September 11, 2014

# Balance of Payments - July 2014

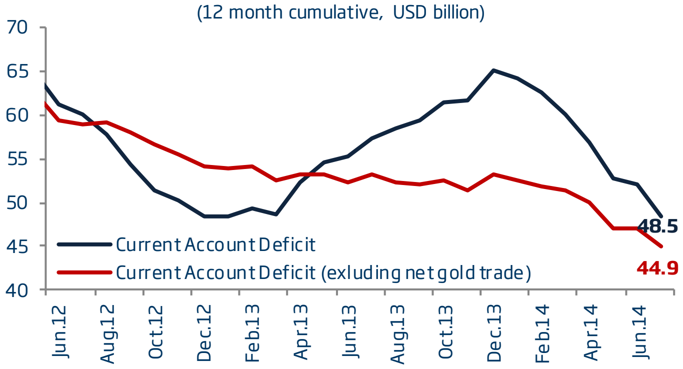
## Economic Research Division

### 12-month current account deficit came in at the lowest level since January 2011.

Current account deficit was realized as 2.6 billion USD in July, parallel to expectations. It was 6.3 billion USD in the same period of 2013. In the first seven months of the year, the deficit narrowed by 38.3% yoy. The 12-month cumulative current account deficit also declined from 52.1 billion USD in June to 48.5 billion USD in July, the lowest level since January 2011. This development stemmed mainly from the narrowing foreign trade deficit thanks to the increasing exports and partly from the positive performance of services balance.

**Current Account Deficit**

(12 month cumulative, USD billion)




### The contraction in foreign trade deficit continued.

Having played a significant role in the narrowing trend of current account deficit, foreign trade deficit declined by 10.9% yoy in July according to 12-month cumulative figures. This decline of 8 billion USD was mostly due to the increase in exports. On the other hand, the figures recorded in the first seven months of the year revealed that the deceleration in exports continued in July. The decline in exports directed to Iraq and the loss of momentum in economic activity in the European Union countries were the main factors that weakened the export performance. During the same period, imports volume posted a limited decline and contributed to the narrowing of current account deficit. In addition to slowing domestic demand, the rapid contraction in gold imports were also influential on the narrowing of the foreign trade deficit. In fact, gold imports, which were 11.1 billion USD in the first seven months of 2013, dropped to 3.2 billion USD in the same period of this year.

The surplus in services balance increased by 10.5% yoy in the first seven months of the year and supported the improvement in current account deficit. The tourism balance, which accounted for 97% of services balance, exhibited an increase of 373 million USD during the same period.

### The net inflow in portfolio investments was 3.7 billion USD in July.

Having displayed a strong outlook in June, portfolio investments account registered a net inflow of 3.7 billion USD in July. A significant part of this inflow (2.7 billion USD) was derived from the inflows directed to debt securities. Banking sector borrowed 1.7 billion USD from international capital markets via bond issues during the same period.

Having followed a declining trend in the first quarter of 2014 owing to capital outflows from emerging markets, portfolio investments continued to recover in July. During the first seven months of the year, equity and debt securities attracted 2.1 billion USD and 12.5 billion USD net inflows, respectively.

### Net direct investments towards Turkey kept their positive trend.

Net inflow of direct investments to Turkey, which was 1.1 billion USD in June, came in 1 billion USD in July. 61% of this inflow was registered in equity capital investments account while 34% of it was composed of real estate investments account. According to 12-month cumulative figures, the upward trend in "net direct investment in Turkey" account

**Breakdown of Net Capital Inflows Towards Turkey** (12-month cumulative, million USD)

| | | | Breakdown of Capital Inflows (%) | |
|---|---|---|---|---|
| | **December 2013** | **July 2014** | **December 2013** | **July 2014** |
| **Current Account Balance** | **-65,066** | **-48,485** | - | - |
| **Total Net Foreign Capital Inflows** | **74,977** | **55,137** | **100.0** | **100.0** |
| -Direct Investments | 9,791 | 9,726 | 13.1 | 17.6 |
| -Portfolio Investments | 23,691 | 22,651 | 31.6 | 41.1 |
| -Other Investments | 38,823 | 9,524 | 51.8 | 17.3 |
| -Net Errors and Omissions | 2,765 | 13,298 | 3.7 | 24.1 |
| -Other | -93 | -62 | -0.1 | -0.1 |
| **Reserves[(1)]** | **-9,911** | **-6,652** | - | - |

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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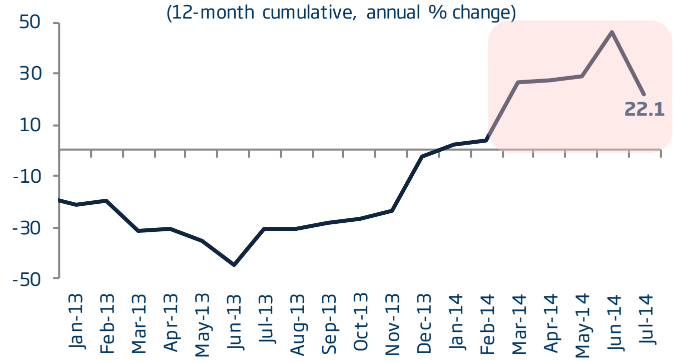
observed since March was noteworthy. In fact, these figures revealed that net direct investments increased by 22.1% yoy in July. Analyzing figures by subsectors, manufacturing industry and banking sector were responsible for 51% of the net direct investments in Turkey in the first seven months of the year.

