

**CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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**BALANCE OF PAYMENTS  
REPORT**

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**October 2003**

**SUMMARY**

BALANCE OF PAYMENTS (USD million)						
	October			January-October		
	2002	2003	% Change	2002	2003	% Change
Current Account Balance	434	-119	..	18	-4103	..
Foreign Trade Balance	-1329	-1895	42.6	-11999	-17254	43.8
Exports	3501	4693	34.1	29223	38317	31.1
Imports	-4830	-6588	36.4	-41222	-55571	34.8
Exports/Imports	72.5%	71.2%	..	70.9%	69.0%	..
Capital and Financial Accounts	301	-519	..	1127	27	..
Financial Account (Excl. Off. Reserves)	848	-1880	..	6877	4499	..
Change in Official Reserves†	-547	1361	..	-5750	-4472	..

Source: CBRT.

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

**In October 2003;**

Exports increased by 34.1 percent compared to the same month of the previous year and rose to US dollar 4.7 billion from US dollar 3.5 billion. During the same period, imports rose by 36.4 percent from US dollar 4.8 billion to US dollar 6.6 billion. Hence, foreign trade deficit realized as US dollar 1.9 billion and the ratio of exports to imports became 71.2 percent. Current account and financial account excluding official reserves produced a deficit of US dollar 119 million and US dollar 1.9 billion, respectively.

**In January-October 2003;**

Exports increased by 31.1 percent compared to the same month of the previous year and rose to US dollar 38.3 billion from US dollar 29.2 billion. During the same period, imports rose by 34.8 percent from US dollar 41.2 billion to US dollar 55.6 billion. Hence, foreign trade deficit realized as US dollar 17.3 billion and the ratio of exports to imports dropped compared to the same period of the previous year and became 69 percent. Current account produced a deficit of US dollar 4.1 billion, while financial account excluding official reserves provided a surplus of US dollar 4.5 billion.

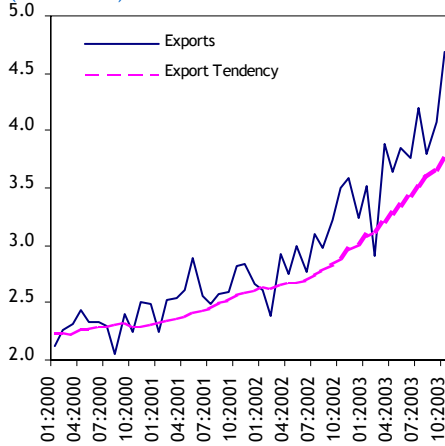
**In 12-month Period;**

The 12-month exports increased by 30 percent compared to the same period of the previous year and rose to US dollar 45.2 billion. During the same period, imports grew by 36.7 percent and rose to US dollar 65.9 billion. Foreign trade deficit realized as US dollar 20.7 billion and the ratio of exports to imports became 68.5 percent. Current account produced a deficit of US dollar 5.6 billion, while financial account excluding official reserves provided a surplus of US dollar 5.4 billion.

## SUMMARY

### EXPORTS

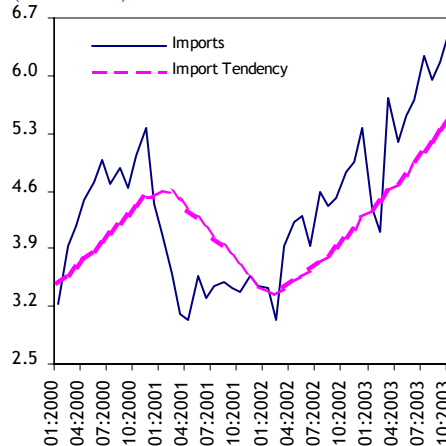
(USD billion)



Source: SIS.

### IMPORTS

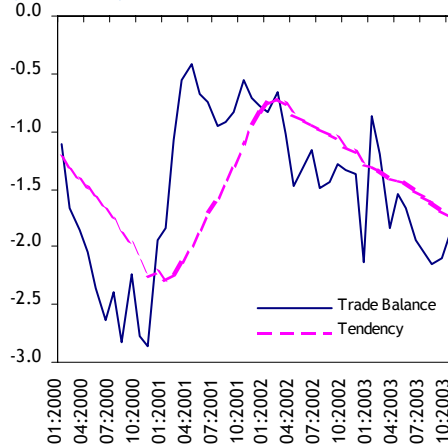
(USD billion)



Source: SIS.

### TRADE BALANCE

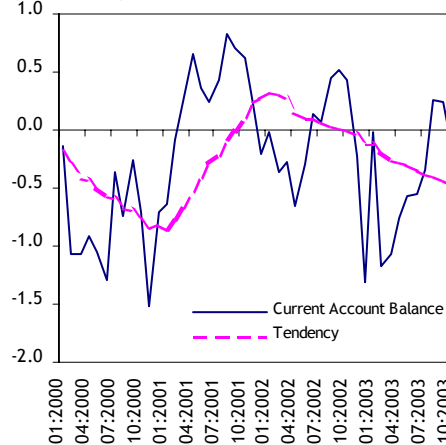
(USD billion)



Source: SIS.

### CURRENT ACCOUNT BALANCE

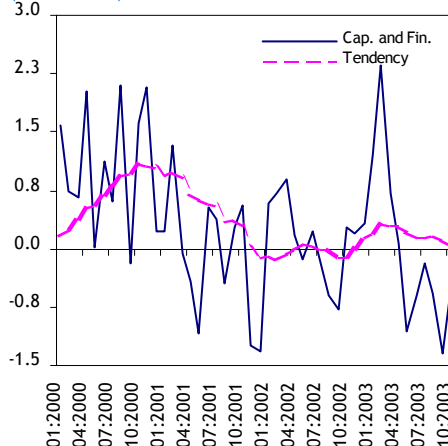
(USD billion)



Source: CBRT.

### CAPITAL and FINANCIAL ACCOUNT

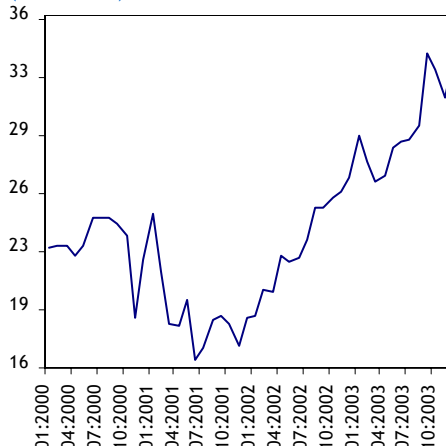
(USD billion)



Source: CBRT.

### CBRT INTERNATIONAL RESERVES

(USD billion)



Source: CBRT.

Trends are calculated with 12-month moving average.

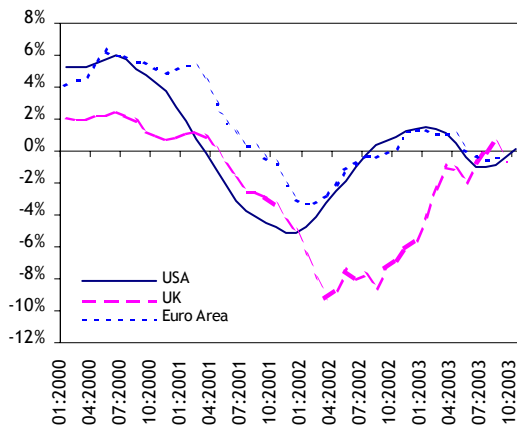
## I. FACTORS AFFECTING FOREIGN TRADE

### Foreign Demand Developments

1. In 2003, the growth in the world economy is continuing in line with the economic revival especially observed in the USA, Eastern Asia and Japan in the third quarter of the year. According to various international reports, the world economy is expected to grow by around 3-3.5 percent in 2003.
2. The USA GDP, which has been expanding since 2002, maintained this trend increasingly in the third quarter of the year as well. The main determinant of this growth was the upsurge in private consumption expenditures. The revival, mainly in housing as well as in fixed capital investments and exports, is continuing. The USA GDP is generally expected to expand about 2 percent in the fourth quarter. On the other hand, in line with the recovery in the economy, the expansion in foreign trade deficit and current account deficit is still persisting.
3. In October, euro area economy grew due to exports. While October industrial production data for Germany and France point at an economic recovery, the upsurge in retail sales in these countries in October gives signals for revival in domestic demand. The appreciation of euro is expected to curb exports. However, it is also expected that foreign demand stemming from the growth in the USA economy and the increase in world trade volume will offset this impact. Besides, the domestic demand is anticipated to make a significant contribution to the growth.
4. Despite the weakness in demand in the European Union, especially in continental Europe, the recovery signs, which was observed in United Kingdom (UK) by the second half of 2002, lost pace in the first quarter of 2003. But it re-accelerated as of the second quarter of the year. Low level of interest rates supported the economic revival. UK's growth is expected to be 2 percent in 2003 and 2.6 percent in 2004.
5. The Japanese economy grew by 2.3 percent in the third quarter of the year. Foreign demand for Japanese exports, mainly from regional economies, stood as the determinant factor in the growth. In line with the revival in Eastern Asian economies, mainly China, and in the USA economy, the Japanese exports maintained its upward trend in October as well. On the other hand, the increase in the Japanese imports was rather sluggish. Despite the recovery in consumer confidence indices, the increase in consumption expenditures was limited as well. It is anticipated that the revival in fixed capital expenditures and consumption besides the upsurge in exports will be Japan's growth engine.

#### INDUSTRIAL PRODUCTION

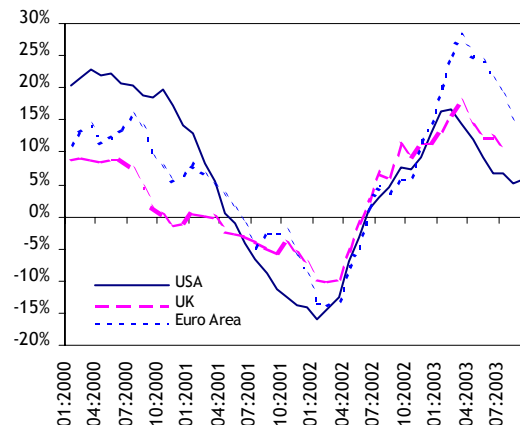
(seasonally adjusted, 3 month-moving average, annual percentage change)



Source: IMF, ECB.

#### IMPORTS

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

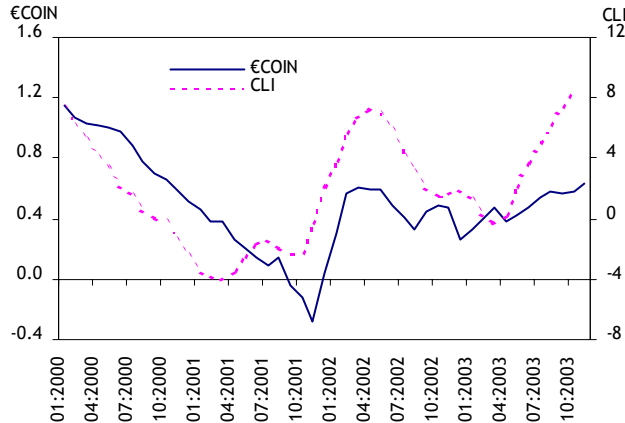


Source: IMF, ECB.

6. The composite leading indicators (CLI) issued by OECD for October reveal that the economic performance of OECD countries is continuing to recover. The six-month growth rate of leading indicators has been increasing since April. This development confirms the strengthening trend in the world economy. When the leading indicators are analyzed by countries, it is observed that the USA, Germany, France and Turkey are giving strong recovery signals.

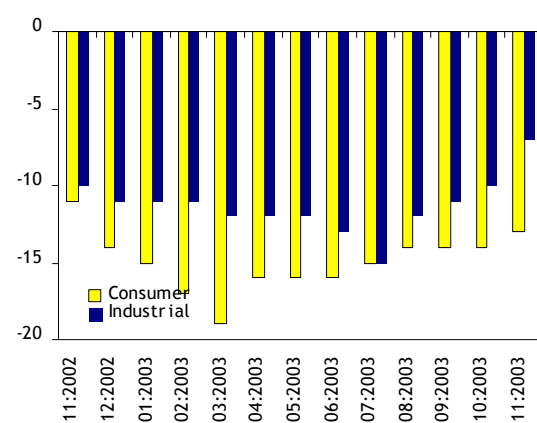
7. Coincident Indicator (EuroCOIN), which provides monthly GDP growth expectations points at a limited revival in the economic activity in the euro area.

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



Source: CEPR, OECD.

CONSUMER & INDUSTRIAL CONFIDENCE: EU  
(seasonally adjusted)



Source: Eurostat.

8. Due to the appreciation of euro, euro area imports shifted from regional countries to non-regional countries. This development had a favorable effect on euro area imports from Turkey. Hence, euro area imports from Turkey rose by 10 percent during January-September period and became the highest rate of increase after China (15 percent). In this period, euro area imports from Turkey were at the tenth rank among the area's trade partners. Initial indicators shows that the foreign trade deficit with non-regional countries continued in October as well.

9. The real exchange rate in Czech Republic, the largest economy among the EU candidates, has depreciated in recent months and the rate of increase in its exports has accelerated in line with this development. In Czech Republic, a recovery is observed in all sectors, mainly investment demand and net exports. The Czech GDP is predicted to grow by 2.6 percent in 2003.

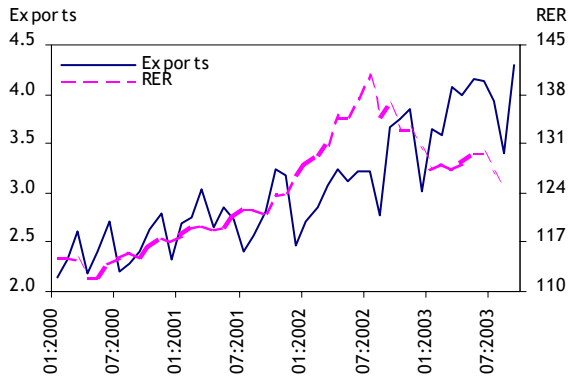
10. In the Polish economy, especially a manufacturing industry export-originated growth was observed in 2003. The Polish economy, which was expected to grow by 4 percent in the third quarter of the year, showed the most rapid growth among Middle European countries.

11. The Hungarian GDP rose by 2.9 percent in the third quarter of the year following the stagnation observed in the first half of the year. Moreover, foreign trade deficit expanded during this period. High tax rates, which restricted private consumption and the interest rates that have been raised against the depreciation of forint are the main developments that may slacken the economic growth.

