

CENTRAL BANK OF THE REPUBLIC OF TURKEY

**BALANCE OF PAYMENTS
REPORT**



June 2004

SUMMARY

BALANCE OF PAYMENTS (USD million)						
	June			January-June		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-715	-1563	..	-5090	-9945	..
Foreign Trade Balance	-1931	-3395	75,8	-9154	-16843	84,0
Exports	3796	5051	33,1	21684	28590	31,8
Imports	-5727	-8446	47,5	-30838	-45433	47,3
Exports/Imports	66,3%	59,8%	..	70,3%	62,9%	..
Capital and Financial Accounts	-548	90	..	2948	6741	..
Financial Account (Excl. Off. Reserves)	-67	857	..	3481	7588	..
Change in Official Reserves ¹	-481	-767	..	-533	-847	..

Source: CBRT.

¹ (-) sign refers to the increase in official reserves.**In June 2004;**

Exports increased by 33.1 percent compared to the same month of previous year and rose to US dollar 5.1 billion from US dollar 3.8 billion. During the same period, imports rose by 47.5 percent from US dollar 5.7 billion to US dollar 8.4 billion. Hence, foreign trade deficit realized as US dollar 3.4 billion and the ratio of exports to imports became 59.8 percent. Current account produced a deficit of US dollar 1.6 billion, while financial account excluding official reserves provided a surplus of US dollar 857 million.

In January-June 2004;

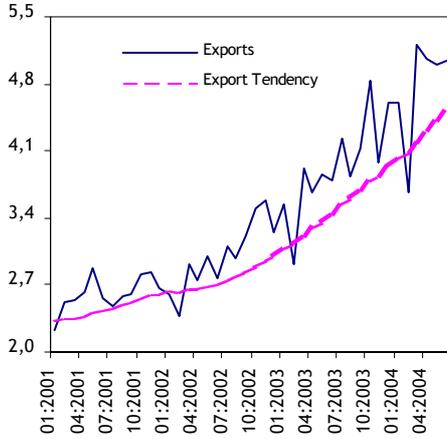
Exports increased by 31.8 percent compared to the same period of previous year and rose from US dollar 21.7 billion to US dollar 28.6 billion. During the same period, imports rose by 47.3 percent from US dollar 30.8 billion to US dollar 45.4 billion. Hence, foreign trade deficit realized as US dollar 16.8 billion and the ratio of exports to imports dropped compared to the previous year and became 62.9 percent. Current account produced a deficit of US dollar 9.9 billion, while financial account excluding official reserves provided a surplus of US dollar 7.6 billion.

In the twelve-month period;

Exports increased by 31.1 percent in the twelve-month period compared to the same period of previous year and rose to US dollar 54.2 billion. During the same period imports rose by 41 percent to reach US dollar 83.9 billion. Hence, foreign trade deficit and the ratio of exports to imports realized as US dollar 29.8 billion and 64.5 percent, respectively. Current account yielded a deficit of US dollar 11.7 billion while financial account excluding official reserves produced a surplus of US dollar 11 billion.

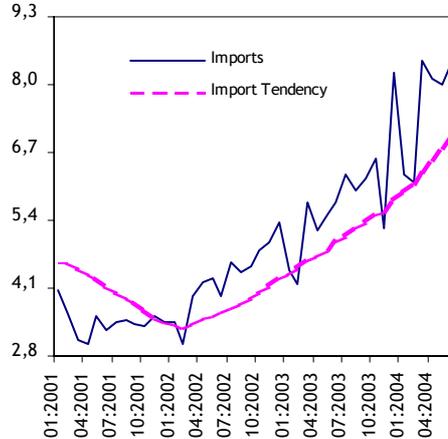
SUMMARY

EXPORTS (USD billion)



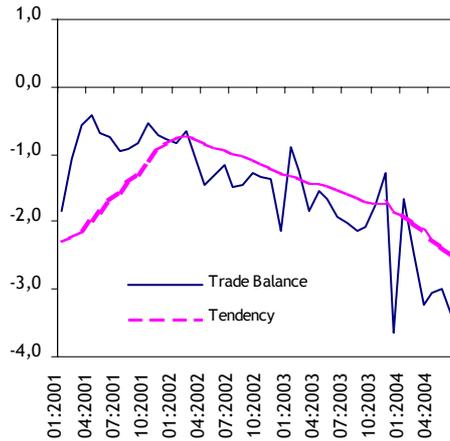
Source: SIS.

IMPORTS (USD billion)



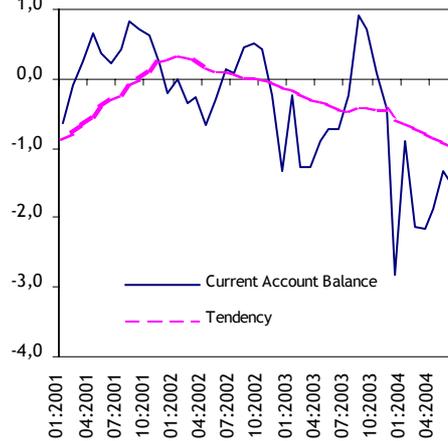
Source: SIS.

TRADE BALANCE (USD billion)



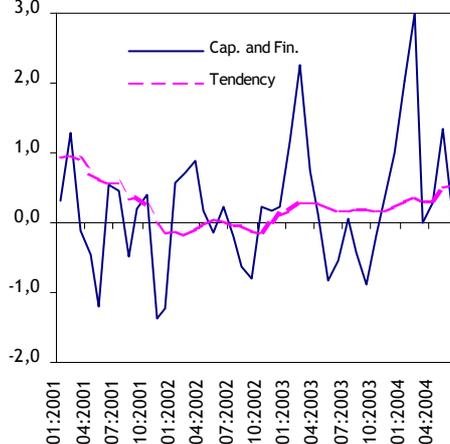
Source: SIS.

CURRENT ACCOUNT BALANCE (USD billion)



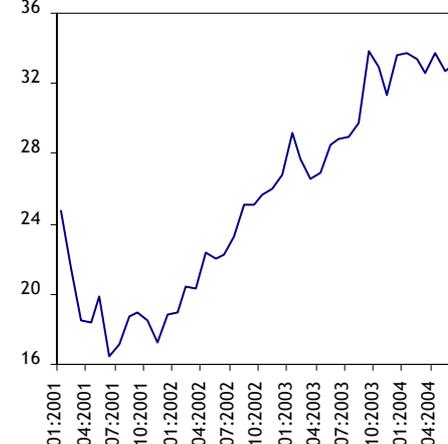
Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD billion)



Source: CBRT.

CBRT INTERNATIONAL RESERVES (USD billion)



Source: CBRT.

i Trends are calculated with 12-month moving average.

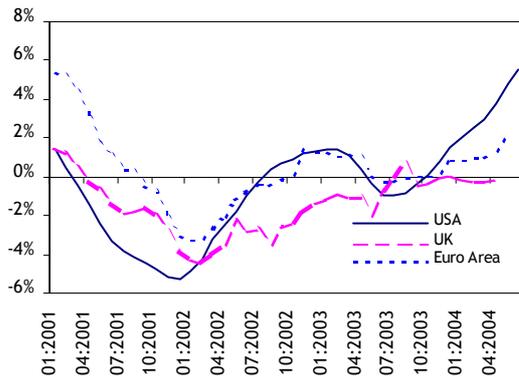
I. FACTORS AFFECTING FOREIGN TRADE

Foreign Demand Developments

1. In the first quarter of 2004, world economy recorded a growth performance above expectations. Provisional data published for the second quarter of the year show that global economic growth continued as of the second quarter as well. However, the excessive acceleration in oil prices especially since July constitutes a risk for global economic growth as of the second half of the year.

INDUSTRIAL PRODUCTION

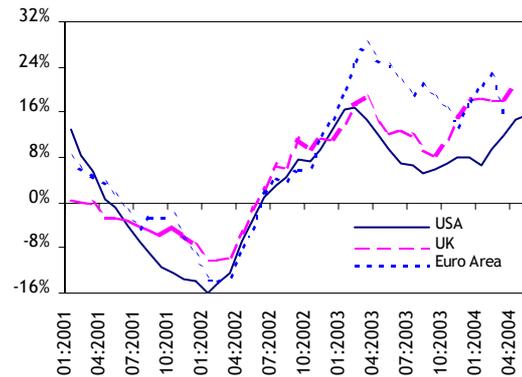
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

IMPORTS

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



Source: IMF, ECB.

2. US growth and employment data for the second quarter of the year recorded a less-than-expected increase. The US GDP rose by 3 percent in the second quarter of the year. While investment expenditures and exports constituted the engines of growth, having increased by a mere 1 percent, consumption expenditures had negative contribution to economic growth. The depreciation of US dollar against euro since 2002 did not result in the desired level of increase in exports. As a matter of fact, the foreign trade deficit of US dollar 56 billion in June was the highest of all times. The Federal Reserve raises interest rates gradually, with an aim to stimulate the capital inflows necessary for the financing of the current account deficit as well as considering inflationary expectations. On 10 August 2004, the Federal Reserve raised intended federal funds rate by 25 basis points to 1.5 percent. However the realization of growth and employment figures below expectations along with the expectations surveys pointing to a slowdown in economic activity show that the process of raising interest rates will materialize at a slower pace.

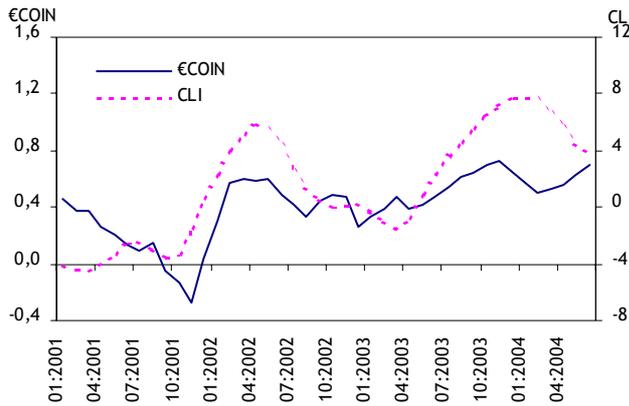
3. Japanese economy grew by 1.7 percent in the second quarter of 2003. The said growth rate was 6.6 percent in the first quarter. The sources of growth in the second quarter were private consumption expenditures and the increase in exports. Thanks to ongoing upward trend in exports, Japan's foreign trade provided surplus in June as well. There are risks for growth for the rest of the year. Especially, the adverse effects of the rapid rise in oil prices on the USA, the main export market of Japan, increase concerns about the performance of exports, which is the main determinant of economic growth in Japan.

4. Economic growth in the UK continued in the first quarter of 2004 being led by domestic demand and investment expenditures. The increase in revenues and favorable labor market conditions bolstered consumption expenditures. Government expenditures also increased, whereas the contribution of net exports to growth during this period was negative. Despite annual consumer price inflation realizing below the 2 percent target in July with a 1.4 percent level, the annual increase in real estate prices is as high as 20 percent. Within this framework, the Bank of England raised its minimum lending interest rate by 25 basis points to 4.75 percent on 5 August 2004, as a result of higher inflationary pressures caused by ongoing robust economic growth and excessive asset prices.

5. The euro area enjoyed economic growth in the first quarter especially owing to the increase in exports and briskness in consumption expenditures. Recent data show that the

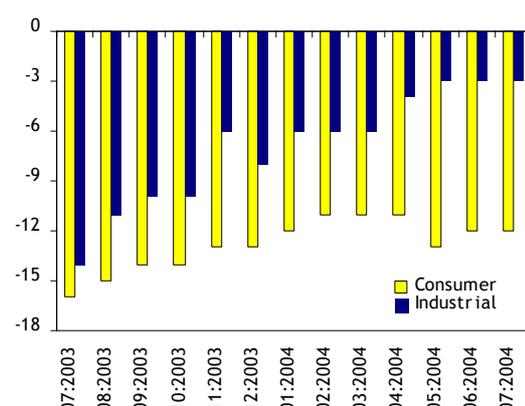
revival in the euro area continued in the second quarter of the year as well. The coincident indicator (EuroCOIN), which provides forecasts for quarterly GDP growth for the euro area, points to the acceleration of the euro area growth in June and July 2004 compared to previous months. Within the context of the said indicator, while industrial production, interest rates and financial variables displayed a favorable course in July in terms of growth, surveys pointed to weak economic growth in the area. Though there is an upward pressure on prices in the euro area in the short-run stemming from the rising oil prices, the fact that the economy has not attained a strong and sustainable trend yet reduces the likelihood of the European Central Bank to raise interest rates in the short term.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU
(seasonally adjusted)

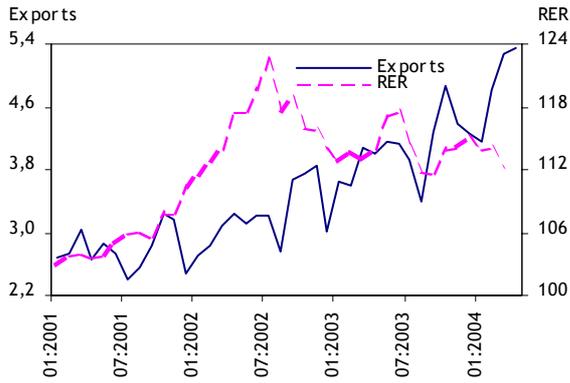


Source: Eurostat.

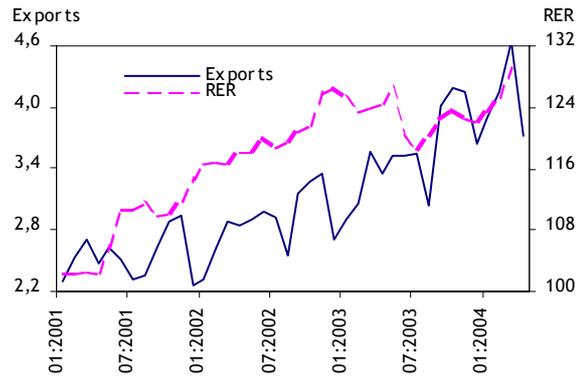
6. Although the six-month growth rate of Composite Leading Indicators (CLI) issued by OECD, which was in upward trend since April 2003, has been declining in recent months, the index still maintains its comparatively high level.
7. While strong GDP growth continued in the three new EU members, Czech Republic, Poland and Hungary, their rates of inflation increased. Although real exchange rates display different tendencies in these countries, exports manifest an upward trend in general.
8. The sources of growth in 2003 in developing Asian economies were the increase in domestic demand and the leap in exports. These economies have been maintaining their growth performance by the first quarter of 2004 as well. Domestic growth dynamics of the developing Asian economies display a favorable outlook for 2004 in general.
9. The high rate of growth enjoyed in 2003 by China, one of the East Asian economies, continued in the first quarter of 2004 as well. The Chinese economy grew by 9.8 percent in the said period. On the other hand, the effects of macroeconomic measures taken by the Chinese administration to prevent overheating in the economy began to be felt, though still at a limited level. The annual growth rate of fixed capital investments, which was 47.8 percent in the first quarter of the year, realized as 23 percent and 31 percent in June and July respectively. Furthermore, the growth rate of industrial production dropped in the said months. Rising oil prices are thought to have potential unfavorable impact on the growth performance of China in the second half of the year, world's second largest oil importer after the USA.

