



Balance of Payments - May 2013

Economic Research Division



Current account deficit continued to widen in May.

In May, current account deficit increased by 41.7% compared to the same month of the previous year and was realized as 7.5 billion USD, higher than the market expectations. Thus, during the first five months of the year, current account deficit reached 31.9 billion USD. The high level of non-monetary gold imports which were realized as 2.1 billion USD in May also played an important role in this development. In this context, total goods imports which grew faster than total goods exports had an increasing impact on current account deficit.

Moreover, 12-month cumulative current account deficit continued to expand and reached 53.6 billion USD, the highest level since September 2012.

Rapid increase in net investment income transfers ...

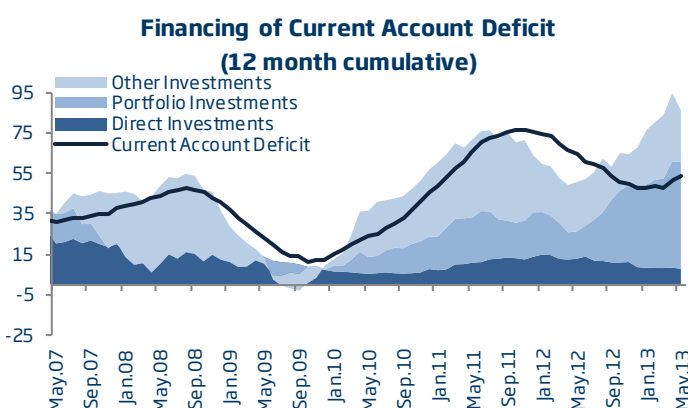
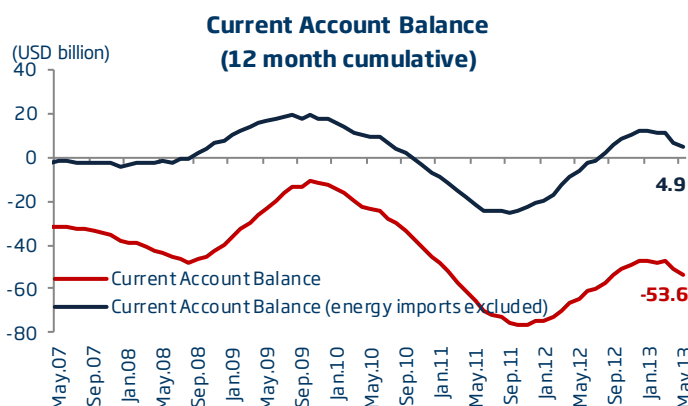
The positive impact of tourism revenues on current account deficit continued in May. In this period, net tourism revenues increased by 19.8% compared to the same month of the previous year and amounted to 2.1 billion USD. In January-May period, net tourism revenues increased by 25% on annual basis and were realized as 6.4 billion USD.

On the other hand, net investment income transfers recorded an outflow of 2.1 billion USD in May and reached its highest level since 1991 on monthly basis.

Weak course of foreign direct investments continued.

Analysis of the financing side of current account deficit revealed that net foreign direct investments continued to stay at low levels. In May, net foreign direct investments were realized as 660 million USD, almost halved compared to the same month of the previous year.

In January-May period, net foreign direct investments decreased by 22%, while the contraction reached 34.5% when only inflows are taken into account.



Loss of momentum in portfolio investments...

After displaying a strong course in the first 4 months of the year in line with the market expectations regarding the upgrade of Turkey's credit rating by a second rating agency to investment grade, portfolio inflows weakened in May following the Moody's' credit rating upgrade. Besides, the anticipation of U.S. Federal Reserve (Fed) to reduce its asset purchase program increased the capital outflows from developing countries and this started to affect current account deficit in the second half of May. In this context, net portfolio investments, which were recorded as 18.1 billion USD in January-April period, were only 681 million

Breakdown of Net Capital Inflows Towards Turkey

	December 2012		May 2013		(12-month cumulative, million USD)	
	December 2012	May 2013	December 2012	May 2013	December 2012	May 2013
Current Account Balance	-47,748	-53,595	-	-	-	-
Total Net Foreign Capital Inflows	68,562	82,257	100.0	100.0	100.0	100.0
-Direct Investments	8,483	7,643	12.4	9.3	-	-
-Portfolio Investments	40,789	52,956	59.5	64.4	-	-
-Other Investments	18,612	25,754	27.1	31.3	-	-
-Net Errors and Omissions	722	-4,058	1.1	-4.9	-	-
-Other	-44	-38	-0.1	0.0	-	-
Reserves⁽¹⁾	-20,814	-28,662	-	-	-	-

Note: The numbers may not add up to total due to rounding.

