

# **CENTRAL BANK OF THE REPUBLIC OF TURKEY**

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## **BALANCE OF PAYMENTS REPORT**

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**2009 - III**

## SUMMARY

The declining trend in the current account deficit continued through the third quarter of 2009. Thus, the current account deficit, which reached USD 49.1 billion in August 2008 in annual terms, went down to USD 14.6 billion in September 2009.

The decline in exports seen as of the last quarter of 2008 persisted in the January-September period of 2009 as well. In the third quarter of 2009, nominal exports, the quantity index (real exports) and the unit value index went down by 30.3 percent, 11.9 percent, and 21 percent, respectively.

Motor vehicles sector was the sector most severely distressed from the deceleration in global demand. While exports of motor vehicles contracted by 55.2 percent in the first quarter of the year, they recovered gradually owing to incentive packages implemented in European Union countries. However, the persisting weak demand in EU countries, which accommodate more than 70 percent of exports in this sector, led to an annual decline in exports by 31.3 percent in the third quarter of the year, as well. The negative effects of the rise in global market shares of countries such as China and India in the exports of textiles and clothing persisted through 2009. Nevertheless, while the slowdown in exports of clothing has continued recently, exports of textiles have displayed a relatively better performance. Due to plummeting global investment and production especially in the construction and automotive sectors, base metal industry exports recorded a significant slowdown. Although exports of base metal products displayed a temporary rise owing to exports of gold in the first quarter of the year, they declined by 51.5 percent and 61.8 percent in the second and third quarter of the year, respectively.

The downtrend in imports ended with a recovery in domestic demand during the second quarter, mainly driven by fiscal incentives. However, the decline in imports in annual terms persisted in the third quarter as well and imports fell by 34.5 percent and by 12 percent, in nominal and real terms, respectively.

The fiscal stimulus-driven rebound across all subcategories of imports during the second quarter moderated in investment goods during the third quarter. The quarterly rise in the total quantity of imports in this period was mainly attributable to intermediate and consumption goods. An analysis in annual nominal terms suggests that imports of intermediate goods became the main determinant of the decline in overall imports due to their high share within imports and high-rated price decreases. An item-by-item analysis reveals that in the third quarter of the year, the biggest contribution to the fall in imports came from crude oil and natural gas along with the base metal industry, where both prices and demand dropped significantly. Moreover, in addition to refined petroleum products and scrap and waste that are linked to those mentioned above, the imports of machinery-equipment, due to the decline in investments, and imports of chemicals and chemical products and motor vehicles contributed significantly to the import decrease.

In the last quarter of 2008 and the first quarter of 2009, net capital outflows from Turkey became USD 6.2 billion, followed by inflows of USD 1.3 billion and USD 2.1 billion in the second and third quarters of the year, respectively. While capital inflows in the third quarter were driven by direct and portfolio investments and the rise in deposits; net credit utilization remained negative.

Albeit with some slowdown, inward direct investments continued in the third quarter of 2009. During this period, the largest inflow in direct investment income came from the investment in the chemical industry in July and the investment in the automotive sector in August. Capital flows in portfolio investments, which had mainly been in the form of outflows since the second half of 2008 due global financial turmoil, turned inflows as of the second quarter of 2009 thanks to investments in equities in the first few months of the year and afterwards in government securities. Recent data indicate that the inflows in question accelerated in the October-November period.

Long-term capital inflows, which reached high levels owing to the upsurge in private sector utilization of long-term credits in recent years, were replaced by outflows as of the last quarter of 2008 due to the global economic crisis. Although short-term capital movements displayed a similar trend, inflows have gradually been accelerating since the second quarter of 2009.

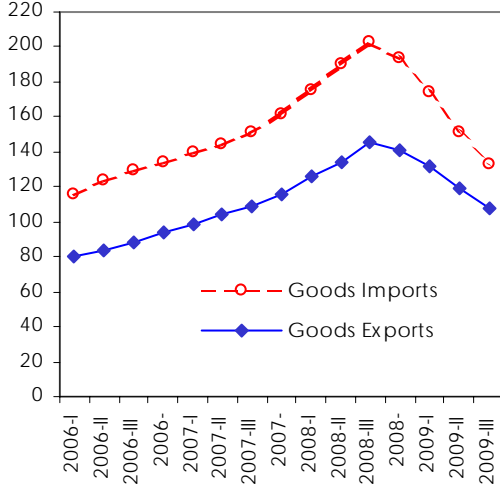
**Balance of Payments**  
 (billion USD)

	Jan-Sep			Sep (12-month)		
	2008	2009	% change	2008	2009	% change
Current Account	-35.9	-8.6	..	-47.7	-14.6	..
Goods	-45.0	-17.0	..	-57.9	-25.0	..
Exports	111.8	78.7	-29.7	145.0	107.6	-25.8
Exports (fob)	105.2	73.1	-30.5	136.1	100.0	-26.6
Shuttle trade	4.6	3.5	-24.3	6.2	5.1	-18.6
Imports	-156.9	-95.7	-39.0	-202.8	-132.6	-34.6
Imports (cif)	-163.5	-100.1	-38.8	-211.9	-138.6	-34.6
Coverage adjustment	8.9	5.5	..	11.9	7.6	..
Services	13.8	13.0	..	15.9	16.5	..
Tourism (net)	14.9	13.3	-10.4	17.8	16.9	-5.3
Credit	17.5	16.2	-7.0	21.3	20.7	-2.8
Debit	-2.6	-2.9	12.5	-3.5	-3.8	10.1
Other services revenues (net)	-1.0	-0.3	..	-2.0	-0.4	..
Income	-6.4	-6.1	..	-8.0	-7.9	..
Wage Payments	-0.1	-0.1	..	-0.1	-0.1	..
Direct investment income (net)	-2.3	-1.9	..	-2.9	-2.2	..
Portfolio investment income (net)	0.4	0.0	..	1.1	0.6	..
Other investment income (net)	-4.5	-4.2	..	-6.2	-6.2	..
Interest income	1.6	1.4	-11.8	2.1	1.8	-12.8
Interest expenditure	-6.0	-5.6	-7.6	-8.3	-8.0	-3.1
Current transfers	1.7	1.5	-13.4	2.3	1.9	-18.7
Workers remittances	1.1	0.7	-35.2	1.4	1.1	-26.1
Capital and financial account	40.0	0.7	..	51.0	-2.9	..
Financial account (excl. reserve assets)	44.2	0.0	..	55.3	-8.9	..
Direct investment (net)	12.0	5.2	..	16.6	9.0	..
aeroad	-2.3	-0.9	-62.2	-2.6	-1.1	-55.6
In Turkey	14.2	6.0	-57.6	19.2	10.1	-47.0
Portfolio investment (net)	0.5	0.7	..	-2.9	-4.9	..
Assets	-1.5	-2.0	..	-1.2	-1.8	..
Liabilities	1.9	2.6	..	-1.7	-3.1	..
Equity securities	2.1	1.8	..	2.9	0.4	..
Debt securities	-0.2	0.9	..	-4.6	-3.5	..
Non-residents' buyings in Turkey	-1.3	-0.9	..	-4.8	-4.7	..
Eurobond issues of Treasury	1.1	1.8	..	0.2	1.3	..
Borrowing	4.0	3.8	..	5.3	3.8	..
Repayment	-2.9	-1.9	..	-5.0	-2.5	..
Other investments (net)	31.8	-5.8	..	41.6	-13.0	..
Assets	-11.6	2.6	..	-12.7	3.3	..
Trade credits	-1.3	-0.3	..	-2.0	2.7	..
Credits	-0.2	-0.6	..	-0.1	-0.5	..
Banks FX assets (- increase)	-5.0	3.5	..	-5.5	-0.5	..
Liabilities	43.4	-8.4	..	54.4	-16.3	..
Trade credits	5.4	-1.8	..	6.2	-5.6	..
Credits	32.5	-12.9	..	40.8	-15.3	..
Central Bank	0.0	0.0	..	0.0	0.0	..
General Government	3.4	0.8	..	2.7	0.8	..
IMF	2.2	-0.7	..	1.5	-1.2	..
Long-term	1.2	1.5	..	1.2	2.0	..
Banks	6.0	-6.3	..	7.4	-9.3	..
Long-term	3.5	-1.9	..	4.1	-4.7	..
Short-term	2.5	-4.4	..	3.3	-4.5	..
Other sectors	23.1	-7.3	..	30.6	-6.8	..
Long-term	22.2	-7.2	..	30.2	-6.7	..
Short-term	0.9	-0.1	..	0.4	-0.1	..
Deposits of non-residents	5.4	6.1	..	7.0	4.1	..
In CBT	-1.4	-0.8	..	-1.8	-1.1	..
In banks	6.8	6.8	..	8.8	5.2	..
Change in official reserves (- increase)	-4.2	0.7	..	-4.3	5.9	..
Net errors and omissions	-1.6	6.2	..	-0.6	13.2	..

Source: CBT.

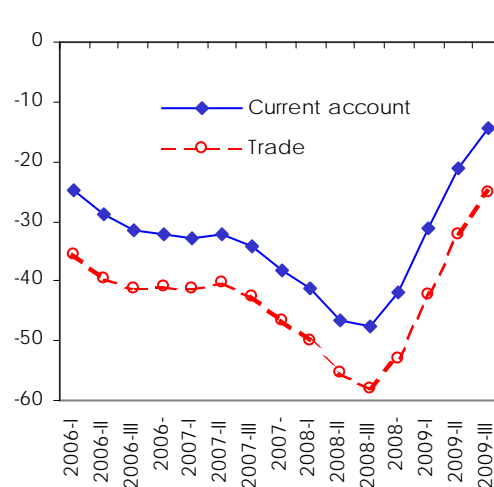
**Goods Exports and Imports**

(12-month ave., billion US dollars)



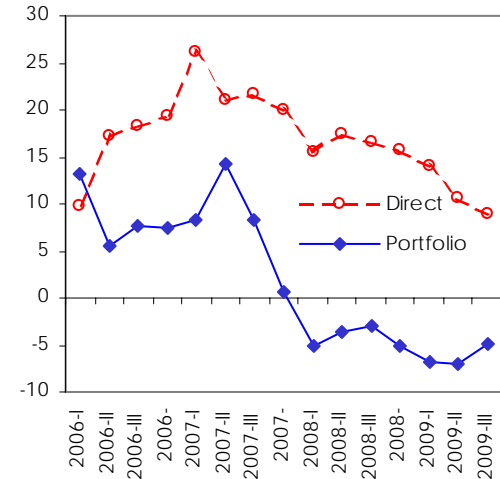
**Trade and Current Account**

(12-month ave., billion US dollars)



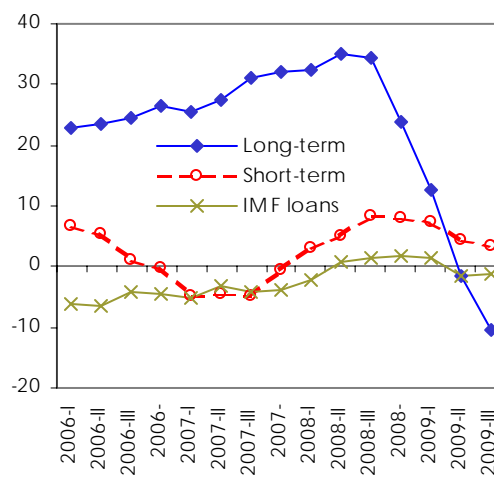
**Direct and Portfolio Investments**

(12-month ave., billion US dollars)



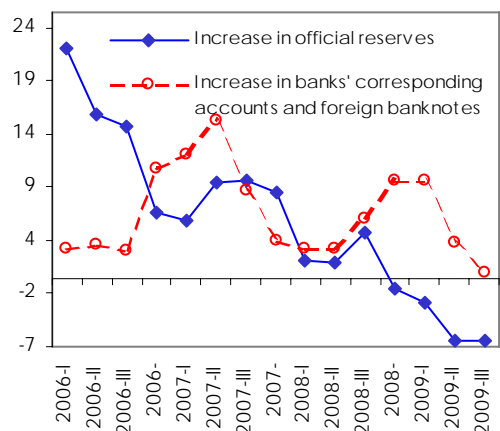
**Other Capital Flows**

(12-month ave., billion US dollars)



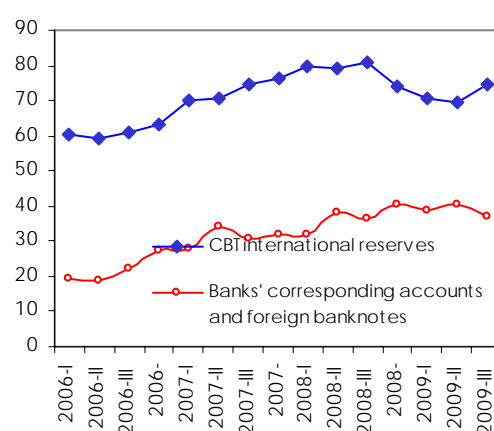
**Change in Reserves**

(12-month ave., billion US dollars)



**International Reserves**

( billion US dollars)



Source: CBT, TURKSTAT.

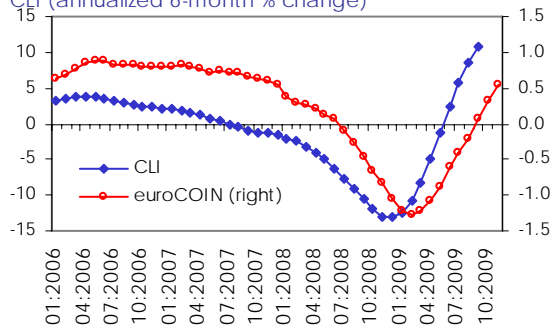
## I. EXTERNAL ECONOMIC DEVELOPMENTS

1. Recent economic data releases confirm that the contraction in the world economy is over. In addition, global inflation rates continue to post negative figures on the back of ongoing spare capacity as well as the base effect created by commodity prices which – despite the increasing trend– still follow a low course compared to 2008. On the other hand, the regular trend of price increases in energy and global commodities other than energy is noteworthy. Parallel to these developments, central banks continued to keep policy rates at low levels.

