

**CENTRAL BANK OF
THE REPUBLIC OF TURKEY**

**BALANCE OF PAYMENTS
REPORT**



2007 -I

SUMMARY

In the first quarter of 2007, export growth rate continued to accelerate while import growth rate decelerated. The brisk demand from EU and the appreciation of euro against US dollar have bolstered exports since mid-2006. On the other hand, the slowdown in domestic demand and the oil prices below year-ago levels curbed import growth. In this respect, trade deficit in terms of balance of payments definition did not exhibit a change in the first quarter of 2007 compared to the same period of last year and the current account recorded a deficit of USD 9.1 billion.

Sectoral level analysis would suggest that motor vehicles and basic metals provided the largest contribution to export growth. Both items contributed 8.6 percentage points to the 24.2% total export growth of the January-March period. Besides, machinery and equipment and electrical machinery and devices also recorded sharp increases. Exports of textiles and clothing, however, displayed a sluggish performance in 2006 and increased only by 4.1%; but recovered to 15.3% in the first quarter of 2007 thanks to the low base effect. Although the high quality of textiles and clothing and Turkey's proximity to EU produces comparative advantage against her competitors, the low labor cost of countries like China and India still affect the export performance of these sectors negatively in Turkey.

In the first quarter of 2007, the growth rate of imports of intermediate goods made the highest contribution to overall import growth and took up 17.4 points of the 17.6% rise. Imports of capital goods, on the other hand, continued to slow down and rose only by about 0.4%, which indicates that investment expenditures slackened during this period. Besides, imports of consumption goods have moderated since August 2006.

In January-March period, export price hikes surpassed import price hikes, altering the terms of trade to the advantage of exports. Price-adjusted real export growth accelerated and prevailed over real import growth. In this respect, net exports of goods and services are expected to continue contributing positively to overall growth in the first quarter of 2007.

Apart from reserve changes (CBT + banks) and IMF loans, the capital inflow to Turkey amounted USD 16 billion in the first quarter. The financing structure over this period was substantially composed of direct investments and long-term loans extended to private sector and banks, which, in net terms, amounted USD 7.9 billion and USD 8.7 billion, respectively.

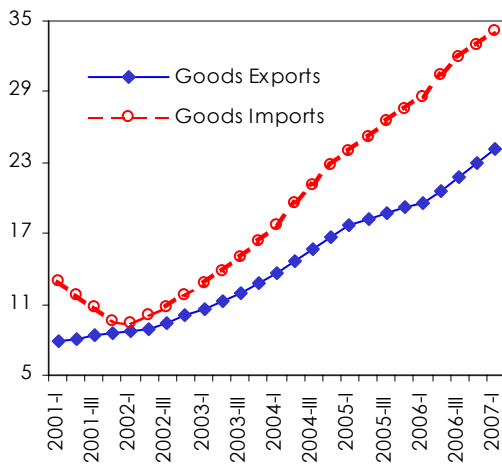
As a result of these developments, CBT reserves increased by USD 6.4 billion in the first quarter of 2007.

Balance of Payments
(Billion USD)

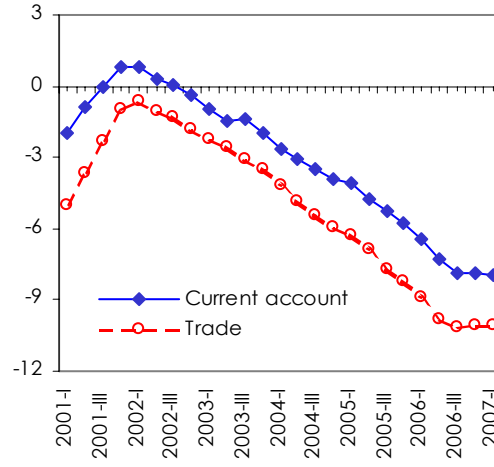
	Jan-Mar			Mar (12-month)		
	2006	2007	% change	2006	2007	% change
Current Account	-8.7	-9.1 ..		-25.2	-32.1 ..	
Goods	-8.7	-8.7 ..		-35.9	-40.2 ..	
Exports	19.5	24.4	24.7	78.5	96.7	23.1
Exports (fob)	18.6	23.1	24.2	74.8	90.0	20.2
Shuttle trade	1.0	1.3	35.1	3.7	6.7	81.7
Imports	-28.2	-33.0	17.0	-114.5	-136.9	19.6
Imports (cif)	-29.5	-34.8	17.6	-120.6	-143.5	19.0
Coverage adjustment	1.4	1.8 ..		6.7	7.1 ..	
Services	1.2	1.2 ..		15.1	13.4 ..	
Tourism (net)	1.4	1.5	3.9	15.4	14.2	-8.0
Credit	2.0	2.2	8.0	18.2	17.0	-6.3
Debit	-0.6	-0.7	18.3	-2.8	-2.8	3.1
Other services revenues (net)	-0.3	-0.3 ..		-0.3	-0.8 ..	
Income	-1.5	-1.9 ..		-5.9	-7.0 ..	
Wage Payments	0.0	0.0 ..		-0.1	-0.1	0.0
Direct investment income (net)	-0.1	-0.3 ..		-0.8	-1.1 ..	
Portfolio investment income (net)	-0.4	-0.6 ..		-0.9	-0.8 ..	
Other investment income (net)	-0.9	-1.0 ..		-4.1	-5.0 ..	
Interest income	0.3	0.5	81.8	1.1	1.7	52.2
Interest expenditure	-1.2	-1.5	26.3	-5.2	-6.7	29.1
Current transfers	0.3	0.3 ..		1.5	1.7 ..	
Workers remittances	0.2	0.2	0.0	0.9	1.1	23.7
Capital and financial account	9.5	7.5 ..		24.4	32.9 ..	
Financial account (excl. reserve assets)	16.6	13.9 ..		46.1	38.3 ..	
Direct investment (net)	1.3	7.9 ..		9.4	25.8 ..	
Abroad	0.2	-1.2 ..		-0.8	-2.3 ..	
In Turkey	1.1	9.2 ..		10.2	28.2 ..	
Portfolio investment (net)	3.6	4.2 ..		13.2	8.0 ..	
Assets	-0.3	-1.0 ..		-0.4	-4.8 ..	
Liabilities	3.9	5.3 ..		13.6	12.8 ..	
Equity securities	0.6	-0.5 ..		4.5	0.8 ..	
Debt securities	3.2	5.8 ..		9.2	12.0 ..	
Non-residents' buyings in Turkey	0.9	2.4 ..		5.2	7.6 ..	
Eurobond issues of Treasury	2.3	3.4 ..		4.0	4.4 ..	
Borrowing	2.4	3.4 ..		5.6	6.8 ..	
Repayment	-0.1	0.0 ..		-1.6	-2.4 ..	
Other investments (net)	11.7	1.7 ..		23.5	4.5 ..	
Assets	0.8	0.4 ..		-3.2	-12.7 ..	
Trade credits	-0.1	0.1 ..		-0.4	-1.2 ..	
Credits	-0.3	0.2 ..		0.0	-0.3 ..	
Banks FX assets (- increase)	1.1	0.2 ..		-2.8	-11.2 ..	
Liabilities	11.0	1.3 ..		26.7	17.2 ..	
Trade credits	0.2	0.5 ..		2.8	2.6 ..	
Credits	9.3	5.1 ..		21.5	15.5 ..	
Central Bank	0.0	0.0 ..		-1.9	0.0 ..	
General Government	-2.0	-2.1 ..		-6.2	-5.4 ..	
IMF	-1.8	-2.3 ..		-4.3	-5.0 ..	
Long-term	-0.2	0.1 ..		-2.0	-0.4 ..	
Banks	2.4	0.8 ..		10.9	4.2 ..	
Long-term	1.3	2.0 ..		8.0	10.5 ..	
Short-term	1.1	-1.3 ..		3.0	-6.3 ..	
Other sectors	8.8	6.4 ..		18.7	16.7 ..	
Long-term	8.8	6.6 ..		18.2	16.5 ..	
Short-term	0.1	-0.2 ..		0.6	0.3 ..	
Deposits of non-residents	1.5	-4.3 ..		2.0	-1.1 ..	
In CBT	-0.2	-0.3 ..		-0.9	-1.3 ..	
In banks	1.6	-4.0 ..		2.9	0.2 ..	
Change in official reserves (- increase)	-7.1	-6.4 ..		-21.7	-5.4 ..	
Net errors and omissions	-0.8	1.6 ..		0.8	-0.8 ..	

Source: CBT.

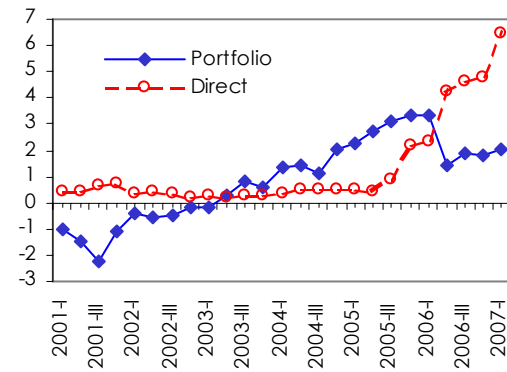
Goods Exports and Imports
(12-month ave., billion US dollars)



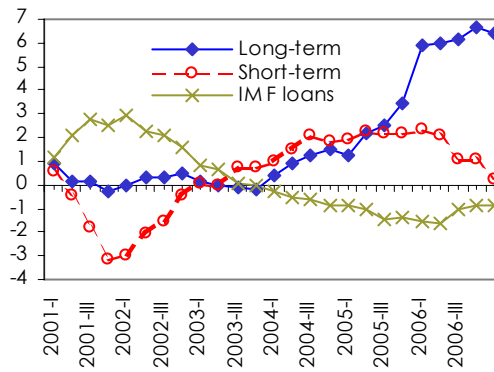
Trade and Current Account
(12-month ave., billion US dollars)



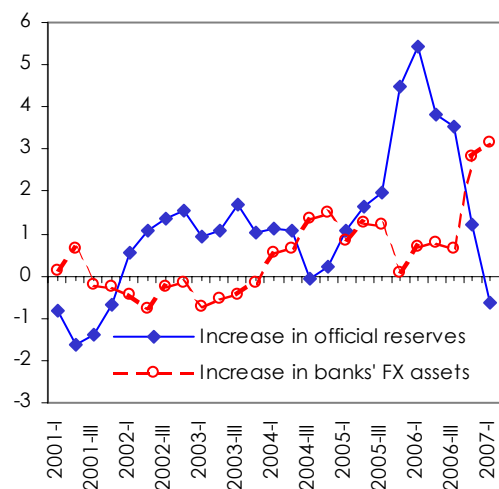
Direct and Portfolio Investments
(12-month ave., billion US dollars)



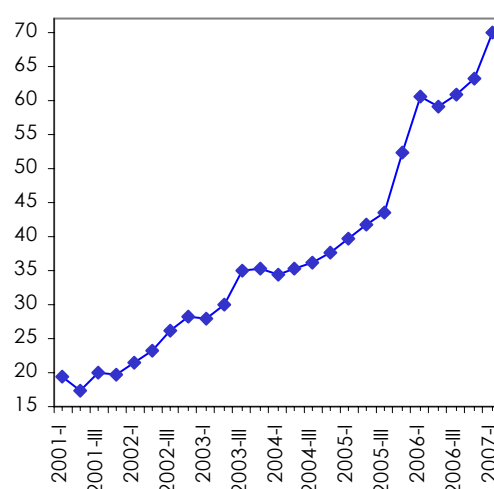
Term Structure of Capital Flows
(12-month ave., billion US dollars)



Reserves
(12-month ave., billion US dollars)



CBT International Reserves
(billion US dollars)



Source: CBT, TURKSTAT.

I. EXTERNAL ECONOMIC DEVELOPMENTS

1. The world economy grew by 5.4% in 2006 despite high energy prices and financial imbalances. China, in particular, and the ongoing growth in EU and Japanese economies have helped maintain this strong growth. The earlier-than-expected slowdown in US economy, with little effect on non-US markets, supports the belief that world economy will grow further in 2007 and 2008.

