



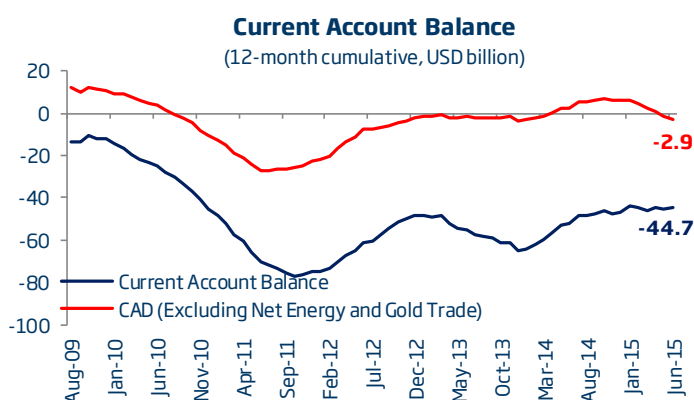
Balance of Payments - June 2015

Economic Research Division

TÜRKİYE BANKASI

Current account deficit was slightly above the expectations in June.

In June, current account deficit decreased by 19.5% yoy and was realized as 3.4 billion USD, higher than the market expectation of 3 billion USD. Thus, the current account deficit contracted by 7.5% yoy to 22.7 billion USD during the first half of the year. 12-month cumulative current account balance posted a deficit of 44.7 billion USD maintaining its moderate course.



Weak tourism revenues...

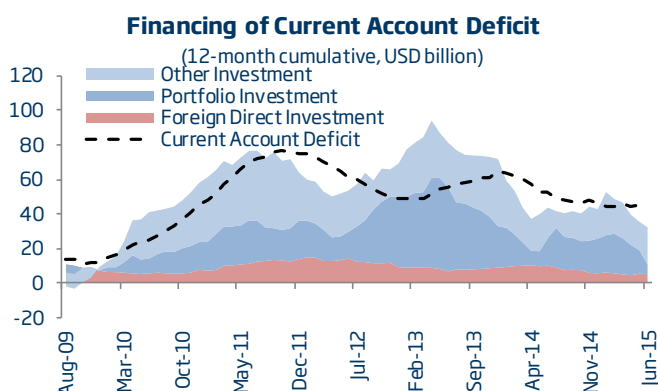
Net tourism revenues fell by 17.5% yoy in June, mainly due to the increasing geopolitical concerns in 2015 and the economic crisis in Russia. Thus, net tourism revenues dropped by 10.4% on annual basis in January-June period.

Despite the low trade volume in non-monetary gold trade in June, net non-monetary gold exports limited the current account deficit by 4.3 billion USD in the first six months of the year. Improvement in the foreign trade balance also played a significant role in the contraction of the current account deficit.

Upward trend in investment expenditures, which was monitored under the primary income balance, prevailed in June 2015. Investment expenditures increased by 28.2% yoy to 5.5 billion USD limiting the contraction observed in the current account deficit in the first half of 2015.

Slowdown in direct investments...

The downward trend in net foreign direct investments continued in June. Net foreign direct investments declined by 35.7% yoy and was realized as 554 million USD. Net foreign direct investments also contracted by 11.3% yoy during the first half of the year, while the contraction was 17.2% when only inflows were taken into account.



Sluggish performance in portfolio investments...

Both the plunge in capital inflows to the emerging economies and the heightened domestic political uncertainties resulted in a weak performance in portfolio investments in the recent period. Indeed, portfolio investment recorded a net outflow of 661 million USD in June. While equity securities held by foreign residents remained flat during this period, government domestic debt securities held by foreign residents posted a net sale of USD 452 million USD.

During the first half of the year, the outflow in portfolio investments amounted to 4 billion USD. In the same period of 2014, on the other hand, net portfolio investment recorded an inflow of 10.3 billion USD.

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

			Breakdown of Net Capital Inflows (%)	
	Dec. 2014	Jun. 2015	Dec. 2014	Jun. 2015
Current Account Balance	-46,531	-44,691	-	-
Total Net Foreign Capital Inflows	46,063	38,417	100.0	100.0
-Direct Investments	5,549	5,017	12.0	13.1
-Portfolio Investments	20,109	5,846	43.7	15.2
-Other Investments	17,034	21,359	37.0	55.6
-Net Errors and Omissions	3,437	6,239	7.5	16.2
-Other	-66	-44	-0.1	-0.1
Reserves⁽¹⁾	468	6,274	-	-

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, Datastream

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Banks' net drawings of long-term loans from abroad were 3.3 billion USD in the first half of the year.

