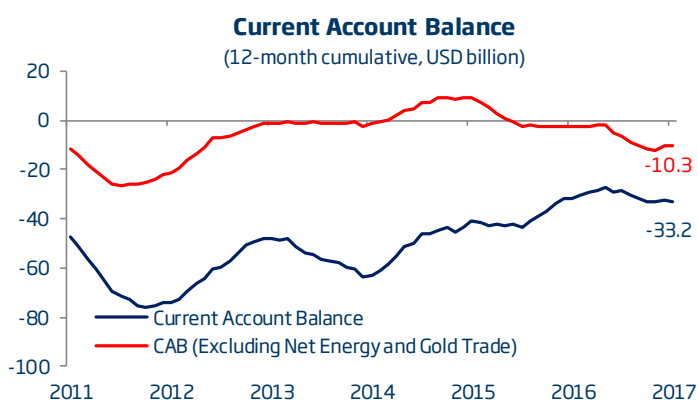


Current account deficit was in line with expectations.

The current account deficit widened by 561 million USD yoy and was realized as 2.8 billion USD in January. Surge in foreign trade deficit along with the fall in tourism revenues were the main drivers behind the expansion of CAD. According to 12-month cumulative figures, current account deficit rose by 4.1% yoy to 33.2 billion USD as of January. Excluding net energy and gold trade, on the other hand, the deficit recorded a contraction, albeit slightly.

**Foreign trade deficit has widened.**

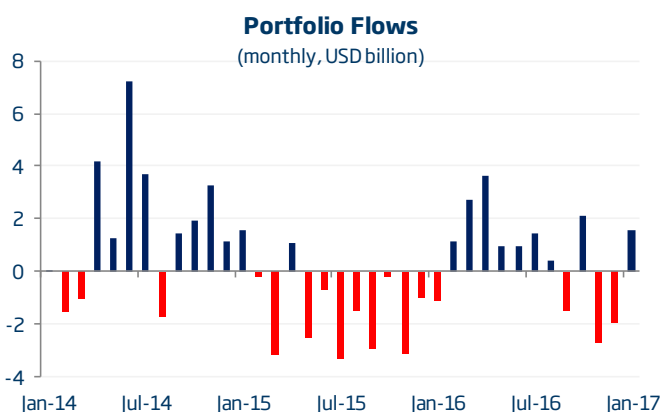
According to the balance of payments figures, despite the recovery in exports, the 2.3 billion USD annual rise in imports led the CAD to surge in January. In this period, gold import and export represented a relatively balanced outcome.

Having put upward pressure on the current account deficit throughout 2016, tourism revenues kept their weak performance in the first month of 2017 as well. Net tourism revenues fell by 17.5% from a year earlier. It was noteworthy that the number of tourists from the European countries dropped in January while the number of Russian tourists picked up significantly on the back of the normalization of the relations between Turkey and Russia. However, the total number of tourists decreased by more than 100 thousand persons on an annual basis in January,

falling to 1.2 million persons.

Capital inflows in portfolio investments...

After recording a net inflow of 6.4 billion USD in 2016, portfolio investments registered 1.6 billion USD capital inflows in January. In this period, non-residents recorded net purchases of 649 million USD in equity securities while they sold 802 million USD in government debt securities market. On the other hand, Treasury's Eurobond issues, which amounted to 2 billion USD, made a significant contribution to the financing of the CAD in January.

**Loss of momentum in FDI...**

Foreign direct investment continued to decelerate in the first month of 2017 as was the case in 2016. Net direct investments halved in January compared to the same month of the previous year, amounting to 360 million USD. In this period, net real estate investments also dropped by 24.5% to 280 million USD. Azerbaijan and Netherlands had the highest shares in foreign direct investments towards Turkey that came in at 28.7% and 23.7% respectively.

Capital outflows from other investments...

Other investments, which contributed notably to the financing of the deficit by 6.7 billion USD in 2016, recorded a net capital outflow of 534 million USD in January. In this period, capital outflows, net 2.1 billion USD, were registered

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	USD million		Breakdown of Net Capital Inflows (%)	
	Dec. 2016	Jan. 2017	Dec. 2016	Jan. 2017
Current Account Balance	-32,118	-33,163	-	-
Total Net Foreign Capital Inflows	20,287	31,958	100.0	100.0
-Direct Investments	12,455	8,687	61.4	27.2
-Portfolio Investments	-15,719	9,036	-77.5	28.3
-Other Investments	13,374	2,595	65.9	8.1
-Net Errors and Omissions	10,198	11,648	50.3	36.4
-Other	-21	-8	-0.1	0.0
Reserves⁽¹⁾	11,831	1,205	58.32	3.77

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, Datastream

under currency and deposits item. However, 1.5 billion USD was obtained from abroad via loans and trade credits.

