	477	26,0	1,6	1642	2246	36,7	1,6
Iron and Steel	383	615	60,6	3,7	2708	4130	52,5	3,8
Nuclear reactors, boilers, machinery	1025	1199	17,0	2,8	5331	7437	39,5	5,7
Electrical Machinery and Equipment	446	677	51,8	3,7	2829	4613	63,1	4,8
Motor Vehicles and Spare Parts	411	904	120,1	7,9	2186	5987	173,8	10,2
Aircraft, spacecraft and parts thereof	6	197	3346,6	3,1	90	986	998,1	2,4
Optical, photographic, measuring instruments	123	156	27,6	0,5	703	1040	47,9	0,9

Source: SIS.

41. In January-June 2004, the share of imports from the European Union countries and Asian countries increased compared to 2003, whereas a decline was observed in the share of imports from the Middle Eastern countries. Analyzing in terms of selected countries, imports from Germany had the largest share in overall imports to be followed by Russia, Italy and France. The rapid increase in imports from China is continuing in 2004 as well.

IMPORTS: BY COUNTRY GROUPS (USD million)

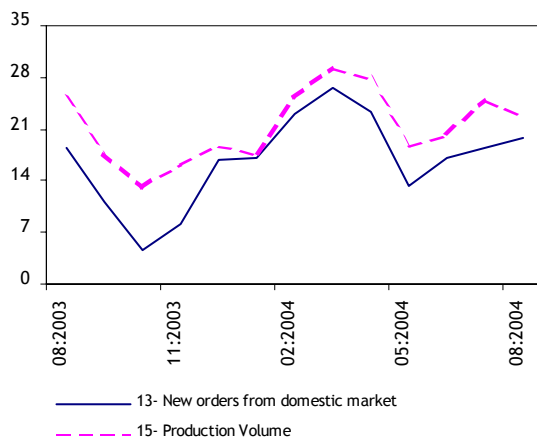
	July					January-July				
	2003		2004		% Change	2003		2004		% Change
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	6267	..	8577	..	36,8	37105	..	53825	..	45,1
EU Countries	3146	50,2	4048	47,2	28,7	17692	47,7	25955	48,2	46,7
EU 15	2986	47,6	3789	44,2	26,9	16767	45,2	24261	45,1	44,7
EU 10	160	2,6	258	3,0	61,5	925	2,5	1694	3,1	83,2
Other Countries	3066	48,9	4458	52,0	45,4	19095	51,5	27396	50,9	43,5
Turkey Free Trade Areas	55	0,9	71	0,8	28,9	318	0,9	474	0,9	49,3
Selected Countries and Country Groups										
OECD	4101	65,4	5431	63,3	32,4	23364	63,0	34065	63,3	45,8
Germany	884	14,1	1077	12,6	22,0	4792	12,9	7045	13,1	47,0
Italy	537	8,6	654	7,6	21,7	2977	8,0	3954	7,3	32,8
France	366	5,8	544	6,3	48,7	2119	5,7	3705	6,9	74,8
USA	320	5,1	504	5,9	57,6	1959	5,3	2817	5,2	43,8
United Kingdom	382	4,0	377	4,8	71,0	2038	4,2	2418	5,3	68,5
Switzerland	294	4,7	382	4,5	29,8	1672	4,5	1957	3,6	17,0
Spain	188	4,0	276	4,8	71,0	1034	4,2	1853	5,3	68,5
Japan	163	4,0	264	4,8	71,0	977	4,2	1447	5,3	68,5
Other OECD	967	15,4	1352	15,8	39,7	5795	15,6	8869	16,5	53,0
Middle East Countries	408	6,5	432	5,0	6,0	2604	7,0	2797	5,2	7,4
Russia	386	6,2	670	7,8	73,6	2284	6,2	3811	7,1	66,9
China	217	3,5	387	4,5	78,2	1026	2,8	2048	3,8	99,6

Source: SIS.

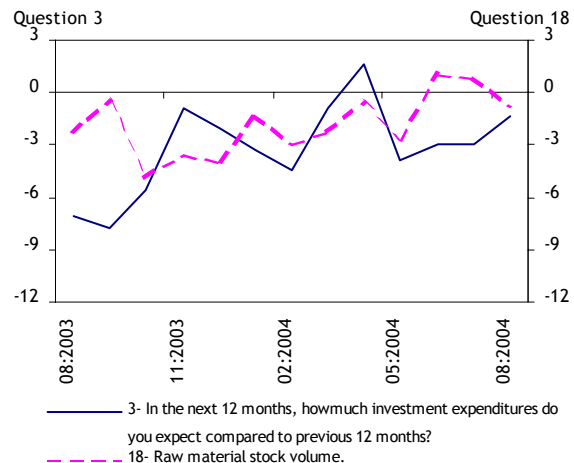
Outlook

42. An analysis of the domestic demand over the upcoming period according to the August results of the CBRT Business Tendency Survey reveals that private companies have expectations in favor of an increase, albeit at a lower rate. The investment expenditure tendency rose compared to July, while tendency of the volume of raw-material stock rolled back in August.

IMPORT EXPECTATIONS



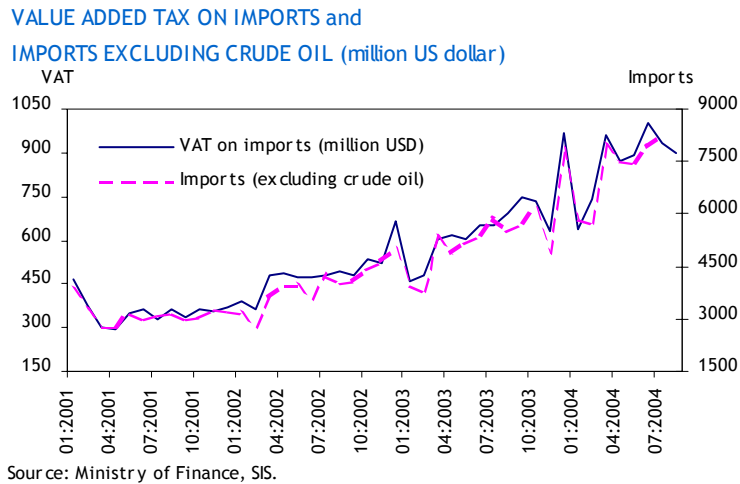
Source: CBRT Business Tendency Survey.



Source: CBRT Business Tendency Survey.

