



## Balance of Payments - July 2013

Economic Research Division



### Higher than expected current account deficit in July...

In July, current account deficit was realized as 5.8 billion USD, above the market expectations. During the first seven months of the year, current account deficit reached 42.1 billion USD. Although non-monetary gold imports were lower than previous months, they continued to remain at high levels. This development was effective on the widening in the current account deficit. While the cumulative net gold exports was 1.6 billion USD in the first seven months of 2012, net gold imports reached 8.4 billion USD in the same period of 2013. In fact, comparing the first seven months of 2012 and 2013, the total change in the current account deficit was also 8 billion USD.

12-month cumulative current account deficit continued to increase and reached 55.8 billion USD in July.

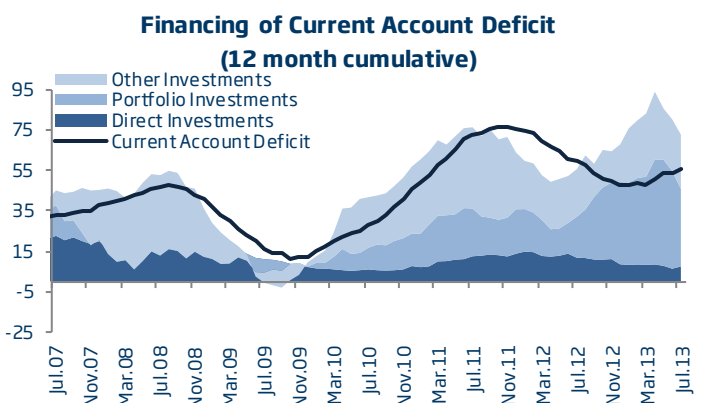
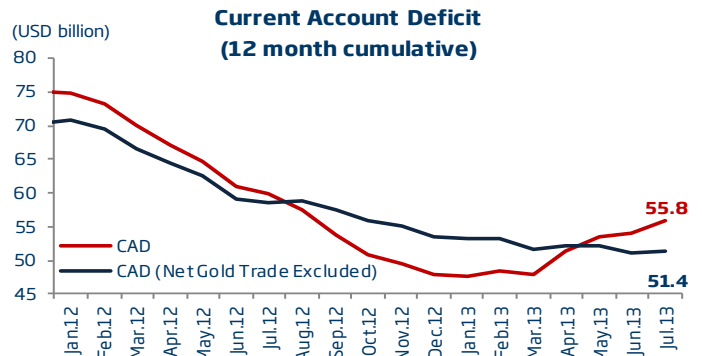
### Flat course in tourism revenues...

In July, net tourism revenues followed a flat course and increased by only 2% compared to the same month of the previous year. Monthly increase in net tourism revenues was 7.4%. Taking into account that the average monthly increase in net tourism revenues in July months during 2002-2012 period was 61%, the weak course in tourism revenues in July 2013 becomes more evident. On the other hand, Ramadan was also influential on the weak course of tourism revenues in July 2013. During January-July period, net tourism revenues increased by 22% to 12.3 billion USD.

### FDI reached its highest level in the last one year period.

In July, net FDI inflows were realized as 1.6 billion USD and reached the highest level of the last 13 months period. Foreign direct investments in financial and insurance activities sectors were effective on the said increase. This development indicates that the financial and insurance activities sector which had 38% share in total foreign direct investment inflows in the last 10-year period, still contributes significantly to FDI.

In the first seven months of the year, net FDI inflows decreased by 17% to 5.1 billion USD compared to the same



period of the previous year.

### Net portfolio investments account registered the sharpest monthly net capital outflow since October 2008.

The expectations of a rating upgrade from a second rating agency fuelled the portfolio inflows towards Turkey until May. However, after the rating upgrade in May, the inflows decelerated. In addition, the expectations that the Federal Reserve might taper its monthly asset purchases also put pressure on portfolio inflows and portfolio investments account registered a net capital outflow of 3 billion USD in July. Net portfolio investments account registered the sharpest decline on a monthly basis since October 2008

### Breakdown of Net Capital Inflows Towards Turkey

	December 2012		July 2013		(12-month cumulative, million USD)	
	December 2012	July 2013	December 2012	July 2013	December 2012	July 2013
<b>Current Account Balance</b>	-47,750	-55,754	-	-	-	-
<b>Total Net Foreign Capital Inflows</b>	<b>68,564</b>	<b>72,456</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
-Direct Investments	8,445	7,359	12.3	10.2		
-Portfolio Investments	40,789	38,451	59.5	53.1		
-Other Investments	18,598	26,944	27.1	37.2		
-Net Errors and Omissions	776	-237	1.1	-0.3		
-Other	-44	-61	-0.1	-0.1		
<b>Reserves<sup>(1)</sup></b>	<b>-20,814</b>	<b>-16,702</b>	-	-	-	-

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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when the shockwaves from the bankruptcy of Lehman Brothers led to significant capital outflows. In July, 2.5 billion USD worth of capital outflow occurred in the government domestic debt securities while the sales in equity market were realized as 605 million USD. Banking sector, whose bond issues in international capital markets reached 4.9 billion USD in the first 6 months, followed a more cautious policy during July in terms of new bond issues.

