



Balance of Payments - December 2013

Economic Research Division



Current account deficit rose to 65 billion USD in 2013.

In December, current account deficit was realized as 8.3 billion USD, well above the expectations and the highest level in 2013 on a monthly basis. Thus in 2013, current account deficit increased by 34% compared to the previous year to 65 billion USD. Considering that the Turkish economy grew by 4% in the last year, we estimate that the current account deficit/GDP ratio would be around 7.8%, well above the 7.1% Medium Term Program forecast. On the other hand, the non-monetary gold trade played an important role in the upward trend of the current account deficit. Indeed, taking into account that the non-monetary gold trade, which posted a 5.7 billion USD surplus in 2012, gave a deficit of 11.8 billion USD in 2013, the current account deficit excluding the non-monetary gold trade followed a relatively stable course. We calculate that the current account deficit excluding non-monetary gold/GDP ratio would fall to 6.4% in 2013 from the 6.9% in 2012.

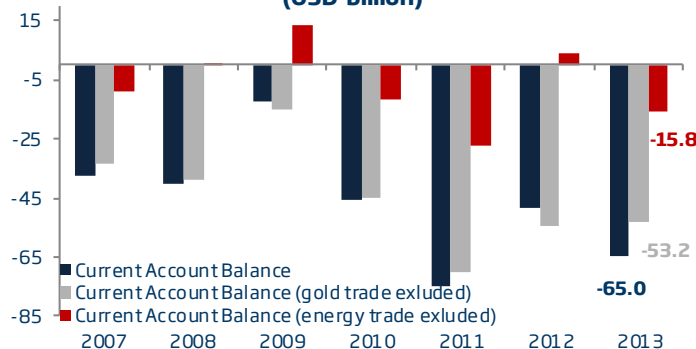
Net tourism revenues increased by 9.1% annually.

Tourism revenues, which lost momentum due to the seasonal factors in recent months, remained weak also in December. In 2013, the net tourism revenues increased by 9.1% on an annual basis and rose to 23.2 billion USD.

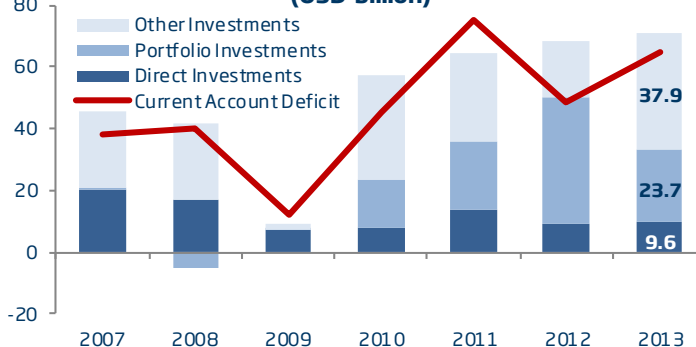
Portfolio investments declined by 41.8%.

As a result of the deterioration in the risk perception towards developing countries and the domestic corruption probe, there was a net capital outflow of 181 million USD from portfolio investments in December. Throughout the year, contrary to 2012 when capital inflows were prompted by the expectations of a rise in Turkey's credit rating by international credit rating agencies, portfolio investments declined by 41.8% and were realized as 23.7 billion USD. 74% of this amount was realized until May when the credit rating of Turkey was raised to the investment grade by a second international credit rating agency and the concerns regarding a potential cut in Fed's monthly asset purchases began to intensify.

Current Account Balance
(USD billion)



Financing of Current Account Deficit
(USD billion)



A limited increase in net foreign direct investments...

In December, net foreign direct investments were realized as 1.5 billion USD, above the annual average. Throughout the year, net FDI increased by 4.7% compared to 2012 and continued to contribute slightly to the financing of the current account deficit. Analysis of the foreign direct investment inflows towards Turkey revealed that capital investments in 2013 fell by 5% while net real estate investments rose by 15.7% and reached 3 billion USD.

Breakdown of Net Capital Inflows Towards Turkey

(12-month cumulative, million USD)

	December 2012		December 2013	
	December 2012	December 2013	December 2012	December 2013
Current Account Balance	-48,497	-65,004	-	-
Total Net Foreign Capital Inflows	69,311	74,915	100.0	100.0
-Direct Investments	9,150	9,579	13.2	12.8
-Portfolio Investments	40,789	23,743	58.8	31.7
-Other Investments	18,365	37,881	26.5	50.6
-Net Errors and Omissions	1,059	3,800	1.5	5.1
-Other	-52	-88	-0.1	-0.1
Reserves⁽¹⁾	-20,814	-9,911	-	-

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 2013, the most important source of financing was other investments.