43. During January-July 2004 period, time imports rose to US dollar 13.9 from US dollar 10 billion of January-July 2003 period. Due to the increases by 45.1 percent in total imports and by 38.7 percent in time imports, the share of time imports in total imports declined to 25.9 percent. Meanwhile, time exports that are calculated by same method increased by 36.1 percent and reached 63.3 percent of total exports.

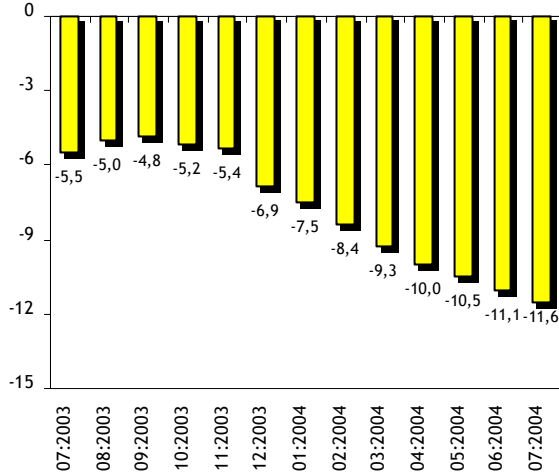
44. According to the temporary VAT data on imports, imports are expected to reach US dollar 7.9-8 billion in August.



IV. CURRENT ACCOUNT

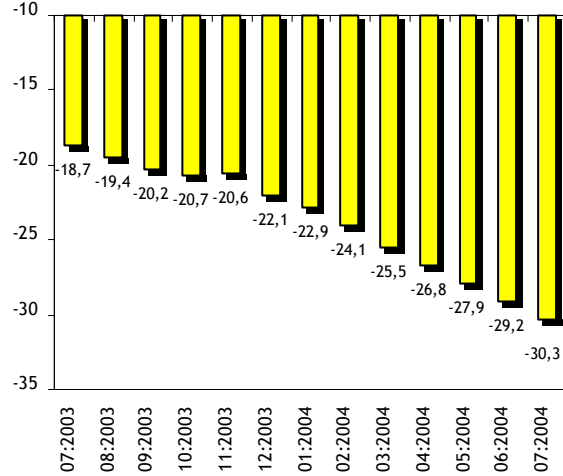
45. In July, the current account balance produced a deficit of US dollar 703 million, making up a deficit of US dollar 10 billion in January-July period. Thus, the twelve-month current account deficit reached US dollar 11.6 billion.

CURRENT ACCOUNT BALANCE
(12 month, USD billion)



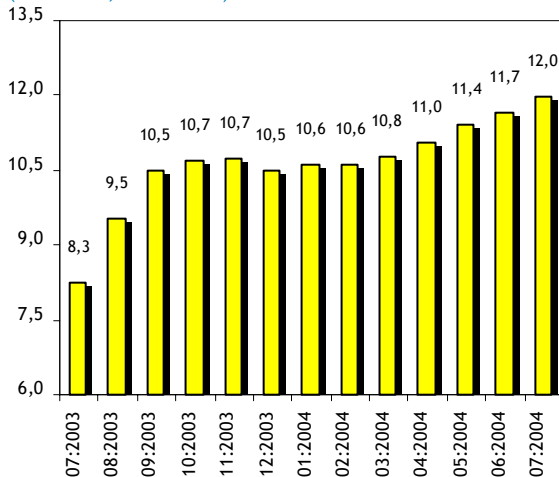
Sour ce: CBRT.

FOREIGN TRADE BALANCE
(12 month, USD billion)



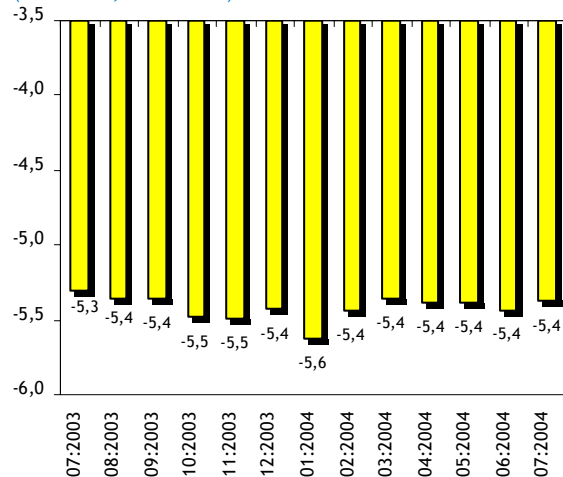
Sour ce: CBRT.

SERVICES BALANCE
(12 month, USD billion)



Sour ce: CBRT.

INVESTMENTS REVENUES BALANCE
(12 month, USD billion)



Sour ce: CBRT.

46. Foreign trade developments became the primary factor of the current account deficit in the first seven months of 2004. The services revenues, which was recorded as US dollar 3.8 billion in January-July 2003 period, became US dollar 5.2 billion in January-July 2004 period as a result of the rapid rise in tourism revenues. Meanwhile, investment revenues balance decreased compared to last year and declined to US dollar 3.2 billion. Current transfers, which increased due to rise in workers' remittances and imports with waiver revenues, reached US dollar 2 billion, by a 68.8 percent rise compared to previous year.

47. In January-July 2004, volume of shuttle trade increased by 9.6 percent compared to the same period previous year. Considering the base effect caused by the Iraq war in early months of 2003, it can be said that this rise is quite limited.

CURRENT ACCOUNT (USD million)									
	2003								2004
	Jan-Jul	Jan	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
Current Account Balance	-5324	-903	-2124	-2139	-1660	-1153	-1343	-703	-10025
Foreign Trade Balance	-7016	-1041	-1824	-2392	-2022	-1976	-2377	-2405	-14037
Total Exports	27905	4871	3944	5554	5427	5539	5585	5662	36582
Total Imports	-34921	-5912	-5768	-7946	-7449	-7515	-7962	-8067	-50619
Services Balance	3783	390	159	393	560	1015	998	1725	5240
Credit	8338	1125	914	1190	1429	1819	1959	2688	11124
Debit	-4555	-735	-755	-797	-869	-804	-961	-963	-5884
Income Balance	-3272	-451	-631	-382	-417	-521	-384	-436	-3222
Credit	1424	271	229	268	147	183	181	234	1513
Debit	-4696	-722	-860	-650	-564	-704	-565	-670	-4735
Current Transfers	1181	199	172	242	219	329	420	413	1994
Wrokers' Remittances	361	81	54	58	63	64	54	47	421
<i>Memo items:</i>									
Shuttle Trade	1985	256	280	341	358	369	316	256	2176
Non Monetary Gold (net)	-1509	-212	-298	-280	-357	-224	-218	-441	-2030
Travel Revenues	5271	602	503	608	773	1165	1332	2174	7157
Interest Income	405	41	64	49	39	58	64	47	362
Interest Expenditure	-2539	-219	-412	-310	-262	-447	-282	-264	-2196

Source: CBRT.

