

CENTRAL BANK OF THE REPUBLIC OF TURKEY

**BALANCE OF PAYMENTS
REPORT**



March 2004

SUMMARY

BALANCE OF PAYMENTS (USD million)						
	March			January-March		
	2003	2004	% Change	2003	2004	% Change
Current Account Balance	-1275	-2029	..	-2761	-5035	..
Foreign Trade Balance	-1847	-3108	68,3	-4002	-7209	80,1
Exports	3908	4999	27,9	10366	13004	25,4
Imports	-5756	-8107	40,9	-14368	-20213	40,7
Exports/Imports	67,9%	61,7%	..	72,1%	64,3%	..
Capital and Financial Accounts	694	-123	..	4038	4838	..
Financial Account (Excl. Off. Reserves)	-370	-233	..	3377	4624	..
Change in Official Reserves†	1064	110	..	661	214	..

Source: CBRT.

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

In March 2004;

Exports increased by 27.9 percent compared to the same month of the previous year and rose to US dollar 3.9 billion from US dollar 5 billion. During the same period, imports rose by 40.9 percent from US dollar 5.8 billion to US dollar 8.1 billion. Hence, foreign trade deficit realized as US dollar 3.1 billion and the ratio of exports to imports became 61.7 percent. Current account yielded a deficit of US dollar 2 billion, while financial account excluding official reserves produced a deficit of US dollar 123 million.

In the January-March 2004 period;

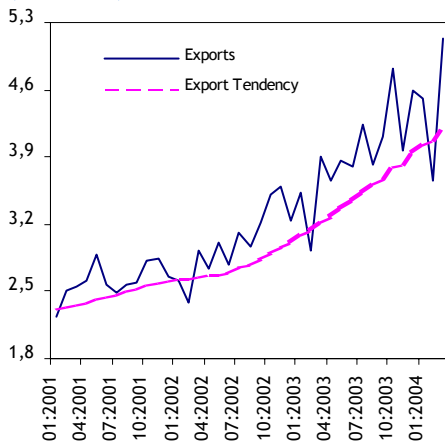
Exports increased by 25.5 percent compared to the same period of the previous year and rose from US dollar 10.4 billion to US dollar 13 billion. During the same period, imports rose by 40.7 percent from US dollar 14.4 billion to US dollar 20.2 billion. Hence, foreign trade deficit realized as US dollar 7.2 billion and the ratio of exports to imports dropped compared to the previous year and became 64.3 percent. Current account yielded a deficit of US dollar 5 billion, while financial account excluding official reserves provided a surplus of US dollar 4.8 billion.

In the twelve-month period;

Exports increased by 29.5 percent in the twelve-month period compared to the same period of the previous year and rose to US dollar 49.9 billion. During the same period, imports rose by 35.4 percent to reach US dollar 75.2 billion. Hence, foreign trade deficit and the ratio of exports to imports realized as US dollar 25.3 billion and 66.4 percent, respectively. Current account yielded a deficit of US dollar 9.1 billion while financial account excluding official reserves produced a surplus of US dollar 7.2 billion.

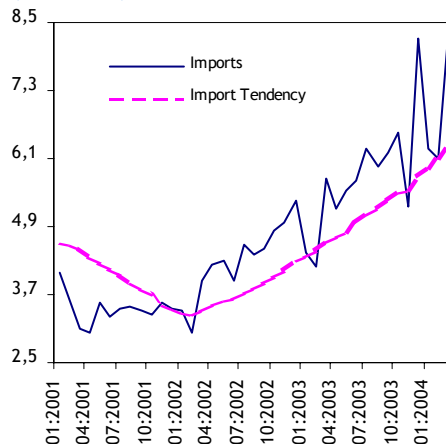
SUMMARY

EXPORTS (USD billion)



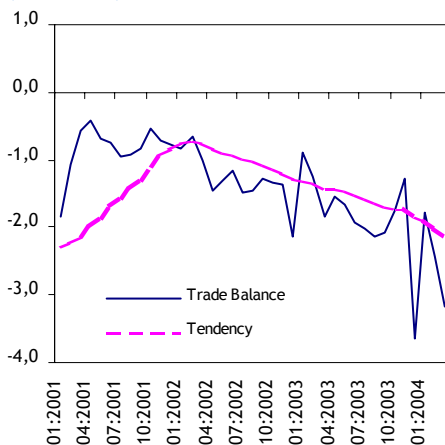
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IMPORTS (USD billion)



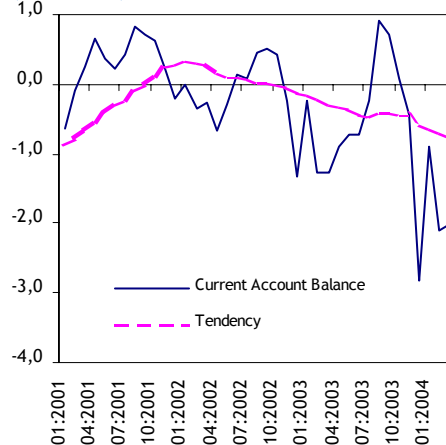
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TRADE BALANCE (USD billion)



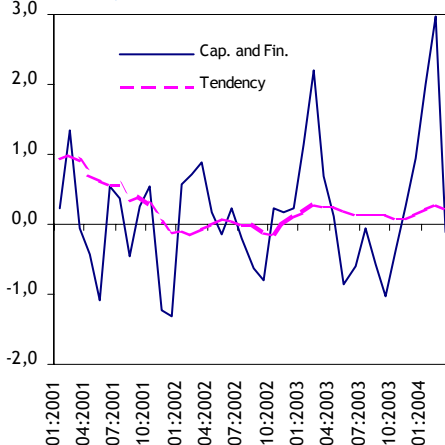
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CURRENT ACCOUNT BALANCE (USD billion)



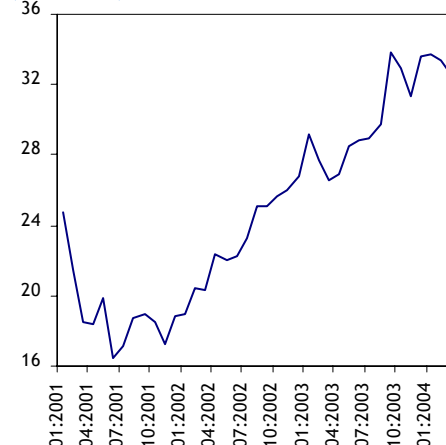
Sour ce: CBRT.

CAPITAL and FINANCIAL ACCOUNT (USD billion)



Sour ce: CBRT.

CBRT INTERNATIONAL RESERVES (USD billion)



Sour ce: CBRT.

Trends are calculated with 12-month moving average.

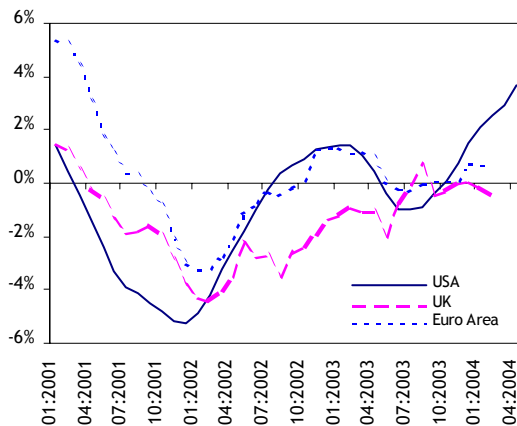
I. FACTORS AFFECTING FOREIGN TRADE

Foreign Demand Developments

1. Global economic growth, which pursued an upward course as of the second half of 2003, maintained its pace in an accelerated manner in the first quarter of 2004. The recovery in the US economy, the continuation of strong growth in the emerging economies of Asia, especially in China, the ending of contraction process in the Japanese economy and the revival in world trade were the driving engines in global growth. However, growth is still at limited levels in Continental Europe due to weak domestic demand and household expenditures. In this context, international organizations revised their projections for global growth for the years 2004 and 2005 upward. International Monetary Fund forecasts world economy to grow by 4.6 percent and 4.4 percent for 2004 and 2005, respectively. Meanwhile, Organization for Economic Cooperation and Development (OECD) announced its average growth forecasts for member countries to be 3.4 percent for 2004 and 3.3 percent for 2005.¹

INDUSTRIAL PRODUCTION

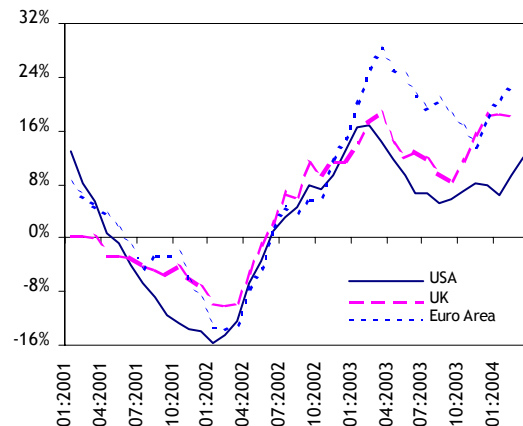
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

IMPORTS

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



Source: IMF, ECB.

2. The US GDP, which increased by 3.1 percent in 2003, grew by 5 percent in the first quarter of 2004 compared to the same period of the previous year due to the upsurge in private consumption expenditures, software/hardware and other private investments and public expenditures as well as the rise in exports. However, the Federal Reserve announced that it might increase the interest rates against a likely cost-push pressure resulting from rising crude oil prices and a probable pressure on inflation arising from the recovery in economic activity.

3. The effects of the recovery in the world economy have not spread throughout the euro area well enough. Data on strong economies in the euro area for the first quarter of 2004 indicate that the expected recovery in the economy has not realized yet. Meanwhile, surveys on real sector give positive signals for the second quarter of the year. High inflation figures for the euro area together with the rise in crude oil prices diminishes the possibility of an interest rate cut by the European Central Bank. Moreover, it is expected that the global growth will continue and the expansionary trend in world trade volume will have a favorable effect on euro area exports.

4. Despite the improvement in consumer confidence in euro area, especially in France, consumer confidence persists to remain below the long-term average in overall euro area. Euro area GDP grew by 1.3 percent in the first quarter of 2004 compared to the same period of the previous year. The rate of growth in imports and investment expenditures slowed

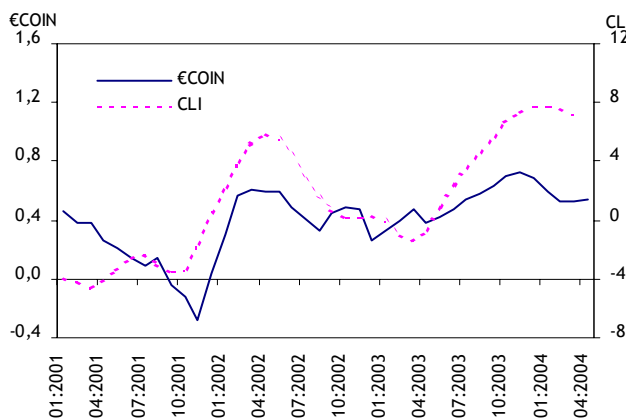
¹ IMF "World Economic Outlook" April 2004, OECD "Economic Outlook No: 75" May 2004.

down despite the acceleration in exports observed in this period. As of April, unemployment rate became 9 percent, while consumer prices rose by 2 percent compared to the same month of the previous year. Meanwhile, inflation rate is estimated to have increased to 2.5 percent in May.

5. May Inflation Report issued by the Bank of England attributes the decline in the economic growth rate in the first quarter of the year to the slowdown in services and manufacturing industry sectors observed in the first quarter of the year. Nevertheless, the report also states that the upward trend in investments and the business surveys, pointing at a strong growth in the coming periods, may exert pressure on the 2004 inflation target. In the light of this probability, the Bank of England raised the borrowing interest rates by a quarter point in May 2004 as well following the February rise. Moreover, increasing domestic demand, the appreciation of sterling and higher imports prices are expected to exert an upward pressure on the inflation rate in 2004. Britain's GDP grew by 2 percent in the first quarter of the year compared to the same period of 2003.

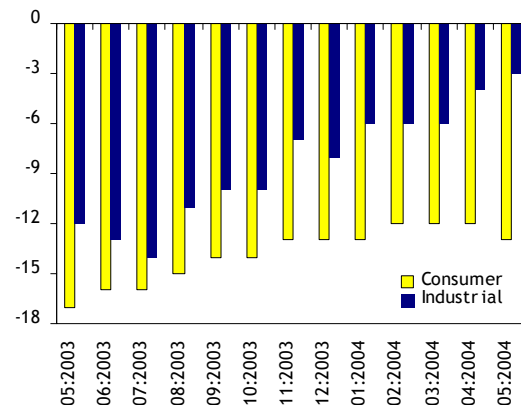
6. Japanese economy maintained its revival trend of 2003 in early 2004 as well. The budge in exports and investments continue to play a key role in economic growth. Besides, the deflationary process that has being observed in the Japanese economy since 2002 is gradually disappearing. Furthermore, Bank of Japan announced on April 28 that there would be no change in its monetary policy. Economic growth is expected to continue in Japan in 2004 due to increasing exports as well as the expected recovery in fixed capital investments and consumption.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU
(seasonally adjusted)



Source: Eurostat.

7. Composite Leading Indicators (CLI) issued by OECD for March reveal that the recovery in the economic performance of OECD countries would continue in the next 6-8 months. These indicators foresee a slowdown in the economic performance of USA and euro area, whereas they expect economic recovery in Japan and Italy.

8. Coincident Indicator (EuroCOIN), which provides quarterly GDP growth expectations for the euro area, points at a limited revival in the economic activity in the Euro area in April.

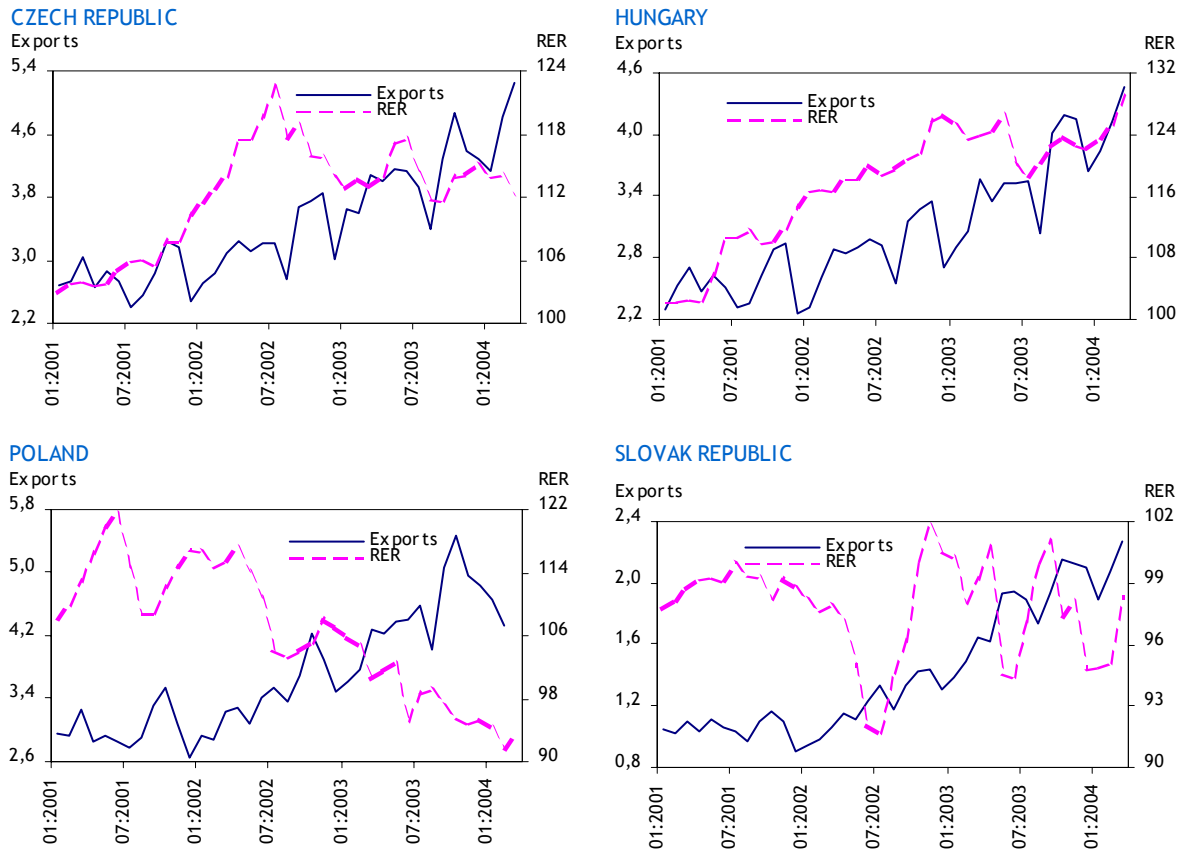
9. GDP of Czech Republic, one of the new EU members, grew by 2.9 percent in 2003. While final consumption expenditures and fixed capital investments were the determinants of growth, net exports adversely affected economic growth. In line with the depreciation of national currency in real terms, exports entered into upward trend. Economic revival continued in early 2004. Hence, industrial production increased by 5.9 percent on an annual basis in January. On the contrary, consumer prices gained pace in this month and annual inflation rate reached 2.3 percent.

