



Balance of Payments - April 2014

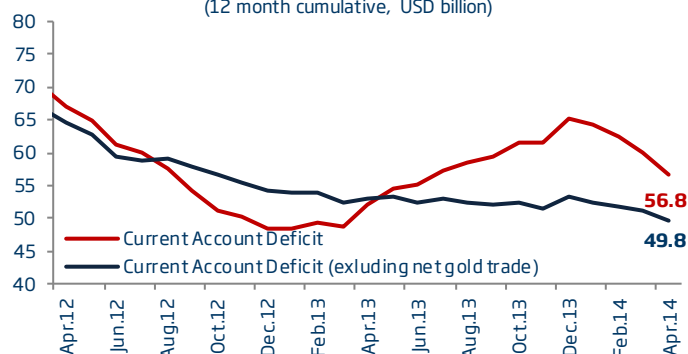
Economic Research Division



Current account deficit continued to narrow.

Current account deficit continued to narrow in April and came in parallel with the market expectations at 4.8 billion USD. The cumulative current account deficit in the first four months of 2014 reached 16.4 billion USD which is significantly lower than the deficit recorded in the same period of the previous year (24.7 billion USD). The decline in foreign trade deficit and the rise in services balance surplus compared to the previous year played role in the narrowing of the current account deficit. In fact, the first quarter GDP figures of Turkey also confirmed the deceleration in domestic consumption expenditures as a result of the measures taken by the CBRT and BRSA while they showed that net exports continued to increase. The 12-month cumulative current account deficit declined to 56.8 billion USD, the lowest level observed since June 2013.

Current Account Deficit
(12 month cumulative, USD billion)



Increase in FDI

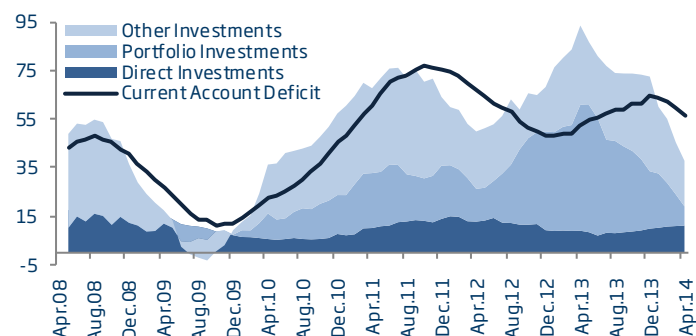
Despite the low share of FDI in the financing of the current account deficit, the rate of increase in FDI during the first four months of 2014 was noteworthy. The sustained increase in FDI despite the elevated uncertainties and tighter global financial conditions was evaluated as a quite positive development. In fact, net FDI inflows increased by 48% yoy in the first four months of the year and reached 3.8 billion USD. According to the 12-month cumulative

figures, net FDI inflows reached 11.1 billion USD as of April 2014.

Portfolio inflows reached one-year high in April.

Portfolio investments recorded the highest monthly capital inflow in the last one-year period with 4.2 billion USD in April after having registered 2.5 billion USD capital outflow in the first quarter of the year as a result of the volatile course of risk perception towards emerging markets and the increased uncertainties in the domestic markets ahead of the local elections. Analyzing the details of the portfolio investments in April, non-residents' net equity purchases was realized as 579 million USD and their net government domestic debt securities purchases reached 4.1 billion USD. Both the general government, the banking sector and non-bank sectors benefited from the decline in domestic uncertainties and the positive sentiment towards emerging markets throughout April and weighed on bond issues in international markets. In fact, general government, banks and non-bank sectors borrowed 1.4 billion USD, 1.8 billion USD and 500 million USD, respectively from international markets via bond issues in April.

