



## Balance of Payments - August 2013

Economic Research Division



### Current account deficit came in slightly lower than expected in August.

Current account deficit was realized as 2.0 billion USD in August, slightly lower than the market expectation of 2.1 billion USD. The August current account deficit was the lowest monthly level attained in 2013. During the first 8 months of the 2013, the deficit reached 44.3 billion USD increasing by 25.3% compared to the same period of the previous year. The 12-month cumulative current account deficit stood at 56.7 billion USD as of August 2013.

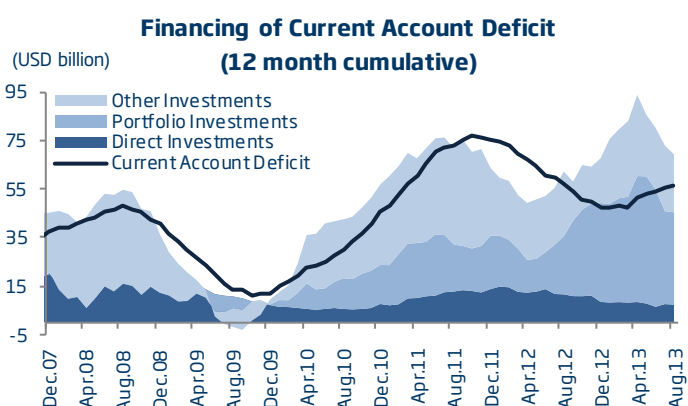
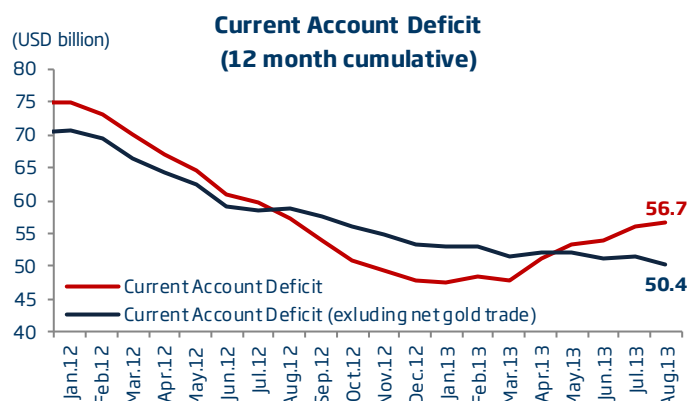
### The negative impacts of the gold trade on the current account deficit diminished in August.

Analyzing the details of the current account deficit, it was noteworthy that the foreign trade deficit narrowed significantly in August compared to the previous months. The foreign trade deficit calculated according to the balance of payments method decreased to 5.6 billion USD in August from 8.2 billion USD in July. The deceleration in imports was responsible for this contraction in the foreign trade deficit. Besides, the fact that the negative impact coming from the gold trade was also lower in August also contributed to the decline in the foreign trade deficit.

On the other hand, despite the deceleration in gold imports in August, the deficit associated with the gold trade reached 8.9 billion USD in the first 8 months of 2013. During the same period of the last year, gold trade gave a surplus of 3.1 billion USD. Thus, when the gold trade was excluded, the current account deficit narrowed by 7.9% in the first 8 months compared to the same period of the previous year.

### Rise in tourism revenues...

The seasonal increase in tourism revenues in August was also another factor contributing to the contraction in the current account deficit. Net tourism revenues increased by 17.2% in August compared to the same month of the previous year and were realized as 3.6 billion USD. In the first 8 months of the year, net tourism revenues increased by 20.9% to 15.8 billion USD.