48. As a result of regional instabilities in 2003, demand for processed gold increased in international markets, leading to a 15 percent rise in prices. This trend in gold demand continued in January-July 2004 as well. Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to 2002, rose by 35.2 percent in the first seven months of 2004.

49. Based on the figures announced by SIS, tourism revenues increased by 44 percent in the first half of 2004 compared to the previous year and reached US dollar 5 billion. Meanwhile, the number of tourists departing from Turkey rose by 44.1 percent. According to provisional data, tourism revenues increased by 20 percent in July compared to the same month last year and reached US dollar 2.2 billion.

TRAVEL REVENUES									
	2003								2004
	Jan-Jun	Jan	Feb	Mar	Apr	May	Jun	Jul	Jan-Jun
Travel Revenues (USD million)	3460	602	503	608	773	1165	1332	2174	4983
Number of Visitors (thousand)	4888	776	672	850	1118	1696	1932		7045
Average Spending (USD)	708	775	749	715	691	687	689		707

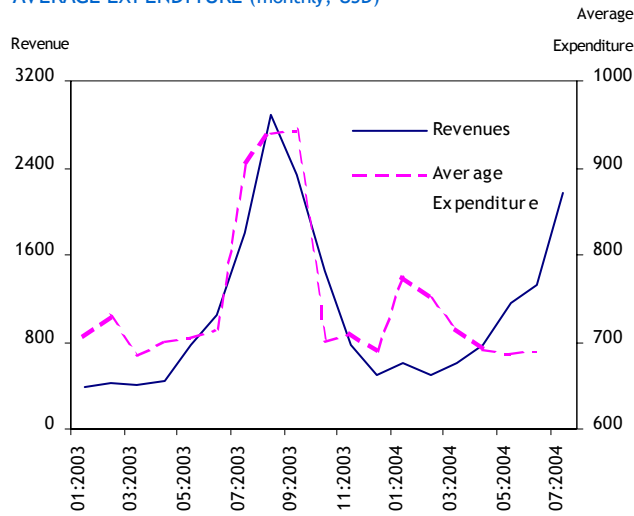
Source: SIS.

50. According to the data on Departing Visitors from Turkey compiled by SIS, US dollar 4.1 billion of the tourism revenues were obtained from foreign visitors, while US dollar 900 million of them came from Turkish citizens living abroad.

51. According to the same survey, 17.2 percent of tourism revenues from tourists departing from Turkey in the first half of the year was obtained through package tour organizations. This amount mainly stemmed from foreign visitors, whereas revenues from Turkish visitors primarily consisted of personal expenditures. Survey results reveal that 14.5 percent of total visitors in the first half of the year belonged to high-income group, while 72.5 percent and 12.9 percent were in middle and lower income groups, respectively.

52. According to the provisional figures announced by the Ministry of Tourism, the number of foreigners visiting Turkey increased by 21.6 percent and 9.4 percent in July and August, respectively, compared to the same months in 2003.

TRAVEL REVENUES (monthly, billion USD),
AVERAGE EXPENDITURE (monthly, USD)

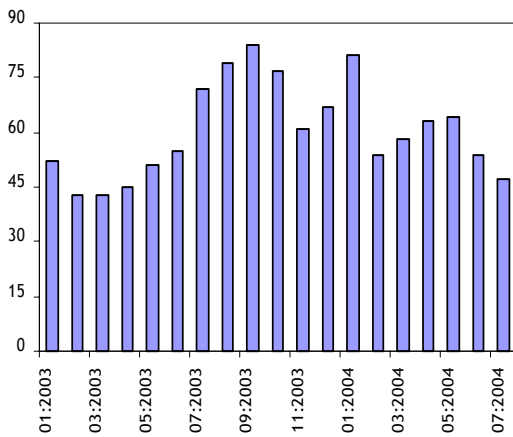


Source: SIS.

53. Investment revenues account produced a deficit of US dollar 3.2 billion in January-July 2004. Portfolio investment expenditures and interest expenditures were the determining factors in this deficit. In this period, interest expenditures declined compared to 2003. This decline mainly stemmed from the drop in interest expenditures of the sectors excluding the Central Bank, the Government and banks.

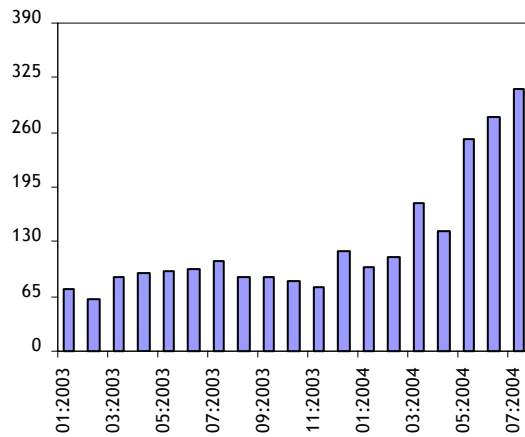
54. The rapid rise in import activities was accompanied by a rise in import with waiver. In the first seven months of 2004, the volume of import with waiver increased by 120 percent compared to the same period last year and reached US dollar 1.4 billion. The workers' remittances increased by 16.6 percent in this period.

WORKERS REMITTANCES: Private
(monthly, million USD)



Source: CBRT.

IMPORTS WITH WAIVERS
(monthly, million USD)



Source: CBRT.

V. CAPITAL MOVEMENTS

55. The financial account produced a surplus of US dollar 2.1 billion in July 2004. Excluding the IMF loans and official reserve changes, net capital inflow became US dollar 1 billion in July. Thus, net capital inflow in January-July 2004 became 10.3 billion and the twelve-month net capital inflow reached 13.5 billion.

