THE CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE OF PAYMENTS REPORT

2007 -IV

SUMMARY

In 2006, the turmoil in international financial markets induced a decline in the current account deficit. However, the current account deficit reincreased in the third quarter of 2007 due to the acceleration of imports arising from the appreciation of the New Turkish lira as well as the modest recovery in domestic demand and the ease of uncertainties over the general elections. The ongoing strong export growth and the rebound in tourism revenues could not offset the expansion of the current account deficit, and real imports grew faster than real exports in annual terms starting from June 2007. For this reason, net exports made a negative contribution to GDP growth in the third quarter, and it is anticipated that this trend also continued in the last quarter of the year.

Recently announced data suggest that the stable growth in the exports quantity index continues. Meanwhile, exacerbated problems in international credit markets have increased the downside risks to domestic demand in the upcoming period. The recent depreciation of the New Turkish lira and the moderate course of domestic demand are expected to decelerate the upward trend in the import quantity index significantly in the rest of 2008.

Productivity gains helped the increase in the competitive advantage of Turkey in international trade by reducing real unit labor costs, which has compensated the negative effect of the strong currency and thus boosted the exports significantly. Turkey's proximity to its biggest trade partner – the EU, the brisk demand from EU countries and euro's strength against US dollar were all-conducive to export growth. In 2007, export growth was mostly concentrated in sectors such as motor vehicles, basic metals, machinery and equipment, clothing, textiles and electrical machinery and apparatus.

Meanwhile, the cease of the slowing process in domestic demand and the relative price advantage created by the strong New Turkish lira led to a rebound in the import of capital goods and consumption goods starting from the second and third quarters of 2007, respectively. Besides, imports of intermediate goods have been growing steadily on the back of strong export performance. Rising oil prices in the last quarter of the year stood as another factor boosting the imports of intermediate goods. The basic metals industry made the largest contribution to import growth in 2007, mainly on account of the rise in USD prices as well as the increased import quantity. Other key drivers of this growth were imports of chemicals and chemical products, machinery and equipment, crude oil and natural gas, wastes and scrap (recycle products), land vehicles, agricultural and livestock products.

Export and import performance in 2007 was largely influenced by rises in the international trade prices. Export prices increased at an average 13.1 percent while import prices were up by 9.7 percent, pushing up the nominal value of both exports and imports.

Excluding reserve changes (CBT + banks) and IMF loans, the capital inflow to Turkey reached USD 53.9 billion in 2007. The financing during this period was mainly composed of direct investments and long-term loans drawn by private enterprises and commercial banks. Meanwhile, the weight of portfolio investments in the financing declined due to the global financial turmoil.

Against this background, the CBT reserves and commercial-bank FX assets with foreign correspondent banks increased by USD 8 billion and USD 3.5 billion, respectively, in 2007.

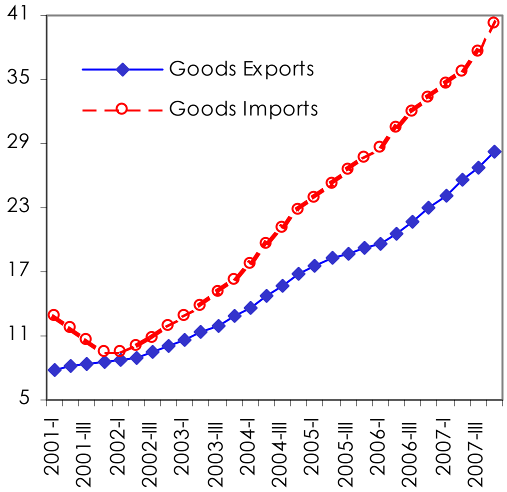
Balance of Payments
(USD billion)

	Jan-Dec		
	2006	2007	% change
Current Account	-32.2	-38.0	..
Goods	-41.3	-47.5	..
Exports	91.9	113.2	23.1
Exports (fob)	85.5	107.2	25.3
Shuttle trade	6.4	6.0	-6.3
Imports	-133.3	-160.7	20.5
Imports (cif)	-139.6	-170.0	21.8
Coverage adjustment	6.8	9.9	..
Services	13.8	14.1	..
Tourism (net)	14.1	15.2	7.9
Credit	16.9	18.5	9.7
Debit	-2.7	-3.3	18.8
Other services revenues (net)	-0.3	-1.2	..
Income	-6.6	-6.8	..
Wage Payments	-0.1	-0.1	..
Direct investment income (net)	-1.0	-1.8	..
Portfolio investment income (net)	-0.7	0.4	..
Other investment income (net)	-4.9	-5.3	..
Interest income	1.5	2.2	48.5
Interest expenditure	-6.3	-7.4	17.5
Current transfers	1.9	2.2	..
Workers remittances	1.1	1.2	8.8
Capital and financial account	32.2	38.2	..
Financial account (excl. reserve assets)	38.3	46.2	..
Direct investment (net)	19.0	19.8	..
Abroad	-0.9	-2.1	..
In Turkey	19.9	21.9	..
Portfolio investment (net)	7.4	0.7	..
Assets	-4.0	-2.1	..
Liabilities	11.4	2.8	..
Equity securities	1.9	5.1	..
Debt securities	9.5	-2.4	..
Non-residents' buyings in Turkey	6.1	-3.3	..
Eurobond issues of Treasury	3.3	0.9	..
Borrowing	5.8	4.6	..
Repayment	-2.5	-3.7	..
Other investments (net)	11.9	25.7	..
Assets	-13.4	-4.8	..
Trade credits	-2.4	-1.4	..
Credits	-0.7	0.1	..
Banks FX assets (- increase)	-10.3	-3.5	..
Liabilities	25.4	30.5	..
Trade credits	0.7	4.2	..
Credits	20.0	28.8	..
Central Bank	0.0	0.0	..
General Government	-5.2	-3.9	..
IMF	-4.5	-4.0	..
Long-term	-0.7	0.1	..
Banks	5.8	5.3	..
Long-term	9.8	7.3	..
Short-term	-4.0	-1.9	..
Other sectors	19.4	27.4	..
Long-term	18.9	27.2	..
Short-term	0.5	0.2	..
Deposits of non-residents	4.6	-2.7	..
In CBT	-1.3	-1.5	..
In banks	5.9	-1.2	..
Change in official reserves (- increase)	-6.1	-8.0	..
Net errors and omissions	-0.1	-0.4	..

Source: CBT.

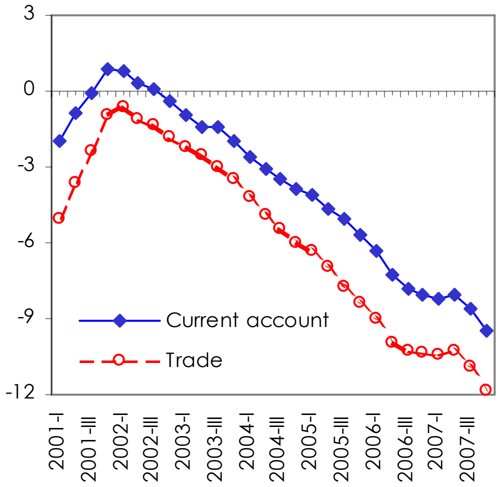
Goods Exports and Imports

(12-month ave., billion US dollars)



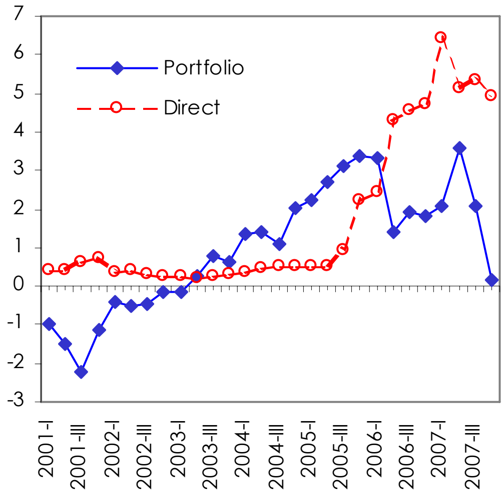
Trade and Current Account

(12-month ave., billion US dollars)



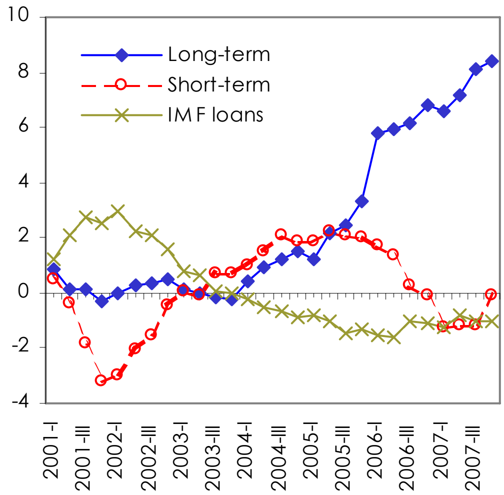
Direct and Portfolio Investments

(12-month ave., billion US dollars)



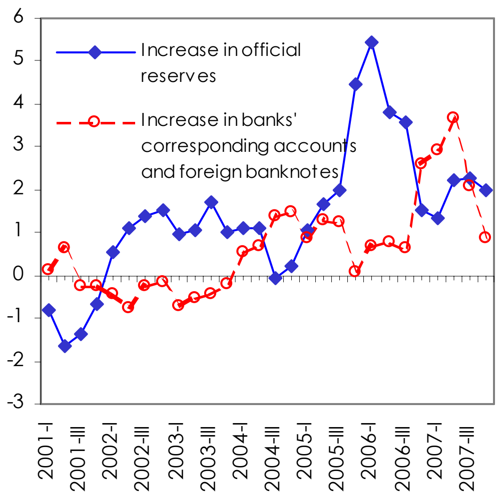
Other Capital Flows

(12-month ave., billion US dollars)



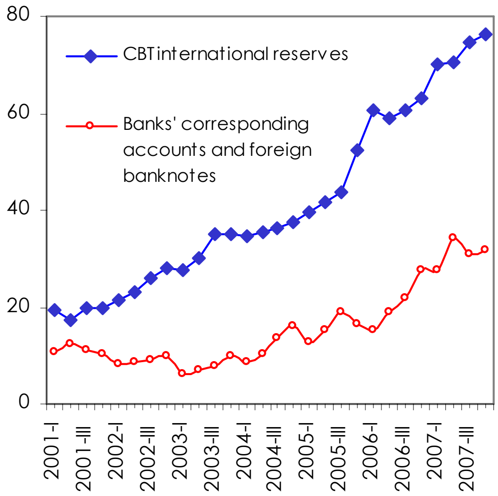
Change in Reserves

(12-month ave., billion US dollars)



International Reserves

(billion US dollars)

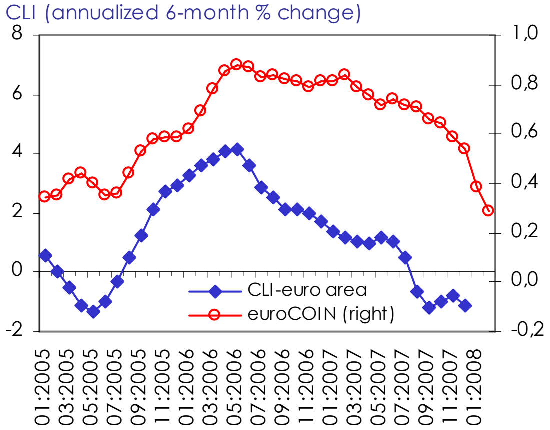


Source: CBT, TURKSTAT.

I. EXTERNAL ECONOMIC DEVELOPMENTS

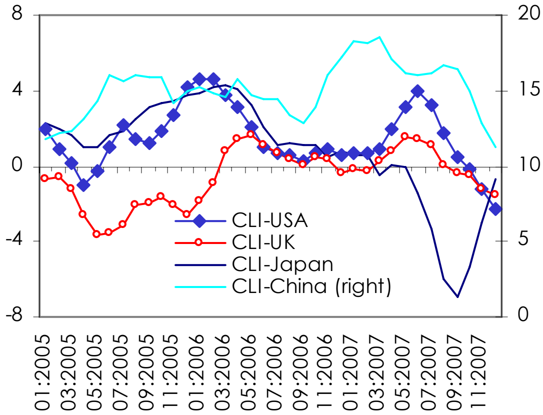
1. Financial disturbances in the US economy, which are also of a global nature, have a potential negative impact on Turkey as well. Strong signs of a recession in the US economy and the uncertainty over the potential impacts of this recession on other developed and developing countries have led to immediate cuts in federal funds rate, declines particularly in equities markets and a significant downward adjustment in growth expectations for 2008 throughout the world. The upward trend of commodity prices, which was mainly driven by prices of crude oil, iron-steel and food, exacerbated the negative outlook by increasing the inflation risk. Especially as of the last quarter of 2007, inflation rose significantly both in developed and developing countries.