### Euro Area Leading Indicators:

€COIN (3-month % change),

CLI (annualized 6-month % change)



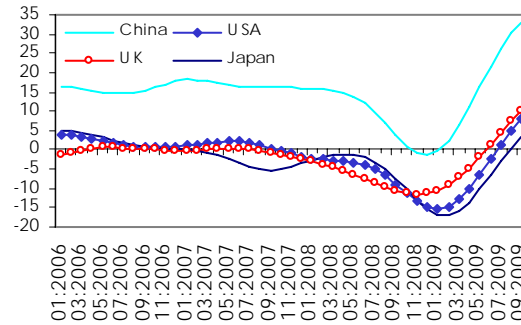
Source: OECD, CEPR.

CLI: Composite Leading Indicator

EuroCOIN: Coincident Indicator of the Euro Area Business Cycle

### Selected Countries Leading Indicators:

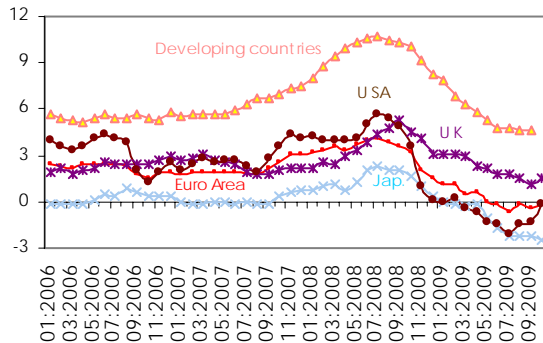
CLI (annualized 6-month % change)



Source: OECD.

### Inflation Rate:

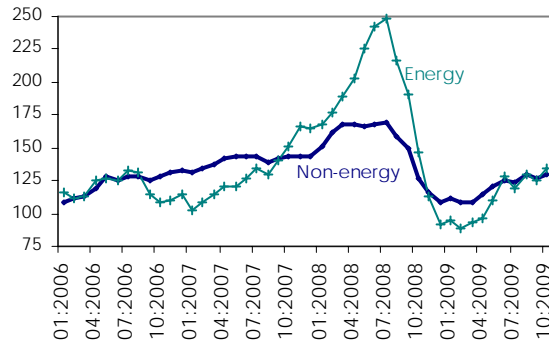
(CPI, annual % change)



Source: IMFIFS.

### Commodity Prices:

(USD, 2005=100)



Source: IMFIFS.

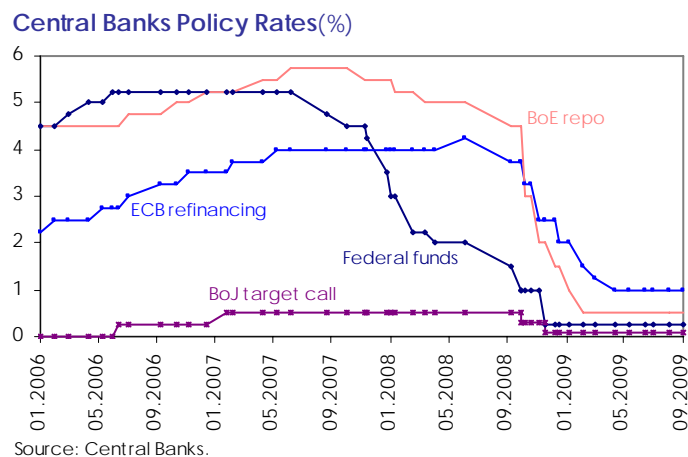
2. After contracting for the last four quarters in a row, the US economy grew by 0.9 q-o-q in the third quarter of 2009 in seasonally-adjusted figures. The revival in economic activity reflects the increase in consumption expenditures. Measures taken by the government to revive economic activity had a favorable temporary influence on private demand, primarily automobile sales. The Purchasing Managers Index (PMI) went up from 48.9 in July to above 50 in August, highlighting the improvement in the manufacturing industry. However, the said index, which reached 55.7 in October, went down to 53.6 in November. The increase in private investment posted a decline on a quarterly basis in the third quarter of 2009, while housing investments displayed an increase for the first time since end-2005. Meanwhile, consumer prices inflation turned negative as of April and became -1.3 percent in September. The decline in prices is mainly driven by the prices of energy and food products. These developments led the FED to cut policy rates to the 0 - 0.25 range by 16 December 2008 and maintain this level in the following months.

3. The GDP in the Eurozone, which contracted in the first half of 2009, increased by 0.4 percent in the third quarter led mainly by Germany and France. The Purchasing Managers' Index (PMI) for Eurozone, which was 51.1 in September, climbed to 53 in October signaling

that the recovery in the economy continued through the last quarter of the year. Indicators such as the OECD composite leading indicators index (CLI) and Eurozone leading indicators (euroCOIN) also suggest that the recovery in the Eurozone will gain pace. Nevertheless, the unemployment rate climbed to 9.8 percent in October. Taking into consideration the delayed response of the labor market to the developments in economic activity, the Eurozone unemployment rate is expected to remain high in the upcoming period. Eurozone consumer prices inflation, which has been decreasing since the second half of 2008, has turned negative since June 2009. In view of the downward trend in inflation, the European Central Bank (ECB), through the reductions in the January-May period, cut the policy rate from 2.5 percent at end-2008 to 1 percent and has kept this level unchanged since then.

4. The Japanese economy has assumed a trend of recovery since the second quarter of 2009. The said development has mainly been triggered by the increase in exports to China. Accordingly, industrial production displayed a subsequent increase through 7 months, until climbing by 1.4 percent in September. Meanwhile, domestic demand has followed a weak course due to limited employment, income and firms' profits. Consumer price inflation posted record low levels as a result of the base effect created by oil prices that peaked in the middle of last year coupled with the severe deterioration in employment and consumption conditions. The fall in CPI exceeded 2.5 percent on an annual basis in October. Against this background, the Bank of Japan (BoJ) cut policy rates twice, on 30 October and 19 December. This ended up as a benchmark interest rate of 0.1 percent.

5. Chinese economic growth, which has posted high levels in recent years, has displayed a relatively strong course despite the contraction in global demand. GDP growth, which decelerated in the first half of 2009 and stood at 7.1 percent, reached 8.9 percent in the third quarter, becoming 7.7 percent for the first nine months. Owing to measures taken by the government to revive economic activity, investment expenditures became a determinant in growth performance. Meanwhile, the contribution of consumption expenditures to growth remained limited. The Composite leading indicators index (CLI) shows signs of a fast rebound in China in the upcoming period. On the other hand, the fall in inflation rate in China, which gained pace in summer, was replaced by monthly increments. CPI inflation that was -1.2 percent in August, rose to -0.8 in September. In view of these developments, the Chinese Central Bank not only cut interest rates five times between September 2008 and the year-end, but also signaled that loose monetary policy will continue in the upcoming period in order to attain rapid and stable growth.



## II. CURRENT ACCOUNT

6. The declining trend in the current account deficit continued through the third quarter of 2009. Thus, the current account deficit, which reached USD 49.1 billion in August 2008 in annual terms, went down to USD 14.6 billion in September 2009. The fall in current account deficit was mainly driven by the contraction in the goods trade deficit; and while the services surplus displayed a limited increase, the revenue balance and transfers account maintained their pre-crisis levels.

7. Due to the global contraction, the ratio of imports covered by exports besides that of foreign trade deficit covered by tourism revenues displayed a notable improvement in 2009. Meanwhile, the export coverage ratio of short-term external debt stock and foreign debt service decreased in 2009. Although the slowdown in capital inflows restricted reserve accumulation, the contraction in the current account deficit resulted in an increase in indicators based on Central Bank reserves.

### Selected Indicators Related to the Current Account Deficit and Financing Structure

	2002	2003	2004	2005	2006	2007	2008	2009Q3
Exports / Imports	86.4	79.5	75.1	70.4	69.6	71.2	72.7	81.2
Exports / Short-Term External Debt	247.9	227.7	212.8	204.7	219.7	267.4	278.8	217.6
Exports / External Debt Service	141.1	188.4	224.8	212.9	233.6	236.7	264.7	181.0
Tourism Revenues*/ Trade Balance	141.0	71.7	53.3	42.2	30.7	30.0	31.7	62.7
CBT Reserves / Short-Term External Debt	170.9	152.8	116.9	137.0	148.5	177.2	147.0	151.0
CBT Reserves / Total External Debt	21.7	24.4	23.4	30.9	30.5	30.6	26.7	27.4
CBT Reserves / Current Account Balance	4484.2	467.9	260.8	237.4	197.5	200.0	177.5	512.5
CBT Reserves / Imports	59.6	53.4	41.2	47.1	47.0	47.2	38.3	56.3

Source: CBT, TURKSTAT.

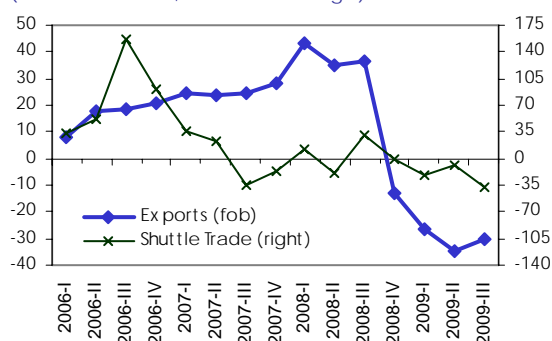
\* Tourism revenues from foreigners.

### Exports of Goods

8. According to TurkStat data, the decline in exports seen as of the last quarter of 2008 persisted in the January-September period of 2009 as well. In the third quarter of 2009, nominal exports, the quantity index (real exports) and the unit value index went down by 30.3 percent, 11.9 percent, and 21 percent, respectively. Meanwhile, exports through shuttle trade dropped by 38.7 percent in the said period.

#### Exports

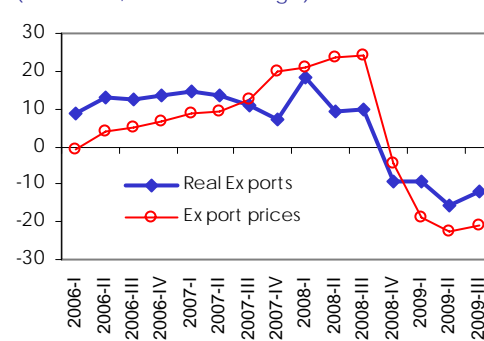
(billion US dollars, annual % change)



Source: TURKSTAT.

#### Exports - Real and Unit Value

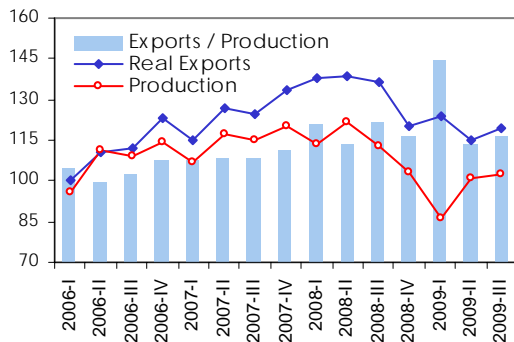
(2003=100, annual % change)



Source: TURKSTAT.

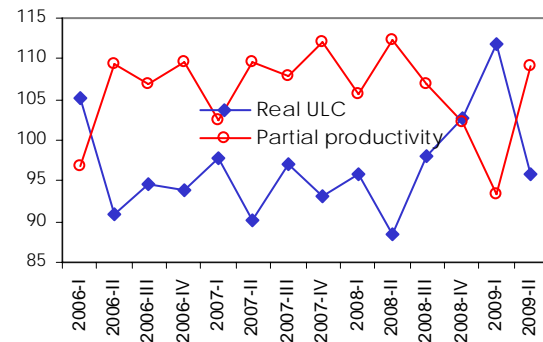
9. Productivity gains, which played a significant role in the decline of real unit labor costs, thus contributing to rapid export growth, displayed a slowdown particularly in the second half of 2008. In addition to this, the recent global economic slowdown led to a decline particularly in the import demand of developed countries, which negatively affected Turkey's export performance. As a matter of fact, the IMF World Economic Outlook (WEO) projections issued in October suggest that the global goods trade volume will decrease by 13 percent in 2009.

**Production and Exports in  
Manufacturing Industry (2005=100)**



Source: TÜRKSTAT.

**Real ULC and Productivity Indices  
(2005=100)**



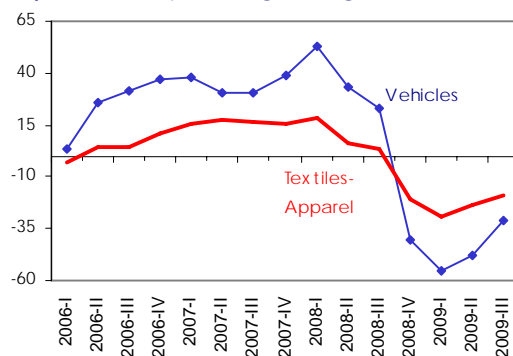
Source: CBT, TÜRKSTAT.

10. Motor vehicles sector was the sector most severely distressed from the deceleration in global demand. While exports of motor vehicles contracted by 55.2 percent in the first quarter of the year, they recovered gradually owing to incentive packages implemented in European Union countries. However, the persisting weak demand in EU countries, which accommodate approximately more than 70 percent of exports in this sector, led to an annual decline in exports by 31.3 percent in the third quarter of the year. According to data from the Automotive Manufacturers Association (AMA) and Turkish Exporters Assembly (TEA), the production and exports of motor vehicles remained weak in the last quarter, as well.

