

CENTRAL BANK OF THE REPUBLIC OF TURKEY

BALANCE OF PAYMENTS REPORT

(Note: The monthly publication Balance of Payments Report will be published quarterly starting with the next issue along with 2005 balance of payments statistics.)



December 2004

SUMMARY

BALANCE OF PAYMENTS (USD million)						
	December			January-December		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-2939	-3011	..	-8037	-15573	..
Foreign Trade Balance	-3639	-3978	9.3	-22087	-34387	55.7
Exports	4595	6239	35.8	47253	62774	32.8
Imports	-8234	-10217	24.1	-69340	-97161	40.1
Exports/Imports	55.8%	61.1%	..	68.1%	64.6%	..
Capital and Financial Accounts	1007	2550	..	2997	12506	..
Financial Account (Excl. Off. Reserves)	2424	2715	..	7044	13330	..
Change in Official Reserves ⁱ	-1417	-165	..	-4047	-824	..

Source: CBRT.

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

In December 2004:

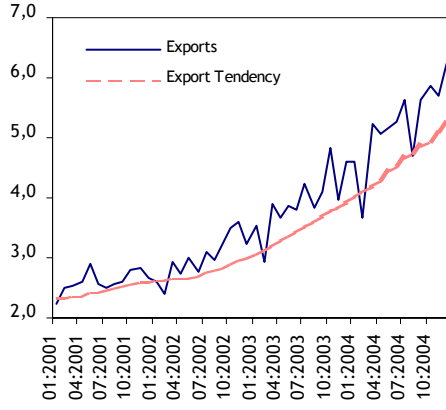
Exports grew by 35.8 percent compared with the same month last year and increased from USD 4.6 billion to USD 6.2 billion. In the same month, imports increased by 24.1 percent and rose from USD 8.2 billion to USD 10.2 billion. Thus, the foreign trade deficit became USD 4 billion and the ratio of exports to imports was recorded as 61.1 percent. While the current account yielded a deficit of USD 3 billion, the financial account excluding official reserves resulted in a surplus of USD 2.7 billion.

In 2004:

Exports increased by 32.8 percent compared with same period last year and reached USD 47.3 billion. In the same period, imports rose to USD 97.2 from USD 69.3 increasing by 40.1 percent. In the said period, the foreign trade deficit was recorded as USD 34.4 billion and the ratio of exports to imports dropped compared with same period last year and became 64.6 percent. The current account yielded a deficit of USD 15.6 billion, while the financial account excluding the official reserves recorded a surplus of USD 13.3 billion.

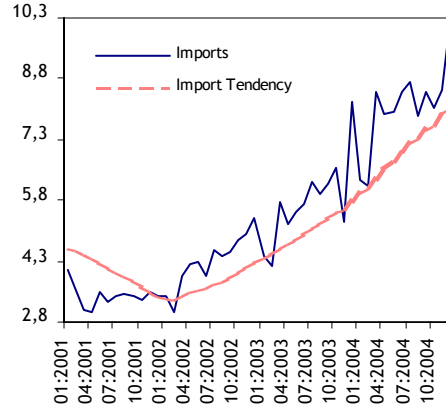
SUMMARY

EXPORTS (USD billion)



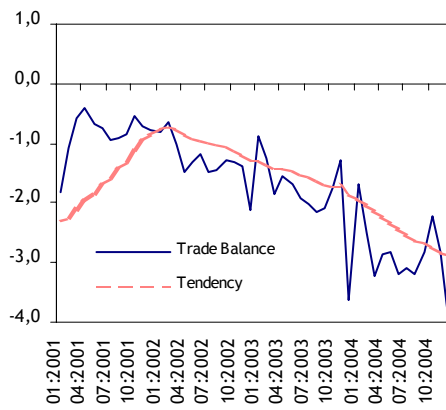
Source: SIS.

IMPORTS (USD billion)



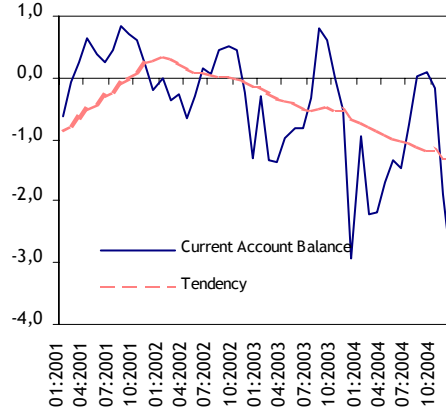
Source: SIS.

TRADE BALANCE (USD billion)



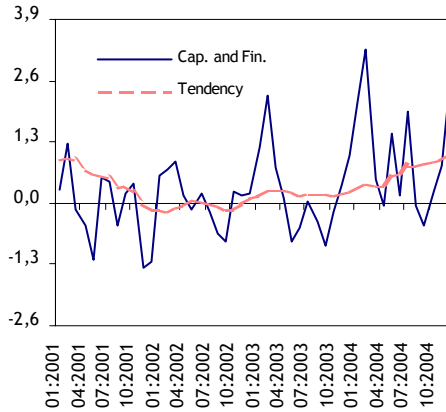
Source: SIS.

CURRENT ACCOUNT BALANCE (USD billion)



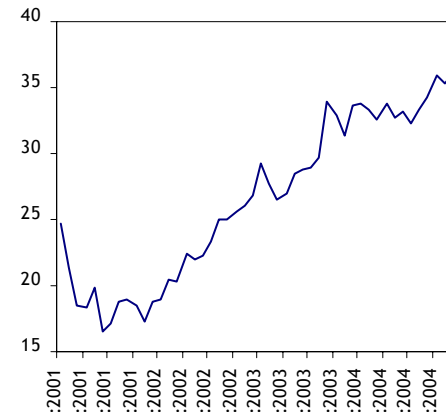
Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD billion)



Source: CBRT.

CBRT INTERNATIONAL RESERVES (USD billion)



Source: CBRT.

/ Trends are calculated with 12-month moving average.

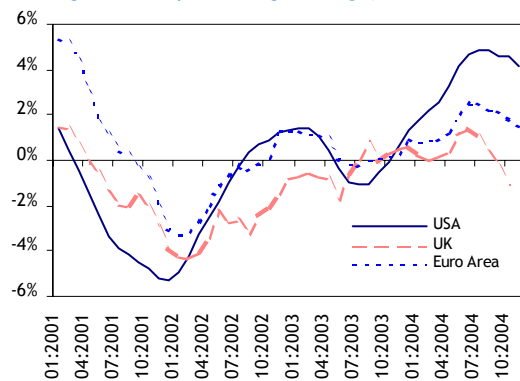
I. FACTORS AFFECTING FOREIGN TRADE

External Demand Developments

1. Rapid growth rates recorded in the global economy in early 2004 were replaced by more moderate figures. Favorable financing conditions in 2004 became one of the determining factors that supported growth. The decline in crude oil prices in November and December after a steep rise in the third quarter of 2004 helped global economic growth to continue. Despite the upsurge in energy prices, consumer prices displayed a downward trend in most regions throughout 2004.

INDUSTRIAL PRODUCTION

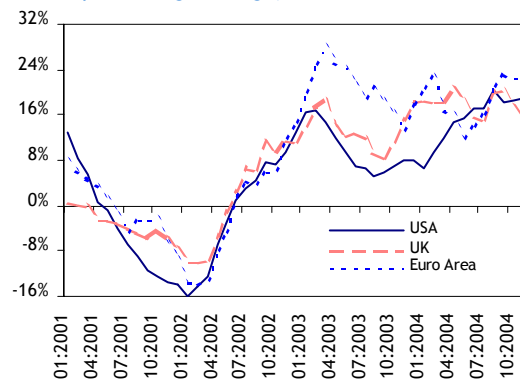
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

IMPORTS

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



Source: IMF, ECB.

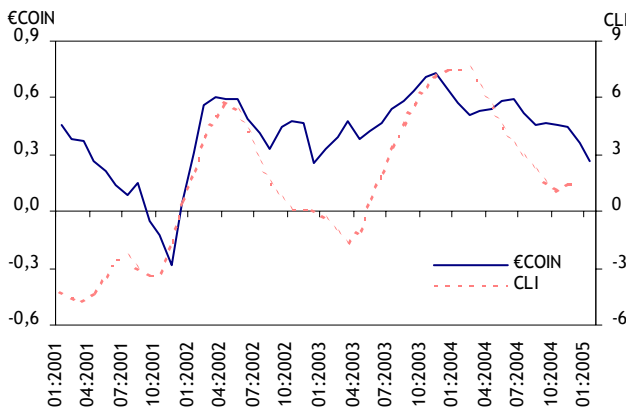
2. The US economy's rate of growth slowed down relatively at the end of the year. Though the US annualized GDP grew by 4 percent in the third quarter, growth fell to 3.8 percent in the last quarter. The growth in the US GDP in the last quarter mainly stemmed from private consumption, the hardware-software sector, general government expenditures and fixed capital investment. The annual inflation rate was realized as 3.3 percent in December due to the decline in energy prices at year-end. On 2 February 2005, the Federal Reserve raised interest rates by 0.25 point to become 2.5 percent in order to sustain growth and preserve price stability.

3. Japanese economic growth lost pace towards the end of the year. Stock adjustments in the manufacturing industry, mainly in information technology, became the main determinant in the second and third quarters of the year. Due to these developments, the manufacturing industry production dropped by 1.2 percent. Annual consumer price inflation became 0.2 percent in December.

4. Growth in the British economy reaccelerated in the last quarter of the year. GDP growth, which was 0.5 percent in the third quarter, is estimated to realize as 0.7 in the last quarter. Despite the slowdown in industrial production, the services sector became the determining factor in this increase. Annual consumer price inflation, which was recorded as 1.6 percent in December, has been pursuing a course under the 2 percent target.

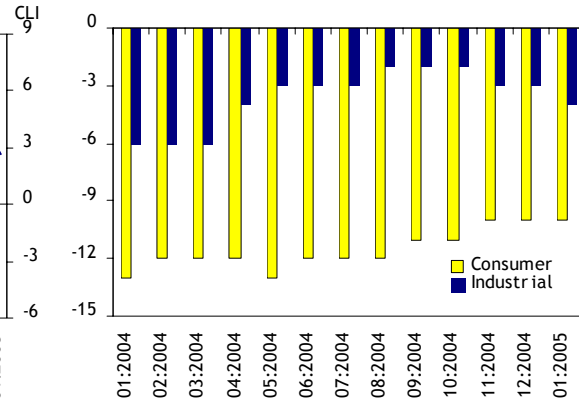
5. The slowdown in GDP growth in the Euro zone, which started in the third quarter, also persisted in the last quarter. According to preliminary estimates, GDP increased by 1.6 percent in the last quarter, compared with same period last year. In fact, January 2005 issue of the coincident indicator (EuroCOIN), which provides forecasts for quarterly GDP growth for the Euro zone, indicate that the Euro zone growth has been maintaining its downward trend since July. This slowdown stemmed from decreases in export performance and private consumption expenditure. Euro zone consumer prices were boosted by 2.4 percent on an annual basis in December due to the increase in food prices.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU
(seasonally adjusted)



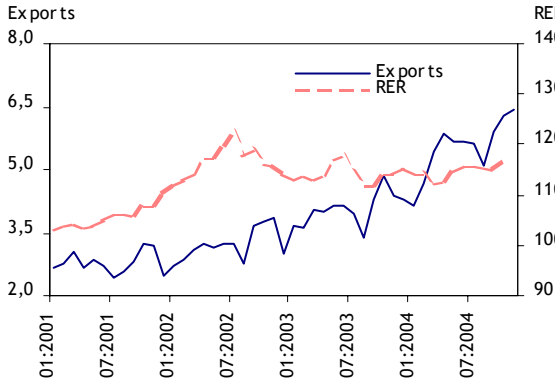
Source: Eurostat.

6. The Composite Leading Indicators index (CLI) issued by the OECD, which had been declining since the beginning of the year, displayed a slight increase in December. The increase in the six-month growth rate of the Index resulted from the growth performance of the US and German economies. Nevertheless, the index points to a slowdown in other regional economies.

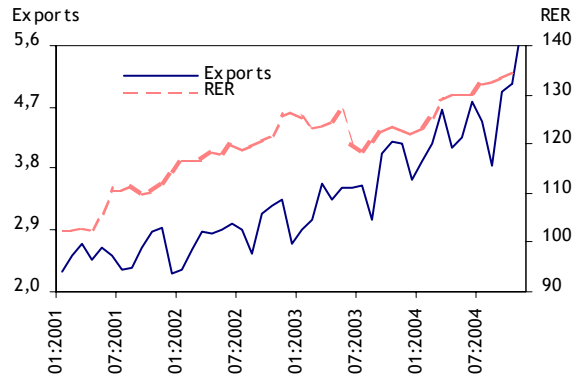
7. Despite a relative slowdown, GDP growth in new EU-member states is still enjoying high growth rates. Consumer price inflation, which accelerated in early 2004, started to head down in the following period owing to developments in food and energy prices.

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

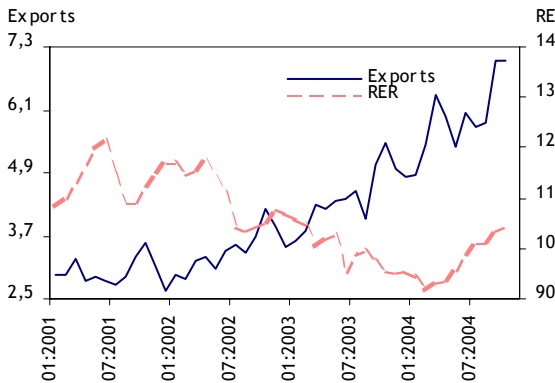
CZECH REPUBLIC



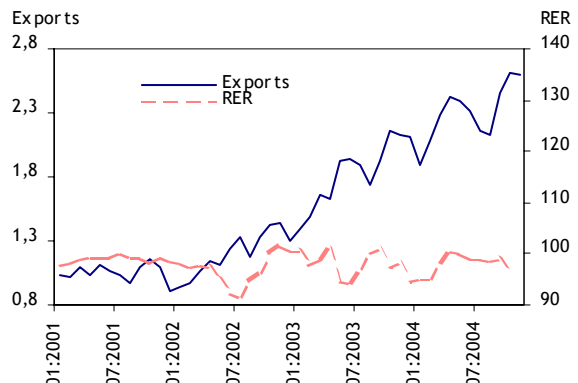
HUNGARY



POLAND



SLOVAK REPUBLIC

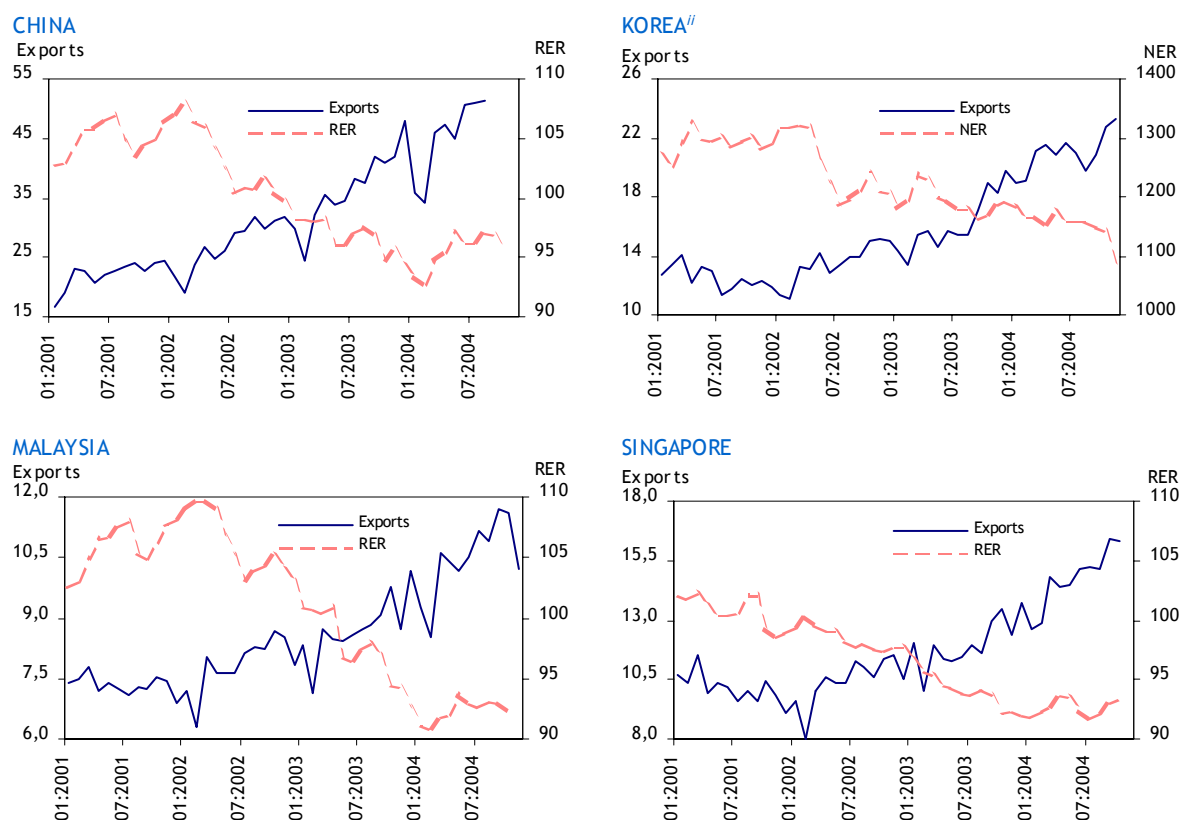


ⁱ Increase in real exchange rate implies appreciation in domestic currency.
Source: IMF.