2. Negative impacts on the growth of world economy in 2006 were the uncertainties over oil prices and global liquidity conditions, and global imbalances. The record-high crude oil prices of August started to descend in September, but displayed a slight increase towards end-2006. This downfall was driven by the larger-than-expected US crude oil supplies. Yet, seasonally high demand in winter coupled with OPEC's quota reduction led crude oil prices to soar towards the end of the year.

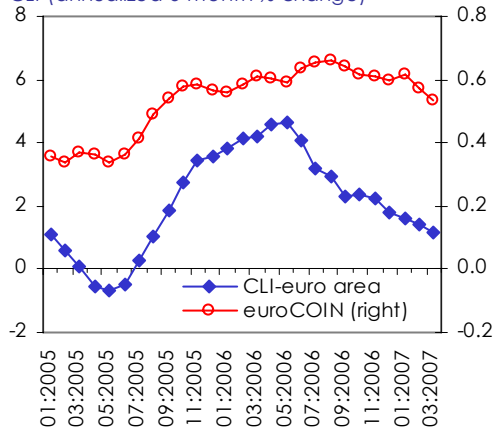
3. Despite the recent increases in world oil prices, global oil consumption is projected to grow by 1.4 million barrels per day in 2007. About one-half of the projected growth will come from China and the United States. Continued growth in oil demand and the production restraint by OPEC are expected to tighten world oil markets this summer. The price of Brent crude averaging USD 53.7 per barrel in January rebounded to an average USD 67.5 per barrel in April.

4. Despite the financial volatility seen in February and March and the concerns over US housing market, world stock markets have reached an all-time high, resulting in lower long-term interest rates. Euro has continued to appreciate against USD, while yen weakened in March due to a massive capital outflow caused by Japan's low interest rates.

Euro Area Leading indicators:

€COIN (3-month % change),

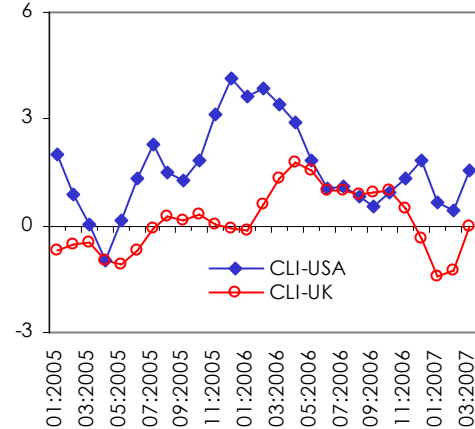
CLI (annualized 6-month % change)



Source: OECD, CEPR.

USA and UK Leading indicators:

CLI (annualized 6-month % change)



Source: OECD.

5. Despite the slowdown in the second and third quarters, US economy grew at a 3.3% annual rate in 2006. The economy appears likely to continue to expand at a moderate pace in 2007 owing principally to sluggish housing sector and mortgage market growth. Core inflation slowed down during the last quarters as a result of the deceleration in growth rates. Besides, energy price volatility and continued tightness in the labor market add to inflation pressures, which indirectly leave an imprint on core inflation. Notwithstanding the slow growth rates, the US Federal Reserve (Fed) has kept its main interest rate on hold at 5.25% for a while, clearly signaling that the Fed is pursuing a vigilant policy. Fed's future policy decisions will depend on the evolution of the outlook for both economic growth and inflation.

6. The US current account deficit narrowed in the last quarter of 2006 compared to the first three quarters. Both the strong growth of US trading partners and the weakening of US dollar suggest that the deficit will further shrink, which is believed to promote a global economic balance. Moreover, the US economy displayed a robust financial performance in the last quarter, on the back of a strong revenue growth. With the implementation of social

security and health-care reforms, this favorable picture of the economy will further reinforce positive expectations for the future.

7. Euro area GDP grew by 2.7% over 2006. The growth is expected to be modest in 2007. Accordingly, April figures of the Euro-COIN index, the leading coincident indicator of the euro area business cycle, confirm the attenuation in the pace of economic expansion. The euro area growth rate is forecast to be 2.8% in the first quarter and 2.4% for the whole year.

8. ECB believed that the excess liquidity fuelled by the growing money and credit volume posed a medium and long-term threat to price stability and continued its policy of gradual tightening. In this regard, on 8 March 2007, the Governing Council of the ECB raised its interest rates by 25 basis points to 3.75%, which was the last of the string of seven quarter-point rate increases since December 2005. At its meeting of 12 April 2007, however, the Council decided to leave the rates unchanged. The Council also underlined that given the favorable economic environment ECB's monetary policy continued to be on the accommodative side.

9. Japan's economy grew by 2.2% in 2006, mainly driven by business fixed investments rising on the back of high corporate profits and by the strong export performance. Projections over the next period suggest that public investments will remain on a downward trend, exports will continue rising against the background of growing overseas demand, and domestic private demand will continue to increase on the back of high corporate profits and moderately rising household incomes. In this regard, the annual growth rate is estimated to register around 2.2% for 2007.

10. The Bank of Japan (BoJ) abandoned its 5-year-old excess liquidity policy at its meeting of March 2006 and raised interest rates by 25 basis points to 0.25% in July 13-14, 2006 and again to 0.5% in February 20-21, 2007. Following the latest rate hike, the BoJ decided at two consecutive board meetings to leave the rates unchanged. In the next period, however, the bank might raise its rates gradually based on the incoming data on economic growth and prices.

11. Although fixed capital investments declined in the second half of the year in response to monetary tightening, China's economy expanded as fast as 10.7% in 2006, driven by rapid investment growth and robust exports. Following the measures to curb the imbalance, China's trade surplus narrowed in the first quarter of 2007, down from the third and fourth quarters of 2006. Economic growth in China is projected to moderate gradually in 2007 and 2008 and will remain close to 10% in 2007.

II. CURRENT ACCOUNT

12. The annual account deficit that peaked at 8.1% of GDP in September 2006 narrowed in the last quarter to 7.9%. The deficit slightly widened in the first quarter of 2007 by USD 0.3 billion over the same period last year and amounted to USD 9.1 billion.

13. In the first quarter of 2007, imports continued to decelerate while exports continued to rise, and both real and nominal export growth prevailed over imports. During this period, the exports/imports ratio and the exports/short-term external debt ratio increased. Besides, the CBT reserves-based indicators that are important for assessing the sustainability of the current account deficit improved.

Selected Indicators Related to the Current Account Deficit and Financing Structure

	2000	2001	2002	2003	2004	2005	2006	2007*
Exports / Imports	0.58	0.90	0.85	0.79	0.74	0.70	0.70	0.71
Exports / Short-Term External Debt	1.09	2.10	2.44	2.23	2.10	2.07	2.19	2.63
Exports / External Debt Service	1.40	1.40	1.39	1.84	2.20	2.11	2.32	2.27
Tourism Revenues / Trade Balance	0.35	2.17	1.16	0.94	0.67	0.54	0.42	0.42
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.18	1.41	1.51	1.90
CBT Reserves / Financing Requirement	1.84	-	19.97	11.36	2.82	2.56	1.81	2.13
CBT Reserves / Current Account Balance	2.36	-	18.46	4.38	2.41	2.32	1.99	2.18
CBT Reserves / Imports	0.44	0.52	0.59	0.54	0.41	0.47	0.48	0.51

Source: CBRT, TURKSTAT.

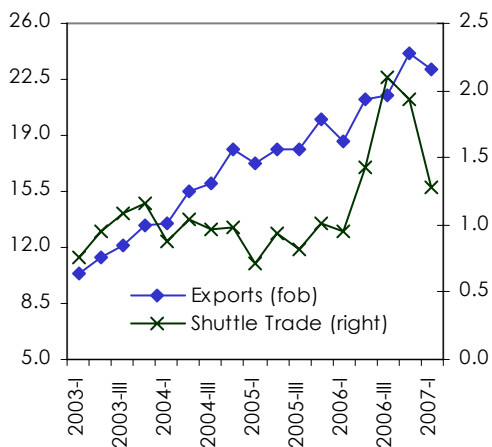
* 12-month data as of March.

Exports of Goods

14. According to the statistics released by the Turkish Statistical Institute (TURKSTAT), in January-March period, nominal exports increased by 24.2% while real export growth equaled to 14.1% annually. The 8.4% rise in export prices contributed to the nominal export growth.

Exports

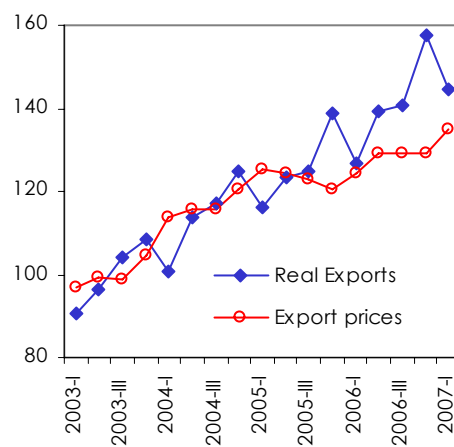
(billion US dollars)



Source: CBRT, TURKSTAT.

Exports - Real and Unit Value

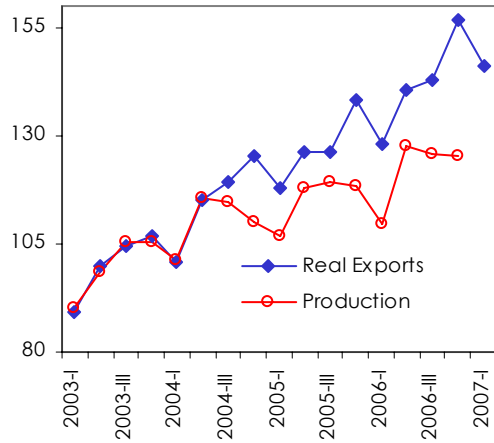
(2003=100)



Source: TURKSTAT.

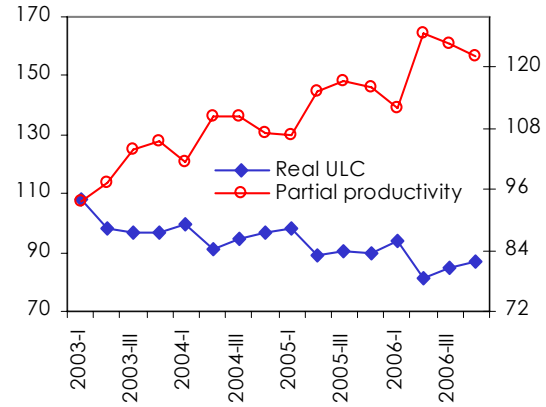
15. The acceleration in investment expenditures since 2002 and the resulting productivity gains helped reduce real unit labor costs and increase the competitive advantage of Turkey in international trade, and became a basic element of export growth by compensating the negative influence of the strong Turkish lira on competitiveness. Furthermore, Turkey's proximity to its biggest trade partner EU, the brisk demand from EU countries and euro's strength against US dollar pave the way for a continued export growth.

Production and Exports in Manufacturing Industry (2003=100)



Source: TURKSTAT.

Real ULC and Productivity Indices (2003=100)



Source: CBT, TURKSTAT.

16. A sectoral analysis would suggest that motor vehicles and basic metals provided the largest contribution to export growth. During the first quarter, both items contributed to the 24.2% total export growth by 8.6 percentage points. Machinery and equipment and electrical machinery and devices also recorded sharp increases for the same period.

17. On the other hand, exports of textiles and clothing displayed a sluggish performance in 2006 and increased only by 4.1%. During the first quarter of 2007, exports in this sector climbed up to 15.3% due to the low base effect. Although the high quality of textiles and clothing articles and Turkey's proximity to EU generates comparative advantage against her competitors, the low labor cost of countries like China and India still affect the export performance of these sectors negatively in Turkey.

