



## Balance of Payments - June 2013

Economic Research Division



### Current account deficit was below the expectations...

In June, current account deficit increased by 12.4% compared to the same month of the previous year and was realized as 4.4 billion USD, lower than the market expectations. Thus, during the first half of the year, current account deficit reached 35.9 billion USD. The upward trend of non-monetary gold imports played an important role in increase in the current account deficit. Non-monetary gold trade balance which gave a surplus of 1.7 billion USD in the first half of 2012, recorded a deficit of 7 billion USD during the same period in 2013.

12-month cumulative current account deficit decelerated in June and reached 53.6 billion USD.

### Rapid increase in tourism revenues ...

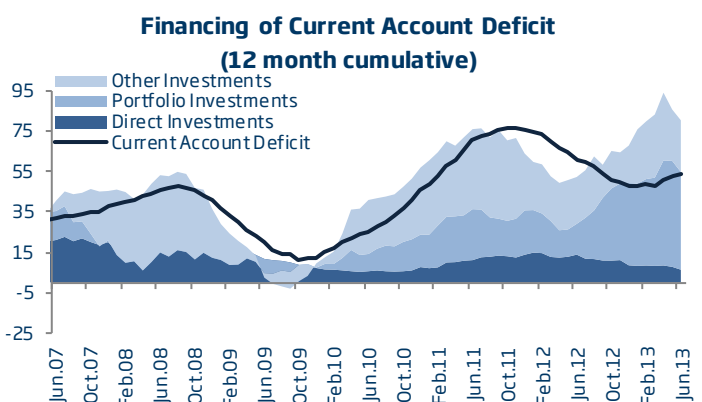
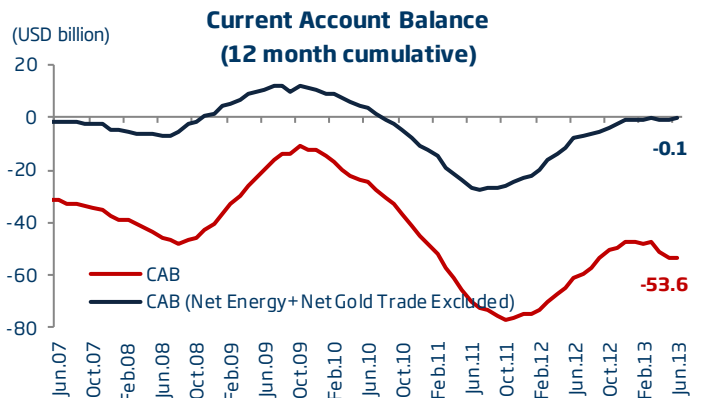
Net tourism revenues which increased by 23.3% compared to the same month of the previous year limited the increase in the current account deficit in June. In January-June period, net tourism revenues increased by 29.9% on annual basis and were realized as 9.4 billion USD.

Net investment expenditures also decelerated in June. However, this item amounted to 5.2 billion USD in the first half of 2013 increasing by 44.2% annually and played an important role in the expansion of current account deficit during this period.

### Weak course of foreign direct investments continued.

Analysis of the financing side of current account deficit revealed that the weak course of net foreign direct investments continued in June. Foreign direct investments decreased by 74.9% compared to the same month of the previous year and were realized as 475 million USD.

During the first half of the year, net foreign direct investments decreased by 38.1%, while the contraction was 43.8% when only inflows were taken into account.



### Net outflow in portfolio investments...

After displaying a strong course between the second half of the 2012 and May 2013, net portfolio investments recorded net outflow of 312 million USD in June for the first time since September 2011. Capital outflows from developing countries due to the anticipation of Fed to reduce its asset purchases was influential on this development in June.

On the other hand, during the first half of the year portfolio investments increased by 73.8% compared to the same period of the previous year and were realized as 18 billion USD.

### Breakdown of Net Capital Inflows Towards Turkey

(12-month cumulative, million USD)

|  | December 2012  |                | June 2013     |              | Breakdown of Capital Inflows (%) |           |
|--|----------------|----------------|---------------|--------------|----------------------------------|-----------|
|  | December 2012  | June 2013      | December 2012 | June 2013    | December 2012                    | June 2013 |
| <b>Current Account Balance</b>           | -47,750        | -53,640        | -             | -            | -                                | -         |
| <b>Total Net Foreign Capital Inflows</b> | <b>68,564</b>  | <b>74,622</b>  | <b>100.0</b>  | <b>100.0</b> |                                  |           |
| -Direct Investments                      | 8,455          | 6,288          | 12.3          | 8.4          |                                  |           |
| -Portfolio Investments                   | 40,789         | 48,442         | 59.5          | 64.9         |                                  |           |
| -Other Investments                       | 18,571         | 25,598         | 27.1          | 34.3         |                                  |           |
| -Net Errors and Omissions                | 793            | -5,648         | 1.2           | -7.6         |                                  |           |
| -Other                                   | -44            | -58            | -0.1          | -0.1         |                                  |           |
| <b>Reserves<sup>(1)</sup></b>            | <b>-20,814</b> | <b>-20,982</b> | -             | -            |                                  |           |

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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In June, net capital outflow was recorded in the government domestic debt securities and equity securities. On the other hand, banking sector borrowed 562 million USD through bond auctions in international capital markets.