8. Growth in the developing Asian economies continued to accelerate at the end of the year. The rise in the regional economy, led by China, stemmed from strong export

performance, as well as an increase in special consumption expenditure. Additionally, favorable developments in food and energy prices lessened inflationary pressures as consumer prices inflation became 2.4 percent in December.

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

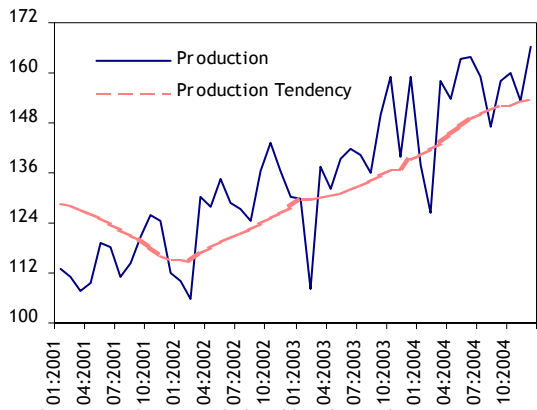
Developments in Domestic Demand and Production

9. The Turkish economy continued to grow in the third quarter, albeit with a slowdown compared to the first half of 2004. According to the data issued by the SIS, the GDP and GNP increased by 4.5 percent and 4.7 percent, respectively, in the third quarter, compared with same period last year, which was below expectations. Meanwhile, in the first nine months of the year, the GDP and GNP grew by 8.7 percent and 9.7 percent, respectively, compared to the same period last year. The lower than expected growth rates in the third quarter are chiefly attributed to the relative decline in domestic demand as well as the base effect created by high production volume enjoyed by the country in the same period of last year. As for production, the value added created by the agricultural sector, which decreased contrary to expectations compared with the same period of the previous year, had a decreasing impact on growth.

10. When economic growth is analyzed with respect to production in the third quarter, it is observed that the value added of the agricultural and construction sectors decreased compared to the same period of the previous year and that the rise in the industrial and services sectors contributed to GDP growth. An analysis of growth by demand components reveals that private expenditure made the largest contribution to GDP growth in 2004-Q3. Compared to the first half of the year, it is observed that while the contribution to growth of private expenditure shrank in line with the slowdown in the economy, its composition has not changed. Within this framework, durable, semi-durable and non-durable consumption goods and machinery-equipment investments became the expenditure groups that supported growth. Meanwhile, the influence of public expenditure and net export components to growth was negative. It is also remarkable that the contribution of stock changes to growth became negative for the first time since the end of 2001.

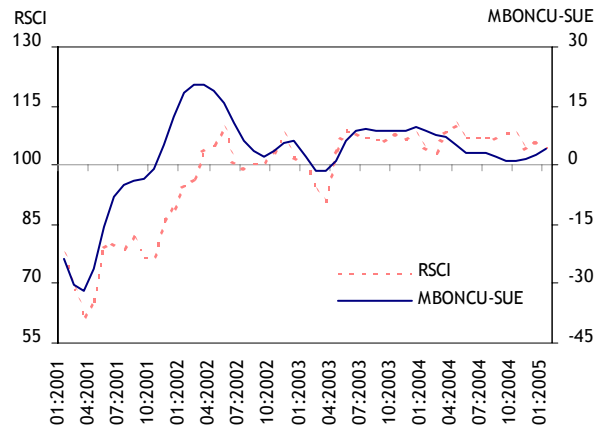
11. According to the SIS Monthly Industrial Production Index, total industrial production and manufacturing industry production rose by 4.7 percent and 4.6 percent, respectively, in December 2004 compared with same month last year. Accordingly, the industrial production growth rate decreased in the last quarter of 2004 compared with previous periods. The relative slowdown in domestic demand and the base effect stemming from high production in the same period of the previous year became determining factors for the decline. The ongoing increase in industrial production according to seasonally adjusted data despite its strong base effect, points to a continuing revival in production.

MANUFACTURING INDUSTRY PRODUCTION (1994=100)



Source: SIS.

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

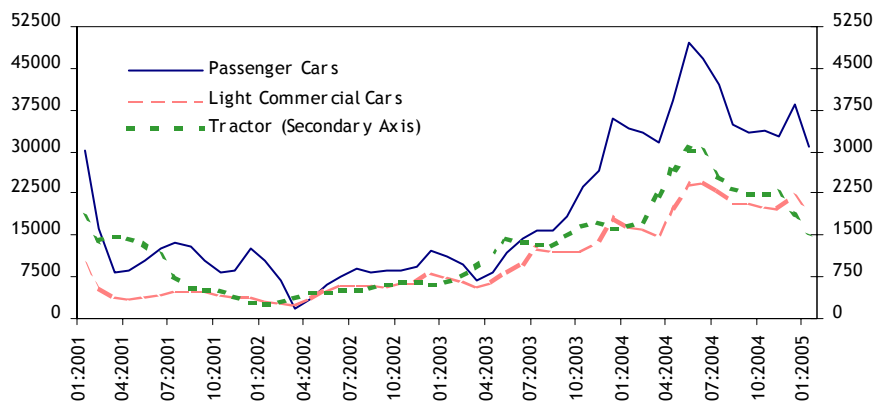


Source: CBRT.

12. According to data announced by the SIS, the capacity utilization rate in the manufacturing industry was realized as 76.3 percent in January 2005. Capacity utilization rate fell by 7.7 points in January compared to the previous month and 0.9 points compared to the same month last year. The public sector capacity utilization rate dropped by 5.1 points in January compared with same month last year and was realized as 78.4 percent. In January, the private sector capacity utilization rate declined by 0.6 point compared with same month last year and was realized as 75.4 percent.

13. The six-month percentage change rate of the composite leading indicators index (MBONCU-SUE) compiled by the Central Bank of the Republic of Turkey, rose in January 2005 compared to the previous month. The six-month percentage change of the index, which pursued a downward course in the second half of 2004, started to increase. On the other hand, the Real Sector Confidence Index (CBRSCI) decreased by 1.8 points compared to the previous month and became 104.5 points in December. The value of the index above 100 denotes continuing confidence of the real sector in economic activities.

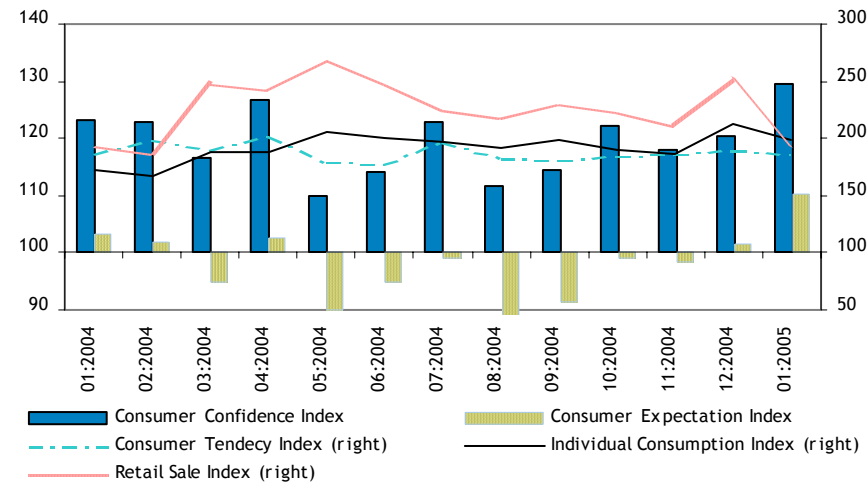
TRANSPORTATION VEHICLES SALES (3-month moving average, unit)



Source: Automobile Industry Association.

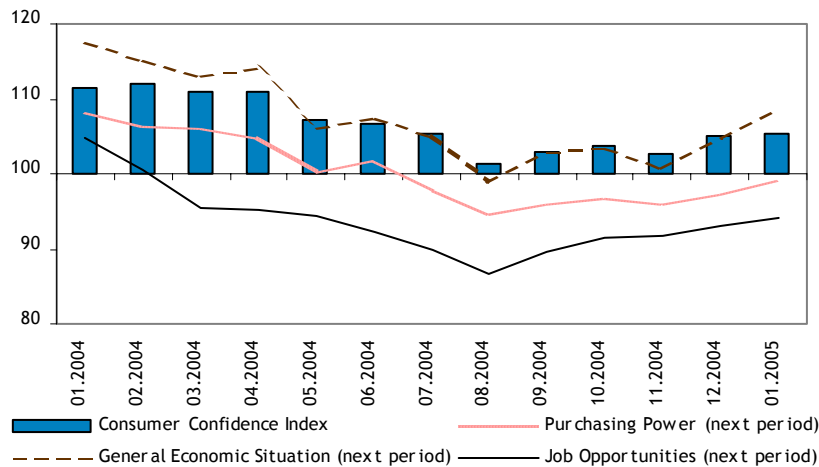
14. The growth rate automobile sales lost pace in the second half of the year and increased by 6.7 percent compared with same period of 2003. The slowdown in the last quarter figures resulted from the satisfaction of delayed demand, new tax regulations and the base effect created by high automobile sales in the same period of the previous year. As a matter of fact, in January 2005, light commercial vehicle sales, which are closely related to the volume of activity of the manufacturing industry sector, displayed a decline.

CNBC-e INDICES (January 2002=100)



Source: NTVMSNBC.

CONSUMER TENDENCY SURVEY



Source: CBRT, SIS.

15. The increase in consumer confidence and expectations indices compiled by CNBC-e observed in December also continued in January 2005 and both indices rose by 8 percent compared to the previous month.

16. According to the results of the Consumer Tendency Survey for January compiled by the Central Bank and the SIS, the consumer confidence index increased compared with year-end. The value of the index above 100 points indicates optimism in consumer confidence.

Prices

17. The Turkish lira, which was in an appreciation trend in the first quarter of 2004 against the nominal foreign exchange rate basket composed of USD 1 + 0.77 euro, maintained also its trend in January 2005. Meanwhile, real exchange rate indices reveal that having displayed a moderate upward trend in the last quarter of 2004, the Turkish lira appreciated by 4.8 percent, and 3.7 percent according to CPI and WPI based indices, respectively in January 2005.

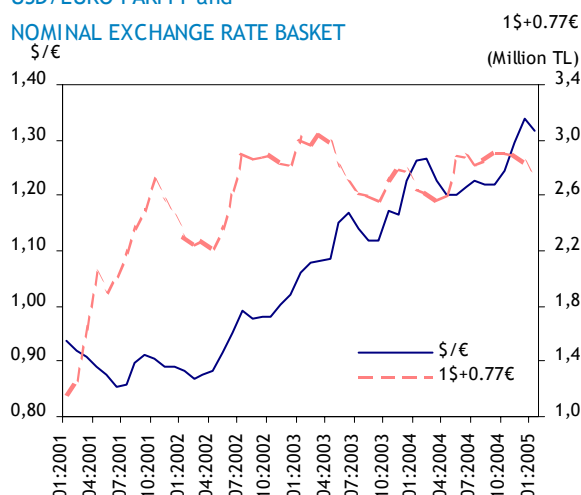
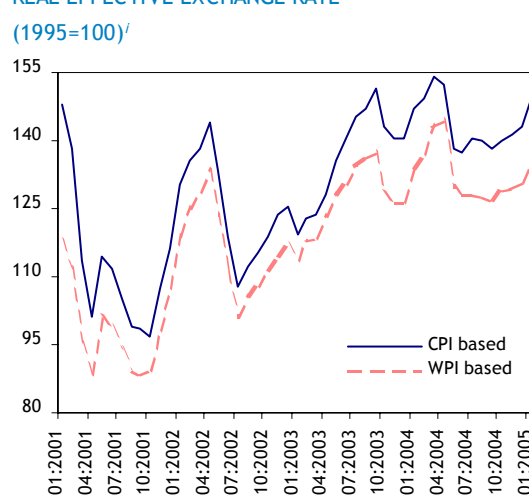
REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)ⁱ

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

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.

18. The Euro appreciated by 9.9 percent on average against the USD in 2004. Accordingly, the average euro/USD parity, which was 1.1313 in 2003, rose to 1.2434 in 2004. Nevertheless, a slight decline was observed in the euro/USD parity in January 2005 compared to end 2004.

USD/EURO PARITY and
NOMINAL EXCHANGE RATE BASKETREAL EFFECTIVE EXCHANGE RATE
(1995=100)ⁱ

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

19. Terms of trade, which pursued a downward course throughout 2004, rose in the last two months of the year. However, the index is lower by 3.2 percent and 2.4 percent in November and December, respectively, compared to the year-high level recorded in February.

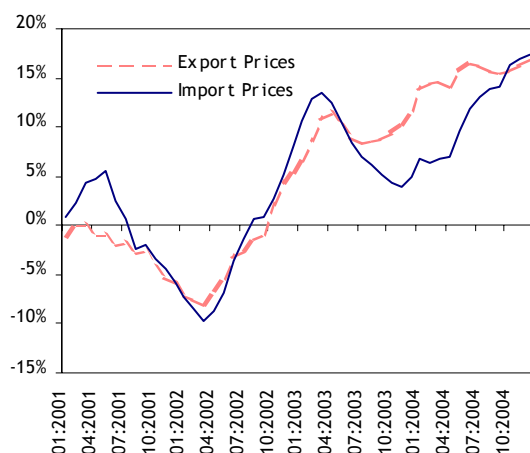
20. In December, export prices rose by 2.4 percent compared to the previous month. The export prices index of the basic metal industry, which increased in the first five months due to the upsurge in world basic metal prices in early 2004, displayed a significant decline in June and July, but picked up in August-December period. Despite the downward trend in export prices of textile products prevailing throughout 2004, they increased by 5.3 percent in December.

