



Balance of Payments - March 2014

Economic Research Division



Current account deficit narrowed by 30.8% in the first quarter.

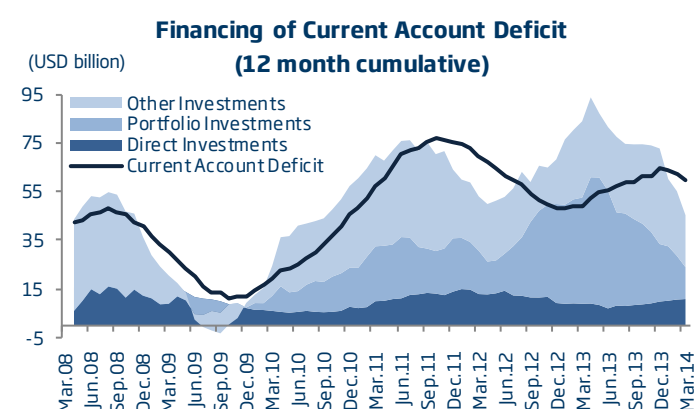
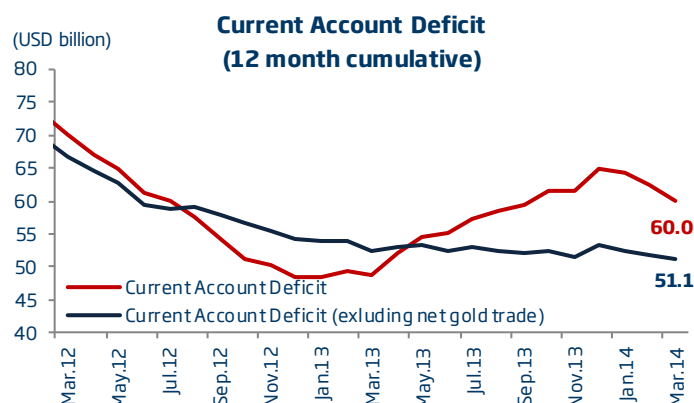
The narrowing of the current account deficit in recent months continued in March. In fact, the deficit decreased by 43.4% yoy to 3.2 billion USD in March in line with the market expectations. Imports started to decrease thanks to the CBRT's rate hike in the beginning of 2014 and BRSA's measures to slow down the growth in consumer loans. The continued economic recovery in the European Union helped exports to gain strength. In addition to this rebalancing in demand conditions, the gold trade, which widened the deficit in the first quarter of the previous year, also contributed the narrowing of the deficit in the first quarter of 2014 by giving surplus. Thus, the current account deficit narrowed by 30.8% yoy in the first quarter and was realized as 11.5 billion USD. The 12-month cumulative current account deficit declined to 60 billion USD, the lowest level observed since September 2013.

The rise in FDI was noteworthy.

Despite the low share of FDI in the financing of the current account deficit, the rate of increase in FDI during the first quarter of 2014 was noteworthy. The sustained increase in FDI despite the elevated uncertainties and tighter global financial conditions in the first quarter was evaluated as a quite positive development. In fact, net FDI inflows increased by 48.9% yoy in the first quarter. According to the 12-month cumulative figures, net FDI inflows reached 10.8 billion USD as of March 2014.

2.5 billion USD net capital outflow from portfolio investments...

Portfolio investments recorded capital outflow in March, as well as in February, as a result of the volatile course of risk perception towards emerging markets and the increased uncertainties in the domestic markets ahead of the local elections. The total net outflow from portfolio investments in the first quarter reached 2.5 billion USD, including the 1 billion USD outflow recorded in March. During the same period of the previous year, portfolio investments recorded 8.1 billion USD net capital inflow. Analyzing the details of



the portfolio investments, the highest amount of capital outflow was recorded in government domestic debt securities. Non-residents' net sales in the said market reached 3 billion USD in the first quarter, including the 1.7 billion USD net sales in March. Opposed to the net sales in the debt securities market, non-residents' net equity securities purchases reached 811 million USD in March. Investors increased their interest in the equity market especially during the last week of March as they started to price in the outcome of the local elections positively. Non-residents' net purchases in the equity market were realized as 408 million USD in the first quarter.