Exports
(Million US dollars)

	Jan-Mar					Share	
	2006	2007	% Change	% Contrib.	\$ Contrib.	2006	2007
Total	18597	23101	24.2				
Capital Goods	1953	3047	56.0	5.9	1094	10.5	13.2
Intermediate Goods	8032	10494	30.6	13.2	2462	43.2	45.4
Consumption Goods	8356	9466	13.3	6.0	1110	44.9	41.0
Other	256	94	-63.2	-0.9	-162	1.4	0.4
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	845	898	6.3	0.3	53	4.5	3.9
Food products and beverages	1052	1136	8.0	0.5	84	5.7	4.9
Textiles	2003	2348	17.2	1.9	345	10.8	10.2
Wearing apparel	2443	2780	13.8	1.8	337	13.1	12.0
Petroleum products and nuclear fuel	684	795	16.3	0.6	111	3.7	3.4
Chemicals and chemical products	733	874	19.3	0.8	141	3.9	3.8
Rubber and plastic products	622	865	39.0	1.3	243	3.3	3.7
Other non-metallic minerals	622	717	15.3	0.5	95	3.3	3.1
Manufacture of basic metals	1922	2515	30.8	3.2	593	10.3	10.9
Manufacture of fabricated metal prod(exc machir	683	903	32.2	1.2	220	3.7	3.9
Manufacture of machinery and equipment	1201	1709	42.3	2.7	508	6.5	7.4
Electrical machinery and apparatus	524	859	64.1	1.8	336	2.8	3.7
Communication and apparatus	775	576	-25.6	-1.1	-199	4.2	2.5
Motor vehicles and trailers	2659	3673	38.1	5.4	1013	14.3	15.9
Other transport	603	730	21.2	0.7	128	3.2	3.2

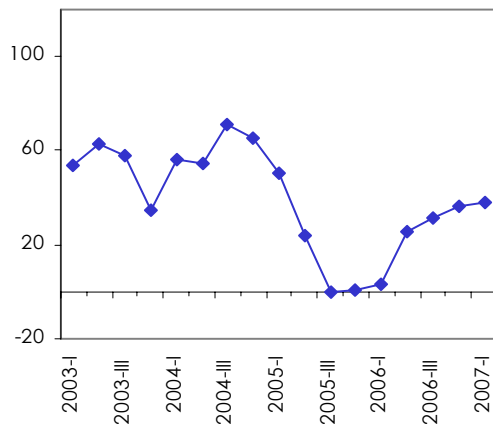
Source: TURKSTAT.

18. It is observed that capital-intensive sectors such as motor vehicles and basic metals prevail over others and their share in total exports gets larger. The share of labor-intensive sectors, on the other hand, such as textiles and clothing, displays a significant downfall. These developments suggest that exports undergo a structural transformation.

19. Motor vehicles have contributed the most to total export growth since the second quarter of 2006, mainly through productivity gains as well as new model launches.

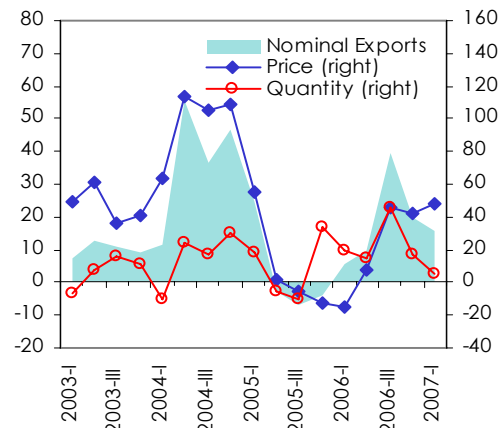
20. As in 2006, exports of basic metals continued to grow in the first quarter of 2007 and increased by 30.8%. The surge in basic metal prices has made a notable contribution to the industry's exports starting from the second quarter of 2006.

Motor Vehicles Exports
(Annual percentage change)



Source: TURKSTAT.

Basic Metal Industry Exports
(Annual percentage change)



Source: TURKSTAT.

21. The growth rate of the exports unit value index rising since mid-2006 accelerated in the first quarter of 2007 and displayed an annual increase of 8.4%. Besides, import prices slowed down, altering the terms of trade to the advantage of exports. The increase in the exports unit value index was generated by the price hikes in basic metals, electrical machinery and devices, and fabricated metal products.

Exports – Unit Value Indices (2003=100)
(Annual Percentage Change)

	2006				2006	2007 I
	I	II	III	IV		
Total	-0.9	3.9	5.0	6.8	3.9	8.4
Capital Goods	-3.0	4.6	8.9	11.7	5.4	12.1
Intermediate Goods	-1.4	6.2	13.4	14.6	8.1	14.3
Consumption Goods	-0.7	1.3	-3.1	-0.6	-0.8	2.4
Selected Items (ISIC Rev.3):						
Agriculture and farming of animals	-0.6	-13.9	-22.7	-13.7	-13.9	-4.5
Food products and beverages	0.4	-0.3	-7.4	-6.7	-2.9	-1.3
Textiles	-3.0	0.9	1.1	4.0	0.9	7.7
Wearing apparel	1.4	2.0	-2.8	0.6	0.1	0.4
Petroleum products and nuclear fuel	28.2	28.8	15.8	1.7	19.1	-5.3
Chemicals and chemical products	-0.2	3.2	5.8	8.2	4.5	8.1
Rubber and plastic products	0.1	4.5	8.4	9.8	6.0	9.4
Other non-metallic minerals	7.4	7.1	5.0	6.0	6.5	5.0
Manufacture of basic metals	-7.3	4.2	22.6	20.8	10.7	24.1
Manufacture of fabricated metal prod(exc machir	2.1	9.2	13.1	17.9	10.7	14.7
Manufacture of machinery and equipment	-1.9	1.0	5.3	7.6	3.4	12.3
Electrical machinery and apparatus	10.4	19.3	27.8	29.0	22.6	20.0
Communication and apparatus	-16.8	-9.3	-6.6	-7.5	-9.4	-12.9
Motor vehicles and trailers	-4.8	5.0	5.9	11.4	4.2	9.7

Source: TURKSTAT.

22. By June 2006, real import growth was markedly exceeded by real export growth. As suggested by national income accounting, net exports made a positive contribution to overall growth during the second half of 2006. According to quantity indices, real exports continued to grow beyond real imports in the first quarter. Thus, during this period, net exports are expected to make further contributions to economic growth. The rise in the real exports was generated by the high growth rates in quantity indices of motor vehicles, in particular, of electrical machinery and devices, refined petroleum, coke and machinery and equipments.

Exports – Quantity Indices (2003=100)
(Annual Percentage Change)

	2005	2006				2006	2007
		I	II	III	IV		
Total	10.5	8.9	12.9	12.5	13.6	12.0	14.1
Capital Goods	20.9	-0.4	14.4	11.0	14.2	9.9	36.0
Intermediate Goods	10.6	14.3	14.5	18.8	13.5	15.2	14.0
Consumption Goods	7.9	4.7	11.3	7.6	13.8	9.6	10.1
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	3.3	18.3	51.7	6.8	13.1	21.0	10.7
Food products and beverages	16.8	8.8	5.2	3.6	5.3	4.8	9.1
Textiles	4.1	3.7	4.9	3.8	7.8	5.2	8.9
Wearing apparel	1.7	-7.6	0.2	7.4	10.1	2.4	13.4
Petroleum products and nuclear fuel	53.7	-3.7	27.2	20.3	20.0	14.5	22.7
Chemicals and chemical products	4.5	14.2	19.9	18.3	20.6	18.3	10.2
Rubber and plastic products	18.1	16.5	8.8	11.0	22.4	14.4	27.0
Other non-metallic minerals	6.1	-5.5	-3.3	-3.4	3.6	-2.3	9.8
Manufacture of basic metals	-0.1	20.1	15.2	45.9	16.6	22.6	5.2
Manufacture of fabricated metal prod(exc machi	9.4	12.8	7.0	13.5	16.7	12.9	15.2
Manufacture of machinery and equipment	18.7	19.7	20.2	15.6	22.6	19.4	26.5
Electrical machinery and apparatus	11.4	8.5	10.8	18.9	37.7	19.1	36.7
Communication and apparatus	33.9	36.3	24.9	-7.6	-5.9	8.1	-14.7
Motor vehicles and trailers	13.5	8.3	19.6	23.7	24.3	19.4	25.8

Source: TURKSTAT.

Export – Country Decomposition
(Million US dollars)

	2005		2006		%	% Contrib.	\$ Contrib.
	Value	Share (%)	Value	Share (%)			
Jan-Mar							
Total	18597	..	23101	..	24.2
EU countries	10672	57.4	13381	57.9	25.4	14.6	2709
Other countries	7266	39.1	9060	39.2	24.7	9.7	1795
Other European	1579	8.5	2228	9.6	41.1	3.5	649
East Asian	769	4.1	1078	4.7	40.2	1.7	309
Other	4918	26.4	5754	24.9	17.0	4.5	837
Free Zones in Turkey	659	3.5	659	2.9	0.0	0.0	0
Selected countries and country groups							
OECD	12382	66.6	14641	63.4	18.2	12.1	2259
Germany	2214	11.9	2710	11.7	22.4	2.7	496
UK	1482	8.0	1810	7.8	22.2	1.8	329
Italy	1700	9.1	1762	7.6	3.6	0.3	62
USA	1416	7.6	953	4.1	-32.7	-2.5	-463
France	1054	5.7	1311	5.7	24.4	1.4	257
Spain	775	4.2	1052	4.6	35.7	1.5	277
Netherlands	558	3.0	650	2.8	16.4	0.5	92
Other OECD	3183	17.1	4394	19.0	38.0	6.5	1210
Middle East countries	2264	12.2	3160	13.7	39.6	4.8	896
China	120	0.6	192	0.8	60.0	0.4	72
Russian Fed.	618	3.3	958	4.1	55.0	1.8	340

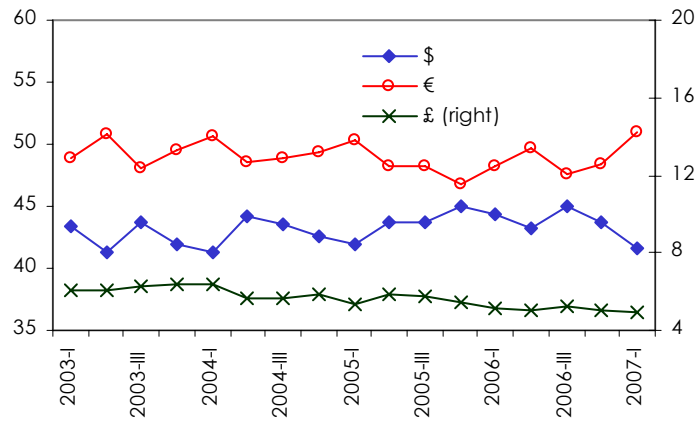
Source: TURKSTAT.

23. A country-group based export analysis suggests that the steady growth of exports to EU countries, with the largest share in total exports, continued in the first quarter of 2007, which is believed to be influenced by the strong domestic demand and robust economic activity in EU since early 2006. On the other hand, exports to the United States, accounting for a 4.1% share in total exports, slowed down while exports to Russia and to the Middle East grew stronger.

24. As regards the currency composition of exports, euro's share increased during January-March 2007 parallel to the growth of exports to EU countries. At the same time, exports to the United States and the share of USD-denominated exports both decreased.

Currency Composition of Exports

(% share)

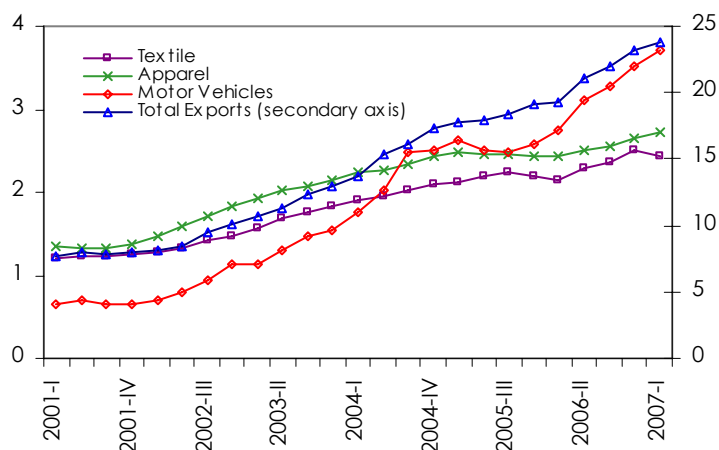


Source: TU RK STAT.

