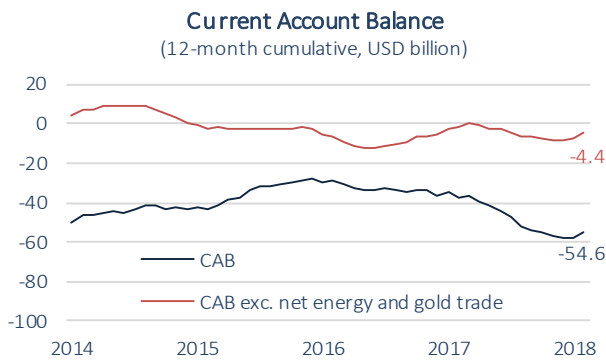




Downward trend in current account deficit...

Contraction in the current account deficit, which began in June, continued in July, in line with the normalization in economic activity. In this period, the current account deficit was realized as 1.75 billion USD in parallel with expectations. In the same month of the previous year, the current account deficit was 4.7 billion USD. Shrinking foreign trade deficit due to decline in net non-monetary gold imports and the recovery in tourism revenues stood out in the recovery of current account balance.

12-month cumulative current account deficit fell to 54.6 billion USD in July, the lowest level in last five months. Current account deficit excluding net energy and gold imports also dropped to 4.4 billion USD, the lowest level since November 2017.



Tourism revenues kept increasing.

In July, foreign trade deficit decreased by 2.5 billion USD yoy. The increase in export volume and pressure on imports due to the depreciation of TL were effective in this development. In addition, decline in net non-monetary gold imports by 1.2 billion USD also supported the recovery of current account balance.

Tourism revenues increased by 538 million USD in July compared to the same month of the previous year and

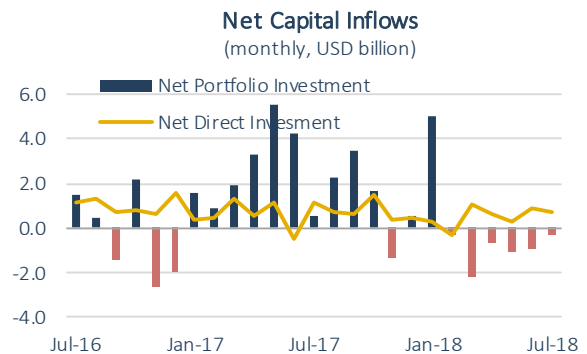
supported the contraction in current account deficit. Having declined annually for the first time almost in a year, tourism expenses were also noted as positive for current account balance. Due to FX developments, this contribution is will probably continue in coming period.

Foreign direct investments...

In July, foreign direct investment recorded a net capital inflow of 707 million USD. Due to the increase in direct investment of domestic investors abroad, contribution of net foreign direct investment in financing of current account deficit decreased compared to the same month of previous year.

Portfolio outflows continued.

Portfolio investments recorded a net outflow of 279 million USD in July. During this period, non-residents' sale of 463 million USD in stock market is worth mentioning. The amount of the net sales was at the highest level since November 2016. On the other hand, there was a net portfolio inflow of 115 million USD in government debt securities market.



Capital inflows in other investments...

Other investments, which posted a strong outflow in June, recorded an inflow of 764 million USD in July. In this period, increase in domestic banks' currency and deposits abroad by 701 million USD limited the contribution of

Net Capital Inflows

	12-month Cumulative (million USD)		Breakdown of Net Capital Inflows (%)	
	Dec. 2017	Jul. 2018	Dec. 2017	Jul. 2018
Current Account Balance	-47,436	-54,560	-	-
Total Net Foreign Capital Inflows	39,229	45,817	100.0	100.0
-Direct Investment	8,189	7,235	20.9	15.8
-Portfolio Inflows	24,476	6,051	62.4	13.2
-Other Investments	5,682	14,481	14.5	31.6
-Net Errors and Omissions	866	18,015	2.2	39.3
-Other	16	35	0.0	0.1
Reserves(1)	8,207	8,743	-	-

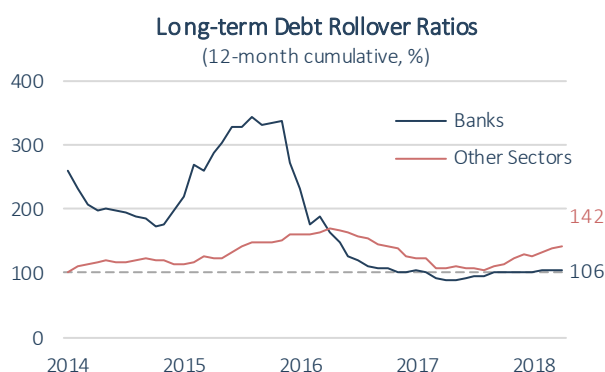
Note: The numbers may not add up total due to rounding.

