

**CENTRAL BANK OF THE REPUBLIC OF
TURKEY**

**BALANCE OF PAYMENTS
REPORT**



2008 - II

SUMMARY

In the first quarter of 2008, the negative effect of net imports on growth continued in a more moderate manner. However, in the second quarter, the annual rate of growth of real exports (in quantity) outpaced the annual rate of growth of real imports. Hence, despite the slowdown in the rate of increase of real exports during the said period, the significant decline of real imports and the rapid rise of tourism revenues helped net exports to have a positive contribution to growth. However, the current account deficit continued to widen especially owing to the increase in energy prices.

Data from the TURKSTAT show that exports, which were boosted by 43.1 percent in the first quarter of 2008, maintained its upward trend despite a slowdown and increased by 34.2 percent in the second quarter of the year. The said development was mainly driven by the increases in export prices. As a matter of fact, the quantity index (real exports) increased by 9.1 percent, while the unit value index rose by 23.6 percent in annual terms during this period. However, shuttle trade exports have been showing a poor performance especially since the second half of 2007.

The largest contribution to the increase in exports in the April-June period came from basic metal, motor vehicles and refined petroleum products sectors. The share of the said three sectors in total exports rose to 38.9 percent, contributing 18.4 percent to the increase in total exports. Other sectors that significantly contributed to the increase in exports can be listed as the machinery-equipment, non-metallic minerals and food products and beverages sectors. However, it is worth noting that the increase in exports of food products stemmed from the price increase and the quantity index fell in this period.

Exports of textile and clothing sectors, which have been in a recovery trend since the last quarter of 2006, have lost pace recently. Especially, exports of the clothing sector have been declining in real terms on an annual basis since the last quarter of 2007. The downward trend in the production and employment of the said sectors continues, whereas the imports of the clothing sector increase rapidly.

In the first quarter of 2008, the share of exports to the USA and EU countries declined, whereas the share of exports to petroleum exporting countries and non-EU member European countries as well as East Asia countries increased. The said development is particularly significant in terms of new markets and external demand in a period where a global slowdown is expected. Analyzed by countries, the United Arab Emirates, Russia, Qatar and Saudi Arabia stood as the countries with the most-rapidly increasing share in Turkey's exports in the April-June period.

In the April-June 2008 period, the nominal increase of imports was markedly determined by the price increase. As a matter of fact, US dollar-denominated imports and import prices rose by 34.5 percent and 28.5 percent, respectively, whereas the quantity increase remained at 4.5 percent in this period. The large share of imports of intermediate goods made it the main determinant of the rise in imports in the April-June period. Meanwhile, "real" imports of intermediate and capital goods declined considerably. However, real imports of consumer goods have been increasing rapidly since the third quarter of last year.

Analyzed by sectors, it is seen that the highest contributors to the increase in imports were crude oil, natural gas and refined petroleum products prices driven by price increases in the second quarter of the year. Basic metals sector, another sector with high price increases, and the "waste and scrap" sector that provides input to this sector also contributed to the increase in total imports. Other sectors that have relatively high contributions to the rise in imports can be listed as the chemicals and chemical products, motor vehicles and agricultural and livestock farming sectors.

Tourism revenues, which declined in 2006 and reassumed an upward trend by 2007, maintained this trend in the first half of 2008 and made a positive contribution to the services account. However, income account deficit widened during this period, owing to the income transfers from direct investments and interest expenditures.

In the first half of 2008, external financing requirement, defined as the sum of current account plus net errors and omissions items, was equivalent to USD 31.2 billion. Excluding reserve changes and IMF loans, the net capital inflow reached USD 35.1 billion in this period. The financing during this period was mainly composed of direct investments and long-term loans drawn by private sector.

Direct investment inflows, which reached historically high levels in 2007, decelerated in the first half of 2008 and stood at USD 5.9 billion. As for portfolio investments, foreign investors purchased USD 2.8 billion worth of equity securities and net USD –0.4 billion worth of government domestic borrowing securities in the first half of the year. In this period, the Treasury issued USD 2.5 billion worth of bonds abroad and repaid USD 2.9 billion.

There has been a remarkable increase in the long-term credit utilization in recent years, particularly in the private sector. With an increased share in total financing, long-term credits constitute 51.3 percent of capital inflows of the first half of 2008. Besides, short-term capital inflows also increased significantly in the second quarter of 2008.

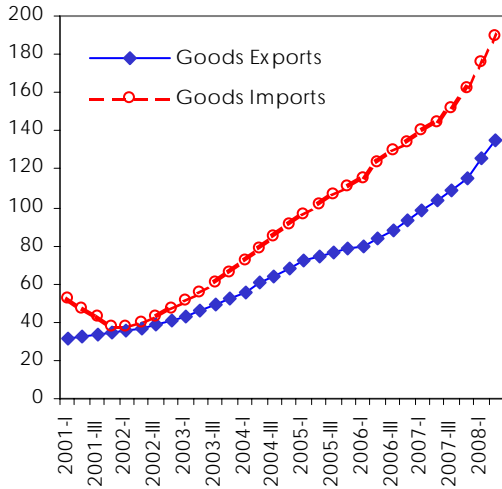
Against this background, the CBT net reserves rose from USD 76.4 billion at end-2007 to USD 79.4 billion by June 2008, while the commercial-bank FX assets with foreign correspondent banks increased from USD 31.8 billion to USD 38.4 billion in the same period.

Balance of Payments
(billion US dollars)

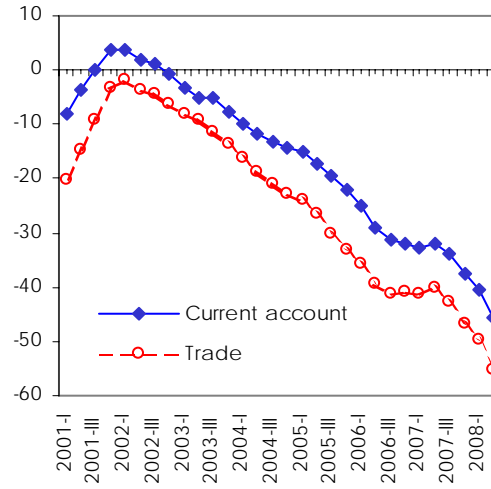
	Jan-June			June (12-month)		
	2007	2008	% change	2007	2008	% change
Current Account	-19.3	-27.3	..	-31.9	-45.8	..
Goods	-20.4	-28.8	..	-40.3	-55.1	..
Exports	53.6	72.9	36.0	104.2	134.7	29.3
Exports (fob)	49.6	68.8	38.7	95.2	126.5	32.8
Shuttle trade	3.0	2.9	-5.8	7.1	5.8	-17.4
Imports	-74.0	-101.7	37.5	-144.4	-189.7	31.4
Imports (cif)	-77.3	-105.8	36.9	-150.6	-198.6	31.8
Coverage adjustment	4.2	5.6	..	7.9	11.4	..
Services	3.9	4.9	..	13.5	14.9	..
Tourism (net)	4.3	5.7	31.1	14.0	16.6	18.0
Credit	5.9	7.5	26.8	17.0	20.1	17.7
Debit	-1.6	-1.8	15.0	-3.0	-3.5	16.5
Other services revenues (net)	-0.4	-0.7	..	-0.5	-1.7	..
Income	-3.6	-4.4	..	-7.2	-7.9	..
Wage Payments	-0.1	-0.1	..	-0.1	-0.1	0.0
Direct investment income (net)	-1.0	-1.8	..	-1.5	-2.8	..
Portfolio investment income (net)	-0.2	0.4	..	-0.4	0.9	..
Other investment income (net)	-2.3	-2.9	..	-5.1	-5.9	..
Interest income	1.1	1.1	4.8	1.9	2.2	15.1
Interest expenditure	-3.4	-4.0	18.6	-7.0	-8.1	15.7
Current transfers	0.8	0.9	..	2.0	2.3	..
Workers remittances	0.5	0.7	45.9	1.1	1.4	33.7
Capital and financial account	15.5	31.2	..	31.4	52.3	..
Financial account (excl. reserve assets)	22.4	31.6	..	40.3	53.8	..
Direct investment (net)	11.0	5.9	..	20.8	15.0	..
Abroad	-1.6	-1.7	..	-2.5	-2.3	..
In Turkey	12.5	7.6	..	23.3	17.3	..
Portfolio investment (net)	6.0	1.6	..	14.3	-3.6	..
Assets	-1.1	-0.3	..	-4.7	-1.4	..
Liabilities	7.0	2.0	..	19.0	-2.3	..
Equity securities	2.6	2.8	..	3.5	5.3	..
Debt securities	4.4	-0.8	..	15.4	-7.6	..
Non-residents' buyings in Turkey	2.1	-0.4	..	11.4	-5.8	..
Eurobond issues of Treasury	2.4	-0.4	..	4.0	-1.8	..
Borrowing	3.4	2.5	..	6.8	3.8	..
Repayment	-1.0	-2.9	..	-2.8	-5.6	..
Other investments (net)	5.4	24.1	..	5.2	42.4	..
Assets	-7.4	-7.2	..	-16.8	-4.7	..
Trade credits	-0.6	-1.1	..	-1.6	-1.9	..
Credits	-0.1	0.0	..	-0.5	0.2	..
Banks FX assets (- increase)	-6.6	-6.2	..	-14.7	-3.1	..
Liabilities	12.8	31.3	..	22.1	47.1	..
Trade credits	2.1	4.6	..	2.0	6.7	..
Credits	14.5	23.1	..	20.8	35.9	..
Central Bank	0.0	0.0	..	0.0	0.0	..
General Government	-2.5	1.8	..	-3.8	0.4	..
IMF	-2.2	2.7	..	-3.1	0.9	..
Long-term	-0.3	-0.9	..	-0.6	-0.5	..
Banks	4.2	3.8	..	4.6	5.2	..
Long-term	4.8	2.5	..	10.0	5.0	..
Short-term	-0.6	1.3	..	-5.4	0.2	..
Other sectors	12.9	17.6	..	20.0	30.4	..
Long-term	12.3	16.8	..	19.1	29.9	..
Short-term	0.5	0.8	..	0.9	0.5	..
Deposits of non-residents	-4.0	3.4	..	-1.1	4.1	..
In CBT	-0.5	-0.7	..	-1.3	-1.6	..
In banks	-3.4	4.1	..	0.2	5.6	..
Change in official reserves (- increase)	-6.9	-0.4	..	-8.9	-1.5	..
Net errors and omissions	3.8	-3.9	..	0.5	-6.5	..

Source: CBT.

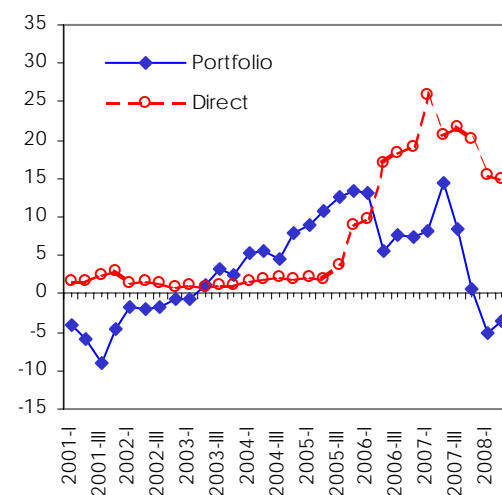
Goods Exports and Imports
(12-month ave., billion US dollars)



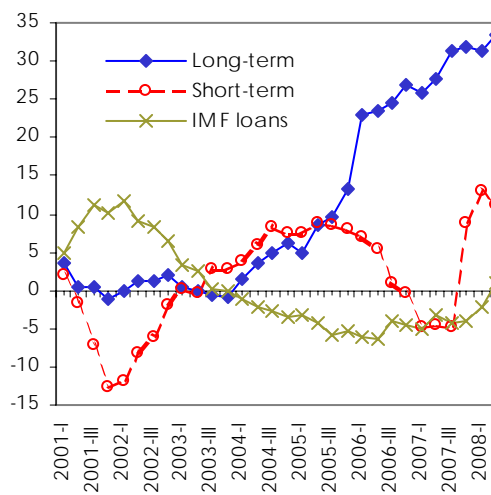
Trade and Current Account
(12-month ave., billion US dollars)



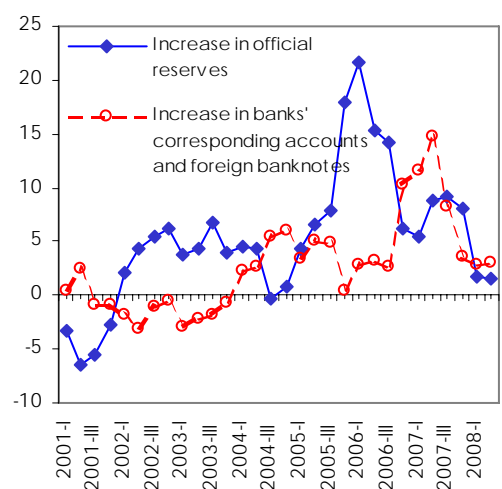
Direct and Portfolio Investments
(12-month ave., billion US dollars)



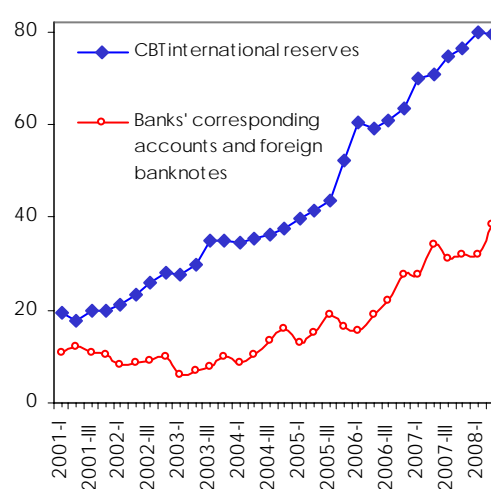
Other Capital Flows
(12-month ave., billion US dollars)



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



International Reserves
(billion US dollars)



Source: CBRT, TÜRKSTAT.