11. The negative effects of the rise in global market shares of countries such as China and India in the exports of textiles and clothing persisted through 2009. Besides, the easing demand observed since the last quarter of 2008 in European Union countries, receiving higher shares of Turkey's exports in this sector, added to the slowdown in the textile and clothing exports both in nominal and real terms. Nevertheless, while the slowdown in exports of clothing has continued, exports of textiles have displayed a relatively better performance. As a matter of fact, the seasonally adjusted exports of textiles recorded an increase starting from the second quarter of the year.

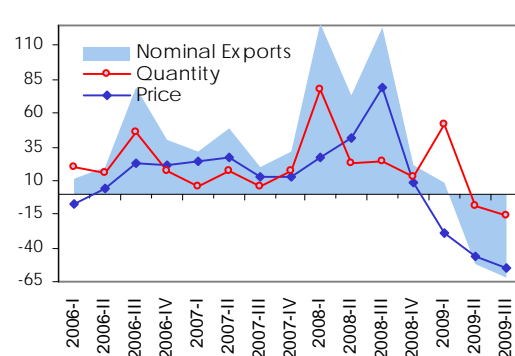
12. Due to plummeting global investment and production especially in the construction and automotive sectors, base metal industry exports recorded a significant slowdown. Although exports of base metal products displayed a temporary rise owing to exports of gold in the first quarter of the year, they declined by 51.5 percent and 61.8 percent in the second and third quarter of the year, respectively. The decline in commodity prices in this period contributed significantly to the decline in base metal industry exports in nominal terms (In the April-September period, the decline in commodity prices had a price contribution of 45 points to the nominal decline of base metal exports by 57.1 percent).

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



Source: TÜRKSTAT.

**Base Metal Industry Exports  
(Annual percentage change)**



Source: TÜRKSTAT.



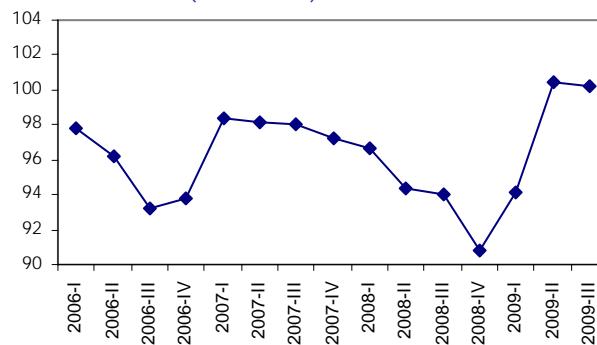
## Exports (million USD)

	As of July-September period								
			Change	Contribution		Export share		Indices (% change)	
	2008	2009	%	%	\$	2008	2009	price	quantity
Total	36435	25384	-30.3					-21.0	-11.9
Capital Goods	4245	2667	-37.2	-4.3	-1578	11.7	10.5	-6.1	-33.1
Intermediate Goods	19689	11891	-39.6	-21.4	-7799	54.0	46.8	-31.4	-12.0
Consumption Goods	12340	10654	-13.7	-4.6	-1686	33.9	42.0	-10.1	-4.0
Other	161	173	7.3	0.0	12	0.4	0.7	-	-
Selected Items (ISIC Rev.3):									
Agriculture and farming of animals	773	944	22.1	0.5	171	2.1	3.7	14.4	5.7
Food products and beverages	1769	1463	-17.3	-0.8	-306	4.9	5.8	-19.1	2.1
Textiles	3056	2549	-16.6	-1.4	-508	8.4	10.0	-9.8	-7.6
Clothing	3005	2376	-20.9	-1.7	-629	8.2	9.4	-10.3	-11.9
Petroleum products and nuclear fuel	2529	1249	-50.6	-3.5	-1280	6.9	4.9	-44.2	-11.5
Chemicals and chemical products	1433	1158	-19.2	-0.8	-276	3.9	4.6	-11.5	-8.8
Rubber and plastic products	1366	1087	-20.4	-0.8	-279	3.7	4.3	-11.9	-9.9
Other non-metallic minerals	1157	1009	-12.7	-0.4	-147	3.2	4.0	-16.6	4.6
Manufacture of basic metals	6995	2669	-61.8	-11.9	-4326	19.2	10.5	-54.8	-15.5
Man. of fabricated metal prod (exc mach.)	1530	1152	-24.7	-1.0	-378	4.2	4.5	-18.5	-8.0
Manufacture of machinery and equipment	2593	2044	-21.1	-1.5	-548	7.1	8.1	-9.0	-13.1
Electrical machinery and apparatus	1369	1029	-24.9	-0.9	-340	3.8	4.1	-12.1	-14.6
Communication and apparatus	494	528	6.9	0.1	34	1.4	2.1	0.6	6.3
Motor vehicles and trailers	4796	3293	-31.3	-4.1	-1503	13.2	13.0	-4.7	-28.0
Other transport	886	694	-21.7	-0.5	-193	2.4	2.7	-	-

Source: TURKSTAT.

13. The decline in commodity prices arising from the global demand contraction led to slumps in both export and import prices in the first quarter of 2009. However, export and import prices started to rebound on a monthly basis as of April and May, respectively. In the light of the high share of energy within imports along with the price plunge in crude oil imports as of August 2008, terms of trade have turned in favor of exports in 2009. As a matter of fact, according to indices with base 2003=100, terms of trade have risen above 100 in May, June and July 2009 for the first time since mid-2005.

Terms of Trade (2003=100)

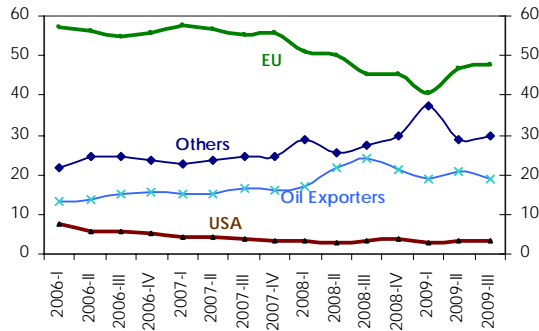


Source: TURKSTAT.

14. In the third quarter of 2009, export prices, although having remained below those of the same period the previous year, gained pace as of April in response to the global economic recovery. The rate of increase in export prices accelerated in the third quarter and significant price hikes were observed in refined petroleum products, agriculture, base metal, communication and apparatus, chemicals and chemical products, and machinery-equipment. Nevertheless, as prices decreased year-on-year in the said period, the annual nominal rise in exports remained limited. The leading sectors that displayed an increase in quantity on an annual basis were agriculture, food and communication and apparatus sectors.

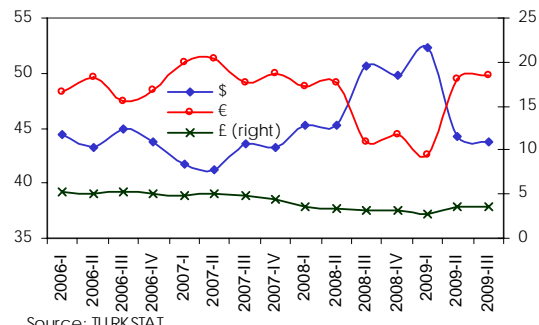
15. External demand presented a positive outlook as of the second quarter of 2009, owing to fiscal and monetary expansion packages in developed countries. As a matter of fact, the share of exports to EU countries, which fell to 40.6 percent in the first quarter of the year, increased to 47.8 percent in the third quarter. The increase in recent years in the share of exports to petroleum exporting countries was reversed in the period following August 2008, the period of plunges in oil prices. These developments reverberated on the FX composition of exports: the share of the euro, which decreased in the second half of 2008, bounced back to its former level in April 2009, when the share of exports to the EU increased.

**Selected Countries' Shares in Exports**  
(% share in total exports)



Source: TURKSTAT.

**Currency Decomposition of Exports**  
(% share)



Source: TURKSTAT.

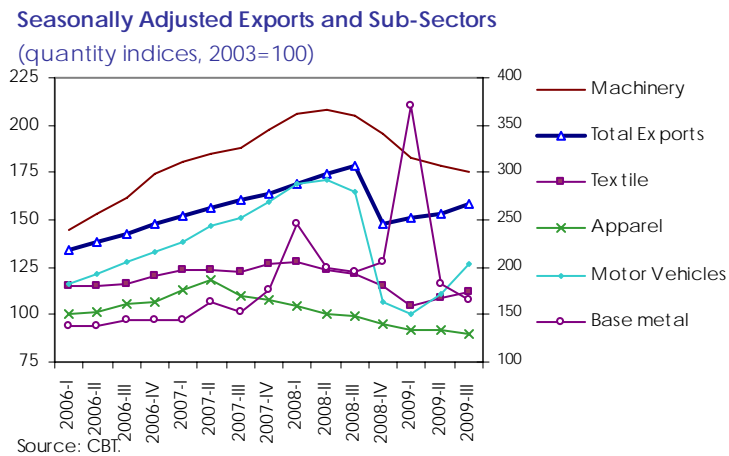
16. A country-based analysis demonstrates that Iraq and France are the countries with the highest increase in their shares of exports of Turkey in the third quarter of 2009. The United Arab Emirates and Russia became the countries that displayed the fastest decline in their shares of exports from Turkey.

**Exports-Country Decomposition**  
(million USD)

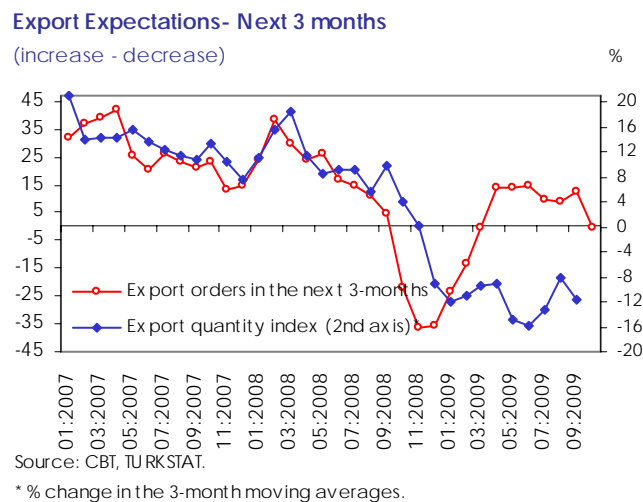
	As of July-September period						
	2008		2009		%	Contribution	
	Value	Share (%)	Value	Share (%)		Change	%
Total	36435	..	25384	..	-30.3	..	..
EU countries (27)	16493	45.3	12133	47.8	-26.4	-12.0	-4360
Other countries	19172	52.6	12768	50.3	-33.4	-17.6	-6404
Other European	3856	10.6	2133	8.4	-44.7	-4.7	-1723
East Asian	2065	5.7	1949	7.7	-5.6	-0.3	-116
Other	17107	47.0	8686	34.2	-49.2	-23.1	-8421
Free Zones in Turkey	770	2.1	483	1.9	-37.3	-0.8	-287
<i>Selected countries and country groups:</i>							
OECD	17,914	49.2	13,295	52.4	-25.8	-12.7	-4619
Germany	3,382	9.3	2,530	10.0	-25.2	-2.3	-851
UK	2,207	6.1	1,644	6.5	-25.5	-1.5	-564
Italy	1,932	5.3	1,436	5.7	-25.7	-1.4	-496
France	1,704	4.7	1,570	6.2	-7.9	-0.4	-134
Spain	908	2.5	735	2.9	-19.0	-0.5	-172
USA	1,191	3.3	850	3.3	-28.7	-0.9	-341
Netherlands	846	2.3	562	2.2	-33.6	-0.8	-285
Greece	672	1.8	406	1.6	-39.6	-0.7	-266
Other OECD	5,071	13.9	3,562	14.0	-29.8	-4.1	-1509
Middle East countries	8,387	23.0	4,698	18.5	-44.0	-10.1	-3688
UAE	3,000	8.2	650	2.6	-78.3	-6.5	-2350
Iraq	1,084	3.0	1,225	4.8	13.0	0.4	141
S.Arabia	799	2.2	517	2.0	-35.3	-0.8	-282
Qatar	424	1.2	53	0.2	-87.5	-1.0	-371
Iran	490	1.3	479	1.9	-2.3	0.0	-11
Russian Fed.	1,793	4.9	783	3.1	-56.3	-2.8	-1009
Switzerland	249	0.7	301	1.2	21.2	0.1	53
Romania	1,123	3.1	560	2.2	-50.1	-1.5	-563
Bulgaria	601	1.6	354	1.4	-41.1	-0.7	-247
China	457	1.3	531	2.1	16.0	0.2	73

Source: TURKSTAT.

17. Seasonally adjusted data obtained from quantity indices suggest that exports of motor vehicles and textiles recovered, whereas the decline in exports of base metals, clothing and machinery-equipment continued in the third quarter of 2009.



18. “Expected orders over the next quarter” included in the CBT Business Tendency Survey (BTS) bottomed out in the last quarter of 2008 with the effect of the global turmoil and then gradually picked up. However, BTS indicators do not point to a strong exports growth yet, due to lingering uncertainties related to external demand. It is therefore expected that the improvement in exports will be gradual and that it will take some time for exports to return to its previous levels.