56. In July, capital inflow through direct investments became US dollar 305 million and capital inflow through other investments realized as US dollar 469 million. On the other hand, net errors and omissions item produced a deficit of US dollar 1.3 billion. In January-July period, current account deficit in January-July was calculated as US dollar 10 billion, whereas capital inflows through direct investments and portfolio investments became US dollar 1.3 billion and US dollar 3.1 billion, respectively. Capital inflow through other investments was US dollar 3.8 billion. Meanwhile, net errors and omissions item yielded a surplus of US dollar 1.3 billion. Consequently, official reserves displayed a drop by US dollar 460 million.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)									
	2003								2004
	Jan-Jul	Jan	Feb	Mar	Apr	May	June	Jul	Jan-Jul
Capital and Financial Account	2992	2026	3009	-13	277	1255	43	2098	8695
Financial Account	2992	2026	3009	-13	277	1255	43	2098	8695
Direct Investments	344	60	363	-23	66	181	391	305	1343
Portfolio Investments	617	1401	311	341	-216	194	1007	17	3055
Other Investments	3047	757	2039	-441	1829	-228	-588	469	3837
Reserve Assets	-1016	-192	296	110	-1402	1108	-767	1307	460
Net Errors & Omissions	2332	-1123	-885	2152	1383	-102	1300	-1395	1330
<i>Memorandum items:</i>									
Long-term	-1245	287	431	435	908	351	401	993	3806
Short-term	4047	695	2099	-415	680	-146	-532	-301	2080
IMF credit	245	-225	-491	-461	241	-433	-457	-223	-2049

Source: CBRT.

CAPITAL FLOWS (12-month. billion US dollar)



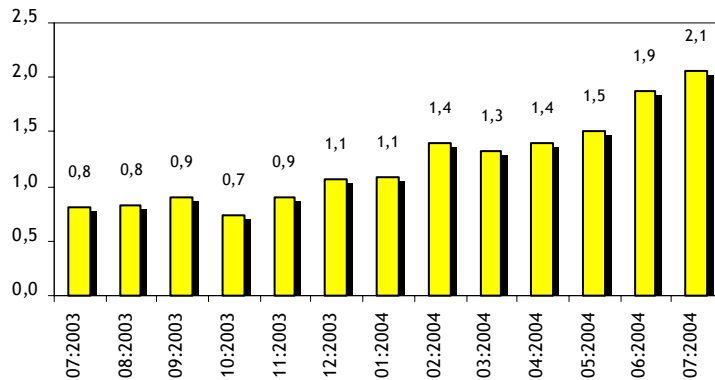
Source: CBRT.

57. When capital movements are analyzed by maturities, it is observed that the share of long-term maturities has been increasing as of the second quarter. In the last three months, there has been inflow in long-term capital movements and outflow in short-term capital

movements. Thus, US dollar 2.1 billion of the capital inflow registered in the first seven months of the year stemmed from short-term maturities while US dollar 3.8 billion of the total amount was of long-term nature. Long-term credits used by other sectors became the determining factor in long-term capital movements, while short-term credits used by the banks in short-term capital movements were the determining factor.

58. In January-July period, net direct capital investment amounting to US dollar 1.3 billion mainly originated from non-residents' capital investments and real estate in homeland. Net investments of residents made abroad increased by 92 percent in this period compared to the same period of the previous year and reached US dollar 457 million. Moreover, long-term credits extended to foreign companies by their affiliates abroad, which are registered under other capital items and accepted as direct capital investment, became net US dollar 184 million.

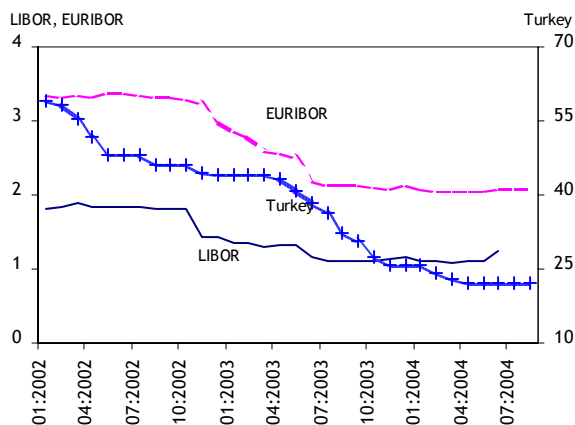
DIRECT INVESTMENTS
(12-month, billion US dollar)



Source: CBRT.

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

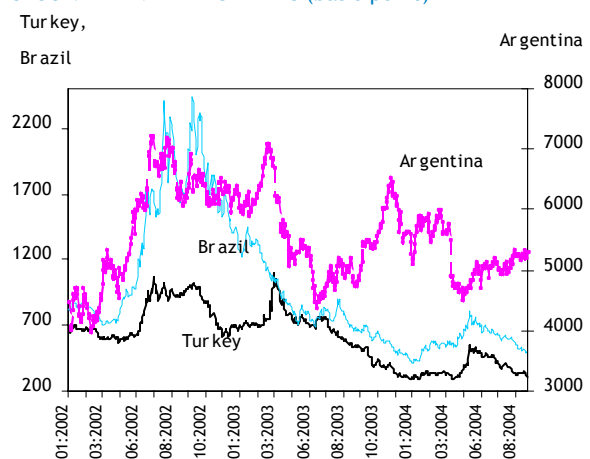
INTEREST RATES (monthly average, %)



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 in interbank money market.

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

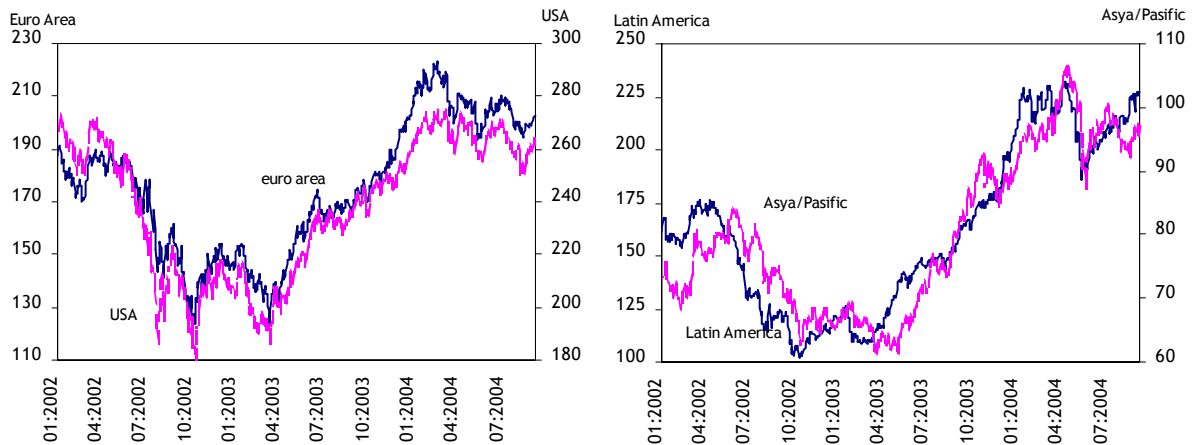
SECONDARY MARKET SPREADS (basis point)



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.

