



Balance of Payments - April 2013

Economic Research Division



Higher than expected current account deficit in April...

In April, current account deficit increased by 79.7% compared to the same month of the previous year and was realized as 8.2 billion USD, slightly higher than the market expectations. Almost two-fold increase in the current account deficit in April mainly stemmed from the rise in the foreign trade deficit. In fact, the foreign trade posted the highest deficit since June 2011 mainly due to the increase in gold imports in April.

The increase in domestic demand widened the current account deficit.

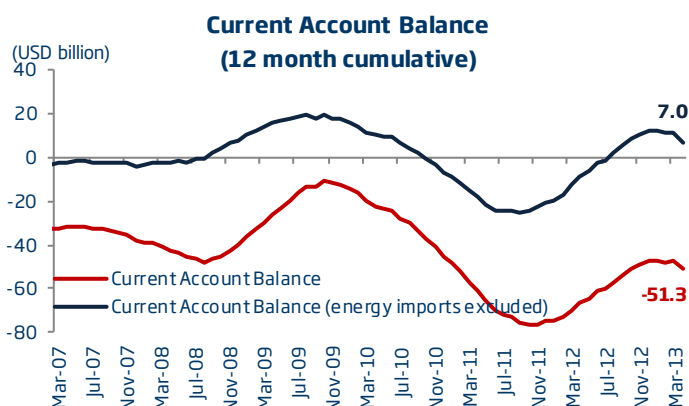
In the first four months of the year, the current account deficit increased by 17.2% compared to the same period of the previous year and was realized as 24.3 billion USD. As confirmed by the growth figures of the first quarter of 2013, the widening in the current account deficit during this period mainly originated from the rise in private and public domestic consumption expenditures. In addition, the contribution of the net exports to GDP growth, which was remarkably high during last year, disappeared in the first quarter.

12-month cumulative foreign trade deficit increased by 3.6 billion USD compared to the previous month and reached 51.3 billion USD in April.

On the other hand, the net tourism revenues, which increased by 27.6% to 4.3 billion in the first four months compared to the same period of the previous year, continued to limit the widening in the current account deficit.

Foreign direct investments were weak.

The net foreign direct investments continued to stay at low levels with 0.5 billion USD in April. In the first four months, net foreign direct investments decreased by 11.4% compared to the same period of the previous year and were realized as 2.2 billion USD. The decline in foreign direct investment becomes more visible when only inflows are taken into account instead of the net figure. In fact, foreign



direct investment inflows declined by 37.5% to 3.1 billion USD in the first four months compared to the same period of the previous year.

Portfolio investments remained strong.

The continuation of the loose monetary policies in advanced economies and the market expectations about the upgrade of Turkey's credit rating by a second rating agency throughout April increased the portfolio inflows to a historic monthly high level of 9.3 billion USD. Analyzing the details of the portfolio inflows, non-residents' equity transactions recorded net purchases of 133 million USD in April. In addition, non-residents registered a net purchase of 4.5 billion USD government domestic debt securities during this period. Regarding the bond issues in international capital markets, general government, banks and the real sector borrowed 1.5 billion USD, 1.35 billion USD and 1.5 billion USD in April, respectively.

In the first four months, total portfolio investments reached 18.1 billion USD, almost tripled compared to the same period of last year.

Banks continued to borrow short-term loans from abroad.

In April, banking sector's net borrowing from abroad was 1.2 billion USD. Thus, total net borrowing of the banking sector in the first four months reached 8 billion USD. During the

Breakdown of Net Capital Inflows Towards Turkey

	December 2012		April 2013		(12 month cumulative, million USD) Breakdown of Capital Inflows (%)	
	December 2012	April 2013	December 2012	April 2013	December 2012	April 2013
Current Account Balance	-47,729	-51,301	-	-	-	-
Total Net Foreign Capital Inflows	68,543	85,408	100.0	100.0	100.0	100.0
-Direct Investments	8,484	8,199	12.4	9.6		
-Portfolio Investments	40,789	52,657	59.5	61.7		
-Other Investments	17,847	33,389	26.0	39.1		
-Net Errors and Omissions	1,467	-8,799	2.1	-10.3		
-Other	-44	-38	-0.1	0.0		
Reserves⁽¹⁾	-20,814	-34,107	-	-	-	-