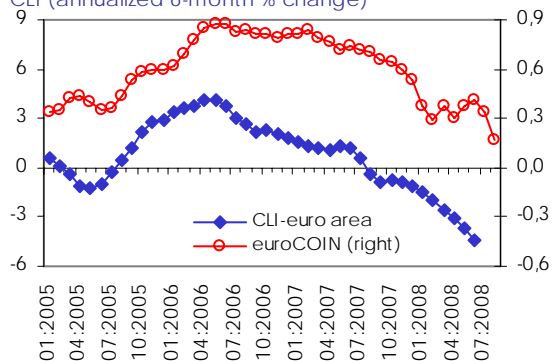
I. EXTERNAL ECONOMIC DEVELOPMENTS

1. While inflation has increased in developed and developing countries, demand has declined since the second half of 2007. High-rated increases in international commodity prices, especially in crude oil and agricultural products, intensify inflationary pressures. In view of price stability and employment, Fed has made significant interest rate cuts since September 2007. However, recently, there are views that intensified inflationary pressures may compel the Fed to raise interest rates during the rest of 2008. In the meantime, believing that the risks to price stability have increased in recent months, the European Central Bank (ECB) raised interest rates in July 2008 within the framework of its inflation targeting policy. While the Bank of Japan kept interest rates unchanged, the Bank of England, following moderate rate cuts in early 2008, has not changed interest rates since April 2008 either.

Euro Area Leading Indicators:

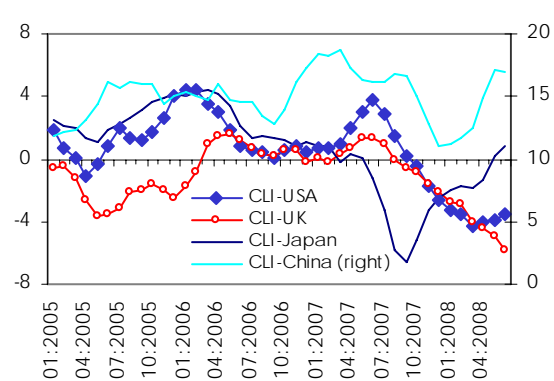
€COIN (3-month % change),

CLI (annualized 6-month % change)



Selected Countries Leading Indicators:

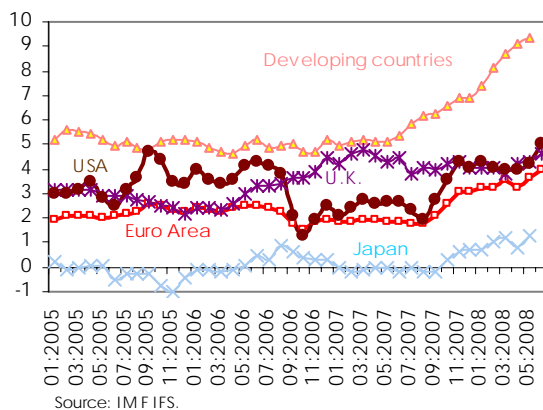
CLI (annualized 6-month % change)



CLI: Composite Leading Indicator
EuroCOIN: Coincident Indicator of the Euro Area Business Cycle

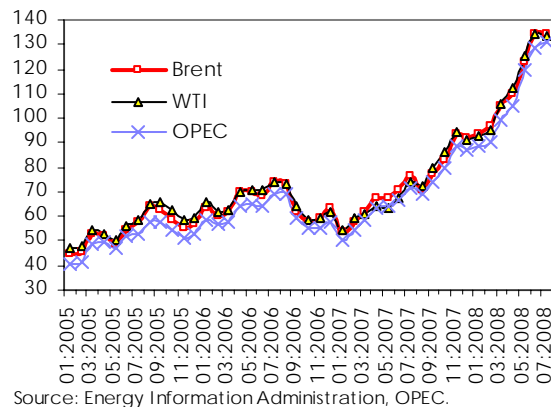
Inflation Rate:

CPI, (annual % change)



Crude Oil Prices:

(US dollars, monthly average)



2. In the second quarter of 2008, the US economy grew by 3.3 percent in annualized terms. The growth rate, which was announced as 1.9 percent at first, was revised upwards following the positive contribution of net exports, higher-than-expected consumption expenditures and lower-than-expected decline in housing investments. In addition, the increase in the industrial production index in July, the slight rise in the consumer confidence index and the results of the Fed New York's survey that reveal an improvement in working conditions in August have turned the economic outlook of the US into positive. However, the euro/dollar parity, which had reached the highest level of the year on July 16, hit the lowest level of the last six-month period in mid-August, parallel to the fall in oil prices in August. Against this background, the expected rate of 2008 growth in the US economy, which was 1.3 percent in the May 2008 survey of the Consensus Economics, rose to 1.6 percent in the August survey, but still

remained below the 2-percent growth of 2007. Nevertheless, the survey suggests that the annual average inflation rate in consumer prices, which was 2.9 percent in 2007, will rise to 4.5 percent at end-2008, the highest level of the last 17 years. The unemployment rate, which was 4.4 percent in March 2006, climbed to 5.7 percent in July 2008. Coupled with the probability of contraction, the concerns, which resulted from the problems in sub-prime mortgage loans and intensified in August 2007, besides the upsurge in oil prices prompted the Fed to cut the benchmark federal funds rate twice in January 2008 by 75 and 50 basis points, by 75 basis points in March and 25 basis points in April, bringing down the benchmark federal funds rate to 2 percent. The Fed has not introduced any change to policy rates since April.

3. Euro-zone economy contracted by 0.2 percent in quarterly basis in the second quarter of 2008. The first recession in the euro-zone has been observed in the above-mentioned period since early 1990's. Growth in the euro-zone, which was 2.9 percent in 2006 and 2.6 percent in 2007, is expected to lose pace and stand at 1.5 percent in 2008 (Consensus Economics). The decline in the growth of the euro-zone in the last quarter of 2007 was triggered by the weakened competitiveness due to the strong euro and also by the negative impacts of credit squeeze. Indicators such as the OECD's composite leading indicators index (CLI) and the euroCOIN suggest that the slowdown in the euro-zone will also continue in the upcoming period. The consumer prices inflation in the euro-zone, which had been fluctuating around 2 percent in recent years, started to increase in the last quarter of 2007 due to the rise in commodity prices – particularly in crude oil and food prices – and reached 4 percent by July 2008. On the other hand, moderate course of wages and economic growth boosted employment and labor force participation rate, hence the euro-zone unemployment rate fell to 7.3 percent in 2008, the lowest level of the last 25 years. The ECB increased the policy rates by 0.25 basis points, which have been standing at 4 percent since June 2007, at the meeting held on 3 July 2008 based on the emerging risks to distort price stability in the medium-term. Despite the slowdown in economy, the ECB, the main goal of which is to maintain price stability, kept the policy rates unchanged at the level of 4.25 percent at the meeting held in August, pointing to the increase in the upward risks in inflation.

4. Economic activity in Japan has slowed down significantly in recent months. The Japanese economy, mainly based on domestic demand, contracted by 2.4 percent and by 0.6 percent in the second quarter of 2008 on annual and quarterly bases respectively. In addition to this, consumer confidence index recorded its lowest level in July. The report issued by the Cabinet Office in August points that exports and industrial production are weakening and employment conditions are gradually deteriorating. The report highlights that the continual downward risks based on the developments in the US economy, the stock exchange market and oil prices should be carefully monitored. Meanwhile, the appreciation of the Japanese yen since mid-2007 stands as a risk factor for the exports performance of Japan. Owing to the increase in the USD/yen parity in the midst of August, the stock market experienced a significant rise. Consumer prices in Japan picked up starting from the last quarter of 2007, due to the rise in import prices of raw material and increased by 2 percent in June, the highest level of the last 10 years. The Bank of Japan (BoJ) kept the benchmark interest rates unchanged at the level of 0.5 percent at the meeting held in August 2008.

5. China's economy has grown above 10 percent for the last five successive years. The growth rate stood at 11.9 percent in 2007. China's economy grew by 10.6 and 10.1 percent in the first and second quarters of 2008, respectively. However, the PMI index, measuring the level of activity in the manufacturing industry, displayed a sharp decline in July. While it is observed that the sub-items of the PMI index, decrease in manufacturing and new orders are influential in this, it is also considered that suspension of production by some plants in order to alleviate the environment pollution in advance of the Olympic games may have played a role in the decrease in the index. Consumer prices inflation in China exceeded the 3 percent target and became 6.5 percent in 2007, and 7.1 percent in June 2008. Additionally, with a view to mopping up the excessive liquidity and containing inflation, the Chinese Central Bank raised the required reserve ratio by 100 basis points for the fifth time since beginning 2008 and declared it as 17.5 percent, at the meeting held on 25 June 2008.

II. CURRENT ACCOUNT

6. The widening of the current account deficit persisted in the second quarter of 2008 as well. The current account deficit, which was USD 37.7 billion at end-2007, reached USD 45.8 billion on an annual basis as of June.

7. In this period, export growth in quantity exceeded import growth. Net exports continued to have a negative impact on growth in the first quarter of 2008, diminished though. As for the second quarter of the year, due to the slowdown in imports coupled with the high increase in tourism revenues, net exports contributed positively to growth. Nevertheless, the high-rated export growth and the rebound in tourism revenues could not offset the expansion of the current account deficit as the annual export price growth were surpassed by import prices, which was mainly resulted from the rises in energy prices.

8. The recovery in readings on the current account deficit and the financing structure turned negative in the first quarter of 2008. While the exports' coverage ratio of short-term external debt stock decreased, that of foreign debt service continued to improve. However, the ratios relating to the Central Bank reserves displayed a notable decline. Despite the fact that the relative contraction in foreign financing facilities as of the second half of 2007 restricted reserve increase, financing requirement continued to increase, thus resulting in a general decline in the indicators based on the Central Bank reserves.

Selected Indicators Related to the Current Account Deficit and Financing Structure

	2000	2001	2002	2003	2004	2005	2006	2007	2008*
Exports / Imports	0.58	0.91	0.86	0.80	0.75	0.70	0.70	0.71	0.71
Exports / Short-Term External Debt	1.09	2.12	2.48	2.28	2.15	2.11	2.32	2.76	2.55
Exports / External Debt Service	1.41	1.41	1.41	1.88	2.25	2.14	2.35	2.37	2.75
Tourism Revenues** / Trade Balance	0.35	2.41	1.33	0.72	0.53	0.42	0.31	0.30	0.28
CBT Reserves / Short-Term External Debt	0.82	1.21	1.71	1.53	1.18	1.41	1.57	1.83	1.50
CBT Reserves*** / Total External Debt***									
CBT Reserves / Financing Requirement	1.84	-	20.02	11.36	2.81	2.58	1.97	2.09	1.52
CBT Reserves / Current Account Balance	2.34	-	44.87	4.68	2.61	2.37	1.98	2.03	1.73
CBT Reserves / Imports	0.44	0.52	0.60	0.53	0.41	0.47	0.47	0.47	0.42

Source: CBRT, TURKSTAT.

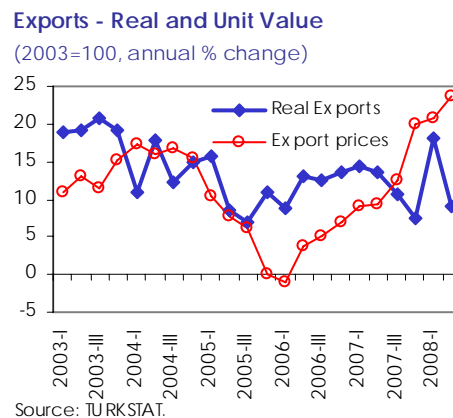
* In annual terms as of June.

** Tourism revenues from foreigners.

*** As of March.

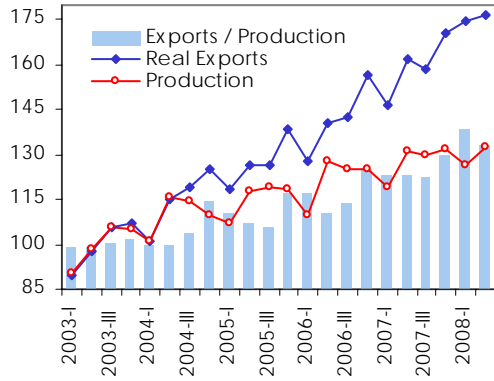
Exports of Goods

9. According to TURKSTAT statistics, exports, which grew by 43.1 percent in the first quarter of 2008, though pointing to a slowdown, sustained its high-rated growth and grew by 34.2 percent in the second quarter of the year. The contribution of price movements to this increase was realized above real export growth. In fact, while quantity index (real exports) rose by 9.1 percent, export unit index boosted by 23.6 percent in this period. Exports through shuttle trade has recorded a weak performance particularly since the second half of 2007.