(1) (-) sign indicates an increase in reserves while (+) sign indicates a decrease.

Source: CBRT

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USD in May. In May, a capital outflow was recorded in government debt securities for the first time since February 2012. During this period, non-residents registered a net purchase of 508 million USD equity securities, while a net capital outflow of 70 million USD was recorded in debt securities. On the other hand, through bond auctions in international capital markets, banking sector and real sector borrowed 179 million USD and 996 million USD in May, respectively.

Other investments declined in May.

Analyzing the other investments, it was seen that banking sector and real sector increased their currency and deposit assets that were held in abroad and in this context a capital outflow of 851 million USD was realized in May.

In May, banking sector's net borrowing from abroad was 786 million USD. In this period, banking sector was net credit re-payer in short-term loans while it was net credit borrower in long-term loans. The non-banking sector, on the other hand, raised 2.7 billion USD long-term loans from abroad while repaying 5 billion USD. Analyzing the

12-month cumulative figures, long-term debt roll-over ratios were 105% in the banking sector and 103% in non-banking sector.

Sharp decline in reserve assets in May.

Due to capital outflows from developing countries in May, the reserve assets decreased by 4.5 billion USD. On the other hand, it was noteworthy that net errors and omissions were realized as 2.8 billion USD in the same period.

Expectations ...

The slowdown in capital inflows to Turkey due to the expectations that Fed may reduce the size of its asset purchase program before year-end, started to impact current account deficit as of May. Loss of momentum in capital inflows also created an upward pressure on exchange rates. In this context, CBRT has started to implement additional monetary tightening and hold foreign exchange selling auctions since June. In the coming period, Fed's exit strategy and thus each economic data announcement in US will be effective in the quality of the financing of the current account deficit.

	Current Account Balance				(USD million)
	May 2013	January-May 2012 2013		% Change	12 Month Cumulative
Current Account Balance	-7,524	-26,073	-31,920	22.4	-53,595
Foreign Trade Balance	-8,146	-28,864	-33,811	17.1	-70,279
Services Balance	2,557	5,482	6,258	14.2	23,678
Tourism Revenues (net)	2,079	5,098	6,371	25.0	22,832
Income Balance	-2,106	-3,273	-4,800	46.7	-8,228
Current Transfers	171	582	433	-25.6	1,234
Capital and Financial Accounts	4,675	24,170	34,797	44.0	57,653
Direct Investments (net)	660	3,820	2,980	-22.0	7,643
Portfolio Investments (net)	681	6,604	18,771	184.2	52,956
Assets	243	391	1,978	405.9	4,244
Liabilities	438	6,213	16,793	170.3	48,712
Equity Securities	508	340	1,034	204.1	6,968
Debt Securities	-70	5,873	15,759	168.3	41,744
Other Investments (net)	-1,199	15,679	22,821	45.6	25,754
Assets	-1,279	947	867	-8.4	-598
Currency and Deposits	-851	1,453	1,762	21.3	1,527
Liabilities	80	14,732	21,954	49.0	26,352
Trade Credits	1,443	1,809	7,032	289	6,231
Loans	-1,619	5,346	7,167	34.1	11,659
Banking Sector	786	2,833	8,797	210.5	11,130
Non-bank Sectors	-1,785	3,986	-453	-	2,326
Deposits	167	7,466	7,616	2.0	7,949
Foreign Banks	16	4,833	6,559	35.7	8,855
Foreign Exchange	869	3,929	6,560	67.0	7,876
Turkish Lira	-853	904	-1	-	979
Non-residents	275	3,167	1,515	-52.2	1,261
Reserve Assets (net)	4,533	-1,916	-9,764	409.6	-28,662
Net Errors and Omissions	2,849	1,903	-2,877	-	-4,058

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