21. In December, import prices increased by 1.5 percent compared to the previous month. Textile products, basic metal, machinery-equipment and electrical machinery and equipment's manufacturing industry prices were the leading determinants of the said hike in the price index.

EXPORT and IMPORT PRICE INDICES (1994=100)										
	2003	2003				2004				2004
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Export Price Index	92,4	91,5	90,7	91,6	95,8	105,0	105,7	105,9	111,9	107,1
Manufacturing	92,8	92,1	91,1	92,1	95,7	105,1	105,6	105,4	110,6	106,7
Textiles	88,9	88,1	87,6	87,4	92,6	101,0	97,9	96,1	100,0	98,8
Wearing Apparel	97,5	97,0	94,3	98,2	100,6	118,7	115,3	112,4	112,1	114,6
Chemicals & Products	90,2	91,7	90,1	88,7	90,5	93,9	94,6	100,2	110,8	99,9
Manufacture of Basic Metals	103,2	98,0	103,6	103,3	107,9	123,2	138,4	138,0	160,9	140,1
Manufacture of Mach. & Equ.	86,1	84,5	84,3	85,0	90,5	100,1	98,1	97,7	101,1	99,2
Electrical Mach. & Apparatus	70,6	74,2	69,2	69,4	69,5	74,9	69,7	67,7	71,0	70,8
Motor Vehicles & Trailers	100,0	94,6	96,6	100,8	107,7	111,7	113,2	112,7	121,5	114,8
Import Price Index	100,9	101,6	99,7	99,9	102,3	108,4	111,6	114,0	120,1	113,5
Mining & Quarrying	165,5	172,4	156,5	165,5	167,4	176,4	185,2	205,7	224,9	198,0
Crude Oil & Natural Gas	177,0	183,2	167,1	177,7	179,9	187,3	198,8	222,6	241,9	212,7
Manufacturing	93,9	93,0	94,2	93,1	95,2	100,5	104,2	104,9	110,3	105,0
Textiles	87,4	85,7	91,1	86,7	86,3	93,6	96,4	99,9	98,8	97,2
Chemicals & Products	101,1	99,5	103,4	99,3	102,1	108,7	110,3	112,9	120,5	113,1
Manufacture of Basic Metals	97,7	94,5	96,0	96,8	103,6	125,1	140,5	143,0	159,6	142,1
Manufacture of Mach. & Equ.	94,4	92,0	93,6	95,5	96,7	94,1	101,1	94,5	100,5	97,6
Electrical Mach. & Apparatus	67,1	66,6	68,1	66,1	67,6	72,4	69,3	71,8	73,9	71,9
Motor Vehicles & Trailers	91,9	88,9	91,3	90,7	96,7	103,4	101,7	103,5	108,4	104,2

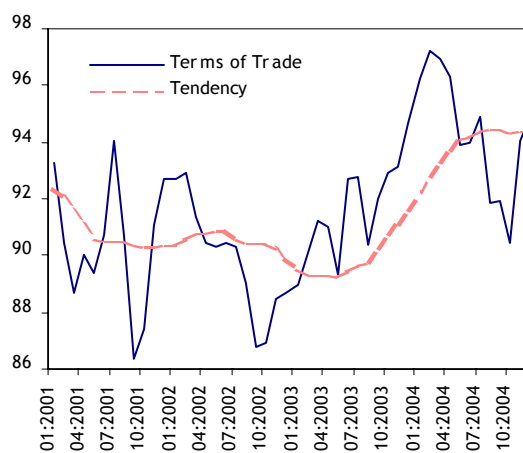
Source: SIS.

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



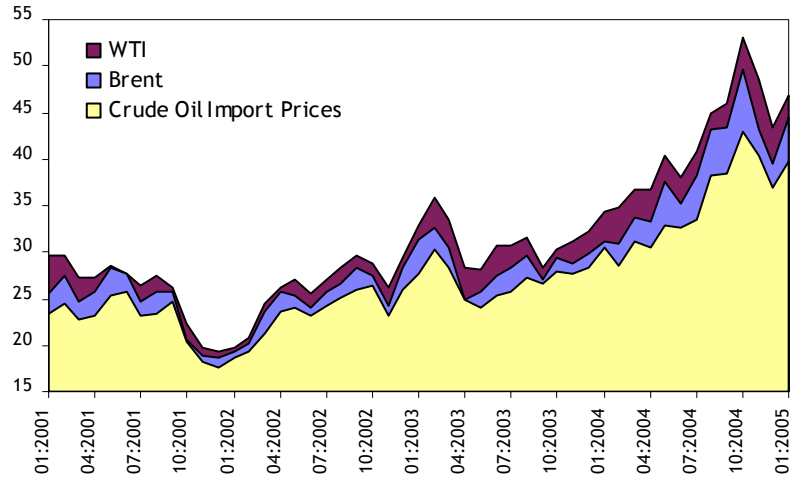
Source: SIS.

TERMS OF TRADE
(Export Prices/Import Prices)



22. The upward trend in oil prices, which started in early 2004, also continued in September and October, but reversed in November and December due to better than expected weather conditions. However, crude oil prices resumed their upward trend from the beginning of 2005 onwards. Although this rise mainly stemmed from seasonal movements, harsh winter conditions in the northern hemisphere and the accompanying depletion of crude oil and other heating fuel stocks in the USA also influenced this development.

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



Source: CBT, SPO, Energy Information Administration.

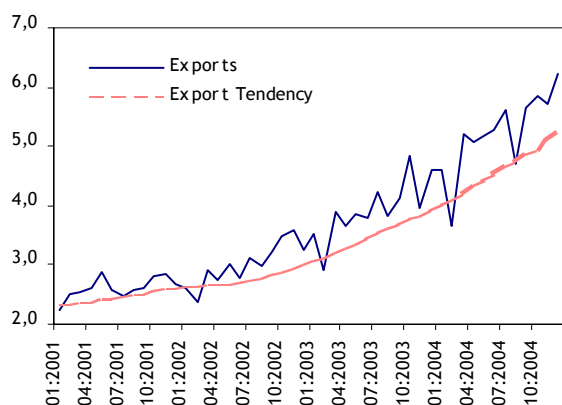
II. EXPORTS

General Evaluation

23. Exports rose by 35.8 percent in December 2004, compared to the same month of the previous year and reached USD 6.2 billion. Accordingly, in overall 2004, exports increased by 32.8 percent to become USD 62.8 billion.

24. Thanks to the decline in real unit labor force costs and the upward trend in production, the growth in exports that started in 2003 also continued in 2004. Moreover, the increase in productivity, the expansion tendency in the global economy and rising export prices backed this growth.

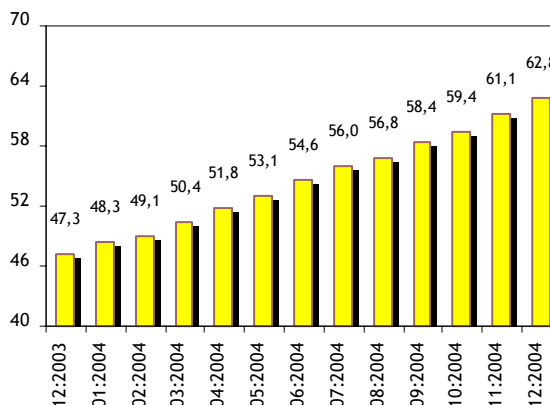
EXPORTS and EXPORTS TENDENCY/
(USD billion)



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

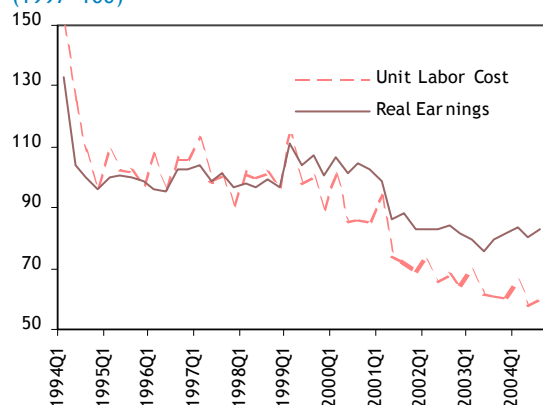
Source: SIS.

EXPORTS
(12 month, USD billion)



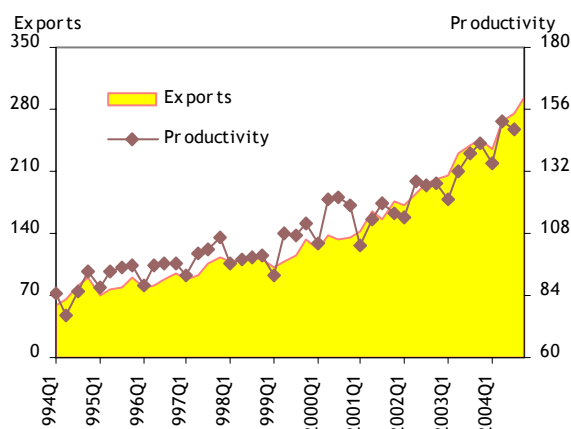
Source: SIS.

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



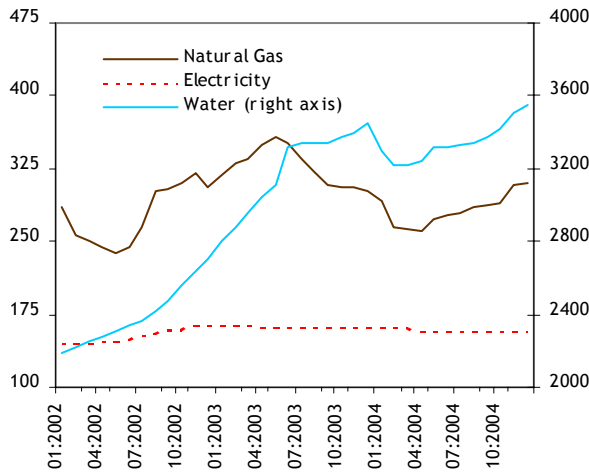
Source: SIS, CBRT.

PRIVATE MANUFACTURING EXPORT AND
PRODUCTIVITY INDICES (1997=100)



25. As of 2004, energy prices at constant prices maintained the downward trend that had been observed since early-2002. While electricity prices followed a steady course, natural gas and water prices rose, especially from the second quarter of 2004 onwards. Nevertheless, the prices were at lower levels compared to the previous year. Energy prices (Energy-WPI) fell by 1 percent on average in 2004, whereas wholesale prices (WPI) increased by 11.1 percent. Meanwhile, the price index of refined oil products and coke within the WPI, which can be considered as a leading indicator in terms of energy costs, rose by 9.1 percent on average in 2004

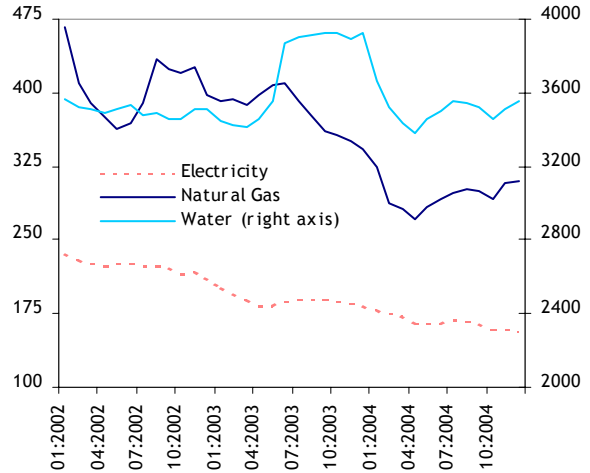
ENERGY WHOLESALE PRICES[/]
(thousand TL)



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

Source: SIS.

ENERGY PRICES[/]
(constant prices, thousand TL)

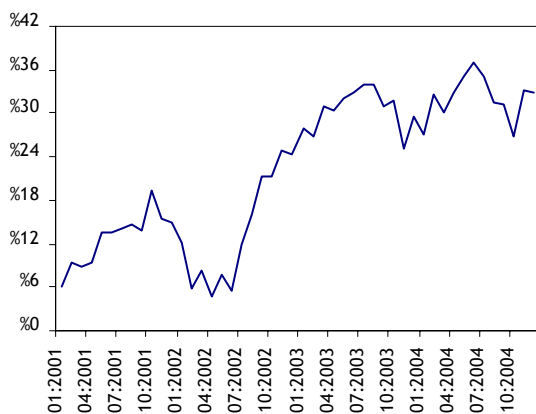


[/] With December 2004 prices.

Source: SIS.

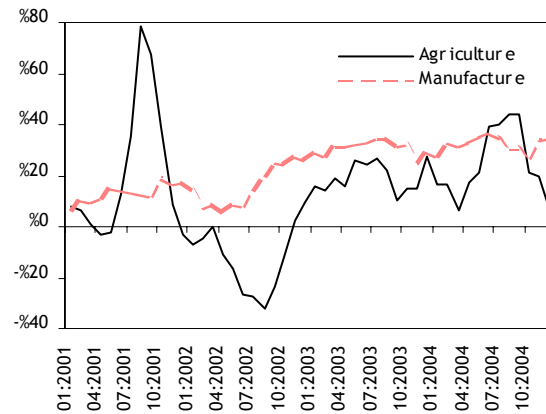
26. Eximbank also continues to support the export sector in 2005. Eximbank cut short-term interest rates on loans on 3 January, 27 January and 14 February 2005 considering likely decreases in resource costs in 2005 and the general decline tendency in interest rates. Furthermore, it decided to extend credit maturities on 27 January 2005.

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



Source: SIS.

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



Source: SIS.

27. The three-month trend of increase in manufacturing industry exports still maintains its high level, despite a decline in the August-October period. The export tendency of agricultural products weakened significantly in the last quarter of the year.

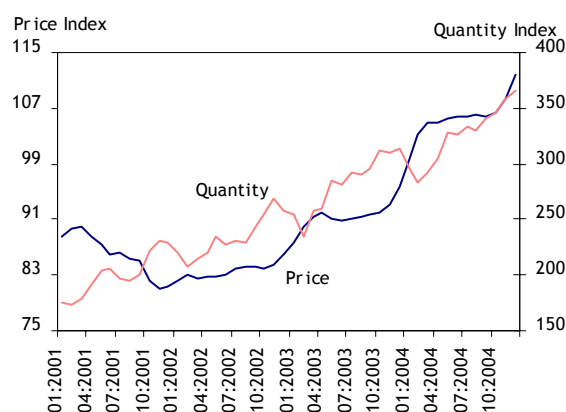
28. The groups of goods that made the major contribution to the boost in exports 2004 were motor vehicles and parts, iron and steel, electrical machinery and equipment, machinery-mechanical devices and exports of goods made of iron and steel, respectively. While the total contribution of these five items to the 31.8 percent-growth in exports amounted to 18.1 points, 6.4 points of this stemmed from the rise in exports of motor vehicles and spare parts.