## Increasing tendency in other investments...

In June, banking sector's net loan borrowing from abroad was realized as 1.6 billion USD. In this period, banking sector was net loan borrower in both long-term and short-term. Net-loans of banking sector almost tripled in the first half of 2013 compared to the same period of the previous year.

The non-banking sector, on the other hand, raised 3.3 billion USD long-term loans from abroad while repaying 3.7 billion USD. In January-June period, non-banking sector was also net credit payer with amount of 1.2 billion USD. Analyzing the 12-month cumulative figures, long-term debt roll-over ratios were 122% in the banking sector and 101% in non-banking sector.

## Sharp decrease in reserve assets in June.

Loss of momentum in capital inflows due to decreasing risk appetite in global markets created an upward pressure on

exchange rates. In this context, the reserve assets decreased by 3.3 billion USD in June due to FX selling auctions of CBRT which aimed to limit the devaluation of TL. In other words, CBRT's reserve assets were also used in financing of the current account deficit in this period. Despite sharp decreases recorded in the last two months, net reserve assets expanded by 6.5 billion USD in the first half of the 2013. On the other hand, outflow in the net errors and omissions, which was realized as 2.3 billion USD in June, was also noteworthy.

## Expectations...

Expansion in foreign trade deficit in the first half of 2013, which stemmed mainly from the increase in gold imports, had an upward impact on the current account deficit. On the other hand, CBRT's tight monetary policy implementation since June and strong performance in tourism revenues are expected to limit the increase in the current account deficit. In the coming period, Fed's exit strategy and CBRT's monetary policy will be effective in the quality of the financing of the current account deficit.

|                                       | <b>Current Account Balance</b> |                          |                          |                 | <b>(USD million)</b>       |
|---------------------------------------|--------------------------------|--------------------------|--------------------------|-----------------|----------------------------|
|                                       | <b>June 2013</b>               | <b>January-June 2012</b> | <b>January-June 2013</b> | <b>% Change</b> | <b>12 Month Cumulative</b> |
| <b>Current Account Balance</b>        | <b>-4,445</b>                  | <b>-30,030</b>           | <b>-35,920</b>           | <b>19.6</b>     | <b>-53,640</b>             |
| Foreign Trade Balance                 | -6,940                         | -34,595                  | -40,474                  | 17.0            | -71,214                    |
| Services Balance                      | 2,938                          | 7,615                    | 9,393                    | 23.3            | 24,687                     |
| Tourism Revenues (net)                | 2,651                          | 7,248                    | 9,412                    | 29.9            | 23,723                     |
| Income Balance                        | -522                           | -3,705                   | -5,324                   | 43.7            | -8,326                     |
| Current Transfers                     | 79                             | 655                      | 485                      | -26.0           | 1,213                      |
| <b>Capital and Financial Accounts</b> | <b>6,777</b>                   | <b>28,661</b>            | <b>40,992</b>            | <b>43.0</b>     | <b>59,288</b>              |
| Direct Investments (net)              | 475                            | 5,682                    | 3,515                    | -38.1           | 6,288                      |
| Portfolio Investments (net)           | -312                           | 10,376                   | 18,029                   | 73.8            | 48,442                     |
| Assets                                | 744                            | -57                      | 2,094                    | -               | 4,808                      |
| Liabilities                           | -1,056                         | 10,433                   | 15,935                   | 52.7            | 43,634                     |
| Equity Securities                     | -1,230                         | 1,238                    | -196                     | -               | 4,840                      |
| Debt Securities                       | 174                            | 9,195                    | 16,131                   | 75.4            | 38,794                     |
| Other Investments (net)               | 3,352                          | 18,945                   | 25,972                   | 37.1            | 25,598                     |
| Assets                                | -184                           | 1,698                    | 442                      | -74.0           | -1,826                     |
| Currency and Deposits                 | 44                             | 2,445                    | 1,565                    | -36.0           | 287                        |
| Liabilities                           | 3,536                          | 17,247                   | 25,530                   | 48.0            | 27,424                     |
| Trade Credits                         | -158                           | 2,538                    | 6,865                    | 170             | 5,352                      |
| Loans                                 | 758                            | 6,782                    | 7,980                    | 17.7            | 11,030                     |
| Banking Sector                        | 1,587                          | 3,254                    | 10,337                   | 217.7           | 12,247                     |
| Non-bank Sectors                      | -764                           | 4,653                    | -1,151                   | -               | 957                        |
| Deposits                              | 2,831                          | 7,720                    | 10,442                   | 35.3            | 10,521                     |
| Foreign Banks                         | 2,602                          | 4,352                    | 9,156                    | 110.4           | 11,933                     |
| Foreign Exchange                      | 736                            | 4,249                    | 7,291                    | 71.6            | 8,287                      |
| Turkish Lira                          | 1,866                          | 103                      | 1,865                    | 1,710.7         | 3,646                      |
| Non-residents                         | 352                            | 4,042                    | 1,867                    | -53.8           | 738                        |
| Reserve Assets (net)                  | 3,276                          | -6,320                   | -6,488                   | 2.7             | -20,982                    |
| <b>Net Errors and Omissions</b>       | <b>-2,332</b>                  | <b>1,369</b>             | <b>-5,072</b>            | <b>-</b>        | <b>-5,648</b>              |

Source: CBRT

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