

# ECONOMIC REPORT



## ECONOMIC REPORT 2007





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# INTRODUCTION

The two economic crises experienced in 2000 and 2001 in Turkey paved the way for severe damages in the economy. Turkey experienced the largest shrinkage in the history of the Republic, excluding the war years. The Turkish private sector, which we represent, just like the other sectors of the society, felt the effects of the economic crisis from all aspects and reached the point of losing all of the gains obtained at the end of long efforts.

The stability programs supported by the International Monetary Fund were implemented in response to these crises experienced. Thanks to the measures taken, the economy entered into a period of rapid recovery. Important successes were obtained between 2002-2006 with the contribution of the positive atmosphere in the international markets.

A high growth rate was attained, which stemmed from the increases in private sector investments and productivity. Inflation regressed to single-digit numbers. The public sector deficits were taken under control to a great extent and a balanced budget implementation was almost reached. Thanks to the rapidly increasing private sector investments, new areas of employment started to be formed through the private sector. There were considerable increases in exports. There were inflows of direct international capital in significant amounts.

Despite these positive developments, the fact that exports gradually became more dependent on imports, the deterioration in the balance of current transactions and not being able to provide a significant improvement in the rate of unemployment were in the forefront as our weak points economically in the five year period.

The economic slowing down that became obvious in 2006, became more obvious in 2007. The growth rate regressed to 4.5 percent, which was the lowest level during the past six years. It remained below the targeted value for first time since 2002. It is a fact that the growth rate realized in 2007 is insufficient for Turkey.

Inflation regressed to its lowest level in recent years in 2005. It surpassed the envisaged target and started to rise in 2006. Along with an improvement in 2007 compared to the previous year, it was realized for the second time at the level of 8.39 percent, which was rather above the target. Inflation could not be decreased to the targeted levels with the effects of its showing a rigidity at the level of 8-10 percent and with factors sourced from abroad.

Despite the fact that a balanced budget was reached in 2006 by showing a tremendous improvement in the tight monetary policies implemented and the centralized administration budget, there was a relative deterioration in the budget balance in 2007 due to the relative slackening of the financial discipline.

Exports continued to increase in 2007 and for the first time rose above one hundred billion US dollars. This level attained in exports is an important success. However, it is also necessary not to overlook the increase realized in imports. The dependence on the imports of intermediary goods for production and exports of the manufacturing industry forms a pressure on the total imports and paves the way for an increase in the foreign trade deficit. The increase in the imports of intermediary goods is causing difficulties for the producers of domestic intermediary goods and forces them outside of the real economy.

Another negativity experienced economically in Turkey is the fact that the deterioration, which started in the balance of current transactions in 2002, also continued in 2007. Although no problems were experienced up until the present-day in the current deficit, it should be taken into consideration that the developments emerging in Turkey and abroad could negatively influence the financing of the current deficit.

The fluctuations experienced in the international markets, the uncertainties related to elections, the high temperatures, which were above the seasonal norms, the drought experienced connected to this, the delay in the structural reforms and their shifting to the lower levels on the agenda of the economy were the basic reasons for the stagnation in the Turkish economy in 2007.

When the developments occurring economically in 2007 are compared with Turkey's long-term data and when we evaluate them by taking into consideration the difficulties experienced in the international markets, it is impossible to evaluate them in a negative manner. However, when the developments experienced since 2002, the successes obtained and the targets and expectations set forth are taken into consideration, it is emerging that the economic performance should have been better.

When the international economic developments are taken into account, it has become mandatory to institutionalize the financial discipline, to complete the micro reforms that would lower the input costs of the company groups and to make arrangements that would increase the quality of the public sector administration management.

Our belief is complete that the period of improvement in the Turkish economy would continue in case the developments in the national and international arena are followed well and in case the appropriate policies are developed.

With these thoughts, I hope that our economic report will be useful for our business community and those who are interested.

**M. Rifat Hisarcıklioğlu**  
**Chairman**

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## ECONOMIC REPORT 2007

## CONTENTS

<b>I. GENERAL EVALUATION</b>	<b>1</b>
A. DEVELOPMENTS IN THE WORLD ECONOMY	2
B. DEVELOPMENTS IN THE TURKISH ECONOMY	8
<b>II. THE TURKISH ECONOMY IN NUMBERS</b>	<b>19</b>
A. NATIONAL INCOME	20
1. The Gross Domestic Product	20
2. Sectoral Developments	29
a. Agriculture	29
b. Industry	32
c. Services	44
B. INVESTMENTS	52
C. MONETARY AND FINANCIAL DEVELOPMENTS	60
1. Price Trends and Inflation	60
2. Money, Banks and Capital Market	67
3. Public Finance	80
a. Centralized Administration Budget	83
b. Funds	89
c. State Economic Enterprises	89
d. Public Financing Deficit	90
e. Privatization	91
f. Centralized Administration Debt Stock	92
D. FOREIGN ECONOMIC DEVELOPMENTS	97
1. Foreign Trade	97
a. Exports	97
b. Imports	101
c. Foreign Trade According to Country Groups	102
d. Foreign Trade with the Neighboring Countries	107
2. Foreign Currency Exchange Rates	108
3. Balance of Payments	114
4. Direct International Investments	114
5. Foreign Debts	120
<b>III. SOCIAL DEVELOPMENTS</b>	<b>125</b>
A. POPULATION	126
B. EMPLOYMENT	127
C. WORK LIFE	130
D. WAGES	133
<b>IV. TARGETS AND REALIZATIONS IN THE ECONOMY OF TURKEY</b>	<b>135</b>
<b>V. ECONOMIC AND SOCIAL INDICATORS</b>	<b>141</b>

## TABLES

Table 1.	World Production	3
Table 2.	Basic Economic Indicators for Some EU Countries and Turkey	5
Table 3.	World Trade Volume	8
Table 4.	The Gross Domestic Product in Fixed Prices	22
Table 5.	The Gross Domestic Product in Current Prices	24
Table 6.	Sector Contributions to the Gross Domestic Product	25
Table 7.	Shares of the Sectors in the Gross Domestic Product	26
Table 8.	The Gross Domestic Product by the Expense Method (1998 Prices)	27
Table 9.	The Gross Domestic Product by the Expense Method (Current Prices)	28
Table 10.	Contributions to the Gross Domestic Product by the Expense Method	28
Table 11.	Production of Selected Agricultural Products	29
Table 12.	Production of Selected Fruits	30
Table 13.	Production of Selected Vegetables	31
Table 14.	Agricultural Support Payments	32
Table 15.	Rates of Change in the Added Value in the Industrial Sector	33
Table 16.	The Share of the Industrial Sector Added Value in the GDP	33
Table 17.	Industrial Production Index and Rates of Change	33
Table 18.	The Mining and Quarrying Production Index and Rates of Change	34
Table 19.	The Production Index in the Manufacturing Industry and Rates of Change	35
Table 20.	Rates of Capacity Utilization in the Manufacturing Industry	35
Table 21.	Productivity in the Manufacturing Industry	36
Table 22.	Production of Selected Industrial Goods	38
Table 23.	Production of Selected Durable Consumer Goods	39
Table 24.	Sales of Selected Durable Consumer Goods	39
Table 25.	Energy Production Index and Rates of Change	40
Table 26.	The Distribution of Electrical Energy Production According to Energy Sources	41
Table 27.	Distribution of Electrical Energy Consumption According to the User Groups	41
Table 28.	Volume of Transactions of the Commodity Exchanges	44
Table 29.	Volume of Transactions of the Selected Commodity Exchanges	45
Table 30.	Newly Established Companies	45
Table 31.	Companies Closed Down	46
Table 32.	The Real Persons Who Registered and Discontinued Businesses	46
Table 33.	Negotiable Instruments Protested and Bad Checks	46
Table 34.	The Number of Foreigners Coming and Citizens Leaving	48
Table 35.	Distribution of the Number of Foreigners Coming and the Number of Citizens Leaving According to Purposes	48
Table 36.	Balance of Tourism Revenues and Expenses and Average Expenditures	49
Table 37.	Loans Allocated by the Development Bank of Turkey to the Tourism Sector and Used	49
Table 38.	Transportation Statistics	51

Table 39.	Fixed Capital Investments .....	52
Table 40.	Fixed Capital Investments by Sectors .....	54
Table 41.	Building Construction According to Construction Licenses .....	55
Table 42.	Change and Share of Building Construction According to Construction Licenses .....	56
Table 43.	Building Construction According to Building Utilization Licenses .....	56
Table 44.	Building Construction According to Construction Licences .....	56
Table 45.	Sectoral Distribution of Investment Incentive Certificates .....	57
Table 46.	Distribution of Investment Incentive Certificates According to Types .....	59
Table 47.	Regional Distribution of Investment Incentive Certificates .....	59
Table 48.	Consumer Prices Index .....	62
Table 49.	Consumer Prices Index with Special Scope .....	64
Table 50.	The Producer Prices Index by Months .....	65
Table 51.	Producer Prices Index .....	65
Table 52.	Targets of the Monetary Policy .....	68
Table 53.	Interest Decisions of the Monetary Policy Board .....	69
Table 54.	Money Supplies .....	70
Table 55.	Deposits in Banks .....	71
Table 56.	The Share of YTL and Foreign Currency Deposits within the Total Deposits .....	72
Table 57.	Bank Credits .....	73
Table 58.	International Reserves .....	74
Table 59.	Central Bank Reserves and Ratio of Meeting Imports .....	74
Table 60.	Information on Banks, Branches and Personnel in the Turkish Banking System .....	75
Table 61.	Permits for Issuing Stocks and Bonds .....	76
Table 62.	Private Sector Permits for Issuing Stocks and Bonds .....	79
Table 63.	Volume of Transactions on the Second-Hand Markets .....	80
Table 64.	İstanbul Stock Exchange (İMKB) .....	81
Table 65.	General State Revenues .....	82
Table 66.	General State Expenses .....	83
Table 67.	Centralized Administration Budget Realizations .....	83
Table 68.	Centralized Administration Budget Revenues .....	85
Table 69.	Tax Burden .....	86
Table 70.	Tax Flexibility Coefficients .....	86
Table 71.	Centralized Administration Budget Expenses .....	88
Table 72.	Fund Balance .....	89
Table 73.	Financial Balance of the Operating KİTs .....	90
Table 74.	Public Sector Borrowing Requirement .....	91
Table 75.	Privatization Transactions .....	92
Table 76.	Total Debt Stock of the Centralized Administration .....	93
Table 77.	Domestic Debt Stock .....	95
Table 78.	Term and Annual Compounded Real Interest of the Domestic Debt Stock .....	95
Table 79.	The Foreign Currency / Interest Structure of the Domestic Debt Stock .....	96
Table 80.	Distribution of the Domestic Debt Stock According to Borrowers .....	96
Table 81.	Foreign Trade Indicators .....	97

Table 82.	Exports According to Sectors . . . . .	99
Table 83.	Exports According to Main Groups of Goods . . . . .	100
Table 84.	The First Ten Groups in Exports . . . . .	100
Table 85.	Imports According to Sectors . . . . .	101
Table 86.	Imports According to Main Groups of Goods . . . . .	101
Table 87.	The First Ten Groups in Imports . . . . .	102
Table 88.	Exports and Imports According to Country Groups . . . . .	103
Table 89.	Exports and Imports According to Selected Country Groups . . . . .	104
Table 90.	Foreign Trade Volume According to Country Groups . . . . .	105
Table 91.	Foreign Trade Volume According to Selected Country Groups . . . . .	106
Table 92.	Ten Countries to which the Most Exports are Made . . . . .	106
Table 93.	Ten Countries to which the Most Imports are Made . . . . .	107
Table 94.	Exports and Imports with Neighboring Countries . . . . .	107
Table 95.	Foreign Trade Volume with Neighboring Countries . . . . .	108
Table 96.	The Foreign Currency Purchases and Sales Amounts Made by the Central Bank . . . . .	109
Table 97.	Foreign Currency Exchange Rates by Years . . . . .	110
Table 98.	Foreign Currency Exchange Rates . . . . .	111
Table 99.	Real Cash Foreign Currency Exchange Rate Indices . . . . .	112
Table 100.	Balance of Payments . . . . .	115
Table 101.	Direct International Investment Inflows . . . . .	118
Table 102.	Sectoral Distribution of the Direct International Investment Inflows . . . . .	118
Table 103.	Distribution of Direct International Investment Inflows According to Country Groups . . . . .	120
Table 104.	Foreign Debt Stock . . . . .	122
Table 105.	Turkey's Total Population, Rates of Annual Population Increase and Population Density . . . . .	126
Table 106.	City-Village Populations and Annual Rates of Population Increase . . . . .	127
Table 107.	Domestic Work Force Market . . . . .	127
Table 108.	Sectoral Distribution of Employment . . . . .	130
Table 109.	Number of Workers and the Rates of Unionization . . . . .	130
Table 110.	Places of Employment and the Number of Workers Included in the Collective Labor Agreements . . . . .	132
Table 111.	Strike Implementations . . . . .	132
Table 112.	Lockout Implementations . . . . .	132
Table 113.	Developments in Workers Wages in the Scope of the Collective Labor Agreements . . . . .	133
Table 114.	Daily and Monthly Gross Minimum Wages as of Years . . . . .	134
Table 115.	Developments in Civil Servant Salaries . . . . .	134
Table 116.	The GDP and Sectoral Growth (Program Target and Realization) . . . . .	136
Table 117.	The Shares of the Sectors within the GDP (Program Target and Realization) . . . . .	137
Table 118.	Inflation (Program Target and Realization) . . . . .	137
Table 119.	Centralized Administration Budget (Budget Target and Realization) . . . . .	138
Table 120.	Balance of Current Transactions (Program Target and Realization) . . . . .	139
	Economic and Social Indicators . . . . .	142

## GRAPHS

Graph 1.	The Growth Rates of the Gross Domestic Product .....	23
Graph 2.	Sectoral Distribution of the Gross Domestic Product .....	26
Graph 3.	Production Index in the Manufacturing Industry .....	35
Graph 4.	Partial Productivity Index in the Manufacturing Industry .....	37
Graph 5.	Distribution of Electrical Energy Production According to Energy Sources .....	42
Graph 6.	Distribution of Electrical Energy Consumption According to the User Groups .....	43
Graph 7.	Volume of Transactions of the Commodity Exchanges .....	44
Graph 8.	Negotiable Instruments Protested and Bad Checks .....	47
Graph 9.	Tourism Revenues and Expenses .....	50
Graph 10.	Public Sector Fixed Capital Investments .....	53
Graph 11.	Building Construction According to Construction Licenses and Building Utilization Licenses .....	57
Graph 12.	Sectoral Distribution of Investment Incentive certificates .....	58
Graph 13.	Regional Distribution of Investment Incentives .....	60
Graph 14.	Rates of Change in the TÜFE as of Main Spending Groups .....	63
Graph 15.	Rates of Change in the ÜFE by Sectors .....	66
Graph 16.	Money Supplies .....	71
Graph 17.	The Ratio of YTL Deposits and Foreign Currency Deposits at the Banks .....	73
Graph 18.	International Reserves .....	74
Graph 19.	Permits for Issuing Stocks and Bonds .....	77
Graph 20.	Centralized Administration Budget Realizations .....	84
Graph 21.	Tax Burden .....	87
Graph 22.	Tax Flexibility Coefficients .....	87
Graph 23.	Total Debt Stock of the Centralized Administration .....	94
Graph 24.	Foreign Trade Indicators .....	98
Graph 25.	Ratio of Exports / Imports .....	99
Graph 26.	Real Cash Foreign Currency Exchange Rate Indices .....	113
Graph 27.	Balance of Current Transactions .....	116
Graph 28.	Tourism Revenues and Worker Remittances .....	117
Graph 29.	Sectoral Distribution of the Direct International Investment Inflows .....	119
Graph 30.	Distribution of the Direct International Investment Inflows According to Country Groups .....	121
Graph 31.	Foreign Debt Stock .....	123
Graph 32.	Distribution of the Foreign Debt Stock According to Debtors .....	124
Graph 33.	City and Village Populations .....	128
Graph 34.	Rates of Unemployment .....	129
Graph 35.	Sectoral Distribution of Employment .....	131

## ABBREVIATIONS

### INTERNATIONAL ABBREVIATIONS

ASEAN	Association of Southeast Asian Nations
BSEC	Black Sea Economic Cooperation Organization
CIS	Commonwealth of Independent States
DIS	Direct Income Support
ECO	Economic Cooperation Organization
EFTA	European Free Trade Association
EU	European Union
FC	Foreign Currency
FED	Federal Reserve Bank (United States)
FOB	Free on Board
GDP	Gross Domestic Product
IF	Investment Fund
IMF	International Monetary Fund
NCE	Not Classified Elsewhere
OECD	Organization for Economic Cooperation and Development
OIC	Organization of the Islamic Conference
SBIF	Stocks and Bonds Investment Fund
SDR	Special Drawing Rights
USA	United States of America

### TURKISH ABBREVIATIONS

ADNKS	Population Registration System Based on Addresses
BOTAŞ	Pipeline and Petroleum Transport Corporation
ÇSGB	Ministry of Labor and Social Security
DPT	State Planning Organization (SPO)
DTH	Foreign Exchange Deposit Account
HM	Undersecretariat of the Treasury
İMKB	İstanbul Stock Exchange (İSE)
KİT	State Economic Enterprise (SEE)
MB	Ministry of Finance
ÖİB	Privatization Administration Chairmanship
SPK	Capital Markets Board (CMB) of Turkey
TBB	Union of Turkish Banks
TCMB	Central Bank of the Republic of Turkey (CBRT)
TEFE	Wholesale Goods Price Index
THY	Turkish Airlines
TİSK	Turkish Confederation of Employers' Unions
TKB	Development Bank of Turkey (DBT)
TMSF	Savings Deposit Insurance Fund (SDIF)
TOBB	Union of Chambers of Commerce and Commodity Exchanges of Turkey (UCCET)
TÜFE	Consumer Prices Index
TÜİK	Turkish Institute of Statistics (TIS)
ÜFE	Producer Prices Index
YTL	New Turkish Lira





# **I. GENERAL EVALUATION**

## A. DEVELOPMENTS IN THE WORLD ECONOMY

The world economy, which slowed down in 2001, entered into a period of growth as of 2002, with the contribution of the expanding macroeconomic policies implemented in the developed countries and the high growth rate experienced in the developing countries. The growth rate of the world economy accelerated between 2002-2004 and in 2005 it regressed to the level of 4.4% under the influence of the increasing oil prices, the rising interest and share yield rates and the tensions in the international political arena.

The growth rate of the world economy once again increased to 5% in 2006, despite the tight monetary policy implementations, the fluctuations experienced in the financial markets in May and the increasing oil and metal prices. The world trade volume, which grew 9.2%, was the driving force of this growth.

The growth experienced in the developed and developing countries in 2006 formed an inflationary pressure caused by an increase in the demand trend and it was attempted to compensate for this pressure with tight monetary policies in the developed economies.

The shrinking policies implemented in the developed countries for decreasing the inflationary pressures started to constitute a pressure on the world economy in the second half of 2006. The effect of this pressure on the world economy was felt considerably in 2007. The growth of the world economy was negatively influenced by the negative developments in the real estate markets in the United States of America (USA) and the turmoil experienced in the developed financial markets in the second half of the year connected to this and from a shrinkage in liquidity and with a 0.1 point decrease regressed to 4.9%. Thus, the world economy, after the period of growth experienced since 2002, entered into a new cycle and period of uncertainty stemming from the financial fluctuations in the developed economies. Despite the fluctuations experienced in the financial markets and the slowing down of the growth rates of the developed countries, the strong performances of the economies of the developing countries limited the dimension of the shrinkage in the world economy (Table 1).

In 2007, the economies of China, India and Russia were the driving force of the global economic developments on the basis of countries. The growth rates of the developing countries and the countries within a period of transition were realized above the general growth rates, whereas the growth rates of the developed countries were realized below the general growth rates.

In 2007, compared to the previous year, the average growth rate of the developed countries, with an 0.3 point decrease was 2.7%, the average growth rate of the developing countries, with an 0.1 point increase was 7.9% and the average growth rate of the countries within a period of transition, with an 0.3 point increase was 8.5%.

**TABLE 1. WORLD PRODUCTION**

	(% Change)			
	2005	2006	2007	2008 <sup>(1)</sup>
World Production	4.4	5.0	4.9	3.7
Developed Countries	2.6	3.0	2.7	1.3
U.S.A.	3.1	2.9	2.2	0.5
Japan	1.9	2.4	2.1	1.4
Canada	3.1	2.8	2.7	1.3
Euro Region	1.6	2.8	2.6	1.4
Developing Countries	7.1	7.8	7.9	6.7
Developing Asian Economies	9.0	9.6	9.7	8.2
China	10.4	11.1	11.4	9.3
India	9.1	9.7	9.2	7.9
ASEAN-5 <sup>(2) (3)</sup>	5.1	5.7	6.3	5.8
Latin America	4.6	5.5	5.6	4.4
Brazil	3.2	3.8	5.4	4.8
Transition Period Countries	6.5	8.2	8.5	7.0
Russia	6.4	7.4	8.1	6.8

Source: IMF World Economic Outlook, April 2008

(1) Estimate

(2) Indonesia, Malaysia, Philippines, Thailand and Singapore

(3) ASEAN-4 (Indonesia, Malaysia, Philippines and Thailand) countries in 2005

In 2007, the evaluations that the problems stemming from the housing sector in the USA economy would not be overcome in the short-term and that there could be a definite slowing down acquired importance. The announcement of the foremost financial organizations of losses at high levels caused an entrance into an increasing tendency of risk perception. The Federal Reserve Bank (FED) of the USA decreased the short-term interest rates by 50 base points to 4.75% on 18 September 2007, by 25 base points to 4.50% on 31 October 2007 and by 25 base points to 4.25% on 11 December 2007 with the objectives of preventing the problems in the loan markets spreading to the economy in general by deeply influencing the housing sector and of supporting economic growth in the medium-term. Despite the measures taken, the growth rate of the USA economy, which has dragged down the world economy ever since the beginning of the 2000s, decreased 0.7 points and regressed to 2.2%. A partial improvement was observed in the inflation rate in the USA in 2007. The consumer prices decreased 0.3 points and fell to 2.9%.

It was observed in 2007 that the improvement in the housing sector in the USA became more definite, that the private sector investment and consumer expenses slowed down and that the uncertainties related to growth and inflation increased. It is foreseen that in 2008 the difficult period in the housing sector in the USA would continue, that the consumer expenses and investments would decrease and it is estimated that the growth rate would regress to the level of 0.5% and that the economy would enter into stagnation.

The growth rate of the Japanese economy shrank in 2005 and even if it recovered and rose to 2.4% in 2006, it decreased 0.3 points in 2007 and regressed to 2.1%.

The stagnation experienced in the global economy, led by the USA economy, and the decrease in housing and fixed capital expenses are in the lead of the factors that led to a slowing down in the Japanese economy. The hesitancy in the loan markets that emerged in connection with the problems experienced in the global economy in 2007 made the Japanese companies behave more cautiously. The Japanese companies restricted their fixed capital expenses and they are postponing their housing investments, also with the influence of the change made in the structure security regulations. Nevertheless, despite the decrease in investment expenses, the increase observed in net exports with the increase in demand stemming from the Asian economies, slowed down the rate of decrease in growth. It is expected that the growth rate of the Japanese economy will regress even more in 2008 and drop to the level of 1.4%.

The growth rates in the Euro Region followed an unstable course in the 2001-2007 period. The economic growth rate of the Region, with an 0.5 point decrease regressed to 1.6% in 2005. It revived in 2006 and rose to the level of 2.8%. Thus, the Region attained the highest growth rate level of the past six years. Whereas, in 2007, the growth rate decreased 0.2 points compared to the previous year and fell to 2.6%. Especially, the lively investment demand and the construction and export increases in Germany were influential on the growth in the Euro Region in 2007. Developments, such as a rise in the rates of profitability and an increase in total employment are decreasing the risk perception within the region on the growth of the Euro Region. However, it is envisaged that the growth rate of the Euro Region would regress to the level of 1.4% in 2008 in response to the possibility of stagnation in the USA (Table 2).

When it is evaluated as of countries, it is observed that the economic growth of the Region in 2007 also has important differences as of rate and composition, just as it did in the previous years. The growth rate of Spain was realized above the average of the Region and the growth rates of Germany, France and Italy were realized below the average of the Region. Spain grew 3.8% in 2007 and affected the economic growth of the Region in an upward direction. The 2.5% growth in Germany, 1.9% growth in France and 1.5% growth in Italy constituted a downward pressure on the growth rate of the Region. The growth rate of England, which is not included in the Euro Region, increased 0.2 points and rose to 3.1%. It was realized at 0.5 points above the average of the Region.

The unemployment rate in the Euro Region, which has had a falling trend since 2005, also dropped 0.8 points in 2007 compared to the previous year and regressed to 7.4%. The unemployment rates in the region show great differences by countries. In Italy, which is one of the countries that has shown the most stable development in the past seven years on the subject of lowering the unemployment rate within the economies of the Region, had an unemployment rate of 10.1% in 2000 and has reduced it in stages over a seven year period. Thus, the unemployment rate in Italy decreased 0.8 points in 2007 compared to the previous year and was realized at 6%, that is under the average of the Region. Even if the unemployment rates of the other large economies in the Region remain above the average of the Region, important improvements were experienced in 2007. The unemployment rate in Germany, with a 1.4 point decrease in 2007 compared to the previous year, dropped to 8.4% and in France with a decrease of 0.9 points and in Spain with a decrease of 0.2 points, it regressed to 8.3%. Whereas, the unemployment rate in England, which is not included in the Region, did not change compared to 2006 and remained at the level of 5.4%.

**TABLE 2. BASIC ECONOMIC INDICATORS FOR SOME EU COUNTRIES AND TURKEY**

	2005	2006	2007 <sup>(1)</sup>
<b>GROWTH (GDP) (%)</b>			
Euro Region	1.6	2.8	2.6
Germany	0.8	2.9	2.5
France	1.7	2.0	1.9
Italy	0.6	1.8	1.5
Spain	3.6	3.9	3.8
England	1.8	2.9	3.1
Turkey <sup>(2)</sup>	8.4	6.9	4.5
<b>UNEMPLOYMENT (%)</b>			
Euro Region	8.6	8.2	7.4
Germany	10.6	9.8	8.4
France	9.3	9.2	8.3
Italy	7.7	6.8	6.0
Spain	9.2	8.5	8.3
England	4.8	5.4	5.4
Turkey <sup>(2)</sup>	10.3	9.9	9.9
<b>INFLATION (Consumer Prices) (%)</b>			
Euro Region	2.2	2.2	2.1
Germany	1.9	1.8	2.3
France	1.9	1.9	1.6
Italy	2.2	2.2	2.0
Spain	3.4	3.6	2.8
England	2.0	2.3	2.3
Turkey <sup>(2)</sup>	7.7	9.7	8.4
<b>CENTRALIZED ADMINISTRATION BUDGET BALANCE/GDP (%)</b>			
Euro Region	-2.3	-1.5	-0.7
Germany	-2.6	-1.3	-0.9
France	-3.1	-2.6	-2.1
Italy	-3.8	-3.9	-0.4
Spain	0.4	0.8	1.3
England	-3.1	-2.6	-3.3
Turkey <sup>(2)</sup>	-1.1	-0.6	-1.6
<b>GENERAL ADMINISTRATION GROSS DEBT STOCK (%)</b>			
Euro Region	76.9	74.8	72.4
Germany	71.1	69.3	66.2
France	75.4	70.9	71.9
Italy	120.5	118.7	116.9
Spain	50.6	46.7	42.8
England	46.5	46.6	47.2
Turkey <sup>(2)</sup>	51.8	46.0	39.3

Source: IMF World Economic Outlook, April 2008; OECD Economic Outlook, December 2007

(1) Estimate

(2) The information related to Turkey was compiled from the data of the TÜİK, DPT and HM.


Despite the instability in the economic growth trend, it is estimated that the improvement obtained in the past three years on the subject of unemployment in the Region would also continue in 2008 and that it would regress to the lowest level in recent years.

Inflation in the Euro Region decreased 0.1 point in 2007 compared to the previous year and regressed to 2.1%. Of the countries in the Region, the consumer prices inflation in Spain decreased 0.8 points in 2007 compared to the previous year and dropped to 2.8%. Whereas, it increased 0.5 points in Germany and rose to 2.3%. The inflation rates of these two countries were realized above the average of the Region. Of the other large economies of the Region, the inflation rates in France and Italy experienced a decrease and the values realized remained below the average of the Region. In France the inflation rate dropped 0.3 points in 2007 compared to the previous year and regressed to 1.6% and dropped 0.2 points in Italy and regressed to 2%. Whereas, the inflation rate in England, which is not included in the Region, remained at its 2006 level of 2.3% and was realized at 0.2 points above the average of the Region. It is envisaged that the inflation rate of the Euro Region in 2008 would increase 0.7 points with the influence of the increases experienced in energy and food prices and would rise to 2.8%.

An improvement has been experienced in the public sector finances of the Euro Region economies for the past three years. In the Regional countries in general, the ratio of the centralized administration budget deficits to the total GDP, which was 2.3% in 2005, regressed to 1.5% in 2006 and 0.7% in 2007. Even if the ratio of the centralized administration budget deficits of France and Germany were realized above the average of the Region in 2007, an improvement was observed in the public sector finances of these countries. Whereas, the most striking development was in Italy. As a result of the financial policies implemented, the subject ratio fell to 2.1% in France, 0.9% in Germany and 0.4% in Italy. The ratio of the centralized administration budget surplus to the GDP, which was realized at 0.8% in Spain in 2006, increased 0.5 points in 2007 and rose to 1.3%. The ratio of the centralized administration budget deficits to the GDP in England, which is not included in the Region, increased 0.7 points compared to the previous year and rose to 3.3%.

A general improvement has been experienced in the past two years in the ratios of the public sector debt stocks to the GDP in the Euro Region countries. The ratio of the total debt stock to the GDP of the economies of the Region in 2007 decreased 2.4 points and became 72.4%. It rose to 71.9% in France and fell to 42.8% in Spain, 66.2% in Germany and 116.9% in Italy, which are among the most stable and strong economies of the Region. In England, which is not included in the Region, it showed an increase of 0.6 points and rose to 47.2%.

The developing countries were not excessively influenced by the negativities that paved the way for the shrinkage experienced in the American economy. The economies of the region continued to grow under the influence of the increases in the goods prices. The growth rate of the economies of the region, which was 7.8% in 2006, increased 0.1 point in 2007 and rose to 7.9%. It was realized 3 points above the world average. Thus, while the determinating factor on the world growth rate of the developing economies came quite into the forefront, at the same time, became one of the basic elements limiting the negative effects of the fluctuations in the international markets.



The increase in direct foreign investments, consumption and public sector expenses of the developing Asian economies (East Asia and the Pacific countries) and also with the influence of the rapid growth of the economies of China and India, grew 9.7% in 2007 and continued their high growth rate trend. The growth rates of the economies of the region were realized at 4.8 points above the world average. It is estimated that the growth rates of the developing Asian economies would be negatively influenced from the weakening appearance of the American economy in the upcoming year.

The growth rate of China, which constitutes the source of over half of the growth of the region, increased 0.3 points in 2007 compared to the previous year under the influence of the high investment and export performances, foreign-sourced inflows and increased consumer expenses and reached the level of 11.4%. A rise in prices and a current deficit are observed in the Chinese economy due to the increasing domestic demand during the rapid growth. The fact that there is an increase in the housing prices and inflation rates shows that the heating in the economy will continue. It is estimated that the growth rate of the Chinese economy would regress in 2008 with the decision of the Chinese Central Bank to increase interest rates and the possibility of the USA economy, which is a trade partner of China, entering into stagnation.

The growth rates of the ASEAN-5 countries, which are composed of Indonesia, Malaysia, the Philippines, Thailand and Singapore, that were 5.7% in 2006, rose to 6.3% in 2007 in parallel with the general growth trends of the developing countries.

The growth rates of the Latin American economies, which regressed to 4.6% with the influence of the economic stagnation observed in the world in general in 2005, rose to 5.5% in 2006 with the relaxing of the monetary and fiscal policies and with the increasing oil prices. In 2007 the growth rates of these countries rose to 5.6% with the influence of the vitality of the world trade drawn by the Asian countries and the increase in the prices of goods. The growth rate of Brazil, which is among the large economies of the region, increased 1.6 points in 2007 and became 5.4%.

The growth rates of the countries within a period of transition, in which Russia is also included, increased 0.3 points in 2007 compared to the previous year and rose to 8.5%. The growth rate of Russia, which forms a large part of the total product of the economies of the region, increased 0.7 points in 2007 compared to the previous year and rose to 8.1%. In particular, the real income increases, the increase in consumption supported by easy access to loans and strong capital flows were influential on this development experienced in Russia. It is estimated that the growth rate of the economy of the region would regress to 7% in 2008 under the influence of the shrinkage in loan conditions and the weakening external environment.

The rate of increase in the world trade volume, which was 9.2% in 2006, regressed to 6.8% in 2007 under the influence of the slowing down in world production. The rate of increase in exports of the developed countries regressed from 8.2% to 5.8% and the rate of increase in imports regressed from 7.4% to 4.2%. The rate of increase in exports of the developing countries fell from 10.9% to 8.9% and the rate of increase in imports dropped from 14.4% to 12.8%. It is envisaged that the slowing down experienced in the increase in the world trade volume in 2007 would also continue in 2008 (Table 3).



TABLE 3. WORLD TRADE VOLUME

	(% Change)			
	2005	2006	2007	2008 <sup>(1)</sup>
World Trade Volume <sup>(2)</sup>	7.6	9.2	6.8	5.6
(Trade of Goods and Services)				
Exports				
Developed Countries	6.0	8.2	5.8	4.5
Developing Countries	11.1	10.9	8.9	7.1
Imports				
Developed Countries	6.3	7.4	4.2	3.1
Developing Countries	12.0	14.4	12.8	11.8

Source: IMF World Economic Outlook, April 2008

(1) Estimate

(2) Annual average percentage change in world exports and imports.

## B. DEVELOPMENTS IN THE TURKISH ECONOMY


After the two economic crises experienced in Turkey in 2000 and 2001, the eighteenth standby agreement was made with the International Monetary Fund (IMF) on 4 February 2002. The eighteenth standby agreement, which included a strengthened medium-term economic program, was completed on 3 February 2005 as envisaged at the end of the three-year period. Economic stability was provided within the three-year period the program was implemented and a great majority of the targets envisaged were realized.

A nineteenth standby agreement was made with the IMF on 11 May 2005 with the objective of continuing the successes obtained within the scope of the eighteenth standby agreement and the economic program covering a three-year period between May 2005-May 2008 was put into force. It was decided to follow the program through regular reviews, preconditions, targets having the attributes of numerical performance criteria and indicators and structural performance criteria. It was envisaged with the nineteenth standby agreement to use total resources in the amount of 6,662 billion SDR (approximately US\$10 billion) in 12 equal installments in the three-year period. The first installment of this resource in the amount of 555.17 million SDR (approximately US\$837.5 million) was released for usage. In addition to this, the repayment plan related to 2006 in the amount of 2.52 billion SDR (approximately US\$3.80 billion) was shifted to 2007 by putting it into the normal payment schedule instead of the early payment schedule.

The first and second reviews of the standby agreement were combined and completed on 9 December 2005. The third and fourth reviews were combined and completed on 28 July 2006. The fifth review was completed on 13 December 2006. A loan portion was released with a total of 3,109 million SDR (approximately US\$4.6 billion) within the scope of the reviews.

The activities related to the nineteenth standby agreement being carried out with the IMF continued in 2007. Within this scope, the letter of intent prepared related to the sixth review of the standby agreement was conveyed to the IMF on 1 May 2007. The sixth review was completed with the approval of the letter of intent on 18 May 2007 by IMF Executive Board of Directors and a loan portion was released with a total of 749.5 million SDR (approximately US\$1,135.5 million).





The IMF delegation came to Turkey and undertook activities between 4-17 October 2007 within the scope of the seventh review activities of the existing standby agreement that will end in May 2008. The subject activities continued during the meetings of the IMF/World Bank Annual Governor's Board in Washington, D.C. The seventh review activities with the IMF delegation, which came to Turkey, resumed on 17 December 2007. The evaluation activities with the IMF within the scope of the seventh review were completed on 21 December 2007.

The recent economic developments, the stages reached in the structural reforms and the 2008 targets were dwelled upon within the scope of the review activities. The macroeconomic performance, public sector finance and monetary policy implementations and the reform activities in the fields of social security, tax administration and financial sector were evaluated. Consensus was provided to a great extent on the draft letter of intent.

The seventh review activities of the standby agreement resumed on 4 April 2008 and the subject activities were completed on 14 April 2008. The letter of intent prepared at the end of the review activities was conveyed to the IMF on 28 April 2008. The letter of intent was discussed and approved by the IMF Executive Board of Directors on 9 May 2008 and a loan portion with a total of 2,248 million SDR (approximately US\$3,644 million) was released. Thus, the standby agreement carried out with the IMF since 11 May 2005 was completed.

In 2007, to increase the confidence and stability provided in the economy and to continue the period of economic growth by continuing the financial discipline, to lower inflation even more, to provide for the sustainability of the current deficit and to finance it with sound resources and to increase employment came into the forefront as the basic objectives of the macroeconomic policies. The policy implementations within the scope of the nineteenth standby agreement were continued for reaching these targets.

In 2007, the fluctuations experienced in the international markets, the uncertainty in domestic policies and elections, the temperatures that were above the seasonal norms and the drought experienced connected to this, the delay in the structural reforms and shifting them to the lower levels of the agenda of the economy came into the forefront as the components that negatively affected the Turkish economy.

The rapid period of growth starting in the Turkish economy in 2002 under the influence of the economic program applied after the crisis experienced in 2001 and with the structural reforms reached the highest level in 2004. A slowing down started in the growth rate of the economy in 2005 and the slowing down became gradually more definite through the years. The growth rate in 2007 dropped to the lowest level of the past 6 years.

According to the new series of updated growth data, after the 5.7% shrinkage realized in 2001, growth rates were 6.2% in 2002, 5.3% in 2003 and 9.4% in 2004. The growth rates were realized at the levels of 8.4% in 2005 and 6.9% in 2006. Whereas, in 2007 the growth rate at 4.5% regressed to the lowest level of the past 6 years. At the same time, it remained under the targeted value for the first time since 2002. Thus, the Turkish economy, which grew an annual average of 7.2% in the 2002-2006 period, displayed a relatively weak performance in 2007.

The high rate of shrinkage in the agricultural sector, the decreases occurring in the added value rate of increase in the manufacturing industry, energy, construction, trade, financial intermediary organization activities, housing ownership and education sectors were influential in slowing down the economic growth from the aspect of production. Whereas, the added value increases in the mining, hotels and restaurants, transportation, real estate leasing and business activities sectors positively influenced the increase in the GDP. The decrease in the increase rate of the final consumer expenses of the state and the private sector fixed capital investments were effective in slowing down the growth rate from the aspect of expenses and the public sector fixed capital investments and the change in stock made a positive influence on the increase of the GDP.

The temperatures that were above the seasonal norms and the drought experienced connected to this negatively influenced the agricultural sector. The fishing sector grew 8.3% and the agricultural, hunting and forestry sectors decreased 7.3%. Thus, the total added value of the agricultural sector, which showed a limited increase, such as 1.4% in 2006, decreased 6.8% in 2007.

The growth rate of the mining and quarrying sector increased compared to the previous year and a significant decrease was observed in the growth rates of the manufacturing industry and energy sectors. Thus, the added value increase rate of the industrial sector, connected to the regression in the added value increase rates of the manufacturing industry and energy sectors, dropped 2.8 points and was realized at the level of 5.5%. The added values of the mining and quarrying sector increased 8.1%, the manufacturing industry sector increased 5.4% and the energy sector increased 6.2%.

In 2007, the services sector also experienced a negative year, just like the agricultural and industrial sectors, from the aspect of growth. The increase in the added value of the services sector fell 2.1 points and regressed to 6.1%. The decreases in the added value rate of increase, especially in the construction, trade and financial intermediary organizations, were a determining factor in this change. The added value rate of increase of the construction sector regressed from 18.5% to 5%, of the trade sector from 6.3% to 5.5% and of the financial intermediary organizations sector from 14% to 9.6%. These sectors drew attention as the sectors, which experienced the most definite slowing down in the growth rates compared to 2006.

In 2007, the public sector consumer expenses increased 2.8% and the permanent households consumer expenses, which are the largest component of the GDP, increased 4.6%. Thus, there was an increase of 4.4% in the total consumer expenses.

The public sector fixed capital investments increased 7.6% under the influence of the 16.5% increase in machinery-equipment investments and the 5.2% increase in construction investments. The private sector fixed capital investments increased 2.7% under the influence of the 0.7% increase in machinery-equipment investments and the 6.3% increase in building construction. A 3.3% increase occurred in the total fixed capital investments. Thus, a 5 point increase was realized in the growth rate of the public sector fixed capital investments compared to the previous year. Whereas, a 12.3 point decrease was realized in the growth rate of the private sector fixed capital investments.



In 2007, the share of the agricultural sector within the Gross Domestic Product was 7.7%, the share of the industrial sector was 19.6% and the share of the services sector was 72.7%.

The per capita Gross Domestic Product was calculated to be 12,132 YTL in current prices and to be US\$9,333 in dollars.

The rate of capacity utilization of the manufacturing sector, which was 81% in 2006, increased 0.8 points in 2007 under the influence of the rise in the private sector capacity utilization and rose to 81.8%. The rate of capacity utilization in the public sector decreased 1 point and became 88.4% and in the private sector it increased 1.1 points and became 80.7%.

In 2006, the productivity per person working in production in the manufacturing industry in general increased to 6.3% and the productivity per hour of those working in production increased 6.7%. In 2007, these rates were realized at the levels of 2.6% and 2.5%, respectively.

The construction sector, which has made significant contributions to the growth of the national income with its high increase in added value in recent years, entered into stagnation in 2007 with the fluctuations stemming from the global economy and with the shrinking of demand. Connected to these developments experienced in the construction sector, a decrease to a significant extent was realized in the rate of increase in the areas of the buildings for which building utilization licenses and building construction licenses were given by the municipalities. The total construction area of the buildings given building construction licenses by the municipalities increased 15.5% in 2006 and with an increase of 1% in 2007 it rose to 124,132 thousand m<sup>2</sup>. Whereas, the rate of increase of the total construction area of the buildings given a Building Utilization License regressed from 13.7% to 10.4% and Building Utilization Licenses were given to 63,150 thousand m<sup>2</sup> of constructions.

The amount of investments connected to an incentive certificate in 2007 increased 15.8% compared to 2006 and rose to 26,330.6 million YTL. It showed an increase of 8.9% in real terms compared to the producer prices index. It was aimed during the year to provide employment for 133,094 persons with 2,364 incentive certificate investments.

In 2007, within the investments connected to an incentive certificate, the share of the manufacturing industry sector was in first place at 47.2%. The share of the services sector was 33.4%, the share of the energy sector was 15.6%, the share of the mining sector was 2.4% and the share of the agricultural sector was 1.3%. The share of the energy sector increased compared to 2006 and the shares of the agricultural, mining, manufacturing industry and services sectors decreased.

Acting from providing stability and an environment of confidence, constituting the institutional infrastructure of the monetary policy and providing significant progress in the struggle against inflation, the application of the open inflation targeting regime measured with the annual change in the Consumer Prices Index (TÜFE) put into force at the beginning of 2006, was also continued in 2007. The 4% inflation target, which was previously determined, was preserved at the beginning of 2007. In 2007 a path was formed in conformance with the targets of 9.2% as of the end of March, 6.7% as of the end of June, 5.3% as of the end of September and 4% as of the end of December. A 2-point interval of uncertainty was announced in both directions of the path.

Under the monetary policy within the framework of the economic program carried out with the International Monetary Fund (IMF), besides the inflation path, lower limit targets having the attribute of performance criteria were determined as of 30 April, 31 August and 31 December 2007 for the net international reserves.

At the end of March 2007 inflation showed a rising trend compared to the annual basis at the end of 2006 and was realized at the level of 10.86%. It was above the path in conformance with the target and remained below the upper limit of the interval of uncertainty. Inflation, which regressed in stages as of the end of June and September, was realized at the levels of 8.60% and 7.12%, respectively. Although inflation in the subject periods was realized above the path in conformance with the target, it remained under the upper limit of the interval of uncertainty. The decreasing trend observed in inflation during the second and third quarters of 2007 reversed during the last quarter of the year and the year end inflation at the level of 8.39% exceeded the level of 6%, which was the upper limit of the interval of uncertainty. Thus, although there was a 1.26 point improvement in the TÜFE inflation compared to the previous year, it was realized at 4.39 points above the year end target and 2.39 points above the upper limit of the interval of uncertainty. The TÜFE rate of increase according to the twelve month averages became 8.75%.


In 2007, the increase in food prices and the rise in the prices of energy and of the products controlled/directed, under the influence of the temperatures above the seasonal norms and the drought, came into the forefront as the basic elements that slowed down the decrease in inflation.

The rate of increase in the Producer Prices Index (ÜFE) compared to the previous year, with a 5.64 point decrease, regressed from 11.58% to 5.94%. The ÜFE rate of increase, which was 9.33% in 2006 according to the twelve month averages, decreased 3.02 points in 2007 and regressed to 6.31%. As of the end of the year, of the main sub-items of the ÜFE, the prices of the agricultural sector increased 15.70% and the prices of the industrial sector increased 3.78%. Of the main sub-items, which constitute the industrial sector, there were price increases of 15.49% in the mining sector and 4.27% in the manufacturing industry sector and a price decrease of 5.59% in the energy sector. According to the twelve month averages the prices of the agricultural sector increased 7.58%, the prices of the industrial sector increased 6.02%, the prices of the mining sector increased 9.34%, the prices of the manufacturing industry sector increased 5.58% and the prices of the energy sector increased 10.93%.

In 2007, the targets determined as of 30 April, 31 August and 31 December related to the net international reserves were attained. At the end of the year, the net international reserves at US\$42.7 billion were realized above the US\$31.8 billion lower limit having the attribute of a performance criterion.

The Central Bank continued in 2007 to use basic policy means with the objective of directing the short-term interest rates and expectations under the monetary policy and to influence the funding costs.

The Central Bank Monetary Policy Board kept the overnight borrowing interest rate fixed at the level of 17.50% in 2007 by making the evaluation that it was



necessary to continue the firm stance in the monetary policy for attaining the medium-term inflation target in the eight month period covering the months of January-August. Despite the negative developments continuing in the food and energy prices in September, a measured interest deduction was started by acting from the provision of a favorable environment in a clear slowing down in the basic inflation indicators and from being able to decrease in stages the tightening of the monetary policy. Within this framework, the overnight borrowing interest rates decreased to 17.25% in September, 16.75% in October, 16.25% in November and 15.75% in December. Thus, in 2007 the total overnight borrowing interest rate was reduced by 175 base points and decreased from the level of 17.50% to the level of 15.75%.

The increases in the money supply were at lower rates compared to 2006 within the framework of the monetary policy implementations realized during 2007. At the end of 2007, there was a 7.6% increase in the M1 money supply, a 16% increase in the M2 money supply and a 15.7% increase in the M3 money supply. When it is taken into consideration that the TÜFE increased 8.36% in 2007, there was a decrease of 0.7% in the M1 money supply and increases of 7% in the M2 money supply and 6.7% in the M3 money supply.

The total deposits in New Turkish Liras in the deposit banks increased 23.1% and the deposits in foreign currency increased 2.8%. There was a 15.5% increase in the total deposits at the deposit banks. The deposits in New Turkish Liras in real terms increased 13.6% and the foreign currency deposit accounts (DTH) decreased 5.2%. Thus, a 6.6% increase was realized in real terms in the total deposits.

The credits of the deposit banks increased 25.9% and the credits of the development and investment banks increased 19.5%. A 25.7% increase was realized in the domestic net credit volume. In real terms, there was a 16.2% increase in the deposit bank credits, 10.3% increase in the development and investment bank credits and 16% increase in the domestic net credit volume.

In 2007, a total of 46 banks, 33 of which were deposit banks and 13 were development and investment banks, engaged in activities in the Turkish banking sector. The total number of branches in the sector increased 769 and rose to 7,618. Along with the increase in the number of branches of the banks, the number of personnel also continued to increase. The number of persons working in the banking system, which was 143,143 in 2006, increased by 15,416 persons in 2007 and rose to 158,559 persons.

To lower the public sector debt stock by providing a non-interest surplus at a high rate, to contribute to the establishment and sustainability of macroeconomic stability, to support the struggle against inflation and to provide for financial discipline in conformance with the monetary policy were among the basic objectives of the financial policy in 2007.

To provide a non-interest surplus at a high rate, both in the preparation and in the implementation of the centralized administration budget, which has the largest share within the public sector revenues and expenses, and thus to provide contributions to the sustainability of the public sector debt stock were adopted as the basic targets in 2007.

In 2007, it was targeted that the centralized administration budget expenses would be 204,989 million YTL and that the budget revenues would be 188,159



million YTL. Thus, it was envisaged that the budget balance would have a deficit of 16,830 million YTL and that the non-interest balance would be 36,116 million YTL.

At the end of the year, the centralized administration budget revenues increased 9.3% and rose to 189,617 million YTL. It was realized at 1,458 million YTL above the envisaged target. The centralized administration budget revenues were negatively influenced by realizing the collection of value added tax (VAT) and special consumption tax (SCT) below the targets. The positive performance in the collection of income and corporation taxes, the dividend revenues obtained from the public sector banks, the cash payment during the year of 5.8 billion YTL from the privatization installments of the Türk Telekom Corporation, the interest revenues and the real estate sale and lease revenues positively influenced the centralized administration budget revenues.

Although the 2007 centralized administration budget expenses increased 14.2% compared to 2006 and rose to the level of 203,501 million YTL, it was realized at 1,488 million YTL below the budget target.

Connected to these developments, along with the centralized administration budget deficit increasing 199% and rising to 13,883 million YTL, it remained 2,947 million YTL below the value targeted. The non-interest surplus decreased 15.7% and regressed to 34,848 million YTL. It was realized at 1,268 million YTL below the target. Thus, although the budget balance in 2007 deteriorated connected to the slackening observed in the financial discipline compared to the previous year, it remained within the envisaged target. The non-interest surplus did not reach the targeted value.

In 2007, the implementation of the monetary and fiscal policies with a harmonious, sustainable, transparent and accountable borrowing policy was continued. It was targeted to meet the borrowing at a suitable risk level with the lowest cost and to form more effective secondary markets. Mainly obtaining borrowing with fixed interest or negotiable instruments in YTL, not borrowing indexed to foreign currency, extending to the extent possible the market conditions of the average term in domestic borrowing with the objective of lessening the interest and foreign currency exchange rate risks and keeping a reserve at a sufficient level with the objective of lessening the liquidity risk that could form in the management of the debt were in the forefront as the main components of the borrowing policy and were implemented.

In 2007, the centralized administration debt stock decreased 3.4% compared to 2006 and was realized at the level of 333,481 million YTL. The centralized administration domestic debt stock increased 1.5% and rose to 255,310 million YTL. The centralized administration foreign debt stock decreased 16.5% and regressed to 78,171 million YTL. The share of the domestic debt stock within the centralized administration debt stock rose from 72.9% to 76.6% and the share of the foreign debt stock decreased from 27.1% to 23.4%.