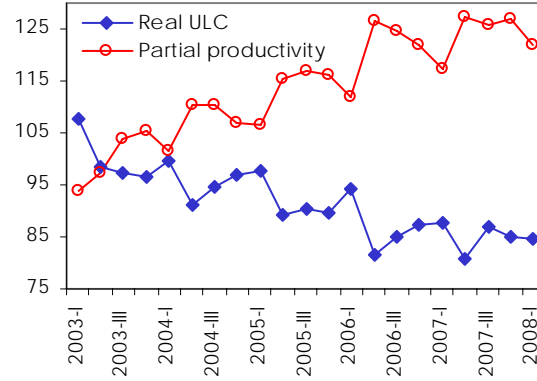
10. Productivity gains, which have also been supported by investment expenditures since 2002, played a significant role in the decline of real unit labor costs, thus contributing to the rapid export growth.

Production and Exports in Manufacturing Industry (2003=100)



Source: TURKSTAT.

Real ULC and Productivity Indices (2003=100)



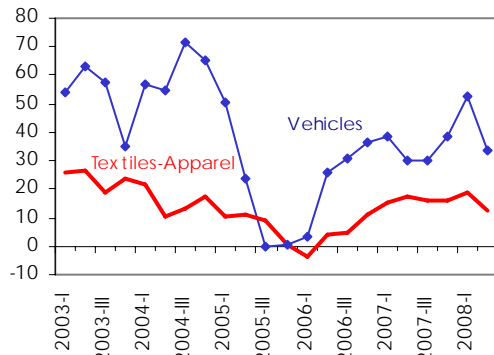
Source: CBT, TURKSTAT.

11. In the April-June period, the largest contribution to export growth was attributable to basic metals, motor vehicles and refined oil products. While the three sectors in question accounted for 38.9 percent of total export, their contribution to overall export growth was realized as 18.4 percentage points. Besides, machinery-equipment, non-metallic minerals, food products and beverages were other sectors that played significant role in export growth. Nevertheless, it is highlighted that the export growth in food products stem from price increases; while the quantity index pointed to a decline in this period.

12. Exports of textiles and clothing that have started to recover as of the last quarter of 2006 slowed down recently. Especially exports of the clothing sector have dropped annually in real terms since the last quarter of 2007. The downward trend in production and employment of these sectors still persist, thus leading to a rapid increase in the clothing sector's need for imports. Countries such as China and India increased their global market shares in textile and clothing exports. This development still has a negative impact on the performances of these sectors in Turkey.

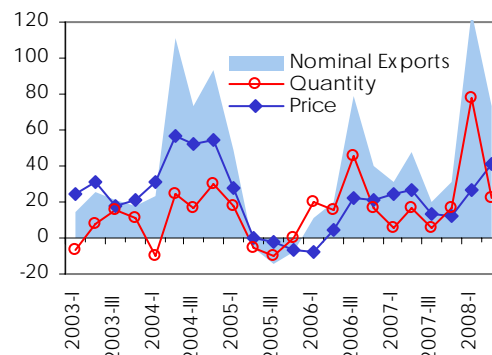
13. Strong performance of motor vehicle exports from the second quarter of 2006 onwards was mainly driven by shrinking domestic demand and the ongoing productivity gains accompanied with the production of new models. Meanwhile, production increases and price increases realized at global level were the key drivers of rapid growth in basic metals industry. In the April-June period, the export quantity of the sector and export prices increased by 22.7 and 41.3 percent, respectively. Hence, nominal exports of the sector grew by 73.3 percent.

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



Source: TURKSTAT.

Basic Metal Industry Exports (Annual percentage change)



Source: TURKSTAT.

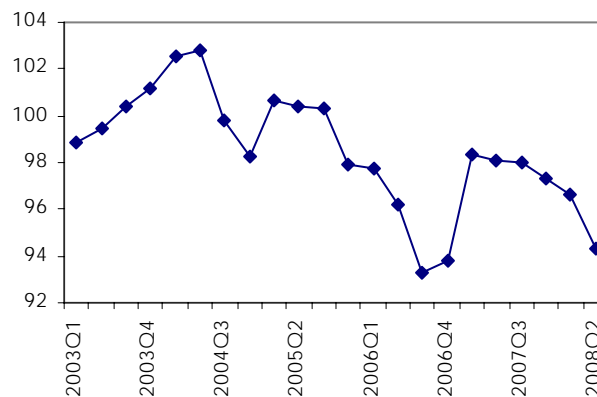
Exports

(million US dollars)

	<i>As of April-June period</i>									
			<u>Change</u>	<u>Contribution</u>		<u>Export share</u>		<u>Indices (% change)</u>		
	2007	2008	%	%	\$	2007	2008	price	quantity	
Total	26436	35648	34.8					23.6	9.1	
Capital Goods	3405	4984	46.4	6.0	1579	12.9	14.0	16.9	25.3	
Intermediate Goods	12454	18187	46.0	21.7	5733	47.1	51.0	27.8	14.2	
Consumption Goods	10468	12366	18.1	7.2	1898	39.6	34.7	20.8	-2.2	
Other	109	111	1.6	0.0	2	0.4	0.3	-	-	
Selected Items (ISIC Rev.3):										
Agriculture and farming of animals	688	837	21.8	0.6	150	2.6	2.3	20.4	1.2	
Food products and beverages	1063	1474	38.7	1.6	411	4.0	4.1	44.3	-3.9	
Textiles	2535	2876	13.5	1.3	341	9.6	8.1	12.2	1.1	
Wearing apparel	3012	3027	0.5	0.1	15	11.4	8.5	19.3	-15.7	
Petroleum products and nuclear fuel	1154	2049	77.6	3.4	895	4.4	5.7	60.1	10.9	
Chemicals and chemical products	1018	1375	35.0	1.3	357	3.9	3.9	18.8	13.6	
Rubber and plastic products	977	1262	29.2	1.1	285	3.7	3.5	17.3	10.0	
Other non-metallic minerals	853	1347	57.9	1.9	494	3.2	3.8	20.7	29.8	
Manufacture of basic metals	3372	5844	73.3	9.3	2471	12.8	16.4	41.3	22.7	
Man. of fabricated metal prod (exc mach.)	1059	1557	47.0	1.9	498	4.0	4.4	21.1	21.3	
Manufacture of machinery and equipment	2052	2748	33.9	2.6	695	7.8	7.7	17.5	14.5	
Electrical machinery and apparatus	1005	1328	32.2	1.2	323	3.8	3.7	18.0	11.9	
Communication and apparatus	553	558	0.9	0.0	5	2.1	1.6	17.7	-14.3	
Motor vehicles and trailers	4488	5985	33.4	5.7	1497	17.0	16.8	14.3	16.8	
Other transport	586	873	48.8	1.1	286	2.2	2.4	-	-	

Source: TURKSTAT.

14. In line with the price increases observed in basic inputs at global level, both export and import prices showed substantial increases in the April-June period. The 28.5 percent and 23.6 percent rises in import and export prices, respectively, led to the realization of terms of trade in the said period, once more, in favor of imports.

Terms of Trade (2003=100)

Source: TURKSTAT.

15. The upward trend in global food prices in the second quarter of 2008 was also reflected in the export prices. Hence, export prices of agricultural and livestock products as well as those of food and beverages rose considerably. Moreover, export prices of basic metals, metal products, non-metallic minerals, machinery-equipment, electrical machinery and apparatus and clothing showed sharp increases. Besides, due to the record-high level of energy prices in this period, export prices of refined oil and coke coal rose by an annualized rate of 60.1 percent.

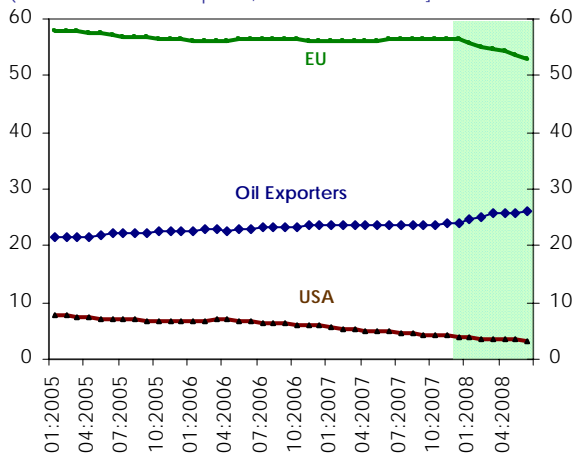
16. Boosted by the increases in basic metal and motor vehicles sectors, the rise in the export quantity index, which slowed down in the second half of 2007, re-gained pace in the first quarter of 2008 and real exports rose by an average of 18.1 percent. Growth rates of quantity indices fell in the second quarter of the year, as total exports quantity index rose by 9.1 percent. Analyzing by item, the sharpest decline was observed in the basic metal sector. This development was attributed to the gold exports in the first quarter of 2008 and the 22.7 percent increase observed in the sector's quantity of exports in the second quarter was still found remarkable. The growth in the quantity index of motor vehicles, which was 34.6 percent in the first quarter of 2008, fell to 16.8 percent in the second quarter. Other sectors whose quantity indices declined compared to the first quarter of 2008 are clothing, refined petroleum products and furniture sectors.

17. Geographical proximity to the EU, top trade partner, and the appreciation of euro against US dollar contributed to the increase in exports remarkably. The economic slowdown at the global level curbed the import demand by the afore-mentioned countries and therefore, had a negative impact on the exports to these countries. The share of exports to the USA also decreased. Meanwhile, the share of exports to petroleum exporting countries and non-EU European countries and Eastern Asian countries rose. This development in the country decomposition is important for the continuation of exports performance in a period where a global slowdown is anticipated. Despite a moderate slowdown, total exports are expected to keep their high performance in the upcoming period due to the domination of new markets. An analysis on country basis demonstrates that the United Arab Emirates, Russia, Qatar and Saudi Arabia made up the highest share-rise in exports from Turkey in the April-June period.

18. As to the currency composition of exports, the share of the US dollar remained at high levels while that of euro increased against the sterling in the April-June period in line with the developments in country groups. Meanwhile, parity changes also had a significant effect on the nominal value of both exports and imports. At the exchange rate held constant at December 2007, changes in euro/dollar parity increased the US dollar value of exports and imports by USD 1.1 billion and USD 1.2 billion, respectively, in the second quarter of 2008. Hence, parity changes widened the trade deficit by USD 0.1 billion in the said period. The high-parity effect stemmed mainly from the euro/dollar rate, which increased to 1.56 percent in the April-June period from 1.46 percent in December 2007, and the appreciation of other currencies against the US dollar.

Selected Countries' Shares in Exports

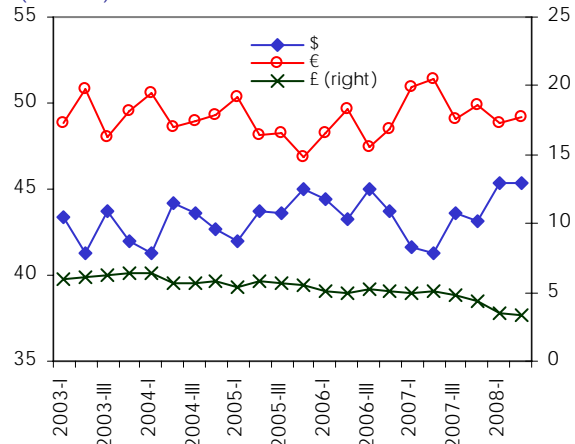
(% share in total exports, annualized data)



Source: TURKSTAT.

Currency Decomposition of Exports

(% share)



Source: TURKSTAT.

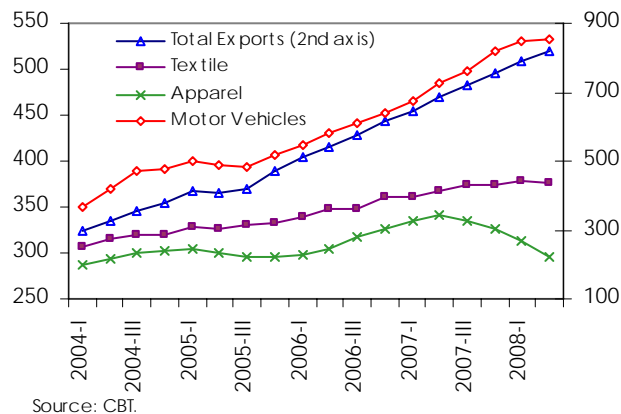
Exports – Country Decomposition (million US dollars)

	<i>As of April-June period</i>							
	2007		2008		%	Contribution		
	Value	Share (%)	Value	Share (%)		Change	%	
Total	26436	..	35644	..	34.8	
EU countries (27)	15026	56.8	17899	50.2	19.1	10.9	2872	
Other countries	10656	40.3	16891	47.4	58.5	23.6	6234	
Other European	2587	9.8	3885	10.9	50.2	4.9	1298	
East Asian	1289	4.9	1932	5.4	49.9	2.4	643	
Other	9368	35.4	11073	31.1	18.2	6.5	1706	
Free Zones in Turkey	753	2.8	855	2.4	13.5	0.4	101	
<i>Selected countries and country groups:</i>								
OECD	16,389	62.0	19,026	53.4	16.1	10.0	2637	
Germany	2,904	11.0	3,518	9.9	21.1	2.3	614	
UK	2,080	7.9	2,279	6.4	9.6	0.8	199	
Italy	1,902	7.2	2,398	6.7	26.1	1.9	496	
France	1,484	5.6	1,867	5.2	25.8	1.4	383	
Spain	1,233	4.7	1,217	3.4	-1.3	-0.1	-16	
USA	1,139	4.3	987	2.8	-13.3	-0.6	-152	
Netherlands	732	2.8	839	2.4	14.5	0.4	106	
Greece	583	2.2	704	2.0	20.8	0.5	121	
Other OECD	4,915	18.6	5,218	14.6	6.2	1.1	303	
Middle East countries	3,470	13.1	6,887	19.3	98.4	12.9	3416	
UAE	696	2.6	2,379	6.7	242.0	6.4	1683	
Iraq	661	2.5	861	2.4	30.2	0.8	200	
S.Arabia	326	1.2	611	1.7	87.7	1.1	286	
Qatar	139	0.5	428	1.2	208.7	1.1	289	
Iran	299	1.1	521	1.5	74.1	0.8	222	
Russian Fed.	1,181	4.5	1,868	5.2	58.1	2.6	686	
Romania	922	3.5	1,123	3.2	21.8	0.8	201	
Bulgaria	524	2.0	634	1.8	21.0	0.4	110	
China	263	1.0	458	1.3	73.8	0.7	194	

Source: TURKSTAT.