### Portfolio investments account registered an inflow in August.

As a result of the concerns related to Fed's expected tapering of the asset purchase program, there were capital outflows from almost all emerging markets including Turkey during June and July. In fact, net portfolio investments account registered the sharpest decline on a monthly basis since October 2008 with 3.1 billion of outflow in July. On the other hand, the risk perception towards emerging markets improved somewhat during August and net portfolio investments registered a capital inflow of 1.9 billion USD accordingly. Analyzing the details of the portfolio investments in August, it was noteworthy that there was

### Breakdown of Net Capital Inflows Towards Turkey

	December 2012	August 2013
<b>Current Account Balance</b>	<b>-47,752</b>	<b>-56,694</b>
<b>Total Net Foreign Capital Inflows</b>	<b>68,566</b>	<b>70,495</b>
-Direct Investments	8,445	7,314
-Portfolio Investments	40,789	38,109
-Other Investments	18,509	23,942
-Net Errors and Omissions	867	1,198
-Other	-44	-68
<b>Reserves<sup>(1)</sup></b>	<b>-20,814</b>	<b>-13,801</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.

### (12-month cumulative, million USD)

	December 2012	August 2013
<b>Breakdown of Capital Inflows (%)</b>		
-	-	-
<b>100.0</b>	<b>100.0</b>	
12.3	10.4	
59.5	54.1	
27.0	34.0	
1.3	1.7	
-0.1	-0.1	
-	-	

Source: CBRT

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258 million USD net outflow from the equity market. This brought the total outflow in the first 8 months to 1.1 billion USD in this market. On the other hand, non-residents' net purchases from the government domestic debt securities were 1.1 billion USD in August, bringing the cumulative amount to 5.4 billion USD in the first 8 months of the year. Regarding bond issues in international capital markets, banking sector borrowed 413 million USD while real sector borrowed 444 million USD. The net borrowings of the banking sector and real sector in the first 8 months reached 5.4 billion USD and 2.9 billion USD, respectively. The real sector's starting of issuing bonds in international markets back in August was perceived as a favorable development in terms of financing conditions after they stopped issuing bonds in June and July.

Regarding foreign direct investments, 460 million USD net inflow was recorded in August and the total net inflow in the first 8 months reached 5.7 billion USD. During the same period of the previous year, the net foreign direct investments inflow was 6.9 billion USD.

## Limited capital inflows in other investments account continued.

Analyzing the assets item of other investments, it was observed that the foreign currency deposits of Turkish banks' held within their correspondent banks abroad increased by 1.4 billion USD. On the liabilities side, Turkish banking sector which tended to raise long-term loans during May, June and July, again started to prefer short-term loans from abroad instead of long-term in August. In August, short-term loans raised by the banking sector amounted to 1.4 billion USD. Calculated on the basis of 12-month cumulative data, the long-term debt rollover ratio of the banking sector which declined to 93% in February increased to 152% as of August.

In August, the real sector made a net repayment of 398 million USD in the long-term loans, and used 1.1 billion USD of short term loans. Long-term debt rollover ratio of the real sector was realized as 103% calculated on a 12-month cumulative basis.

## Reserve assets increased in August.

CBRT made use of its reserve assets in order to finance the current account deficit as the capital inflows weakened starting from the end of May due to the Fed related concerns. In fact, reserve assets of CBRT declined by 9.6

billion USD during May-July period. In August, on the other hand, CBRT managed to add 4.0 billion USD to its reserve assets. Thus, the total increase in the reserve assets was realized as 8.7 billion USD in the first 8 months. In addition, 2.9 billion USD capital inflow was registered under the net errors and omissions account in August.

## Expectations...

CBRT's tightening of the monetary policy in order to avoid the negative impacts of the fluctuations in global economic conjuncture is anticipated to put pressure on economic activity in Turkey. The 2013 year-end growth forecast has already been lowered in the recently published Medium Term Program. In addition, new measures which were brought to curb the growth in consumer loans are also expected to put limit the growth in domestic consumption expenditures. Moreover, the foreign trade deficit associated with the gold trade, which made negative impact on the current account deficit during 2013, is expected to disappear gradually as the gold trade converges to its long-term trend. The gold trade figures of August also confirm this expectation. According to the Medium Term Program, the current account deficit is expected to be 58.8 billion USD (7.1% of GDP) and would further decline to 55.5 billion USD in 2014 (6.4% of GDP) together with the normalization of the gold trade.

