



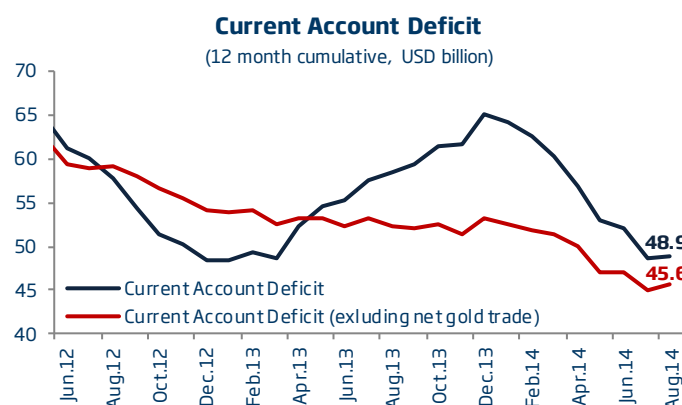
Balance of Payments - August 2014

Economic Research Division

TÜRKİYE İŞ BANKASI

Current account deficit came in below market expectations at 2.8 billion USD in August.

Current account posted a deficit of 2.8 billion USD in August, below market expectations of 3.2 billion USD. In the first eight months of the year, the deficit narrowed by 35.4% yoy to 29.6 billion USD. This development mainly stemmed from the narrowing foreign trade deficit thanks to the increasing exports and declining imports and partly from the rise in services revenues. In fact, exports increased by 6.1% while imports decreased by 4.5% and services revenues rose by 8.8% during this period. The 12-month cumulative current account deficit, which was realized as 48.5 billion USD in July and recorded the lowest level since January 2013, followed a flat course with 48.9 billion USD in August.



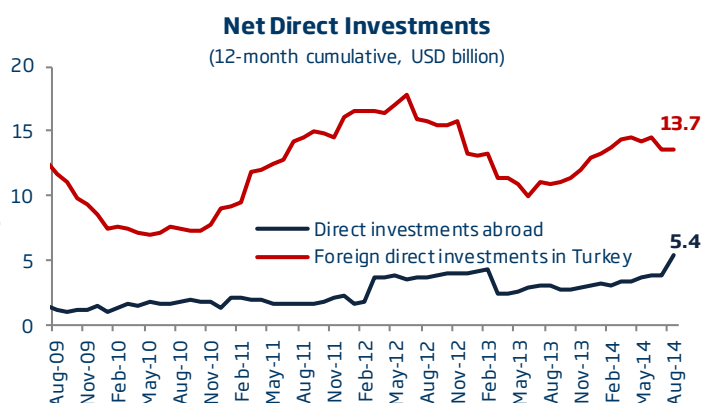
Negative impact of net gold trade on current account deficit has been disappearing.

The negative impact of net gold trade on current account deficit continued to disappear in August. Gold trade deficit, which was 8.9 billion USD during the first eight month of 2013, dropped to 357 million USD in the same period of this year.

Tourism revenues monitored under services balance item contributed to the narrowing of current account deficit. Indeed, tourism revenues rose by 5.3% yoy in the first eight months of the year.

Net foreign direct investments towards Turkey maintained their positive trend.

Foreign direct investment inflows to Turkey increased by 9.8% yoy and reached 8.6 billion USD in the first eight months of the year. Real estate investments, which have 34% share in total foreign direct investment inflows, rose by 65% in the same period. Analyzing non-residents' direct investments by subsectors, it is seen that 35% of inflows were directed to manufacturing sector while 16% of them were directed to banking sector. On the other hand, residents' direct investments abroad exhibited a rapid increase in the first eight months of the year and reached 4 billion USD. This development, which adversely affected current account balance, was mainly due to the rise in investments in extraction of crude petroleum and gas sector in August.



12-month cumulative figures also revealed that the upward trend in net foreign direct investments in Turkey maintained, increasing by 24.7% yoy in August.

Net capital outflow from portfolio investments...

Having sustained a strong outlook since April 2014, portfolio investments account registered a net outflow by 1.7 billion USD in August. A significant part of this amount (1.6 billion USD) was stemmed from the net sales in debt securities. During the same period, equity securities also

Breakdown of Net Capital Inflows Towards Turkey

(12-month cumulative, million USD)

	December 2013		August 2014		Breakdown of Capital Inflows (%)	
	December 2013	August 2014	December 2013	August 2014	December 2013	August 2014
Current Account Balance	-65,068	-48,869	-	-	-	-
Total Net Foreign Capital Inflows	74,979	53,412	100.0	100.0	100.0	100.0
-Direct Investments	9,773	8,242	13.0	15.4	13.0	15.4
-Portfolio Investments	23,691	18,901	31.6	35.4	31.6	35.4
-Other Investments	38,752	14,577	51.7	27.3	51.7	27.3
-Net Errors and Omissions	2,856	11,755	3.8	22.0	3.8	22.0
-Other	-93	-63	-0.1	-0.1	-0.1	-0.1
Reserves⁽¹⁾	-9,911	-4,543	-	-	-	-

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

Balance of Payments - August 2014

Economic Research Division



registered a net capital outflow of 189 million USD. In the first eight months of the year, on the other hand, equity and debt securities attracted 1.9 billion USD and 10.9 billion USD net inflows, respectively. During the same period, banking sector borrowed net 6.6 billion USD from international markets via bond issues.

