

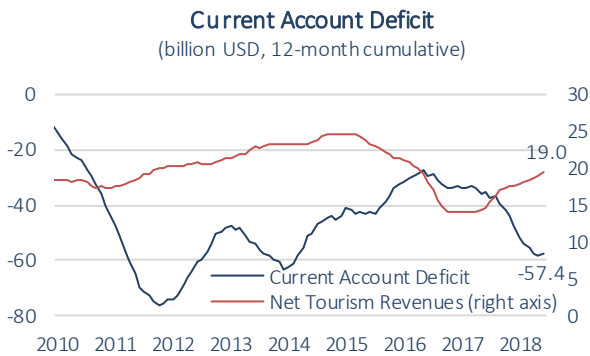


Current account deficit came in below expectations in June.

Having been on an upward trend since September 2017, current account deficit narrowed on an annual basis in June. The deficit declined by 21.6% compared to the same month of the previous year to 2.973 billion USD, below expectations. The improvement in foreign trade was behind this development. Foreign trade deficit, which had increased 63% yoy in January-May period, narrowed by 4.9% yoy in June. Net non-monetary gold trade recorded a sharp fall in this period.

Services balance continued to support the current account balance thanks to the recovery in tourism revenues. Net tourism revenues increased by 34.4% yoy to 7.1 billion USD in the first six months of the year. The number of Russian tourists visited Turkey increased by 43.2% yoy to 2.1 million persons. Germany and Iran followed Russia.

12-month cumulative current account deficit, which was 58.2 billion USD in May, declined to 57.4 billion USD in June. Excluding net energy and gold trade, current account deficit decreases to 7.2 billion USD. In this period, net tourism revenues increased to 19 billion USD.



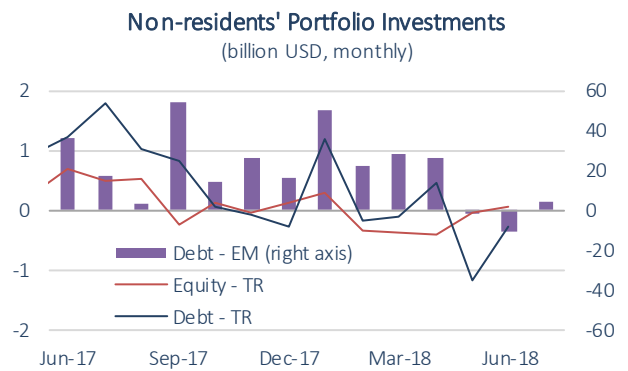
Reserves accounted for most of the financing.

Reserve assets and direct investments as well as net errors and omissions stood out in financing of the current account deficit in June. Reserve assets fell by 7 billion USD in this period. Thus, the fall recorded in the last 12 months

reached 13.6 billion USD. Direct investments registered a net inflow of 951 million USD in June. Real estate investments, which are monitored under foreign direct investments, recorded an annual fall for the third straight month, posting a net inflow of 435 million USD. Besides, net errors and omissions contributed 455 million USD to the financing of the current account deficit.

Portfolio outflows continued.

Portfolio investments registered a fall for a fifth consecutive month. 262 million USD of 883 million USD net capital outflows stemmed from sales of non-residents' government domestic debt securities. On the other hand, non-residents' equity portfolio grew by a net of 76 million USD. In this period, Turkey's performance was similar to other emerging countries. According to IIF data, equity portfolio of non-residents in emerging countries remained almost flat while debt portfolio recorded a fall of 10.6 billion USD, the sharpest since February 2016.



Banks and non-bank sectors net credit repayers in June.

Other investments posted a net outflow of 4.5 billion USD in June. Both banks' currency and deposits and loans played a role in this development. Domestic banks' currency and deposits held within their foreign correspondent banks surged by 1.8 billion USD while non-resident banks' deposits held within domestic banks declined by 408 million USD. Non-bank sectors were net