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



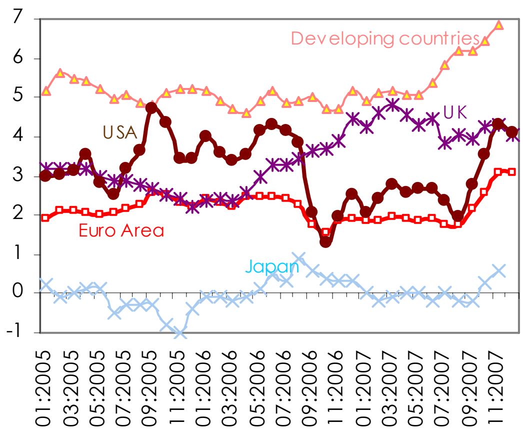
Source: OECD, CEPR.

Selected Countries Leading Indicators:
CLI (annualized 6-month % change)



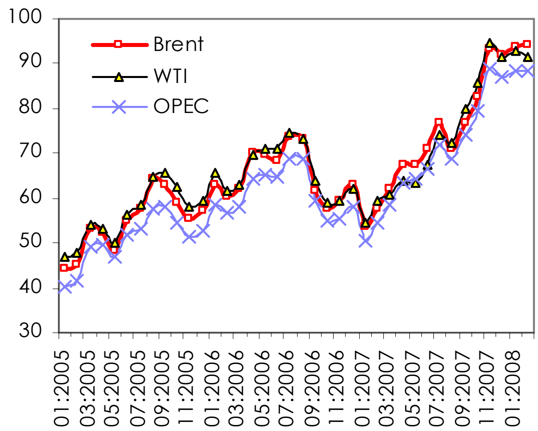
Source: OECD.

Inflation Rate:
CPI, (annual % change)



Source: IMF IFS.

Crude Oil Prices:
(US dollars, monthly average)



Source: Energy Information Administration, OPEC.

2. According to provisional data, the US economy grew by 2.2 percent in 2007. The rate of growth declined to 0.6 percent in the last quarter of the year from 4.9 percent in the third quarter, largely due to the slowdown in stock and housing investments as well as in exports. The February 2008 survey of the Consensus Economics reveals that the US growth is expected to decline to 1.6 percent in 2008. The fall in US housing investments was accompanied by the decline in housing prices. Notwithstanding the positive contribution of net exports to growth, the rate of increase in exports dropped to 3.9 percent in the last quarter of the year from 19.1 percent in the third quarter. The unemployment rate, which was 4.4 percent in March 2006, became 5 percent as of December 2007. The non-manufacturing index by the Institute for Supply Management declined to 41.9 percent in January from 54.4 percent in December. A lower-than-50 percent value in the index refers to a potential contraction in the services sector, and thus, makes it a significant indicator. Coupled with the above-mentioned

probability of contraction, the concerns, which resulted from the problems in sub-prime mortgage loans and intensified in August 2007, prompted the Fed to cut the benchmark federal funds rate twice in January 2008, by 75 and 50 basis points.

3. It is estimated that the euro-area growth, which was 2.9 percent in 2006, declined to 2.6 percent in 2007 (Consensus Economics). This decline was triggered by the weakened competitiveness due to the strong euro and also by the negative impacts of the credit squeeze. Leading indicators such as the OECD's composite leading indicators index and the euroCOIN suggest that the slowdown in the euro area will also continue in the upcoming period. The consumer prices inflation in the euro area, which had been fluctuating around 2 percent in recent years, started to increase in the last quarter of 2007 due to the rise in commodity prices – particularly in crude oil and food prices – and reached 3.2 percent by January 2008. While the expected recession in the US economy is anticipated to affect the financial markets of the euro area and especially the area's exports to the US negatively, the non-US export of the area has not registered a significant slowdown yet. On the other hand, moderate course of wages and economic growth boosted employment and labor force participation rate. Moreover, euro area unemployment rate fell to 7.2 percent in 2007, the lowest level of the last 25 years. The European Central Bank (ECB) did not change the policy rates at the meeting held on March 6, 2008 based on the expectation that upside risks in inflation in the short run would not be transmitted to the medium-term inflation trend.

4. The Japanese economy keeps growing thanks to the briskness in the domestic demand and strong exports. Japanese exports are chiefly based on the developing Asian countries and it is considered that a possible contraction in the US economy may restrict the increase in the Japanese exports as well. Despite a slight increase in the last quarter of 2007, Japanese inflation still pursues a low course. Meanwhile, inflation excluding energy and food is negative. Leading indicators suggest a slowdown in the Japanese economy in the coming period, albeit temporary. The Bank of Japan (BoJ) kept the interest rates unchanged at the level of 0.5 percent at the meeting held in February 2008.

5. China's economy has grown above 10 percent for fifth successive year. Chinese growth rate was realized as 11.4 percent in 2007. Despite a slowdown in exports in the second half of the year, growth figures are still at high levels. Consumer prices inflation in China exceeded the 3 percent target and became 6.5 percent in 2007. In response to the increased inflation, the government introduced price controls and fixed the prices of food, electricity and fuel-oil through a decree. Additionally, the Chinese Central Bank raised the required reserve ratio by 50 basis points at the meeting held in January 2008 and declared it would be 15 percent as of 25 January 2008.

II. CURRENT ACCOUNT

6. While current account deficit, which was 32.2 billion USD in end-2006 did not exhibit a remarkable change in the first half of 2007, it reincreased in the second half of the year and reached USD 38 billion by the year-end. Thus, considering the revision in the national accounts as well, the ratio of the current accounts to GDP, which was 6.1 percent in 2006, fell to 5.8 percent in end- 2007.

7. The downward trend in the current account deficit driven by the global financial turbulence in May 2006 ended in the third quarter as imports regained momentum after these negative effects diminished and the uncertainty over elections faded. The continued strong export growth and the rebound in tourism revenues could not offset the expansion of the current account deficit. As a result of this, net exports contributed negatively to GDP growth in the third quarter. The said trend is estimated to persist also in the last quarter of the year.

8. Indicators related to the current account deficit and the financing structure continued to improve in 2007. The export/import coverage ratio displayed a slight increase compared to 2006. On the other hand, the reduced share of short-term sources in total financing remarkably increased the coverage ratio of short-term external debt by exports and reserves. Besides, the ratio of the Central Bank's reserves to total imports slightly increased in 2007.

Selected Indicators Related to the Current Account Deficit and Financing Structure

	2000	2001	2002	2003	2004	2005	2006	2007
Exports / Imports	0.58	0.90	0.85	0.79	0.74	0.70	0.69	0.70
Exports / Short-Term External Debt	1.09	2.10	2.44	2.23	2.10	2.07	2.28	2.68
Exports / External Debt Service	1.40	1.40	1.39	1.84	2.20	2.10	2.31	2.39
Tourism Revenues* / Trade Balance	0.35	2.17	1.16	0.69	0.51	0.42	0.30	0.29
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.18	1.41	1.57	1.81
CBT Reserves / Financing Requirement	1.84	-	20.02	11.36	2.81	2.57	1.96	1.99
CBT Reserves / Current Account Balance	2.36	-	18.49	4.38	2.41	2.32	1.97	2.01
CBT Reserves / Imports	0.44	0.52	0.59	0.54	0.41	0.47	0.47	0.48

Source: CBT, TURKSTAT.

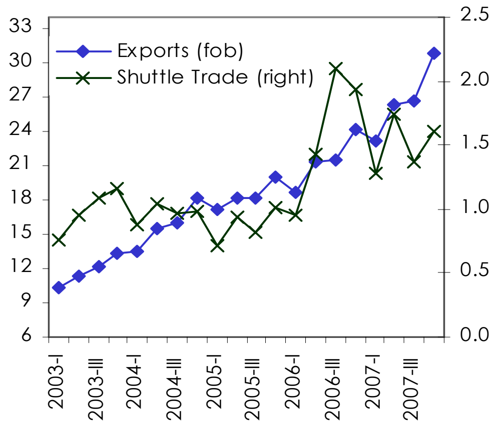
* Turism revenues from foreigners.

Exports of Goods

9. According to the statistics released by TURKSTAT, export growth increased by 25.3 percent in 2007. Contribution of export prices to nominal export growth exceeded that of real export growth. As a matter of fact, in 2007 the export quantity index (real exports) rose by an average 10.7 percent, while the export unit value index rose by 13.1 percent.

Exports

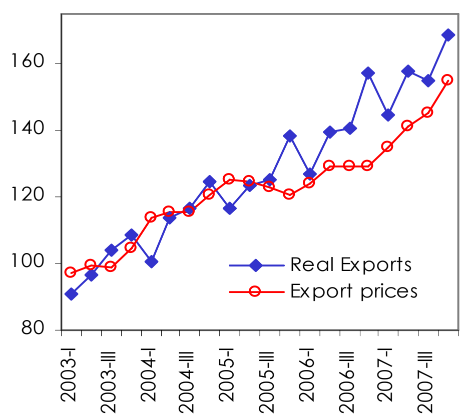
(billion US dollars)



Source: TURKSTAT.

Exports - Real and Unit Value

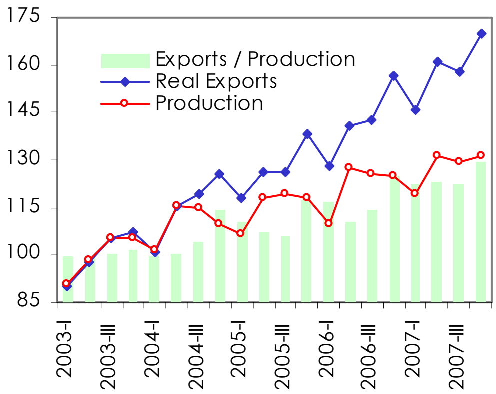
(2003=100)



Source: TURKSTAT.

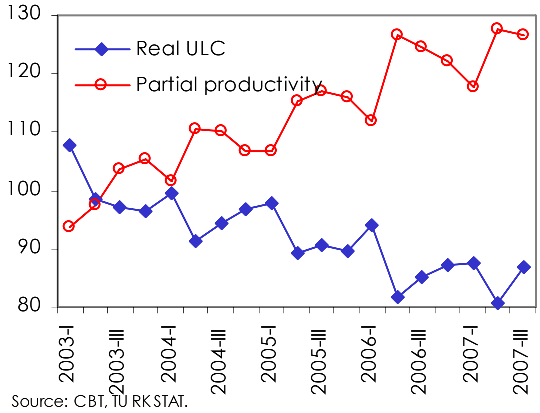
10. The acceleration in investment expenditures following the financial crisis in 2001 and the resulting productivity gains contributed to the decline in real unit labor costs (ULC), thus increasing the competitive advantage of Turkey in international trade. This speeded up the export growth by compensating the negative influence of the strong New Turkish lira (YTL) on external competitiveness. Turkey's proximity to its biggest trade partner EU, the brisk demand from those countries and the euro's strength against the US dollar were other key drivers of export growth. Besides, new markets acquired in emerging markets such as Russia, whose income has been rising due to soaring oil prices, Romania and the United Arab Emirates also enhanced the export performance.

Production and Exports in Manufacturing Industry (2003=100)



Source: TURKSTAT.

Real ULC and Productivity Indices
(2003=100)



Source: CBT, TURKSTAT.

11. Throughout 2007, the largest contribution to export growth came from motor vehicles, basic metals, machinery-equipment, clothing, textiles and electrical machinery and apparatus. The share of the said six items in total exports reached 59.8 percent, while they contributed to total export growth by 16.1 percentage points.

Exports
(Million US dollars)

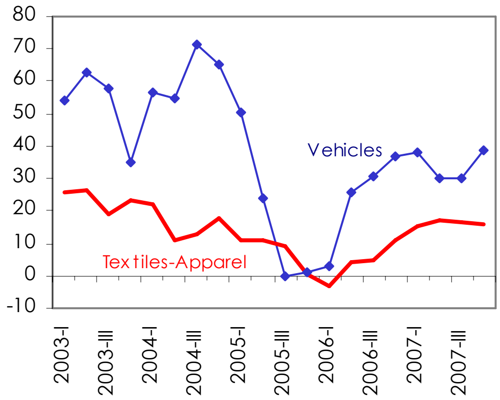
	Jan-Dec					Share	
	2006	2007	% Change	% Contrib.	$ Contrib.	2006	2007
Total	85535	107154	25.3				
Capital Goods	9423	13694	45.3	5.0	4271	11.0	12.8
Intermediate Goods	37788	49334	30.6	13.5	11546	44.2	46.0
Consumption Goods	37790	43707	15.7	6.9	5917	44.2	40.8
Other	533	418	-21.4	-0.1	-114	0.6	0.4
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	3467	3708	7.0	0.3	242	4.1	3.5
Food products and beverages	4339	5161	18.9	1.0	822	5.1	4.8
Textiles	9266	10803	16.6	1.8	1537	10.8	10.1
Wearing apparel	10175	11793	15.9	1.9	1618	11.9	11.0
Petroleum products and nuclear fuel	3402	4922	44.7	1.8	1520	4.0	4.6
Chemicals and chemical products	3481	4054	16.5	0.7	573	4.1	3.8
Rubber and plastic products	3016	3928	30.2	1.1	912	3.5	3.7
Other non-metallic minerals	2799	3394	21.3	0.7	595	3.3	3.2
Manufacture of basic metals	9334	12325	32.0	3.5	2991	10.9	11.5
Manufacof fabricated metal prod(exc mac	3350	4254	27.0	1.1	904	3.9	4.0
Manufacture of machinery and equipment	6006	8005	33.3	2.3	1999	7.0	7.5
Electrical machinery and apparatus	2822	4106	45.5	1.5	1283	3.3	3.8
Communication and apparatus	3088	2766	-10.4	-0.4	-322	3.6	2.6
Motor vehicles and trailers	12677	17007	34.2	5.1	4330	14.8	15.9
Other transport	2140	2716	26.9	0.7	576	2.5	2.5

Source: TURKSTAT.