10. Growth observed in Polish economy in 2003 mainly originated from exports in the manufacturing industry. Poland's GDP grew by 4.7 percent in the last quarter of the year and by 3.7 percent in overall 2003. Ongoing downward trend in real exchange rates since

2002 was the main determinant of the increase in exports. Meanwhile, the 14.3 percent increase in industrial production in January compared to the previous year shows that the high level of growth has continued in early 2004 as well.

11. Hungarian GDP growth rate, which was 3.5 percent in 2002, declined to 2.9 percent in 2003. The underlying factor in growth was the private consumption expenditures supported by expansionary fiscal policies. Industrial production increased by 6.4 percent during this period. Besides, the ratio of current account deficit to GDP displayed a rapid increase and realized as 5.5 percent due to the acceleration in imports and the decline in tourism revenues. The financing of the current account deficit was provided mainly via external borrowing.

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



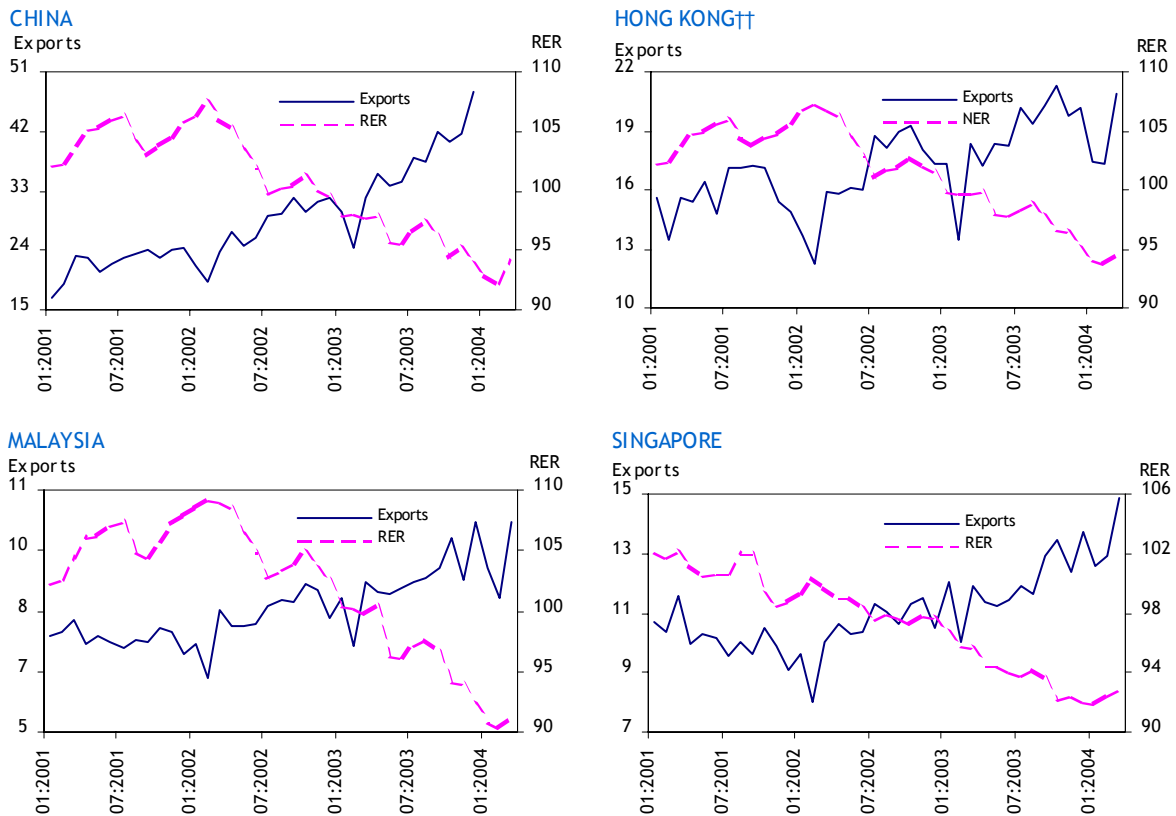
† Increase in real exchange rate implies appreciation in domestic currency.
Source: IMF.

12. In 2003, the 7 percent-growth observed in developing Asian economies stemmed from the rise in domestic demand and the hike in exports. In 2004, these economies are expected to maintain their growth performance as a result of the revival in the world economy.

13. Chinese economy, one of the East Asian economies, displayed a high growth in 2003 as well. According to the provisional data, the Chinese economy grew by 9.1 percent in 2003. The revival in OECD countries and the direction of production to China from high-cost regions stood as the main determinants in the economic growth. The economic growth continued at the beginning of 2004 as well. In the first quarter of the year, the Chinese GDP grew by 9.9 percent compared to the last year.

14. The rapid growth in Chinese economy pioneered the general economic revival in the region. In South Korea, industrial production rose by 11.9 percent in the last quarter of the year. The upsurge in exports stemming from foreign demand and the depreciation in domestic currency were the determining factors in the economic revival, whereas stagnation in consumption and investment expenditures is still persisting. Malaysia and Thailand also enjoyed a rapid acceleration in exports in the second half of 2003. In Singapore, a significant recovery in domestic demand accompanied the boost in exports.

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



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

†† 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

15. GDP increased by 6.1 percent in the last quarter of 2003 compared to the same period of the previous year. Economic growth became 5.8 percent in 2003. 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 last quarter of 2003. High rates of growth in GNP both in 2002 and 2003 and high level of GNP in 2003 compared to 2000 became outstanding developments on the way towards economic stability and sustainable growth after the crises.

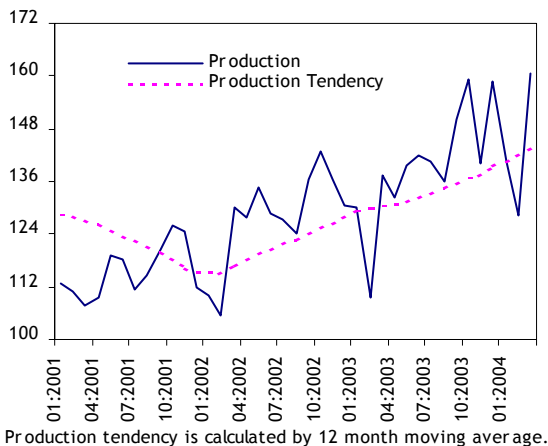
16. Analyzing the economic growth with respect to production, agricultural sector value added displayed a decline in the last quarter of 2003 compared to the same period of the last year, while the developments in the industrial sector became the determining factors in GDP growth. During this period, the increase in the construction sector value added compared to the same period of the last year for the first time since end-2002 is considered a favorable development for the sectoral revival that delayed due to the earthquakes and the economic crises. When the economic growth is analyzed as to demand composites, it is observed that private expenditures made the largest contribution to GDP growth in the last quarter of 2003. The recovery in private expenditures mainly derived from durable goods-oriented consumption expenditures and machinery-equipment investments. On the other hand, public expenditures failed to contribute to growth because of tight fiscal policy, while net export composite had an unfavorable effect on growth due to ongoing rise in imports in this period.

17. Production continued its upward trend in the first quarter of 2004. According to SIS Monthly Industrial Production Index, total industrial and manufacturing industry productions increased by 14.9 percent and 17 percent, respectively, in March 2004 compared to the same month of the previous year. First quarter averages reveal that growth in the manufacturing industry realized as 13.9 percent. Excluding the oil products, annual rate of increase in total industrial production became 17 percent. Furthermore, excluding

seasonal factors, it is noted that industrial production is maintaining its favorable course. In this context, total industrial and manufacturing industry productions rose by 2.2 and 2.6 percent, respectively, compared to the previous month according to the seasonally adjusted data. The positive developments in the machinery-equipment and office tools sectors indicate that investment expenditures, which are of great importance with respect to the sustainability of the increase in exports and productions, continued to rise. Moreover, high-rated increases in the production of durable goods and transportation vehicles continued in this period.

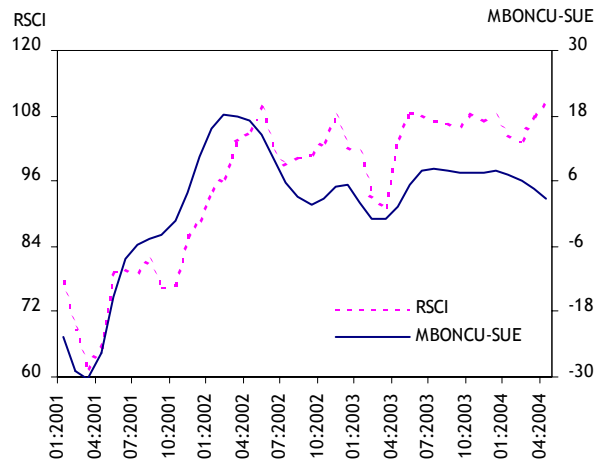
18. Surveys for April 2004 indicate that industrial production will continue to rise in this period. According to SIS Monthly Industrial Production Index, total manufacturing industry production grew by 16.5 percent in April compared to the same month of the previous year.

MANUFACTURING INDUSTRY PRODUCTION
(1994=100)



Production tendency is calculated by 12 month moving average.
Source: SIS.

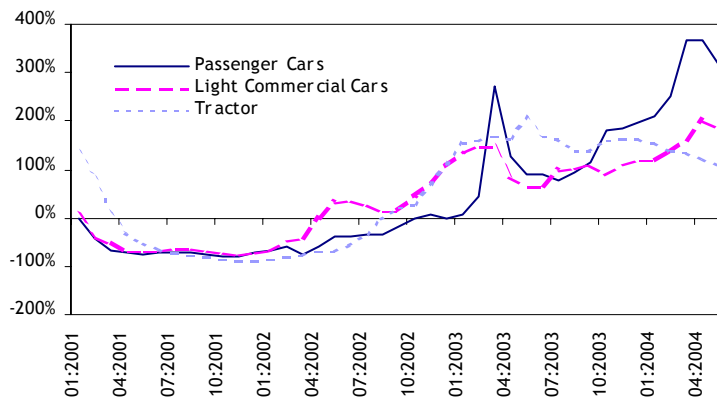
LEADING INDICATORS for TURKEY: RSCI, MBONCU-SUE (6-month % change)



Source: CBRT.

19. Despite a slight decrease, the six-month rate of change in the composite leading indicators index (CBLEADING-IPI) compiled by the Central Bank of the Republic of Turkey preserves its high level in April. The leading indicator reveals that the increase of rate in industrial production will pursue a consistent course with growth forecast for 2004. Meanwhile, real sector confidence index (CBRSCI), which displayed an upward trend as of March, maintained its course in April. The value of the index that has remained above 100 since the second half of 2003 points at ongoing confidence of real sector in the industrial production.

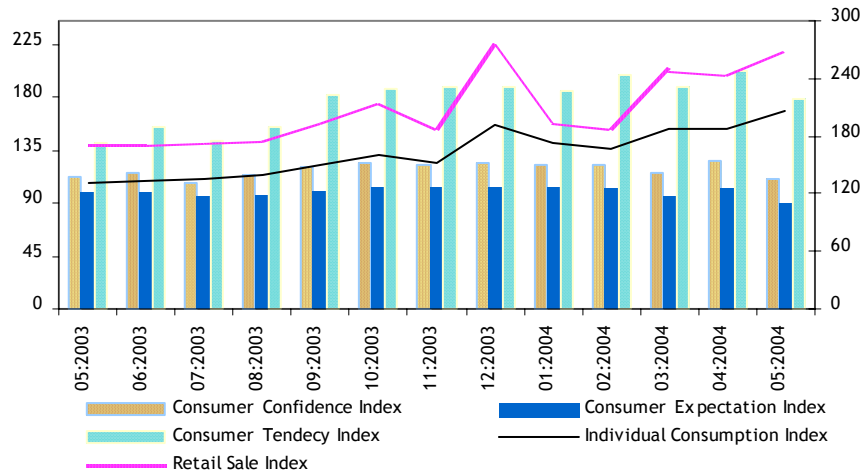
TRANSPORTATION VEHICLES SALES: GROWTH RATE
(3-month moving average, annual % change)



Source: Automobile Industry Association.

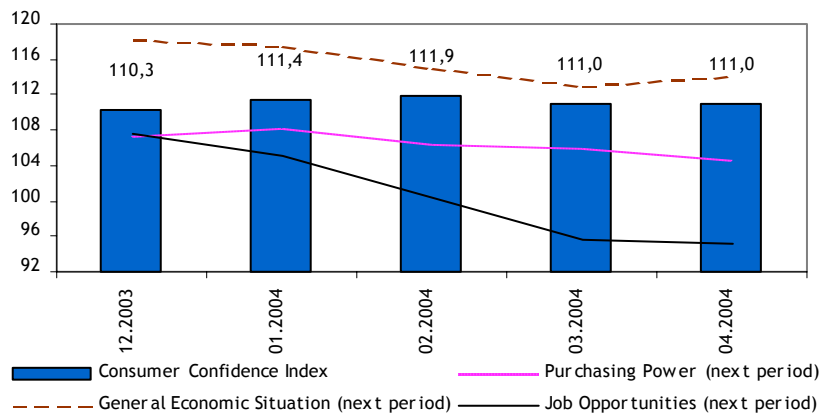
20. The rapid upsurge in consumer credit utilization was one of the determining factors that led the automobile sales recorded in the first four months of 2004 to reach its highest level in history. Moreover, an obvious hike in the sales of light commercial vehicles since the beginning of 2004 that had used to pursue a rather modest course compared to automobile sales is remarkable. Sales of light commercial vehicles are considered to be significant indicators of the revival observed in services and manufacturing industry sectors.

CNBC-e INDICES (January 2002=100)



Source: NTVMSNBC.

CONSUMER TENDENCY SURVEY



Source: CBRT, SIS.

21. Leading indicators of consumption demand such as consumer expectation and consumption tendency indices compiled by CNBC-e maintain their high levels despite the decline in May in general.