Net portfolio investments, which were 17.3 billion USD during January-July 2012, decreased to 15 billion USD during the same period of 2013.

### Limited capital inflow in other investments...

Analysis of the asset side of the other investments account in July revealed that residents' FX-assets abroad increased by 1.2 billion USD as Turkish banks enhanced their FX deposits kept in correspondent banks.

On the liabilities side, banking sector, which mostly preferred raising short-term loans or issuing long term bonds during January-April 2013, tended to borrow long-term loans in the following period, taking into account possible volatility in global liquidity conditions. In this context, the banking sector borrowed 1.4 billion USD net long term loans in July. It was noteworthy that the long-term

debt roll-over ratio which was realized as 90% in February 2013, increased to 137% in July according to the 12-month cumulative figures.

In July, the non-banking sector raised 658 million USD of long-term and 253 million USD of short-term loans. Long-term debt roll-over ratio of the non-banking sector based on 12-month cumulative figures, on the other hand, was 106% in July.

### Reserve assets continued to decline in July.

Due to ongoing weak course in capital inflows in July, CBRT's reserve assets declined by 1.8 billion USD to support the financing of the current account deficit. On the other hand, inflow in the net errors and omissions, which was realized as 4.8 billion USD in July, was also noteworthy.

### Expectations...

Despite the recovery observed in domestic demand, gradual improvement in the current account deficit continued when gold trade is excluded. On the other hand, increasing risk perception in global markets and concerns over Syria were influential on the capital inflows to Turkey. In the coming period, Fed's exit strategy and regional developments will be effective in the composition of the financing of the current account deficit.

Current Account Balance	(USD million)				
	July 2013	January-July 2012 2013		% Change	12 Month Cumulative
<b>Current Account Balance</b>	<b>-5,786</b>	<b>-34,095</b>	<b>-42,099</b>	<b>23.5</b>	<b>-55,754</b>
Foreign Trade Balance	-8,064	-40,962	-48,604	18.7	-72,977
Services Balance	2,893	10,516	11,963	13.8	24,356
Tourism Revenues (net)	2,848	10,045	12,260	22.1	23,774
Income Balance	-693	-4,366	-6,024	38.0	-8,365
Current Transfers	78	717	566	-21.1	1,232
<b>Capital and Financial Accounts</b>	<b>985</b>	<b>32,900</b>	<b>41,917</b>	<b>27.4</b>	<b>55,991</b>
Direct Investments (net)	1,605	6,208	5,122	-17.5	7,359
Portfolio Investments (net)	-3,047	17,320	14,982	-13.5	38,451
Assets	91	1,503	2,185	45.4	3,339
Liabilities	-3,138	15,817	12,797	-19.1	35,112
Equity Securities	-605	1,964	-801	-	3,509
Debt Securities	-2,533	13,853	13,598	-1.8	31,603
Other Investments (net)	678	18,242	26,588	45.8	26,944
Assets	-1,225	1,980	-779	-	-3,329
Currency and Deposits	-875	2,184	684	-68.7	-333
Liabilities	1,903	16,262	27,367	68.3	30,273
Trade Credits	-637	3,023	6,229	106	4,228
Loans	2,277	5,376	10,197	89.7	14,683
Banking Sector	675	3,342	11,043	230.4	12,865
Non-bank Sectors	911	3,027	-327	-	3,437
Deposits	159	7,561	10,594	40.1	10,832
Foreign Banks	9	6,851	9,159	33.7	9,437
Foreign Exchange	1,189	5,729	8,474	47.9	7,990
Turkish Lira	-1,180	1,122	685	-38.9	1,447
Non-residents	349	1,677	2,215	32.1	3,451
Reserve Assets (net)	1,760	-8,840	-4,728	-46.5	-16,702
<b>Net Errors and Omissions</b>	<b>4,801</b>	<b>1,195</b>	<b>182</b>	<b>-84.8</b>	<b>-237</b>

Source: CBRT

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