12. Exports of textiles and clothing have started to recover as of the last quarter of 2006. Total exports of sectors grew by 16.4 percent in 2007, contributing 3.7 percentage points to overall export growth.

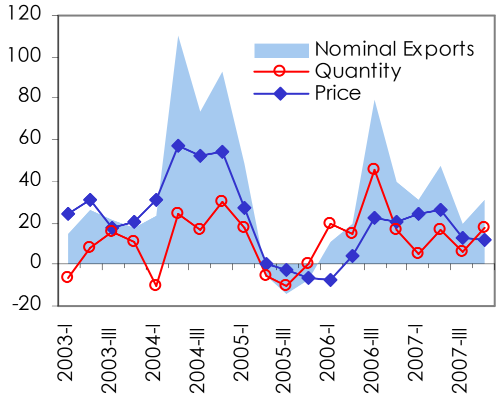
13. The key drivers for the strong performance of motor vehicle exports since the second quarter of 2006 have been weakening domestic demand, ongoing productivity gains and new model launches. Rapid acceleration in exports of basic metals mainly stemmed from global price hikes. Hence, while exports of basic metals grew by 32 percent, the sector's volume of exports and prices boosted by 11.1 and 18.7 percent, respectively, in 2007.

M. Vehicles and Textiles-Apparel Exports (Annual percentage change)



Source: TURKSTAT.

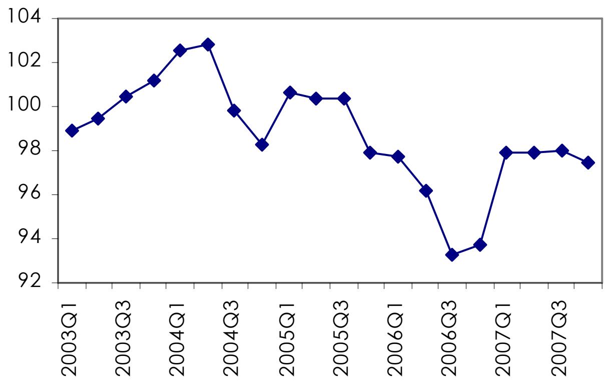
Basic Metal Industry Exports (Annual percentage change)



Source: TURKSTAT.

14. The rise in the export prices has accelerated since early 2007 and the export unit value index increased by 13.1 percent on average per annum. Besides, import price gains increased at an annualized rate of 9.7 percent on average despite the acceleration in the last quarter of the year. This improved the terms of trade in favor of exports in this period.

Terms of Trade (2003=100)



Source: TURKSTAT.

15. The upward trend in food prices in 2007 was also reflected in the export prices. Accordingly, export prices of agricultural and livestock products as well as those of food and beverages rose considerably. Moreover, exports of basic metals, machinery-equipment, electrical machinery and apparatus and motor vehicles showed sharp increases. Besides, parallel to the pick-up in the energy prices in the last quarter of the year, export prices of refined oil and coke coal rose by an annualized rate of 50.6 percent in this period. The ongoing downward trend in export prices of radio, TV and communication equipment since 2004 should also be emphasized.

16. In the second half of the year, the growth in the export quantity index slowed down compared to the first half of the year and real exports rose by an average of 10.7 percent in 2007. The main contribution to the rise was from exports of capital goods. As regards the items included in the index, machinery-equipment, electrical machinery and apparatus, refined petroleum and coke coal along with motor vehicles displayed sharp increases. Meanwhile, the real export performance in agriculture and food-related industries displaying upsurges in terms of export prices were rather weak, which shows the nominal growth to be mainly price growth-dependent.

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

	2006				2006	2007				2007
	I	II	III	IV		I	II	III	IV	
Total	-0.9	3.9	5.0	6.8	3.9	8.4	9.1	12.5	20.1	13.1
Capital Goods	-3.0	5.3	10.0	15.4	7.2	14.9	9.8	10.1	13.1	11.8
Intermediate Goods	-1.4	6.2	13.6	13.8	8.3	15.1	14.6	12.3	16.6	14.6
Consumption Goods	-0.6	1.4	-2.9	-1.6	-1.0	3.5	4.0	12.6	23.0	11.2
Selected Items (ISIC Rev.3):										
Agriculture and farming of animals	-0.6	-13.9	-22.7	-13.7	-13.9	-4.5	3.8	25.5	43.5	20.4
Food products and beverages	0.4	-0.3	-7.4	-6.7	-2.9	-1.3	3.6	21.2	39.6	17.0
Textiles	-3.0	0.9	1.1	4.0	0.9	7.7	7.8	10.6	14.7	10.3
Wearing apparel	1.4	2.0	-2.8	0.6	0.1	0.4	0.9	12.2	17.3	7.4
Petroleum products and nuclear fuel	28.2	28.8	15.8	1.7	19.1	-5.3	5.8	8.7	50.6	15.5
Chemicals and chemical products	-0.2	3.2	5.8	8.2	4.5	8.1	7.5	7.6	12.7	8.9
Rubber and plastic products	0.1	4.5	8.4	9.8	6.0	9.4	8.8	12.8	17.8	11.9
Other non-metallic minerals	7.4	7.1	5.0	6.0	6.5	5.0	6.0	9.1	12.8	8.4
Manufacture of basic metals	-7.3	4.2	22.6	20.8	10.7	24.1	26.4	13.0	12.2	18.7
Manufacof fabricated metal prod(exc mach	2.1	9.2	13.1	17.9	10.7	14.7	14.3	12.5	13.9	14.8
Manufacture of machinery and equipment	-1.9	1.0	5.3	7.6	3.4	12.3	13.3	13.5	17.7	14.6
Electrical machinery and apparatus	10.4	19.3	27.8	29.0	22.6	20.0	14.0	11.2	13.3	14.1
Communication and apparatus	-16.8	-9.3	-6.6	-7.5	-9.4	-12.9	-15.2	-4.8	5.4	-5.5
Motor vehicles and trailers	-4.8	5.0	5.9	11.4	4.2	9.7	4.3	7.5	12.6	8.5

Source: TURKSTAT.

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

	2006				2006	2007				2007
	I	II	III	IV		I	II	III	IV	
Total	8.9	12.9	12.5	13.6	12.0	14.1	13.2	10.3	7.1	10.7
Capital Goods	-0.4	14.4	11.0	14.2	9.9	36.0	24.9	34.2	26.5	29.9
Intermediate Goods	14.3	14.5	18.8	13.5	15.2	14.0	15.2	13.2	13.2	13.9
Consumption Goods	4.7	11.3	7.6	13.8	9.6	10.1	7.8	2.9	-2.5	4.0
Selected Items (ISIC Rev.3):										
Agriculture and farming of animals	18.3	51.7	6.8	13.1	21.0	10.7	-17.1	-19.3	-12.2	-11.2
Food products and beverages	8.8	5.2	3.6	5.3	4.8	9.1	1.1	6.8	-5.8	1.6
Textiles	3.7	4.9	3.8	7.8	5.2	8.9	6.4	6.0	2.1	5.7
Wearing apparel	-7.6	0.2	7.4	10.1	2.4	13.4	18.6	3.0	-2.4	7.9
Petroleum products and nuclear fuel	-3.7	27.2	20.3	20.0	14.5	22.7	17.8	16.6	34.1	24.1
Chemicals and chemical products	14.2	19.9	18.3	20.6	18.3	10.2	5.4	5.2	6.5	6.9
Rubber and plastic products	16.5	8.8	11.0	22.4	14.4	27.0	21.7	12.4	6.4	16.3
Other non-metallic minerals	-5.5	-3.3	-3.4	3.6	-2.3	9.8	10.5	11.8	15.6	11.9
Manufacture of basic metals	20.1	15.2	45.9	16.6	22.6	5.2	16.6	5.9	17.2	11.1
Manufacof fabricated metal prod(exc machi	12.8	7.0	13.5	16.7	12.9	15.2	18.3	8.3	6.5	10.6
Manufacture of machinery and equipment	19.7	20.2	15.6	22.6	19.4	26.5	19.8	14.4	8.4	16.2
Electrical machinery and apparatus	8.5	10.8	18.9	37.7	19.1	36.7	33.5	25.6	18.4	27.4
Communication and apparatus	36.3	24.9	-7.6	-5.9	8.1	-14.7	-10.6	13.9	-4.8	-5.1
Motor vehicles and trailers	8.3	19.6	23.7	24.3	19.4	25.8	24.6	20.8	22.9	23.5

Source: TURKSTAT.

17. Russia, Romania and the United Arab Emirates made up the fastest growing share in total exports during 2007. Exports to the EU countries further increased their share in total exports in 2007 as a result of the continued strong domestic demand and robust economic activity in the EU. Notwithstanding, exports to the USA slowed down, the share in total exports that amounted to 5.9 percent in 2006 declined to 3.9 percent in 2007. The share of exports to Italy and Iraq also dropped in 2007.

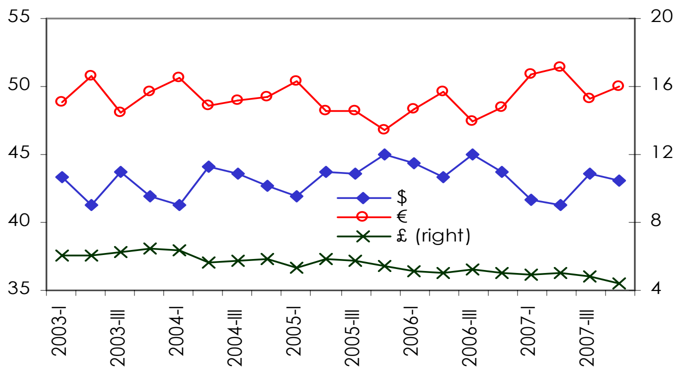
Export – Country Decomposition
(Million US dollars)

	Jan-Dec						
	2006		2007		%	%	$
	Value	Share (%)	Value	Share (%)	Change	Contrib.	Contrib.
Total	85535	..	107154	..	25.3	..	..
EU countries (27)	47935	56.0	60405	56.4	26.0	14.6	12471
Other countries	34633	40.5	43809	40.9	26.5	10.7	9176
Other European	7962	9.3	10842	10.1	36.2	3.4	2880
East Asian	3942	4.6	5223	4.9	32.5	1.5	1281
Other	22729	26.6	27744	25.9	22.1	5.9	5014
Free Zones in Turkey	2967	3.5	2940	2.7	-0.9	0.0	-27
Selected countries and country groups:							
OECD	54.481	63.7	65.655	61.3	20.5	13.1	11174
Germany	9.686	11.3	11.994	11.2	23.8	2.7	2307
UK	6.814	8.0	8.626	8.1	26.6	2.1	1812
Italy	6.752	7.9	7.479	7.0	10.8	0.8	726
France	4.604	5.4	5.974	5.6	29.8	1.6	1370
Spain	3.720	4.3	4.580	4.3	23.1	1.0	859
USA	5.061	5.9	4.145	3.9	-18.1	-1.1	-916
Netherlands	2.539	3.0	3.018	2.8	18.9	0.6	479
Greece	1.603	1.9	2.262	2.1	41.2	0.8	660
Other OECD	13.701	16.0	17.577	16.4	28.3	4.5	3876
Middle East countries	11.316	13.2	14.990	14.0	32.5	4.3	3675
UAE	1.986	2.3	3.241	3.0	63.2	1.5	1255
Iraq	2.589	3.0	2.812	2.6	8.6	0.3	222
Russian Fed.	3.238	3.8	4.727	4.4	46.0	1.7	1490
Romania	2.350	2.7	3.651	3.4	55.3	1.5	1300
Bulgaria	1.568	1.8	2.061	1.9	31.4	0.6	493
China	693	0.8	1.039	1.0	49.9	0.4	346

Source: TURKSTAT.

18. As to the currency composition of exports, the use of the euro increased, while that of the US dollar decreased in 2007 in line with developments in country groups. This was also due to the recent appreciation of the euro against the US dollar. In fact, at the exchange rate held constant at end-2006, changes in euro/dollar parity increased the USD value of exports and imports by 2.3 and 2.6 billion USD, respectively. Thus, parity developments widened the foreign trade deficit. The increase in the parity up to 1.47 especially in the last quarter of 2007 fuelled these developments.