22. According to the Consumer Tendency Survey results for April, which are compiled by the Central Bank and SIS, consumers' assessments concerning their purchasing power and employment opportunities in the present and upcoming periods deteriorated compared to the previous month, whereas their assessments for general economic situation in the next period and the buying time condition for durable goods in the present period improved.

Prices

23. Turkish Lira, which appreciated against nominal foreign exchange rate basket composed of USD 1 + 0.77 Euro in the first quarter of 2004, depreciated by 1.6 and 11 percent in April and May, respectively, compared to the previous month. Meanwhile, CPI-based real exchange rate index declined by 9.2 percent compared to the previous month due to the high-rated increase in nominal exchange rate in May. WPI-based real foreign exchange index fell by 9.1 percent in May.

REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)†

	2003												2004				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Turkey																	
CPI based	-4,9	2,9	0,7	3,6	6,2	3,5	3,2	1,4	2,9	-5,7	-1,7	0,1	4,6	1,4	3,4	-1,1	-9,2
WPI based	-2,9	3,6	0,6	4,0	4,1	1,6	3,1	1,1	1,1	-6,4	-1,8	-0,1	6,3	2,4	4,7	1,1	-9,1
Czech Republic	-0,9	0,8	-0,6	0,7	2,8	0,3	-2,8	-2,2	-0,2	2,1	0,2	0,8	-1,0	0,0	-1,6		
Slovakia	-0,3	-2,3	1,1	1,6	-6,1	-0,2	2,9	3,0	1,0	-3,7	0,8	-3,4	0,1	0,2	3,5		
Hungary	-1,1	-1,5	0,5	0,4	1,7	-5,0	-1,3	1,5	1,7	1,1	-0,9	-0,5	1,1	1,5	3,1		
Poland	-1,1	-1,0	-4,1	1,2	0,8	-7,1	3,9	0,5	-2,0	-1,6	-0,8	0,5	-1,2	-2,8	1,5		
Hong Kong ††	-1,6	-0,1	0,0	0,2	-2,0	-0,2	0,6	0,5	-0,9	-1,2	-0,3	-1,3	-1,1	-0,4	0,8		
Malezia	-2,0	-0,3	-0,4	0,7	-4,1	-0,2	1,0	0,5	-1,1	-2,5	-0,1	-1,8	-1,6	-0,6	1,0		
Singapore	-1,0	-1,0	-0,2	-1,2	-0,1	-0,4	-0,4	0,5	-0,6	-1,6	0,3	-0,3	-0,2	0,6	0,4		
China	-1,6	0,1	-0,3	0,2	-2,2	-0,2	1,1	0,8	-1,1	-1,9	0,8	-1,4	-1,0	-0,8	2,1		

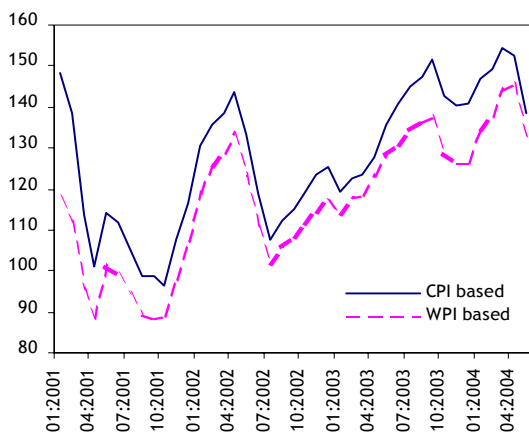
Source: CBRT, OECD, IMF.

† Increase implies real appreciation of the currency.

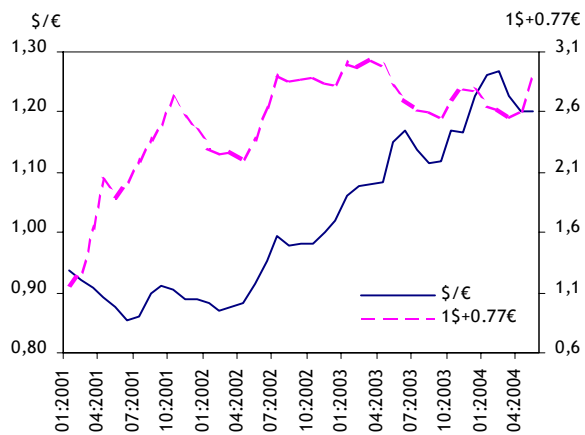
†† Due to data limitations, nominal effective exchange rate is used for Hong Kong.

24. Euro, which has been displaying a strengthening trend against US dollar in general since 2002, started to depreciate as of March. Accordingly, monthly euro/US dollar parity rolled back to 1.2 in May from 1.267, its highest level in history, of February.

REAL EFFECTIVE EXCHANGE RATE (1995=100)†



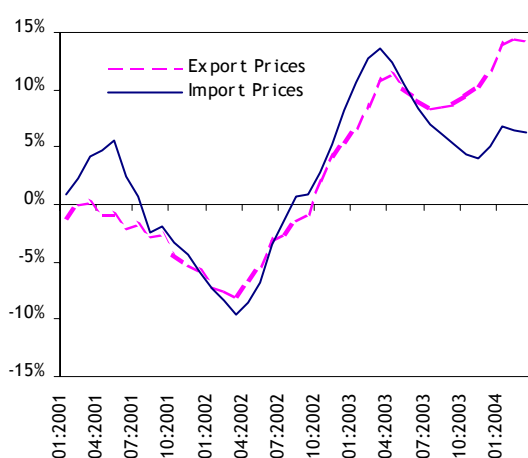
USD/EURO PARITY and NOMINAL EXCHANGE RATE BASKET



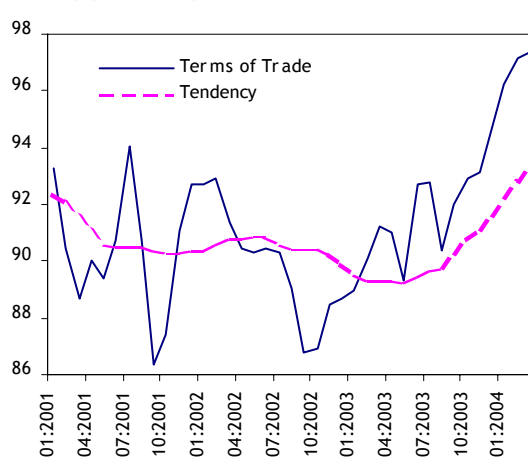
† Increase in real exchange rate index indicates strengthening of Turkish lira.

Source: CBRT.

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



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



Source: SIS.

25. Recovery trend in terms of trade, which has started in 2003, is continuing as of the first quarter of 2004. In March, terms of trade recovered by 2.9 percent compared to end-2003 and by 0.3 percent compared to the previous month.

26. In March, export prices dropped by 0.4 percent compared to previous month. The downward trend in export prices, which is calculated according to quarterly averages, turned upward by August. The prices of basic metal industry, one of the leading export items of manufacturing industry, displayed an increase in March compared to the previous month.

27. In March, import prices dropped by 0.7 percent compared to the previous month. Exports of land vehicles, their sub-items and chemicals were the significant determinants in the decline in import price index.

EXPORT and IMPORT PRICE INDICES (1994=100)

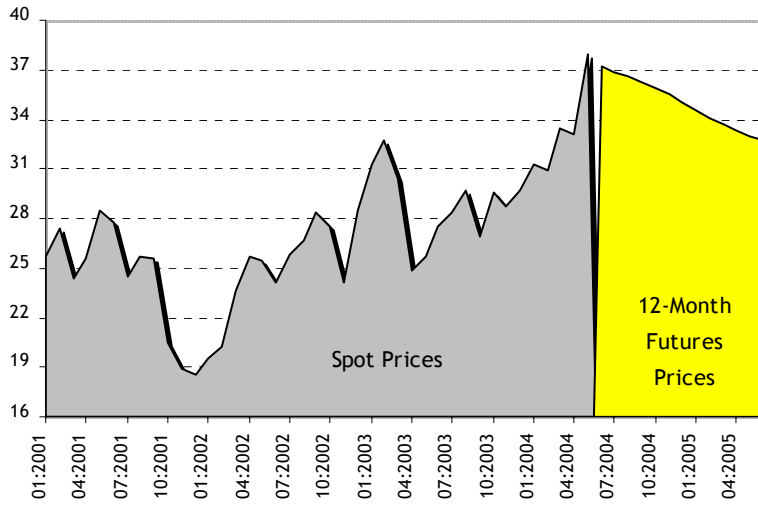
	2003										2004		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Export Price Index	92,3	91,1	89,7	91,4	92,2	90,9	91,6	93,1	95,0	99,2	105,0	104,8	104,3
Manufacturing	93,1	91,7	89,9	91,8	93,0	91,4	92,0	93,2	94,8	99,0	105,2	105,1	104,2
Textiles	87,5	86,7	87,3	88,8	90,1	85,9	86,3	88,7	91,6	97,4	102,5	100,7	99,9
Wearing Apparel	97,5	94,4	91,4	97,3	101,8	97,0	95,6	95,0	98,9	107,8	116,8	123,9	115,6
Chemicals & Products	92,9	92,2	88,3	89,9	88,1	87,7	90,2	91,9	87,5	91,9	95,6	95,2	91,0
Manufacture of Basic Metals	104,8	107,7	102,5	100,5	101,3	103,1	105,5	108,3	107,1	108,3	119,2	121,6	127,5
Manufacture of Mach. & Equ.	83,0	83,2	83,9	85,9	84,8	85,0	85,1	86,5	91,7	93,4	101,8	99,5	98,9
Electrical Mach. & Apparatus	72,1	69,0	68,4	70,2	68,4	69,6	70,3	67,0	68,3	73,3	79,3	76,0	69,5
Motor Vehicles & Trailers	96,3	96,6	94,8	98,6	101,6	98,6	102,3	106,3	107,8	109,1	114,1	110,6	110,6
Import Price Index	101,2	100,1	100,4	98,6	99,4	100,6	99,6	100,2	102,0	104,8	109,1	107,9	107,1
Mining & Quarrying	169,6	160,0	151,7	158,0	159,5	168,0	169,1	169,3	164,3	168,5	177,1	172,0	178,6
Crude Oil & Natural Gas	181,3	169,1	162,5	169,8	172,2	179,0	182,1	181,2	176,5	181,8	188,3	182,7	190,7
Manufacturing	93,6	94,3	95,1	93,2	93,6	93,4	92,3	93,0	94,4	98,2	100,3	100,3	99,4
Textiles	87,9	91,6	90,3	91,3	89,4	88,2	82,3	84,2	84,0	90,7	91,8	89,9	93,0
Chemicals & Products	100,7	104,1	104,7	101,5	100,0	99,2	98,8	101,2	101,9	103,3	109,5	109,0	103,6
Manufacture of Basic Metals	94,9	97,4	95,9	94,7	97,1	98,8	94,4	101,4	102,0	107,2	115,7	123,0	132,3
Manufacture of Mach. & Equ.	91,5	93,1	94,2	93,5	97,2	94,6	94,6	94,6	96,5	98,9	98,4	90,9	92,8
Electrical Mach. & Apparatus	66,8	67,6	68,0	68,6	67,3	65,6	65,4	65,9	66,9	70,0	71,7	73,0	72,4
Motor Vehicles & Trailers	88,4	89,1	93,0	91,6	91,4	91,4	89,2	92,0	94,6	103,5	100,6	106,3	103,3

Source: SIS.

28. Brent oil prices, which increased by 15.3 percent in 2003 and realized as US dollar 30.2 per barrel at the end-2003, maintained their upward course in the first quarter of 2004 and reached US dollar 39 in May. Thus, crude oil prices reached its highest level in the world in general since the Iraq War in 1991.

29. At the OPEC Conference held in Vienna on 31 March 2004, it was decided that daily production would be decreased by 1 million barrels as of 1 April 2004, in view of adequate level of international oil market supply as well as the decline in oil demand. Nonetheless, oil prices continued to climb in the second quarter despite high supply level. The growth in demand in the USA and China that exceeded expectations, concerns about likely spread of attacks in Middle East to oil facilities and general trends in the futures markets became the determining factors in the rise in oil prices. In the light of these developments, Extraordinary Conference held in Beirut on 3 June 2004 decided to increase the OPEC production by 2 million barrels per day effective from July 1, 2004 and by 0.5 million barrels per day with effect from August 1, 2004. It was also reiterated that the next extraordinary conference would be convened in Vienna, Austria on July 21, 2004.

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



Future Prices	
	02.06.2004
July 2004	36.86
August 2004	36.61
September 2004	36.30
October 2004	35.90
November 2004	35.46
December 2004	35.01
January 2005	34.55
February 2005	34.11
March 2005	33.70
April 2005	33.33
May 2005	33.01
June 2004	32.69

Source: oilnergy.com.

Note: 02.06.2004 future prices of International Petroleum Exchange.

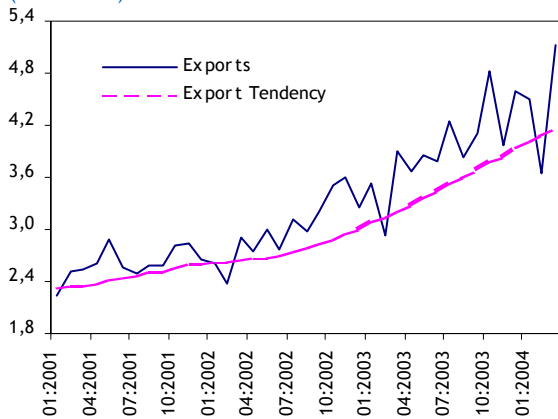
II. EXPORTS

General Evaluation

30. In March 2004, exports grew by 27.9 percent compared to the same month of the previous year and reached US dollar 5 billion. The increase in exports in the first quarter of 2004 became 25.5 percent. Moreover, 12-month export rose by 29.5 percent and reached US dollar 49.9 billion.

31. Favorable supply and cost conditions in 2003 continued to improve in the first quarter of 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 improvement in financing opportunities, new markets emerging due to the expansion in world economics and rising export prices contributed to this increase.

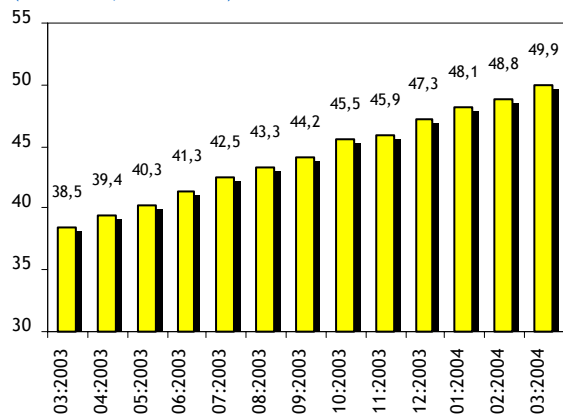
EXPORTS and EXPORTS TENDENCY†
(USD billion)



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

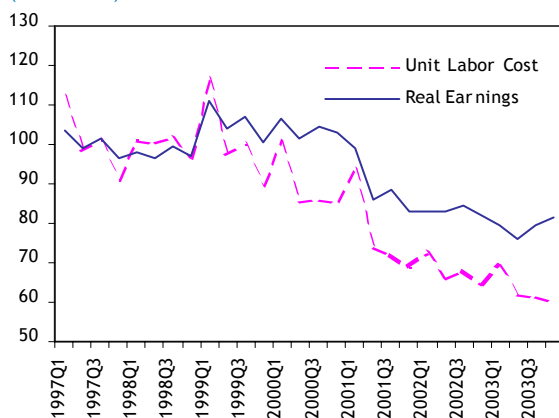
Source: SIS.