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

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

Source: CBRT

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same period of the last year, it was 1 billion USD. According to the maturities, banking sector was a net re-payer in long-term loans while the sector was a net borrower in short-term loans. Despite the increase in the banking sector's net borrowing from abroad, real sector decreased its foreign borrowing in the first four months of the year. In fact, during this period, real sector's net borrowing decreased from 2.6 billion USD to 1.4 billion USD. In contrast to the banking sector, the majority of this amount is composed of long-term loans. Analyzing 12-month cumulative figures, it was seen that long term debt roll-over ratio of the banking sector was 93.6% and that of non-banking sector was 116%.

In addition to the loans raised from abroad, non-resident banks' foreign exchange and TL deposits held in domestic banks increased by 2.6 billion USD in April and by 6.5 billion USD in the first four months. The increase in foreign exchange deposits constituted the majority of this amount.

Remarkable increase in reserve assets...

The portfolio investments and other investment inflows in April were much higher than the financing need originating from the current account deficit. This enabled the CBRT to increase its reserves significantly. In fact, reserve assets increased by 7.3 billion USD in April and 14.3 billion USD in

the first four months.

Expectations...

The current account deficit started to widen parallel to the recovery in domestic demand as confirmed by the first quarter growth figures of 2013. The noteworthy increase in gold imports recently also accelerated the widening in the current account deficit. The current account deficit is expected to continue widening throughout 2013 in parallel with the enlivening in economic activity. The capital inflows to Turkey, excluding the foreign direct investments, were very strong during the first four months and pointed out that in terms of financing there would not be any problem. On the other hand, the short-term nature of capital inflows poses a risk factor. In fact, capital outflows were observed due to profit taking sales in the markets after Moody's upgraded Turkey's credit rating to investment grade in May. In addition, the rumors that the Fed might decrease the amount of its asset purchases negatively affect the capital flows to emerging markets. Under these circumstances, CBRT noted that it will implement additional monetary tightening due to the increasing volatility and depreciation in TL. In this context, CBRT noted that it will reduce the liquidity provided via policy rate and that it might hold foreign exchange selling auctions and interventions if deemed necessary.

Current Account Balance	(USD million)				
	April 2013	January-April 2012 2013		% Change	12 Month Cumulative
Current Account Balance	-8,170	-20,763	-24,335	17.2	-51,301
Foreign Trade Balance	-8,424	-21,932	-25,607	16.8	-69,001
Services Balance	941	3,379	3,700	9.5	23,233
Tourism Revenues (net)	1,291	3,363	4,292	27.6	22,488
Income Balance	-718	-2,710	-2,690	-0.7	-6,678
Current Transfers	31	500	262	-47.6	1,145
Capital and Financial Accounts	9,589	16,105	29,943	85.9	60,100
Direct Investments (net)	469	2,503	2,218	-11.4	8,199
Portfolio Investments (net)	9,340	6,222	18,090	190.7	52,657
Assets	280	370	1,735	368.9	4,022
Liabilities	9,060	5,852	16,355	179.5	48,635
Equity Securities	133	775	526	-32.1	6,025
Debt Securities	8,927	5,077	15,829	211.8	42,610
Other Investments (net)	7,053	8,401	23,943	185.0	33,389
Assets	144	-1,004	2,114	-	2,555
Currency and Deposits	176	-643	2,610	-	4,470
Liabilities	6,909	9,405	21,829	132.1	30,834
Trade Credits	2,049	175	5,587	3,093	6,420
Loans	2,141	2,856	8,754	206.5	15,016
Banking Sector	1,168	976	7,983	717.9	11,862
Non-bank Sectors	1,151	2,595	1,352	-47.9	5,113
Deposits	2,676	6,345	7,438	17.2	8,892
Foreign Banks	2,580	5,037	6,533	29.7	8,625
Foreign Exchange	2,334	4,836	5,681	17.5	6,090
Turkish Lira	246	201	852	323.9	2,535
Non-residents	192	1,692	1,239	-26.8	2,460
Reserve Assets (net)	-7,273	-1,004	-14,297	1,324.0	-34,107
Net Errors and Omissions	-1,419	4,658	-5,608	-	-8,799

Source: CBRT

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