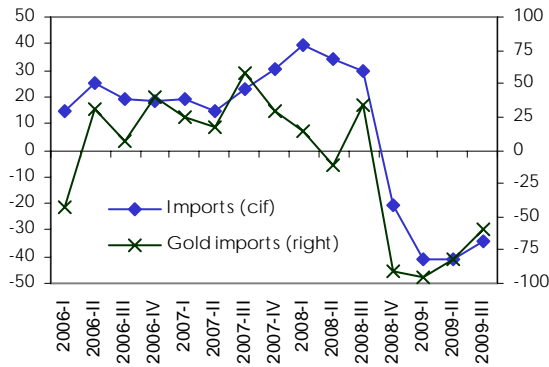
### Imports of Goods

19. The downtrend in imports ended with a recovery in domestic demand, mainly driven by fiscal incentives, during the second quarter. However, the year-on-year decline in nominal and real imports persisted in the third quarter as well and imports fell by 34.5 percent and by 12 percent, in nominal and real terms, respectively. Import prices dropped by 25.9 percent, adding 22.4 points to the nominal decline in imports.

20. The fiscal stimulus-driven rebound across all subcategories of imports during the second quarter moderated in investment goods during the third quarter. The quarterly rise in the total quantity of imports in this period was mainly attributable to intermediate and consumption goods.

**Imports**

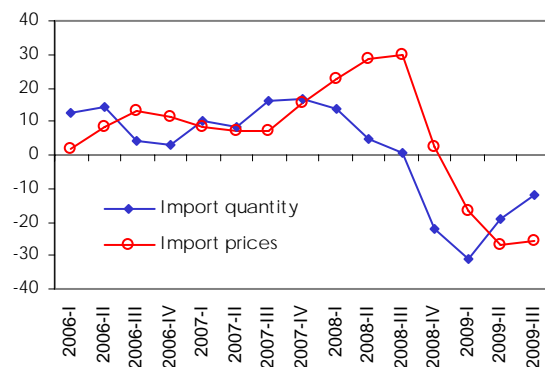
(Billion US dollars, annual % change)



Source: CBT, TURKSTAT.

**Imports - Real and Unit Value**

(2003=100, annual % change)

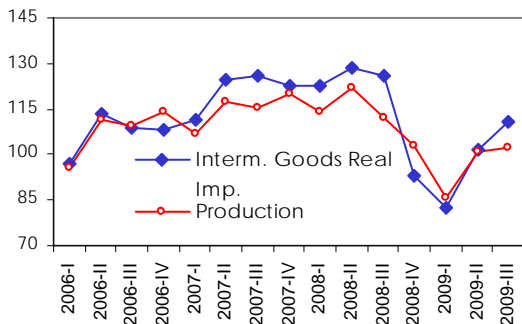


Source: TURKSTAT.

21. An analysis in annual nominal terms suggests that imports of intermediate goods became the main determinant of the decline in overall imports due to their high share within imports and high-rated price decreases. Imports of base metal and energy saw high-rated decreases in response to the contraction in construction and automotive sectors and price declines in this period. Thus, imports of intermediate goods, the majority of which consist of the said items, fell by 11.9 percent and 39.1 percent in real and nominal terms, respectively in the July-September period. In line with the effect of the tax cuts on automobiles and durable goods, the annual rate of decline in imports of consumption goods displayed an apparent decline. Imports of consumption goods fell by 5.8 percent in real and 13.2 percent in nominal terms. Meanwhile, imports of investment goods maintained the high-rated decline in the June-September period as well, as investment demand remained weak.

**Man. Ind. Prod. & Int. Goods**

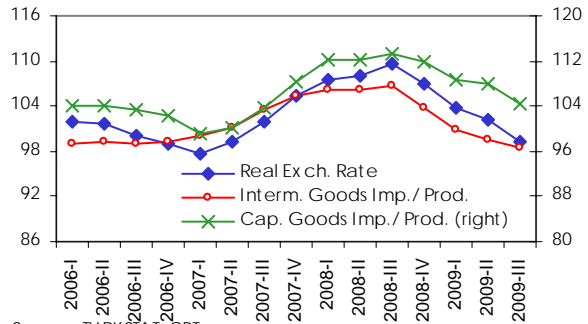
**Imports (2005=100)**



Source: TURKSTAT.

**Interm. & Cap. Imp./Manuf. Ind. P. Ratio and**

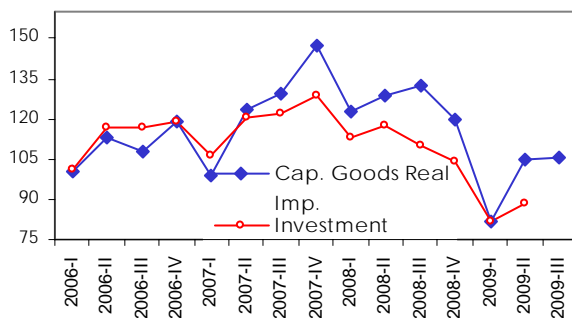
**REER (PPI)(12-month, ave.)**



Source: TURKSTAT, CBT.

**Investment Expenditures &**

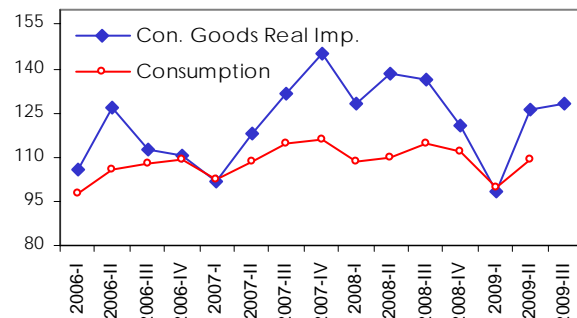
**Capital Goods Imp. (2005=100)**



Source: TURKSTAT.

**Consum. Exp. & Cons. Goods Imp.**

**(2005=100)**



Source: TURKSTAT.

22. An item-by-item analysis reveals that in the third quarter of the year, the biggest contribution to the fall in imports came from crude oil and natural gas along with the base metal industry, where both prices and demand dropped significantly. Moreover, in addition to refined petroleum products and scrap and waste that are linked to those mentioned above, the imports of machinery-equipment, due to the decline in investments, and imports of chemicals and chemical products and motor vehicles contributed significantly to the import decrease.

23. Imports of automobiles started to increase as of the second quarter of 2009 on account of the fiscal measures of March. Imports of automobiles rose slightly in real terms in the second quarter, and in both real and also nominal terms in the third quarter. Meanwhile, imports of durable, semi-durable and non-durable goods, which had been on the rise since the second quarter of 2007, have slowed down significantly since the third quarter of 2008 and maintained this decline in the January-September period in 2009.

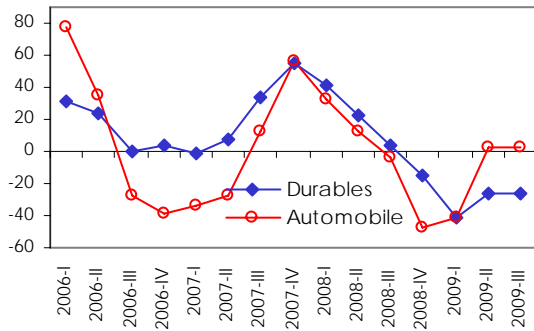
### Imports (million USD)

	<i>As of July-September period</i>										
			<u>Change</u>			<u>Contribution</u>		<u>Import share</u>		<u>Indices (% change)</u>	
	2008	2009	%	%	\$	2008	2009	price	quantity		
Total	57693	37801	-34.5					-25.9	-12.0		
Capital Goods	7437	5669	-23.8	-3.1	-1768	12.9	15.0	-4.4	-20.3		
Intermediate Goods	44385	27052	-39.1	-30.0	-17332	76.9	71.6	-30.8	-11.9		
Consumption Goods	5735	4978	-13.2	-1.3	-757	9.9	13.2	-7.9	-5.8		
Other	137	101	-25.9	-0.1	-35	0.2	0.3	-	-		
Selected Items (ISIC Rev.3):											
Mining and Quarrying	10478	4996	-52.3	-9.5	-5482	18.2	13.2	-41.1	-19.7		
Crude oil and natural gas	8864	4027	-54.6	-8.4	-4837	15.4	10.7	-42.6	-21.5		
Textiles	1327	1204	-9.3	-0.2	-124	2.3	3.2	-3.5	-6.2		
Clothing											
Paper and paper products	799	651	-18.6	-0.3	-149	1.4	1.7	-23.2	5.1		
Coke, petroleum products and nuclear fuel	4317	3156	-26.9	-2.0	-1160	7.5	8.3	-47.3	38.3		
Chemicals and chemical products	7439	5874	-21.0	-2.7	-1565	12.9	15.5	-26.8	7.2		
Rubber and plastic products	917	742	-19.2	-0.3	-176	1.6	2.0	-5.1	-15.6		
Other non-metallic minerals	424	325	-23.2	-0.2	-98	0.7	0.9	-1.7	-22.5		
Manufacture of basic metals	9283	4095	-55.9	-9.0	-5188	16.1	10.8	-33.3	-34.5		
Man. of fabricated metal prod (exc mach.)	955	671	-29.8	-0.5	-284	1.7	1.8	-3.1	-28.2		
Manufacture of machinery and equipment	4452	3105	-30.3	-2.3	-1347	7.7	8.2	-6.0	-26.4		
Electrical machinery and apparatus	1850	1805	-2.4	-0.1	-45	3.2	4.8	-4.9	2.0		
Communication and apparatus	1278	1219	-4.6	-0.1	-59	2.2	3.2	11.8	-15.0		
Medical, precision and opt. instr., watches	977	750	-23.2	-0.4	-227	1.7	2.0	-7.0	-17.7		
Motor vehicles and trailers	3816	2912	-23.7	-1.6	-904	6.6	7.7	-1.0	-22.8		
Other transport	1036	901	-13.0	-0.2	-135	1.8	2.4	-	-		
Waste and scrap (Wholesale and retail)	3024	1389	-54.1	-2.8	-1635	5.2	3.7	-58.9	10.8		

Source: TURKSTAT.

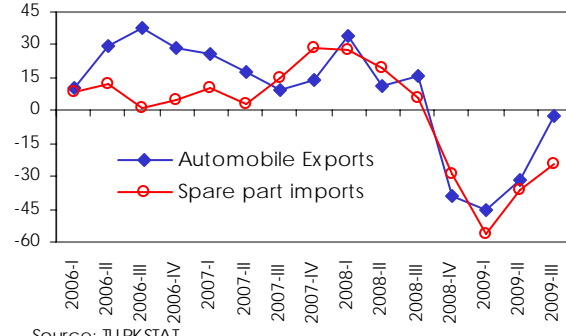
24. In November 2008, the Consumer Confidence Index released by the CBT/TurkStat, which dropped to its lowest-ever level since its first release in December 2003, started to improve gradually from December 2008 onwards. In June, the index resumed its level of early 2008, but dropped to some extent since July.

**Durables & Automobile Imports**  
(2003=100, annual % change)



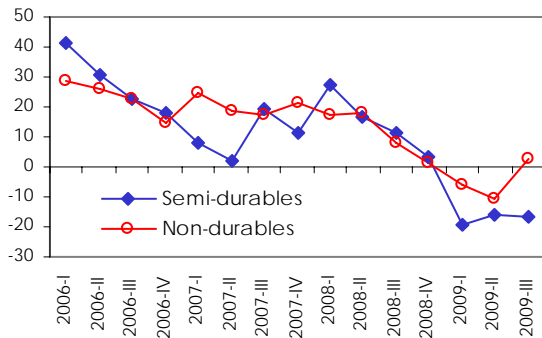
Source: TURKSTAT.

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



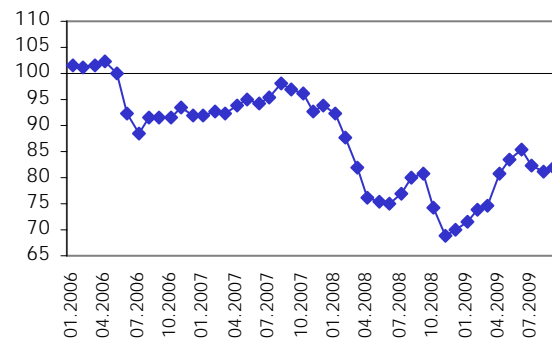
Source: TURKSTAT.

**Semi and non-durables Imports**  
(2003=100, annual % change)



Source: TURKSTAT.

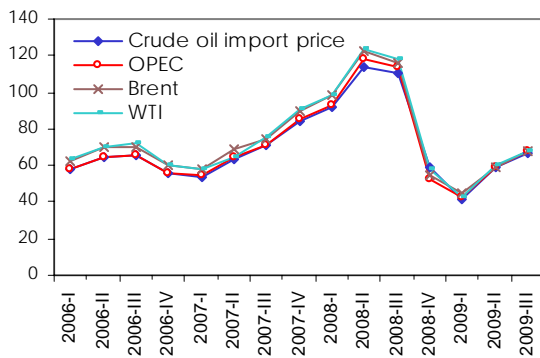
**Confidence Index (CBT-TURKSTAT)**



Source: CBT, TURKSTAT.

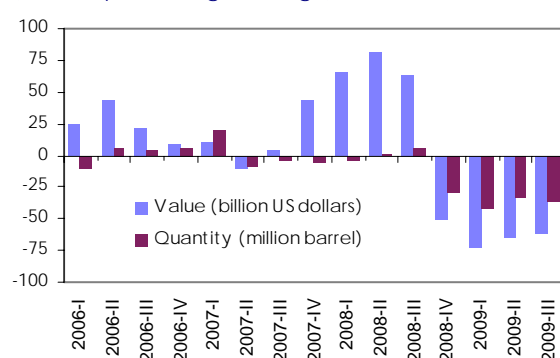
25. The demand for oil eased considerably in the second half of 2008 due to the global economic recession, and international crude oil prices started to fall. While international crude oil prices stood around USD 40-45 per barrel for Brent oil till mid-March 2009, they started to climb again in May and reached USD 80 per barrel in November. Recent improvements in the global economy and the upward revision of growth rates for 2010 were instrumental in this increase.