EXPORTS
(12 month, USD billion)



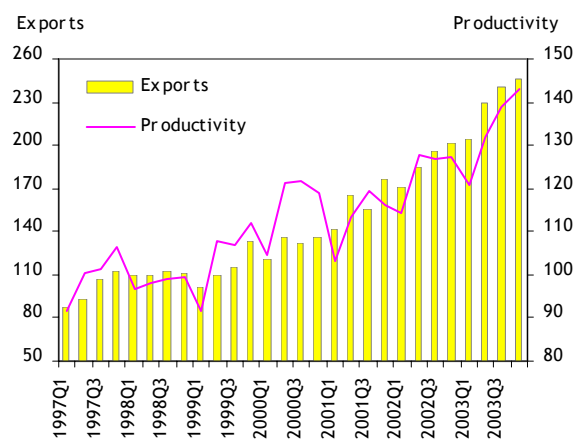
Source: SIS.

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



Source: SIS, CBRT.

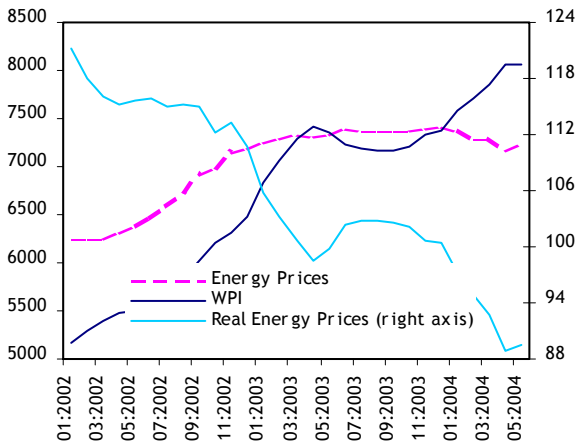
PRIVATE MANUFACTURING EXPORT AND
PRODUCTIVITY INDICES (1997=100)



Source: SIS.

32. In 2003, real wages per hour and real earning per worker in the manufacturing industry production declined by 1.9 percent and 6.3 percent, respectively, compared to 2002. Real unit labor cost index declined by about 6.7 percent in this period.

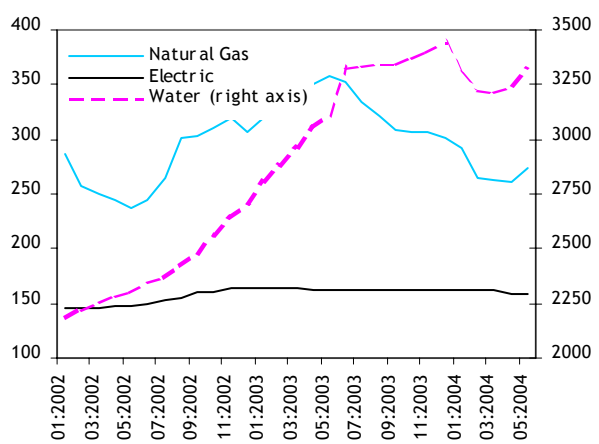
ENERGY PRICES and WPI†
(1994=100)



† 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 PRICES†
(thousand TL)



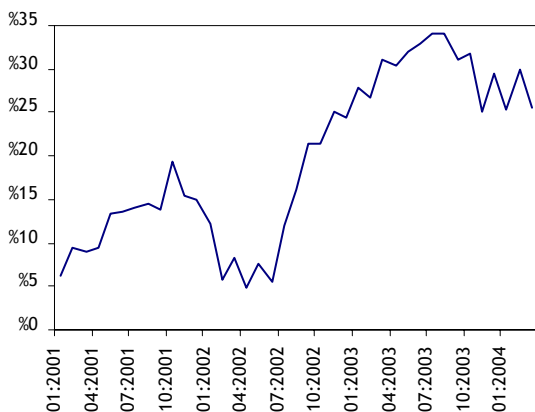
†Domestic prices in advance that are taken from WPI, which are electric prices per KWH, natural gas and water prices per ton.

Source: SIS.

33. The downward trend in real energy costs has been continuing since January-May period. Despite a slight increase in real energy prices during May, the prices are rather low compared to the previous year. The rise in energy prices below WPI inflation, points at a cost advantage in energy prices in favor of exporters. Electricity prices remained the same after declining in April 2003. Appreciation of the Turkish lira exerted a downward-push on natural gas prices in 2004 as well.

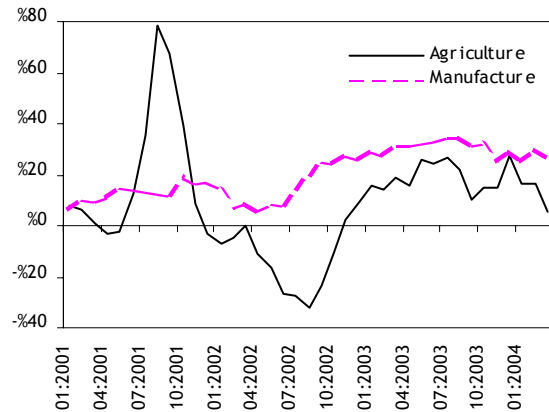
34. Both Turkish Eximbank credit interest rates and nominal credit interests rates decreased in 2003. The Turkish Eximbank continued to cut down interest rates on the export credits in 2004. In the five months of 2004, Turkish Eximbank dropped its interest rates by 7 percentage points. Accordingly, one-year pre-shipment export credit interest rate fell to 16 percent.

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



Source: SIS.

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



Source: SIS.

35. The three-month trend in the rates of increase in manufacturing industry exports displayed a favorable course, whereas exports tendency in agricultural products declined mainly in February and March.

36. The largest contribution to exports growth in the first quarter of 2004 came from motor vehicles and spare parts, knitted apparel, boilers-machinery-mechanical devices along with electric machinery and devices.

EXPORTS (USD million)								
	March				January-March			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	3908	4999	27,9		10365	13004	25,5	
Agriculture and Forestry	199	221	11,2	0,6	602	635	5,4	0,3
Fishing	6	6	-1,3	0,0	18	17	-2,7	0,0
Mining and Quarrying	41	40	-2,2	0,0	90	113	25,0	0,2
Manufacturing	3643	4701	29,0	27,1	9607	12167	26,7	24,7
Other	20	31	58,4	0,3	49	73	48,2	0,2
Important Items:								
Edible fruit and nuts, peel of citrus fruits or melons	75	114	50,7	1,0	271	329	21,5	0,6
Mineral Fuels, Mineral Oils and products	68	106	54,8	1,0	179	266	48,5	0,8
Cotton, cotton yarn and cotton fabrics	93	102	9,5	0,2	244	297	21,9	0,5
Articles of Apparel-Clothing; Knitted	457	541	18,4	2,1	1296	1571	21,2	2,6
Articles of Apparel-Clothing; Not Knitted	340	399	17,3	1,5	936	1098	17,3	1,6
Other made-up textile articles, sets, worn clothing	142	168	18,4	0,7	364	445	22,4	0,8
Iron and Steel	295	361	22,3	1,7	736	841	14,2	1,0
Articles of Iron and Steel	109	157	43,5	1,2	294	388	31,7	0,9
Nuclear reactors, boilers, machinery	233	342	46,9	2,8	600	853	42,2	2,4
Electrical Machinery and Equipment	274	395	44,1	3,1	725	973	34,2	2,4
Motor Vehicles and Spare Parts	423	623	47,4	5,1	1030	1572	52,6	5,2

Source: SIS.

EXPORTS: BY COUNTRY GROUPS (USD million)										
	March					January-March				
	2003		2004		%	2003		2004		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	3908	..	4999	..	27,9	10365	..	13004	..	25,5
OECD Countries	2576	65,9	3203	64,1	24,4	6913	66,7	8420	64,8	21,8
European Union Countries	2102	53,8	2595	51,9	23,5	5540	53,4	6889	53,0	24,4
EFTA Countries	39	1,0	45	0,9	14,0	109	1,0	126	1,0	15,7
Other OECD Countries	434	11,1	563	11,3	29,6	1264	12,2	1405	10,8	11,2
Non-OECD Countries	1186	30,3	1567	31,3	32,1	3057	29,5	4020	30,9	31,5
European Countries	409	10,5	527	10,5	29,0	972	9,4	1334	10,3	37,3
African Countries	195	5,0	234	4,7	20,1	493	4,8	555	4,3	12,6
American Countries	19	0,5	21	0,4	9,0	62	0,6	65	0,5	5,3
Middle East Countries	323	8,3	549	11,0	70,0	968	9,3	1379	10,6	42,5
Other Asian Countries	235	6,0	233	4,7	-0,7	533	5,1	679	5,2	27,4
Other Countries	5	0,1	3	0,1	-47,0	29	0,3	7	0,1	-76,5
Turkey Free Trade Areas	147	3,8	229	4,6	56,0	396	3,8	564	4,3	42,3
Selected Countries										
Germany	670	17,1	750	15,0	12,0	1778	17,2	2017	15,5	13,4
UK	285	7,3	435	8,7	52,9	760	7,3	1088	8,4	43,1
USA	295	7,5	371	7,4	25,9	899	8,7	923	7,1	2,7
France	233	6,0	327	6,5	39,9	610	5,9	866	6,7	42,0
Italy	298	7,6	316	6,3	6,1	751	7,2	854	6,6	13,7
Spain	163	4,2	205	4,1	25,9	411	4,0	519	4,0	26,2
Netherlands	127	3,3	156	3,1	23,1	349	3,4	444	3,4	27,4
Russia	114	2,9	153	3,1	34,3	275	2,7	392	3,0	42,7

Source: SIS.

37. Compared to 2003, the share of exports to non-OECD European and Middle Eastern countries expanded in the first quarter of 2004. Analyzing in terms of selected countries, exports to Germany had the largest share in overall exports during the January-March period, followed by England. In the first quarter of 2004, the share of the USA in overall

exports maintained its downward trend of 2003. Furthermore, the high-rated increase in exports to France and Russia during the said period is remarkable.

Outlook

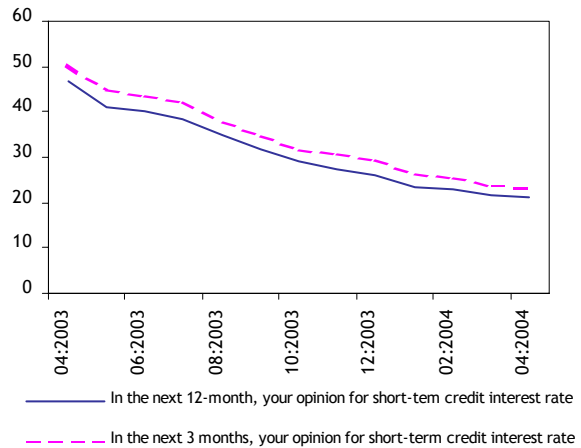
38. According to the CBRT Business Tendency Survey, indicators for the last three months as well as those for the next three months improved in April compared to previous months. The assembled export tendency indices point at an ongoing rise in exports.

39. 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, persisted in April as well. Accordingly, expectations for credit interest rates for the next three months declined to 23.4 percent, while expectations for credit interest rates for the next twelve months became 21 percent in April.

EXPORT EXPECTATIONS



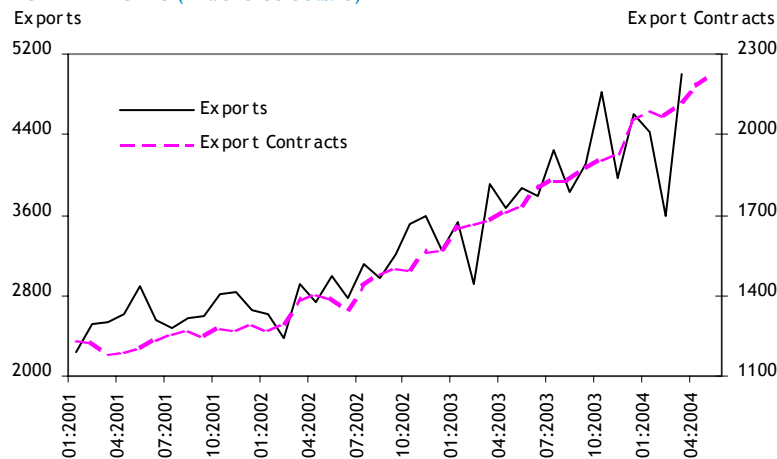
Source: CBRT Business Tendency Survey.



Source: CBRT Business Tendency Survey.

40. Despite its slight decline in April, price competition, which is among the factors that has been expected to impose pressure on exports in the next quarter, still maintains its major share. On the other hand, concerns about foreign business cycles that could lead to restriction in export orders eased in April, while concerns about delivery dates, credit and financing displayed a limited increase.

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



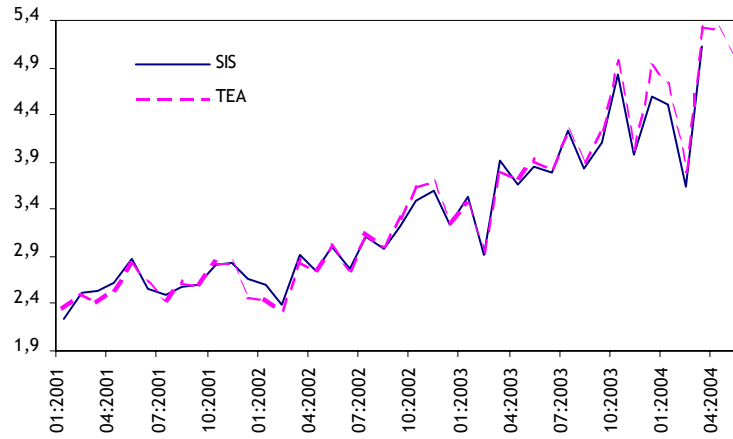
Source: UFT.

41. The volume of export contracts subject to inward processing regime, which is a significant indicator of forward-looking exports, grew by 19.9 percent in the first five months

of 2004 compared to the previous year. Meanwhile, imports subject to inward processing regime increased by 27.5 percent.

42. According to the data issued by the Turkish Exporters' Assembly (TEA), exports grew by 34.7 percent and realized as US dollar 24 billion in January-May 2004. As a result, the twelve-month exports reached US dollar 54.1 billion in May.

EXPORTS: SIS-TEA COMPARISON (USD billion)



Source: SIS, TEA.

FOREIGN EXCHANGE COMPOSITION OF FOREIGN TRADE AND PARITY EFFECT

Data on Turkey's foreign trade, which is issued in terms of US dollars, is conducted via different currency units. Along with US dollar, euro, pounds sterling, 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 quarter of 2004, 52 percent of exports and 40 percent of imports have been carried out in terms of euro, whereas the shares of US dollars in overall exports and imports were 39.8 percent and 55.4 percent, respectively.

FOREIGN EXCHANGE DECOMPOSITION OF EXPORTS (percentage share)

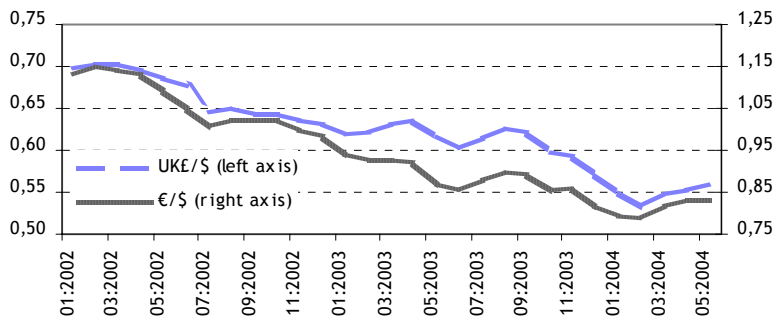
	Exports				Imports			
	2001	2002	2003	2004-Q1	2001	2002	2003	2004-Q1
US dollar	49,5	44,9	42,6	39,8	61,2	56,7	55,1	55,4
Euro*	42,9	46,7	49,3	52,0	33,0	37,2	39,7	40,0
British pound	5,7	6,6	6,2	6,6	2,2	2,0	1,7	1,7
Other	2,0	1,8	1,9	1,7	3,7	4,1	3,5	2,9

Source: SIS

*Including euro and currencies constituting euro.