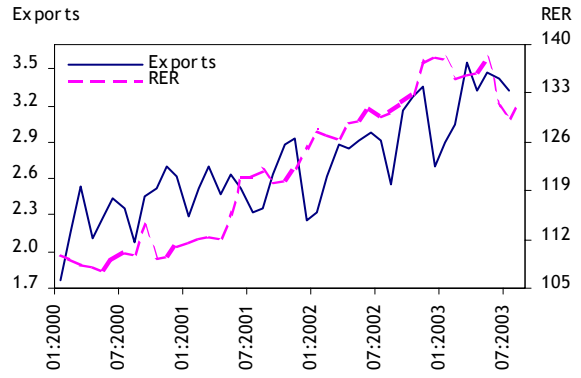
12. In China, GDP and exports are expected to increase by 8.5 percent and 11 percent in 2003, respectively. The revival in OECD countries and the shift of the manufacturing industry capacity to China from high costed countries became the determinant factors in China's growth.

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

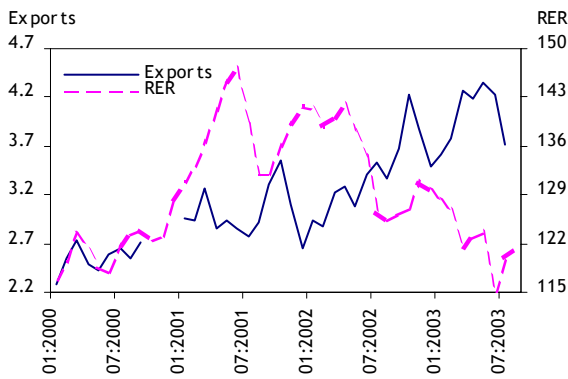
CZECH REPUBLIC



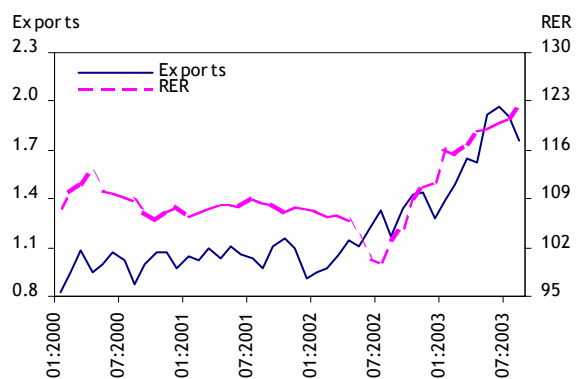
HUNGARY



POLAND

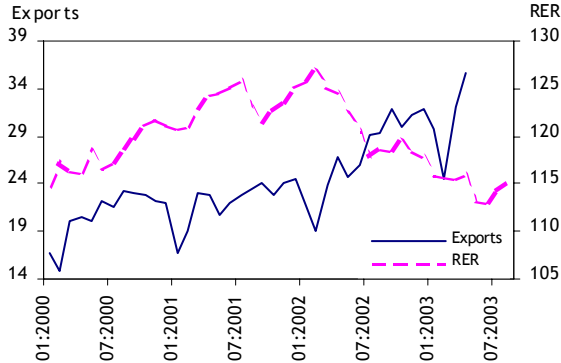


SLOVAK REPUBLIC

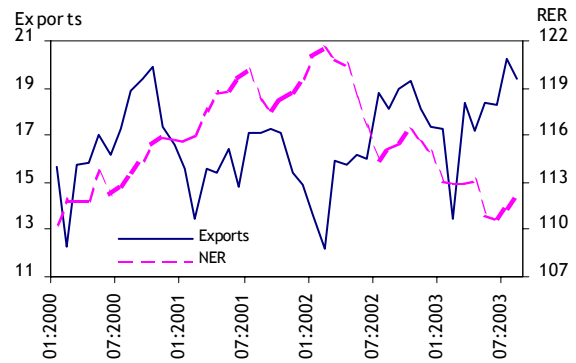


EXPORTS IN RIVAL COUNTRIES (billions US dollars) AND REAL EXCHANGE RATE (1995=100)†

CHINA



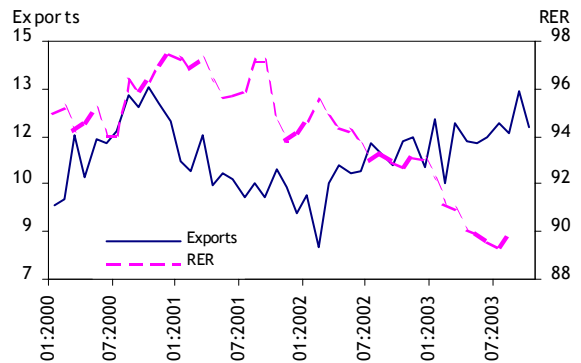
HONG KONG††



MALAYSIA



SINGAPORE



† 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.

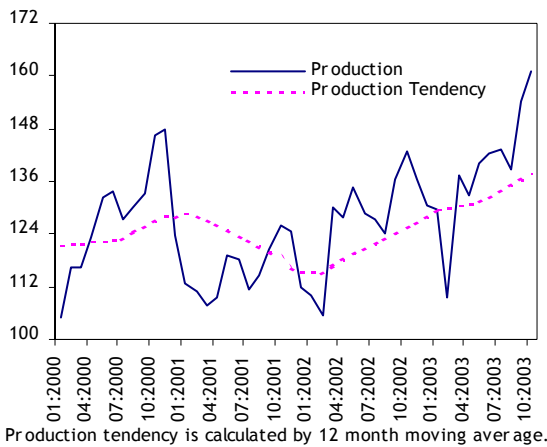
Source: IMF.

### Developments in Domestic Demand and Production

13. In the third quarter of 2003, gross domestic product (GDP) increased by 4.8 percent compared to the same period of the previous year. In the first three quarters of the year, the growth became 5.4 percent compared to the same period of the previous year. In the third quarter, growth mainly resulted from the limited recovery in domestic demand and the industrial production that improved due to rapid increases in exports. Nevertheless, the decline in agricultural sector value added during this period slackened the economic growth.

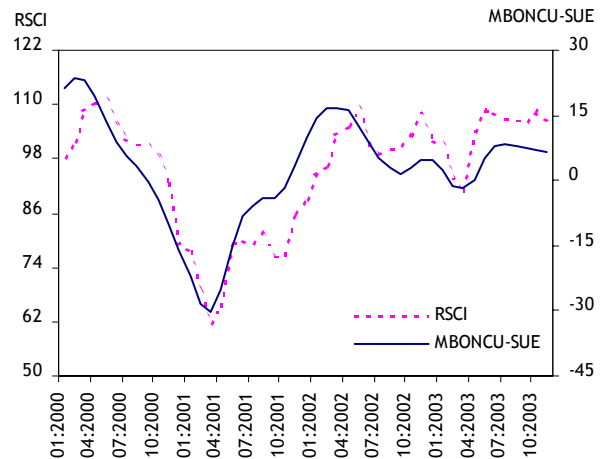
14. In the third quarter of 2003, agricultural sector value added dropped by 1 percent compared to the same period of the previous year. This decline stemmed from the drop in the production of cereals, leguminous seeds and field products due to the seasonal factors observed in odd years. On the other hand, industrial sector value added rose by 8.1 percent in the same period. The recovery in domestic demand, the downward trend observed in real interest rates and the upsurge in exports were the leading factors that have explained the growth in the industrial sector value added.

MANUFACTURING INDUSTRY PRODUCTION  
(1994=100)



Source: SIS.

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



Source: CBRT.

15. Industrial production maintained its high-rated upward trend in October that has initiated in June. In October, manufacturing industrial production rose by 12.6 percent compared to the same month of the previous year and by 9.5 percent in January-October period. According to the seasonally adjusted data, manufacturing industry production increased by 0.5 percent compared to the previous month.

16. The limited recovery signs in the first quarter of the year have started to strengthen relatively. In January-October period, production increased in the sectors sensitive to domestic demand such as manufacture of food, clothing and chemicals compared to the same period of the previous year. Moreover, the high-rated increases in manufacture of machinery-equipment since March of 2002 support the opinion that firms have accelerated their investment expenditures for the future. The limited recovery in domestic demand was observed especially in durable consumption goods. Hence, the increases in consumer credits recorded in recent months support these developments.

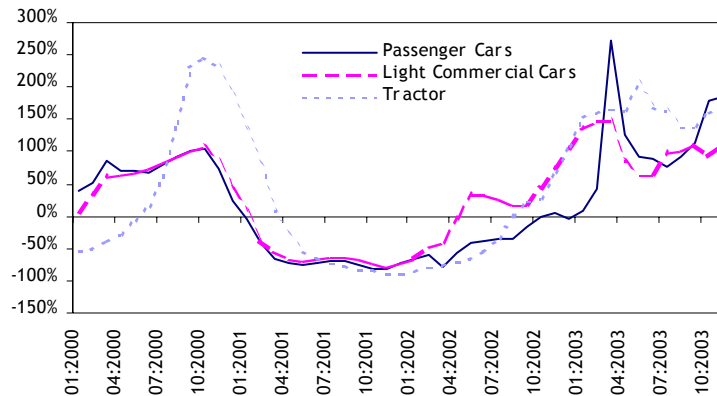
17. According to the SIS Manufacturing Industry Monthly Survey results, the manufacturing industry production in private manufacturing industry is expected to increase by 15 percent in November and by 25.2 percent in December compared to the same month of the previous year. Expectations show that manufacturing industry production will display a rapid increase in the last quarter of 2003 similar to the third quarter of the year. Besides, according to the SIS data, capacity utilization rate in manufacturing industry realized as 79.9 percent in October.

18. The rate of change for the six-month of Composite Leading Indicators Index (MBONCU-SUE) compiled by the Central Bank of Turkey (CBT) began to acquire a positive

value by April and displayed an upward trend. The index maintaining a high level also in November indicates that industrial production will not decline in this period.

19. Moreover, Real Sector Confidence Index (CBRSCI), captured high levels by the second quarter of the year. According to the said index, a slowdown is not expected in the economic activities during the following period.

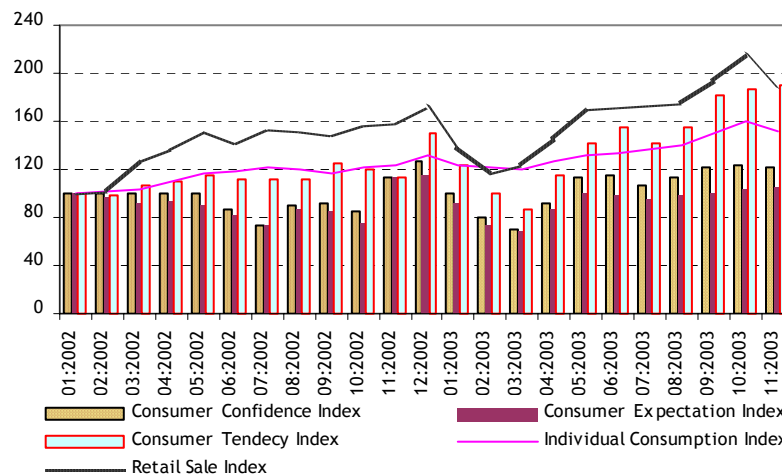
**TRANSPORTATION VEHICLES SALES: GROWTH RATE**  
(3-month moving average, annual % change)



Source: Automobile Industry Association.

20. The rise in the sales of vehicles is considered to be an indicator of recovery in domestic demand. In November according to the three-month averages, sales of automobiles and light commercial vehicles boosted by 186.5 percent and 109.9 percent, respectively.

**CNBC-e INDICES (January 2002=100)**



Source: NTVMSNBC.

21. Leading indicators of consumption demand such as Consumer Confidence Index and Consumption Tendency Index compiled by CNBC-e has maintained the increasing trend in November that has initiated by the end of Iraq war. In November, the indices rose by 1.1 percent and 1.2 percent, respectively. On the other hand, the increasing trend up until October of Individual Consumption Index and Retail Sale Index compiled by CNBC-e began to lose ground in November.

### Prices

22. Since April the downward trend of the nominal foreign exchange basket, which comprises of USD 1+ euro 0.77, against the Turkish lira was reversed in October and November. However, in December the nominal foreign exchange basket dropped 0.6 percent against the Turkish lira. In November, the real depreciation of the Turkish lira was 1.8 percent according to the CPI-based index and 1.6 percent according to the WPI-based index.



Nevertheless, the value of the real exchange rate is still higher by 11.9 percent according to the CPI-based index and by 7.9 percent according to the WPI-based index as compared to the year-end of 2002.

23. Euro, which has been gaining strength against the dollar since 2002, maintained its course in December. Euro appreciated 5.2 percent against the US dollar in December and as a result the monthly average euro/dollar parity rose to 1.2266 in December from 1.1662 in November. The euro/USD parity, which was 1.0422 at the end of 2002 rose to 1.2502 at the end of 2003.

#### REAL EFFECTIVE EXCHANGE RATE (monthly percentage change)†

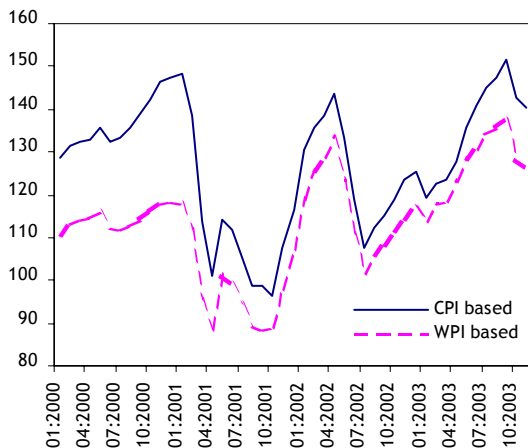
	Dec	2003											
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	
Turkey													
CPI based	1.4	-4.9	2.9	0.7	3.6	6.2	3.5	3.2	1.4	2.9	-5.7	-1.8	
WPI based	2.4	-2.8	3.6	0.6	4.1	4.1	1.6	3.0	1.2	1.1	-6.6	-1.6	
Czech Republic	-2.3	-2.1	0.6	-0.6	0.7	1.2	0.2	-2.2	-1.8				
Slovakia	0.5	4.5	-0.8	1.1	1.7	0.3	0.8	0.3	1.3				
Hungary	0.5	-0.1	-2.2	0.4	0.4	1.5	-5.1	-1.3	1.7				
Poland	-1.1	-1.0	-1.2	-4.1	1.2	0.7	-7.2	4.3	1.1				
Hong Kong ††	-0.6	-1.6	-0.1	0.0	0.2	-2.0	-0.2	0.6	0.5				
Malezia	-1.1	-2.1	-0.1	-0.4	0.5	-4.1	-0.2	1.0	0.6				
Singapore	-0.1	-0.9	-1.2	-0.3	-0.9	-0.2	-0.3	-0.3	0.7				
China	-0.6	-1.6	-0.1	-0.2	0.3	-2.3	-0.2	1.0	0.7				

Source: CBRT, OECD, IMF.