Breakdown of Net Capital Inflows Towards Turkey

	(12-month cumulative, million USD)		Breakdown of Capital Inflows (%)	
	December 2013	March 2014	December 2013	March 2014
Current Account Balance	-65,061	-59,970	-	-
Total Net Foreign Capital Inflows	74,972	57,977	100.0	100.0
-Direct Investments	9,754	10,786	13.0	18.6
-Portfolio Investments	23,709	13,120	31.6	22.6
-Other Investments	39,359	21,425	52.5	37.0
-Net Errors and Omissions	2,242	12,737	3.0	22.0
-Other	-92	-91	-0.1	-0.2
Reserves⁽¹⁾	-9,911	1,993	-	-

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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Other investments...

141 million USD net capital inflow was recorded under the other investments account in March. In the first quarter, on the other hand, there was 713 million USD capital outflow in the said account. During the first quarter of the previous year, 17.2 billion USD inflow was recorded under other investments account. Analyzing the details of the other investments account, the loans raised from abroad decreased to 3.1 billion USD in the first quarter of 2014 from 7 billion USD in the same period of the previous year. This decline was mainly stemmed from the decrease in the short-term loans raised by the banking sector from abroad. On the other hand, regarding long-term loans raised from abroad, both the banking sector and non-banking sector did not face any difficulty despite the tighter global financial conditions and rising political uncertainties in domestic markets. In fact, in the first quarter, banks and other sectors raised long-term loans from abroad amounting to 1.4 billion USD and 1.9 billion USD, respectively. During the same period, banks' and other sectors' long-term debt rollover ratios were 175% and 139%, respectively.

2.4 billion USD of net outflow was recorded under the deposits account. During the same period of the previous year, there was 4.8 billion USD capital inflow under this account. This decline was mainly attributable to the fall in non-resident banks' deposits.

Reserve assets and net errors and omissions...

CBRT's reserve assets decreased by 700 million USD in March. The total decrease in the reserve assets reached 4.9 billion USD in the first quarter of the year. The high amount of capital inflow under the net errors and omissions account continued also in March. Total inflow under this account reached 6.6 billion USD in the first quarter, including the 2.4 billion USD inflow in March.

Expectations

The narrowing of the current account deficit gained speed as we have envisaged before. The impacts of the CBRT's interest rate hike in January and BRSA's measures to slow down the growth in consumer loans on domestic demand have become more evident recently. In addition, the sustained increase in exports has also supported the narrowing of the current account deficit. We think that the current account deficit will continue to narrow in the coming months and the deficit to GDP ratio, which was 7.9% at the end of 2013, will decrease to around 5.5% as of end-2014.

Regarding the financing of the deficit, we anticipate that portfolio investments, which recorded significant amount of outflow in the first quarter due to the uncertainties in domestic markets and the volatility in international markets, will recover in the coming months.

Current Account Balance					(USD million)
	March 2014	January-March 2013 2014		% Change	12 Month Cumulative
Current Account Balance	-3,194	-16,551	-11,460	-30.8	-59,970
Foreign Trade Balance	-3,318	-17,215	-11,987	-30.4	-74,788
Services Balance	1,179	2,447	2,676	9.4	23,353
Tourism Revenues (net)	1,108	2,780	2,767	-0.5	23,167
Income Balance	-1,147	-2,035	-2,314	13.7	-9,628
Current Transfers	92	252	165	-34.5	1,093
Capital and Financial Accounts	761	20,411	4,825	-76.4	47,233
Direct Investments (net)	965	2,109	3,141	48.9	10,786
Portfolio Investments (net)	-1,042	8,122	-2,467	-	13,120
Assets	-519	827	-263	-	1,529
Liabilities	-523	7,295	-2,204	-	11,591
Equity Securities	811	393	408	3.8	856
Debt Securities	-1,334	6,902	-2,612	-	10,735
Other Investments (net)	141	17,221	-713	-	21,425
Assets	-1,000	1,862	828	-55.5	1,328
Currency and Deposits	271	2,299	1,857	-19.2	4,121
Liabilities	1,141	15,359	-1,541	-	20,097
Trade Credits	-325	3,542	-2,282	-	-221
Loans	1,885	7,037	3,082	-56.2	18,956
Banking Sector	1,483	6,842	1,226	-82.1	15,958
Non-bank Sectors	511	543	2,125	291.3	3,789
Deposits	-457	4,773	-2,418	-	711
Foreign Banks	-226	3,963	-2,036	-	496
Foreign Exchange	-6	3,357	-1,371	-	1,646
Turkish Lira	-220	606	-665	-	-1,150
Non-residents	-97	1,048	-28	-	2,331
Reserve Assets (net)	696	-7,024	4,880	-	1,993
Net Errors and Omissions	2,433	-3,860	6,635	-	12,737

Source: CBRT

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