19. Seasonally adjusted data supports the strong performance of exports. In the second quarter of 2008, seasonally adjusted real exports increased by 2.2 percent compared to the previous quarter. During this period, seasonally adjusted real exports of motor vehicles, a leading export industry, increased by 0.9 percent, while textile and clothing exports decreased by 0.8 percent and 5.3 percent, respectively, compared to the previous quarter.

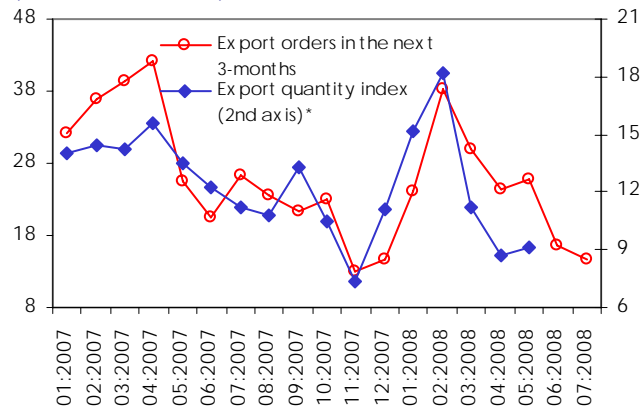
Seasonally Adjusted Exports and Sub-Sectors
(2003=100)



20. The “Expected orders over the next quarter”, which is included in the CBT Business Tendency Survey (BTS) and declined slightly in July, suggests that real exports will continue to increase, albeit a slowdown in the third quarter of the year.

Export Expectations- Next 3 months

(increase - decrease)



Source: CBT, TURKSTAT.

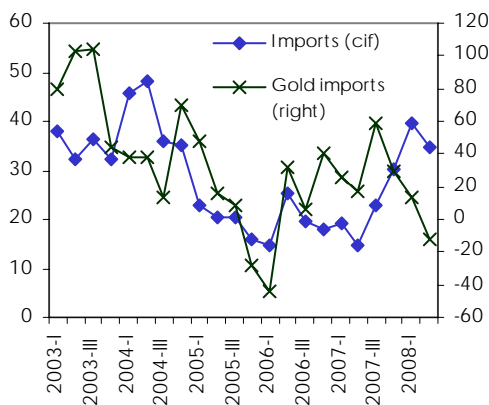
* % change in the 3-month moving averages. The graph of export quantity index is moved one-month backward.

Imports of Goods

21. The upsurge in nominal imports was mainly driven by the increase in prices in the April-June 2008 period. As a matter of fact, during this period, imports in US dollar and import prices increased by 34.5 percent and 28.5 percent, respectively, while the increase in quantity stayed at 4.5 percent.

Imports

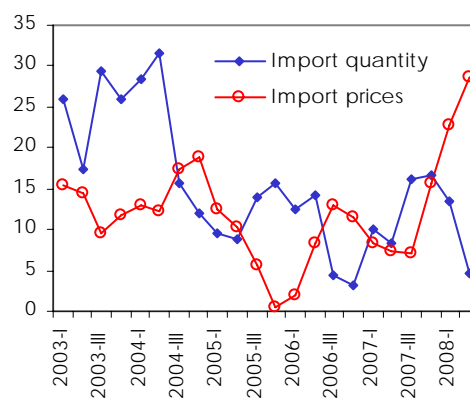
(Billion US dollars, annual % change)



Source: CBT, TURKSTAT.

Imports - Real and Unit Value

(2003=100, annual % change)

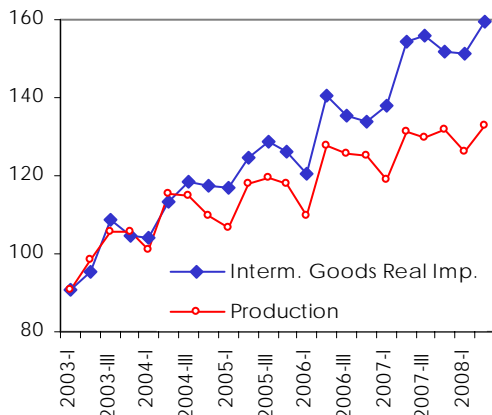


Source: TURKSTAT.

22. In the April-June period, imports of intermediate goods became the main determinant of import growth due to its large share. Besides, soaring oil prices in record levels in the same period accelerated energy imports and made a significant contribution to the import of intermediate goods.

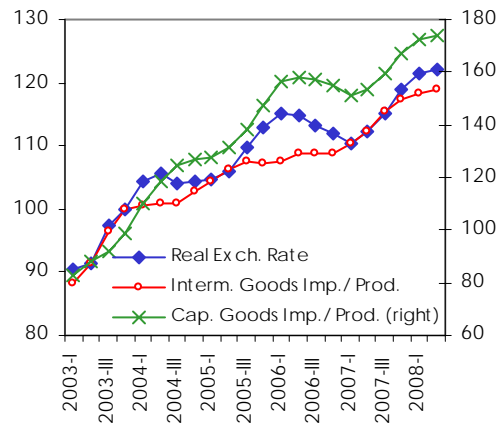
23. Meanwhile, real imports of intermediate and capital goods slowed down remarkably in this period. The annual growth in real imports of intermediate and capital goods, which was 9.7 percent and 23.7 percent, respectively in the first quarter of 2008, fell to 3.2 percent and 4.2 percent, respectively, in the second quarter. Yet, real imports of consumption goods rose by 17.7 percent in the same period and maintained their upward trend that has been observed since the third quarter of 2007.

Man. Ind. Prod. & Int. Goods Imports (2003=100)



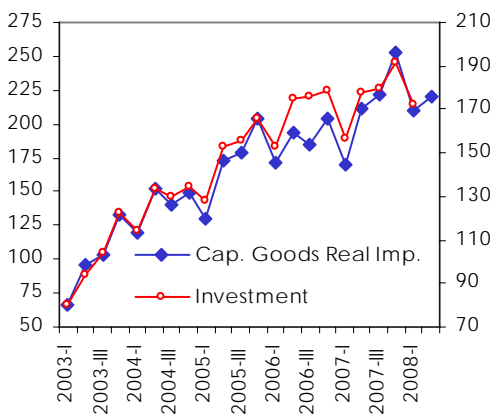
Source: TÜRKSTAT.

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



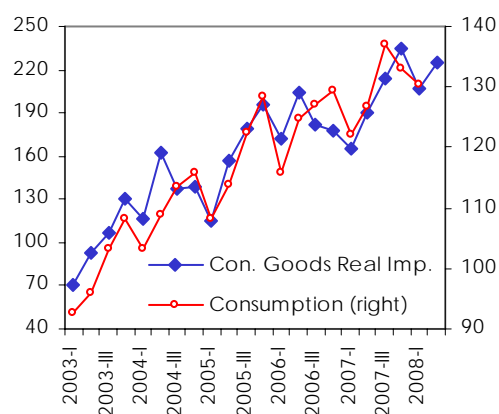
Source: TÜRKSTAT, CBT.

Investment Expenditures & Capital Goods Imp. (2003=100)



Source: TÜRKSTAT.

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



Source: TÜRKSTAT.

24. An item-by-item analysis reveals that the highest contributors to increase in imports in the first quarter of the year were the price increases in crude oil, natural gas and refined petroleum products. Basic metals sector, a sector with high price increases, and "wastes and scrap" sector that provides input to this sector contributed to the increase in total imports as well. The other items contributing relatively highly to the increase in imports were chemicals and chemical products, motor vehicles, and agriculture and livestock sectors.

25. Imports of automobiles, increasing since mid-2007 with the contribution of the developments in exchange rates and domestic demand, and low base effect, were up 31.9 percent in the second quarter of 2008. 12.2 percentage points and 19.7 percentage points of the said increase came from the rise in quantity and prices, respectively. Meanwhile, imports of durables, semi-durables and non-durables continue to grow steadily.

26. Imports of industrial transport vehicles and equipment have begun to recover since the last quarter of 2007 and with the low basis effect, grew by 63 percent in the April-June period. Imports of parts and supplies of transport vehicles increased by 28 percent in the same period in line with the robust growth of automobile exports. The said increase was chiefly quantity-oriented.

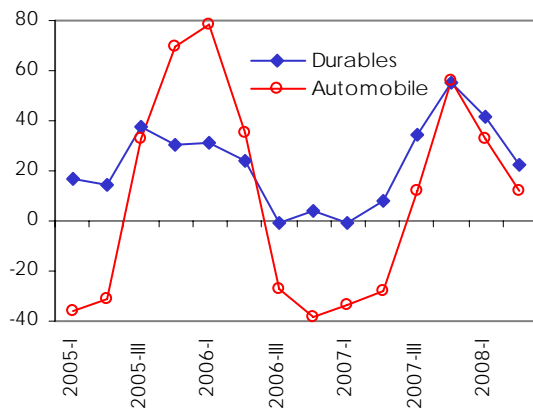
Imports (million US dollars)

As of April-June period

			Change			Contribution		Import share		Indices (% change)	
	2007	2008	%	%	\$	2007	2008	price	quantity		
Total	42120	56653	34.5								
Capital Goods	6558	7332	11.8	1.8	774	15.6	12.9	7.3	4.2		
Intermediate Goods	30950	43283	39.8	29.3	12333	73.5	76.4	35.5	3.2		
Consumption Goods	4370	5894	34.9	3.6	1523	10.4	10.4	14.6	17.7		
Other	242	144	-40.6	-0.2	-98	0.6	0.3	-	-		
Selected Items (ISIC Rev.3):											
Mining and Quarrying	5859	9512	62.3	8.7	3652	13.9	16.8	64.2	-1.3		
Crude oil and natural gas	4978	8406	68.8	8.1	3427	11.8	14.8	66.1	1.6		
Textiles	1359	1355	-0.3	0.0	-4	3.2	2.4	8.2	-7.9		
Paper and paper products	720	801	11.3	0.2	81	1.7	1.4	13.4	-1.9		
Coke, petroleum products and nuclear fuel	2110	4197	98.9	5.0	2086	5.0	7.4	64.0	21.3		
Chemicals and chemical products	6069	7501	23.6	3.4	1432	14.4	13.2	19.5	3.2		
Rubber and plastic products	791	982	24.1	0.5	191	1.9	1.7	15.6	7.4		
Manufacture of basic metals	5942	7454	25.5	3.6	1512	14.1	13.2	28.7	-2.5		
Man. of fabricated metal prod (exc mach.)	704	998	41.8	0.7	294	1.7	1.8	16.2	21.8		
Manufacture of machinery and equipment	4469	4845	8.4	0.9	376	10.6	8.6	14.1	-5.2		
Electrical machinery and apparatus	1510	1941	28.6	1.0	431	3.6	3.4	11.0	15.8		
Communication and apparatus	1391	1341	-3.6	-0.1	-49	3.3	2.4	1.1	-4.6		
Medical, precision and opt. instr., watches	839	1065	26.9	0.5	226	2.0	1.9	3.4	22.5		
Motor vehicles and trailers	3627	4698	29.5	2.5	1070	8.6	8.3	12.2	15.4		
Other transport	411	691	68.1	0.7	280	1.0	1.2	-	-		
Waste and scrap (Wholesale and retail)	1682	3317	97.2	3.9	1635	4.0	5.9	64.7	19.7		

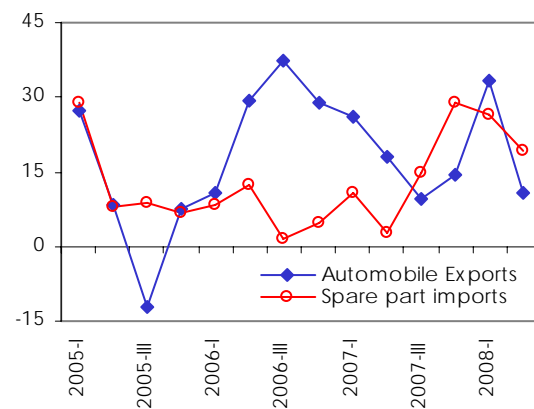
Source: TURKSTAT.

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



Source: TURKSTAT.

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

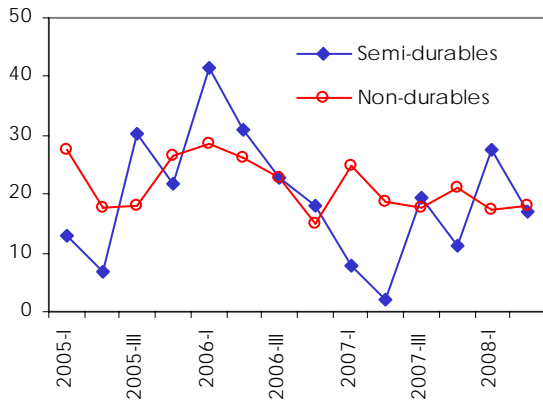


Source: TURKSTAT.

