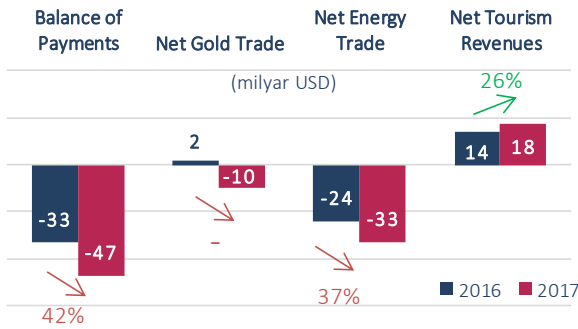




Current account deficit was 47.1 billion USD in 2017.

Current account deficit came in at 7.7 billion USD in December. In 2017 as a whole, it became 47.1 billion USD, posting an annual surge of 42.1%. 12 billion USD of the 14 billion USD increase in current account deficit recorded in this period came from net gold imports. Moreover, the annual rise of 24.1% in Brent crude oil prices over the last year put an upward pressure on current account deficit. Indeed, the deficit excluding net energy and gold trade stood at 4.3 billion USD.

Tourism revenues have increased sharply in 2017 due particularly to the increase in the number of Russian tourists. This limited the expansion in current account deficit.



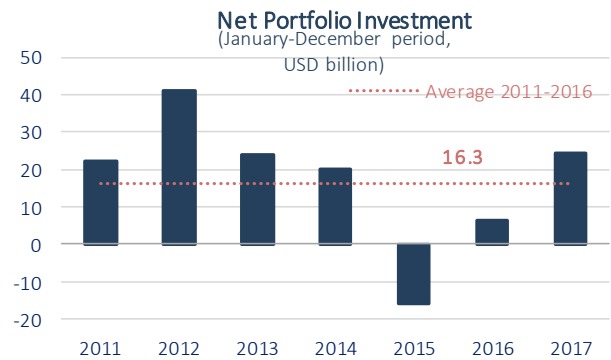
Foreign direct investments exhibited a weak course throughout the year.

Net foreign direct investments (FDI) declined by 20.3% yoy to 8.1 billion USD in 2017. Almost half of the FDI, which followed a weak course throughout the year, stemmed from the net real estate investments. Thus, share of direct investments in net capital inflows declined to 21% in 2017 from 30% in 2016.

Positive outlook in portfolio investments in 2017...

Portfolio investments played a crucial role in financing the

current account in 2017. Portfolio investments, which increased rapidly by 285.6% compared to 2016, were realized as 24.3 billion USD in 2017. Capital inflows to bond markets were significant in this development. During this period banks provided net inflow of 6.6 billion USD via bond issuances abroad. General government realized a net borrowing of 5.8 billion USD in international capital markets and 7.3 billion USD in domestic markets via bond issuances. Moreover, 3.2 billion USD capital inflows were recorded in equity market.



Other Investments...

In December, net outflow of 2 billion USD was recorded in other investments as domestic resident banks increased their foreign currency deposits abroad by 4.3 billion USD. Although other investments recorded an outflow in December, this item contributed 6.5 billion USD to the financing of current account deficit. It was noteworthy that firms did not face any difficulty in rolling their long-term debt. In 2017, long-term debt roll-over ratios in banking and non-banking sector were 102% and 113%, respectively.

Rapid decline in official reserves...

According to the monthly figures, the weakening of the current deficit financing continued in December after November. In this period, the decline in official reserves

Net Capital Inflows

	12-month cumulative (USD million)		Breakdown of Net Capital Inflows (%)	
	Dec. 2016	Dec. 2017	Dec. 2016	Dec. 2017
Current Account Balance	-33,011	-43,752	-	-
Total Net Foreign Capital Inflows	33,824	37,386	100.0	100.0
-Direct Investments	9,707	9,033	28.7	24.2
-Portfolio Investments	6,300	21,955	18.6	58.7
-Other Investments	6,869	1,645	20.3	4.4
-Net Errors and Omissions	10,925	4,737	32.3	12.7
-Other	23	16	0.1	0.0
Reserves ⁽¹⁾	-813	6,366	-	-

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: Datastream , CBRT

made the highest contribution to financing current account deficit. Having experienced the fastest decline in its history with 8.6 billion USD, official reserves decreased by 8.2 billion USD in the whole year.

Net error and emissions...

Net error and emissions, which decreased by 5.3 billion USD for the last 6 years due to the revisions made by the CBRT in line with its "Revision Policy", revised down by 2.5 billion USD during January-November period accordingly. Throughout 2017, a limited outflow was observed in net error and emissions item.

Expectations...

High energy prices and sharp rise in net gold imports in 2017 put an upward pressure on the current account deficit. On the other hand, recovery in economic activity in the European Union countries, which are our largest export market, supported our exports. In addition, rise in tourism revenues also limited the expansion in the current account deficit. In 2018, we anticipate that the upside risk from high oil prices on current account deficit will be balanced to some extent by the ongoing recovery in tourism revenues.

Balance of Payments	(USD million)			
	Dec. 2017	2016	January - December 2017	% Change
Current Account Balance	-7,700	-33,137	-47,100	42.1
Foreign Trade Balance	-7,426	-40,892	-58,636	43.4
Services Balance	675	15,263	20,133	31.9
Travel (net)	780	13,960	17,655	26.5
Primary Income	-1,189	-9,181	-11,257	22.6
Secondary Income	240	1,673	2,660	59.0
Capital Account	1	23	17	-26.1
Financial Account	-7,471	-22,145	-47,099	112.7
Direct Investments (net)	-490	-10,196	-8,128	-20.3
Portfolio Investments (net)	-344	-6,300	-24,292	285.6
Net Acquisition of Financial Assets	428	1,511	-228	-
Net Incurrence of Liabilities	772	7,811	24,064	208.1
Equity Securities	142	823	3,192	287.8
Debt Securities	630	6,988	20,872	198.7
Other Investments (net)	1,999	-6,462	-6,472	0.2
Currency and Deposits	4,438	1,698	1,844	8.6
Net Acquisition of Financial Asset	3,842	5,380	3,511	-34.7
Net Incurrence of Liabilities	-596	3,682	1,667	-54.7
Central Bank	-10	-476	-255	-46.4
Banks	-586	4,158	1,922	-53.8
Foreign Banks	-606	4,482	-944	-
Foreign Exchange	-948	182	-1,838	-
Turkish Lira	342	4,300	894	-79.2
Non-residents	20	-324	2,866	-
Loans	-1,461	-4,952	-4,913	-0.8
Net Acquisition of Financial Asset	145	229	585	155.5
Net Incurrence of Liabilities	1,606	5,181	5,498	6.1
Banking Sector	1,564	-3,282	1,797	-
Non-bank Sectors	647	9,388	5,070	-46.0
Trade Credit and Advances	-1,080	-3,312	-3,465	4.6
Other Assets and Liabilities	102	104	62	-40.4
Reserve Assets (net)	-8,636	813	-8,207	-
Net Errors and Omissions	228	10,969	-16	-

Source: Datastream , CBRT

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