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

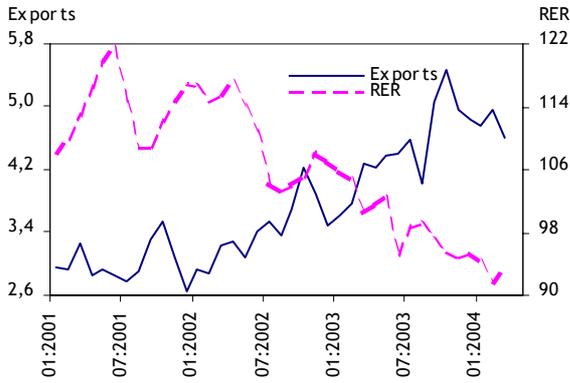
CZECH REPUBLIC



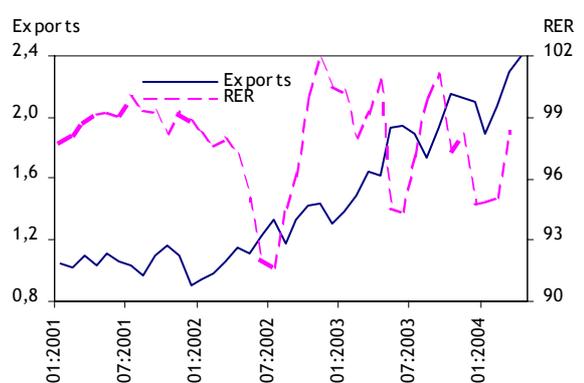
HUNGARY



POLAND



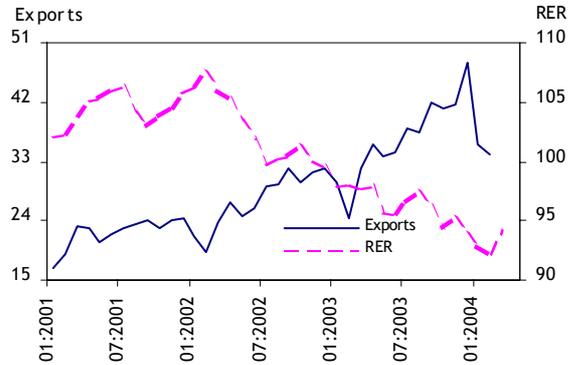
SLOVAK REPUBLIC



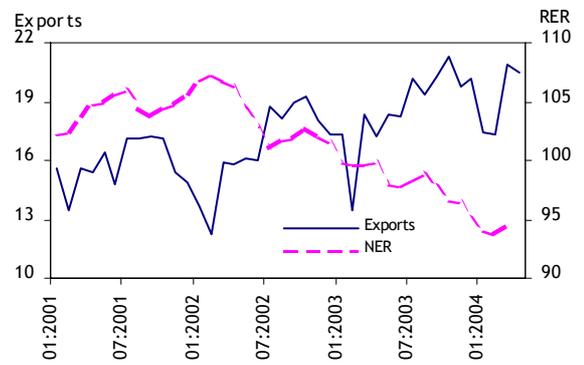
ⁱ Increase in real exchange rate implies appreciation in domestic currency.
Source: IMF.

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

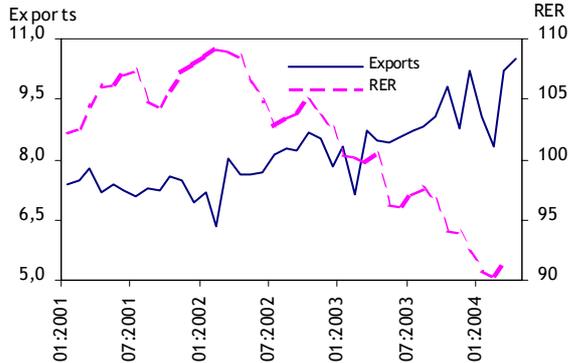
CHINA



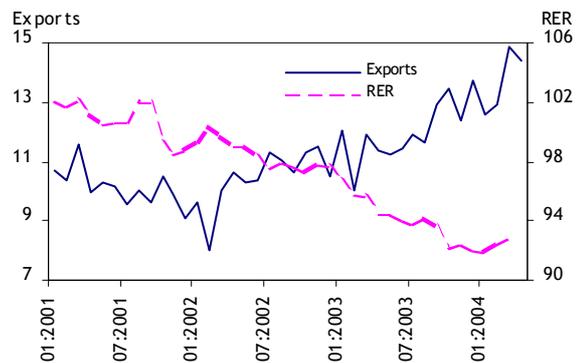
HONG KONGⁱⁱ



MALAYSIA



SINGAPORE



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 Hong Kong is not available.
Source: IMF.

Developments in Domestic Demand and Production

10. GDP growth, which was 5.8 percent in 2003, rose to 10.1 percent in the first quarter of 2004 compared to the same period of the previous year, exceeding expectations. High-rated increase in exports and the acceleration in industrial production due to the revival in domestic demand that resulted from private consumption and investment expenditures stood as the underlying factors in growth in the first quarter of 2004. Besides, the 60.6 percent rise in real terms in private sector investments gives the signals of a likely continuation of the increase in both industrial production and exports in 2004 in general.

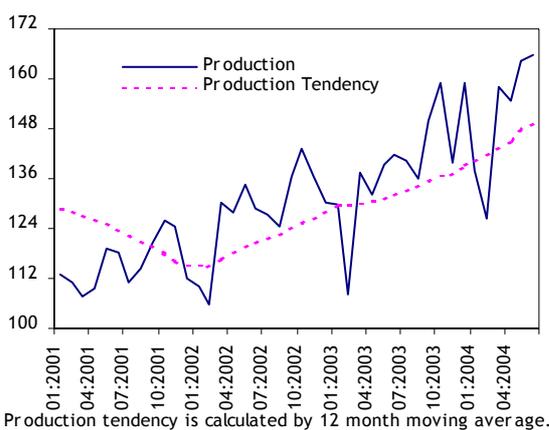
11. Analyzing the economic growth with respect to production, agricultural sector value added declined in the first quarter of 2004 compared to the same period of last year, while the developments in the industrial sector became the determinants of the GDP growth. During this period, the successive increases in construction sector value added in the last quarter of 2003 and the first quarter of 2004 compared to the same period of the previous year are considered as favorable developments for the sector, the revival of which was delayed due to the earthquakes and the economic crises.

12. The upward trend in the level of production continued in June as well. According to SIS Monthly Industrial Production Index, total industrial production and manufacturing industry productions increased by 15.7 percent and 16.8 percent respectively in June 2004, compared to the same months of the previous year. According to the seasonally adjusted data, total industrial production and manufacturing industry productions rose by 0.9 percent and 1.8 percent respectively compared to the previous month. Seasonally adjusted industrial production and manufacturing industry production indices recorded an all-time-high level. High-rated increases in the production of durable consumption goods and transportation vehicles continued during this period. Furthermore, rapid increases in the sectors producing investment goods point to ongoing rise in the investment expenditures.

13. SIS Monthly Industrial Production Survey for July 2004 indicates that the increase in production continued in the said month. According to the forecasts by the businesses, overall manufacturing industry production is expected to increase at a level as high as 18.8 percent in July compared to the same month of the previous year.

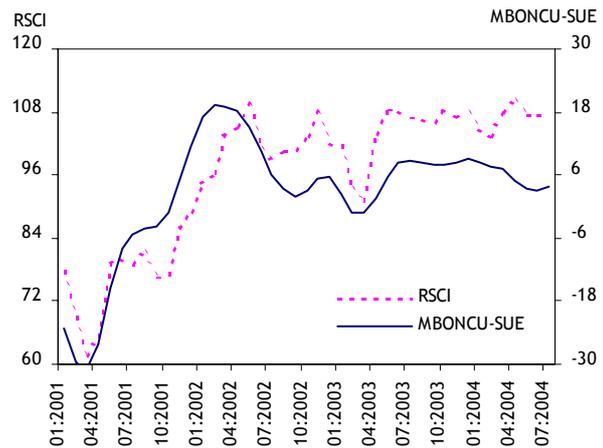
14. Realizing at 84.1 percent in July, production weighted capacity utilization rate maintained its high level for the last three months.

MANUFACTURING INDUSTRY PRODUCTION
(1994=100)



Source: SIS.

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



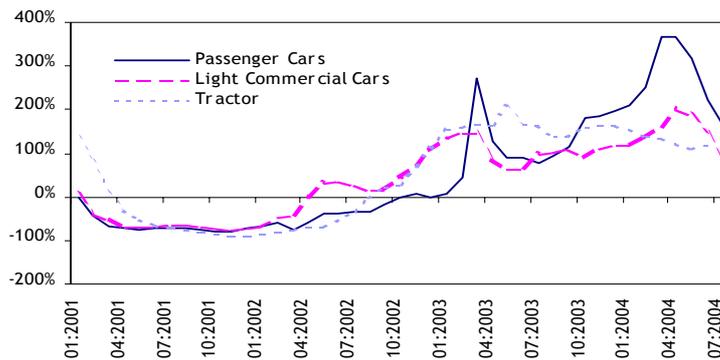
Source: CBRT.

15. The six-month rate of change in the composite leading indicators index (CBLEADING-IPI) compiled by the Central Bank of the Republic of Turkey recorded a limited decline in May and June, but went up as of July. Despite the decline in the seasonally adjusted electricity production, the index recorded an increase compared to June, with favorable expectations of seasonally adjusted imports of intermediate goods as well as finished goods stock level, expectations regarding exports and employment, and the favorable developments in interest rates. Meanwhile, real sector confidence index (CBRSCI),

which displayed an upward trend from the second quarter of 2003 onwards with the end of the war in Iraq, maintains its high level as of the first half of 2004. The value of the index that has remained above 100 points to continuing confidence of the real sector in economic activities.

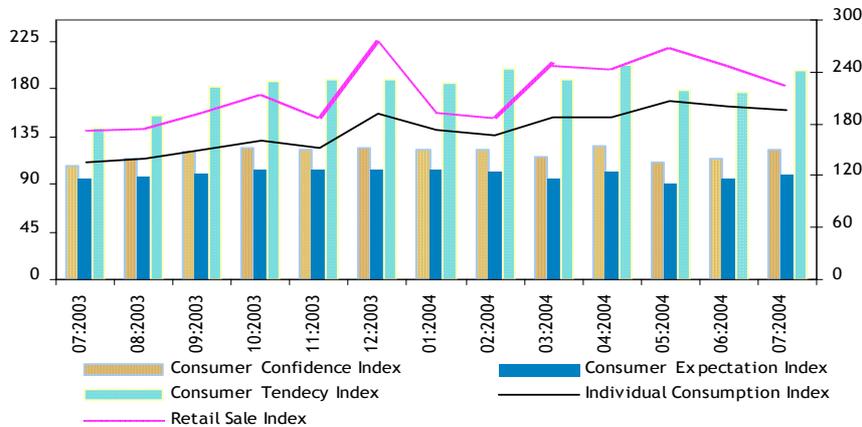
16. The rapid upsurge in consumer credit drawings and scrap-car discount were the main factors that led the automobile sales to record their highest level in history in the first half of 2004. The growth rate of car sales, though slowed down in June and July compared to previous months, grew by 131 percent and 126 percent respectively, compared to the same months of 2003. Moreover, an evident leap since the beginning of 2004 is remarkable in the light commercial vehicles sales, which used to pursue a rather modest course compared to automobiles. Sales of light commercial vehicles is considered to be a significant indicator affirming the revival observed in services and manufacturing industry sectors.

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



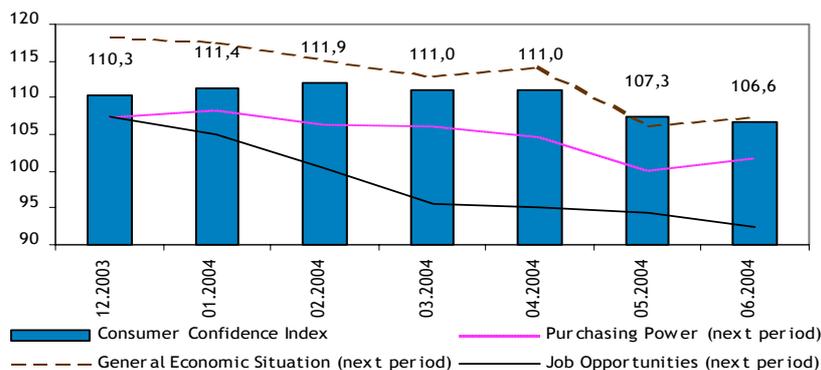
Source: Automobile Industry Association.

CNBC-e INDICES (January 2002=100)



Source: NTVMSNBC.

CONSUMER TENDENCY SURVEY



Source: CBRT, SIS.

17. Consumer confidence and consumption tendency indices compiled by CNBC-e reached high levels in July, while a decline was observed in private consumption and wholesale indices.

18. According to the results of the Consumer Tendency Survey for June compiled by the Central Bank and SIS, Consumer Confidence Index, which was 106.6 in June 2004, dropped to 105.4 in July. The optimistic level of the index above 100 is attributable to the high level of the index for the general economic outlook.

Prices

19. Turkish lira, which appreciated against nominal foreign exchange rate basket composed of USD 1 + 0.77 Euro in the first half of 2004 compared to the end-2003, appreciated by 0.3 percent in June, compared to the previous month, whereas it appreciated by 2.3 percent in July. Meanwhile, CPI and WPI-based real foreign exchange indices increased in July.

20. Euro, which has been depreciating against US dollar in general since May 2004, started to appreciate in June and July. Accordingly, monthly average euro/US dollar parity, which rolled back to 1.2 in May, rose to 1.227 in July.

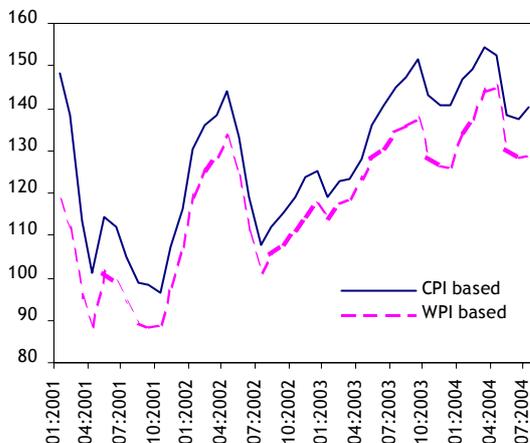
REAL EFFECTIVE EXCHANGE RATE (monthly percentage change) ⁱ													
	2003						2004						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Turkey													
CPI based	3,2	1,4	2,9	-5,7	-1,7	0,1	4,6	1,4	3,4	-1,1	-9,3	-0,6	2,0
WPI based	3,1	1,1	1,1	-6,4	-1,8	0,0	6,3	2,5	4,6	0,7	-9,9	-1,5	0,3
Czech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

Source: CBRT, IMF.