25. According to seasonally adjusted (SA) data, nominal export growth of the first quarter prevailed over the previous quarter by 2.7%. During this period, SA nominal exports of motor vehicles, a leading export industry, also increased by 5.6%. SA data suggest that textile and clothing exports remained below the overall export performance and grew by no more than 0.5%, compared to the previous period.

Seasonally Adjusted Exports and Sub-Sectors

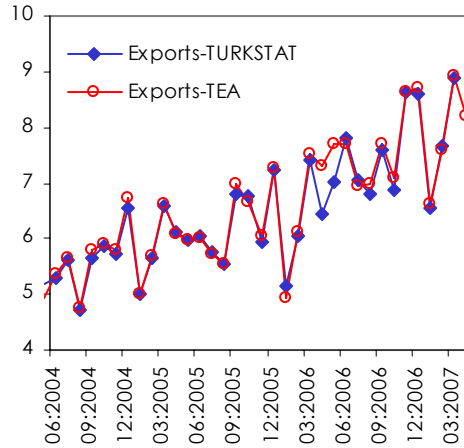
(Billion US dollars)



26. The April 2007 export data released by the Turkish Exporters' Assembly (TEA) indicates that exports continued to grow in April. According to TEA data, exports grew by 28.1% in April and by 25.8% during January-April.

Exports - TURKSTAT and TEA data

(Billion US dollars)



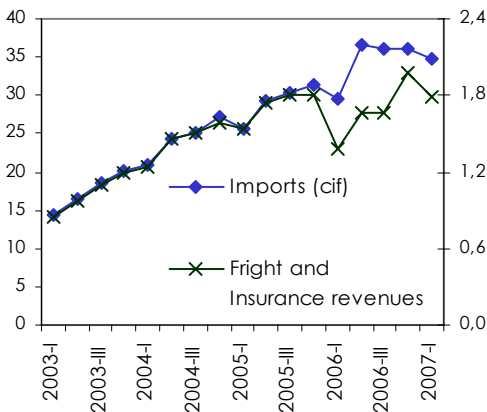
Source: TURKSTAT, TEA.

Imports of Goods

27. Imports continued to slow down during January-March 2007, ending up in an annual increase of 17.6%. Total imports of goods grew at 16.9%, excluding the items related to freight and insurance revenues and gold imports. Import prices increased by 8.2% over the period while the real import growth equaled to 6.2%.

Imports

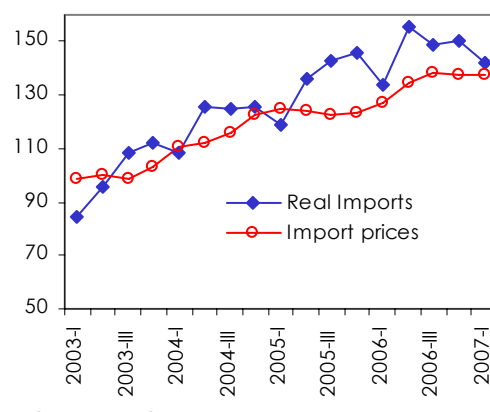
(Billion US dollars)



Source: CBT, TURKSTAT.

Imports- Real and Unit Value

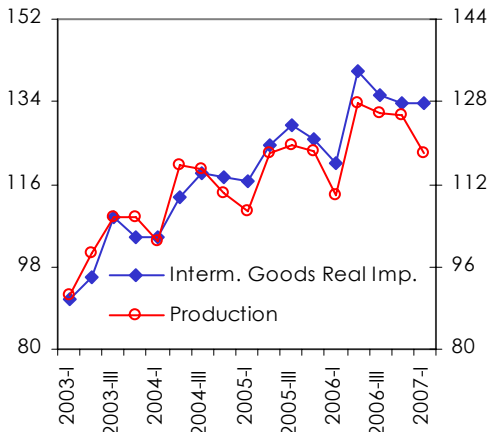
(2003=100)



Source: TURKSTAT.

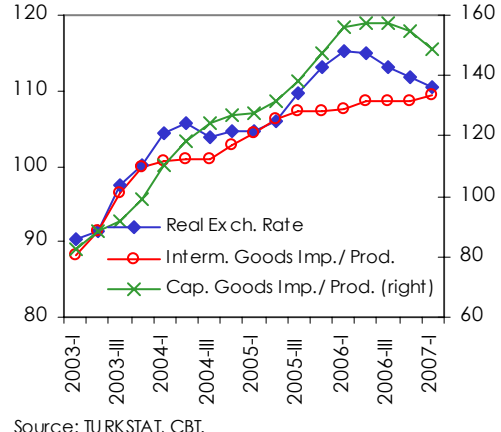
Man. Ind. Prod. & Int. Goods

Imports (2003=100)



Source: TURKSTAT.

Intern. & Cap. Imp./Manuf. Ind. P. Ratio and REER (PPI) (12-month, ave.)



Source: TURKSTAT, CBT.

28. Manufacturing industry production grew by 7.6% during the first quarter. The increase in industrial production fostered the import growth of intermediate goods, which has a notable share in total imports.

29. In the first quarter, soaring imports of intermediate goods made the largest contribution to the 17.6% increase in total import growth by 17.4 percentage points. The growth rate of capital goods imports, on the other hand, remained stagnant with a 0.4% rise. This indicates that investment expenditures slackened during this period. Likewise, imports of consumption goods have shown a decline since August 2006.

Imports
(Million US dollars)

	Jan-Mar					Share	
	2006	2007	% Change	% Contr.	\$ Contr.	2006	2007
	Total	29543	34752	17.6			
Capital Goods	4883	4987	2.1	0.4	104	16.5	14.4
Intermediate Goods	20904	26043	24.6	17.4	5139	70.8	74.9
Consumption Goods	3654	3604	-1.4	-0.2	-51	12.4	10.4
Other	101	119	17.1	0.1	17	0.3	0.3
Selected Items (ISIC Rev.3):							
Mining and Quarrying	4722	5492	16.3	2.6	770	16.0	15.8
Crude oil and natural gas	4190	4932	17.7	2.5	742	14.2	14.2
Textiles	925	1147	24.0	0.7	222	3.1	3.3
Paper and paper products	517	602	16.4	0.3	85	1.7	1.7
Coke, petroleum products and nuclear fuel	1585	1604	1.1	0.1	18	5.4	4.6
Chemicals and chemical products	4403	5118	16.3	2.4	716	14.9	14.7
Rubber and plastic products	552	637	15.4	0.3	85	1.9	1.8
Manufacture of basic metals	3117	4624	48.4	5.1	1507	10.5	13.3
Manufacture of fabricated metal prod(exc machir	482	540	12.0	0.2	58	1.6	1.6
Manufacture of machinery and equipment	2901	3336	15.0	1.5	435	9.8	9.6
Electrical machinery and apparatus	1197	1218	1.7	0.1	20	4.1	3.5
Communication and apparatus	1153	1249	8.3	0.3	96	3.9	3.6
Medical, precision and opt. instr., watches	664	657	-1.1	0.0	-7	2.2	1.9
Motor vehicles and trailers	2945	2828	-4.0	-0.4	-117	10.0	8.1
Other transport	339	330	-2.7	0.0	-9	1.1	0.9
Waste and scrap (Wholesale and retail)	779	1466	88.1	2.3	687	2.6	4.2

Source: TURKSTAT.

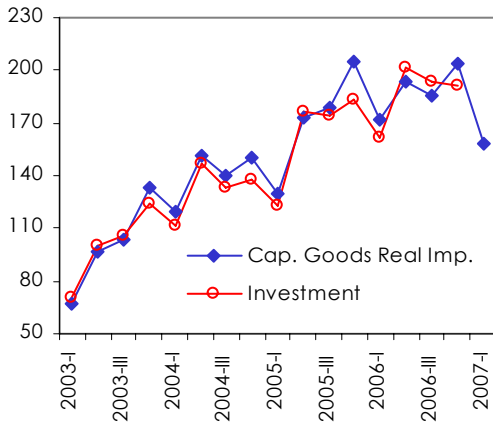
30. As regards to quantity indices, automobile imports, with a notable share in imports of consumption goods, fell by 35.5% in the first quarter, which was mainly influenced by the turbulence-driven rate hikes and the slowdown in domestic demand. However, the 78.1% growth of automobile imports of January-March 2006 suggests that the high base of the first quarter was also influential in this downfall. On the other hand, imports of durable goods fell by 4.3% while imports of semi-durable goods grew at 6.8%.

31. Among all sectors, basic metals made the largest contribution to import growth in the first quarter, owing mainly to price hikes, rather than increased quantity. Indeed, prices of basic metals jumped 26.1% whereas the real import growth of basic metals was only 13.2%. Besides, imports of crude oil and natural gas, holding last year's largest contribution, only contributed 2.5 percentage points to total import growth, since their prices fell behind the year-ago levels of the same period.

32. The consumer confidence indices released by CBT/TURKSTAT suggest that consumption expenditures continued to decline during January-March 2007.

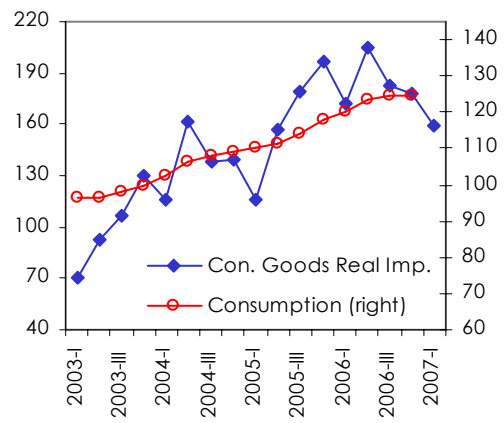
33. In this period, imports of motor vehicles sector and automobile imports fell 4% and 26.9%, respectively. Imports of spare parts for transportation vehicles increased by 17.8% parallel to the export growth in motor vehicles.

Invest. Expend. & Cap. Goods Imp.
(2003=100)



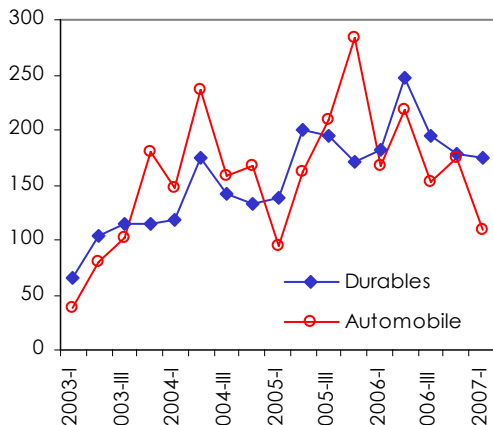
Source: TURKSTAT.

Consum. Exp. & Con. Goods Imp.
(2003=100, 12-month ave. for cons.)



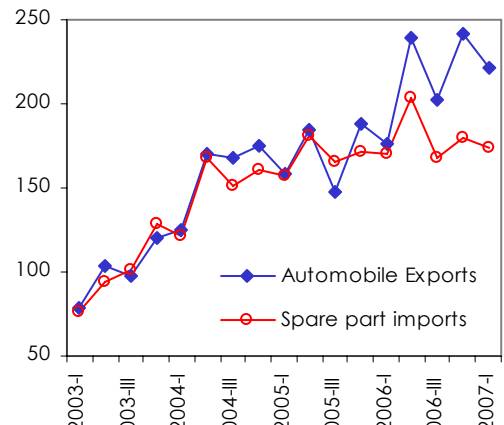
Source: TURKSTAT.