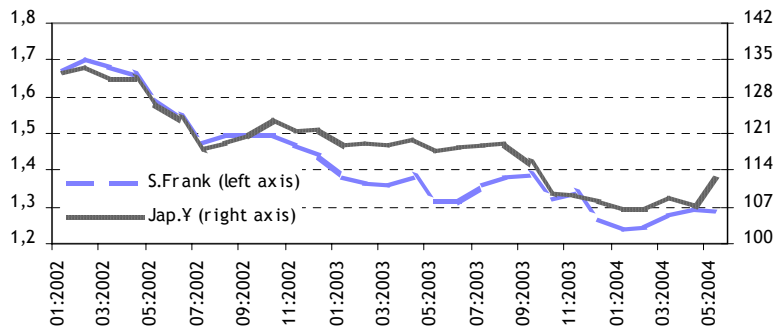
Hence, the parity changes between foreign currencies may lead to dramatic changes in foreign trade statistics that are registered in terms of US dollars. In 2004, there have been significant parity changes as observed in 2003. However, while parity changes were mostly developed against US dollar throughout 2003, US dollar started to appreciate against other currencies especially by March 2004.

€/ \$ and £/\$ PARITIES



Source: CBRT.

¥/\$ and SFr/\$ PARITIES



Kaynak: TCMB.

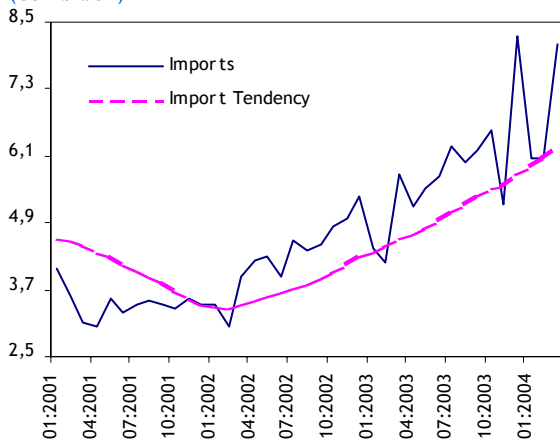
Under the assumption that the parities of currencies US dollar that are employed in foreign trade have remained at their average values of December 2003, US dollar 178.2 million of overall increase in exports and US dollar 166.5 million of overall increase in imports in the first quarter of 2004 resulted from the parity changes. Since the parity impact on both exports and imports was close with respect to their values, the parity changes rolled down foreign trade by a mere US dollar 11.7 million in the first quarter.

III. IMPORTS

General Evaluation

43. Compared to the previous year, imports increased by 40.9 percent and reached US dollar 8.1 billion in March 2004. Hence, imports became US dollar 20.2 billion in the first quarter of the year, while twelve-month imports rose by 35.4 percent and reached US dollar 75.2 billion.

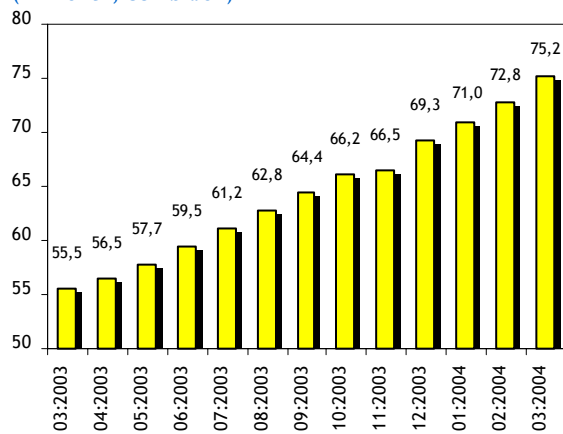
IMPORTS and IMPORTS TENDENCY†
(USD billion)



† Imports tendency is calculated using 12 month moving average.

Source: SIS.

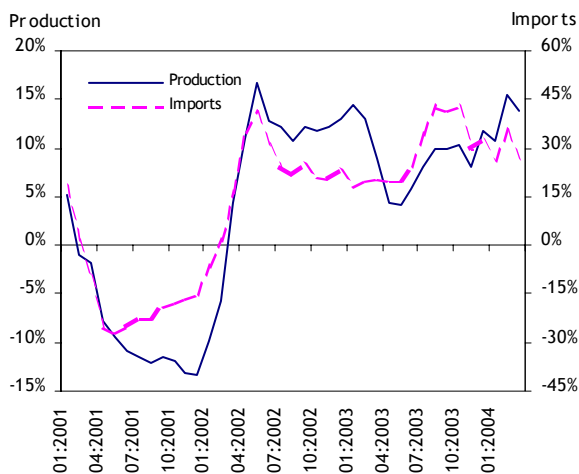
IMPORTS
(12 month, USD billion)



Source: SIS.

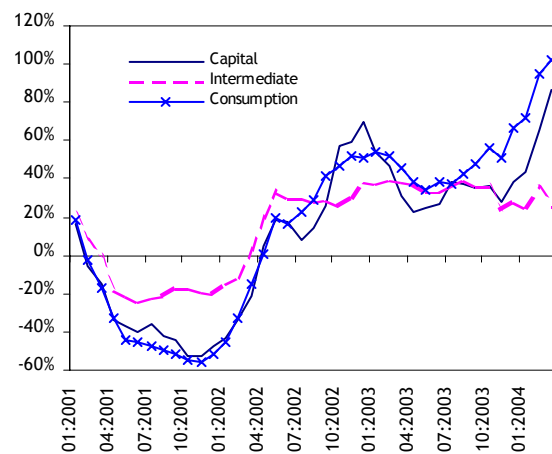
44. The appreciation of Turkish lira by 9.7 percent as of the first quarter of 2004 according to the WPI-based real exchange rate compared to end-2003 and the rise in domestic industrial production stood as the factors that had an effect on the growth in imports. Furthermore, the upward trend in import prices during this period exerted an upward pressure on 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)

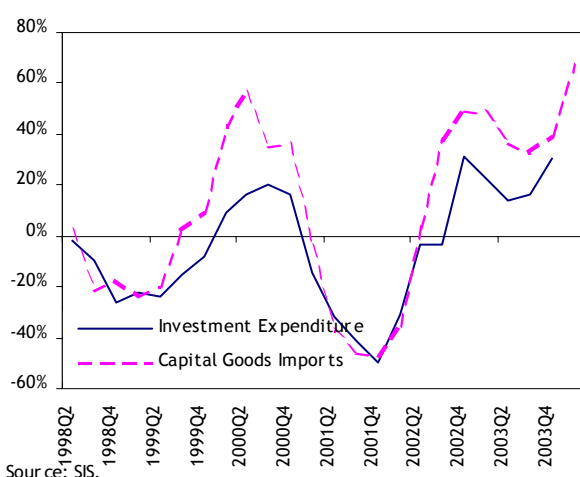


Source: SIS.

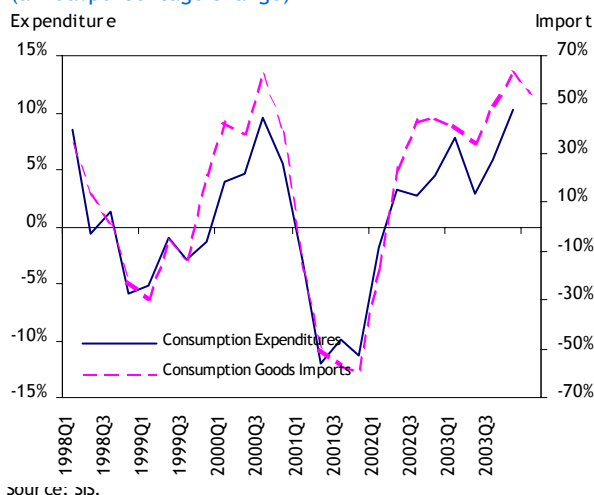
45. Although imports of intermediary goods became the determining factor of the growth in total imports in the first quarter of 2004, the rate of increase in imports of intermediary goods remained below that of total imports. Meanwhile, imports of consumption goods and

capital goods exhibited a rate of increase above the growth in total imports and their shares in total imports reached 12.9 percent and 16.9 percent, respectively. As appreciation of Turkish lira led to a high rate of increase in the demand for durable goods and transportation vehicles, imports of consumption goods rose as well. Moreover, upward trend in imports of capital goods continued due to the increased capacity utilization ratios, 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)**



46. In the first quarter of 2004, the biggest contribution to the rise in imports came from imports of motor vehicles and spare parts, boilers-machinery-mechanical devices, electrical machinery and devices, iron and steel along with plastic and derivatives. The sustained decline in the share of imports of crude oil in total imports observed since 2001 is noticeable. The share of imports of crude oil in total imports, which was 8.7 percent in the first quarter of 2003, dropped to 6.5 percent in the same period of 2004.

IMPORTS (USD million)

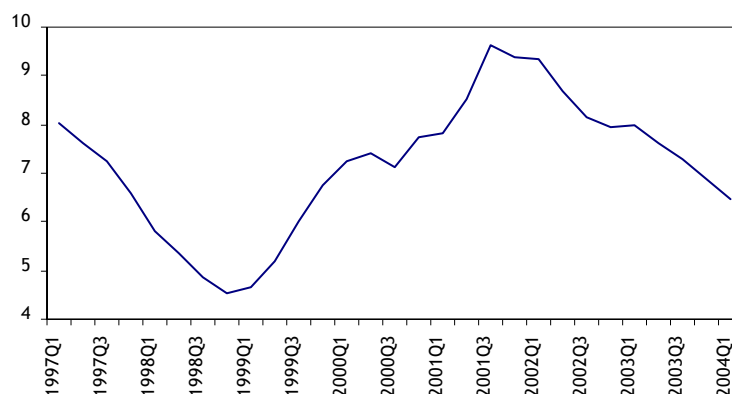
	March				January-March			
	2003	2004	% Change	% Contrib.	2003	2004	% Change	% Contrib.
Total	5756	8107	40,9	..	14367	20213	40,7	..
Capital Goods	776	1555	100,4	13,5	1827	3410	86,6	11,0
Intermediate Goods	4459	5422	21,6	16,7	11162	14090	26,2	20,4
Consumption Goods	492	1080	119,4	10,2	1292	2611	102,0	9,2
Other	29	51	77,8	0,4	86	103	20,0	0,1
Important Items:								
Mineral fuels,mineral oils and products of their dist.	1083	989	-8,7	-1,6	2949	3088	4,7	1,0
Crude Oil	419	467	11,5	0,8	1245	1321	6,1	0,5
Organic chemicals	205	218	6,4	0,2	554	678	22,4	0,9
Pharmaceutical products	145	104	-28,1	-0,7	443	504	13,6	0,4
Plastics and articles thereof	251	390	55,1	2,4	687	976	42,0	2,0
Cotton, cotton yarn and cotton fabrics	152	182	19,4	0,5	341	462	35,5	0,8
Pearl, other precious stone and products	269	309	14,8	0,7	609	837	37,4	1,6
Iron and Steel	630	706	12,0	1,3	1206	1497	24,1	2,0
Nuclear reactors, boilers, machinery	756	1124	48,7	6,4	1806	2700	49,5	6,2
Electrical Machinery and Equipment	417	799	91,5	6,6	1100	1820	65,4	5,0
Motor Vehicles and Spare Parts	271	945	249,0	11,7	648	2003	209,2	9,4

Source: SIS.

47. In the first quarter of the year, the share of imports from the EU member states and the non-OECD European countries increased compared to 2003 whereas a decline was

observed in the share of imports from the Middle Eastern countries. Analyzing by selected countries, imports from Germany had the largest share in overall imports to be followed by Russia, France and Italy. The high rate of increase in imports from China continued in the first quarter of 2004 as well.

SHARE OF CRUDE OIL in TOTAL IMPORTS
(annual, percent)



Source: SIS.

IMPORTS: BY COUNTRY GROUPS (USD million)

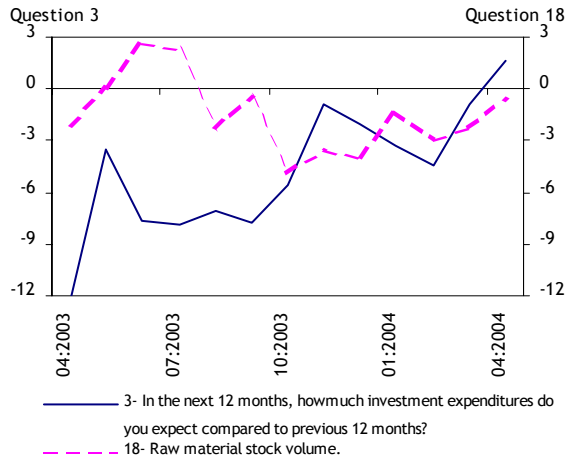
	March					January-March				
	2003		2004		% Change	2003		2004		% Change
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	5756	..	8107	..	40,9	14367	..	20213	..	40,7
OECD Countries	3533	61,4	5178	63,9	46,5	8644	60,2	12519	61,9	44,8
European Union Countries:	2536	44,1	3677	45,4	45,0	6195	43,1	8995	44,5	45,2
EFTA Countries	301	5,2	285	3,5	-5,5	768	5,3	882	4,4	14,8
Other OECD Countries	696	12,1	1216	15,0	74,7	1681	11,7	2643	13,1	57,2
Non-OECD Countries	2181	37,9	2852	35,2	30,8	5616	39,1	7505	37,1	33,6
European Countries	843	14,6	1159	14,3	37,5	1937	13,5	3021	14,9	55,9
African Countries	291	5,1	386	4,8	32,7	937	6,5	1097	5,4	17,0
American Countries	83	1,4	114	1,4	36,8	187	1,3	249	1,2	33,1
Middle East Countries	429	7,4	342	4,2	-20,2	1165	8,1	997	4,9	-14,4
Other Asian Countries	527	9,2	843	10,4	59,8	1348	9,4	2129	10,5	57,9
Other Countries	8	0,1	8	0,1	-4,0	42	0,3	13	0,1	-69,6
Turkey Free Trade Areas	41	0,7	78	1,0	88,0	107	0,7	188	0,9	75,9
Selected Countries										
Germany	671	11,7	1117	13,8	66,4	1703	11,9	2630	13,0	54,5
Russia	501	8,7	654	8,1	30,5	1159	8,1	1846	9,1	59,3
France	303	5,3	579	7,1	91,2	770	5,4	1428	7,1	85,3
Italy	428	7,4	572	7,1	33,8	1085	7,6	1413	7,0	30,2
USA	313	5,4	455	5,6	45,6	723	5,0	940	4,7	30,1
United Kingdom	368	4,0	368	4,8	71,0	799	4,2	924	5,3	68,5
China	174	3,0	311	3,8	79,3	461	3,2	842	4,2	82,4
Switzerland	268	4,7	236	2,9	-12,1	659	4,6	751	3,7	14,0
Spain	139	4,0	269	4,8	71,0	366	4,2	622	5,3	68,5

Source: SIS.