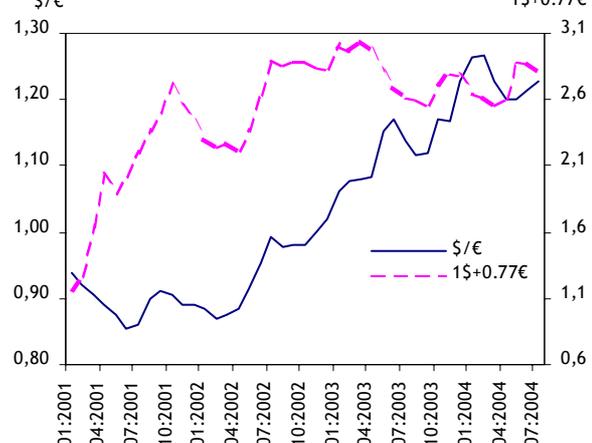
ⁱ Increase implies real appreciation of the currency.

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

REAL EFFECTIVE EXCHANGE RATE
(1995=100)ⁱ



USD/EURO PARITY and
NOMINAL EXCHANGE RATE BASKET



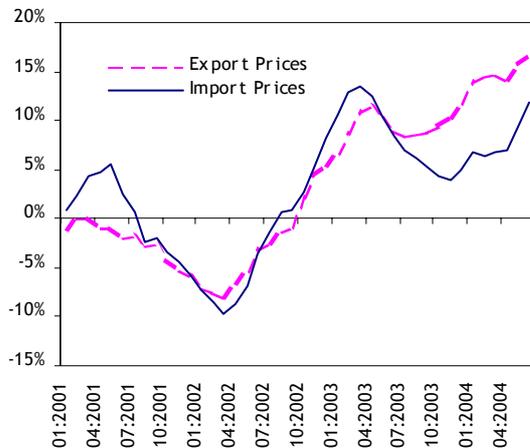
ⁱ Increase in real exchange rate index indicates strengthening of Turkish lira.

Source: CBRT.

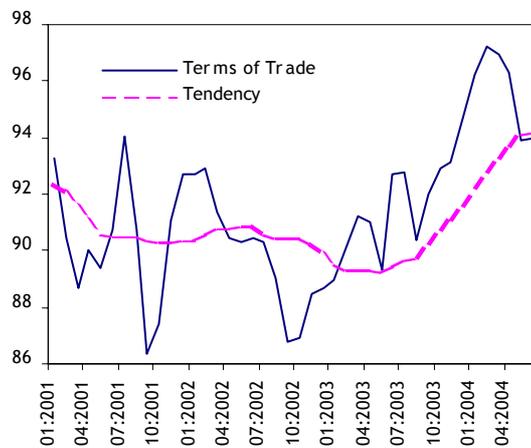
21. Recovery trend in terms of trade, which has started in 2003, is continuing as of the first quarter of 2004. However, it started to deteriorate as of the second quarter of the year.

EXPORT and IMPORT PRICES

(3-month moving average, annual % change)



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



Source: SIS.

22. In June, export prices decreased by 0.8 percent compared to previous month. The export prices index of the main metal industry, which increased in the first five months of the year due to the rise in world metal prices in early 2004, displayed a sharp decline in June compared to the previous month. Meanwhile, the export prices of motor vehicles inched up in June.

23. In June, import prices decreased by 0.8 percent compared to the previous month. The import prices of textile products, main metal industry products and machinery and equipment, were the significant determinants in the decline in import price index.

EXPORT and IMPORT PRICE INDICES (1994=100)

	2003								2004					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	
Export Price Index	91,4	92,2	90,9	91,6	93,1	95,0	99,2	104,9	105,2	104,8	105,2	106,3	105,5	
Manufacturing	91,8	93,0	91,4	92,0	93,2	94,8	99,0	105,1	105,5	104,6	105,1	106,3	105,5	
Textiles	88,8	90,1	85,9	86,3	88,7	91,6	97,4	102,3	100,7	99,9	98,6	98,6	96,6	
Wearing Apparel	97,3	101,8	97,0	95,6	95,0	98,9	107,8	116,8	124,0	115,7	115,7	114,8	115,4	
Chemicals & Products	89,9	88,1	87,7	90,2	91,9	87,5	91,9	95,4	95,2	91,1	93,5	94,5	95,9	
Manufacture of Basic Metals	100,5	101,3	103,1	105,5	108,3	107,1	108,3	119,4	122,1	128,0	136,9	145,8	132,2	
Manufacture of Mach. & Equ.	85,9	84,8	85,0	85,1	86,5	91,7	93,4	101,8	99,7	98,9	100,1	97,0	97,2	
Electrical Mach. & Apparatus	70,2	68,4	69,6	70,3	67,0	68,3	73,3	79,4	76,0	69,5	70,8	68,2	70,1	
Motor Vehicles & Trailers	98,6	101,6	98,6	102,3	106,3	107,8	109,1	113,8	110,7	110,6	113,0	111,3	115,5	
Import Price Index	98,6	99,4	100,6	99,6	100,2	102,0	104,8	109,0	108,2	108,1	109,2	113,2	112,3	
Mining & Quarrying	158,0	159,5	168,0	169,1	169,3	164,3	168,5	178,1	173,2	177,6	176,4	189,0	190,1	
Crude Oil & Natural Gas	169,8	172,2	179,0	182,1	181,2	176,5	181,8	188,3	182,7	190,7	189,6	203,7	203,0	
Manufacturing	93,2	93,6	93,4	92,3	93,0	94,4	98,2	100,3	100,6	100,6	102,4	105,4	104,8	
Textiles	91,3	89,4	88,2	82,3	84,2	84,0	90,7	91,7	93,8	95,3	95,6	99,4	94,2	
Chemicals & Products	101,5	100,0	99,2	98,8	101,2	101,9	103,3	109,7	109,2	107,3	110,0	110,9	110,1	
Manufacture of Basic Metals	94,7	97,1	98,8	94,4	101,4	102,0	107,2	119,8	123,1	132,3	139,1	143,6	138,8	
Manufacture of Mach. & Equ.	93,5	97,2	94,6	94,6	94,6	96,5	98,9	98,6	90,9	92,5	96,9	104,1	102,3	
Electrical Mach. & Apparatus	68,6	67,3	65,6	65,4	65,9	66,9	70,0	71,8	73,0	72,4	68,2	71,2	68,5	
Motor Vehicles & Trailers	91,6	91,4	91,4	89,2	92,0	94,6	103,5	100,6	106,3	103,4	101,6	102,3	101,2	

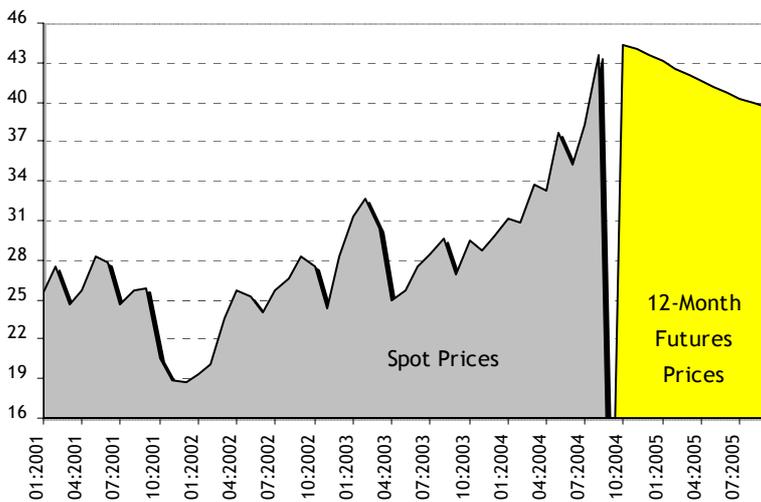
Source: SIS.

24. Oil prices, which maintained an upward trend as of 2004, continue to climb despite high supply level. In August, Brent crude oil rose to USD 45, whereas OPEC reference oil

price¹ was traded at USD 42. In July, the mentioned prices became USD 38.2 and USD 36.3 on average, respectively. In order to interpret the level that oil prices have reached, real oil prices should be analyzed. Especially in August, real crude oil prices² throughout the world reached the level, which was observed in the oil crisis in 1974. Nevertheless, the prices still remain below the prices recorded in the second oil crisis in 1980 and 1981.

25. The rise in oil prices mainly stemmed from the USA and China's demand, while the attacks to the oil facilities in Saudi Arabia and to the oil lines in Iraq, home of the world's second-biggest oil reserve after Saudi Arabia, stand as external shocks. The most significant development in terms of demand is that China increased its crude oil demand by 20 percent compared to the previous year. Furthermore, despite the expectations that the crude oil demand will increase in the USA in the beginning of summer, low stocks caused speculations and exerted an upward pressure on oil prices.

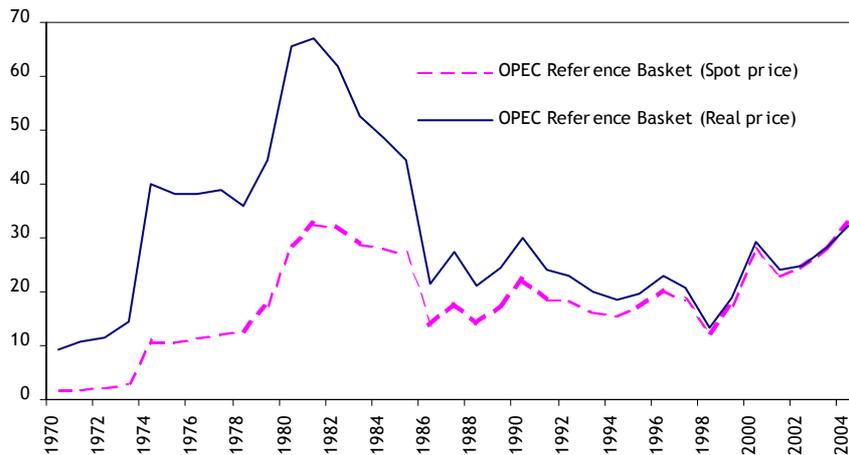
CRUDE OIL PRICES: BRENT SPOT and 12-MONTH FUTURES (monthly average, US dollar/ barrel)



Future Prices	
	19.08.2004
October 2004	44,33
November 2004	44,09
December 2004	43,61
January 2005	43,11
February 2005	42,59
March 2005	42,09
April 2005	41,61
May 2005	41,15
June 2005	40,71
July 2005	40,30
August 2005	39,92
September 2005	39,57

Source: theipe.com.
Note: 19.08.2004 future prices of International Petroleum Exchange.

CRUDE OIL PRICES
(\$ per barrel, in real and nominal terms)



¹ OPEC reference oil price is calculated by taking the arithmetic average of 7 countries' crude oil prices (Algeria, Indonesia, Nigeria, Saudi Arabia, UAE, Venezuela, and Mexico).

² Real crude oil prices is calculated by deflating OECD countries producer prices (2003=100).

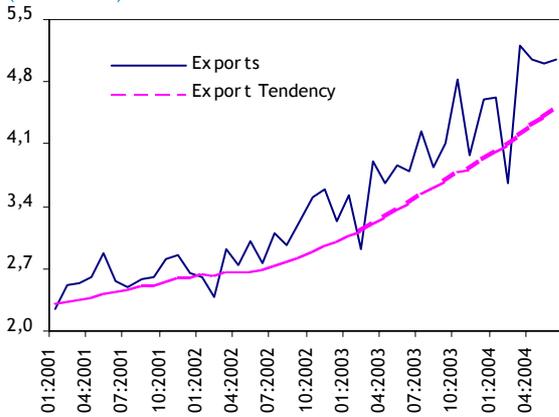
II. EXPORTS

General Evaluation

26. In June 2004, exports grew by 33.1 percent compared to the same month of the previous year and reached US dollar 5.1 billion. The increase in exports in the first half of 2004 became 31.8 percent. Moreover, 12-month export rose by 31.1 percent and reached US dollar 54.2 billion.

27. Favorable supply and cost conditions in 2003 continued to improve in 2004 and this had a favorable impact on exports. Low labor and energy costs coupled with increase in productivity provided the Turkish firms with competition power despite the appreciation in Turkish lira. Furthermore, the expansion in world economics and rising export prices contributed to this increase.

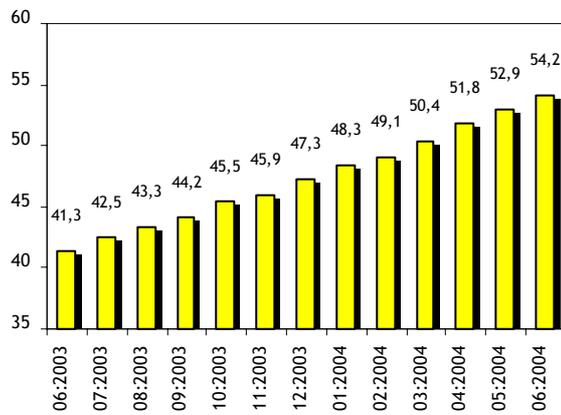
EXPORTS and EXPORTS TENDENCY'
(USD billion)



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

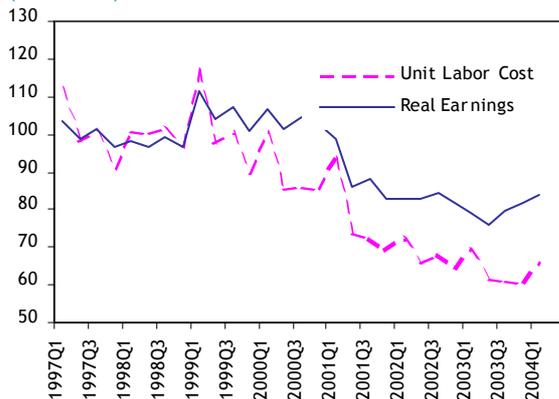
Source: SIS.

EXPORTS
(12 month, USD billion)



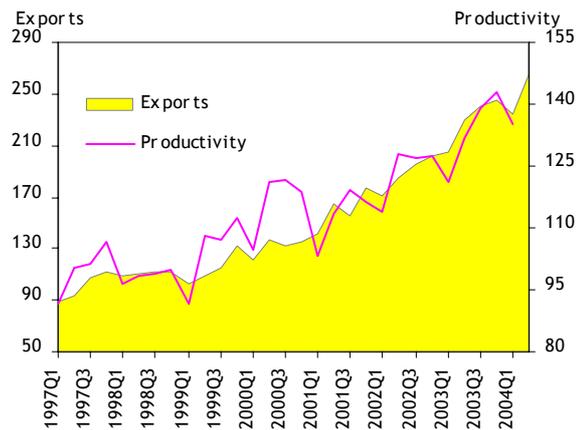
Source: SIS.

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



Source: SIS, CBRT.

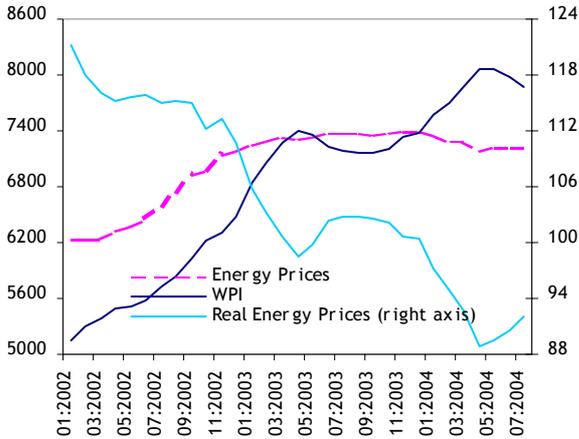
PRIVATE MANUFACTURING EXPORT AND
PRODUCTIVITY INDICES (1997=100)



Source: SIS.

