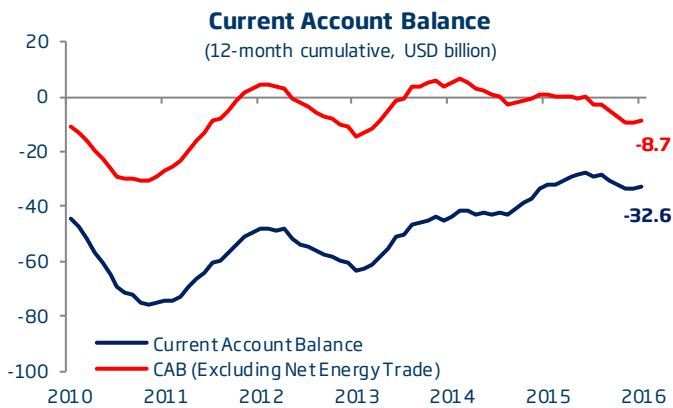


Current account deficit became 32.6 billion USD in 2016.

The current account deficit was realized as USD 4.3 billion in December, slightly below market expectations. In 2016, the deficit rose by 0.5 billion USD compared to 2015 to 32.6 billion USD. The deficit picked up as the contraction in foreign trade deficit was counterbalanced by the decline in tourism revenues. The current account balance, excluding energy trade, gave a deficit of 8.7 billion USD in 2016.

**Contraction in foreign trade deficit...**

According to the balance of payments figures, the decline in both export and import volumes lost momentum compared to the previous year. In 2016, exports posted an annual decrease of 1.2% and imports fell by 4.5%. It is seen that the recovery in exports to the European countries supported the exports in this period. The fading of the base effect from the declined energy prices, on the other hand, played a role in the deceleration of the import volume.

In 2016, geopolitical developments continued to negatively affect the current account balance. The effects of heightened domestic security concerns and political problems with Russia were felt on tourism revenues. Tourism revenues, which declined by 9.9% yoy in 2015, fell

further by 29,6% yoy in 2016. The total number of tourists visiting Turkey fell to 25.3 million in 2016 from 35.6 million in 2015, dropping by 29%. It was an outstanding development that the number of tourists from Russia came in lower than 1 million people from 3.7 million people. Among the top 20 countries, Saudi Arabia and Israel were the only two countries that the number of tourists arriving in Turkey posted a rise compared to 2015.

**Capital inflows registered in portfolio investments...**

Despite all the unfortunate events in 2016, portfolio investments recorded a net inflow of 6.4 billion USD after posting an outflow of 15.8 billion USD in 2015. Capital inflows towards government domestic debt securities transactions played an important role in this development. In 2016, non-residents also realized net purchases of equity securities, albeit by a limited amount.

Loss of momentum in FDI...

A net inflow of 9 billion USD recorded under the foreign direct investments in 2016 remained below the previous year level. However, in the last months of the year capital inflows are observed to recover. Banking and electricity, gas production and distribution sectors attracted the highest amount of FDI during the year.

Breakdown of Net Capital Inflows**(12-month cumulative, USD million)**

			Breakdown of Net Capital Inflows (%)	
	Dec. 2015	Dec. 2016	Dec. 2015	Dec. 2016
Current Account Balance	-32,118	-32,605	-	-
Total Net Foreign Capital Inflows	20,287	33,423	100.0	100.0
-Direct Investments	12,455	8,998	61.4	26.9
-Portfolio Investments	-15,719	6,404	-77.5	19.2
-Other Investments	13,374	6,929	65.9	20.7
-Net Errors and Omissions	10,198	11,069	50.3	33.1
-Other	-21	23	-0.1	0.1
Reserves⁽¹⁾	11,831	-818	58.32	-2.45

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

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

Capital inflows under other investments lost pace.

Other investments made 6.9 billion USD contribution to the financing of current account deficit. Banking sector, which became a net credit payer in short-term with 6 billion USD, was a net borrower in long-term by 3 billion USD. Long-term debt rollover ratio of the sector, which posted a decrease, was realized as 109% in 2016. While other sectors were net

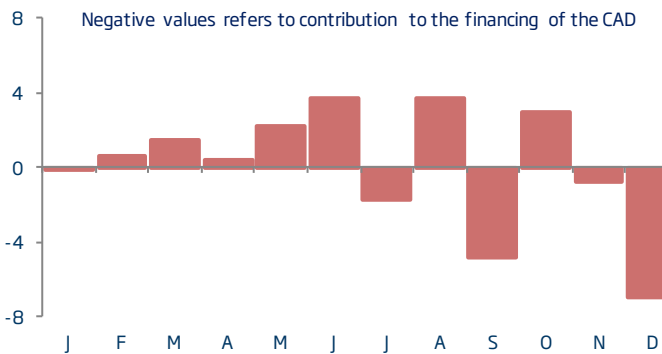
credit borrower both in short-term and long-term, the long-term debt rollover ratio became 147%.

In December, reserves contracted by an all-time high amount of 7 billion USD. However, the reserves surged by 818 million USD for the full year.

Net errors and omissions made an important contribution to the financing of current account deficit by 11.1 billion USD in 2016.

CBRT Reserves

(USD billion)



Expectations...

As the base effect stemming from the declined energy prices started to fade, positive impact of the foreign trade balance on the current account balance has declined. Although relations with Russia have begun to recover, it is understood that this will reflect in tourism revenues over time. In this framework, we estimate that the current account deficit may increase somewhat in 2017 compared to the last year.

Balance of Payments

(USD million)

	December 2016	Jan. - Dec.		% Change
	2016	2015	2016	
Current Account Balance	-4,268	-32,118	-32,605	1.5
Foreign Trade Balance	-4,213	-48,114	-40,746	-15.3
Services Balance	624	24,208	15,396	-36.4
Travel (net)	700	21,248	13,960	-34.3
Primary Income	-933	-9,642	-9,009	-6.6
Secondary Income	254	1,430	1,754	22.7
Capital Account	0	-21	23	-
Financial Account	-2,304	-21,941	-21,513	-2.0
Direct Investments (net)	-1,535	-12,455	-8,998	-27.8
Portfolio Investments (net)	1,914	15,719	-6,404	-
Net Acquisition of Financial Assets	1,463	6,129	1,447	-76.4
Net Incurrence of Liabilities	-451	-9,590	7,851	-
Equity Securities	118	-2,395	823	-
Debt Securities	-569	-7,195	7,028	-
Other Investments (net)	4,283	-13,374	-6,929	-48.2
Currency and Deposits	3,527	2,666	1,832	-31.3
Net Acquisition of Financial Asse	2,629	15,148	5,424	-64.2
Net Incurrence of Liabilities	-898	12,482	3,592	-71.2
Central Bank	-16	-916	-476	-48.0
Banks	-882	13,398	4,068	-69.6
Foreign Banks	-323	9,942	4,482	-54.9
Foreign Exchange	-276	4,708	182	-96.1
Turkish Lira	-47	5,234	4,300	-17.8
Non-residents	-559	3,456	-414	-
Loans	1,756	-12,832	-5,547	-56.8
Net Acquisition of Financial Asse	139	792	231	-70.8
Net Incurrence of Liabilities	-1,617	13,624	5,778	-57.6
Banking Sector	-594	5,297	-3,003	-
Non-bank Sectors	-989	9,513	9,702	2.0
Trade Credit and Advances	-1,096	-2,946	-3,313	12.5
Other Assets and Liabilities	96	-262	99	-
Reserve Assets (net)	-6,966	-11,831	818	-
Net Errors and Omissions	1,964	10,198	11,069	8.5

Source: CBRT, Datastream

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