

Current account deficit continued to improve.

Current account balance posted a deficit of 2.9 billion USD in May 2016 from 4.3 billion USD in the same month a year earlier. Thus, current account deficit contracted by 26.7% yoy in the first five months of the year.

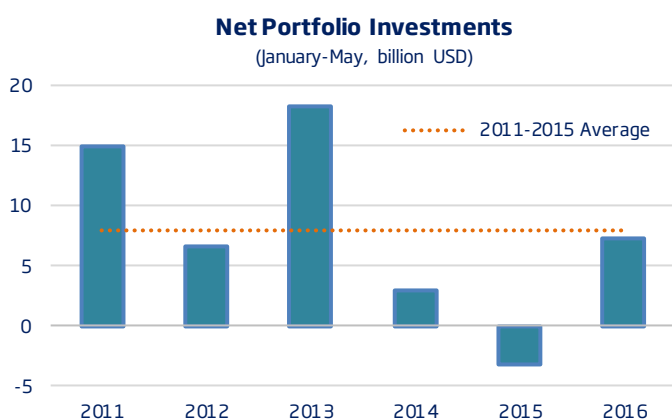
Fall in foreign trade deficit continued to bring down the current account deficit. Total export volume increased by 8.3% yoy in May thanks to the gold exports. Imports, on the other hand, kept declining in this period. Hence, the foreign trade deficit dropped by 31.4% yoy in May.

Weakness in tourism revenues remain a drag on current account deficit improvement. Together with the 559 million USD drop recorded in May, total loss in tourism revenues reached 1.9 billion USD in the first five months of the year compared to the same period of the previous year.

According to 12-month cumulative figures current account deficit narrowed to 27.2 billion USD, the lowest level since July 2010.

Portfolio investments recovered in 2016.

Analysis of the financing of the current account deficit showed that portfolio inflows recovered in the first 5 months of 2016 despite losing some momentum in May. Portfolio investments recorded a net capital inflow since February. Investments mainly directed to government debt securities during this period while equity securities also registered net inflows except May.



Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	Dec. 2015		May. 2016	
	Dec. 2015	May. 2016	Dec. 2015	May. 2016
Current Account Balance	-32,238	-27,249	-	-
Total Net Foreign Capital Inflows	20,407	23,964	100.0	100.0
-Direct Investments	11,805	9,431	57.8	39.4
-Portfolio Investments	-15,498	-5,007	-	-
-Other Investments	14,750	17,255	72.3	72.0
-Net Errors and Omissions	9,371	2,290	45.9	9.6
-Other	-21	-5	-	-
Reserves⁽¹⁾	11,831	3,285	-	-

Note: The numbers may not add up to total due to rounding.

(1) (-) sign indicates an increase in reserves while (+) sign indicates a decrease.

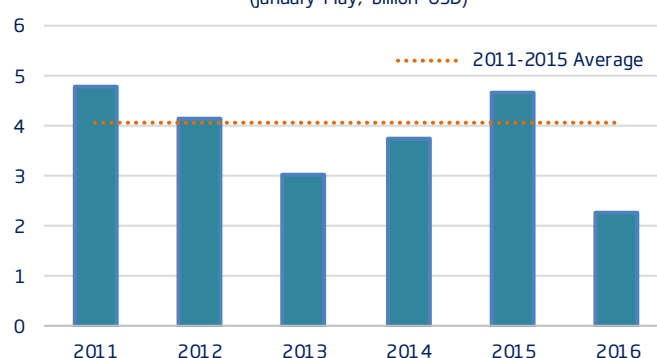
Regarding the first five months of the year, portfolio investments recovered substantially after showing a net outflow in 2015. During this period, portfolio inflows climbed close to the 5-year average.

Deceleration in foreign direct investments

Unlike portfolio investments, direct investments have weakened in 2016 so far. In the first 5 months of the year, net direct investments came in well below the 5-year average. Foreign direct investments halved compared to the same period of the last year.

Net Foreign Direct Investments

(January-May, billion USD)



Non-bank sectors borrowed 1.5 billion USD from abroad.