The falling trend observed in the domestic borrowing interest rates from 2002 to the present within the framework of the economic program being implemented remained at a limited level in 2007. The annual compounded real interest, which was 7.8% in 2006, was realized at the level of 7.6% in 2007. The improvement in the term of the domestic debt stock, which started in 2005, also



continued in 2007. The term of the domestic debt stock, which was 20.6 months in 2004, rose to 23.5 months in 2005, to 24 months in 2006 and to 25.7 months in 2007.

The high performance obtained in exports in recent years also continued in 2007 despite the negativity stemming from the strong position of the New Turkish Lira. Export revenues increased 25.3% and rose to US\$107,214 million. The positive course in the world product, making over half of Turkey's exports to the EU countries in Euros and the lively demand in these countries, the Euro/US dollar parity developing in favor of the Euro, the competitive advantage stemming from the increases in productivity along with its rate slowing down and the high rate of increase in the export prices became determining factors in this development.

In 2007 compared to the previous year there was a 7% increase in the exports of agricultural and forestry products, a 20.6% increase in the exports of fishing products, a 44.9% increase in the exports of mining and quarrying products and a 25.9% increase in the exports of manufacturing industry products. The shares of these sectors within the total exports were realized at the levels of 3.5%, 0.1%, 1.5% and 94.2%, respectively.

Imports increased 21.8% and rose to the level of US\$170,057 million at the end of the year under the influence of the increase in the import unit values of the intermediary goods imports for the increase in exports and industrial production, the recovery in the domestic demand and with the continuation of the strong position of the YTL, and especially the acceleration of the imports of capital goods and consumer goods as of the second half of the year, led by the oil prices.

As of main goods groups, there was a 15.9% increase in the imports of capital (investment) goods, a 24.1% increase in the imports of intermediary (raw material) goods and a 16% increase in the imports of consumer goods in 2007. The share of these goods groups within the total imports were realized at the levels of 15.9%, 72.7% and 11%, respectively.

The fact that the rate of increase of exports was higher than the rate of increase of imports made a positive effect on the foreign trade deficit. The rate of increase of the foreign trade deficit, which was 24.8% in 2006, regressed to 16.3% in 2007. Foreign trade produced a deficit of US\$62,843 million. The ratio of exports meeting imports rose from 61.3% to 63%. The foreign trade volume increased 23.2% and was realized at the level of US\$277,271 million.

The Central Bank of the Republic of Turkey continued to implement the fluctuating foreign currency exchange rate regime in 2007. The Central Bank does not have any exchange rate target in the fluctuating foreign currency exchange rate regime. The foreign currency exchange rate is not used as a policy means. The foreign currency exchange rates are determined by the supply and demand conditions in the market. However, the Central Bank always follows closely the mobility in the foreign currency exchange rates and in case there is excessive mobility that could form in both directions in the exchange rates, the Central Bank can intervene in the market in the direction of direct purchasing or selling.

Besides this, the Central Bank realizes foreign currency purchasing competitive biddings aimed at accumulating reserves in periods when the foreign currency supply increases compared to the foreign currency demand with the objective of eliminating the negative effects of the domestic and foreign shocks, of being able to increase the confidence felt for Turkey, of being able to realize the foreign debt payments and of being able to decrease in stages the foreign currency accounts of workers. However, in case there are significant developments outside of what is envisaged related to the foreign currency supply, then the Central Bank can halt the foreign currency purchasing competitive biddings for a short or long period of time by informing the public in advance.

The exchange rate policies in 2007 were carried out within the framework of these principles. The Central Bank purchased a total of US\$9,906 million through competitive biddings. The Central Bank did not engage in direct purchases or sales interventions in the foreign currency markets in 2007.

The foreign currency exchange rates, which started 2007 with a decrease, under the exchange rate policy implemented in Turkey and the developments experienced in the international markets, continued this trend during the year in general and the New Turkish Lira gained in value in nominal and real terms.


In 2007, the current transactions deficit increased 17.8% compared to 2006 and rose from US\$31,893 million to US\$37,575 million. Despite the improvement in the services account, the increase in the foreign trade deficit and the deficit in the revenues account negatively affected the current transactions deficit. The positive performance in exports and the recovery in tourism revenues could not compensate for the broadening of the current transactions deficit.

In 2007, the tourism revenues increased 9.7% and rose to US\$18,487 million. The interest revenues increased 48.5% and went up to US\$2,158 million. The tourism expenses increased 18.8% and became US\$3,260 million. The interest expenses increased 18.2% and became US\$7,491 million. The worker remittances increased 8.8% and rose to US\$1,209 million.

The net capital inflows, which were US\$42,691 million in 2006, rose to US\$48,518 million in 2007. There was an inflow of US\$19,924 million in net direct investments, of US\$717 million in net portfolio investments and of US\$27,877 million in other net investments.

The direct international capital inflows, which increased at a high rate in 2005 and 2006, continued to increase in 2007 along with a relative decrease in their rates. The direct international capital inflows, which were US\$17,639 million in 2006, increased 9.1% in 2007 and rose to US\$19,247 million. There was a capital outflow of US\$743 million. Thus, in 2007 a total of US\$21,957 million in direct international capital inflows was realized including the US\$18,504 million in net capital inflows, the US\$501 million in net loans received by the international capital companies from their foreign partners and the US\$2,952 million in net





real estate sales. The activities of the financial intermediary organizations, transportation-communications and storage depot services, real estate leasing and business activities were the sectors, which had the most intensive foreign capital inflows.

In 2007, there was an improvement in the foreign debt stock rate of increase and in the term structure of the debts. The total foreign debt stock, which increased 21.8% in 2006, increased 20.3% in 2007 and rose to US\$247,200 million. The short-term foreign debts increased 3.6% and rose to US\$41,803 million. The long-term debts increased 24.3% and went up to US\$205,397 million. The share of the short-term debts within the total foreign debt stock regressed from 19.6% to 16.9%. The share of the long-term debts rose from 80.4% to 83.1%.

According to the Population Registration System Based on Addresses, which was implemented for the first time, it was determined that the total population of Turkey as of 31 December 2007 was 70,586 thousand persons, of which 35,377 thousand (50.1%) were males and 35,210 thousand (49.9%) were females. Of this population, 49,748 thousand (70.5%) live in the cities (provincial and county centers) and 20,838 thousand (29.5%) live in the villages.

In 2007, the slowing down of growth and the shrinkage of the employment in the agricultural sector caused the increase in employment to remain limited. The increase in employment remained below the increase in the working age population and work force. The uninstitutional working age population increased 1.5% and rose to 49,215 thousand persons. The work force increased 1.2% and went up to 23,523 thousand persons. The number of persons employed increased 1.1% and rose to 21,189 thousand persons. The number of unemployed persons increased 1.7% and became 2,333 thousand persons. The rate of unemployment, which was 9.9% in 2006, did not change in 2007 and remained at the same level.

The decrease in employment experienced in the agricultural sector connected to the process of structural transformation in the economic and social fields also continued in 2007. The number of persons employed in the agricultural sector decreased 2% and regressed to 5,601 thousand persons. The number of persons employed in the industrial sector increased 1.2% and went up to 4,185 thousand persons. The number of persons employed in the services sector increased 2.7% and rose to 11,403 thousand. The share of the agricultural sector within the total employment was 26.4%, the share of the industrial sector was 19.8% and the share of the services sector was 53.8%.

The legal monthly gross minimum wage applied in the period between 1 January 2007 - 30 June 2007 was 562.50 YTL for those 16 years of age and older and was 476.70 YTL for those less than 16 years of age. The legal monthly gross minimum wage applied in the period between 1 July 2007 - 31 December 2007 was 585.00 YTL for those 16 years of age and older and was 491.40 YTL for those less than 16 years of age.



## ECONOMIC REPORT 2007



## **II. THE TURKISH ECONOMY IN NUMBERS**

## A. NATIONAL INCOME

### 1. The Gross Domestic Product (GDP)

A need arose to update the Gross Domestic Product (GDP) for being able to realize conformity with the European Statistical System in the process of Turkey's European Union (EU) membership and for being able to reflect in the accounts the innovations emerging in the economy from 1987 to the present-day. Acting from these needs, the updating activities started by the Turkish Institute of Statistics (TÜİK) in 2004 were completed as of March 2008. At the conclusion of the updating activities made by the TÜİK, instead of the GDP series based on 1987=100, which is calculated according to the United Nations System of National Accounts (SNA 68), the new series was prepared based on 1998=100 in conformance with the European System of Accounts (ESA-95). Within this scope, the GDP was revised up until 1998 and the new series started to be used as of the fourth quarter of 2007.

The rapid period of growth starting in the Turkish economy in 2002 under the influence of the economic program put into practice after the economic crisis experienced in 2001 and the structural reforms, reached the highest level in 2004. In 2005, a slowing down started in the growth rate of the economy and the slowing down became gradually more definite through the years and fell to the lowest point of the past 6 years in 2007.

According to the updated new series growth data, after the 5.7% shrinkage realized in 2001, the rising growth rates were realized at the levels of 6.2% in 2002, 5.3% in 2003 and 9.4% in 2004 and were realized at the levels of 8.4% in 2005 and 6.9% in 2006. Whereas, in 2007 the growth rate at 4.5% regressed to the lowest level of the past 6 years. At the same time, it remained below the targeted value for the first time since 2002. Thus, the Turkish economy, which grew an annual average of 7.2% in the 2002-2006 period, displayed a relatively weak performance in 2007.

In general, the problems stemming from the world markets, somehow not being able to complete the structural reforms by delaying them, the temperatures that were above the seasonal norms and drought, the negative influence formed on the competitive strength of the stagnation in productivity compared to the previous years and the New Turkish Lira that gained in value, the uncertainty in domestic politics and elections were effective in this slowing down experienced in the economic growth rate.

The high rate of shrinkage in the agricultural sector, the decreases occurring in the added value rate of increase in the manufacturing industry, energy, construction, trade, financial intermediary organization activities, housing ownership and education sectors were influential in slowing down the economic growth from the aspect of production. Whereas, the added value increases in the mining, hotels and restaurants, transportation, real estate, leasing and business activities sectors positively influenced the increase in the GDP.

The decrease in the increase rate of the final consumer expenses of the state and the private sector fixed capital investments were effective in slowing down the growth rate from the aspect of expenses and the public sector fixed



capital investments and the change in stock made a positive influence on the increase of the GDP.

The GDP growth rate, which was realized at the level of 7.6% in the first quarter of 2007, regressed to 4% in the second quarter under the influences of the fluctuations experienced in the international markets, of the uncertainties experienced in the political arena and of the strong base year. In the third quarter, despite the elimination of the uncertainty related to elections, the economy displayed a weak performance under the influences of the fluctuations in the global markets and the shrinkage in the agricultural sector and the GDP growth rate dropped to 3.4%. The GDP growth rate also remained at the level of 3.4% in the fourth quarter. Thus, although the growth period, which started in the first quarter of 2002 in the Turkish economy continued without interruption for 24 quarters, the 3.4% growth rate realized in the last two quarters of 2007 was the lowest rate of growth recorded since the second quarter of 2002. In 2007 in general the GDP increased 4.5% according to the 1998 basic prices and rose to 101,046 million YTL (Table 4).

The temperatures above the seasonal norms and the drought experienced connected to this negatively influenced the agricultural sector. Of the sub-sectors of the agricultural sector, the fishing sector grew 8.3% and the agricultural, hunting and forestry sector shrank 7.3%. Thus, the added value of the total agricultural sector, which displayed a limited increase, such as 1.4% in 2006, decreased 6.8% in 2007.

The growth rate of the mining and quarrying sector, which is one of the sub-sectors of the industrial sector, increased compared to the previous year. Significant decreases were observed in the growth rates of the manufacturing industry and energy sectors. The added value rate of increase of the industrial sector, connected to the regression in the added value rate of increase in the manufacturing industry and energy sectors, dropped 2.8 points and was realized at the level of 5.5%. The added value of the mining and quarrying sector increased 8.1%. The added value of the manufacturing industry sector increased 5.4%. The added value of the energy sector increased 6.2%.

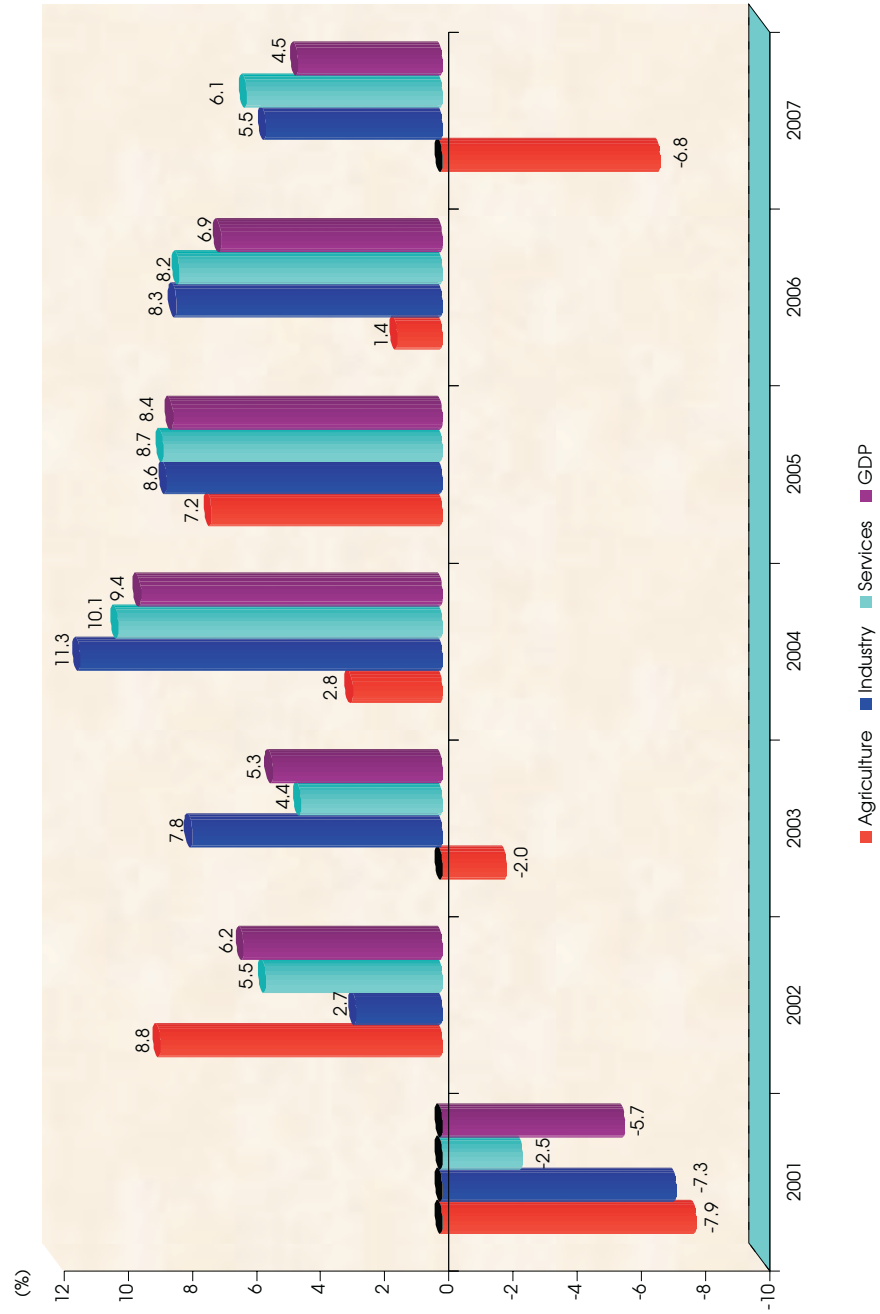
In 2007, the services sector also experienced a negative year from the aspect of growth, just like the agricultural and industrial sectors. The added value rate of increase of the services sector dropped 2.1 points and regressed to 6.1%. Especially the decreases in the added value rate of increase of the construction, trade and financial intermediary organizations were a determining factor in this change. The added value rate of increase of the construction sector decreased from 18.5% to 5%. The added value rate of increase of the trade sector decreased from 6.3% to 5.5%. The added value rate of increase of the financial organizations sector decreased from 14% to 9.6%. They drew attention as the sectors, which experienced a definite decrease in the growth rates, compared to 2006. In 2007, besides these sectors, a decrease in the added value rate of increase was experienced in housing ownership of the services sector, in education, health and social services, other social, societal and personal service activities and of the sub-sectors employing personnel within the home. A rise in the added value rate of increase was recorded in the hotels and restaurants, transportation, real estate leasing and business activities, public administration and defense and mandatory social security sectors.

**TABLE 4. THE GROSS DOMESTIC PRODUCT IN FIXED PRICES**

(According to Branches of Economic Activity and 1998 Basic Prices)								
Branches of Economic Activity	Value (Thousand YTL)			Share (%)			Change (%)	
	2005	2006	2007	2005	2006	2007	2006	2007
Agriculture, Hunting and Forestry	9,275,244	9,393,296	8,705,964	10.2	9.7	8.6	1.3	-7.3
Fishing	295,508	307,647	333,328	0.3	0.3	0.3	4.1	8.3
Mining and Quarrying	678,461	714,046	771,958	0.7	0.7	0.8	5.2	8.1
Manufacturing Industry	21,249,692	23,033,310	24,276,367	23.5	23.8	24.0	8.4	5.4
Electricity, Gas, Steam and Hot Water Production and Distribution	1,751,352	1,902,611	2,020,463	1.9	2.0	2.0	8.6	6.2
Construction	5,250,284	6,220,955	6,530,468	5.8	6.4	6.5	18.5	5.0
Wholesale and Retail Trade	11,955,208	12,708,356	13,401,290	13.2	13.1	13.3	6.3	5.5
Hotels and Restaurants	1,835,358	1,880,824	1,948,499	2.0	1.9	1.9	2.5	3.6
Transportation, Storage and Communications	12,950,854	13,830,467	14,787,849	14.3	14.3	14.6	6.8	6.9
Activities of Financial Intermediary Organizations	7,915,871	9,023,176	9,893,266	8.7	9.3	9.8	14.0	9.6
Housing Ownership	4,557,269	4,679,756	4,773,416	5.0	4.8	4.7	2.7	2.0
Real Estate, Leasing and Business Activities	2,539,481	2,859,058	3,251,339	2.8	3.0	3.2	12.6	13.7
Public Administration and Defense, Mandatory Social Security	3,057,765	3,061,672	3,092,619	3.4	3.2	3.1	0.1	1.0
Education	1,799,854	1,892,693	1,968,282	2.0	2.0	1.9	5.2	4.0
Health and Social Services	1,127,274	1,170,868	1,207,597	1.2	1.2	1.2	3.9	3.1
Other Social, Societal and Personal Service Activities	1,377,698	1,502,719	1,576,034	1.5	1.6	1.6	9.1	4.9
Households Employing Personnel Within the Home	115,880	131,482	146,989	0.1	0.1	0.1	13.5	11.8
Total of Sectors	87,733,053	94,312,936	98,685,728	96.9	97.5	97.7	7.5	4.6
Financial Intermediary Services Measured Indirectly	4,879,828	5,729,267	6,245,647	5.4	5.9	6.2	17.4	9.0
Tax-Subvention	7,646,506	8,154,651	8,605,433	8.4	8.4	8.5	6.6	5.5
Gross Domestic Product (Buyer's Prices)	90,499,731	96,738,320	101,045,514	100.0	100.0	100.0	6.9	4.5

Source: TÜİK

**GRAPH 1. THE GROWTH RATES OF THE GROSS DOMESTIC PRODUCT (According to 1998 Basic Prices)**



## ECONOMIC REPORT 2007

In 2007, the GDP grew 12.9% in current prices and became 856,387 million YTL. Of this, a 65,906 million YTL portion was provided by the agricultural sector, a 167,703 million YTL portion was provided by the industrial sector and a 622,778 million YTL portion was provided by the services sector (Table 5).

**TABLE 5. GROSS DOMESTIC PRODUCT IN CURRENT PRICES**

Branches of Economic Activity	(Basic Prices According to Branches of Economic Activity)							
	Value (Thousand YTL)			Share (%)			Change (%)	
	2005	2006	2007	2005	2006	2007	2006	2007
Agriculture, Hunting and Forestry	59,027,013	60,819,444	63,693,945	9.1	8.0	7.4	3.0	4.7
Fishing	1,686,734	1,843,310	2,212,399	0.3	0.2	0.3	9.3	20.0
Mining and Quarrying	7,628,517	8,952,359	10,536,592	1.2	1.2	1.2	17.4	17.7
Manufacturing Industry	112,051,658	130,393,077	141,545,056	17.3	17.2	16.5	16.4	8.6
Electricity, Gas, Steam and Hot Water Production and Distribution	11,956,714	13,452,105	15,621,632	1.8	1.8	1.8	12.5	16.1
Construction	28,694,134	35,849,263	42,748,155	4.4	4.7	5.0	24.9	19.2
Wholesale and Retail Trade	80,211,869	94,856,320	103,322,066	12.4	12.5	12.1	18.3	8.9
Hotels and Restaurants	14,528,348	17,041,942	19,323,297	2.2	2.2	2.3	17.3	13.4
Transportation, Storage and Communications	89,087,295	104,123,045	117,306,836	13.7	13.7	13.7	16.9	12.7
Activities of Financial Intermediary Organizations	18,293,386	21,860,640	27,233,996	2.8	2.9	3.2	19.5	24.6
Housing Ownership	60,120,175	74,467,156	90,963,494	9.3	9.8	10.6	23.9	22.2
Real Estate, Leasing and Business Activities	22,613,950	27,822,912	34,412,573	3.5	3.7	4.0	23.0	23.7
Public Administration and Defense, Mandatory Social Security	26,018,778	29,620,624	33,092,461	4.0	3.9	3.9	13.8	11.7
Education	17,773,360	21,241,900	24,564,624	2.7	2.8	2.9	19.5	15.6
Health and Social Services	10,339,616	12,061,082	14,128,725	1.6	1.6	1.6	16.6	17.1
Other Social, Societal and Personal Service Activities	10,687,042	12,784,022	14,533,998	1.6	1.7	1.7	19.6	13.7
Households Employing Personnel Within the Home	995,880	1,229,064	1,487,837	0.2	0.2	0.2	23.4	21.1
Total of Sectors	571,714,470	668,418,265	756,727,686	88.1	88.1	88.4	16.9	13.2
Financial Intermediary Services Measured Indirectly	9,353,841	10,490,121	12,928,697	1.4	1.4	1.5	12.1	23.2
Tax-Subvention	86,571,083	100,462,642	112,587,743	13.3	13.2	13.1	16.0	12.1
Gross Domestic Product (Buyer's Prices)	648,931,712	758,390,785	856,386,732	100.0	100.0	100.0	16.9	12.9

Source: TÜİK



In 2007, the contribution of the agricultural sector to the 4.5% GDP growth was minus 0.7 points; the contribution of the mining and quarrying sector, one of the sub-sectors of the industrial sector, was 0.1 points; the contribution of the manufacturing industry sector was 1.3 points; and the contribution of the energy sector was 0.1 points. The contribution to the GDP growth of the construction sector, one of the sub-sectors of the services sector, was 0.3 points. The contribution of the trade sector was 0.7 points. The contribution of the transportation sector was 1 point. The contribution of the financial intermediary organization activities sector was 0.9 points (Table 6).

**TABLE 6. SECTOR CONTRIBUTIONS TO THE GROSS DOMESTIC PRODUCT**

(Points According to Branches of Economic Activity and 1998 Basic Prices)

Branches of Economic Activity	2005	2006	2007
Agriculture, Hunting and Forestry	0.7	0.1	-0.7
Fishing	0.1	0.0	0.0
Mining and Quarrying	0.1	0.0	0.1
Manufacturing Industry	1.9	2.0	1.3
Electricity, Gas, Steam and Hot Water Production and Distribution	0.3	0.2	0.1
Construction	0.5	1.1	0.3
Wholesale and Retail Trade	1.2	0.8	0.7
Hotels and Restaurants	0.0	0.1	0.1
Transportation, Storage and Communications	1.6	1.0	1.0
Activities of Financial Intermediary Organizations	1.1	1.2	0.9
Housing Ownership	0.2	0.1	0.1
Real Estate, Leasing and Business Activities	0.3	0.4	0.4
Public Administration and Defense, Mandatory Social Security	-0.2	0.0	0.0
Education	0.1	0.1	0.1
Health and Social Services	0.2	0.0	0.0
Other Social, Societal and Personal Service Activities	0.1	0.1	0.1
Households Employing Personnel Within the Home	0.0	0.0	0.0
Total of Sectors	8.2	7.3	4.5
Financial Intermediary Services Measured Indirectly	0.7	0.9	0.5
Tax-Subvention	0.9	0.6	0.5
Gross Domestic Product (Buyer's Prices)	8.4	6.9	4.5

Source: TÜİK

In 2007, the share of the agricultural sector within the GDP was 7.7%. The share of the industrial sector was 19.6%. The share of the services sector was 72.7% (Table 7).

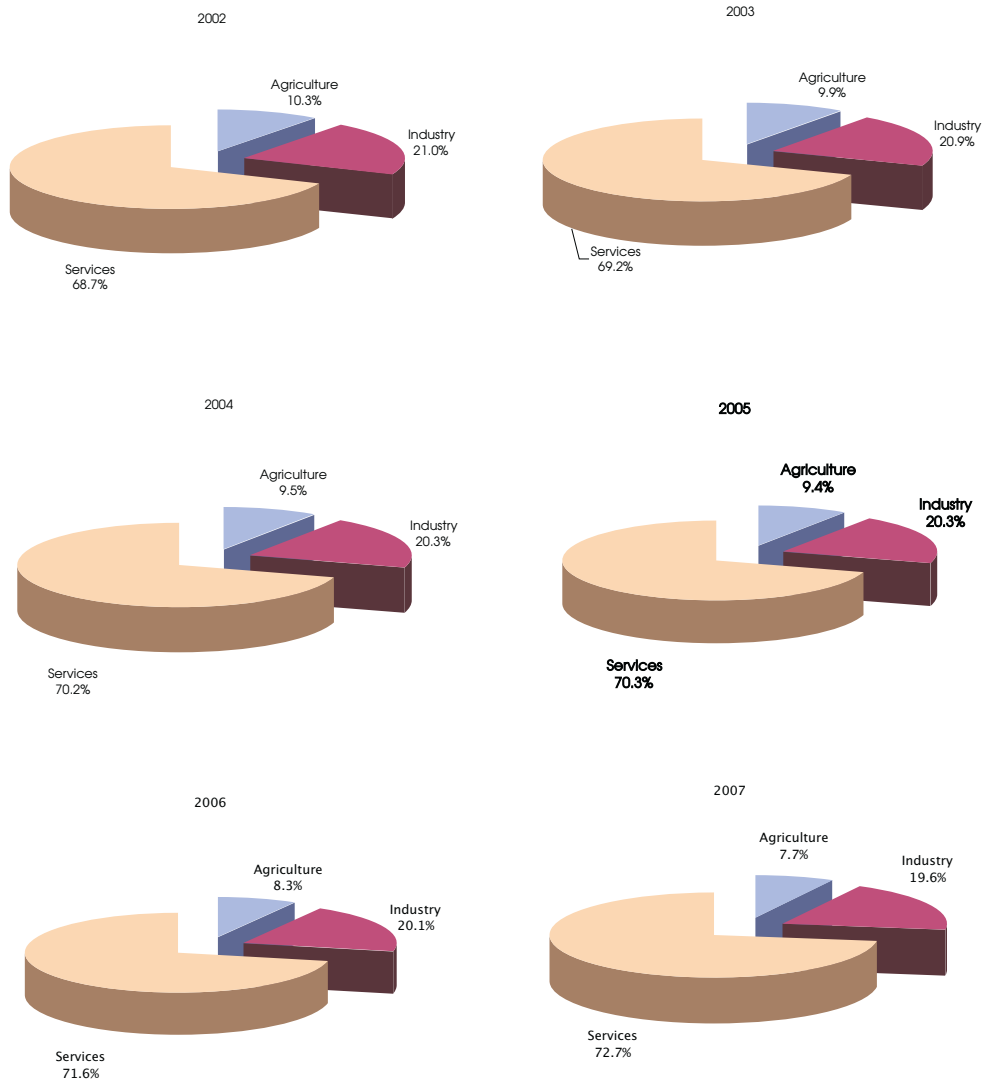
**TABLE 7. SHARES OF THE SECTORS IN THE GROSS DOMESTIC PRODUCT (\*)**

	(Current Prices)						
Sectors	2001	2002	2003	2004	2005	2006	2007
Agriculture	8.8	10.3	9.9	9.5	9.4	8.3	7.7
Industry	22.4	21.0	20.9	20.3	20.3	20.1	19.6
Services	68.8	68.7	69.2	70.2	70.3	71.6	72.7
GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: TÜİK

(\*) The financial intermediary services measured indirectly and the taxes-subventions were not included in services.

**GRAPH 2. SECTORAL DISTRIBUTION OF THE GDP (Basic Prices)**



In 2007, the public sector consumption expenses increased 2.8% and the permanent households consumption expenses, which is the largest component of the GDP, increased 4.6%. Thus, there was an increase of 4.4% in the total consumption expenses (Table 8).

**TABLE 8. THE GROSS DOMESTIC PRODUCT BY THE EXPENSE METHOD**

	(1998 Prices)								
	Value (Thousand YTL)			Share (%)			Change (%)		
	2005	2006	2007	2005	2006	2007	2006	2007	
Gross Domestic Product	90,499,731	96,738,320	101,045,514	100.0	100.0	100.0	6.9	4.5	
Consumption of the Permanent Households	63,787,207	66,749,821	69,804,390	70.5	69.0	69.1	4.6	4.6	
Domestic Consumption of the Permanent and Temporary Households	67,704,926	70,792,710	73,467,621	74.8	73.2	72.7	4.6	3.8	
(Minus) Domestic Consumption of the Temporary Households	4,513,068	4,555,409	4,214,372	5.0	4.7	4.2	0.9	-7.5	
Consumption Abroad of the Permanent Households	595,349	512,520	551,141	0.7	0.5	0.5	-13.9	7.5	
Final Consumer Expenses of the State	8,766,884	9,506,407	9,771,180	9.7	9.8	9.7	8.4	2.8	
Salary, Wages	4,985,096	5,006,997	5,060,735	5.5	5.2	5.0	0.4	1.1	
Purchases of Goods and Services	3,781,789	4,499,411	4,710,445	4.2	4.7	4.7	19.0	4.7	
Formation of the Gross Fixed Capital	21,821,588	24,714,467	25,541,277	24.1	25.5	25.3	13.3	3.3	
Public Sector	3,074,058	3,154,521	3,395,268	3.4	3.3	3.4	2.6	7.6	
Machinery-Equipment	826,024	673,013	784,322	0.9	0.7	0.8	-18.5	16.5	
Construction	2,248,034	2,481,508	2,610,946	2.5	2.6	2.6	10.4	5.2	
Private Sector	18,747,529	21,559,946	22,146,009	20.7	22.3	21.9	15.0	2.7	
Machinery-Equipment	12,255,011	13,747,899	13,843,669	13.5	14.2	13.7	12.2	0.7	
Construction	6,492,518	7,812,047	8,302,340	7.2	8.1	8.2	20.3	6.3	
Changes in Stock (*)	-681,313	-764,038	835,653	-0.8	-0.8	0.8	-	-	
Exports of Goods and Services	22,095,181	23,563,374	25,130,676	24.4	24.4	24.9	6.6	6.7	
(Minus) Imports of Goods and Services	25,289,816	27,031,712	30,037,662	27.9	27.9	29.7	6.9	11.1	

Source: TÜİK

(\*) The changes in stock were calculated with the remainder method and also include the statistical error.

The public sector fixed capital investments grew 7.6% under the influence of the 16.5% increase in machinery-equipment investments and the 5.2% increase in construction investments. The private sector capital investments grew 2.7% under the influence of the 0.7% increase in machinery-equipment investments and the 6.3% increase in building construction. Thus, a 3.3% increase occurred in the total fixed capital investments.

In 2007, the ratio of the consumption expenses to the GDP was 82.9% and the ratio of the fixed capital investments to the GDP was 21.5% (Table 9).

The permanent households consumption (private consumption) made a 3.2 point contribution to the growth of the GDP with the expenses method. The final consumer expenses of the state (public sector consumption) made an 0.3 point

**TABLE 9. THE GROSS DOMESTIC PRODUCT BY THE EXPENSE METHOD**

	(Current Prices)							
	Value (Thousand YTL)			Share (%)			Change (%)	
	2005	2006	2007	2005	2006	2007	2006	2007
Gross Domestic Product	648,931,712	758,390,785	856,386,732	100.0	100.0	100.0	16.9	12.9
Consumption of the Permanent Households	465,401,759	534,849,206	605,236,277	71.7	70.5	70.7	14.9	13.2
Domestic Consumption of the Permanent and Temporary Households	490,692,217	564,897,493	632,730,556	75.6	74.5	73.9	15.1	12.0
(Minus) Domestic Consumption of the Temporary Households	29,161,491	34,025,134	31,741,621	4.5	4.5	3.7	16.7	-6.7
Consumption Abroad of the Permanent Households	3,871,033	3,976,846	4,247,342	0.6	0.5	0.5	2.7	6.8
Final Consumer Expenses of the State	76,498,649	93,525,263	104,465,808	11.8	12.3	12.2	22.3	11.7
Salary, Wages	45,811,549	52,756,008	59,976,995	7.1	7.0	7.0	15.2	13.7
Purchases of Goods and Services	30,687,100	40,769,255	44,488,814	4.7	5.4	5.2	32.9	9.1
Formation of the Gross Fixed Capital	136,475,134	169,044,693	184,125,989	21.0	22.3	21.5	23.9	8.9
Public Sector	21,410,353	25,745,598	28,990,937	3.3	3.4	3.4	20.2	12.6
Machinery-Equipment	5,046,606	4,551,924	5,133,492	0.8	0.6	0.6	-9.8	12.8
Construction	16,363,747	21,193,674	23,857,446	2.5	2.8	2.8	29.5	12.6
Private Sector	115,064,780	143,299,095	155,135,052	17.7	18.9	18.1	24.5	8.3
Machinery-Equipment	76,189,662	92,179,719	92,849,505	11.7	12.2	10.8	21.0	0.7
Construction	38,875,118	51,119,375	62,285,547	6.0	6.7	7.3	31.5	21.8
Changes in Stock (*)	-6,756,351	-1,782,719	5,729,087	-1.0	-0.2	0.7	-	-
Exports of Goods and Services	141,826,467	171,926,483	187,952,710	21.9	22.7	21.9	21.2	9.3
(Minus) Imports of Goods and Services	164,513,946	209,172,139	231,123,141	25.4	27.6	27.0	27.1	10.5

Source: TÜİK

(\*) The changes in stock were calculated with the remainder method and also include the statistical error.

contribution. The public sector gross fixed capital formation (public sector investments) made an 0.2 point contribution. The private sector gross fixed capital formation (private investments) made an 0.6 point contribution. Exports made a 1.6 point contribution and the contribution of imports was minus 3.1 points. Thus, the net export growth, with a minus 1.5 point contribution, negatively influenced growth (Table 10).

**TABLE 10. CONTRIBUTIONS TO THE GROSS DOMESTIC PRODUCT BY THE EXPENSE METHOD**

	(1998 Prices, Points)		
	2005	2006	2007
Gross Domestic Product	8.4	6.9	4.5
Consumption of the Permanent Households	5.6	3.3	3.2
Domestic Consumption of the Permanent and Temporary Households	5.7	3.4	2.8
(Minus) Domestic Consumption of the Temporary Households	0.2	0.0	-0.4
Consumption Abroad of the Permanent Households	0.0	-0.1	0.0
Final Consumer Expenses of the State	0.3	0.8	0.3
Salary, Wages	0.0	0.0	0.1
Purchases of Goods and Services	0.3	0.8	0.2
Formation of the Gross Fixed Capital	3.9	3.2	0.9
Public Sector	0.7	0.1	0.2
Machinery-Equipment	0.3	-0.2	0.1
Construction	0.5	0.3	0.1
Private Sector	3.1	3.1	0.6
Machinery-Equipment	2.6	1.6	0.1
Construction	0.5	1.5	0.5
Changes in Stock	0.1	-0.1	1.7
Exports of Goods and Services	1.9	1.6	1.6
(Minus) Imports of Goods and Services	3.3	1.9	3.1

Source: TÜİK

## 2. Sectoral Developments

### a. Agriculture

The agricultural sector added value due to losses experienced in production connected to the unsuitable weather conditions showed decreases of 6.6% in the first quarter, 2.2% in the second quarter, 8.2% in the third quarter and 7.8% in the fourth quarter of 2007. Thus, a 6.8% shrinkage occurred in the added value of the agricultural sector in 2007.

A decrease in the production of grains, fruit and vegetables was observed compared to the previous year under the influence of the drought experienced throughout the country in 2007.

In 2007, a decrease was observed in the production amounts of all of the selected agricultural products. The highest production decreases were experienced in common vetch at 48.3%, connected to the drought; in soybeans at 34%, connected to the shrinkage of the areas sowed due to the fact of the high cost, low price and insufficient premium supports; in sesame seeds at 25.9%, as a result of shifting to feed plants for which supports were given for sowing; in sunflower seeds at 23.6%, due to the drought decreasing productivity and a decrease in sowing; and in barley production at 23.5%, due to the insufficient and untimely spring precipitation, drought and shifting to other products in the sowing areas in some provinces (Table 11).

**TABLE 11. PRODUCTION OF SELECTED AGRICULTURAL PRODUCTS**

Name of Product	(Thousand Tons)					Change (%)			
	Production								
	2003	2004	2005	2006	2007	2004	2005	2006	2007
<b>Cereals</b>									
Wheat	19,000	21,000	21,500	20,010	17,234	10.5	2.4	-6.9	-13.9
Barley	8,100	9,000	9,500	9,551	7,307	11.1	5.6	0.5	-23.5
Corn	2,800	3,000	4,200	3,811	3,535	7.1	40.0	-9.3	-7.2
Rice	372	490	600	696	648	31.7	22.4	16.0	-6.9
<b>Pulses</b>									
Chickpeas	600	620	600	552	505	3.3	-3.2	-8.0	-8.5
Lentils	540	540	570	623	535	0.0	5.6	9.3	-14.1
Beans	250	250	210	196	154	0.0	-16.0	-6.7	-21.4
Common Vetch	121	130	132	176	91	7.4	1.5	33.3	-48.3
<b>Industrial Plants</b>									
Tobacco	112	134	135	98	80	19.6	0.7	-27.4	-18.4
Sugar Beets	12,623	13,517	15,181	14,452	12,415	7.1	12.3	-4.8	-14.1
Cotton (Unginned)	2,346	2,455	2,240	2,550	2,275	4.6	-8.8	13.8	-10.8
<b>Oil Seeds</b>									
Sunflower	800	900	975	1,118	854	12.5	8.3	14.7	-23.6
Sesame	22	23	26	27	20	4.5	13.0	3.8	-25.9
Soybean	85	50	29	47	31	-41.2	-42.0	62.1	-34.0
<b>Tuberous Plants</b>									
Potatoes	5,300	4,800	4,090	4,397	4,246	-9.4	-14.8	7.5	-3.4
Beets for Animals	160	160	165	159	152	0.0	3.1	-3.6	-4.4

Source: TÜİK

The highest production increases in selected fruits were observed in sour cherries at 49.6%, due to an increase in the number of trees producing fruit and fruit produced; in walnuts at 33.1%, under the influence of its being an abundant year; and in cherry production at 28.4%, as a result of the base effect stemming from the production realized under the crop due to the freeze occurring in 2006 besides an increase in the fruit produced and the effect of the drought remaining at a limited level. These were followed by increases in the production of apples at 22.8%, of apricots at 21.3% and of almonds at 18.6%. The highest production decreases were observed in olives at 39.1%, in pistachio nuts at 33.6% and in figs at 27.6%, under the influence of its being a scarce year and the drought (Table 12).

**TABLE 12. PRODUCTION OF SELECTED FRUITS**

Name of Product						(Thousand Tons)			
	Production					Change (%)			
	2003	2004	2005	2006	2007	2004	2005	2006	2007
Soft Seeded									
Pears	370	320	360	318	356	-13.5	12.5	-11.7	11.9
Apples	2,600	2,100	2,570	2,002	2,458	-19.2	22.4	-22.1	22.8
Quinces	110	80	100	106	95	-27.3	25.0	6.0	-10.4
Hard Stones									
Plums	210	210	220	214	241	0.0	4.8	-2.7	12.6
Apricots	460	320	860	460	558	-30.4	168.8	-46.5	21.3
Cherries	265	245	280	310	398	-7.5	14.3	10.7	28.4
Peaches	470	372	510	553	539	-20.9	37.1	8.4	-2.5
Sour Cherries	145	138	140	121	181	-4.8	1.4	-13.6	49.6
Olives	850	1,600	1,200	1,767	1,076	88.2	-25.0	47.3	-39.1
Citrus Fruits									
Grapefruits	135	135	150	180	163	0.0	11.1	20.0	-9.4
Lemons	550	600	600	710	652	9.1	0.0	18.3	-8.2
Tangerines	550	670	715	791	744	21.8	6.7	10.6	-5.9
Oranges	1,250	1,300	1,445	1,536	1,427	4.0	11.2	6.3	-7.1
Hard Shelled									
Pistachios	90	30	60	110	73	-66.7	100.0	83.3	-33.6
Almonds	41	37	45	43	51	-9.8	21.6	-4.4	18.6
Walnuts	130	126	150	130	173	-3.1	19.0	-13.3	33.1
Hazelnuts	480	350	530	661	530	-27.1	51.4	24.7	-19.8
Chestnuts	48	49	50	54	55	2.1	2.0	8.0	1.9
Grape-like Fruits									
Figs	280	275	285	290	210	-1.8	3.6	1.8	-27.6
Grapes	3,600	3,500	3,850	4,000	3,613	-2.8	10.0	3.9	-9.7
Bananas	110	130	150	178	189	18.2	15.4	18.7	6.2
Tea	869	1,105	1,192	1,121	1,145	27.2	7.9	-6.0	2.1

Source: TÜİK

Within the selected vegetables, a production increase was observed in carrots at 62.5%, due to an increase in productivity with the use of hybrid seeds; in dried onions at 5.3%, due to the increase in the areas sowed with onions because of the quota application for sugar beets; and in tomatoes at 0.9%. The production of okra did not change. Decreases were observed in the production of the other selected vegetables. The highest rate of production decreases were observed in leeks at 20%, in fava beans at 12.2% and in bell peppers at 9.2%, under the influence of the weather conditions along with a shrinkage of the areas sowed (Table 13).

**TABLE 13. PRODUCTION OF SELECTED VEGETABLES**

Name of Product	(Thousand Tons)								
	Production					Change (%)			
	2003	2004	2005	2006	2007	2004	2005	2006	2007
<b>Vegetables with Edible Fruits</b>									
Eggplants	935	900	930	924	864	-3.7	3.3	-0.6	-6.5
Cucumbers	1,780	1,725	1,745	1,800	1,675	-3.1	1.2	3.2	-6.9
Tomatoes	9,820	9,440	10,050	9,855	9,945	-3.9	6.5	-1.9	0.9
Okras	36	43	36	37	37	19.4	-16.3	2.8	0.0
Peppers (Long thin for paste)	1,370	1,325	1,429	1,450	1,402	-3.3	7.8	1.5	-3.3
Peppers (Bell)	420	375	400	393	357	-10.7	6.7	-1.8	-9.2
<b>Leguminous Vegetables</b>									
Beans	545	582	555	564	520	6.8	-4.6	1.6	-7.8
Fava Beans	44	49	49	49	43	11.4	0.0	0.0	-12.2
Peas	54	58	122	90	88	7.4	110.3	-26.2	-2.2
<b>Onion-like, Tuberous, Root Vegetables</b>									
Onion (Fresh)	220	207	200	201	185	-5.9	-3.4	0.5	-8.0
Onion (Dry)	1,750	2,040	2,070	1,765	1,859	16.6	1.5	-14.7	5.3
Carrots	405	438	388	395	642	8.1	-11.4	1.8	62.5
<b>Vegetables with Edible Leaves</b>									
Cabbage (Head-Red)	629	605	583	605	566	-3.8	-3.6	3.8	-6.4
Lettuce (Crinkly-leaved)	150	162	168	151	141	8.0	3.7	-10.1	-6.6
Lettuce (Firm-hearted)	190	200	204	239	227	5.3	2.0	17.2	-5.0
Spinach	220	213	238	242	236	-3.2	11.7	1.7	-2.5
Leeks	305	295	326	320	256	-3.3	10.5	-1.8	-20.0
<b>Other Vegetables</b>									
Cauliflowers	108	110	117	136	135	1.9	6.4	16.2	-0.7

Source: TÜİK

Agricultural support payments increased 17.5% in 2007 compared to the previous year and rose to 5,577 million YTL. The highest rate of increase in the agricultural support payments was in the supports given to grains at 262.5% within the scope of the difference payment support services and this was followed by the support increase at 157.1% made within the scope of the Agricultural Reform Application Project. There was a 7.1% decrease in the direct income support and area based agricultural support payments (Table 14).

**TABLE 14. AGRICULTURAL SUPPORT PAYMENTS <sup>(1)</sup>**

	(Current Prices)										
	Value (Million YTL)				Change (%)			Share (%)			
	2004	2005	2006	2007 <sup>(2)</sup>	2005	2006	2007	2004	2005	2006	2007
Direct Income Support and Area Based											
Agricultural Support Payments	2,480	2,353	2,653	2,465	-5.1	12.7	-7.1	80.4	63.5	55.9	44.2
Direct Income Support	2,125	1,673	2,653	1,640	-21.3	58.6	-38.2	68.9	45.1	55.9	29.4
Fuel Oil	355	410	0	480	15.5	-	-	11.5	11.1	0.0	8.6
Fertilizer	0	270	0	345	-	-	-	0.0	7.3	0.0	6.2
Difference Payment Support Services	334	897	1,292	1,794	168.6	44.0	38.9	10.8	24.2	27.2	32.2
Payments for Products with Supply Deficit <sup>(3)</sup>	294	622	1,085	1,270	111.6	74.4	17.1	9.5	16.8	22.9	22.8
Grains	0	205	120	435	-	-41.5	262.5	0.0	5.5	2.5	7.8
Tea	40	70	87	89	75.0	24.3	2.3	1.3	1.9	1.8	1.6
Animal Husbandry Support Payments	209	345	661	711	65.1	91.6	7.6	6.8	9.3	13.9	12.7
Agricultural Reform Appl. Project <sup>(4)</sup>	31	29	14	36	-6.5	-51.7	157.1	1.0	0.8	0.3	0.6
Agricultural Supports for Rural Development	0	0	0	90	-	-	-	0.0	0.0	0.0	1.6
Agricultural Insurance Support Services	0	0	2	50	-	-	-	0.0	0.0	0.0	0.9
Compensation Payments	0	56	67	76	-	19.6	13.4	0.0	1.5	1.4	1.4
Drought Support	0	0	0	300	-	-	-	0.0	0.0	0.0	5.4
Other	30	28	58	55	-6.7	107.1	-5.2	1.0	0.8	1.2	1.0
TOTAL	3,084	3,708	4,747	5,577	20.2	28.0	17.5	100.0	100.0	100.0	100.0

Source: DPT

(1) They are the final account data of the Ministry of Agriculture and Village Affairs budget for 2004, 2005 and 2006.

(2) Provisional

(3) It is given to unginned cotton, olive oil, sunflowers, soybeans, canola and corn kernels.

(4) Of the 2004 payments, a 4 million YTL portion was payments made for sugar beets.

The highest shares within the agricultural support payments were the direct income support and area based agricultural support payments at 2,465 million YTL (44.2%), the difference payment support services at 1,794 million YTL (32.2%), the animal husbandry support payments at 711 million YTL (12.7%) and the drought support payments at 300 million YTL (5.4%).

## b. Industry

The rate of increase in the added value of the industrial sector, which was realized at the level of 10% in the first quarter of 2007, followed a stagnant course in the other three quarters and was 4.3% in the second quarter, 4.7% in the third quarter and 3.6% in the fourth quarter. Thus, the added value of the industrial sector realized a 5.5% increase in 2007 compared to 2006. As of sub-sectors, an 8.1% increase occurred in the added value of the mining and quarrying sector, a 5.4% increase occurred in the added value of the manufacturing industry sector and a 6.2% increase occurred in the added value of the energy sector (Table 15).

The share of the industrial sector within the GDP was 20.1% in 2006 and it regressed to 19.6% in 2007. As of sub-sectors, the share of the mining and quarrying sector was 1.2%, the share of the manufacturing industry sector was 16.5% and the share of the energy sector was 1.8% (Table 16).



**TABLE 15. RATES OF CHANGE IN THE ADDED VALUE IN THE INDUSTRIAL SECTOR**

(According to the 1998 Basic Prices, %)							
Sectors	2001	2002	2003	2004	2005	2006	2007
Mining	-6.5	-2.4	-2.2	3.4	9.0	5.2	8.1
Manufacturing Industry	-7.6	2.9	8.4	11.9	8.2	8.4	5.4
Electricity, Gas and Water	-3.4	3.3	4.9	7.1	14.1	8.6	6.2
Total Industry	-7.3	2.7	7.8	11.3	8.6	8.3	5.5

Source: TÜİK

**TABLE 16. THE SHARE OF THE INDUSTRIAL SECTOR ADDED VALUE IN THE GDP**

(Current Prices, %)							
Sectors	2001	2002	2003	2004	2005	2006	2007
Mining	1.0	0.9	1.0	1.1	1.2	1.2	1.2
Manufacturing Industry	19.1	17.8	17.7	17.4	17.3	17.2	16.5
Electricity, Gas and Water	2.4	2.3	2.2	1.9	1.8	1.8	1.8
Total Industry	22.4	21.0	20.9	20.3	20.3	20.1	19.6

Source: TÜİK

The industrial sector production displayed an 8.5% increase in the first quarter, a 3.9% increase in the second quarter, a 4.3% increase in the third quarter and a 5.2% increase in the fourth quarter of 2007. The annual rate of increase in industrial production, which was 5.8% in 2006, regressed to 5.4% in 2007 (Table 17).

**TABLE 17. INDUSTRIAL PRODUCTION INDEX AND RATES OF CHANGE**

(1997=100)		
Years	Production Index	Change (%)
2004	123.4	-
2005	130.0	5.3
2006	137.6	5.8
2007	145.0	5.4

Source: TÜİK

#### **b. 1. Mining and Quarrying**

The added value of the mining and quarrying sector displayed an increase of 9.3% in the first quarter, 9.4% in the second quarter, 10.9% in the third quarter and 2.7% in the fourth quarter of 2007. A total growth of 8.1% was realized in the added value of the sector in 2007.

The mining sector production displayed an increase of 8% in the first quarter, 12.3% in the second quarter, 13% in the third quarter and 4.3% in the fourth quarter of 2007. As of the end of the year, the total rate of increase in production of the mining sector, which was 4.4% in 2006, rose to 9.6% in 2007 (Table 18).

