



Balance of Payments - February 2014

Economic Research Division



Current account deficit was in line with expectations in February.

In February, current account deficit contracted by 37% yoy and was realized as 3.2 billion USD, in line with market expectations. Continued increase in exports compared to the previous year and decline in imports thanks to the measures taken in order to limit the domestic demand played role in the rapid decline of the current account deficit. On the other hand, the normalization of the gold trade also supported the narrowing of the current account deficit.

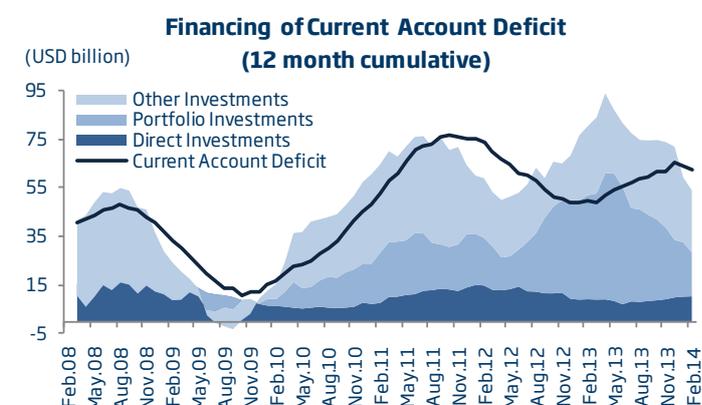
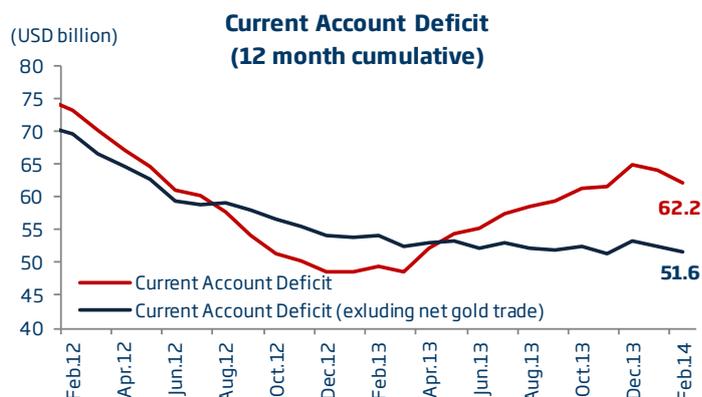
In the first two months of the year, current account deficit decreased by 25% yoy and was realized as 8.1 billion USD. 12-month cumulative current account deficit also declined in February, as January, to 62.2 billion USD.

Foreign direct investments...

In February, net foreign direct investments increased slightly compared to the same month of the previous year and was realized as 877 million USD. 500 million USD of this amount was towards the "Manufacture of Computers, Electronic-Electrical and Optical Equipment" sector. The cumulative net foreign direct investments in the first two months reached 1.8 billion USD while 12-month cumulative figure was realized as 10.2 billion USD, the highest level since November 2012.

Portfolio investments registered net outflow.

In February, portfolio investments account registered a large amount of net outflow by 1.5 billion USD, the highest level observed since July 2013. The uncertainties in global markets and increased domestic political risks ahead of the local elections were responsible for the outflow in February. In fact, non-residents' equity transactions recorded net sales of 84 million USD. Regarding government domestic debt securities, non-residents realized net sales of 1.1 billion USD. On the other hand, general government borrowed 1.5 billion USD from international markets by issuing bonds while 421 million USD capital outflow from banking sectors' bonds was observed.



Other investments...

Unlike January, 3.2 billion USD capital inflows were registered through other investments in February. 2.8 billion USD of this amount was originated from the decrease in domestic banks' currency and deposits that are held in their correspondent banks. It is thought that the interest rate hike of CBRT at its interim meeting, held on January 28, was effective on this development. It is seen that the other sector's currency and deposits that are held in abroad also decreased by 654 million USD in February. Following a decline in January, non-resident banks' deposits held in domestic banks continued to decline in February and fell by 899 million USD.