Currency Composition of Exports (% share)

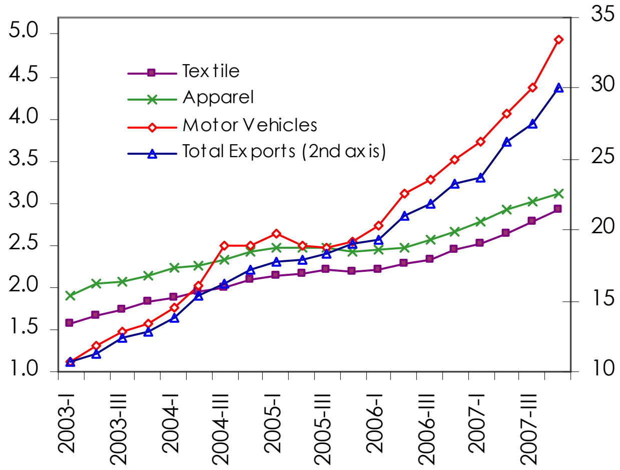


Source: TU RK STAT.

19. According to seasonally adjusted data, nominal exports grew 9.4 percent in the last quarter of 2007 compared to the previous quarter. During this period, seasonally adjusted nominal exports of motor vehicles, a leading export industry, increased by 12.8 percent, while textile and clothing exports were up 4.1 percent compared to the preceding quarter.

Seasonally Adjusted Exports and Sub-Sectors

(Billion US dollars)



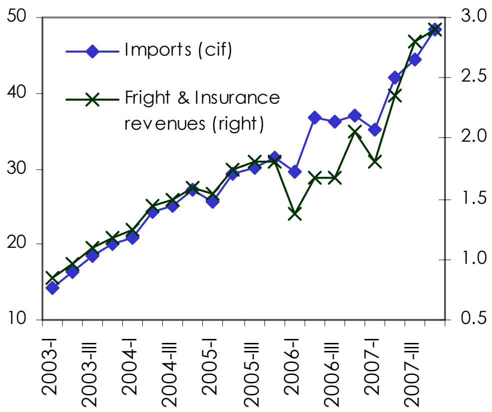
Source: CBT.

<u>Imports of Goods</u>

20. Imports of capital and consumption goods accelerated with the relative recovery in domestic demand in the second half of 2007 and the strong position of the New Turkish lira. As a result of the high rated increases in exports and corresponding robust industrial production, imports of intermediate goods had a steady growth throughout the year. Another factor instrumental on this growth was the upward trend of oil prices in the last quarter of the year. Consequently, imports grew by 21.8 percent in 2007.

Imports

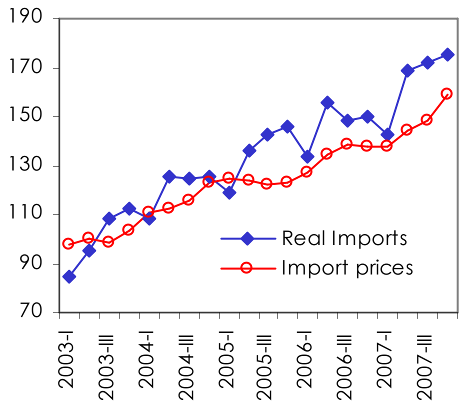
(Billion US dollars)



Source: CBT, TURKSTAT.

Imports- Real and Unit Value

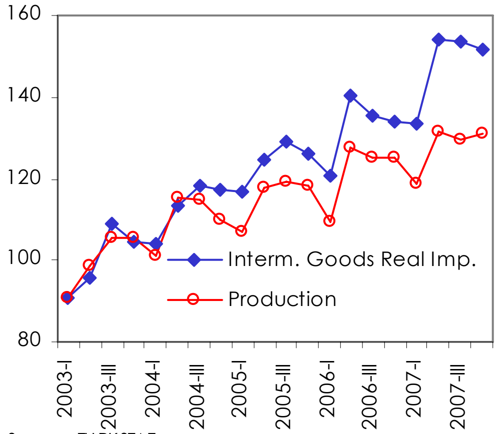
(2003=100)



Source: TURKSTAT.

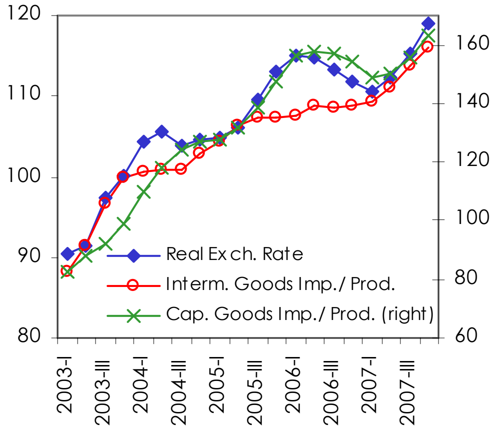
21. After a 0.8 percent decline in the first half of 2007, imports of consumption goods gained momentum as of July 2007 with the effect of the low base from 2006 and had a growth of 32.9 in the second half of the year. Similarly, imports of capital goods hiked in the second half of the year and grew by an average of 15.8 percent. The acceleration in imports of capital goods signals strong investment expenditures.

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



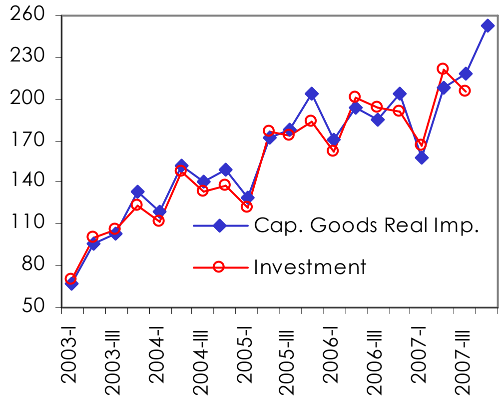
Source: TURKSTAT.

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



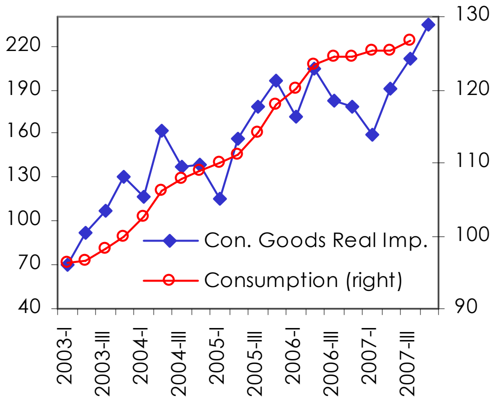
Source: TURKSTAT, CBT.

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



Source: TURKSTAT.

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



Source: TURKSTAT.

22. Among all industries, basic metals made the largest contribution to import growth in 2007, mainly on account of increases in both the commodity's import quantity and prices. In fact, prices of basic metals climbed 16.4 percent, whereas the quantity import growth was 16.3 percent. Other key drivers of import growth were imports of chemicals and chemical products, machinery and equipment, agricultural and animal products, refined petroleum products, crude oil and natural gas along with motor vehicles.

23. Imports of automobiles, which have been declining since August 2006, followed an upward course as of July 2007 with the contribution of the recovery in domestic demand and low base effect. Imports of automobiles that fell by 23.2 percent in the first half of the year increased by 48.6 percent in the second half. Meanwhile, imports of durables, semi-durables, and non-durables continue to grow steadily.

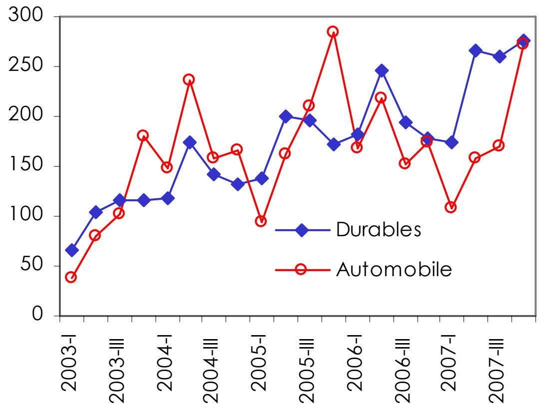
24. In 2007, imports of industrial transport vehicles and equipment displayed a similar pattern with the imports of automobiles. The imports of the said item, with a decline of 24.8 percent in the first half of the year, had a hike of 23.8 percent in the second half. Imports of parts and supplies of transport vehicles increased by 20.1 percent in average throughout the year, in line with the robust growth of automobile exports.

Imports
(Million US dollars)

	Jan-Dec					Share	
	2006	2007	% Change	% Contr.	$ Contr.	2006	2007
Total	139576	169987	21.8				
Capital Goods	23348	27040	15.8	2.6	3693	16.7	15.9
Intermediate Goods	99605	123574	24.1	17.2	23970	71.4	72.7
Consumption Goods	16116	18697	16.0	1.8	2581	11.5	11.0
Other	508	675	32.9	0.1	167	0.4	0.4
Selected Items (ISIC Rev.3):							
Mining and Quarrying	22034	25311	14.9	2.3	3277	15.8	14.9
Curide oil and natural gas	19220	21782	13.3	1.8	2562	13.8	12.8
Textiles	4227	5323	25.9	0.8	1096	3.0	3.1
Paper and paper products	2346	2831	20.7	0.3	486	1.7	1.7
Coke, petroleum products and nuclear fuel	7631	9489	24.4	1.3	1858	5.5	5.6
Chemicals and chemical products	19599	23615	20.5	2.9	4016	14.0	13.9
Rubber and plastic products	2578	3113	20.7	0.4	534	1.8	1.8
Manufacture of basic metals	17083	23078	35.1	4.3	5995	12.2	13.6
Manufacof fabricated metal prod(exc machir	2447	2814	15.0	0.3	367	1.8	1.7
Manufacture of machinery and equipment	14315	17108	19.5	2.0	2792	10.3	10.1
Electrical machinery and apparatus	4984	6324	26.9	1.0	1340	3.6	3.7
Communication and apparatus	4899	5841	19.2	0.7	942	3.5	3.4
Medical, precision and opt. instr., watches	2882	3367	16.8	0.3	485	2.1	2.0
Motor vehicles and trailers	13294	15096	13.6	1.3	1802	9.5	8.9
Other transport	2415	2195	-9.1	-0.2	-220	1.7	1.3
Waste and scrap (Wholesale and retail)	4195	6074	44.8	1.3	1879	3.0	3.6

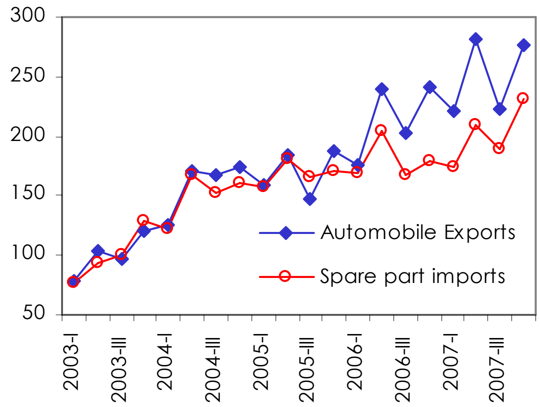
Source: TURKSTAT.

Durables & Automobile Imports
(2003=100)



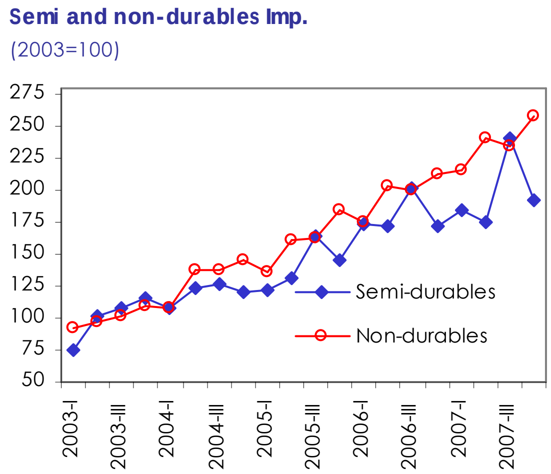
Source: TURKSTAT.

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

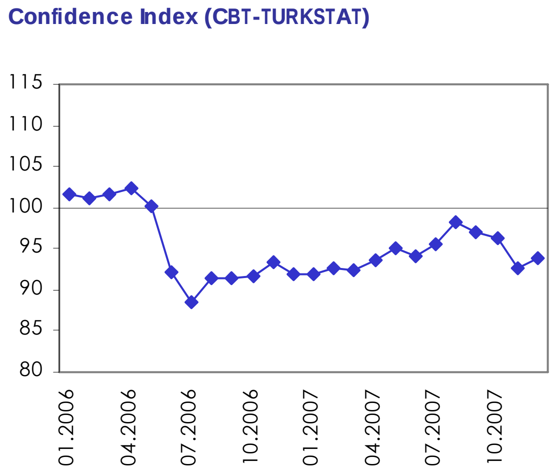


Source: TURKSTAT.