**Crude Oil Prices**  
(US dollar per barrel, average)



Source: TURKSTAT, OPEC, EIA.

**Crude Oil Imports**  
(annual percentage change)



Source: TURKSTAT.

26. Although import prices maintain the decreasing trend on an annual basis, they have increased on a monthly basis since May 2009. The said rise was attributable to the import price developments in crude oil, refined petroleum products, chemicals and chemical products, base metals and hence waste and scrap.

27. The analysis of quantity indices by items reveals that imports of paper products, chemicals and chemical products, electrical machinery and apparatus and waste and scrap increased on an annual basis in the third quarter of 2009. On the other hand, sharp decreases continued in other sectors.

28. The share of imports from EU countries, which dropped to 37 percent in 2008, increased in 2009 and reached the 2007-level by the first nine months of the year. Parallel to this, shares of imports from Germany, France and Spain rose. The rise in the share of imports from China continued in the third quarter as well; while those of Russia and Iran dropped significantly due to the decline in oil prices in this period.

29. In line with the improvement in the share of imports from EU countries, the share of imports in euro assumed an upward trend in 2009. While the share of imports in US dollars has been decreasing since mid-2008 due to the fall in prices of crude oil and other commodities, the rise in the share of imports in TL accelerated in 2009.

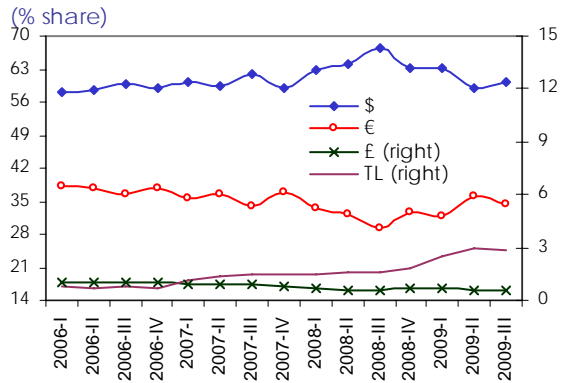
#### Imports-Country Decomposition (million USD)

	<i>As of July-September period</i>						
	2008		2009		% Change	Contribution	
	Value	Share (%)	Value	Share (%)		%	\$
Total	57693	..	37801	..	-34.5		
EU countries	19805	34.3	15350	40.6	-22.5	-7.7	-4455
Other countries	37485	65.0	22139	58.6	-40.9	-26.6	-15346
Other European	13149	22.8	7033	18.6	-46.5	-10.6	-6116
East Asian	10270	17.8	7618	20.2	-25.8	-4.6	-2652
Other	14066	24.4	7489	19.8	-46.8	-11.4	-6578
Free Zones in Turkey	404	0.7	311	0.8	-22.9	-0.2	-92
Selected countries and country groups							
OECD	29225	50.7	20198	53.4	-30.9	-15.6	-9027
Germany	4849	8.4	3847	10.2	-20.7	-1.7	-1001
Italy	2974	5.2	2060	5.4	-30.7	-1.6	-914
USA	4181	7.2	2196	5.8	-47.5	-3.4	-1985
France	2528	4.4	1907	5.0	-24.6	-1.1	-621
UK	1310	2.3	912	2.4	-30.4	-0.7	-398
Switzerland	2500	4.3	763	2.0	-69.5	-3.0	-1737
Spain	1236	2.1	1096	2.9	-11.3	-0.2	-140
Japan	1060	1.8	737	1.9	-30.5	-0.6	-323
S. Korea	1012	1.8	776	2.1	-23.3	-0.4	-236
Belgium	841	1.5	655	1.7	-22.1	-0.3	-186
Netherlands	865	1.5	761	2.0	-12.1	-0.2	-105
Poland	508	0.9	467	1.2	-8.1	-0.1	-41
Sweden	517	0.9	411	1.1	-20.4	-0.2	-105
Other OECD	4843	8.4	3610	9.6	-25.5	-2.1	-1233
Middle East countries	5759	10.0	2636	7.0	-54.2	-5.4	-3123
Iraq	544	0.9	333	0.9	-38.8	-0.4	-211
Iran	2790	4.8	806	2.1	-71.1	-3.4	-1984
S. Arabia	1022	1.8	412	1.1	-59.7	-1.1	-610
Russian Fed.	8483	14.7	5240	13.9	-38.2	-5.6	-3243
China	4339	7.5	3348	8.9	-22.8	-1.7	-991
Ukraine	1847	3.2	729	1.9	-60.5	-1.9	-1118
Romania	862	1.5	717	1.9	-16.9	-0.3	-146
Croatia	626	1.1	508	1.3	-18.9	-0.2	-118
Kazakhstan	588	1.0	231	0.6	-60.7	-0.6	-357
Algeria	738	1.3	464	1.2	-37.1	-0.5	-274

Source: TURKSTAT.

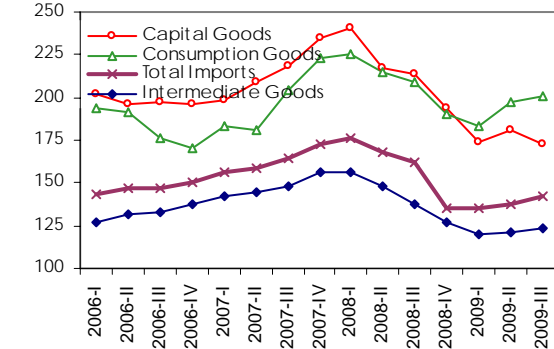
30. According to seasonally-adjusted data, the hikes in all the sub-items of imports in the second quarter of the year continued in imports of intermediate goods and consumption goods in the third quarter. Accordingly, in the July-September period, total imports, imports of intermediate goods and consumption goods rose by 3, 2.1 and 1.9 percent, respectively; while imports of investment goods recorded a decline of 4.2 percent compared to the second quarter.

## Currency Decomposition of Imports



Source: TURKSTAT.

## Seasonally Adjusted Imports and Sub-Sectors (2003=100)



Source: CBT.

## Services Account

31. The rise in tourism revenues in the third quarter of 2009 was offset by the rapid decline in transportation expenses and total services revenues decreased as much as tourism revenues. In this period, construction revenues rose slightly while revenues from financial services and the other revenues item, which comprise telecommunication, postal service and news agency services, decreased.

Services Account  
(million USD)

	2008				2008	2009		
	I	II	III	IV		I	II	III
Services	1276	3313	9223	3408	17220	1024	3226	8795
Total income	5285	8103	14107	7312	34807	4,780	6,932	12959
Total Expenses	-4009	-4790	-4884	-3904	-17587	-3,756	-3,706	-4164
Transportation	-262	-123	288	62	-35	-126	461	732
Credit	1440	2058	2649	1629	7776	1,318	1,742	2205
Debit	-1702	-2181	-2361	-1567	-7811	-1,444	-1,281	-1473
Tourizm	1971	3686	9195	3593	18445	1,570	3,306	8430
Credit	2776	4693	9988	4494	21951	2,467	4,243	9527
Debit	-805	-1007	-793	-901	-3506	-897	-937	-1097
Construction serv.	234	246	240	254	974	280	251	256
Credit	234	246	240	254	974	280	251	256
Debit	0	0	0	0	0	0	0	0
Financial serv.	-31	-43	-38	-25	-137	-28	-77	-162
Credit	180	235	235	191	841	122	97	118
Debit	-211	-278	-273	-216	-978	-150	-174	-280
Other serv.	-636	-453	-462	-476	-2027	-672	-715	-461
Credit	655	871	995	744	3265	593	599	853
Debit	-1291	-1324	-1457	-1220	-5292	-1265	-1314	-1314

Source: CBT.

## Tourism Statistics

	2008				2008	2009		
	I	II	III	IV		I	II	III
Tourism Revenues (million USD)	2776	4693	9988	4493	21951	2467	4244	9526
Departing foreigner visitors (x1000)	3000	6824	11283	5324	26431	2943	6981	11571
<i>average expenditure (thousands USD)</i>	669	579	665	628	636	608	501	608
Departing citizen visitors (x1000)	726	798	2071	954	4549	693	761	2128
<i>average expenditure (thousands USD)</i>	1061	927	1202	1206	1132	975	984	1168
Tourism Expenditures (million USD)	-805	-1007	-793	-902	-3507	-897	-937	-1097
Arriving citizen visitors (x1000)	1065	1456	1049	1323	4893	1203	1267	1524
<i>average expenditure (thousands USD)</i>	-756	-691	-756	-682	-717	-746	-739	-720

Source: TURKSTAT, CBT.



32. Tourism revenues, which had been following an upward trend in recent years, were adversely affected by the global recession, displaying a decline in the first nine months. Despite a limited increase in number of visitors during this period, revenues went down on account of lower average expenditure. Due to the 12.5 percent rise in tourism expenditures, the decline in “net” tourism revenues was realized as 10.4 percent.

### Income Account

33. With the slowdown in global capital movements, the decline in portfolio investment income/expenses in the first half of 2009 decelerated in the third quarter and profit transfers arising from direct investments in Turkey increased. Interest expenses of the private sector increased in the January-September period due to its large amount of external borrowings in 2008, while the interest expenses of the Central Bank, General Government and banks decreased. Accordingly, the income account deficit narrowed in the mentioned period.

#### Income Account (million USD)

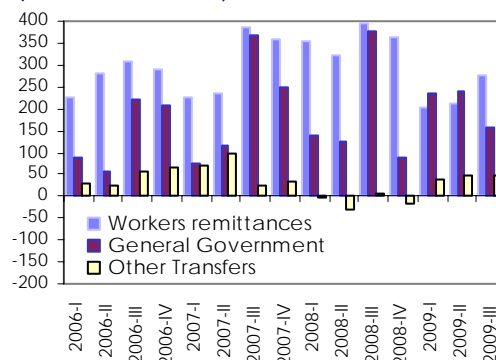
	2008				2008	2009		
	I	II	III	IV		I	II	III
Income (net)	-1976	-2545	-1832	-1812	-8165	-2079	-2212	-1814
Compensation of Employees (net)	-18	-17	-19	-21	-75	-23	-26	-28
Investment Income	-1958	-2528	-1813	-1791	-8090	-2056	-2186	-1786
Total income	2159	1511	1600	1574	6844	1650	1262	1350
Total Expenses	-4117	-4039	-3413	-3365	-14934	-3706	-3448	-3136
Direct investment	-585	-1330	-353	-342	-2610	-484	-896	-479
Credit	70	42	19	196	327	65	108	1
Debit	-655	-1372	-372	-538	-2937	-549	-1004	-480
Portfolio investment	33	321	79	539	972	-293	312	1
Credit	1522	922	1126	925	4495	962	739	1003
Debit	-1489	-601	-1047	-386	-3523	-1255	-427	-1002
Other investment	-1406	-1519	-1539	-1988	-6452	-1279	-1602	-1308
Interest income	567	547	455	453	2022	623	415	346
Interest expenses	-1973	-2066	-1994	-2441	-8474	-1902	-2017	-1654
Long-term	-1815	-1917	-1826	-2274	-7832	-1733	-1864	-1526
Monetary A.	-115	-94	-214	-87	-510	-71	-74	-52
Gen. Gov.	-360	-410	-277	-427	-1474	-282	-326	-191
Banks	-376	-239	-287	-303	-1205	-332	-208	-228
Other sector	-964	-1174	-1048	-1457	-4643	-1048	-1256	-1055
Short-term	-158	-149	-168	-167	-642	-169	-153	-128

Source: CBT.

### Current Transfers

34. Current transfers, which - despite the 34 percent-decline in workers' remittances - increased in the second quarter of 2009 owing to official transfers from abroad, dropped by 37.5 percent in third quarter of 2009. Meanwhile, the other transfers item composed of other insurance and reinsurance transactions with non-residents increased in the mentioned period.

#### Current Transfers (million US dollars)



Source: CBT.

### III. CAPITAL MOVEMENTS

35. In the last quarter of 2008 and the first quarter of 2009, net capital outflows from Turkey became USD 6.2 billion, followed by inflows of USD 1.3 billion and USD 2.1 billion in the second and third quarters of the year, respectively. While capital inflows in the third quarter were driven by direct and portfolio investments and the rise in deposits; net credit utilization remained negative. The net errors and omissions item, which has generally been positive since August 2008 and significantly exceeded financing requirements, became negative in the third quarter of 2009.