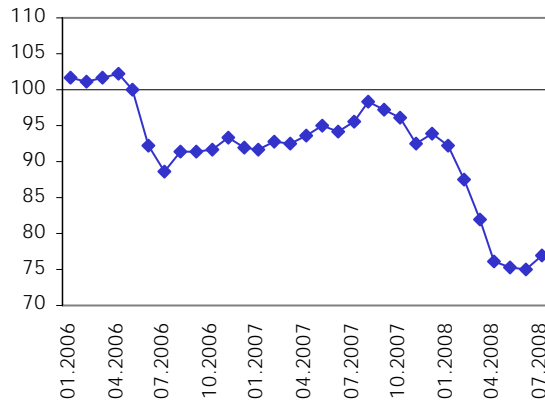
27. Consumer confidence index released by the CBT/TURKSTAT suggests a decline in private consumption since the last quarter of 2007. The index displayed a limited increase in July 2008 but is still considerably below the level of 100. This suggests that the acceleration in the imports of consumption goods is mostly due to relative price developments and seasonality, rather than the recovery in domestic demand (see paragraph 34).

Semi and non-durables Imports

(2003=100, annual % change)



Source: TURKSTAT.

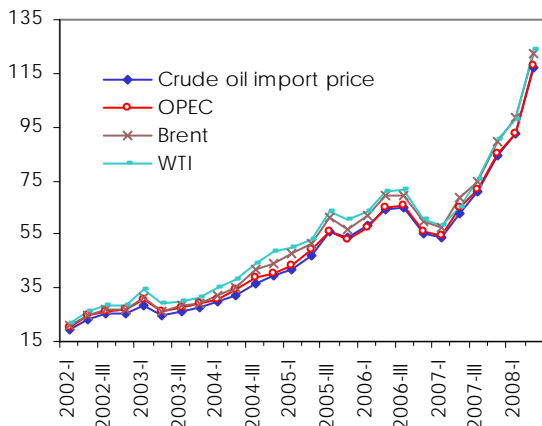
Confidence Index (CBT-TURKSTAT)

Source: CBT, TURKSTAT.

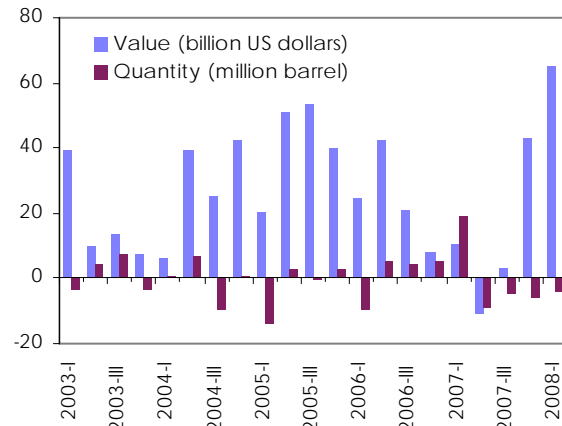
28. International crude oil prices, following an upward trend since early 2007, reached historically high levels in the first quarter of 2008 owing to the supply constraints expected as a result of the announcement that OPEC would not increase production and due to depreciation of US dollar. This trend continued in the second quarter as well. Consequently, energy imports increased by 72.4 percent in the second quarter of the year, contributing to the total imports increase by 13.3 percentage points. In July crude oil prices persisted to increase and reached their highest levels with ongoing increases. As of the second half of July, crude oil prices declined rapidly to their end-April levels.

Crude Oil Prices

(US dollar per barrel, average)



Source: TURKSTAT, OPEC, EIA.

Crude Oil Imports

Source: TURKSTAT.

29. Along with crude oil, natural gas and basic metals sector, agriculture-livestock sectors, food products and beverages, chemicals and chemical products, as well as metal products were among sectors, which recorded high increases in the April-June period.

30. In terms of quantity index, real import growth surpassing the real export growth in the second half of 2007 reversed in the first two quarters of 2008. This was mainly attributable to the strong export performance in the first quarter and the slowdown of imports in the second quarter.

31. As regards sub-items, real imports of refined petroleum products, medical and optical devices, fabricated metal products, waste and scrap, electrical machinery and apparatus along with motor vehicles exhibited significant increases.

32. The share of imports from the EU, the UK, Switzerland and S. Korea in overall imports declined from 2007 onwards, whereas the share of imports from mainly Russia, Middle Eastern countries and Kazakhstan rose. These developments were driven by the upsurge in energy imports from these countries due to the hike in oil prices. Moreover, there is a remarkable increase in the share of imports from the USA.

Imports – Country Decomposition
(million US dollars)

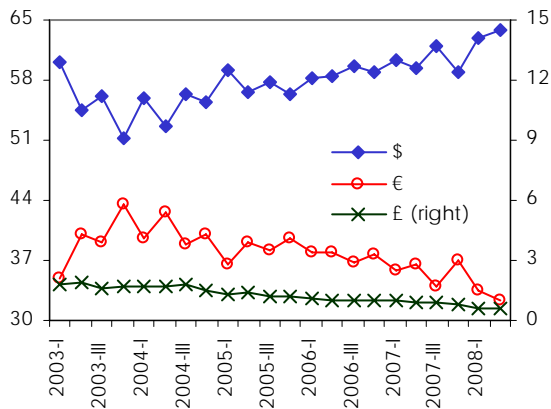
	<i>As of April-June period</i>						
	2007		2008		% Change	Contribution	
	Value	Share (%)	Value	Share (%)		%	\$
Total	42120	..	56653	..	34.5		
EU countries	17353	41.2	21698	38.3	25.0	10.3	4345
Other countries	24438	58.0	34609	61.1	41.6	24.1	10171
Other European	8352	19.8	12463	22.0	49.2	9.8	4111
East Asian	8176	19.4	10160	17.9	24.3	4.7	1984
Other	7910	18.8	11987	21.2	51.5	9.7	4076
Free Zones in Turkey	330	0.8	346	0.6	4.9	0.0	16
Selected countries and country groups							
OECD	23367	55.5	29031	51.2	24.2	13.4	5664
Germany	4374	10.4	5286	9.3	20.8	2.2	911
Italy	2587	6.1	3232	5.7	24.9	1.5	645
USA	2009	4.8	2963	5.2	47.5	2.3	954
France	1902	4.5	2607	4.6	37.0	1.7	704
UK	1437	3.4	1574	2.8	9.5	0.3	136
Switzerland	1479	3.5	1478	2.6	0.0	0.0	-1
Spain	1093	2.6	1324	2.3	21.1	0.5	230
Japan	919	2.2	1160	2.0	26.3	0.6	241
S. Korea	1093	2.6	1021	1.8	-6.6	-0.2	-72
Belgium	774	1.8	931	1.6	20.3	0.4	157
Netherlands	731	1.7	840	1.5	15.0	0.3	110
Poland	380	0.9	575	1.0	51.2	0.5	195
Sweden	461	1.1	561	1.0	21.6	0.2	99
Other OECD	4127	9.8	5480	9.7	32.8	3.2	1353
Middle East countries	3081	7.3	5224	9.2	69.6	5.1	2143
Iraq	49	0.1	454	0.8	832.7	1.0	405
Iran	1771	4.2	2351	4.1	32.7	1.4	580
S. Arabia	577	1.4	985	1.7	70.8	1.0	408
Russian Fed.	5532	13.1	8925	15.8	61.3	8.1	3393
China	3111	7.4	3942	7.0	26.7	2.0	831
Ukraine	1126	2.7	1717	3.0	52.6	1.4	592
Romania	788	1.9	1236	2.2	57.0	1.1	449
Croatia	584	1.4	643	1.1	10.1	0.1	59
Kazakhstan	255	0.6	858	1.5	236.0	1.4	603
Algeria	383	0.9	792	1.4	107.1	1.0	410

Source: TURKSTAT.

33. Following the decline in imports from the EU, the use of the euro in imports during the first quarter of 2008 lagged behind its level of the previous year, while the share of imports in US dollar grew. The share of the pound sterling in imports, on the other hand, still displays a steady decline since the second half of the 1990s.

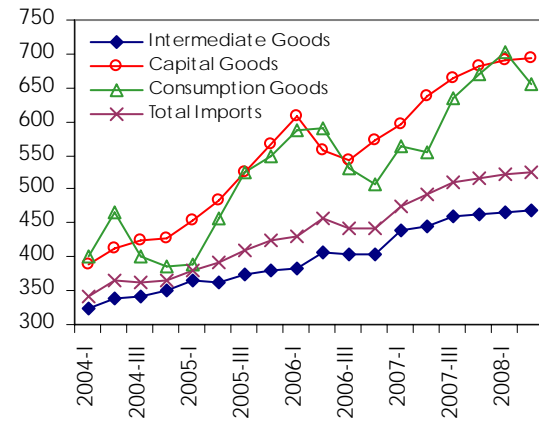
34. According to the seasonally adjusted data, real imports displayed a slight increase by 0.6 percent in the April-June period. In the said period, while imports of intermediary goods and capital goods rose by 1.1 percent and 0.3 percent, respectively, imports of consumption goods declined by 7 percent. This indicates that according to nominal and seasonally unadjusted real data, high rated increase in consumption goods stems from seasonal factors and base effect.

Currency Decomposition of Imports
(% share)



Source: TURKSTAT.

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



Source: CBT.

Services Account

35. Following a rebound in 2007, tourism revenues continued to rise in the first half of 2008, as well and increased by 26.8 percent on a year-on-year basis. In the said period, the number of departing citizens and foreigners increased by 17.2 percent, and average spending that fell in recent years rose by 8.2 percent, thus contributing to tourism revenues. Moreover, tourism expenditures were up 15 percent, hence "net" tourism revenues rose by 31.1 percent.

Tourism Statistics

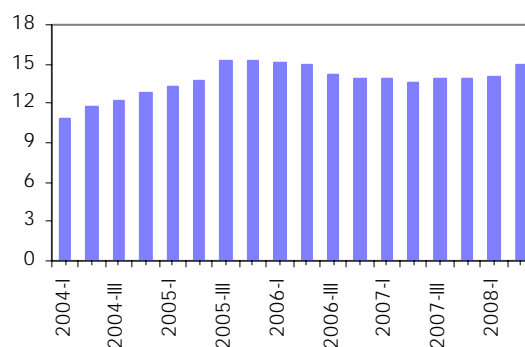
	2007				2007	2008	
	I	II	III	IV		I	II
Tourism Revenues (million US dollars)	2163	3727	8732	3865	18487	2776	4693
Departing foreigner visitors (x1000)	2552	5777	9941	4746	23017	3000	6824
Departing citizen visitors (x1000)	640	710	1930	918	4198	726	798
Tourism Expenditures (million US dollars)	671	903	809	876	3260	805	1007
Arriving citizen visitors (x1000)	1174	1356	1137	1289	4956	1065	1456

Source: TURKSTAT, CBT.

36. In the first half of 2008, while transportation expenses and commercial services expenses which comprise of commission fees paid for goods trade and other similar expenses accelerated, revenues from construction was limited. Hence, underpinned by tourism revenues, the services account surplus increased by 26.6 percent in the said period.

Services

(12-month ave., billions US dollars)



Source: CBT.

Services
(million US dollars)

	2007				2007	2008	
	I	II	III	IV		I	II
Services	1242	2651	7736	2250	13879	1453	3475
Total income	4151	6329	11798	6478	28756	5299	7988
Total Expenses	-2909	-3678	-4062	-4228	-14877	-3846	-4513
Transportation	18	31	-7	-381	-339	-196	-128
Credit	1082	1564	1984	1551	6181	1388	1906
Debit	-1064	-1533	-1991	-1932	-6520	-1584	-2034
Tourizm	1490	2825	7923	2989	15227	1971	3686
Credit	2162	3728	8732	3865	18487	2776	4693
Debit	-672	-903	-809	-876	-3260	-805	-1007
Construction serv.	190	228	139	202	759	231	237
Credit	190	228	139	202	759	231	237
Debit	0	0	0	0	0	0	0
Financial serv.	-79	-41	-26	-82	-228	-31	-43
Credit	73	88	114	120	395	180	235
Debit	-152	-129	-140	-202	-623	-211	-278
Other serv.	-377	-392	-293	-478	-1540	-522	-277
Credit	644	721	829	740	2934	724	917
Debit	-1021	-1113	-1122	-1218	-4474	-1246	-1194

Source: CBT.

Income Account

37. In the first half of 2008, growing interest payments were driven by long-term borrowings by the private sector and outward transfer of profits increased due to the large direct investment inflow in recent years. Increasing gains from portfolio investments failed to compensate for the said expenditures and thus, income account deficit expanded compared to same period of last year.

Income
(million US dollars)

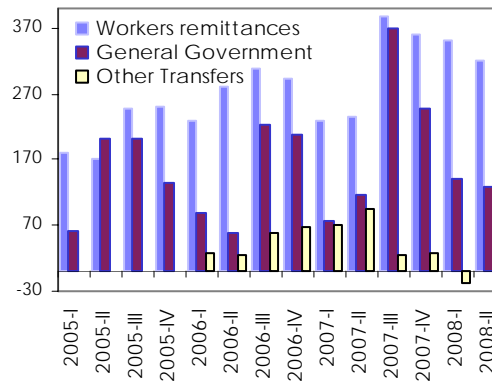
	2007				2007	2008	
	I	II	III	IV		I	II
Income (net)	-1968	-1648	-1856	-1671	-7143	-1902	-2482
Compensation of Employees (net)	-29	-28	-25	-24	-106	-27	-26
Investment Income	-1939	-1620	-1831	-1647	-7037	-1875	-2456
Total income	1644	1371	1644	1725	6384	2159	1511
Total Expenses	-3583	-2991	-3475	-3372	-13421	-4034	-3967
Direct investment	-373	-658	-458	-596	-2085	-513	-1257
Credit	22	52	22	12	108	70	42
Debit	-395	-710	-480	-608	-2193	-583	-1299
Portfolio investment	-566	372	-74	651	383	33	321
Credit	1084	794	1065	1175	4118	1522	922
Debit	-1650	-422	-1139	-524	-3735	-1489	-601
Other investment	-1000	-1334	-1299	-1702	-5335	-1395	-1520
Interest income	538	525	557	538	2158	567	547
Interest expenses	-1538	-1859	-1856	-2240	-7493	-1962	-2067
Long-term	-1362	-1717	-1654	-2066	-6799	-1805	-1919
Monetary A.	-123	-91	-230	-119	-563	-115	-94
Gen. Gov.	-394	-503	-319	-504	-1720	-360	-410
Banks	-216	-299	-321	-410	-1246	-376	-239
Other sector	-629	-824	-784	-1033	-3270	-954	-1176
Short-term	-176	-142	-202	-174	-694	-157	-148

Source: CBT.