25. Even if the consumer confidence index released by the CBT/TURKSTAT suggests a recovery in private consumption in the third quarter of 2007, a downward trend is apparent in the last quarter of 2007. The index continued this downward trend in January 2008 as well.

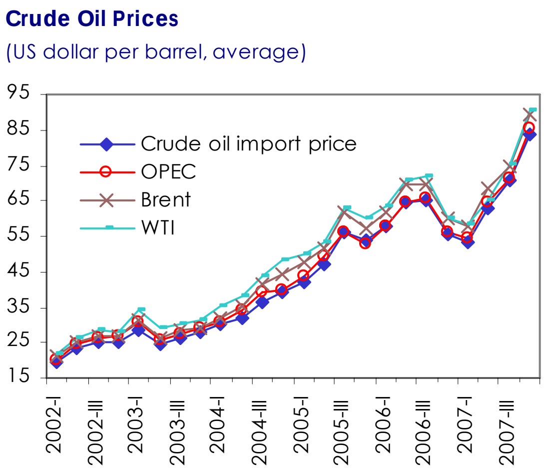


Source: TURKSTAT.

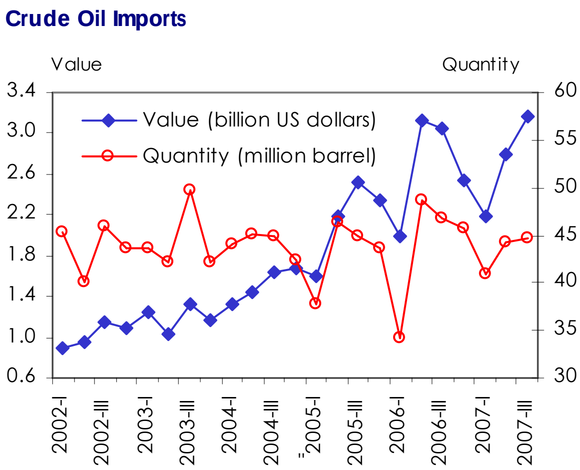


Source: CBT, TURKSTAT.

26. Oil prices have been on the rise again since early 2007 after a fall in the last quarter of 2006. Production cuts of OPEC, higher-than-expected demand, ongoing tension in the Middle East, and fluctuations in the USD exchange rate have recently led to sharp increases in crude oil prices. Persistence of the record high levels of oil prices at the beginning of 2008 strengthens the possibility that the USD value of imports of intermediate goods will gain momentum.



Source: SPO, OPEC, EIA.



Source: TURKSTAT.

27. Import prices of basic metals, food and beverages, waste trade (for recycling), chemicals and chemical products, plastic and rubber products along with paper products displayed significant increases during 2007. Import prices of crude oil, natural gas, and electrical machinery and apparatus rose again in the second half of the year after the first-half downslide.

28. Driven by the low base, the import quantity index gained pace and real imports grew faster than real exports in the second half of the year. As regards sub-items, imports of basic metals, electrical machinery and apparatus, machinery and equipment, wastes and textiles grew faster than the total import growth. On the other hand, the import volume of food and beverages whose unit value index displayed the highest increase throughout the year has been on the decline since the last quarter of 2006. The real imports of motor vehicles have soared again in the second half of 2007, reversing the downward trend since the third quarter of 2006.

Import – Unit Value Indices
(Annual Percentage Change)

	2006 I	2006 II	2006 III	2006 IV	2006	2007 I	2007 II	2007 III	2007 IV	2007
Total	2.0	8.4	13.0	11.5	8.8	8.2	7.2	7.0	15.5	9.7
Capital Goods	-8.5	3.3	10.1	10.2	4.3	13.6	0.6	-0.6	4.9	4.3
Intermediate Goods	6.5	13.2	17.5	17.2	13.8	13.6	8.1	9.4	13.1	11.0
Consumption Goods	-7.4	-1.2	5.0	6.8	1.3	7.7	6.0	5.0	10.1	7.6
Selected Items (ISIC Rev.3):										
Food products and beverages	-2.5	-5.7	1.3	8.2	0.2	10.2	19.7	19.2	30.0	20.5
Textiles	-2.5	-1.9	5.1	7.5	2.4	5.5	3.5	2.9	5.1	4.2
Paper and paper products	-3.0	4.3	9.3	10.3	5.3	10.9	8.1	8.2	11.4	9.9
Coke, petroleum products and nuclear fuel	29.1	22.9	17.1	-1.1	15.9	-3.6	5.1	6.3	41.0	12.8
Chemicals and chemical products	-6.8	-1.8	7.0	7.5	1.6	5.9	7.0	8.2	12.3	8.8
Rubber and plastic products	-4.1	4.4	8.2	9.1	4.6	8.7	7.1	6.1	14.3	9.3
Manufacture of basic metals	3.5	20.8	40.7	39.1	24.2	26.1	16.6	11.5	15.3	16.4
Man. of fabricated metal prod(exc mach)	-3.2	4.2	7.7	11.6	6.3	10.0	2.0	4.6	9.0	6.1
Manufacture of machinery and equipment	-8.7	-1.8	1.9	6.3	0.2	8.3	0.9	2.5	9.1	5.1
Electrical machinery and apparatus	-2.4	2.3	0.1	-4.2	-1.4	-4.1	-2.3	6.1	12.2	3.5
Communication and apparatus	-15.9	-5.5	4.2	3.8	-3.8	5.1	13.8	4.1	12.4	8.7
Medical, precision and opt. instr., watches	-3.8	-0.3	-7.4	8.9	-0.5	2.7	7.2	16.2	2.0	7.2
Motor vehicles and trailers	-5.3	4.2	10.8	11.8	5.7	9.2	6.6	4.9	9.8	8.3
Waste and scrap (Wholesale and retail)	-11.5	5.5	29.8	16.3	10.0	31.5	32.5	20.0	25.6	26.3

Source: TURKSTAT.

Import – Quantity Indices
(Annual Percentage Change)

	2006 I	2006 II	2006 III	2006 IV	2006	2007 I	2007 II	2007 III	2007 IV	2007
Total	12.5	14.3	4.4	3.3	8.5	6.2	8.2	15.5	16.3	11.7
Capital Goods	32.4	11.9	3.7	-0.4	10.0	-7.5	7.5	17.8	23.9	11.1
Intermediate Goods	3.4	12.9	5.0	6.1	6.9	10.8	9.6	13.6	13.2	11.8
Consumption Goods	48.6	30.3	1.9	-9.0	13.8	-7.0	-7.1	15.8	31.2	7.9
Selected Items (ISIC Rev.3):										
Food products and beverages	10.5	35.7	18.6	-1.8	15.8	-7.9	-18.5	-15.0	4.4	-10.3
Textiles	3.8	3.1	6.6	1.5	3.6	15.8	27.7	19.8	20.8	21.1
Paper and paper products	11.3	7.0	12.9	9.5	10.2	1.3	15.3	14.3	8.4	9.8
Coke, petroleum products and nuclear fuel	28.3	22.7	19.6	-2.3	15.9	-6.3	-0.4	8.0	25.4	6.3
Chemicals and chemical products	12.2	12.0	7.4	8.7	9.8	6.3	12.6	11.8	11.7	10.5
Rubber and plastic products	21.5	18.1	12.4	7.7	14.5	2.4	6.4	15.8	16.7	10.3
Manufacture of basic metals	-14.2	11.5	-7.0	3.2	-0.3	13.2	9.6	28.3	12.9	16.3
Man. of fabricated metal prod(exc mach)	22.3	16.6	21.2	15.4	17.7	-1.3	8.7	4.8	18.6	8.2
Manufacture of machinery and equipment	24.4	25.4	13.9	5.5	16.1	2.2	13.4	14.0	23.1	13.6
Electrical machinery and apparatus	37.2	10.1	21.5	12.0	19.5	2.6	33.0	28.0	25.8	22.5
Communication and apparatus	24.8	8.0	6.5	2.0	10.0	1.1	5.0	21.5	8.0	9.1
Medical, precision and opt. instr., watches	25.3	13.8	5.2	0.8	10.3	-6.0	4.2	7.4	28.0	8.6
Motor vehicles and trailers	32.4	17.4	-11.1	-19.9	1.2	-16.3	-11.5	9.9	38.6	4.5
Waste and scrap (Wholesale and retail)	-7.0	32.1	-2.4	31.5	11.8	40.8	13.1	-0.5	11.2	15.3

Source: TURKSTAT.

29. The share of imports from EU in overall imports declined on a year-on-year basis in 2007 following the increased volume of imports from Russia and China. Imports from USA, Ukraine and India also acquired an increased share in Turkey's total imports. Only these five countries added 9.5 percentage points to the overall 21.8 percent import growth. On the other hand, imports from Libya have fallen sharply.

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

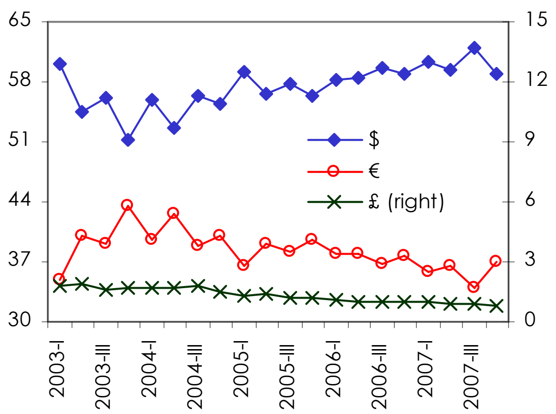
Imports – Country Decomposition
(Million US dollars)

	Jan-Dec						
	2006		2007		%	%	$
	Value	Share (%)	Value	Share (%)	Change	Contrib.	Contrib.
Total	139576	..	169987	..	21.8		
EU countries	59401	42.6	68590	40.4	15.5	6.6	9189
Other countries	79231	56.8	100176	58.9	26.4	15.0	20945
Other European	25695	18.4	34248	20.1	33.3	6.1	8553
East Asian	25658	18.4	33645	19.8	31.1	5.7	7987
Other	27878	20.0	32283	19.0	15.8	3.2	4405
Free Zones in Turkey	944	0.7	1221	0.7	29.3	0.2	277
Selected countries and country groups							
OECD	77813	55.7	91811	54.0	18.0	10.0	13998
Germany	14768	10.6	17547	10.3	18.8	2.0	2779
Italy	8663	6.2	9967	5.9	15.0	0.9	1304
USA	6261	4.5	8144	4.8	30.1	1.3	1884
France	7240	5.2	7832	4.6	8.2	0.4	592
Switzerland	4015	2.9	5269	3.1	31.2	0.9	1254
İngiltere	5138	3.7	5471	3.2	6.5	0.2	334
Spain	3833	2.7	4342	2.6	13.3	0.4	510
Belgium	2477	1.8	2869	1.7	15.8	0.3	392
Other OECD	25418	18.2	30369	17.9	19.5	3.5	4951
Middle East countries	10568	7.6	12639	7.4	19.6	1.5	2071
Iran	5627	4.0	6614	3.9	17.5	0.7	987
Russian Fed.	17806	12.8	23506	13.8	32.0	4.1	5700
China	9669	6.9	13224	7.8	36.8	2.5	3555
Ukraine	3059	2.2	4518	2.7	47.7	1.0	1459
S. Korea	3556	2.5	4369	2.6	22.8	0.6	812
Japan	3217	2.3	3703	2.2	15.1	0.3	486
Romania	2669	1.9	3113	1.8	16.6	0.3	444
India	1579	1.1	2300	1.4	45.6	0.5	720
Libya	2297	1.6	400	0.2	-82.6	-1.4	-1898

Source: TURKSTAT.

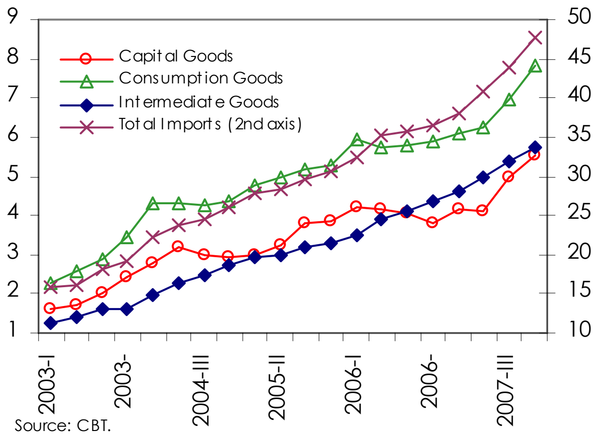
31. In seasonally adjusted terms, imports grew by 8.7 percent in the last quarter of 2007 compared to the previous quarter. High increases in imports of capital and consumption goods were especially influential in the said development. Meanwhile, seasonally adjusted imports of intermediate goods increased by 5.9 percent compared to the previous quarter.

Currency Composition of Imports
(% share)



Source: TURKSTAT.

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



Source: CBT.