Breakdown of Net Capital Inflows Towards Turkey

	December 2013		February 2014		(12-month cumulative, million USD)	
	December 2013	February 2014	December 2013	February 2014	December 2013	February 2014
Current Account Balance	-65,025	-62,246	-	-	-	-
Total Net Foreign Capital Inflows	74,936	63,396	100.0	100.0	100.0	100.0
-Direct Investments	9,751	10,197	13.0	16.1	13.0	16.1
-Portfolio Investments	23,709	18,049	31.6	28.5	31.6	28.5
-Other Investments	38,422	25,643	51.3	40.4	51.3	40.4
-Net Errors and Omissions	3,146	9,602	4.2	15.1	4.2	15.1
-Other	-92	-95	-0.1	-0.1	-0.1	-0.1
Reserves⁽¹⁾	-9,911	-1,150	-	-	-	-

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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In February, banking sector and corporates raised 959 million USD and 1,109 million USD net loans from abroad, respectively. In this period, it is observed that banking sector and corporates had no difficulty in raising long-term loans. Indeed, according to 12-month cumulative figures, banks' and corporates' long-term debt rollover ratios were 258% and 99%, respectively.

Reserve assets and net errors and omissions...

In February, reserve assets of CBRT increased by 1.6 billion USD. In the first two months, on the other hand, reserve assets fell by 4.2 billion USD due to the CBRT's intervention of FX markets in January. After January, net errors and omissions item also recorded rapid capital inflow in February. The total inflow registered under this item reached 4.5 billion USD in the first two months and played an important role in financing the current account deficit.

Expectations...

In February, current account figures pointed out that the external re-balancing between domestic and foreign demand became more evident. Tight monetary policy implementation and macroprudential measures taken in order to support this rebalancing process are expected to continue to control the domestic demand and thus limit the increase in import volume. Furthermore, we expect that the recovery in the Euro Area which is the most important export market of Turkey and the competitive level of the real effective exchange rate will support the exports.

On the financing side, we observe that the portfolio investments have gained momentum recently due to the CBRT's interest rate hike and the diminishing political uncertainty following local elections. We anticipate that possible changes in political risk perception might be influential on capital inflows in the coming period. However, we think that the banking and non-bank sectors will not face any difficulties in raising funds from abroad and will contribute significantly to the financing of current account deficit.

	Current Account Balance				(USD million)
	February 2014	January-February 2013	January-February 2014	% Change	12 Month Cumulative
Current Account Balance	-3,191	-10,900	-8,121	-25.5	-62,246
Foreign Trade Balance	-3,539	-11,358	-8,822	-22.3	-77,395
Services Balance	903	1,323	1,770	33.8	23,502
Tourism Revenues (net)	822	1,667	1,788	7.3	23,301
Income Balance	-622	-1,066	-1,169	9.7	-9,452
Current Transfers	67	201	100	-50.2	1,099
Capital and Financial Accounts	993	12,883	3,648	-71.7	52,644
Direct Investments (net)	877	1,348	1,794	33.1	10,197
Portfolio Investments (net)	-1,497	4,235	-1,425	-	18,049
Assets	-62	-179	256	-	3,054
Liabilities	-1,435	4,414	-1,681	-	14,995
Equity Securities	-84	-118	-403	241.5	556
Debt Securities	-1,351	4,532	-1,278	-	14,439
Other Investments (net)	3,231	11,892	-887	-	25,643
Assets	3,310	3,523	1,794	-49.1	107
Currency and Deposits	3,471	2,917	1,585	-45.7	2,708
Liabilities	-79	8,369	-2,681	-	25,536
Trade Credits	-1,215	2,383	-1,956	-	1,260
Loans	2,042	3,512	1,189	-66.1	20,505
Banking Sector	959	2,641	-257	-	18,678
Non-bank Sectors	1,109	1,447	1,611	11.3	2,286
Deposits	-922	2,475	-1,962	-	3,143
Foreign Banks	-899	2,153	-1,810	-	2,349
Foreign Exchange	-717	3,501	-1,365	-	1,508
Turkish Lira	-182	-1,348	-445	-67.0	841
Non-residents	78	484	68	-86.0	2,852
Reserve Assets (net)	-1,616	-4,577	4,184	-	-1,150
Net Errors and Omissions	2,198	-1,983	4,473	-	9,602

Source: CBRT

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