

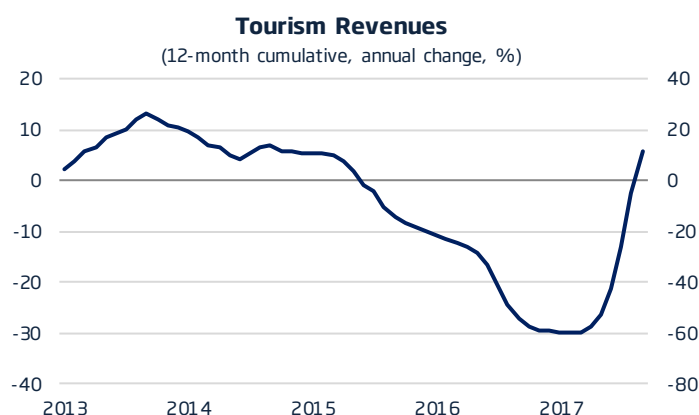
A higher than expected current account deficit...

Current account deficit came in at 4.5 billion USD in September, exceeding market expectations. The deficit was 1.6 billion USD in the same month of last year. More than doubled foreign trade deficit was mainly behind this annual expansion. On the other hand, the recovery in tourism revenues continued in this period.

In the first 9 months of the year, current account deficit expanded by 27.1% yoy to 31.1 billion USD. According to 12-month cumulative data, current account deficit widened to 39.3 billion USD in September, the highest level in more than two years. Excluding gold and energy, the deficit remained limited with 0.7 billion USD.

Rapid increase in tourism revenues...

Having improved since April this year, tourism revenues continued to recover in September. Tourism revenues, which reached the highest level of the last two years with 3.7 billion USD in August, picked up by 32.8% yoy to 3.1 billion USD in September. As of the first 9 months of the year, net tourism revenues increased 3 billion USD annually.



Current account deficit was mostly driven by gold and energy trade.

Gold imports, which was 1.4 billion USD in September, amounted to 13.2 billion USD ytd and hence exerted an upward pressure on the deficit. An annual rise of 20% recorded in oil prices in September also had a negative impact on the current account balance.

Portfolio investments continued to play a significant role in financing of the deficit.

Portfolio investments made a big contribution to the financing of the current account deficit in September as it has been the case so far this year. Portfolio investments recorded a net capital inflow of 3.4 billion USD in September. Non-residents made a net sale of 248 billion USD in equity securities during this period while bond markets witnessed strong capital inflows. Treasury's bond issuances were behind this performance. General government realized a net borrowing of 1.8 billion USD via bond issuances conducted in international capital markets.

Foreign direct investments (FDI), however, continued to perform weakly. Having a share of roughly 25% in total capital inflows according to 12-month cumulative figures, FDI remained below the average of this year in September with 544 million USD. FDI registered a net capital inflow of 5.5 billion USD in the first 9 months of the year.

Net other investments also continued to follow a mild course. In September, there has been a limited net outflow in other investments. Banks were net credit borrowers in both short term and long term. Other sectors were net credit payers in short term and net credit borrowers in long term. According to 12-month cumulative data, banks' long-term debt roll-over ratio was 93% in September while the same ratio for other sectors became 107%.

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	Breakdown of Net Capital Inflows (%)			
	December 2016	September 2017	December 2016	September 2017
Current Account Balance	-32,640	-39,267	-	-
Total Net Foreign Capital Inflows	33,453	33,967	100.0	100.0
-Direct Investments	9,624	8,352	28.8	24.6
-Portfolio Investments	6,300	21,009	18.8	61.9
-Other Investments	6,725	-1,743	20.1	-5.1
-Net Errors and Omissions	10,781	6,331	32.2	18.6
-Other	23	18	0.1	0.1
Reserves⁽¹⁾	-813	5,300	-	-

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

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

Net errors and omissions recorded the highest inflow of the year.