TABLE 18. THE MINING AND QUARRYING PRODUCTION INDEX AND RATES OF CHANGE

Sub-Sectors	Production Index				Change (%)		
	2004	2005	2006	2007	2005	2006	2007
Mining and Quarrying	82.6	94.0	98.1	107.5	13.8	4.4	9.6
Coal Mining, Lignite and Peat Industry	73.5	98.0	104.0	118.1	33.3	6.1	13.6
Crude Oil and Natural Gas Production	73.4	79.7	69.3	67.4	8.6	-13.0	-2.7
Metal Ore Mining	49.4	53.8	65.5	83.9	8.9	21.7	28.1
Other Mining	121.1	118.7	125.8	131.1	-2.0	6.0	4.2

Source: TÜİK

The metal ore mining production increased 28.1%, the coal mining, lignite and peat industry production increased 13.6% and there was a decrease of 2.7% in the production of crude oil and natural gas. A 4.2% increase was realized in the production of mining other than these.

## b. 2. Manufacturing Industry

The added value of the manufacturing industry increased 10.2% in the first quarter, 3.9% in the second quarter, 4.3% in the third quarter and 3.6% in the fourth quarter of 2007. As of the end of the year, there was a 5.4% increase in the added value of the manufacturing industry.

In 2007, increases of 8.5% in the first quarter, 2.9% in the second quarter, 3.3% in the third quarter and 5.1% in the fourth quarter of 2007 occurred in manufacturing industry production. Thus, the total manufacturing industry production rate of increase, which was 5.6% in 2006, regressed to 4.8% in 2007 (Table 19).

The rate of capacity utilization in the manufacturing industry, which was 81% in 2006, increased 0.8 points in 2007 and rose to 81.8%. The rate of capacity utilization in the public sector decreased 1 point to 88.4% and in the public sector increased 1.1 points and became 80.7% (Table 20).

The production per person working in the manufacturing industry in general increased 6.3% and the production per hour worked increased 6.7% in 2006 and in 2007 it was 2.6% and 2.5%, respectively (Table 21).

**TABLE 19. THE PRODUCTION INDEX IN THE MANUFACTURING INDUSTRY AND RATES OF CHANGE**

Manufacturing Industry and Some Sub-Sectors	(1997=100)						
	Production Index				Change (%)		
	2004	2005	2006	2007	2005	2006	2007
Total Manufacturing Industry	123.6	129.6	136.8	143.3	4.9	5.6	4.8
Food Products and Beverage Production	112.1	119.0	126.1	129.1	6.2	6.0	2.4
Textile Products Production	102.9	90.7	89.8	91.8	-11.9	-1.0	2.2
Clothing Goods Production	114.6	100.4	95.5	97.6	-12.4	-4.9	2.2
Leather Proc., Suitcase, Purse, etc. Production	92.5	75.0	85.7	85.2	-18.9	14.3	-0.6
Lumber and Cork Products Production	133.7	154.9	158.7	186.4	15.9	2.5	17.5
Paper and Paper Products Production	113.6	119.1	120.2	128.8	4.8	0.9	7.2
Chemical Goods Production	139.9	148.6	158.0	173.2	6.2	6.3	9.6
Plastic-Rubber Products Production	160.0	191.6	169.1	188.0	19.8	-11.7	11.2
Main Metal Industry	133.7	138.2	152.9	170.8	3.4	10.6	11.7
Vehicles and Vehicle Body Production	182.6	200.2	219.5	242.0	9.6	9.6	10.3

Source: TÜİK

**TABLE 20. RATES OF CAPACITY UTILIZATION IN THE MANUFACTURING INDUSTRY**

Manufacturing Industry and Some Sub-Sectors	(Production Value Weighed, %)								
	2005			2006			2007		
	State	Private	Total	State	Private	Total	State	Private	Total
Total Manufacturing Industry	86.0	78.8	80.3	89.4	79.6	81.0	88.4	80.7	81.8
Food Products and Beverage Production	79.2	70.1	71.0	77.9	70.7	71.2	79.0	72.3	72.6
Textile Products Production	41.8	80.8	80.8	74.9	80.5	80.5	70.8	81.5	81.5
Clothing Goods Production	0.0	81.7	81.7	0.0	82.5	82.5	0.0	83.5	83.5
Leather Proc., Suitcase, Purse, etc. Production	0.0	66.4	66.4	0.0	67.8	67.8	0.0	68.0	68.0
Lumber and Cork Products Production	0.0	83.9	83.9	0.0	85.9	85.9	0.0	85.7	85.7
Paper and Paper Products Production	83.3	84.6	84.7	44.3	83.3	83.3	84.2	85.4	85.5
Chemical Goods Production	73.6	75.6	75.1	89.0	74.9	76.9	90.3	74.7	77.1
Plastic-Rubber Products Production	0.0	80.9	80.9	0.0	80.3	80.3	0.0	81.1	81.1
Main Metal Industry Production	90.2	80.1	82.2	86.4	82.8	83.6	91.4	84.6	85.7
Vehicles and Vehicle Body Production	0.0	83.6	83.6	0.0	85.4	85.4	0.0	88.0	88.0

Source: TÜİK

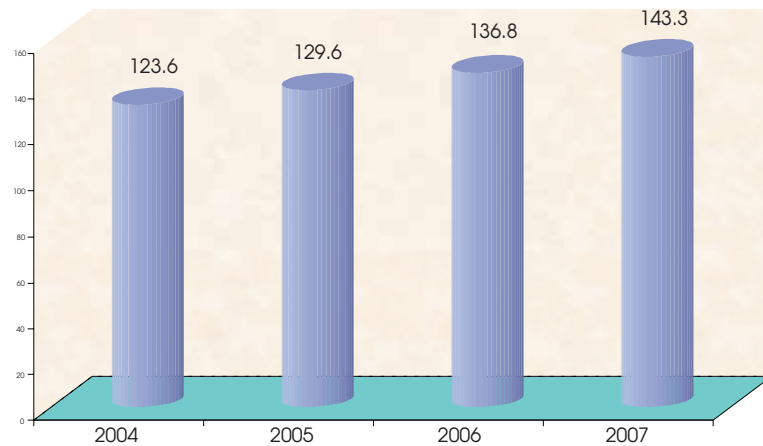
**GRAPH 3. PRODUCTION INDEX IN THE MANUFACTURING INDUSTRY (1997=100)**

TABLE 21. PRODUCTIVITY IN THE MANUFACTURING INDUSTRY

Years	Partial Productivity Index (1997=100)		Change (%)	
	Production Per Person Working	Production Per Hour Worked	Production Per Person Working	Production Per Hour Worked
2002	124.7	127.0		
2003	133.8	136.1	7.3	7.1
2004	144.7	146.1	8.2	7.4
2005	152.8	154.8	5.6	6.0
2006	162.5	165.2	6.3	6.7
2007	166.6	169.4	2.6	2.5

Source: TÜİK

**Food Products and Beverages Production**

Food products and beverages production displayed an increase of 6.4% in the first quarter and an increase of 2.3% in the second and third quarters and a decrease of 0.6% in the fourth quarter of 2007. The increase in food products and beverages production, which was 6% in 2006, fell to 2.4% in 2007. The rate of capacity utilization, which was 71.2% in 2006, rose to 72.6% in 2007.

**Textile Products Production**

Textile products production showed increases of 10.3% in the first quarter and of 7.1% in the second quarter and decreases of 2.1% in the third quarter and 5.1% in the fourth quarter of 2007. Textile products production decreased 1% in 2006 and increased 2.2% in 2007. The rate of capacity utilization, which was 80.5% in 2006, rose to 81.5% in 2007.

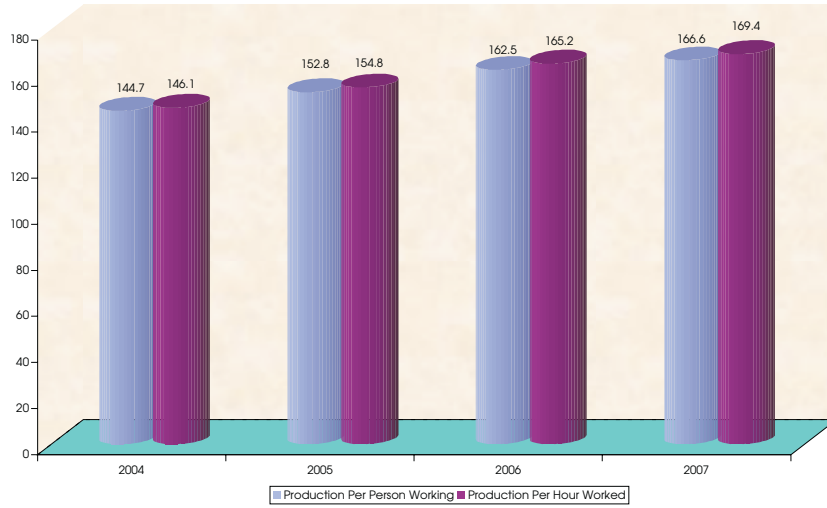
**Clothing Goods Production**

Clothing goods production displayed a decrease of 6.3% in the first quarter and increases of 3.4% in the second quarter, 6.1% in the third quarter and 6.4% in the fourth quarter of 2007. As a result of these changes, clothing goods production, which decreased 4.9% in 2006, increased 2.2% in 2007. The rate of capacity utilization, which was 82.5% in 2006, rose to 83.5% in 2007.

**Leather Processing, Suitcase and Purse Production**

Leather processing, suitcase and purse production increased 5.5% in the first quarter, 5.3% in the second quarter and decreased 1.9% in the third quarter and 10.8% in the fourth quarter of 2007. Thus, the leather processing, suitcase and purse production, which increased 14.3% in 2006, decreased 0.6% in 2007. The rate of capacity utilization, which was 67.8% in 2006, rose to 68% in 2007.

**GRAPH 4. PARTIAL PRODUCTIVITY INDEX IN THE MANUFACTURING INDUSTRY (1997=100)**



#### **Lumber and Cork Products Production**

Lumber and cork products production increased 25.3% in the first quarter, 19.8% in the second quarter, 23.8% in the third quarter and 3.2% in the fourth quarter of 2007. As a result of these developments, lumber and cork products production, which increased 2.5% in 2006, increased 17.5% in 2007. The rate of capacity utilization, which was 85.9% in 2006, regressed to 85.7% in 2007.

#### **Paper and Paper Products Production**

Paper and paper products production displayed an increase of 7.9% in the first quarter, 6.9% in the second quarter, 7.4% in the third quarter and 6.7% in the fourth quarter of 2007. Paper and paper products production, which grew 0.9% in 2006, grew 7.2% in 2007. The rate of capacity utilization, which was 83.3% in 2006, rose to 85.5% in 2007.

#### **Chemical Goods Production**

Chemical goods production increased 5.4% in the first quarter, 0.8% in the second quarter, 14.7% in the third quarter and 20.1% in the fourth quarter of 2007. Chemical goods production, which grew 6.3% in 2006, grew 9.6% in 2007. The rate of capacity utilization, which was 76.9% in the chemical industry in 2006, rose to 77.1% in 2007.

#### **Plastic and Rubber Products Production**

There were increases in plastic and rubber products production of 16.1% in the first quarter, 14.2% in the second quarter, 5.6% in the third quarter and 9.2% in the fourth quarter of 2007. Plastic and rubber products production, which decreased 11.7% in 2006, increased 11.2% in 2007. The rate of capacity utilization, which was 80.3% in 2006, rose to 81.1% in 2007.

#### **Main Metal Industry Production**

The main metal industry production increased 19.6% in the first quarter, 12.3% in the second quarter, 8.6% in the third quarter and 7.4% in the fourth quarter of

2007. As a result of these developments, the main metal industry production, which grew 10.6% in 2006, grew 11.7% in 2007. The rate of capacity utilization, which was 83.6% in 2006, rose to 85.7% in 2007.

### Vehicles and Vehicle Bodies Production

Vehicles and vehicle bodies production increased 6.2% in the first quarter, 5.3% in the second quarter, 6.8% in the third quarter and 22.3% in the fourth quarter of 2007. As a result of these developments, vehicles and vehicle bodies production, which showed an increase of 9.6% in 2006, increased at the rate of 10.3% in 2007. The rate of capacity utilization, which was 85.4% in 2006, rose to 88% in 2007.

### The Production of Selected Industrial Goods and the Sales of Durable Consumer Goods

In 2007, the highest production increase among the selected industrial goods was realized in the production of cubed sugar at 563.9%. It was followed by increases in the production of cast iron at 81.6%, copper wires at 27.9%, alumina at 16.7% and lignite at 15.8%. The highest production decrease was in the production of synthetic textiles at 33%. It was followed by decreases in the production of regular gasoline at 22.2%, crystallized sugar at 14%, tin plate and rolled sheet iron at 11.3% and filtered cigarettes at 8.2% (Table 22).

**TABLE 22. PRODUCTION OF SELECTED INDUSTRIAL GOODS**

Goods	Production (Tons)			Change (%)	
	2005	2006	2007	2006	2007
Hard Coal	3,049,699	3,070,793	3,233,330	0.7	5.3
Lignite (Thousand Tons)	55,626	61,006	70,619	9.7	15.8
Crude Oil	2,280,764	2,175,353	2,134,260	-4.6	-1.9
Natural Gas (Thousand m <sup>3</sup> )	483,525	307,136	287,500	-36.5	-6.4
Wheat Flour	2,296,341	2,192,794	2,372,330	-4.5	8.2
Crystallized Sugar	1,923,890	1,861,600	1,601,054	-3.2	-14.0
Cubed Sugar	4,013	4,355	28,911	8.5	563.9
Raki (45) (Thousand liters)	44,062	37,839	37,755	-14.1	-0.2
Wine (Thousand liters)	25,993	25,078	25,156	-3.5	0.3
Beer (Thousand liters)	893,557	905,886	920,470	1.4	1.6
Filtered Cigarettes	104,106	130,269	119,579	25.1	-8.2
Cotton Thread	460,376	526,456	536,280	14.4	1.9
Synthetic Thread	569,533	567,809	571,476	-0.3	0.6
Cotton Textiles (Thousand Meters)	603,349	645,232	699,283	6.9	8.4
Synthetic Textiles (Thousand Meters)	251,589	258,990	173,433	2.9	-33.0
Writing Paper	279,815	285,064	272,471	1.9	-4.4
Cardboard	259,440	258,848	283,934	-0.2	9.7
Regular Gasoline	64,898	64,189	49,935	-1.1	-22.2
Unleaded Gasoline	3,313,107	3,695,380	4,097,371	11.5	10.9
Diesel Fuel	7,549,248	7,616,527	7,338,368	0.9	-3.7
Fuel Oil 6	6,388,568	6,192,261	6,023,314	-3.1	-2.7
L. P. G.	767,290	800,674	761,223	4.4	-4.9
Polyethylene	273,588	384,565	393,890	40.6	2.4
PVC+PCC Compound	133,266	135,097	155,014	1.4	14.7
Automobile Tire (Thousand Each)	17,535	17,488	17,557	-0.3	0.4
Square Wall Tile (Thousand m <sup>2</sup> )	477,009	452,447	436,144	-5.1	-3.6
Cement	41,669,151	47,977,425	49,628,720	15.1	3.4
Cast Iron	178,395	159,733	290,102	-10.5	81.6
Tin Plate and Rolled Sheet Iron	140,906	133,042	117,989	-5.6	-11.3
Alumina	112,558	140,089	163,435	24.5	16.7
Copper Wires	94,920	110,201	140,893	16.1	27.9
Electricity (Million KWH)	161,741	175,896	189,961	8.8	8.0

Source: TÜİK

In 2007, the highest production increase among the selected durable consumer goods was in the production of dishwashers at 53.7%. It was followed by increases in the production of automobiles at 20.2%, pick-up trucks at 15.4% and vacuum cleaner production at 5.9%. The highest production decrease was observed in the production of televisions at 30.9%. It was followed by decreases in the production of midibuses-minibuses at 17.7%, trucks at 15.5% and tractor production at 11.9% (Table 23).

**TABLE 23. PRODUCTION OF SELECTED DURABLE CONSUMER GOODS**

Goods	Quantity			Change (%)	
	2005	2006	2007	2006	2007
Refrigerator	5,098,866	6,222,690	6,160,335	22.0	-1.0
Dishwasher	783,278	1,192,314	1,832,608	52.2	53.7
Washing Machine	4,433,810	5,410,212	5,407,789	22.0	0.0
Vacuum Cleaner	1,206,693	1,487,791	1,575,867	23.3	5.9
Oven	5,859,311	6,567,175	6,472,196	12.1	-1.4
Television	20,908,706	18,283,948	12,642,537	-12.6	-30.9
Automobile	635,137	712,564	856,244	12.2	20.2
Midibus-Minibus	59,070	46,510	38,264	-21.3	-17.7
Bus	5,160	5,837	6,115	13.1	4.8
Pick-up Truck	128,426	136,594	157,677	6.4	15.4
Truck	39,324	35,142	29,702	-10.6	-15.5
Tractor	38,155	42,496	37,456	11.4	-11.9

Source: TÜİK

In 2007, the highest rate of increase in the sales of selected durable consumer goods was observed in dishwashers at 54.9%, in buses at 17%, in pick-up trucks at 16.9% and in automobiles at 13.2%. The highest rate of decrease in the sales of selected durable consumer goods was observed in televisions at 29.5%, in trucks at 14.4% and in tractors at 9% (Table 24).

**TABLE 24. SALES OF SELECTED DURABLE CONSUMER GOODS**

Goods	Quantity			Change (%)	
	2005	2006	2007	2006	2007
Refrigerator	5,262,380	6,105,974	6,109,402	16.0	0.1
Dishwasher	870,103	1,179,821	1,827,136	35.6	54.9
Washing Machine	4,360,994	5,375,490	5,298,519	23.3	-1.4
Vacuum Cleaner	1,280,076	1,538,833	1,575,952	20.2	2.4
Oven	5,873,331	5,597,413	5,813,923	-4.7	3.9
Television	20,658,153	18,032,788	12,721,613	-12.7	-29.5
Automobile	641,970	755,471	855,402	17.7	13.2
Midibus-Minibus	59,859	44,878	42,713	-25.0	-4.8
Bus	5,250	5,572	6,518	6.1	17.0
Pick-up Truck	130,471	136,215	159,282	4.4	16.9
Truck	43,795	35,876	30,725	-18.1	-14.4
Tractor	38,802	43,260	39,379	11.5	-9.0

Source: TÜİK

### b. 3. Energy

The added value of the energy sector increased 7% in the first quarter, 7.8% in the second quarter, 7% in the third quarter and 3.9% in the fourth quarter of 2007. There was a 6.2% increase in the added value of the energy sector in 2007.

The energy sector production increased 8.9% in the first quarter, 9.9% in the second quarter, 10.2% in the third quarter, and 5.9% in the fourth quarter of 2007. The rate of increase in energy sector production, which was 9.1% in 2006, regressed to 8.7% in 2007 (Table 25).

**TABLE 25. ENERGY PRODUCTION INDEX AND RATES OF CHANGE**

(1997=100)		
Years	Production Index	Rates of Change (%)
2004	145.3	-
2005	156.3	7.6
2006	170.5	9.1
2007	185.4	8.7

Source: TÜİK

In 2007, 48.3% of the electricity production was provided from the natural gas fueled power plants, 21% was from the lignite fueled power plants, 18.6% was from the hydraulic power plants, 7.5% was from the hard coal fueled power plants, 4.1% was from the fuel oil power plants, 0.3% was from the geothermal-wind energy power plants and 0.1% was provided from the biogas-waste fueled power plants. The total energy production increased 7.8% and rose from 176,300 GWH to 190,100 GWH (Table 26).

In 2007, the gross electrical energy consumption increased 7.9% compared to the previous year and rose from 174,637 GWH to 188,400 GWH. Of this, 38.5% was consumed in industry, 19.3% in housing, 13% in businesses, 3.1% in official offices, 2.2% in general lighting and 6.1% in other sectors. Of the total electrical energy consumption, 17.8% was composed of losses. The share of electrical energy consumption used in general lighting within the total electrical energy consumption did not change. The share of the electrical energy consumption used in businesses and industry increased. The share of electrical energy consumption used in housing and official offices and the losses decreased (Table 27).



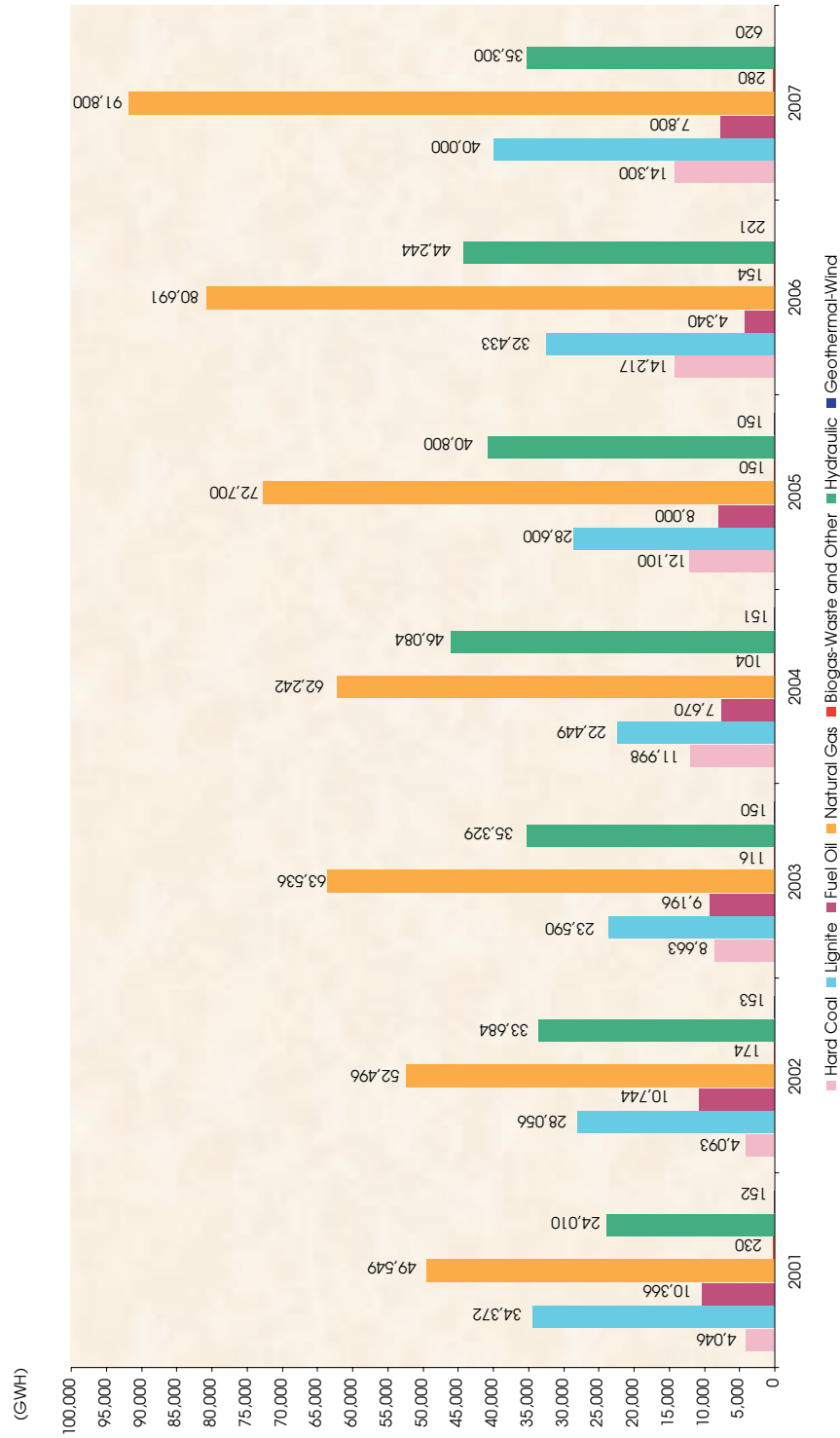
TABLE 26. THE DISTRIBUTION OF ELECTRICAL ENERGY PRODUCTION ACCORDING TO ENERGY SOURCES

Thermal																									(GWH)	
Years	Hard Coal						Lignite		Fuel Oil		Natural Gas		Biogas-Waste and Other		Total		Hydraulic		Geothermal-Wind		Grand Total					
	Amt.	Share (%)		Amt.	Share (%)		Amt.	Share (%)		Amt.	Share (%)		Amt.	Share (%)		Amt.	Share (%)		Amt.	Share (%)		Amt.	Share (%)			
2001	4,046	3.3		34,372	28.0		10,366	8.4		49,549	40.4		230	0.2		98,563	80.3		24,010	19.6		152	0.1		122,725	100.0
2002	4,093	3.2		28,056	21.7		10,744	8.3		52,496	40.6		174	0.1		95,563	73.9		33,684	26.0		153	0.1		129,400	100.0
2003	8,663	6.2		23,590	16.8		9,196	6.5		63,536	45.2		116	0.1		105,101	74.8		35,329	25.1		150	0.1		140,580	100.0
2004	11,998	8.0		22,449	14.9		7,670	5.1		62,242	41.3		104	0.1		104,463	69.3		46,084	30.6		151	0.1		150,698	100.0
2005	12,100	7.4		28,600	17.6		8,000	4.9		72,700	44.7		150	0.1		121,550	74.8		40,800	25.1		150	0.1		162,500	100.0
2006	14,217	8.1		32,433	18.4		4,340	2.5		80,691	45.8		154	0.1		131,835	74.8		44,244	25.1		221	0.1		176,300	100.0
2007 (*)	14,300	7.5		40,000	21.0		7,800	4.1		91,800	48.3		280	0.1		154,180	81.1		35,300	18.6		620	0.3		190,100	100.0

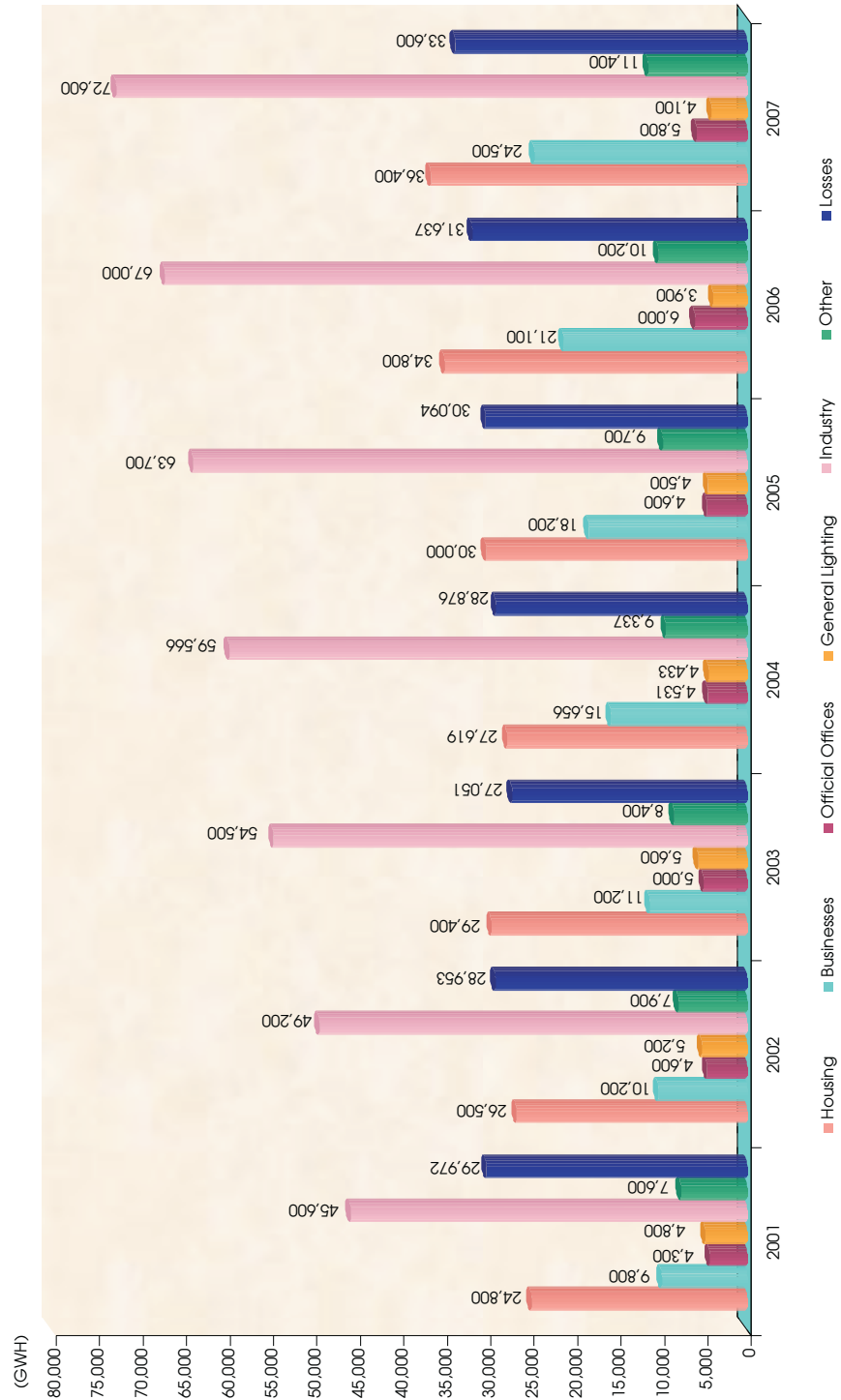
TABLE 27. DISTRIBUTION OF ELECTRICAL ENERGY CONSUMPTION ACCORDING TO THE USER GROUPS

Years	Energy Production and Distribution (GWh)															
	Housing		Businesses		Official Offices		General Lighting		Industry		Other		Losses		Total Gross Consumption	
	Amt.	Share (%)	Amt.	Share (%)	Amt.	Share (%)	Amt.	Share (%)	Amt.	Share (%)	Amt.	Share (%)	Amt.	Share (%)	Amt.	Share (%)
2001	24,800	19.5	9,800	7.7	4,300	3.4	4,800	3.8	45,600	35.9	7,600	6.0	29,972	23.6	126,872	100.0
2002	26,500	20.0	10,200	7.7	4,600	3.5	5,200	3.9	49,200	37.1	7,900	6.0	28,953	21.8	132,553	100.0
2003	29,400	20.8	11,200	7.9	5,000	3.5	5,600	4.0	54,500	38.6	8,400	6.0	27,051	19.2	141,151	100.0
2004	27,619	18.4	15,656	10.4	4,531	3.0	4,433	3.0	59,566	39.7	9,337	6.2	28,876	19.2	150,018	100.0
2005	30,000	18.7	18,200	11.3	4,600	2.9	4,500	2.8	63,700	39.6	9,700	6.0	30,094	18.7	160,794	100.0
2006	34,800	19.9	21,100	12.1	6,000	3.4	3,900	2.2	67,000	38.4	10,200	5.8	31,637	18.1	174,637	100.0
2007 (*)	36,400	19.3	24,500	13.0	5,800	3.1	4,100	2.2	72,600	38.5	11,400	6.1	33,600	17.8	188,400	100.0

GRAPH 5. DISTRIBUTION OF ELECTRICAL ENERGY PRODUCTION ACCORDING TO ENERGY SOURCES



GRAPH 6. DISTRIBUTION OF ELECTRICAL ENERGY CONSUMPTION ACCORDING TO THE USER GROUPS



## c. Services

### c. 1. Trade

The volume of transactions of the commodity exchanges increased 16.5% in 2007 compared to the previous year and rose from 53,244 million YTL to 62,031.9 million YTL. There was a 9.6% increase in real terms in the volume of transactions of the commodity exchanges (Table 28).

**TABLE 28. VOLUME OF TRANSACTIONS OF THE COMMODITY EXCHANGES**

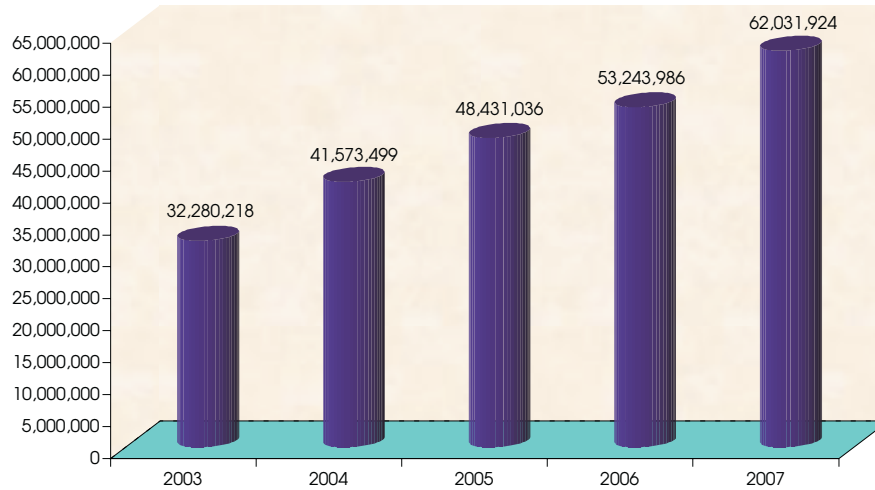
Years	Volume of Transactions		TEFE/ÜFE	Change (%) (*)	Real Change in the Volume of Transactions (%)
	(Thousand YTL)	Change (%)			
2003	32,280,218	-	-	25.6	-
2004	41,573,499	28.8	14.6	12.4	12.4
2005	48,431,036	16.5	5.9	10.0	10.0
2006	53,243,986	9.9	9.3	0.6	0.6
2007	62,031,924	16.5	6.3	9.6	9.6

Source: TOBB (UCCET)

(\*) It is the 12-month average percentage change of the TEFE in 2003 based on 1994=100. It is the 12-month average percentage change of the ÜFE in 2004 and later years based on 2003=100.

**GRAPH 7. VOLUME OF TRANSACTIONS OF THE COMMODITY EXCHANGES**

(Thousand YTL)



As of the selected commodity exchanges, the exchange with the highest volume of transactions in 2007 was the İstanbul Commodity Exchange at 7,511.8 million YTL. It was followed by the İzmir Commodity Exchange at 3,335.6 million YTL, the Konya Commodity Exchange at 2,320.2 million YTL and the Adana Commodity Exchange at 2,292.9 million YTL. Compared to the previous year, the rate of the volume of transactions increased the most at the Commodity Exchanges in Diyarbakır at 56.9%, in Aydın at 34.8%, in Gaziantep at 30.9% and in Tekirdağ at 27.5% (Table 29).

**TABLE 29. VOLUME OF TRANSACTIONS OF THE SELECTED COMMODITY EXCHANGES**

(Thousand YTL)

Exchanges	Volume of Transactions					Change (%)			
	2003	2004	2005	2006	2007	2004	2005	2006	2007
Adana	1,489,800	1,712,592	1,676,316	2,134,482	2,292,948	15.0	-2.1	27.3	7.4
Adapazarı	640,821	1,439,470	1,529,273	1,354,525	1,594,255	124.6	6.2	-11.4	17.7
Afyonkarahisar	405,728	502,241	642,736	925,702	1,054,300	23.8	28.0	44.0	13.9
Ankara	1,071,465	1,100,340	1,404,365	1,373,092	1,627,984	2.7	27.6	-2.2	18.6
Antakya	717,533	677,708	656,349	711,771	680,099	-5.6	-3.2	8.4	-4.4
Antalya	312,448	371,207	431,040	480,139	592,455	18.8	16.1	11.4	23.4
Aydın	536,198	537,523	753,132	647,415	872,393	0.2	40.1	-14.0	34.8
Balıkesir	404,864	488,119	921,305	909,796	968,511	20.6	88.7	-1.2	6.5
Bursa	410,533	475,717	496,147	779,191	642,379	15.9	4.3	57.0	-17.6
Denizli	313,803	321,133	310,718	423,010	483,967	2.3	-3.2	36.1	14.4
Diyarbakır	613,633	622,816	805,675	1,009,100	1,583,374	1.5	29.4	25.2	56.9
Edirne	406,347	562,973	551,960	554,590	591,237	38.5	-2.0	0.5	6.6
Eskişehir	336,644	362,880	476,317	557,402	519,852	7.8	31.3	17.0	-6.7
Gaziantep	813,995	1,118,685	1,138,300	1,622,706	2,124,600	37.4	1.8	42.6	30.9
Giresun	567,886	1,329,162	1,095,327	1,205,184	1,327,506	134.1	-17.6	10.0	10.1
İstanbul	5,689,262	6,427,194	5,625,983	6,257,608	7,511,821	13.0	-12.5	11.2	20.0
İzmir	2,590,082	2,668,059	2,867,372	3,138,479	3,335,595	3.0	7.5	9.5	6.3
Kahramanmaraş	304,019	381,453	387,665	432,842	521,891	25.5	1.6	11.7	20.6
Kayseri	192,657	328,735	443,340	479,864	585,566	70.6	34.9	8.2	22.0
Konya	1,119,682	1,430,593	1,453,210	1,965,449	2,320,213	27.8	1.6	35.2	18.1
Malatya	179,960	965,289	1,345,837	640,966	800,978	436.4	39.4	-52.4	25.0
Mersin	872,452	941,072	1,061,420	1,234,939	1,463,320	7.9	12.8	16.3	18.5
Ordu	583,607	770,155	1,369,536	1,394,165	1,462,071	32.0	77.8	1.8	4.9
Rize	307,653	428,620	517,278	562,955	644,503	39.3	20.7	8.8	14.5
Samsun	258,542	307,930	464,469	486,599	579,178	19.1	50.8	4.8	19.0
Tekirdağ	313,775	441,850	487,906	557,039	710,220	40.8	10.4	14.2	27.5
Trabzon	347,741	566,374	696,394	738,064	779,084	62.9	23.0	6.0	5.6
Others	10,479,088	14,293,608	18,821,665	20,666,912	24,361,624	36.4	31.7	9.8	17.9
Total	32,280,218	41,573,499	48,431,036	53,243,986	62,031,924	28.8	16.5	9.9	16.5

Source: TOBB (UCCET)

In 2007, a total of 55,350 companies were established with a total capital of 12,605.9 million YTL. Of these, 9 were collective companies, 1 was a limited partnership, 50,658 were limited companies, 3,381 were corporations and 1,301 were cooperatives. There was a 5% increase in the number of companies established in 2007 compared to 2006 and there was a 32.2% increase in the amount of capital (Table 30).

**TABLE 30. NEWLY ESTABLISHED COMPANIES**

Years	Collective Company		Ltd. Partnership		Limited Company		Corporation		Cooperative		Total	
	No.	Capital YTL	No.	Capital YTL	No.	Capital YTL	No.	Capital YTL	No.	Capital YTL	No.	Capital YTL
2001	101	64,192,540	3	356,500	26,651	960,202,351	2,053	1,401,833,545	857	3,563,550	29,665	2,430,148,486
2002	117	7,359,281	3	120,070	27,929	874,570,414	1,973	1,235,217,023	820	1,233,123	30,842	2,118,499,911
2003	171	12,232,001	3	185,500	29,095	1,175,453,955	2,282	1,683,777,244	708	1,303,746	32,259	2,872,952,446
2004	98	5,811,453	2	175,000	36,647	2,451,303,768	2,767	2,362,499,853	1,405	1,183,327	40,919	4,820,973,401
2005	22	1,143,500	2	22,000	42,671	4,408,119,411	3,041	3,286,431,220	1,665	21,556,409	47,401	7,717,272,540
2006	22	1,169,012	1	990,000	48,012	5,846,801,944	2,918	3,660,011,051	1,746	25,753,840	52,699	9,534,725,847
2007	9	1,635,507	1	1,000,000	50,658	7,552,340,710	3,381	5,041,644,691	1,301	9,252,278	55,350	12,605,873,186

Source: TÜİK

In 2007, a total of 9,954 companies were closed down. Of these, 118 were collective companies, 7 were limited partnership companies, 8,385 were limited companies, 1,126 were corporations and 318 were cooperatives. There was a 5.1% increase in the number of companies closed down in 2007 compared to the previous year and there was an 85.1% increase in the amount of capital (Table 31).

**TABLE 31. COMPANIES CLOSED DOWN**

Years	Collective Company		Ltd. Partnership		Limited Company		Corporation		Cooperative		Total	
	No.	Capital YTL	No.	Capital YTL	No.	Capital YTL	No.	Capital YTL	No.	Capital YTL	No.	Capital YTL
2001	194	144,000	23	1,272	1,849	1,007,150	350	9,664,436	48	7,969	2,464	10,824,827
2002	168	127,211	17	17	2,742	3,077,282	568	3,108,870	172	171	3,667	6,313,551
2003	198	101,388	14	14	4,110	2,628,791	850	11,228,927	264	11,269	5,436	13,970,389
2004	195	39,197	21	3,119	6,132	4,253,932	953	14,641,352	359	458	7,660	18,938,058
2005	152	125,351	13	17	7,258	4,511,570	1,065	36,138,098	398	404	8,886	40,775,440
2006	178	365,177	9	9	7,898	1,770,247	1,008	29,538,765	378	378	9,471	31,674,576
2007	118	375,126	7	100,006	8,385	3,778,906	1,126	54,384,204	318	318	9,954	58,638,560

Source: TÜİK

The number of real persons who registered companies decreased 7.2% in 2007 compared to 2006 and regressed from 53,568 to 49,736. The number of real persons who discontinued businesses decreased 2.7% and regressed from 22,719 to 22,105 (Table 32).

**TABLE 32. THE REAL PERSONS WHO REGISTERED AND DISCONTINUED BUSINESSES**

Years	Registrations		Discontinuations		Rate of Discontinuations/ Registrations
	No.	Change (%)	No.	Change (%)	
2001	19,412	-	15,870	-	0.8
2002	25,634	32.1	16,752	5.6	0.7
2003	33,337	30.0	15,259	-8.9	0.5
2004	41,671	25.0	17,868	17.1	0.4
2005	49,526	18.9	17,774	-0.5	0.4
2006	53,568	8.2	22,719	27.8	0.4
2007	49,736	-7.2	22,105	-2.7	0.4

Source: TOBB (UCCET)

In 2007, the number of negotiable instruments protested increased 24.9% and rose to 1,471 thousand. The amount of negotiable instruments protested increased 41.4% and became 5,732.4 million YTL. The number of bad checks increased 15.2% and rose to 1,397 thousand (Table 33).

**TABLE 33. NEGOTIABLE INSTRUMENTS PROTESTED AND BAD CHECKS**

Years	Negotiable Instruments Protested				Bad Checks	
	Number (000)	Change (%)	Amount Thousand YTL	Change (%)	Number (000)	Change (%)
2001	805	-	1,114,794	-	1,199	-
2002	499	-38.0	816,175	-26.8	748	-37.6
2003	480	-3.8	907,941	11.2	850	13.6
2004	590	22.9	1,652,306	82.0	965	13.5
2005	921	56.1	2,803,142	69.7	1,103	14.3
2006	1,178	27.9	4,054,905	44.7	1,213	10.0
2007	1,471	24.9	5,732,371	41.4	1,397	15.2

Source: TCMB

GRAPH 8. NEGOTIABLE INSTRUMENTS PROTESTED AND BAD CHECKS



### c. 2. Tourism

The number of foreigners coming to Turkey increased 17.8% in 2007 compared to the previous year and rose to 23,341 thousand persons. The number of citizens going abroad increased 22% and rose to 4,957 thousand (Table 34).

**TABLE 34. THE NUMBER OF FOREIGNERS COMING AND CITIZENS LEAVING**

Years	(Thousand Persons)			
	Foreigners Coming	Change (%)	Citizens Leaving	Change (%)
2001	11,620	-	2,542	-
2002	13,248	14.0	2,686	5.7
2003	13,956	5.3	3,415	27.1
2004	17,548	25.7	3,845	12.6
2005	21,125	20.4	4,125	7.3
2006	19,820	-6.2	4,063	-1.5
2007	23,341	17.8	4,957	22.0

Source: DPT, TÜİK

Of the total 23,341 thousand foreigners coming to Turkey, 22,141 thousand were tourists and 1,200 thousand came for the day. Of the total 4,957 thousand citizens going abroad, 4,832 thousand went as tourists and 125 thousand went with the objective of pilgrimages (Table 35).

**TABLE 35. DISTRIBUTION OF THE NUMBER OF FOREIGNERS COMING AND THE NUMBER OF CITIZENS LEAVING ACCORDING TO PURPOSES**

Years	(Thousand Persons)					
	Foreigners Coming			Citizens Leaving		
	Tourist	For the Day	Total	Tourist	Pilgrimage	Total
2001	10,785	835	11,620	2,452	90	2,542
2002	12,782	466	13,248	2,586	100	2,686
2003	13,270	686	13,956	3,313	102	3,415
2004	16,835	713	17,548	3,735	110	3,845
2005	20,273	852	21,125	4,010	115	4,125
2006	18,870	950	19,820	3,943	120	4,063
2007	22,141	1,200	23,341	4,832	125	4,957

Source: DPT, TÜİK

The tourism revenues increased 9.7% in 2007 compared to the previous year and rose from US\$16,853 million to US\$18,487 million. Tourism expenses increased 18.8% and went from US\$2,743 million to US\$3,260 million. Thus, the net tourism revenues increased 7.9% and rose from US\$14,110 million to US\$15,227 million. The average expenditure per foreigner decreased 6.8% and regressed to US\$792. The average expenditure per citizen decreased 2.5% and regressed to US\$658 (Table 36).



**TABLE 36. BALANCE OF TOURISM REVENUES AND EXPENSES AND AVERAGE EXPENDITURES**

Years	Income (\$ Million)	Average Expenditure/ Foreigner (\$)	Expenses (\$ Million)	Average Expenditure/ Citizen (\$)	Net Revenues (\$ Million)
2001	8,090	696	1,738	684	6,352
2002	8,479	640	1,880	700	6,599
2003	13,203	946	2,113	619	11,090
2004	15,888	905	2,524	656	13,364
2005	18,152	859	2,872	696	15,280
2006	16,853	850	2,743	675	14,110
2007	18,487	792	3,260	658	15,227

Source: DPT, TÜİK

The loans allocated to the tourism sector by the Development Bank of Turkey decreased 17.8% in 2007 compared to the previous year and regressed to 68,824 thousand YTL. The payments made increased 33.5% and rose from 47,305 thousand YTL to 63,147 thousand YTL (Table 37).

**TABLE 37. LOANS ALLOCATED BY THE DEVELOPMENT BANK OF TURKEY TO THE TOURISM SECTOR AND USED**

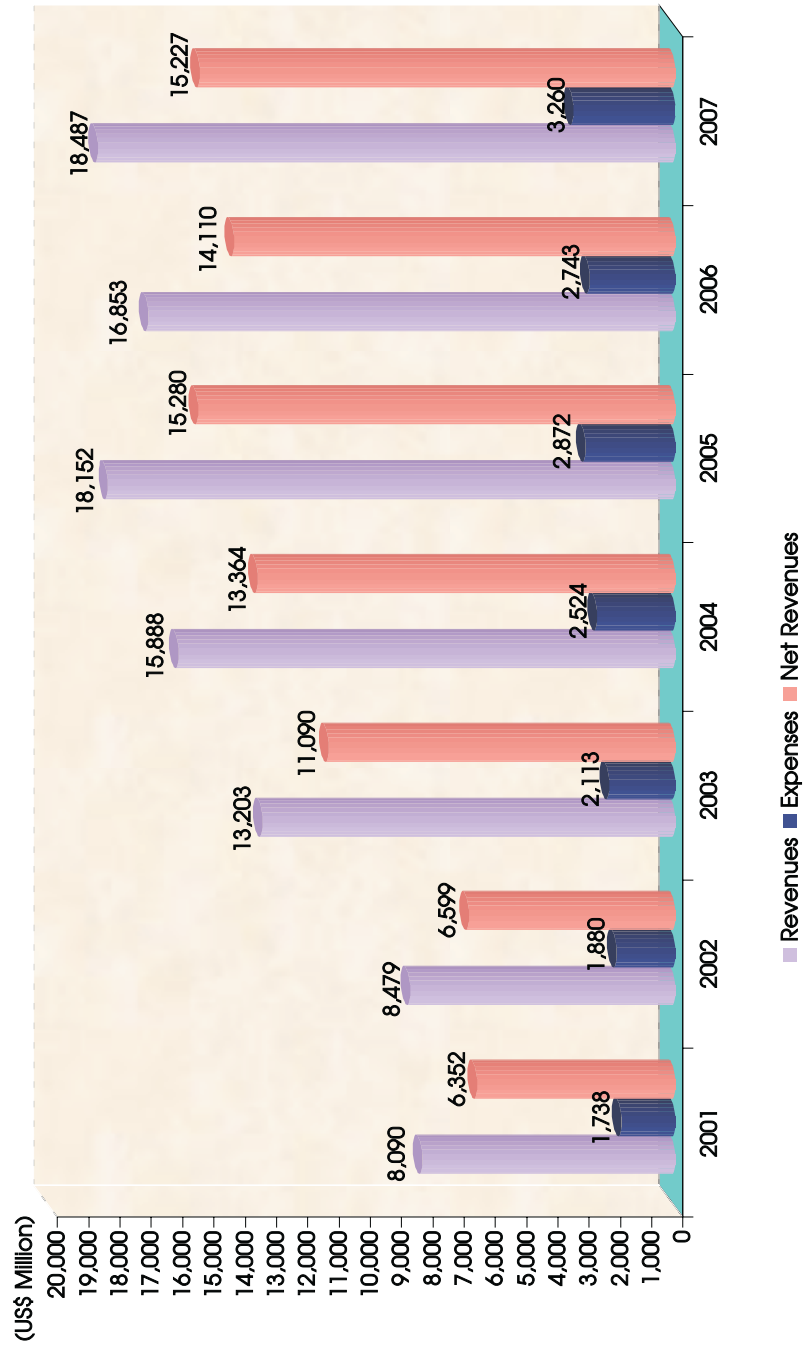
Years	(Thousand YTL)	
	Total Amount Allocated	Payments Made
2001	9,118	5,131
2002	22,076	4,861
2003	168,609	21,007
2004	92,065	24,273
2005	12,686	59,623
2006	83,694	47,305
2007	68,824	63,147

Source: TKB

### c. 3. Transportation

There was a 3.8% increase in the domestic passenger transports and a 20% increase in the passenger transports abroad in 2007 compared to 2006. There was a 4.4% increase in the domestic cargo transports and a 16.4% increase in the cargo transports abroad, excluding the natural gas transports made through imports by the BOTAŞ with the pipeline (Table 38).