28. The downward trend in real energy costs continued until April 2004, however, the trend started to increase as of May. Despite the stable course of electricity prices, natural gas and water prices increased especially as of the second quarter of the year. Nonetheless, prices are considerably low compared to the previous year.

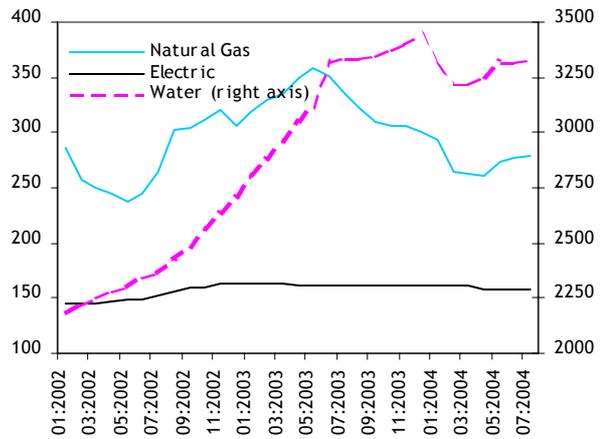
ENERGY PRICES and WPIⁱ
(1994=100)



ⁱ Energy prices are WPI Electric, Gas and Water price index. Real prices are calculated by dividing energy price index to WPI.

Source: SIS.

ENERGY WHOLESALE PRICESⁱ
(thousand TL)

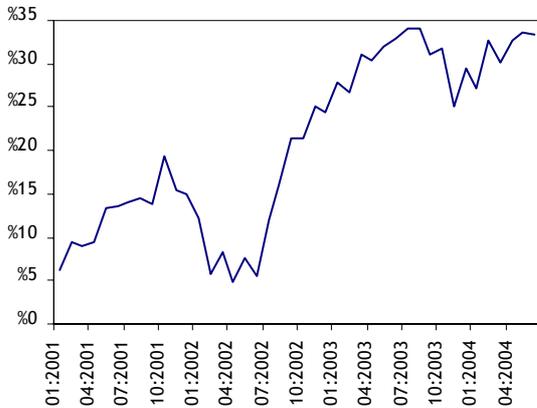


ⁱ Domestic prices in advance that are taken from WPI, which are electric prices per KWH, natural gas and water prices per ton.

Source: SIS.

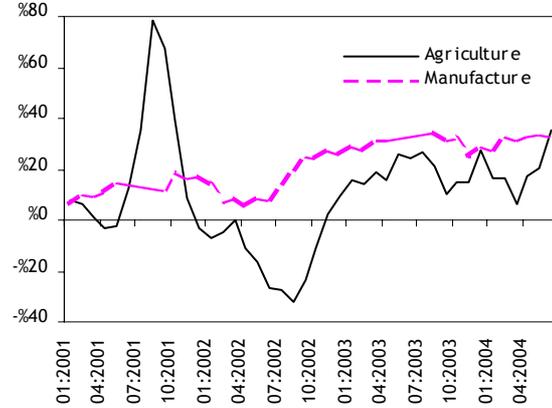
29. The Turkish Eximbank continued to cut down interest rates on the export credits in 2004. Interest rates were cut down in 12 February and 19 March 2004. On the other hand, considering the increase in interest rates in international financial markets, Eximbank increased its interest rates of foreign exchange credits by 0.25 percentage points on 5 July 2004.

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



Source: SIS.

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



Source: SIS.

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

31. The groups contributing largely to export growth in the first half of 2004 were motor vehicles and spare parts, iron and steel, electrical machinery and devices, boilers-machinery-mechanical equipments along with knitted apparel, respectively.

EXPORTS (USD million)								
	June				January-June			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	3796	5051	33,0		21684	28589	31,8	
Agriculture and Forestry	140	221	58,0	2,1	1032	1226	18,9	0,9
Fishing	2	1	-34,7	0,0	28	28	1,5	0,0
Mining and Quarrying	39	39	-0,5	0,0	197	276	40,0	0,4
Manufacturing	3593	4761	32,5	30,8	20314	26878	32,3	30,3
Other	23	29	29,1	0,2	114	181	59,1	0,3
Important Items:								
Edible fruit and nuts, peel of citrus fruits or melons	70	139	99,2	1,8	433	633	46,2	0,9
Mineral Fuels, Mineral Oils and products	88	130	47,3	1,1	473	602	27,2	0,6
Plastics and articles thereof	77	112	45,8	0,9	405	597	47,7	0,9
Cotton, cotton yarn and cotton fabrics	78	96	22,9	0,5	503	606	20,6	0,5
Articles of Apparel-Clothing; Knitted	495	531	7,2	0,9	2715	3068	13,0	1,6
Articles of Apparel-Clothing; Not Knitted	312	343	10,0	0,8	1875	2119	13,0	1,1
Other made-up textile articles, sets, worn clothing	127	138	8,9	0,3	761	891	17,1	0,6
Iron and Steel	208	482	132,3	7,2	1450	2386	64,6	4,3
Articles of Iron and Steel	111	190	71,3	2,1	632	906	43,3	1,3
Nuclear reactors, boilers, machinery	246	332	35,1	2,3	1343	1887	40,5	2,5
Electrical Machinery and Equipment	235	313	33,0	2,0	1416	2053	45,0	2,9
Motor Vehicles and Spare Parts	484	727	50,2	6,4	2423	3713	53,3	6,0

Source: SIS.

EXPORTS: BY COUNTRY GROUPS (USD million)										
	June					January-June				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	3796	..	5051	..	33,0	21684	..	28589	..	31,8
EU Countries	2123	55,9	2741	54,3	29,1	12087	55,7	15680	54,8	29,7
EU 15	2024	53,3	2580	51,1	27,5	11404	52,6	14789	51,7	29,7
EU 10	99	2,6	161	3,2	62,5	682	3,1	891	3,1	30,5
Other Countries	1516	39,9	2124	42,0	40,1	8733	40,3	11735	41,0	34,4
Turkey Free Trade Areas	157	4,1	186	3,7	18,3	864	4,0	1174	4,1	35,9
Selected Countries and Country Groups										
OECD	2484	65,4	3298	65,3	32,8	14218	65,6	18461	64,6	29,8
Germany	593	15,6	704	13,9	18,7	3543	16,3	4100	14,3	15,7
UK	295	7,8	434	8,6	47,0	1626	7,5	2477	8,7	52,3
USA	282	7,4	441	8,7	56,0	1792	8,3	2247	7,9	25,4
Italy	286	7,5	372	7,4	30,1	1536	7,1	1987	7,0	29,4
France	229	6,0	290	5,7	26,6	1267	5,8	1773	6,2	40,0
Spain	172	4,5	207	4,1	20,8	855	3,9	1189	4,2	39,1
Netherland	119	3,1	179	3,5	50,1	701	3,2	960	3,4	37,0
Other OECD	509	13,4	672	13,3	32,2	2899	13,4	3727	13,0	28,6
Middle East Countries	404	10,6	577	11,4	42,9	1703	7,9	2654	9,3	55,8
Russia	107	2,8	128	2,5	19,6	588	2,7	812	2,8	38,1

Source: SIS.

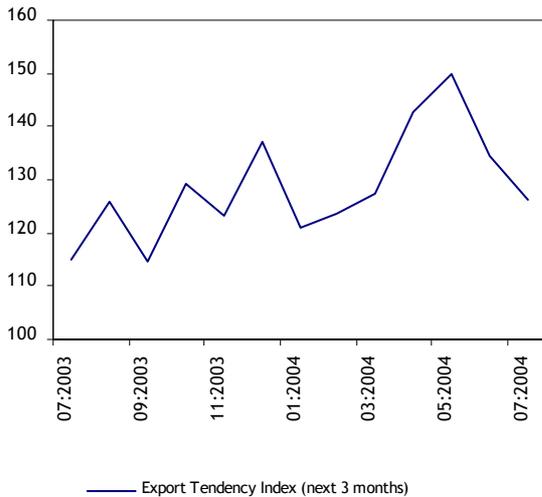
32. In the first half of 2004, there was a decline in the share of exports to the European Union countries and an increase in the share of exports to the Middle Eastern countries, compared to the same period of the previous year. Analyzing in terms of selected countries, exports to Germany had the largest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

Outlook

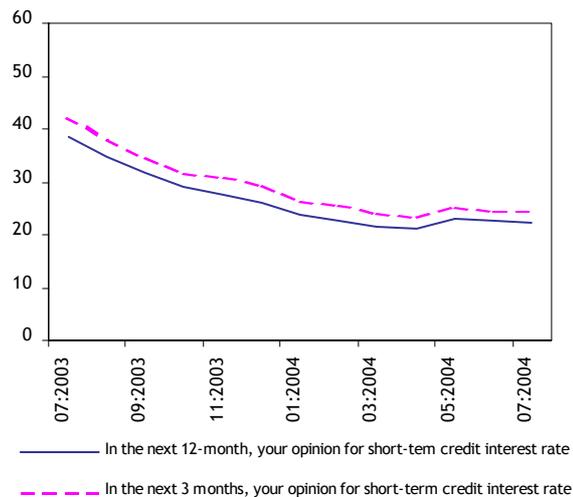
33. According to the July results of the CBRT Business Tendency Survey, although the indicators for the exports in the next three months started to fall since May, they maintained their high level as of July.

34. The downward trend in expectations for credit interest rates for the next three months and twelve months, which can be considered as the export financing cost indicator, stopped in May, and in June it displayed a decline in favor of those who expected a downward trend. Accordingly, in July, expectations for credit interest rates for the next three months declined to 24.5 percent, while expectations for credit interest rates for the next twelve months became 22.1 percent.

EXPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.



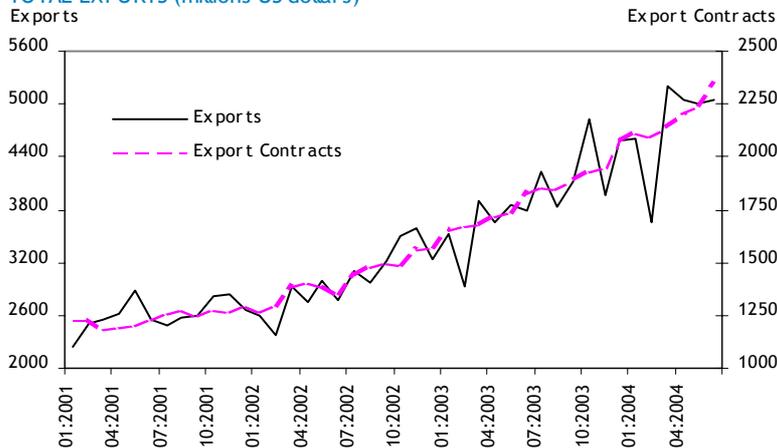
Source: CBRT Business Tendency Survey.

35. Despite its slight decline in recent months, price competition, which is among the factors that has been expected to exert pressure on exports in the next quarter, still maintains its major share. Concerns about external economic conditions, credit and financing that could lead to restriction in export orders rose in July, while concerns about delivery date eased.

36. The volume of export contracts subject to inward processing regime grew by 26 percent in the first half of 2004 compared to the previous year. Meanwhile, imports subject to inward processing regime increased by 31.9 percent.

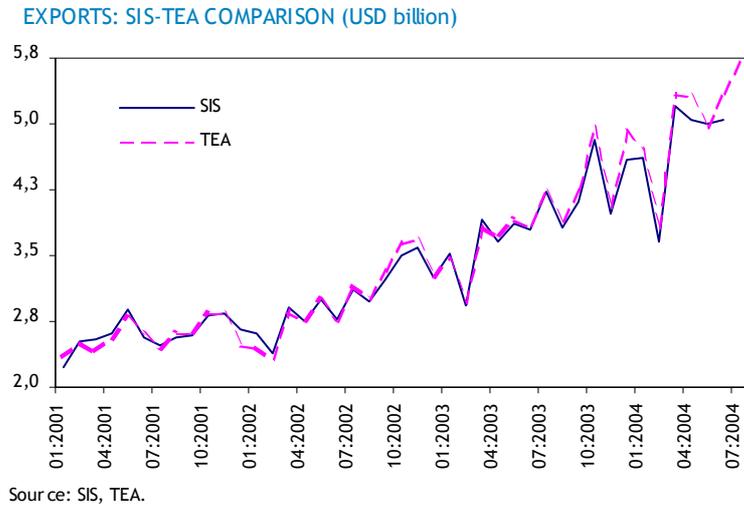
EXPORT CONTRACTS BY INWARD PROCESSING REGIME

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



Source: UFT.

37. According to the data issued by the Turkish Exporters' Assembly (TEA), exports grew by 33.9 percent and realized as US dollar 5.7 billion in July, breaking an all-time monthly record for Turkey's exports. Hence, twelve-month exports reached US dollar 57 billion in July.



FOREIGN EXCHANGE COMPOSITION OF FOREIGN TRADE AND ITS PARITY EFFECT

Data on Turkey's foreign trade, which is published in terms of US dollars, are compiled from different currency units. Along with US dollar, euro, British pound, Swiss franc, Turkish lira and Japanese yen are the currency units that are most commonly employed in Turkish foreign trade. It is observed that the share of euro both in exports and imports has increased over the years. In line with this development, the share of US dollar has gradually diminished. As of the first half of 2004, 50.1 percent of exports and 41.2 percent of imports have been carried out in terms of euro, whereas the share of US dollars in overall exports and imports was 42.2 percent and 54.1 percent, respectively.

FOREIGN EXCHANGE DECOMPOSITION OF EXPORTS (percentage share)

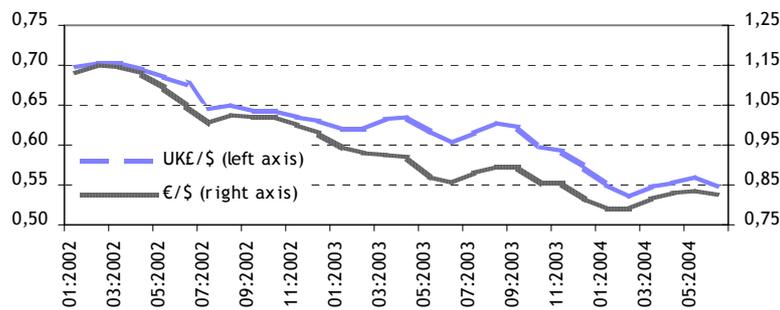
	Exports					Imports				
	2001	2002	2003	2004-Q1	2004-Q2	2001	2002	2003	2004-Q1	2004-Q2
US dollar	49,5	44,9	42,6	41,1	43,2	61,2	56,7	55,1	55,7	52,8
Euro*	42,9	46,7	49,3	50,7	49,5	33,0	37,2	39,7	39,6	42,6
British pound	5,7	6,6	6,2	6,3	5,8	2,2	2,0	1,7	1,7	1,7
Other	2,0	1,8	1,9	1,8	1,5	3,7	4,1	3,5	3,0	2,9

Source: SIS

*Including euro and currencies constituting euro.