Financing of Current Account Deficit
(12 month cumulative, USD billion)



Other investments

Capital inflow recorded under the other investment account reached 3.5 billion USD in April. It was noteworthy that both the banking sector and non-bank sectors did not face any

Breakdown of Net Capital Inflows Towards Turkey

(12-month cumulative, million USD)

	December 2013		April 2014	
	December 2013	April 2014	December 2013	April 2014
Current Account Balance	-65,073	-56,790	-	-
Total Net Foreign Capital Inflows	74,984	50,246	100.0	100.0
-Direct Investments	9,809	11,055	13.1	22.0
-Portfolio Investments	23,691	7,929	31.6	15.8
-Other Investments	39,116	18,830	52.2	37.5
-Net Errors and Omissions	2,460	12,517	3.3	24.9
-Other	-92	-85	-0.1	-0.2
Reserves⁽¹⁾	-9,911	6,544	-	-

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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difficulty regarding raising long-term loans from abroad. In fact, long-term loans raised from abroad in the first four months of 2014 by banks and non-bank sectors amounted to 2.3 billion USD and 2.7 billion USD, respectively. During the same period, banks' and other sectors' long-term debt roll-over ratios were 198% and 143%, respectively.

It was also worth noting that the deposits of non-resident banks' held within domestic banks increased by 1.2 billion USD in April after having declined by 2 billion USD in the first quarter of the year.

Increase in reserve assets

The high amount of capital inflow recorded under portfolio investments and other investments enabled the CBRT to increase its reserve assets by 2.7 billion USD in April. The net errors and omissions account recorded 873 million USD outflow in April after having recorded 6.7 billion USD capital inflow in the first quarter of 2014.

Expectations

The narrowing of the current account deficit has been continuing as we have envisaged before. The deceleration in domestic consumption expenditures and the sustained rise in exports have supported the narrowing of the deficit. We think that the current account deficit will continue to narrow in the coming months and the deficit to GDP ratio, which was 7.9% at the end of 2013, will decrease to around 5.5% as of end-2014.

Regarding the financing of the deficit, the cloudy outlook that was observed in the first quarter have disappeared to a large extent as of April. Portfolio investments were very strong while banks and non-banks sector continued to borrow from abroad without facing a major problem. We think that possible resurgence of politic risk in the coming months might lead to short-term fluctuations in capital inflows but they will not create long-lasting difficulty in the financing of the current account deficit.

	Current Account Balance				(USD million)
	April 2014	January-April 2013 2014		% Change	12 Month Cumulative
Current Account Balance	-4,788	-24,655	-16,372	-33.6	-56,790
Foreign Trade Balance	-5,374	-25,541	-17,402	-31.9	-71,887
Services Balance	1,361	3,369	3,990	18.4	23,743
Tourism Revenues (net)	1,411	4,110	4,178	1.7	23,248
Income Balance	-816	-2,774	-3,132	12.9	-9,708
Current Transfers	41	291	172	-40.9	1,062
Capital and Financial Accounts	5,661	28,924	10,584	-63.4	44,273
Direct Investments (net)	668	2,586	3,832	48.2	11,055
Portfolio Investments (net)	4,174	17,462	1,700	-90.3	7,929
Assets	-459	1,107	-729	-	765
Liabilities	4,633	16,355	2,429	-85.1	7,164
Equity Securities	579	526	987	87.6	1,302
Debt Securities	4,054	15,829	1,442	-90.9	5,862
Other Investments (net)	3,541	23,196	2,910	-87.5	18,830
Assets	467	1,031	1,349	30.8	2,682
Currency and Deposits	-313	1,496	1,579	5.5	4,645
Liabilities	3,074	22,165	1,561	-93.0	16,148
Trade Credits	258	5,592	-2,024	-	-2,013
Loans	689	9,077	3,800	-58.1	16,658
Banking Sector	-128	7,986	1,272	-84.1	14,860
Non-bank Sectors	1,040	1,604	3,033	89.1	2,660
Deposits	2,044	7,446	-374	-	813
Foreign Banks	1,181	6,540	-855	-	-169
Foreign Exchange	1,363	5,688	-8	-	678
Turkish Lira	-182	852	-847	-	-847
Non-residents	1,017	1,240	989	-20.2	3,156
Reserve Assets (net)	-2,722	-14,297	2,158	-	6,544
Net Errors and Omissions	-873	-4,269	5,788	-	12,517

Source: CBRT

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