EXPORTS (USD million)								
	December				January-December			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	4595	6239	35,8	..	47253	62774	32,8	..
Agriculture and Forestry	286	308	7,6	0,5	2463	2954	19,9	1,0
Fishing	25	9	-64,2	-0,3	81	98	20,8	0,0
Mining and Quarrying	41	58	39,5	0,4	469	639	36,1	0,4
Manufacturing	4220	5830	38,2	35,0	43983	58688	33,4	31,1
Other	24	35	49,4	0,3	257	396	53,8	0,3
Important Items:								
Edible fruit and nuts, peel of citrus fruits or melons	177	217	22,5	0,9	1392	1883	35,3	1,0
Preparations of vegetables, fruits and other plants	14	18	23,2	0,1	160	194	21,2	0,1
Salt, sulphur, earths and stone	53	72	35,7	0,4	733	907	23,8	0,4
Mineral fuels, mineral oils and products	112	116	3,8	0,1	980	1362	39,0	0,8
Plastics and articles thereof	93	129	38,6	0,8	926	1319	42,5	0,8
Cotton, cotton yarn and cotton fabrics	111	113	2,3	0,1	997	1215	21,8	0,5
Articles of apparel-clothing; knitted	505	609	20,7	2,3	5733	6250	9,0	1,1
Articles of apparel-clothing; not knitted	320	437	36,6	2,5	3814	4519	18,5	1,5
Other made-up textile articles, sets, worn clothing	150	174	15,8	0,5	1632	1850	13,4	0,5
Pearl and other precious stone and products	54	68	24,3	0,3	810	1040	28,3	0,5
Iron and steel	281	426	51,8	3,2	2969	5275	77,7	4,9
Articles of iron and steel	146	255	75,3	2,4	1391	2220	59,6	1,8
Nuclear reactors, boilers, machinery	304	422	38,8	2,6	2993	4114	37,5	2,4
Electrical machinery and equipment	434	554	27,4	2,6	3475	4779	37,5	2,8
Motor vehicles and spare parts	517	946	83,0	9,3	5272	8285	57,1	6,4

Source: SIS.

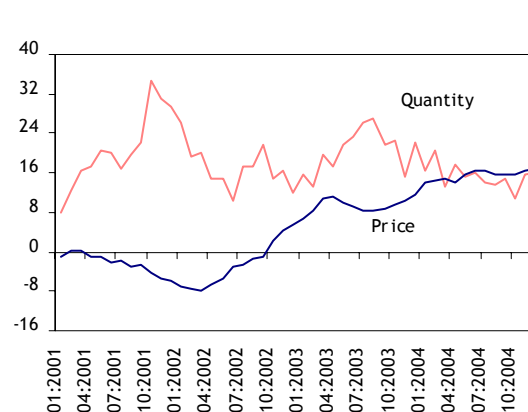
29. In 2004, the upward tendency of export prices was a main determinant of the nominal increase in exports. Thus, according to annual averages, export prices rose by 15.9 percent in 2004. Excluding price movements, according to the calculations made on basis of quantity indices, the real growth in exports became 15.1 percent.

EXPORT PRICE and QUANTITY INDICES
(3-month moving average, 1994=100)



Source: SIS.

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



Source: SIS.

30. The increase in demand for steel led by China, the world's major steel importer, became the main determinant of the rise in steel prices in 2003 and 2004. Meanwhile, steel production in Turkey, which ranks 12th in world steel production, increased by 11.9 percent in 2004 compared to the previous year. In this context, favorable global demand and price conditions have had a remarkable effect on Turkey's iron and steel exports. In fact, the annual rate of increase of iron and steel exports was realized as 77.7 percent in 2004, above the rate of increase in total exports.

EXPORTS: BY COUNTRY GROUPS (USD million)

	December					January-December				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	4595	..	6239	..	35,8	47253	..	62774	..	32,8
EU Countries	2441	53,1	3530	56,6	44,6	25899	54,8	34310	54,7	32,5
EU 15	2318	50,5	3357	53,8	44,8	24484	51,8	32457	51,7	32,6
EU 10	122	2,7	173	2,8	41,5	1415	3,0	1852	3,0	31,0
Other Countries	1947	42,4	2450	39,3	25,9	19426	41,1	25935	41,3	33,5
Turkey Free Trade Areas	207	4,5	259	4,2	24,9	1928	4,1	2529	4,0	31,2
Selected Countries and Country Groups										
OECD	2839	61,8	3985	63,9	40,4	30422	64,4	40332	64,3	32,6
Germany	657	14,3	817	13,1	24,2	7485	15,8	8725	13,9	16,6
UK	347	7,5	565	9,1	63,0	3670	7,8	5533	8,8	50,8
USA	316	6,9	364	5,8	15,1	3752	7,9	4827	7,7	28,7
Italy	273	5,9	467	7,5	71,2	3193	6,8	4602	7,3	44,1
France	286	6,2	368	5,9	28,4	2826	6,0	3662	5,8	29,6
Spain	191	4,1	282	4,5	47,7	1789	3,8	2606	4,2	45,6
Netherlands	156	3,4	225	3,6	44,9	1526	3,2	2130	3,4	39,6
Other OECD	614	13,4	899	14,4	46,4	6181	13,1	8247	13,1	33,4
Middle East Countries	584	12,7	724	11,6	24,0	5132	10,9	7238	11,5	41,0
Russia	126	2,8	164	2,6	29,9	1368	2,9	1852	2,9	35,4

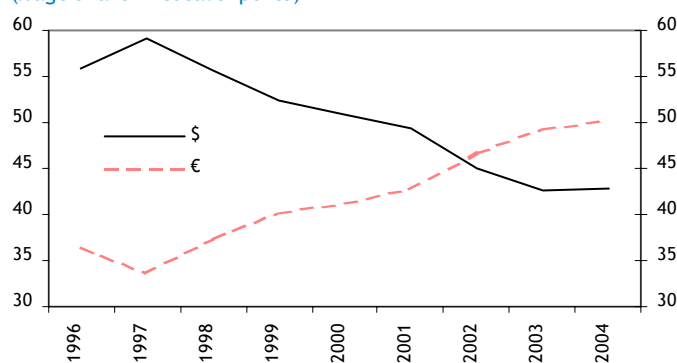
Source: SIS.

31. In 2004, the share of exports to European Union countries remained almost the same, whereas exports to Middle Eastern countries rose compared to the same period of 2003. The share of exports to Germany, an OECD country, which ranks first with respect to foreign trade volume of Turkey, declined to 13.9 percent from 15.8 percent. Meanwhile, England, Italy and Spain were the OECD countries whose shares in exports from Turkey recorded the highest increase. Exports to Middle Eastern countries rose by 41 percent, increasing their share in exports.

32. The share of exports realized in euro continues to increase. In 2004, 50.2 percent of overall exports were realized in euro, while 42.8 percent of exports were realized in USD. In 2003, the said ratios were 49.3 and 42.6, respectively.

EXPORTS in US DOLLAR and EURO

(%age share in total exports)

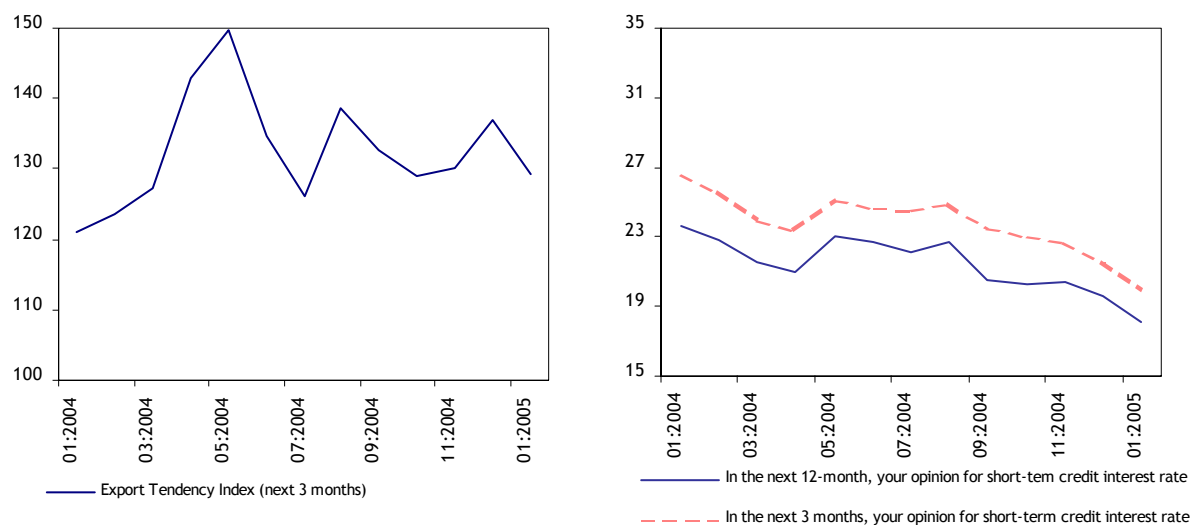


Source: SIS.

Outlook

33. According to the CBRT Business Tendency Survey, the exports tendency index, which is considered to be an indicator for the next three months, declined in January 2005 compared to the previous month.

EXPORT EXPECTATIONS

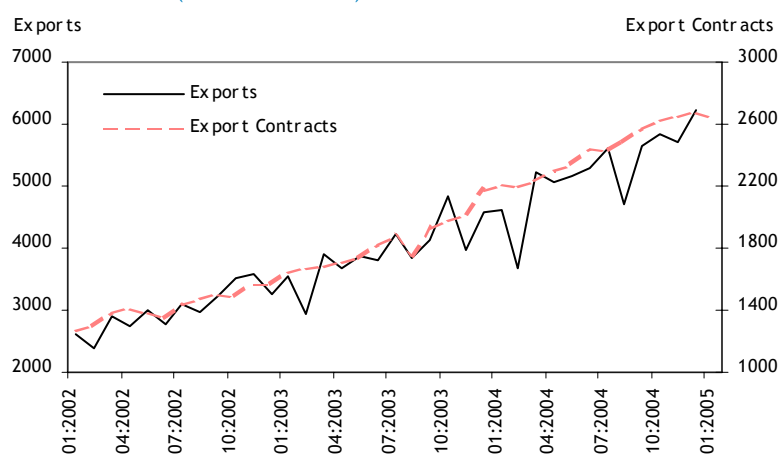


Source: CBRT Business Tendency Survey.

34. The deterioration in expectations of credit interest rates for the next three months and twelve months, which can be considered as the export financing cost indicator, ceased in May. However, downwards-expectations renewed in September and the following months. Accordingly, expected credit interest rates for the next three months and the next twelve months became 20 percent and 18.1 percent, respectively, in January 2005.

35. The volume of export contracts subject to the inward processing regime declined by 14.7 percent in January 2005 compared to the previous year. Meanwhile, the drop in imports subject to the inward processing regime was 14.5 percent.

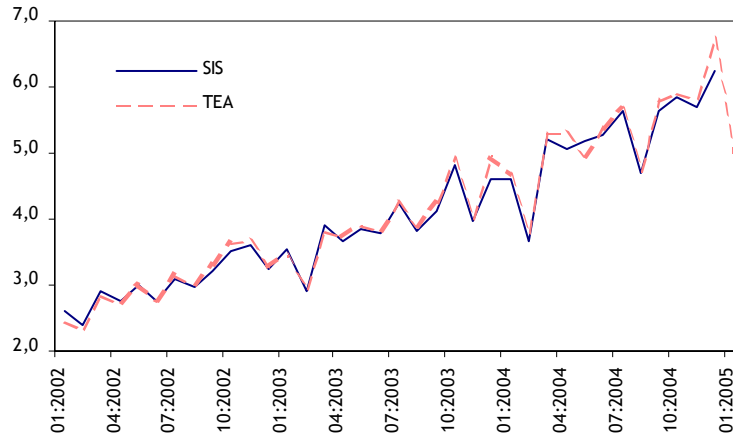
EXPORT CONTRACTS BY INWARD PROCESSING REGIME
(12 months moving average) and
TOTAL EXPORTS (millions US dollars)



Source: UFT, SIS.

36. According to data issued by the Turkish Exporters' Assembly (TEA), exports grew by 7.6 percent and reached USD 5 billion in January 2005. Hence, twelve-month exports reached USD 64.4 billion. Daily export data for the first half of February 2005 points to an ongoing high-rated rise in exports.

EXPORTS: SIS-TEA COMPARISON (USD billion)



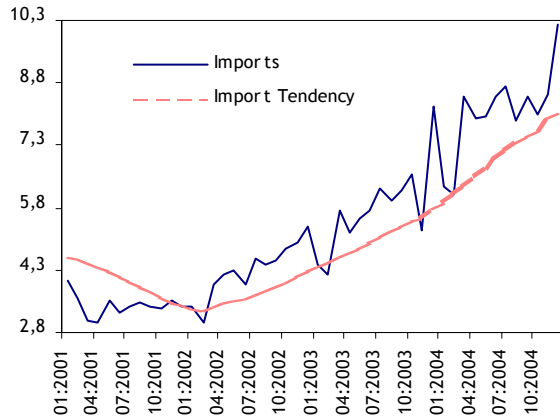
Source: SIS, TEA.

III. IMPORTS

General Evaluation

37. In December 2004, imports increased by 24.1 percent compared to the same month of the previous year and became USD 10.2 billion. Hence, imports reached USD 97.2 billion with a 40.1 percent rise in 2004.

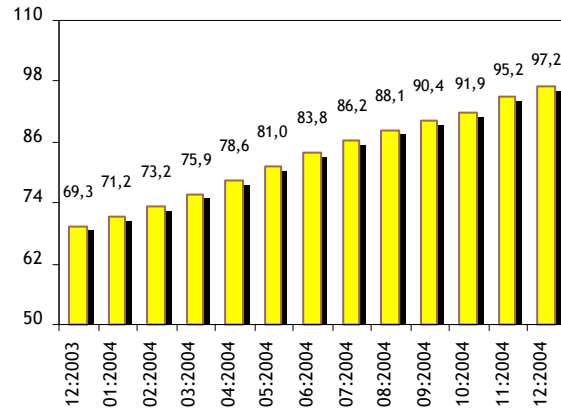
IMPORTS and IMPORTS TENDENCYⁱ
(USD billion)



ⁱ Imports tendency is calculated using 12 month moving average.

Source: SIS.

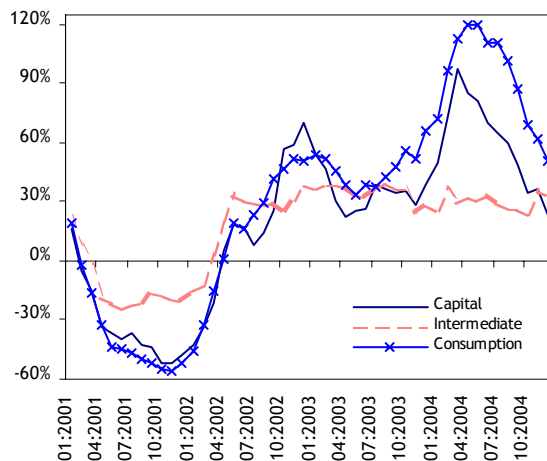
IMPORTS
(12 month, USD billion)



Source: SIS.

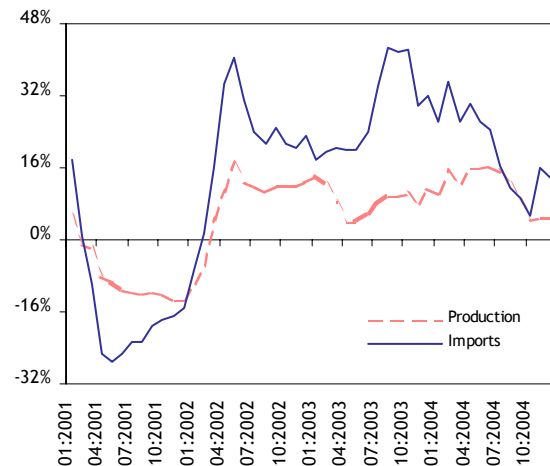
38. The upsurge in investment expenditure as well as the rapid increase in consumption demand and production provided a boost in imports in 2004. Moreover, the upward trend in import prices pushed up imports during the same period.