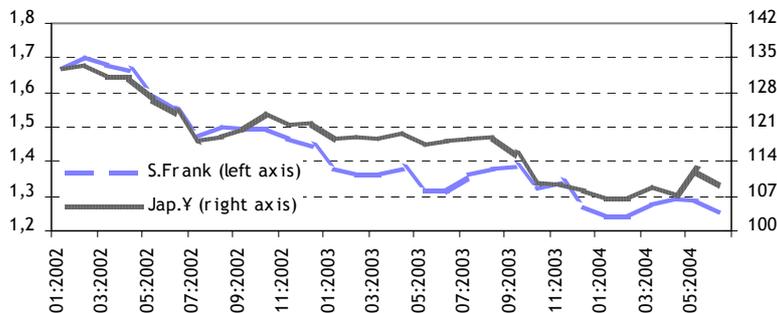
Hence, the parity changes between foreign currencies may lead to drastic changes in foreign trade statistics that are registered in terms of US dollars. Following 2003, there have been significant parity changes in 2004 too. However, while throughout 2003 the parity change was mostly against US dollar, it was observed especially in the second quarter of 2004 that US dollar started to appreciate against other currencies.

€/ \$ and £/ \$ PARITIES



Source: CBRT.

¥/ \$ and SFr/\$ PARITIES



Source: CBRT.

Under the assumption that the parity of currencies against US dollar employed in foreign trade has remained at their average values of December 2003, it can be said that the parity changes have increased exports expressed in US dollar by US dollar 73.9 million, and reduced imports by US dollar 10.2 million in the first half of 2004. Thus, the overall decreasing effect of parity changes on the foreign trade deficit was US dollar 84.1 million in the first half of the year.

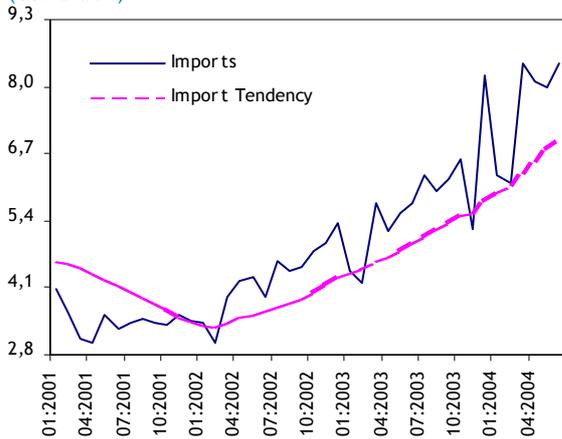
III. IMPORTS

General Evaluation

38. Compared to the previous year, imports increased by 47.5 percent and reached US dollar 8.4 billion in June 2004. Hence, imports became US dollar 45.4 billion in the first half of the year, while twelve-month imports rose by 41 percent and reached US dollar 83.9 billion.

IMPORTS and IMPORTS TENDENCYⁱ

(USD billion)

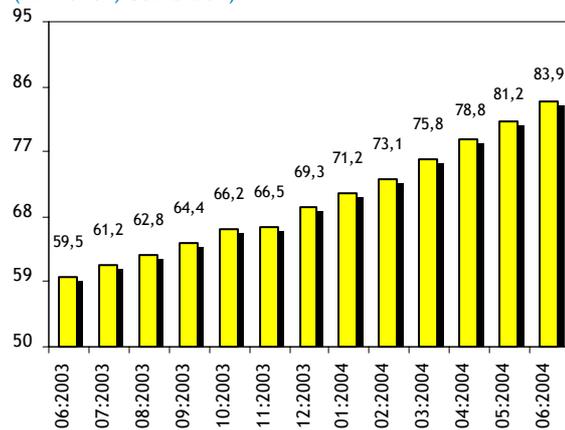


ⁱ Imports tendency is calculated using 12 month moving average.

Source: SIS.

IMPORTS

(12 month, USD billion)

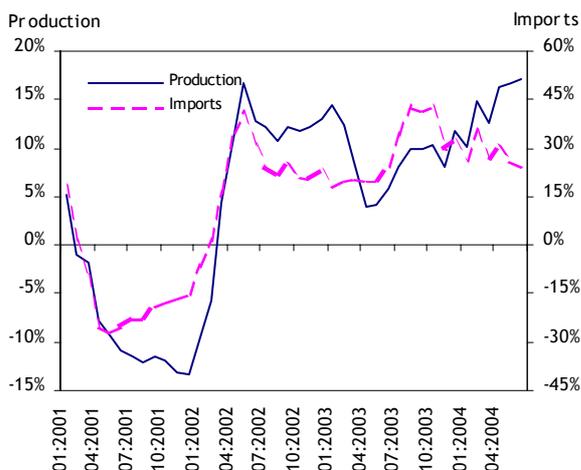


Source: SIS.

39. The appreciation of Turkish lira by 4.1 percent as of the first half of 2004 compared to end-2003 according to the CPI-based real exchange rate index, the rise in domestic industrial production and increase in consumption demand stood as the factors having an effect on the growth in imports. Furthermore, the upward trend in import prices during this period is an impact on the increase in imports.

MANUFACTURING INDUSTRY PRODUCTION and INTERMEDIATE GOODS IMPORTS INDICES

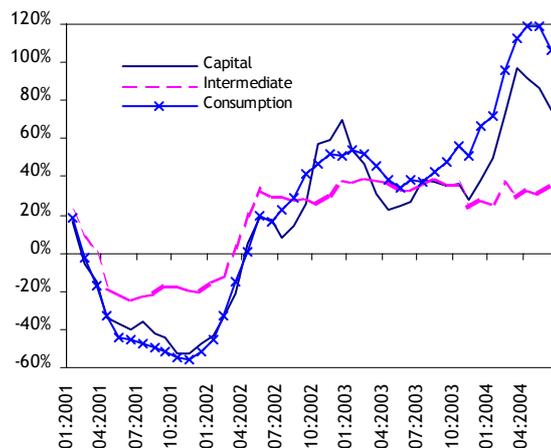
(3 month moving average, annual % change)



Source: SIS.

IMPORTS: GROWTH RATES

(3 month moving average, annual % change)

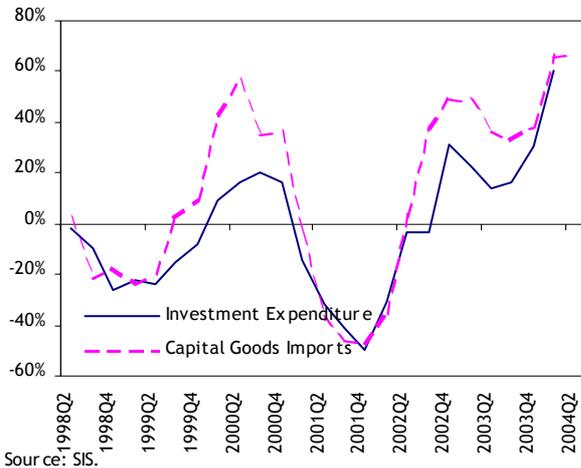


Source: SIS.

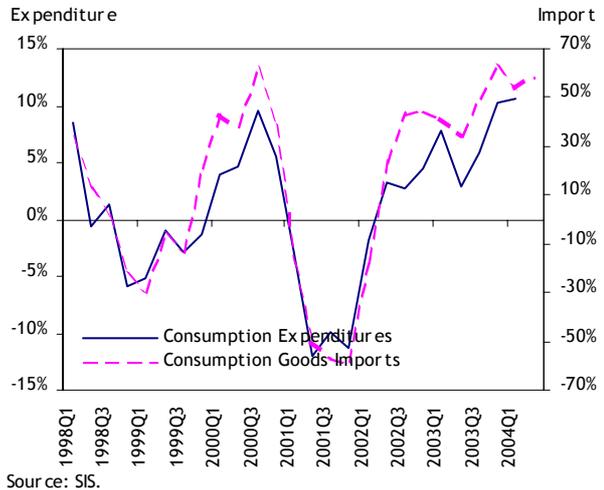
40. Although imports of intermediary goods became dominant in the growth of total imports in January-June 2004, the rate of increase in imports of intermediary goods remained below that of total imports. Meanwhile, imports of consumption goods and capital goods displayed a rate of increase above the growth in total imports and their shares in total imports reached 14.1 percent and 18.2 percent, respectively. The high-rated increase in

demand for durable goods and transportation vehicles together with the appreciation of Turkish lira contributed to the hike in imports of consumption goods. Moreover, upward trend in imports of capital goods continued due to the increased capacity utilization rates, which bring in new investment needs for sustained production growth.

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



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



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

IMPORTS (USD million)

	June				January-June			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	5727	8446	47,5	..	30837	45434	47,3	..
Capital Goods	939	1576	67,8	11,1	4499	8278	84,0	12,3
Intermediate Goods	4167	5661	35,9	26,1	23085	30513	32,2	24,1
Consumption Goods	587	1181	101,3	10,4	3068	6405	108,8	10,8
Other	34	29	-17,2	-0,1	186	238	27,9	0,2
Important Items:								
Mineral fuels,mineral oils and products of their dist.	816	1027	25,9	3,7	5450	6138	12,6	2,2
Crude Oil	349	531	51,8	3,2	2285	2769	21,2	1,6
Organic chemicals	189	225	18,7	0,6	1161	1425	22,7	0,9
Pharmaceutical products	169	234	38,4	1,1	960	1301	35,5	1,1
Plastics and articles thereof	267	412	54,4	2,5	1448	2130	47,1	2,2
Cotton, cotton yarn and cotton fabrics	161	171	6,3	0,2	802	1009	25,8	0,7
Pearl, other precious stone and products	283	267	-5,8	-0,3	1264	1765	39,6	1,6
Iron and Steel	355	666	87,6	5,4	2325	3493	50,2	3,8
Nuclear reactors, boilers, machinery	870	1180	35,7	5,4	4307	6387	48,3	6,7
Electrical Machinery and Equipment	468	717	53,4	4,4	2383	3934	65,1	5,0
Motor Vehicles and Spare Parts	415	980	136,3	9,9	1776	4991	181,1	10,4
Aircraft, spacecraft and parts thereof	9	173	1849,8	2,9	84	789	838,0	2,3
Optical, photographic, measuring instruments	102	180	76,2	1,4	581	883	52,1	1,0

Source: SIS.

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

IMPORTS: BY COUNTRY GROUPS (USD million)

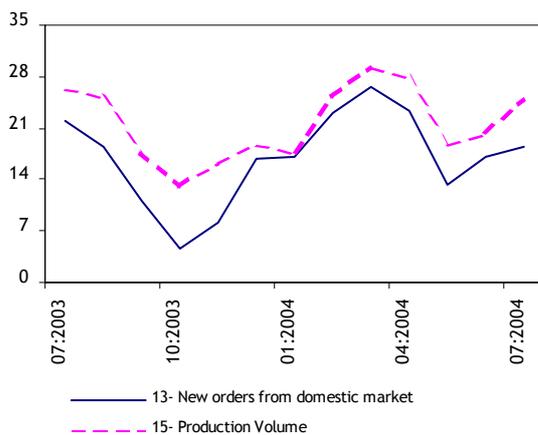
	June					January-June				
	2003		2004		% Change	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	5727	..	8446	..	47,5	30837	..	45434	..	47,3
EU Countries	2813	49,1	4168	49,4	48,2	14546	47,2	21958	48,3	51,0
EU 15	2650	46,3	3884	46,0	46,6	13781	44,7	20527	45,2	49,0
EU 10	164	2,9	285	3,4	74,0	765	2,5	1431	3,1	87,1
Other Countries	2862	50,0	4213	49,9	47,2	16029	52,0	23072	50,8	43,9
Turkey Free Trade Areas	52	0,9	65	0,8	25,3	263	0,9	403	0,9	53,6
Selected Countries and Country Groups										
OECD	3713	64,8	5408	64,0	45,7	19262	62,5	28671	63,1	48,8
Germany	761	13,3	1175	13,9	54,4	3908	12,7	6053	13,3	54,9
Italy	483	8,4	637	7,5	31,9	2440	7,9	3295	7,3	35,1
France	345	6,0	597	7,1	72,9	1753	5,7	3150	6,9	79,7
USA	298	5,2	464	5,5	55,6	1639	5,3	2309	5,1	40,9
United Kingdom	276	4,0	370	4,8	71,0	1656	4,2	2036	5,3	68,5
Switzerland	284	5,0	286	3,4	0,9	1378	4,5	1573	3,5	14,2
Spain	193	4,0	288	4,8	71,0	846	4,2	1553	5,3	68,5
Other OECD	1073	18,7	1591	18,8	48,3	5641	18,3	8701	19,2	54,2
Middle East Countries	338	5,9	442	5,2	30,8	2196	7,1	2361	5,2	7,5
Russia	386	6,7	670	7,9	73,6	2284	7,4	3811	8,4	66,9
China	217	3,8	387	4,6	78,2	1026	3,3	2048	4,5	99,6

Source: SIS.

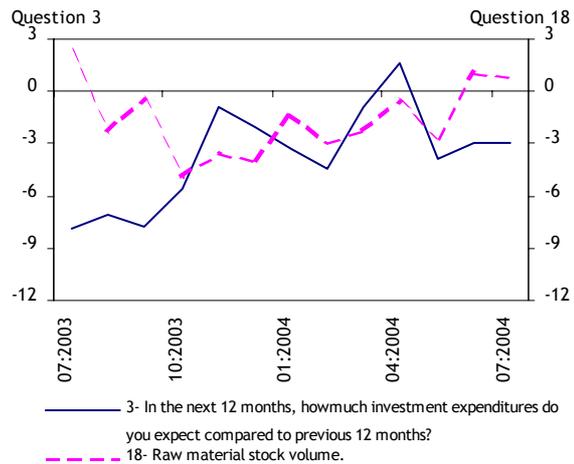
Outlook

43. An analysis of the domestic demand over the upcoming period according to the July results of the CBRT Business Tendency Survey reveals that private companies have expectations in favor of an increase but at a lower rate. Tendencies of investment expenditures and the volume of raw-material stock have not changed significantly compared to June.

IMPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

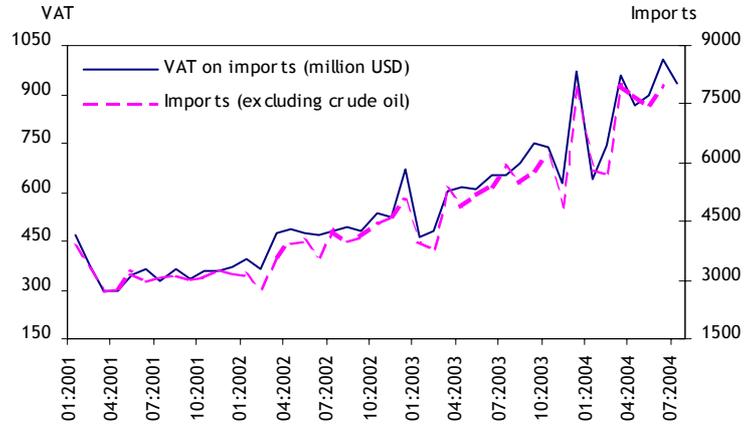


Source: CBRT Business Tendency Survey.