Banking sector was net credit borrower in August.

In August, banking and non-bank sectors borrowed 309 million USD and 252 million USD, respectively. Non-bank sectors were net borrower with 2 billion USD in long-term loans while they were net credit re-payer in short-term loans. In the first eight month of the year, banking and non-bank sectors were net credit borrowers with 4.7 billion USD and 4 billion USD, respectively. During the same period, banks' and non-bank sectors' long-term debt roll-over ratios followed a flat course and were realized as 175% and 125%, respectively.

Net errors and omissions account recorded 9.1 billion USD inflows in the first eight months of the year.

Net errors and omissions account posted an increase of 817 million USD in August. Hence, capital inflows recorded under this item reached 9.1 billion USD in the first eight months of the year and 11.8 billion USD during the last 12 months. Accordingly, this account played a noteworthy role in the financing of the current account deficit.

Expectations...

In line with the expected deceleration in exports as a result of the stagnation in the EU economies observed in recent period, the narrowing of the current account deficit might lose some momentum in the coming months. Also, developments in Iraq are continued to be monitored closely due to their further impacts on Turkey's exports outlook. On the other hand, the continuation of declining trend in oil prices might affect current account deficit positively in the longer run. Regarding the financing of the current account deficit, some fluctuations have been observed depending on the course of expectations about the monetary policies of major central banks, especially that of the Fed. Capital inflows to emerging markets will be shaped by the expectations regarding the Fed's anticipated rate hikes in 2015 and the European Central Bank's expansionary monetary policy aiming to support economic activity in the region.

	Current Account Balance				(USD million)
	August 2014	January-August 2013 2014		% Change	12 Month Cumulative
Current Account Balance	-2,768	-45,785	-29,586	-35.4	-48,869
Foreign Trade Balance	-6,479	-54,677	-40,819	-25.3	-66,165
Services Balance	4,230	14,829	16,529	11.5	24,832
Tourism Revenues (net)	3,687	14,790	15,580	5.3	23,970
Income Balance	-609	-6,652	-5,816	-12.6	-8,522
Current Transfers	90	715	520	-27.3	986
Capital and Financial Accounts	1,951	45,578	20,480	-55.1	37,114
Direct Investments (net)	-991	6,121	4,590	-25.0	8,242
Portfolio Investments (net)	-1,739	16,857	12,067	-28.4	18,901
Assets	57	2,436	-717	-	-552
Liabilities	-1,796	14,421	12,784	-11.4	19,453
Equity Securities	-189	-1,059	1,930	-	3,830
Debt Securities	-1,607	15,480	10,854	-29.9	15,623
Other Investments (net)	6,572	31,402	7,227	-77.0	14,577
Assets	5,157	2,491	-104	-	-203
Currency and Deposits	3,873	3,232	830	-74.3	2,168
Liabilities	1,415	28,911	7,331	-74.6	14,780
Trade Credits	194	4,752	-732	-	119
Loans	469	12,415	7,873	-36.6	17,001
Banking Sector	309	12,799	4,731	-63.0	13,550
Non-bank Sectors	252	-2	3,954	-	4,751
Deposits	716	11,301	-209	-	-2,877
Foreign Banks	1,011	9,854	-211	-	-2,839
Foreign Exchange	1,386	9,955	-765	-	-4,346
Turkish Lira	-375	-101	554	-	1,507
Non-residents	239	2,628	1,647	-37.3	2,426
Reserve Assets (net)	-1,885	-8,722	-3,354	-61.5	-4,543
Net Errors and Omissions	817	207	9,106	4,299.0	11,755

Source: CBRT

Balance of Payments - August 2014

Economic Research Division

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

izlem.erdem@isbank.com.tr

Hatice Erkiletlioğlu - Asst. Manager

hatice.erkiletlioglu@isbank.com.tr

Bora Çevik - Economist

bora.cevik@isbank.com.tr

M. Kemal Gündoğdu - Asst. Economist

kemal.gundogdu@isbank.com.tr

Alper Gürler - Unit Manager

alper.gurler@isbank.com.tr

Kıvılcım Eraydın - Economist

kivilcim.eraydin@isbank.com.tr

Eren Demir - Asst. Economist

eren.demir@isbank.com.tr

Gamze Can - Asst. Economist

gamze.can@isbank.com.tr

LEGAL NOTICE

This report has been prepared by Türkiye İş Bankası A.Ş. economists and analysts by using the information from publicly available sources believed to be reliable, solely for information purposes; and they are not intended to be construed as an offer or solicitation for the purchase or sale of any financial instrument or the provision of an offer to provide investment services. The views, opinions and analyses expressed do not represent the official standing of Türkiye İş Bankası A.Ş. and are personal views and opinions of the analysts and economists who prepare the report. No representation or warranty, express or implied, is made as to the accuracy or completeness of the information contained in this report. All information contained in this report is subject to change without notice, Türkiye İş Bankası A.Ş., accepts no liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

This report is copyright-protected. Reproducing, publishing and/or distributing this report in whole or in part is therefore prohibited. All rights reserved.