

Balance of Payments - October 2014

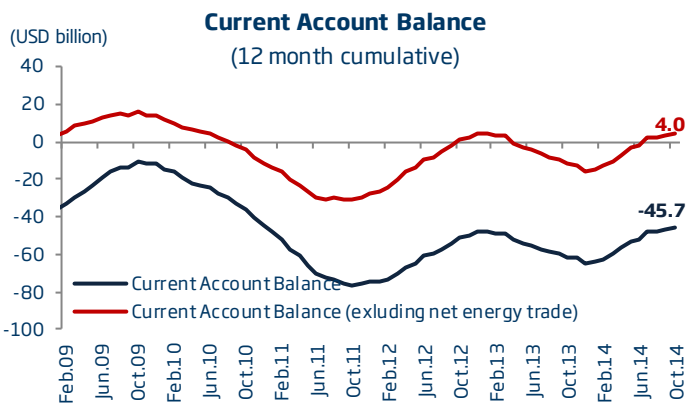
Economic Research Division

TÜRKİYE BANKASI

Contraction in current account deficit continued.

In October, current account deficit came in at 2 billion USD, close to the market expectations of 1.9 billion USD. Current account deficit was realized as 33.1 billion USD in the first 10 months of the year, declining by 36.8% yoy. The 12-month cumulative current account deficit also declined to the lowest level of the last 4 years with 45.7 billion USD.

Improvement in foreign trade remained to be the most important factor in narrowing of current account deficit. According to the balance of payments figures, exports rose by 6.6% yoy while imports declined by 3.8% yoy in the first 10 months of the year. Moreover, having increased by 7.5% yoy in this period, net tourism revenues had a positive impact on current account balance.

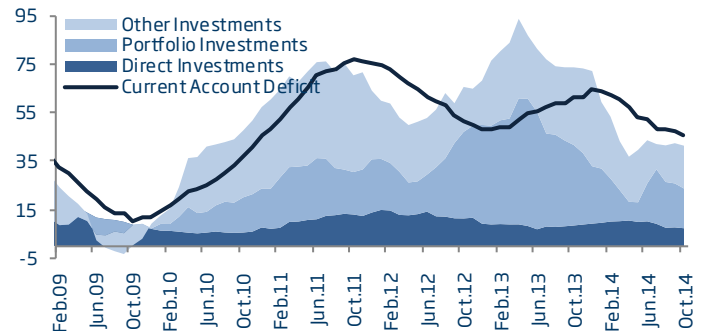


Foreign direct investments...

Foreign direct investment inflows came in at 9.8 billion USD in the first 10 months of the year. Compared to the same period of the previous year, this item registered a limited increase. On the other hand, net foreign direct investment outflows rose by 112% yoy in the same period. Thus, total net foreign direct investment flows declined by 26% yoy.

Financing of Current Account Deficit

(12 month cumulative, USD billion)



A noteworthy increase in bond issues of banking sector in October...

Portfolio investment inflows continued to contribute significantly to the financing of current account deficit. During this period, portfolio investment inflows directed to debt securities was realized as 2.8 billion USD while 2.5 billion USD of this amount was stemmed from the bond issues of banking sector. On the other hand, capital inflows via equity securities were 432 million USD.

Other investments...

Net loans raised by the banking sector from abroad were 9.2 billion USD in the first 10 months of the year. It was noteworthy that there was a fall of 38.3% year-on year in this account. This was mainly stemmed from the slowdown in domestic demand which in turn lowered short-term funding needs of banks. By contrast, the long-term borrowing requirement of banks maintained its upward trend. During this period, 5.6 billion USD of net borrowing of banking sector was long-term while the total amount of short-term borrowing was 3.5 billion USD. In the first 10 months of the year, non-bank sectors' net borrowing from abroad increased from 547 million USD in 2013 to 3.4 billion USD in 2014. Banks' and nonbank sectors' long-term debt roll-over ratios were realized as 178% and 116%, respectively.

Breakdown of Net Capital Inflows Towards Turkey

(12-month cumulative, million USD)

			Breakdown of Capital Inflows (%)	
	December 2013	October 2014	December 2013	October 2014
Current Account Balance	-65,034	-45,726	-	-
Total Net Foreign Capital Inflows	74,945	48,470	100.0	100.0
-Direct Investments	9,212	7,300	12.3	15.1
-Portfolio Investments	23,692	16,416	31.6	33.9
-Other Investments	39,333	17,674	52.5	36.5
-Net Errors and Omissions	2,804	7,134	3.7	14.7
-Other	-96	-54	-0.1	-0.1
Reserves⁽¹⁾	-9,911	-2,744	-	-

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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Net errors and omissions recorded an outflow of 1.9 billion USD in October.

In October, net errors and omissions registered an outflow of 1.9 billion USD. As a result, capital inflow under net errors and omissions account declined to 5.9 billion USD in the first 10 months of the year. However, this account continued to play a significant role in the financing of current account deficit in the first 10 months. On the other hand, reserve assets reached 4.4 billion USD in the first 10 months of the year. 1.5 billion USD of this amount was recorded in October.

Expectations

Since June, oil prices have declined by more than 40%. Turkey is expected to substantially benefit from this development as a net energy importer and having a large current account deficit. In this context, the narrowing of current account deficit is expected to continue in the coming period. Besides, weak domestic demand conditions throughout 2014 were also influential on the improvement in the current account deficit. The expected improvement in current account deficit stemming from the fall in energy prices might be limited in a case of a recovery in domestic demand.

Current Account Balance	(USD million)				
	October 2014	Jan.-Oct. 2013	Jan.-Oct. 2014	% Change	12 Month Cumulative
Current Account Balance	-2,027	-52,449	-33,141	-36.8	-45,726
Foreign Trade Balance	-4,662	-66,744	-50,375	-24.5	-63,844
Services Balance	3,216	21,367	23,626	10.6	25,391
Tourism Revenues (net)	3,003	20,832	22,393	7.5	24,741
Income Balance	-697	-8,156	-7,323	-10.2	-8,517
Current Transfers	116	1,084	931	-14.1	1,244
Capital and Financial Accounts	3,946	50,863	27,225	-46.5	38,592
Direct Investments (net)	416	7,241	5,329	-26.4	7,300
Portfolio Investments (net)	1,961	22,716	15,440	-32.0	16,416
Assets	-1,311	2,811	-2,012	-	-2,222
Liabilities	3,272	19,905	17,452	-12.3	18,638
Equity Securities	432	315	2,015	539.7	2,542
Debt Securities	2,840	19,590	15,437	-21.2	16,096
Other Investments (net)	3,029	32,534	10,875	-66.6	17,674
Assets	994	5,078	-1,502	-	-4,210
Currency and Deposits	990	5,961	520	-91.3	-893
Liabilities	2,035	27,456	12,377	-54.9	21,884
Trade Credits	-316	3,550	-709	-	1,346
Loans	1,713	14,793	11,944	37.8	19,296
Banking Sector	1,318	14,842	9,155	-38.3	15,948
Non-bank Sectors	78	547	3,439	528.7	4,272
Deposits	620	8,551	688	-92.0	770
Foreign Banks	399	7,171	284	-96.0	339
Foreign Exchange	1,832	7,177	-593	-	-1,396
Turkish Lira	-1,433	-6	877	-	1,735
Non-residents	381	3,053	2,550	-16.5	2,904
Reserve Assets (net)	-1,460	-11,532	-4,365	-62.1	-2,744
Net Errors and Omissions	-1,919	1,586	5,916	273.0	7,134

Source: CBRT

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