60. The Federal Reserve raised indicative short-term interest rates to 1.75 percent by 0.25 point each on 30 June, 10 August and 21 September. Meanwhile, the Bank of England raised interest rates to 4.75 by a 0.25 point rise on August 5, 2004 in its fourth increment since the turn of the year. The Bank of Canada, which had eased interest rates three times since the turn of the year, raised interest rates on September 9, 2004 by 0.25 percentage points. Meanwhile, the ECB has made no changes in interest rates in 2004 so far.

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

PORTFOLIO INVESTMENT (monthly, USD million)

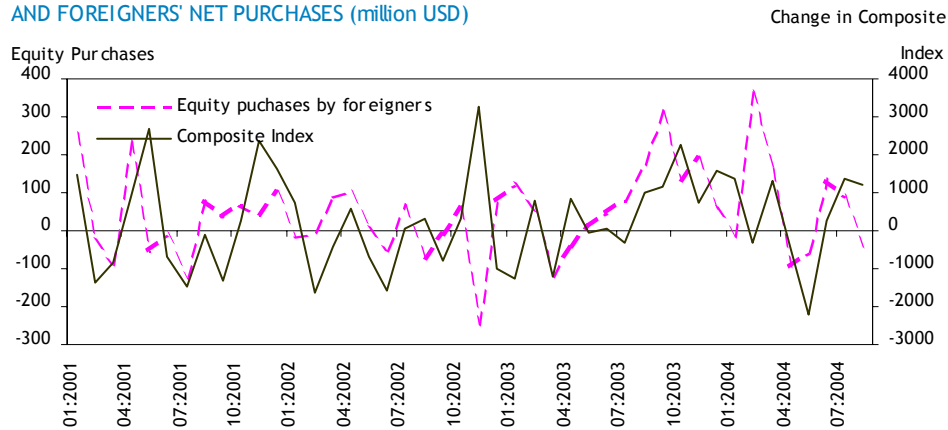
	2003								2004
	Jan-Jul	Jan	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
Portfolio Investment	617	1401	311	341	-216	194	1007	17	3055
Assets	-383	-105	-267	512	250	55	-148	-180	117
General Government	-15	0	0	0	-6	-5	-4	-5	-20
Banks	-90	224	-59	346	404	156	-24	-37	1010
Other Sectors	-278	-329	-208	166	-148	-96	-120	-138	-873
Liabilities	1000	1506	578	-171	-466	139	1155	197	2938
Equity Securities	144	-18	364	157	-96	-60	131	90	568
Debt Securities	856	1524	214	-328	-370	199	1024	107	2370
Monetary Authority	0	0	0	0	0	0	0	0	0
General Government	1033	1524	214	-328	-370	199	1024	107	2370
In Turkey	103	24	501	896	-370	199	274	616	2140
Abroad	930	1500	-287	-1224	0	0	750	-509	230
Banks	-177	0	0	0	0	0	0	0	0

Source: CBRT.

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

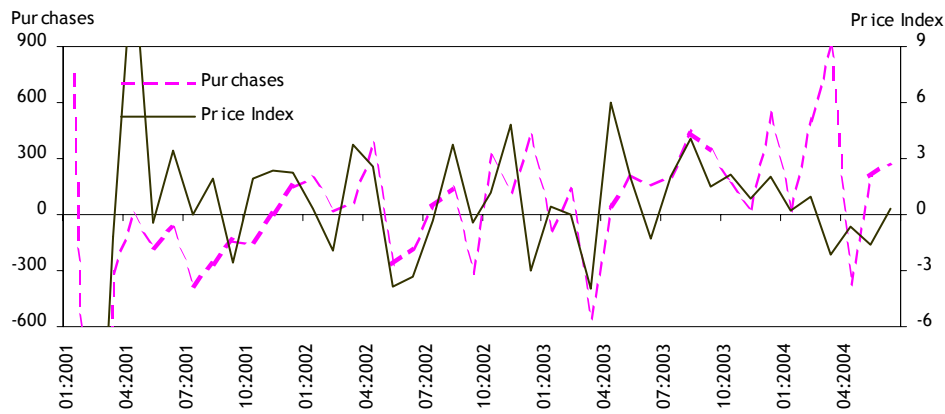
63. The Treasury held a US dollar 750 million-worth of bond auction in June. Added to the US dollar 2.8 billion-worth of bond auction in the first quarter, the total amount auctioned in the first seven months of the year reached US dollar 3.5 billion. In the same period, the Treasury made a bond repayment of US dollar 3.3 billion. Meanwhile, the Treasury held a Euro 600 million-worth of bond auction in September with a maturity of 5 years. Thus, total amount auctioned since the beginning of the year reached US dollar 4.25 billion.

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



Source: CBRT, ISE.

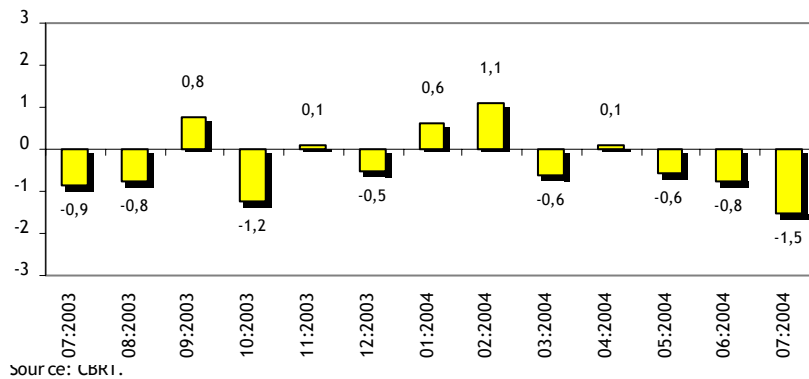
**GOVERNMENT DEBT SECURITY PRICES (monthly %age change)
AND FOREIGNERS' NET PURCHASES**



Source: CBRT, ISE.

64. The FX-holdings item composed of current and deposit accounts that are held by the banks with their correspondent banks abroad pursued a volatile course in the first seven months of the year. During this period, FX assets of banks rose by net US dollar 1.7 billion leading to a capital outflow of the same amount.