Durables & Automobile Imports
(2003=100)



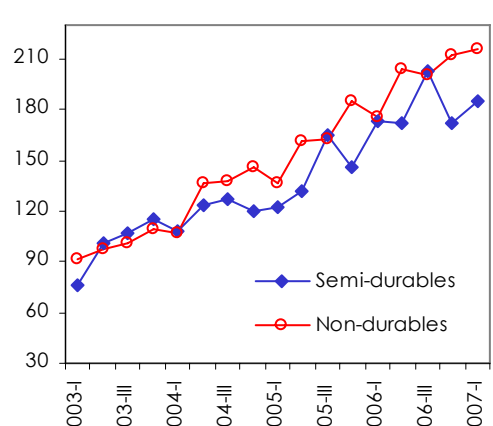
Source: TURKSTAT.

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



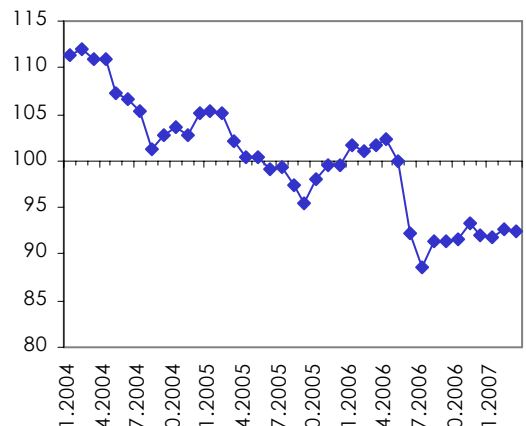
Source: TURKSTAT.

Semi and non-durables Imp.
(2003=100)



Source: TURKSTAT.

Confidence Index



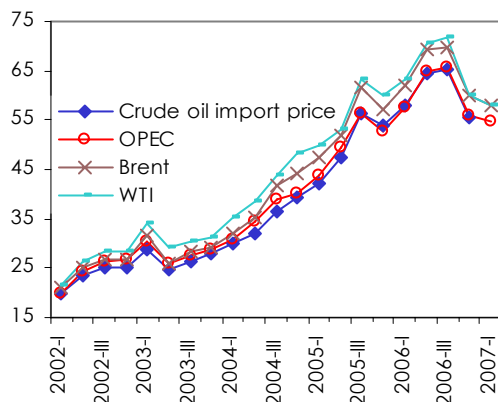
Source: CBT, TURKSTAT, NTVMSNBC.

34. Crude oil prices retraced their earlier run-up after a fall in the last quarter of 2006. Severe winter conditions and the new production cuts implemented by OPEC since 1 February led crude prices to re-ascend. Later, uncertainties over US crude oil stocks and the

growing tension over the Middle East and Nigeria boosted crude oil prices to around USD 68 per barrel.

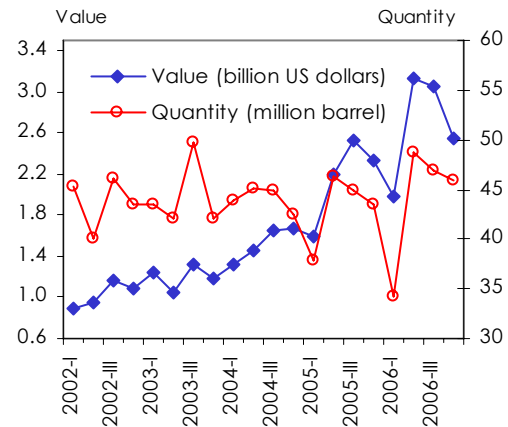
Crude Oil Prices

(US dollar per barrel, average)



Source: SPO, OPEC, EIA.

Crude Oil Imports



Source: TURKSTAT.

35. Apart from basic metals and crude oil, import prices of motor vehicles, machinery and equipment, and fabricated metals picked up, whereas those of electrical machinery and devices, and refined petroleum and products decreased in January-March period.

Import - Unit Value Indices (2003=100) (Annual Percentage Change)

	2005	2006				2006	2007
		I	II	III	IV		
Total	7.1	2.0	8.4	13.0	11.5	8.8	8.2
Capital Goods	-3.7	-8.6	-2.3	1.8	4.8	-1.2	6.2
Intermediate Goods	11.0	6.5	13.0	17.4	14.3	12.8	10.0
Consumption Goods	-0.3	-7.3	-1.2	4.5	4.8	0.0	3.4
Selected Items (ISIC Rev.3):							
Food products and beverages	-7.8	-2.5	-5.7	1.3	8.2	0.2	10.2
Textiles	2.6	-2.5	-1.9	5.1	7.5	2.4	5.5
Paper and paper products	3.4	-3.0	4.3	9.3	10.3	5.3	10.9
Coke, petroleum products and nuclear fuel	29.3	29.1	22.9	17.1	-1.1	15.9	-3.6
Chemicals and chemical products	5.0	-6.8	-1.8	7.0	7.5	1.6	5.9
Rubber and plastic products	8.8	-4.1	4.4	8.2	9.1	4.6	8.7
Manufacture of basic metals	9.7	3.5	20.8	40.7	39.1	24.2	26.1
Man. of fabricated metal prod(exc mach)	7.7	-3.2	4.2	7.7	11.6	6.3	10.0
Manufacture of machinery and equipment	-1.1	-8.7	-1.8	1.9	6.3	0.2	8.3
Electrical machinery and apparatus	-7.4	-2.4	2.3	0.1	-4.2	-1.4	-4.1
Communication and apparatus	-6.0	-15.9	-5.5	4.2	3.8	-3.8	5.1
Medical, precision and opt. instr., watches	-0.3	-3.8	-0.3	-7.4	8.9	-0.5	2.7
Motor vehicles and trailers	-1.6	-5.3	4.2	10.8	11.8	5.7	9.2
Waste and scrap (Wholesale and retail)	1.2	-11.5	5.5	29.8	16.3	10.0	31.5

Source: TURKSTAT.

36. Import quantity indices suggest that, crude oil and natural gas imports gained momentum during the first quarter in real terms, which was mainly due to production cuts led by last year's maintenance of the Tüpraş refinery and the resulting base effect.

37. The share of imports from EU in overall imports narrowed to 41.4% in the first quarter, down from 43.6% in the same period of 2006. On the contrary, non-EU countries in Europe and Asian countries contributed substantially to import growth. On country basis, the rise in imports from the United States, Russia and China is worth noting, altogether contributing to total import growth by 7.4 percentage points.

Import – Quantity Indices (2003=100)
(Annual Percentage Change)

	2005	2006				2006	2007
		I	II	III	IV		
Total	11.9	12.5	14.3	4.4	3.3	8.5	6.2
Capital Goods	22.2	32.4	11.9	3.7	-0.4	10.0	-7.5
Intermediate Goods	9.4	3.4	12.9	5.0	6.1	6.9	10.8
Consumption Goods	16.6	48.6	30.3	1.9	-9.0	13.8	-7.0
Selected Items (ISIC Rev.3):							
Food products and beverages	20.7	10.5	35.7	18.6	-1.8	15.8	-7.9
Textiles	2.3	3.8	3.1	6.6	1.5	3.6	15.8
Paper and paper products	12.9	11.3	7.0	12.9	9.5	10.2	1.3
Coke, petroleum products and nuclear fuel	13.1	28.3	22.7	19.6	-2.3	15.9	-6.3
Chemicals and chemical products	10.1	12.2	12.0	7.4	8.7	9.8	6.3
Rubber and plastic products	1.1	21.5	18.1	12.4	7.7	14.5	2.4
Manufacture of basic metals	12.1	-14.2	11.5	-7.0	3.2	-0.3	13.2
Man. of fabricated metal prod(exc mach)	14.4	22.3	16.6	21.2	15.4	17.7	-1.3
Manufacture of machinery and equipment	19.1	24.4	25.4	13.9	5.5	16.1	2.2
Electrical machinery and apparatus	43.3	37.2	10.1	21.5	12.0	19.5	2.6
Communication and apparatus	7.8	24.8	8.0	6.5	2.0	10.0	1.1
Medical, precision and opt. instr., watches	27.4	25.3	13.8	5.2	0.8	10.3	-6.0
Motor vehicles and trailers	6.2	32.4	17.4	-11.1	-19.9	1.2	-16.3
Waste and scrap (Wholesale and retail)	0.8	-7.0	32.1	-2.4	31.5	11.8	40.8

Source: TURKSTAT.

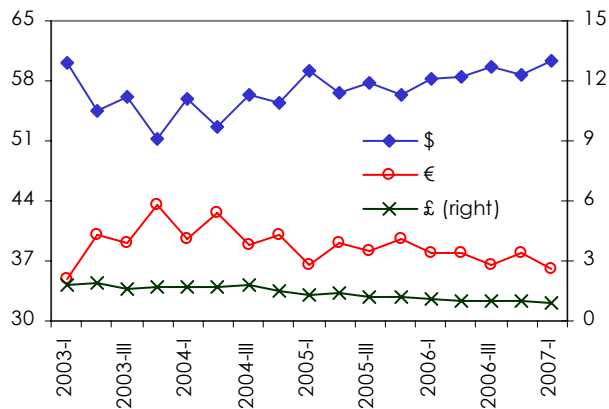
Imports – Country Decomposition
(Million US dollars)

	Jan-Mar							
	2006		2007		% Change	% Contrib.	\$ Contrib.	
	Value	Share (%)	Value	Share (%)				
Total	29543	..	34752	..	17.6			
EU countries	12895	43.6	14379	41.4	11.5	5.0	1484	
Other countries	16470	55.7	20109	57.9	22.1	12.3	3639	
Other European	5254	17.8	7067	20.3	34.5	6.1	1813	
East Asian	5595	18.9	6730	19.4	20.3	3.8	1135	
Other	5621	19.0	6312	18.2	12.3	2.3	691	
Free Zones in Turkey	178	0.6	264	0.8	48.2	0.3	86	
Selected countries and country groups								
OECD	16661	56.4	18704	53.8	12.3	6.9	2043	
Germany	3341	11.3	3433	9.9	2.7	0.3	92	
Italy	1808	6.1	2026	5.8	12.1	0.7	218	
France	1455	4.9	1672	4.8	14.9	0.7	217	
USA	1274	4.3	1656	4.8	30.0	1.3	382	
İngiltere	1219	4.1	1268	3.6	4.0	0.2	49	
Spain	838	2.8	887	2.6	5.9	0.2	49	
Other OECD	6727	22.8	7763	22.3	15.4	3.5	1036	
Middle East countries	1917	6.5	2331	6.7	21.6	1.4	413	
Russian Fed.	3640	12.3	4965	14.3	36.4	4.5	1324	
China	2128	7.2	2599	7.5	22.2	1.6	471	

Source: TURKSTAT.

38. Parallel to the decline in imports from EU, the share of euro-denominated imports descended during the January-March period, while USD-denominated imports grew faster. GBP's share in imports, on the other hand, displays a firm downfall.

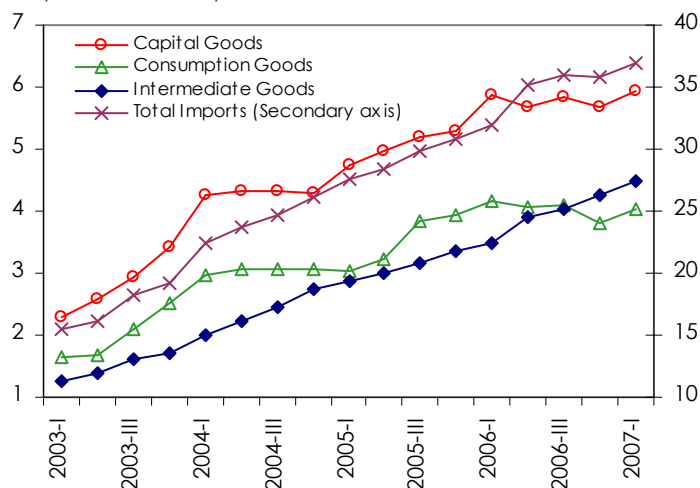
Currency Composition of Imports
(% share)



Source: TU RK STAT.