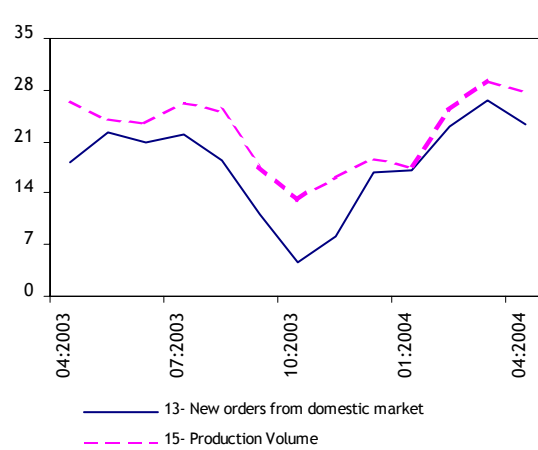
Outlook

48. An analysis of the domestic demand over the upcoming period according to the April results of the CBRT Business Tendency Survey reveals that private companies are optimistic about domestic demand albeit a slowdown in their expectations. The high levels of expected production and demand indicate that the rise in imports of intermediary goods and consumption goods observed in 2003 is likely to continue in 2004 as well. The rise in investment expenditures tendency points out that capital goods imports, which are important for the sustainability of productivity growth and economic growth, continue in 2004.

IMPORT EXPECTATIONS



Source: CBRT Business Tendency Survey.

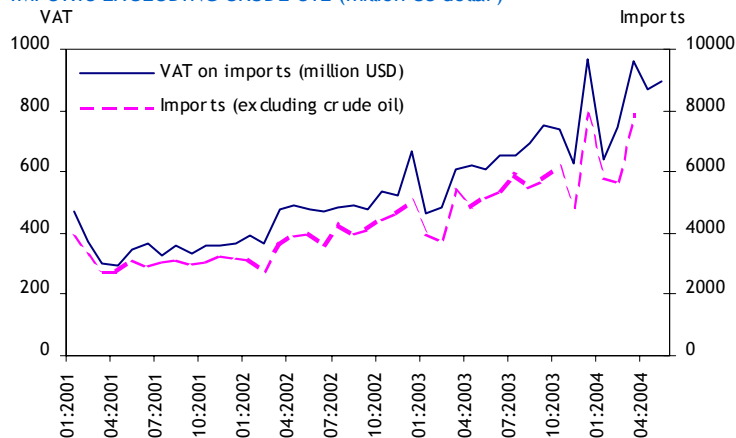


Source: CBRT Business Tendency Survey.

49. Timed imports increased from US dollar 3.9 billion in January-March 2003 to US dollar 5.2 billion in the same period of 2004. However, as total imports grew by 40.7 percent while timed imports grew by 33.6 percent, the share of timed imports in total imports dropped to 25.9 percent. Meanwhile, timed exports calculated the same way recorded a rise of 31.6 percent and reached 63.5 percent of total exports.

50. According to the figures of Value Added Tax on imports, imports are expected to reach US dollar 7.4 billion in April and US dollar 7.7 billion in May.

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



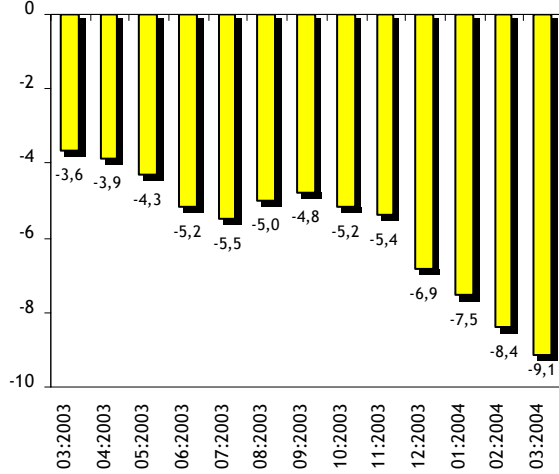
Source: Ministry of Finance, SIS.

IV. CURRENT ACCOUNTS

51. Current account balance yielded a deficit of US dollar 2 billion in March, amounting to a deficit of US dollar 5 billion in the first quarter of 2004. Thus, twelve-month current account deficit became US dollar 9.1 billion.

CURRENT ACCOUNT BALANCE

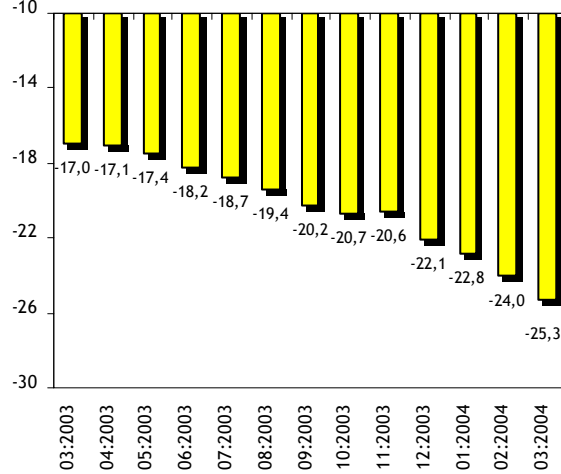
(12 month, USD billion)



Source: CBRT.

FOREIGN TRADE BALANCE

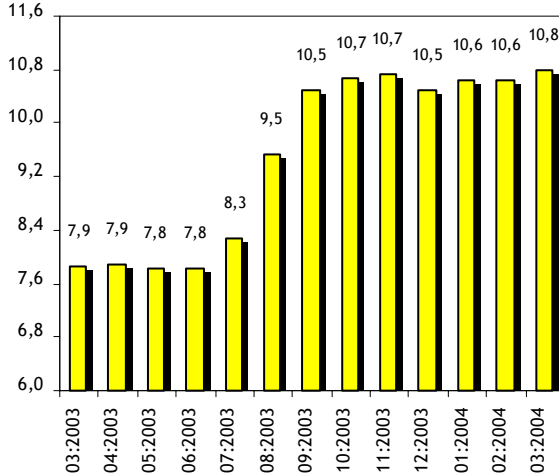
(12 month, USD billion)



Source: CBRT.

SERVICES BALANCE

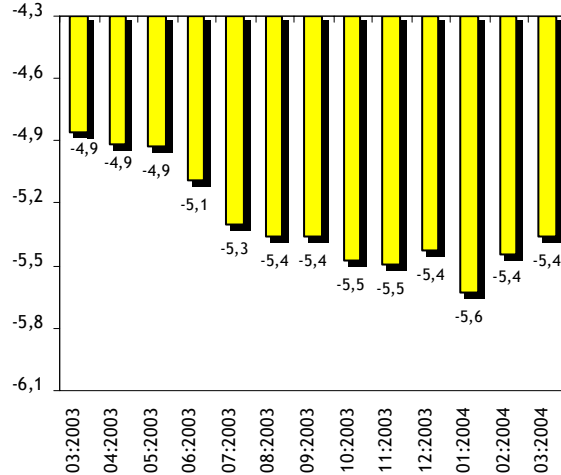
(12 month, USD billion)



Source: CBRT.

INVESTMENTS REVENUES BALANCE

(12 month, USD billion)



Source: CBRT.

52. In the first quarter of 2004, services revenues increased as a result of the significant rise in tourism revenues. However, the determining factor in the current account balance was the foreign trade deficit that increased by US dollar 2.7 billion compared to the same period of 2003.

53. Compared to 2003, the rate of increase in imports accelerated in this period. Appreciation of Turkish lira, rapid rise in industrial production and the recovery observed in domestic consumption were the factors that pushed up imports. As a result of these developments, according to the balance of payments definition, foreign trade deficit increased from US dollar 2.4 billion in the first quarter of 2003 to US dollar 5.1 billion in the first quarter of 2004.

CURRENT ACCOUNT (USD million)					
	2003				2004
	Jan-Mar	Jan	Feb	Mar	Jan-Mar
Current Account Balance	-2761	-889	-2117	-2029	-5035
Foreign Trade Balance	-2399	-1029	-1817	-2285	-5131
Total Exports	11123	4676	3865	5340	13881
Total Imports	-13522	-5705	-5682	-7625	-19012
Services Balance	683	398	164	404	966
Credit	2432	1117	909	1180	3206
Debit	-1749	-719	-745	-776	-2240
Income Balance	-1531	-451	-631	-381	-1463
Credit	600	271	229	268	768
Debit	-2131	-722	-860	-649	-2231
Current Transfers	486	193	167	233	593
Workers' Remittances	138	81	54	58	193
<i>Memo items:</i>					
Shuttle Trade	757	256	280	341	877
Non Monetary Gold (net)	-567	-206	-294	-275	-775
Travel Revenues	1201	602	503	608	1713
Interest Income	134	41	64	49	154
Interest Expenditure	-1171	-219	-412	-309	-940

Source: CBRT.

54. Compared to the same period last year, volume of shuttle trade increased in the first quarter. However, taking into account the base effect caused by the Iraqi war in the first quarter of 2003, the rise in the volume of shuttle trade was rather limited.

55. Because of the regional instabilities in 2003, the demand for processed gold increased in international markets, leading to a rise of 15 percent in prices. This trend continued in the first quarter of 2004 as well. Turkey's imports of processed gold, which had increased by 84.5 percent in 2003 compared to 2002, rose by 35.5 percent in the first quarter of 2004.

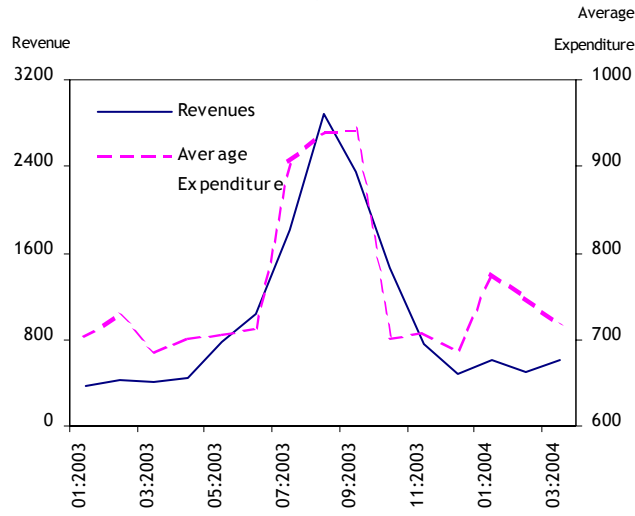
56. Based on the figures announced by SIS, tourism revenues increased by 42.6 percent in the first quarter of 2004 compared to the previous year and reached US dollar 1.7 billion. Meanwhile, the number of tourists departing from Turkey rose by 35.1 percent. The average expenditure per tourist which declined in the last three months, increased compared to the same period of the previous year.

TRAVEL REVENUES					
	2003				2004
	Jan-Mar	Jan	Feb	Mar	Jan-Mar
Travel Revenues (USD million)	1201	602	503	608	1713
Number of Visitors (thousand)	1702	776	672	850	2299
Average Spending (USD)	706	775	749	715	745

Source: SIS.

57. According to the figures announced by SIS for April and the figures announced by the Ministry of Tourism for May, the rapid rise in the number of tourists visiting Turkey continued in the months in question.

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

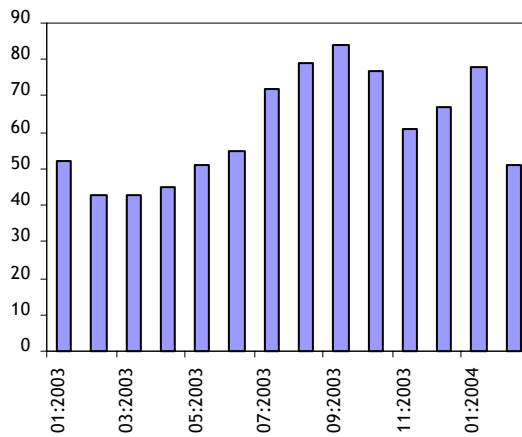


Source: SIS..

58. The investment revenues account produced a deficit of US dollar 1.5 billion in January-March 2004. The portfolio investment expenditures and interest expenditures were the primary determinants of this deficit. In this period, portfolio investment expenditures composed of coupon payments for bills and bonds issued by the Treasury and dividend payments for the securities purchased by foreigners increased while interest expenditures decreased.

59. Worker’s remittances rose by 39.9 percent in the first quarter of 2004 compared to the same period of the previous year. During the same period, imports with waiver increased as well.

WORKERS REMITTANCES: Private
(monthly, million USD)



Source: CBT.

V. CAPITAL MOVEMENTS

60. The financial account registered a deficit of US dollar 123 million in March 2004. Excluding the IMF loans and official reserve changes, the net capital inflow became US dollar 228 million in March. Thus, the net capital inflow became US dollar 5.8 billion in the first quarter and 12-month figures for the said item reached US dollar 8.2 billion.

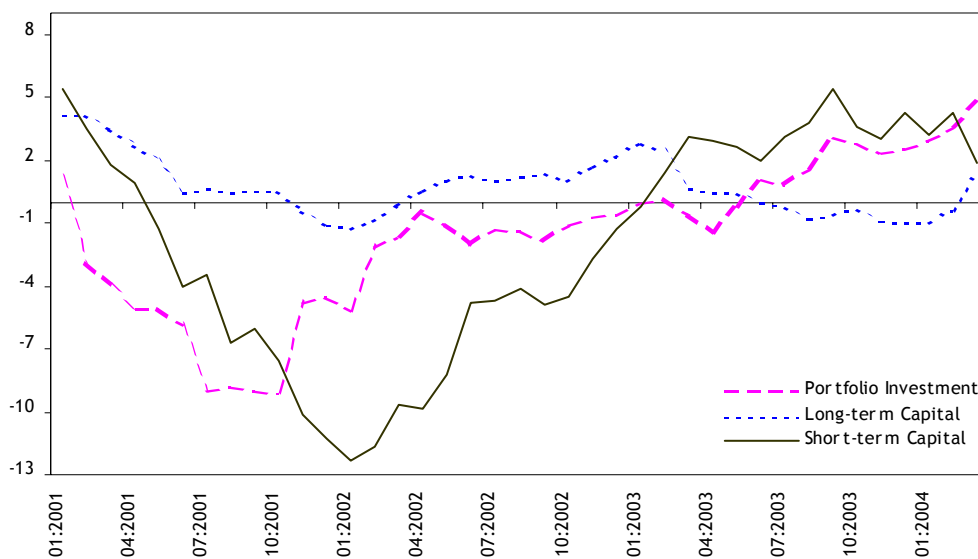
61. March 2004 staged capital inflow through portfolio investments, while net errors and omissions item registered a surplus of US dollar 2.2 billion. Despite the current account deficit amounting to US dollar 5 billion, a certain amount of capital inflow through direct investments, portfolio investments and other investments was observed in the first quarter of the year. The net errors and omissions item registered a surplus with the rectification made in March. As a consequence of these developments, the official reserves decreased by US dollar 214 million in the period in question.

CAPITAL AND FINANCIAL ACCOUNT (USD billion)

	2003									2004
	Jan-Mar	Agu	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Jan-Mar
Capital and Financial Account	4038	-583	-1030	-362	257	939	1990	2971	-123	4838
Financial Account	4038	-583	-1030	-362	257	939	1990	2971	-123	4838
Direct Investments	-17	63	-30	-77	53	61	18	286	-64	240
Portfolio Investments	-75	632	1217	253	-552	402	1401	311	341	2053
Other Investments	3469	152	1170	-1899	-1086	1893	763	2078	-510	2331
Reserve Assets	661	-1430	-3387	1361	1842	-1417	-192	296	110	214
Net Errors & Omissions	-1277	-337	325	274	174	1869	-1101	-854	2152	197
<i>Memorandum items:</i>										
Short-term	4774	135	1043	-1781	-423	1262	741	2096	-484	2353
Long-term	-1130	-112	245	138	-233	251	247	473	435	1155
IMF credit	-175	129	-118	-256	-430	380	-225	-491	-461	-1177

Source: CBRT.