Services Account

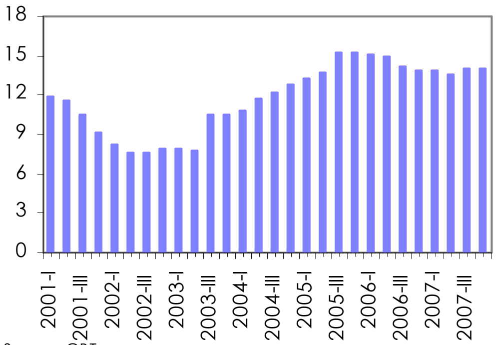
32. After a weak performance in 2006 due to falling tourism revenues, the surplus in the services account has been growing again since January 2007. Although the number of departing citizens and foreigners increased by 17.6 percent in 2007, tourism revenues

registered a growth of 9.7 percent as a result of a 6.7 percent decline in the average spending per tourist. Moreover, tourism expenditures were up 18.9 percent, raising net tourism revenues by 7.9 percent.

33. Revenues from construction services, which have maintained an increased share in services revenues in recent years, were generally low in 2007. Revenues from official services increased, while the other commercial services expenditures item, where the commissions and similar expenditures related to foreign trade are registered, has maintained its upward trend since 2005. As a result of these developments, the services account surplus, which dropped from USD 15.3 billion in 2005 to USD 13.8 billion in 2006 increased again in 2007 and became USD 14.1 billion.

Services

(12-month ave., billions US dollars)



Source: CBT.

Services Account
(Million US dollars)

	2006				2006	2007				2007
	I	II	III	IV		I	II	III	IV	
Services	1201	3014	7403	2212	13830	1239	2716	7805	2310	14070
Total income	3591	5872	10527	5263	25253	4131	6324	11767	6470	28692
Total Expenses	-2390	-2858	-3124	-3051	-11423	-2892	-3608	-3962	-4160	-14622
Transportation	-85	91	492	-112	386	14	89	54	-307	-150
Credit	788	1129	1532	1246	4695	1064	1561	1955	1552	6132
Debit	-873	-1038	-1040	-1358	-4309	-1050	-1472	-1901	-1859	-6282
Tourizm	1434	2946	7219	2511	14110	1490	2825	7923	2989	15227
Credit	2002	3693	8038	3120	16853	2162	3728	8732	3865	18487
Debit	-568	-747	-819	-609	-2743	-672	-903	-809	-876	-3260
Construction serv.	212	249	234	184	879	190	228	139	202	759
Credit	212	249	234	184	879	190	228	139	202	759
Debit	0	0	0	0	0	0	0	0	0	0
Financial serv.	-82	-53	-74	-38	-247	-79	-41	-26	-82	-228
Credit	61	67	69	80	277	73	88	114	120	395
Debit	-143	-120	-143	-118	-524	-152	-129	-140	-202	-623
Other serv.	-278	-219	-468	-333	-1298	-376	-385	-285	-492	-1538
Credit	528	734	654	633	2549	642	719	827	731	2919
Debit	-806	-953	-1122	-966	-3847	-1018	-1104	-1112	-1223	-4457

Source: CBT.

Tourism Statistics

	2006				2006	2007				2007
	I	II	III	IV		I	II	III	IV	
Tourism Revenues (million US dollars)	2002	3693	8037	3119	16851	2163	3727	8732	3865	18487
Departing foreigner visitors (x1000)	2138	4912	8302	3924	19276	2552	5777	9941	4746	23017
Departing citizen visitors (x1000)	597	629	1838	808	3873	640	710	1930	918	4198
Tourism Expenditures (million US dollars)	568	747	819	609	2742	671	903	809	876	3260
Arriving citizen visitors (x1000)	905	1170	1161	827	4063	1174	1356	1137	1289	4956

Source: TURKSTAT, CBT.

Income Account

34. The income account posted a deficit of USD 6.8 billion with a 2.8 percent rise in 2007. The deficit widened mainly because of growing interest payments driven by long-term borrowings by the private sector, and increased outward transfer of profits due to the large direct investment inflow in recent years. Gains from portfolio investments and interest income could partly compensate for the deficit.

Income Account
(Million US dollars)

	2006				2006	2007				2007
	I	II	III	IV		I	II	III	IV	
Income (net)	-1490	-1632	-1685	-1800	-6607	-1905	-1505	-1781	-1603	-6794
Compensation of Employees (net)	-22	-26	-29	-30	-107	-29	-28	-25	-24	-106
Investment Income	-1468	-1606	-1656	-1770	-6500	-1876	-1477	-1756	-1579	-6688
Total income	1184	957	1227	1105	4473	1675	1394	1664	1750	6483
Total Expenses	-2652	-2563	-2883	-2875	-10973	-3551	-2871	-3420	-3329	-13171
Direct investment	-143	-377	-218	-230	-968	-308	-586	-389	-515	-1798
Credit	59	65	43	52	219	53	75	42	37	207
Debit	-202	-442	-261	-282	-1187	-361	-661	-431	-552	-2005
Portfolio investment	-426	-29	-162	-45	-662	-566	372	-74	651	383
Credit	829	591	795	586	2801	1084	794	1065	1175	4118
Debit	-1255	-620	-957	-631	-3463	-1650	-422	-1139	-524	-3735
Other investment	-899	-1200	-1276	-1495	-4870	-1002	-1263	-1293	-1715	-5273
Interest income	296	301	389	467	1453	538	525	557	538	2158
Interest expenses	-1195	-1501	-1665	-1962	-6323	-1540	-1788	-1850	-2253	-7431
Long-term	-1053	-1298	-1431	-1735	-5517	-1364	-1646	-1648	-2079	-6737
Monetary A.	-186	-135	-364	-159	-844	-123	-91	-230	-119	-563
Gen. Gov.	-359	-531	-367	-550	-1807	-394	-503	-319	-504	-1720
Banks	-109	-136	-191	-195	-631	-216	-299	-317	-410	-1242
Other sector	-399	-496	-509	-831	-2235	-631	-753	-782	-1046	-3212
Short-term	-142	-203	-234	-227	-806	-176	-142	-202	-174	-694

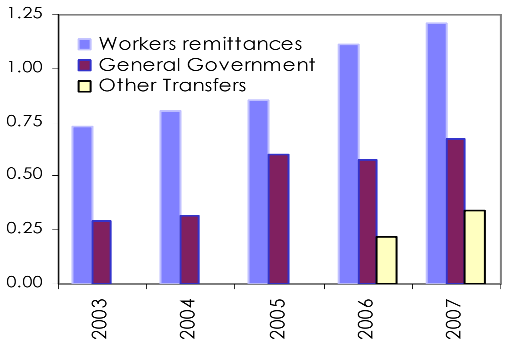
Source: CBT.

Current Transfers

35. The presentation of current transfers in the balance of payments has been changed in such a way so as to cover net income related to other insurance and reinsurance transactions with non-residents except freight insurance. Accordingly, the "official transfers" heading is named as "General Government" and workers' remittances are shown under the "Other Sectors" heading. The abovementioned net income related to other insurance and reinsurance transactions has also been shown under the "Other Sectors" heading along with workers' remittances.

36. The current transfers surplus that was USD 1.9 billion in 2006 reached USD 2.2 billion in 2007. In this period, General Government transfers and workers' remittances increased by 16.8 percent and 8.8 percent, respectively. Other transfer revenues boosted by 55.7 percent and added 6.4 percentage points to the upsurge in current transfers.

Current Transfers
(Billion US dollars)



Source: CBT.

III. CAPITAL MOVEMENTS

37. In 2007, external financing requirement, defined as the sum of current account plus net errors and omissions, was equivalent to USD 38.4 billion. During this period, the net capital inflow (excluding reserve shifts and IMF loans) amounted to USD 53.9 billion. The financing structure was heavily shaped by direct investments and long-term credit inflows.

38. As a result, gold-included CBT reserves increased to USD 76.4 billion at end-2007 from USD 63.3 billion at end-2006, FX assets of commercial banks rose from USD 27.5 billion to 31.8 billion during the same period.

External Financing Requirements and Resources
(Billion US dollars)

	2006				2006	2007				2007
	I	II	III	IV		I	II	III	IV	
1. Current Account	**-8.6**	**-10.7**	**-4.7**	**-8.2**	**-32.2**	**-9.3**	**-10.1**	**-6.9**	**-11.7**	**-38.0**
2. Net Errors and Omissions	**1.2**	**1.9**	**-2.2**	**-1.1**	**-0.1**	**0.8**	**2.7**	**-3.9**	**0.0**	**-0.4**
I. Total Financing Requirement (=1+2)	**-7.4**	**-8.7**	**-7.0**	**-9.2**	**-32.3**	**-8.6**	**-7.4**	**-10.7**	**-11.8**	**-38.4**
II. Total Financing (=1+2+3)	**7.4**	**8.7**	**7.0**	**9.2**	**32.3**	**8.6**	**7.4**	**10.7**	**11.8**	**38.4**
1. Capital Flows (net)	**15.2**	**10.9**	**10.5**	**16.6**	**53.3**	**17.5**	**14.2**	**9.2**	**13.0**	**53.9**
Direct Investment (net)	**1.4**	**7.8**	**3.5**	**6.2**	**19.0**	**8.2**	**2.7**	**4.3**	**4.7**	**19.8**
Portfolio Investment (net)	**3.6**	**-4.5**	**4.1**	**4.2**	**7.4**	**4.5**	**1.5**	**-1.9**	**-3.4**	**0.7**
General Gov. Eurobond Issues	2.3	-0.6	0.8	0.8	3.3	3.4	-1.0	-0.5	-0.9	0.9
Nonresidents' Security Buyings in Turkey	1.6	-3.8	4.6	5.7	8.1	1.8	2.9	-0.1	-2.7	1.9
Residents' Security Buyings Abroad	-0.3	-0.1	-1.3	-2.3	-4.0	-0.7	-0.4	-1.3	0.3	-2.1
Credit Drawing (excl. IMF loan, net)	**10.1**	**7.6**	**3.8**	**3.6**	**25.1**	**8.4**	**11.0**	**7.5**	**10.1**	**37.0**
General Government	-0.2	-0.2	0.3	-0.6	-0.7	0.1	-0.4	0.3	0.1	0.1
Banks	2.4	3.0	0.3	0.1	5.8	0.9	3.3	-0.1	1.2	5.3
Long-term	1.3	3.2	0.7	4.5	9.8	2.1	2.6	1.9	0.6	7.3
Short-term	1.1	-0.2	-0.5	-4.4	-4.0	-1.3	0.7	-2.0	0.6	-1.9
Other Sector	7.9	4.8	3.3	4.0	20.0	7.4	8.1	7.2	8.8	31.6
Long-term	8.6	3.2	2.9	4.2	18.9	6.7	6.2	5.7	8.5	27.2
Short-term	0.0	0.1	0.3	0.0	0.5	-0.1	0.6	0.2	-0.5	0.2
Trade Credits	-0.8	1.5	0.1	-0.2	0.7	0.8	1.3	1.3	0.8	4.2
Deposits	**1.5**	**0.3**	**-1.1**	**3.9**	**4.6**	**-3.4**	**-0.5**	**-1.0**	**2.3**	**-2.7**
in Central Bank	-0.2	-0.3	-0.5	-0.3	-1.3	-0.3	-0.3	-0.6	-0.4	-1.5
in banks	1.6	0.6	-0.6	4.2	5.9	-3.2	-0.3	-0.4	2.6	-1.2
Other	**-1.3**	**-0.3**	**0.1**	**-1.3**	**-2.9**	**-0.2**	**-0.4**	**0.3**	**-0.6**	**-0.9**
2. IMF Loans	**-1.8**	**-1.8**	**0.1**	**-1.0**	**-4.5**	**-2.3**	**0.0**	**-1.0**	**-0.7**	**-4.0**
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Government	-1.8	-1.8	0.1	-1.0	-4.5	-2.3	0.0	-1.0	-0.7	-4.0
3. Change in Reserves (- increase)	**-6.0**	**-0.3**	**-3.6**	**-6.5**	**-16.4**	**-6.6**	**-6.9**	**2.6**	**-0.5**	**-11.5**
Banks' FX assets	1.1	-3.3	-2.8	-5.3	-10.3	-0.2	-6.4	3.6	-0.4	-3.5
Official Reserves	-7.1	3.0	-0.8	-1.2	-6.1	-6.4	-0.5	-1.0	-0.1	-8.0

Source: CBT.

Direct Investments

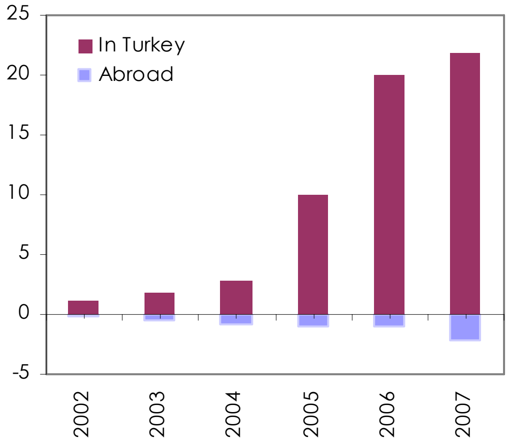
39. Following the sizeable increase in 2006, direct investments continued to grow in 2007. During this period, 36.7 percent of the net capital inflow (excluding IMF loans and reserve shifts) was generated by direct investments. The increased share of direct investments as non-debt capital inflows remains important for securing the sustainability and financing of the current account deficit.

