



Balance of Payments - June 2014

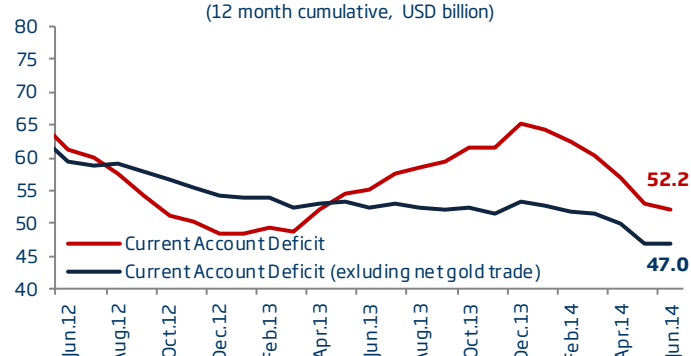
Economic Research Division

TÜRKİYE BANKASI

Current account deficit contracted by 34.9% in the first half.

Current account deficit came in slightly higher than markets expectations in June but kept its narrowing trend in recent months. The deficit declined to 4.1 billion USD in June from 4.8 billion USD in the same month of the previous year. In the first half of the year, the deficit declined to 24.2 billion USD from 37.1 billion USD in the same period of the previous year (34.9% decrease). The 12-month cumulative current account deficit declined to 52.2 billion USD.

Current Account Deficit
(12 month cumulative, USD billion)



According to the balance of payments data, in the first half of 2014, foreign trade deficit declined to 29.3 billion USD from 40.6 billion USD in the same period of the previous year (27.8% decrease). The narrowing in the foreign trade deficit has lost some momentum compared to previous months mainly due to the lower exports to Iraq and the neighbouring regions as a result of the problems in the country. The decline in gold exports also supported the narrowing of the current account deficit in the first half of the year. In fact, non-monetary gold trade deficit, which was 7 billion USD in the first half of the previous year, was only 355 million USD in the same period of this year. The services balance, which is mainly composed of tourism revenues, increased by 10.5% yoy in the first half and contributed to the improvement in the current account balance.

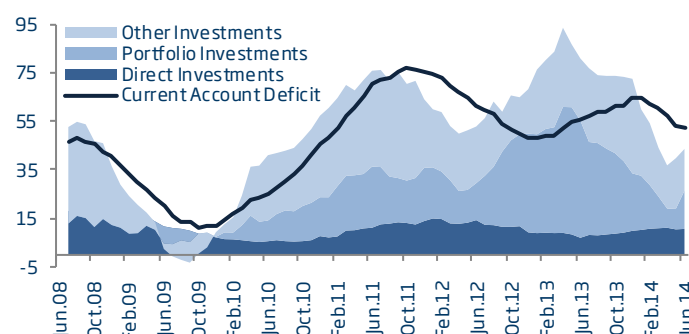
The highest portfolio investment inflows since April 2013

Portfolio investments account registered 7 billion USD inflows in June, the highest amount since April 2013 (9.3 billion USD). 3.3 billion USD of this amount was non-residents' net purchases from the government domestic debt market. Regarding the bond issues in international capital markets, banks borrowed 2 billion USD and non-bank sectors borrowed 1.7 billion USD in June. Despite strong portfolio inflows in June, total portfolio inflows in the first half of 2014 declined to 10.1 billion USD from 18 billion USD in the same period of the previous year reflecting the poor performance in the first quarter of this year.

Net loans raised by the banking sector from abroad reached 4.7 billion USD in the first half.

Banking sector did not face any difficulty in raising loans from abroad. The sector utilized net 662 million USD loans in June, bringing the total amount to 4.7 billion USD in the first half of the year. 3 billion USD of this amount were long-term loans. Non-bank sectors, on the other hand, realized a net repayment of 1.4 billion USD in June. In the first half, net loans raised from abroad by non-bank sectors were realized as 2.6 billion USD. During the same period, banks' and non-bank sectors' long-term debt roll-over ratios were 167% and 125%, respectively.