**CHANGE IN DEPOSIT MONEY BANKS' FX HOLDINGSⁱ
(USD billion)**



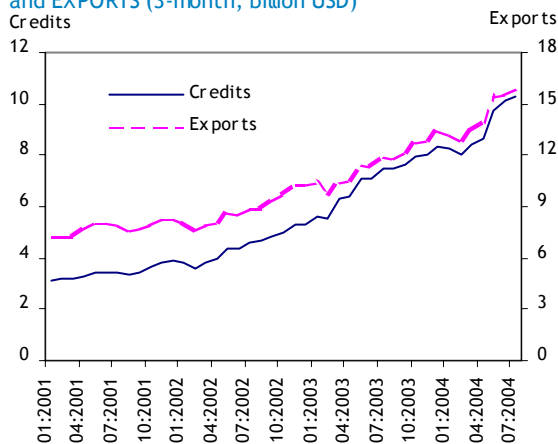
Source: CBRT.

i (+) sign indicates a decrease.

65. Rapid growth in foreign trade volume stimulated commercial credit utilization as well. In January-July period, volume of exports increased by 32.7 percent, while the volume of commercial credits extended abroad expanded by 36.1 percent. Similarly, commercial

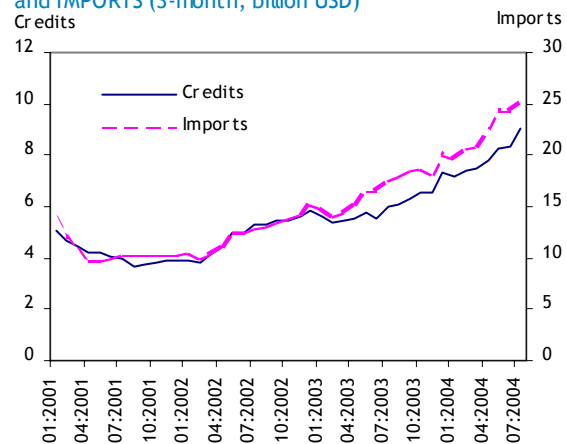
credit utilization boosted by 44.4 percent in the same period, while the volume of imports increased by 45.1 percent.

**TRADE CREDITS EXTENDED ABROAD
and EXPORTS (3-month, billion USD)**



Source: CBRT, SIS.

**TRADE CREDITS DRAWINGS
and IMPORTS (3-month, billion USD)**



Source: CBRT, SIS.

66. The banking sector maintained its tendency to meet its financing needs through short-term credits in 2004 as well. The banks, which used net US dollar 2 billion-worth of short-term credits in 2003, utilized net US dollar 1.6 billion-worth of short-term credits in January-July 2004.

OTHER INVESTMENTS (monthly, USD million)

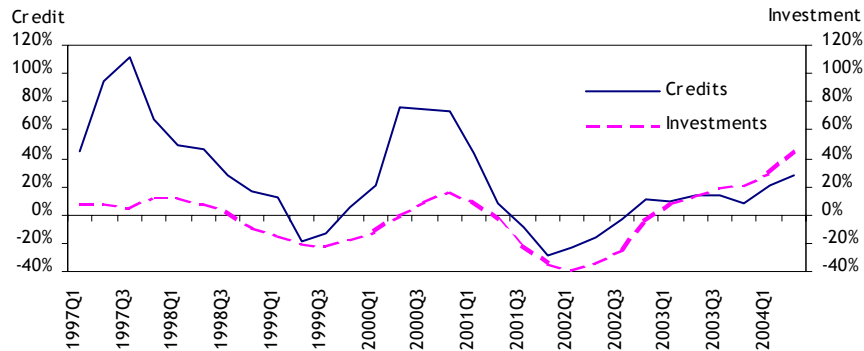
	2003								2004
	Jan-Jul	Jan	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul
Other Investment	3047	757	2039	-441	1829	-228	-588	469	3837
Assets	1199	546	1820	-1306	-274	-843	-1095	-1164	-2316
Trade Credits	-578	-192	589	-636	-379	-168	-387	210	-963
Credits	-406	147	181	-17	30	-44	82	152	531
Currency and Deposits	2382	617	1078	-619	111	-594	-758	-1500	-1665
Liabilities	1848	211	219	865	2103	615	507	1633	6153
Trade Credits	936	45	216	695	459	263	372	663	2713
Credits	-615	241	14	179	1618	305	-214	1120	3263
Monetary Authority	-269	-158	-491	-461	-194	-433	-457	-156	-2350
General Government	-709	-166	-108	-286	664	-222	-324	477	35
IMF Credits	514	-67	0	0	435	0	0	-67	301
Long Term	-1223	-99	-108	-286	229	-222	-324	544	-266
Banks	272	240	287	127	527	399	300	328	2208
Long Term	-260	-14	198	-149	37	50	504	26	652
Short Term	532	254	89	276	490	349	-204	302	1556
Other Sectors	91	325	326	799	621	561	267	471	3370
Long Term	-155	326	267	777	570	539	247	402	3128
Short Term	246	-1	59	22	51	22	20	69	242
Deposits	1474	-75	1	-12	16	25	316	-182	89
Monetary Authority	222	1	10	-5	-20	-36	-19	36	-33
Long Term	-125	-23	-8	-20	-28	-34	-25	22	-116
Short Term	347	24	18	15	8	-2	6	14	83
Banks	1252	-76	-9	-7	36	61	335	-218	122

Source: CBRT.

67. In 2004, the Central Bank continued to pay back the IMF loans used in 2001 and earlier. Thus, the total amount repaid in January-July period reached US dollar 2.4 billion.

68. Long-term credit utilization in all sectors excluding the Central Bank, the Treasury and the banking sector rose significantly. The upward trend in long-term credit utilization, which has been observed since 2003, confirms that investment expenditures maintain their high level.

LONG TERM CREDIT DRAWINGS and
INVESTMENT EXPENDITURES: PRIVATE SECTOR
(12-month average, annual % change)

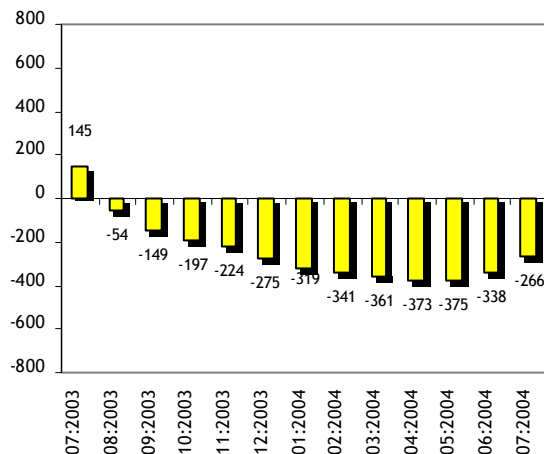


Source: CBRT, SIS.