GRAPH 9. TOURISM REVENUES AND EXPENSES



**TABLE 38. TRANSPORTATION STATISTICS**

SUB-SECTOR	PASSENGER TRANSPORT							
	(Million Passengers-Km)			Change (%)		Share (%)		
	2005	2006	2007 <sup>(1)</sup>	2006	2007	2005	2006	2007
DOMESTIC								
Highways <sup>(2)</sup>	182,152	187,593	194,159	3.0	3.5	96.0	95.4	95.1
Railroads	3,602	3,802	3,878	5.6	2.0	1.9	1.9	1.9
Airways <sup>(3)</sup>	4,016	5,265	6,177	31.1	17.3	2.1	2.7	3.0
TOTAL	189,770	196,660	204,214	3.6	3.8	100.0	100.0	100.0
ABROAD								
Airways <sup>(3)</sup>	17,301	20,099	24,124	16.2	20.0	100.0	100.0	100.0
TOTAL	17,301	20,099	24,124	16.2	20.0	100.0	100.0	100.0
SUB-SECTOR	CARGO TRANSPORT							
	(Million Tons-Km)			Change (%)		Share (%)		
	2005	2006	2007 <sup>(1)</sup>	2006	2007	2005	2006	2007
DOMESTIC								
Highways <sup>(2)</sup>	166,831	177,399	185,382	6.3	4.5	91.3	91.4	91.5
Railroads	7,997	8,227	8,638	2.9	5.0	4.4	4.2	4.3
Seaways <sup>(4)</sup>	5,225	5,518	5,965	5.6	8.1	2.9	2.8	2.9
Pipelines								
Crude Oil <sup>(5)</sup>	2,712	2,842	2,518	4.8	-11.4	1.5	1.5	1.2
TOTAL	182,765	193,986	202,503	6.1	4.4	100.0	100.0	100.0
ABROAD								
Railroads	1,081	1,318	1,581	21.9	20.0	0.2	0.2	0.2
Seaways <sup>(4)</sup>	680,000	775,500	884,800	14.0	14.1	99.7	98.7	96.7
Pipelines								
Crude Oil (Transit) <sup>(5)</sup>	1,141	9,118	28,806	699.1	215.9	0.2	1.2	3.1
TOTAL	682,222	785,936	915,187	15.2	16.4	100.0	100.0	100.0
Natural Gas (Million cm <sup>3</sup> ) <sup>(6)</sup>	26,735	30,308	36,651	13.4	20.9	-	-	-

Source: DPT

(1) Provisional

(2) It is the transports made on the road network under the responsibility of the Highways General Directorate.

(3) They are the transports made only by the Turkish Airlines.

(4) It is the estimated transport amount calculated, which include all of the transports made by seaways..

(5) It is only the crude oil transports.

(6) These are the total natural gas transports imported by BOTAŞ from the Russian Federation, Nigeria, Algeria, Azerbaijan and Iran.

In Turkey, for years, highways have continued to be predominant in the transports of domestic passengers and cargo, airways in the passenger transports abroad and seaways in the cargo transports abroad and this also continued in 2007.

In 2007, 95.1% of the domestic passenger transports were made by highways, 1.9% by railroads and 3% by airways. All of the passenger transports abroad were made by airways.

In 2007, 91.5% of the domestic cargo transports were made by highways, 4.3% by railroads, 2.9% by seaways and 1.2% by pipelines. Of the cargo transports abroad, 96.7% were made by seaways, 0.2% by railroads and 3.1% by pipelines (excluding the natural gas transports made through imports by the BOTAŞ).

## B. INVESTMENTS

In 2007, there was a significant decrease compared to the previous year in the rate of increase of the fixed capital investments. The public sector fixed capital investments increased 10% and rose from 30,409 million YTL to 33,435 million YTL. The private sector fixed capital investments increased 14.7% and went from 93,159 million YTL to 106,855 million YTL. The total fixed capital investments increased 13.5% and rose from 123,568 million YTL to 140,290 million YTL (Table 39).

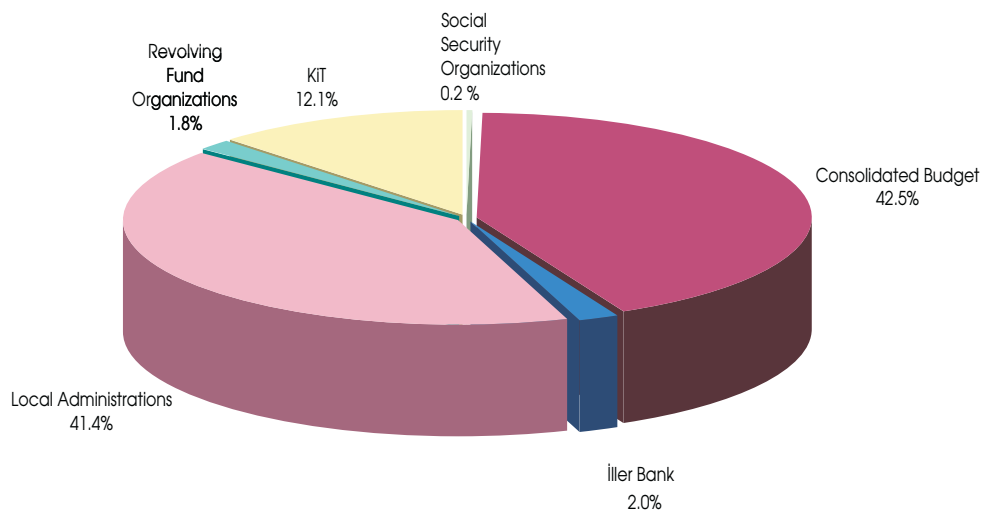
TABLE 39. FIXED CAPITAL INVESTMENTS

	(Current Prices, Million YTL)							
				Change (%)		Share (%)		
	2005	2006	2007 (*)	2006	2007	2005	2006	2007
Consolidated Budget	12,133	13,952	14,209	15.0	1.8	49.4	45.9	42.5
KİT (SEE)	3,593	3,672	4,054	2.2	10.4	14.6	12.1	12.1
Operating	2,204	2,785	3,028	26.4	8.7	9.0	9.2	9.1
Organizations within the Scope of Privatization	1,388	887	1,025	-36.1	15.6	5.6	2.9	3.1
İller Bank	526	540	660	2.7	22.2	2.1	1.8	2.0
Local Administrations	7,969	11,940	13,841	49.8	15.9	32.4	39.3	41.4
Revolving Fund Organizations	280	283	597	1.1	111.0	1.1	0.9	1.8
Social Security Organizations	66	17	74	-74.2	335.3	0.3	0.1	0.2
Funds	12	5	0	-58.3	-100.0	0.0	0.0	0.0
Total Public Sector	24,579	30,409	33,435	23.7	10.0	100.0	100.0	100.0
Total Fixed Capital Investments	97,648	123,568	140,290	26.5	13.5	100.0	100.0	100.0
Public Sector	24,579	30,409	33,435	23.7	10.0	25.2	24.6	23.8
Private Sector	73,069	93,159	106,855	27.5	14.7	74.8	75.4	76.2

Source: DPT

(\*) Provisional

**GRAPH 10. PUBLIC SECTOR FIXED CAPITAL INVESTMENTS (2007)**



An increase of 3.5% was realized in the public sector fixed capital investments, an increase of 7.9% in the private sector fixed capital investments and an increase of 6.8% in the total fixed capital investments, which were calculated in real terms according to the producer prices index.

Within the total fixed capital investments, the share of the public sector fixed capital investments was 23.8% and the share of the private sector fixed capital investments was 76.2%.

Of the public sector fixed capital investments, 42.5% were realized by the general and supplementary budget organizations, 12.1% by the KITs, 2% by the İller Bank, 41.4% by the local administrations, 1.8% by the revolving fund organizations and 0.2% by the social security organizations.

In 2007, the shares of the agriculture, housing, education and health sectors within the private sector fixed capital investments increased, the shares of the manufacturing, energy and transportation sectors decreased and the shares of the mining and tourism sectors did not change (Table 40).

**TABLE 40. FIXED CAPITAL INVESTMENTS BY SECTORS**

(Current Prices, Percentage Distribution)							
Sectors	2001	2002	2003	2004	2005	2006	2007 (*)
<b>Private Sector</b>							
Agriculture	2.1	2.1	2.7	4.0	3.1	3.4	3.5
Mining	1.6	1.8	2.2	2.0	1.9	1.7	1.7
Manufacturing	24.8	35.6	39.2	42.2	42.0	42.2	41.4
Energy	9.8	4.5	3.1	1.7	2.1	2.7	2.6
Transportation	23.6	18.4	16.8	18.8	17.4	16.3	15.6
Tourism	6.3	6.9	8.5	7.6	7.9	7.4	7.4
Housing	19.6	17.2	15.1	13.3	15.2	15.6	16.9
Education	1.9	1.5	1.6	1.2	1.1	1.0	1.1
Health	4.0	4.0	4.0	4.1	5.0	5.7	5.8
Other Services	6.4	8.1	6.8	5.2	4.4	4.0	4.0
<b>Public Sector</b>							
Agriculture	10.1	9.2	7.9	9.2	8.0	6.8	8.5
Mining	1.4	0.7	1.0	1.5	1.5	1.8	2.0
Manufacturing	4.0	3.2	2.6	2.7	1.7	2.0	1.3
Energy	15.1	20.8	16.7	13.4	12.4	9.7	10.2
Transportation	30.1	27.4	27.2	33.7	34.4	34.1	30.2
Tourism	0.5	0.8	0.8	0.7	0.4	0.4	0.4
Housing	0.9	0.8	1.0	1.0	1.7	1.5	1.6
Education	12.2	12.3	14.2	13.5	11.4	10.7	11.0
Health	4.9	5.1	5.7	5.0	5.8	5.7	6.3
Other Services	20.9	19.7	23.0	19.4	22.7	27.2	28.4
<b>Total</b>							
Agriculture	4.8	4.7	4.2	5.2	4.3	4.2	4.7
Mining	1.5	1.4	1.8	1.9	1.8	1.7	1.8
Manufacturing	17.7	23.8	28.2	33.2	31.9	32.3	31.8
Energy	11.6	10.4	7.2	4.3	4.7	4.4	4.4
Transportation	25.8	21.7	19.9	22.2	21.7	20.7	19.1
Tourism	4.3	4.6	6.2	6.0	6.0	5.7	5.7
Housing	13.3	11.2	10.9	10.5	11.8	12.1	13.3
Education	5.3	5.4	5.4	4.0	3.7	3.4	3.4
Health	4.3	4.4	4.5	4.3	5.2	5.7	5.9
Other Services	11.3	12.3	11.7	8.4	9.0	9.7	9.8

Source: DPT

(\*) Provisional

Within the private sector fixed capital investments, the most predominant sector was the manufacturing sector with a share of 41.4%. It was followed by the housing sector at 16.9% and the transportation sector at 15.6%. The education sector with a share of 1.1%, the mining sector with a share of 1.7% and the energy sector with a share of 2.6% were the areas in which the private sector made the least investments.

Within the public sector fixed capital investments, the shares of the agricultural, mining, energy, housing, education and health sectors increased, the shares of the manufacturing and transportation sectors decreased and the share of the tourism sector did not change.

The transportation sector with a share of 30.2%, the education sector with a share of 11% and the energy sector with a share of 10.2% were the most predominant sectors within the public sector fixed capital investments. The tourism sector with a share of 0.4%, the manufacturing sector with a share of 1.3% and the housing sector with a share of 1.6% were the sectors in which the least investments were made by the public sector.

Within the total fixed capital investments, the shares of the agricultural, mining, housing and health sectors increased, the shares of the manufacturing and transportation sectors decreased and the shares of the energy, tourism and education sectors remained the same.

The construction sector, which made a significant contribution to the growth of the national income with high added value increases in recent years, entered into stagnation in 2007 with the fluctuations stemming from the global economy and from the shrinkage in demand. A decrease was realized to a significant extent in the rate of increase in the surface areas of buildings, which were given building utilization licenses and building construction licenses by the municipalities.

The total construction areas of buildings, which were given a construction license by the municipalities, which increased 15.5% in 2006, increased 1% in 2007 and rose to 124,132 thousand m<sup>2</sup>. The highest rate of increase in the total construction areas of buildings for which building construction licenses were given was 46.1% for hotels and similar buildings. The construction areas for industrial buildings and storage depots increased 20.8%. The construction areas for wholesale and retail trade buildings increased 5.9%. The construction areas for offices (business) buildings increased 4.2%. The construction areas of housing purpose buildings with one apartment increased 23.1%. The construction areas of housing purpose buildings with two or more apartments decreased 2.7%.

The share of the housing purpose buildings with two or more apartments within the total construction areas for which construction licenses were given was 68.3%. It was followed by industrial buildings and storage depots at 8.5%, wholesale and retail trade buildings at 6%, office (business) buildings at 3.8%, housing purpose buildings with one apartment at 3.6% and hotels and similar buildings at 2.5% (Tables 41 and 42).

**TABLE 41. BUILDING CONSTRUCTION ACCORDING TO CONSTRUCTION LICENSES**

Purposes of Usage	(Area, m <sup>2</sup> )		
	2005	2006	2007
Housing Purpose Buildings with one Apartment	6,392,661	5,792,310	4,455,382
Housing Purpose Buildings with two or more Apts.	75,905,337	87,149,466	84,826,258
Hotels and Similar Buildings	2,294,077	2,149,512	3,139,626
Office (Business) Buildings	2,368,295	4,574,876	4,768,111
Wholesale and Retail Trade Buildings	5,595,632	7,030,834	7,444,405
Industrial Buildings and Storage Depots	7,966,094	8,721,263	10,535,144
Others	5,902,491	7,491,625	8,963,434
Total	106,424,587	122,909,886	124,132,360

Source: TÜİK

**TABLE 42. CHANGE AND SHARE OF BUILDING CONSTRUCTION ACCORDING TO CONSTRUCTION LICENSES**

Purposes of Usage	Change (%)		Share (%)		
	2006	2007	2005	2006	2007
Housing Purpose Buildings with one Apartment	-9.4	-23.1	6.0	4.7	3.6
Housing Purpose Buildings with two or more Apts.	14.8	-2.7	71.3	70.9	68.3
Hotels and Similar Buildings	-6.3	46.1	2.2	1.7	2.5
Office (Business) Buildings	93.2	4.2	2.2	3.7	3.8
Wholesale and Retail Trade Buildings	25.6	5.9	5.3	5.7	6.0
Industrial Buildings and Storage Depots	9.5	20.8	7.5	7.1	8.5
Others	26.9	19.6	5.5	6.1	7.2
Total	15.5	1.0	100.0	100.0	100.0

Source: TÜİK

In 2007, the rate of increase in the total construction areas of buildings given building utilization licenses by the municipalities regressed from 13.7% to 10.4%. Building utilization licenses were given to buildings with a total area of 63,150 thousand m<sup>2</sup>. The construction areas of housing purpose buildings with one apartment, which were given a building utilization license, displayed a decrease of 20.2% and the construction areas of office (business) buildings displayed a decrease of 2.4%. The construction areas of other buildings increased. The highest rate of increase was observed in the construction areas of hotels and similar buildings at 18.8%. It was followed by the increases in the construction areas of housing purpose buildings with two or more apartments at 13.2%, the construction areas of wholesale and retail trade buildings at 9.5% and the construction areas of industrial buildings and storage depots at 3.4% (Tables 43 and 44).

**TABLE 43. BUILDING CONSTRUCTION ACCORDING TO BUILDING UTILIZATION LICENSES**

Purposes of Usage	(Area, m <sup>2</sup> )		
	2005	2006	2007
Housing Purpose Buildings with one Apartment	3,886,755	3,721,305	2,970,331
Housing Purpose Buildings with two or more Apts.	32,478,768	38,776,662	43,898,480
Hotels and Similar Buildings	972,862	928,768	1,103,048
Office (Business) Buildings	1,374,206	2,219,454	2,166,990
Wholesale and Retail Trade Buildings	4,247,349	3,582,127	3,921,738
Industrial Buildings and Storage Depots	5,807,237	5,440,646	5,624,274
Others	1,557,423	2,538,358	3,465,286
Total	50,324,600	57,207,320	63,150,147

Source: TÜİK

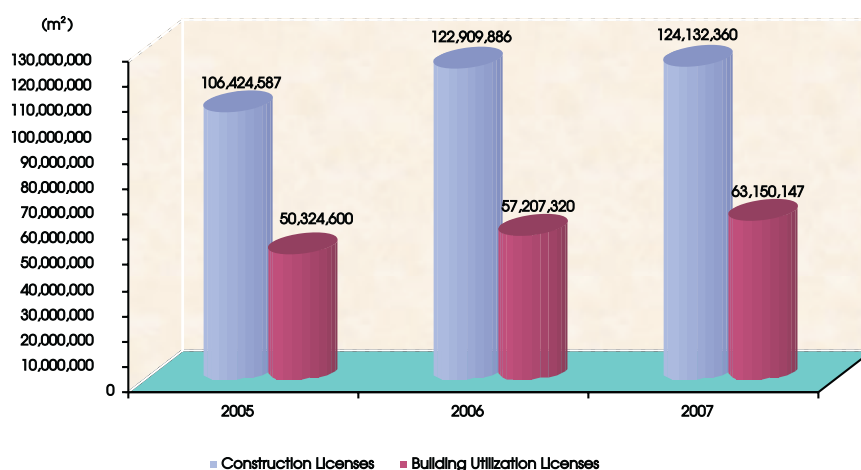
**TABLE 44. BUILDING CONSTRUCTION ACCORDING TO CONSTRUCTION LICENSES**

Purposes of Usage	Change (%)		Share (%)		
	2006	2007	2005	2006	2007
Housing Purpose Buildings with one Apartment	-4.3	-20.2	7.7	6.5	4.7
Housing Purpose Buildings with two or more Apts.	19.4	13.2	64.5	67.8	69.5
Hotels and Similar Buildings	-4.5	18.8	1.9	1.6	1.7
Office (Business) Buildings	61.5	-2.4	2.7	3.9	3.4
Wholesale and Retail Trade Buildings	-15.7	9.5	8.4	6.3	6.2
Industrial Buildings and Storage Depots	-6.3	3.4	11.5	9.5	8.9
Others	63.0	36.5	3.1	4.4	5.5
Total	13.7	10.4	100.0	100.0	100.0

Source: TÜİK



**GRAPH 11. BUILDING CONSTRUCTION ACCORDING TO CONSTRUCTION LICENSES AND BUILDING UTILIZATION LICENSES**



The highest share within the total construction areas of the buildings given a construction utilization license were the housing purpose buildings with two or more apartments at 69.5%. It was followed by industrial buildings and storage depots at 8.9%, wholesale and retail trade buildings at 6.2%, housing purpose buildings with one apartment at 4.7%, office (business) buildings at 3.4% and hotels and similar buildings at 1.7%.

The amount of investments connected to an incentive certificate increased 15.8% in 2007 compared to 2006 and rose from 22,737.6 million YTL to 26,330.6 million YTL. There was an 8.9% increase in real terms according to the producer prices index in the investments connected to an incentive certificate (Table 45).

**TABLE 45. SECTORAL DISTRIBUTION OF INVESTMENT INCENTIVE CERTIFICATES**

Sectors	No. of Certificates		Total Investment (Thousand YTL)					Employment (Persons)	
			2006		2007		Change (%)	2006	2007
	2006	2007	2006	Share (%)	2007	Share (%)		2006	2007
Agriculture	94	62	524,092	2.3	344,591	1.3	-34.2	4,006	2,325
Mining	132	131	608,974	2.7	637,936	2.4	4.8	4,406	3,961
Manufacturing Ind.	1,614	1,426	11,865,911	52.2	12,434,734	47.2	4.8	62,800	69,377
Energy	55	102	1,889,452	8.3	4,105,979	15.6	117.3	1,452	4,928
Services	1,195	643	7,849,154	34.5	8,807,318	33.4	12.2	50,019	52,503
Total	3,090	2,364	22,737,583	100.0	26,330,558	100.0	15.8	122,683	133,094

Source: HM

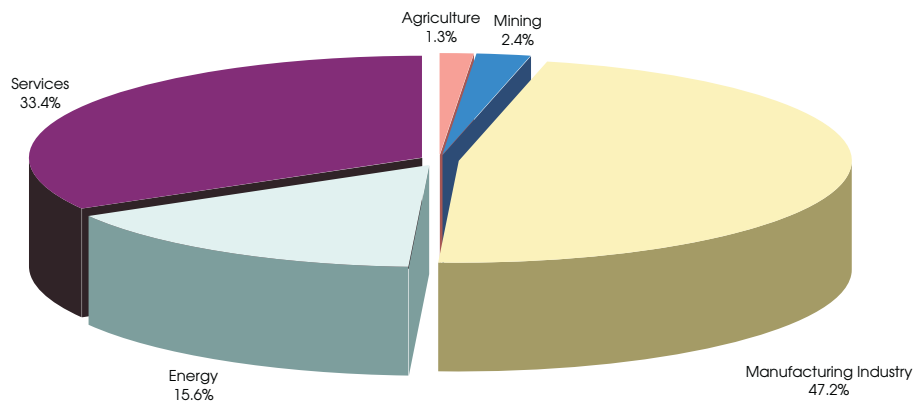
The incentives given to the agricultural sector decreased 34.2% and regressed to 344.6 million YTL. The energy sector incentives increased 117.3% and rose to 4,106 million YTL. The incentives given to the services sector increased 12.2% and went up to 8,807.3 million YTL. The incentives given to the mining sector increased 4.8% and rose to 637.9 million YTL. The incentives given to the manufacturing industry sector increased 4.8% and went up to 12,434.7 million YTL.

The manufacturing industry sector was in first place with a share of 47.2% among the investments connected to an incentive certificate in 2007. The share of the services sector was 33.4%. The share of the energy sector was 15.6%. The share of the mining sector was 2.4%. The share of the agricultural sector was 1.3%. The share of the energy sector increased compared to 2006 and the shares of the agricultural, mining, manufacturing industry and services sectors decreased.

In 2007, it was aimed to provide employment for 133,094 persons with a total of 2,364 incentive certificate investments. Of these, it was targeted to employ 69,377 persons in the manufacturing industry sector, 52,503 persons in the services sector, 4,928 persons in the energy sector, 3,961 persons in the mining sector and 2,325 persons in the agricultural sector.

Of the investments connected to an incentive certificate, a 71.9% portion were for completely new investments. It was followed by expansion investments at 20.5%, financial leasing investments at 2.7% and completion investments at

**GRAPH 12. SECTORAL DISTRIBUTION OF INVESTMENT INCENTIVE CERTIFICATES (2007)**



1.8%. The amount given for 1,430 incentive certificates for completely new investments was a total of 18,922.2 million YTL. The amount given for 444 incentive certificates for expansion investments was a total of 5,401.1 million YTL. The amount given for 345 incentive certificates for financial leasing investments was a total of 700.5 million YTL. The amount given for 46 incentive certificates for completion investments was a total of 471.5 million YTL. There was a decrease in the amounts given for incentive certificates for renovation, removing bottlenecks and integration investments in 2007 compared to 2006. There was an increase in the amounts given for incentive certificates for completely new investments, expansion, completion, quality improvement, modernization, financial leasing and product diversification investments (Table 46).

**TABLE 46. DISTRIBUTION OF INVESTMENT INCENTIVE CERTIFICATES ACCORDING TO TYPES**

Type of Investment	No. of Certificates		Total Investment (Thousand YTL)					Employment (Persons)	
	2006	2007	2006	Share (%)	2007	Share (%)	Change (%)	2006	2007
Completely New Investment	1,911	1,430	17,204,506	75.7	18,922,165	71.9	10.0	90,073	105,425
Expansion	580	444	3,708,917	16.3	5,401,085	20.5	45.6	20,498	20,482
Completion	72	46	313,746	1.4	471,512	1.8	50.3	3,484	2,234
Renovation	143	30	428,927	1.9	175,151	0.7	-59.2	6,102	2,129
Quality Improvement	18	10	52,957	0.2	87,859	0.3	65.9	222	89
Removing Bottlenecks	15	10	104,691	0.5	25,492	0.1	-75.7	281	221
Modernization	49	35	317,872	1.4	441,034	1.7	38.7	1,323	1,074
Integration	15	5	77,374	0.3	10,030	0.0	-87.0	499	72
Financial Leasing	276	345	511,866	2.3	700,539	2.7	36.9	-	-
Product Diversification	11	9	16,727	0.1	95,691	0.4	472.1	201	1,368
Total	3,090	2,364	22,737,583	100.0	26,330,558	100.0	15.8	122,683	133,094

Source: HM

In 2007, within the total investment incentive certificates given amounting to a total of 26,330.6 million YTL, the first three places were taken by the Marmara Region at 8,003.5 million YTL (30.4%), the Mediterranean Region at 4,104.7 million YTL (15.6%) and the Central Anatolia Region at 3,782.9 million YTL (14.4%). The region with the least investments connected to an incentive certificate was the Eastern Anatolia Region at 1,055.7 million YTL (4%) (Table 47).

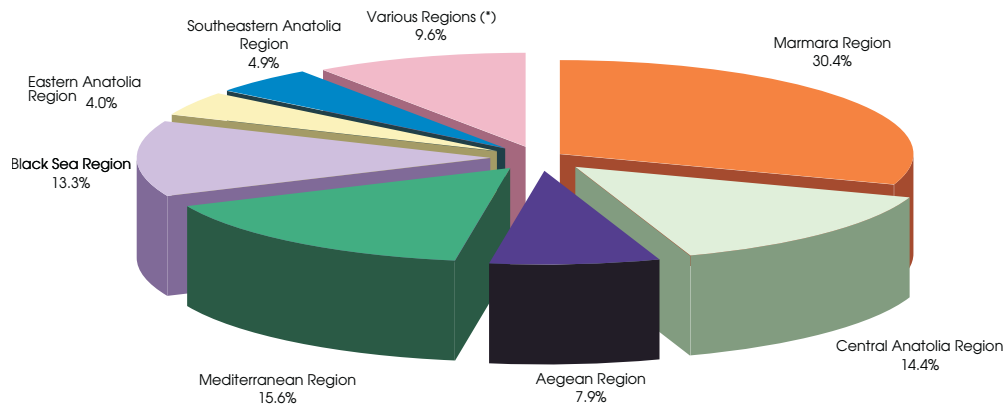
**TABLE 47. REGIONAL DISTRIBUTION OF INVESTMENT INCENTIVE CERTIFICATES**

Regions	No. of Certificates		Total Investment (Thousand YTL)					Employment (Persons)	
	2006	2007	2006	Share (%)	2007	Share (%)	Change (%)	2006	2007
Marmara	954	772	8,463,562	37.2	8,003,490	30.4	-5.4	33,755	52,935
Central Anatolia	515	357	3,368,665	14.8	3,782,887	14.4	12.3	26,865	16,371
Aegean	487	316	2,300,567	10.1	2,085,295	7.9	-9.4	18,502	13,140
Mediterranean	434	335	3,539,612	15.6	4,104,681	15.6	16.0	20,577	22,537
Black Sea	331	282	2,243,105	9.9	3,496,668	13.3	55.9	10,844	15,468
Eastern Anatolia	137	114	683,491	3.0	1,055,741	4.0	54.5	4,328	4,741
Southeastern Anatolia	216	175	1,369,878	6.0	1,285,601	4.9	-6.2	7,092	7,205
Various Regions (*)	16	13	768,703	3.4	2,516,195	9.6	227.3	720	697
TOTAL	3,090	2,364	22,737,583	100.0	26,330,558	100.0	15.8	122,683	133,094

Source: HM

(\*) Investment covering more than one province.

GRAPH 13. REGIONAL DISTRIBUTION OF INVESTMENT INCENTIVES (2007)




(\*) Investments covering more than one province.

## C. MONETARY AND FINANCIAL DEVELOPMENTS

### 1. Price Trends and Inflation

At the beginning of 2006, the Central Bank of the Republic of Turkey abandoned the covered inflation targeting regime, which had been implemented for four years, and put into force the open inflation targeting measured with the annual change in the TÜFE, by acting from the provision of an environment of stability and confidence, the formation of the institutional infrastructure of the monetary policy and the significant progress made in the struggle against inflation. Within this framework, the three-year inflation targets in the form of point targets were announced for 2006, 2007 and 2008 and the year end inflation targets were determined to be 5%, 4% and 4%, respectively. At the end of 2006, the TÜFE inflation was realized at the level of 9.65%, by rising 4.65 points above the 5% target.

At the beginning of 2007, the 4% inflation target, which had been determined previously, was preserved. In 2007, a 2-point interval of uncertainty in both directions of the path was announced that was formed of a path in conformity with the target at 9.2% as of the end of March, 6.7% as of the end of June, 5.3% as of the end of September and 4% as of the end of December.



In 2006, the annual rate of increase in the consumer prices, which showed a falling trend in the final quarter under the influence of the tightening made in the monetary policy as of June, started to rise in the first quarter of 2007 and was realized at the level of 10.86% as of the end of March. Thus, it remained above the path compatible with the target and below the upper limit of the interval of uncertainty. The high rate of price increases experienced in the prices of the unprocessed food products, the rise in the prices of tobacco products stemming from tax adjustments and the effects of the loss in value experienced in the New Turkish Lira, became determining factors in the subject increase.

A decrease in inflation was experienced in the second quarter. The improvement experienced in the services and durable consumer goods group prices were a determining factor in this decrease. The TÜFE inflation, which was realized at 8.60% as of the end of June, remained 0.1 point below the upper limit of the interval of uncertainty, which was 8.7%.

In the third quarter of 2007, the delayed effects of strong monetary tightening made in 2006 became definite on inflation. The annual TÜFE inflation, despite the increase experienced in the food prices connected to the temperatures above the seasonal norms and drought, regressed to the level of 7.12% under the influence of the falling trend in the services and durable consumer goods prices.

In the fourth quarter of the year, the falling trend experienced in the second and third quarters came to an end and inflation once again started to rise. Continuation of the increases in food prices stemming from the drought and global cycles, the adjustments in the controlled/directed prices and the energy prices played a major role in the increase in inflation. The TÜFE annual rate of increase as of the end of December 2007 was realized at 8.39% and it exceeded by 2.39 points the upper limit of the interval of uncertainty, which was determined to be 6%.

Thus, along with the TÜFE inflation, which was 9.65% in 2006, falling 1.26 points and regressing to 8.39% in 2007, it was realized 4.39 points above the year end target, which was 4%. According to the twelve month averages, the TÜFE rate of increase, which was 9.60% in 2006, regressed to 8.75% in 2007 (Table 48).

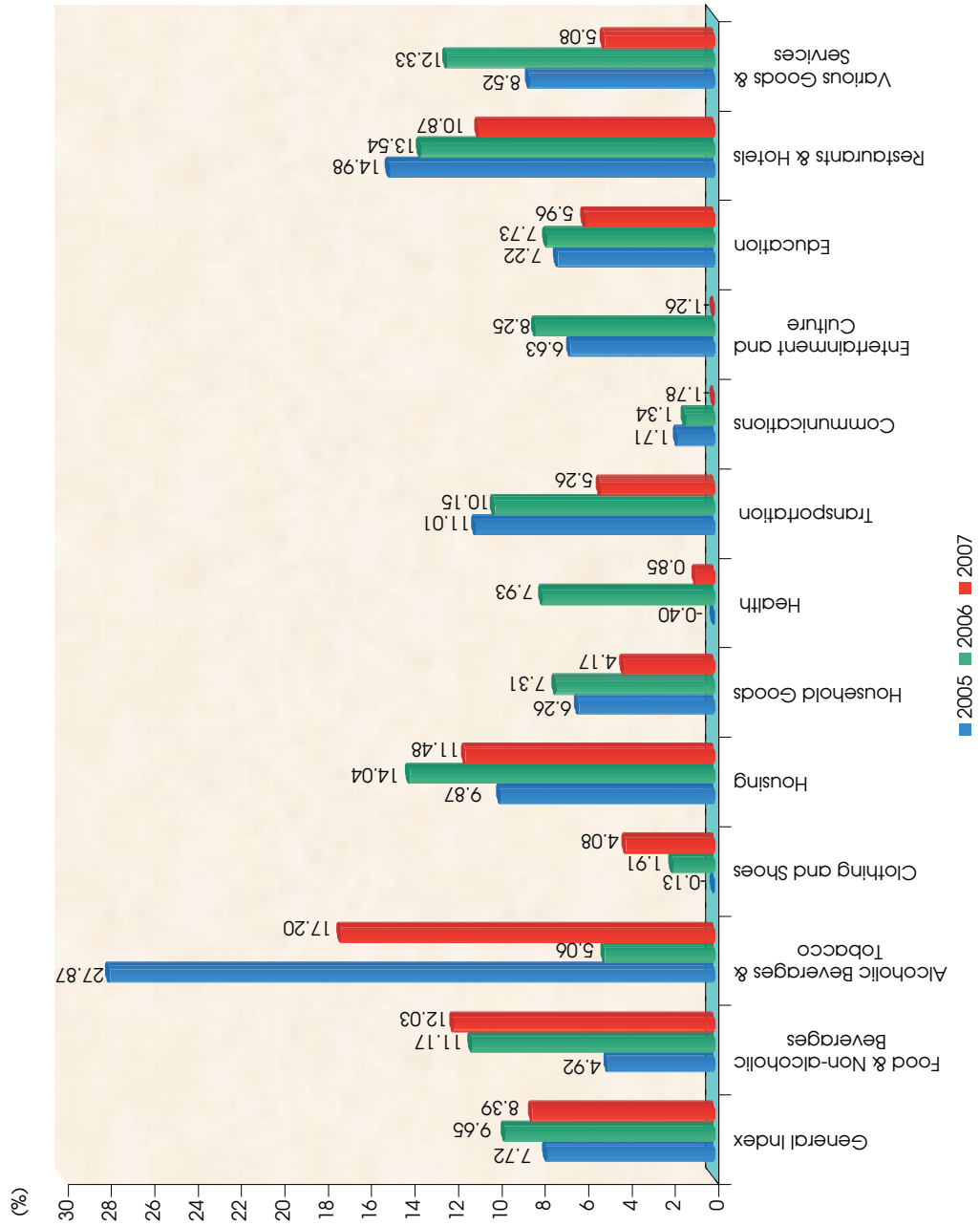
As of the end of the year, the price increases in the sub-sectors of clothing and shoes, household goods, health, transportation, communications, entertainment and culture and education remained below the rate of increase of the TÜFE general index. The price increases of the sub-sectors of food and non-alcoholic beverages, alcoholic beverages and tobacco, housing and restaurants and

TABLE 48. CONSUMER PRICES INDEX

	(2003=100)					
	2005	Change (%)	2006	Change (%)	2007	Change (%)
Main Spending Groups	Twelve Month Average					
General Index	117.48	8.18	128.76	9.60	140.03	8.75
Food & Non-alcoholic Beverages	112.08	4.92	122.95	9.70	138.21	12.41
Alcoholic Beverages & Tobacco	135.18	13.50	163.54	20.98	179.77	9.92
Clothing and Shoes	110.44	3.56	110.35	-0.08	115.33	4.51
Housing	120.00	10.66	135.18	12.65	150.34	11.21
Household Goods	113.64	7.19	120.01	5.61	129.13	7.60
Health	112.64	4.25	116.95	3.83	122.53	4.77
Transportation	123.73	15.30	136.44	10.27	144.09	5.61
Communications	104.89	1.67	107.61	2.59	106.71	-0.84
Entertainment and Culture	117.06	7.48	122.88	4.97	127.38	3.66
Education	135.16	13.27	145.65	7.76	156.14	7.20
Restaurants & Hotels	133.49	14.36	152.08	13.93	169.10	11.19
Various Goods & Services	117.71	6.80	137.05	16.43	144.66	5.55
Main Spending Groups	End of Year					
General Index	122.65	7.72	134.49	9.65	145.77	8.39
Food & Non-alcoholic Beverages	116.08	4.92	129.05	11.17	144.57	12.03
Alcoholic Beverages & Tobacco	155.93	27.87	163.82	5.06	192.00	17.20
Clothing and Shoes	116.52	-0.13	118.74	1.91	123.59	4.08
Housing	126.06	9.87	143.76	14.04	160.26	11.48
Household Goods	116.61	6.26	125.13	7.31	130.35	4.17
Health	111.75	-0.40	120.61	7.93	121.63	0.85
Transportation	127.35	11.01	140.27	10.15	147.65	5.26
Communications	105.88	1.71	107.30	1.34	105.39	-1.78
Entertainment and Culture	118.62	6.63	128.41	8.25	126.79	-1.26
Education	140.69	7.22	151.56	7.73	160.60	5.96
Restaurants & Hotels	141.29	14.98	160.42	13.54	177.85	10.87
Various Goods & Services	125.41	8.52	140.87	12.33	148.02	5.08

Source: TÜİK

GRAPH 14. RATES OF CHANGE IN THE TÜFE AS OF MAIN SPENDING GROUPS (As of End of Year)



hotels were realized above the rate of increase of the TÜFE general index. There were decreases of 1.26% in the entertainment and culture prices and 1.78% in the communications prices. Whereas, the prices of the other spending groups increased. The lowest price increases were realized in the prices for health at 0.85% and in the clothing and shoe group at 4.08%. The highest price increases were for the alcoholic beverages and tobacco spending group at 17.20%, for food and non-alcoholic beverages at 12.03%, for housing at 11.48% and for the restaurants and hotels spending group at 10.87%.

The TÜFE inflation, excluding seasonal products, included in the TÜFE with special scope, was 8.18%. The TÜFE inflation, excluding unprocessed food products, was 7.96%. The TÜFE inflation, excluding energy, was 7.91% (Table 49).

**TABLE 49. CONSUMER PRICES INDEX WITH SPECIAL SCOPE**

(2003=100)						
Group/Scope	2005	Change (%)	2006	Change (%)	2007	Change (%)
	Twelve Month Average					
A Excluding seasonal products	119.44	9.22	131.02	9.70	142.03	8.40
B Excluding unprocessed food products	118.65	8.74	129.30	8.98	139.46	7.86
C Excluding energy	117.52	7.63	128.64	9.46	140.19	8.98
D (B) and (C)	118.95	8.22	129.30	8.70	139.57	7.94
E Excluding (C), alcoholic beverages and tobacco	116.53	7.28	126.71	8.74	138.03	8.93
F (E) and other products whose prices are controlled, excluding indirect taxes	117.12	7.34	128.97	10.12	141.76	9.92
G (F) and (B)	118.55	7.91	129.64	9.35	141.24	8.95
H Excluding (D), alcoholic beverages, tobacco products and gold	118.06	7.98	126.40	7.06	136.35	7.87
Group/Scope	End of Year					
	2005	Change (%)	2006	Change (%)	2007	Change (%)
A Excluding seasonal products	123.81	8.39	136.24	10.04	147.38	8.18
B Excluding unprocessed food products	123.59	7.78	134.97	9.21	145.71	7.96
C Excluding energy	122.85	7.75	134.53	9.51	145.17	7.91
D (B) and (C)	124.04	7.84	135.14	8.95	145.01	7.30
E Excluding (C), alcoholic beverages and tobacco	121.02	6.58	132.90	9.82	142.64	7.33
F (E) and other products whose prices are controlled, excluding indirect taxes	121.98	6.75	135.70	11.25	147.18	8.46
G (F) and (B)	123.01	6.61	136.53	10.99	147.32	7.90
H Excluding (D), alcoholic beverages, tobacco products and gold	121.79	-100.00	132.62	8.89	141.36	6.59

Source: TÜİK



The rate of increase of the ÜFE, decreased 5.64 points compared to the previous year and regressed from 11.58% to 5.94%. According to the twelve month averages, the rate of increase of the ÜFE, which was 9.33% in 2006, decreased 3.02 points in 2007 and regressed to 6.31% (Tables 50 and 51).

**TABLE 50. THE PRODUCER PRICES INDEX BY MONTHS**

(2003=100)													
Years	Months	GENERAL		AGRICULTURE				INDUSTRY					
						Total		Mining		Manufacturing		Energy	
		Index	Change (%)	Index	Change (%)	Index	Change (%)	Index	Change (%)	Index	Change (%)	Index	Change (%)
2006	I	124.70	1.96	132.41	1.90	122.69	1.97	130.04	1.39	123.69	0.97	107.06	17.67
	II	125.02	0.26	133.17	0.57	122.92	0.19	135.46	4.17	123.81	0.10	107.35	0.27
	III	125.33	0.25	132.69	-0.36	123.41	0.40	132.37	-2.28	124.40	0.48	107.52	0.16
	IV	127.76	1.94	135.73	2.29	125.69	1.85	134.58	1.67	126.84	1.96	107.92	0.37
	V	131.30	2.77	139.42	2.72	129.19	2.78	137.90	2.47	130.64	3.00	107.93	0.01
	VI	136.58	4.02	139.07	-0.25	135.75	5.08	144.97	5.13	137.66	5.37	108.91	0.91
	VII	137.76	0.86	136.29	-2.00	137.82	1.52	151.20	4.30	139.73	1.50	110.09	1.08
	VIII	136.73	-0.75	134.55	-1.28	136.97	-0.62	152.52	0.87	138.76	-0.69	110.12	0.03
	IX	136.41	-0.23	135.35	0.59	136.39	-0.42	150.14	-1.56	138.11	-0.47	110.72	0.54
	X	137.03	0.45	134.79	-0.41	137.27	0.65	145.72	-2.94	138.02	-0.07	123.97	11.97
	XI	136.63	-0.29	134.67	-0.09	136.81	-0.34	145.24	-0.33	137.52	-0.36	124.00	0.02
	XII	136.46	-0.12	133.23	-1.07	136.94	0.10	145.67	0.30	137.60	0.06	124.55	0.44
2007	I	136.39	-0.05	135.60	1.78	136.31	-0.46	151.80	4.21	136.80	-0.58	124.46	-0.07
	II	137.68	0.95	138.28	1.98	137.28	0.71	148.97	-1.86	137.70	0.66	127.02	2.06
	III	139.02	0.97	138.57	0.21	138.86	1.15	148.78	-0.13	139.06	0.99	131.41	3.46
	IV	140.13	0.80	139.49	0.66	140.01	0.83	150.53	1.18	140.45	1.00	129.66	-1.33
	V	140.68	0.39	143.53	2.90	139.77	-0.17	151.86	0.88	140.64	0.14	124.07	-4.31
	VI	140.53	-0.11	145.05	1.06	139.23	-0.39	152.22	0.24	140.30	-0.24	121.19	-2.32
	VII	140.62	0.06	145.60	0.38	139.22	-0.01	152.93	0.47	139.92	-0.27	125.32	3.41
	VIII	141.82	0.85	146.64	0.71	140.46	0.89	157.99	3.31	140.76	0.60	130.13	3.84
	IX	143.26	1.02	151.05	3.01	141.21	0.53	156.03	-1.24	141.66	0.64	129.89	-0.18
	X	143.07	-0.13	152.99	1.28	140.54	-0.47	161.99	3.82	141.81	0.11	118.28	-8.94
	XI	144.35	0.89	153.35	0.24	142.03	1.06	163.84	1.14	143.38	1.11	118.68	0.34
	XII	144.57	0.15	154.15	0.52	142.11	0.06	168.24	2.69	143.48	0.07	117.59	-0.92

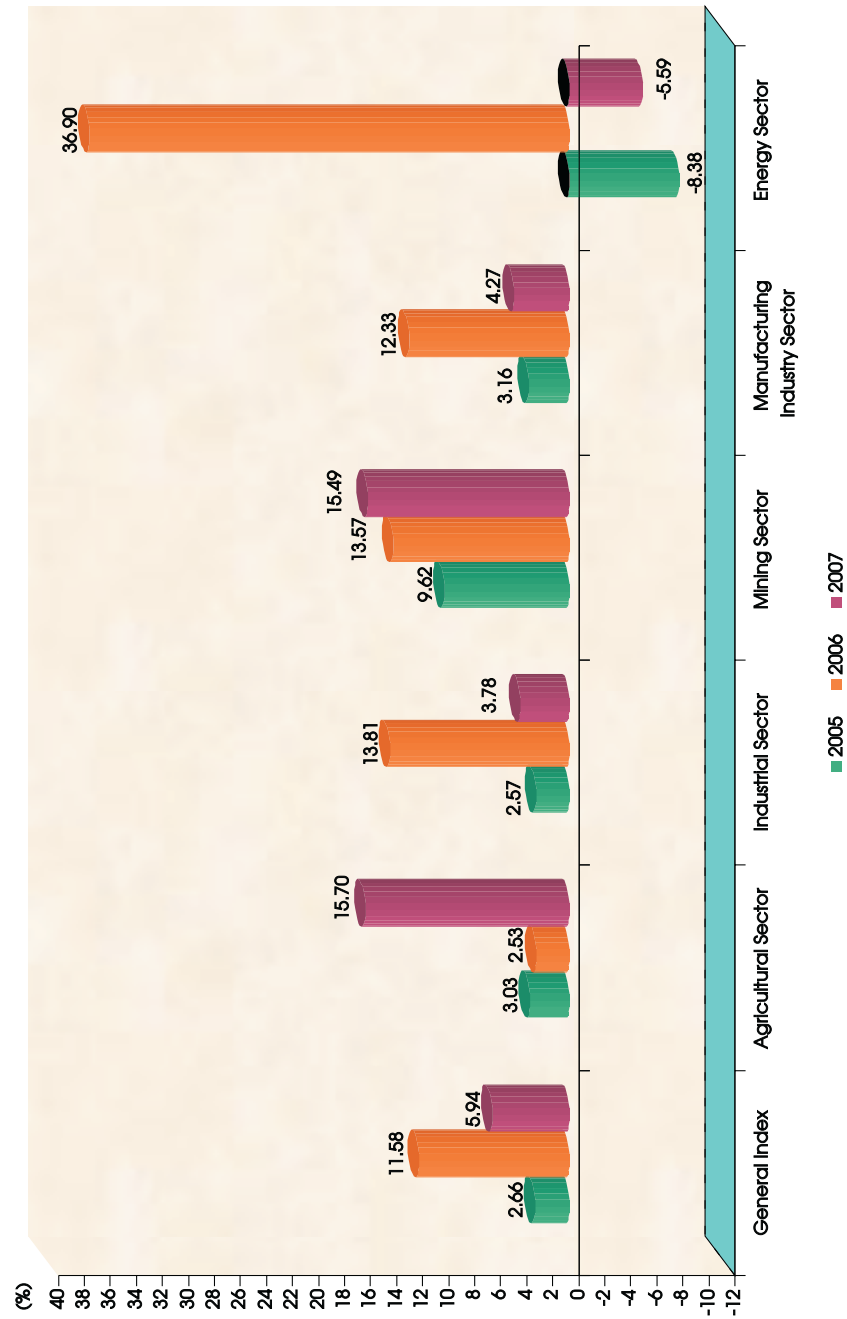
Source: TÜİK

**TABLE 51. PRODUCER PRICES INDEX**

(2003=100)						
Sectors	2005	Change (%)	2006	Change (%)	2007	Change (%)
	Twelve Month Average					
General Index	121.32	5.89	132.64	9.33	141.01	6.31
Agricultural Sector	125.93	1.71	135.11	7.29	145.36	7.58
Industrial Sector	120.12	7.10	131.82	9.74	139.75	6.02
Mining Sector	124.07	11.20	142.15	14.57	155.43	9.34
Manufacturing Industry Sector	121.70	7.58	133.07	9.34	140.50	5.58
Energy Sector	99.26	-0.88	112.51	13.35	124.81	10.93
Sectors	End of Year					
	2005	Change (%)	2006	Change (%)	2007	Change (%)
General Index	122.30	2.66	136.46	11.58	144.57	5.94
Agricultural Sector	129.94	3.03	133.23	2.53	154.15	15.70
Industrial Sector	120.32	2.57	136.94	13.81	142.11	3.78
Mining Sector	128.26	9.62	145.67	13.57	168.24	15.49
Manufacturing Industry Sector	122.50	3.16	137.60	12.33	143.48	4.27
Energy Sector	90.98	-8.38	124.55	36.90	117.59	-5.59

Source: TÜİK

GRAPH 15. RATES OF CHANGE IN THE ÜFE BY SECTORS (As of End of Year)



As of the end of the year, the prices of the agricultural sector increased 15.70% and the prices of the industrial sector increased 3.78%, which are both main sub-items of the ÜFE. There were price increases of 15.49% in the mining sector and 4.27% in the manufacturing industry sector and the prices in the energy sector decreased 5.59%, which are all main sub-items of the industrial sector.

According to the twelve month averages, the agricultural sector prices increased 7.58%, the industrial sector prices increased 6.02%, the mining sector prices increased 9.34%, the manufacturing industry prices increased 5.58% and the energy prices increased 10.93%.

## **2. Money, Banks and Capital Market**

### **Money, Banks**

The Central Bank of the Republic of Turkey, which started to implement the open inflation targeting regime as of the beginning of 2006 as a monetary policy strategy, also carried out its monetary strategy in 2007 within this framework.

Within the scope of this implementation, it continued to define the consumer prices index based on 2003=100 with the annual percentage change as a point target of the inflation targets and the 3-year target horizon was preserved. By taking into consideration the structural transformation in the economy, the transition from high inflation to low inflation and the period of convergence with the developed countries, while the 2007 and 2008 inflation targets, which were previously announced to be 4%, were not changed, the 2009 target was also announced to be 4%.

The Central Bank, which formed the year end path compatible with the target and the intervals of uncertainty around the path as of the end of quarters for 2006 in the transition stage to the inflation targeting regime, decided to continue this implementation in 2007 under the monetary and exchange rate policy. Within this framework, the path compatible with the target was determined to be 9.2% for the end of March, 6.7% for the end of June, 5.3% for the end of September and 4% for the end of December. The interval of uncertainty was determined to be 2 points in both directions of the path compatible with the target. At the same time, it was decided to use the inflation path as a performance criterion in the reviews within the framework of the economic program being carried out with the International Monetary Fund (IMF) (Table 52).

The implementation, which was started in 2006, was also continued in 2007. In case the inflation figures were realized below or above the interval determined, then the Central Bank would inform the Government and announce to the public in an open letter the reasons for this situation and the measures taken related to approaching the target once again and would send the same letter to the IMF as a program requirement.

**TABLE 52. TARGETS OF THE MONETARY POLICY (2007)**

Inflation Path and Interval of Uncertainty Compatible with the Targets (Performance Criteria) (%)				
	31 March	30 June	30 September	31 December
Upper Limit of Interval of Uncertainty	11.2	8.7	7.3	6.0
Path Compatible with Target	9.2	6.7	5.3	4.0
Lower Limit of Interval of Uncertainty	7.2	4.7	3.3	2.0
Realization	10.86	8.60	7.12	8.39
Net International Reserves (Performance Criteria)				
	(US\$ Billion)			
	30 April	31 August	31 December	
Lower Limit	28.7 (*)	31.3	31.8	
Realization	40.6	44.0	43.7	

Source: TCMB

(\*) Lower limit adjusted with the privatization revenues.

Within the framework of the economic program carried out with the IMF, besides the inflation path, lower limit targets having the attribute of performance criteria were determined as of 30 April, 31 August and 31 December 2007 for the net international reserves. Within this framework, it was envisaged that the lower limit targets of the net international reserves should be US\$28.7 billion for 30 April, US\$31.3 billion for 31 August and US\$31.8 billion for 31 December.

Despite the fact that inflation entered into a rising trend in the first quarter of 2007, it was realized at the level of 10.86% on an annual basis at the end of March and remained within the interval of uncertainty formed around the path compatible with the target. The tight monetary policies continued as of June 2006 started to show their effects as of the second quarter of 2007 and inflation once again entered into a falling trend after March. Inflation regressed in stages as of the end of June and the end of September and was realized at the levels of 8.60% and 7.12%, respectively. It remained within the interval of uncertainty formed around the path compatible with the target. The falling trend observed in inflation in the second and third quarters, reversed in the fourth quarter and the year end inflation at a level of 8.39%, exceeded the 6% level, which was the upper limit of the interval of uncertainty.