40. The services sector had the largest share in direct investments through the banking sector. The services sector comprised 63.8 percent of the total direct investments in 2007. Meanwhile, the investments to the manufacturing industry tend to increase due to the direct investments made in chemicals, food-tobacco and basic metals, and other non-metallic minerals. In fact, manufacturing industry investments, which comprised 9.1 percent of direct

investments including real estate and other capital in 2006, increased to 19 percent in 2007. Nonresidents' real estate purchases in Turkey stands as another significant item within direct investment inflows. Real estate purchases yielded a USD 3 billion worth direct capital inflow in 2007 .

Direct investments

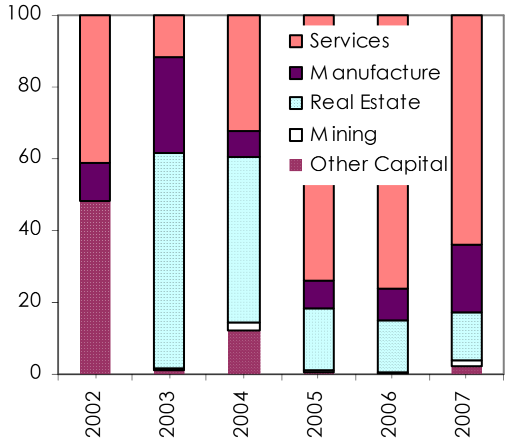
(Billion US dollars)



Source: CBT.

Inward FDI

(percentage share)



Source: CBT.

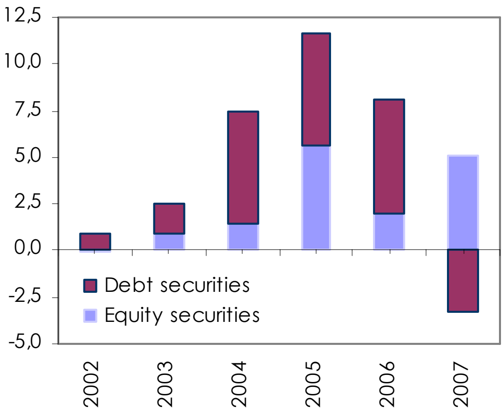
41. Among the highest direct investments made in 2007 were USD 3.1 billion worth of investment from Citibank to Akbank, USD 2.7 billion worth of investment from ING FM Derivatives to Oyakbank and USD 2.3 billion worth of investment from National Bank of Greece to Finansbank.

Portfolio Investments

42. The capital inflow dominated by portfolio investments remained elevated during the first seven months of 2007, but the worsened risk perceptions in international credit markets from August onwards led to an outflow in portfolio investment. Nonresidents mostly sold government securities and in the period following September, they purchased equity securities. As a result of these developments, nonresidents sold USD 3.3 billion worth of government securities and bought USD 5.1 billion worth of equity securities in 2007. In this period, the Treasury issued USD 4.6 billion worth of bonds abroad and repaid USD 3.7 billion.

Security purchases of non-residents

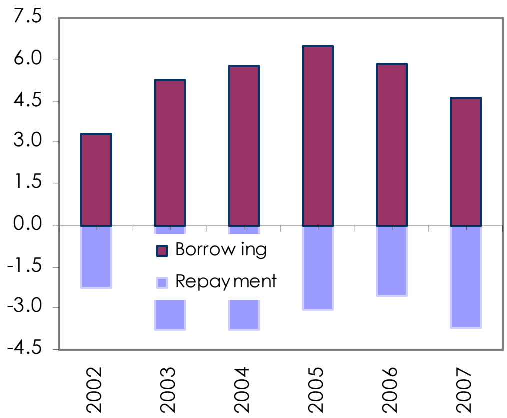
(billion US dollars)



Source: CBT.

Eurobond issues of General Gov.

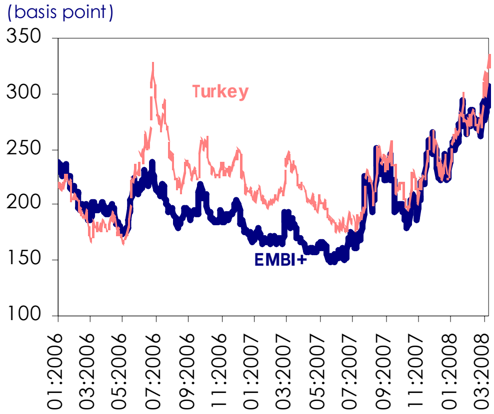
(billion US dollars)



Source: CBT.

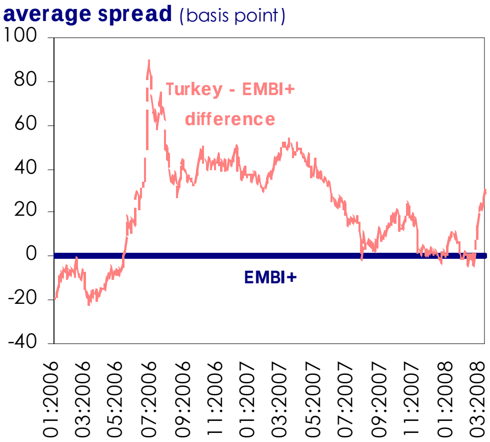
43. In the second half of the year, the volatility in global financial markets reduced investors' appetite for emerging market assets and widened yield spreads between local and US bonds. After hitting 149 basis points on June 1, 2007, the JP Morgan Emerging Markets Bond Index (EMBI+) reached 239 basis points by the end of the year. The increase in EMBI index continued in early 2008 as well. Meanwhile, Turkey's yield spread that displayed a more rapid increase in comparison to EMBI+ index during global fluctuations in 2006 declined in 2007 and followed a similar course with that of EMBI+ index from the last quarter onwards.

Secondary Market Spreads
(basis point)



Source: JPMorgan.

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

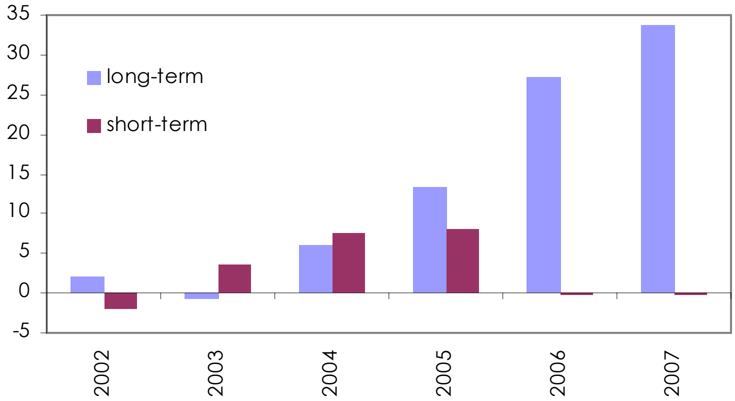


Spread: The difference between the quoted rates of return on countries' security issues and US bonds.

Other Investments

44. The recent upsurge in the share of long-term capital in total financing continued in the 2007 as well. Direct and portfolio investments, long-term capital flows excluding reserve shifts and IMF loans accounted for 62.5 percent of net capital inflow in 2007. In addition, net outflow was observed in short-term capital.

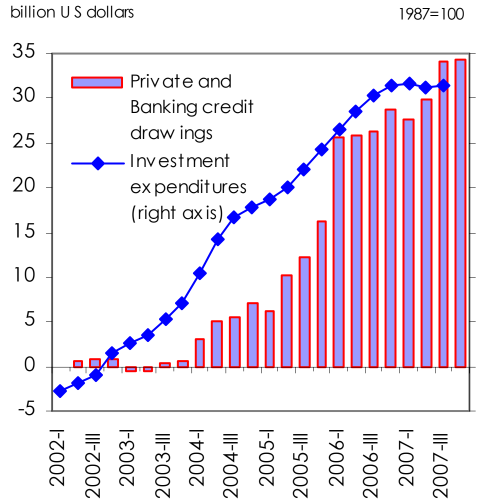
Long and Short-term capital
(billion US dollars)



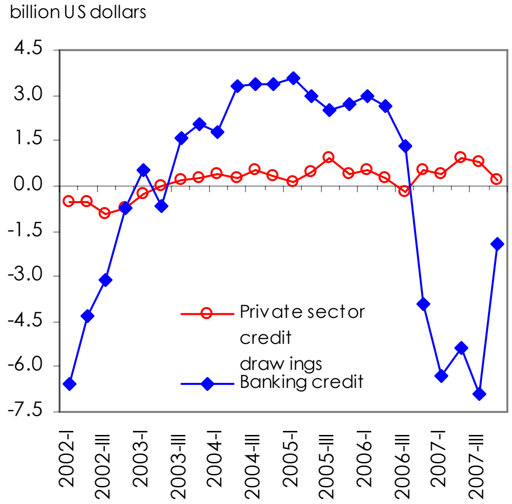
Note: Excluding direct and portfolio investment, IMF loans and banks' FX assets.
Source: CBT.

45. In 2007, "other sectors" mostly comprising the non-banking private sector borrowed net USD 27.2 billion worth of long-term and net USD 0.2 billion worth of short-term foreign credit. The banks' external borrowings in 2007 were mainly long-term borrowings (net USD 7.3 billion) and they repaid net USD 1.9 billion worth of short-term loans. Private and banking sectors' borrowings mostly on long-term basis are of importance in terms of promoting domestic investment expenditures and improving the quality of financing of the current account deficit.

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



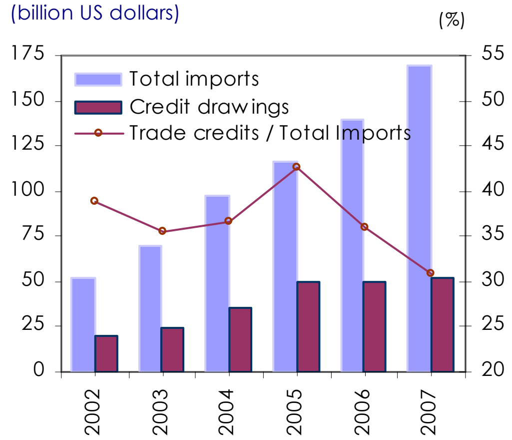
Short-term net credit use and private sector investment expenditures (12-month cumulative)



Source: CBRT, TURKSTAT.

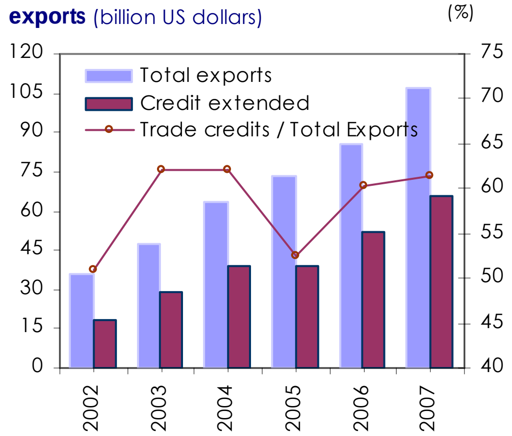
46. Trade credits drawn for imports, which increased in 2004 and 2005, did not register a significant rise in 2006 and 2007. Thus, the ratio of imports trade credits to total imports that was 42.6 percent in 2005, dropped to 30.8 percent in 2007. Meanwhile, the ratio of trade credits extended abroad to total exports increased recently and became 61.5 percent in 2007 against a ratio of 52.6 percent in 2005. It is considered that the increase in the trade credits extended abroad contributed to exports performance observed in 2006 and 2007.

Trade credit drawings and imports (billion US dollars)



Source: CBT, TURKSTAT.

Trade credits extended abroad & exports (billion US dollars)



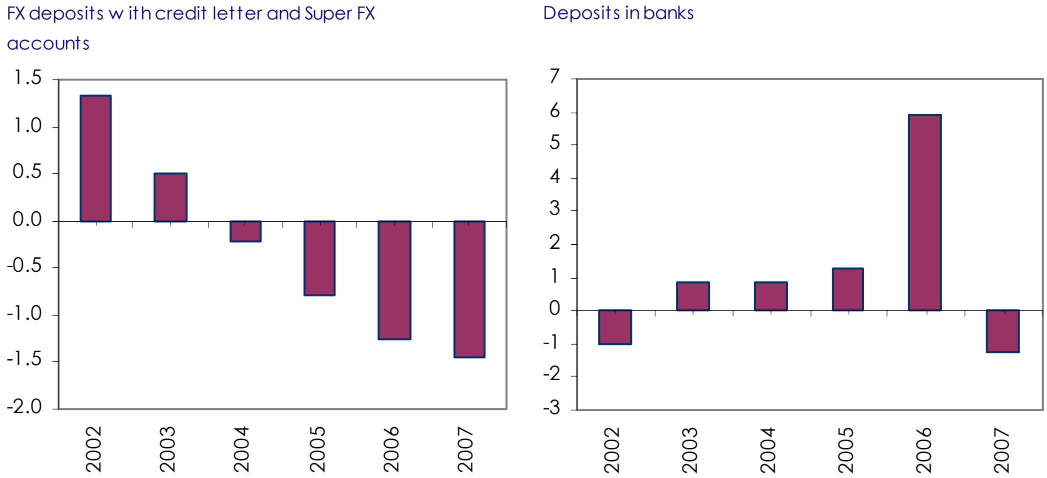
Source: CBT, TURKSTAT.