69. Long-term FX deposit accounts with credit letters and super FX accounts held at the Central Bank by the workers abroad have been displaying an outflow trend since April 2003. The interest rate cut-down operations, which intensified especially in the second half of 2003, are considered to be the primary factor in this outflow. The interest rates on super FX accounts were re-dropped as of August 31, 2004. Meanwhile, the inflow in short-term accounts continued despite the steep decline in recent months.

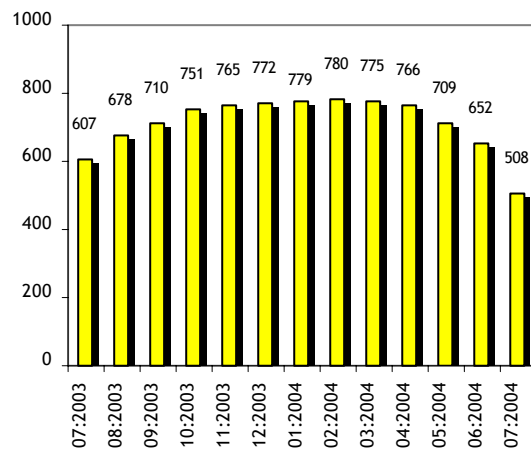
INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS
(12-month, USD billion)

LONG TERM



Source: CBRT.

SHORT TERM



Source: CBRT.

70. The FX deposits held at domestic banks by residents abroad, which pursued an inflow course throughout 2003, declined in the first quarter of 2004. However, the said deposits re-started to rise in April-June period. Although the upward trend in FX deposits held at domestic banks by residents abroad continued in July, a US dollar 397 million-worth of outflow was observed in deposit accounts opened by those resident abroad.

71. The Central Bank reserves, which were US dollar 33.6 billion by the end of 2003, dropped to US dollar 33.3 billion by 3 September 2004.

72. External financing requirement, which is defined as the sum of the current account balance and the net errors and omissions item, became US dollar 8.7 billion in January-July 2004. Although the net errors and omissions item yielded a surplus in this period, financing requirement increased due to the current account deficit. Financing requirement

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

73. Monthly short-term external debt stock announced by the Central Bank increased to US dollar 26.8 billion by the end of July from US dollar 26.1 billion of June. The increase in short-term commercial credits utilized for import financing and short-term international loans utilized by banks became the determining factor in the expansion of external debt stock.

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

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)										
	2003								2004	
	Jan-Jul	Jan	Feb	Mar	Apr	May	Jun	Jul	Jan-Jul	
1. Current Account Balance	-5324	-903	-2124	-2139	-1660	-1153	-1343	-703	-10025	
2. Net Error and Omission	2332	-1123	-885	2152	1383	-102	1300	-1395	1330	
I. Total Financing Requirement (=1+2)	-2992	-2026	-3009	13	-277	-1255	-43	-2098	-8695	
II. Total Financing (=1+2+3)	2992	2026	3009	-13	277	1255	43	2098	8695	
1. Capital Flows (net)	1381	1826	2126	957	1327	1174	2025	2514	11949	
Portfolio Investments (net)	344	60	363	-23	66	181	391	305	1343	
Portfolio Investments (net)	617	1401	311	341	-216	194	1007	17	3055	
General Government Bond Issues	930	1500	-287	-1224	0	0	750	-509	230	
Foreigners' Buying of Bonds and Stocks in Turkey	247	6	865	1053	-466	139	405	706	2708	
Residents Buying of Bonds and Stocks Abroad	-383	-105	-267	512	250	55	-148	-180	117	
Credits (excl. IMF credits)	76	511	721	1335	1836	1001	615	2006	8025	
General Government	-1223	-99	-108	-286	229	-222	-324	544	-266	
Banks	272	240	287	127	527	399	300	328	2208	
Long Term	-260	-14	198	-149	37	50	504	26	652	
Short Term	532	254	89	276	490	349	-204	302	1556	
Other Sectors	1027	370	542	1494	1080	824	639	1134	6083	
Long Term	-155	326	267	777	570	539	247	402	3128	
Short Term	246	-1	59	22	51	22	20	69	242	
Trade Credits	936	45	216	695	459	263	372	663	2713	
Deposits	1474	-75	1	-12	16	25	316	-182	89	
Central Bank	222	1	10	-5	-20	-36	-19	36	-33	
Banks	1252	-76	-9	-7	36	61	335	-218	122	
Others	-1130	-71	730	-684	-375	-227	-304	368	-563	
2. IMF Credits	245	-225	-491	-461	241	-433	-457	-223	-2049	
Central Bank	-269	-158	-491	-461	-194	-433	-457	-156	-2350	
General Government	514	-67	0	0	435	0	0	-67	301	
3. Change in Reserves (- increase)	1366	425	1374	-509	-1291	514	-1525	-193	-1205	
Banks' FX Holdings	2382	617	1078	-619	111	-594	-758	-1500	-1665	
Official Reserves	-1016	-192	296	110	-1402	1108	-767	1307	460	

Source: CBRT.

VI. APPENDIX

CURRENT ACCOUNT (USD million)