Current Transfers

38. In the first half of 2008, current transfers increased by 9.8 percent. In this period, General Government transfers and workers' remittances increased by 38.7 percent and 45.9 percent, respectively, while other transfers by non-residents comprising of other insurance and reinsurance transactions produced a deficit.

Current Transfers
(Billion US dollars)



Source: CBT.

III. CAPITAL MOVEMENTS

39. In the first half of 2008, external financing requirement, defined as the sum of current account plus net errors and omissions, was USD 31.2 billion. During this period, the net capital inflow (excluding reserve changes and IMF loans) amounted to USD 35.1 billion. The financing structure was dominated by direct investments and long-term credit uses of the private sector.

40. Following these developments, in this period, there was a USD 0.4 billion inflow to official reserves and a USD 6.4 billion increase in the banks' corresponding accounts.

41. Net errors and omissions item, which generally displayed a positive balance in the relatively stable environment following the 2001 economic crisis, had a high and negative balance as a result of the political uncertainty in the second quarter of 2008.

External Financing Requirement and Resources (billion US dollars)

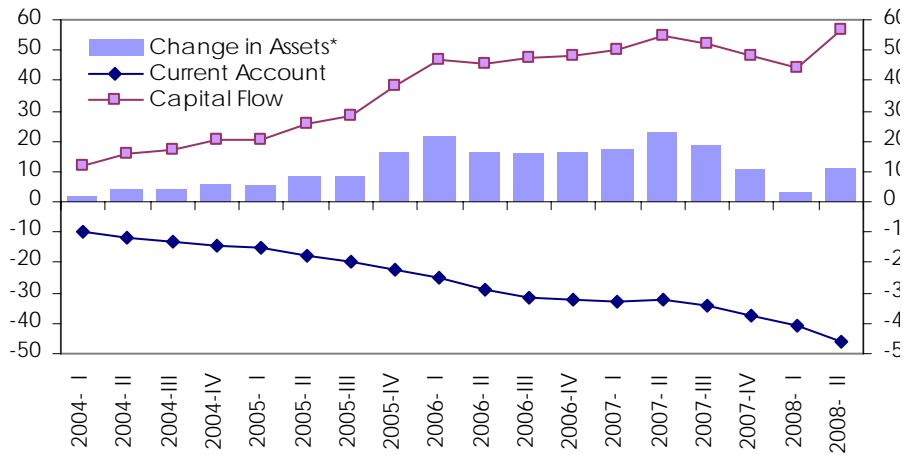
	2006	2007				2007	2008	
		I	II	III	IV		I	II
1. Current Account	-31.9	-9.3	-10.0	-6.8	-11.6	-37.7	-12.1	-15.3
2. Net Errors and Omissions	-0.2	0.9	2.9	-3.6	1.0	1.1	0.9	-4.8
I. Total Financing Requirement (=1+2)	-32.1	-8.3	-7.1	-10.4	-10.6	-36.6	-11.1	-20.1
II. Total Financing (=1+2+3)	32.1	8.3	7.1	10.4	10.6	36.6	11.1	20.1
1. Capital Flows (net)	53.0	17.3	14.0	8.9	12.0	52.1	11.3	23.8
Direct Investment (net)	19.1	8.2	2.7	4.4	4.7	20.1	3.6	2.3
Portfolio Investment (net)	7.4	4.5	1.5	-1.9	-3.4	0.7	-1.3	3.0
General Gov. Eurobond Issues	3.3	3.4	-1.0	-0.5	-0.9	0.9	-0.9	0.5
Nonresidents' Security Buyings in Turkey	8.1	1.8	2.9	-0.1	-2.7	1.9	0.0	2.3
Residents' Security Buyings Abroad	-4.0	-0.7	-0.4	-1.3	0.3	-2.1	-0.5	0.1
Credit Drawing (excl. IMF loan, net)	24.8	8.2	10.7	7.1	9.6	35.6	10.0	15.0
General Government	-0.7	0.1	-0.4	0.3	0.1	0.1	-0.5	-0.4
Banks	5.8	0.9	3.3	-0.1	1.5	5.6	1.9	1.9
Long-term	9.8	2.1	2.6	1.9	0.6	7.3	1.7	0.8
Short-term	-4.0	-1.3	0.7	-2.0	0.9	-1.7	0.2	1.1
Other Sector	19.7	7.2	7.8	6.8	8.1	29.9	8.6	13.6
Long-term	18.5	6.5	5.9	5.3	7.8	25.4	7.0	9.8
Short-term	0.5	-0.1	0.6	0.2	-0.5	0.2	0.1	0.7
Trade Credits	0.7	0.8	1.3	1.3	0.8	4.2	1.5	3.1
Deposits	4.6	-3.4	-0.5	-1.0	1.6	-3.3	0.3	3.1
in Central Bank	-1.3	-0.3	-0.3	-0.6	-0.4	-1.5	-0.3	-0.3
in banks	5.9	-3.2	-0.3	-0.4	2.0	-1.9	0.6	3.4
Other	-2.9	-0.2	-0.4	0.3	-0.7	-1.0	-1.4	0.5
2. IMF Loans	-4.5	-2.3	0.0	-1.0	-0.7	-4.0	-0.5	3.2
Central Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
General Government	-4.5	-2.3	0.0	-1.0	-0.7	-4.0	-0.5	3.2
3. Change in Reserves (- increase)	-16.4	-6.6	-6.9	2.6	-0.6	-11.6	0.4	-6.9
Banks' FX assets	-10.3	-0.2	-6.4	3.6	-0.5	-3.5	0.4	-6.6
Official Reserves	-6.1	-6.4	-0.5	-1.0	-0.1	-8.0	-0.1	-0.3

Source: CBT.

42. Capital inflows, lower than the current account deficit on monthly basis between the January-April period, were above the current account deficit in the May and June, thus increasing total assets. Indeed, current account deficit continued to expand on annual basis in the January-April period, whereas capital inflows lost pace. Accordingly, FX assets showed a limited increase. In May and June, this tendency reversed and increases in assets were recorded in the second quarter of the year.

Current Account and its Financing

(12-month moving sum, 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.

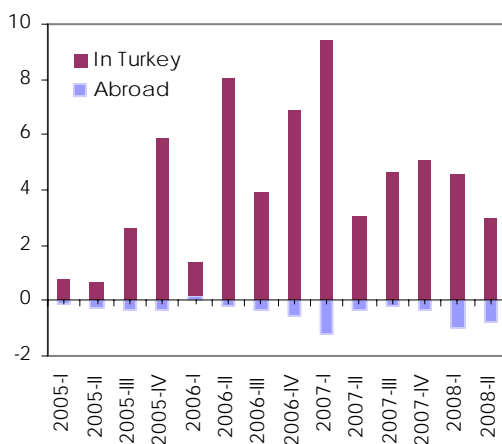
Direct Investments

43. Direct investments, which were at historical high levels in 2007 slowed down in the first half of 2008 reaching USD 5.9 billion. During this period, direct investments made in Turkey amounted to USD 7.6 billion, while residents' direct investments abroad reached USD 1.7 billion. Such an amount of direct investments still ongoing is deemed noteworthy in a period during which external financing opportunities are limited.

44. The services sector had the largest share in direct investments through the banking sector both in 2007 and in the first half of 2008. The services sector comprised 54.9 percent of total direct investments in the first half of 2008. Meanwhile, the investments to the manufacturing industry comprised 21.1 percent of direct investments including real estate and other capital thanks to the direct investments made in food-tobacco and non-metal minerals along with electrical and optical equipment manufacturing industries. Nonresidents' real estate purchases in Turkey stands as another significant item within direct investment inflows. Real estate purchases yielded a USD 1.5 billion worth direct capital inflow in this period.

Direct investments

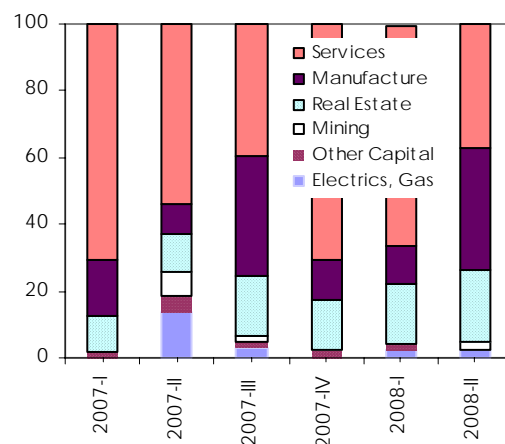
(Billion US dollars)



Source: CBT.

Inward FDI

(% share)



Source: CBT.

45. The possible slowdown in direct investments as non-debt capital inflows poses a risk for securing the sustainable financing of the current account deficit. The uncertainty triggered by the recent global developments increased concerns about the sustainability of direct investment inflows. The fact that the share of brand new investments, defined as Greenfield, in total direct investments is still quite low exacerbates these concerns. At this point, it is important to maintain the structural reform process to attract new investments that will create employment.

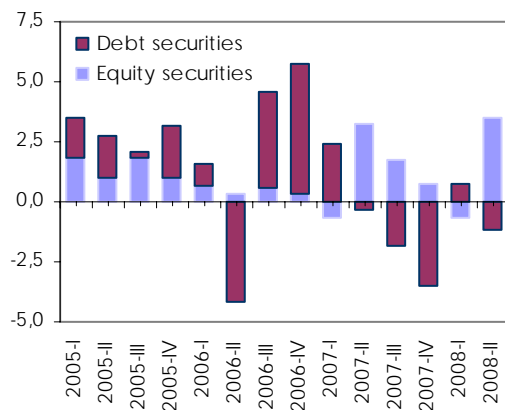
Portfolio Investments

46. The increased risk perceptions in international credit markets from August 2007 onwards led to an outflow in portfolio investment. Nonresidents mostly sold domestic government debt securities, while they purchased equity securities particularly in the period following September.

47. It was observed that nonresidents, who were the net buyers in government debt securities market in January 2008, accelerated their sales in February-April period. However, they purchased significant amount of equity securities and government domestic debt securities in May and June. Hence, purchase of equity securities and government domestic debt securities by nonresidents in the first half of 2008 amounted to USD 2.8 billion and net USD -0.4 billion respectively.

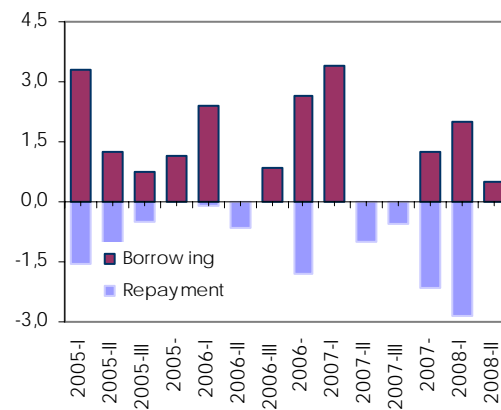
48. In the first half of 2008, the Treasury issued USD 2.5 billion worth of bonds abroad and repaid USD 2.9 billion.

Security purchases of non-residents
(billion US dollars)



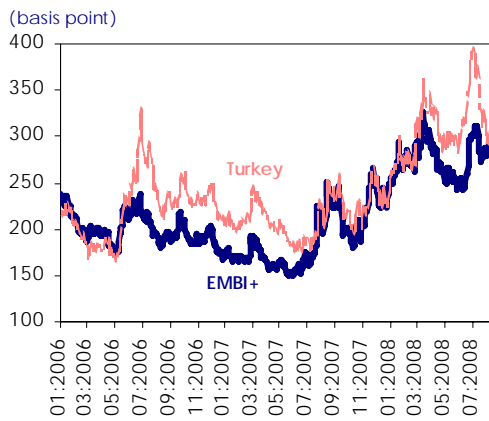
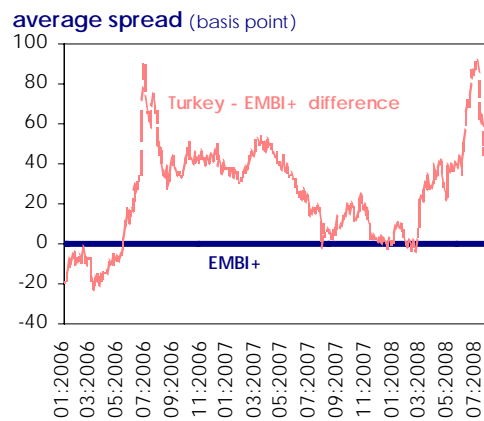
Source: CBT.

Eurobond issues of General Gov.
(billion US dollars)



Source: CBT.