44. Timed imports increased from US dollar 8.4 billion of in the January-June period of 2003 to US dollar 11.6 billion in the same period of 2004. Since total imports grew by 47.3 percent while timed imports grew by 38.8 percent, the share of timed imports in total imports dropped to 25.6 percent. Meanwhile, timed exports that are calculated same way increased by 36.6 percent and reached 64 percent of total exports.

45. According to the VAT data for imports, in July imports are expected to realize around US dollar 8.3 billion.

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

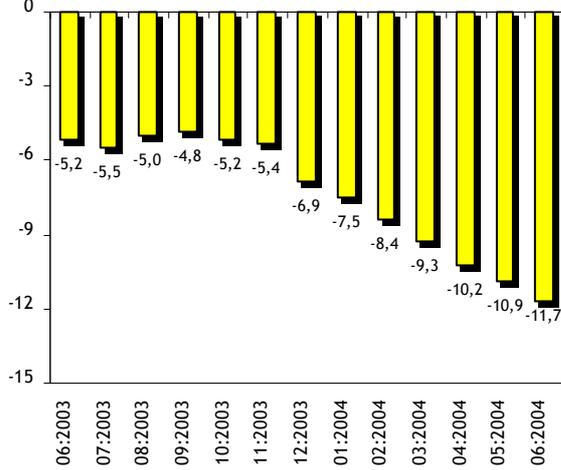


Source: Ministry of Finance, SIS.

IV. CURRENT ACCOUNTS

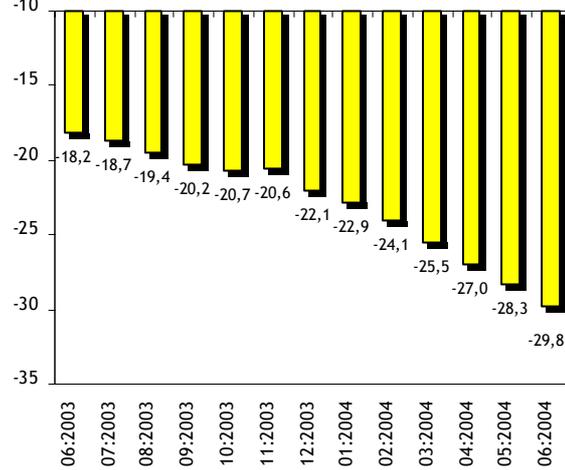
46. Current account balance yielded a deficit of US dollar 1.6 billion in June, amounting to a total deficit of US dollar 9.9 billion in the first half of the year. Thus, twelve-month current account deficit reached US dollar 11.7 billion.

CURRENT ACCOUNT BALANCE
(12 month, USD billion)



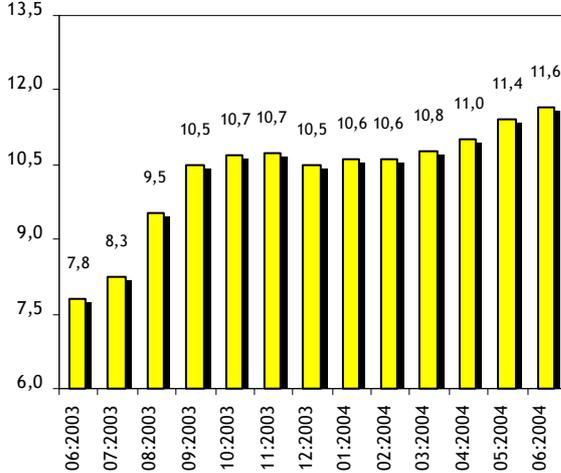
Source: CBRT.

FOREIGN TRADE BALANCE
(12 month, USD billion)



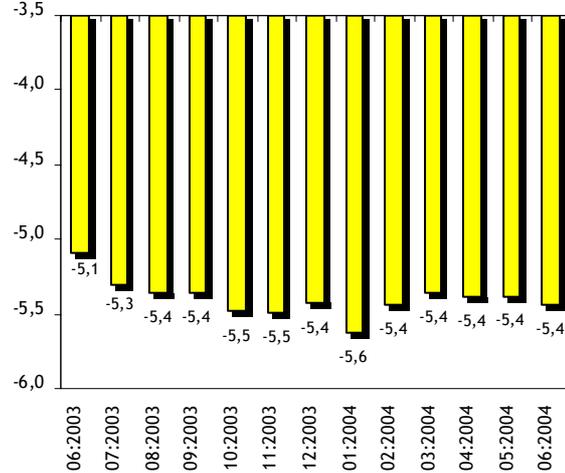
Source: CBRT.

SERVICES BALANCE
(12 month, USD billion)



Source: CBRT.

INVESTMENTS REVENUES BALANCE
(12 month, USD billion)



Source: CBRT.

47. In the first half of 2004, the main factor determining the current account deficit was foreign trade developments. Services revenues rose from US dollar 2.3 billion in the January-June period of 2003 to US dollar 3.5 billion in the same period of 2004 as a result of the significant rise in tourism revenues. Investment revenues produced a deficit of US dollar 2.8 billion, remaining the same as the previous year. Meanwhile, current transfers rose by 62.3 percent compared to the previous year due to the increase in workers' remittances and revenues of imports with waiver and reached US dollar 1.6 billion.

48. Compared to the previous year, volume of shuttle trade increased by 12.2 percent in January- June period of 2004. However, considering the base effect caused by the Iraq war in the same period of 2003, the rise in the volume of shuttle trade was rather limited.

CURRENT ACCOUNT (USD million)								
	2003							2004
	Jan-Jun	Jan	Feb	Mar	Apr	May	Jun	Jan-Jun
Current Account Balance	-5090	-903	-2125	-2147	-1869	-1338	-1563	-9945
Foreign Trade Balance	-5628	-1041	-1824	-2399	-2220	-2156	-2576	-12216
Total Exports	23395	4871	3942	5549	5414	5367	5367	30510
Total Imports	-29023	-5912	-5766	-7948	-7634	-7523	-7943	-42726
Services Balance	2345	390	158	392	549	1010	980	3479
Credit	5964	1125	913	1189	1428	1813	1943	8411
Debit	-3619	-735	-755	-797	-879	-803	-963	-4932
Income Balance	-2779	-451	-631	-382	-417	-521	-384	-2786
Credit	1211	271	229	268	147	183	181	1279
Debit	-3990	-722	-860	-650	-564	-704	-565	-4065
Current Transfers	972	199	172	242	219	329	417	1578
Wrokers' Remittances	289	81	54	58	63	64	54	374
<i>Memo items:</i>								
Shuttle Trade	1711	256	280	341	358	369	316	1920
Non Monetary Gold (net)	-1190	-214	-299	-290	-359	-227	-247	-1636
Travel Revenues	3460	602	503	608	773	1165	1332	4983
Interest Income	372	41	64	49	39	58	64	315
Interest Expenditure	-2277	-219	-412	-310	-262	-447	-282	-1932

Source: CBRT.

49. As a result of the regional instabilities in 2003, demand for processed gold increased in international markets, leading to a rise by 15 percent in prices. This trend in gold demand continued in the January-June period of 2004 as well. Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to 2002, rose by 37.5 percent in the first half of 2004.

50. Based on the figures announced by SIS, tourism revenues increased by 44 percent in the first half of 2004 compared to the previous year and reached US dollar 5 billion. Meanwhile, the number of tourists departing from Turkey rose by 44.1 percent in the same period.

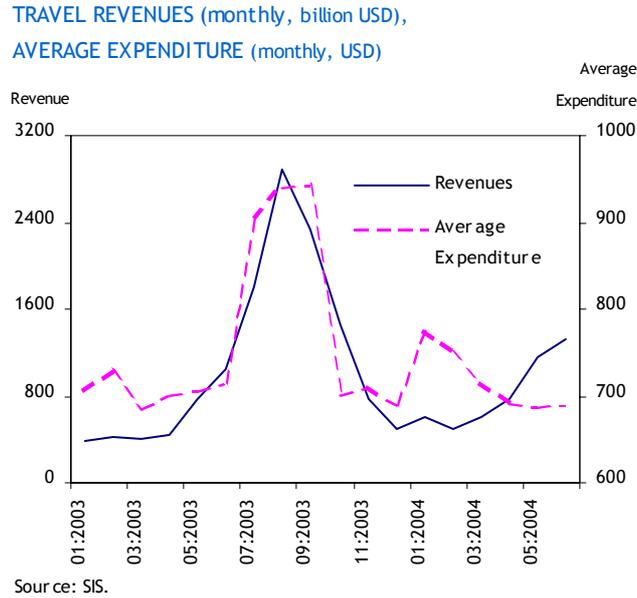
TRAVEL REVENUES								
	2003							2004
	Jan-Jun	Jan	Feb	Mar	Apr	May	Jun	Jan-Jun
Travel Revenues (USD million)	3460	602	503	608	773	1165	1332	4983
Number of Visitors (thousand)	4888	776	672	850	1118	1696	1932	7045
Average Spending (USD)	708	775	749	715	691	687	689	707

Source: SIS.

51. According to the results of SIS's Survey on Tourists Departures, US dollar 4.1 billion of the tourism revenues in this period consisted of revenues from foreigners, while US dollar 900 million of these revenues came from Turkish citizens living abroad.

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

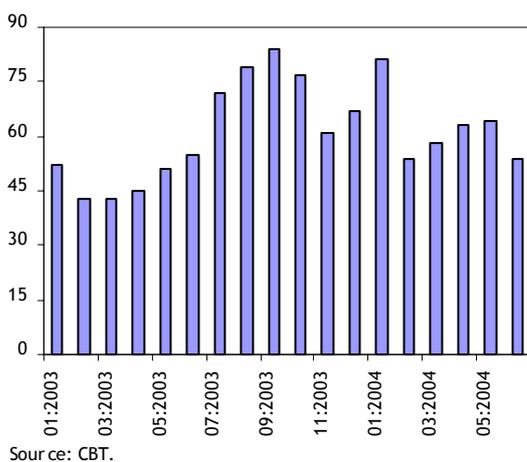
53. According to the transitory data published by the Ministry of Tourism, in July 2004 the number of foreigners entering Turkey increased by 21.8 percent, compared to the same month last year.



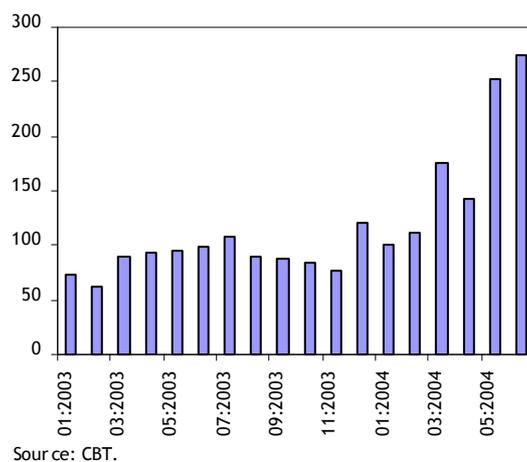
54. Investment revenues account produced a deficit of US dollar 2.8 billion in the January-June period of 2004. Portfolio investment expenditures and interest expenditures were the primary determinants of this deficit. In this period, interest expenditures decreased compared to 2003. This decline mainly stemmed from the drop in interest expenditures of the sectors except the Central Bank, the General Government and banks.

55. Imports with waiver also increased, in line with the rapid increase in imports. In the first half of 2004, imports with waiver reached US dollar 1.1 million, rising by 106 percent compared to the same period of 2003. In this period workers' remittances increased as well.

**WORKERS REMITTANCES: Private
(monthly, million USD)**



**IMPORTS WITH WAIVERS
(monthly, million USD)**



V. CAPITAL MOVEMENTS

56. The financial account provided a surplus of US dollar 90 million in June 2004. Excluding the IMF loans and official reserve changes, net capital inflow became US dollar 1.3 billion in June, US dollar 9.4 billion in the first half of the year and 12-month net capital inflow amounted to US dollar 13.2 billion.

57. While June 2004 staged capital inflow of US dollar 1 billion through portfolio investments, net errors and omissions item produced a surplus of US dollar 1,5 billion. Against a current account deficit of US dollar 9.9 billion, capital inflows through direct investments, portfolio investments and other investments were observed in the January-June period of 2004. Meanwhile, net errors and omissions item yielded a surplus of US dollar 3.2 billion in this period. As a consequence of these developments, official reserves increased by US dollar 847 million.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)

	2003							2004
	Jan-Jun	Jan	Feb	Mar	Apr	May	June	Jan-Jun
Capital and Financial Account	2948	2027	3012	-10	280	1342	90	6741
Financial Account	2948	2027	3012	-10	280	1342	90	6741
Direct Investments	220	60	320	-23	66	181	391	995
Portfolio Investments	859	1401	311	341	-216	194	1007	3038
Other Investments	2402	758	2085	-438	1832	-141	-541	3555
Reserve Assets	-533	-192	296	110	-1402	1108	-767	-847
Net Errors & Omissions	2142	-1124	-887	2157	1589	-4	1473	3204
<i>Memorandum items:</i>								
Short-term	3508	696	2100	-413	683	-57	-509	2500
Long-term	-1414	287	476	436	908	349	425	2881
IMF credit	308	-225	-491	-461	241	-433	-457	-1826

Source: CBRT.

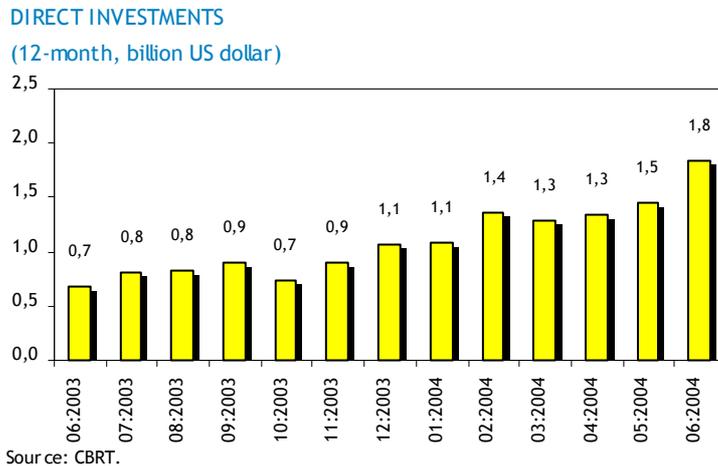
CAPITAL FLOWS (12-month. billion US dollar)



Source: CBRT.

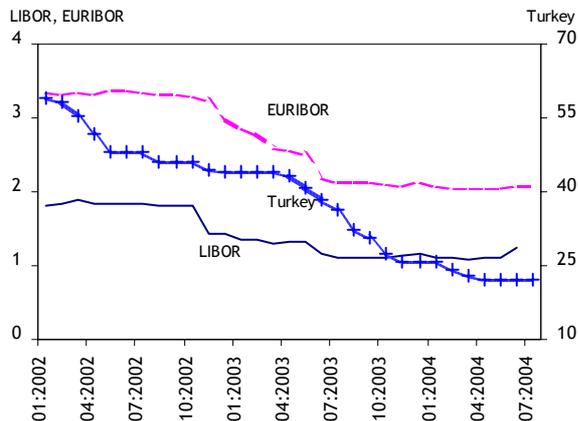
58. Analyzing capital movements by maturities, it is observed that long-term maturities displayed inflow whereas short-term maturities displayed outflow tendencies in June. Hence, US dollar 2.5 billion of capital inflow (excluding direct investments and portfolio investments) in the first half of the year was with short-term maturities, while capital inflows with long-term maturities constituted US dollar 2.9 billion of the total amount.