#### External Financing Requirement and Resources (billion USD)

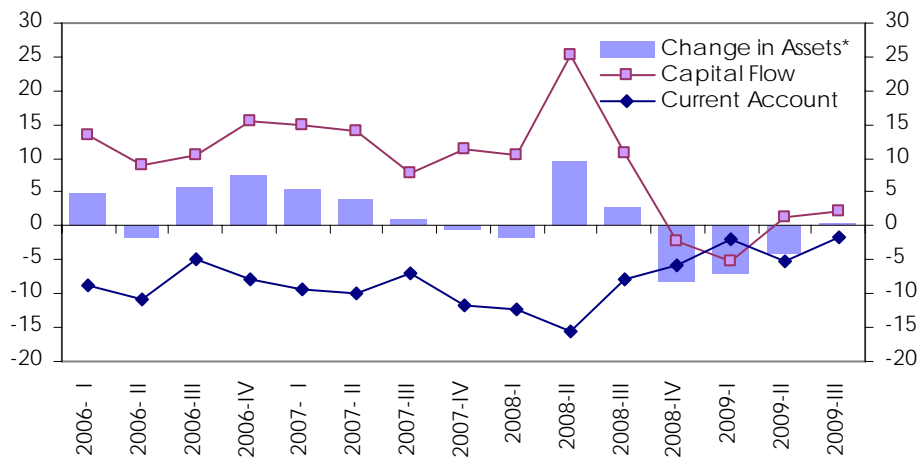
	2008				2008	2009		
	I	II	III	IV		I	II	III
<b>1. Current Account</b>	-12.3	-15.6	-8.0	-5.9	-41.8	-1.8	-5.2	-1.6
<b>2. Net Errors and Omissions</b>	1.3	-3.0	0.0	7.1	5.4	5.3	1.3	-0.4
<b>I. Total Financing Requirement (=1+2)</b>	-11.0	-18.5	-8.0	1.1	-36.4	3.4	-3.9	-2.0
<b>II. Total Financing (=1+2+3)</b>	11.0	18.5	8.0	-1.1	36.4	-3.4	3.9	2.0
<b>1. Capital Flows (net)</b>	11.1	22.1	11.3	-1.8	42.7	-4.5	1.3	2.1
<b>Direct Investment (net)</b>	3.8	4.8	3.4	3.8	15.8	2.1	1.4	1.7
<b>Portfolio Investment (net)</b>	-1.3	3.0	-1.2	-5.5	-5.0	-3.1	2.7	1.1
General Gov. Eurobond Issues	-0.9	0.5	1.5	-0.5	0.6	1.0	0.5	0.4
Nonresidents' Security Buyings in Turkey	0.0	2.3	-1.6	-5.2	-4.4	-3.1	2.2	1.6
Residents' Security Buyings Abroad	-0.5	0.1	-1.1	0.2	-1.3	-1.1	0.0	-0.9
<b>Credit Drawing (excl. IMF loan, net)</b>	10.1	15.3	10.3	-5.6	30.0	-4.6	-6.1	-3.2
General Government	0.2	0.2	0.8	0.6	1.7	0.4	-0.4	1.5
Banks	1.4	1.7	2.9	-2.9	3.0	-2.4	-2.7	-1.2
Long-term	1.9	0.8	0.8	-2.8	0.7	-0.8	-1.1	0.0
Short-term	-0.5	0.9	2.1	-0.1	2.3	-1.6	-1.6	-1.2
Other Sector	8.5	13.3	6.6	-3.3	25.2	-2.5	-3.1	-3.5
Long-term	7.0	9.7	5.6	0.5	22.7	-1.8	-2.0	-3.4
Short-term	0.1	0.5	0.3	0.0	0.9	0.1	-0.3	0.1
Trade Credits	1.5	3.2	0.7	-3.8	1.6	-0.8	-0.8	-0.2
<b>Deposits</b>	0.9	2.9	1.6	-2.0	3.4	1.2	3.7	1.2
in Central Bank	-0.3	-0.3	-0.7	-0.4	-1.8	-0.2	-0.2	-0.4
in banks	1.2	3.2	2.3	-1.6	5.2	1.4	3.9	1.6
<b>Other</b>	-2.4	-3.8	-2.7	7.5	-1.4	0.0	-0.4	1.4
<b>2. IMF Loans</b>	-0.5	3.2	-0.4	-0.5	1.7	-0.7	0.0	0.0
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Government	-0.5	3.2	-0.4	-0.5	1.7	-0.7	0.0	0.0
<b>3. Change in Reserves (- increase)</b>	0.4	-6.7	-2.9	1.2	-8.0	1.7	2.6	-0.1
Banks' FX assets	0.5	-6.4	0.9	-4.1	-9.1	0.5	-0.6	3.7
Official Reserves	-0.1	-0.3	-3.8	5.3	1.1	1.3	3.2	-3.8

Source: CBT.

36. Although the current account deficit has been narrowing in annual terms since October 2008, the increase in FX assets remained limited due to capital outflows in the same period. In the second quarter of 2009, despite capital inflows, the decline in FX assets continued due to the higher current account deficit. In the third quarter of 2009, FX assets displayed a limited rise driven by the seasonal decline in the current account deficit and sustained capital inflow.

### Current Account and its Financing

(billion US dollars)



Source: CBT.

\* Change in assets is shown as the reverse sign of the addition of official reserves, banks' assets and net errors and omissions from the balance of payments table.

### Direct Investments

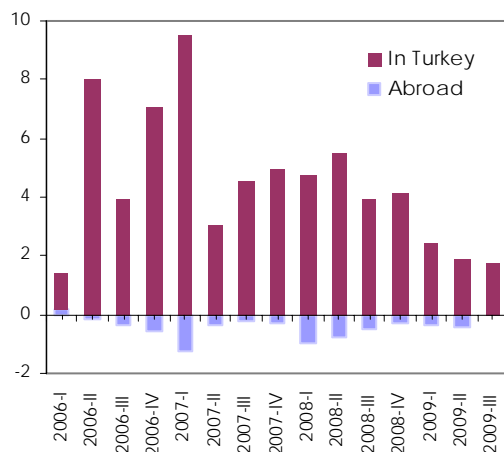
37. Albeit with some slowdown, inward direct investments continued in the third quarter of 2009, reaching USD 1.7 billion. The global liquidity squeeze and persistent uncertainties rising from the financial crisis affected direct investment inflows adversely.

38. The largest inflow in direct investment income came from USD 276 million worth of investment in the chemical industry in July and USD 174 million worth of investment in the automotive sector in August. As for the services sector, real estate rental and business activities and transportation-communication were the leading sectors that attracted direct investments. In the third quarter of 2009, non-residents' real estate investments decreased compared to the same period last year and became USD 0.5 billion, while long-term credits extended to foreign companies by their affiliates abroad registered under the "other capital" item remained limited.

39. Residents' direct investments abroad stood at USD 45 million in the July-September 2009 period.

### Direct investments

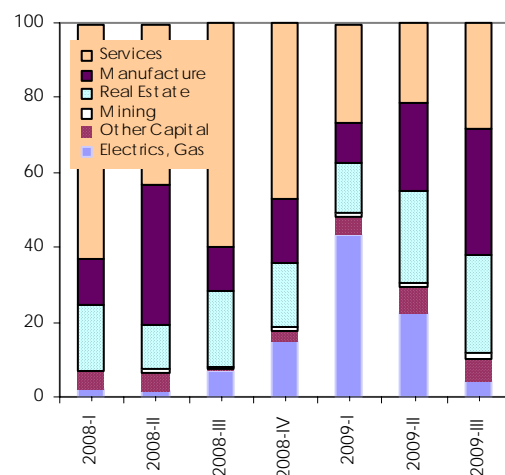
(billion US dollars)



Source: CBT.

### Inward FDI

(% share)



Source: CBT.

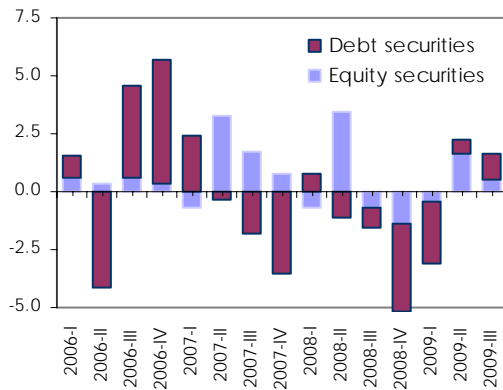
**Portfolio Investments**

40. Capital flows in portfolio investments, which had mainly been in the form of outflows since the second half of 2008 due global financial turmoil, turned inward as of the second quarter of 2009 thanks to investments in equities in the first few months of the year and afterwards in government securities. Recent data indicate that while investments through equities continued in October there were outflows in government securities. In November, non-residents purchased a significant amount of government securities.

41. The Treasury issued USD 1.3 billion-worth of bonds on July 31, 2009 to mature in 2017 and paid back USD 0.9 billion in September 2009. Thus, the Treasury issued USD 3.8 billion worth of bonds since the turn of the year and paid back a total of USD 1.9 billion.

**Security purchases of non-residents**

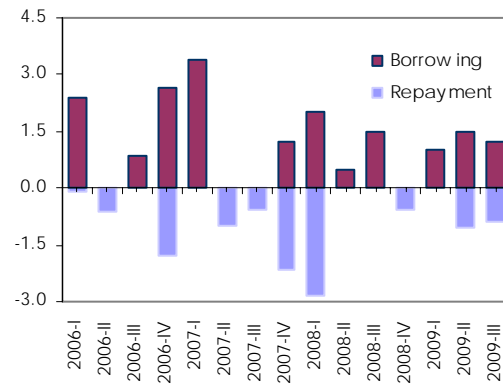
(billion US dollars)



Source: CBT.

**Eurobond issues of General Gov.**

(billion US dollars)

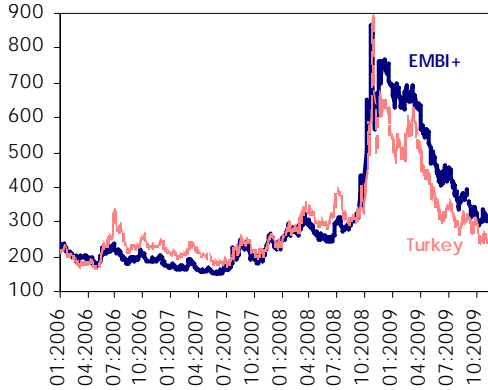


Source: CBT.

42. As of the second quarter of the year, perceptions that the worst part of the crisis is over gave way to a positive atmosphere in global markets and increased risk appetite. In this period, the currencies of developing countries appreciated and stock exchanges advanced. Accordingly, the risk premia of developing countries were reduced and the JP Morgan Emerging Markets Bond Index (EMBI+) approached its level prior to the bankruptcy of Lehman Brothers. As was the case throughout the crisis, Turkey's risk premium has been lower compared to those of other developing countries.

**Secondary Market Spreads**

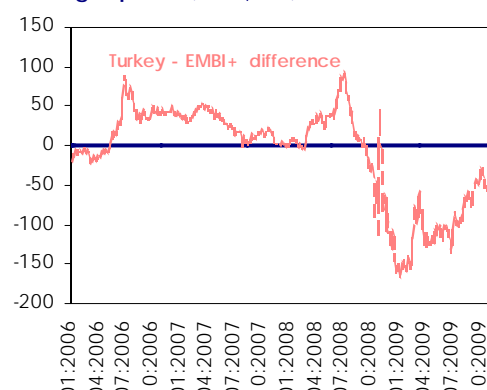
(basis point)



Source: JPMorgan.

**Turkey's position compared to EMBI+**

average spread (basis point)

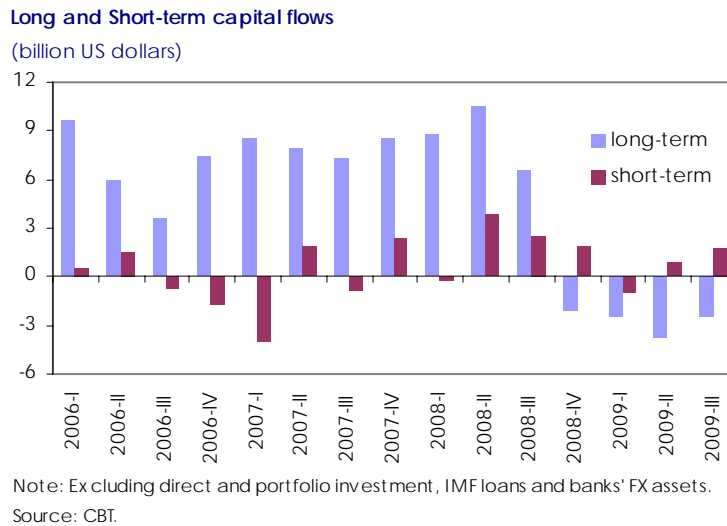


Spread: Difference between the yield of securities issued by countries and the yield of US Treasury securities.

43. The credit rating agency Fitch, which placed Turkey's Long-term Local Currency and Foreign Currency Ratings that were BB and BB- on rating, watch positive in October 2009, and upgraded them to BB+ in December.

## Other Investments

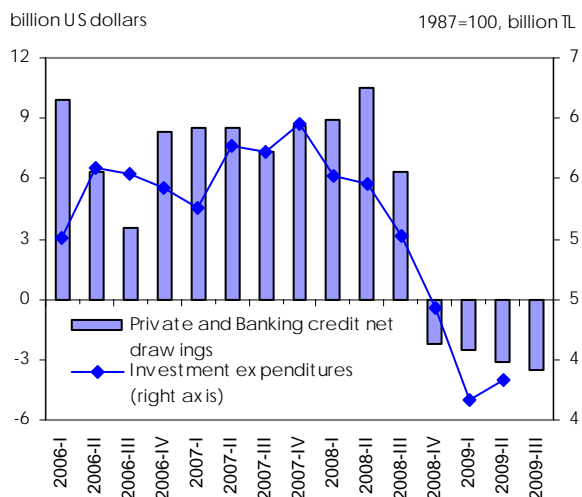
44. Long-term capital inflows, which rose owing to the upsurge in private sector utilization of long-term credits in recent years, were replaced by outflows as of the last quarter of 2008 due to the global economic crisis. Although short-term capital movements displayed a similar trend, inflows have gradually been accelerating since the second quarter of 2009.



45. Due to the contraction in foreign financing facilities, the private sector's monthly average long-term borrowing, which was USD 4.4 billion in the January-September 2008 period, dropped to USD 2.5 billion in the last quarter of 2008 and to USD 1.9 billion in the first nine months of 2009. Accordingly, the private sector has been a net repayer of long-term debt since December. Meanwhile, the decline in the private sector's credit utilization from abroad in the third quarter of the year can be attributed to increased foreign exchange financing facilities extended to the private sector by local banks as per the amendment made to Decree No: 32 in June.

