



Balance of Payments - November 2012

Economic Research Division

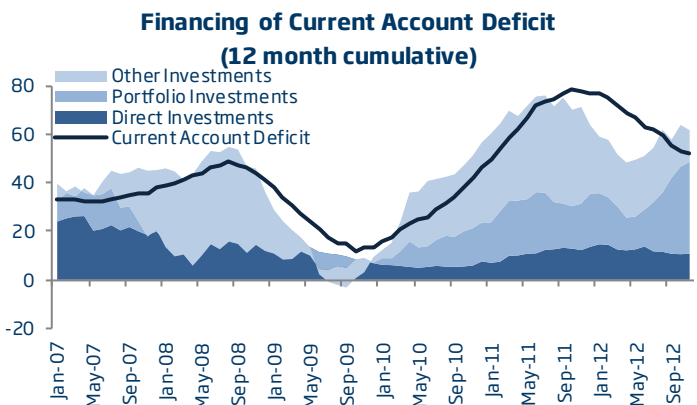
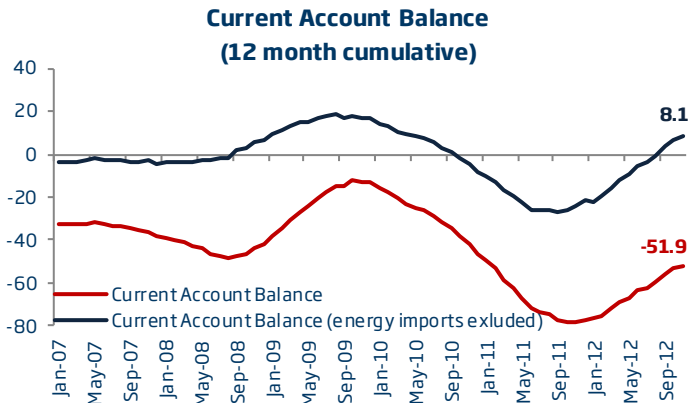


Current account deficit continued to narrow.

The improvement in the current account deficit throughout 2012 also continued in November as a result of the weak course of domestic demand and the increasing tendency in exports with the help of the diversification in export markets. Current account deficit came in lower than expected with 4.5 billion USD in November bringing the current account deficit in the first 11 months of 2012 to 45.2 billion USD, 25.1 billion USD lower than its level in the same period of 2011. 12-months cumulative deficit also declined from its peak level of 78.4 billion USD recorded in October 2011 to 51.9 billion USD. Thus, it is expected that CAD to GDP ratio has declined below 7% in 2012. Besides, it is noteworthy that current account balance in fact gave a surplus when energy imports are excluded. Looking at the sub-items of the current account balance, it was seen that foreign trade deficit narrowed by 26.3% in the first 11 months of 2012 compared to the same period of 2011 while the surplus in services balance rose by 15.7% during the same period. The gold trade which deviated from its normal trend and gave significant surplus in 2012 also played an important role in the said decline in foreign trade deficit.

High level of capital inflows towards the equity market...

Analysis of the financing of the current account deficit revealed that the strong course in portfolio inflows continuing since June also kept its pace in November. Especially, non-residents' interest in equity market was noticeable in the total portfolio inflows of 4.9 billion USD registered in November. In fact, non-residents' purchases of equity securities resulted in a net inflow of 2.4 billion USD in November, the historical high level on a monthly basis. Fitch's upgrade of Turkey's credit rating to investment grade in the beginning of November fuelled the capital inflows towards the equity market. The total net purchases of non-residents in equity market reached 5.4 billion USD in the first 11 months of 2012. Moreover, non-residents' interest in domestic debt securities continued to grow in November and 1.4 billion USD capital inflow was recorded



bringing the total inflow in the first 11 months of 2012 under the said item to 15 billion USD.

Bond issues in international markets...