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



Source: SIS.

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



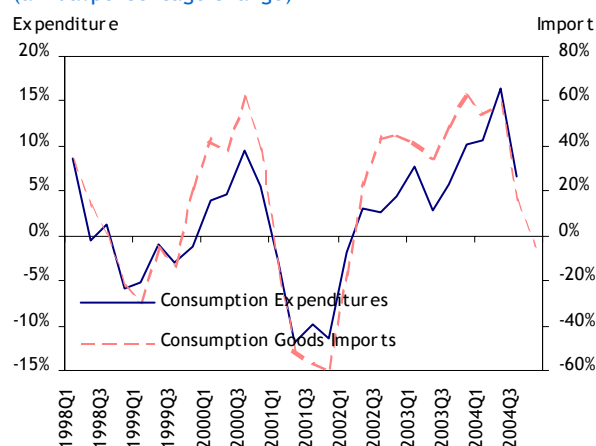
Source: SIS.

39. The acceleration in the rate of increase in imports of intermediate goods, whose share in overall imports grew in 2004, slowed down as of the second half of the year. Due to the satisfaction of the delayed demand and other specific measures, automobile imports, which holds the largest share in consumption goods imports, only managed to rise by 2.9 percent in the last quarter of the year compared to the same period of the previous year. Automobile imports grew by 166.5 percent in the first nine months of the year. While the contribution of automobile imports to consumption goods imports became 26.5 points, its contribution to overall import growth was realized as 2.9 points in 2004. Meanwhile, gasoline imports played a significant role in the increase of consumption goods imports in

2004. Accordingly, the contribution of gasoline imports to the growth of consumption goods imports and its contribution to overall import growth became 29.1 points and 3.2 points, respectively. In the light of this data, excluding the increases in automobile imports and gasoline imports, consumption goods imports, which were boosted by 84.8 percent throughout 2004, stood at 29.2 percent, while overall imports growth was recorded as 34.1 percent.

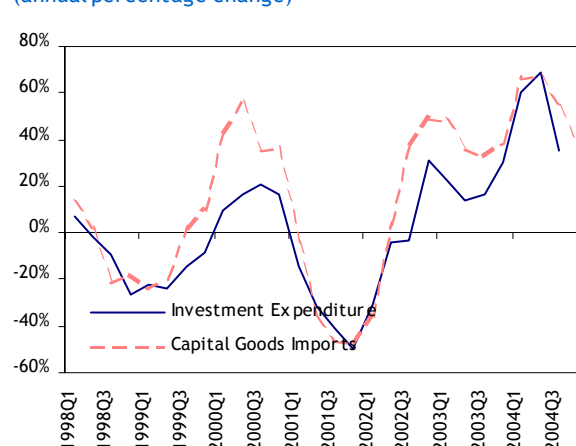
40. In 2004, imports of durable goods, semi-durable goods and non-durable goods increased by 55.4 percent, 50.5 percent and 35.2 percent, respectively.

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



Source: SIS.

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



Source: SIS.

41. Groups of goods making the main contribution to import growth in 2004 were motor vehicles and parts, machinery-mechanical devices, electrical machinery and equipment, iron and steel and imports of mineral fuel and oil, including crude oil and gasoline. While the contribution of these five items to the 40.1 percent growth in imports amounted to 24.3 points, 7 points of this stemmed from the rise in imports of motor vehicles and parts.

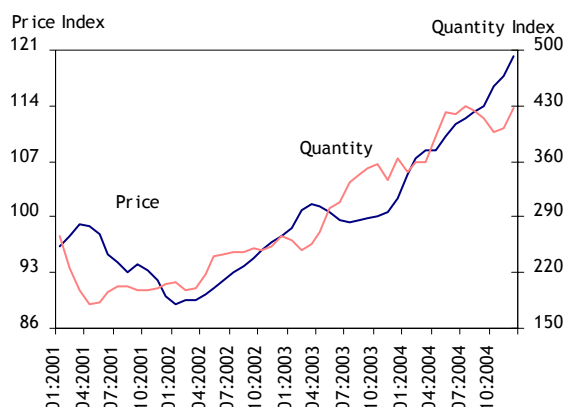
IMPORTS (USD million)

	December				January-December			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	8234	10217	24,1	..	69340	97161	40,1	..
Capital Goods	1883	2072	10,1	2,3	11326	17350	53,2	8,7
Intermediate Goods	5244	6660	27,0	17,2	50012	65391	30,8	22,2
Consumption Goods	1039	1469	41,3	5,2	7536	13927	84,8	9,2
Other	69	17	-75,3	-0,6	466	493	5,8	0,0
Important Items:								
Mineral fuels,mineral oils & products of their dist.	1138	1648	44,9	6,2	11575	14354	24,0	4,0
Crude Oil	364	519	42,7	1,9	4777	6092	27,5	1,9
Gasoline	19	344	1697,6	3,9	217	2411	1012,0	3,2
Organic chemicals	225	294	30,5	0,8	2332	2974	27,5	0,9
Pharmaceutical products	205	229	12,0	0,3	2019	2709	34,1	1,0
Plastics and articles thereof	362	481	33,0	1,5	3236	4761	47,1	2,2
Paper and paperboard	119	156	30,4	0,4	1164	1526	31,1	0,5
Cotton, cotton yarn and cotton fabrics	155	173	11,1	0,2	1641	1973	20,2	0,5
Pearl, other precious stone and products	172	383	123,3	2,6	2767	3740	35,2	1,4
Iron and Steel	511	1003	96,3	6,0	4748	7973	67,9	4,7
Nuclear reactors, boilers, machinery	1572	1585	0,8	0,2	10294	13419	30,4	4,5
Electrical Machinery and Equipment	701	869	24,0	2,0	5520	8354	51,3	4,1
Motor Vehicles and Spare Parts	1002	1060	5,8	0,7	5383	10236	90,1	7,0
Aircraft, spacecraft and parts thereof	11	17	50,2	0,1	153	1209	688,8	1,5
Optical, photographic, measuring instruments	212	276	29,8	0,8	1361	1923	41,2	0,8

Source: SIS.

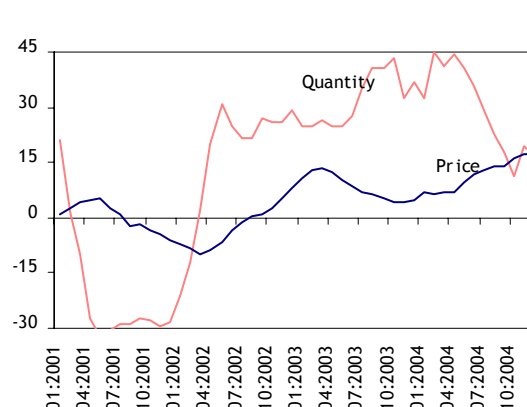
42. In 2004, the upward trend in import prices was an important determinant of the nominal increase in imports. According to annual averages, import prices rose by 12.5 percent in 2004. Excluding price movements, according to calculations made on basis of quantity indices, real growth in imports became 26.6 percent.

IMPORT PRICE and QUANTITY INDICES
(3-month moving average, 1994=100)



Source: SIS.

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



Source: SIS.

43. In 2004, the share of imports to the European Union and Middle Eastern countries declined compared to 2003. Meanwhile, the increase in the shares of Korea, China, Ukraine and Russia is significant.

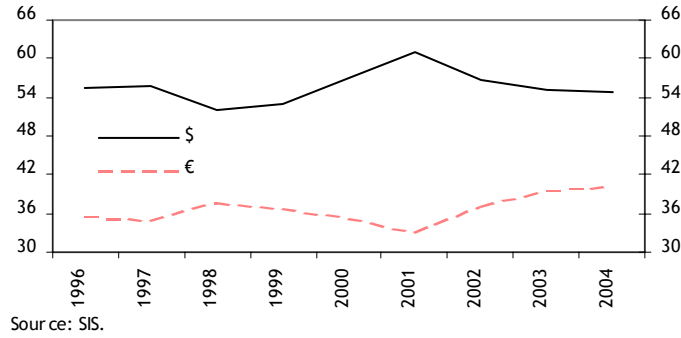
IMPORTS: BY COUNTRY GROUPS (USD million)

	December					January-December				
	2003		2004		% Change	2003		2004		% Change
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	8234	..	10217	..	24,1	69340	..	97161	..	40,1
EU Countries	4313	52,4	4535	44,4	5,1	33495	48,3	45373	46,7	35,5
EU 15	4103	49,8	4153	40,6	1,2	31696	45,7	42295	43,5	33,4
EU 10	210	2,5	382	3,7	82,0	1799	2,6	3079	3,2	71,2
Other Countries	3859	46,9	5611	54,9	45,4	35256	50,8	50979	52,5	44,6
Turkey Free Trade Areas	63	0,8	72	0,7	14,5	589	0,8	809	0,8	37,4
Selected Countries and Country Groups										
OECD	5468	66,4	5996	58,7	9,7	43899	63,3	59492	61,2	35,5
Germany	1333	16,2	1324	13,0	-0,7	9453	13,6	12494	12,9	32,2
Italy	667	8,1	697	6,8	4,5	5472	7,9	6857	7,1	25,3
France	563	6,8	500	4,9	-11,1	4164	6,0	6198	6,4	48,8
USA	369	4,5	448	4,4	21,4	3496	5,0	4690	4,8	34,2
United Kingdom	357	4,0	422	4,8	71,0	3500	4,2	4308	5,3	68,5
Switzerland	247	3,0	363	3,6	47,3	2968	4,3	3403	3,5	14,7
Spain	284	4,0	334	4,8	71,0	2004	4,2	3248	5,3	68,5
Japan	265	4,0	293	4,8	71,0	1927	4,2	2677	5,3	68,5
Korea	181	2,2	280	2,7	54,9	1312	1,9	2570	2,6	95,9
Other OECD	1202	14,6	1334	13,1	11,0	9603	13,8	13047	13,4	35,9
Middle East Countries	373	4,5	462	4,5	23,9	4345	6,3	5122	5,3	17,9
Russia	658	8,0	1237	12,1	88,0	5451	7,9	9009	9,3	65,3
China	374	4,5	516	5,0	37,7	2610	3,8	4452	4,6	70,6
Ukraine	160	1,9	264	2,6	65,0	1332	1,9	2467	2,5	85,3

Source: SIS.

44. In 2004, 40.4 percent of overall imports were realized in euro, while 54.9 percent of imports were realized in USD. In 2003, the said ratios were 39.7 and 55.1, respectively.

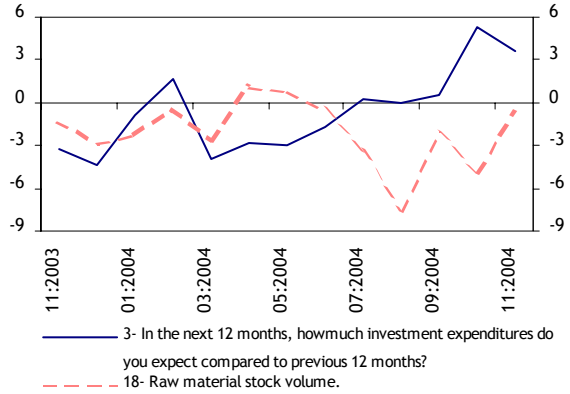
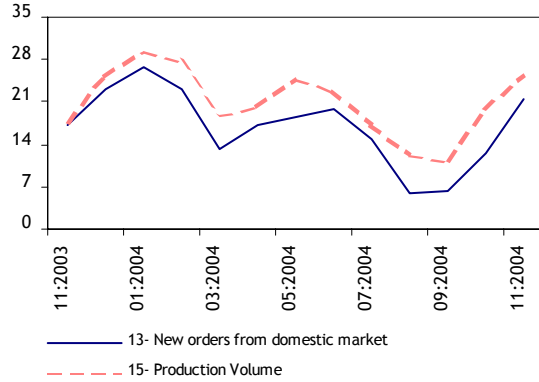
IMPORTS in US DOLLAR and EURO
(%age share in total imports)



Outlook

45. Analyzing the domestic demand tendency in the next period according to December results of the CBRT Business Tendency Survey, expectations of production volume and orders to be received from the domestic market improved. On the other hand, the investment expenditure tendency deteriorated compared to the previous month.

IMPORT EXPECTATIONS



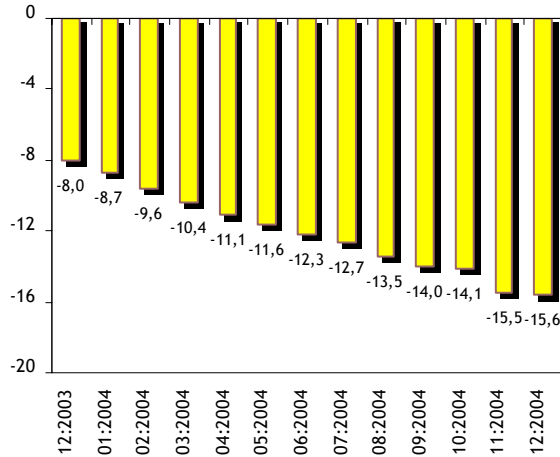
Source: CBRT Business Tendency Survey.

IV. CURRENT ACCOUNT

46. The current account balance produced a deficit of USD 3 billion in December. Hence, the current account deficit was realized as USD 15.6 billion in 2004.

CURRENT ACCOUNT BALANCE

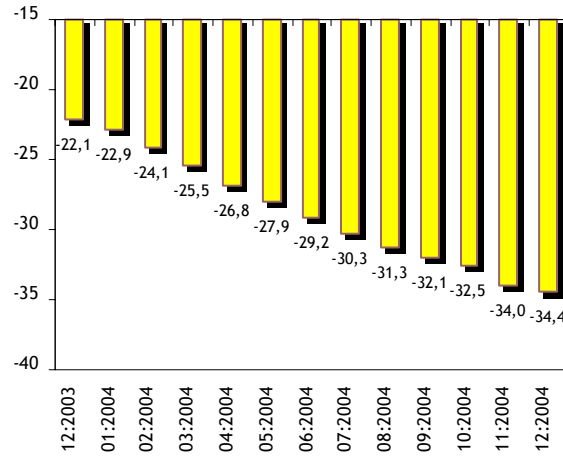
(12 month, USD billion)



Source: CBRT.

FOREIGN TRADE BALANCE

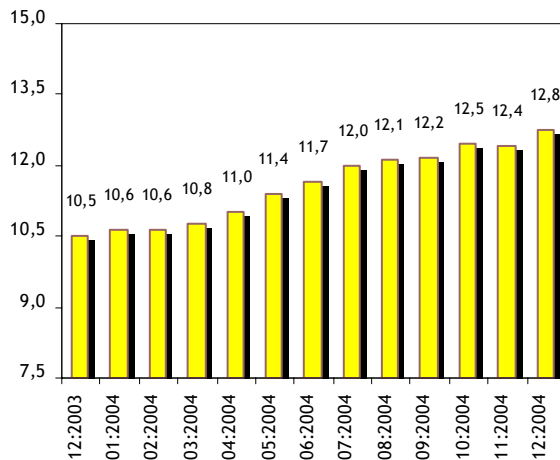
(12 month, USD billion)



Source: CBRT.