The targets determined as of 30 April, 31 August and 31 December 2007 related to the net international reserves were attained. At the end of the year, the net international reserves at US\$43.7 billion were realized above the lower limit of US\$31.8 billion, having the attribute of a performance criterion.

In 2007, the Central Bank continued to implement the monetary policy within the framework of the principles of the inflation targeting regime. It was used as a basic policy instrument with the objective of directing the short-term interest rates and expectations and of influencing the fund costs.

The meetings of the Monetary Policy Board were made within the annual meeting schedule previously announced and the decisions were made by voting at the monthly meetings. The Monetary Policy Board took into consideration the consistency with the targets of the inflation estimates when making interest decisions and continued to focus on the medium-term appearance of inflation.

The Central Bank Monetary Policy Board made the evaluation that it was necessary to continue the tight stand in the monetary policy for attaining the medium-term inflation target in the eight month period covering January-August 2007 and kept the overnight borrowing interest rate at the level of 17.50%. Despite the negative developments continuing in the food and energy prices in September, a measured interest reduction was started by acting from a definite slowing down in the basic inflation indicators and from providing a suitable environment for being able to decrease in stages the tightening of the monetary policy. Within this framework, the overnight borrowing interest rates were decreased to 17.25% in September, 16.75% in October, 16.25% in November and 15.75% in December. Thus, the total overnight borrowing interest rate in 2007 was reduced 175 base points and dropped from the level of 17.50% to the level of 15.75% (Table 53).

The Central Bank of the Republic of Turkey broadened the scope of the money and bank statistics that it produced by starting in December 2005 with the objective of reflecting to the statistics the financial transactions, which acquired importance as a result of the developments in the money and capital markets and of providing conformance with The European System of Accounts 1995 and the statistical legislation of the European Central Bank. The

**TABLE 53. INTEREST DECISIONS OF THE MONETARY POLICY BOARD (2007)**

		(%)
Meeting Dates of the Monetary Policy Board	Interest Decision	Interest Rate for Overnight Borrowing
16 January 2007	No change	17.50
15 February 2007	No change	17.50
15 March 2007	No change	17.50
18 April 2007	No change	17.50
14 May 2007	No change	17.50
14 June 2007	No change	17.50
12 July 2007	No change	17.50
14 August 2007	No change	17.50
13 September 2007	-0.25	17.25
16 October 2007	-0.50	16.75
14 November 2007	-0.50	16.25
13 December 2007	-0.50	15.75

Source: TCMB

definition of the monetary sector was organized in a manner that would also include the development and investment banks, participation banks and the B-type liquid investment funds, in addition to the Central Bank and the deposit banks. The arrangements made were the cause of significant changes in the money supply items. The definitions of M2Y, M2YR, M3, M3Y and M3YR, which were used until the present-day, were discontinued and new definitions were made for M1, M2 and M3.

Within the framework of the monetary policy implementations realized during the year, the increases in money supply were at a lower rate in 2007 compared to 2006. In 2007, the money in circulation increased 6% compared to 2006 and rose to 26,072.5 million YTL and the demand YTL deposits increased 22.8% and went up to 29,427.7 million YTL. The demand foreign currency (FC) deposits decreased 6.1% and regressed to 22,174.6 million YTL. When it is taken into consideration that the TÜFE increased 8.39% in 2007, the demand YTL deposits increased 13.3% in real terms and the money in circulation decreased 2.2%. The time foreign currency deposits displayed a decrease of 13.4%. Thus, the M1, the narrowly defined money supply increased 7.6% and rose to 77,674.8 million YTL and decreased 0.7% in real terms (Table 54).

The time YTL deposits, which is a sub-item of the M2 money supply, increased 26.2% and rose to 178,863.3 million YTL. The foreign currency deposits increased 5.9% and went up to 88,490.3 million YTL. The M2 money supply increased 16% and became 345,028.4 million YTL under the influence of the high rate of increase in the time YTL deposits. A 7% increase occurred in real terms in the M2 money supply. The M3 money supply increased 15.7% and rose to 370,077.7 million YTL. It increased 6.7% in real terms.

**TABLE 54. MONEY SUPPLIES <sup>(1)</sup>**

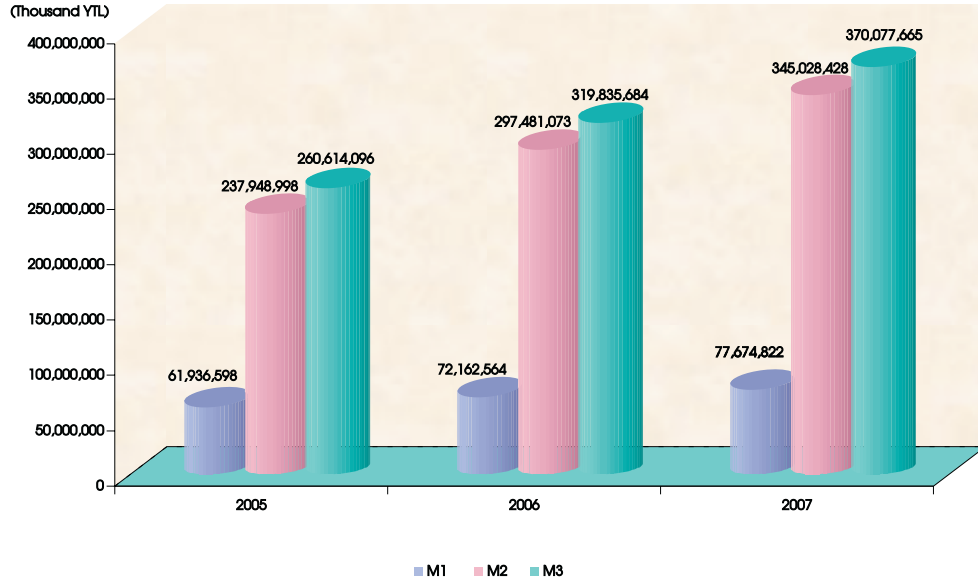
				(Thousand YTL)	
				Change (%)	
	2005	2006	2007	2006	2007
M1	61,936,598	72,162,564	77,674,822	16.5	7.6
Money in Circulation	18,203,299	24,589,947	26,072,505	35.1	6.0
Time Savings Deposits (YTL)	24,531,406	23,967,479	29,427,691	-2.3	22.8
Demand Savings Deposits (FC)	19,201,893	23,605,138	22,174,626	22.9	-6.1
M2	237,948,998	297,481,073	345,028,428	25.0	16.0
Time Savings Deposits (YTL)	114,790,408	141,744,828	178,863,316	23.5	26.2
Demand Savings Deposits (FC)	61,221,992	83,573,682	88,490,290	36.5	5.9
M3	260,614,096	319,835,684	370,077,665	22.7	15.7
Repo <sup>(2)</sup>	2,903,561	3,538,510	4,293,366	21.9	21.3
Money Market Funds	19,761,537	18,816,101	20,755,872	-4.8	10.3

Source: TCMB

(1) The new presentations and data are as of the last Friday of the year.

(2) Repurchase Agreement

**GRAPH 16. MONEY SUPPLIES**



The total New Turkish Lira deposits in banks increased 23.1% and rose to 209,845.7 million YTL. The foreign currency deposits increased 2.8% and went up to 104,196.1 million YTL. Thus, the total deposits in the banks increased 15.5% and became 314,041.8 million YTL. In real terms, the deposits in New Turkish Lira increased 13.6%, the foreign currency deposit accounts decreased 5.2% and thus, the total deposits increased 6.6% (Table 55).

**TABLE 55. DEPOSITS IN BANKS <sup>(1-2)</sup>**

					(Thousand YTL)		
	2004	2005	2006	2007	Change (%)		
YTL Deposits	103,240,239	145,191,416	170,474,497	209,845,693	40.6	17.4	23.1
Savings Deposits	61,463,036	86,813,210	109,295,339	136,403,291	41.2	25.9	24.8
Time	56,258,543	78,526,030	100,125,894	125,478,394	39.6	27.5	25.3
Demand	5,204,493	8,287,180	9,169,445	10,924,897	59.2	10.6	19.1
Commercial Deposits	21,841,482	31,520,227	31,654,960	40,196,901	44.3	0.4	27.0
Time	13,169,585	19,548,113	21,538,607	27,046,729	48.4	10.2	25.6
Demand	8,671,897	11,972,114	10,116,353	13,150,172	38.1	-15.5	30.0
Official Deposits	6,344,337	10,322,484	10,007,716	12,121,030	62.7	-3.0	21.1
Time	3,344,489	5,116,959	4,614,344	7,077,819	53.0	-9.8	53.4
Demand	2,999,848	5,205,525	5,393,372	5,043,211	73.5	3.6	-6.5
Other Deposits	13,591,384	16,535,495	19,516,482	21,124,471	21.7	18.0	8.2
Time	10,447,251	13,313,131	15,989,548	18,546,712	27.4	20.1	16.0
Demand	3,144,133	3,222,364	3,526,934	2,577,759	2.5	9.5	-26.9
Foreign Currency Account Deposits	76,074,113	76,440,441	101,399,057	104,196,142	0.5	32.7	2.8
Time	57,036,083	58,267,392	79,167,636	83,004,647	2.2	35.9	4.8
Demand	19,038,030	18,173,049	22,231,421	21,191,495	-4.5	22.3	-4.7
Total Deposits	179,314,352	221,631,857	271,873,554	314,041,835	23.6	22.7	15.5

Source: TCMB

(1) Total YTL of depositors settled in Turkey and foreign currency deposits.

(2) The data are as of the last Friday of the year.

The time savings deposits, which have the highest share within the total deposits, increased 25.3% and rose to 125,478.4 million YTL. The demand saving deposits increased 19.1% and went up to 10,924.9 million YTL. Thus, the total savings deposits increased 24.8% and became 136,403.3 million YTL. The commercial deposits increased 27% and rose to 40,196.9 million YTL. The official deposits increased 21.1% and went up to 12,121 million YTL. The deposits other than these increased 8.2% and rose to 21,124.5 million YTL.

The share of the deposits in YTL within the deposits at the deposit banks rose from 62.7% to 66.8% compared to 2006 and the share of the foreign currency deposit accounts regressed from 37.3% to 33.2% (Table 56).

**TABLE 56. THE SHARE OF YTL AND FOREIGN CURRENCY DEPOSITS WITHIN THE TOTAL DEPOSITS**

Years	Deposits in Banks			Share (%)	
	YTL	Foreign Currency	Total	YTL	FCA
		Account (FCA)			
2004	103,240,239	76,074,113	179,314,352	57.6	42.4
2005	145,191,416	76,440,441	221,631,857	65.5	34.5
2006	170,474,497	101,399,057	271,873,554	62.7	37.3
2007	209,845,693	104,196,142	314,041,835	66.8	33.2

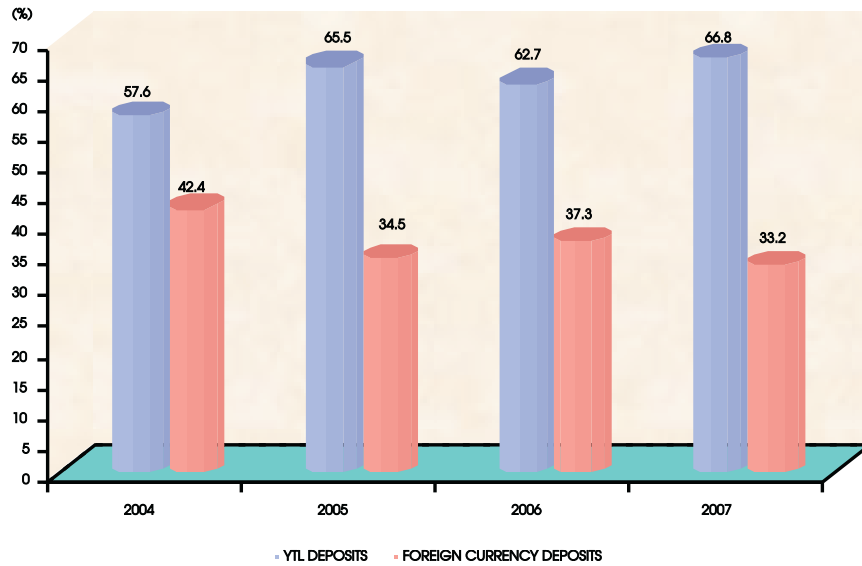
Source: TCMB

The bank credits increased 25.9% and rose to 214,829.7 million YTL and increased 16.2% in real terms. Within these, the commercial and individual credits increased 26.4% and rose to 200,640.5 million YTL. The special credits increased 19.6% and went up to 14,189.3 million YTL. Within the special credits, the agricultural credits increased 18.8% and rose to 6,171.4 million YTL. The credits for small tradesmen and artisans increased 19.5% and went up to 5,858.3 million YTL. The housing credits increased 8.2% and became 1,216.6 million YTL. The special credits other than these increased 47.9% and rose to 943 million YTL (Table 57).

The development and investment bank credits increased 19.5% and rose to 8,002.9 million YTL. Within this, the Export Credit Bank of Turkey credits decreased 1.8% and regressed to 1,184.8 million YTL. The credits of the other development and investment banks increased 24.1% and rose to 6,818.1 million YTL.



**GRAPH 17. THE RATIO OF YTL DEPOSITS AND FOREIGN CURRENCY DEPOSITS AT THE BANKS**



**TABLE 57. BANK CREDITS <sup>(1-2)</sup>**

	(Thousand YTL)						
					Change (%)		
	2004	2005	2006	2007	2005	2006	2007
Deposit Bank Credits	78,247,697	120,994,175	170,578,290	214,829,745	54.6	41.0	25.9
Commercial and Individual Credits	70,810,387	111,238,954	158,719,297	200,640,461	57.1	42.7	26.4
Specialty Credits	7,437,310	9,755,221	11,858,993	14,189,284	31.2	21.6	19.6
Agricultural Credits	3,738,504	5,083,920	5,194,385	6,171,350	36.0	2.2	18.8
Credits for Small Tradesmen & Artisans	2,776,994	3,280,726	4,902,961	5,858,298	18.1	49.4	19.5
Housing Credits	723,556	1,068,083	1,124,159	1,216,616	47.6	5.3	8.2
Other	198,256	322,492	637,488	943,020	62.7	97.7	47.9
Development & Investment Bank Credits	4,583,828	5,496,950	6,699,149	8,002,851	19.9	21.9	19.5
Export Credit Bank of Turkey	1,318,486	1,284,244	1,206,703	1,184,774	-2.6	-6.0	-1.8
Other	3,265,342	4,212,706	5,492,446	6,818,077	29.0	30.4	24.1
Domestic Net Credit Volume	82,831,525	126,491,125	177,277,439	222,832,596	52.7	40.2	25.7

Source: TCMB

(1) Domestic Credits

(2) The data are as of the last Friday of the year.

Connected to these changes, the domestic net credit volume increased 25.7% in 2007 and rose to 222,832.6 million YTL and increased 16% in real terms.

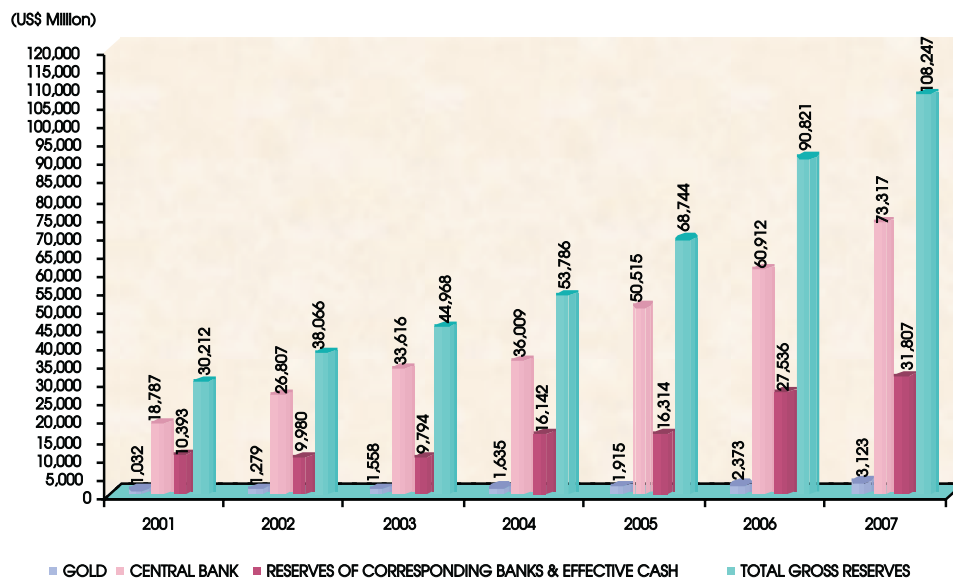
In 2007, the Central Bank foreign currency reserves increased 20.4% and rose to US\$73,317 million. The gold reserves increased 31.6% and went up to US\$3,123 million. The reserves of corresponding banks increased 15.5% and rose to US\$31,807 million. Connected to these changes, the gross international reserves increased 19.2% and became US\$108,247 million (Table 58).

**TABLE 58. INTERNATIONAL RESERVES**

(US\$ Million)							
Years	Gross Foreign Currency Reserves				Gross International Reserves	Deficits of Corresponding Banks	Net International Reserves
	Gold	Central Bank	Reserves of Corresponding Banks and Effective Cash	Total			
2001	1,032	18,787	10,393	29,180	30,212	20	30,192
2002	1,279	26,807	9,980	36,787	38,066	15	38,051
2003	1,558	33,616	9,794	43,410	44,968	11	44,957
2004	1,635	36,009	16,142	52,151	53,786	1	53,785
2005	1,915	50,515	16,314	66,829	68,744	1	68,743
2006	2,373	60,912	27,536	88,448	90,821	1	90,820
2007	3,123	73,317	31,807	105,124	108,247	1	108,246

Source: TCMB

**GRAPH 18. INTERNATIONAL RESERVES**



The ratio of the Central Bank foreign currency reserves meeting imports, which was 5.2 months in 2005 and 2006, was also realized at the level of 5.2 months in 2007 (Table 59).

**TABLE 59. CENTRAL BANK RESERVES AND RATIO OF MEETING IMPORTS**

Years	(US\$ Million)		
	Central Bank Foreign Currency Reserves	Imports	Ratio of Meeting Imports (Months)
2001	18,787	41,399	5.4
2002	26,807	51,554	6.2
2003	33,616	69,340	5.8
2004	36,009	97,540	4.4
2005	50,518	116,774	5.2
2006	60,912	139,576	5.2
2007	73,317	170,057	5.2

Source: TCMB, TÜİK

In 2007 in the Turkish banking sector, in which deposit banks are predominant, a total of 46 banks engaged in activities, with 33 deposit banks and 13 development and investment banks. The deposit banks are composed of 3 public sector banks, 11 private sector banks, 18 foreign banks and 1 bank within the scope of the Savings Deposit Insurance Fund (TMSF). The development and investment banks are composed of 3 public sector banks, 6 private sector banks and 4 foreign capital banks (Table 60).

**TABLE 60. INFORMATION ON BANKS, BRANCHES AND PERSONNEL IN THE TURKISH BANKING SYSTEM**

	No. of Banks			No. of Branches			No. of Personnel		
	2005	2006	2007	2005	2006	2007	2005	2006	2007
Deposit Banks	34	33	33	6,228	6,804	7,570	127,857	138,570	153,237
Public Capital Banks	3	3	3	2,035	2,149	2,203	38,046	39,223	41,056
Private Capital Banks	17	14	11	3,799	3,582	3,625	78,806	73,220	75,149
Banks Transferred to the TMSF	1	1	1	1	1	1	395	333	325
Foreign Capital Banks	13	15	18	393	1,072	1,741	10,610	25,794	36,707
Development and Investment Banks	13	13	13	19	45	48	4,401	4,573	5,322
Public Capital Banks	3	3	3	4	22	23	3,657	3,728	4,273
Private Capital Banks	8	6	6	13	11	12	697	596	687
Foreign Capital Banks	2	4	4	2	12	13	47	249	362
Total	47	46	46	6,247	6,849	7,618	132,258	143,143	158,559

Source: TBB

In 2007, the total number of bank branches in the banking sector increased 769 and rose to 7,618. The number of branches of the public sector capital deposit banks increased by 54. The number of branches of the private sector capital deposit banks increased by 43. The number of branches of the foreign capital deposit banks increased by 669. There was no change in the number of branches of the bank within the scope of the fund. There was 1 each increase in the number of branches of the public sector capital, foreign capital and private sector capital development and investment banks.

Along with the increase in the number of branches of the banks, the number of personnel also continued to increase. The number of persons working in the banking system, which was 143,143 persons in 2006, increased by 15,416 persons in 2007 and rose to 158,559 persons. The number of persons working in the public sector capital deposit banks increased by 1,833 persons, those working in the private sector capital deposit banks increased by 1,929 persons

and those working in the foreign capital deposit banks increased by 10,913 persons. The number of persons working in the bank within the scope of the fund decreased by 8 persons. The number of persons working in the public sector capital development and investment banks increased by 545 persons, those working in the private sector capital development and investment banks increased by 91 persons and those working in the foreign capital development and investment banks increased by 113 persons.

## Capital Markets

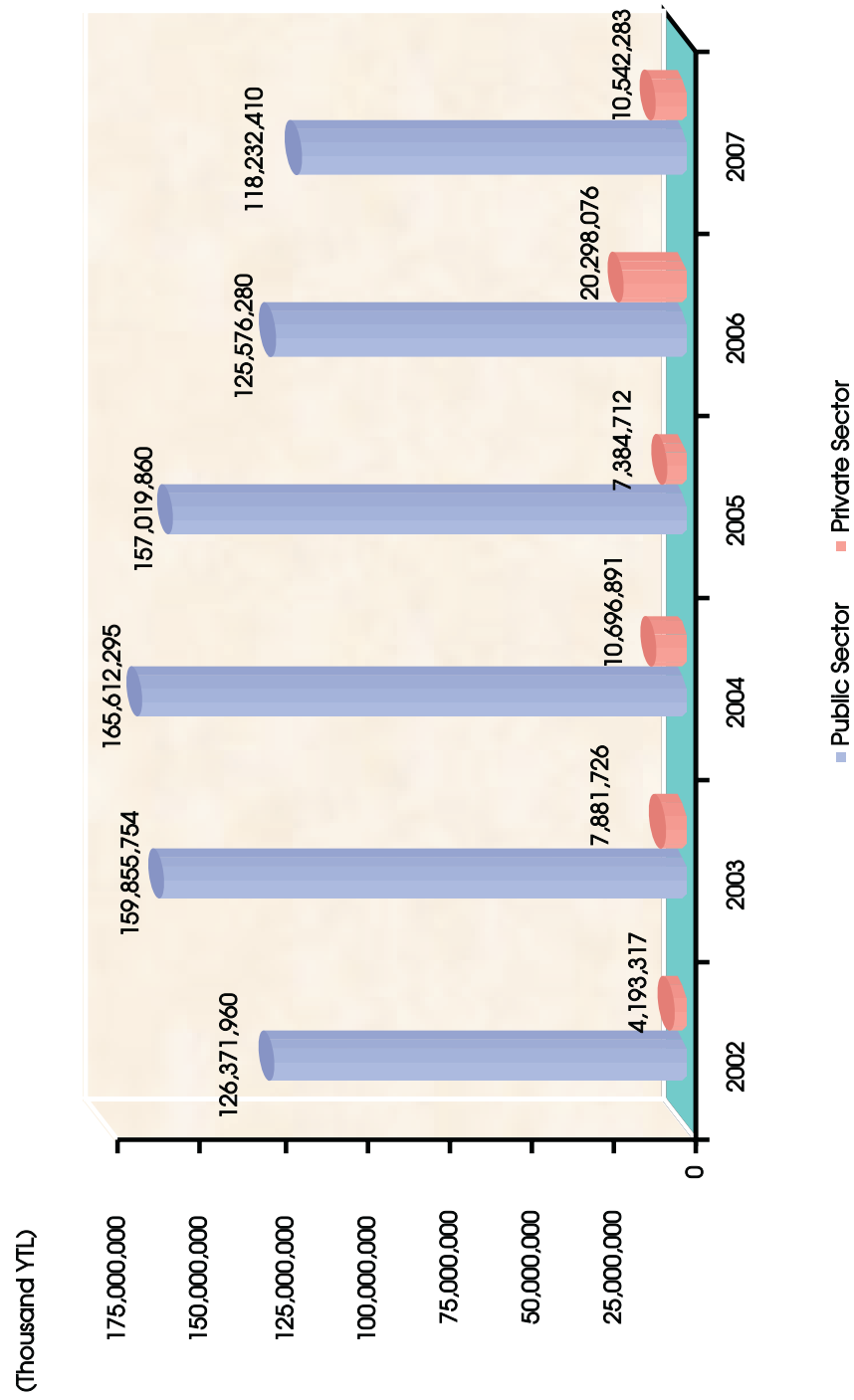
In 2007, the total value of the stocks and bonds issued decreased 11.7% compared to 2006 and regressed from 145,874.4 million YTL to 128,774.7 million YTL. Of the stocks and bonds issued, a 118,232.4 million YTL portion (91.8%) was formed of the issues of the stocks and bonds of the public sector and a 10,542.3 million YTL portion (8.2%) was formed of the issues of the stocks and bonds of the private sector (Table 61).

**TABLE 61. PERMITS FOR ISSUING STOCKS AND BONDS**

	(Thousand YTL)							
	Value			Share (%)			Change (%)	
	2005	2006	2007	2005	2006	2007	2006	2007
Public Sector	157,019,860	125,576,280	118,232,410	100.0	100.0	100.0	-20.0	-5.8
State Debenture Bonds	115,404,060	107,046,700	102,129,410	73.5	85.2	86.4	-7.2	-4.6
Treasury Bonds	40,115,800	18,529,580	15,903,000	25.5	14.8	13.5	-53.8	-14.2
Privatization Debenture Bonds	1,500,000	0	200,000	1.0	0.0	0.2	-	-
Private Sector	7,384,712	20,298,076	10,542,283	100.0	100.0	100.0	174.9	-48.1
Shares	3,991,870	10,880,574	7,863,768	54.1	53.6	74.6	172.6	-27.7
Debenture Bonds	0	150,000	150,210	0.0	0.7	1.4	-	0.1
Financing Bonds	13,000	0	230,000	0.2	0.0	2.2	-	-
SBIF Participation Certificates	2,390,990	3,356,209	1,848,305	32.4	16.5	17.5	40.4	-44.9
Retirement IF Participation Certificates	929,187	5,900,000	450,000	12.6	29.1	4.3	535.0	-92.4
Foreign IF Participation Certificates	59,666	11,293	0	0.8	0.1	0.0	-81.1	-
Total	164,404,572	145,874,356	128,774,693	-	-	-	-11.3	-11.7

Source: SPK

GRAPH 19. PERMITS FOR ISSUING STOCKS AND BONDS



The issues of public sector state debenture bonds displayed a decrease of 4.6% and the issues of treasury bonds displayed a decrease of 14.2%. While privatization debenture bonds were not issued in 2006, 200 million YTL in privatization debenture bonds were issued in 2007. Connected to these developments, the total issues of public sector stocks and bonds decreased 5.8% and regressed to 118,232.4 million YTL. Of this, a 102,129.4 million YTL portion (86.4%) was from the issues of state debenture bonds, a 15,903 million YTL portion (13.5%) was from the issues of treasury bonds and a 200 million YTL portion (0.2%) was from the issues of privatization debenture bonds.

The private sector issues of stocks and bonds, which showed a high rate of increase in 2006, decreased 48.1% in 2007 and regressed to 10,542.3 million YTL. The decrease in the issues of shares, stocks and bonds investment fund participation certificates and retirement investment fund participation certificates was influential on this development. Of the private sector issues of stocks and bonds, a 7,863.8 million YTL portion (74.6%) was formed of shares, a 150.2 million YTL portion (1.4%) was formed of debenture bonds, a 230 million YTL portion (2.2%) was formed of financing bonds, a 1,848.3 million YTL portion (17.5%) was formed of stocks and bonds investment fund participation certificates and a 450 million YTL portion (4.3%) was formed of retirement investment fund participation certificates.

As of months, the issues of private sector stocks and bonds were made the most in April at 2,773 million YTL. It was followed by the issues made in November at 1,491.3 million YTL and in October at 1,299.7 million YTL. April, June, October and November were the months when the most intensive issues of shares were made. March, August, November and December were the months when the most intensive issues of stocks and bonds investment fund participation certificates were made. Furthermore, the issues of debenture bonds were made in July and December. The issues of financing bonds were made in July, September and December. The issues of retirement investment fund participation certificates were made in February and April (Table 62).

Despite the decrease in the volume of transactions in the issues of the public sector stocks and bonds for the stocks and bonds second-hand market, under the influence of the increase in the issues of private sector shares, it increased 2.8% in 2007 and rose from 964,409 million YTL to 991,700.4 million YTL (Table 63).

The second-hand sales of public sector stocks and bonds decreased 5.3% and regressed from 637,830.8 million YTL to 603,924.3 million YTL. The second-hand sales of private sector stocks and bonds increased 18.7% and rose from 326,578.2 million YTL to 387,776.1 million YTL. Also, in 2007, no other private sector stocks and bonds investment instruments were transacted other than the second-hand market shares.

The share of the values of the public sector stocks and bonds within the total second-hand market transactions decreased from 66.1% to 60.9% compared to the previous year and the share of the private sector stocks and bonds increased from 33.9% to 39.1%.

**TABLE 62. PRIVATE SECTOR PERMITS FOR ISSUING STOCKS AND BONDS**

(Thousand YTL)								
Years	Months	Shares	Debtenture Bonds	Financing Bonds	SBIF Participation Certificates	Retirement IF Participation Certificates	Foreign IF Participation Certificates	Grand Total
2005	I	32,809	-	-	478,774	-	-	511,583
	II	8,598	-	-	30,000	310,580	45,984	395,161
	III	16,051	-	-	648,305	-	-	664,356
	IV	118,241	-	-	97,720	-	-	215,961
	V	17,211	-	-	216,064	-	-	233,275
	VI	23,748	-	-	147,821	-	-	171,569
	VII	504,719	-	-	110,579	-	-	615,298
	VIII	122,068	-	-	453,637	198,087	-	773,792
	IX	23,231	-	-	71,442	320,170	-	414,843
	X	140,580	-	13,000	68,874	100,350	13,682	336,486
	XI	2,703,300	-	-	-	-	-	2,703,300
	XII	281,314	-	-	67,774	-	-	349,088
Total		3,991,870	-	13,000	2,390,990	929,187	59,666	7,384,712
2006	I	85,355	-	-	1,346,409	-	-	1,431,764
	II	342,533	-	-	54,078	600,000	-	996,611
	III	93,638	-	-	192,928	-	-	286,566
	IV	1,822,308	-	-	118,161	3,900,000	-	5,840,469
	V	431,290	-	-	134,498	-	-	565,788
	VI	141,287	-	-	-	400,000	-	541,287
	VII	285,432	100,000	-	24,808	-	-	410,240
	VIII	113,422	-	-	50,000	-	-	163,422
	IX	3,331,025	50,000	-	293,252	1,000,000	11,293	4,685,570
	X	58,474	-	-	447,886	-	-	506,360
	XI	1,943,147	-	-	510,000	-	-	2,453,147
	XII	2,232,663	-	-	184,190	-	-	2,416,853
Total		10,880,574	150,000	-	3,356,209	5,900,000	11,293	20,298,076
2007	I	12,800	-	-	5,000	-	-	17,800
	II	830,750	-	-	-	300,000	-	1,130,750
	III	29,296	-	-	153,606	-	-	182,902
	IV	2,582,717	-	-	40,313	150,000	-	2,773,030
	V	190,536	-	-	82,552	-	-	273,088
	VI	1,136,678	-	-	-	-	-	1,136,678
	VII	118,462	130,210	60,000	-	-	-	308,672
	VIII	346,444	-	-	160,705	-	-	507,149
	IX	338,066	-	65,000	7,483	-	-	410,550
	X	1,194,822	-	-	104,887	-	-	1,299,709
	XI	985,790	-	-	505,550	-	-	1,491,340
	XII	97,406	20,000	105,000	788,210	-	-	1,010,616
Total		7,863,768	150,210	230,000	1,848,305	450,000	-	10,542,283

Source: SPK

**TABLE 63. VOLUME OF TRANSACTIONS ON THE SECOND-HAND MARKETS**

(Thousand YTL)								
	Value			Share (%)			Change (%)	
	2005	2006	2007	2005	2006	2007	2006	2007
Public Sector	755,196,603	637,830,771	603,924,292	100.0	100.0	100.0	-15.5	-5.3
State Debenture Bonds	651,206,678	586,922,206	561,183,234	86.2	92.0	92.9	-9.9	-4.4
Treasury Bonds	103,989,924	50,908,565	42,741,058	13.8	8.0	7.1	-51.0	-16.0
Private Sector	327,004,089	326,578,222	387,776,132	100.0	100.0	100.0	-0.1	18.7
Shares	327,004,089	326,578,222	387,776,132	100.0	100.0	100.0	-0.1	18.7
Total	1,082,200,692	964,408,993	991,700,424	-	-	-	-10.9	2.8

Source: SPK

In 2007, the İstanbul Stock Exchange (İMKB) index was affected by the developments experienced in the international markets and by the political developments experienced in Turkey. The İMKB index, which closed at the level of 39,117.5 at the end of 2006, started 2007 with an increase. Although the increase trend in the stock exchange index followed a fluctuating course, it continued until the end of July connected to the developments in the domestic and foreign markets. There was also the influence on the İMKB index, especially in the increase in July, of the positive atmosphere stemming from the suitable global liquidity conditions prior to the general elections and from the elections being concluded with the continuation of a single-party government. It closed with a decrease in August under the influence of the fluctuations emerging in the global financial markets connected to the problems experienced in the USA housing market around the end of July. The index, which started to rise in September, with the positive effect formed in the markets by the interest reductions put into practice by the Federal Reserve Bank of the United States and the Central Bank of the Republic of Turkey, also continued this trend in October. In November, once again there was a decrease under the influence of the problems stemming from high-risk housing loans experienced in the international markets. Although there was some recovery in December, it remained at a level that was considerably below the level reached as of the end of October. Thus, the İMKB index increased 42% in 2007 compared to 2006 and closed at the level of 55,538.1 points (Table 64).

The İstanbul Stock Exchange volume of transactions increased 19.3% compared to 2006 and rose from 325,131.3 million YTL to 387,777.4 million YTL. In 2007, the highest volume of transactions was realized in July at 45,103 million YTL. The lowest volume of transactions was realized in December at 21,544.1 million YTL.

### 3. Public Finance

To reduce the public sector debt stock by providing a non-interest surplus at a high rate, to contribute to the establishment and sustainability of macroeconomic stability, to support the struggle against inflation and to provide for financial discipline in conformity with the monetary policy were among the basic objectives of the financial policy in 2007.



**TABLE 64. İSTANBUL STOCK EXCHANGE (İMKB)**

Year	Month	Transactions Volume	İMKB Index	Producer Prices Index		Volume of Transactions	
		(Thousand YTL)	(1986 Jan.=1)	2003=100	Change (%)	Nominal Change (%)	Real Change (%)
2006	I	27,654,302	44,590.2	124.70	2.0	-3.5	-5.4
	II	33,553,231	47,015.9	125.02	0.3	21.3	21.0
	III	37,027,932	42,911.3	125.33	0.2	10.4	10.1
	IV	28,128,599	43,880.4	127.76	1.9	-24.0	-25.5
	V	32,824,478	38,132.2	131.30	2.8	16.7	13.5
	VI	31,258,544	35,453.3	136.58	4.0	-4.8	-8.5
	VII	21,627,426	36,067.9	137.76	0.9	-30.8	-31.4
	VIII	21,505,359	37,285.9	136.73	-0.7	-0.6	0.2
	IX	23,391,129	36,924.9	136.41	-0.2	8.8	9.0
	X	23,710,766	40,582.3	137.03	0.5	1.4	0.9
	XI	23,274,835	38,168.5	136.63	-0.3	-1.8	-1.6
	XII	21,174,737	39,117.5	136.46	-0.1	-9.0	-8.9
2007	I	27,836,926	41,182.6	136.39	-0.1	31.5	31.5
	II	30,812,419	41,431.0	137.68	0.9	10.7	9.7
	III	28,881,853	43,661.1	139.02	1.0	-6.3	-7.2
	IV	31,382,353	44,984.5	140.13	0.8	8.7	7.8
	V	31,435,064	47,081.5	140.68	0.4	0.2	-0.2
	VI	22,014,016	47,093.7	140.53	-0.1	-30.0	-29.9
	VII	45,103,019	52,824.9	140.62	0.1	104.9	104.8
	VIII	36,130,324	50,198.6	141.82	0.9	-19.9	-20.6
	IX	33,762,645	54,044.2	143.26	1.0	-6.6	-7.5
	X	42,802,461	57,615.7	143.07	-0.1	26.8	26.9
	XI	36,072,223	54,213.8	144.35	0.9	-15.7	-16.5
	XII	21,544,118	55,538.1	144.57	0.2	-40.3	-40.4

Source: İMKB, SPK, TÜİK

The rate of increase of the general state revenues decreased to a significant extent in 2007. The general state revenues, which increased 24.6% in 2006, increased 6.1% in 2007 and rose to 282,634 million YTL (Table 65).

The tax revenues, which constitute more than half of the general state revenues, increased 9.8% in 2007 and became 154,054 million YTL. The non-tax normal revenues decreased 12.5% and regressed to 18,862 million YTL. The factor income increased 3.5% and rose to 49,850 million YTL. The social funds increased 8.8% and went up to 48,287 million YTL.

The share of taxes within the general state revenues increased from 52.7% to 54.5%. The share of the social funds increased from 16.7% to 17.1%. The share of the factor income decreased from 18.1% to 17.6%. The share of the non-tax normal revenues decreased from 8.1% to 6.7%.

**TABLE 65. GENERAL STATE REVENUES**

(Current Prices, Million YTL)											
Revenues	2005	2006 (*)	2007 (*)	Change (%)		Share (%)			Ratios to GDP (%)		
				2006	2007	2005	2006	2007	2005	2006	2007
Taxes	120,935	140,275	154,054	16.0	9.8	56.6	52.7	54.5	18.6	18.5	18.0
Direct	36,283	40,092	46,890	10.5	17.0	17.0	15.1	16.6	5.6	5.3	5.5
Indirect	80,972	95,441	101,790	17.9	6.7	37.9	35.8	36.0	12.5	12.6	11.9
Asset	3,680	4,742	5,374	28.9	13.3	1.7	1.8	1.9	0.6	0.6	0.6
Non-Tax Normal Revenues	16,388	21,550	18,862	31.5	-12.5	7.7	8.1	6.7	2.5	2.8	2.2
Factor Income	38,815	48,167	49,850	24.1	3.5	18.2	18.1	17.6	6.0	6.4	5.8
Social Funds	33,607	44,399	48,287	32.1	8.8	15.7	16.7	17.1	5.2	5.9	5.6
Total	209,745	254,391	271,053	21.3	6.5	98.1	95.5	95.9	32.3	33.5	31.7
Privatization Revenues	3,984	11,958	11,581	200.2	-3.2	1.9	4.5	4.1	0.6	1.6	1.4
Total Revenues	213,729	266,349	282,634	24.6	6.1	100.0	100.0	100.0	32.9	35.1	33.0

Source: DPT, TÜİK

(\*) Provisional

The ratio of the general state revenues to the GDP decreased 2.1 points compared to the previous year and regressed to 33%. The ratio of the tax revenues decreased 0.5 points and regressed to 18%. The ratio of the non-tax normal revenues decreased 0.6 points and fell to 2.2%. The ratio of the factor income decreased 0.6 points and regressed to 5.8%. The ratio of the social funds decreased 0.3 points and fell to 5.6%. The ratio of the privatization revenues decreased 0.2 points and regressed to 1.4%.

The general state expenses, which increased 20.1% in 2006, increased 10.7% in 2007 and rose to 282,366 million YTL. The current expenses increased 14.7% and became 125,305 million YTL. The general state fixed capital investments, which increased 30.9% in 2006, increased 9.4% in 2007 and rose to 26,681 million YTL. There was a 90 million YTL increase in the public sector stocks. Thus, the general state investment expenses, which increased 31.1% in 2006, increased 8.8% in 2007 and reached 26,772 million YTL. The general state transfer expenses, which increased 11.7% in 2006, increased 7.5% in 2007 and rose to 130,289 million YTL. The current transfers, which form a large portion of the transfer expenses, increased 12.5% and became 126,134 million YTL. The capital transfers, which increased 243.9% in 2006, decreased 54.6% in 2007 and regressed to 4,155 million YTL (Table 66).

The share of the current expenses within the general state expenses rose from 42.8% to 44.4%. The share of the transfer expenses decreased from 47.5% to 46.1%. The share of the investment expenses fell from 9.6% to 9.5%.

The ratio of the general state expenses to the GDP, with an 0.6 point decrease compared to the previous year, became 33%. The ratio of the current expenses increased 0.2 points and rose to 14.6%. The ratio of the investment expenses decreased 0.1 point and fell to 3.1%. The ratio of the transfer expenses dropped 0.8 points and regressed to 15.2%.

**TABLE 66. GENERAL STATE EXPENSES**

(Current Prices, Million YTL)

Expenses	2005	2006 (*)	2007 (*)	Change (%)		Share (%)			Ratios to GDP (%)		
				2006	2007	2005	2006	2007	2005	2006	2007
Current Expenses	85,217	109,276	125,305	28.2	14.7	40.1	42.8	44.4	13.1	14.4	14.6
Investment Expenses	18,761	24,597	26,772	31.1	8.8	8.8	9.6	9.5	2.9	3.2	3.1
Fixed Capital	18,645	24,398	26,681	30.9	9.4	8.8	9.6	9.4	2.9	3.2	3.1
Change in Stock	116	198	90	70.7	-54.5	0.1	0.1	0.0	0.0	0.0	0.0
Transfer Expenses	108,530	121,252	130,289	11.7	7.5	51.1	47.5	46.1	16.7	16.0	15.2
Current Transfers	105,868	112,097	126,134	5.9	12.5	49.8	43.9	44.7	16.3	14.8	14.7
Capital Transfers	2,662	9,154	4,155	243.9	-54.6	1.3	3.6	1.5	0.4	1.2	0.5
Stock Change Fund	0	0	0	-	-	0.0	0.0	0.0	0.0	0.0	0.0
Total Expenses	212,508	255,125	282,366	20.1	10.7	100.0	100.0	100.0	32.7	33.6	33.0

Source: DPT, TÜİK

(\*) Provisional

**a. Centralized Administration Budget**

The centralized administration budget, which has the largest share within the public sector revenues and expenses, adopted in 2007 the basic targets of providing a non-interest surplus at a high rate, both in the preparation and in the implementation of the budget and thus, to provide contributions to the sustainability of the public sector debt stock.

In the direction of these targets, it was aimed that the 2007 centralized administration budget expenses would be 204,989 million YTL and that the budget revenues would be 188,159 million YTL. Thus, it was envisaged that the budget balance would produce a deficit of 16,830 million YTL and that the non-interest balance would be 36,116 million YTL.

At the end of the year, the centralized administration budget revenues increased 9.3% and rose to 189,617 million YTL. The budget expenses increased 14.2% and rose to 203,501 million YTL. The centralized administration budget non-interest surplus decreased 15.7% and regressed to 34,848 million YTL. The total budget deficit increased 199% and rose to 13,883 million YTL. The ratio of budget revenues meeting expenses, which was 97.4% in 2006, regressed to 93.2% in 2007 (Table 67).

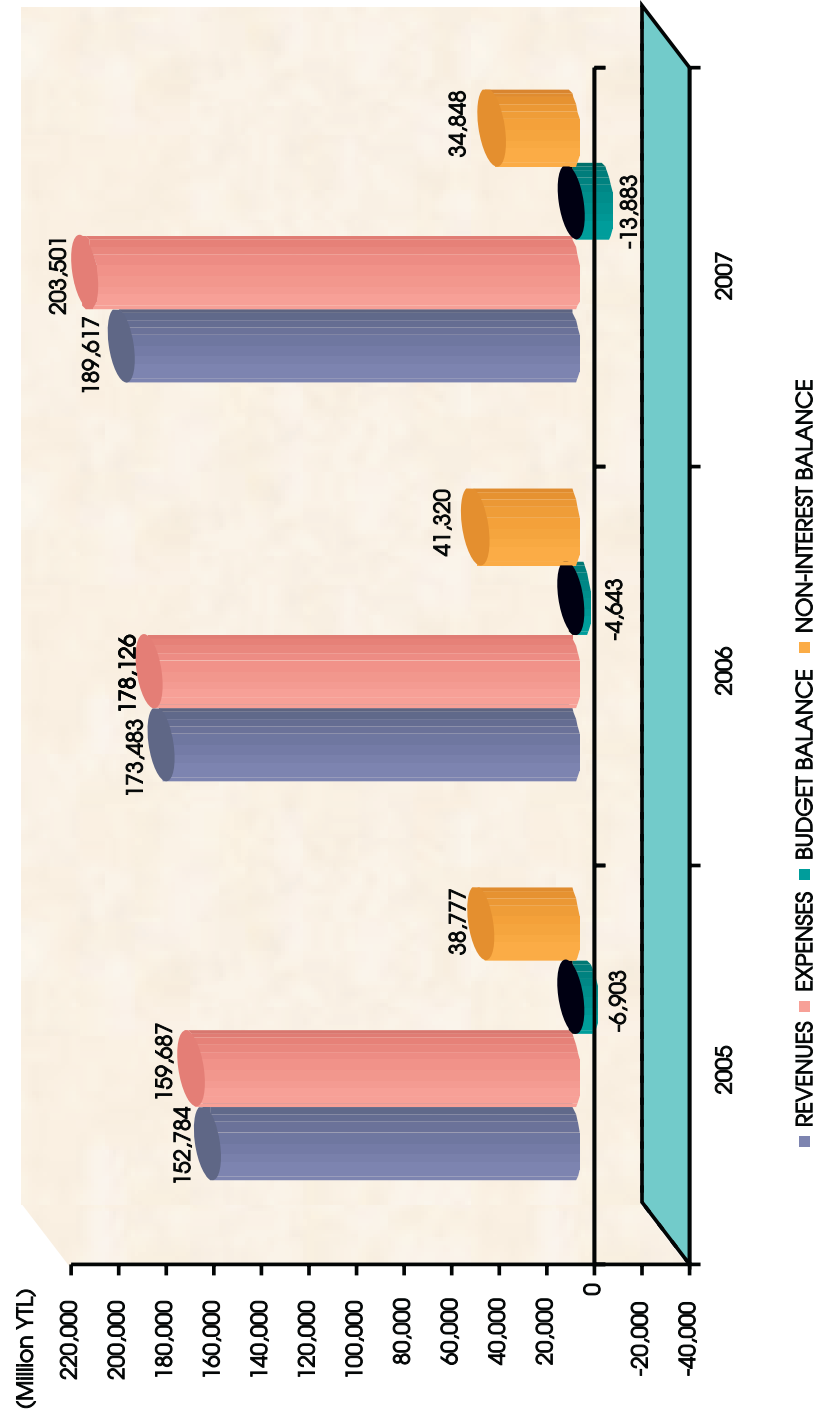
**TABLE 67. CENTRALIZED ADMINISTRATION BUDGET REALIZATIONS**

(Million YTL)

	2005	2006	2007	Change (%)		Ratios to GDP (%)		
				2006	2007	2005	2006	2007
Budget Expenses	159,687	178,126	203,501	11.5	14.2	24.6	23.5	23.8
Non-Interest Expenses	114,007	132,163	154,769	15.9	17.1	17.6	17.4	18.1
Interest Expenses	45,680	45,963	48,732	0.6	6.0	7.0	6.1	5.7
Budget Revenues	152,784	173,483	189,617	13.5	9.3	23.5	22.9	22.1
Budget Balance	-6,903	-4,643	-13,883	-32.7	199.0	-1.1	-0.6	-1.6
Non-Interest Balance	38,777	41,320	34,848	6.6	-15.7	6.0	5.4	4.1

Source: MB, TÜİK

GRAPH 20. CENTRALIZED ADMINISTRATION BUDGET REALIZATIONS



The expenses remained 1,488 million YTL under the target and the revenues were realized at 1,458 million YTL above the target. The centralized administration budget deficit remained 2,947 million YTL below the targeted value and the non-interest balance was realized at 1,268 million YTL below the target. Thus, although the budget balance deteriorated to an extent in 2007 compared to the previous year, the envisaged target was attained. Whereas, the non-interest surplus remained under the target.

The ratio of the centralized administration budget revenues to the GDP regressed from 22.9% to 22.1%. The ratio of the centralized administration budget expenses to the GDP rose from 23.5% to 23.8%. The ratio of the centralized administration budget deficit to the GDP rose from 0.6% to 1.6%. The ratio of the non-interest centralized administration budget surplus to the GDP regressed from 5.4% to 4.1%.

## Revenues

In 2007, realizing the collection of value added tax and special consumption tax below the targets negatively influenced the centralized administration budget revenues. The positive performance in the collection of income and corporation taxes, the dividend revenues obtained from the public sector banks, the payment in cash during the year of the 5.8 billion YTL remaining from the privatization installments of the Türk Telekom Corporation, the interest revenues, real estate sales and leasing revenues positively influenced the centralized administration budget revenues.

At the end of the year, the centralized administration budget revenues increased 9.3% and rose to 189,617 million YTL. It was realized at 1,458 million YTL above the envisaged target (Table 68).

**TABLE 68. CENTRALIZED ADMINISTRATION BUDGET REVENUES**

	(Million YTL)				
			Change (%)	Share (%)	
	2006	2007		2006	2007
Centralized Administration Budget Revenues	173,483	189,617	9.3	100.0	100.0
A- General Budget Revenues	168,547	184,235	9.3	97.2	97.2
1- Tax Revenues	137,480	152,832	11.2	79.2	80.6
Taxes on Income and Gains	40,141	48,197	20.1	23.1	25.4
Income Tax	28,983	34,447	18.9	16.7	18.2
Corporation Tax	11,158	13,751	23.2	6.4	7.3
Property Taxes	3,117	3,645	16.9	1.8	1.9
Inheritance and Transfer Tax	119	125	5.0	0.1	0.1
Motor Vehicle Tax	2,998	3,521	17.4	1.7	1.9
Taxes on Goods and Services in Turkey	59,408	63,589	7.0	34.2	33.5
Value Added Tax in Turkey	15,911	16,793	5.5	9.2	8.9
Special Consumption Tax	36,926	39,111	5.9	21.3	20.6
Others	6,571	7,685	17.0	3.8	4.1
Taxes from International Trade and Transactions	27,563	28,970	5.1	15.9	15.3
Value Added Tax on Imports	25,426	26,493	4.2	14.7	14.0
Others	2,137	2,477	15.9	1.2	1.3
Stamp Tax	3,149	3,642	15.7	1.8	1.9
Fees	3,958	4,742	19.8	2.3	2.5
Other Taxes Not Classified Elsewhere	144	46	-68.1	0.1	0.0
2- Enterprise and Ownership Revenues	7,531	7,904	5.0	4.3	4.2
3- Donations, Aids and Special Revenues	2,255	1,801	-20.1	1.3	0.9
4- Interests, Shares and Penalties	19,439	15,621	-19.6	11.2	8.2
5- Capital Revenues	1,841	6,077	230.1	1.1	3.2
B- Revenues of Special Budget Administrations	3,530	3,795	7.5	2.0	2.0
C- Revenues of Regulatory and Supervisory Institutions	1,407	1,587	12.8	0.8	0.8

Source: MB

The tax revenues, which have the highest share within the centralized administration budget revenues, increased 11.2% and rose to 152,832 million YTL. Nevertheless, the tax revenues were realized at 5,321 million YTL below the targeted level. The stagnation in the domestic demand, not being able to implement with effectiveness the revenue increasing policy measures due to the election process and postponing the price increases aimed at the KİT products limited the increase in the tax revenues. It was attempted to compensate for this loss with the tax increases made on tobacco and petroleum products in November.