39. According to SA data, in the first quarter, USD-denominated nominal imports exceeded the previous quarter's level by 3.3%. As regards sub-items, imports of intermediate goods, capital goods and consumption goods increased by 4.3%, 4.8% and 5.8%, respectively.

Seasonally Adjusted Imports and Sub-Sectors
(Billion US dollars)



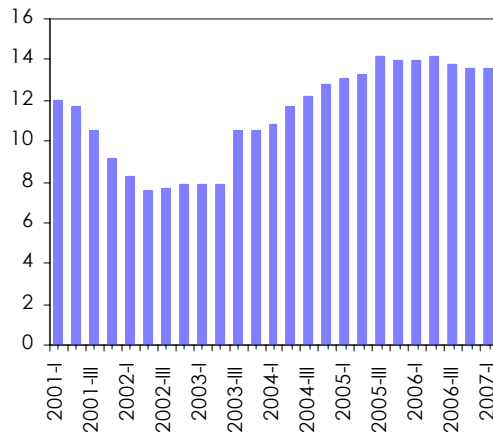
Services Account

40. In 2006, the surplus in services account fell behind its level in 2005 by 12.5%. In the first quarter of 2007, however, it rose by 1.5% up from its first-quarter level in 2006 to USD 1.2 billion. Net tourism revenues increased by 3.9% to USD 1.5 billion. Revenues from construction services, on the other hand, fell below the first-quarter figures of 2006, while transportation revenues increased by 28.1% to USD 926 million.

41. According to the data released by TURKSTAT, tourism revenues in the first quarter reached USD 2.2 billion. Since the number of departing citizens and foreigners increased by 16.7% and the average spending per tourist decreased by 7.4%, tourism revenues registered a growth of only 8% over the same quarter of last year. Besides, tourism expenditures surged 18.3% up, raising net tourism revenues by 3.9%.

Services

(12-month ave., billions US dollars)



Source: CBT.

Services Account

(Million US dollars)

	2006				2007
	I	II	III	IV	I
Services	1167	2857	7289	2044	1185
Total income	3471	5677	10331	4935	3941
Total Expenses	-2304	-2820	-3042	-2891	-2756
Transportation	-150	-28	383	-292	-109
Credit	723	1007	1422	1007	926
Debit	-873	-1035	-1039	-1299	-1035
Tourizm	1434	2946	7219	2511	1490
Credit	2002	3693	8038	3120	2162
Debit	-568	-747	-819	-609	-672
Construction serv.	212	249	234	184	190
Credit	212	249	234	184	190
Debit	0	0	0	0	0
Financial serv.	-82	-53	-74	-38	-79
Credit	61	67	69	80	73
Debit	-143	-120	-143	-118	-152
Other serv.	-247	-257	-473	-321	-307
Credit	473	661	568	544	590
Debit	-720	-918	-1041	-865	-897

Source: CBT.

Tourism Statistics

	2006				2007
	I	II	III	IV	I
Tourism Revenues (million US dollars)	2002	3693	8038	3120	2162
Departing foreigner visitors (x1000)	2138	4912	8302	3924	2552
Departing citizen visitors (x1000)	597	629	1838	808	640
Tourism Expenditures (million US dollars)	-568	-747	-819	-609	-671
Arriving citizen visitors (x1000)	905	1170	1161	827	1174

Source: TURKSTAT, CBT.

Income Account

42. The investment income account posted a deficit of USD 1.9 billion with a 25.8% rise in January-March. The deficit got wider due to the private sector-driven increase in the external debt stock and the hikes in international interest rates but was restrained by the upswing in interest revenues thanks to accumulated reserves.

Income Account (Million US dollars)

	2006				2007
	I	II	III	IV	I
Income (net)	-1476	-1615	-1667	-1757	-1855
Total income	1184	957	1227	1105	1675
Total Expenses	-2660	-2572	-2894	-2862	-3530
Direct investment	-138	-374	-212	-228	-301
Credit	59	65	43	52	53
Debit	-197	-439	-255	-280	-354
Portfolio investment	-426	-29	-162	-45	-566
Credit	829	591	795	586	1084
Debit	-1255	-620	-957	-631	-1650
Other investment	-912	-1212	-1293	-1484	-988
Interest income	296	301	389	467	538
Interest expenses	-1208	-1513	-1682	-1951	-1526
Long-term	-1066	-1310	-1448	-1724	-1361
Monetary A.	-186	-135	-364	-159	-123
Gen. Gov.	-359	-531	-367	-550	-394
Banks	-109	-136	-191	-177	-205
Other sector	-412	-508	-526	-838	-639
Short-term	-142	-203	-234	-227	-165

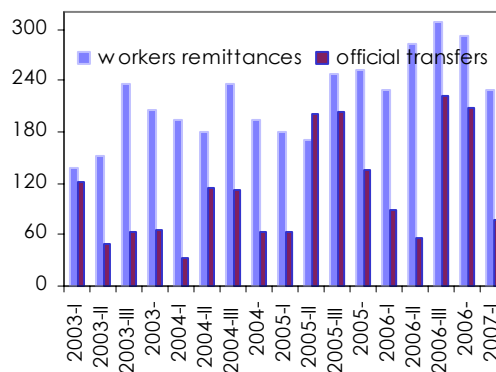
Source: CBT.

43. In 2006, private sector external debt and interest payments grew at 36.1% and 53.7%, respectively, while the rise in public sector external debt and interest payments equaled to 1.6% and 15.9%, respectively.¹

Current Transfers

44. In the first quarter of 2007, current transfers, composed of workers' remittances and official transfers, fell by 3.5% to USD 305 million.

Current Transfers (Million US dollars)



Source: CBT.

¹ Includes the interests on bonds under portfolio debits.

III. CAPITAL MOVEMENTS

45. In the first quarter of 2007, external financing requirement, defined as the sum of current account plus net errors and omissions, was equivalent to USD 7.5 billion. Net errors and omissions showing a positive balance of USD 1.6 billion eased the financing requirement. During this period, the financing structure was heavily shaped by direct investments, long-term credit inflows, and finally by portfolio investments.

46. As a result, gold-included CBT reserves reached USD 70 billion at end-March, with a USD 6.4 billion rise in the January-March period. Banks' FX assets, however, decreased by USD 169 million during the same period.

External Financing Requirements and Resources (Billion US dollars)

	2006	2006				2007
		I	II	III	IV	
I. Total Financing Requirement (=1+2)	-34.9	-9.5	-9.1	-7.3	-9.1	-7.5
1. Current Account	-31.8	-8.7	-10.8	-4.9	-7.4	-9.1
2. Net Errors and Omissions	-3.2	-0.8	1.7	-2.3	-1.7	1.6
II. Total Financing (=1+2+3)	34.9	9.5	9.1	7.3	9.1	7.5
1. Capital Flows (net)	55.8	17.3	11.3	10.8	16.5	16.0
Direct Investment (net)	19.2	1.3	7.8	3.7	6.4	7.9
Portfolio Investment (net)	7.4	3.6	-4.5	4.1	4.2	4.2
General Gov. Eurobond Issues	3.3	2.3	-0.6	0.8	0.8	3.4
Nonresidents' Security Buyings in Turkey	8.1	1.6	-3.8	4.6	5.7	1.9
Residents' Security Buyings Abroad	-4.0	-0.3	-0.1	-1.3	-2.3	-1.0
Credit Drawing (excl. IMF loan, net)	26.5	11.3	8.2	3.7	3.4	7.8
General Government	-0.7	-0.2	-0.2	0.3	-0.6	0.1
Banks	5.8	2.4	3.0	0.3	0.1	0.8
Long-term	9.8	1.3	3.2	0.7	4.5	2.0
Short-term	-4.0	1.1	-0.2	-0.5	-4.4	-1.3
Other Sector	21.4	9.1	5.4	3.2	3.8	6.9
Long-term	18.6	8.8	3.3	2.7	3.9	6.6
Short-term	0.5	0.1	0.1	0.3	0.0	-0.2
Trade Credits	2.3	0.2	2.0	0.2	-0.1	0.5
Deposits	4.6	1.5	0.3	-1.1	3.9	-4.3
in Central Bank	-1.3	-0.2	-0.3	-0.5	-0.3	-0.3
in banks	5.9	1.6	0.6	-0.6	4.2	-4.0
Other	-1.9	-0.4	-0.5	0.4	-1.4	0.3
2. IMF Loans	-4.5	-1.8	-1.8	0.1	-1.0	-2.3
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0
General Government	-4.5	-1.8	-1.8	0.1	-1.0	-2.3
3. Change in Reserves (- increase)	-16.4	-6.0	-0.3	-3.6	-6.4	-6.2
Banks' FX assets	-10.3	1.1	-3.3	-2.8	-5.3	0.2
Official Reserves	-6.1	-7.1	3.0	-0.8	-1.2	-6.4

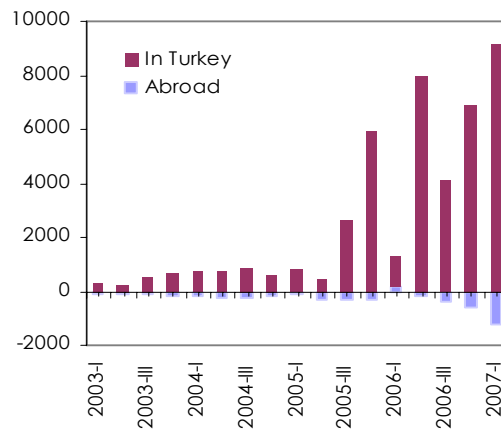
Source: CBT.

Direct Investments

47. Having accounted for over one-third of capital inflows in 2006, the weight of direct investments in total financing continued to grow over the first quarter. During this period, 49.7% of the net capital inflow (excluding IMF loans and reserve shifts) was generated by direct investments. The high-rated increase in direct investments as non-debt capital inflows remains important for securing the sustainable financing of the current account deficit.

48. Apart from privatizations and mergers, nonresidents' real estate buying in Turkey stands as another significant item within direct investment inflows. Real estate buying yielded a USD 981 million-worth direct capital inflow in January-March period.

Direct investments (Million US dollars)

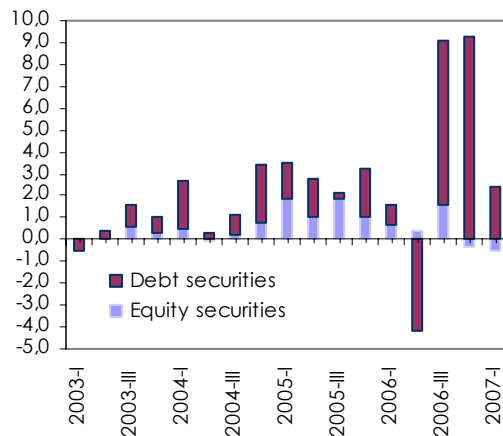


Source: CBT.

Portfolio Investments

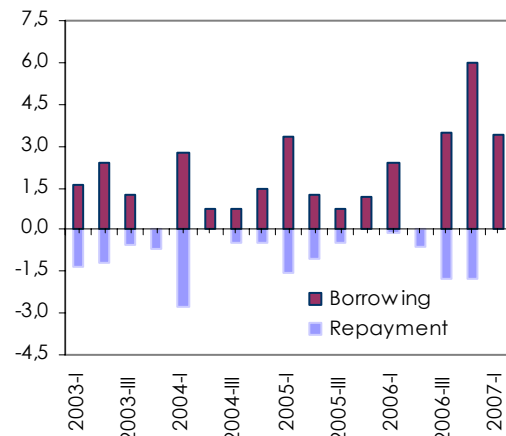
49. The first-quarter net capital inflow originating from portfolio investments equaled to USD 4.2 billion. Government securities acquired by nonresidents amounted to USD 2.4 billion, while the Treasury issued USD 3.4 billion worth of international bonds.

Security buyings of non-residents (billion US dollars)



Source: CBT, ISE.

Eurobond issues of General Gov. (billion US dollars)



Source: CBT.