† Increase implies real appreciation of the currency.

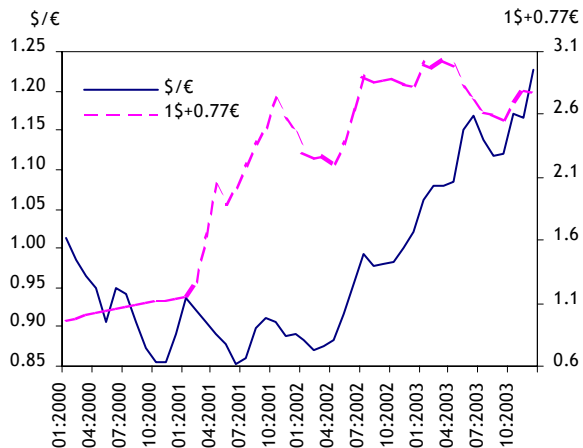
†† Due to data limitations, nominal effective exchange rate is used for Hong Kong.

#### REAL EFFECTIVE EXCHANGE RATE (1995=100)†



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

#### USD/EURO PARITY and NOMINAL EXCHANGE RATE BASKET



24. The depreciation of the terms of trade in 2002 ceased by 2003 and the terms of trade improved by July. However, the terms of trade depreciated 3 percent in August as to the previous month.

25. In August, export prices dropped by 1.4 percent as to the previous month. The downward trend of the export prices that are calculated on the basis of three month-averages slowed down in July and August. In August, the decline in export price indices of textile, clothing and motor vehicles, which are the leading export items of the manufacturing industry, were above the fall in the general index.

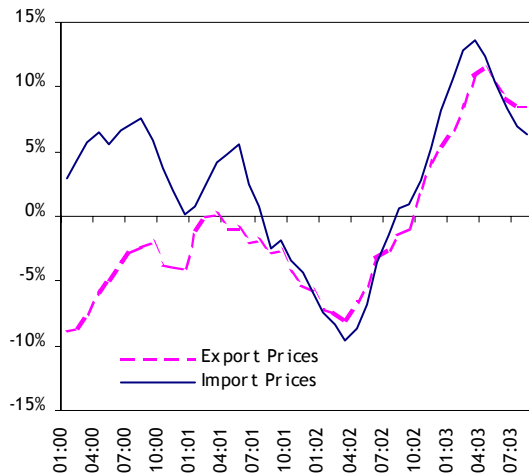
26. In August, import prices rose by 1.6 percent as to the previous month. The import prices of the manufacturing industry has not displayed a significant change in August as to

the previous month, however the 3.9 percent increase mainly in crude oil price index during the said period has been substantial on import price increases.

EXPORT and IMPORT PRICE INDICES (1994=100)												
					2003							
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Export Price Index	83.9	84.4	85.3	87.7	89.6	92.7	92.3	91.1	89.7	91.4	92.2	90.9
Manufacturing	84.4	84.3	85.1	87.7	89.9	93.4	93.1	91.7	89.9	91.8	93.0	91.4
Textiles	79.0	78.7	82.0	85.2	86.9	90.0	87.5	86.7	87.3	88.8	90.1	85.9
Wearing Apparel	86.6	83.8	85.0	91.7	94.5	99.1	97.5	94.4	91.4	97.3	101.8	97.0
Chemicals & Products	85.4	86.4	87.3	88.2	89.8	92.5	92.9	92.2	88.3	89.9	88.1	87.7
Manufacture of Basic Metals	87.0	88.5	90.6	89.3	90.6	98.7	104.8	107.7	102.5	100.5	101.3	103.1
Manufacture of Mach. & Equ.	80.1	81.2	79.9	83.7	85.2	85.5	83.0	83.2	83.9	85.9	84.8	85.0
Electrical Mach. & Apparatus	72.5	74.1	72.9	75.6	76.3	74.3	72.1	69.0	68.4	70.2	68.4	69.6
Motor Vehicles & Trailers	91.4	93.5	93.5	95.0	93.3	94.2	96.3	96.6	94.8	98.6	101.6	98.6
Import Price Index	96.7	97.1	96.4	98.9	100.7	102.9	101.2	100.1	100.4	98.6	99.4	101.0
Mining & Quarrying	153.9	161.0	145.0	157.1	169.2	179.2	169.6	160.0	151.7	158.0	159.6	165.7
Crude Oil & Natural Gas	163.0	170.2	151.3	166.6	178.5	190.6	181.3	169.1	162.5	169.8	172.2	179.0
Manufacturing	90.3	90.2	91.3	92.4	91.9	93.4	93.6	94.3	95.1	93.2	93.5	93.5
Textiles	82.7	84.8	85.0	88.1	84.0	85.2	87.9	91.6	90.3	91.3	89.4	88.2
Chemicals & Products	94.1	92.9	95.2	97.4	97.1	100.8	100.7	104.1	104.7	101.5	100.0	99.3
Manufacture of Basic Metals	85.2	84.2	89.0	91.5	93.0	95.8	94.9	97.4	95.9	94.7	97.1	98.8
Manufacture of Mach. & Equ.	91.6	91.6	94.7	97.5	92.8	91.6	91.5	93.1	94.2	93.5	97.2	94.6
Electrical Mach. & Apparatus	70.2	70.7	67.7	67.9	67.2	65.8	66.8	67.6	68.0	68.6	67.3	65.6
Motor Vehicles & Trailers	90.3	86.4	85.7	88.7	89.6	88.7	88.4	89.1	93.0	91.6	91.4	91.4

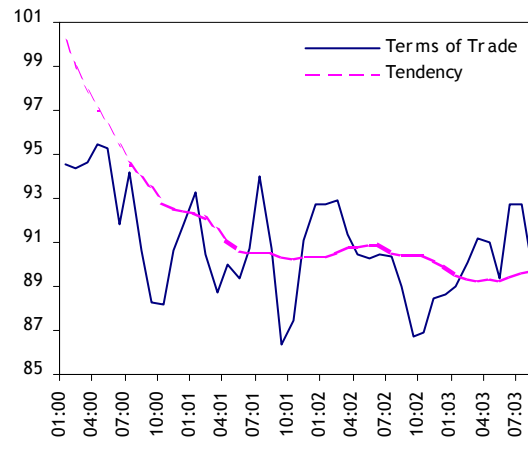
Source: SIS.

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



Source: SIS.

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

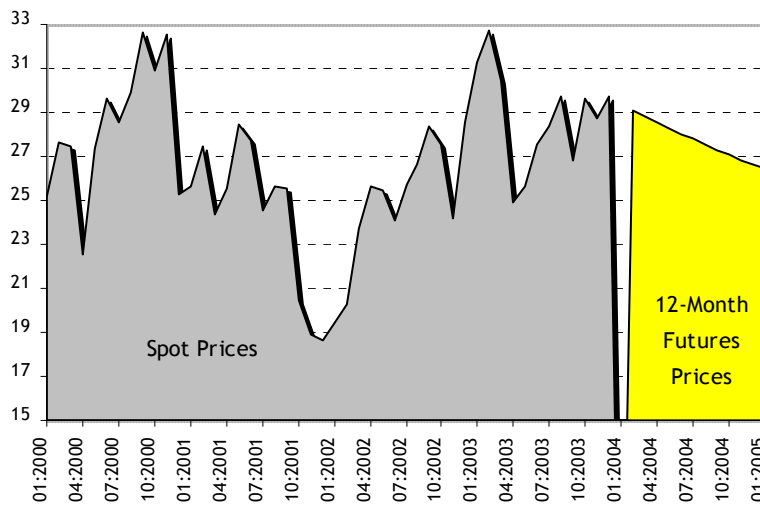


27. Brent oil prices, following a volatile cycle during the year was on the average US dollar 28.69 per barrel in November and reached on the average US dollar 29.73 per barrel in December, thus according to December 2002, prices increased by 5.3 percent. Furthermore, future prices indicate that the price per barrel is expected to be around US dollar 29 in early-2004.

28. Considering the demand-supply expectations for the rest of 2003 and the first half of 2004 the decision at the Extraordinary OPEC Meeting held on 4 December 2003 in Vienna was to maintain the current production level as the world crude oil supply was considered adequate despite the increasing demand for crude oil. On the other hand, in order to take

necessary measures and to evaluate the circumstances against probable volatility, in the said meeting was agreed upon to meet once again on 10 February 2004 in Algeria.

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



Source: oilnergy.com.

Note: 24.12.2003 future prices of International Petroleum Exchange.

Future Prices	
	24.12.2003
Feb 2004	29.06
Mar 2004	28.81
Apr 2004	28.53
May 2004	28.28
June 2004	28.03
July 2004	27.78
Aug 2004	27.53
Sep 2004	27.29
Oct 2004	27.05
Nov 2004	26.83
Dec 2004	26.68
Jan 2005	26.47

## II. EXPORTS

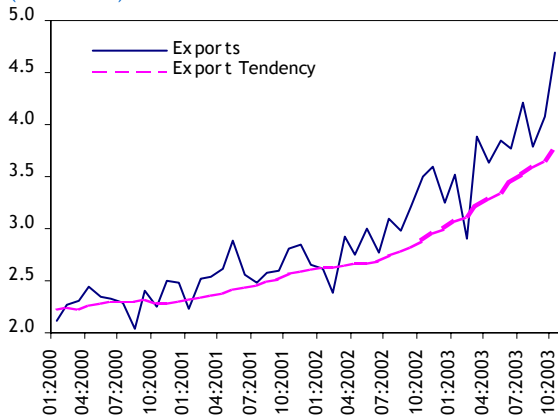
### General Evaluation

29. In October, exports rose by 34.1 percent as to the same month of the previous year and reached US dollar 4.7 billion. Hence, in the first ten months of the year, exports expanded by 31.1 percent as to the same period of the previous year and reached US dollar 38.3 billion, and 12-month exports increasing by 30 percent has realized at US dollar 45.2 billion.

30. Low levels of labor costs, decline in financing costs and increasing export prices have been significant determinants in the increase of export supply in 2003 through providing firms to participate in price competition despite the real appreciation of the Turkish lira. In the first half of the year, real wages per hour and real earnings per worker in the manufacturing industry production declined by 3.2 percent and 8.1 percent, respectively, as to the same period of the previous year. Unit labor cost is still at a lower level as to past years despite the increase as to the previous year.

#### EXPORTS and EXPORTS TENDENCY†

(USD billion)

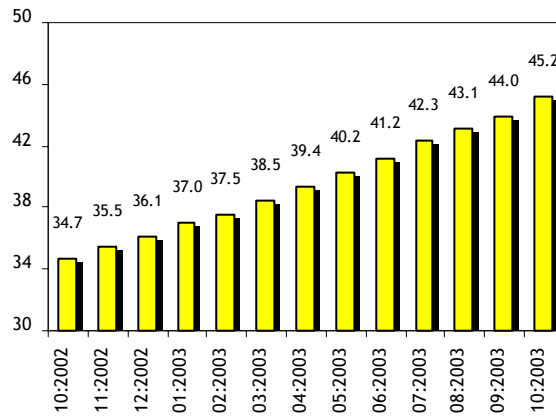


† Exports tendency is calculated with 12-month moving average.

Source: SIS.

#### EXPORTS

(12 month, USD billion)



Source: SIS.

#### EXPORTS (USD million)

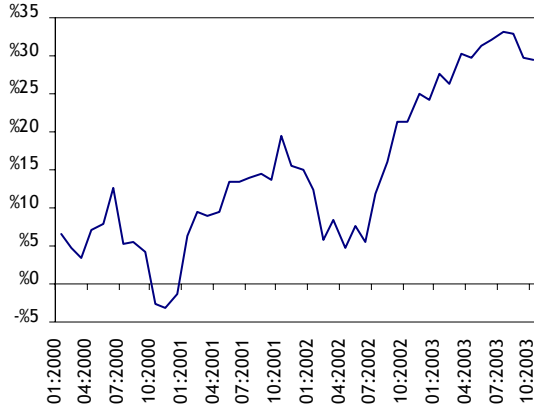
	October				January-October			
	2002	2003	% Change	% Contrib.	2002	2003	% Change	% Contrib.
<b>Total</b>	3501	4693	34.1		29223	38317	31.1	
Agriculture and Forestry	304	378	24.4	2.1	1586	1815	14.4	0.8
Fishing	5	6	23.5	0.0	35	47	32.0	0.0
Mining and Quarrying	41	52	28.2	0.3	324	433	33.9	0.4
Manufacturing	3148	4241	34.7	31.2	27247	35921	31.8	29.7
Other	3	16	363.0	0.4	30	101	234.8	0.2
<b>Important Items:</b>								
Mineral Fuels, Mineral Oils	53	58	9.1	0.1	543	784	44.3	0.8
Cotton, cotton yarn and cotton fabrics	72	94	30.3	0.6	660	786	19.0	0.4
Articles of Apparel-Clothing; Knitted	366	498	35.9	3.8	3673	4751	29.4	3.7
Articles of Apparel-Clothing; Not Knitted	287	335	16.6	1.4	2707	3198	18.1	1.7
Other made-up textile articles, sets, worn clothing	118	168	42.3	1.4	1021	1320	29.2	1.0
Iron and Steel	211	300	42.5	2.6	1828	2489	36.2	2.3
Articles of Iron and Steel	108	141	30.6	0.9	1055	1122	6.4	0.2
Boilers, Machinery, Mechanical Equipment	210	308	46.6	2.8	1725	2422	40.4	2.4
Electrical Machinery and Equipment	283	394	39.2	3.2	2268	2678	18.1	1.4
Motor Vehicles and Spare Parts	345	506	46.6	4.6	2549	4239	66.3	5.8

Source: SIS.

31. The three-month trend in rate of increase in exports of manufacturing industry displays a progress. Meanwhile, exports tendency of agricultural products remained at a level below the total imports tendency despite the increase in October.

