



Balance of Payments - May 2014

Economic Research Division

TÜRKİYE BANKASI

Current account deficit narrowed by 38.5% yoy in the first five months of the year.

Current account deficit came in lower than the market expectations at 3.4 billion USD and continued to narrow in May. In the first five months of 2014, the cumulative current account deficit decreased from 32.3 billion USD in the same period of the previous year to 19.8 billion USD (-38.5% yoy). The deceleration in domestic consumption expenditures and the sustained increase in exports played role in the contraction of the current account deficit. In fact, foreign trade deficit (calculated according to the balance of payments methodology) narrowed by 32.4% yoy in the first five months of the year. In addition, 11.8% yoy increase in the services balance surplus also supported the improvement in the current account deficit. The 12-month cumulative current account deficit declined to 52.6 billion USD, the lowest level observed since April 2013.

Current Account Deficit
(12 month cumulative, USD billion)



Foreign direct investment inflows in the first five months of the year reached 5.7 billion USD.

Despite the fluctuations in domestic markets during the first five months of the year, non-residents' direct investments in Turkey increased by 25.2% yoy and reached 5.7 billion USD. In the same period, residents' direct investments abroad also increased by 51.7% yoy to 1.9 billion USD. Thus, the increase in net foreign direct

investments was realized 15.3%.

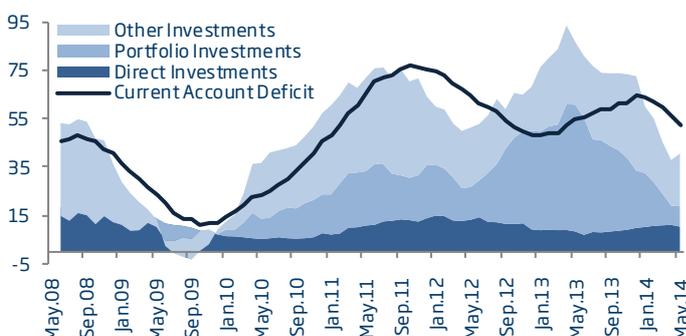
Inflow in portfolio investments

After having registered significant capital outflow in the first quarter of the year 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, portfolio investments recorded 4.2 billion USD inflow in April with the removal of the elections uncertainty. Non-residents' interest in Turkish assets also continued in May and portfolio investments inflows amounted to 1.4 billion USD. Thus, net portfolio investments reached 3.1 billion USD in the first five months of the year. Besides, benefiting from the decline in domestic uncertainties and the positive sentiment towards emerging markets, the banking sector increased bond issues in international markets. As regards to the bond issues in international capital markets, banks borrowed net 895 million USD from international markets via bond issues in May bringing the net borrowings in the first five months of the year to 3.1 billion USD.

Other investments

Capital inflow recorded under the other investment account was 3.1 billion USD in May. It was noteworthy that both the banking sector and non-bank sectors did not face any difficulty regarding raising long-term loans from abroad. In

Financing of Current Account Deficit
(12 month cumulative, USD billion)



Breakdown of Net Capital Inflows Towards Turkey

	December 2013		May 2014	
	December 2013	May 2014	December 2013	May 2014
Current Account Balance	-65,065	-52,636	-	-
Total Net Foreign Capital Inflows	74,976	52,554	100.0	100.0
-Direct Investments	9,805	10,312	13.1	19.6
-Portfolio Investments	23,691	8,436	31.6	16.1
-Other Investments	39,095	21,836	52.1	41.5
-Net Errors and Omissions	2,477	12,047	3.3	22.9
-Other	-92	-77	-0.1	-0.1
Reserves⁽¹⁾	-9,911	82	-	-

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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fact, long-term loans raised from abroad in the first five months of 2014 by banks and non-bank sectors amounted to 2.3 billion USD and 4 billion USD, respectively. During the same period, banks' and other sectors' long-term debt roll-over ratios were 167% and 143%, respectively.

Increase in reserve assets

The high amount of capital inflow recorded under portfolio investments and other investments enabled the CBRT to increase its reserve assets by 1.9 billion USD in May. The net errors and omissions account recorded 948 million USD inflow in May bringing the net inflow under this account to 6.7 billion USD in the first five months of the year.

Expectations

The narrowing in the current account deficit continued in May. The slowdown in domestic consumption expenditures and the sustained increase in exports have been supporting the improvement in 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. On the other hand, recent developments in Iraq, Turkey's second largest export market, raised concerns about the future of Turkey's exports to Iraq and to

neighbouring countries over Iraq. Although the developments in Iraq have the potential to negatively affect Turkey's export performance and limit the improvement in the current account deficit, the fact that Turkey's trade with Iraq is generally concentrated in the country's north part, which is relatively less affected from clashes than central Iraq, eases the short-term concerns. Another concern raised by the developments in Iraq is a possible surge in oil prices which might put further pressure on Turkey's current account deficit. However, until now there was not any significant impact on oil prices.

Regarding the financing of the deficit, the negative outlook that was observed in the first quarter has disappeared to a large extent in April and May. Portfolio investments were very strong while banks and non-banks sector continued to borrow from abroad without facing a major problem. We think that there will not be any long-lasting difficulty in the financing of the current account deficit.

					(USD million)
	May 2014	January-May 2013 2014		% Change	12 Month Cumulative
Current Account Balance	-3,434	-32,268	-19,839	-38.5	-52,636
Foreign Trade Balance	-5,262	-33,578	-22,710	-32.4	-69,154
Services Balance	2,396	5,749	6,426	11.8	23,807
Tourism Revenues (net)	2,280	6,358	6,458	1.6	23,280
Income Balance	-622	-4,896	-3,786	-22.7	-8,244
Current Transfers	54	457	231	-49.5	955
Capital and Financial Accounts	2,486	35,130	13,131	-62.6	40,589
Direct Investments (net)	-13	3,313	3,820	15.3	10,312
Portfolio Investments (net)	1,378	18,348	3,093	-83.1	8,436
Assets	-504	1,350	-1,218	-	33
Liabilities	1,882	16,998	4,311	-74.6	8,403
Equity Securities	624	1,034	1,611	55.8	1,418
Debt Securities	1,258	15,964	2,700	-83.1	6,985
Other Investments (net)	3,050	23,264	6,005	-74.2	21,836
Assets	344	1,184	1,696	43.2	2,876
Currency and Deposits	707	2,059	2,271	10.3	4,774
Liabilities	2,706	22,080	4,309	-80.5	18,960
Trade Credits	347	7,022	-1,677	-	-3,096
Loans	3,349	7,309	7,181	-1.8	21,786
Banking Sector	2,674	8,751	3,935	-55.0	16,784
Non-bank Sectors	898	-310	3,974	-	5,468
Deposits	-1,041	7,611	-1,405	-	-383
Foreign Banks	-387	6,554	-1,232	-	-560
Foreign Exchange	-666	6,555	-664	-	-845
Turkish Lira	279	-1	-568	56,700.0	285
Non-residents	-476	1,515	513	-66.1	2,405
Reserve Assets (net)	-1,929	-9,764	229	-	82
Net Errors and Omissions	948	-2,862	6,708	-	12,047

Source: CBRT

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