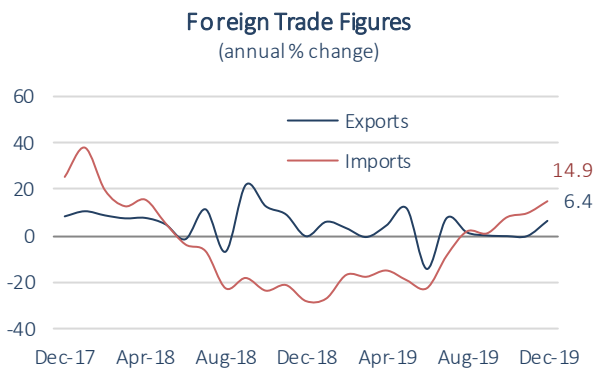




Foreign trade deficit continued to expand in December.

According to TURKSTAT data, exports increased by 6.4% yoy and reached 14.7 billion USD in December 2019, while imports increased by 14.9% yoy to 19 billion USD. Thus, the foreign trade deficit continued to expand rapidly and reached 4.3 billion USD in this period.

In the whole year of 2019, exports increased by 2.1% compared to the previous year and became 171.5 billion USD, while imports decreased by 9.1% due to the weak demand conditions and were realized at 202.7 billion USD. Thus, the foreign trade deficit decreased by 43.5% compared to 2018 and became 31.2 billion USD. The exports coverage imports ratio, which was 75.3% in 2018, rose to 84.6% in 2019.

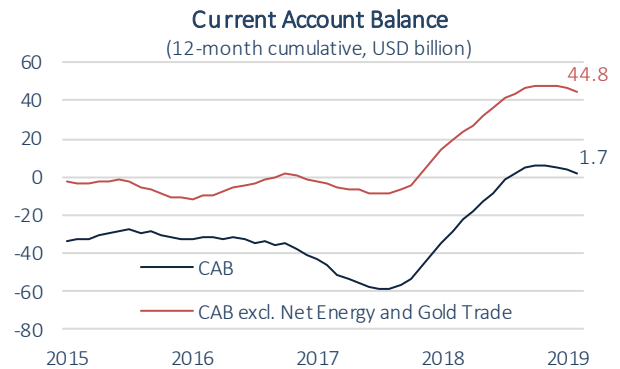


In 2019 current account posted 1.7 billion USD surplus.

The current account balance gave a deficit of 2.8 billion USD in the last month of 2019. In this period, current account deficit expanded by 162.2% yoy due to the rise in foreign trade deficit. The annual increase in tourism revenues limited the expansion in the current account deficit.

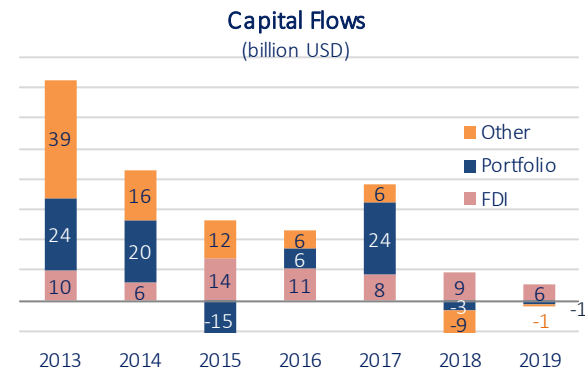
In 2019 the current account balance posted a surplus of 1.7 billion USD, for the first time since 2001. While the foreign trade deficit narrowed due to the decline in economic activity, especially in the first half of the year,

the low course of oil prices compared to 2018 also played a role in the positive trend of current account balance. The annual rise in net tourism revenues by 24.7% (5.1 billion USD) throughout the year was another factor that led current account balance to improve. Excluding net energy imports, the current account balance posted a surplus of 35.5 billion USD in 2019. Excluding gold trade, this figure became 44.8 billion USD.



Net foreign direct investments recorded 5.5 billion USD capital inflow.

In December, net foreign direct investments recorded a limited capital inflow with 281 million USD. In 2019, net direct investments decreased by 41.3% yoy and became 5.5 billion USD. Out of this amount 57.3% came from net real estate investments.