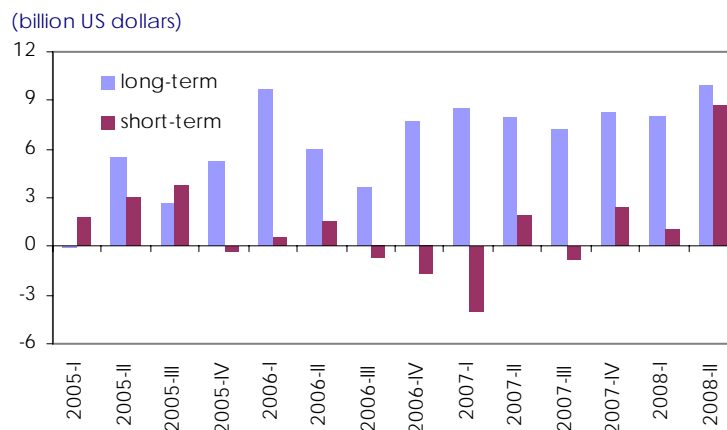
49. Since July 2007, the volatility in global financial markets has reduced investors' appetite for emerging market assets and widened yield spreads between local and **US bonds**. After hitting 149 basis points on 1 June 2007, the JP Morgan Emerging Markets Bond Index (EMBI+) reached 308 basis points by March 2008 and slightly declined in April and May 2008. The Index that resurged by late June ended up with 295 basis points in the first half. Meanwhile, Turkey's yield spread, which had generally been in the same level with the EMBI+ since last quarter of 2007, was again above the EMBI+ as of March 2008 and surpassed it with the highest margin on 3 July 2008.

Secondary Market Spreads**Turkey's position compared to EMBI+**

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

Other Investments

50. The recent upsurge in the utilization of long-term credits primarily in private sector is noteworthy. Long-term credits with increased share in total financing accounted for 51.3 percent of the capital inflows in the first half of 2008. In addition to this, short-term capital inflow increased significantly in the second quarter of 2008.

Long and Short-term capital

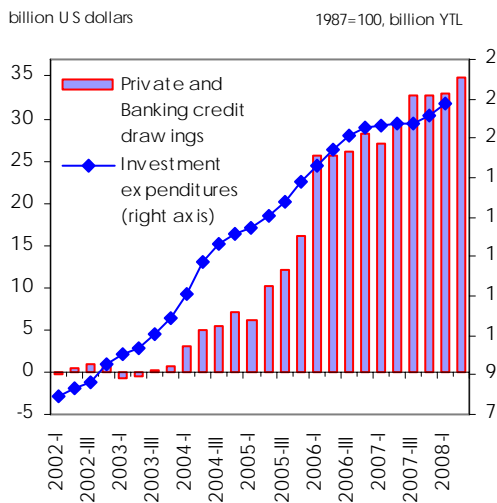
Note: Excluding direct and portfolio investment, IMF loans and banks' FX assets.

Source: CBT.

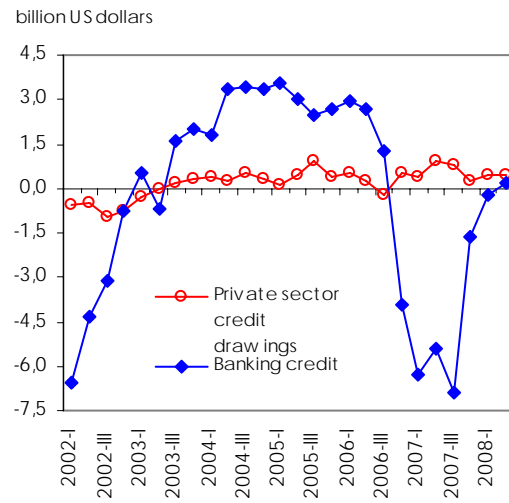
51. In the first half of 2008, "Other sectors" mostly comprising the non-banking private sector, borrowed net USD 16.8 billion worth of long-term and net USD 0.8 billion worth of short-term external credit. The banks' long-term credit utilization in this period amounted to net USD 2.5 billion, while their short-term borrowings increased and reached net USD 1.3 billion. Private and banking sectors' borrowings mostly on long-term basis are of importance in terms of financing domestic investment expenditures and improving the quality of financing of the current account deficit.

52. Though long-term credits are rather borrowed by big exporter firms, the upsurge in external debt stock of the private sector increases the exchange rate risk. Long-term external debt stock of the non-banking private sector, which was USD 53 billion at end-2006, rose to USD 92.4 billion by the end of May 2008.

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



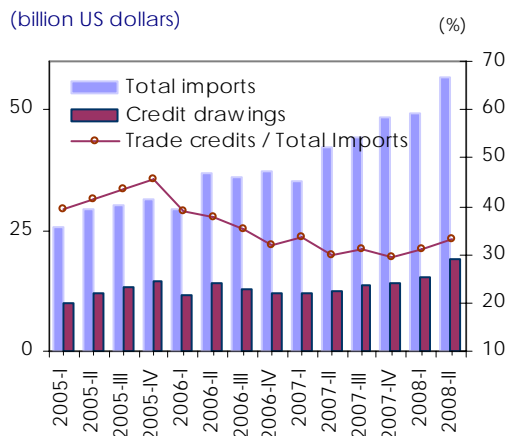
Short-term net credit use and private sector investment expenditures (12-month cumulative)



Source: CBRT, TURKSTAT.

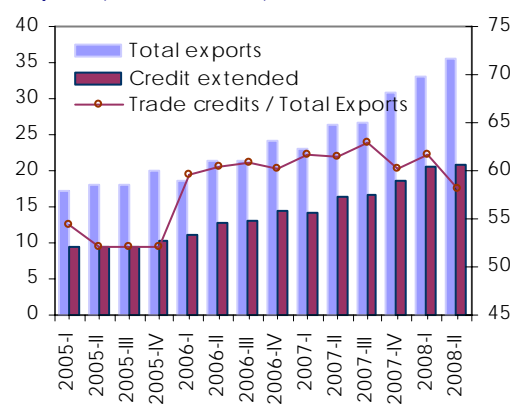
53. Timed imports, which increased in 2004 and 2005, did not register a significant rise in 2006 and 2007. Thus, the ratio of imports trade credits (timed imports) to total imports that was 45.5 percent in the last quarter of 2005 dropped to 29.3 percent in the last quarter of 2007 and increased again to 32.3 percent in the first half of 2008. Meanwhile, the ratio of timed exports to total exports increased recently and became 59.8 percent in the first half of 2008 against a ratio of 52 percent in the last quarter of 2005. It is considered that the increase in the timed exports contributed to exports performance observed in 2006 and onwards.

Trade credit drawings and imports



Source: CBT, TURKSTAT.

Trade credits extended abroad & exports



Source: CBT, TURKSTAT.

54. The Treasury continued to repay some of its IMF loans in the first quarter of 2008 and borrowed USD 3.6 billion in May, upon the release of the last credit tranche. However, the Treasury's other long-term borrowings (World Bank, etc.) and repayment in the first half of 2008 were realized as USD 0.8 billion and USD 1.7 billion, respectively. As a result of these developments, the Treasury borrowed net USD 1.8 billion in the January-June period.

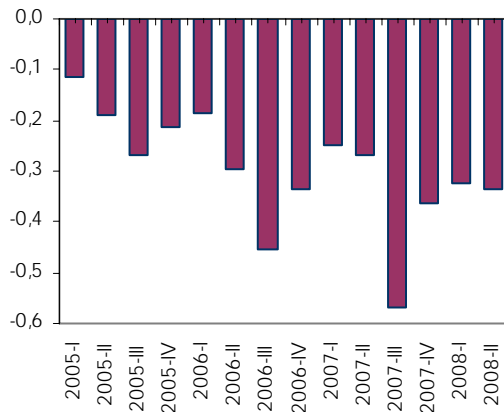
55. Outflows from long-term FX deposit accounts and super FX accounts of nonresident Turkish workers at the CBT have been continuing since April 2003. Outflows from short-term deposit accounts that started in the second quarter of 2004 still persist. As a result, the related deposits at the CBT decreased by USD 0.7 billion in January-June period of 2008. These outflows can be attributed to the gradual interest rate cuts on both FX deposit accounts and super FX accounts. In fact, one, two and three-year maturity euro-denominated super FX

account rates, which were 8, 9 and 10 percent in 2002, respectively, were reduced until 6 May 2008, to 2.25, 2.75 and 3.25 percent, respectively.

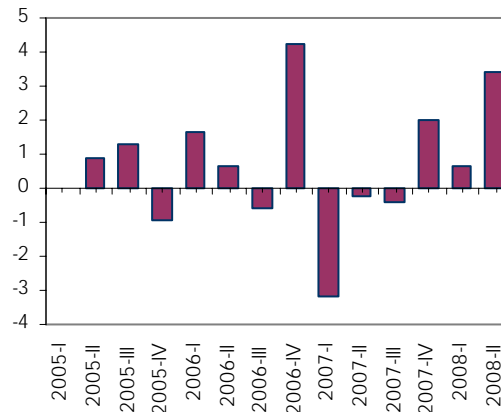
56. Domestic banks attracted USD 4.1 billion of nonresidents' deposits in the first half of 2008, after seeing a total of USD 1.9 billion outflow throughout 2007. The increase of short-term capital observed in this period was driven by this inflow.

Deposit Belonging to Non-Residents (12-month, billion US dollars)

FX deposits with credit letter and Super FX accounts



Deposits in banks



Source: CBT.

57. By the end of March 2008, total external debt stock rose by 6.4 percent compared to end-2007 to USD 262.9 billion. Private sector was the main source of this growth, while public sector only made a limited contribution. USD 218.4 billion of the total external debt stock involves long-term external debts, whereas short-term debts amount to USD 44.6 billion. Thus, the share of long-term debts in total external debt stock that widened to 83.1 percent as of end-2007 remained unchanged at the end of March 2008.

58. As regards the external debt indicators, the ratio of external debt stock to GDP, which rose to 39 percent at end-2006, declined to 37.5 percent at end-2007 and to 36.8 percent at the end of March 2008. Additionally, the improvement seen in external debt indicators as of March continued and the ratio of external debt service to GDP fell to 7.2 percent and the ratio of external debt stock to exports fell to 224.2 percent. In the meantime, it should be underlined that as regards the debts with maturity breakdown, the improvement in favor of long-term debts still continues.

Selected External Debt Indicators (percent)

	2006				2007				2008
	I	II	III	IV	I	II	III	IV	I
External Debt Stock / GDP	36.7	37.1	37.7	39.0	39.2	38.9	38.1	37.5	36.8
External Debt Stock / Exports*	243.9	243.4	240.0	240.0	235.9	234.4	233.4	230.4	224.2
Debt Service / GDP	7.1	7.0	6.9	7.6	7.9	7.9	7.8	7.4	7.2
Long-term / External Debt	78.8	78.6	79.5	80.3	82.9	82.6	83.7	83.1	83.1
Short-term / External Debt	21.3	21.6	20.6	19.7	17.1	17.4	16.3	16.9	16.9
<i>Memo:</i>					0	0	0	0	0
<i>External Debt Stock (billion \$)</i>	182.6	189.8	195.3	205.3	212.6	223.2	234.5	247.1	262.9
<i>GDP (billion \$)</i>	497.8	511.3	517.9	526.4	542.6	573.7	615.0	658.8	713.8

* Excluding shuttle trade and other goods.

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	-22137	-32988	73476	3473	-116774	15272	18152	-5875	-5010	1454	851
2006	-31893	-40941	85535	6408	-139576	13831	16853	-6691	-6336	1908	1111
2007	-37697	-46669	107264	6002	-170063	13879	18487	-7143	-7493	2236	1209
	<i>(quarterly)</i>										
2007 II	-10011	-11461	26436	1742	-42120	2651	3728	-1648	-1859	447	234
III	-6795	-13454	26713	1365	-44355	7736	8732	-1856	-1856	779	387
IV	-11629	-12842	30935	1608	-48379	2250	3865	-1671	-2240	634	360
2008 I	-12056	-12082	33168	1448	-49178	1453	2776	-1902	-1962	904	352
II	-15291	-16713	35648	1406	-56654	3475	4693	-2482	-2067	144	322
	<i>(monthly)</i>										
2007 Jul	-2871	-4886	8938	362	-15214	2075	2583	-433	-464	373	127
Aug	-1637	-4558	8737	523	-14682	3210	3404	-511	-687	222	138
Sep	-2287	-4010	9038	480	-14459	2451	2745	-912	-705	184	122
Oct	-3224	-4264	9892	540	-15627	1450	1855	-574	-734	164	121
Nov	-3253	-3765	11319	557	-16632	683	1135	-350	-698	179	125
Dec	-5152	-4813	9724	511	-16120	117	875	-747	-808	291	114
2008 Jan	-4070	-4581	10635	441	-16339	524	885	-161	-547	148	110
Feb	-3812	-3409	11088	485	-16027	146	801	-699	-669	150	110
Mar	-4174	-4092	11445	522	-16812	783	1090	-1042	-746	177	132
Apr	-4994	-5023	11392	462	-17889	554	1053	-646	-635	121	116
May	-4706	-5365	12495	503	-19300	1343	1692	-848	-661	164	113
Jun	-5591	-6325	11761	441	-19465	1578	1948	-988	-771	144	93
	<i>(12-month)</i>										
2007 Jul	-32986	-41485	97106	6827	-154117	13443	17275	-7180	-7039	2236	1099
Aug	-33088	-41860	99032	6576	-156523	13678	17516	-7089	-7066	2183	1127
Sep	-33909	-42604	100463	6325	-158829	13841	17742	-7315	-7215	2169	1141
Oct	-34969	-43734	103466	6300	-163256	14071	18147	-7464	-7390	2158	1159
Nov	-35341	-44729	106144	6159	-166991	14227	18394	-6975	-7255	2136	1194
Dec	-37697	-46669	107264	6002	-170063	13879	18487	-7143	-7493	2236	1209
2008 Jan	-38664	-48081	111334	6050	-175810	14001	18645	-6863	-7620	2279	1248
Feb	-39356	-48823	114765	6117	-180454	13857	18822	-6691	-7772	2301	1287
Mar	-40491	-49839	117252	6163	-184032	14090	19101	-7077	-7917	2335	1333
Apr	-42213	-51481	120331	6069	-189002	14011	19233	-7090	-7984	2347	1364
May	-43317	-52646	123682	5923	-193367	14511	19655	-7525	-8020	2343	1396
Jun	-45771	-55091	126464	5827	-198566	14914	20066	-7911	-8125	2317	1421

Source: CBT.