50. Fund outflows from emerging markets to developed economies in May 2006 destabilized global liquidity conditions, by which Turkey was severely affected due to the structure of nonresidents' portfolio. Pass-through has been strong as a result of the financial market turbulence. In order to avoid any damage to medium-term expectations and pricing behaviors, the Monetary Policy Committee (MPC) called for two emergency meetings on 7th and 25th June 2006, and raised policy rates by 1.75 and 2.25 percentage points, respectively. The MPC, at its meeting of July 20, 2006, evaluated that a modest tightening was required against the soaring oil and other commodity prices and the gap between expectations and targets, and decided to increase policy rates by 0.25 percentage points. Accordingly, by July 20, 2006, the overnight borrowing rate and lending rate applied in CBT's Interbank Money Market and Istanbul Stock Exchange Repo/Reverse Repo Market were raised to, and still kept on hold at, 17.5% and 22.5%, respectively.

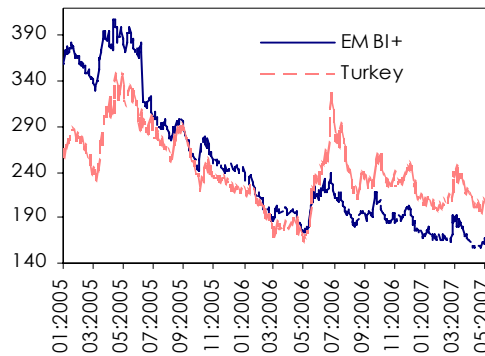
51. Federal Reserve keeps its key interest rates at 5.25%, while ECB raised its interest rates to 3.75% on 8 March 2007, which was the last of the string of seven quarter-point rate

increases since December 2005. BoJ, on the other hand, hiked its interest rates by 25 basis points to 0.5% in February 2007, from 0.25% in 2006. The Bank might raise its rates gradually based on the incoming data on economic growth and prices.

52. In emerging economies, the inflow of portfolio investments continued through 2005, although yield spreads fell and interest rates declined. This demonstrates that the differences in interest rates across developing countries as well as the ongoing economic stability secured by structural reforms and the forward-looking positive expectations significantly influenced the investments in question. In the second quarter of 2006, interest rates surged up in response to the fluctuations in financial markets. Correspondingly, the fall in yield spreads was replaced by an upturn.

Secondary Market Spreads

(basis point)



Source: JPMorgan.

Spread: The difference between the quoted rates of return on countries' security issues and US bonds.

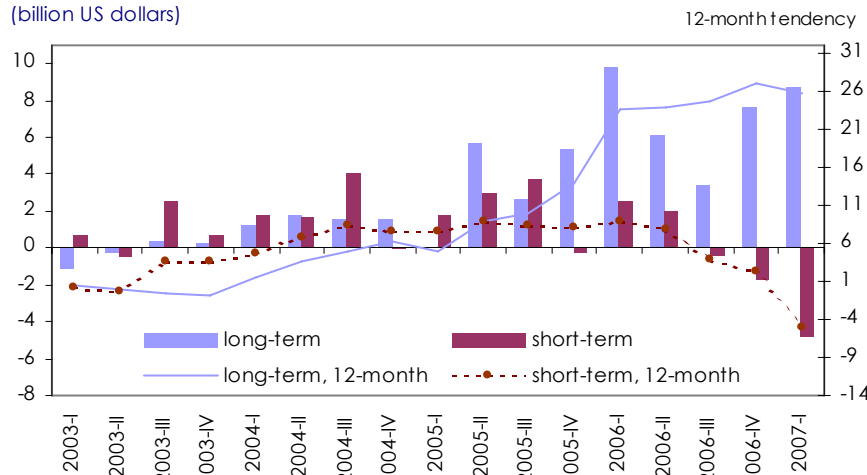
Other Investments

53. The upsurge in the share of long-term credits in total financing that began in 2005 continued in 2006. Short-term loans have been repaid in net terms since mid-2006.

54. Turkey enjoyed USD 1.7 billion worth of net capital inflow registered under the "other investments" item in the first quarter. Private companies and banks located in Turkey borrowed long-term external loans worth USD 8.7 billion. Besides, net trade credits on timed imports used through the quarter amounted to USD 489 million. Private companies and banks repaid an amount of USD 1.5 billion of short-term loans.

Long and Short-term capital

(billion US dollars)



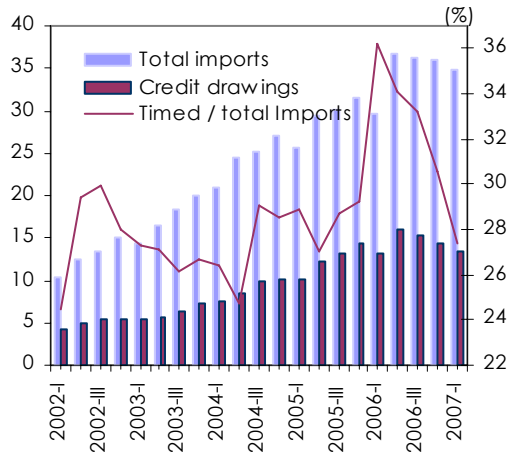
Note: Excluding direct and portfolio investment, IMF loans and banks' FX assets

Source: CBT.

55. The continued borrowing of external trade credits reached USD 489 million in the first quarter. Cross-border trade credits increased the same as total exports, by 24.2% over the last year.

Trade credit drawings and imports

(billion US dollars)

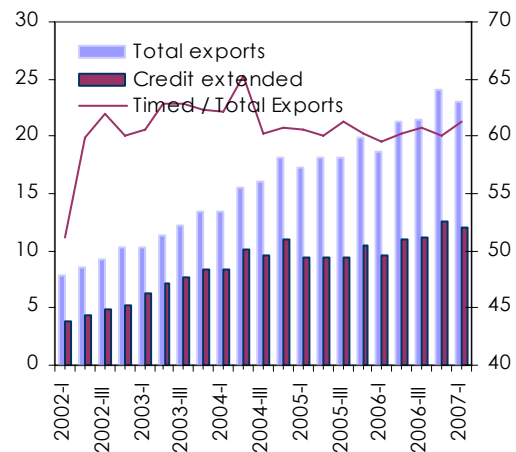


Source: CBT, TURKSTAT.

Trade credits extended abroad &

exports (billion US dollars)

(%)



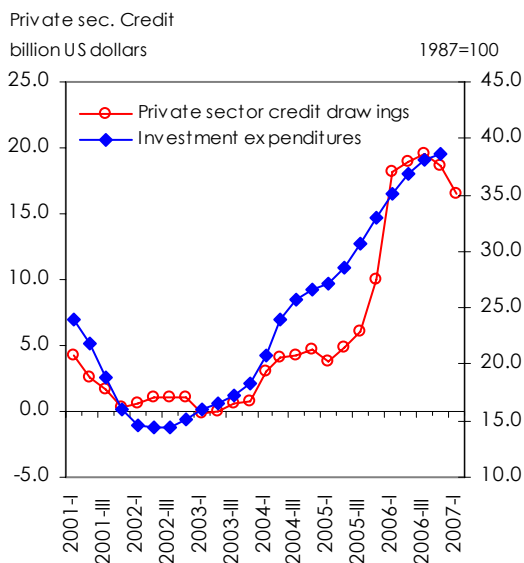
Source: CBT, TURKSTAT.

56. Long-term credit utilization displayed a sharp increase in 2006 along with the 6.1% GDP growth and the 17.4% rise in private sector investment expenditures. In May and June, however, the uncertainty stemming from financial-market fluctuations and the monetary tightening adversely affected the pace of investment expenditures in the second half of the year. The quantity index of imports of investment goods fell by around 7.5% in the first quarter of 2007.

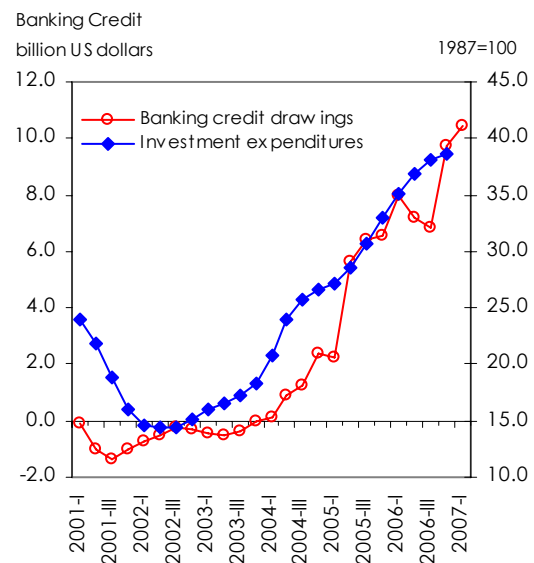
57. Long-term credit utilization gets moderated as imports of investment goods fall. This decrease suggests a slowdown in investment expenditures for the first quarter. The link between short-term credit utilization and investment expenditures weakens.

Long-term net credit use and private sector investment expenditures

(12-month cumulative)

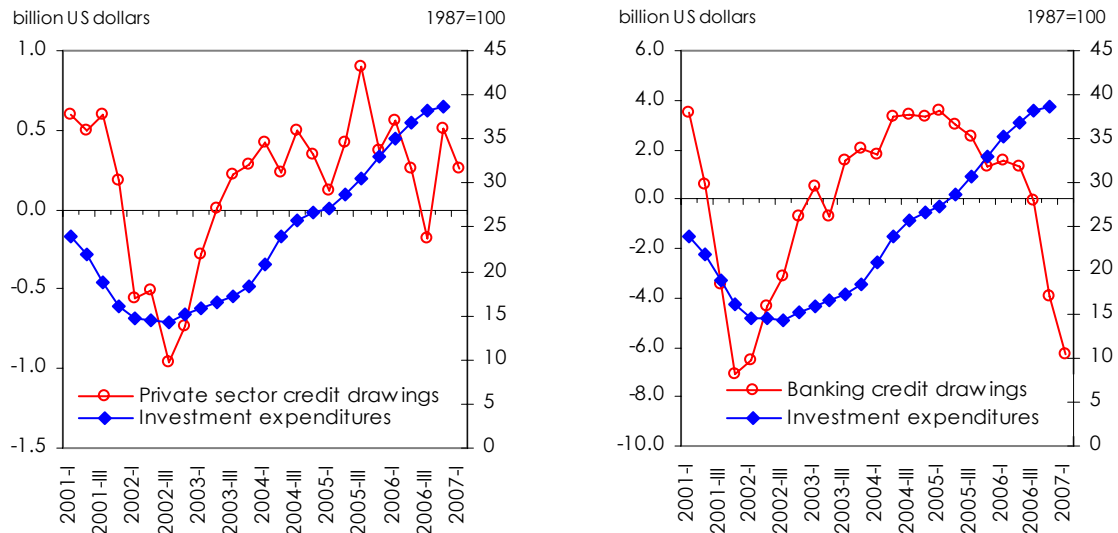


Source: CBT, TURKSTAT.



58. At the end of 2005, the CBT completed the repayment of the IMF loans used before and during 2001. The Treasury, on the contrary, continued to repay its IMF loans in 2006, an amount equal to USD 4.5 billion. Between January and March, the amount repaid to IMF has been USD 2.3 billion net.

Short-term net credit use and private sector investment expenditures (12-month cumulative)

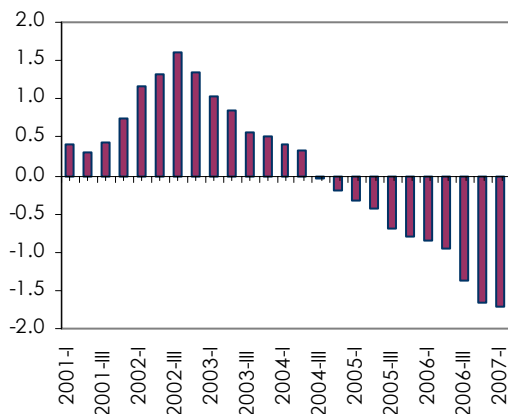


Source: CBT, TURKSTAT.