Net Capital Flows

	12-month Cumulative (million USD)		Share in Financing (%)	
	Dec. 2018	Dec. 2019	Dec. 2018	Dec. 2019
Current Account Balance	-28,261	1,674	-	19.8
Total Net Foreign Capital Flows	-2,510	3,411	-	-
-Direct Investment	9,374	5,506	23.3	65.3
-Portfolio Investment	-3,115	-1,112	-	-
-Other Investment	-8,831	-1,002	-	-
-Other	62	19	0.2	0.2
Net Errors and Omissions	20,394	1,239	50.7	14.7
Reserves(1)	10,377	-6,324	25.8	-

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

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

Source: Datastream, Turkstat, CBRT

Capital outflow in portfolio investments...

In December, portfolio investments recorded 871 million USD capital outflow. Despite non-residents' net purchases of 406 million USD in equity securities and 3.1 billion USD in government domestic debt securities, there was a net outflow of 1.1 billion USD in portfolio investments in the whole year of 2019.

Other investments...

Whereas other investments recorded a net capital inflow of 370 million USD in December, 1 billion USD capital outflow was realized throughout 2019. Net loan repayments of general government, banks and other sectors throughout 2019 were the main reason of this development.

In 2019, long-term debt roll-over ratios became 74% in banking sector and 89%, the lowest level for 9 years, for other sectors.

Reserves and net errors and omissions...

In December, CBRT reserves decreased by 539 million

USD, while net errors and omissions recorded a capital inflow of 2.5 billion USD. CBRT reserves increased by 6.3 billion USD in 2019. Due to CBRT's revisions on various figures of the balance of payments statistics, net error and omissions figure was also revised accordingly. In this context, although the net error and omissions decreased by 1.9 billion USD for the first 11 months of 2019, the said item closed the year with an inflow of 1.2 billion USD.

Expectations...

In line with the weak course of economic activity in 2019, the contraction in the foreign trade deficit led the current account balance to give a surplus. On the other hand, the foreign trade deficit, which started to widen in the fourth quarter of the year with the recovery in economic activity, continued this trend in the first month of 2020 as well. According to preliminary data released by the Ministry of Commerce, the foreign trade deficit widened by 85.4% yoy in January 2020. Based on the continuation of this trend in the coming months, we expect the current account balance to post a deficit in 2020.

Balance of Payments	(USD million)			
	2018	December 2019	% Change	12-month Cumulative
Current Account Balance	-1,067	-2,798	162.2	1,674
Foreign Trade Balance	-1,313	-3,402	159.1	-18,676
Services Balance	1,114	1,400	25.7	31,537
Travel (net)	898	1,112	23.8	25,719
Primary Income	-994	-1,087	9.4	-12,513
Secondary Income	126	291	131.0	1,326
Capital Account	-1	-2	-	19
Financial Account	1,170	-319	-	2,932
Direct Investments (net)	-863	-281	-67.4	-5,506
Portfolio Investments (net)	1,945	871	-55.2	1,112
Net Acquisition of Financial Assets	835	1,213	45.3	4,520
Net Incurrence of Liabilities	-1,110	342	-	3,408
Equity Securities	-80	89	-	406
Debt Securities	-1,030	253	-	3,002
Other Investments (net)	-772	-370	-52.1	1,002
Currency and Deposits	-1,943	-2,049	5.5	-3,283
Net Acquisition of Financial Assets	-2,932	528	-	9,038
Net Incurrence of Liabilities	-989	2,577	-	12,321
Central Bank	-503	1,995	-	2,495
Banks	-486	582	-	9,826
Foreign Banks	-991	333	-	6,228
Foreign Exchange	-527	227	-	5,795
Turkish Lira	-464	106	-	433
Non-residents	505	249	-50.7	3,598
Loans	2,614	3,138	20.0	16,399
Net Acquisition of Financial Assets	437	143	-67.3	368
Net Incurrence of Liabilities	-2,177	-2,995	37.6	-16,031
Banking Sector	-1,999	-13	-99.3	-11,264
Non-bank Sectors	-130	-3,027	2,228.5	-3,771
Trade Credit and Advances	-1,540	-1,553	0.8	-12,101
Other Assets and Liabilities	97	94	-3.1	-13
Reserve Assets (net)	860	-539	-	6,324
Net Errors and Omissions	2,238	2,481	10.9	1,239

Source: Datastream, Ministry of Trade, 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

Dilek Sarsın Kaya
Asst. Manager
dilek.kaya@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.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.