47. The Treasury continued to repay some of its IMF loans in 2007. The repayment to the IMF in this period amounted to USD 5.1 billion as against a borrowing of USD 1.1 billion. Other long-term borrowings (World Bank, etc.) of the Treasury were USD 3.4 billion and the repayment amounted to USD 3.3 billion.

48. Outflows from long-term FX deposit accounts and super FX accounts at CBT of nonresident Turkish workers has been continuing since April 2003. Outflows from short-term deposit accounts that started in the second quarter of 2004 still persist. As a result, the related deposits at CBT decreased by USD 1.5 billion in 2007. These outflows can be attributed to the gradual interest rate cut on both FX deposit accounts and super FX accounts until 2006. In fact, one, two and three-year maturity euro denominated super FX account rates, which were 8, 9 and 10 percent in 2002, respectively, were reduced on March 6, 2006, to 2.25, 3.25 and 3.75 percent, respectively.

49. Domestic banks attracted USD 5.9 billion of nonresidents' deposits over 2006, but saw a USD 4.7 billion outflow in the January-October period of 2007 and a USD 3.5 billion inflow in the November-December period.

Deposit of Non-Residents
(12-month, million US dollars)



Source: CBT.

50. In the third quarter of 2007, total external debt stock rose by 14.2 percent to USD 237.3 billion compared to end-2006. Private sector was the main source of this growth, while public sector only made a limited contribution. USD 197 billion of the total external debt stock involves long-term external debts, whereas short-term debts amount to USD 40.4 billion. Thus, the share of long-term debts in total external debt stock has widened to 83 percent as of the third quarter of 2007.

51. The improvement seen in external debt indicators in 2005 reversed in 2006. The ratio of external debt stock to GDP that fell to 35.1 percent at end-2005 increased to 39.5 percent at end-2006 and declined to 38.6 percent in the third quarter of 2007. In the meantime, it should be underlined that regarding the debts with maturity breakdown, the improvement in favor of long-term debts still continues.

Selected External Debt Indicators (percent)

	2005				2006				2007		
	I	II	III	IV	I	II	III	IV	I	II	III
External Debt Stock / GDP	38.9	37.3	35.7	35.1	37.0	37.5	38.1	39.5	39.5	39.4	38.6
External Debt Stock / Exports*	238.2	231.8	229.9	230.0	246.1	246.1	242.7	242.9	238.1	237.4	236.3
Debt Service / GDP	7.4	7.7	7.6	7.6	7.1	7.0	6.9	7.6	7.9	7.9	7.8
Long-term / External Debt	79.6	78.9	77.3	78.0	78.3	77.9	78.8	79.6	82.3	81.9	83.0
Short-term / External Debt	20.4	21.1	22.7	22.0	21.7	22.1	21.2	20.4	17.7	18.1	17.0
Memo:											
External Debt Stock (billion $)	*159.4*	*161.1*	*164.8*	*169.0*	*184.2*	*192.0*	*197.5*	*207.7*	*214.6*	*226.1*	*237.3*
GDP (billion $)	*409.4*	*432.1*	*461.0*	*481.5*	*497.8*	*511.3*	*517.9*	*526.4*	*542.6*	*573.7*	*615.0*

* Excluding shuttle trade and other goods.

Source: TURKSTAT, Undersecretariat of Treasury.

IV. APPENDIX

CURRENT ACCOUNT (USD million)

	Current Account										
	Net	Foreign Trade				Services		Income		Transfers	
		Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expend-iture	Net	Workers Remit-tances
					(annual)						
2002	-1519	-7283	36059	4065	-51554	7885	8479	-4554	-4395	2433	1936
2003*	-8036	-14010	47253	3953	-69340	10511	13203	-5557	-4544	1020	729
2004	-15599	-23878	63167	3880	-97540	12797	15888	-5635	-4312	1117	804
2005	-22604	-33530	73476	3473	-116774	15272	18152	-5800	-5009	1454	851
2006	-32193	-41324	85535	6408	-139576	13830	16853	-6607	-6323	1908	1111
2007	-37996	-47498	107154	6002	-169987	14070	18487	-6794	-7431	2226	1209
					(quarterly)						
2006 IV	-8152	-9131	24134	1931	-37145	2212	3120	-1800	-1962	567	292
2007 I	-9323	-9031	23182	1287	-35223	1239	2162	-1905	-1540	374	228
II	-10095	-11750	26411	1742	-42128	2716	3728	-1505	-1788	444	234
III	-6869	-13669	26693	1365	-44355	7805	8732	-1781	-1850	776	387
IV	-11709	-13048	30868	1608	-48281	2310	3865	-1603	-2253	632	360
					(monthly)						
2007 Jan	-3076	-3136	6566	393	-10594	393	727	-437	-423	104	71
Feb	-3155	-2726	7658	418	-11393	286	624	-843	-517	128	71
Mar	-3092	-3169	8958	476	-13236	560	811	-625	-600	142	86
Apr	-3286	-3452	8307	556	-12925	661	921	-603	-567	108	85
May	-3614	-4265	9140	649	-14938	875	1270	-391	-625	167	81
Jun	-3195	-4033	8964	537	-14265	1180	1537	-511	-596	169	68
Jul	-2907	-4979	8937	362	-15215	2111	2583	-411	-458	372	127
Aug	-1690	-4648	8735	523	-14681	3222	3404	-485	-689	221	138
Sep	-2272	-4042	9021	480	-14459	2472	2745	-885	-703	183	122
Oct	-3249	-4295	9890	540	-15609	1441	1855	-554	-729	159	121
Nov	-3311	-3844	11302	557	-16625	676	1135	-321	-704	178	125
Dec	-5149	-4909	9676	511	-16047	193	875	-728	-820	295	114
					(12-month)						
2007 Jan	-32984	-42041	86968	6563	-142025	13822	16858	-6659	-6440	1894	1105
Feb	-32904	-41807	88568	6653	-143622	13836	16933	-6853	-6448	1920	1108
Mar	-32877	-41661	90115	6744	-145253	13868	17013	-7022	-6668	1938	1111
Apr	-32323	-40951	91966	6840	-146591	13860	16997	-7185	-6778	1953	1125
May	-31908	-40601	94064	6994	-148835	13671	17022	-6926	-6813	1948	1080
Jun	-32295	-40965	95212	7056	-150634	13570	17048	-6895	-6955	1995	1063
Jul	-33512	-42377	97082	6827	-154140	13540	17275	-6905	-6964	2230	1099
Aug	-33685	-42858	99006	6576	-156545	13787	17516	-6790	-6993	2176	1127
Sep	-34439	-43581	100420	6325	-158851	13972	17742	-6991	-7140	2161	1141
Oct	-35504	-44703	103421	6300	-163260	14194	18147	-7140	-7310	2145	1159
Nov	-35845	-45685	106082	6159	-166988	14343	18394	-6625	-7181	2122	1194
Dec	-37996	-47498	107154	6002	-169987	14070	18487	-6794	-7431	2226	1209

Source: CBT.

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

CAPITAL and FINANCIAL ACCOUNT (USD million)

	Capital and Financial Account: Net	Financial Account: Net	Foreign Direct Investment	Portfolio Investment: Net	Portfolio Investment: Assets	Portfolio Investment: Liabilities: Equity Securities	Portfolio Investment: Liabilities: Debt Securities	Other Investment: Net	Other Investment: Currency and Deposits	Other Investment: Liabilities: Net	Liabilities: Trade Credits	Liabilities: Credits: Monetary Authority	Liabilities: Credits: General Gov.	Liabilities: Credits: Banks	Liabilities: Credits: Other Sectors	Liabilities: Deposits: Monetary Authority	Liabilities: Deposits: Banks
(annual)																	
2002	1403	1403	958	-593	-2096	-16	1519	7191	594	7968	2483	-6138	11834	-1028	372	1336	-988
2003	3096	3096	1253	2465	-1386	905	2946	3425	724	4411	2181	-1479	-765	1975	1023	497	871
2004	13410	13410	2026	8023	-1388	1427	7984	4185	-5965	11140	4201	-4414	-267	5708	5107	-209	856
2005	20423	20423	8951	13437	-1233	5669	9001	15882	-342	15623	3074	-2881	-4637	9248	10017	-787	1276
2006	32342	32342	18984	7373	-4029	1939	9463	12099	-10293	25536	674	0	-5223	5814	19367	-1268	5890
2007	38411	38411	19766	717	-2063	5138	-2358	25960	-3474	30712	4214	0	-3901	5340	27381	-1450	-1223
(quarterly)																	
2007 I	8550	8550	8151	4502	-652	-651	5805	2311	-222	2751	806	0	-2138	873	6617	-250	-3168
II	7376	7376	2678	1491	-402	3266	-1373	3683	-6430	10659	1294	0	-406	3339	6843	-269	-264
III	10734	10734	4287	-1911	-1281	1754	-2384	9402	3623	5656	1283	0	-708	-64	5931	-567	-419
IV	11751	11751	4650	-3365	272	769	-4406	10564	-445	11646	831	0	-649	1192	7990	-364	2628
(monthly)																	
2007 Jan	3088	3088	5403	3124	428	-1290	3986	-2856	-194	-3995	111	0	-190	102	-124	-71	-3823
Feb	2742	2742	1614	3280	-506	470	3316	-588	-37	-160	354	0	-1735	497	859	-86	-51
Mar	2720	2720	1134	-1902	-574	169	-1497	5755	9	6906	341	0	-213	274	5882	-93	706
Apr	1416	1416	692	2504	-176	760	1920	-2650	-2567	-255	56	0	-947	419	1260	-82	-979
May	1717	1717	706	8	80	1909	-1981	553	-4568	5428	630	0	647	1819	3543	-96	-1166
Jun	4243	4243	1280	-1021	-306	597	-1312	5780	705	5486	608	0	-106	1101	2040	-91	1881
Jul	4649	4649	1732	2537	-375	1139	1773	1353	1517	-464	993	0	-23	-599	921	-127	-1704
Aug	1010	1010	1020	-4208	-978	-215	-3015	5984	2430	3319	295	0	-396	863	3199	-261	-451
Sep	5075	5075	1535	-240	72	830	-1142	2065	-324	2801	-5	0	-289	-328	1811	-179	1736
Oct	4549	4549	1012	-277	471	429	-1177	3690	2634	1540	64	0	-580	314	2695	-140	-839
Nov	1770	1770	534	-3695	144	-119	-3720	3900	777	3905	464	0	-454	145	2259	-110	1602
Dec	5432	5432	3104	607	-343	459	491	2974	-3856	6201	303	0	385	733	3036	-114	1865
(12-month)																	
2007 Jan	33215	33215	23660	8428	-3450	184	11694	7876	-8216	18362	1874	0	-5108	6152	14532	-1289	1919
Feb	32529	32529	24942	10497	-4240	455	14282	1392	-10114	13657	2716	0	-5436	5301	12364	-1320	-251
Mar	33464	33464	25739	8297	-4374	647	12024	4848	-11652	18516	2272	0	-5368	4254	17320	-1334	1087
Apr	32113	32113	25907	11386	-4389	1184	14591	-1022	-15394	16386	2063	0	-5845	3620	18123	-1331	-532
May	30180	30180	19873	14501	-4089	2867	15723	845	-17708	21006	1612	0	-3590	4804	19884	-1309	-688
Jun	32097	32097	20575	14316	-4667	3546	15437	6085	-14753	22937	2037	0	-3762	4610	20875	-1307	191
Jul	35445	35445	22103	15137	-5159	4361	15935	8305	-11943	22488	3082	0	-3469	3940	21149	-1356	-1174
Aug	32703	32703	19934	9313	-5594	4061	10846	14974	-7900	24992	3338	0	-4718	5979	23134	-1415	-1654
Sep	35874	35874	21335	8327	-4643	4709	8261	15333	-8300	25572	3213	0	-4831	4294	23600	-1421	370
Oct	36975	36975	19568	4026	-4239	4646	3619	23433	-984	26880	3513	0	-4598	5407	25604	-1466	-1938
Nov	37219	37219	18187	-762	-3801	4058	-1019	29242	-5	31798	4292	0	-3478	6393	26720	-1446	-1041
Dec	38411	38411	19766	717	-2063	5138	-2358	25960	-3474	30712	4214	0	-3901	5340	27381	-1450	-1223

Source: CBT.