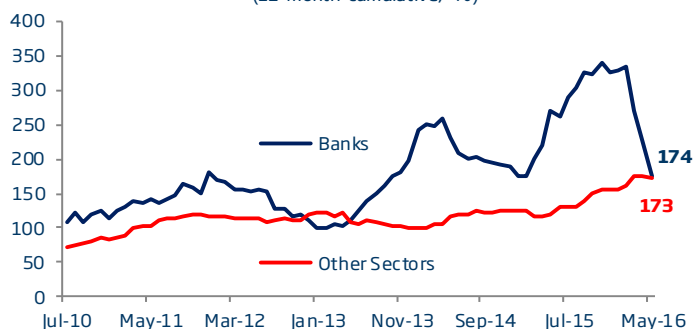
It was noteworthy that banks' appetite for foreign loans faltered in 2016 so far. The slowdown in domestic credit demand played a big part in this development. While residents borrowed 1.6 billion USD via loans from abroad, non-banks were responsible for almost all (1.5 billion USD) of this amount.

12-month trailing long-term debt rollover ratio of the banking sector declined to 174%, the lowest level seen since September 2013. The basis effect from the last year's shift by the banking sector away from short-term loans to

long-term loans was mostly accountable for this fall. This ratio stood at 173% for non-bank sectors in this period.

Long-term Debt Rollover Ratios

(12-month cumulative, %)



A sharp expansion in Central Bank reserves...

The rebound in capital flows toward Turkey was reflected positively in Central Bank reserves. Recording 2.3 billion USD rise in May, reserves increased by 4.8 billion USD during the first five months of the year. Net errors and omissions also posted an inflow of 1.9 billion USD in May.

Expectations...

Despite the weakening in tourism revenues, foreign trade deficit has made it possible for the current account deficit to narrow. The impact of the fall in tourism revenues on the deficit is expected to become more evident along with the summer months. Nonetheless, the negative impact of the tourism might subside by August thanks to the diminishing tensions with Russia.

Balance of Payments	(USD million)				
	May 2016	Jan. - May. 2015	Jan. - May. 2016	% Change	12-Month Cumulative
Current Account Balance	-2,863	-18,668	-13,679	-26.7	-27,249
Foreign Trade Balance	-3,764	-20,520	-14,968	-27.1	-42,602
Services Balance	1,378	6,163	4,018	-34.8	21,974
Travel (net)	1,222	5,757	3,887	-32.5	19,378
Primary Income	-442	-4,741	-3,529	-25.6	-8,313
Secondary Income	-35	430	800	86.0	1,692
Capital Account	0	-1	15	-	-5
Financial Account	-1,008	-8,966	-11,042	23.2	-24,964
Direct Investments (net)	-587	-4,659	-2,285	-51.0	-9,431
Portfolio Investments (net)	-947	3,162	-7,329	-	5,007
Net Acquisition of Financial Assets	281	2,287	568	-75.2	4,410
Net Incurrence of Liabilities	1,228	-875	7,897	-	-597
Equity Securities	-838	-68	841	-	-1,486
Debt Securities	2,066	-807	7,056	-	889
Other Investments (net)	-1,731	-3,704	-6,209	67.6	-17,255
Currency and Deposits	131	1,584	-1,898	-	-1,405
Net Acquisition of Financial Asse	1,262	9,900	4,477	-54.8	9,541
Net Incurrence of Liabilities	1,131	8,316	6,375	-23.3	10,946
Central Bank	-38	-230	-141	-38.7	-827
Banks	1,169	8,546	6,516	-23.8	11,773
Foreign Banks	740	7,695	5,638	-26.7	7,885
Foreign Exchange	1,027	6,715	1,974	-70.6	-33
Turkish Lira	-287	980	3,664	273.9	7,918
Non-residents	429	851	878	3.2	3,888
Loans	-2,106	-4,955	-3,954	-20.2	-12,615
Net Acquisition of Financial Asse	-490	265	186	-29.8	713
Net Incurrence of Liabilities	1,616	5,220	4,140	-20.7	13,328
Banking Sector	120	3,496	-1,439	-	13
Non-bank Sectors	1,489	2,287	6,327	176.7	14,716
Trade Credit and Advances	264	-203	-426	109.9	-3,172
Other Assets and Liabilities	-20	-130	69	-	-63
Reserve Assets (net)	2,257	-3,765	4,781	-	-3,285
Net Errors and Omissions	1,855	9,703	2,622	-73.0	2,290

The figures used in the table are according to the Sixth Edition of the Balance of Payments Manual. You can find the details [here](#).

Source: CBRT, Datastream

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