SERVICES BALANCE

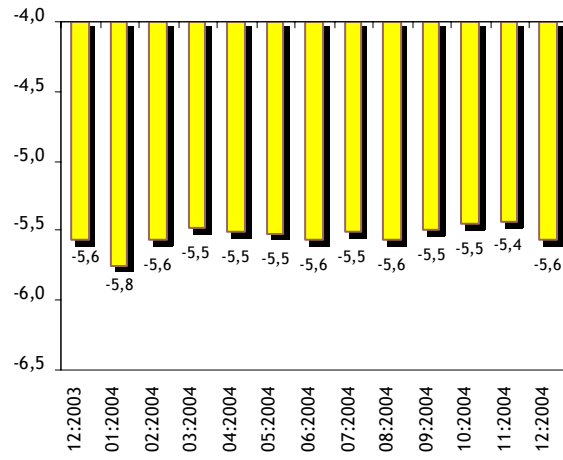
(12 month, USD billion)



Source: CBRT.

INVESTMENTS REVENUES BALANCE

(12 month, USD billion)



Source: CBRT.

47. Foreign trade developments were the main determinant of the current account deficit in 2004. The services surplus rose by 21.6 percent compared to 2003 and reached USD 12.8 billion due to the substantial increase in tourism revenue. Meanwhile, investment revenue remained unchanged compared to the previous year and produced a deficit of USD 5.6 billion. Current transfers increased by 9.8 percent compared to the previous year owing to the increase in workers' remittances and official transfers and reached USD 1.1 billion.

48. The revenues from shuttle trade, which had increased by 12.2 percent in the first half of 2004, declined by 12.6 percent in the second half of the year. Thus, a slight decline was observed in shuttle trade compared to 2003.

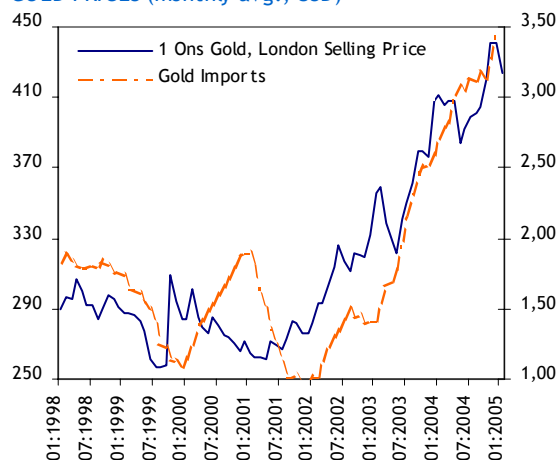
CURRENT ACCOUNT (USD million)										
	2003									2004
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Current Account Balance	-8037	-3014	-2643	1079	-3459	-5350	-4520	-641	-5062	-15573
Foreign Trade Balance	-14010	-2393	-3223	-4082	-4312	-5032	-6015	-6422	-6432	-23901
Total Exports	51206	11123	12272	13262	14549	14365	16563	16941	18785	66654
Total Imports	-65216	-13516	-15495	-17344	-18861	-19397	-22578	-23363	-25217	-90555
Services Balance	10505	683	1662	6241	1919	942	2571	6735	2522	12770
Credit	19025	2432	3532	8653	4408	3229	5208	9808	5777	24022
Debit	-8520	-1749	-1870	-2412	-2489	-2287	-2637	-3073	-3255	-11252
Income Balance	-5559	-1564	-1281	-1378	-1336	-1486	-1372	-1302	-1409	-5569
Credit	2246	600	611	532	503	768	511	654	718	2651
Debit	-7805	-2164	-1892	-1910	-1839	-2254	-1883	-1956	-2127	-8220
Current Transfers	1027	260	199	298	270	226	296	348	257	1127
Workers' Remittances	729	138	151	235	205	193	181	237	193	804
<i>Memo items:</i>										
Shuttle Trade	3953	757	954	1082	1160	877	1043	973	987	3880
Non Monetary Gold (net)	-2522	-567	-588	-917	-450	-790	-799	-1038	-769	-3396
Travel Revenues	13203	1201	2259	7032	2711	1713	3270	7662	3243	15888
Interest Income	634	134	238	111	151	154	161	167	215	697
Interest Expenditure	-4586	-1171	-1106	-1134	-1175	-941	-991	-1169	-1298	-4399

Source: CBRT.

49. The upward trend observed in gold prices in 2003 also continued in 2004. Investors' demand for gold has been increasing in recent months, especially combined with the depreciation of the USD against currencies of other developed countries.

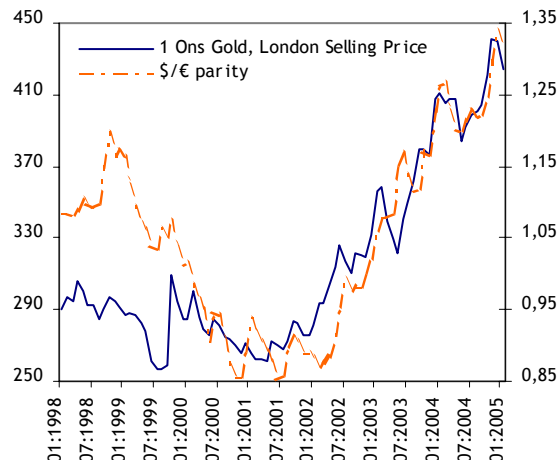
50. The effects of the increase in gold prices were observed also in Turkey's gold imports. Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to the previous year, rose by 34.1 percent 2004. The increase mainly resulted from the price change. In 2004, the price of gold per ounce rose by 14.3 percent compared to the previous year.

GOLD IMPORTS
(12-months, billion USD) and
GOLD PRICES (monthly avg., USD)



Kaynak: TCMB, DIE.

USD/EUR PARITY and
GOLD PRICES (monthly avg., USD)



51. Based on the figures announced by the SIS, tourism revenue increased by 20.3 percent in 2004 and reached USD 15.9 billion. In this period, the number of departing tourists rose by 24.3 percent. Average per capita expenditure of tourists declined to USD 784 in 2004 from USD 810 of 2003.

TRAVEL REVENUES

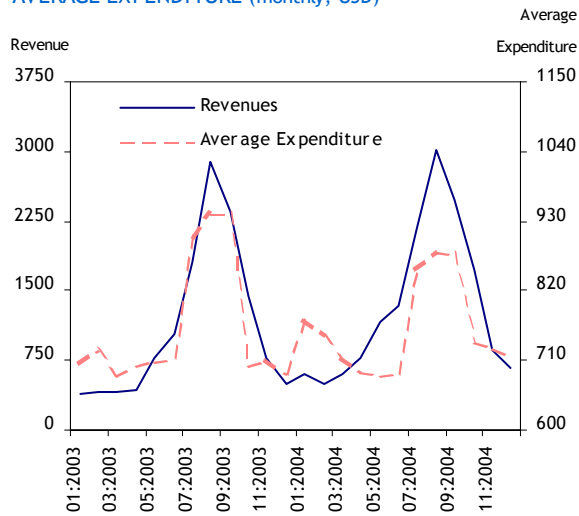
	2003	2003				2004				2004
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Travel Revenues (USD million)	13203	1201	2259	7032	2711	1713	3270	7661	3244	15888
Number of Visitors (thousand)	16302	1702	3186	7549	3866	2299	4747	8786	4432	20263
Average Spending (USD)	810	706	709	931	701	745	689	872	732	784

Source: SIS.

52. According to the data on Departing Visitors from Turkey compiled by SIS, USD 12.1 billion of the tourism revenues were obtained from foreign visitors, while USD 3.8 billion came from the visits of Turkish citizens living abroad.

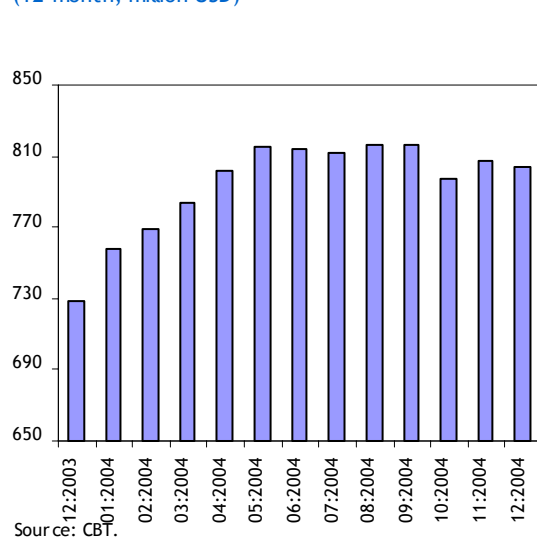
53. The upward trend in tourism revenues has continued as of January 2005. According to SIS data, the number of departing visitors from Turkey rose by 20.6 percent in January 2005 compared to the same month of the previous year.

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



Source: SIS.

WORKERS REMITTANCES: Private
(12-month, million USD)



Source: CBT.

Kaynak: TCMB, DIE.

54. Portfolio investments and interest expenses were the main determining factors in the deficit of USD 5.6 billion yielded by the investment revenues account in 2004. In this period, interest expenses declined compared to 2003. This decline mainly resulted from the drop in interest expenditure of sectors excluding the Central Bank, the Government and banks.

55. Workers' remittances, which were USD 729 million in 2003, were realized as USD 804 million in 2004.

V. CAPITAL MOVEMENTS

56. The financial account produced a surplus of USD 2.6 billion in December 2004. Excluding IMF loans and official reserve changes, there was a net capital inflow of USD 3.2 billion in December. In 2004, net capital inflow was recorded as USD 16.8 billion.

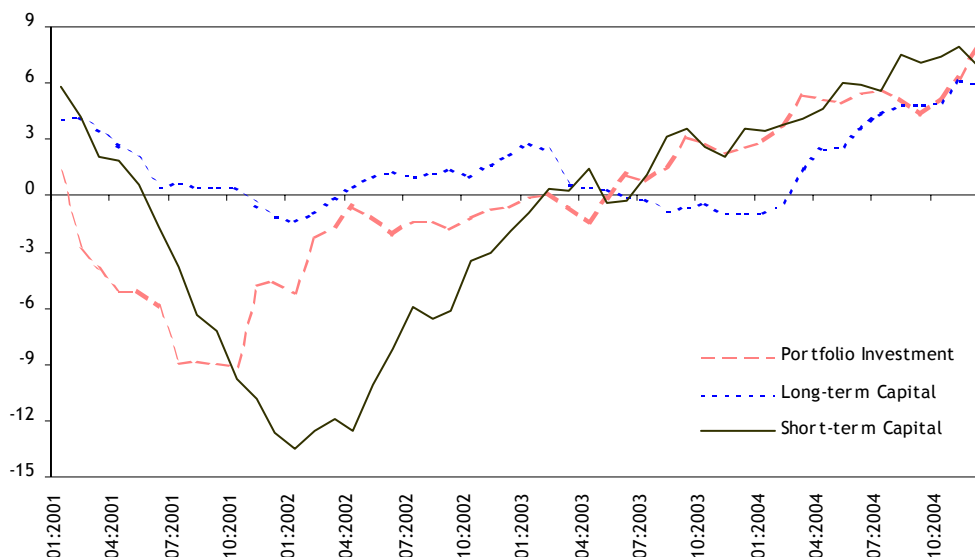
57. In 2004, a capital inflow of USD 1.7 billion in direct investments, USD 8.1 billion in portfolio investments and USD 3.6 billion in other investments were realized against a current account deficit of USD 15.6 billion. While official reserves rose by USD 0.8 billion during this period, net errors and omission yielded a surplus of USD 3.1 billion.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)										
	2003	2003				2004				2004
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Capital and Financial Account	2994	4225	-1211	-1236	1216	5914	1616	1421	3555	12506
Financial Account	2994	4225	-1211	-1236	1216	5914	1616	1421	3555	12506
Direct Investments	1195	170	116	490	419	452	427	451	379	1709
Portfolio Investments	2569	-75	934	1607	103	2748	1019	430	3870	8067
Other Investments	3277	3469	-1067	1967	-1092	2500	1231	1158	-1335	3554
Reserve Assets	-4047	661	-1194	-5300	1786	214	-1061	-618	641	-824
Net Errors & Omissions	5043	-1211	3854	157	2243	-564	2904	-780	1507	3067
<i>Memorandum items:</i>										
Long-term	-956	-1130	-284	302	156	1296	1794	1581	1394	6065
Short-term ⁱ	3559	721	-465	2579	724	1305	1315	3723	561	6904
IMF credit	-50	-175	483	-52	-306	-1177	-649	-498	-1194	-3518

Source: CBRT.

ⁱ Changes in deposit money banks' FX holdings are excluded from the definition.

CAPITAL FLOWS (12-month. billion US dollar)

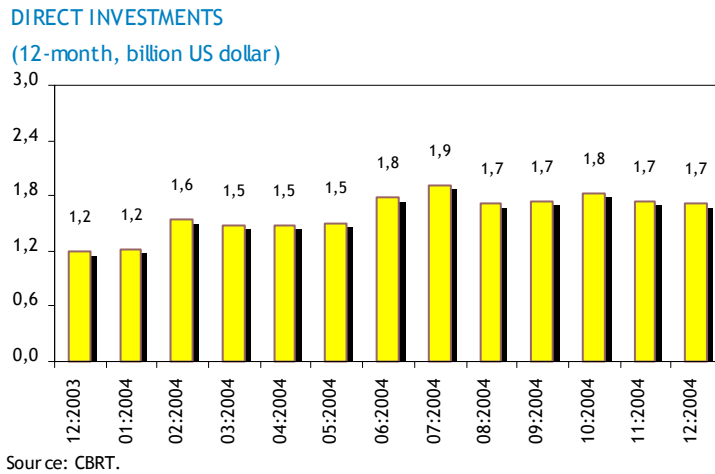


Source: CBRT.

58. The analysis of capital flows by maturities reveal that the share of long-term capital inflows increased significantly in 2004. While outflows were observed in long-term capital movements in 2003, an amount of USD 6.1 billion of net long-term capital inflow was registered in 2004. Short-term capital inflow was realized as USD 6.9 billion. Long-term credits used by the banking sector and private sectors excluding the banking sector became

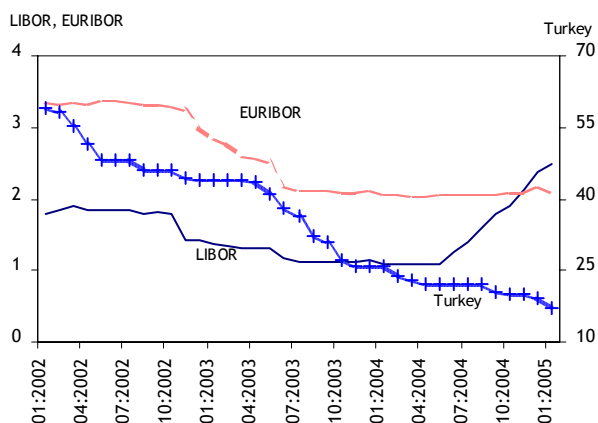
the determining factor in long-term capital movements, while short-term credits used by the banks were effective in short-term capital movements.

59. Net direct investments amounting to USD 1.7 billion realized in 2004 mainly originated from non-residents' capital investments and real estate purchases in Turkey. Meanwhile, net direct investments residents made abroad increased by 71.7 percent in this period compared to same period last year and reached USD 857 million. Besides, long-term credits extended to foreign companies by their affiliates abroad, which are registered under other capital item and considered as direct investment, became net USD 265 million.