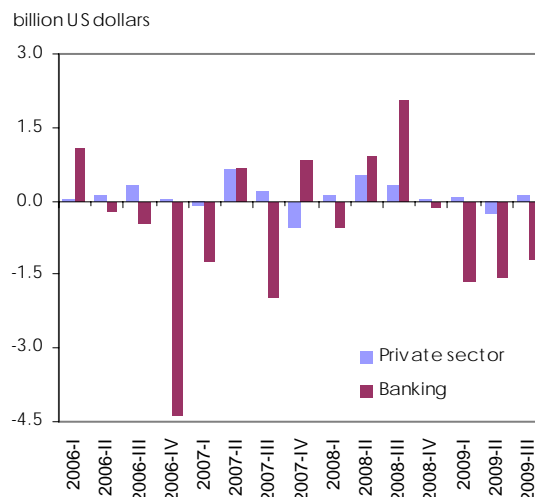
46. Similar to the private sector, the banks have also become net payers of long-term debt as of the final quarter of 2008. As for short-term credits, the banks, which were net borrowers in 2008, became net payers in 2009 and repaid USD 4.4 billion-worth of short-term credits in the first nine months of the year.

**Long Term Net External Credit Use and Private Sector Investment Expenditures (12-month cumulative)**



Source: CBT, TURKSTAT.

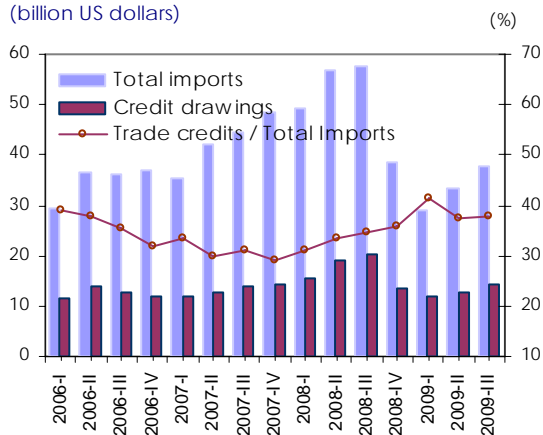
**Short Term Net External Credit Use (12-month cumulative)**



47. The timed imports/overall imports ratio, which had been on a downward track since the beginning of 2006, declined to 29.3 percent in the last quarter of 2007 to be followed by a rebound and reached 38 percent by the third quarter of 2009. Meanwhile, the share of timed exports in overall exports has been increasing for the last few years. The timed exports/overall exports ratio, which was 52 percent in the last quarter of 2005, became 62.9 percent in the third quarter of 2007. Timed exports displayed a downward trend in 2008 but again started to pick up as of the last quarter and reached 62.3 percent in the third quarter of 2009. In a period characterized by limited financing facilities, exporters increased timed exports activities and importers opted for timed purchases in order to maintain their trade performance.

#### Trade credit drawings and imports

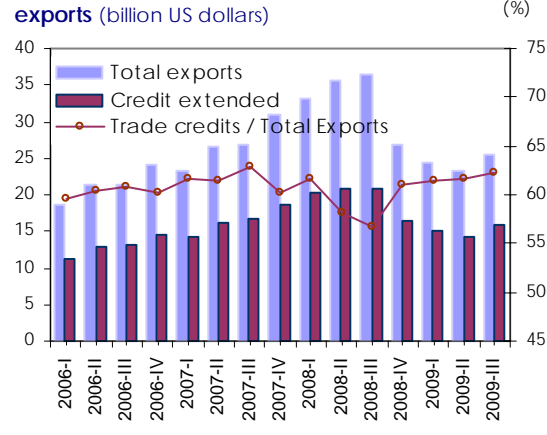
(billion US dollars)



Source: CBT, TURKSTAT.

#### Trade credits extended abroad & exports

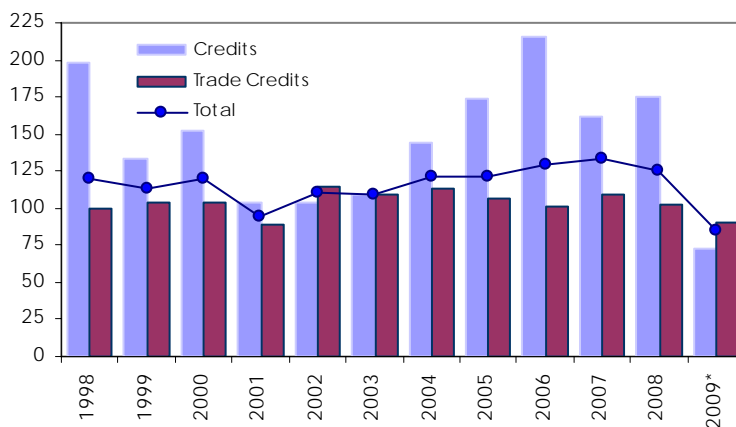
(billion US dollars)



Source: CBT, TURKSTAT.

48. Due to contracting credit facilities, the private sector external debt rollover ratio, which remained high in 2008, decreased below 100 percent following the sharp decrease in the private sector's credit utilization. The said ratio, which was 175.8 percent on average in annual terms in 2008, dropped to 73.2 percent in the first nine months of 2009. Meanwhile, the rollover ratio for commercial credits, which was 102.4 percent in 2008, dropped to 90.4 percent in the first nine months of 2009.

#### Private Sector External Debt Rollover Ratio (%)



\* As of January-September.

Source: CBT.

49. The General Government borrowed USD 3.6 billion in the January-September 2009 period and paid back USD 0.7 billion to the IMF and USD 2.2 billion for other long-term loans (World Bank etc.) in the first quarter of 2009.

50. Outflows from non-resident Turkish workers' long-term FX deposit accounts and super FX accounts at the Central Bank, which started in April 2003, still continue. Outflows from short-term deposits that started in the second quarter of 2004 continue as well. In the first nine

months of 2009, the mentioned deposits at the Central Bank decreased by net USD 0.8 billion. These outflows can be attributed to the gradual interest rate cuts on both FX deposit accounts and super FX accounts since 2002.

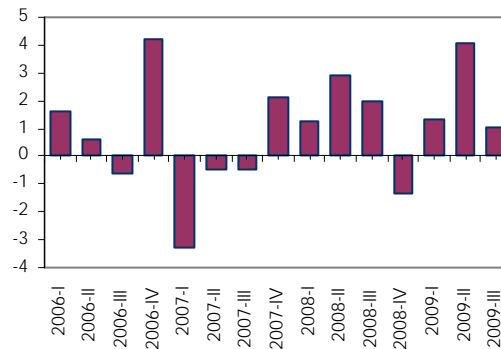
51. Deposits of non-residents at domestic banks started to display a declining trend as of the last quarter of 2008 due to financial turbulence; however this downward trend was reversed in line with increasing optimism in financial markets as of March 2009. Thus, the mentioned deposits increased by USD 6.8 billion in the January-September period.

#### Nonresidents' Deposits (billion USD)

FX deposits with credit letter and Super FX accounts



Deposits in banks



Source: CBT.

52. Total external debt stock, which was USD 249 billion at the end of 2007, reached USD 278 billion by the end of 2008 due to the high level of external borrowing by the private sector. Private sector borrowing started to lose pace as of the last quarter of 2008 owing to decreased credit facilities and the total external debt stock declined to USD 269 billion in June 2009. Total external debt stock is composed of USD 221 billion of long-term external debt and USD 48 billion of short-term debt.

53. As regards external debt indicators, the ratio of external debt stock to GDP, which fell as low as 37.5 percent at the end of 2008, increased to 41.6 percent by June 2009. Meanwhile, the ratio of the external debt service to GDP and the ratio of external debt stock to exports rose to 7.8 percent and 242 percent, respectively.

#### Selected External Debt Indicators (percent)

	2008				2009	
	I	II	III	IV	I	II
External Debt Stock / GDP	38,0	39,0	37,8	37,5	38,7	41,6
External Debt Stock / Exports*	226,4	227,0	214,3	210,7	216,1	241,9
Debt Service** / GDP	5,8	5,4	5,3	6,1	7,0	7,8
Long-term / External Debt	82,7	81,5	80,3	81,8	81,9	82,2
Short-term / External Debt	17,3	18,5	19,7	18,2	18,1	17,8
<i>Memo:</i>	0	0	0	0	0	0
<i>External Debt Stock (billion \$)</i>	265,5	286,9	291,7	278,1	266,6	268,6
<i>GDP (billion \$)</i>	698,7	735,3	770,8	741,8	688,8	645,5

\* Excluding shuttle trade and other goods.

\*\* Long-term external debt service, excluding debt to the external affiliates of foreigner-owned firms in Turkey.

Source: TURKSTAT, Undersecretariat of Treasury.

## IV. APPENDIX

## CURRENT ACCOUNT (USD million)

	Current Account										
	Net	Foreign Trade			Services		Income		Transfers		
	Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances	
	<i>(annual)</i>										
2004	-14431	-22736	63167	3880	-97540	12797	15888	-5609	-4312	1117	804
2005	-22088	-33001	73476	3473	-116774	15334	18152	-5875	-5010	1454	851
2006	-32051	-40962	85535	6408	-139576	13694	16853	-6691	-6322	1908	1111
2007	-38219	-46677	107272	6002	-170063	13323	18487	-7108	-7479	2243	1209
2008	-41812	-52980	132028	6200	-201964	17220	21951	-8165	-8474	2113	1431
	<i>(quarterly)</i>										
2008 I	-12342	-12131	33139	1448	-49178	1276	2776	-1976	-1973	489	352
II	-15551	-16737	35613	1406	-56672	3313	4693	-2545	-2066	418	322
III	-7997	-16163	36435	1771	-57693	9223	9988	-1832	-1994	775	394
IV	-5922	-7949	26841	1575	-38421	3408	4494	-1812	-2441	431	363
2009 I	-1828	-1249	24479	1124	-28882	1024	2467	-2079	-1902	476	204
II	-5230	-6741	23252	1291	-33460	3226	4243	-2212	-2017	497	211
III	-1586	-9051	25384	1085	-37801	8795	9527	-1814	-1654	484	277
	<i>(monthly)</i>										
2008 Oct	-2429	-4041	9723	596	-14942	2079	2262	-624	-806	157	147
Nov	-429	-1272	9396	563	-12074	975	1270	-273	-722	141	104
Dec	-3064	-2636	7722	416	-11405	354	962	-915	-913	133	112
2009 Jan	-451	-376	7883	341	-9282	133	799	-453	-571	245	64
Feb	-266	344	8434	350	-9075	379	722	-1087	-575	98	65
Mar	-1111	-1217	8162	433	-10525	512	946	-539	-756	133	75
Apr	-1525	-1449	7565	393	-10121	616	1021	-801	-670	109	72
May	-1662	-2516	7347	476	-10839	1185	1444	-502	-655	171	74
Jun	-2043	-2776	8340	422	-12500	1425	1778	-909	-692	217	65
Jul	-159	-2489	9053	323	-12540	2669	2907	-476	-475	137	80
Aug	-558	-3858	7830	446	-12812	3658	3814	-521	-554	163	102
Sep	-869	-2704	8501	316	-12449	2468	2806	-817	-625	184	95
	<i>(12-month)</i>										
2008 Oct	-46880	-57654	135953	6289	-211237	16528	21729	-8068	-8341	2314	1454
Nov	-43968	-55159	134030	6295	-206679	16909	21864	-7994	-8365	2276	1433
Dec	-41812	-52980	132028	6200	-201964	17220	21951	-8165	-8474	2113	1431
2009 Jan	-38096	-48762	129279	6100	-194907	16876	21865	-8414	-8476	2204	1385
Feb	-34480	-44988	126635	5965	-187955	17144	21786	-8786	-8386	2150	1340
Mar	-31298	-42098	123368	5876	-181668	16968	21642	-8268	-8403	2100	1283
Apr	-27627	-38498	119569	5807	-173900	17176	21610	-8404	-8452	2099	1239
May	-24469	-35628	114438	5780	-165433	17087	21362	-8037	-8435	2109	1200
Jun	-20977	-32102	111007	5761	-158456	16881	21192	-7935	-8354	2179	1172
Jul	-17111	-28223	107465	5594	-150439	16945	21045	-7911	-8268	2078	1100
Aug	-14649	-25724	104248	5336	-144000	16805	20864	-7793	-8098	2063	1090
Sep	-14566	-24990	99956	5075	-138564	16453	20731	-7917	-8014	1888	1055

Source: CBT.



