Balance of Payments - September 2014

Economic Research Division

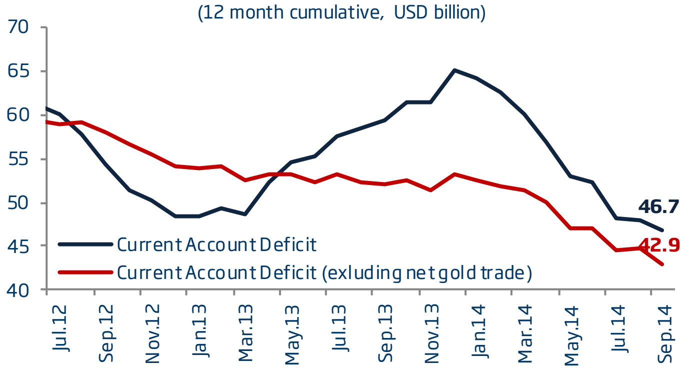
TÜRKİYE İŞ BANKASI

Current account deficit continued to narrow.

Current account deficit came in 2.2 billion USD in September, significantly below the market expectation of 2.6 billion USD. For the first nine months of the year, the current account deficit narrowed by 37.2% yoy to 30.9 billion USD. The 12-month cumulative current account deficit decreased to 46.7 billion USD. The highest level of the 12-month current account deficit was registered in October 2011 with 76.8 billion USD. CBRT started to publish the balance of payment figures in accordance with the Sixth Edition of the Balance of Payments Manual.

Current Account Deficit

(12 month cumulative, USD billion)



The narrowing in the foreign trade deficit made the highest contribution to the improvement in the current account deficit. In fact, the measures taken by the BRSA and CBRT'S tight monetary policy implementation limited the growth in domestic demand and thus imports (according to the balance of payments figures) decreased by 4.1% yoy in the first nine months. During the same period, despite the ongoing problems in Turkey's main export destinations, exports were up 6.6% yoy. In addition, the negative impacts of the gold trade on the current account deficit have disappeared to a large extent during 2014. The deficit stemming from gold trade decreased to 1 billion USD in the first nine months of the year, down from 9 billion USD during the same period of the previous year. The surplus in services balance, which has mainly stemmed from tourism revenues, increased by 12.6% yoy in the first nine months and notably contributed to the narrowing of the current account deficit.

Net portfolio inflows amounted to 13.6 billion USD in the first nine months.

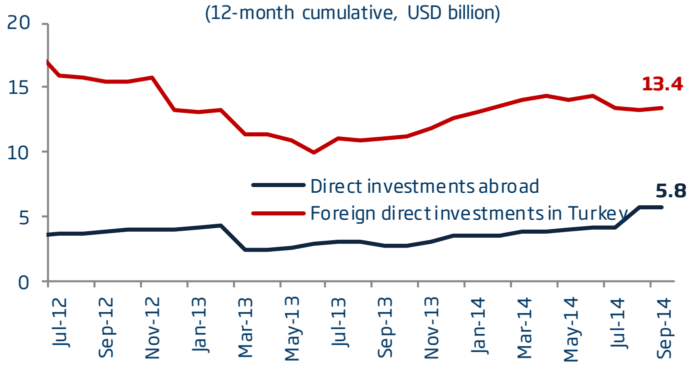
Portfolio investments continued to have the highest share in the financing of the current account deficit. Following the capital outflow in August, portfolio investments registered net 1.4 billion USD inflow in September. Thus, the total net portfolio inflows in the first nine months reached 13.6 billion USD.

Foreign direct investment inflows in the first nine months reached 9.1 billion USD.

The foreign direct investment inflows in the first nine months reached 9.1 billion USD in the first nine months of the year, up from 8.4 billion USD in the same period of the previous year. The rise in foreign direct investment inflows despite the slowdown in Turkish economy and the heightened geopolitical risks in Turkey's neighbors is regarded as a very encouraging development. During the first nine months, foreign direct investment outflows increased to 4.2 billion USD, up from 2 billion USD a year ago. Thus, net portfolio investments decreased compared to the same period of the previous year.