In January, banking sector became a net borrower in short-term with 203 million USD while being a net credit payer in long-term. A similar pattern has been seen in other sectors.

According to 12-month cumulative figures, banking sector was a net credit payer in short-term with 5.9 billion USD

whereas it was a net borrower in long-term with 3 billion USD. Thus, long-term debt rollover ratio of the sector remained flat at 109% in January. The ratio for the other sectors became 144% in this period.

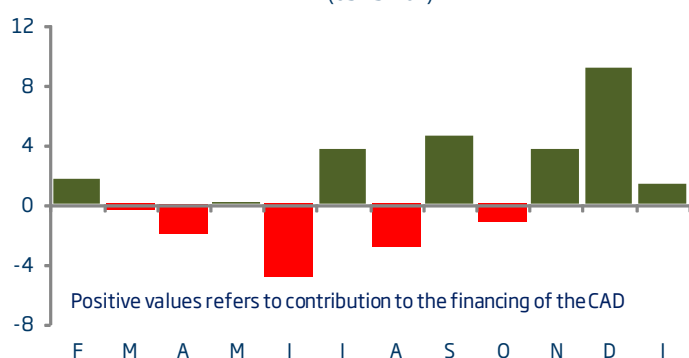
Reserves made a significant contribution to the financing of the deficit by falling 2.1 billion USD in January while 687 million USD capital outflows were recorded under net errors and omissions item.

Expectations...

The declining trend in foreign trade deficit has come to an end along with the stabilization of energy prices. Although the depreciation in TL may support the export performance in the short term, geopolitical developments and the recent problems with the EU might put an upward pressure on the current account deficit via capital flows and tourism revenues. In light of these developments, we anticipate that the mild pick up in the current account deficit may continue in the forthcoming period.

CBRT Reserves and Net Errors & Omissions

(USD billion)



Balance of Payments

(USD million)

	January		%	12-Month Cumulative
	2016	2017		
Current Account Balance	-2,201	-2,762	25.5	-33,163
Foreign Trade Balance	-2,685	-3,105	15.6	-41,247
Services Balance	810	578	-28.6	15,193
Travel (net)	714	589	-17.5	13,835
Primary Income	-441	-399	-9.5	-8,947
Secondary Income	115	164	42.6	1,838
Capital Account	15	-16	-	-8
Financial Account	-3,286	-3,465	5.4	-21,523
Direct Investments (net)	-789	-360	-54.4	-8,687
Portfolio Investments (net)	1,096	-1,584	-	-9,036
Net Acquisition of Financial Assets	309	24	-92.2	1,162
Net Incurrence of Liabilities	-787	1,608	-	10,198
Equity Securities	-261	649	-	1,733
Debt Securities	-526	959	-	8,465
Other Investments (net)	-3,556	534	-	-2,595
Currency and Deposits	-2,999	2,077	-	6,908
Net Acquisition of Financial Assets	-639	3,341	-	9,404
Net Incurrence of Liabilities	2,360	1,264	-46.4	2,496
Central Bank	-18	-8	-55.6	-466
Banks	2,378	1,272	-46.5	2,962
Foreign Banks	2,440	1,512	-38.0	3,554
Foreign Exchange	706	556	-21.2	32
Turkish Lira	1,734	956	-44.9	3,522
Non-residents	-62	-240	287.1	-592
Loans	-268	-639	138.4	-5,691
Net Acquisition of Financial Assets	390	-57	-	-216
Net Incurrence of Liabilities	658	582	-11.6	5,475
Banking Sector	48	187	289.6	-2,870
Non-bank Sectors	724	225	-68.9	8,982
Trade Credit and Advances	-391	-901	130.4	-3,815
Other Assets and Liabilities	102	-3	-	3
Reserve Assets (net)	-37	-2,055	5,454.1	-1,205
Net Errors and Omissions	-1,100	-687	-37.5	11,648

Source: CBRT, Datastream

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