The direct taxes formed from the total taxes obtained from income and profits within the tax revenues and obtained from property taxes increased 19.8% and rose to 51,842 million YTL. The indirect taxes formed from the taxes obtained from taxes on goods and services in Turkey and from the taxes obtained from international trade and transactions increased 6.4% and rose to 92,559 million YTL.

The non-tax revenues increased 1.1% and rose to 31,403 million YTL. The enterprise and ownership revenues included in the non-tax revenues increased 5% and rose to 7,904 million YTL. The capital revenues increased 230.1% and rose to 6,077 million YTL. The donations, aid and special revenues obtained decreased 20.1% and regressed to 1,801 million YTL. The interests, shares and penalties decreased 19.6% and regressed to 15,621 million YTL.

In 2007, the revenues of the special budget administrations increased 7.5% and rose to 3,795 million YTL. The revenues of the regulatory and supervisory institutions increased 12.8% and went up to 1,587 million YTL.

The total tax burden, defined as the ratio of the total tax revenues to the gross domestic product, became 17.8% in 2007 (Table 69).

**TABLE 69. TAX BURDEN**

	2002	2003	2004	2005	2006	2007
Total Tax Burden	17.2	18.1	17.9	18.4	18.1	17.8

Source: MB, TÜİK

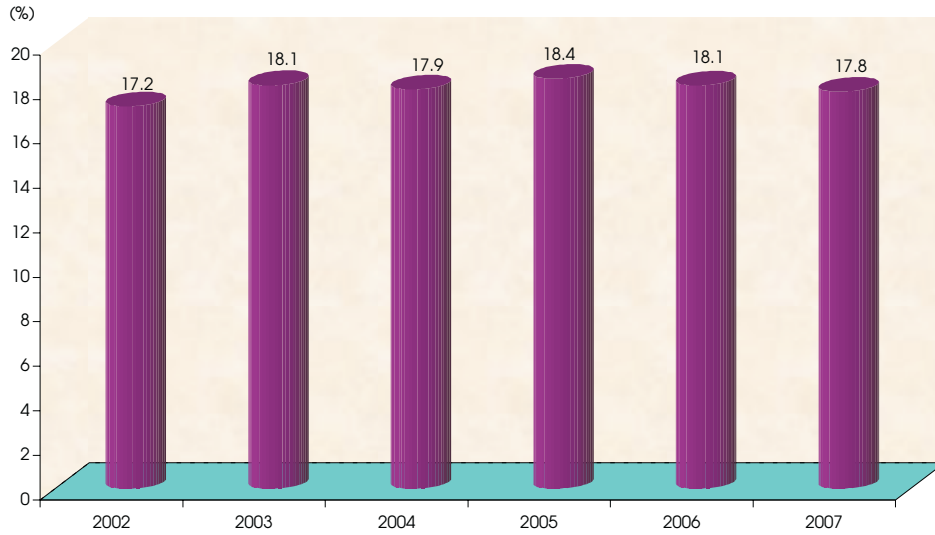
The tax flexibility coefficient, which shows the sensitivity of the tax revenues to the changes in the gross domestic product, became 0.86% in 2007 (Table 70).

**TABLE 70. TAX FLEXIBILITY COEFFICIENTS**

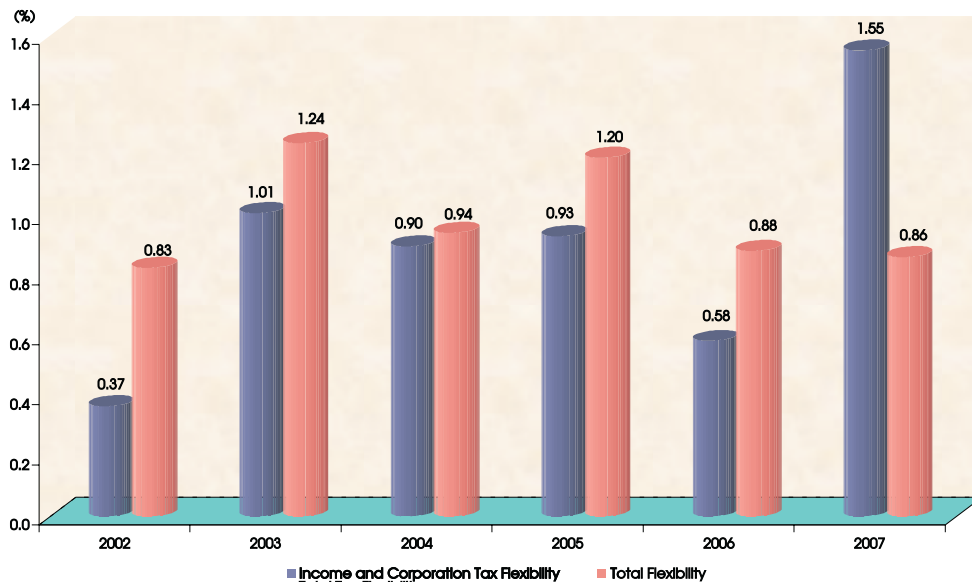
	2002	2003	2004	2005	2006	2007
Total Tax Flexibility	0.83	1.24	0.94	1.20	0.88	0.86
Income+Corporation Tax Flexibility	0.37	1.01	0.90	0.93	0.58	1.55

Source: MB, TÜİK

**GRAPH 21. TAX BURDEN**



**GRAPH 22. TAX FLEXIBILITY COEFFICIENTS**



### Expenses

In 2007, the centralized administration budget expenses increased 14.2% compared to 2006 and rose to the level of 203,501 million YTL. It was realized at 1,488 million YTL under the budget target. The non-interest expenses increased 17.1% and became 154,769 million YTL. It was 2,726 million YTL above the budget allocation. Personnel expenses, which are formed of the sub-spending items of the non-interest expenses, increased 15.2% and became 43,555 million YTL. The premium expenses to the social security organizations increased 14.3%

and became 5,801 million YTL. The purchases of goods and services increased 16.6% and became 22,154 million YTL. The current transfers increased 26.9% and became 63,249 million YTL. The capital expenses increased 6.8% and became 12,915 million YTL. The capital transfers increased 34.4% and became 3,543 million YTL. The interest expenses increased 6% and rose to 48,732 million YTL. It remained 4,214 million YTL under the budget allocation. Thus, 92% of the budget allocation was used in the centralized administration interest expenses in 2007 (Table 71).

**TABLE 71. CENTRALIZED ADMINISTRATION BUDGET EXPENSES**

	(Million YTL)				
			Change (%)	Share (%)	
	2006	2007		2006	2007
Centralized Administration Budget Expenses	178,126	203,501	14.2	100.0	100.0
Expenses Excluding Interest	132,163	154,769	17.1	74.2	76.1
Personnel Expenses	37,812	43,555	15.2	21.2	21.4
State Premium Expenses to the Social Security Organizations	5,075	5,801	14.3	2.8	2.9
Expenses for Purchasing Goods and Services	19,001	22,154	16.6	10.7	10.9
Defense and Security	7,630	7,576	-0.7	4.3	3.7
Health Expenses	5,350	6,624	23.8	3.0	3.3
General Expenses for State Debts	85	59	-30.6	0.0	0.0
Other Expenses for Goods and Services	5,935	7,895	33.0	3.3	3.9
Current Transfers	49,851	63,249	26.9	28.0	31.1
Duty Losses	7,245	1,401	-80.7	4.1	0.7
Treasury Aids	21,760	36,273	66.7	12.2	17.8
Treasury Aids to the Social Security Organizations	19,201	808	-95.8	10.8	0.4
Expenses for Health, Retirement and Social Assistance	0	33,063	-	0.0	16.2
Treasury Aids to Local Administrations	1,509	1,706	13.1	0.8	0.8
Other Treasury Aids	1,050	696	-33.7	0.6	0.3
Transfers Made to Non-profit Organizations	185	681	268.1	0.1	0.3
Transfers Made to Households	797	994	24.7	0.4	0.5
Transfers for Agricultural Purposes	4,747	5,555	17.0	2.7	2.7
Other Transfers Made to Households	347	618	78.1	0.2	0.3
Transfers for Social Purposes	26	67	157.7	0.0	0.0
Transfers Made Abroad from Turkey	620	501	-19.2	0.3	0.2
Shares Allocated from Revenues	14,124	17,158	21.5	7.9	8.4
Capital Expenses	12,098	12,915	6.8	6.8	6.3
Capital Transfers	2,637	3,543	34.4	1.5	1.7
Loans	5,689	3,552	-37.6	3.2	1.7
Reserve Allocations	0	0	-	0.0	0.0
Interest Expenses	45,963	48,732	6.0	25.8	23.9

Source: MB

The share of the non-interest expenses within the centralized administration budget expenses rose from 74.2% to 76.1% compared to the previous year and the share of the interest expenses regressed from 25.8% to 23.9%.



## b. Funds

Four funds also continued to be monitored in 2007 within the scope of the fund balance. These funds were the Support and Price Stability Fund, within the budget; the Social Assistance and Solidarity Incentive Fund, the Defense Industry Support Fund and the Privatization Fund, outside the budget. The fund revenues included in the general balance of the public sector, under the influence of the decrease in non-tax normal revenues and net capital transfers, decreased 21.7% compared to 2006 and regressed to 9,302 million YTL. The expenses, under the influence to a significant extent of the high rate of decrease in the net current transfers, decreased 18.9% and regressed to 2,174 million YTL (Table 72).

**TABLE 72. FUND BALANCE <sup>(1)</sup>**

	(Current Prices, Million YTL)					
				Ratios to the GDP (%)		
	2005	2006	2007 <sup>(2)</sup>	2005	2006	2007
FUND REVENUES	4,917	11,881	9,302	0.8	1.6	1.1
Tax Revenues	2,319	2,632	3,086	0.4	0.3	0.4
Non-Tax Normal Revenues	584	498	484	0.1	0.1	0.1
Factor Revenues (Net)	0	0	0	0.0	0.0	0.0
Current Transfers (Net)	0	0	0	0.0	0.0	0.0
Capital Transfers (Net)	2,014	8,752	5,732	0.3	1.2	0.7
FUND EXPENSES	1,829	2,680	2,174	0.3	0.4	0.3
Current Expenses	1,063	1,357	1,244	0.2	0.2	0.1
Factor Expenses (Net)	324	225	167	0.0	0.0	0.0
Fixed Capital Investments	12	5	0	0.0	0.0	0.0
Current Transfers (Net)	430	1,092	763	0.1	0.1	0.1
Capital Transfers (Net)	0	0	0	0.0	0.0	0.0
REVENUES-EXPENSES DIFF.	3,088	9,201	7,128	0.5	1.2	0.8
FINANCING	-3,088	-9,201	-7,128	-0.5	-1.2	-0.8
Foreign Debt Utilization	56	150	200	0.0	0.0	0.0
Foreign Debt Payment	-140	-103	-60	0.0	0.0	0.0
Domestic Debt-Receivables (Net)	-2,238	-8,351	-4,670	-0.3	-1.1	-0.5
Cash-Bank Change	-766	-897	-2,598	-0.1	-0.1	-0.3

Source: DPT

(1) The Unemployment Insurance Fund is excluded.

(2) Provisional

## c. State Economic Enterprises

In 2007, the revenues of the operating State Economic Enterprises (KİTs) increased 3% and rose to 52,641 million YTL. The expenses increased 4.7% and went up to 52,122 million YTL. A significant portion of the revenues were composed of the sales yield of goods and services included under operating revenues and a significant portion of the expenses were composed of the sales costs of goods and services collected under operating expenses (Table 73).

**TABLE 73. FINANCIAL BALANCE OF THE OPERATING KİTS**

	(Current Prices, Million YTL)		
	2005	2006	2007 (*)
A. Total Revenues	37,668	51,090	52,641
I. Operating Revenues	33,993	45,062	47,253
1. Sales Revenues of Goods and Services	31,481	40,696	44,445
2. Other Revenues	2,512	4,367	2,808
II. Funds Remaining in Organization	2,234	3,403	3,128
1. Amortizations	1,870	2,497	2,941
2. Inflation Correction for Profit/Loss	0	0	0
3. Provisions	364	906	187
III. Budget and Funds	1,441	2,624	2,259
IV. Other Revenues	0	0	0
B. Total Expenses	37,049	49,763	52,122
I. Operating Expenses	33,896	45,244	46,314
1. Sales Cost of Goods and Services	29,379	37,629	39,425
2. Other Expenses	4,517	7,615	6,888
II. Investment Expenses	2,204	2,785	3,028
III. Increase in Stock	679	268	853
IV. Increase in Fixed Value	-425	631	705
V. Direct Taxes	290	533	610
VI. Dividend Payments	337	288	607
VII. Other Expenses	69	12	4
C. Borrowing Requirement	619	1,327	519
D. Financing	-619	-1,327	-519
I. Cash-Bank Change	-1,166	-72	-551
II. Domestic Borrowing (Net)	-1,703	-1,194	-316
III. Foreign Borrowing (Net)	2,250	-61	348

Source: DPT

(\*) Provisional

#### **d. Public Financing Deficit**

The public financing surplus, which was 14,949 million YTL in 2006, regressed to 1,265 million YTL in 2007. The public sector financing surplus excluding budget interest payments, which was 60,912 million YTL in 2006, decreased 17.9% in 2007 and regressed to 49,997 million YTL. The negative developments in the centralized administration budget deficit, in the KİTs within the scope of privatization and in the financing balances of the social security organizations were determining factors in the deterioration of the public sector borrowing requirement (Table 74).

The centralized administration budget deficit, which has the largest share within the public sector deficit, became 13,883 million YTL. The KİTs within the scope of privatization had a deficit of 525 million YTL. The social security organizations had a deficit of 472 million YTL. The operating KİTs had a surplus of 519 million YTL. The local administrations had a surplus of 92 million YTL. The revolving funds had a surplus of 1,317 million YTL. The Unemployment Insurance Fund had a surplus of 7,087 million YTL. The funds had a surplus of 7,129 million YTL.

In 2007, the public financing produced a surplus at the ratio of 0.1% of the GDP. The centralized administration budget financing balance produced a surplus at the ratio of 1.6% of the GDP. The social security organizations financing balance produced a deficit at the ratio of 0.1% of the GDP. The revolving funds financing balance produced a surplus at the ratio of 0.2% of the GDP. The Unemployment Insurance Fund and the funds financing balance produced a surplus at the ratio of 0.8% of the GDP.

**TABLE 74. PUBLIC SECTOR BORROWING REQUIREMENT**

	(Current Prices, Million YTL)					
	2005	2006	2007 <sup>(1)</sup>	Ratios to the GDP (%)		
				2005	2006	2007
Centralized Administration Budget <sup>(2)</sup>	8,117	4,643	13,883	1.3	0.6	1.6
KİT	-872	-3,725	5	-0.1	-0.5	0.0
Operating	-678	-1,327	-519	-0.1	-0.2	-0.1
Within the Scope of Privatization	-194	-2,398	525	0.0	-0.3	0.1
Local Administrations	-449	1,204	-92	-0.1	0.2	0.0
Revolving Fund	-1,226	-1,263	-1,317	-0.2	-0.2	-0.2
Social Security Organizations	138	-889	472	0.0	-0.1	0.1
Unemployment Insurance Fund	-4,713	-5,717	-7,087	-0.7	-0.8	-0.8
Funds	-3,087	-9,202	-7,129	-0.5	-1.2	-0.8
Borrowing Requirement	-2,092	-14,949	-1,265	-0.3	-2.0	-0.1
Budget Interest Payments	45,680	45,963	48,732	7.0	6.1	5.7
Non-Interest Borrowing Requirement	-47,772	-60,912	-49,997	-7.4	-8.0	-5.8

Source: DPT

(1) Provisional

(2) The consolidated budget definition was used for 2005.

### e. Privatization

The privatization implementations, which started in 1984 with the application of transfers to the private sector with the objective of completing the semi-completed facilities belonging to the public sector or of establishing a new facility in its place, accelerated as of 2005.

With the privatization applications as of 1985, the public sector shares of 246 organizations, 22 semi-completed facilities, 393 real estate properties, 8 freeways, 2 Bosphorus bridges, 103 facilities, 6 ports, the license rights to games of chance and vehicle inspection stations were taken within the scope of privatization. The public shares in 23 organizations and 4 real estate properties were later removed from the scope of privatization without being subjected to privatization.

Within the framework of the program carried out by taking the public sector shares of the organizations, which belong completely to the public sector or which have a public sector participation, within the scope of privatization, the sales/transfers of the shares or assets of 196 organizations have been made and no public shares have remained in 187 of these organizations. Presently, there are a total of 17 organizations, with 2 within the scope of privatization and 15 within the scope of privatization and in the program. There is a public sector share of over 50% in 11 of these organizations. Furthermore, 62 real estate properties, 77 facilities, 5 ports, 8 freeways, 2 Bosphorus bridges and the license rights for games of chance are within the scope of privatization.

The privatization revenues reached significant levels in 2005 and 2006 and there was a regression in 2007. A total of US\$8,222 million in privatization was realized in 2005 and a total of US\$8,096 million in privatization was realized in 2006. A total of US\$4,259 million in privatization was realized in 2007. Of this, US\$2,296 million was for the sales of facilities/assets, US\$1,839 million was in public offerings and US\$124 million was made with the transfer with payments method. The total of the privatization applications realized between 1986-2007 became US\$30,041 million (Table 75).

**TABLE 75. PRIVATIZATION TRANSACTIONS**

	(US\$ Thousand)		
	1986-2006	2007	1986-2007
Block Sales	18,158,793	0	18,158,793
Sales of Facilities/Assets	2,525,240	2,295,983	4,821,223
Public Offerings	3,341,560	1,838,643	5,180,203
Sales on the Istanbul Stock Exchange	1,261,054	0	1,261,054
Sales of Semi-Completed Facilities	4,369	0	4,369
Transfers with Payments	491,726	124,004	615,730
Total	25,782,742	4,258,630	30,041,372

Source: ÖİB

#### **f. Centralized Administration Debt Stock**

In 2007, the implementation of the monetary and fiscal policies with a harmonious, sustainable, transparent and accountable borrowing policy was continued. It was targeted to meet the borrowing at a suitable risk level with the lowest cost and to form more effective secondary markets. Mainly obtaining borrowing with fixed interest or negotiable instruments in YTL, not borrowing indexed to foreign currency, extending to the extent possible the market conditions of the average term in domestic borrowing with the objective of lessening the interest and foreign currency exchange rate risks and keeping a reserve at a sufficient level with the objective of lessening the liquidity risk that could form in the management of the debt were in the forefront as the main components of the borrowing policy and were implemented.

In 2007, the centralized administration debt stock decreased 3.4% compared to 2006 and was realized at the level of 333,481 million YTL. The centralized administration domestic debt stock increased 1.5% and rose to 255,310 million YTL. The centralized administration foreign debt stock decreased 16.5% and regressed to 78,171 million YTL. The share of the domestic debt stock within the centralized administration debt stock rose from 72.9% to 76.6% and the share of the foreign debt stock decreased from 27.1% to 23.4%. In 2007, the ratio of the centralized administration debt stock to the GDP continued the falling trend in recent years and was realized at the level of 38.9%. The ratio of the domestic debt stock to the GDP became 29.8% and the ratio of the foreign debt stock to the GDP became 9.1% (Table 76).

**TABLE 76. TOTAL DEBT STOCK OF THE CENTRALIZED ADMINISTRATION**

	2003	2004	2005	2006	2007
	Million YTL				
Domestic Debt Stock	194,387	224,483	244,782	251,470	255,310
Foreign Debt Stock	88,420	92,046	86,738	93,580	78,171
Total Debt Stock	282,807	316,529	331,520	345,050	333,481
	US\$ Million				
Domestic Debt Stock	139,262	167,262	182,428	178,906	219,207
Foreign Debt Stock	63,346	68,583	64,643	66,576	67,117
Total Debt Stock	202,608	235,845	247,071	245,482	286,324
	Share (%)				
Domestic Debt Stock	68.7	70.9	73.8	72.9	76.6
Foreign Debt Stock	31.3	29.1	26.2	27.1	23.4
Total Debt Stock	100.0	100.0	100.0	100.0	100.0
	Ratio to the GDP (%)				
Domestic Debt Stock	42.7	40.2	37.7	33.2	29.8
Foreign Debt Stock	19.4	16.5	13.4	12.3	9.1
Total Debt Stock	62.2	56.6	51.1	45.5	38.9

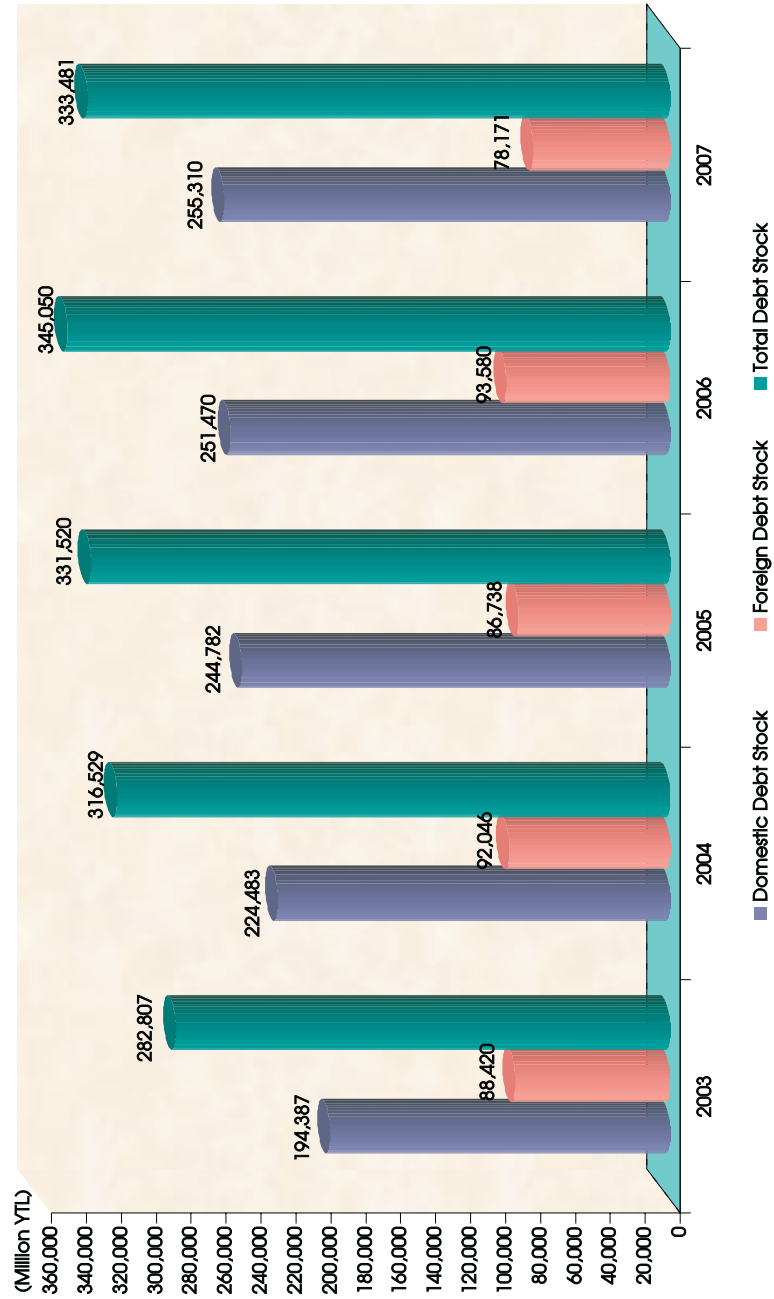
Source: HM

The falling trend, which started in the rate of increase in the domestic debt stock in 2004, also continued in 2007. The rate of increase in the domestic debt stock, which was 29.7% in 2003, regressed to 15.5% in 2004, 9% in 2005, 2.7% in 2006 and 1.5% in 2007. The total domestic debt stock increased 3,840 million YTL and rose to 255,310 million YTL. Of this, a 249,176 million YTL portion (97.6%) was formed of debenture bonds and a 6,134 million YTL portion (2.4%) was formed of bonds (Table 77).

In 2007, a total of 118,033 million YTL in borrowing was made, with a 102,130 million YTL portion in debenture bonds and a 15,903 million YTL portion in bonds. In response to this, a total of 134,524 million YTL in debenture bonds was paid, with 94,831 million YTL in principal and 39,693 million YTL in interest. A total of 21,209 million YTL in bonds was paid, with 19,363 million YTL in principal and 1,846 million YTL in interest. Thus, in 2007, a total of 155,733 million YTL in domestic debt payments was realized, with 114,194 million YTL in principal and 41,539 million YTL in interest.

The falling trend observed in the domestic borrowing interest rates within the framework of the economic program implemented since 2002, remained at a limited level in 2007 under the influence of the fluctuations experienced in the foreign markets stemming from the risky loan market in the United States. The

GRAPH 23. TOTAL DEBT STOCK OF THE CENTRALIZED ADMINISTRATION



annual compounded real interest, which was 7.8% in 2006, was realized at 7.6% in 2007. The improvement, which started in the term structure of the domestic debt stock in 2005, also continued in 2007. The domestic debt stock term, which was 20.6 months in 2004, rose to 23.5 months in 2005, 24 months in 2006 and 25.7 months in 2007 (Table 78).

**TABLE 77. DOMESTIC DEBT STOCK**

(Million YTL)

Years	Type of Debt	Payments			Borrowing	Debt Stock
		Principal	Interest	Total		
2001	State Debenture Bonds	96,419	34,608	131,027	164,183	102,128
	Treasury Bonds	27,458	5,876	33,334	45,430	20,029
	Total	123,877	40,484	164,361	209,613	122,157
2002	State Debenture Bonds	48,178	30,991	79,169	58,900	112,850
	Treasury Bonds	49,413	12,477	61,890	66,403	37,020
	Total	97,591	43,469	141,059	125,303	149,870
2003	State Debenture Bonds	45,653	35,495	81,149	101,777	168,974
	Treasury Bonds	68,068	17,141	85,209	56,461	25,413
	Total	113,721	52,636	166,357	158,238	194,387
2004	State Debenture Bonds	76,803	39,171	115,973	102,040	194,211
	Treasury Bonds	56,698	10,882	67,580	61,557	30,272
	Total	133,500	50,053	183,553	163,596	224,483
2005	State Debenture Bonds	82,651	33,088	115,739	115,404	226,964
	Treasury Bonds	52,571	6,181	58,752	40,116	17,818
	Total	135,222	39,269	174,491	155,520	244,782
2006	State Debenture Bonds	92,139	36,207	128,347	107,052	241,876
	Treasury Bonds	26,754	2,451	29,205	18,530	9,594
	Total	118,893	38,659	157,552	125,581	251,470
2007 (*)	State Debenture Bonds	94,831	39,693	134,524	102,130	249,176
	Treasury Bonds	19,363	1,846	21,209	15,903	6,134
	Total	114,194	41,539	155,733	118,033	255,310

Source: HM

(\*) Provisional

**TABLE 78. TERM AND ANNUAL COMPOUNDED REAL INTEREST OF THE DOMESTIC DEBT STOCK**

	2003	2004	2005	2006	2007 (*)
Term (Months)	25.1	20.6	23.5	24.0	25.7
Interest (%)	11.9	9.5	8.0	7.8	7.6

Source: HM

(\*) Provisional

The cash domestic debt stock increased 5.9% in 2007 and rose to 220,582 million YTL. The non-cash domestic debt stock decreased 19.4% and regressed to 34,728 million YTL. The share of the cash domestic debt stock within the total domestic debt stock rose from 82.9% to 86.4%. The share of the non-cash domestic debt stock decreased from 17.1% to 13.6% (Table 79).

**TABLE 79. THE FOREIGN CURRENCY/INTEREST STRUCTURE OF THE DOMESTIC DEBT STOCK**

	2005		2006		(Million YTL) 2007 (*)	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Cash	194,153	79.3	208,377	82.9	220,582	86.4
YTL-Fixed Yield	101,444	41.4	111,457	44.3	116,793	45.7
YTL- Variable Interest	57,907	23.7	63,993	25.4	78,858	30.9
Foreign Currency	30,762	12.6	32,927	13.1	24,931	9.8
Foreign Currency Indexed	4,040	1.7	-	-	-	-
Non-Cash	50,629	20.7	43,094	17.1	34,728	13.6
YTL-Fixed Yield	-	-	-	-	200	0.2
YTL- Variable Interest	47,501	19.4	41,350	16.4	33,317	13.0
Foreign Currency	1,598	0.7	-	-	-	-
Foreign Currency Indexed	1,530	0.6	1,744	0.7	1,211	0.5
Total Stock	244,782	100.0	251,471	100.0	255,310	100.0
YTL-Fixed Yield	101,444	41.4	111,457	44.3	116,993	45.8
YTL- Variable Interest	105,408	43.1	105,343	41.9	112,175	43.9
Foreign Currency	32,360	13.2	32,927	13.1	24,931	9.8
Foreign Currency Indexed	5,570	2.3	1,744	0.7	1,211	0.5

Source: HM

(\*) Provisional

The share of the YTL fixed yield and variable interest debt negotiable instruments within the domestic debt stock increased. The share of the foreign currency and borrowing instruments indexed to foreign currency decreased. In 2006, the domestic debt stock was composed of negotiable instruments, of which 44.3% had fixed interest, 41.9% had variable interest, 13.1% were in foreign currency and 0.7% were indexed to foreign currency. In 2007, the domestic debt stock was composed of negotiable instruments, of which 45.8% had fixed interest, 43.9% had variable interest, 9.8% were in foreign currency and 0.5% were indexed to foreign currency.

The market share in the distribution of the domestic debt stock according to borrowers rose from 71.6% to 73.8%. The public sector share regressed from 28.4% to 26.2% (Table 80).

**TABLE 80. DISTRIBUTION OF THE DOMESTIC DEBT STOCK ACCORDING TO BORROWERS**

	2005			2006			(Million YTL, US\$ Billion) 2007 <sup>(1)</sup>		
	YTL	US\$	Share (%)	YTL	US\$	Share (%)	YTL	US\$	Share (%)
General Total	244,782	182.4	100.0	251,470	178.9	100.0	255,310	219.2	100.0
Public Sector	75,468	56.2	30.8	71,410	50.8	28.4	66,876	57.4	26.2
Central Bank	18,427	13.7	7.5	17,778	12.6	7.1	16,028	13.8	6.3
Public Sector Banks <sup>(2)</sup>	25,037	18.7	10.2	19,865	14.1	7.9	15,765	13.5	6.2
TMSF	4,496	3.4	1.8	4,499	3.2	1.8	3,757	3.2	1.5
Other Public Sector <sup>(3)</sup>	27,508	20.5	11.2	29,267	20.8	11.6	31,326	26.9	12.3
Market <sup>(4)</sup>	169,314	126.2	69.2	180,060	128.1	71.6	188,434	161.8	73.8

Source: HM

(1) Provisional

(2) It only includes the non-cash issues made to the public sector banks and the negotiable instruments given instead of the payments made from these issues.

(3) It includes the average sales made to the public sector.

(4) The negotiable instruments (6.7 quadrillion TL) issued to the TMSF for the İmar Bank deposits was shown within the market as of January 2004.



## D. FOREIGN ECONOMIC DEVELOPMENTS

### 1. Foreign Trade

The high performance obtained in exports in recent years also continued in 2007, despite the negativity stemming from the strong position of the New Turkish Lira. Export revenues increased 25.3% and rose to US\$107,214 million. The positive course in the world product, making over half of Turkey's exports to the EU countries in Euros and the lively demand in these countries, the Euro/US dollar parity developing in favor of the Euro, the competitive advantage stemming from the increases in productivity along with its rate slowing down and the high ratio of increase in the export prices became determining factors in this development (Table 81).

**TABLE 81. FOREIGN TRADE INDICATORS**

	(US\$ Million)						
	2001	2002	2003	2004	2005	2006	2007
Exports	31,334	36,059	47,253	63,167	73,476	85,535	107,214
Imports	41,399	51,554	69,340	97,540	116,774	139,576	170,057
Foreign Trade Volume	72,733	87,613	116,593	160,707	190,250	225,111	277,271
Foreign Trade Deficit	10,065	15,495	22,087	34,373	43,298	54,041	62,843
Ratio of Exports / Imports (%)	75.7	69.9	68.1	64.8	62.9	61.3	63.0
Foreign Trade Deficit / Exports (%)	32.1	43.0	46.7	54.4	58.9	63.2	58.6

Source: TÜİK

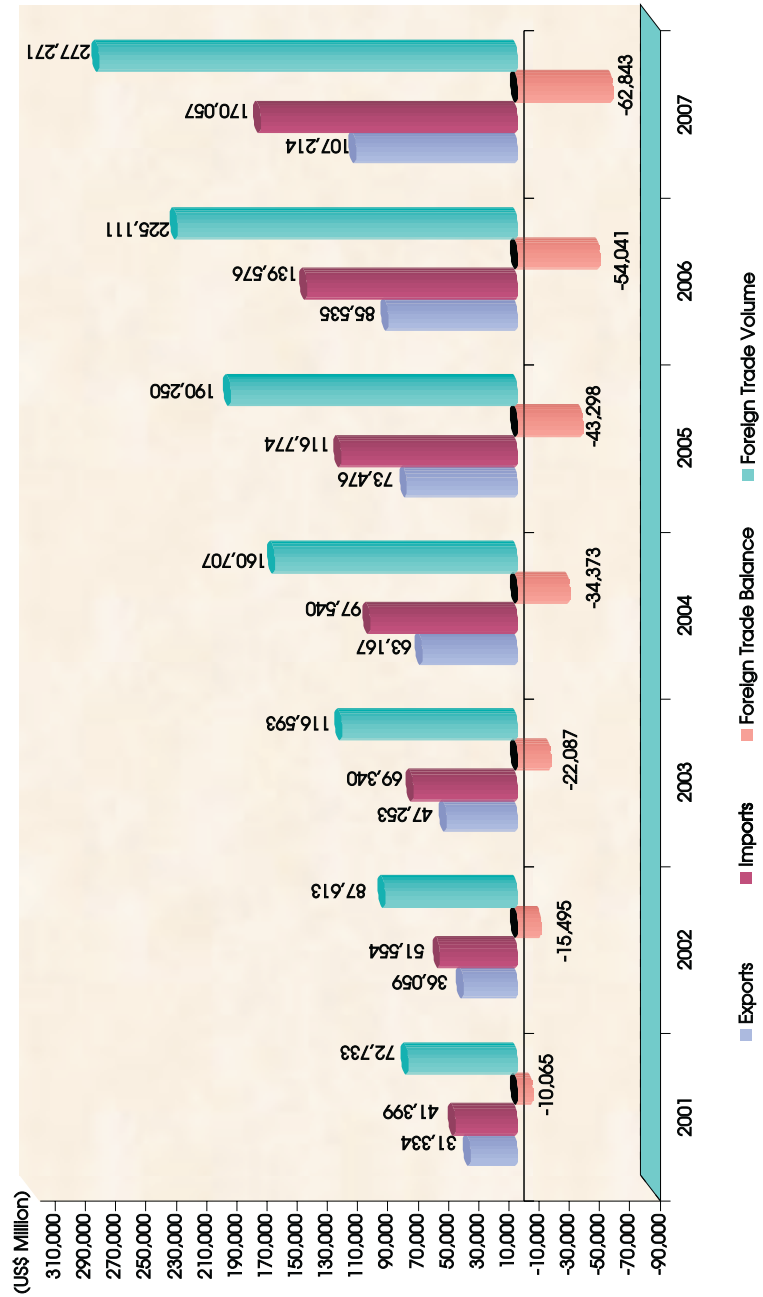
Imports increased 21.8% in 2007 and rose to the level of US\$170,057 million. The increase in exports and industrial production increased the imports of intermediary goods, the recovery in the domestic demand and the YTL continuing its strong position, and especially the imports of capital goods and consumer goods accelerating as of the second half of the year, led by oil prices, have been effective in the increase of the import unit values on the total increase in imports.

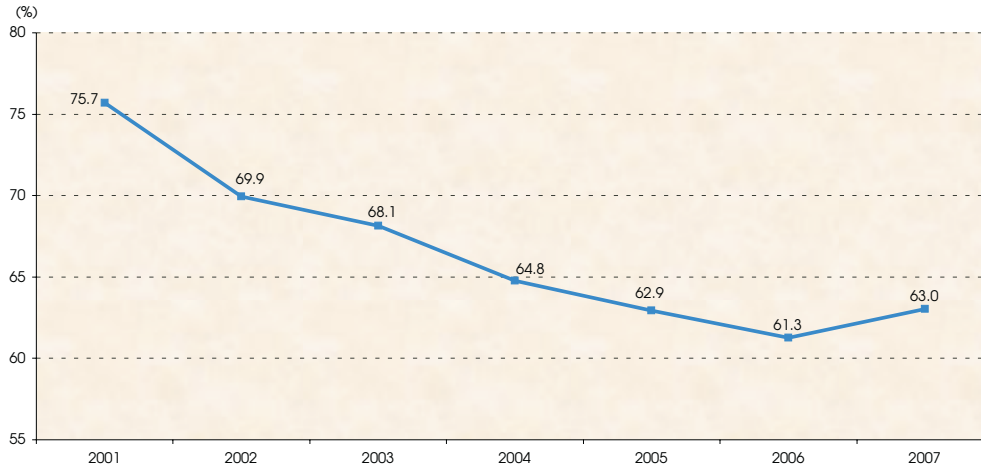
The fact that the rate of increase of exports was higher than the rate of increase of imports had a positive influence on the foreign trade deficit. The rate of increase of the foreign trade deficit, which was 24.8% in 2006, regressed to 16.3% in 2007 and the foreign trade had a deficit of US\$62,843 million. The ratio of exports meeting imports rose from 61.3% to 63%. The foreign trade volume increased 23.2% and became US\$277,271 million.

#### a. Exports

Exports increased 25.3% in 2007 compared to 2006 and rose from US\$85,535 million to US\$107,214 million. The exports of mining and quarrying products increased 44.9% and rose to US\$1,661 million. The exports of manufacturing

GRAPH 24. FOREIGN TRADE INDICATORS



**GRAPH 25. RATIO OF EXPORTS / IMPORTS**

industry products increased 25.9% and went up to US\$101,024 million. The exports of fishing products increased 20.6% and rose to US\$158 million. The exports of agricultural and forestry products increased 7% and went up to US\$3,725 million (Table 82).

**TABLE 82. EXPORTS ACCORDING TO SECTORS**

	(US\$ Million)										
	Value				Share (%)				Change (%)		
Sectors	2004	2005	2006	2007	2004	2005	2006	2007	2005	2006	2007
Agriculture and Forestry	2,542	3,329	3,481	3,725	4.0	4.5	4.1	3.5	31.0	4.6	7.0
Fishing	103	140	131	158	0.2	0.2	0.2	0.1	35.9	-6.4	20.6
Mining and Quarrying	649	810	1,146	1,661	1.0	1.1	1.3	1.5	24.8	41.5	44.9
Manufacturing	59,579	68,813	80,246	101,024	94.3	93.7	93.8	94.2	15.5	16.6	25.9
Other	294	384	531	646	0.5	0.5	0.6	0.6	30.6	38.3	21.7
Total	63,167	73,476	85,535	107,214	100.0	100.0	100.0	100.0	16.3	16.4	25.3

Source: TÜİK

The shares of the mining and quarrying and the manufacturing industry products within the total exports increased and the shares of the agricultural and forestry products and fishing products decreased. Within the total exports in 2007, the share of the agricultural and forestry products regressed from 4.1% to 3.5% and the share of the fishing products regressed from 0.2% to 0.1%. The share of the manufacturing industry products increased from 93.8% to 94.2% and the share of the mining and quarrying products increased from 1.3% to 1.5%.

As of main goods groups in 2007, the exports of capital (investment) goods increased 45.9% and rose to US\$13,751 million, the exports of intermediary (raw material) goods increased 30.6% and went up to US\$49,358 million and the exports of consumer goods increased 15.6% and rose to US\$43,686 million (Table 83).

**TABLE 83. EXPORTS ACCORDING TO MAIN GROUPS OF GOODS**

Groups of Goods	(US\$ Million)										
	Value				Share (%)				Change (%)		
	2004	2005	2006	2007	2004	2005	2006	2007	2005	2006	2007
Capital (Investment) Goods	6,531	7,998	9,423	13,751	10.3	10.9	11.0	12.8	22.5	17.8	45.9
Intermediary (Raw Material) Goods	25,946	30,290	37,788	49,358	41.1	41.2	44.2	46.0	16.7	24.8	30.6
Consumer Goods	30,502	34,835	37,790	43,686	48.3	47.4	44.2	40.7	14.2	8.5	15.6
Others	188	353	534	419	0.3	0.5	0.6	0.4	87.8	51.3	-21.5
Total	63,167	73,476	85,535	107,214	100.0	100.0	100.0	100.0	16.3	16.4	25.3

Source: TÜİK

Within the total exports, the share of consumer goods decreased and the shares of capital (investment) goods and intermediary (raw material) goods increased. Within the total exports in 2007, the share of capital goods increased from 11% to 12.8%, the share of intermediary goods increased from 44.2% to 46% and the share of consumer goods decreased from 44.2% to 40.7%.

As of the goods groups in exports in 2007, the largest share of exports were composed of land vehicles, tractors, bicycles, motorcycles and other vehicles; machinery, mechanical equipment, boilers; iron and steel; woven clothing and accessories; and electrical machines and equipment.

In the listing of exports made according to groups, land vehicles, tractors, bicycles, motorcycles and other vehicles were in first place with US\$15,904 million. It was followed by machinery, mechanical equipment and boilers at US\$8,777 million; iron and steel at US\$8,352 million; woven clothing and accessories at US\$8,022 million; and electrical machines and equipment at US\$7,421 million. The shares of these groups within the total exports were 14.8%, 8.2%, 7.8%, 7.5% and 6.9%, respectively (Table 84).

**TABLE 84. THE FIRST TEN GROUPS IN EXPORTS (According to Order of Value in 2007)**

Groups	(US\$ Million)									
	Value			Share (%)			Change (%)			
	2005	2006	2007	2005	2006	2007	2006	2007		
Land vehicles, tractors, bicycles, motorcycles and others	9,566	11,886	15,904	13.0	13.9	14.8	24.3	33.8		
Machinery, mechanical equipment, boilers, accessories & parts	5,246	6,517	8,777	7.1	7.6	8.2	24.2	34.7		
Iron and steel	4,973	6,273	8,352	6.8	7.3	7.8	26.1	33.1		
Woven clothing and accessories	6,590	6,938	8,022	9.0	8.1	7.5	5.3	15.6		
Electrical machines and equipment, accessories & parts	5,423	6,328	7,421	7.4	7.4	6.9	16.7	17.3		
Unwoven clothing and accessories	4,862	4,711	5,444	6.6	5.5	5.1	-3.1	15.6		
Mineral fuels & mineral oils & derivatives, waxes	2,641	3,567	5,148	3.6	4.2	4.8	35.1	44.3		
Goods made of iron or steel	2,731	3,336	4,125	3.7	3.9	3.8	22.2	23.7		
Plastic and goods made from plastic	1,722	2,214	2,818	2.3	2.6	2.6	28.6	27.3		
Edible fruits, nuts with shells, citrus fruits & melon rind	2,501	2,388	2,671	3.4	2.8	2.5	-4.5	11.9		
Total Exports	73,476	85,535	107,214	100.0	100.0	100.0	16.4	25.3		

Source: TÜİK

## b. Imports

Imports increased 21.8% in 2007 compared to 2006 and rose from US\$139,576 million to US\$170,057 million. The imports of fishing products decreased 6.1% and regressed to US\$31 million. The imports of agricultural and forestry products increased 59.9% and rose to US\$4,641 million. The imports of manufacturing industry products increased 21.3% and went up to US\$133,933 million. The imports of mining and quarrying products increased 14.9% and rose to US\$25,314 million (Table 85).

**TABLE 85. IMPORTS ACCORDING TO SECTORS**

Sectors	(US\$ Million)											
	Value				Share (%)				Change (%)			
	2004	2005	2006	2007	2004	2005	2006	2007	2005	2006	2007	
Agriculture and Forestry	2,757	2,801	2,902	4,641	2.8	2.4	2.1	2.7	1.6	3.6	59.9	
Fishing	8	24	33	31	0.0	0.0	0.0	0.0	200.0	37.5	-6.1	
Mining and Quarrying	10,981	16,321	22,034	25,314	11.3	14.0	15.8	14.9	48.6	35.0	14.9	
Manufacturing	80,447	94,208	110,379	133,933	82.5	80.7	79.1	78.8	17.1	17.2	21.3	
Other	3,347	3,420	4,228	6,138	3.4	2.9	3.0	3.6	2.2	23.6	45.2	
Total	97,540	116,774	139,576	170,057	100.0	100.0	100.0	100.0	19.7	19.5	21.8	

Source: TÜİK

Within the total imports, the share of agricultural and forestry products increased and the shares of mining and quarrying and manufacturing industry products decreased. Within the total imports in 2007, the share of agricultural and forestry products increased from 2.1% to 2.7%. The share of mining and quarrying products decreased from 15.8% to 14.9%. The share of manufacturing industry products decreased from 79.1% to 78.8%.

As of main goods groups, the imports of intermediary (raw material) goods, which are a determining factor of the total imports, increased 24.1% in 2007 compared to the previous year and rose to US\$123,634 million. The imports of consumer goods increased 16% and went up to US\$18,694 million. The imports of capital (investment) goods increased 15.9% and rose to US\$27,054 million (Table 86).

**TABLE 86. IMPORTS ACCORDING TO MAIN GROUPS OF GOODS**

Groups of Goods	(US\$ Million)											
	Value				Share (%)				Change (%)			
	2004	2005	2006	2007	2004	2005	2006	2007	2005	2006	2007	
Capital (Investment) Goods	17,397	20,363	23,348	27,054	17.8	17.4	16.7	15.9	17.0	14.7	15.9	
Intermediary (Raw Material) Goods	67,549	81,868	99,605	123,634	69.3	70.1	71.4	72.7	21.2	21.7	24.1	
Consumer Goods	12,100	13,975	16,116	18,694	12.4	12.0	11.5	11.0	15.5	15.3	16.0	
Others	494	568	507	675	0.5	0.5	0.4	0.4	15.0	-10.7	33.1	
Total	97,540	116,774	139,576	170,057	100.0	100.0	100.0	100.0	19.7	19.5	21.8	

Source: TÜİK

Within the total imports, the shares of capital (investment) goods and consumer goods decreased and the share of intermediary (raw material) goods increased. Within the total imports in 2007, the share of capital goods decreased from 16.7% to 15.9%, the share of consumer goods decreased from 11.5% to 11% and the share of intermediary goods increased from 71.4% to 72.7%.

As of goods groups in 2007, the imports were influenced the most from the increases in mineral fuels and mineral oils and derivatives; machinery, mechanical equipment and boilers; iron and steel; electrical machines and equipment; and land vehicles, tractors, bicycles, motorcycles and other vehicles.

In the listing of imports made according to groups, mineral fuels and mineral oils and derivatives were in first place at US\$33,881 million. It was followed by machinery, mechanical equipment and boilers at US\$22,570 million, iron and steel at US\$16,182 million, electrical machines and equipment at US\$13,295 million and land vehicles, tractors, bicycles, motorcycles and other vehicles at US\$12,397 million. Within the total imports, the shares of these groups were 19.9%, 13.3%, 9.5%, 7.8% and 7.3%, respectively (Table 87).

**TABLE 87. THE FIRST TEN GROUPS IN IMPORTS (According to Order of Value in 2007)**

	(US\$ Million)							
	Value			Share (%)			Change (%)	
Groups	2005	2006	2007	2005	2006	2007	2006	2007
Mineral fuels & mineral oils & derivatives, waxes	21,256	28,859	33,881	18.2	20.7	19.9	35.8	17.4
Machinery, mechanical equipment, boilers, accessories & parts	16,400	18,999	22,570	14.0	13.6	13.3	15.8	18.8
Iron and steel	9,458	11,525	16,182	8.1	8.3	9.5	21.9	40.4
Electrical machines and equipment, accessories & parts	9,664	10,881	13,295	8.3	7.8	7.8	12.6	22.2
Land vehicles, tractors, bicycles, motorcycles and others	10,553	11,408	12,397	9.0	8.2	7.3	8.1	8.7
Plastic and goods made from plastic	5,796	6,918	8,688	5.0	5.0	5.1	19.4	25.6
Pearls, precious stones & metal goods, metal currency	4,227	4,406	5,906	3.6	3.2	3.5	4.2	34.0
Organic chemical derivatives	3,532	3,642	3,995	3.0	2.6	2.3	3.1	9.7
Pharmaceutical products	2,849	3,036	3,524	2.4	2.2	2.1	6.6	16.1
Copper and goods made from copper	1,458	2,469	3,152	1.2	1.8	1.9	69.3	27.7
Total Imports	116,774	139,576	170,057	100.0	100.0	100.0	19.5	21.8

Source: TÜİK

### c. Foreign Trade According to Country Groups

The exports made to the European Union (EU) countries increased 26% in 2007 compared to the previous year and the exports made to the countries included under the other country groups increased 26.7%. The exports made to the Free Trade Zones in Turkey decreased 0.8%. Of the total exports of US\$107,214 million, a US\$60,397 million portion was made to the EU countries, a US\$2,943 million portion was made to the Free Trade Zones in Turkey and a US\$43,874 million portion was made to the countries included under the other

country groups. Within the total exports, the share of the EU countries became 56.3%, the share of the Free Trade Zones in Turkey became 2.7% and the share of the countries included under the other countries became 40.9% (Table 88).