	CA Deficit/GDP Estimates		(%)
	Prev. MTP	New MTP	IMF
2013	7.1	7.1	7.4
2014	6.9	6.4	7.2
2015	6.5	5.9	7.4
2016	-	5.5	7.7

Regarding the financing of the current account deficit, it was noteworthy that the portfolio investments account registered net capital inflow in August following the outflows recorded in May, June and July. At the same time, reserve assets increased in August after declining for three consecutive months. In the coming months, the signals that will be sent from major central banks' regarding the timing of tightening in their monetary policies and the developments in external financing conditions will continue to be influential in the capital flows.

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	(USD million)				
	August 2013	January-August 2012	January-August 2013	% Change	12 Month Cumulative
<b>Current Account Balance</b>	<b>-1,995</b>	<b>-35,351</b>	<b>-44,293</b>	<b>25.3</b>	<b>-56,694</b>
Foreign Trade Balance	-5,568	-45,432	-54,362	19.7	-74,265
Services Balance	3,984	14,031	15,941	13.6	24,819
Tourism Revenues (net)	3,582	13,102	15,842	20.9	24,299
Income Balance	-477	-4,801	-6,502	35.4	-8,410
Current Transfers	66	851	630	-26.0	1,162
<b>Capital and Financial Accounts</b>	<b>-870</b>	<b>32,666</b>	<b>41,277</b>	<b>26.4</b>	<b>55,496</b>
Direct Investments (net)	460	6,875	5,744	-16.5	7,314
Portfolio Investments (net)	1,930	19,540	16,860	-13.7	38,109
Assets	251	1,939	2,436	25.6	3,154
Liabilities	1,679	17,601	14,424	-18.1	34,955
Equity Securities	-258	2,393	-1,059	-	2,822
Debt Securities	1,937	15,208	15,483	1.8	32,133
Other Investments (net)	748	22,025	27,458	24.7	23,942
Assets	-704	3,266	-1,507	-	-5,338
Currency and Deposits	-1,384	3,436	-726	-	-2,990
Liabilities	1,452	18,759	28,965	54.4	29,280
Trade Credits	-1,528	2,187	4,751	117	3,586
Loans	2,189	6,445	12,468	93.5	15,791
Banking Sector	1,481	3,463	12,544	262.2	14,245
Non-bank Sectors	665	4,347	399	-90.8	2,749
Deposits	696	9,737	11,304	16.1	9,366
Foreign Banks	685	9,118	9,858	8.1	7,869
Foreign Exchange	1,471	7,611	9,959	30.9	7,593
Turkish Lira	-786	1,507	-101	-	276
Non-residents	412	1,992	2,627	31.9	3,548
Reserve Assets (net)	-3,994	-15,735	-8,722	-44.6	-13,801
<b>Net Errors and Omissions</b>	<b>2,865</b>	<b>2,685</b>	<b>3,016</b>	<b>12.3</b>	<b>1,198</b>

Source: CBRT

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**Türkiye İş Bankası A.Ş. - Economic Research Division****İzlem Erdem - Manager**

izlem.erdem@isbank.com.tr

**Alper Gürler - Unit Manager**

alper.gurler@isbank.com.tr

**Kıvılcım Eraydın - Economist**

kivilcim.eraydin@isbank.com.tr

**Erhan Gül - Economist**

erhan.gul@isbank.com.tr

**Bora Çevik - Economist**

bora.cevik@isbank.com.tr

**Eren Demir - Asst.Economist**

eren.demir@isbank.com.tr

**M. Kemal Gündoğdu - Asst.Economist**

kemal.gundogdu@isbank.com.tr

**Gamze Can - Asst.Economist**

gamze.can@isbank.com.tr

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