**Net Direct Investment in Turkey**

(12-month cumulative, annual % change)




### Banking sector was net credit re-payer in July.

Banking sector made a net repayment of 276 million USD in July. Regarding short-term loans, banking sector made 1.2 billion USD worth of net repayment. In this period, banking sector was net credit payer in short-term loans while it was net credit borrower in long-term loans. Non-bank sectors, however, utilized net 1 billion USD loans. In the first seven months of the year, net loans raised from abroad by banking sector amounted to 4.4 billion USD while that of non-bank sectors were 3.7 billion USD. During the same period, banks' and non-bank sectors' long-term debt roll-over ratios were 177% and 125%, respectively.

### Net errors and omissions account reached 8.2 billion USD in the first seven months of the year.

Net errors and omissions account posted an increase of 2 billion USD in July. Hence, capital inflow recorded under this item reached 8.2 billion USD in the first seven months of the year and 13.3 billion USD during the last 12 months. Thanks to these high levels, it played a significant role in the financing of the current account deficit.

### Expectations

In parallel to the deceleration in exports owing to the increased geopolitical risks and the stagnation in the EU economies in recent months, we expect that the narrowing in the current account deficit will lose some momentum. On the other hand, one opportunity for Turkey to increase exports is Russia's embargo on several food imports from US, EU, Canada, Norway and Australia. Russian importers will look for alternative countries and Turkish exporters might benefit from this. The continuation of declining trend in oil prices might also favorably affect current account deficit in the longer run.

Regarding the financing of the current account deficit, it is expected that a loss of momentum will occur in capital inflows to emerging markets due to the strengthening expectations of the Fed's rate hike. On the other hand, European Central Bank's expansionary monetary policies might mitigate this effect to some extent.

| Current Account Balance | | | | | (USD million) |
|---|---|---|---|---|---|
| | July 2014 | January-July 2013 | January-July 2014 | % Change | 12 Month Cumulative |
| **Current Account Balance** | **-2,634** | **-43,348** | **-26,767** | **-38.3** | **-48,485** |
| Foreign Trade Balance | -4,912 | -48,941 | -34,271 | -30.0 | -65,353 |
| Services Balance | 2,927 | 11,106 | 12,269 | 10.5 | 24,294 |
| Tourism Revenues (net) | 2,662 | 11,520 | 11,893 | 3.2 | 23,553 |
| Income Balance | -708 | -6,143 | -5,206 | -15.3 | -8,418 |
| Current Transfers | 59 | 630 | 441 | -30.0 | 992 |
| **Capital and Financial Accounts** | **641** | **45,656** | **18,542** | **-59.4** | **35,187** |
| Direct Investments (net) | 771 | 5,599 | 5,534 | -1.2 | 9,726 |
| Portfolio Investments (net) | 3,748 | 14,927 | 13,887 | -7.0 | 22,651 |
| Assets | 386 | 2,185 | -693 | - | -277 |
| Liabilities | 3,362 | 12,742 | 14,580 | 14.4 | 22,928 |
| Equity Securities | 661 | -801 | 2,119 | - | 3,761 |
| Debt Securities | 2,701 | 13,543 | 12,461 | -8.0 | 19,167 |
| Other Investments (net) | -3,646 | 29,924 | 625 | -97.9 | 9,524 |
| Assets | -4,658 | 2,524 | -5,287 | - | -5,417 |
| Currency and Deposits | -2,719 | 3,963 | -3,038 | - | -2,414 |
| Liabilities | 1,012 | 27,400 | 5,912 | -78.4 | 14,941 |
| Trade Credits | -1 | 6,274 | -927 | - | -1,598 |
| Loans | 806 | 10,171 | 7,405 | -27.2 | 18,846 |
| Banking Sector | -276 | 11,261 | 4,448 | -60.5 | 14,805 |
| Non-bank Sectors | 1,001 | -608 | 3,678 | - | 5,150 |
| Deposits | 152 | 10,608 | -929 | - | -2,904 |
| Foreign Banks | -254 | 9,173 | -1,222 | - | -3,169 |
| Foreign Exchange | 78 | 8,488 | -2,151 | - | -4,265 |
| Turkish Lira | -332 | 685 | 929 | 35.6 | 1,096 |
| Non-residents | 631 | 2,215 | 1,404 | -36.6 | 2,596 |
| Reserve Assets (net) | -211 | -4,728 | -1,469 | -68.9 | -6,652 |
| **Net Errors and Omissions** | **1,993** | **-2,308** | **8,225** | **-** | **13,298** |

Source: CBRT

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**Economic Research Division**

TÜRKİYE İŞ BANKASI

## 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

**Hatice Erkiletlioğlu - Asst. Manager**
hatice.erkiletlioglu@isbank.com.tr

**Kıvılcım Eraydın - Economist**
kivilcim.eraydin@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