59. In January-June period, net direct capital investment amounting to US dollar 1 billion mainly originated from real estate purchases in Turkey by non-residents³ along with the loan which was utilized by a firm from abroad and was converted into capital in February. Net investments of residents made abroad increased by 85.6 percent in this period compared to the same period of the previous year and reached US dollar 401 million. Meanwhile, long-term credits extended to foreign companies by their affiliates abroad, which are registered under other capital items and accepted as direct capital investment, became net US dollar 84 million.



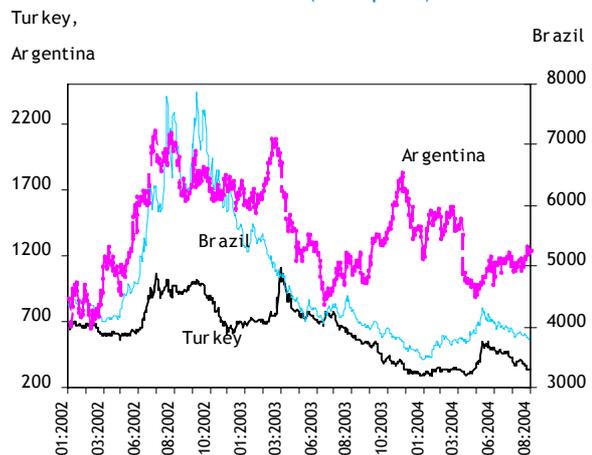
60. LIBOR and EURIBOR interest rates, which declined throughout 2003 in line with the policies adopted by central banks, followed a steady course in the first half of 2004. However, LIBOR interest rates started to increase following the implications by the Federal Reserve Bank of the USA for a likely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

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)



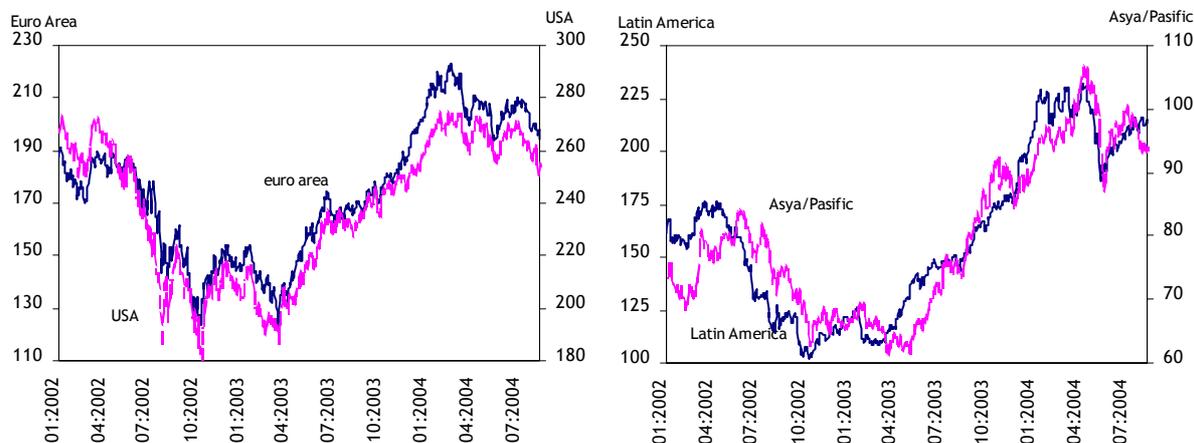
Spread: The difference between the returns on relevant country's government bonds and USA Treasury bonds.

Source: JP Morgan.

³ As of 2003 up to date, data on the real estate purchased in Turkey by non-residents are being reflected in Direct Investments/Real Estate item in line with the balance of payments methodology. The said data are compiled by using the data from the "Survey on Tourists Departing from Turkey" conducted by the State Institute of Statistics and the data obtained from the Title-Deed Department. Thus, net direct investments revised to US dollar 1.1 billion from US dollar 76 million in 2003. Consequently, net errors and omission item declined to US dollar 4 billion from US dollar 5 billion. The amount of real estate purchases made by non-residents reached US dollar 668 million in January-June 2004.

61. The Federal Reserve Bank of the USA increased the intended federal funds rate to 1.50 percent with rises by 0.25 points in June 30 and August 10, 2004 each. Similarly, the Bank of England announced the interest rates as 4.75 percent in August 5, 2004 with the fourth rise of 0.25 points it has made since the turn of the year.

DOW JONES EQUITY PRICE INDICES



Source: Dow Jones.

PORTFOLIO INVESTMENT (monthly, USD million)

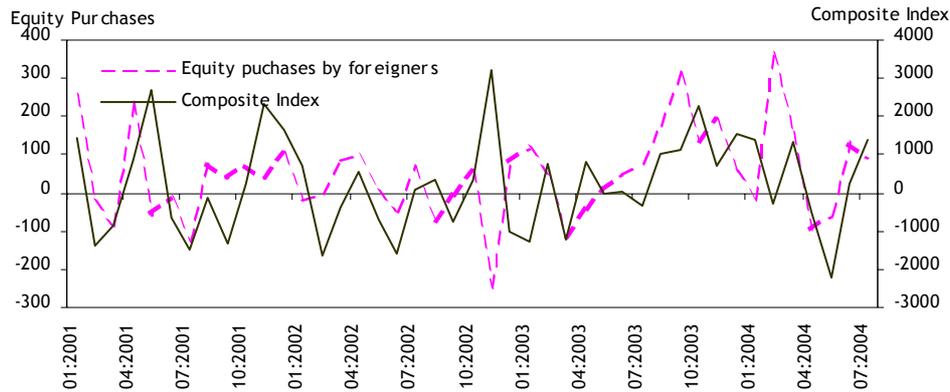
	2003							2004
	Jan-Jun	Jan	Feb	Mar	Apr	May	Jun	Jan-Jun
Portfolio Investment	859	1401	311	341	-216	194	1007	3038
Assets	-450	-105	-267	512	250	55	-148	297
General Government	-8	0	0	0	-6	-5	-4	-15
Banks	-209	224	-59	346	404	156	-24	1047
Other Sectors	-233	-329	-208	166	-148	-96	-120	-735
Liabilities	1309	1506	578	-171	-466	139	1155	2741
Equity Securities	67	-18	364	157	-96	-60	131	478
Debt Securities	1242	1524	214	-328	-370	199	1024	2263
Monetary Authority	0	0	0	0	0	0	0	0
General Government	1404	1524	214	-328	-370	199	1024	2263
In Turkey	-104	24	501	896	-370	199	274	1524
Abroad	1508	1500	-287	-1224	0	0	750	739
Banks	-162	0	0	0	0	0	0	0

Source: CBRT.

62. The increase in non-residents' demands for securities became the determining factor in portfolio movements in the first half of the year. Securities portfolio composed of non-residents' government securities and equity securities, increased by US dollar 1.1 billion, especially in March. In April, non-residents' net sales in the securities market led to a certain amount of net capital outflow in capital movements. The decline in non-residents' demands for equity securities continued in May, whereas a purchase-oriented movement was observed in equity securities and government securities market in June.

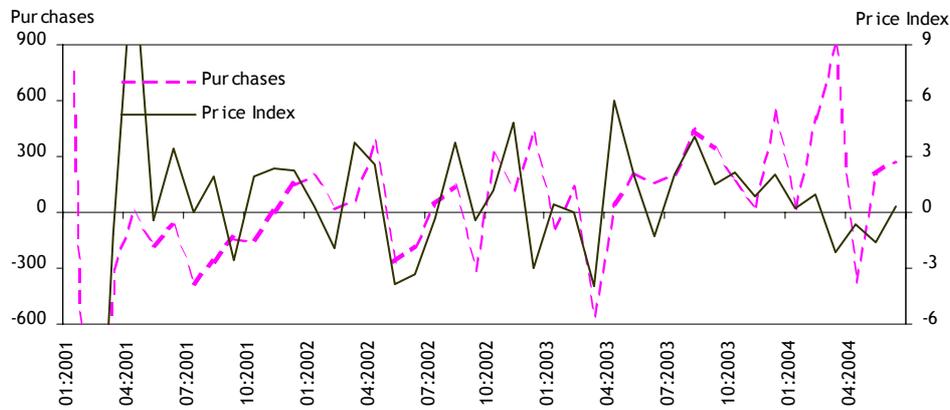
63. Non-residents continued to act as net borrowers in the equity securities market in July as well. According to the data compiled by the ISE, non-residents purchased net US dollar 89 million-worth of equity securities in this month. Meanwhile, the price index of government securities, which was on the rise as of the second half of 2003, picked up its upward trend in June and July again after declining in April-May period.

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



Source: CBRT, ISE.

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

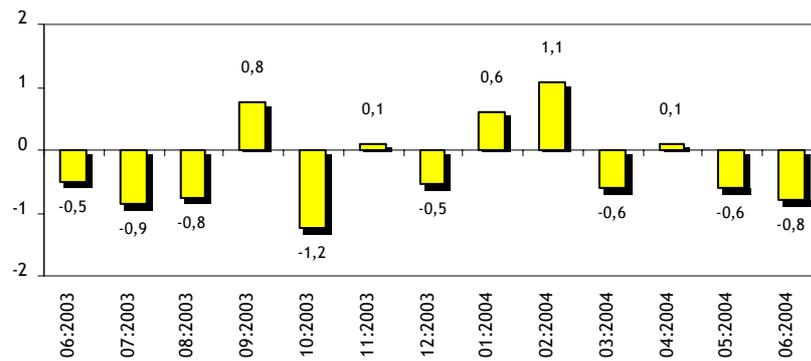


Source: CBRT, ISE.

64. The Treasury held a US dollar 750 million-worth of bond auction in June. Added to the US dollar 2.8 billion-worth of bond auction in the first quarter, the total amount auctioned in the first half of the year reached US dollar 3.5 billion. In the same period, the Treasury made a bond repayment of US dollar 2.8 billion.

65. The FX-holdings item composed of current and deposit accounts held by the banks with their correspondent banks abroad pursued a volatile course in the first six months of the year. During this period, FX assets of banks rose by US dollar 187 million leading to a capital outflow of the same amount.

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

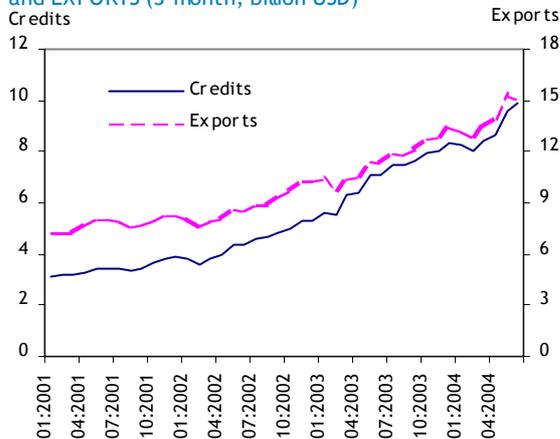


Source: LBKİ.

i (+) sign indicates a decrease.

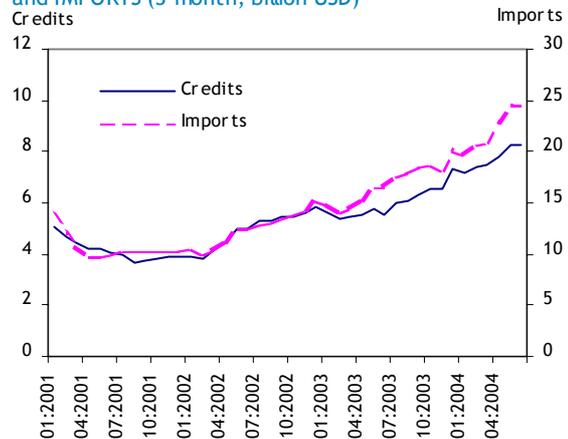
66. Rapid growth in foreign trade volume in the first half of the year stimulated commercial credit utilization as well. In this period, exports increased by 31.8 percent, while the volume of commercial credits extended abroad expanded by 36.6 percent. Similarly, commercial credit utilization boosted by 43.5 percent in the same period, while imports increased by 47.3 percent.

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



Source: CBRT, SIS.

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

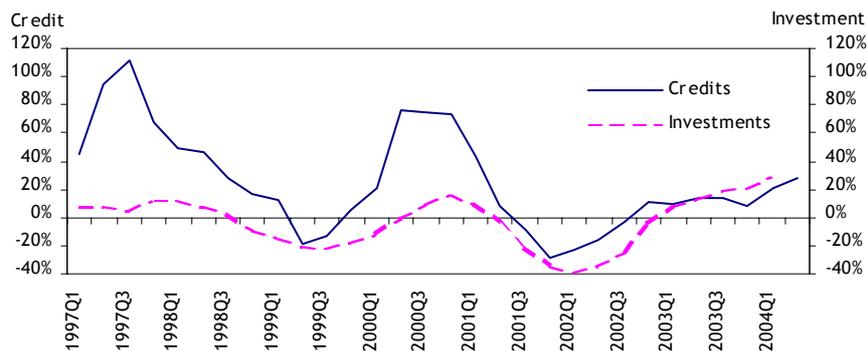


Source: CBRT, SIS.

67. The banking sector maintained its tendency to meet its financing needs through short-term credits in 2004 as well. The banks, which used net US dollar 2 billion-worth of short-term credits in 2003, utilized net US dollar 1.3 billion-worth of short-term credits in January-June 2004. A large portion of this amount was used in April-May period.

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

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



Source: CBRT, SIS.

69. In 2004, the Central Bank continued the repayment of the IMF loans used in 2001 and earlier. Thus, the total amount of repayment in January-June period reached US dollar 2.2 billion.