59. The outflow from non-resident workers' long-term FX deposit and super FX accounts opened at CBT continues since April 2003. Likewise, the outflow from short-term accounts that started in the second quarter of 2004 still continues. Consequently, deposits at CBT decreased by USD 1.3 billion in 2006. These outflows can be attributed to the gradual interest rate cut on both FX deposit accounts and super FX accounts. As a matter of fact, 1-, 2- and 3-year maturity euro-denominated super FX account rates, which were, in 2002, 8%, 9% and 10%, respectively, dropped, as of 6th March 2006, to 2.25%, 3.25% and 3.75%, respectively. In the first quarter of 2007, the outflow from these accounts totaled USD 250 million.

Deposit Belonging to Non-Residents (12-month, million US dollar)

FX deposits with credit letter and Super FX accounts



Non-residents' short-term deposits in banks



Source: CBT.

60. Domestic banks attracted USD 5.9 billion of non-residents' deposits over 2006, but experienced a USD 4 billion outflow during January-March.

61. At end-2006, total external debt stock rose by 22.3% to USD 206.5 billion. USD 36.1 billion of the rise was private sector-originated, whereas public sector added only USD 1.6 billion to the rise. USD 164.5 billion of the total external debt stock involves medium- and long-term external debts, while short-term debts amount to USD 42 billion.

62. The improvement seen in external debt indicators in 2005 reversed in 2006. The ratio of external debt stock to GDP that was reduced to 47% at end-2005 moved up to 51.5% by end-2006, driven by private sector borrowing.

Selected External Debt Indicators (%)

	2004			2005				2006		
	III	IV	I	II	III	IV	I	II	III	IV
External Debt Stock / GDP	53.2	53.8	51.6	49.9	47.9	47.0	49.4	49.8	50.2	51.5
External Debt Stock / Exports*	260.5	256.8	240.4	234.5	232.8	232.1	245.9	245.6	241.6	241.6
Debt Service / GDP	10.5	10.1	9.7	10.2	10.1	10.1	9.4	9.3	9.1	9.9
<i>Memo:</i>										
<i>External Debt Stock (billion \$)</i>	<i>152.2</i>	<i>162.2</i>	<i>160.9</i>	<i>163.0</i>	<i>166.8</i>	<i>170.5</i>	<i>184.0</i>	<i>191.5</i>	<i>196.4</i>	<i>206.5</i>
<i>GDP (billion \$)</i>	<i>285.9</i>	<i>301.4</i>	<i>311.9</i>	<i>326.8</i>	<i>348.0</i>	<i>363.2</i>	<i>372.9</i>	<i>384.2</i>	<i>391.2</i>	<i>400.9</i>

* Excluding shuttle trade and other goods.

Source: TURKSTAT, Undersecretariat of Treasury.

VI. APPENDIX

CURRENT ACCOUNT (USD million)

	Current Account										
	Net	Foreign Trade			Services		Income		Transfers		
	Net	Exports (FOB)	Shuttle Trade	Imports (CIF)	Net	Travel Revenues	Net	Interest Expenditure	Net	Workers Remittances	
	<i>(annual)</i>										
2000	-9822	-21959	27775	2946	-54503	11375	7636	-4002	-4825	4764	4560
2001	3390	-3733	31334	3039	-41399	9136	8090	-5000	-5497	2987	2786
2002	-1521	-7283	36059	4065	-51554	7885	8479	-4556	-4416	2433	1936
2003*	-8134	-14010	47253	3953	-69340	10511	13203	-5655	-4579	1020	729
2004	-15604	-23878	63167	3880	-97540	12784	15888	-5637	-4343	1127	804
2005	-22708	-33527	73476	3473	-116774	15164	18152	-5799	-5050	1454	851
2006	-31460	-40063	85279	6408	-137322	13538	16853	-6622	-6354	1687	1111
	<i>(quarterly)</i>										
2006 I	-8676	-8696	18597	951	-29539	1202	2002	-1498	-1208	316	228
II	-10652	-12236	21276	1430	-36270	2886	3693	-1641	-1513	339	282
III	-4885	-11039	21424	2096	-35669	7318	8038	-1696	-1682	532	309
IV	-7247	-8092	23982	1931	-35844	2132	3120	-1787	-1951	500	292
2007 I	-9054	-8659	23100	1285	-34753	1185	2162	-1885	-1526	305	228
	<i>(monthly)</i>										
2006 Apr	-3923	-4170	6444	460	-11581	618	937	-442	-457	71	71
May	-3996	-4522	7020	495	-12466	1024	1245	-653	-601	155	126
Jun	-2733	-3544	7812	475	-12223	1244	1511	-546	-455	113	85
Jul	-1785	-3583	7053	591	-11555	2074	2356	-404	-457	128	91
Aug	-1536	-4128	6789	774	-11979	2942	3163	-603	-663	253	110
Sep	-1564	-3328	7582	731	-12135	2302	2519	-689	-562	151	108
Oct	-2339	-3297	6866	565	-11303	1201	1450	-394	-546	151	103
Nov	-2931	-2779	8593	698	-12749	511	888	-838	-842	175	90
Dec	-1977	-2016	8523	668	-11792	420	782	-555	-563	174	99
2007 Jan	-2909	-3007	6553	392	-10450	429	727	-433	-423	102	71
Feb	-3201	-2674	7657	418	-11336	221	624	-842	-512	94	71
Mar	-2944	-2978	8890	475	-12967	535	811	-610	-591	109	86
	<i>(12-month)</i>										
2006 Apr	-26712	-37491	75148	3842	-122559	14974	18236	-5716	-5296	1521	910
May	-28496	-39036	76191	4029	-125213	14826	18081	-5756	-5339	1470	978
Jun	-29114	-39526	77964	4199	-127489	14789	18092	-5869	-5442	1492	1009
Jul	-29910	-40007	79254	4586	-129448	14534	17846	-5890	-5594	1453	1022
Aug	-30351	-40295	80490	5053	-131155	14284	17556	-5895	-5605	1555	1047
Sep	-31588	-40945	81258	5482	-132924	13993	17313	-6210	-5777	1574	1071
Oct	-33091	-41839	81352	5681	-134137	13425	16864	-6265	-5903	1588	1081
Nov	-33412	-41733	84002	6051	-137213	13244	16808	-6590	-6218	1667	1097
Dec	-31460	-40063	85279	6408	-137322	13538	16853	-6622	-6354	1687	1111
2007 Jan	-32129	-40652	86700	6562	-139632	13521	16858	-6668	-6459	1670	1105
Feb	-32062	-40363	88301	6652	-141171	13485	16933	-6858	-6462	1674	1108
Mar	-31838	-40026	89782	6742	-142536	13521	17013	-7009	-6672	1676	1111

Source: CBT.

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

CAPITAL and FINANCIAL ACCOUNT (USD million)

	Capital and Financial Account																
	Net		Financial Account						Other Investment								
	Net	Foreign Direct Investment	Portfolio Investment				Net	Currency and Deposits	Liabilities				Deposits				
			Net	Assets	Liabilities				Net	Trade Credits	Credits		Banks		Banks		
Equity Securities	Debt Securities	Monetary Authority			General Gov.	Banks	Other Sectors	Monetary Authority			Banks						
	(annual)																
2000	12581	12581	112	1022	-593	489	1126	11801	-1690	13740	805	3348	117	4378	5025	622	-642
2001	-1633	-1633	2855	-4515	-788	-79	-3648	-2667	927	-2066	-1930	10229	-1977	-8076	438	736	-1568
2002	1406	1406	962	-593	-2096	-16	1519	7190	594	7967	2483	-6138	11834	-1028	371	1336	-988
2003	3095	3095	1253	2465	-1386	905	2946	3424	724	4410	2181	-1479	-765	1975	1022	497	871
2004	13410	13410	2024	8023	-1388	1427	7984	4187	-5965	11142	4201	-4414	-267	5708	5109	-209	856
2005	20487	20487	8723	13437	-1233	5669	9001	16174	-342	15915	3074	-2881	-4637	9248	10309	-787	1276
2006	34619	34619	19234	7349	-4053	1939	9463	14150	-10279	26508	2260	0	-5223	5813	18754	-1268	5890
	(quarterly)																
2006 I	9490	9490	1361	3578	-307	641	3244	11659	1135	10909	246	0	-1993	2433	8764	-184	1635
II	8943	8943	7795	-4528	-109	367	-4786	2693	-3328	6595	1934	0	-2012	2983	3240	-296	632
III	7254	7254	3716	4078	-1305	591	4792	262	-2827	2857	160	0	361	252	2989	-453	-598
IV	8932	8932	6362	4221	-2332	340	6213	-464	-5259	6147	-80	0	-1579	145	3761	-335	4221
2007 I	7475	7475	7946	4231	-1031	-543	5805	1712	169	1281	489	0	-2138	782	6426	-250	-4041
	(monthly)																
2006 Apr	2993	2993	533	-585	-161	223	-647	3437	1175	2079	471	0	-470	1053	455	-85	640
May	3259	3259	6737	-3107	-220	226	-3113	-1702	-2253	453	795	0	-1608	635	1713	-118	-1010
Jun	2691	2691	525	-836	272	-82	-1026	958	-2250	4063	668	0	66	1295	1072	-93	1002
Jul	1487	1487	205	1716	117	324	1275	-682	-1289	267	227	0	-316	71	650	-78	-339
Aug	3909	3909	3264	1616	-543	85	2074	-603	-1615	721	54	0	853	-1176	1105	-202	29
Sep	1858	1858	247	746	-879	182	1443	1547	77	1869	-121	0	-176	1357	1234	-173	-288
Oct	3455	3455	2805	4013	56	492	3465	-4418	-4682	270	-182	0	-813	-800	676	-95	1469
Nov	1383	1383	1924	1093	-294	469	918	-2061	-206	-1080	-63	0	-1574	-841	824	-130	705
Dec	4094	4094	1633	-885	-2094	-621	1830	6015	-371	6957	165	0	808	1786	2261	-110	2047
2007 Jan	1922	1922	5260	3088	284	-1182	3986	-3843	-25	-5014	-496	0	-190	102	-265	-71	-4095
Feb	3102	3102	1560	3043	-743	470	3316	63	200	34	67	0	-1735	498	985	-86	302
Mar	2451	2451	1126	-1900	-572	169	-1497	5492	-6	6261	918	0	-213	182	5706	-93	-248
	(12-month)																
2006 Apr	25009	25009	9861	12759	-307	4371	8695	25227	-955	26452	2545	-1714	-6390	11407	18324	-890	2864
May	26926	26926	16634	8674	-955	4501	5128	23875	-1465	25683	2961	-1264	-7276	11483	19109	-925	1296
Jun	29271	29271	17050	5629	-601	3835	2395	21910	-3203	26386	3481	-928	-7072	9854	19051	-963	2662
Jul	29493	29493	16172	6320	231	3588	2501	19053	-4175	24397	3636	-775	-7140	9046	18225	-1011	2118
Aug	32849	32849	18950	8555	-281	3172	5664	20019	-3499	24652	3380	-661	-4899	7719	18552	-1095	1358
Sep	33394	33394	18459	7645	-1571	2598	6618	21503	-2576	25089	3024	-325	-4728	8127	19096	-1147	754
Oct	36051	36051	21026	11902	-1353	3264	9991	13296	-12095	26120	2381	-325	-4920	8071	19646	-1169	2154
Nov	36388	36388	19837	10524	-1973	2756	9741	11969	-10990	24985	2499	-325	-4782	5487	18879	-1236	4181
Dec	34619	34619	19234	7349	-4053	1939	9463	14150	-10279	26508	2260	0	-5223	5813	18754	-1268	5890
2007 Jan	33626	33626	23767	8368	-3618	292	11694	8240	-8033	17774	2356	0	-5108	6151	13734	-1289	1647
Feb	32050	32050	25022	10200	-4645	563	14282	1130	-9692	12526	2219	0	-5436	5301	11647	-1320	-170
Mar	32604	32604	25819	8002	-4777	755	12024	4203	-11245	16880	2503	0	-5368	4162	16416	-1334	214

Source: CBT.