Banking sector made a net credit repayment of 144 million USD in June. The sector was a net borrower in long term loans with a relatively low amount of 2 billion USD. In the first half of the year, however, banking sector was a net credit re-payer in short-term loans with a disbursement of 8.8 billion USD while it borrowed a net 12.2 billion USD in long-term loans from abroad in the same period. Thus, the net drawings of banks from abroad contracted by 22.3% yoy and was realized as 3.3 billion USD in the first six months of the year. The non-banking sector, on the other hand, borrowed a net amount of 2.2 billion USD from abroad in June. In January-June period, non-banking sector was also a net borrower with an amount of 5.5 billion USD.

According to 12-month cumulative figures, banks' and nonbank sectors' long-term debt rollover ratios were realized as 262% and 138%, respectively, in June.

Net errors and omissions...

Reserve assets made a contribution of 783 million USD to the financing of current account deficit in June. Net errors and emissions, which registered an inflow of 10.1 billion USD in the first five month of the year, posted an outflow of 1.4 billion USD in June.

Expectations

According to the provisional foreign trade figures, foreign trade deficit recorded a limited annual rise of 5.1% in July. In this context, it is anticipated that the current account deficit may expand in July. Weak performance in tourism revenues is also expected to be influential on the increase in the current account deficit in this period.

We think that the expectations for the Fed's first rate hike together with the domestic security concerns and political uncertainties may continue to weigh on portfolio investments in the forthcoming period.

Balance of Payments	(USD million)				
	June 2015	Jan. - Jun.		% Change	12-Month Cumulative
		2014	2015		
Current Account Balance	-3,356	-24,545	-22,705	-7.5	-44,691
Foreign Trade Balance	-4,839	-29,392	-24,944	-15.1	-59,136
Services Balance	2,292	9,085	7,828	-13.8	23,908
Travel (net)	2,190	9,231	7,947	-13.9	23,196
Primary Income	-909	-4,717	-6,002	27.2	-10,504
Secondary Income	100	479	413	-13.8	1,041
Capital Account	0	-24	-2	-91.7	-44
Financial Account	-4,799	-18,752	-14,088	-24.9	-38,496
Direct Investments (net)	-554	-4,702	-4,170	-11.3	-5,017
Portfolio Investments (net)	661	-10,253	4,010	-	-5,846
Net Acquisition of Financial Assets	311	1,210	2,615	116.1	2,146
Net Incurrence of Liabilities	-350	11,463	-1,395	-	7,992
Equity Securities	1	1,478	106	-92.8	1,187
Debt Securities	-351	9,985	-1,501	-	6,805
Other Investments (net)	-4,123	-5,055	-9,380	85.6	-21,359
Currency and Deposits	-1,899	629	-1,035	-	-2,264
Net Acquisition of Financial Assets	-894	-457	8,286	-	9,039
Net Incurrence of Liabilities	1,005	-1,086	9,321	-	11,303
Central Bank	-61	-886	-291	-67.2	-1,738
Banks	1,456	-200	9,612	-	9,405
Foreign Banks	1,549	-973	7,963	-	6,499
Foreign Exchange	-852	-2,229	5,863	-	5,238
Turkish Lira	1,120	1,256	2,100	67.2	3,794
Non-residents	798	773	1,649	113.3	4,009
Loans	-1,747	-6,449	-7,553	17.1	-16,259
Net Acquisition of Financial Assets	463	132	728	451.5	2,459
Net Incurrence of Liabilities	2,210	6,581	8,281	25.8	18,718
Banking Sector	-144	4,281	3,327	-22.3	10,881
Non-bank Sectors	2,219	3,070	5,484	78.6	8,488
Trade Credit and Advances	-454	1,089	-640	-	-2,537
Other Assets and Liabilities	-23	-324	-152	-53.1	-299
Reserve Assets (net)	-783	1,258	-4,548	-	-6,274
Net Errors and Omissions	-1,443	5,817	8,619	48.2	6,239

The figures used in the table are according to the Sixth Edition of the Balance of Payments Manual. You can find the details [here](#).

Source: CBRT, Datastream

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