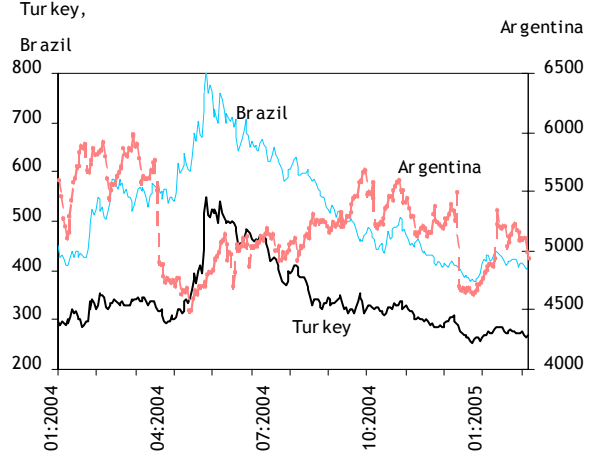
60. While the upward trend in LIBOR interest rates observed in line with the FED policy of interest rate hikes has been continuing as of the last quarter of the year, EURIBOR interest rates follow a steady course. Spreads, which especially widened in developing countries in May, started to shrink in June. Also, a recovery was observed in prices of securities in June and the following months. The yield spreads in the secondary market declined to their prior level owing to macroeconomic stability as well as signals sent by the Federal Reserve implying that they would adopt a cautious approach to raising interest rates.

INTEREST RATES (monthly average, %)



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

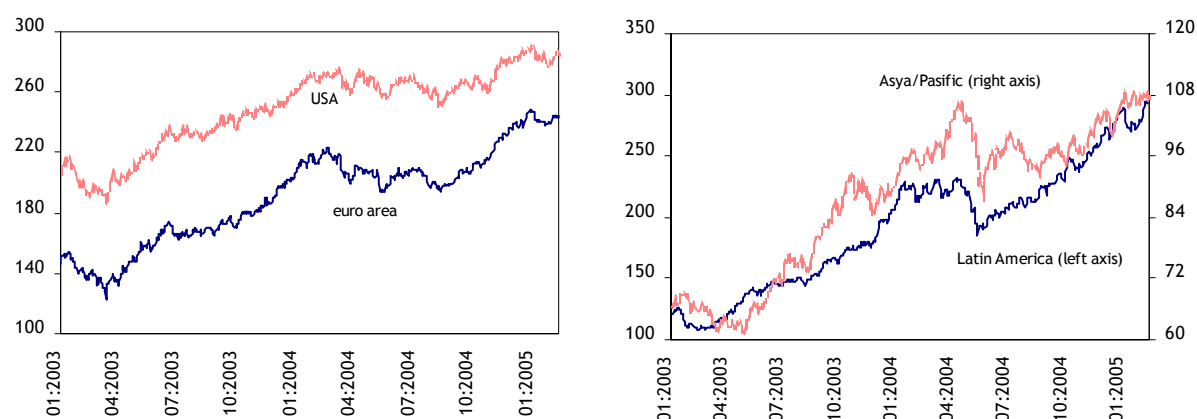
SECONDARY MARKET SPREADS (basis point)



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

Source: JP Morgan.

DOW JONES EQUITY PRICE INDICES



Source: Dow Jones.

61. The indicative interest rates raised by the FED five times in 2004 (30 June, 10 August, 21 September, 10 November and 14 December) were raised again by 0.25 point on 2 February 2005 and reached 2.5 percent. 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 cut its interest rates three times throughout the year, raised its interest rates on 8 September and 19 October by 0.25 point each time. Meanwhile, the ECB made no changes in interest rates in 2004.

62. CBRT's O/N borrowing interest rate, which was 26 percent at the start of 2004, was cut four times throughout the year as a result of the decline in inflation expectations, the favorable course of relationships with the European Union and the IMF and with the assumptions that there would be no deviations from fiscal discipline and structural reforms. The short-term interest rates applicable on the Interbank Money Market and the ISE Repo/Reverse Repo Market, which were last cut by the CBRT on 11 January 2005, were reduced once again on 9 February 2005. Accordingly, the O/N borrowing interest rate fell to 16.5 percent from 17 percent, while the lending interest rate dropped to 20.5 percent from 21 percent.

PORTFOLIO INVESTMENT (monthly, USD million)										
	2003	2003				2004				2004
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Portfolio Investment	2569	-75	934	1607	103	2748	1019	430	3870	8067
Assets	-1386	71	-521	-604	-332	140	184	-898	-568	-1142
General Government	-33	-6	-2	-16	-9	0	-15	-7	-3	-25
Banks	-932	272	-481	-381	-342	511	563	-684	-810	-420
Other Sectors	-421	-195	-38	-207	19	-371	-364	-207	245	-697
Liabilities	3955	-146	1455	2211	435	2608	835	1328	4438	9209
Equity Securities	1009	52	15	562	380	503	-25	226	723	1427
Debt Securities	2946	-198	1440	1649	55	2105	860	1102	3715	7782
General Governmer	3123	-198	1602	1664	55	2105	860	1102	3715	7782
In Turkey	1614	-511	407	992	726	2116	110	882	2715	5823
Abroad	1509	313	1195	672	-671	-11	750	220	1000	1959
Banks	-177	0	-162	-15	0	0	0	0	0	0

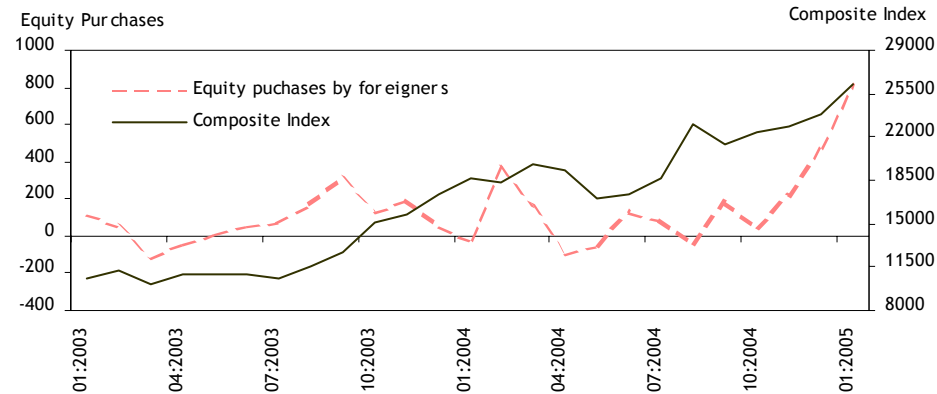
Source: CBRT.

63. Turkish bonds appreciated in 2004 as a result of the favorable outlook in foreign markets towards the Turkish economy. In line with these favorable developments, the Treasury had the chance to borrow from foreign markets through six bond auctions with record-low costs. In 2004, the Treasury held USD 5.8 billion worth of bond auctions and made a bond repayment of USD 3.8 billion. In January 2005, the Treasury held a bond auction amounting to USD 2 billion and another auction amounting to Euro 1 billion in February. While the worth of 20-year bond auction of January represents the highest amount among the Treasury auctions up to today, the 10-year bond auction denominated in

euro provided an extension of maturities in the euro market and significant improvement in costs.

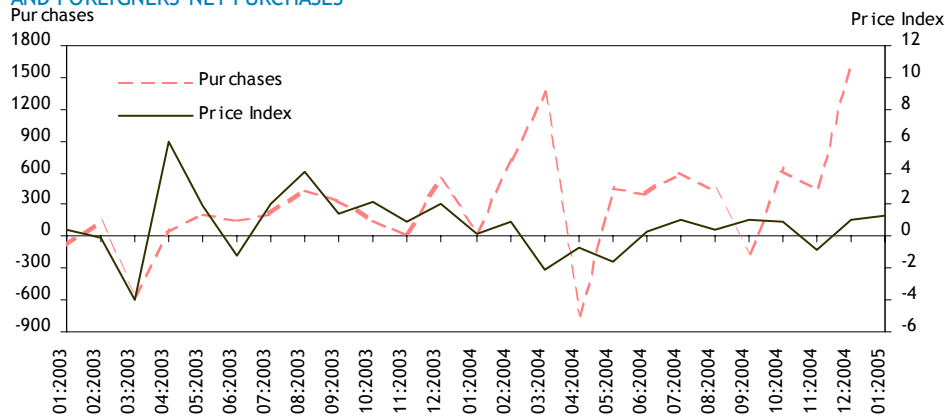
64. In 2004, there was a significant increase in non-residents' purchases of securities in Turkey. These purchases were mainly composed of government securities. In 2004, non-residents' net purchases of equities in the Istanbul Stock Exchange and net purchases of government securities are realized as USD 1.4 million and USD 5.8 billion, respectively. Foreigners' equity purchases are estimated to have continued as of January. According to ISE data, non-residents purchased net USD 809 million worth of equities in January 2005.

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



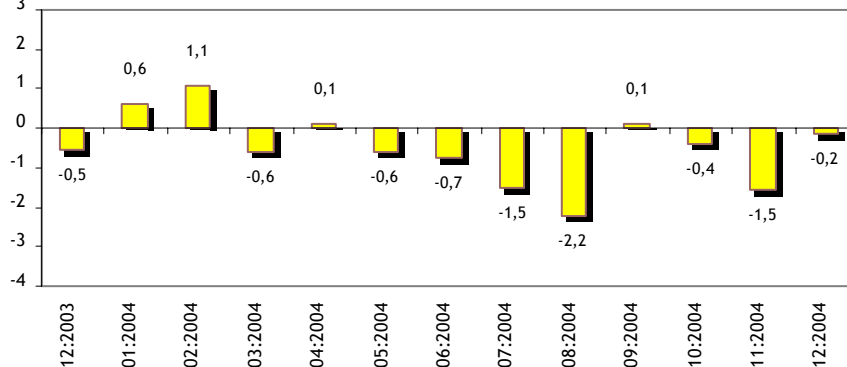
Source: ISE.

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



Source: ISE.

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



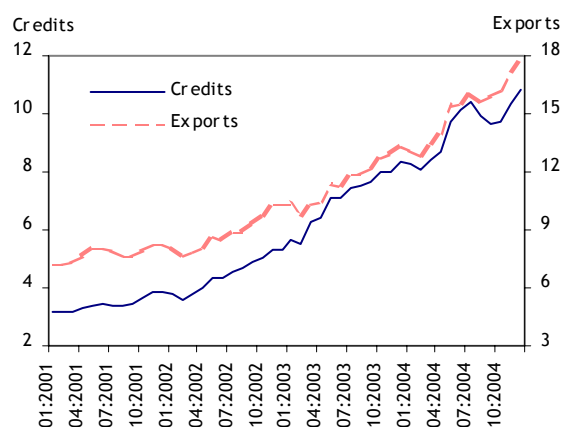
Source: CBK1.

i (+) sign indicates a decrease.

65. Despite its volatile course in 2004, the FX-holdings item composed of current and deposit accounts that are held by banks with their correspondent banks abroad increased throughout 2004. FX assets of banks rose by net USD 5.9 billion leading to a capital outflow of the same amount.

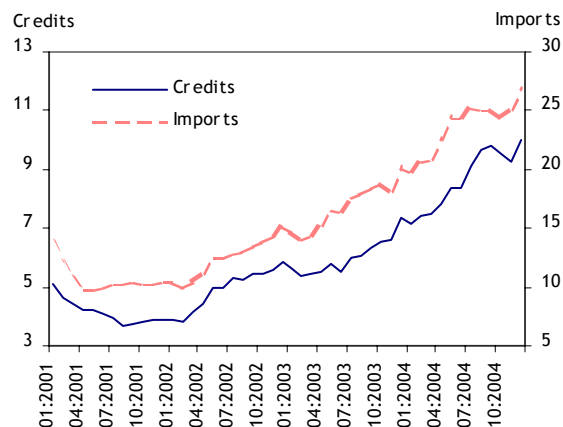
66. High-rated increases in foreign trade volume also stimulated trade credit utilization. In 2004, the volume of exports and the volume of trade credits extended abroad increased by 32.8 percent each. Similarly, trade credit utilization and imports grew by 44.7 percent and 40.1 percent, respectively.

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.

OTHER INVESTMENTS (monthly, USD million)

	2003	2003				2004				2004
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Other Investment	3277	3469	-1067	1967	-1092	2500	1231	1158	-1335	3554
Assets	-986	3295	-1149	-1049	-2083	1056	-2208	-3128	-2953	-7233
Trade Credits	-910	-196	-259	-116	-339	-243	-942	549	-816	-1452
Credits	-404	-486	7	37	38	311	68	69	58	506
Currency and Deposits	724	4053	-801	-862	-1666	1076	-1229	-3648	-2096	-5897
Liabilities	4263	174	82	3016	991	1444	3439	4286	1618	10787
Trade Credits	2181	313	313	570	985	959	1158	1354	672	4143
Credits	606	-777	-550	1537	396	580	1859	2735	919	6093
Monetary Authority	-1479	-113	-156	-466	-744	-1110	-1084	-1093	-1127	-4414
General Government	-765	-555	-4	6	-212	-560	118	872	-697	-267
IMF Credits	1429	-62	639	414	438	-67	435	595	-67	896
Long Term	-2194	-493	-643	-408	-650	-493	-317	277	-630	-1163
Banks	1975	700	-1058	1251	1082	653	1245	1620	2136	5654
Long Term	-40	-155	-150	-87	352	34	593	218	1402	2247
Short Term	2015	855	-908	1338	730	619	652	1402	734	3407
Other Sectors	875	-809	668	746	270	1597	1580	1336	607	5120
Long Term	587	-764	399	704	248	1514	1488	1041	736	4779
Short Term	288	-45	269	42	22	83	92	295	-129	341
Deposits	1368	639	289	839	-399	-86	357	103	19	393
Monetary Authority	497	89	25	322	61	6	-75	-23	-117	-209
Long Term	-275	35	-110	-140	-60	-51	-87	-44	-102	-284
Short Term	772	54	135	462	121	57	12	21	-15	75
Banks	871	550	264	517	-460	-92	432	126	136	602

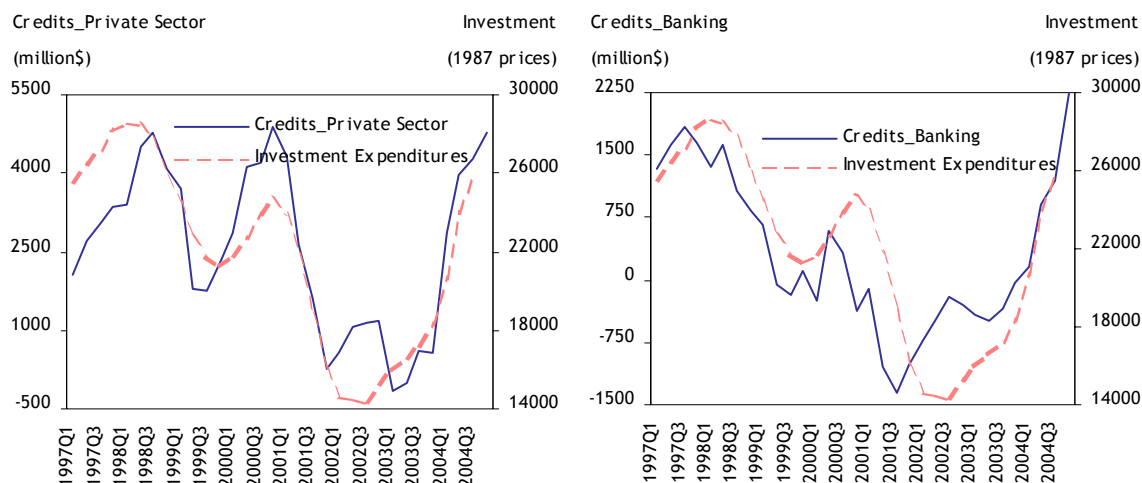
Source: CBRT.