#### EXPORTS: GROWTH RATE

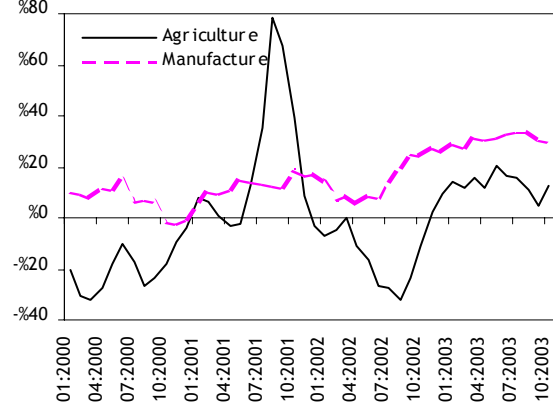
(3 month moving average, annual % change)



Source: SIS.

#### EXPORTS: SECTORAL GROWTH RATES

(3 month moving average, annual % change)



Source: SIS.

32. The largest contribution to the exports growth in October was made by exports of motor vehicles, articles of apparel knitted, electrical machinery and equipments and boilers-machinery-mechanical devices. In this period, exports of the said sectors comprised 36.3 percent of total exports.

#### EXPORTS: BY COUNTRY GROUPS (USD million)

	October					January-October				
	2002		2003		%	2002		2003		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	3501	..	4693	..	34.1	29223	..	38317	..	31.1
OECD Countries	2294	65.5	3033	64.6	32.2	19080	65.3	24816	64.8	30.1
European Union Countries:	1828	52.2	2493	53.1	36.4	14895	51.0	19907	52.0	33.6
EFTA Countries	35	1.0	52	1.1	49.4	341	1.2	441	1.2	29.2
Other OECD Countries	431	12.3	488	10.4	13.3	3843	13.2	4468	11.7	16.3
Non-OECD Countries	1064	30.4	1472	31.4	38.3	9000	30.8	11986	31.3	33.2
European Countries	330	9.4	487	10.4	47.3	2800	9.6	3753	9.8	34.0
African Countries	158	4.5	221	4.7	39.8	1382	4.7	1786	4.7	29.2
American Countries	22	0.6	22	0.5	-3.6	199	0.7	219	0.6	9.8
Middle East Countries	364	10.4	511	10.9	40.1	2947	10.1	4052	10.6	37.5
Other Asian Countries	178	5.1	231	4.9	29.4	1528	5.2	2121	5.5	38.8
Other Countries	11	0.3	2	0.0	-80.0	143	0.5	56	0.1	-61.0
Turkey Free Trade Areas	143	4.1	188	4.0	31.6	1143	3.9	1515	4.0	32.5
Selected Countries										
Germany	581	16.6	745	15.9	28.3	4759	16.3	6133	16.0	28.9
USA	283	8.1	314	6.7	11.1	2774	9.5	3129	8.2	12.8
UK	327	9.4	386	8.2	17.9	2434	8.3	2966	7.7	21.9
Italy	239	6.8	342	7.3	42.8	1903	6.5	2623	6.8	37.9
France	192	5.5	303	6.5	57.6	1743	6.0	2276	5.9	30.6
Spain	112	3.2	181	3.9	61.3	910	3.1	1437	3.7	57.9
Russia	104	3.0	146	3.1	40.0	990	3.4	1099	2.9	11.0

Source: SIS.

33. In October, the share of exports to OECD member countries in total exports declined, whereas the share of exports to non-OECD countries increased. This increase mainly stemmed from the upward trend in exports to the Middle East countries that has

initiated by the cease of the war. In January-October 2003, compared to the same period of 2002, the share of exports to the EU countries increased due to the appreciation of euro against the US dollar.

34. Analyzing by selected countries, exports to Germany made the largest contribution to the overall export performance and Germany is followed by the USA and England. Furthermore, a high increase is noticeable in the exports to Spain in the said period.

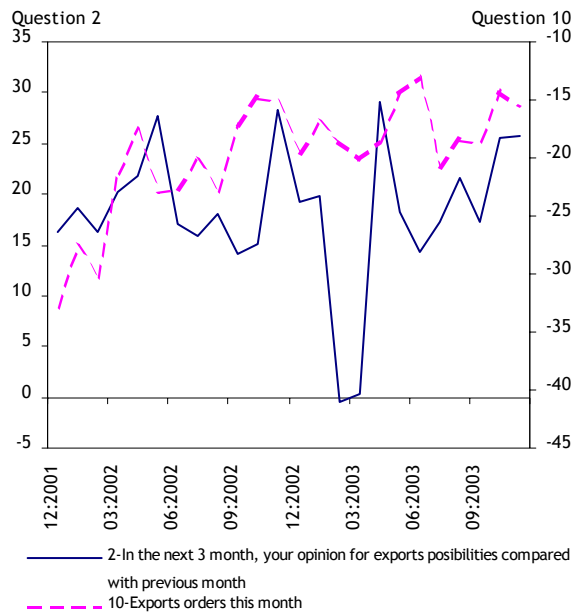
### Outlook

35. According to the results of the CBRT Business Tendency Survey (BTS) of November, it is observed that the optimistic expectations for the export prospects continued over the next three months. On the other hand, according to the results of the survey, compared to October, a limited drop is observed in November in the volume of new orders received.

36. According to the BTS for the next quarter, it is observed that the difference in favour of the optimists continued also in November for the expected new orders to be received from exports markets as well as expected volume of goods to be exported. On the other hand, expected average price for new export orders over the next three months preserved the increasing trend which started in May.

37. Parallel to the appreciation in Turkish lira in 2003, price competition ranks first among factors that might limit export orders over the next quarter. Meanwhile, worries about the external developments, which are important for the limitations on export orders, continued to ease since April.

### EXPORT EXPECTATIONS



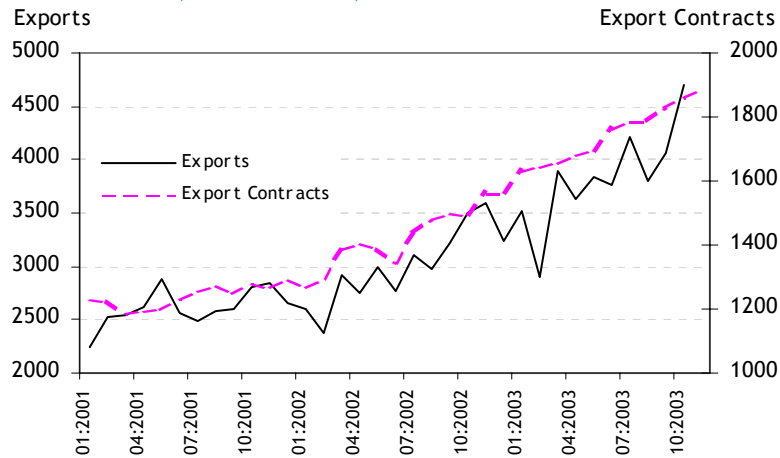
Source: CBRT Business Tendency Survey.



Source: CBRT Business Tendency Survey.

38. Compared to the same period last year, the volume of export contracts within the scope of inward processing regime, grew by 25,8 percent and reached US dollar 22,2 billion in January-November 2003. In the same period, imports subject to inward processing regime increased by 27,5 percent and reached US dollar 14,1 billion. As it is required that exports committed within the scope of the inward processing regime have to be fulfilled within twelve months the latest, exports, which was on the rise as of mid-2002, is expected to continue to grow in the rest of the year as well as next year.

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

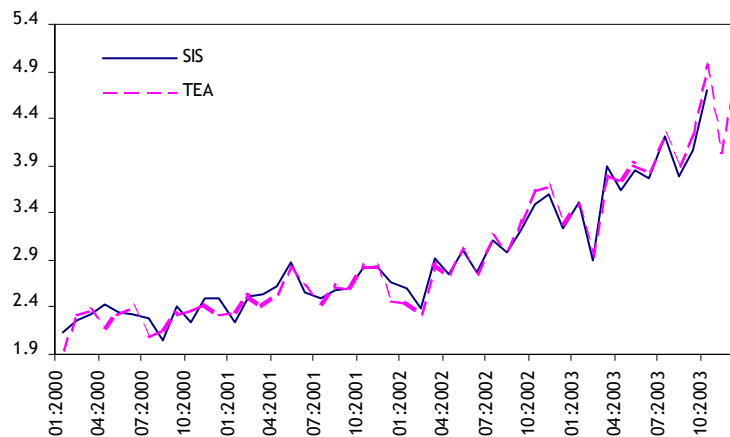


Source: UFT.

39. According to the Turkish Exporters Assembly (TEA) figures, exports in November and December 2003 are realized as US dollar 4 billion and US dollar 4.9 billion, respectively. Due to this development, compared to 2002, exports increased by 32.4 percent in 2003 and reached US dollar 47.9 billion.

40. According to TEA's classification, exports of industrial products increased by 32.4 percent in 2003. Meanwhile, exports of transportation and by-products grew by 52.3 percent whereas exports of agricultural products rose by 33.6 percent.

**EXPORTS: SIS-TEA COMPARISON (USD billion)**



Source: SIS, TEA.

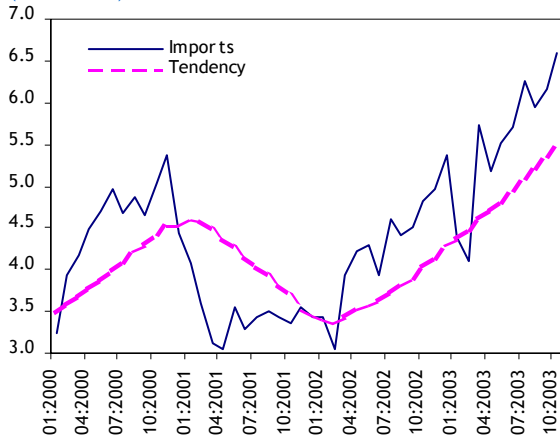
41. It is targeted to maintain the accelerating trend in exports in 2004 as in 2003. In line with this target, with the aim of supporting the competitive strength of exporters, Turkish Eximbank cut down short-term interest rates for TL-denominated credits effective as of December 29, 2003.

### III. IMPORTS

#### General Evaluation

42. Compared to the same month last year, imports increased by 36.4 percent and reached US dollars 6.6 billion. Thus, imports during the January-October period increased by 34.8 percent compared to the same period last year and reached US dollar 55.6 billion and 12-month imports became US dollar 65.9 billion.

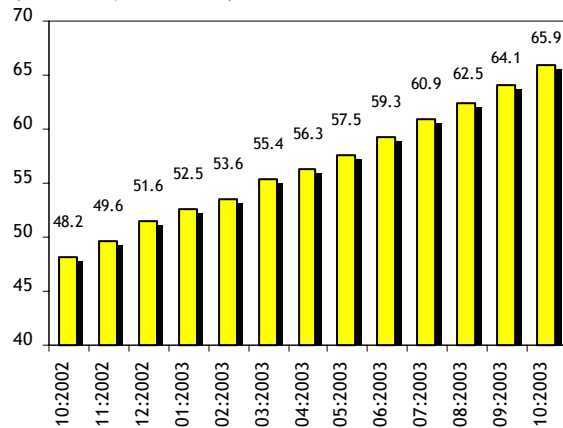
IMPORTS and IMPORTS TENDENCY†  
(USD billion)



† Imports tendency is calculated using 12 month moving average.

Source: SIS.

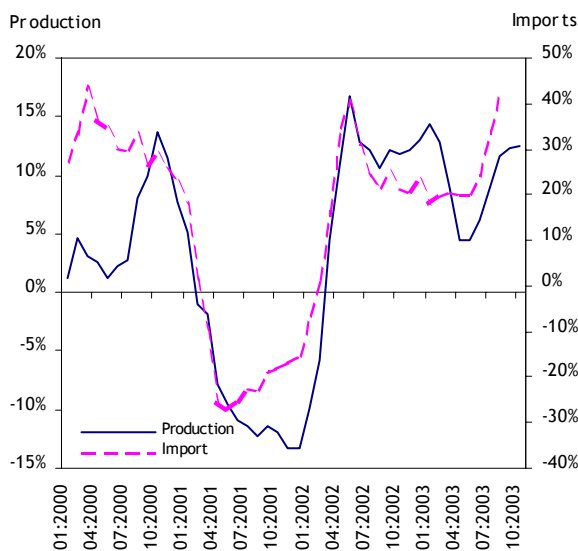
IMPORTS  
(12 month, USD billion)



Source: SIS.

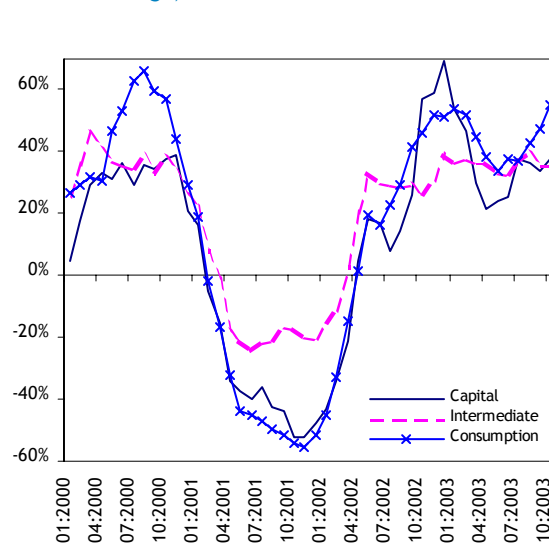
43. During the first ten months of the year, appreciation of the Turkish lira by 8.7 percent in the WPI based real exchange rate index, and increases in domestic industrial production as well as exports of the said production, were effective in the raise of imports. Furthermore, appreciation of euro against US dollar had an increasing effect on the US dollar equivalent of imports in euro terms.

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.



44. In January-October period, imports of consumer goods and intermediary goods excluding mineral fuels and greases, where the majority is composed of crude oil and natural gas, exhibited a rate of increase which is above the growth of total imports. Strong growth in domestic industrial production and imported input need due to increasing exports helped continue the upward trend in imports of intermediary goods in the period of January-October. Moreover, increase in demand of durable consumer goods and revival in the tourism sector contributed to the increase in the imports of intermediary goods as well as consumer goods. On the other hand, in the third quarter of the year, accelerating trend in the imports of capital goods continued due to the increasing capacity utilization, which brings in the new investment needs due to continuation of production growth.

45. The biggest contribution to the rise in imports came from imports of motor vehicles, boilers, machinery and mechanical devices, electrical machinery and equipments, mineral fuels and greases, iron and steel. The listed groups comprised 56.6 percent of overall imports in October 2003.