CAPITAL FLOWS (12-month. billion US dollar)

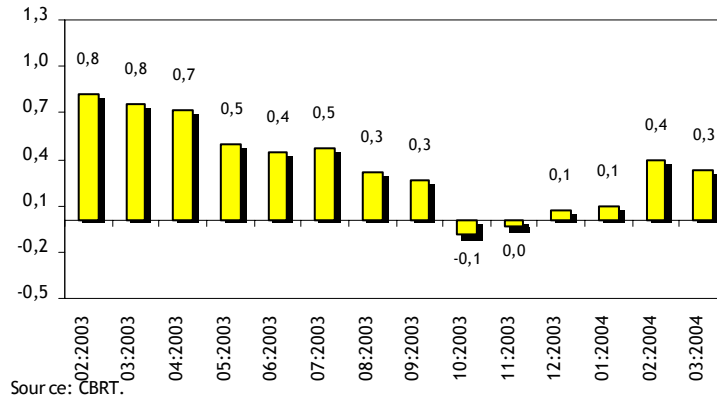


Source: CBRT.

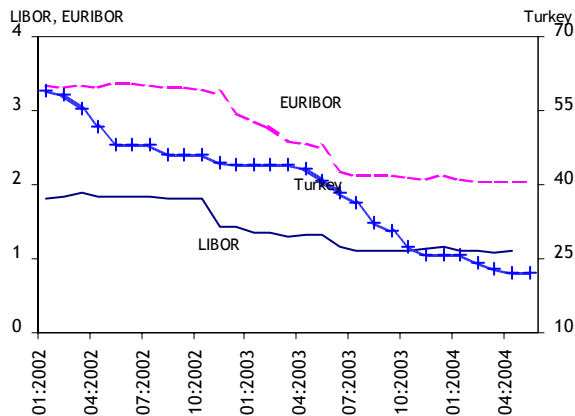
62. When the capital movements for March are analyzed by maturities, it is observed that capital inflow had long-term maturities while capital outflow were of short-term nature. However, it is observed that capital inflow in the first quarter of the year was overwhelmingly of short-term nature.

63. In January-March period, most part of the net direct capital investment amounting to US dollar 210 million stemmed from the loan that was taken up by a firm from abroad and converted into capital in February. The net investments of residents carried out abroad increased in the period in question. Meanwhile, the long-term credits extended to foreign companies by their affiliates abroad, which are registered under other capital item and accepted as direct capital investment, became US dollar 51 million.

DIRECT INVESTMENTS
(12-month, billion US dollar)

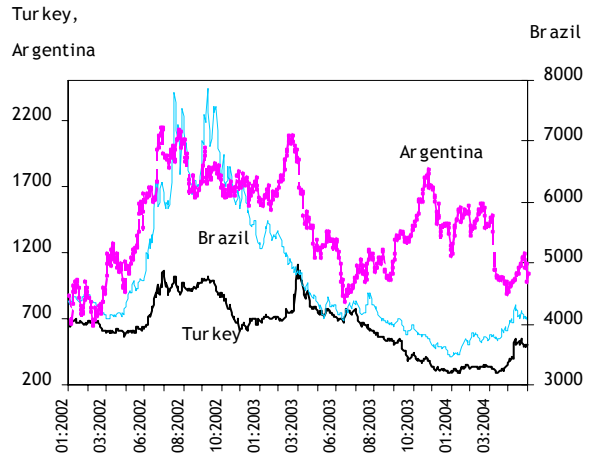


INTEREST RATES (monthly average, %)



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.

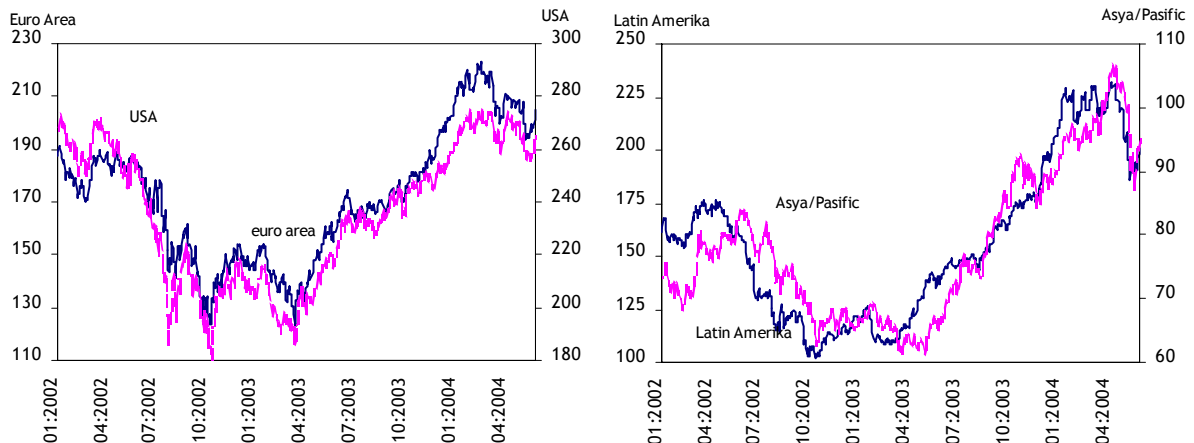
SECONDARY MARKET SPREADS (basis point)



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.

64. LIBOR and EURIBOR interest rates, which declined in line with the policies adopted by individual central banks throughout 2003, remained stable in the first 5 months of 2004. On the other hand, as of November, the central banks have started to raise interest rates again in order to avoid the inflationary impacts of economic revival. The Reserve Bank of Australia raised interest rates first on November the 5th and then on December the 3rd, and the Bank of England raised interest rates on November 6, 2003, February 5, 2004 and May 6, 2004, successively. Meanwhile, the ECB made no changes in interest rates while the Federal Reserve implied that it could raise interest rates in the near future. The mentioned implication instigated a rise in the spreads of developing countries and a decline in the prices of securities.

65. On the other hand, projecting that the future trend of inflation will be compatible with the end-year inflation target, CBRT eased short-term interest rates by 2 points to be affective from March 17, 2003.

66. The Turkish bond spreads, which had been fluctuating since the turn of 2003, have been displaying a downward trend since April 2003 that was marked by the end of the war in Iraq. A rapid decline has been observed in the spreads, especially as of September, with the effect of restoration of economic stability. Meanwhile, the spreads started to climb as of April 2004 due to expectations about a prospective upward trend in interest rates in international markets in line with FED's future interest rate policies. A similar trend was observed in developing economies such as Argentina, Brazil and Russia.

67. On March 8, 2004, the global rating agency Standard & Poors upgraded Turkey's long-term credit rating and local currency long-term rating upon seeing the steps regarding budget discipline taken by the Government and believing that the current account deficit would not pose a risk thanks to the high official reserves. Meanwhile, the Japanese credit rating agency JCR affirmed Turkey's credit rating but upgraded outlook from stable to positive.

PORTFOLIO INVESTMENT (monthly, USD million)

	2003						2004			Jan-Mar
	Jan-Mar	Agu	Sep	Oct	Nov	Dec	Jan	Feb	Mar	
Portfolio Investment	-75	632	1217	253	-552	402	1401	311	341	2053
Assets	71	21	-692	173	-316	-189	-105	-267	512	140
General Government	-6	-9	0	-2	-2	-5	0	0	0	0
Banks	272	101	-601	194	-309	-227	224	-59	346	511
Other Sectors	-195	-71	-91	-19	-5	43	-329	-208	166	-371
Liabilities	-146	611	1909	80	-236	591	1506	578	-171	1913
Equity Securities	52	174	311	131	192	57	-18	364	157	503
Debt Securities	-198	437	1598	-51	-428	534	1524	214	-328	1410
Monetary Authority	0	0	0	0	0	0	0	0	0	0
General Government	-198	437	1598	-51	-428	534	1524	214	-328	1410
In Turkey	-511	437	348	161	31	534	24	501	896	1421
Abroad	313	0	1250	-212	-459	0	1500	-287	-1224	-11
Banks	0	0	0	0	0	0	0	0	0	0

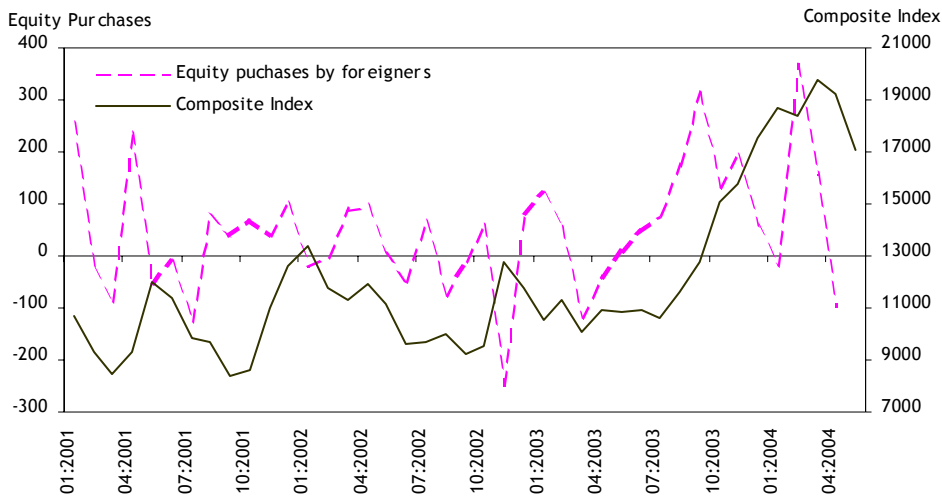
Source: CBRT.

68. Non-residents' demand for securities became the determinant factor of the portfolio investments in the first quarter. Securities portfolio composed of non-residents' government debt securities and equity securities increased by US dollar 1.1 billion in March. Nominal interest rates did not display a decline as much as the decline observed in expected inflation rates and nominal exchange rates, which in return pushed up expected real yield and increased non-residents' demand for government securities. In the mentioned period, the portfolio changes in non-residents' portfolios were mainly driven by the rise in the ISE index and price index of government domestic debt securities.

69. Non-residents' demand for equity securities, which displayed a rapid rise in the first quarter of 2004, decelerated in April. According to the data compiled by the ISE, non-residents sold US dollar 96.3 million and US dollar 59.6 million-worth of securities in April and May, respectively. Meanwhile, the price index of ISE government securities, which was

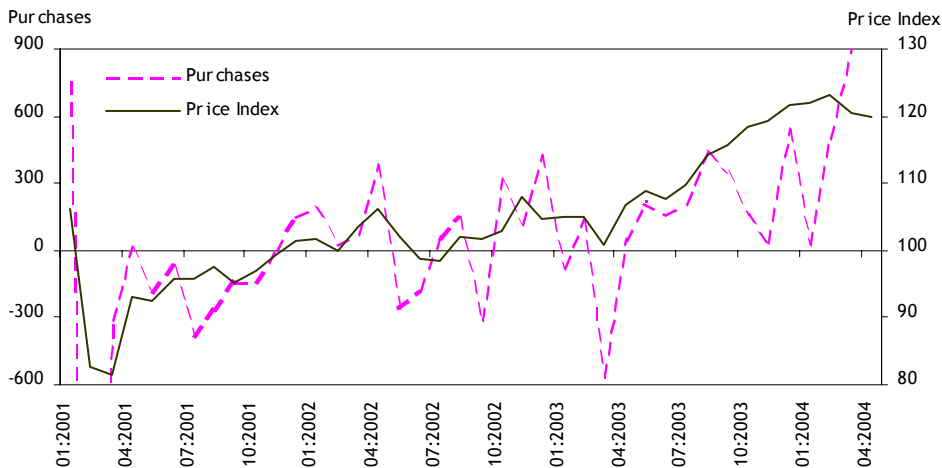
on the rise as of the second half of 2003, displayed a limited fall in March and April. Therefore, it is estimated that April and May would stage capital outflow through portfolio investments.

ISE EQUITY PRICES AND FOREIGNERS' NET PURCHASES



Source: CBRT, ISE.

GOVERNMENT DEBT SECURITY PRICES AND FOREIGNERS' NET PURCHASES

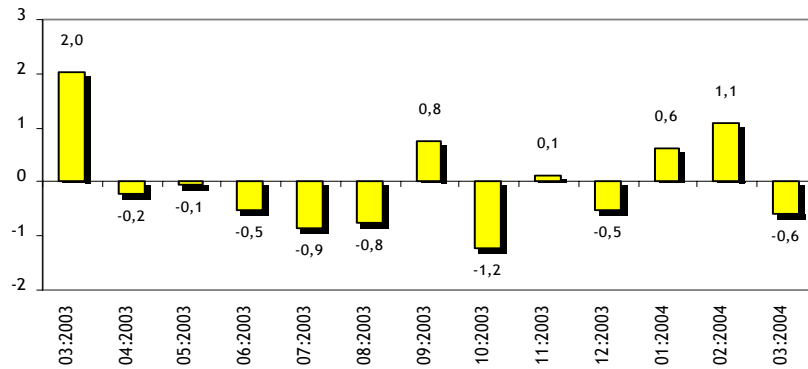


Source: CBRT, ISE.

70. The Treasury held two important bond auctions in January as a result of which US dollar 1.5 billion entered into account on January 14, 2004 and EURO 1 billion on February 10, 2004. The bond issues in question were remarkable as they marked the lowest rate of interest between the past US dollar and euro-denominated bond auctions.

71. The FX-holding items composed of the FX assets held by the banks with their correspondent banks abroad have been volatile throughout the first quarter of the year. In the period in question, the mentioned item decreased by US dollar 1.1 billion leading to a capital inflow of the same amount.

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

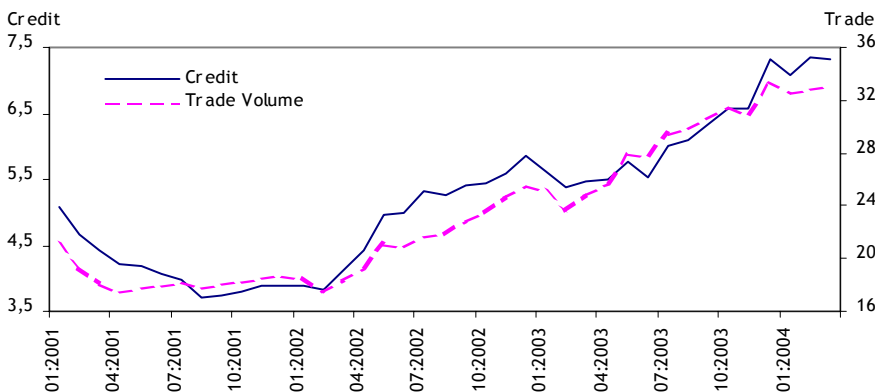


Source: CBRT.

† (+) sign indicates a decrease.

72. Rapid growth in foreign trade volume encouraged commercial credit utilization in the first quarter. Compared to the same period last year, foreign trade volume grew by 34.3 percent while commercial credit utilization increased by 34.0 percent and reached US dollar 7.3 billion. Of this total amount, US dollar 7.1 billion is comprised of short-term credits with maturities shorter than a year.