Banks and other institutions' access to international capital markets gained momentum throughout 2012. Together with new issues amounting to 1.3 billion USD in November, banking sector borrowed 7.2 billion USD from international capital markets via bond issues during the first 11 months of

Breakdown of Net Capital Inflows Towards Turkey

	December 2011		November 2012		(12 month cumulative, million USD)	
	December 2011	November 2012	December 2011	November 2012	December 2011	November 2012
Current Account Balance	-76,986	-51,851	-	-	-	-
Total Net Foreign Capital Inflows	75,173	67,969	100.00	100.00	100.00	100.00
-Direct Investments	13,583	10,759	18.07	15.83		
-Portfolio Investments	21,986	37,971	29.25	55.87		
-Other Investments	28,215	13,045	37.53	19.19		
-Net Errors and Omissions	11,419	6,195	15.19	9.11		
-Other	-30	-1	-0.04	0.00		
Reserves⁽¹⁾	1,813	-16,118	-	-	-	-

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

Source: CBRT

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2012, 157.8% higher compared to the same period of 2011. During November, real sector also issued bonds worth of 700 million USD in international capital markets bringing the total amount of issue to 1.2 billion USD in the first 11 months of 2012. It is expected that banking sector as well as the real sector would benefit more from the opportunities presented by the international capital markets during 2013 with the support of upgrade of Turkey's credit rating to investment grade.

Despite this strong course in portfolio inflows, foreign direct investments kept their relatively weak course. Together with 295 million USD inflows, foreign direct investments during January-November 2012 reached 7.5 billion USD, 27.2% lower than its level in the same period of 2011.

Loans raised from abroad...

While Turkish banking sector had been a long-term net credit borrower in the first 11 months of 2011 with 4.3 billion USD, it became a net credit payer during the same period of 2012 with net credit payments amounting to 1.1 billion USD. In the first 11 months of 2012, debt roll-over ratio of the banking sector in long-term loans was 87%. However, real sector's net borrowing continued to grow in the first 11 months of 2012 compared to the same period of 2011, albeit with a decelerating pace. In the first 11 months of 2012, real sector's long-term borrowing from abroad was 2.4 billion USD and its debt roll-over ratio was 111%.

CBRT has continued to increase its FX reserves.

While current account deficit is declining, continuation of the high capital inflows gave CBRT an opportunity to build up FX reserves. FX reserves increased by 584 million USD in November. Thus, FX reserves, which increased by 3.6 billion USD during the first 11 months of 2011, mounted by 21.6 billion in the same period of 2012. The rise in CBRT's FX reserves makes Turkish economy more resilient against the possible financial turbulences that may occur in international markets.

Improvement in current account deficit is expected to lose pace.

The improvement in the current account deficit during 2012 is expected to lose momentum in 2013 as a result of the anticipated enlivening in domestic demand. The loss of momentum would be more significant should the gold trade returns to its normal trend. On the other hand, the widening is expected to be limited due to the sustained increase in exports and the anticipation that oil prices would follow a flat course due to the weak global demand.

Current Account Balance	(USD million)				
	November 2012	January-November 2011	January-November 2012	% Change	12 Month Cumulative
Current Account Balance	-4,479	-70,377	-45,242	-35.7	-51,851
Foreign Trade Balance	-5,534	-82,365	-60,688	-26.3	-67,413
Services Balance	1,262	17,683	20,459	15.7	20,772
Tourism Revenues (net)	1,016	17,474	17,673	1.1	18,243
Income Balance	-331	-7,028	-6,211	-11.6	-6,809
Current Transfers	124	1,333	1,198	-10.1	1,599
Capital and Financial Accounts	4,329	58,378	38,467	-34.1	45,656
Direct Investments (net)	295	10,364	7,540	-27.2	10,759
Portfolio Investments (net)	4,946	19,228	35,213	83.1	37,971
Equity Securities	2,383	-1,189	5,422	-	5,625
Debt Securities	3,386	17,088	27,502	60.9	30,698
Other Investments (net)	-328	32,460	17,290	-46.7	13,045
Assets	-1,659	13,974	1,681	-88.0	-1,167
Currency and Deposits	-1,315	15,265	3,832	-74.9	1,409
Liabilities	1,331	18,486	15,609	-15.6	14,212
Loans	1,229	19,146	5,933	-69.0	5,712
Banking Sector	1,305	12,808	2,898	-77.4	2,576
Non-bank Sectors	475	7,260	5,184	-28.6	5,145
Deposits	-664	-3,304	8,005	-	7,000
Foreign Banks	-791	-4,303	7,421	-	5,883
Foreign Exchange	-760	2,705	5,915	118.7	4,969
Turkish Lira	-31	-7,008	1,506	-	914
Non-residents	279	2,795	2,707	-3.1	3,359
Reserve Assets (net)	-584	-3,645	-21,576	491.9	-16,118
Net Errors and Omissions	150	11,999	6,775	-43.5	6,195

Source: CBRT

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