IMPORTS (USD million)								
	October				January-October			
	2002	2003	% Change	% Contrib.	2002	2003	% Change	Contrib.
Total	4830	6588	36.4	..	41222	55571	34.8	..
Capital Goods	793	1209	52.4	8.6	6454	8563	32.7	5.1
Intermediate Goods	3387	4564	34.7	24.4	30301	40871	34.9	25.6
Consumption Goods	502	795	58.3	6.1	3987	5786	45.1	4.4
Other	147	20	-86.7	-2.6	480	351	-26.9	-0.3
Important Items:								
Mineral fuels, mineral oils and products of their dist.	933	1060	13.6	2.6	7361	9384	27.5	4.9
Crude Oil	394	422	7.2	0.6	3387	4023	18.8	1.5
Organic chemicals	171	189	10.4	0.4	1551	1898	22.4	0.8
Pharmaceutical products	128	193	51.1	1.3	1190	1655	39.1	1.1
Plastics and articles thereof	224	310	38.3	1.8	1939	2647	36.5	1.7
Cotton, cotton yarn and cotton fabrics	75	122	63.5	1.0	1101	1384	25.6	0.7
Iron and Steel	288	378	31.5	1.9	2113	3838	81.6	4.2
Boilers, Machinery, Mechanical Equipment	780	1038	33.1	5.3	6245	7980	27.8	4.2
Electrical Machinery and Equipment	398	573	43.9	3.6	3443	4357	26.5	2.2
Motor Vehicles and Spare Parts	250	682	172.5	8.9	1697	3752	121.1	5.0
Optical, photographic, cinematographic	91	122	34.4	0.6	855	1039	21.5	0.4

Source: SIS.

46. In October, a 3,5 point increase in the imports from the EU countries is observed in the share within overall imports. It is thought that the change of euro/dollar parity in favour of euro is the determining factor in the mentioned growth.<sup>1</sup>

<sup>1</sup> The effect of exchange rate changes on foreign trade data is being computed and published in the Balance of Payments Report, every three months. As pointed out in the September report, such changes in the first nine months of 2003 pushed up imports by US dollar 1.7 billion and exports by around US dollar 1.4 billion, both of which expressed in terms of US dollars. Consequently, US dollar 250 million of foreign trade deficit resulted from cross exchange rate changes.

## IMPORTS: BY COUNTRY GROUPS (USD million)

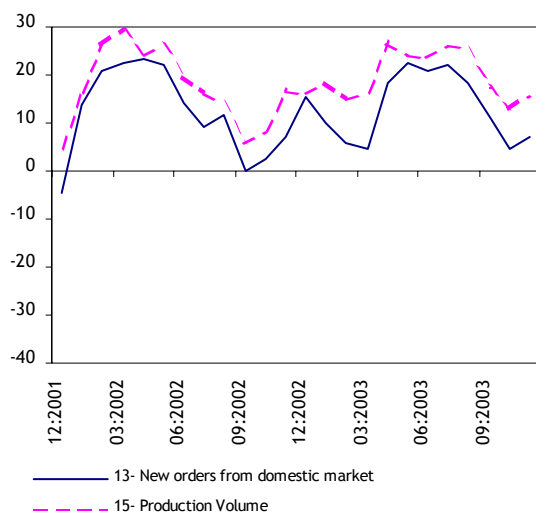
	October					January-October				
	2002		2003		%	2002		2003		%
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Total	4830	..	6588	..	36.4	41222	..	55571	..	34.8
OECD Countries	3079	63.7	4283	65.0	39.1	26346	63.9	35092	63.1	33.2
European Union Countries	2079	43.1	3071	46.6	47.7	18341	44.5	25041	45.1	36.5
EFTA Countries	281	5.8	398	6.0	41.7	2134	5.2	2962	5.3	38.8
Other OECD Countries	719	14.9	814	12.4	13.3	5871	14.2	7089	12.8	20.7
Non-OECD Countries	1703	35.3	2246	34.1	31.9	14398	34.9	19998	36.0	38.9
European Countries	563	11.7	742	11.3	31.7	5012	12.2	7009	12.6	39.8
African Countries	242	5.0	308	4.7	27.2	2118	5.1	2705	4.9	27.8
American Countries	33	0.7	82	1.2	150.7	502	1.2	891	1.6	77.6
Middle East Countries	385	8.0	399	6.1	3.7	3077	7.5	3672	6.6	19.4
Other Asian Countries	392	8.1	669	10.2	70.7	3477	8.4	5402	9.7	55.4
Other Countries	88	1.8	46	0.7	-47.5	213	0.5	319	0.6	49.5
Turkey Free Trade Areas	48	1.0	59	0.9	22.1	478	1.2	481	0.9	0.6
Selected Countries										
Germany	651	13.5	891	13.5	37.0	5414	13.1	7354	13.2	35.8
Italy	352	7.3	549	8.3	55.9	3252	7.9	4377	7.9	34.6
Russia	345	7.1	458	6.9	32.7	3070	7.4	4221	7.6	37.5
USA	306	4.0	285	4.8	71.0	2590	4.2	2883	5.3	68.5
France	256	5.3	449	6.8	75.2	2450	5.9	3247	5.8	32.5
United Kingdom	234	4.8	336	5.1	43.4	1862	4.5	2886	5.2	55.0

Source: SIS.

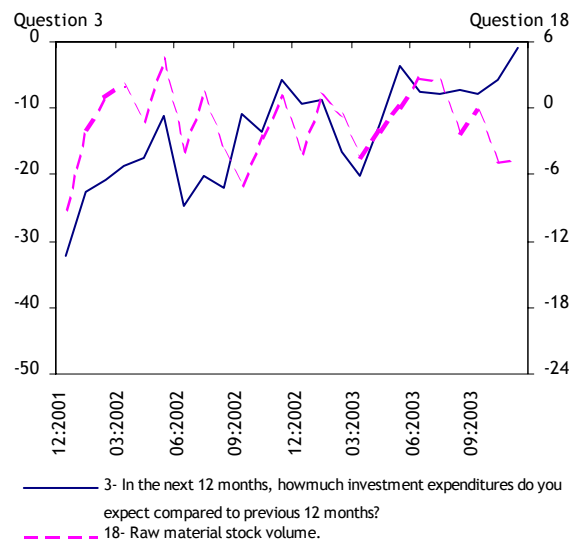
## Outlook

47. The CBRT Business Tendency Survey data for November reveal that optimistic expectations of private companies pertaining to domestic demand over the next three months, which had assumed a downward trend from July onwards, resumed upward direction in November. The comparably higher level of investment expenditure tendency coupled with rapid increase in machinery-equipment manufacturing in recent months indicate that imports of capital goods will continue to grow in the fourth quarter.

## IMPORT EXPECTATIONS



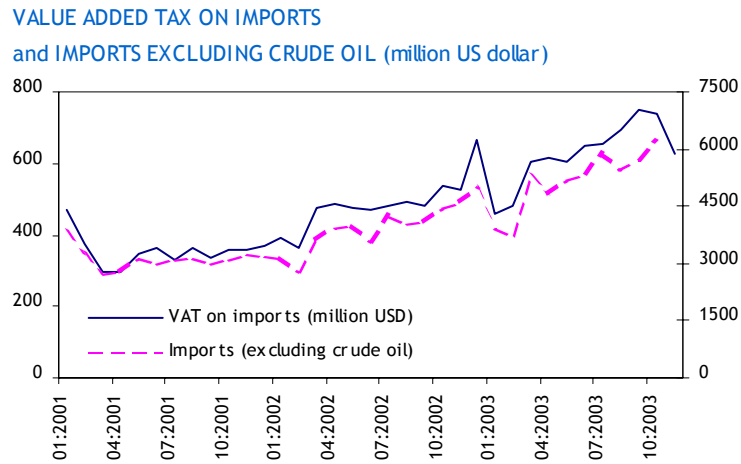
Source: CBRT Business Tendency Survey.



Source: CBRT Business Tendency Survey.

48. Timed imports, which was US dollar 11.5 billion in January-October 2002 period, increased to US dollar 14.8 billion in the same period of 2003. However, as total imports grew by 34.8 percent while timed imports grew by 28.3 percent, the share of timed imports in total imports dropped to 26.6 percent. Meanwhile, timed exports, calculated the same way, recorded an increase of 40.4 percent and reached US dollar 23.8 billion. In the said period, the shares of both the cash-against-goods exports and those exports via timed letter of credit increased significantly in total exports.

49. According to Value Added Tax on imports figures, imports are expected to realize at US dollar 5.6 billion in November.



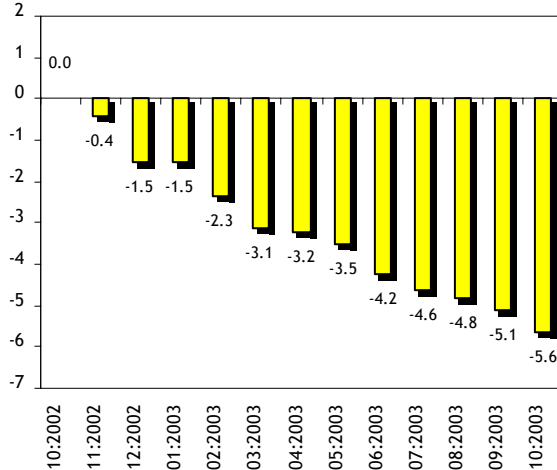
Source: Ministry of Finance, SIS.

#### IV. CURRENT ACCOUNT

50. Current account balance produced a deficit of US dollar 119 million in October 2003 and a deficit of US dollar 4.1 billion in the first ten months of the year. The twelve-month current account deficit was recorded as US dollar 5.6 billion in October.

##### CURRENT ACCOUNT BALANCE

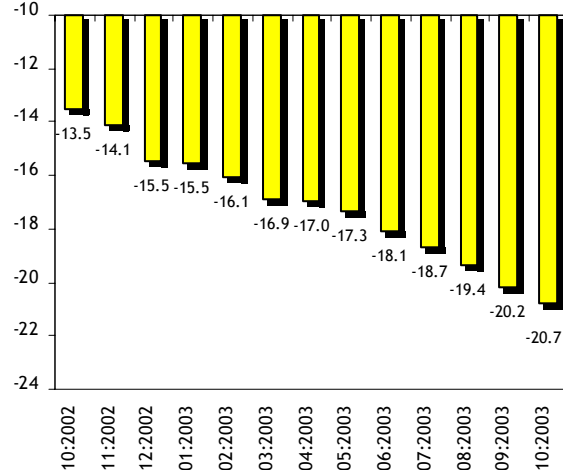
(12 month, USD billion)



Source: CBRT.

##### FOREIGN TRADE BALANCE

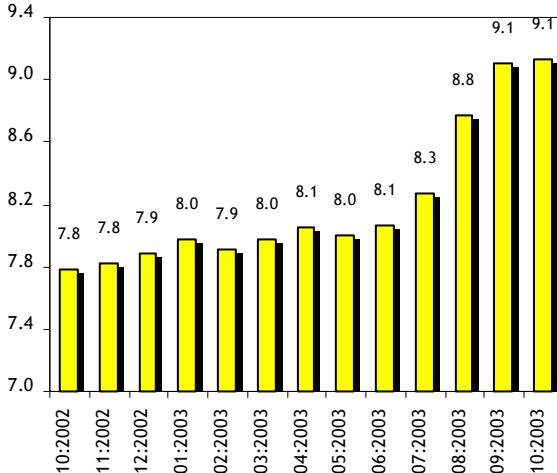
(12 month, USD billion)



Source: CBRT.

##### SERVICES BALANCE

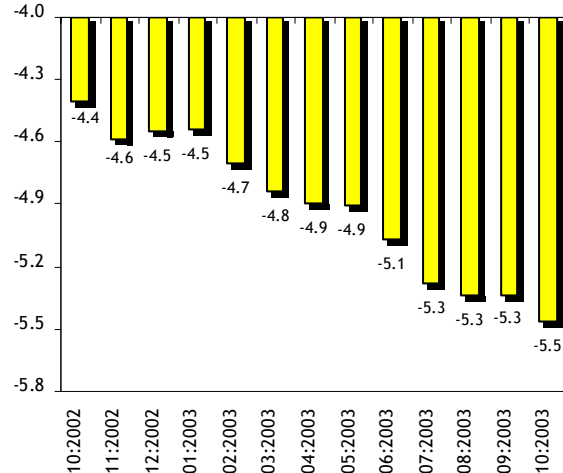
(12 month, USD billion)



Source: CBRT.

##### INVESTMENTS REVENUES BALANCE

(12 month, USD billion)



Source: CBRT.

51. Causes of the widening of the current account deficit in January-October period were the expanding foreign trade deficit coupled with increasing portfolio investment expenditures involving the dividend and interest payments of stocks and government securities bought by foreigners. Meanwhile, services revenues displayed a significant rise thanks to the increase in tourism revenues (especially in August and September).

52. The 31.1 percent increase recorded in exports during this period, mainly stemmed from the exports of manufacturing industry products that form the bulk of overall exports. The low level of unit labor costs, the decline in the financing costs and the upward trend export prices adopted from the last quarter of 2002 onwards, were influential in the rise in exports. As for the 34.8 percent increase in total imports, they mainly stemmed from imports of intermediary goods and investment goods. Upward trend in real exchange rates

also supported the rise in imports. Consequently, foreign trade deficit, according to the balance of payments definition, reached US dollar 10.8 billion in the January-October 2003 period, from US dollar 6.2 billion in the same period of 2002.

## CURRENT ACCOUNT (USD million)

	2002							2003
	Jan-Oct	May	Jun	Jul	Aug	Sep	Oct	Jan-Oct
Current Account Balance	18	-570	-555	-339	253	246	-119	-4103
Foreign Trade Balance	-6172	-986	-1307	-1416	-1417	-1343	-1085	-10839
Total Exports	32577	4203	4076	4477	4197	4475	5123	41541
Total Imports	-38749	-5189	-5383	-5893	-5614	-5818	-6208	-52380
Services Balance	6973	651	800	1217	1841	1563	1019	8219
Credit	12859	1242	1488	2153	2599	2270	1882	15018
Debit	-5886	-591	-688	-936	-758	-707	-863	-6799
Income Balance	-3561	-526	-336	-493	-505	-347	-360	-4467
Credit	2025	211	231	213	148	171	145	1888
Debit	-5586	-737	-567	-706	-653	-518	-505	-6355
Current Transfers	2778	291	288	353	334	373	307	2984
Wrokers' Remittances	1639	202	183	223	233	277	219	1929
<i>Memo items:</i>								
Shuttle Trade	3354	359	308	274	403	406	430	3224
Non Monetary Gold (net)	-1239	-172	-260	-354	-326	-237	-247	-2319
Travel Revenues	7774	637	896	1346	1967	1600	1125	8703
Interest Income	624	90	106	33	32	46	40	523
Interest Expenditure	-3537	-487	-308	-262	-524	-348	-315	-3729

Source: CBRT.