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



Breakdown of Net Capital Inflows Towards Turkey

	December 2013		June 2014	
	(12-month cumulative, million USD)		(12-month cumulative, million USD)	
Current Account Balance	-65,110	-52,176	-	-
Total Net Foreign Capital Inflows	75,021	56,857	100.0	100.0
-Direct Investments	9,804	10,584	13.1	18.6
-Portfolio Investments	23,691	15,794	31.6	27.8
-Other Investments	39,086	17,233	52.1	30.3
-Net Errors and Omissions	2,532	13,299	3.4	23.4
-Other	-92	-53	-0.1	-0.1
Reserves⁽¹⁾	-9,911	-4,681	-	-

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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Foreign direct investments reached 4.6 billion USD in the first half.

Foreign direct investments account recorded 742 million USD inflow in June bringing the total amount of inflow to 4.6 billion USD in the first half of the year. This amount was 20.2% higher than that of the previous year. Analyzing the foreign direct investments according to sectors, it was seen that investments were concentrated in banking, energy, manufacture of electronic equipment, wholesale and retail trade sectors.

Rise in reserve assets

The high amount of capital inflows recorded under portfolio investments enabled the CBRT to increase its reserve assets by 1.5 billion USD in June. The net errors and omissions account recorded 1.3 billion USD outflow in June. On the other hand, net errors and omissions item recorded capital inflows amounting to 6.4 billion USD in the first half and 13.3 billion USD in the last 12 months, having a significant share in the financing of the current account deficit.

Expectations

We expect that the narrowing in the current account deficit will continue in the coming months but the improvement will lose pace compared to previous months. The declining exports to Iraq and the neighbouring region due to the

ongoing problems in this country and the recent disappointing data announcements coming from the European Union, the largest exports market of Turkey, might have negative impacts on the export performance. In addition to that, CBRT's recent rate cuts might stimulate the domestic demand, which was relatively moderate in the first half, and might increase the import demand and limit the improvement in the current account deficit. Another factor to watch is the course of oil prices which may start to rise due to the geopolitical concerns. Despite these factors that might limit the improvement in the current account deficit, a factor that can support exports is Russia's food embargo against the EU and US. Russian importers will look for alternative suppliers and Turkey might benefit from this. We think that the current account deficit to GDP ratio, which was 7.9% at the end of 2013, will decrease below 6% at the end-2014.

We do not expect any difficulty in the financing of the deficit in the coming months thanks to the high risk taking appetite in global markets. The expectations that the Fed will not start tightening before the second half of 2015 together with ECB and BoJ's continuation of accommodative policies support to capital inflows towards emerging markets.

Current Account Balance					(USD million)
	June 2014	January-June 2013	January-June 2014	% Change	12 Month Cumulative
Current Account Balance	-4,093	-37,085	-24,151	-34.9	-52,176
Foreign Trade Balance	-6,213	-40,590	-29,322	-27.8	-68,755
Services Balance	2,744	8,413	9,296	10.5	23,969
Tourism Revenues (net)	2,748	8,885	9,231	3.9	23,526
Income Balance	-699	-5,445	-4,489	-17.6	-8,398
Current Transfers	75	537	364	-32.2	1,008
Capital and Financial Accounts	5,424	41,482	17,781	-57.1	38,877
Direct Investments (net)	742	3,859	4,639	20.2	10,584
Portfolio Investments (net)	7,046	18,036	10,139	-43.8	15,794
Assets	139	2,094	-1,079	-	-572
Liabilities	6,907	15,942	11,218	-29.6	16,366
Equity Securities	-153	-196	1,458	-	2,495
Debt Securities	7,060	16,138	9,760	-39.5	13,871
Other Investments (net)	-877	26,127	4,274	-83.6	17,233
Assets	-1,050	886	-655	-	841
Currency and Deposits	-1,283	1,985	-330	-	2,265
Liabilities	173	25,241	4,929	-80.5	16,392
Trade Credits	762	6,863	-926	-	-2,186
Loans	-857	7,700	6,628	-13.9	20,815
Banking Sector	662	10,362	4,738	-54.3	15,995
Non-bank Sectors	-1,436	-1,471	2,637	-	5,246
Deposits	172	10,435	-1,081	-	-2,883
Foreign Banks	112	9,150	-968	-	-2,892
Foreign Exchange	-1,718	7,285	-2,229	-	-3,140
Turkish Lira	1,830	1,865	1,261	-32.4	248
Non-residents	260	1,866	773	-58.6	2,314
Reserve Assets (net)	-1,487	-6,488	-1,258	-80.6	-4,681
Net Errors and Omissions	-1,331	-4,397	6,370	-	13,299

Source: CBRT

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