**TABLE 88. EXPORTS AND IMPORTS ACCORDING TO COUNTRY GROUPS**

COUNTRY GROUPS	(US\$ Million)									
	EXPORTS					IMPORTS				
	2006		2007		Change	2006		2007		Change
	Value	Share (%)	Value	Share (%)	(%)	Value	Share (%)	Value	Share (%)	(%)
GRAND TOTAL	85,535	100.0	107,214	100.0	25.3	139,576	100.0	170,057	100.0	21.8
EUROPEAN UNION COUNTRIES (EU 27)	47,935	56.0	60,397	56.3	26.0	59,401	42.6	68,611	40.3	15.5
B- FREE TRADE ZONES IN TURKEY	2,967	3.5	2,943	2.7	-0.8	944	0.7	1,224	0.7	29.7
C- OTHER COUNTRIES	34,633	40.5	43,874	40.9	26.7	79,231	56.8	100,222	58.9	26.5
1- Other European (Excluding EU)	7,962	9.3	10,843	10.1	36.2	25,695	18.4	34,253	20.1	33.3
2- African Countries	4,566	5.3	5,977	5.6	30.9	7,404	5.3	6,784	4.0	-8.4
North Africa	3,097	3.6	4,030	3.8	30.1	4,878	3.5	3,616	2.1	-25.9
Other African Countries	1,469	1.7	1,947	1.8	32.5	2,526	1.8	3,168	1.9	25.4
3- American Countries	6,328	7.4	5,601	5.2	-11.5	9,402	6.7	12,149	7.1	29.2
North America	5,439	6.4	4,538	4.2	-16.6	6,936	5.0	9,030	5.3	30.2
Central America & the Caribbean	548	0.6	549	0.5	0.2	335	0.2	448	0.3	33.7
South America	341	0.4	514	0.5	50.7	2,131	1.5	2,671	1.6	25.3
4- Asian Countries	15,258	17.8	20,254	18.9	32.7	36,226	26.0	46,298	27.2	27.8
Near and Middle East	11,316	13.2	15,027	14.0	32.8	10,568	7.6	12,640	7.4	19.6
Other Asian Countries	3,942	4.6	5,227	4.9	32.6	25,658	18.4	33,658	19.8	31.2
5- Australia and New Zealand	327	0.4	343	0.3	4.9	399	0.3	672	0.4	68.4
6- Other Countries and Regions	192	0.2	856	0.8	345.8	105	0.1	66	0.0	-37.1

Source: TÜİK

Of the exports made to the countries included under the other countries group, a US\$10,843 million portion was made to the European countries excluding the EU, a US\$5,977 million portion was to the African countries, a US\$5,601 million portion was to the American countries, a US\$20,254 million portion was to the Asian countries and a US\$343 million portion was made to Australia and New Zealand. Within the total exports, the share of the European countries excluding the EU was 10.1%, the share of the African countries was 5.6%, the share of the American countries was 5.2%, the share of the Asian countries was 18.9% and the share of Australia and New Zealand was 0.3%.

Within the selected country groups, exports of US\$65,671 million were made to the Organization for Economic Cooperation and Development (OECD) countries. Exports of US\$1,328 million were made to the European Free Trade Association (EFTA) countries. Exports of US\$16,784 million were made to the Black Sea Economic Cooperation (BSEC) Organization countries. Exports of US\$4,646 million were made to the Economic Cooperation Organization (ECO) countries. Exports of US\$10,088 million were made to the Commonwealth of Independent States (CIS) countries. Exports of US\$2,874 million were made to the Turkish Republics. Exports of US\$20,257 million were made to the Organization of the Islamic Conference (OIC) countries. Within the total exports, the share of the exports made to the OECD countries was 61.3%, to the EFTA countries was 1.2%, to the BSEC Organization countries was 15.7%, to the

ECO countries was 4.3%, to the CIS countries was 9.4%, to the Turkish Republics was 2.7% and the share of the exports made to the OIC countries was 18.9% (Table 89).

**TABLE 89. EXPORTS AND IMPORTS ACCORDING TO SELECTED COUNTRY GROUPS**

(US\$ Million)										
COUNTRY GROUPS	EXPORTS					IMPORTS				
	2006		2007		Change	2006		2007		Change
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
OECD Countries	54,481	63.7	65,671	61.3	20.5	77,813	55.7	91,854	54.0	18.0
EFTA Countries	1,189	1.4	1,328	1.2	11.7	4,522	3.2	5,775	3.4	27.7
Black Sea Economic Cooperation (BSEC)	11,584	13.5	16,784	15.7	44.9	27,021	19.4	34,809	20.5	28.8
Economic Cooperation Organization (ECO)	3,341	3.9	4,646	4.3	39.1	8,102	5.8	9,971	5.9	23.1
Commonwealth of Independent States (CIS)	6,993	8.2	10,088	9.4	44.3	23,373	16.7	31,262	18.4	33.8
Turkish Republics	1,982	2.3	2,874	2.7	45.0	1,967	1.4	2,669	1.6	35.7
Organization of the Islamic Conference (OIC)	15,007	17.5	20,257	18.9	35.0	19,111	13.7	21,523	12.7	12.6

Source: TÜİK

In 2007, there was a 15.5% increase in the imports made from the EU countries, a 29.7% increase in the imports made from the Free Trade Zones in Turkey and a 26.5% increase in the imports made from the countries included under the other countries group. Of the total US\$170,057 million in imports, a US\$68,611 million portion was made from the EU countries, a US\$1,224 million portion was made from the Free Trade Zones in Turkey and a US\$100,222 million portion was made from the other countries included under the other countries group. Within the total imports, the share of the EU countries was 40.3%, the share of the Free Trade Zones in Turkey was 0.7% and the share of the countries included under the other countries group was 58.9%.

Of the imports made from the countries included under the other countries group, a US\$34,253 million portion was made from the European countries excluding the EU. A US\$6,784 million portion was made from the African countries. A US\$12,149 million portion was made from the American countries. A US\$46,298 million portion was made from the Asian countries. A US\$672 million portion was made from Australia and New Zealand. Within the total imports, the share of the European countries excluding the EU was 20.1%, the share of the African countries was 4%, the share of the American countries was 7.1%, the share of the Asian countries was 27.2% and the share of Australia and New Zealand was 0.4%.

Within the selected country groups, imports of US\$91,854 million were made from the OECD countries. Imports of US\$5,775 million were made from the EFTA countries. Imports of US\$34,809 million were made from the BSEC Organization countries. Imports of US\$9,971 million were made from the ECO countries.



Imports of US\$31,262 million were made from the CIS countries. Imports of US\$2,669 million were made from the Turkish Republics. Imports of US\$21,523 million were made from the OIC countries. Within the total imports, the share of imports made from the OECD countries was 54%, from the EFTA countries was 3.4%, from the BSEC Organization countries was 20.5%, from the ECO countries was 5.9%, from the CIS countries was 18.4%, from the Turkish Republics was 1.6% and the share of imports made from the OIC countries was 12.7%.

Of the US\$277,271 million foreign trade volume in 2007, a US\$129,008 million portion was made with the EU countries, a US\$4,167 million portion was made with the Free Trade Zones in Turkey and a US\$144,096 million portion was made with the countries included under the other countries group. Within the total foreign trade volume, the share of the EU countries was 46.5%, the share of the Free Trade Zones in Turkey was 1.5% and the share of the countries included under the other countries group was 52% (Table 90).

**TABLE 90. FOREIGN TRADE VOLUME ACCORDING TO COUNTRY GROUPS**

(US\$ Million)

COUNTRY GROUPS	2006		2007		Change (%)
	Value	Share (%)	Value	Share (%)	
GRAND TOTAL	225,111	100.0	277,271	100.0	23.2
A- EUROPEAN UNION COUNTRIES (EU 27)	107,336	47.7	129,008	46.5	20.2
B- FREE TRADE ZONES IN TURKEY	3,911	1.7	4,167	1.5	6.5
C- OTHER COUNTRIES	113,864	50.6	144,096	52.0	26.6
1- Other European (Excluding EU)	33,657	15.0	45,096	16.3	34.0
2- African Countries	11,970	5.3	12,761	4.6	6.6
North Africa	7,975	3.5	7,646	2.8	-4.1
Other African Countries	3,995	1.8	5,115	1.8	28.0
3- American Countries	15,730	7.0	17,750	6.4	12.8
North America	12,375	5.5	13,568	4.9	9.6
Central America & the Caribbean	883	0.4	997	0.4	12.9
South America	2,472	1.1	3,185	1.1	28.8
4- Asian Countries	51,484	22.9	66,552	24.0	29.3
Near and Middle East	21,884	9.7	27,667	10.0	26.4
Other Asian Countries	29,600	13.1	38,885	14.0	31.4
5- Australia and New Zealand	726	0.3	1,015	0.4	39.8
6- Other Countries and Regions	297	0.1	922	0.3	210.4

Source: TÜİK

Foreign trade of US\$45,096 million was made with the European countries excluding the EU included under the other countries group, of US\$12,761 million with the African countries, of US\$17,750 million with the American countries, of US\$66,552 million with the Asian countries and of US\$1,015 million with Australia and New Zealand. The shares of these country groups within the total foreign trade volume were 16.3%, 4.6%, 6.4%, 24% and 0.4%, respectively.

Of the selected country groups, foreign trade of US\$157,525 million was realized with the OECD countries, of US\$7,103 million with the EFTA countries, of US\$51,593 million with the BSEC Organization countries, of US\$14,617 million with the ECO countries, of US\$41,350 million with the CIS countries, of US\$5,543 million with the Turkish Republics and of US\$41,780 million with the OIC countries. The shares of these country groups within the total foreign trade volume were 56.8%, 2.6%, 18.6%, 5.3%, 14.9%, 2% and 15.1%, respectively (Table 91).

**TABLE 91. FOREIGN TRADE VOLUME ACCORDING TO SELECTED COUNTRY GROUPS**

(US\$ Million)

COUNTRY GROUPS	2006		2007		Change (%)
	Value	Share (%)	Value	Share (%)	
OECD Countries	132,294	58.8	157,525	56.8	19.1
EFTA Countries	5,711	2.5	7,103	2.6	24.4
Black Sea Economic Cooperation (BSEC)	38,605	17.1	51,593	18.6	33.6
Economic Cooperation Organization (ECO)	11,443	5.1	14,617	5.3	27.7
Commonwealth of Independent States (CIS)	30,366	13.5	41,350	14.9	36.2
Turkish Republics	3,949	1.8	5,543	2.0	40.4
Organization of the Islamic Conference (OIC)	34,118	15.2	41,780	15.1	22.5

Source: TÜİK

In the listing made among countries as of export values, Germany was in first place with US\$11,993 million (11.2%), England was in second place with US\$8,626 million (8%) and Italy was in third place with US\$7,480 million (7%). Within the 10 countries to which the most exports were made, the exports made to the United Arab Emirates at 63.2%, to Romania at 55.1% and to the Russian Federation at 46% were the countries to which the exports increased the most in 2007 compared to 2006 (Table 92).

**TABLE 92. TEN COUNTRIES TO WHICH THE MOST EXPORTS ARE MADE (According to Order of Value in 2007)**

(US\$ Million)

Countries	2006		2007		Change (%)
	Value	Share (%)	Value	Share (%)	
Germany	9,686	11.3	11,993	11.2	23.8
England	6,814	8.0	8,626	8.0	26.6
Italy	6,752	7.9	7,480	7.0	10.8
France	4,604	5.4	5,974	5.6	29.8
Russian Federation	3,238	3.8	4,727	4.4	46.0
Spain	3,720	4.3	4,580	4.3	23.1
U.S.A.	5,061	5.9	4,168	3.9	-17.6
Romania	2,350	2.7	3,644	3.4	55.1
United Arab Emirates	1,986	2.3	3,241	3.0	63.2
The Netherlands	2,539	3.0	3,019	2.8	18.9

Source: TÜİK

In the listing made among the countries as of import values, the Russian Federation was in first place with US\$23,508 million (13.8%), Germany was in second place with US\$17,540 million (10.3%) and China was in third place with US\$13,234 million (7.8%). Within the 10 countries from which the most imports were made, the imports made from the Ukraine at 47.7%, from China at 36.9% and from the Russian Federation at 32% were the countries from which the imports increased the most in 2007 compared to 2006 (Table 93).

**TABLE 93. TEN COUNTRIES TO WHICH THE MOST IMPORTS ARE MADE (According to Order of Value in 2007)**

Countries	(US\$ Million)				
	2006		2007		Change (%)
	Value	Share (%)	Value	Share (%)	
Russian Federation	17,806	12.8	23,508	13.8	32.0
Germany	14,768	10.6	17,540	10.3	18.8
China	9,669	6.9	13,234	7.8	36.9
Italy	8,663	6.2	9,968	5.9	15.1
U.S.A.	6,261	4.5	8,164	4.8	30.4
France	7,240	5.2	7,850	4.6	8.4
Iran	5,627	4.0	6,614	3.9	17.5
England	5,138	3.7	5,477	3.2	6.6
Switzerland	4,015	2.9	5,269	3.1	31.2
Ukraine	3,059	2.2	4,519	2.7	47.7

Source: TÜİK

#### d. Foreign Trade with the Neighboring Countries

Exports made to the neighboring countries increased 29.4% in 2007 and rose to US\$11,047 million. The highest rate of increase was in exports made to Georgia at 58.3%, to Azerbaijan-Nakhichevan at 50.8% and to Greece at 41.2%. Of the total exports in 2007, 10.3% was made to the neighboring countries (Table 94).

**TABLE 94. EXPORTS AND IMPORTS WITH NEIGHBORING COUNTRIES**

Countries	EXPORTS					IMPORTS				
	2006		2007		Change (%)	2006		2007		Change (%)
	Value	Share (%)	Value	Share (%)		Value	Share (%)	Value	Share (%)	
Azerbaijan-Nakhichevan	695	0.8	1,048	1.0	50.8	340	0.2	330	0.2	-2.9
Bulgaria	1,568	1.8	2,060	1.9	31.4	1,663	1.2	1,952	1.1	17.4
Georgia	408	0.5	646	0.6	58.3	345	0.2	290	0.2	-15.9
Iraq	2,589	3.0	2,845	2.7	9.9	376	0.3	645	0.4	71.5
Iran	1,067	1.2	1,387	1.3	30.0	5,627	4.0	6,614	3.9	17.5
Syria	609	0.7	798	0.7	31.0	187	0.1	377	0.2	101.6
Greece	1,603	1.9	2,263	2.1	41.2	1,045	0.7	950	0.6	-9.1
Total Neighboring Countries	8,539	10.0	11,047	10.3	29.4	9,583	6.9	11,158	6.6	16.4
Grand Total	85,535	100.0	107,214	100.0	25.3	139,576	100.0	170,057	100.0	21.8

Source: TÜİK

Imports made from the neighboring countries increased 16.4% and rose to US\$11,158 million. The imports made from Georgia decreased 15.9%, from Greece decreased 9.1% and from Azerbaijan-Nakhichevan decreased 2.9%. The imports made from the other neighboring countries increased. The highest rate of increase was in the imports made from Syria at 101.6% and from Iraq at 71.5%.

The foreign trade volume made with the neighboring countries increased 22.5% in 2007 and rose to US\$22,205 million. The share within the total foreign trade became 8%. The highest rate of increase in the foreign trade volume was realized in the trade made with Syria at 47.6%, with Azerbaijan-Nakhichevan at 24.3% and with Bulgaria at 24.2% (Table 95).

**TABLE 95. FOREIGN TRADE VOLUME WITH NEIGHBORING COUNTRIES**

(US\$ Million)

Countries	2006		2007		Change (%)
	Value	Share (%)	Value	Share (%)	
Azerbaijan-Nakhichevan	1,035	0.5	1,378	0.5	33.1
Bulgaria	3,231	1.4	4,012	1.4	24.2
Georgia	753	0.3	936	0.3	24.3
Iraq	2,965	1.3	3,490	1.3	17.7
Iran	6,694	3.0	8,001	2.9	19.5
Syria	796	0.4	1,175	0.4	47.6
Greece	2,648	1.2	3,213	1.2	21.3
Total Neighboring Countries	18,122	8.1	22,205	8.0	22.5
Grand Total	225,111	100.0	277,271	100.0	23.2

Source: TÜİK

## 2. Foreign Currency Exchange Rates

The Central Bank of the Republic of Turkey continued to implement the fluctuating foreign currency exchange rate regime in 2007. The Central Bank does not have any exchange rate target in the fluctuating foreign currency exchange rate regime and does not use the foreign currency exchange rate as a political tool. The foreign currency exchange rates are determined by the monetary and fiscal policies implemented, by the international developments and by the conditions of supply and demand in the markets. However, the Central Bank always follows closely the mobility in the foreign currency exchange rates and it can intervene in the markets with direct purchases or sales in case excessive mobility would be formed in either direction in the exchange rates. The decisions for intervention are not only taken according to past data, but are taken by evaluating all aspects of the causes of the potential mobilities that form or could be formed.

Besides this, the Central Bank realizes foreign currency purchasing competitive biddings aimed at accumulating reserves in periods when the supply of foreign currency increases compared to the foreign currency demand with the objective of eliminating the negative effects of domestic and foreign shocks, of being able to increase the confidence felt in Turkey, of being able to realize foreign debt payments and of being able to decrease in stages the worker foreign currency accounts. The Central Bank announces the annual competitive bidding programs related to the foreign currency purchasing competitive biddings and carries out the competitive biddings within the framework of the program announced. However, in case there are significant

developments other than what is envisaged related to the foreign currency supply, then the Central Bank can make changes in the competitive bidding programs by announcing in advance and can halt the foreign currency purchase competitive biddings for a short or long period of time by announcing it to the public in advance.

Under the exchange rate policy it was planned in 2007 to make daily purchases of a maximum of US\$45 million in the daily foreign currency purchase competitive biddings, with US\$15 million in competitive biddings and US\$30 million in options. After the general elections held in July 2007, with the increase in the positive expectations related to the economy and by foreseeing that the capital inflows to Turkey would increase, as of 25 July 2007, the total daily purchases were increased to a maximum of US\$120 million, with US\$40 million in competitive biddings and US\$80 million in options, with the objective of accelerating the accumulation of reserves and changes were not made in the other competitive bidding conditions.

However, as of 15 August 2007 the daily foreign currency purchases were decreased to a maximum of US\$45 million, with US\$15 million in daily foreign currency purchase competitive biddings and US\$30 million in options under the influence of the negative developments in the housing and loan markets of the developed countries and with the increase in the mobility in the markets in Turkey, just as in the markets of the other developing countries.

The measures taken by the central banks aimed at decreasing the problems experienced in the housing and loan markets caused a relative decrease in the fluctuations of the subject markets and once again increased the global risk appetite and also provided for the inflows of capital to Turkey to become more difficult, as well as those of the other developing countries. Consequently, as of 9 October 2007, the amount of daily purchases made was raised to a maximum of US\$90 million, with US\$30 million in competitive biddings and US\$60 million in options.

In 2007, the Central Bank purchased through competitive biddings a total of US\$9,906 million with US\$582 million in January, US\$585 million in February, US\$645 million in March, US\$628 million in April, US\$710 million in May, US\$760 million in June, US\$986 million in July, US\$1,145 million in August, US\$614 million in September, US\$1,095 million in October, US\$1,229 million in November and US\$928 million in December. The Central Bank did not make an intervention in the direct purchases and sales in the foreign currency markets (Table 96).

**TABLE 96. THE FOREIGN CURRENCY PURCHASES AND SALES AMOUNTS MADE BY THE CENTRAL BANK**

Years	(US\$ Million)				
	FC(*) Purchases	FC Sales	FC Purchase Interventions	FC Sale Interventions	Total Net FC Purchases
2002	795	-	16	12	799
2003	5,652	-	4,229	-	9,881
2004	4,104	-	1,283	9	5,378
2005	7,442	-	14,565	-	22,007
2006	4,296	1,000	5,441	2,105	6,632
2007	9,906	-	-	-	9,906
Total	32,195	1,000	25,534	2,126	54,603

Source: TCMB

(\*) FC (Foreign Currency)

The foreign currency exchange rates, which started 2007 with a decrease under the exchange rate policy implemented in Turkey and the developments experienced in the international markets, continued this trend during the first two months. A rise was observed in the foreign currency exchange rates under the influence of the fluctuations experienced in the international markets in March. Once again a period of decrease started in the exchange rates with the return to normal of the markets in April and this decrease continued until August. The problems experienced in the high risk sub-prime mortgage markets in the United States of America (USA) and the worries that these problems would be reflected to the economy in general caused an increase in the perception of risk in the international markets in August and a tightness of liquidity. In August, under the influence of these developments, the US dollar and the Euro gained value against the New Turkish Lira. In September, with the recovery of the markets, a decrease once again started in the exchange rates and this trend, which became rather definite in October, continued until the end of the year.

In 2007, according to the annual average values, the US dollar lost 9% in value nominally against the New Turkish Lira and regressed to 1.30126 YTL. The British pound lost 1.3% in value nominally and regressed to 2.60022 YTL. The Japanese Yen lost 10.2% in value nominally and decreased to 1.10229 YTL. The Euro lost 1.1% in value nominally and regressed to 1.77790 YTL (Table 97).

**TABLE 97. FOREIGN CURRENCY EXCHANGE RATES BY YEARS**

Years	U.S.A.		British		Japanese		Euro	
	Dollar	Change (%)	Pound	Change (%)	Yen	Change (%)		Change (%)
2001	1.22233	-	1.75713	-	1.00150	-	1.09134	-
2002	1.50412	23.1	2.26527	28.9	1.20484	20.3	1.42727	30.8
2003	1.49671	-0.5	2.44121	7.8	1.28873	7.0	1.68771	18.2
2004	1.42184	-5.0	2.60320	6.6	1.31179	1.8	1.76712	4.7
2005	1.34105	-5.7	2.44025	-6.3	1.21837	-7.1	1.67043	-5.5
2006	1.42943	6.6	2.63442	8.0	1.22696	0.7	1.79683	7.6
2007	1.30126	-9.0	2.60022	-1.3	1.10229	-10.2	1.77790	-1.1

Source: TCMB

According to the producer prices index, the US dollar lost 14.4% in real terms against the New Turkish Lira and the Euro lost 7% in real terms against the New Turkish Lira (Table 98).

As a result of the changes occurring in the foreign currency exchange rates as of the end of 2007, the real cash exchange rate index based on the TÜFE became 190.3 and the real cash exchange rate index based on the ÜFE became 160.0. Thus, it gained 18.9% in value based on the TÜFE and 14.9% in value based on the ÜFE (Table 99).

**TABLE 98. FOREIGN CURRENCY EXCHANGE RATES**

Years	Months	U.S.A. Dollar (\$)	Euro (€)	(Foreign Currency Buying Rate, Monthly Average)					
				ÜFE		Nominal Change		Real Change	
				2003=100	Change	\$	(€)	\$	(€)
2006	Jan.	1.32793	1.60669	124.70	2.0	-1.3	0.7	-3.2	-1.3
	Feb.	1.32016	1.57856	125.02	0.3	-0.6	-1.8	-0.8	-2.0
	Mar.	1.32873	1.59618	125.33	0.2	0.6	1.1	0.4	0.9
	Apr.	1.33092	1.62887	127.76	1.9	0.2	2.0	-1.7	0.1
	May	1.41385	1.80346	131.30	2.8	6.2	10.7	3.4	7.7
	Jun.	1.59285	2.01791	136.58	4.0	12.7	11.9	8.3	7.6
	Jul.	1.55078	1.96718	137.76	0.9	-2.6	-2.5	-3.5	-3.3
	Aug.	1.46219	1.87294	136.73	-0.7	-5.7	-4.8	-5.0	-4.1
	Sep.	1.47214	1.87612	136.41	-0.2	0.7	0.2	0.9	0.4
	Oct.	1.47624	1.86337	137.03	0.5	0.3	-0.7	-0.2	-1.1
	Nov.	1.45102	1.86637	136.63	-0.3	-1.7	0.2	-1.4	0.5
	Dec.	1.42640	1.88429	136.46	-0.1	-1.7	1.0	-1.6	1.1
	Annual	1.42943	1.79683	132.64	9.3	6.6	7.6	-2.5	-1.6
2007	Jan.	1.41980	1.84402	136.39	-0.1	-0.5	-2.1	-0.4	-2.1
	Feb.	1.39025	1.81553	137.68	0.9	-2.1	-1.5	-3.0	-2.5
	Mar.	1.40287	1.85669	139.02	1.0	0.9	2.3	-0.1	1.3
	Apr.	1.35528	1.82777	140.13	0.8	-3.4	-1.6	-4.2	-2.3
	May	1.33186	1.80132	140.68	0.4	-1.7	-1.4	-2.1	-1.8
	Jun.	1.31520	1.76409	140.53	-0.1	-1.3	-2.1	-1.1	-2.0
	Jul.	1.27597	1.74863	140.62	0.1	-3.0	-0.9	-3.0	-0.9
	Aug.	1.30828	1.78174	141.82	0.9	2.5	1.9	1.7	1.0
	Sep.	1.26131	1.74874	143.26	1.0	-3.6	-1.9	-4.6	-2.8
	Oct.	1.19659	1.69965	143.07	-0.1	-5.1	-2.8	-5.0	-2.7
	Nov.	1.18475	1.73728	144.35	0.9	-1.0	2.2	-1.9	1.3
	Dec.	1.17296	1.70931	144.57	0.2	-1.0	-1.6	-1.1	-1.8
	Annual	1.30126	1.77790	141.01	6.3	-9.0	-1.1	-14.4	-6.9

Source: TCMB, TÜİK

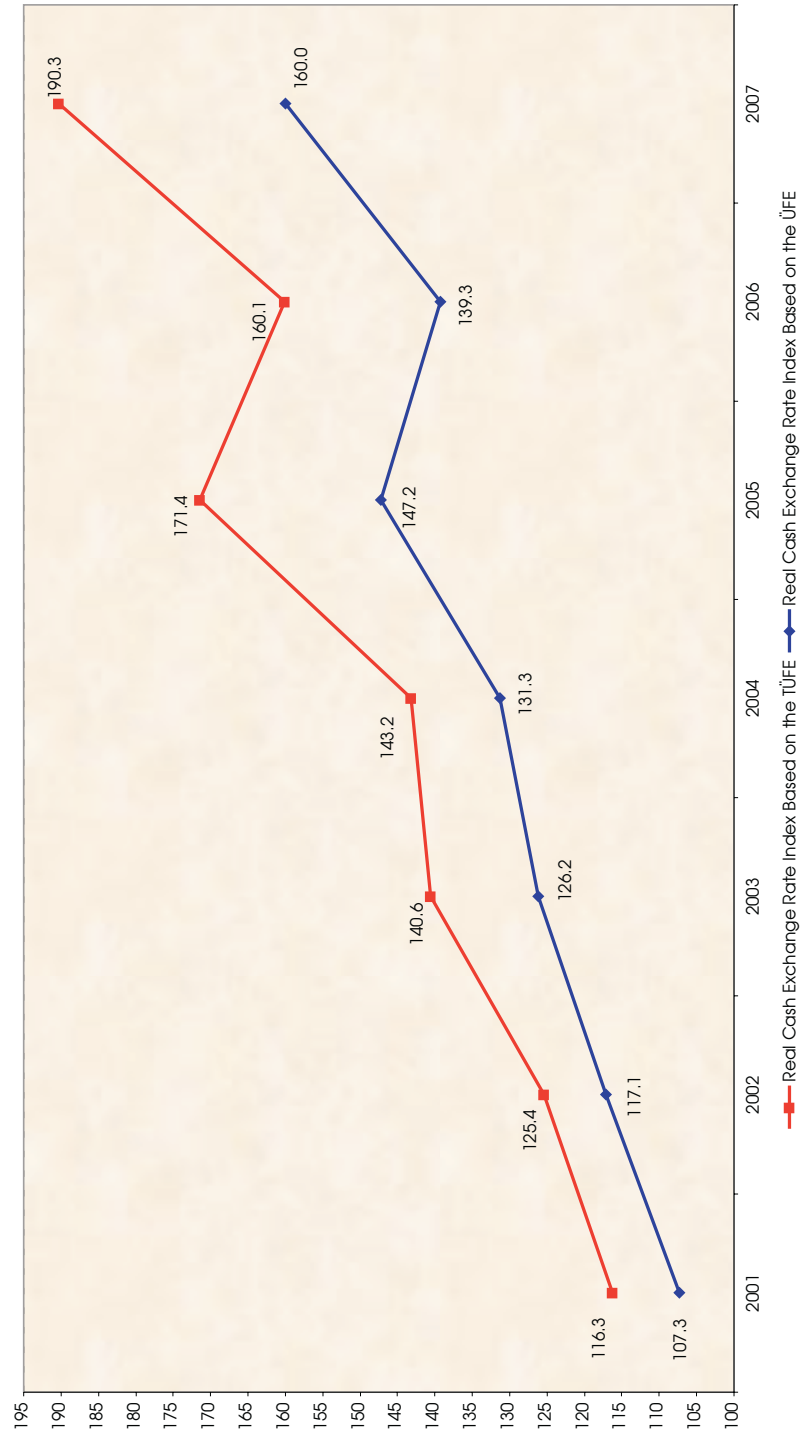
TABLE 99. REAL CASH FOREIGN CURRENCY EXCHANGE RATE INDICES

Years	Months	(1995=100)	
		Real Cash Exchange Rate Index Based on the TÜFE	Real Cash Exchange Rate Index Based on the ÜFE
2001		116.3	107.3
2002		125.4	117.1
2003		140.6	126.2
2004		143.2	131.3
2005		171.4	147.2
2006		160.1	139.3
2007		190.3	160.0
2006	Jan.	172.2	148.3
	Feb.	174.6	150.6
	Mar.	173.0	150.9
	Apr.	171.8	150.3
	May	158.5	139.6
	Jun.	142.1	129.6
	Jul.	147.0	133.5
	Aug.	153.7	138.7
	Sep.	155.5	138.8
	Oct.	158.3	140.5
	Nov.	160.7	140.1
	Dec.	160.1	139.3
2007	Jan.	165.0	141.8
	Feb.	167.9	144.9
	Mar.	165.6	142.8
	Apr.	170.4	146.1
	May	173.5	148.4
	Jun.	176.0	150.8
	Jul.	176.9	152.4
	Aug.	172.9	150.2
	Sep.	178.3	154.8
	Oct.	187.2	159.5
	Nov.	187.1	157.0
	Dec.	190.3	160.0

Source:TCMB



**GRAPH 26. REAL CASH FOREIGN CURRENCY EXCHANGE RATE INDICES (1995=100)**



### 3. Balance of Payments

The current transactions deficit increased 17.8% in 2007 compared to 2006 and rose from US\$31,893 million to US\$37,575 million. The increase in the foreign trade deficit and the deficit in the revenues account negatively influenced the current transactions deficit, despite the improvement in the services account. The positive performance in exports and the recovery in tourism revenues could not compensate for the expansion of the current transactions deficit. Whereas, direct investments, the long-term loans used by the real sector and the banks and the shares bought by foreigners made significant contributions to the financing and sustainability of the current deficit (Table 100).

The continuation of the strong position of the New Turkish Lira and the high rate of increase occurring in imports connected to an increase in production and domestic demand also continued to negatively influence the foreign trade deficit in 2007. The foreign trade deficit, as shown on the balance of payments table, which was US\$40,941 million in 2006, increased 14.1% in 2007 and rose to US\$46,727 million. The services account surplus, under the influence of the increase in tourism revenues, increased 0.3% compared to 2006 and rose to US\$13,868 million in 2007. The revenue account deficit, under the influence of the increase in interest payments and profit transfers, increased 3.7% and rose to US\$6,941 million. The current transfers, formed of the worker remittances and official transfers, increased 16.6% and reached US\$2,225 million.

In 2007, the tourism revenues increased 9.7% and rose to US\$18,487 million. The interest revenues increased 48.5% and went up to US\$2,158 million. The tourism expenses increased 18.8% and became US\$3,260 million. The interest expenses increased 18.2% and became US\$7,491 million. The worker remittances increased 8.8% and rose to US\$1,209 million.

The net capital inflow, which was US\$42,691 million in 2006, rose to US\$48,518 million in 2007. There were inflows of US\$19,924 million in net direct investments, of US\$717 million in net portfolio investments and of US\$27,877 million in other net investments.

The official reserves, which increased US\$6,114 million in 2006, increased US\$8,032 million in 2007.

The foreign financing needs, which are defined as the total of the current transactions and the net error and deficiency items, increased US\$4,437 million compared to 2006 and rose to US\$36,503 million in 2007.

### 4. Direct International Investments

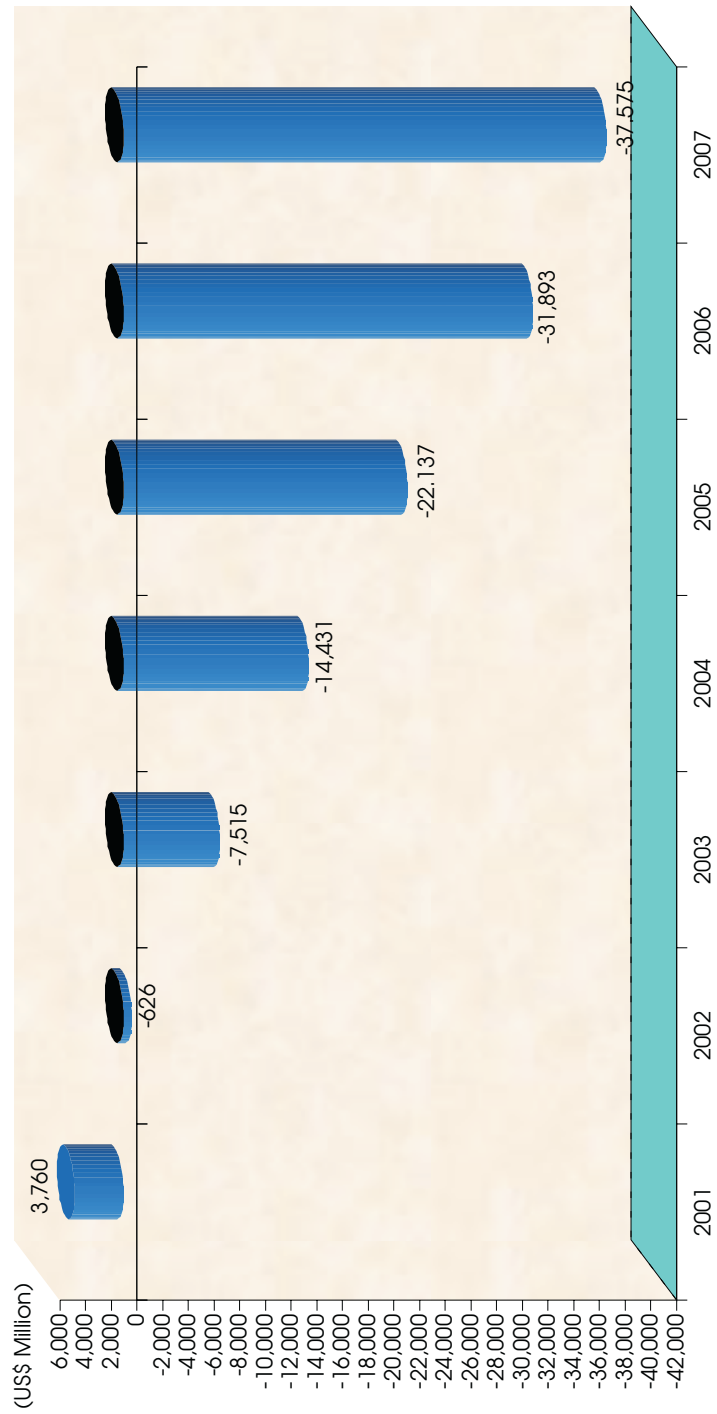
The inflow of direct international capital, which increased at a high rate in 2005 and 2006, continued to increase in 2007, although its rate decreased relatively. The inflow of direct international capital, which was US\$17,639 million in 2006, increased 9.1% in 2007 and rose to US\$19,247 million. There was a capital outflow of US\$743 million. Thus, a total of US\$21,957 million in direct international capital inflows was realized in 2007 including the US\$18,504 million

**TABLE 100. BALANCE OF PAYMENTS**

	(US\$ Million)						
	2001	2002	2003	2004	2005	2006	2007
CURRENT TRANSACTIONS ACCOUNT	3,760	-626	-7,515	-14,431	-22,137	-31,893	-37,575
Exports F.O.B.	34,729	40,719	52,394	68,535	78,365	93,611	115,306
Imports F.O.B.	-38,092	-47,109	-65,883	-91,271	-111,353	-134,552	-162,033
Balance of Goods	-3,363	-6,390	-13,489	-22,736	-32,988	-40,941	-47
Service Revenues	15,203	14,031	17,952	22,941	26,640	25,255	28,729
(Tourism Revenues)	8,090	8,479	13,203	15,888	18,152	16,853	18,487
Service Revenues	-6,067	-6,146	-7,441	-10,144	-11,368	-11,424	-14,861
(Tourism Expenses)	-1,738	-1,880	-2,113	-2,524	-2,872	-2,743	-3,260
Balance of Goods and Services	5,773	1,495	-2,978	-9,939	-17,716	-27,110	-32,859
Balance of Revenues: Revenues	2,753	2,486	2,246	2,651	3,608	4,383	6,384
(Interest Revenues)	1,139	784	634	697	1,005	1,453	2,158
Balance of Revenues: Expenses	-7,753	-7,040	-7,803	-8,260	-9,482	-11,074	-13,325
(Interest Expenses)	-5,497	-4,395	-4,544	-4,312	-5,010	-6,336	-7,491
Balance of Goods, Services & Revenues	773	-3,059	-8,535	-15,548	23,591	-33,801	-39,800
Current Transfers	2,987	2,433	1,020	1,117	1,454	1,908	2,227
(Worker Remittances)	2,786	1,936	729	804	851	1,111	1,209
CAPITAL ACCOUNT							
FINANCE ACCOUNT	-14,557	1,191	7,192	17,730	43,502	42,691	48,518
Direct Investments Abroad	-497	-175	-499	-780	-1,064	-924	-2,106
Direct Investments in Turkey	3,352	1,133	1,752	2,785	10,031	19,989	88,030
Portfolio Account - Assets	-788	-2,096	-1,386	-1,388	-1,233	-4,029	-2,063
Portfolio Account - Liabilities	-3,727	1,503	3,851	9,411	14,670	11,402	2,780
Shares	-79	-16	905	1,427	5,669	1,939	5,138
Debt Certificates	-3,648	1,519	2,946	7,984	9,001	9,463	-2,358
Other Investments - Assets	-601	-777	-986	-6,955	259	-13,437	-4,783
Central Bank	-39	-30	-28	-24	-16	0	2
Banks	233	643	348	-5,324	-149	-11,018	-3,335
Other Sectors	-795	-1,390	-1,306	-1,607	424	-2,419	-1,450
Other Investments - Liabilities	-12,296	1,603	4,461	14,657	20,839	29,690	33
Central Bank	735	1,336	497	-209	-787	-1,268	-1,450
General Government	-1,977	-669	-2,194	-1,163	-2,165	-712	82
Banks	-9,644	-2,016	2,846	6,564	10,524	11,704	3,734
Other Sectors	-1,410	2,952	3,312	9,465	13,267	19,966	30,294
Current, Capital and Financing Accounts	-10,797	565	-323	3,299	21,365	10,798	10,943
NET ERROR AND DEFICIENCY	-2,127	-777	4,420	1,043	1,835	-173	1,072
GENERAL BALANCE	-12,924	-212	4,097	4,342	23,200	10,625	12,015
RESERVE ASSETS	12,924	212	-4,097	-4,342	-23,200	-10,625	-12,015
Official Reserves	2,694	-6,153	-4,047	-824	-17,847	-6,114	-8,032
International Monetary Fund Credits	10,230	6,365	-50	-3,518	-5,353	-4,511	-3,983
Financing of the Balance of Payments							

Source: TCMB

GRAPH 27. BALANCE OF CURRENT TRANSACTIONS



GRAPH 28. TOURISM REVENUES AND WORKER REMITTANCES



in net capital inflows, the US\$501 million in net loans received by the international capital companies from their foreign partners and the US\$2,952 million in net real estate sales (Table 101).

**TABLE 101. DIRECT INTERNATIONAL INVESTMENT INFLOWS (Actual Inflows)**

(US\$ Million)							
Years	Direct International Capital					Real Estate Net	Total Net
	Capital		Net	Other Capital <sup>(1)</sup> Net	Total Net		
	Inflow	Outflow					
2001	3,374	-22	3,352	-	3,352	-	3,352
2002	622	-5	617	516	1,133	-	1,133
2003	745	-8	737	17	754	998	1,752
2004	1,190	-98	1,092	351	1,443	1,343	2,786
2005	8,535	-401	8,134	51	8,185	1,841	10,026
2006	17,639	-657	16,982	8	16,990	2,922	19,912
2007 <sup>(2)</sup>	19,247	-743	18,504	501	19,005	2,952	21,957

Source: HM

(1) The loans obtained by the international capital companies from foreign partners.

(2) Provisional

In 2007, of the US\$19,247 million in direct foreign capital inflows, excluding the loan amounts obtained by the international capital companies from their foreign partners (other capital) and the real estate sales, US\$5 million (0.03%) was for the agricultural sector, US\$5,107 million (26.5%) was for the industrial sector and US\$14,135 million (73.4%) was for the services sector (Table 102).

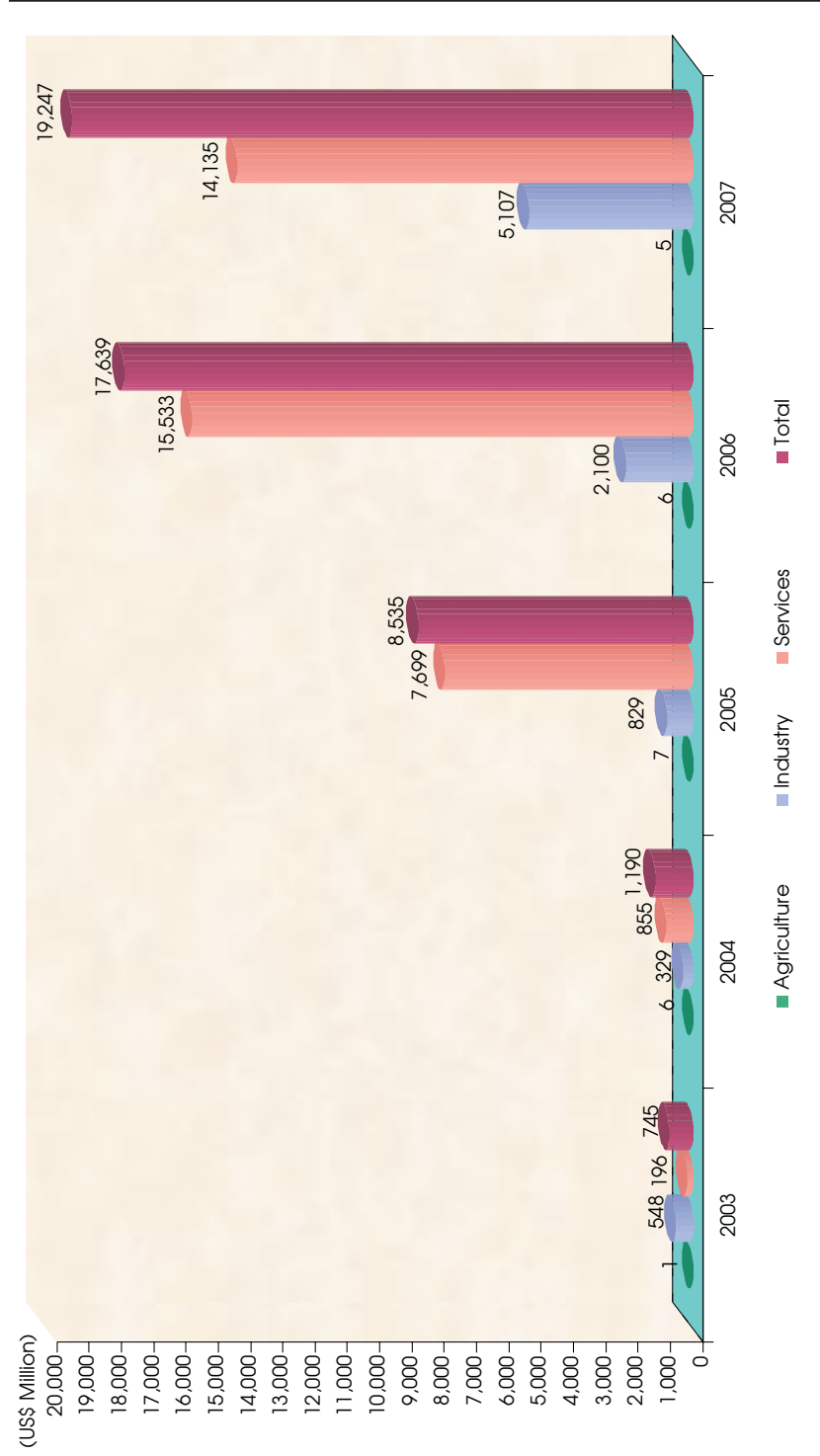
**TABLE 102. SECTORAL DISTRIBUTION OF THE DIRECT INTERNATIONAL INVESTMENT INFLOWS**

	(US\$ Million)				
	2003	2004	2005	2006	2007 (*)
Agriculture, Hunting and Forestry	1	4	5	5	2
Fishing	0	2	2	1	3
Mining and Quarrying	14	73	40	122	333
Manufacturing Industry	448	190	785	1,866	4,207
Production of Food Products and Beverages	249	78	68	608	760
Production of Textile Products	8	9	180	26	233
Production of Chemical Substances and Products	9	38	174	601	1,101
Production of Machinery & Equipment Not Classified Elsewhere	17	6	13	54	47
Production of Electrical Optical Instruments	4	2	13	53	97
Production of Motorized Land Vehicles, Trailers & Semitrailers	145	27	106	63	65
Other Production	14	30	231	461	1,904
Electricity, Gas and Water	86	66	4	112	567
Construction	8	3	80	222	284
Wholesale and Retail Trade	92	72	68	1,166	182
Hotels and Restaurants	4	1	42	23	27
Transportation, Communications & Storage Depot Services	2	639	3,285	6,696	1,117
Activities of Financial Intermediary Organizations	51	69	4,018	6,957	11,439
Real Estate Leasing and Business Activities	6	3	29	99	898
Health and Social Services	23	35	74	265	176
Other Societal, Social and Personal Service Activities	10	33	103	105	12
Total	745	1,190	8,535	17,639	19,247

Source: HM

(\*) Provisional

**GRAPH 29. SECTORAL DISTRIBUTION OF THE DIRECT INTERNATIONAL INVESTMENT INFLOWS**



As of sub-sectors, the financial intermediary organization activities at US\$11,439 million, the transportation, communications and storage depot services at US\$1,117 million, the production of chemical substances and products at US\$1,101 million, the real estate leasing and business activities at US\$898 million and production of food products and beverages at US\$760 million were the sectors in which there were the most concentrated foreign capital inflows.

Of the direct international capital inflows, a US\$12,752 million portion (66.3%) was from the EU countries, a US\$4,710 million portion (24.5%) was from the American countries, a US\$1,373 million portion (7.1%) was from the Asian countries and a US\$412 million portion (2.1%) was from capital stemming from the other countries other than these (Table 103).

**TABLE 103. DISTRIBUTION OF DIRECT INTERNATIONAL INVESTMENT INFLOWS  
ACCORDING TO COUNTRY GROUPS**

	(US\$ Million)				
	2003	2004	2005	2006	2007 (*)
EU Countries	563	1,027	5,006	14,489	12,752
Germany	142	73	391	357	997
France	120	34	2,107	439	347
The Netherlands	50	568	383	5,069	5,672
England	141	126	166	628	689
Italy	1	14	692	189	79
Other EU Countries	109	212	1,267	7,807	4,968
Other European Countries (Excluding EU)	62	6	1,646	85	371
African Countries	0	0	3	21	5
U.S.A.	52	36	88	848	4,208
Canada	6	61	26	121	11
Central-South America and the Caribbean	0	0	8	33	491
Asian Countries	60	60	1,756	1,927	1,373
Gulf Countries	0	43	1,675	1,783	299
Near & Middle Eastern Countries	1	11	3	127	298
Other Asian Countries	59	6	78	17	776
Other Countries	2	0	2	115	36
Total	745	1,190	8,535	17,639	19,247

Source: HM

(\*) Provisional

## 5. Foreign Debts

The foreign debt stock, which increased 21.8% in 2006, increased 20.3% in 2007 and rose to US\$247,200 million. The short-term foreign debts increased 3.6% and went up to US\$41,803 million. The long-term foreign debts increased 24.3% and rose to US\$205,397 million. The share of the short-term debts within the total foreign debt stock regressed from 19.6% to 16.9% and the share of the long-term debts rose from 80.4% to 83.1%. Thus, there was an improvement in the rate of increase of the foreign debt stock and in the term structure of the debts (Table 104).