53. Volume of shuttle trade, which dropped in the first quarter of the year due to the negative impact of uncertainties caused by the war in Iraq, reattained its former pace as of May, with the ease of uncertainties. Compared to the same period of last year, exports via shuttle trade decreased by 3.9 percent in January-October 2003 and was recorded as US dollar 3.2 billion.

54. Because of the depreciation of US dollar and the geopolitical unsteadiness experienced during the year, the demand for processed gold went up in international markets. Accordingly, the international gold prices also rose in 2003. In line with these developments, the upward trend observed in net imports of non-monetary gold from the beginning of the year, continued in October as well. Within this framework, in January-October period, net imports of non-monetary gold increased by 87.2 percent compared to the same period of last year and reached US dollar 2.3 billion.

55. Together with the exports, the performance of balance of services in January-October period show that the realization for current account deficit for 2003 will be below the target of US dollar 7.7 billion. Balance of services surplus increased by 17.9 percent in January-October 2003 compared to the same period last year. While the receipt and expense items of freight and other transportation services went up due the expansion in foreign trade volume, financial services expenses decreased by 86.4 percent compared to the same period last year.

## TRAVEL REVENUES

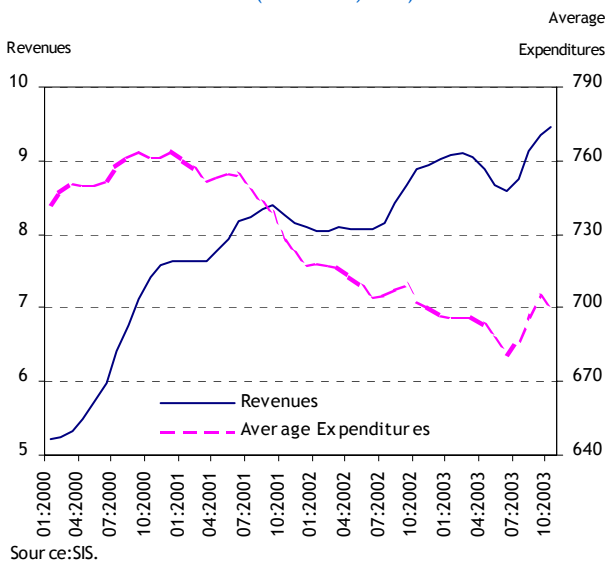
	2002							2003
	Jan-Oct	Jun	Jul	Aug	Sep	Oct	Nov	Jan-Oct
Travel Revenues (USD million)	7774	896	1346	1967	1600	1125		8703
Number of Visitors (thousand)	11652	1343	1691	2453	1984	1861	915	12218
Average Spending (USD)	667	667	796	802	807	605		712

Source: SIS.

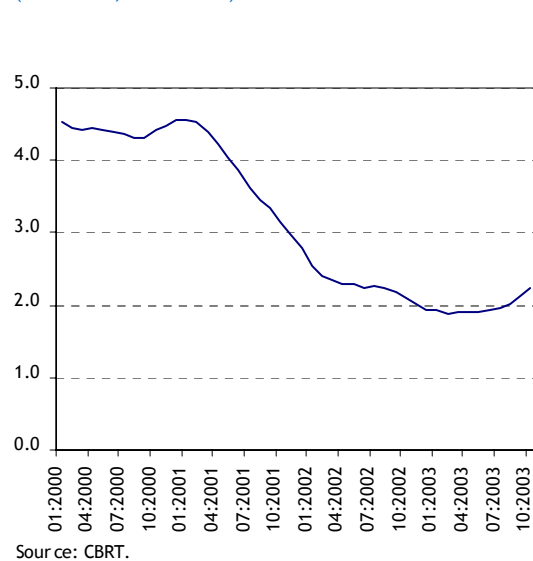
56. Compared to the same period last year, tourism revenues announced by State Institute of Statistics (SIS), went up by 12 percent in January-October 2003 period and reached US dollar 8.7 billion. In the mentioned period, the number of tourist departures increased by 5.7 percent. Meanwhile, the upward trend observed in average spending per visitor since the turn of the year ended as of October. This development is attributed to the appreciation of US dollar against Turkish lira in October, which reduced average spending expressed in terms of US dollars. Besides, the fact that the figure announced in October for tourism revenues is an estimate figure, is also believed to have been influential in the decline of average spending per visitor in the said month.

57. Affected by the breakout of war in Iraq, the number of tourists and tourism revenues declined until April. With the termination of war, uncertainties in the region were eased and a revival was observed in the tourism sector with the beginning of the new season. As a matter of fact, according to SIS' statistics pertaining to November, the number of tourist departures increased by 18.8 percent compared to the same period last year.

TRAVEL REVENUES (12 month, USD billion),  
AVERAGE EXPENDITURES (12 month, USD)



WORKERS REMITTANCES: PRIVATE  
(12 month, USD billion)



58. The investment revenues account ran a deficit of US 4.5 billion in January-October 2003 period. The main determinants of this deficit were the portfolio investment expenditures and interest expenditures. In the said period, interest expenditures displayed a significant rise due to increase in long-term debt interest payments of the General Government and other sectors and reached US dollar 3.7 billion. Meanwhile, portfolio investment expenditures, composed of interest payments of Treasury bills and bonds and dividend payments for the stocks purchased by non-residents, also went up and reached US dollar 2.2 billion.

59. Together with the increase in workers' remittances from July onwards, current transfers increased by 7.4 percent in the first ten months of the year, compared to the same period last year and reached US dollar 3 billion. The increase in workers' remittances in the said period compared to the same period of last year, was 17.7 percent.

## V. CAPITAL MOVEMENTS

60. The financial account ran a deficit of US dollar 519 million in October 2003. There was a net capital outflow of US dollar 1.6 billion in October excluding the IMF loans and official reserve changes, while there was a net capital inflow of US dollar 4.5 billion in January-October 2003 period, as well as a 12-month net capital inflow of US dollar 5.3 billion.

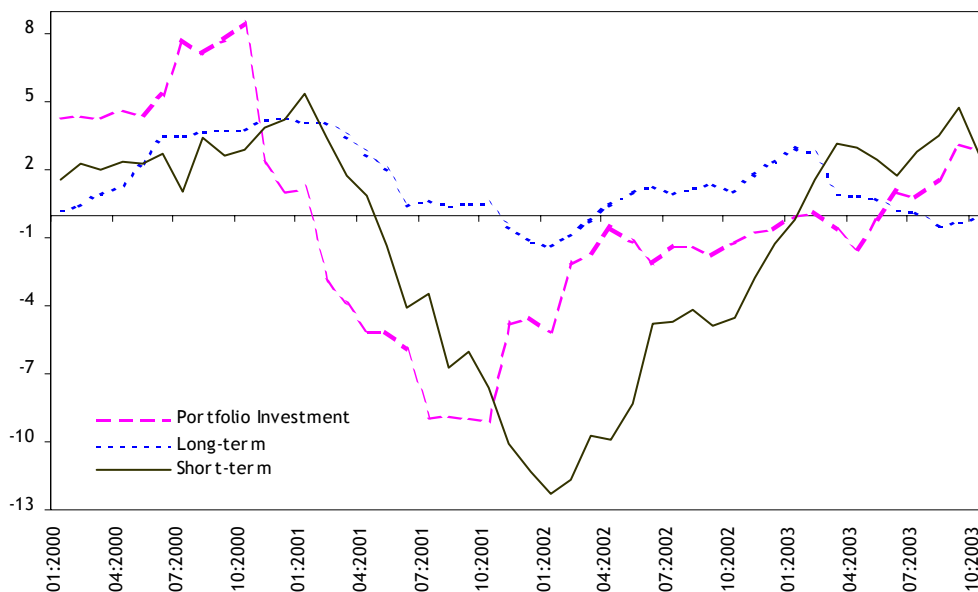
61. January-October 2003 period staged outflow of direct foreign capital and inflow of capital through portfolio investments. Other investments item ran a surplus due to the decline in foreign exchange reserves of the banks. The net errors and omissions has been producing a significant surplus since March 2003. As a consequence of these developments, the official reserves recorded an increase of US dollar 4.5 billion in this period.

### CAPITAL AND FINANCIAL ACCOUNT (USD billion)

	2002							2003
	Jan-Oct	May	Jun	Jul	Agu	Sep	Oct	Jan-Oct
Capital and Financial Account	1127	-1070	-608	-178	-584	-1343	-519	27
Financial Account	1127	-1070	-608	-178	-584	-1343	-519	27
Direct Investments	917	42	-30	23	63	-30	-77	-34
Portfolio Investments	-672	592	634	-242	631	1217	326	2791
Other Investments	6632	-1071	-731	524	152	857	-2129	1742
Reserve Assets	-5750	-633	-481	-483	-1430	-3387	1361	-4472
Net Errors & Omissions	-1145	1640	1163	517	331	1097	638	4076
<i>Memorandum items:</i>								
Short-term	-1427	-1202	-152	424	136	727	-2020	2525
Long-term	1640	170	-462	163	-113	248	147	-783
IMF credit	6365	-39	-117	-63	129	-118	-256	0

Source: CBRT.

### CAPITAL FLOWS (12-month. billion US dollar)

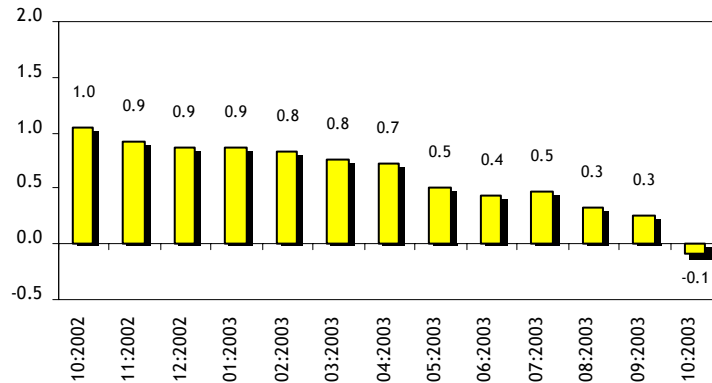


Source: CBRT.

62. The net direct foreign capital outflow observed in the first ten months of the year can be attributed to the rise in the volume of direct investments of residents carried out abroad.

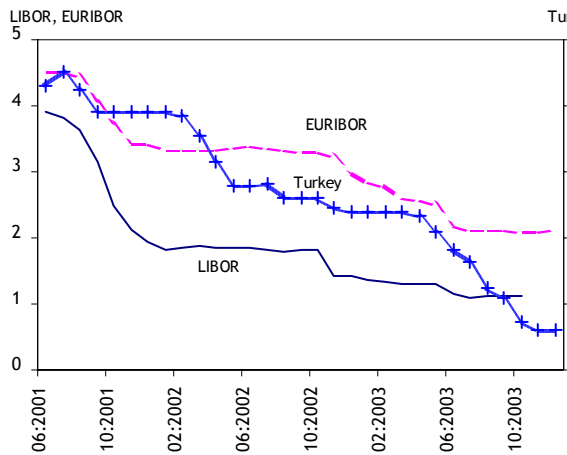
Moreover, it is observed that the long-term credits extended to foreign companies by their affiliates abroad have shrunk by 77 percent.

**DIRECT INVESTMENTS**  
(12-month, billion US dollar)



Source: CBRT.

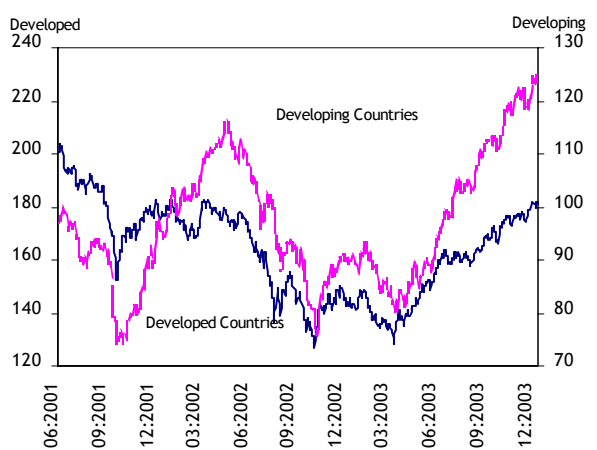
**INTEREST RATES (monthly average, %)**



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.

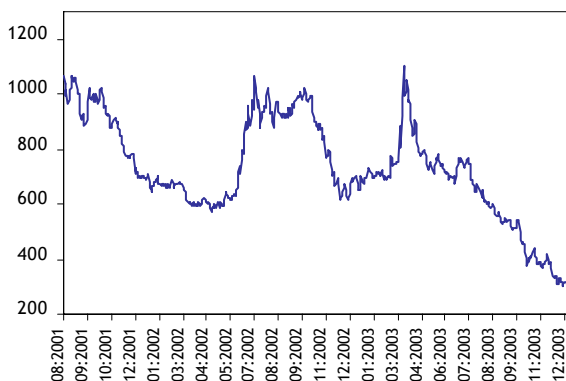
**DOW JONES STOCK PRICE INDICES**



Source: Dow Jones.

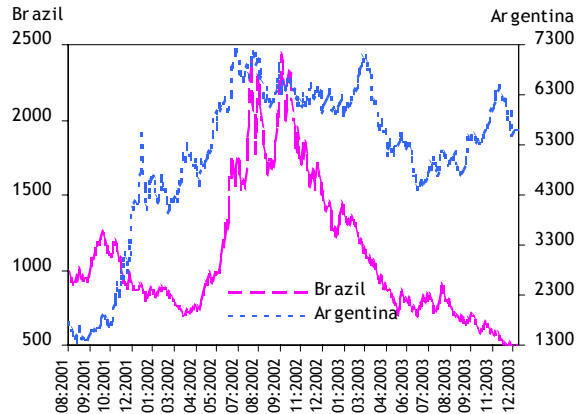
**SECONDARY MARKET BOND SPREADS (basis points)**

**TURKEY**



Source: JP Morgan.

**BRAZIL and ARGENTINA**



Source: JP Morgan.