As the risk perception towards developing countries increased especially in the second half of the year and Turkey's risk premium increased due to domestic developments, other investments played a major role in the financing of current account deficit in 2013. Thus, during 2013, other investments increased to record high level of 37.9 billion USD and rose by 106% compared to 2012. The banking sector which increased its long-term debt roll-over ratio from 103% in 2012 to 205% in 2013 was influential in this development. In 2013, net total credits raised by banking sector abroad were amounted to 21 billion USD. Long-term debt roll-over ratio of the non-banking sectors, on the other hand, was around 100% in 2013.

Reserve assets...

Reserve assets, which decreased by 3.7 billion USD in December, rose by nearly 10 billion USD during 2013. Net errors and omissions recorded 1.6 billion USD of capital inflows in December and reached 3.8 billion USD in the whole year.

Expectations...

In 2013, current account deficit increased rapidly in parallel with the developments in the non-monetary gold trade.

Thus, excluding the gold trade, current account deficit decreases by 1.8% compared to 2012. This situation confirms the views that the rebalancing between domestic and external demand continued gradually. In 2014, the expectation that the EU economy, which is the most important export market of Turkey, will continue to recover and the rise in the competitiveness of Turkey in export markets due to the decline in real effective exchange rate would affect the export volume positively. In addition, tight monetary policy of the CBRT and macroprudential measures taken by BRSA are expected to limit the domestic demand. In this context, we anticipate the rebalancing of domestic and external demand to continue in 2014 and the current account deficit/GDP ratio to decline to 5.5%.

On the other hand, the portfolio investments follow a weak course recently as Fed started to taper its asset purchasing program and risk perception towards Turkey was deteriorated due to the increasing political tension. However, despite the weakening observed in portfolio investments, banking sector did not face any difficulty in raising credits abroad and contribute to the financing of current account deficit increasingly. In this context, in 2014, Turkey is not expected to experience a significant problem in financing the current account deficit and Central Bank would support the market with reserves sales if necessary.

Current Account Balance	(USD million)			
	December 2013	January-December 2012	December 2013	% Change
Current Account Balance	-8,322	-48,497	-65,004	34.0
Foreign Trade Balance	-7,990	-65,331	-79,817	22.2
Services Balance	471	22,562	23,064	2.2
Tourism Revenues (net)	919	21,251	23,180	9.1
Income Balance	-955	-7,161	-9,447	31.9
Current Transfers	152	1,433	1,196	-16.5
Capital and Financial Accounts	6,708	47,438	61,204	29.0
Direct Investments (net)	1,486	9,150	9,579	4.7
Portfolio Investments (net)	-181	40,789	23,743	-41.8
Assets	-36	2,657	2,653	-0.2
Liabilities	-145	38,132	21,090	-44.7
Equity Securities	-246	6,274	841	-86.6
Debt Securities	101	31,858	20,249	-36.4
Other Investments (net)	1,683	18,365	37,881	106.3
Assets	-1,664	-707	2,034	-
Currency and Deposits	-1,562	1,023	4,346	324.8
Liabilities	3,347	19,072	35,847	88.0
Trade Credits	1,358	1,008	5,601	455.7
Loans	3,718	9,780	22,087	125.8
Banking Sector	3,469	5,162	20,983	306.5
Non-bank Sectors	338	6,710	2,018	-69.9
Deposits	-1,745	7,799	7,579	-2.8
Foreign Banks	-1,559	7,129	6,309	-11.5
Foreign Exchange	-595	5,245	6,371	21.5
Turkish Lira	-964	1,884	-62	-
Non-residents	-16	2,913	3,270	12.3
Reserve Assets (net)	3,720	-20,814	-9,911	-52.4
Net Errors and Omissions	1,614	1,059	3,800	258.8

Source: CBRT

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**Türkiye İş Bankası A.Ş. - Economic Research Division****İzlem Erdem - Manager**

izlem.erdem@isbank.com.tr

Alper Gürler - Unit Manager

alper.gurler@isbank.com.tr

Kıvılcım Eraydın - Economist

kivilcim.eraydin@isbank.com.tr

Erhan Gül - Economist

erhan.gul@isbank.com.tr

Bora Çevik - Economist

bora.cevik@isbank.com.tr

Eren Demir - Asst.Economist

eren.demir@isbank.com.tr

M. Kemal Gündoğdu - Asst.Economist

kemal.gundogdu@isbank.com.tr

Gamze Can - Asst.Economist

gamze.can@isbank.com.tr

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