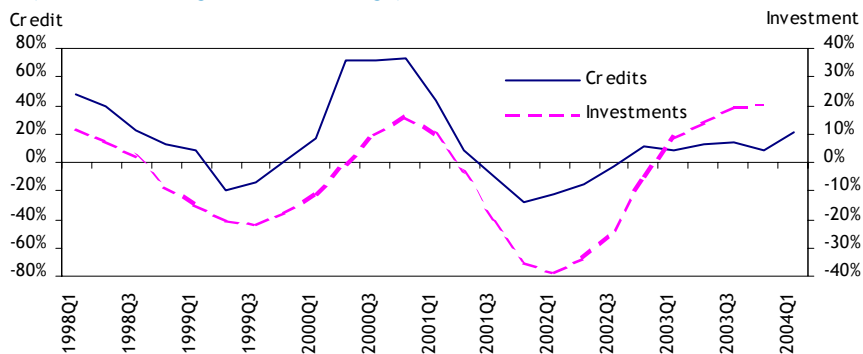
PRIVATE SECTOR COMMERCIAL CREDIT DRAWINGS and TRADE VOLUME
(3-month, USD billion)



Source: CBRT.

73. The banking sector continued the tendency of meeting financing needs through short-term credits in the first quarter of 2004 as well. The banks, which used net US dollar 2 billion-worth of short-term credits in 2003, used net US dollar 619 million-worth of short-term credits in the first quarter of 2004 and most part of this amount was used in March.

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



Source: CBRT, SIS.

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

75. In 2004, the Central Bank continued the repayments of the IMF loans used in 2001 and earlier. Thus, the amount repaid in January-March period reached US dollar 1.1 billion.

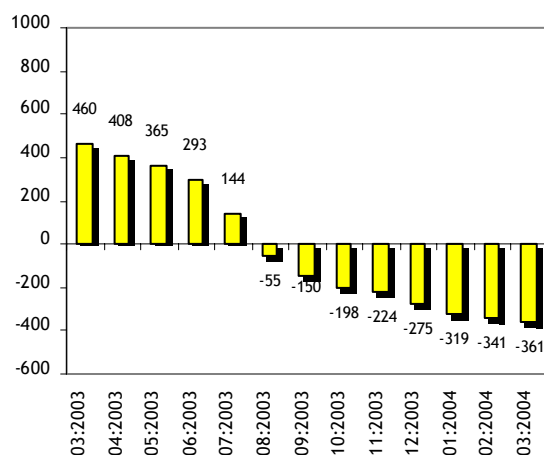
OTHER INVESTMENTS (monthly, USD million)

	2003									2004
	Jan-Mar	Agu	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Jan-Mar
Other Investment	3469	152	1170	-1899	-1086	1893	763	2078	-510	2331
Assets	3295	-751	649	-1625	279	-737	591	1826	-1269	1148
Trade Credits	-196	44	-37	-315	134	-158	-147	595	-611	-163
Credits	-486	-3	-33	-27	77	-12	147	181	-17	311
Currency and Deposits	4053	-752	760	-1238	104	-532	617	1078	-607	1088
Liabilities	174	903	521	-274	-1365	2630	172	252	759	1183
Trade Credits	313	52	208	486	-123	622	8	207	586	801
Credits	-777	635	190	-197	-1274	1867	239	56	182	477
Monetary Authority	-113	-348	-118	-191	-430	-123	-158	-491	-461	-1110
General Government	-555	445	-289	-237	-211	236	-166	-108	-286	-560
IMF Credits	-62	477	0	-65	0	503	-67	0	0	-67
Long Term	-493	-32	-289	-172	-211	-267	-99	-108	-286	-493
Banks	700	364	257	33	-348	1397	240	287	128	655
Long Term	-155	-265	133	79	212	61	-14	198	-148	36
Short Term	855	629	124	-46	-560	1336	254	89	276	619
Other Sectors	-809	174	340	198	-285	357	323	368	801	1492
Long Term	-764	171	323	199	-307	356	318	309	779	1406
Short Term	-45	3	17	-1	22	1	5	59	22	86
Deposits	639	191	102	-571	31	141	-75	1	-12	-86
Monetary Authority	89	148	66	43	12	6	1	10	-5	6
Long Term	35	-49	-41	-33	-14	-13	-23	-8	-20	-51
Short Term	54	197	107	76	26	19	24	18	15	57
Banks	550	43	36	-614	19	135	-76	-9	-7	-92

Source: CBRT.

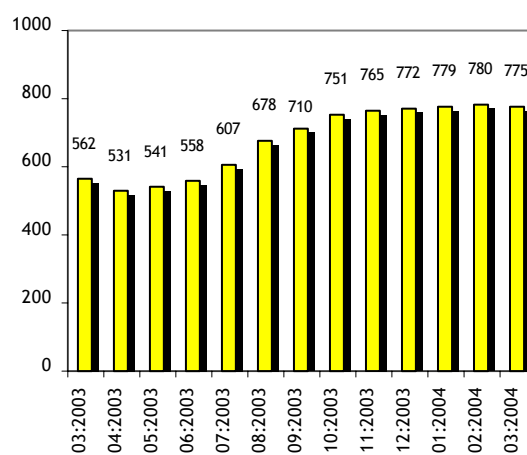
INFLOW IN FOREIGN CURRENCY ACCOUNTS WITH CREDIT LETTERS AND SUPER FX ACCOUNTS (12-month, USD billion)

LONG TERM



Source: CBRT.

SHORT TERM



Source: CBRT.

76. An outflow is observed in the volume of long-term FX deposit accounts with credit letters and super FX accounts held at the Central Bank by the workers abroad since April 2003. Especially, the interest rate cut-down operations, which were concentrated in the second half of 2003, are believed to be the primary factor in this outflow. The interest rates on these accounts were reduced as of March 1, 2004 again. Meanwhile, no significant movement was observed in short-term accounts.

77. The FX deposits held at the domestic banks by foreign banks, which recorded an inflow throughout 2003, declined by net US dollar 171 million in the first quarter of 2004 and led to a capital outflow of the same amount.

78. Total external debt stock increased by US dollar 16.3 billion compared to the year 2002 and reached US dollar 147.3 billion by the end of 2003. The medium-long term debts, which make up 84.4 percent of the total external debt stock, increased by 8.6 percent while short-term debts increased by 39.6 percent. The parity effect resulting from cross exchange rates has led to a US dollar 10.8 billion rise in external debt stock in 2003. Meanwhile, the monthly short-term debt stock announced by the Central Bank, which was recorded US dollar 22.9 by the end of 2003, reached US dollar 23.9 billion by March. The main determinant of the rise in short-term debt stock was the short-term credits taken up by the banks as well as non-banking private sector's short-term trade credits from abroad.

79. The Central Bank and the public sector repaid US dollar 8.4 billion of external debt principal and interest in January-May 2004 period. Meanwhile, the Central Bank drew up US dollar 5.1 billion worth of foreign exchange by means of foreign exchange buying auctions and direct purchasing interventions. Thus, the Central Bank reserves, which was US dollar 33.6 billion by the end of 2003 reached US dollar 33.1 billion by May 28, 2004.

80. The Central Bank kept holding foreign exchange buying auctions in March-April period, however suspended these auctions as of April 27, 2004. Meanwhile, on May 11, 2004, the Central Bank intervened into the markets by directly selling foreign exchange due to the excessive volatility in exchange rates.

81. External financing requirement, defined as the sum of the current account balance and the net errors and omissions item, became US dollar 4.8 billion in the first quarter of 2004. Although the net errors and omissions item yielded a surplus, financing requirement increased due to the current account deficit. Financing requirement was extensively covered by portfolio movements; and long-term credits and commercial credits used by the non-banking private sector. In terms of sub items, portfolio movements were comprised of the Treasury's bond auctions and non-residents' purchases of securities. Banks continued to use net foreign credits in the same period. As financing requirement surpassed capital inflow, the Central Bank and banking sector reserves decreased by US dollar 1.3 billion.

EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)										
	2003									2004
	Jan-Mar	Agu	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Jan-Mar
1. Current Account Balance	-2761	920	705	88	-431	-2808	-889	-2117	-2029	-5035
2. Net Error and Omission	-1277	-337	325	274	174	1869	-1101	-854	2152	197
I. Total Financing Requirement (=1+2)	-4038	583	1030	362	-257	-939	-1990	-2971	123	-4838
II. Total Financing (=1+2+3)	4038	-583	-1030	-362	257	939	1990	2971	-123	4838
1. Capital Flows (net)	-501	1470	1715	-229	-1259	2508	1790	2088	835	4713
Portfolio Investments (net)	-75	632	1217	253	-552	402	1401	311	341	2053
General Government Bond Issues	313	0	1250	-212	-459	0	1500	-287	-1224	-11
Foreigners' Buying of Bonds and Stocks in Turkey	-459	611	659	292	223	591	6	865	1053	1924
Residents Buying of Bonds and Stocks Abroad	71	21	-692	173	-316	-189	-105	-267	512	140
Credits (excl. IMF credits)	-289	558	516	545	-967	2109	472	754	1229	2455
General Government	-493	-32	-289	-172	-211	-267	-99	-108	-286	-493
Banks	700	364	257	33	-348	1397	240	287	128	655
Long Term	-155	-265	133	79	212	61	-14	198	-148	36
Short Term	855	629	124	-46	-560	1336	254	89	276	619
Other Sectors	-496	226	548	684	-408	979	331	575	1387	2293
Long Term	-764	171	323	199	-307	356	318	309	779	1406
Short Term	-45	3	17	-1	22	1	5	59	22	86
Trade Credits	313	52	208	486	-123	622	8	207	586	801
Deposits	639	191	102	-571	31	141	-75	1	-12	-86
Central Bank	89	148	66	43	12	6	1	10	-5	6
Banks	550	43	36	-614	19	135	-76	-9	-7	-92
Others	-776	89	-120	-456	229	-144	-8	1022	-723	291
2. IMF Credits	-175	129	-118	-256	-430	380	-225	-491	-461	-1177
Central Bank	-113	-348	-118	-191	-430	-123	-158	-491	-461	-1110
General Government	-62	477	0	-65	0	503	-67	0	0	-67
3. Change in Reserves (- increase)	4714	-2182	-2627	123	1946	-1949	425	1374	-497	1302
Banks' FX Holdings	4053	-752	760	-1238	104	-532	617	1078	-607	1088
Official Reserves	661	-1430	-3387	1361	1842	-1417	-192	296	110	214

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	8480	-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	896	-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	-5204	-5290	13279	877	-20679	945	1713	-1464	-941	605	193
<i>(monthly)</i>											
2003 Apr	-896	-959	3662	287	-5211	286	442	-387	-312	164	45
May	-718	-986	3860	359	-5532	639	773	-525	-486	154	51
Jun	-715	-1284	3796	308	-5727	737	1044	-336	-308	168	55
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	-1007	-1138	4507	256	-6276	388	602	-451	-219	194	81
Feb	-2102	-1803	3646	280	-6092	162	503	-631	-412	170	54
Mar	-2095	-2349	5126	341	-8311	395	608	-382	-310	241	58
<i>(12-month)</i>											
2003 Apr	-3646	-9780	38515	3903	-55513	7860	8785	-4858	-4529	3132	1597
May	-3879	-9906	39434	3806	-56511	7890	8776	-4917	-4497	3054	1494
Jun	-4310	-10143	40294	3868	-57739	7830	8790	-4926	-4495	2929	1358
Jul	-5166	-10749	41319	3924	-59529	7824	8957	-5090	-4553	2849	1243
Agu	-5473	-11193	42451	3922	-61196	8263	9642	-5299	-4546	2756	1111
Sep	-4993	-11798	43304	3926	-62752	9539	11072	-5359	-4567	2625	1014
Oct	-4805	-12508	44201	3916	-64448	10492	12176	-5357	-4571	2568	939
Nov	-5151	-12791	45524	3955	-66193	10677	12652	-5477	-4606	2440	898
Dec	-5356	-12711	45900	3928	-66476	10743	12984	-5490	-4561	2102	807
2004 Jan	-6850	-14034	47253	3953	-69340	10505	13203	-5427	-4586	2106	729
Feb	-7635	-14704	48226	4046	-71190	10617	13428	-5631	-4596	2083	758
Mar	-8473	-15789	48948	4028	-73096	10619	13513	-5441	-4537	2138	769

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								
					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	1875	1875	76	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
	<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	4038	4038	-17	-75	71	52	-198	3469	4053	174	313	-113	-555	700	-809	89	550
II	-1326	-1326	1	934	-521	15	1440	-1067	-801	82	313	-156	-4	-1058	668	25	264
III	-1671	-1671	55	1607	-604	562	1649	1967	-862	3016	570	-466	6	1251	746	322	517
IV	834	834	37	103	-332	380	55	-1092	-1666	991	985	-744	-212	1082	270	61	-460
2004 I	4897	4897	240	2053	140	503	1410	2390	1074	1301	912	-1110	-560	654	1500	6	-92

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	Liabilities						Deposits		
						Equity Securities	Debt Securities			Net	Trade Credits	Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks	
		(monthly)																
2003	Apr	113	113	-10	-292	-129	-42	-121	495	-234	934	39	0	481	-183	252	1	341
	May	-850	-850	41	592	-77	9	660	-850	-55	-636	143	-39	-158	-776	324	23	-165
	Jun	-589	-589	-30	634	-315	48	901	-712	-512	-216	131	-117	-327	-99	92	1	88
	Jul	-58	-58	22	-242	67	77	-386	645	-870	1592	310	0	-150	630	232	108	438
	Agu	-583	-583	63	632	21	174	437	152	-752	903	52	-348	445	364	174	148	43
	Sep	-1030	-1030	-30	1217	-692	311	1598	1170	760	521	208	-118	-289	257	340	66	36
	Oct	-362	-362	-77	253	173	131	-51	-1899	-1238	-274	486	-191	-237	33	198	43	-614
	Nov	257	257	53	-552	-316	192	-428	-1086	104	-1365	-123	-430	-211	-348	-285	12	19
	Dec	939	939	61	402	-189	57	534	1893	-532	2630	622	-123	236	1397	357	6	135
2004	Jan	2000	2000	18	1401	-105	-18	1524	773	617	216	44	-158	-166	240	331	1	-76
	Feb	2972	2972	286	311	-267	364	214	2079	1078	258	212	-491	-108	287	369	10	-9
	Mar	-75	-75	-64	341	512	157	-328	-462	-621	827	656	-461	-286	127	800	-5	-7
		(on iki aylık)																
2003	Apr	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
	May	3205	3205	715	-1502	-1055	-170	-277	6152	1526	6350	2405	-113	2039	318	-325	940	996
	Jun	2501	2501	500	-196	-633	-164	601	5753	3022	4420	2139	-152	1940	-1049	-130	908	678
	Jul	1692	1692	440	1061	-1049	-65	2175	4488	2180	3995	2092	-269	1754	-1195	14	853	660
	Agu	1825	1825	467	796	-968	-52	1816	4315	2005	3950	2016	-269	540	-381	30	752	1173
	Sep	1878	1878	318	1578	-734	198	2114	3343	675	4054	1999	-617	-690	763	392	624	1487
	Oct	1654	1654	259	3136	-1408	519	4025	5042	1804	4605	1924	-735	-857	1240	836	561	1539
	Nov	1065	1065	-92	2798	-1455	594	3659	3234	1021	3753	2287	-926	-1025	1024	1058	554	682
	Dec	1156	1156	-36	2306	-1345	1033	2618	1624	956	2099	1865	-1356	-1144	973	516	541	603
2004	Jan	1875	1875	76	2569	-1386	1009	2946	3277	724	4263	2181	-1479	-765	1975	875	497	871
	Feb	2740	2740	100	2862	-1273	872	3263	2008	-237	4051	2271	-1637	-763	2023	991	460	598
	Mar	3503	3503	398	3554	-1653	1184	4023	3091	381	4018	2513	-2128	-691	2086	1283	439	420

Source: CBRT.