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



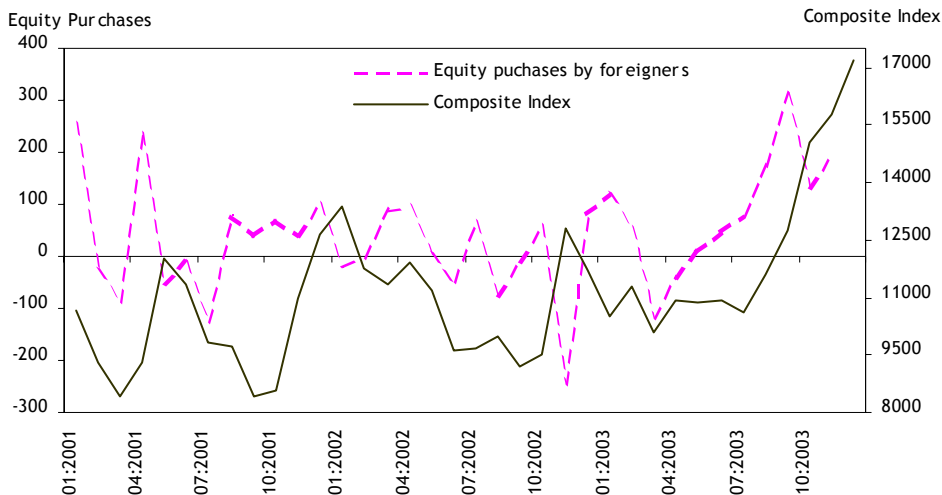
63. Interest rates at international markets continue to decline parallel to the policies of the central banks. The Federal Reserve and the European Central bank eased interest rates in June and the Bank of England in July. Therefore, LIBOR and EURIBOR interest rates declined in June and July as well. Meanwhile, as of November, the central banks have started to increase interest rates again in order to avoid the inflationary impacts of economic revival. The Reserve Bank of Australia raised its interest rates first on November the 5th and then on December the 3rd and the Bank of England raised interest rates on the 6th of November.

64. The Turkish bond spreads, which had been fluctuating since the turn of 2003, have been displaying a downward trend since the end of the war in Iraq in April. A rapid decline is observed in the spreads, especially after September, with the effect of establishment of economic stability. The slump in the spreads is expected to decrease borrowing costs in international markets in 2004.

PORTFOLIO INVESTMENT (monthly, USD million)								
	2002							2003
	Jan-Oct	May	Jun	Jul	Agu	Sep	Oct	Jan-Oct
Portfolio Investment	-672	592	634	-242	631	1217	326	2791
Assets	-1522	-77	-315	67	19	-692	245	-811
General Government	-36	0	-2	-7	-9	0	-2	-26
Banks	-1006	-35	-349	119	101	-601	266	-324
Other Sectors	-480	-42	36	-45	-73	-91	-19	-461
Liabilities	850	669	949	-309	612	1909	81	3602
Equity Securities	150	9	48	77	175	311	132	762
Debt Securities	700	660	901	-386	437	1598	-51	2840
Monetary Authority	0	0	0	0	0	0	0	0
General Government	887	660	901	-371	437	1598	-51	3017
In Turkey	394	210	156	207	437	348	161	1049
Abroad	493	450	745	-578	0	1250	-212	1968
Banks	-187	0	0	-15	0	0	0	-177

Source: CBRT.

#### ISE EQUITY PRICES AND FOREIGNERS' NET PURCHASES

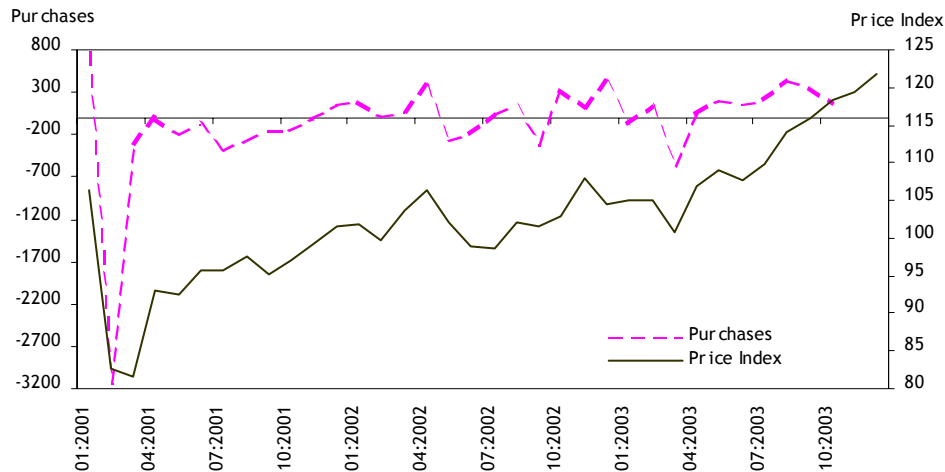


Source: CBRT, ISE.

65. Developments in government securities and equity securities became the primary determinant of portfolio investments item in the last three months. The securities portfolio of non-residents, which is comprised of government securities and equity securities, has been on the rise since May. Though limited, the tendency of non-residents to buy securities continued in October as well. Rise in both the ISE index and government securities price index became the driving force behind non-residents' portfolio decisions.

66. Non-residents' demand for equity securities continued in November as well. According to the data compiled by ISE, non-residents purchased US dollar 192 million-worth of equity securities in November. Meanwhile, the price index of ISE government securities has been rising since July 2003. Taking into account the fact that the primary determinant of the portfolio changes is the non-residents' purchase of stocks and bonds, capital inflow through portfolio investments is expected to rise in November and December.

#### GOVERNMENT DEBT SECURITY PRICES AND FOREIGNERS' NET PURCHASES

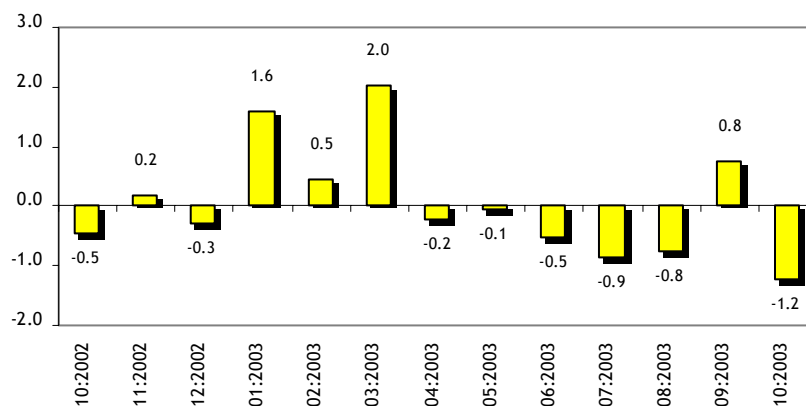


Source: CBRT, ISE.

67. The General Government, which issued US dollar 1.25 billion worth of bonds abroad in September, did not issue any bonds in the rest of the year.

68. The banks' FX assets item composed of current and deposit accounts held at their correspondents abroad, fluctuated throughout the year. The said item decreased by US dollar 4.1 billion in the first quarter to be followed by a US dollar 2.4 billion rise in April-August period, which resulted in a capital outflow of the same amount. In October, a capital outflow of US dollar 1.2 billion was recorded resulting from the rise in FX assets held at correspondents abroad.

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

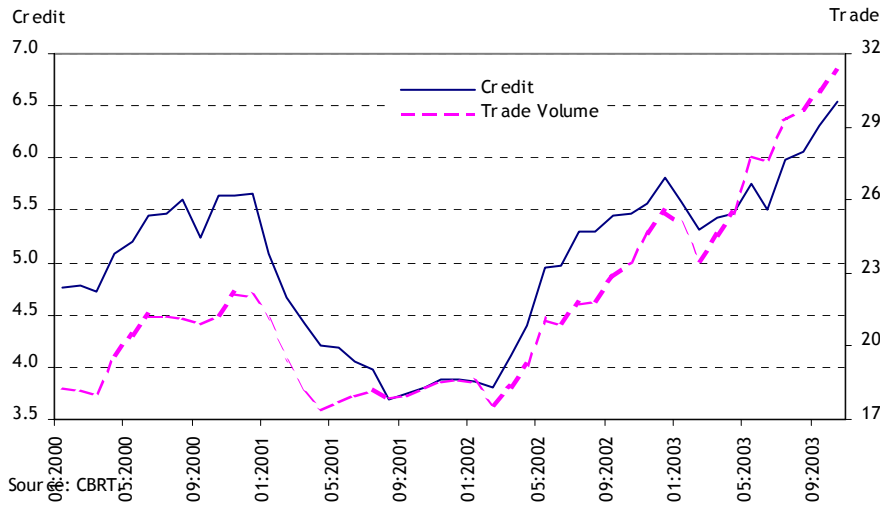


Source: CBRT.

† (+) sign indicates a decrease.

69. Rapid growth in foreign trade volume in the first ten months of 2003 brought along an increase in trade credit utilization as well. Compared to the same period last year, foreign trade volume grew by 33.3 percent while trade credit utilization rose by 19.4 percent and reached US dollar 19.7 billion. US dollar 18.9 billion of this total amount belongs to trade credits with maturity shorter than 1 year.

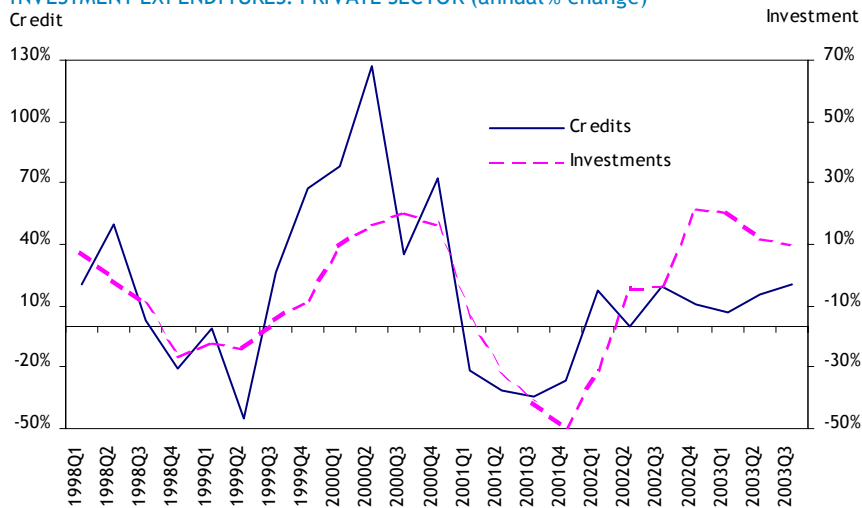
**PRIVATE SECTOR COMMERCIAL CREDIT DRAWINGS and TRADE VOLUME**  
(3-month, USD billion)



70. In 2003, short-term credits dominated the financing of the banking sector. The banks, which acted as net payers of short-term credits in 2002, borrowed US dollar 1.2 billion worth of short-term credits in the first ten months of 2003. The banks, which acted as net payers of long-term credits until September, became borrowers of long-term credits in September and October.

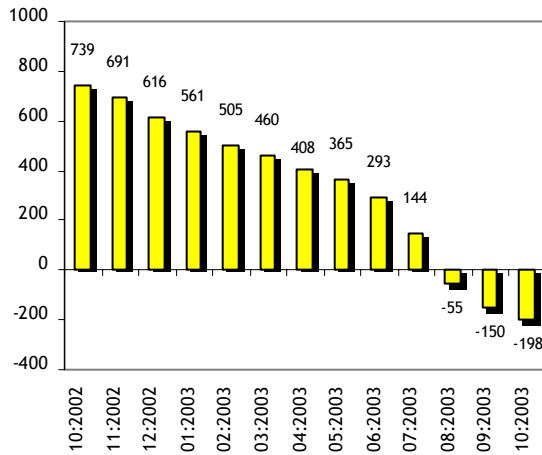
71. With the termination of the war in Iraq and ease of uncertainties, the volume of long-term credits used by the private sector excluding the banking sector started to increase. In October, private sector utilized US dollar 885 million worth of long-term credits, which means that, compared to the same period last year, long-term credit utilization increased by 13.8 percent in the first ten months of 2003. The rise in long-term credit utilization indicates that investment expenditures retain their high level.

**LONG TERM CREDIT DRAWINGS and INVESTMENT EXPENDITURES: PRIVATE SECTOR (annual % change)**

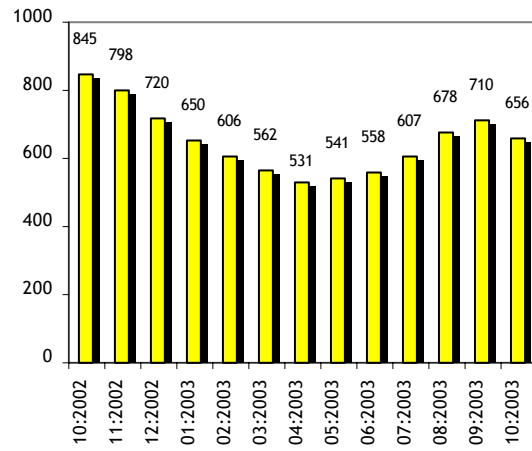


Source: CBRT, SIS.

72. In September, the Central Bank continued to reimburse the IMF loans borrowed in 2001 and before. Thus, the total reimbursement in January-October period reached US dollar 926 million.

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


Source: CBRT.

**SHORT TERM**


Source: CBRT.

**OTHER INVESTMENTS (monthly, USD million)**

	2002							2003
	Jan-Oct	May	Jun	Jul	Agu	Sep	Oct	Jan-Oct
Other Investment	6632	-1071	-731	524	152	857	-2129	1742
Assets	-786	-442	-504	-1059	-753	619	-1663	-955
Trade Credits	-852	-301	-62	-230	49	-66	-348	-1270
Credits	-272	-45	106	73	-3	-33	-27	-469
Currency and Deposits	725	-55	-512	-870	-752	765	-1238	1157
Liabilities	7418	-629	-227	1583	905	238	-466	2697
Trade Credits	1878	151	137	308	54	-79	380	1284
Credits	5127	-650	-468	706	634	194	-188	205
Monetary Authority	-6138	-39	-117	0	-348	-118	-191	-926
General Government	12069	-158	-327	-150	445	-289	-237	-790
IMF Credits	12503	0	0	-63	477	0	-65	926
Long Term	-434	-158	-327	-87	-32	-289	-172	-1716
Short Term	0	0	0	0	0	0	0	0
Banks	-1126	-776	-99	630	364	257	33	926
Long Term	-516	-12	-151	45	-265	133	79	-313
Short Term	-610	-764	52	585	629	124	-46	1239
Other Sectors	322	323	75	226	173	344	207	995
Long Term	980	268	36	204	170	327	208	730
Short Term	-658	55	39	22	3	17	-1	265
Deposits	308	-142	89	546	191	102	-666	1101
Monetary Authority	1261	23	1	108	148	66	-52	384
Long Term	567	-32	-62	-50	-49	-41	-33	-248
Short Term	694	55	63	158	197	107	-19	632
Banks	-953	-165	88	438	43	36	-614	717

Source: CBRT.