67. In 2004, CBRT continued to repay the IMF loans used in 2001 and earlier. Thus, the total repayment in 2004 reached USD 4.4 billion.

68. The banking sector maintained its tendency in 2003 to meet its financing needs through short-term credits in 2004. However, financing through long-term credits also increased significantly. USD 2.3 billion of the net USD 5.7 billion worth of credit used in 2004 belonged to long-term credits while USD 3.4 billion of this amount was of a short-term nature.

69. The upsurge in long-term credit drawing in banking and the private sector is remarkable. While long-term credit drawing of the banking sector increased by 147 percent in 2004, the increase was 37.7 percent in the private sector. The upward trend in long-term credit drawing in the private sector, which has been observed since 2003, confirms that investment expenditure maintains its high level.

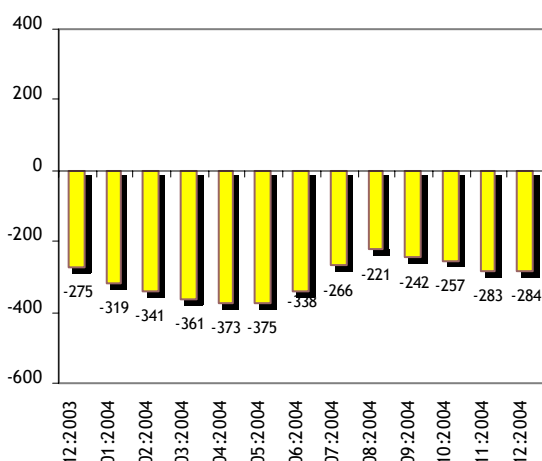
LONG-TERM NET CREDIT DRAWINGS and PRIVATE SECTOR INVESTMENT EXPENDITURES (12-month cumulative)



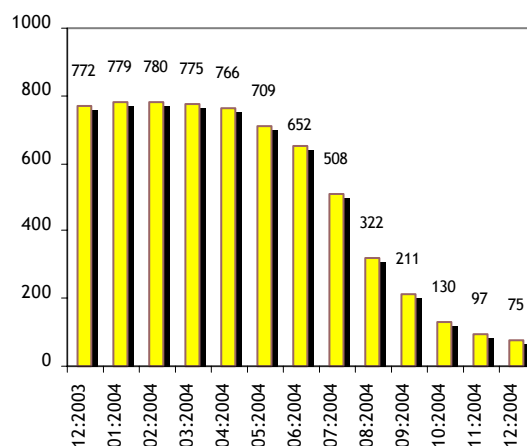
70. Long-term FX deposit accounts with credit letters and super FX accounts held with the CBRT by workers abroad have displayed an outflow trend since April 2003. Interest rate cuts, particularly in the second half of 2003, are considered to be the primary factor for this outflow. The inflow trend in short-term accounts has declined remarkably in recent months, and there has been an outflow, particularly since September.

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

LONG TERM



SHORT TERM



Source: CBRT.

71. FX deposits held with domestic banks by residents abroad, which pursued a volatile course in the second half of the year, displayed a general tendency to increase throughout 2004. A total amount of USD 602 million worth of inflow was observed in these deposits in 2004.

72. Central Bank reserves, which were USD 33.6 billion by the end of 2003, reached USD 36 billion by the end of 2004.

73. The external financing requirement, which is defined as the sum of the current account and the net errors and omissions, became USD 12.5 billion in 2004 increasing by USD 9.5 billion compared to the previous year. In the said period, although the current account deficit increased substantially compared to the previous year, the net errors and omissions that produced a surplus of USD 3.1 reduced the financing requirement.

74. The year 2004 displayed a number of characteristics different from 2003 with respect to meeting the financing requirement. While the financing requirement had been chiefly met by short-term capital investments and portfolio investments in 2003, a substantial increase was observed in the share of long-term resources in financing, besides portfolio investments, in 2004. These long-term capital movements and portfolio investments were mainly composed of long-term credit drawings of the private sector as well as foreigners' security purchases. In 2004, there was also a significant increase in direct investments, as well. Due to the fact that capital inflows were realized above the external financing requirement, total reserves composed of the banking sector and Central Bank reserves increased by USD 6.7 billion.

75. Total external debt stock, which was USD 145.8 billion by the end of 2003, increased by 5 percent and reached USD 153.2 billion by September 2004. During this period, medium and long-term external debts rose by 0.9 percent, while short-term external debts increased by 27.4 percent. Moreover, short-term external debt stock announced by the Central Bank on a monthly basis rose to USD 32.1 billion at 2004 yer-end, increasing by 39.4 percent compared to the previous year. This rise mainly resulted from the increase in FX credits used by banks and trade credits used by the private sector.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)										
	2003									2004
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
1. Current Account Balance	-8037	-3014	-2643	1079	-3459	-5350	-4520	-641	-5062	-15573
2. Net Error and Omission	5043	-1211	3854	157	2243	-564	2904	-780	1507	3067
I. Total Financing Requirement (=1+2)	-2994	-4225	1211	1236	-1216	-5914	-1616	####	-3555	-12506
II. Total Financing (=1+2+3)	2994	4225	-1211	-1236	1216	5914	1616	1421	3555	12506
1. Capital Flows (net)	6367	-314	301	4978	1402	5801	4555	6185	6204	22745
Portfolio Investments (net)	1195	170	116	490	419	452	427	451	379	1709
Portfolio Investments (net)	2569	-75	934	1607	103	2748	1019	430	3870	8067
General Government Bond Issues	1509	313	1195	672	-671	-11	750	220	1000	1959
Foreigners' Buying of Bonds and Stocks in Turkey	2623	-459	422	1554	1106	2619	85	1108	3438	7250
Residents Buying of Bonds and Stocks Abroad	-1386	71	-521	-604	-332	140	184	-898	-568	-1142
Credits (excl. IMF credits)	2837	-289	-720	2159	1687	2649	4101	5182	2718	14650
General Government	-2194	-493	-643	-408	-650	-560	118	872	-697	-267
Banks	1975	700	-1058	1251	1082	653	1245	1620	2136	5654
Long Term	-40	-155	-150	-87	352	34	593	218	1402	2247
Short Term	2015	855	-908	1338	730	619	652	1402	734	3407
Other Sectors	3056	-496	981	1316	1255	2556	2738	2690	1279	9263
Long Term	587	-764	399	704	248	1514	1488	1041	736	4779
Short Term	288	-45	269	42	22	83	92	295	-129	341
Trade Credits	2181	313	313	570	985	959	1158	1354	672	4143
Deposits	1368	639	289	839	-399	-86	357	103	19	393
Central Bank	497	89	25	322	61	6	-75	-23	-117	-209
Banks	871	550	264	517	-460	-92	432	126	136	602
Others	-1602	-759	-318	-117	-408	38	-1349	19	-782	-2074
2. IMF Credits	-50	-175	483	-52	-306	-1177	-649	-498	-1194	-3518
Central Bank	-1479	-113	-156	-466	-744	-1110	-1084	-1093	-1127	-4414
General Government	1429	-62	639	414	438	-67	435	595	-67	896
3. Change in Reserves (- increase)	-3323	4714	-1995	-6162	120	1290	-2290	####	-1455	-6721
Banks' FX Holdings	724	4053	-801	-862	-1666	1076	-1229	-3648	-2096	-5897
Official Reserves	-4047	661	-1194	-5300	1786	214	-1061	-618	641	-824

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	-7283	36059	4065	-51554	7879	8479	-4554	-4417	2436	1936
2003*	-8037	-14010	47253	3953	-69340	10505	13203	-5559	-4586	1027	729
2004	-15573	-23901	62774	3880	-97161	12770	15888	-5569	-4399	1127	804
<i>(quarterly)</i>											
2002 III	1030	-2055	9298	1090	-13529	3573	3813	-1078	-1116	590	539
IV	-1106	-2440	10337	1123	-15162	1906	1684	-1233	-1160	661	415
2003 I	-3014	-2393	10366	757	-14368	683	1201	-1564	-1171	260	138
II	-2643	-3223	11318	954	-16470	1662	2259	-1281	-1106	199	151
III	1079	-4082	12180	1082	-18448	6241	7032	-1378	-1134	298	235
IV	-3459	-4312	13389	1160	-20054	1919	2711	-1336	-1175	270	205
2004 I	-5350	-5032	13488	877	-20882	942	1713	-1486	-941	226	193
II	-4520	-6015	15520	1043	-24390	2571	3270	-1372	-991	296	181
III	-641	-6422	15968	973	-25091	6735	7662	-1302	-1169	348	237
III	-5062	-6432	17798	987	-26798	2522	3243	-1409	-1298	257	193
<i>(monthly)</i>											
2004 Jan	-948	-979	4608	256	-6292	390	602	-458	-219	99	81
Feb	-2216	-1797	3663	280	-6139	159	503	-638	-412	60	54
Mar	-2186	-2256	5217	341	-8451	393	608	-390	-310	67	58
Apr	-1705	-1918	5072	358	-7931	560	773	-424	-262	77	63
May	-1332	-1863	5167	369	-7991	1011	1165	-557	-447	77	64
Jun	-1483	-2234	5281	316	-8468	1000	1332	-391	-282	142	54
Jul	-748	-2182	5629	247	-8727	1750	2155	-443	-264	127	70
Aug	19	-2268	4694	369	-7882	2758	3024	-578	-577	107	83
Sep	88	-1972	5645	357	-8482	2227	2483	-281	-328	114	84
Oct	-158	-1371	5853	360	-8063	1477	1729	-333	-309	69	58
Nov	-1893	-1996	5706	311	-8518	584	856	-567	-555	86	71
Dec	-3011	-3065	6239	316	-10217	461	658	-509	-434	102	64
<i>(12-month)</i>											
2004 Jan	-8684	-14527	48327	4046	-71206	10619	13428	-5759	-4596	983	758
Feb	-9562	-15606	49066	4028	-73159	10618	13513	-5565	-4537	991	769
Mar	-10373	-16649	50375	4073	-75854	10764	13715	-5481	-4356	993	784
Apr	-11084	-17614	51785	4144	-78574	11038	14046	-5507	-4306	999	802
May	-11591	-18491	53092	4154	-81033	11410	14438	-5528	-4267	1018	815
Jun	-12250	-19441	54577	4162	-83774	11673	14726	-5572	-4241	1090	814
Jul	-12651	-20241	55970	4135	-86234	11985	15070	-5511	-4243	1116	812
Aug	-13452	-21124	56835	4102	-88141	12120	15214	-5573	-4296	1125	816
Sep	-13970	-21781	58365	4053	-90417	12167	15356	-5496	-4276	1140	816
Oct	-14127	-22248	59394	3962	-91905	12459	15631	-5458	-4270	1120	797
Nov	-15501	-23636	61130	3918	-95178	12431	15720	-5432	-4325	1136	807
Dec	-15573	-23901	62774	3880	-97161	12770	15888	-5569	-4399	1127	804

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				
	<i>(annual)</i>																
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1719	-1719	2769	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1373	1373	863	-593	-2096	-16	1519	7256	594	8033	2483	-6138	11834	-1028	437	1336	-988
2003	2994	2994	1195	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
2004	12506	12506	1709	8067	-1142	1427	7782	3554	-5897	10787	4143	-4414	-267	5654	5120	-209	602
	<i>(quarterly)</i>																
2002 I	2157	2157	95	-59	-1232	66	1107	3821	1778	2391	274	-6138	8752	-443	43	402	-502
II	236	236	312	-736	-265	50	-521	1349	-112	1903	743	0	769	252	239	195	-332
III	-1633	-1633	236	-468	-245	-22	-201	1413	-486	2406	738	0	2617	-1184	-76	614	-362
IV	613	613	220	670	-354	-110	1134	673	-586	1333	728	0	-304	347	231	125	208
2003 I	4225	4225	170	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1211	-1211	116	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1236	-1236	490	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	1216	1216	419	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	5914	5914	452	2748	140	503	2105	2500	1076	1444	959	-1110	-560	653	1597	6	-92
II	1616	1616	427	1019	184	-25	860	1231	-1229	3439	1158	-1084	118	1245	1580	-75	432
III	1421	1421	451	430	-898	226	1102	1158	-3648	4286	1354	-1093	872	1620	1336	-23	126
IV	3555	3555	379	3870	-568	723	3715	-1335	-2096	1618	672	-1127	-697	2136	607	-117	136

Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Net	Trade Credits	Liabilities				Deposits		
					Equity Securities	Debt Securities					Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks	
																	Credits
(monthly)																	
2004 Jan	2152	2152	80	1419	-105	-18	1542	845	617	294	45	-158	-166	240	408	1	-76
Feb	3261	3261	383	536	-267	364	439	2046	1078	228	219	-491	-108	287	332	10	-9
Mar	501	501	-11	793	512	157	124	-391	-619	922	695	-461	-286	126	857	-5	-7
Apr	-50	-50	18	-566	273	-96	-743	1900	111	2175	466	-194	664	527	686	-20	36
May	1496	1496	105	450	56	-60	454	-167	-594	671	323	-433	-222	399	557	-36	61
Jun	170	170	304	1135	-145	131	1149	-502	-746	593	369	-457	-324	319	337	-19	335
Jul	1950	1950	260	6	-180	90	96	377	-1512	1700	694	-156	477	309	526	36	-218
Aug	-33	-33	40	86	-317	-47	450	1066	-2234	2809	454	-481	552	1216	522	7	508
Sep	-496	-496	151	338	-401	183	556	-285	98	-223	206	-456	-157	95	288	-66	-164
Oct	226	226	204	1163	-505	37	1631	-568	-387	102	140	-155	-279	-80	319	-53	201
Nov	779	779	74	419	-253	212	460	-1093	-1540	663	-173	-493	-193	1838	23	-47	-292
Dec	2550	2550	101	2288	190	474	1624	326	-169	853	705	-479	-225	378	265	-17	227
(12-month)																	
2004 Jan	3953	3953	1223	2880	-1273	872	3281	2080	-237	4129	2272	-1637	-763	2023	1068	460	598
Feb	4940	4940	1553	3797	-1653	1184	4266	3130	381	4066	2521	-2128	-691	2086	1323	439	420
Mar	4683	4683	1477	5392	-1317	1460	5249	2308	-2253	5533	2827	-2476	-770	1928	3281	414	229
Apr	4496	4496	1481	5118	-915	1406	4627	3713	-1908	6774	3254	-2670	-587	2638	3715	393	-76
May	6803	6803	1506	4976	-782	1337	4421	4396	-2447	8081	3434	-3064	-651	3813	3948	334	150
Jun	7510	7510	1788	5477	-612	1420	4669	4606	-2681	8890	3672	-3404	-648	4231	4193	314	397
Jul	9405	9405	1913	5725	-859	1433	5151	4338	-3323	8998	4056	-3560	-21	3910	4487	242	-259
Aug	9777	9777	1712	5179	-1197	1212	5164	5252	-4805	10904	4458	-3693	86	4762	4835	101	206
Sep	10167	10167	1749	4300	-906	1084	4122	3797	-5467	10160	4456	-4031	218	4600	4783	-31	6
Oct	10552	10552	1827	5210	-1584	990	5804	5128	-4616	10536	4110	-3995	176	4487	4904	-127	821
Nov	10963	10963	1737	6181	-1521	1010	6692	5121	-6260	12564	4060	-4058	194	6673	5212	-186	510
Dec	12506	12506	1709	8067	-1142	1427	7782	3554	-5897	10787	4143	-4414	-267	5654	5120	-209	602

Source: CBRT.