## CAPITAL and FINANCIAL ACCOUNT (USD million)

		Capital and Financial Account														
Net	Foreign Direct Investment	Portfolio Investment					Other Investment									
		Net	Assets	Liabilities		Net	Currency and Deposits	Net	Trade Credits	Credits				Deposits		
				Equity Securities	Debt Securities					Monetary Authority	General Gov.	Banks	Other Sectors	Monetary Authority	Banks	
<i>(annual)</i>																
2004	13360	2005	8023	-1388	1427	7984	4156	-5965	11139	4201	-4414	-267	5708	5106	-209	856
2005	19460	8967	13437	-1233	5669	9001	14903	-342	15481	3074	-2881	-4637	9248	9875	-787	1276
2006	32064	19261	7373	-4029	1939	9463	11544	-10293	24981	674	0	-5223	5814	18812	-1268	5890
2007	36622	19940	717	-2063	5138	-2358	23997	-3531	28855	4231	0	-3901	5608	25888	-1450	-1873
2008	36394	15785	-5046	-1276	716	-4486	24598	-9066	35494	1565	0	3424	3047	23652	-1791	5178
<i>(quarterly)</i>																
2008 I	10995	3773	-1316	-494	-707	-115	8597	494	10527	1459	0	-297	1356	7085	-323	1231
II	18516	4773	2966	149	3479	-662	11080	-6426	21448	3166	0	3328	1749	10160	-335	3214
III	8018	3404	-1186	-1119	-691	624	9634	943	11646	739	0	362	2865	5870	-749	2328
IV	-1135	3835	-5510	188	-1365	-4333	-4713	-4077	-8127	-3799	0	31	-2923	537	-384	-1595
2009 I	-3423	2057	-3142	-1061	-438	-1643	-3616	453	-4050	-805	0	-330	-2417	-1726	-176	1391
II	3891	1425	2738	35	1662	1041	-3424	-587	-2260	-797	0	-399	-2683	-2262	-166	3872
III	1992	1686	1063	-943	532	1474	3007	3676	-339	-166	0	1503	-1241	-3343	-421	1578
<i>(monthly)</i>																
2008 Oct	-1247	1843	-4781	10	-1365	-3426	187	-3723	-1131	-1526	0	-386	1194	576	-172	-846
Nov	-632	931	-896	180	-256	-820	-1019	2229	-4248	-1515	0	-72	-2425	362	-102	-486
Dec	744	1061	167	-2	256	-87	-3881	-2583	-2748	-758	0	489	-1692	-401	-110	-263
2009 Jan	-316	1051	-841	-712	-104	-25	-898	-601	-662	-484	0	-131	-208	-411	-69	644
Feb	-2267	479	-1899	-304	-331	-1264	-295	1393	-1296	-189	0	143	-734	-351	-55	-113
Mar	-840	527	-402	-45	-3	-354	-2423	-339	-2092	-132	0	-342	-1475	-964	-52	860
Apr	2067	740	875	307	841	-273	-2340	-289	-2081	-32	0	-155	-1272	-656	-53	54
May	778	499	2735	-610	662	2683	-900	826	-1614	-404	0	-114	-1753	-887	-48	1538
Jun	1046	186	-872	338	159	-1369	-184	-1124	1435	-361	0	-130	342	-719	-65	2280
Jul	562	604	1277	-426	52	1651	-268	-110	700	-17	0	948	-170	-465	-129	433
Aug	933	802	725	-280	563	442	2147	1921	-2	52	0	498	-580	-1718	-196	479
Sep	497	280	-939	-237	-83	-619	1128	1865	-1037	-201	0	57	-491	-1160	-96	666
<i>(12-month)</i>																
2008 Oct	42757	17386	-7405	-1653	1056	-6808	35690	-11792	51954	4611	0	2938	8053	28719	-1803	9001
Nov	41332	17847	-4606	-1617	919	-3908	31684	-10341	44708	2632	0	3320	5483	26906	-1795	7736
Dec	36394	15785	-5046	-1276	716	-4486	24598	-9066	35494	1565	0	3424	3047	23652	-1791	5178
2009 Jan	30313	15679	-6129	-1476	1109	-5762	18727	-12687	31666	35	0	3356	2755	20537	-1736	6302
Feb	24581	15469	-8396	-2050	618	-6964	16395	-9411	27129	-478	0	3880	697	18594	-1707	5727
Mar	21976	14069	-6872	-1843	985	-6014	12385	-9107	20917	-699	0	3391	-726	14841	-1644	5338
Apr	20458	14048	-3862	-1423	1699	-4138	5971	-10091	13415	-1383	0	3227	-3551	12228	-1586	4056
May	14974	12712	-3482	-2565	854	-1771	3262	-3565	2168	-2895	0	-436	-5252	7167	-1523	4688
Jun	7351	10721	-7100	-1957	-832	-4311	-2119	-3268	-2791	-4662	0	-336	-5158	2419	-1475	5996
Jul	3074	9931	-6708	-2276	-1359	-3073	-5244	-724	-8963	-5694	0	-104	-6960	366	-1372	4375
Aug	1515	9884	-4765	-2587	214	-2392	-7967	455	-11686	-6050	0	631	-8985	-3399	-1236	5540
Sep	1325	9003	-4851	-1781	391	-3461	-8746	-535	-14776	-5567	0	805	-9264	-6794	-1147	5246

Source: CBT.

## EXPORT INDICES

## Unit Value Index (2003=100, Annual % Change)

	2007	2008				2008	2009		
		I	II	III	IV		I	II	III
Total	13,1	20,7	23,6	24,3	-4,5	16,0	-18,9	-22,4	-21,0
Capital Goods	18,1	16,0	17,0	12,5	-3,1	10,7	-7,1	-9,2	-6,1
Intermediate Goods	14,2	21,8	27,6	36,3	-1,2	21,3	-19,4	-29,4	-31,4
Consumption Goods	11,0	20,9	20,8	13,6	-8,7	10,7	-14,8	-16,0	-10,1
Selected Items (ISIC Rev.3):									
Agriculture and farming of animals	20,4	22,6	20,5	-3,5	-18,3	-2,0	-12,4	-17,1	14,4
Food products and beverages	16,5	46,0	44,2	26,7	-3,5	24,6	-19,5	-23,5	-19,1
Textiles	10,3	11,9	12,2	7,9	-7,6	5,7	-11,6	-13,7	-9,8
Wearing apparel	7,4	19,8	19,3	9,1	-9,9	10,0	-15,4	-18,3	-10,3
Petroleum products and nuclear fuel	15,6	62,0	60,4	67,8	-24,7	35,5	-44,5	-47,9	-44,2
Chemicals and chemical products	9,0	17,1	18,8	19,9	4,6	15,2	-8,9	-13,6	-11,5
Rubber and plastic products	11,9	17,8	17,4	15,3	1,3	12,9	-7,6	-9,9	-11,9
Other non-metallic minerals	8,3	14,5	20,8	12,5	-5,1	10,8	-12,6	-21,6	-16,6
Manufacture of basic metals	18,7	27,2	41,4	79,5	8,0	43,0	-29,4	-46,7	-54,8
Manufacture of fabricated metal prod(exc m	14,8	18,1	21,0	24,4	4,6	16,4	-7,5	-16,2	-18,5
Manufacture of machinery and equipme	14,4	16,5	17,5	13,9	-4,5	10,3	-10,6	-13,8	-9,0
Electrical machinery and apparatus	14,0	17,1	18,0	12,5	-2,1	10,9	-12,6	-15,9	-12,1
Communication and apparatus	-5,5	16,7	18,0	9,5	-4,9	8,3	-21,7	-13,2	0,6
Motor vehicles and trailers	8,5	13,0	14,3	9,6	-5,1	8,4	-9,2	-8,4	-4,7

Source: TURKSTAT.

## Quantity Index (2003=100, Annual % Change)

	2007	2008				2008	2009		
		I	II	III	IV		I	II	III
Total	11,1	18,3	9,1	9,8	-9,1	6,2	-9,2	-15,8	-11,9
Capital Goods	31,2	23,6	25,2	16,1	-20,6	9,8	-40,8	-38,1	-33,1
Intermediate Goods	14,5	29,4	14,5	15,1	-3,3	13,0	-0,2	-14,9	-12,0
Consumption Goods	4,2	4,7	-2,7	0,4	-11,8	-2,6	-16,3	-9,3	-4,0
Selected Items (ISIC Rev.3):									
Agriculture and farming of animals	-10,6	-14,8	0,8	14,5	17,5	7,7	18,2	20,8	5,7
Food products and beverages	2,4	-7,8	-4,0	4,6	8,5	0,7	15,0	21,0	2,1
Textiles	5,8	7,9	1,1	-0,4	-10,2	-0,9	-21,7	-13,0	-7,6
Wearing apparel	8,0	-2,9	-15,9	-9,5	-15,8	-11,4	-14,5	-5,4	-11,9
Petroleum products and nuclear fuel	25,2	23,5	8,4	24,3	-9,9	9,8	-48,3	-25,0	-11,5
Chemicals and chemical products	7,0	12,7	13,6	14,9	-12,0	6,9	-22,4	-11,2	-8,8
Rubber and plastic products	16,6	9,3	10,1	14,8	-5,9	7,1	-19,3	-13,6	-9,9
Other non-metallic minerals	12,3	13,3	30,9	15,3	-0,1	14,9	-2,3	-7,4	4,6
Manufacture of basic metals	11,4	77,8	23,0	24,5	12,4	28,0	52,1	-8,9	-15,5
Manufacture of fabricated metal prod(exc m	10,8	20,9	21,4	13,1	-8,4	11,7	-19,1	-19,0	-8,0
Manufacture of machinery and equipme	16,8	16,6	14,4	13,8	-2,3	10,6	-15,4	-16,4	-13,1
Electrical machinery and apparatus	27,8	16,0	12,0	13,8	-3,4	9,2	-13,0	-16,7	-14,6
Communication and apparatus	-5,1	-13,0	-16,9	-30,1	-30,0	-23,8	-19,0	-19,5	6,3
Motor vehicles and trailers	23,6	34,9	16,8	12,1	-37,1	4,9	-50,8	-43,3	-28,0

## IMPORT INDICES

## Unit Value Index (2003=100, Annual % Change)

	2007	2008				2008	2009		
		I	II	III	IV		I	II	III
Total	9,8	22,8	28,5	29,6	2,3	20,7	-16,7	-27,1	-25,9
Capital Goods	2,1	9,7	7,2	4,5	-7,6	2,9	-6,0	-13,5	-4,4
Intermediate Goods	9,6	26,6	35,3	37,6	6,1	26,5	-16,2	-31,5	-30,8
Consumption Goods	6,5	16,4	14,6	12,7	-5,9	8,9	-10,3	-11,5	-7,9
Selected Items (ISIC Rev.3):									
Crude oil and natural gas	6,1	50,3	66,1	57,5	11,4	45,4	-25,1	-44,7	-42,6
Food products and beverages	20,5	35,4	39,6	33,2	8,4	28,3	-12,9	-21,0	-22,5
Textiles	4,2	7,5	8,2	5,5	-0,9	5,0	-2,2	-2,9	-3,5
Paper and paper products	9,9	12,2	13,4	11,8	0,8	17,3	-11,5	-21,1	-23,2
Coke, petroleum products and nuclear fuel	12,4	58,3	64,0	61,7	-7,0	40,1	-46,9	-52,7	-47,3
Chemicals and chemical products	8,6	19,0	19,5	21,9	1,8	15,3	-22,5	-25,2	-26,8
Rubber and plastic products	9,6	14,2	15,6	12,7	-2,8	9,6	-5,0	-10,0	-5,1
Manufacture of basic metals	16,3	20,3	28,7	38,4	7,3	24,5	-20,0	-33,0	-33,3
Man. of fabricated metal prod(exc mach)	6,4	13,1	16,4	12,4	-3,3	8,3	-3,8	-5,6	-3,1
Manufacture of machinery and equipment	5,3	10,2	14,1	11,4	-4,4	7,3	-6,3	-11,2	-6,0
Electrical machinery and apparatus	3,5	10,5	11,0	1,9	-10,3	2,9	-12,7	-13,1	-4,9
Communication and apparatus	8,7	12,8	1,1	8,6	3,2	5,1	3,6	-9,0	11,8
Medical, precision and opt. instr., watch	7,3	0,4	3,1	-4,0	-14,3	-4,5	-8,3	-14,4	-7,0
Motor vehicles and trailers	8,6	12,8	12,2	7,5	-8,1	5,7	-6,0	-8,0	-1,0
Waste and scrap (Wholesale and retail)	26,2	40,2	64,7	102,4	-0,2	56,2	-34,4	-55,7	-58,9

Source: TURKSTAT.

## Quantity Index (2003=100, Annual % Change)

	2007	2008				2008	2009		
		I	II	III	IV		I	II	III
Total	12,8	13,7	4,7	0,4	-22,3	-1,9	-31,2	-19,1	-12,0
Capital Goods	13,5	24,0	4,3	2,0	-19,1	0,7	-33,5	-18,3	-20,3
Intermediate Goods	13,3	10,1	3,4	-0,2	-24,2	-3,0	-32,9	-21,1	-11,9
Consumption Goods	8,9	25,6	17,7	3,5	-16,5	5,6	-23,0	-9,0	-5,8
Selected Items (ISIC Rev.3):									
Crude oil and natural gas	6,9	2,4	1,7	6,9	-15,2	-1,9	-25,4	-24,0	-21,5
Food products and beverages	-9,4	24,0	6,1	15,7	-3,5	10,1	-15,3	5,7	-13,4
Textiles	21,6	7,4	-7,9	-11,6	-21,4	-9,2	-39,3	-27,4	-6,2
Wearing Apparels	22,6	32,6	36,6	24,4	16,9	23,6	3,4	-5,3	-11,3
Paper and paper products	11,4	10,5	-1,9	-7,3	-10,7	-9,5	-27,5	-1,1	5,1
Coke, petroleum products and nuclear fuel	14,7	5,5	21,3	-7,1	-4,1	3,2	12,6	24,7	38,3
Chemicals and chemical products	12,0	9,5	3,6	-0,5	-16,6	-1,2	-19,0	-9,7	7,2
Rubber and plastic products	11,1	19,0	7,4	-1,3	-18,4	0,9	-42,7	-26,5	-15,6
Manufacture of basic metals	18,0	11,0	-2,5	-0,4	-42,9	-7,8	-53,1	-40,4	-34,5
Man. of fabricated metal prod(exc mach)	9,1	30,1	22,3	13,3	-7,5	13,8	-32,3	-25,8	-28,2
Manufacture of machinery and equipment	14,8	13,0	-5,1	-8,0	-25,2	-7,5	-33,7	-23,1	-26,4
Electrical machinery and apparatus	23,7	45,2	15,8	7,1	-5,9	12,8	-26,7	-7,7	2,0
Communication and apparatus	10,7	9,7	-4,6	-20,9	-34,0	-13,5	-47,5	-8,5	-15,0
Medical, precision and opt. instr., watches	10,0	41,4	23,0	23,7	-3,0	19,3	-28,1	-17,8	-17,7
Motor vehicles and trailers	5,5	28,0	15,4	0,1	-38,2	-2,9	-57,8	-34,4	-22,8
Waste and scrap (Wholesale and retail)	17,1	2,2	19,7	13,1	-30,7	0,8	-44,4	-25,7	10,8