**GRAPH 30. DISTRIBUTION OF THE DIRECT INTERNATIONAL INVESTMENT INFLOWS ACCORDING TO COUNTRY GROUPS**

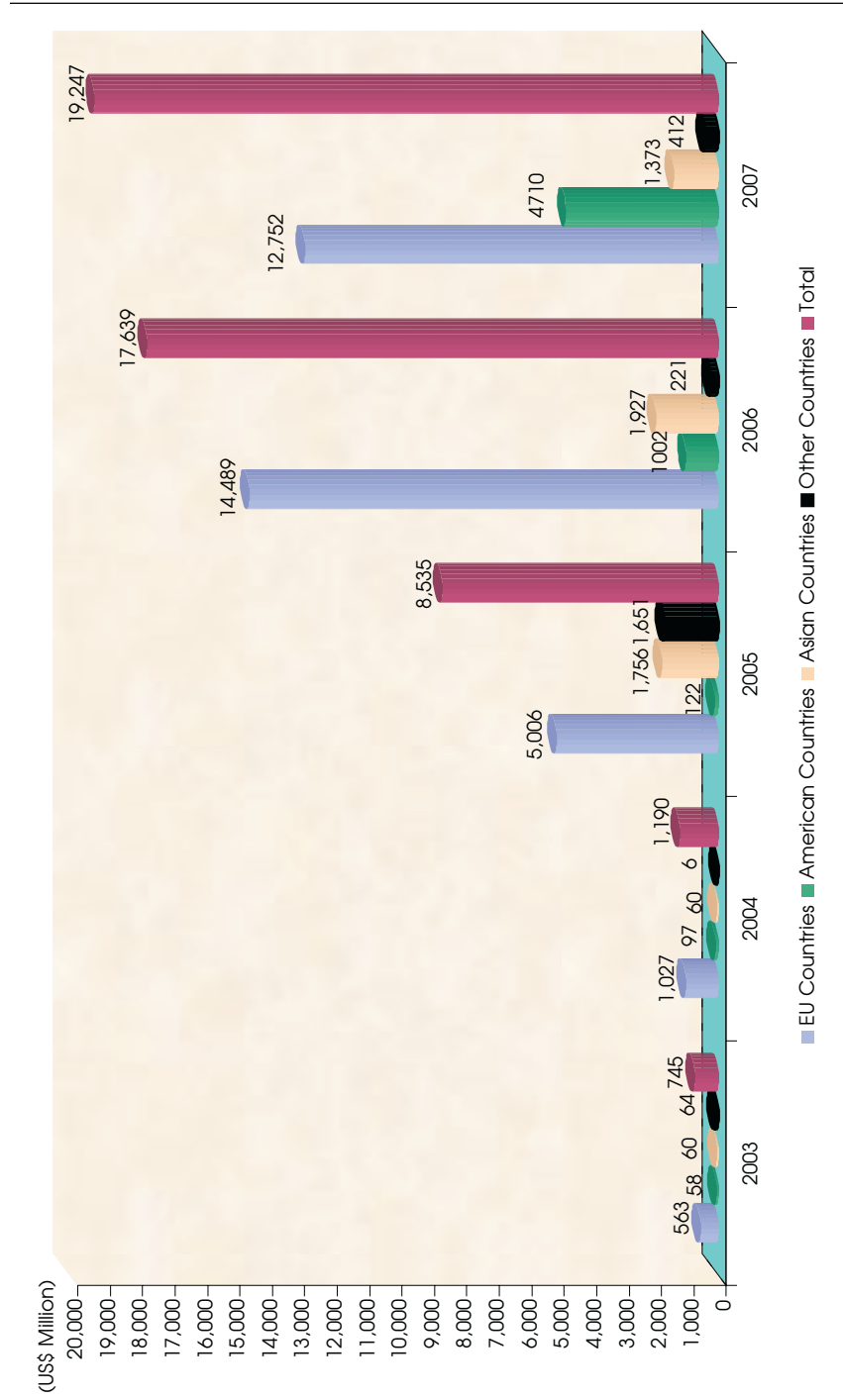


TABLE 104. FOREIGN DEBT STOCK

	(US\$ Million)						
	2001	2002	2003	2004	2005	2006	2007
Foreign Debt Stock	113,592	129,671	144,266	160,760	168,716	205,548	247,200
Change (%)	-	14.2	11.3	11.4	4.9	21.8	20.3
Short-Term	16,403	16,424	23,013	31,880	37,103	40,354	41,803
Change (%)	-	0.1	40.1	38.5	16.4	8.8	3.6
Share (%)	14.4	12.7	16.0	19.8	22.0	19.6	16.9
Long-Term	97,189	113,247	121,253	128,880	131,613	165,194	205,397
Change (%)	-	16.5	7.1	6.3	2.1	25.5	24.3
Share (%)	85.6	87.3	84.0	80.2	78.0	80.4	83.1
According to Debtors							
Short-Term	16,403	16,424	23,013	31,880	37,103	40,354	41,803
Public Sector	1,019	915	1,341	1,840	2,133	1,750	2,164
TCMB	752	1,655	2,860	3,287	2,763	2,563	2,282
Private Sector	14,632	13,854	18,812	26,753	32,207	36,041	37,357
Long-Term	97,189	113,247	121,253	128,880	131,613	165,194	205,397
Public Sector	46,110	63,619	69,503	73,828	68,280	69,840	71,195
TCMB	23,599	20,348	21,513	18,123	12,662	13,115	13,519
Private Sector	27,480	29,281	30,237	36,929	50,670	82,239	120,682
Public Sector Total	47,129	64,534	70,844	75,668	70,413	71,590	73,359
Share (%)	41.5	49.8	49.1	47.1	41.7	34.8	29.7
TCMB Total	24,351	22,003	24,373	21,410	15,425	15,678	15,801
Share (%)	21.4	17.0	16.9	13.3	9.1	7.6	6.4
Private Sector Total	42,112	43,135	49,049	63,682	82,877	118,280	158,039
Share (%)	37.1	33.3	34.0	39.6	49.1	57.5	63.9

Source: HM

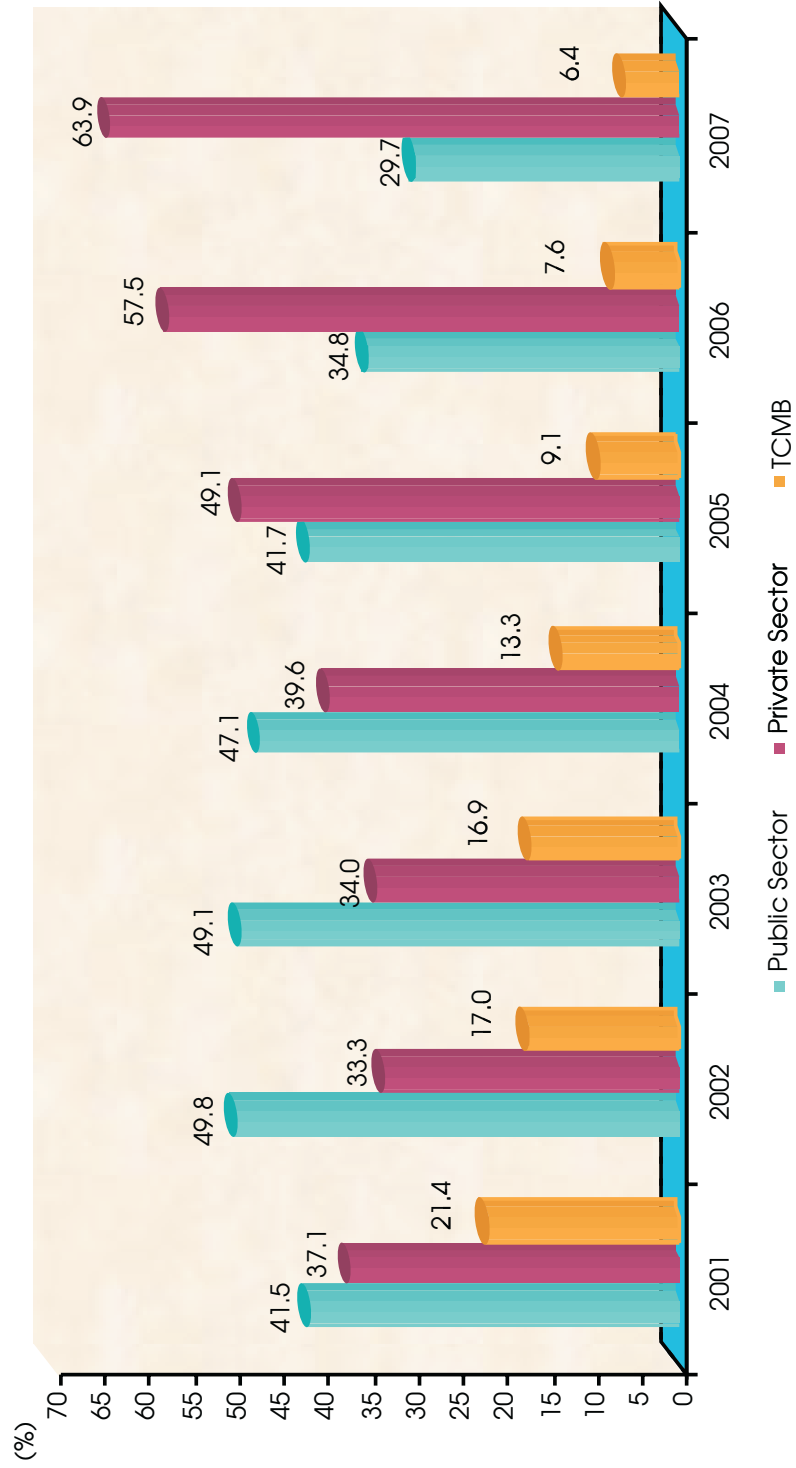
In 2007, the public sector foreign debts increased 2.5% and rose to US\$73,359 million. The private sector foreign debts increased 33.6% and went up to US\$158,039 million. The Central Bank of the Republic of Turkey foreign debts increased 0.8% and rose to US\$15,801 million. Of the public sector foreign debts, a US\$71,195 million portion was composed of long-term debts and a US\$2,164 million portion was composed of short-term debts. Of the private sector foreign debts, a US\$120,682 million portion was composed of long-term debts and a US\$37,357 million portion was composed of short-term debts.

Within the total foreign debt stock in 2007, the share of the public sector regressed from 34.8% to 29.7%, the share of the TCMB regressed from 7.6% to 6.4% and the share of the private sector increased from 57.5% to 63.9%.

**GRAPH 31. FOREIGN DEBT STOCK**



GRAPH 32. DISTRIBUTION OF THE FOREIGN DEBT STOCK ACCORDING TO DEBTORS





## **III. SOCIAL DEVELOPMENTS**

### III. SOCIAL DEVELOPMENTS

#### A. Population

In Turkey, a total of 14 general population censuses have been made, with the first in 1927 and the last in 2000. In these censuses, the people were counted on the census day in the place they were located by implementing a ban on leaving their residences. In 2006, a new system was established by promulgating the No. 5490 Population Services Law that would constitute the data sources of the population censuses. Within the framework of the new system, a national address database was formed that recorded with precedence all of the address information in Turkey. Subsequently, the Republic of Turkey identification numbers of the citizens residing at these addresses and the passport numbers of the foreigners were recorded by correlating with the addresses. Thus, the Population Registration System Based on Addresses (ADNKS) was constituted within the framework of Law No. 5490, which makes it possible to publish information related to the population of Turkey based on residence addresses every year, rather than the population censuses made in certain years. The first population census results obtained with the new system were announced by the Turkish Institute of Statistics (TÜİK) to the public on 21 January 2008.

As of 31 December 2007, the 2007 population census according to the results of the Population Registration System Based on Addresses, was determined to be a total of 70,586 thousand persons with 35,377 thousand males and 35,210 thousand females (Table 105).

**TABLE 105. TURKEY'S TOTAL POPULATION, RATES OF ANNUAL POPULATION INCREASE AND POPULATION DENSITY**

Years	Population (Thousand Persons)			Annual Rate of Population Increase (%)	Population Density (Persons/km <sup>2</sup> )
	Male	Female	Total		
1980 <sup>(1)</sup>	22,695	22,042	44,737	-	58
1985 <sup>(1)</sup>	25,672	24,992	50,664	2.5	65
1990 <sup>(1)</sup>	28,607	27,866	56,473	2.2	73
2000 <sup>(1)</sup>	34,347	33,457	67,804	1.8	88
2007 <sup>(2)</sup>	35,377	35,210	70,586	0.6	92

Source: TÜİK

(1) They are the general population census results.

(2) It was determined within the scope of the Population Registration System Based on Addresses.

According to the ADNKS 2007 population census results, of the total 70,586 thousand persons residing in Turkey, 49,748 thousand (70.5%) live in the cities (provincial and county centers) and 20,838 thousand (29.5%) live in the villages (Table 106).

**TABLE 106. CITY-VILLAGE POPULATIONS AND ANNUAL RATES OF POPULATION INCREASE**

(Thousand Persons)

Years	City				Village		
	Total Population	City Population		Annual Increase Rate (%)	Village Population		Annual Increase Rate (%)
		Population	Ratio (%)		Population	Ratio (%)	
1980 <sup>(1)</sup>	44,737	19,645	43.9	-	25,092	56.1	-
1985 <sup>(1)</sup>	50,664	26,866	53.0	6.3	23,799	47.0	-1.1
1990 <sup>(1)</sup>	56,473	33,326	59.0	4.3	23,147	41.0	-0.6
2000 <sup>(1)</sup>	67,804	44,006	64.9	2.8	23,798	35.1	0.3
2007 <sup>(2)</sup>	70,586	49,748	70.5	1.8	20,838	29.5	-1.9

Source: TÜİK

(1) They are the general population census results.

(2) It was determined within the scope of the Population Registration System Based on Addresses.

## B. Employment

In 2007, the increase in employment remained behind the increase in the working age population and work force. The noninstitutional working age population increased 1.5% and went up to 49,215 thousand persons. The work force increased 1.2% and rose to 23,523 thousand persons. The number of persons employed increased 1.1% and went up to 21,189 thousand persons. The slowing down of growth and the shrinkage of employment in the agricultural sector formed a pressure on the increase in employment. The number of unemployed increased 1.7% and became 2,333 thousand persons. The unemployment rate, which was 9.9% in 2006, did not change in 2007 and remained at the same level. The underemployment rate regressed from 3.6% to 3.2%. Thus, the idle manpower due to unemployment and underemployment decreased 0.4 points and was realized at the level of 13.1%. The non agricultural unemployment rate did not change in 2007 and remained at the level of 12.6%. Whereas, the unemployment rate in the young population increased 0.9 points and rose to 19.6% (Table 107).

**TABLE 107. DOMESTIC WORK FORCE MARKET**

(15+Years of Age, Thousand Persons)

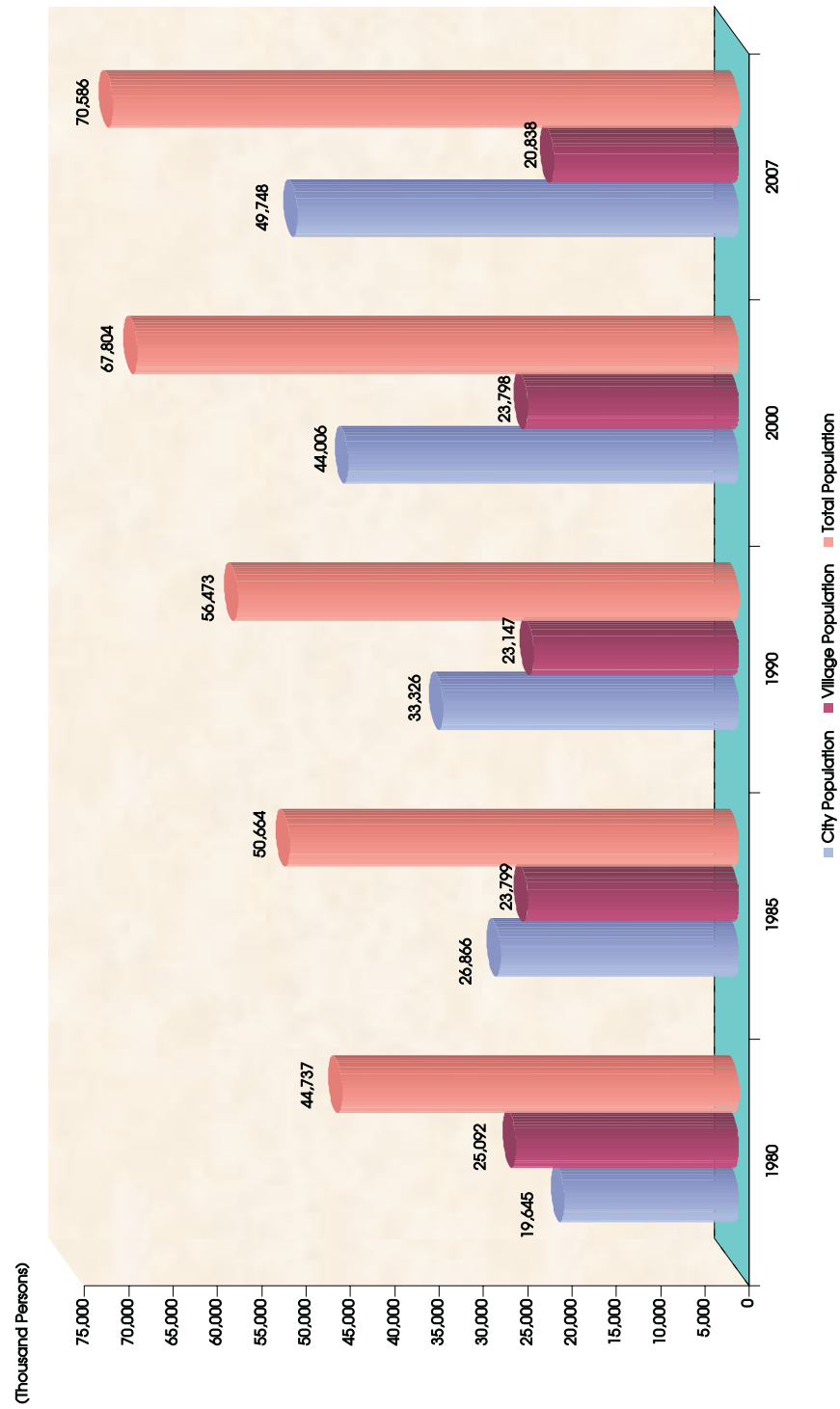
	2001	2002	2003	2004	2005	2006 <sup>(1)</sup>	2007 <sup>(1)</sup>
Noninstitutional Working Age Population	47,158	48,041	48,912	49,906	50,826	48,485	49,215
Work Force	23,491	23,818	23,640	24,289	24,565	23,250	23,523
Employment	21,524	21,354	21,147	21,791	22,046	20,954	21,189
Number of Unemployed	1,967	2,464	2,493	2,498	2,520	2,295	2,333
Rate of Joining the Work Force (%)	49.8	49.6	48.3	48.7	48.3	48.0	47.8
Rate of Employment (%)	45.6	44.4	43.2	43.7	43.4	43.2	43.1
Rate of Unemployment (%)	8.4	10.3	10.5	10.3	10.3	9.9	9.9
Nonagricultural Unemployment Rate (%)	12.4	14.5	13.8	14.3	13.6	12.6	12.6
Unemployment Rate in Young Population (%) <sup>(2)</sup>	16.2	19.2	20.5	19.7	19.3	18.7	19.6
Underemployment	1,404	1,297	1,143	995	817	835	742
Rate of Underemployment (%)	6.0	5.4	4.8	4.1	3.3	3.6	3.2
Ratio of Idle Manpower Due to Unemployment+Underemployment (%)	14.4	15.7	15.3	14.4	13.6	13.5	13.1

Source: TÜİK

(1) It was determined within the scope of the Population Registration System Based on Addresses.

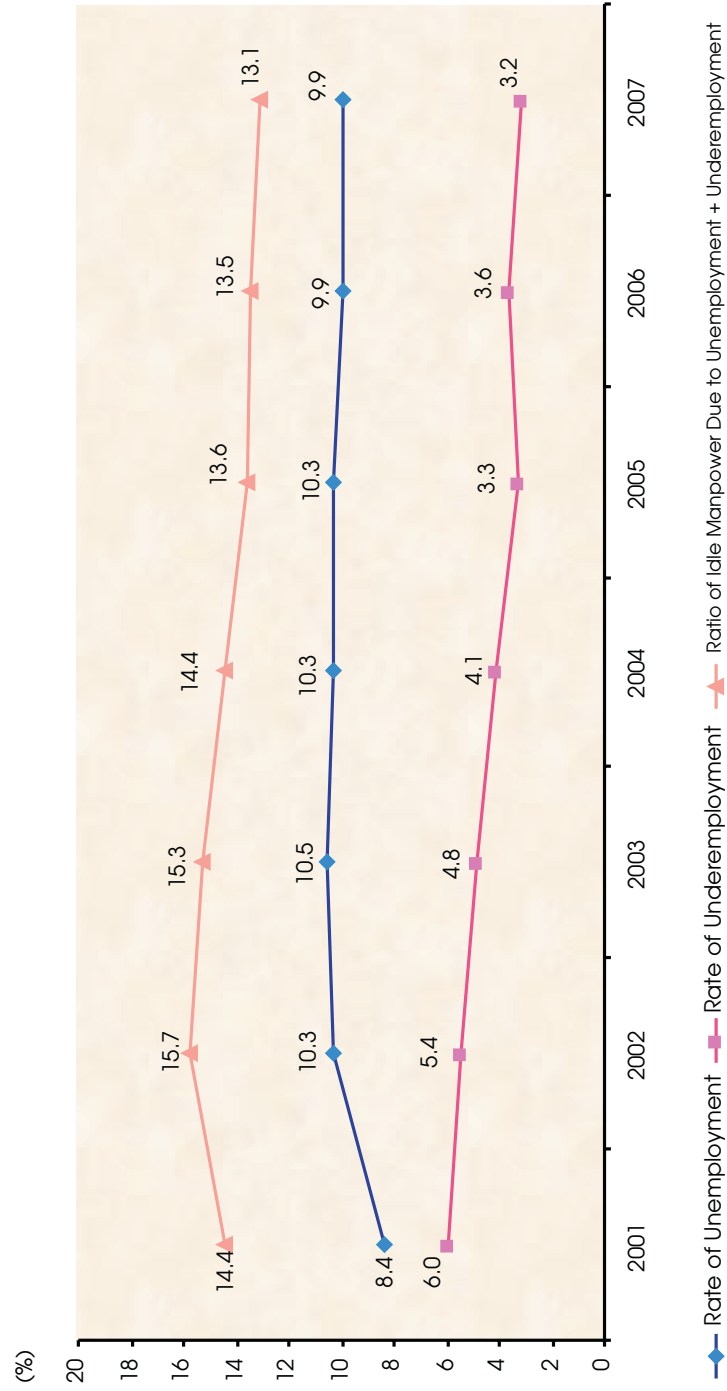
(2) Population in the 15-24 years of age group.

GRAPH 33. CITY AND VILLAGE POPULATIONS





**GRAPH 34. RATES OF UNEMPLOYMENT**



The decrease in employment, which was experienced in the agricultural sector connected to the structural transformation process in the economic and social fields, also continued in 2007. The number of persons employed in the agricultural sector decreased 2% and regressed to 5,601 thousand persons. The number of persons employed in the industrial sector increased 1.2% and rose to 4,185 thousand persons. The number of persons employed in the services sector increased 2.7% and rose to 11,403 thousand persons. Within the total employment, the share of the agricultural sector was 26.4%, the share of the industrial sector was 19.8% and the share of the services sector was 53.8% (Table 108).

**TABLE 108. SECTORAL DISTRIBUTION OF EMPLOYMENT**

Sectors	(15+ Years of Age, Thousand Persons)				Share (%)			
	2004	2005	2006 <sup>o</sup>	2007 <sup>o</sup>	2004	2005	2006	2007
Agriculture	7,400	6,493	5,713	5,601	34.0	29.5	27.3	26.4
Industry	3,987	4,284	4,135	4,185	18.3	19.4	19.7	19.8
Services	10,404	11,269	11,106	11,403	47.7	51.1	53.0	53.8
Construction	1,030	1,173	1,189	1,224	4.7	5.3	5.7	5.8
Total	21,791	22,046	20,954	21,189	100.0	100.0	100.0	100.0

Source: TÜİK

(\*) It was determined within the scope of the Population Registration System Based on Addresses.

## C. Work Life

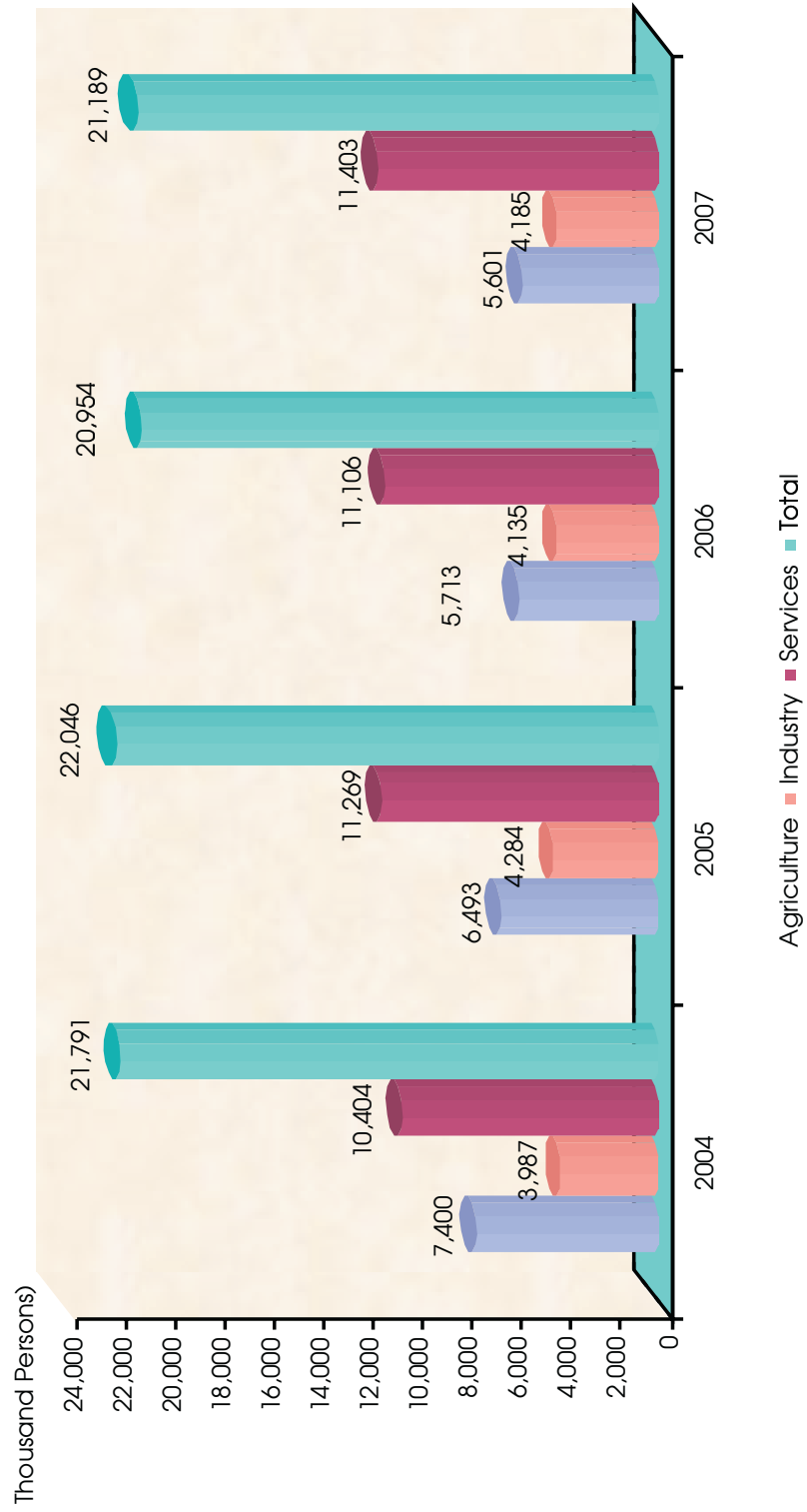
The number of workers, which was 5,210,046 in January 2007, rose to 5,292,796 in July. The number of unionized workers increased from 3,043,732 to 3,091,042. Accordingly, the rate of unionization, which was 58.4% in January, also remained at the same level in July (Table 109).

**TABLE 109. NUMBER OF WORKERS AND THE RATES OF UNIONIZATION**

Period of Publication	Total Number of Workers	Number of Union Workers	Rate of Unionization (%)
January 2001	4,537,544	2,580,927	56.9
July 2001	4,562,454	2,609,672	57.2
January 2002	4,564,164	2,648,847	58.0
July 2002	4,572,841	2,680,966	58.6
January 2003	4,686,618	2,717,326	58.0
July 2003	4,781,958	2,755,191	57.6
January 2004	4,857,792	2,806,927	57.8
July 2004	4,916,421	2,854,059	58.1
January 2005	4,970,784	2,901,943	58.4
July 2005	5,022,584	2,945,929	58.7
January 2006	5,088,515	2,987,431	58.7
July 2006	5,154,948	3,001,027	58.2
January 2007	5,210,046	3,043,732	58.4
July 2007	5,292,796	3,091,042	58.4

Source: ÇSGB

**GRAPH 35. SECTORAL DISTRIBUTION OF EMPLOYMENT (15+ Years of Age)**



In 2007, a total of 1,972 collective labor agreements were signed at 9,734 businesses. Of the total 459,449 workers included in the collective labor agreements, 322,064 workers work in the public sector and 137,385 workers work in the private sector (Table 110).

**TABLE 110. PLACES OF EMPLOYMENT AND THE NUMBER OF WORKERS INCLUDED IN THE COLLECTIVE LABOR AGREEMENTS**

Years	Number of Agreements Made	Number of Places of Employment	Number of Workers		
			Public	Private	Total
2001	4,454	14,211	473,845	301,633	775,478
2002	1,773	7,453	131,852	123,207	255,059
2003	1,607	7,806	391,526	237,714	629,240
2004	1,482	7,922	122,018	203,368	325,386
2005	3,977	14,388	382,992	204,464	587,456
2006	1,704	5,456	117,377	187,015	304,392
2007	1,972	9,734	322,064	137,385	459,449

Source: ÇSGB

In 2007, a total of 15 strikes were held, with 2 in the public sector and 13 in the private sector. A total of 25,920 workers participated in these strikes, with 268 workers in the public sector and 25,652 workers in the private sector. As a result of these, a total of 1,353,558 workdays were lost, with 4,246 workdays in the public sector and 1,349,312 workdays in the private sector (Table 111).

**TABLE 111. STRIKE IMPLEMENTATIONS**

	Number of Strikes Implemented				Number of Workers Joining in Strikes				Number of Workdays Lost			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
Public	1	1	4	2	283	437	948	268	1,981	874	2,394	4,246
Private	29	33	22	13	3,274	3,092	1,113	25,652	91,180	175,950	163,272	1,349,312
Total	30	34	26	15	3,557	3,529	2,061	25,920	93,161	176,824	165,666	1,353,558

Source: ÇSGB

In 2007, there were no lockouts in the public sector and the private sector (Table 112).

**TABLE 112. LOCKOUT IMPLEMENTATIONS**

	Number of Lockouts Implemented				Number of Workers Subjected to Lockouts				Number of Workdays Lost			
	2004	2005	2006	2007	2004	2005	2006	2007	2004	2005	2006	2007
Public	-	-	-	-	-	-	-	-	-	-	-	-
Private	1	1	1	-	801	118	66	-	20,826	590	3,894	-
Total	1	1	1	-	801	118	66	-	20,826	590	3,894	-

Source: ÇSGB

## D. Wages

In 2007, the net worker's wages within the scope of the collective labor agreements in the public sector increased 12.3% and rose to 1,840.09 YTL/month. The work force cost increased 13.6% and went up to 3,414.89 YTL/month. In real terms, a 3.3% increase was realized in the monthly worker's wages and a 6.9% increase in work force costs (Table 113).

**TABLE 113. DEVELOPMENTS IN WORKERS WAGES IN THE SCOPE OF THE COLLECTIVE LABOR AGREEMENTS**

						(YTL/Month)
	Net	Nominal	Real	Work Force	Nominal	Real
Years	Wage	Increase	Increase <sup>(1)</sup>	Cost	Increase	Increase <sup>(2)</sup>
		(%)	(%)		(%)	(%)
	Public Sector <sup>(3)</sup>					
2001	768.67	-	-	1,373.37	-	-
2002	1,012.40	31.7	-9.2	1,773.21	29.1	-14.0
2003	1,234.21	21.9	-2.7	2,287.87	29.0	2.7
2004	1,387.97	12.5	1.7	2,620.67	14.5	3.1
2005	1,512.70	9.0	0.8	2,826.92	7.9	1.9
2006	1,645.27	8.8	-0.7	3,004.93	6.3	-2.8
2007	1,847.09	12.3	3.3	3,414.89	13.6	6.9
	Private Sector					
2001	482.68	-	-	929.30	-	-
2002	692.67	43.5	-1.0	1,309.76	40.9	-6.1
2003	864.55	24.8	-0.4	1,607.12	22.7	-2.3
2004	989.05	14.4	3.4	1,865.32	16.1	4.5
2005	1,075.69	8.8	0.6	2,047.96	9.8	3.7
2006	1,170.31	8.8	-0.7	2,215.47	8.2	-1.0

Source: Public Sector Employers' Unions, TİSK, TÜİK, DPT

(1) In the calculation of the real increases in net wages, the Consumer Prices Index (1994=100) of the TÜİK is used for 2001-2004 and the Consumer Prices Index (2003=100) is used as of 2005.

(2) In the calculation of the real increases in work force cost, the Wholesale Goods Price Index (1994=100) is used for 2001-2004 and the Producer Prices Index is used as of 2005.

(3) The municipalities are excluded.

The legal gross daily minimum wage for the period between 1 January 2007-30 June 2007 was determined to be 18.75 YTL for those 16 years of age and older and 15.89 YTL for those under 16 years of age. Whereas, for the period between 1 July 2007-31 December 2007 it was determined to be 19.50 YTL for those 16 years of age and older and 16.38 YTL for those under 16 years of age. The gross monthly minimum wage for the period between 1 January 2007-30 June 2007 was determined to be 562.50 YTL for those 16 years of age and older and 476.70 YTL for those under 16 years of age. Whereas, for the period between 1 July 2007-31 December 2007 it was determined to be 585.00 YTL for those 16 years of age and older and 491.40 YTL for those under 16 years of age (Table 114).

**TABLE 114. DAILY AND MONTHLY GROSS MINIMUM WAGES AS OF YEARS**

Periods in Effect	16+ Years of Age		Change (%)	Under 16 Years of Age		Change (%)
	Daily	Monthly		Daily	Monthly	
01.01.2001 - 30.06.2001	4.67	139,95	-	3.97	118,96	-
01.07.2001 - 31.07.2001	4.90	146,95	5.0	4.16	124,92	5.0
01.08.2001 - 31.12.2001	5.60	167,94	14.3	4.76	142,75	14.3
01.01.2002 - 30.06.2002	7.40	222,00	32.2	6.29	188,70	32.2
01.07.2002 - 31.12.2002	8.36	250,88	13.0	7.11	213,21	13.0
01.01.2003 - 31.12.2003	10.20	306,00	22.0	8.55	256,50	20.3
01.01.2004 - 30.06.2004	14.10	423,00	38.2	12.00	360,00	40.4
01.07.2004 - 31.12.2004	14.81	444,15	5.0	12.60	378,00	5.0
01.01.2005 - 31.12.2005	16.29	488,70	10.0	13.86	415,80	10.0
01.01.2006 - 31.12.2006	17.70	531,00	8.7	15.00	450,00	8.2
01.01.2007 - 30.06.2007	18.75	562,50	5.9	15.89	476,70	5.9
01.07.2007 - 31.12.2007	19.50	585,00	4.0	16.38	491,40	3.1

Source: ÇSGB

In 2007, the average net civil servant salaries increased 13% and rose to 1,024.37 YTL/month. The cost of salaries increased 12.5% and rose to 1,464.24 YTL/month. In real terms, the net salary increased 3.9% and the cost of salaries increased 5.8% (Table 115).

**TABLE 115. DEVELOPMENTS IN CIVIL SERVANT SALARIES<sup>(1)</sup>**

Years	Net Salary			Cost of Salary		
	Average Salary	Nominal Increase (%)	Real Increase <sup>(2)</sup> (%)	Average Cost of Salary	Nominal Increase (%)	Real Increase <sup>(3)</sup> (%)
2001	324,74	-	-	447,95	-	-
2002	497,85	53.3	5.7	691,16	54.3	2.8
2003	618,32	24.2	-0.9	884,72	28.0	1.9
2004	701,48	13.4	2.5	1,024,72	15.8	4.2
2005	778,86	11.0	2.6	1,141,79	11.4	5.2
2006	906,73	16.4	6.2	1,301,34	14.0	4.3
2007	1,024,37	13.0	3.9	1,464,24	12.5	5.8

Source: MB, TÜİK, DPT

- (1) It includes employee housing compensation and excludes family assistance, extraordinary conditions' compensation, additional compensation paid in Regions with Development Priority, the fixed overtime fees calculated on the monthly salary of the most senior civil servant and the payments made from the Fund for the Development of Income Administration. The weighted average of all the categories was taken.
- (2) It shows a real development compared to the previous year. The Consumer Prices Index of the TÜİK (1994=100) is used for the calculation of real increases for 2001-2004 and the Producer Prices Index (2003=100) is used as of 2005.
- (3) It shows a real development compared to the previous year. The Wholesale Goods Price Index (1994=100) of the TÜİK is used for the calculation of real increases for 2001-2004 and the Producer Prices Index (2003=100) is used as of 2005.



## **IV. TARGETS AND REALIZATIONS IN THE ECONOMY OF TURKEY**

## IV. TARGETS AND REALIZATIONS IN THE ECONOMY OF TURKEY

To continue the period of economic growth by increasing the confidence and stability provided in the economy and by continuing the financial discipline, to increase employment, to lower inflation, to attain a sustainable and financeable current deficit level with sound resources were determined to be the basic macroeconomic objectives in 2007. The economic policies during the year were carried out within the framework of these basic objectives. However, for the first time since 2002, the growth rate remained under the targeted value under the influence of the developments experienced in Turkey and abroad. Whereas, inflation exceeded two-fold the targeted value for the second time. A deterioration to a significant extent was experienced in the centralized administration budget deficit and current transactions deficit.

It was targeted that the GDP would increase 5% in 2007 and that as of sub-sectors it was targeted that there would be a growth of 2.5% in the agricultural sector, 5.2% in the industrial sector and 5.4% in the services sector. At the end of the year, the GDP growth rate remained under the targeted value and became 4.5%. Let alone growth in the agricultural sector, it experienced shrinkage and the growth rate remained under the targeted value to a significant extent and the growth rates in the industrial and services sectors were realized slightly above the targeted values. The agricultural sector decreased 6.8%, the industrial sector grew 5.5% and the services sector grew 6.1%. According to the 1987 producer prices and the GDP values determined on the basis of the YTL and the US dollar, with the data announced according to the 1998 basic prices, the GDP increased above the targeted value and reached the level of 856,387 million YTL (US\$659 billion) (Table 116).

**TABLE 116. THE GDP AND SECTORAL GROWTH**

	2007		(%)
	Program Target <sup>(1)</sup>	Realization <sup>(2)</sup>	2008 Program Target <sup>(1)</sup>
Agriculture	2.5	-6.8	3.0
Industry	5.2	5.5	5.7
Services	5.4	6.1	5.9
GDP	5.0	4.5	5.5
GDP (Current Prices, Million YTL)	632,433	856,387	717,266
GDP (Current Prices, US\$ Billion)	411	659	521

Source: TÜİK, DPT

(1) The 2007 and 2008 program targets are based on the GDP series based on the 1987 producer prices.

(2) The 2007 realization figures are based on the GDP series based on the 1998 basic prices.



With the 1987 basic series, it was targeted that the agricultural sector would grow 3%, that the industrial sector would grow 5.7%, that the services sector would grow 5.9% and that there would be a growth of 5.5% in the GDP in 2008. It was envisaged that the GDP would be 717,266 million YTL (US\$521 billion) in current prices in 2007.

It was envisaged that the share of the agricultural sector within the GDP would be 10.6%, that the share of the industrial sector would be 29.4% and that the share of the services sector would be 60.1% in 2007. At the end of the year, the share of the services sector within the GDP was realized above what was envisaged and the shares of the agricultural sector and industrial sector remained under the targeted values. Of the GDP, 8.9% was realized by the agricultural sector, 26.8% by the industrial sector and 64.3% by the services sector (Table 117).

**TABLE 117. THE SHARES OF THE SECTORS WITHIN THE GDP**

	2007		2008
	Program Target <sup>(1)</sup>	Realization <sup>(2)</sup>	Program Target <sup>(1)</sup>
Agriculture	10.6	8.9	10.0
Industry	29.4	26.8	29.7
Services	60.1	64.3	60.3
GDP	100.0	100.0	100.0

Source: TÜİK, DPT

(1) The 2007 and 2008 program targets are based on the GDP series based on the 1987 producer prices.

(2) The 2007 realization figures are based on the GDP series based on the 1998 basic prices.

It was envisaged that the share of the agricultural sector within the GDP would be 10%, that the share of the industrial sector would be 29.7% and that the share of the services sector would be 60.3% in 2008.

In 2007, it was envisaged that the TÜFE inflation would be 4% as of the end of the year. At the end of the year, the TÜFE inflation exceeded the targeted value by 4.39 points and was realized at the level of 8.39% (Table 118).

**TABLE 118. INFLATION**

	2007		2008
	Program Target	Realization	Program Target
Year End TÜFE	4.0	8.39	4.0

Source: TCMB, TÜİK

In 2008, under the inflation targeting, it was targeted that the TÜFE inflation would be 4% at the end of the year.

In 2007, it was envisaged that the centralized administration budget revenues would be 188,159 million YTL and that the expenses would be 204,989 million YTL. At the end of the year, the centralized administration budget revenues exceeded the targeted values and all of the budget allocations were not used in the expenses. Revenues of 189,617 million YTL were obtained under the centralized administration budget and expenses of 203,501 million YTL were made. Thus, the budget deficit, which was targeted to be 16,830 million YTL, was realized at the level of 13,884 million YTL. The non-interest budget balance, which was targeted to be 36,116 million YTL, became 34,848 million YTL (Table 119).

**TABLE 119. CENTRALIZED ADMINISTRATION BUDGET**

	(Million YTL)		
	2007		2008
	Budget Target	Realization	Budget Target
Revenues	188,159	189,617	204,556
General Budget Revenues	183,460	184,235	199,411
Tax Revenues	158,153	152,832	171,206
Equity Revenues of Special Budget Administrations	3,264	3,795	3,417
Revenues of Regulatory & Supervisory Institutions	1,435	1,587	1,728
Expenses	204,989	203,501	222,553
Expenses Excluding Interest	152,043	154,769	166,553
Personnel Expenses	43,670	43,555	48,672
Current Transfers	60,863	63,249	69,207
Interest Expenses	52,946	48,732	56,000
Budget Balance	-16,830	-13,884	-17,997
Non-Interest Balance	36,116	34,848	38,003

Source: MB

In 2008, it was envisaged that the centralized administration budget revenues would be 204,556 million YTL, that the budget expenses would be 222,553 million YTL and thus, there would be a budget deficit of 17,997 million YTL and a non-interest surplus of 38,003 million YTL.

In 2007, it was targeted that exports would be US\$99.9 billion, that imports would be US\$140.7 billion, that the foreign trade deficit, as shown on the balance of payments table, would be US\$40.8 billion, that the current transactions deficit would be US\$30.4 billion and that tourism revenues would be US\$19.8 billion. At the end of the year, exports became US\$114.3 billion, imports became US\$160.5 billion, the foreign trade deficit, as shown on the balance of payments table, became US\$46.7 billion, the balance of current transactions had a deficit of US\$37.6 billion and tourism revenues became US\$18.5 billion (Table 120).

**TABLE 120. BALANCE OF CURRENT TRANSACTIONS**

	US\$ Billion)		
	2007		2008
	Program Target	Realization	Program Target
Balance of Current Transactions	-30.4	-37.6	-39.2
Foreign Trade Balance	-40.8	-46.7	-46.9
Exports (FOB)	99.9	114.3	124.7
Imports (FOB) (*)	140.7	160.5	171.1
Balance of Services	15.5	13.9	15.2
Tourism Revenues	19.8	18.5	19.6
Balance of Investment Revenues	-7.0	-6.8	-9.2
Direct Investments (Net)	-0.9	-1.9	-1.8
Portfolio Investments (Net)	-0.4	0.4	-0.2
Other Investments (Net)	-5.7	-5.3	-7.2
Current Transfers	1.8	2.2	1.8

Source: DPT, TCMB

(\*) Includes gold imports.

In 2008, it was targeted that exports would be US\$124.7 billion and that imports would be US\$171.1 billion. It was envisaged that the foreign trade balance would have a deficit of US\$46.9 billion and that the balance of current transactions would have a deficit of US\$39.2 billion.

In 2007, it was envisaged that there would be an outflow of US\$0.9 billion in net direct foreign investments and an outflow of US\$0.4 billion in net portfolio investments. At the end of the year, an outflow of US\$1.9 billion in net direct foreign investments and an inflow of US\$0.4 billion in net portfolio investments were realized.

In 2008, it is estimated that there would be an outflow of US\$1.8 billion in net direct foreign investments and an outflow of US\$0.2 billion in net portfolio investments.



## ECONOMIC REPORT 2007



## **V. ECONOMIC AND SOCIAL INDICATORS**

## V. ECONOMIC AND SOCIAL INDICATORS

I. ECONOMIC INDICATORS	2001	2002	2003	2004	2005	2006	2007
<b>GROSS DOMESTIC PRODUCT (GDP)</b>							
Current Prices (Million YTL)	240,224	350,476	454,781	559,033	648,932	758,391	856,387
Current Prices (US\$ Million)	196,736	230,494	304,901	390,387	481,497	526,429	658,786
Fixed Prices (Million YTL)	68,309	72,520	76,338	83,486	90,500	96,738	101,046
<b>RATE OF GROWTH (According to 1998 Basic Prices, %)</b>							
Agriculture	-7.9	8.8	-2.0	2.8	7.2	1.4	-6.8
Industry	-7.3	2.7	7.8	11.3	8.6	8.3	5.5
Services	-2.5	5.5	4.4	10.1	8.7	8.2	6.1
GDP	-5.7	6.2	5.3	9.4	8.4	6.9	4.5
<b>SECTORAL DISTRIBUTION OF GDP (Basic Prices, %)</b>							
Agriculture	8.8	10.3	9.9	9.5	9.4	8.3	7.7
Industry	22.4	21.0	20.9	20.3	20.3	20.1	19.6
Services	68.8	68.7	69.2	70.2	70.3	71.6	72.7
<b>PRODUCTION</b>							
Agriculture Added Value (According to 1998 Basic Prices, Billion YTL)	8,147	8,861	8,684	8,929	9,571	9,701	9,039
Industry Added Value (According to 1998 Basic Prices, Billion YTL)	17,690	18,175	19,588	21,803	23,680	25,650	27,069
Manufacturing Industry Production Index (1997=100)	92.4	102.5	112.0	123.6	129.6	136.8	143.3
Manufacturing Industry Rate of Capacity Utilization (%)	71.6	76.2	78.5	81.5	80.3	81.0	81.8
<b>INVESTMENTS (Current Prices, Million YTL)</b>							
Fixed Capital Investments	33,470	47,483	57,424	78,782	97,647	123,569	140,290
Public Sector	11,300	17,308	17,288	17,977	24,444	30,410	33,435
Private Sector	22,170	30,175	40,136	60,805	73,203	93,159	106,855
Investment Incentive Certificates	11,212	14,912	23,012	19,825	24,108	22,738	26,331
Agriculture	96	134	288	374	516	524	345
Industry	7,797	9,659	12,139	14,196	15,630	14,364	17,179
Services	3,319	5,118	10,585	5,255	7,962	7,849	8,807
<b>PRICE TRENDS</b>							
Twelve Month Average							
ÜFE Percentage Change <sup>(1)</sup>	61.6	50.1	25.6	14.57	5.89	9.33	6.31
TÜFE Percentage Change <sup>(2)</sup>	54.4	45.0	25.3	8.60	8.18	9.60	8.75
Year End							
ÜFE Percentage Change <sup>(1)</sup>	88.6	30.8	13.9	15.35	2.66	11.58	5.94
TÜFE Percentage Change <sup>(2)</sup>	68.5	29.7	18.4	9.35	7.72	9.65	8.39
<b>CASH-BANK (Million YTL)</b>							
M1 <sup>(3)</sup>	11,073	14,259	21,564	29,469	61,937	72,163	77,675
M2 <sup>(3)</sup>	46,986	61,195	80,923	109,344	237,949	297,481	345,028
M3 <sup>(3)</sup>	49,723	63,506	85,807	115,689	260,614	319,836	370,078
Credit Stock	34,047	34,909	51,749	82,832	126,491	177,277	222,833
Deposits	102,069	128,549	144,609	179,314	221,632	271,874	314,042
<b>CAPITAL MARKET</b>							
Volume of Transactions (Million YTL)	93,119	106,309	146,645	208,423	269,931	325,131	387,777
İstanbul Stock Exchange Index	13,783	10,370	18,625	24,972	39,778	39,118	55,538
<b>PUBLIC FINANCING</b>							
Centralized Administration Budget (Million YTL)							
Revenues	58,417	79,420	101,037	122,919	152,784	173,483	189,617
Expenses	86,972	119,604	141,248	152,093	159,687	178,126	203,501
Budget Balance	-28,555	-40,184	-40,211	-29,174	-6,903	-4,643	-13,884
Non-Interest Balance	12,483	11,543	18,317	27,318	38,777	41,320	34,848

(1) The TEFE based on 1994=100 is used for the changes for 2001-2003. The ÜFE based on 2003=100 is used for the changes for 2004-2007.

(2) The TÜFE based on 1994=100 is used for the changes for 2001-2003. The TÜFE based on 2003=100 is used for the changes for 2004-2007.

(3) New presentation of the 2005-2006-2007 data.

	2001	2002	2003	2004	2005	2006	2007
Centralized Administration Debt Stock	177,911	242,665	282,807	316,529	331,520	345,050	333,481
Domestic Debt Stock (Million YTL)	122,157	149,870	194,387	224,483	244,782	251,470	255,310
Foreign Debt Stock (Million YTL)	55,754	92,795	88,420	92,046	86,738	93,580	78,171
Domestic Debt Stock (Million YTL)	122,157	149,870	194,387	224,483	244,782	251,470	255,310
Debenture Bonds	102,128	112,850	168,974	194,211	226,964	241,876	249,176
Bonds	20,029	37,020	25,413	30,272	17,818	9,594	6,134
Privatization Transactions (US\$ Million)	120	537	187	1,283	8,222	8,096	4,259
<b>FOREIGN CURRENCY EXCHANGE RATES (Annual Average)</b>							
YTL/US\$ (Buying Rate)	1.22233	1.50412	1.49671	1.42184	1.34105	1.42943	1.30126
YTL/Euro (Buying Rate)	1.09134	1.42727	1.68771	1.76712	1.67043	1.79683	1.77790
<b>BALANCE OF PAYMENTS (US\$ Million)</b>							
Balance of Goods	-3,363	-6,390	-13,489	-22,736	-32,988	-40,941	-46,727
Exports (FOB)	34,729	40,719	52,394	68,535	78,365	93,611	115,306
Imports (FOB)	38,092	47,109	65,883	91,271	111,353	134,552	162,033
Balance of Current Transactions	3,760	-626	-7,515	-14,431	-22,137	-31,893	-37,575
Worker Remittances	2,786	1,936	729	804	851	1,111	1,209
Tourism Revenues	8,090	8,479	13,203	15,888	18,152	16,853	18,487
<b>INTERNATIONAL RESERVES (Gross, US\$ Million)</b>							
	30,212	38,066	44,968	53,786	68,744	90,821	108,247
<b>DIRECT FOREIGN CAPITAL (US\$ Million)</b>							
Capital (Net)	3,352	617	737	1,092	8,134	16,982	18,504
Other Capital (Net) <sup>(4)</sup>	-	516	17	351	51	8	501
Real Estate (Net)	-	-	998	1,343	1,841	2,922	2,952
Total (Net)	3,352	1,133	1,752	2,786	10,026	19,912	21,957
Foreign Debt Stock (US\$ Million)	113,592	129,671	144,266	160,760	168,716	205,548	247,200
Short-Term	16,403	16,424	23,013	31,880	37,103	40,354	41,803
Long-Term	97,189	113,247	121,253	128,880	131,613	165,194	205,397
Public Sector	47,129	64,534	70,844	75,668	70,413	71,590	73,359
TCMB	24,351	22,003	24,373	21,410	15,425	15,678	15,801
Private Sector	42,112	43,135	49,049	63,682	82,877	118,280	158,039
<b>II. SOCIAL INDICATORS</b>							
<b>EMPLOYMENT</b>							
Civilian Work Force (Thousand Persons)	23,491	23,818	23,640	24,289	24,565	23,250	23,523
Civilian Employment (Thousand Persons)	21,524	21,354	21,147	21,791	22,046	20,954	21,189
Agriculture	8,089	7,458	7,165	7,400	6,493	5,713	5,601
Industry	3,774	3,954	3,846	3,987	4,284	4,135	4,185
Services	9,661	9,942	10,136	10,404	11,269	11,106	11,403
Civilian Employment (Share, %)	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	37.6	34.9	33.9	34.0	29.5	27.3	26.4
Industry	17.5	18.5	18.2	18.3	19.4	19.7	19.8
Services	44.9	46.6	47.9	47.7	51.1	53.0	53.8
Rate of Unemployment (%)	8.4	10.3	10.5	10.3	10.3	9.9	9.9
Rate of Underemployment (%)	6.0	5.4	4.8	4.1	3.3	3.6	3.2
Ratio of Idle Manpower Due to							
Unemployment + Underemployment (%)	14.4	15.7	15.3	14.4	13.6	13.5	13.1

(4) The loans obtained by foreign capital companies from foreign partners..



## ECONOMIC REPORT 2007