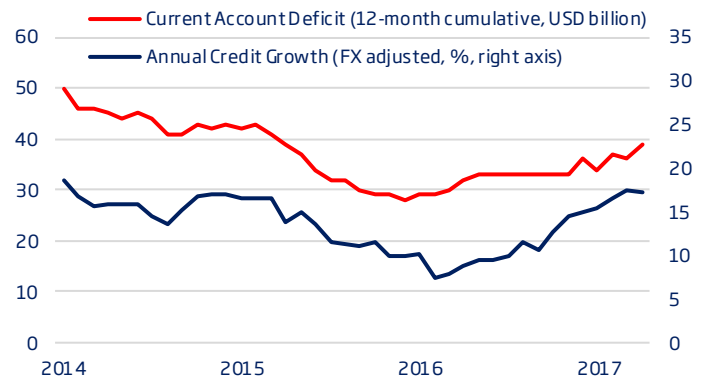
Net errors and omissions posted an inflow of 1.7 billion USD in September. In January-September period, on the other hand, there was a net outflow of 930 million USD.

Having experienced the fastest rise in a year in August, CBRT reserves posted a moderate increase in September.

Upward risks on current account deficit...

We expect that current account deficit will face mostly upside risks in the period ahead as credit growth leads to stronger economic activity and oil prices display a recovery trend in international markets. Foreign trade performance recorded particularly in the last couple of months supports our view. According to the provisional data, foreign trade deficit expanded rapidly in October due to the rise in imports of intermediate goods, especially energy imports. Nevertheless, a sustained recovery in tourism revenues will have a positive impact on the current account balance.

Credit Growth and CAD



Balance of Payments

(USD million)

	September 2017	January - September 2016	2017	% Change	12-month Cumulative
Current Account Balance	-4,527	-24,482	-31,109	27.1	-39,267
Foreign Trade Balance	-6,666	-30,945	-40,751	31.7	-50,665
Services Balance	3,014	12,094	15,817	30.8	19,169
Travel (net)	2,686	10,696	13,710	28.2	16,974
Primary Income	-1,073	-6,816	-7,842	15.1	-10,027
Secondary Income	198	1,185	1,667	40.7	2,256
Capital Account	1	23	18	-21.7	18
Financial Account	-2,851	-20,939	-32,021	52.9	-32,918
Direct Investments (net)	-544	-6,787	-5,515	-18.7	-8,352
Portfolio Investments (net)	-3,430	-8,809	-23,518	167.0	-21,009
Net Acquisition of Financial Assets	-111	-546	-1,122	105.5	935
Net Incurrence of Liabilities	3,319	8,263	22,396	171.0	21,944
Equity Securities	-248	738	2,963	301.5	3,048
Debt Securities	3,567	7,525	19,433	158.2	18,896
Other Investments (net)	194	-10,987	-2,519	-77.1	1,743
Currency and Deposits	-63	-3,107	-777	-75.0	4,118
Net Acquisition of Financial Assets	183	791	803	1.5	5,392
Net Incurrence of Liabilities	246	3,898	1,580	-59.5	1,274
Central Bank	-40	-392	-206	-47.4	-290
Banks	286	4,290	1,786	-58.4	1,564
Foreign Banks	406	3,696	549	-85.1	1,335
Foreign Exchange	400	-915	51	-	1,148
Turkish Lira	6	4,611	498	-89.2	187
Non-residents	-120	594	1,237	108.2	229
Loans	490	-5,348	1,662	-	1,710
Net Acquisition of Financial Assets	680	347	622	79.3	504
Net Incurrence of Liabilities	190	5,695	-1,040	-	-1,206
Banking Sector	1,213	-2,511	-2,160	-14.0	-2,931
Non-bank Sectors	-490	9,032	2,116	-76.6	2,820
Trade Credit and Advances	-224	-2,539	-3,367	32.6	-4,144
Other Assets and Liabilities	-9	7	-37	-	59
Reserve Assets (net)	929	5,644	-469	-	-5,300
Net Errors and Omissions	1,675	3,520	-930	-	6,331

Source: CBRT, Datastream

Türkiye İş Bankası A.Ş. - Economic Research Division

İzlem Erdem - Division Head
izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager
alper.gurler@isbank.com.tr

H. Erhan Gül - Asst. Manager
hatice.erkiletlioglu@isbank.com.tr

İlker Şahin - Economist
ilker.sahin@isbank.com.tr

Gamze Can - Economist
gamze.can@isbank.com.tr

Ayşim Kalkan - Asst. Economist
aysim.kalkan@isbank.com.tr

Our reports are available on our website <https://research.isbank.com.tr>

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