Net Direct Investments

(12-month cumulative, USD billion)



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

	December 2013	September 2014	Breakdown of Capital Inflows (%) December 2013	Breakdown of Capital Inflows (%) September 2014
Current Account Balance	**-65,034**	**-46,731**	-	-
Total Net Foreign Capital Inflows	**74,945**	**50,184**	**100.0**	**100.0**
-Direct Investments	9,196	7,671	12.3	15.3
-Portfolio Investments	23,692	18,239	31.6	36.3
-Other Investments	38,980	16,528	52.0	32.9
-Net Errors and Omissions	3,170	7,799	4.2	15.5
-Other	-93	-53	-0.1	-0.1
Reserves(1)	**-9,911**	**-3,453**	-	-

Note: The numbers may not add up to total due to rounding.
(1) (-) sign indicates an increase in reserves while (+) sign indicates a decrease.

The figures used in the report are according to the Fifth Edition of the Balance of Payments Manual published by the CBRT.

Source: CBRT

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Banking sector continued to raise funds from abroad.

Banking sector borrowed net 3.2 billion in September, bringing the total net borrowing of the banking sector to 7.9 billion USD in the first nine months. 5 billion USD of this amount is long term loans while the rest is short term loans. The non-bank sectors, on the other hand, borrowed net 3.3 billion USD from abroad. Of this amount, 3.1 billion USD is long term loans. During the same period, banks' and non-bank sectors' long-term debt roll-over ratios were realized as 177% and 119%, respectively.

Net errors and omissions account recorded 7.6 billion USD inflows in the first nine months of the year.

In September, net errors and omissions account registered an outflow of 321 million USD. In the first nine months of the year, on the other hand, 7.6 billion USD of inflow was registered and this account also played an important role in the financing of the deficit. Reserve assets increased by 2.9 billion USD in the first nine months.

Expectations

The improvement in the current account deficit in the first nine months of the year was mainly driven by two factors. One is the fact that the export momentum was sustained despite the ongoing problems in the main export markets. The other is the delay in the expected revival in domestic demand which helps to contain import growth. Should the domestic demand enliven in the rest of the year, the improvement in the current account might lose pace. On the other hand, oil prices fell by almost 30% in the last five months. If the oil prices keep their low level, they will also help to ease the upward pressures on the current account deficit. We expect that the current account deficit to GDP ratio, which was 7.9% at the end of 2013, will decline to 5.7% at the end of 2014.

The expectations that the Fed is in no hurry to raise the interest rates increased, which is positive for the financing of the current account deficit. Besides, the fact that the ECB and BoJ are maintaining their expansionary monetary policies might improve the global liquidity conditions.

Current Account Balance (USD million)

	September	Jan.-Sep.		%	12 Month
	2014	2013	2014	Change	Cumulative
Current Account Balance	**-2,224**	**-49,163**	**-30,860**	**-37.2**	**-46,731**
Foreign Trade Balance	-5,002	-60,854	-45,481	-25.3	-64,840
Services Balance	3,457	18,146	20,432	12.6	25,418
Tourism Revenues (net)	3,352	17,877	19,390	8.5	24,693
Income Balance	-817	-7,432	-6,630	-10.8	-8,548
Current Transfers	138	977	819	-16.2	1,239
Capital and Financial Accounts	**2,545**	**46,209**	**23,277**	**-49.6**	**38,932**
Direct Investments (net)	609	6,438	4,913	-23.7	7,671
Portfolio Investments (net)	1,443	19,013	13,560	-28.7	18,239
Assets	116	2,428	-613	-	-440
Liabilities	1,327	16,585	14,173	-14.5	18,679
Equity Securities	-408	-326	1,583	-	2,751
Debt Securities	1,735	16,911	12,590	-25.6	15,928
Other Investments (net)	47	30,214	7,762	-74.3	16,528
Assets	-2,843	3,240	-2,533	-	-3,403
Currency and Deposits	-1,693	4,406	-471	-	-329
Liabilities	2,890	26,974	10,295	-61.8	19,931
Trade Credits	333	3,828	-397	-	1,378
Loans	2,234	13,870	10,175	38.0	18,099
Banking Sector	3,154	14,781	7,885	-46.7	14,738
Non-bank Sectors	-768	-416	3,270	-	4,716
Deposits	290	8,742	81	-99.1	-28
Foreign Banks	109	7,368	-102	-	-244
Foreign Exchange	-1,660	8,284	-2,425	-	-4,335
Turkish Lira	1,769	-916	2,323	-	4,091
Non-residents	522	2,871	2,169	-24.5	2,705
Reserve Assets (net)	449	-9,363	-2,905	-69.0	-3,453
Net Errors and Omissions	**-321**	**2,954**	**7,583**	**156.7**	**7,799**

Source: CBRT

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