Current Account											
	Net	Foreign Trade				Services		Income		Transfers	
		Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances
<i>(annual)</i>											
2000	-9819	-22410	27775	2946	-54503	11368	7636	-4002	-4825	5225	4560
2001	3390	-4543	31334	3039	-41399	9130	8090	-5000	-5497	3803	2786
2002	-1522	-8337	36059	4065	-51554	7879	8479	-4554	-4417	3490	1936
2003*	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
<i>(quarterly)</i>											
2002 I	-637	-956	7910	919	-10409	702	895	-1227	-1059	844	477
II	-809	-2260	8514	933	-12454	1698	2087	-1016	-1082	769	505
III	1030	-2329	9298	1090	-13529	3573	3813	-1078	-1116	864	539
IV	-1106	-2792	10337	1123	-15162	1906	1684	-1233	-1160	1013	415
2003 I	-2761	-2399	10366	757	-14368	683	1201	-1531	-1171	486	138
II	-2329	-3229	11318	954	-16470	1662	2259	-1248	-1106	486	151
III	1391	-4088	12180	1082	-18448	6241	7032	-1345	-1134	583	235
IV	-3151	-4318	13389	1160	-20054	1919	2711	-1303	-1175	551	205
2004 I	-5166	-5257	13492	877	-20872	942	1713	-1464	-941	613	193
II	-4156	-6375	15508	1043	-24376	2573	3270	-1322	-991	968	181
<i>(monthly)</i>											
2003 Aug	920	-1385	3829	402	-5975	2623	2880	-505	-524	187	79
Sep	705	-1315	4115	406	-6206	2180	2341	-347	-348	187	84
Oct	88	-910	4824	451	-6575	1185	1454	-360	-315	173	77
Nov	-431	-608	3970	355	-5245	612	767	-582	-500	147	61
Dec	-2808	-2800	4595	354	-8234	122	490	-361	-360	231	67
2004 Jan	-903	-1041	4615	256	-6288	390	602	-451	-219	199	81
Feb	-2124	-1824	3664	280	-6134	159	503	-631	-412	172	54
Mar	-2139	-2392	5213	341	-8450	393	608	-382	-310	242	58
Apr	-1660	-2022	5069	358	-7918	560	773	-417	-262	219	63
May	-1153	-1976	5170	369	-7990	1015	1165	-521	-447	329	64
Jun	-1343	-2377	5269	316	-8468	998	1332	-384	-282	420	54
Jul	-703	-2405	5406	256	-8577	1725	2174	-436	-264	413	47
<i>(12-month)</i>											
2003 Aug	-4993	-11798	43304	3926	-62752	9539	11072	-5359	-4567	2625	1014
Sep	-4805	-12508	44201	3916	-64448	10492	12176	-5357	-4571	2568	939
Oct	-5151	-12791	45524	3955	-66193	10677	12652	-5477	-4606	2440	898
Nov	-5356	-12711	45900	3928	-66476	10743	12984	-5490	-4561	2102	807
Dec	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
2004 Jan	-7531	-14607	48334	4046	-71202	10619	13428	-5631	-4596	2088	758
Feb	-8391	-15713	49074	4028	-73150	10618	13513	-5441	-4537	2145	769
Mar	-9255	-16892	50379	4073	-75844	10764	13715	-5360	-4356	2233	784
Apr	-10019	-17955	51786	4144	-78551	11038	14046	-5390	-4306	2288	802
May	-10454	-18945	53096	4154	-81009	11414	14438	-5386	-4267	2463	815
Jun	-11082	-20038	54569	4162	-83750	11675	14726	-5434	-4241	2715	814
Jul	-11551	-21055	55739	4144	-86060	11962	15089	-5377	-4243	2919	789

Source: CBRT.

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

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Liabilities							Deposits	
					Equity Securities	Debt Securities			Net	Trade Credits	Credits			Deposits			
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
	(annual)																
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1719	-1719	2769	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1373	1373	863	-593	-2096	-16	1519	7256	594	8033	2483	-6138	11834	-1028	437	1336	-988
2003	2862	2862	1063	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
	(quarterly)																
2002 I	2157	2157	95	-59	-1232	66	1107	3821	1778	2391	274	-6138	8752	-443	43	402	-502
II	236	236	312	-736	-265	50	-521	1349	-112	1903	743	0	769	252	239	195	-332
III	-1633	-1633	236	-468	-245	-22	-201	1413	-486	2406	738	0	2617	-1184	-76	614	-362
IV	613	613	220	670	-354	-110	1134	673	-586	1333	728	0	-304	347	231	125	208
2003 I	4192	4192	137	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1244	-1244	83	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1269	-1269	457	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	1183	1183	386	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	5022	5022	400	2053	140	503	1410	2355	1076	1295	956	-1110	-560	654	1450	6	-92
II	1575	1575	638	985	157	-25	853	1013	-1241	3225	1094	-1084	118	1226	1449	-75	432

Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Net	Trade Credits	Credits				Deposits		
					Equity Securities	Debt Securities					Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks	
(monthly)																	
2003 Aug	-416	-416	230	632	21	174	437	152	-752	903	52	-348	445	364	174	148	43
Sep	-897	-897	103	1217	-692	311	1598	1170	760	521	208	-118	-289	257	340	66	36
Oct	-170	-170	115	253	173	131	-51	-1899	-1238	-274	486	-191	-237	33	198	43	-614
Nov	357	357	153	-552	-316	192	-428	-1086	104	-1365	-123	-430	-211	-348	-285	12	19
Dec	996	996	118	402	-189	57	534	1893	-532	2630	622	-123	236	1397	357	6	135
2004 Jan	2026	2026	60	1401	-105	-18	1524	757	617	211	45	-158	-166	240	325	1	-76
Feb	3009	3009	363	311	-267	364	214	2039	1078	219	216	-491	-108	287	326	10	-9
Mar	-13	-13	-23	341	512	157	-328	-441	-619	865	695	-461	-286	127	799	-5	-7
Apr	277	277	66	-216	250	-96	-370	1829	111	2103	459	-194	664	527	621	-20	36
May	1255	1255	181	194	55	-60	199	-228	-594	615	263	-433	-222	399	561	-36	61
Jun	43	43	391	1007	-148	131	1024	-588	-758	507	372	-457	-324	300	267	-19	335
Jul	2098	2098	305	17	-180	90	107	469	-1500	1633	663	-156	477	328	471	36	-218
(12-month)																	
2003 Aug	2383	2383	823	1578	-734	198	2114	3343	675	4054	1999	-617	-690	763	392	624	1487
Sep	2292	2292	897	3136	-1408	519	4025	5042	1804	4605	1924	-735	-857	1240	836	561	1539
Oct	1895	1895	738	2798	-1455	594	3659	3234	1021	3753	2287	-926	-1025	1024	1058	554	682
Nov	2086	2086	894	2306	-1345	1033	2618	1624	956	2099	1865	-1356	-1144	973	516	541	603
Dec	2862	2862	1063	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
2004 Jan	3706	3706	1082	2862	-1273	872	3263	1992	-237	4046	2272	-1637	-763	2023	985	460	598
Feb	4452	4452	1403	3554	-1653	1184	4023	3035	381	3974	2518	-2128	-691	2086	1234	439	420
Mar	3692	3692	1326	4697	-1317	1460	4554	2163	-2253	5384	2824	-2476	-770	1929	3134	414	229
Apr	3843	3843	1389	4773	-938	1406	4305	3497	-1908	6553	3244	-2670	-587	2639	3503	393	-76
May	5920	5920	1501	4375	-806	1337	3844	4119	-2447	7804	3364	-3064	-651	3814	3740	334	150
Jun	6511	6511	1881	4748	-639	1420	3967	4243	-2693	8527	3605	-3404	-648	4213	3915	314	397
Jul	8565	8565	2062	5007	-886	1433	4460	4067	-3323	8568	3958	-3560	-21	3911	4154	242	-259

Source: CBRT.