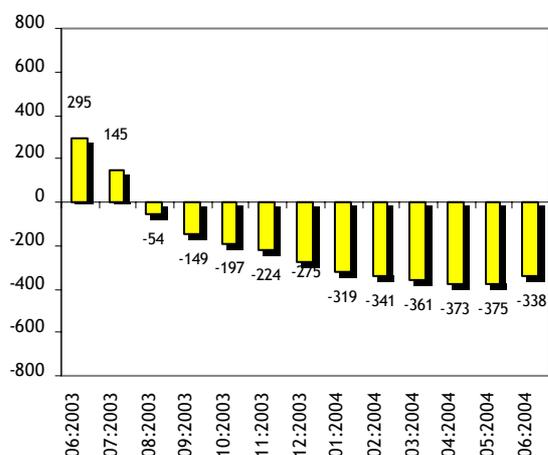
OTHER INVESTMENTS (monthly, USD million)								
	2003							2004
	Jan-Jun	Jan	Feb	Mar	Apr	May	Jun	Jan-Jun
Other Investment	2402	758	2085	-438	1832	-141	-541	3555
Assets	2146	547	1821	-1303	-271	-750	-1070	-1026
Trade Credits	-455	-191	590	-633	-376	-75	-340	-1025
Credits	-479	147	181	-17	30	-44	82	379
Currency and Deposits	3252	617	1078	-619	111	-594	-780	-187
Liabilities	256	211	264	865	2103	609	529	4581
Trade Credits	626	45	216	694	459	259	368	2041
Credits	-1327	241	59	180	1618	303	-188	2213
Monetary Authority	-269	-158	-491	-461	-194	-433	-457	-2194
General Government	-559	-166	-108	-286	664	-222	-324	-442
IMF Credits	577	-67	0	0	435	0	0	368
Long Term	-1136	-99	-108	-286	229	-222	-324	-810
Banks	-358	240	287	127	527	399	321	1901
Long Term	-305	-14	198	-149	37	50	523	645
Short Term	-53	254	89	276	490	349	-202	1256
Other Sectors	-141	325	371	800	621	559	272	2948
Long Term	-365	326	312	778	570	537	252	2775
Short Term	224	-1	59	22	51	22	20	173
Deposits	928	-75	1	-12	16	25	316	271
Monetary Authority	114	1	10	-5	-20	-36	-19	-69
Long Term	-75	-23	-8	-20	-28	-34	-25	-138
Short Term	189	24	18	15	8	-2	6	69
Banks	814	-76	-9	-7	36	61	335	340

Source: CBRT.

70. Long-term FX deposit accounts with credit letters and super FX accounts held at the Central Bank by the workers abroad have been displaying an outflow trend since April 2003. The interest rate cut-down operations, which intensified especially in the second half of 2003, are considered to be the primary factor in this outflow. The interest rates on these accounts were re-dropped as of March 1, 2004. On the other hand, the inflow in short-term accounts continued despite the step decline in recent months.

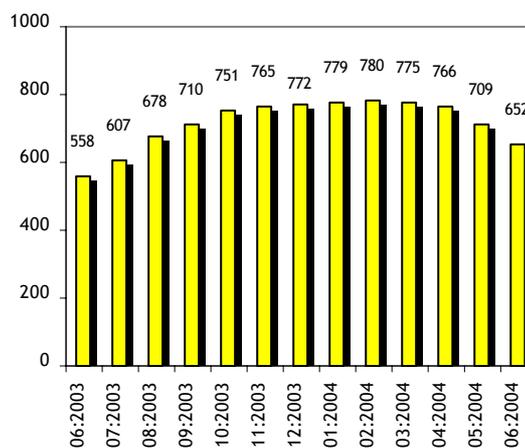
INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS (12-month, USD billion)

LONG TERM



Source: CBRT.

SHORT TERM



Source: CBRT.

71. The FX deposits held at domestic banks by residents abroad, which pursued an inflow course throughout 2003, declined in the first quarter of 2004. However, the said deposits re-started to rise in April-June period.

72. The Central Bank continued to hold foreign exchange buying auctions in March and April. However, these auctions were suspended as of April 27, 2004. Meanwhile, the Bank intervened in the markets on 11 May 2004 by directly selling foreign exchange due to the excess volatility in foreign exchange market. Central Bank FX reserves, which were US dollar 33.6 billion by the end of 2003, dropped to US dollar 32.4 billion by August 6, 2004.

73. External financing requirement, which is defined as the sum of the current account balance and the net errors and omissions item, became US dollar 6.7 billion in January-June 2004. Although the net errors and omissions item yielded a surplus in this period, financing requirement increased due to the widening current account deficit. Financing requirement was mainly met by portfolio movements, long-term credits and commercial loans used by non-banking private sector as well as short-term credits utilized by the banking sector.

74. Total external debt stock decreased by US dollar 525 million compared to 2003 and realized as US dollar 146.5 billion by the end of the first quarter of 2004. The decline in total external debt stock mainly stemmed from the decline in medium-long term debts, which constituted 83.7 percent of the total external debt stock. On the other hand, short-term external debts increased. In this period, the parity effect caused by the cross-parity changes led to a US dollar 1.2 billion drop in external debt stock. Hence, excluding the parity effect, external debt stock rose by US dollar 715 million. Meanwhile, monthly short-term debt stock announced by the Central Bank, which realized as US dollar 23.9 billion by the end of the first quarter, reached US dollar 26.1 billion by June 2004. The increase in short-term credits drawings by banks and short-term international commercial loans utilized by non-banking private sector for import financing became the determining factors in the expansion of short-term external debt stock.

75. Standard & Poor's raised Turkey's foreign currency long-term credit rating to BB- from B+ and local currency long-term credit rating to BB from BB- on August 17, 2004. Besides, Standard & Poor's affirmed foreign and local currency short-term credit ratings as B and the macroeconomic stability outlook as stable. Earlier, Fitch-IBCA had upgraded Turkey's credit rating to B+ from B and stated outlook as stable on February 9, 2004.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)								
	2003							2004
	Jan-Jun	Jan	Feb	Mar	Apr	May	Jun	Jan-Jun
1. Current Account Balance	-5090	-903	-2125	-2147	-1869	-1338	-1563	-9945
2. Net Error and Omission	2142	-1124	-887	2157	1589	-4	1473	3204
I. Total Financing Requirement (=1+2)	-2948	-2027	-3012	10	-280	-1342	-90	-6741
II. Total Financing (=1+2+3)	2948	2027	3012	-10	280	1342	90	6741
1. Capital Flows (net)	-79	1827	2129	960	1330	1261	2094	9601
Portfolio Investments (net)	859	1401	311	341	-216	194	1007	3038
General Government Bond Issues	1508	1500	-287	-1224	0	0	750	739
Foreigners' Buying of Bonds and Stocks in Turkey	-37	6	865	1053	-466	139	405	2002
Residents Buying of Bonds and Stocks Abroad	-450	-105	-267	512	250	55	-148	297
Credits (excl. IMF credits)	-1009	511	766	1335	1836	995	637	6080
General Government	-1136	-99	-108	-286	229	-222	-324	-810
Banks	-358	240	287	127	527	399	321	1901
Long Term	-305	-14	198	-149	37	50	523	645
Short Term	-53	254	89	276	490	349	-202	1256
Other Sectors	485	370	587	1494	1080	818	640	4989
Long Term	-365	326	312	778	570	537	252	2775
Short Term	224	-1	59	22	51	22	20	173
Trade Credits	626	45	216	694	459	259	368	2041
Deposits	928	-75	1	-12	16	25	316	271
Central Bank	114	1	10	-5	-20	-36	-19	-69
Banks	814	-76	-9	-7	36	61	335	340
Others	-857	-10	1051	-704	-306	47	134	212
2. IMF Credits	308	-225	-491	-461	241	-433	-457	-1826
Central Bank	-269	-158	-491	-461	-194	-433	-457	-2194
General Government	577	-67	0	0	435	0	0	368
3. Change in Reserves (- increase)	2719	425	1374	-509	-1291	514	-1547	-1034
Banks' FX Holdings	3252	617	1078	-619	111	-594	-780	-187
Official Reserves	-533	-192	296	110	-1402	1108	-767	-847

Source: CBRT.

VI. APPENDIX

CURRENT ACCOUNT (USD million)

Current Account											
	Net	Foreign Trade				Services		Income		Transfers	
		Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances
<i>(annual)</i>											
2000	-9819	-22410	27775	2946	-54503	11368	7636	-4002	-4825	5225	4560
2001	3390	-4543	31334	3039	-41399	9130	8090	-5000	-5497	3803	2786
2002	-1522	-8337	36059	4065	-51554	7879	8479	-4554	-4417	3490	1936
2003*	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
<i>(quarterly)</i>											
2002 I	-637	-956	7910	919	-10409	702	895	-1227	-1059	844	477
II	-809	-2260	8514	933	-12454	1698	2087	-1016	-1082	769	505
III	1030	-2329	9298	1090	-13529	3573	3813	-1078	-1116	864	539
IV	-1106	-2792	10337	1123	-15162	1906	1684	-1233	-1160	1013	415
2003 I	-2761	-2399	10366	757	-14368	683	1201	-1531	-1171	486	138
II	-2329	-3229	11318	954	-16470	1662	2259	-1248	-1106	486	151
III	1391	-4088	12180	1082	-18448	6241	7032	-1345	-1134	583	235
IV	-3151	-4318	13389	1160	-20054	1919	2711	-1303	-1175	551	205
2004 I	-5175	-5264	13485	877	-20872	940	1713	-1464	-941	613	193
II	-4770	-6952	15105	1043	-24561	2539	3270	-1322	-991	965	181
<i>(monthly)</i>											
2003 Jul	-234	-1388	4236	274	-6267	1438	1811	-493	-262	209	72
Agu	920	-1385	3829	402	-5975	2623	2880	-505	-524	187	79
Sep	705	-1315	4115	406	-6206	2180	2341	-347	-348	187	84
Oct	88	-910	4824	451	-6575	1185	1454	-360	-315	173	77
Nov	-431	-608	3970	355	-5245	612	767	-582	-500	147	61
Dec	-2808	-2800	4595	354	-8234	122	490	-361	-360	231	67
2004 Jan	-903	-1041	4615	256	-6288	390	602	-451	-219	199	81
Feb	-2125	-1824	3662	280	-6132	158	503	-631	-412	172	54
Mar	-2147	-2399	5208	341	-8452	392	608	-382	-310	242	58
Apr	-1869	-2220	5056	358	-8117	549	773	-417	-262	219	63
May	-1338	-2156	4998	369	-7998	1010	1165	-521	-447	329	64
Jun	-1563	-2576	5051	316	-8446	980	1332	-384	-282	417	54
<i>(12-month)</i>											
2003 Jul	-5473	-11193	42451	3922	-61196	8263	9642	-5299	-4546	2756	1111
Agu	-4993	-11798	43304	3926	-62752	9539	11072	-5359	-4567	2625	1014
Sep	-4805	-12508	44201	3916	-64448	10492	12176	-5357	-4571	2568	939
Oct	-5151	-12791	45524	3955	-66193	10677	12652	-5477	-4606	2440	898
Nov	-5356	-12711	45900	3928	-66476	10743	12984	-5490	-4561	2102	807
Dec	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
2004 Jan	-7531	-14607	48334	4046	-71202	10619	13428	-5631	-4596	2088	758
Feb	-8392	-15713	49072	4028	-73148	10617	13513	-5441	-4537	2145	769
Mar	-9264	-16899	50372	4073	-75844	10762	13715	-5360	-4356	2233	784
Apr	-10237	-18160	51766	4144	-78750	11025	14046	-5390	-4306	2288	802
May	-10857	-19330	52904	4154	-81216	11396	14438	-5386	-4267	2463	815
Jun	-11705	-20622	54159	4162	-83935	11639	14726	-5434	-4241	2712	814

Source: CBRT.

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

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Liabilities							Deposits	
					Equity Securities	Debt Securities			Net	Trade Credits	Credits			Deposits			
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
	(annual)																
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1719	-1719	2769	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1373	1373	863	-593	-2096	-16	1519	7256	594	8033	2483	-6138	11834	-1028	437	1336	-988
2003	2862	2862	1063	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
	(quarterly)																
2002 I	2157	2157	95	-59	-1232	66	1107	3821	1778	2391	274	-6138	8752	-443	43	402	-502
II	236	236	312	-736	-265	50	-521	1349	-112	1903	743	0	769	252	239	195	-332
III	-1633	-1633	236	-468	-245	-22	-201	1413	-486	2406	738	0	2617	-1184	-76	614	-362
IV	613	613	220	670	-354	-110	1134	673	-586	1333	728	0	-304	347	231	125	208
2003 I	4192	4192	137	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1244	-1244	83	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1269	-1269	457	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	1183	1183	386	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	5029	5029	357	2053	140	503	1410	2405	1076	1340	955	-1110	-560	654	1496	6	-92
II	1712	1712	638	985	157	-25	853	1150	-1263	3241	1086	-1084	118	1247	1452	-75	432

Source: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD million)

Capital and Financial Account																	
Net	Financial Account																
	Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
			Net	Assets	Liabilities		Net	Currency and Deposits	Net	Trade Credits	Liabilities				Deposits		
					Equity Securities	Debt Securities					Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks	
(monthly)																	
2003 Jul	44	44	124	-242	67	77	-386	645	-870	1592	310	0	-150	630	232	108	438
Agu	-416	-416	230	632	21	174	437	152	-752	903	52	-348	445	364	174	148	43
Sep	-897	-897	103	1217	-692	311	1598	1170	760	521	208	-118	-289	257	340	66	36
Oct	-170	-170	115	253	173	131	-51	-1899	-1238	-274	486	-191	-237	33	198	43	-614
Nov	357	357	153	-552	-316	192	-428	-1086	104	-1365	-123	-430	-211	-348	-285	12	19
Dec	996	996	118	402	-189	57	534	1893	-532	2630	622	-123	236	1397	357	6	135
2004 Jan	2027	2027	60	1401	-105	-18	1524	758	617	211	45	-158	-166	240	325	1	-76
Feb	3012	3012	320	311	-267	364	214	2085	1078	264	216	-491	-108	287	371	10	-9
Mar	-10	-10	-23	341	512	157	-328	-438	-619	865	694	-461	-286	127	800	-5	-7
Apr	280	280	66	-216	250	-96	-370	1832	111	2103	459	-194	664	527	621	-20	36
May	1342	1342	181	194	55	-60	199	-141	-594	609	259	-433	-222	399	559	-36	61
Jun	90	90	391	1007	-148	131	1024	-541	-780	529	368	-457	-324	321	272	-19	335
(12-month)																	
2003 Jul	2163	2163	805	796	-968	-52	1816	4315	2005	3950	2016	-269	540	-381	30	752	1173
Agu	2383	2383	823	1578	-734	198	2114	3343	675	4054	1999	-617	-690	763	392	624	1487
Sep	2292	2292	897	3136	-1408	519	4025	5042	1804	4605	1924	-735	-857	1240	836	561	1539
Oct	1895	1895	738	2798	-1455	594	3659	3234	1021	3753	2287	-926	-1025	1024	1058	554	682
Nov	2086	2086	894	2306	-1345	1033	2618	1624	956	2099	1865	-1356	-1144	973	516	541	603
Dec	2862	2862	1063	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
2004 Jan	3707	3707	1082	2862	-1273	872	3263	1993	-237	4046	2272	-1637	-763	2023	985	460	598
Feb	4456	4456	1360	3554	-1653	1184	4023	3082	381	4019	2518	-2128	-691	2086	1279	439	420
Mar	3699	3699	1283	4697	-1317	1460	4554	2213	-2253	5429	2823	-2476	-770	1929	3180	414	229
Apr	3853	3853	1346	4773	-938	1406	4305	3550	-1908	6598	3243	-2670	-587	2639	3549	393	-76
May	6017	6017	1458	4375	-806	1337	3844	4259	-2447	7843	3359	-3064	-651	3814	3784	334	150
Jun	6655	6655	1838	4748	-639	1420	3967	4430	-2715	8588	3596	-3404	-648	4234	3964	314	397

Source: CBRT.