Net Capital Inflows

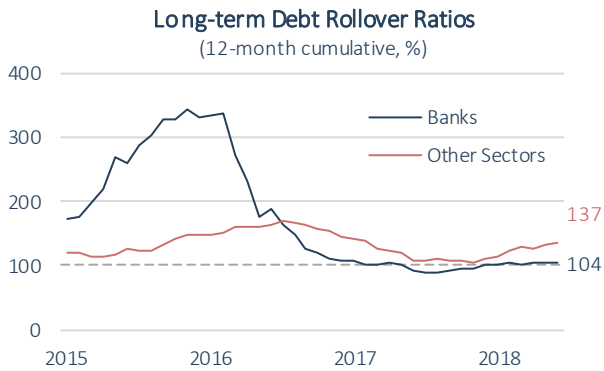
	12-month Cumulative (million USD)		Breakdown of Net Capital Inflows (%)	
	Dec. 2017	Jun. 2018	Dec. 2017	Jun. 2018
Current Account Balance	-47,437	-57,384	-	-
Total Net Foreign Capital Inflows	39,182	43,804	100.0	100.0
-Direct Investment	8,189	7,684	20.9	17.5
-Portfolio Inflows	24,476	7,088	62.5	16.2
-Other Investments	5,672	14,140	14.5	32.3
-Net Errors and Omissions	877	14,862	2.2	33.9
-Other	16	46	0.0	0.1
Reserves(1)	8,207	13,566	-	-

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, IIF

borrower in long term loans. With the repayments in short term loans, non-bank sectors were net credit repayer in total loans. Banks were net credit repayers with 556 million USD. According to 12-month cumulative data, long-term debt roll-over ratios of the banking and other sectors were realized as 104% and 137%, respectively.



Expectations...

June data supported the views that the current account deficit in the economy will moderate in the upcoming period along with the rebalancing process. Provisional data on foreign trade data for July also signaled this trend. Adding the depreciation of the Turkish lira and the measures to be implemented by the policy makers to the picture, we anticipate that the slowdown in domestic demand will have a positive impact on the current account balance. Having recovered rapidly, tourism revenues will also continue to support the current account outlook in the period ahead. Nevertheless, the US's sanctions against Iran, which put upward pressure on oil prices, is a risk factor for the current balance performance.

Balance of Payments	(USD million)				
	Jun. 2018	January - June 2017	June 2018	% Change	% 12-month Cumulative
Current Account Balance	-2,973	-21,298	-31,247	46.7	-57,386
Foreign Trade Balance	-4,388	-22,582	-33,599	48.8	-69,972
Services Balance	2,385	6,456	8,226	27.4	22,520
Travel (net)	1,881	5,308	7,135	34.4	19,482
Primary Income	-1,008	-5,503	-6,050	9.9	-11,682
Secondary Income	38	1,142	176	-84.6	1,748
Capital Account	-4	1	31	3,000.0	46
Financial Account	-2,522	-26,906	-22,894	-14.9	-42,478
Direct Investments (net)	-951	-3,367	-2,862	-15.0	-7,684
Portfolio Investments (net)	883	-17,457	-79	-99.5	-7,088
Net Acquisition of Financial Assets	375	267	137	-48.7	-524
Net Incurrence of Liabilities	-508	17,734	216	-98.8	6,564
Equity Securities	76	2,203	-782	-	207
Debt Securities	-584	15,531	998	-93.6	6,357
Other Investments (net)	4,534	-3,726	-12,194	227.3	-14,140
Currency and Deposits	2,827	-1,649	-7,079	329.3	-3,574
Net Acquisition of Financial Assets	1,636	2,098	-2,729	-	-1,246
Net Incurrence of Liabilities	-1,191	3,747	4,350	16.1	2,328
Central Bank	-12	-81	-68	-16.0	-242
Banks	-1,179	3,828	4,418	15.4	2,570
Foreign Banks	-408	2,319	3,841	65.6	636
Foreign Exchange	-488	641	1,583	147.0	-838
Turkish Lira	80	1,678	2,258	34.6	1,474
Non-residents	-771	1,509	577	-61.8	1,934
Loans	1,053	617	-4,231	-	-8,938
Net Acquisition of Financial Assets	153	-234	-207	-11.5	612
Net Incurrence of Liabilities	-900	-851	4,024	-	9,550
Banking Sector	-556	-1,365	-812	-40.5	2,604
Non-bank Sectors	-203	765	5,131	570.7	8,361
Trade Credit and Advances	666	-2,683	-867	-67.7	-1,684
Other Assets and Liabilities	-12	-11	-17	54.5	56
Reserve Assets (net)	-6,988	-2,400	-7,759	223.3	-13,566
Net Errors and Omissions	455	-5,663	8,322	-	14,862

Source: Datastream , CBRT

Economic Research Division

izlem Erdem Chief Economist 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

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