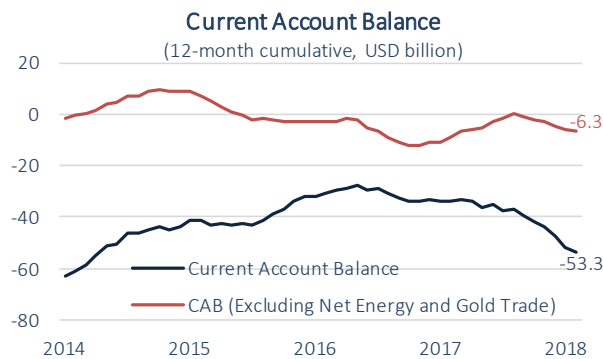




Current account deficit was 4.2 billion USD in February.

Current account deficit came in at 4.2 billion USD in February, posting an annual increase of 61.8%. The widening in foreign trade deficit, which was largely due to higher oil prices compared to the previous year and strong non-monetary gold imports, played a significant role in the rise of the current account deficit. Net non-monetary gold imports were 700 million USD higher than a year earlier. On the other hand, recovery in tourism revenues continued to limit the expansion in the current account deficit.

12-month cumulative current account deficit, which continued to expand in February, reached 53.3 billion USD, its highest level since April 2014. Current account deficit excluding net energy and gold trade was 6.3 billion USD during this period.

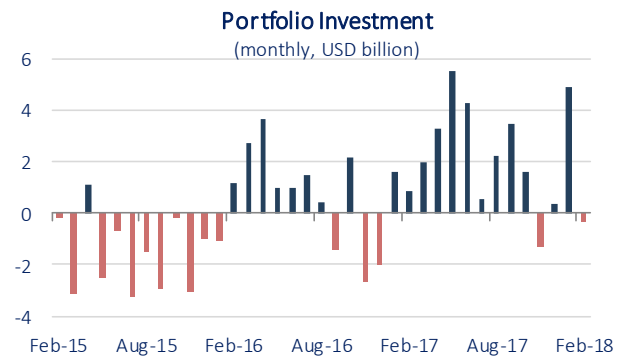


Foreign direct investments continued to weaken.

Having lost momentum in 2017, foreign direct investments (FDI) maintained the weakening trend in February. FDI, which had recorded a net inflow of 284 million USD in January, posted a net outflow of 268 million USD in February. The net outflow was, indeed, a consequence of the rise in residents' direct investments abroad. On the other hand, real estate investments continued to support direct investments.

Net outflow in portfolio investments...

Portfolio investments, which recorded 5 billion USD net inflows thanks to the positive mood in global markets in January, posted a net outflow of 297 million USD in February. Non-residents made a net sale of 348 million USD in equity securities and 180 million USD in government domestic debt securities in February where global markets experienced volatility. Having recorded a heavy net borrowing of 1.2 billion USD in January via eurobond issuances, banks received 511 million USD in February through the same channel.



Other investments recorded a net inflow of 10.5 billion USD in the first two months.

Other investments, which posted a solid inflow of 7.4 billion USD in January, lost momentum in February and contributed 3.1 billion USD to the financing of the current account deficit. Domestic banks' currency and deposits within their foreign correspondent banks declined by 141 million USD, while nonresident banks' deposits held within domestic banks increased by 458 million USD. Regarding the loans raised from abroad; general government, banks and other sectors realized net borrowings of 141 million USD, 0.6 billion USD and 1.9 billion USD, respectively. Particularly, the rise in long term borrowing of other sectors was noteworthy. According to 12-month cumulative data, long-term debt roll-over ratios in the

Net Capital Inflows

	12-Month Cumulative (million USD)		Breakdown of Net Capital Inflows (%)	
	Dec. 2017	Feb. 2018	Dec. 2017	Feb. 2018
Current Account Balance	-47,421	-53,346	-	-
Total Net Foreign Capital Inflows	39,214	50,736	100.0	100.0
-Direct Investment	8,234	7,369	21.0	14.5
-Portfolio Inflows	24,307	26,465	62.0	52.2
-Other Investments	5,521	12,610	14.1	24.9
-Net Errors and Omissions	1,136	4,231	2.9	8.3
-Other	16	61	0.0	0.1
Reserves(1)	8,207	2,610	-	-

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

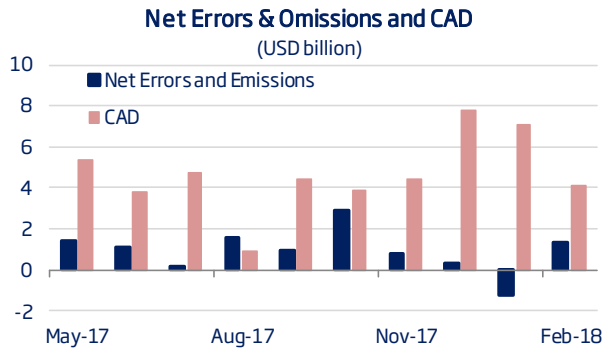
(1) (-) sign indicates an increase in reserves, while (+) sign indicates decrease.