73. The volume of FX deposit accounts with credit letters and super FX accounts held at the Central Bank by the Turkish workers abroad has been declining since last April. The interest rate cut-down operations carried out by the Central Bank in April, August and November are believed to be the primary reason of this decline. The Central Bank eased interest rates applicable to super FX accounts to be effective as of November 5, 2003. The decline in these short-term accounts ceased in summer, however started to fall again in October.

74. The FX deposits of foreign banks held at the domestic banks, which had a deficit account throughout 2002 displayed an upward trend in 2003. However, the mentioned account decreased by US dollar 661 million in October.

75. Compared to end-2002 figures, total external debt stock increased by US dollar 9 billion and reached US dollar 142 billion by September 2003. Medium and long term debts, which comprised 86.9 percent of the total external debt stock, increased by 6.4 percent and short-term debts by 22.4 percent in this period. Cross exchange rates changes resulted in a US dollar 5.2 billion rise in external debt stock. Meanwhile, the short-term external debt stock declined by US dollar 185 million in October, due to decline in the deposits held in the domestic banks by non-resident banks.

76. The amount of external debt reimbursed in October 2003 was US dollar 1.9 billion and the total amount reimbursed in January-October period summed up to US dollar 22.4 billion. Meanwhile, the Central Bank of Turkey purchased US dollar 5.7 billion worth of foreign exchange by means of foreign exchange buying auctions and US dollar 4.2 billion worth of foreign exchange by means of direct purchasing interventions due to excessive volatility in exchange rates. Thus, the Central Bank reserves, which was US dollar 26.7 billion by the end of 2002 reached US dollar 33.6 billion by December 26, 2003.

77. External financing requirement, which is defined as the sum of current account balance and net errors and omissions item, became US dollar 27 million in January-October 2003 period. In the mentioned period, despite the rise in the current account deficit, financing requirement remained limited thanks to US dollar 4.1 billion surplus in net errors and omissions item. Net errors and omissions, which ran a deficit of US dollar 2.3 billion in January-February period, returned to surpluses in the following months. The financing requirement in the first ten months of the year was dominantly covered by the net short-term capital inflows. By sub-items, the subject short-term capital movements were mostly composed of non-residents' security purchases at the ISE together with the short-term credit utilization of the banks. As capital inflow exceeded financing requirement in the same period, the Central Bank reserves increased by US dollar 4.5 billion.

78. In October, external financing balance displayed a surplus of US dollar 519 million owing to the limited deficit in current account balance and the entry in the net errors and omissions item. When the financial resources item is analyzed, a capital outflow is observed resulting from the rise in FX assets held at the correspondent banks by the domestic banks and the decline in deposits of foreign banks held at the domestic banks. Therefore, the Central Bank reserves declined by US dollar 1.4 billion in October.

## EXTERNAL FINANCING AND FINANCE RESOURCES (USD millions)

	2002								2003
	Jan-Oct	Mar	May	Jun	Jul	Agu	Sep	Oct	Jan-Oct
<b>1. Current Account Balance</b>	<b>18</b>	<b>-1072</b>	<b>-759</b>	<b>-570</b>	<b>-555</b>	<b>-339</b>	<b>253</b>	<b>-119</b>	<b>-4103</b>
<b>2. Net Error and Omission</b>	<b>-1145</b>	<b>371</b>	<b>687</b>	<b>1640</b>	<b>1163</b>	<b>517</b>	<b>331</b>	<b>638</b>	<b>4076</b>
<b>I. Total Financing Requirement (=1+2)</b>	<b>-1127</b>	<b>-701</b>	<b>-72</b>	<b>1070</b>	<b>608</b>	<b>178</b>	<b>584</b>	<b>519</b>	<b>-27</b>
<b>II. Total Financing (=1+2+3)</b>	<b>1127</b>	<b>701</b>	<b>72</b>	<b>-1070</b>	<b>-608</b>	<b>-178</b>	<b>-584</b>	<b>-519</b>	<b>27</b>
<b>1. Capital Flows (net)</b>	<b>-213</b>	<b>-2265</b>	<b>-253</b>	<b>-343</b>	<b>502</b>	<b>1238</b>	<b>1469</b>	<b>-386</b>	<b>3342</b>
<b>Portfolio Investments (net)</b>	<b>-672</b>	<b>-802</b>	<b>-292</b>	<b>592</b>	<b>634</b>	<b>-242</b>	<b>631</b>	<b>326</b>	<b>2791</b>
General Government Bond Issues	493	-298	0	450	745	-578	0	-212	1968
Foreigners' Buying of Bonds and Stocks in Turkey	544	-680	-1	219	204	284	612	293	1811
Residents Buying of Bonds and Stocks Abroad	-1522	176	-129	-77	-315	67	19	245	-811
<b>Credits (excl. IMF credits)</b>	<b>-1238</b>	<b>-931</b>	<b>-92</b>	<b>-611</b>	<b>-351</b>	<b>769</b>	<b>505</b>	<b>68</b>	<b>205</b>
General Government	-434	-207	-158	-158	-327	-87	-32	-172	-1716
Banks	-1126	284	-183	-776	-99	630	364	33	926
Long Term	-516	-100	13	-12	-151	45	-265	79	-313
Short Term	-610	384	-196	-764	52	585	629	-46	1239
Other Sectors	322	-1008	249	323	75	226	173	207	995
Long Term	980	-1058	74	268	36	204	170	208	730
Short Term	-658	50	175	55	39	22	3	-1	265
Trade Credits	1878	389	47	151	137	308	54	380	1284
<b>Deposits</b>	<b>308</b>	<b>204</b>	<b>342</b>	<b>-142</b>	<b>89</b>	<b>546</b>	<b>191</b>	<b>-666</b>	<b>1101</b>
Central Bank	1261	20	1	23	1	108	148	-52	384
Banks	-953	184	341	-165	88	438	43	-614	717
<b>Others</b>	<b>1389</b>	<b>-736</b>	<b>-211</b>	<b>-182</b>	<b>130</b>	<b>165</b>	<b>142</b>	<b>-114</b>	<b>-755</b>
<b>2. IMF Credits</b>	<b>6365</b>	<b>-113</b>	<b>639</b>	<b>-39</b>	<b>-117</b>	<b>-63</b>	<b>129</b>	<b>-256</b>	<b>0</b>
Central Bank	-6138	-113	0	-39	-117	0	-348	-191	-926
General Government	12503	0	639	0	0	-63	477	-65	926
<b>3. Change in Reserves (- increase)</b>	<b>-5025</b>	<b>3079</b>	<b>-314</b>	<b>-688</b>	<b>-993</b>	<b>-1353</b>	<b>-2182</b>	<b>123</b>	<b>-3315</b>
Banks' FX Holdings	725	2015	-234	-55	-512	-870	-752	-1238	1157
Official Reserves	-5750	1064	-80	-633	-481	-483	-1430	1361	-4472

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>											
1999	-1344	-10469	26587	2255	-40671	7487	5203	-3537	-4533	5175	4529
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	-1521	-8337	36059	4065	-51554	7880	8481	-4554	-4417	3490	1936
<i>(quarterly)</i>											
2001 III	1968	-1310	7659	772	-10364	3455	3555	-1040	-1307	863	611
IV	640	-641	8314	787	-10364	1693	1433	-1339	-1312	927	649
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	-1105	-2792	10337	1123	-15162	1907	1685	-1233	-1160	1013	415
2003 I	-2260	-2326	10307	757	-14207	801	803	-1512	-1172	777	440
II	-1884	-3252	11251	954	-16406	1778	1862	-1250	-1108	840	537
III	160	-4176	12066	1083	-18370	4621	4913	-1345	-1134	1060	733
<i>(monthly)</i>											
2002 Nov	-226	-688	3594	382	-4962	546	435	-569	-545	485	152
Dec	-1313	-1477	3242	329	-5370	361	272	-424	-335	227	145
2003 Jan	-22	-449	3513	163	-4381	335	247	-227	-209	319	156
Feb	-1166	-662	2908	298	-4101	138	264	-821	-471	179	114
Mar	-1072	-1215	3886	296	-5725	328	292	-464	-492	279	170
Apr	-759	-959	3639	287	-5187	327	329	-388	-313	261	152
May	-570	-986	3844	359	-5509	651	637	-526	-487	291	202
Jun	-555	-1307	3768	308	-5710	800	896	-336	-308	288	183
Jul	-339	-1416	4203	274	-6246	1217	1346	-493	-262	353	223
Agu	253	-1417	3794	403	-5951	1841	1967	-505	-524	334	233
Sep	246	-1343	4069	406	-6173	1563	1600	-347	-348	373	277
Oct	-119	-1085	4693	430	-6588	1019	1125	-360	-315	307	219
<i>(12-month)</i>											
2002 Nov	-416	-7226	35477	3945	-49625	7824	8433	-4591	-4461	3577	2029
Dec	-1521	-8337	36059	4065	-51554	7880	8481	-4554	-4417	3490	1936
2003 Jan	-1532	-8390	36965	4005	-52503	7971	8515	-4546	-4360	3433	1928
Feb	-2341	-8911	37489	3972	-53566	7913	8517	-4705	-4339	3362	1874
Mar	-3144	-9707	38456	3903	-55352	7979	8388	-4839	-4530	3423	1899
Apr	-3240	-9833	39352	3806	-56326	8050	8266	-4899	-4499	3442	1903
May	-3523	-10070	40196	3868	-57531	8002	8144	-4909	-4498	3454	1918
Jun	-4219	-10699	41193	3924	-59304	8059	8163	-5073	-4556	3494	1931
Jul	-4631	-11171	42292	3922	-60950	8277	8383	-5282	-4549	3545	1950
Agu	-4818	-11808	43110	3927	-62482	8771	8900	-5342	-4570	3561	2007
Sep	-5089	-12546	43961	3917	-64145	9107	9263	-5340	-4574	3690	2125
Oct	-5642	-13004	45153	3935	-65903	9126	9410	-5460	-4609	3696	2226

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	Credits				Monetary Authority	Banks	
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
<i>(annual)</i>																	
1999	-377	-377	138	3429	-759	428	3760	1782	-1454	4086	719	518	-1932	2187	2284	-229	468
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	1587	1587	863	-593	-2096	-16	1519	7470	594	8247	2483	-6138	11834	-1028	651	1336	-988
<i>(quarterly)</i>																	
2001 III	174	174	427	-741	-135	192	-798	2176	1631	1201	-429	3034	919	-2677	321	325	-335
IV	-2204	-2204	659	-558	-720	-114	276	-1993	-191	-1427	-439	1972	-875	-1967	-30	399	-492
2002 I	2158	2158	95	-59	-1232	66	1107	3822	1778	2392	274	-6138	8752	-443	44	402	-502
II	240	240	312	-736	-265	50	-521	1353	-112	1907	743	0	769	252	243	195	-332
III	-1572	-1572	236	-468	-245	-22	-201	1474	-486	2467	738	0	2617	-1184	-15	614	-362
IV	761	761	220	670	-354	-110	1134	821	-586	1481	728	0	-304	347	379	125	208
2003 I	4257	4257	-15	-75	71	52	-198	3686	4053	354	286	-113	-555	700	-602	89	550
II	-1606	-1606	2	934	-521	15	1440	-1348	-801	83	335	-156	-4	-1058	647	25	264
III	-2105	-2105	56	1606	-606	563	1649	1533	-857	2726	283	-466	6	1251	743	322	517

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	Credits				Monetary Authority	Banks	
								Monetary Authority	General Government	Banks	Other Sectors	Monetary Authority	Banks				
	(monthly)																
2002 Nov	201	201	-3	-60	-426	-247	613	559	169	324	299	0	-92	-297	292	25	98
Dec	259	259	-51	139	-148	81	206	279	-300	505	306	0	-143	395	37	50	-133
2003 Jan	1195	1195	-6	1108	-218	119	1207	2102	1578	486	-51	0	-168	192	278	38	197
Feb	2361	2361	-11	-381	113	52	-546	1147	460	320	-52	0	-180	224	128	31	169
Mar	701	701	2	-802	176	-119	-859	437	2015	-452	389	-113	-207	284	-1008	20	184
Apr	72	72	-10	-292	-129	-42	-121	454	-234	939	47	0	481	-183	249	1	341
May	-1070	-1070	42	592	-77	9	660	-1071	-55	-629	151	-39	-158	-776	323	23	-165
Jun	-608	-608	-30	634	-315	48	901	-731	-512	-227	137	-117	-327	-99	75	1	88
Jul	-178	-178	23	-242	67	77	-386	524	-870	1583	308	0	-150	630	226	108	438
Agu	-584	-584	63	631	19	175	437	152	-752	905	54	-348	445	364	173	148	43
Sep	-1343	-1343	-30	1217	-692	311	1598	857	765	238	-79	-118	-289	257	344	66	36
Oct	-519	-519	-77	326	245	132	-51	-2129	-1238	-466	380	-191	-237	33	207	-52	-614
	(on iki aylık)																
2002 Nov	94	94	923	-709	-2148	-203	1642	7513	367	8518	2037	-4166	11770	-2801	634	1489	-549
Dec	1587	1587	863	-593	-2096	-16	1519	7470	594	8247	2483	-6138	11834	-1028	651	1336	-988
2003 Jan	2206	2206	862	-18	-2076	121	1937	9120	695	9678	2478	-6138	11716	-504	1113	1211	-295
Feb	3865	3865	824	173	-1566	176	1563	7546	1065	7384	2556	0	2584	-296	1403	1111	-70
Mar	3686	3686	753	-609	-793	-30	214	7334	2869	6209	2495	-113	2527	115	5	1023	64
Apr	3595	3595	717	-1502	-1055	-170	-277	6540	1526	6747	2386	-113	2039	318	91	940	996
May	2668	2668	503	-196	-633	-164	601	5917	3022	4821	2128	-152	1940	-1049	282	908	678
Jun	1840	1840	443	1061	-1049	-65	2175	4633	2180	4385	2087	-269	1754	-1195	409	853	660
Jul	1852	1852	471	796	-968	-52	1816	4338	2005	4330	2009	-269	540	-381	418	752	1173
Agu	1872	1872	322	1577	-736	199	2114	3334	675	4404	1994	-617	-690	763	747	624	1487
Sep	1307	1307	263	3135	-1410	520	4025	4692	1809	4644	1632	-735	-857	1240	1167	561	1539
Oct	487	487	-88	2870	-1385	596	3659	2580	1026	3526	1889	-926	-1025	1024	1324	459	682

Source: CBRT.