CAPITAL and FINANCIAL ACCOUNT (USD million)

	Capital and Financial Account																
	Net		Financial Account														
	Net	Foreign Direct Investment	Portfolio Investment				Other Investment										
			Net	Assets	Liabilities		Net	Currency and Deposits	Net	Trade Credits	Liabilities				Deposits		
Equity Securities	Debt Securities	Monetary Authority			General Gov.	Banks					Other Sectors	Monetary Authority	Banks				
	<i>(annual)</i>																
2004	13388	13388	2005	8023	-1388	1427	7984	4184	-5965	11139	4201	-4414	-267	5708	5106	-209	856
2005	20302	20302	8967	13437	-1233	5669	9001	15745	-342	15486	3074	-2881	-4637	9248	9880	-787	1276
2006	32066	32066	19065	7373	-4029	1939	9463	11742	-10293	25179	674	0	-5223	5814	19010	-1268	5890
2007	36552	36552	20089	717	-2063	5138	-2358	23778	-3523	28630	4230	0	-3901	5608	25664	-1450	-1873
	<i>(quarterly)</i>																
2007 II	7134	7134	2747	1491	-402	3266	-1373	3372	-6407	10329	1300	0	-406	3338	6508	-269	-264
III	10440	10440	4392	-1911	-1281	1754	-2384	9003	3611	5276	1292	0	-708	-63	5541	-567	-419
IV	10647	10647	4744	-3365	272	769	-4406	9366	-495	10538	840	0	-649	1460	7254	-364	1978
2008 I	11145	11145	3571	-1316	-494	-707	-115	8949	447	9873	1459	0	-978	1914	7139	-323	646
II	20055	20055	2281	2963	149	3479	-665	15114	-6619	21436	3141	0	2747	1853	10426	-335	3438
	<i>(monthly)</i>																
2007 Jul	4552	4552	1738	2537	-375	1139	1773	1250	1511	-560	999	0	-23	-599	819	-127	-1704
Aug	935	935	1094	-4208	-978	-215	-3015	5835	2423	3178	297	0	-396	863	3056	-261	-451
Sep	4953	4953	1560	-240	72	830	-1142	1918	-323	2658	-4	0	-289	-327	1666	-179	1736
Oct	4272	4272	1047	-277	471	429	-1177	3378	2583	1277	67	0	-580	571	2429	-140	-1096
Nov	773	773	582	-3695	144	-119	-3720	2855	778	2867	464	0	-454	145	2044	-110	779
Dec	5602	5602	3115	607	-343	459	491	3133	-3856	6394	309	0	385	744	2781	-114	2295
2008 Jan	6204	6204	1101	242	-512	-497	1251	5468	3003	3101	1046	0	-211	433	2775	-124	-817
Feb	2268	2268	676	368	270	160	-62	853	-1893	3148	324	0	-465	992	1596	-84	781
Mar	2673	2673	1794	-1926	-252	-370	-1304	2628	-663	3624	89	0	-302	489	2768	-115	682
Apr	5697	5697	606	-2135	-113	127	-2149	6341	690	5558	652	0	-232	1183	2364	-111	1677
May	6385	6385	505	2355	532	1507	316	3262	-5925	9755	1107	0	3429	124	4201	-111	946
Jun	7973	7973	1170	2743	-270	1845	1168	5511	-1384	6123	1382	0	-450	546	3861	-113	815
	<i>(12-month)</i>																
2007 Jul	34702	34702	22319	15137	-5159	4361	15935	7346	-11936	21527	3086	0	-3469	3939	20185	-1356	-1174
Aug	31893	31893	20224	9313	-5594	4061	10846	13874	-7900	23898	3344	0	-4718	5978	22035	-1415	-1654
Sep	34957	34957	21633	8327	-4643	4709	8261	14118	-8299	24367	3220	0	-4831	4294	22388	-1421	370
Oct	35797	35797	19852	4026	-4239	4646	3619	21971	-1034	25477	3523	0	-4598	5664	24191	-1466	-2195
Nov	35056	35056	18494	-762	-3801	4058	-1019	26772	-54	29394	4302	0	-3478	6650	25129	-1446	-2121
Dec	36552	36552	20089	717	-2063	5138	-2358	23778	-3523	28630	4230	0	-3901	5608	25664	-1450	-1873
2008 Jan	39746	39746	15760	-2165	-3003	5931	-5093	32207	-326	35831	5164	0	-3922	5939	28669	-1503	1133
Feb	39333	39333	14809	-5077	-2227	5621	-8471	33722	-2182	39213	5142	0	-2652	6434	29472	-1501	1965
Mar	39366	39366	15454	-5101	-1905	5082	-8278	30690	-2844	36016	4891	0	-2741	6649	26442	-1523	1941
Apr	43699	43699	15377	-9740	-1842	4449	-12347	39724	401	41876	5486	0	-2026	7414	27593	-1552	4597
May	48385	48385	15146	-7393	-1390	4047	-10050	42481	-966	46260	5961	0	756	5719	28310	-1567	6709
Jun	52287	52287	14988	-3629	-1354	5295	-7570	42432	-3056	47123	6732	0	412	5164	30360	-1589	5643

Source: CBT.

EXPORT INDICES

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

	2007				2007	2008	
	I	II	III	IV		I	II
Total	9.0	9.4	12.4	20.0	13.1	20.7	23.6
Capital Goods	12.3	9.7	10.2	12.9	18.0	16.1	16.9
Intermediate Goods	14.2	14.0	11.7	16.7	14.2	22.5	27.8
Consumption Goods	3.1	4.1	12.5	22.7	11.0	21.0	20.8
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	-3.9	3.9	25.2	43.5	20.4	22.5	20.4
Food products and beverages	-1.3	3.5	21.1	39.4	17.0	46.3	44.3
Textiles	7.7	7.8	10.6	14.7	10.3	11.9	12.2
Wearing apparel	0.3	0.9	12.2	17.3	7.4	19.8	19.3
Petroleum products and nuclear fuel	-5.2	5.2	7.4	49.8	15.5	61.9	60.1
Chemicals and chemical products	8.3	7.5	7.7	12.8	8.9	17.0	18.8
Rubber and plastic products	9.5	8.8	12.8	17.8	11.9	17.5	17.3
Other non-metallic minerals	4.9	5.9	9.1	12.7	8.4	14.6	20.7
Manufacture of basic metals	24.1	26.4	13.0	12.2	18.7	27.2	41.3
Manufacture of fabricated metal prod(exc n	17.5	14.0	12.3	13.7	14.8	18.2	21.1
Manufacture of machinery and equipm	12.4	13.5	13.3	17.7	14.6	16.3	17.5
Electrical machinery and apparatus	19.9	13.9	11.1	13.2	14.1	17.2	18.0
Communication and apparatus	-12.9	-15.2	-4.8	5.4	-5.5	16.9	17.7
Motor vehicles and trailers	9.7	4.3	7.5	12.6	8.5	13.0	14.3

Source: TURKSTAT.

Quantity Index (2003=100, Annual % Change)

	2007				2007	2008	
	I	II	III	IV		I	II
Total	14.4	13.5	10.8	7.4	10.7	18.1	9.1
Capital Goods	39.1	25.5	34.5	27.8	31.2	23.7	25.3
Intermediate Goods	14.9	15.9	13.9	13.5	14.5	28.6	14.2
Consumption Goods	10.6	7.7	3.0	-2.5	4.2	4.8	-2.2
Selected Items (ISIC Rev.3):							
Agriculture and farming of animals	12.7	-16.8	-18.8	-12.1	-11.2	-14.9	1.2
Food products and beverages	9.7	1.5	7.1	-5.5	1.6	-8.0	-3.9
Textiles	9.0	6.4	6.1	2.3	5.7	7.9	1.1
Wearing apparel	13.5	18.6	3.0	-2.2	7.9	-2.7	-15.7
Petroleum products and nuclear fuel	23.1	19.1	21.7	34.9	24.1	23.7	10.9
Chemicals and chemical products	10.4	5.6	5.3	6.8	6.9	12.0	13.6
Rubber and plastic products	27.4	22.0	12.5	6.5	16.3	9.1	10.0
Other non-metallic minerals	10.6	10.7	12.1	15.9	11.9	12.8	29.8
Manufacture of basic metals	5.9	16.9	6.1	17.2	11.1	77.3	22.7
Manufacture of fabricated metal prod(exc n	12.8	18.8	8.7	7.2	10.6	20.5	21.3
Manufacture of machinery and equipm	27.0	20.3	14.8	8.8	16.2	16.3	14.5
Electrical machinery and apparatus	37.4	33.9	25.9	18.7	27.4	15.7	11.9
Communication and apparatus	-14.6	-10.5	13.9	-4.7	-5.1	-10.2	-14.3
Motor vehicles and trailers	26.1	24.8	21.0	23.0	23.5	34.6	16.8

Source: TURKSTAT.

IMPORT INDICES

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

	2007				2007	2008	
	I	II	III	IV		I	II
Total	8.3	7.2	7.0	15.7	9.7	22.8	28.5
Capital Goods	6.2	-0.9	-2.3	4.9	2.1	10.0	7.3
Intermediate Goods	9.9	7.7	7.7	12.9	9.6	27.0	35.5
Consumption Goods	4.1	5.8	4.0	10.0	6.5	16.5	14.6
Selected Items (ISIC Rev.3):							
Crude oil and natural gas	-1.3	-3.3	1.9	27.2	5.8	50.3	66.1
Food products and beverages	11.0	19.6	19.2	29.9	20.5	35.4	39.6
Textiles	5.6	3.5	2.9	5.2	4.2	7.5	8.2
Paper and paper products	11.3	8.3	8.4	11.8	9.9	12.2	13.4
Coke, petroleum products and nuclear f	-3.9	5.1	6.9	40.4	12.8	58.3	64.0
Chemicals and chemical products	6.3	7.0	8.1	12.5	8.8	19.0	19.5
Rubber and plastic products	9.7	7.1	6.2	14.5	9.3	14.2	15.6
Manufacture of basic metals	26.0	16.5	11.5	15.3	16.4	20.3	28.7
Man. of fabricated metal prod(exc mac	11.1	2.3	1.3	8.7	6.1	12.9	16.2
Manufacture of machinery and equipm	7.5	1.0	2.4	9.8	5.1	10.2	14.1
Electrical machinery and apparatus	-4.2	-2.2	6.2	12.4	3.5	10.5	11.0
Communication and apparatus	5.3	13.7	4.0	12.1	8.7	12.8	1.1
Medical, precision and opt. instr., watch	3.3	7.4	16.0	2.0	7.2	0.5	3.4
Motor vehicles and trailers	8.7	6.9	5.1	10.1	8.3	12.9	12.2
Waste and scrap (Wholesale and retail)	31.4	32.4	20.0	25.6	26.3	40.2	64.7

Source: TURKSTAT.

Quantity Index (2003=100, Annual % Change)

	2007				2007	2008	
	I	II	III	IV		I	II
Total	10.1	8.3	16.2	16.6	11.7	13.4	4.5
Capital Goods	-1.0	9.0	19.8	24.3	13.5	23.7	4.2
Intermediate Goods	14.5	10.0	15.4	13.7	13.3	9.7	3.2
Consumption Goods	-4.0	-6.9	16.9	31.4	8.9	25.5	17.7
Selected Items (ISIC Rev.3):							
Crude oil and natural gas	19.3	5.7	2.9	1.0	8.1	2.2	1.6
Food products and beverages	-4.3	-18.3	-14.9	4.5	-10.3	24.0	6.1
Textiles	17.7	27.9	19.9	20.7	21.1	7.0	-7.9
Paper and paper products	5.3	15.5	15.9	8.3	9.8	9.9	-1.9
Coke, petroleum products and nuclear f	9.2	0.0	21.7	29.5	6.3	5.5	21.3
Chemicals and chemical products	10.4	13.0	12.6	11.9	10.5	9.1	3.2
Rubber and plastic products	6.0	6.6	16.1	16.4	10.3	18.7	7.4
Manufacture of basic metals	19.4	9.7	29.4	13.2	16.3	10.9	-2.5
Man. of fabricated metal prod(exc mac	1.5	8.8	9.0	19.4	8.2	29.4	21.8
Manufacture of machinery and equipm	7.9	14.0	14.5	22.3	13.6	12.5	-5.2
Electrical machinery and apparatus	7.0	33.3	28.3	25.8	22.5	44.9	15.8
Communication and apparatus	4.2	7.4	22.2	8.7	9.1	9.6	-4.6
Medical, precision and opt. instr., watch	-2.6	5.1	7.8	28.7	8.6	40.5	22.5
Motor vehicles and trailers	-10.8	-11.4	9.9	38.4	4.5	27.3	15.4
Waste and scrap (Wholesale and retail)	45.9	14.1	0.3	11.9	15.3	2.1	19.7

Source: TURKSTAT.