Source: Datastream, CBRT

banking sector and non-banking sector became 104% and 122%, respectively.

Net errors and omissions...

Reserve assets, which expanded by 4.4 billion USD due to the rise in capital inflows in January, recorded a limited decline of 263 million USD in February. During this period, net errors and omissions posted a capital inflow of 1.4 billion USD.



Expectations...

The rise in energy and net gold imports continued to put upward pressure on the current account deficit in February while the recovery in tourism revenues made positive contribution to the balance of payments. According to the preliminary data, foreign trade deficit surged by 28% in March, losing momentum compared to the previous months. This pointed to a relatively moderate current account deficit outlook in the next month.

On the financing side, weak performance of direct investments as well as portfolio investments stood out while banks and other sectors continued to successfully raise long term loans from abroad. However, current global liquidity conditions and increased volatility in global markets imply that foreign investors will be more selective in the period ahead.

Balance of Payments

(USD million)

	Feb. 2018	January - February 2018		% Change	12-month Cumulative
Current Account Balance	-4,152	-5,266	-11,191	112.5	-53,346
Foreign Trade Balance	-4,442	-5,584	-12,088	116.5	-65,443
Services Balance	846	1,109	1,750	57.8	20,605
Travel (net)	835	1,264	1,657	31.1	18,048
Primary Income	-570	-1,108	-1,068	-3.6	-11,053
Secondary Income	14	317	215	-32.2	2,545
Capital Account	-1	-13	32	-	61
Financial Account	-2,778	-8,214	-10,999	33.9	-49,054
Direct Investments (net)	268	-881	-16	-98.2	-7,369
Portfolio Investments (net)	297	-2,462	-4,620	87.7	-26,465
Net Acquisition of Financial Assets	262	-395	596	-	735
Net Incurrence of Liabilities	-35	2,067	5,216	152.3	27,200
Equity Securities	-348	980	-59	-	2,153
Debt Securities	313	1,087	5,275	385.3	25,047
Other Investments (net)	-3,080	-3,392	-10,481	209.0	-12,610
Currency and Deposits	-1,082	-1,985	-5,400	172.0	-1,572
Net Acquisition of Financial Assets	-303	1,354	-3,216	-	-1,060
Net Incurrence of Liabilities	779	3,339	2,184	-34.6	512
Central Bank	-8	-16	-19	18.8	-258
Banks	787	3,355	2,203	-34.3	770
Foreign Banks	458	2,448	1,380	-43.6	-2,012
Foreign Exchange	-2	1,418	31	-97.8	-3,225
Turkish Lira	460	1,030	1,349	31.0	1,213
Non-residents	329	907	823	-9.3	2,782
Loans	-2,418	-813	-3,521	333.1	-6,638
Net Acquisition of Financial Assets	209	-81	-87	7.4	579
Net Incurrence of Liabilities	2,627	732	3,434	369.1	7,217
Banking Sector	598	-7	510	-	2,315
Non-bank Sectors	1,888	434	2,903	568.9	6,557
Trade Credit and Advances	409	-599	-1,569	161.9	-4,466
Other Assets and Liabilities	11	5	9	80.0	66
Reserve Assets (net)	-263	-1,479	4,118	-	-2,610
Net Errors and Omissions	1,375	-2,935	160	-	4,231

Source: Datastream , CBRT

Economic Research Division

izlem Erdem Division Head izlem.erdem@isbank.com.tr	ilker Şahin Economist ilker.sahin@isbank.com.tr
Alper Gürler Unit Manager alper.gurler@isbank.com.tr	Gamze Can Economist gamze.can@isbank.com.tr
H. Erhan Gül Asst.Manager erhan.gul@isbank.com.tr	Ayşim Kalkan Asst. Economist aysim.kalkan@isbank.com.tr

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

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş. accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.