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

Source: Datastream , CBRT

other investments. While the banks made net repayments in both long and short term, other sectors were net borrower in both terms.

According to 12-month cumulative data, as of July long term debt roll-over ratios of the banking and other sectors were realized as 106% and 142%, respectively.



Rise in reserves...

Reserve assets, which decreased by 9.8 billion USD in May-June period, increased 2.4 billion USD in July. Net errors and omissions, which made a strong contribution to the financing of current account deficit since February, also posted an inflow of 3 billion USD. Thus, in the first 7 months of the year 51% (17 billion USD) of the current account deficit (which was 33.1 billion USD) was financed by reserve assets and net errors and omissions.

Expectations...

Leading indicators in the third quarter of the year point out the loss of momentum in economic activity. Moreover, it is understood that the domestic demand will be under pressure in the coming period as a result of the taken/expected to be taken measures in the monetary and fiscal policy. Taking the recovery in tourism revenues into account, we estimate that the contraction in the current account deficit will continue in the rest of the year.

Balance of Payments

	Jul. 2018	January - July		(USD million)	
		2017	2018	% Change	% 12-month Cumulative
Current Account Balance	-1,751	-26,009	-33,133	27.4	-54,560
Foreign Trade Balance	-4,799	-29,914	-38,433	28.5	-67,474
Services Balance	3,593	8,565	11,732	37.0	23,107
Travel (net)	3,062	7,792	10,197	30.9	20,060
Primary Income	-592	-6,120	-6,662	8.9	-11,677
Secondary Income	47	1,460	230	-84.2	1,484
Capital Account	0	12	31	158.3	35
Financial Account	1,232	-31,533	-21,489	-31.9	-36,510
Direct Investments (net)	-707	-4,502	-3,548	-21.2	-7,235
Portfolio Investments (net)	279	-17,999	426	-	-6,051
Net Acquisition of Financial Assets	-252	-725	111	-	442
Net Incurrence of Liabilities	-531	17,274	-315	-	6,493
Equity Securities	-463	2,691	-1,245	-	-744
Debt Securities	-68	14,583	930	-93.6	7,237
Other Investments (net)	-764	-4,233	-13,032	207.9	-14,481
Currency and Deposits	-366	-1,789	-7,455	316.7	-3,810
Net Acquisition of Financial Assets	522	305	-2,217	-	1,059
Net Incurrence of Liabilities	888	2,094	5,238	150.1	4,869
Central Bank	-23	-116	-91	-21.6	-230
Banks	911	2,210	5,329	141.1	5,099
Foreign Banks	737	519	4,578	782.1	3,173
Foreign Exchange	801	-513	2,384	-	1,117
Turkish Lira	-64	1,032	2,194	112.6	2,056
Non-residents	174	1,691	751	-55.6	1,926
Loans	-206	1,581	-4,448	-	-10,129
Net Acquisition of Financial Assets	62	-190	-145	-23.7	630
Net Incurrence of Liabilities	268	-1,771	4,303	-	10,759
Banking Sector	-931	-3,180	-1,743	-45.2	3,488
Non-bank Sectors	1,143	1,761	6,294	257.4	8,538
Trade Credit and Advances	-194	-4,010	-1,114	-72.2	-604
Other Assets and Liabilities	2	-15	-15	0.0	62
Reserve Assets (net)	2,424	-4,799	-5,335	11.2	-8,743
Net Errors and Omissions	2,983	-5,536	11,613	-	18,015

Source: Datastream , CBRT

Economic Research Division

İzlem Erdem
Chief Economist
izlem.erdem@isbank.com.tr

İlker 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.