



Balance of Payments - July 2015

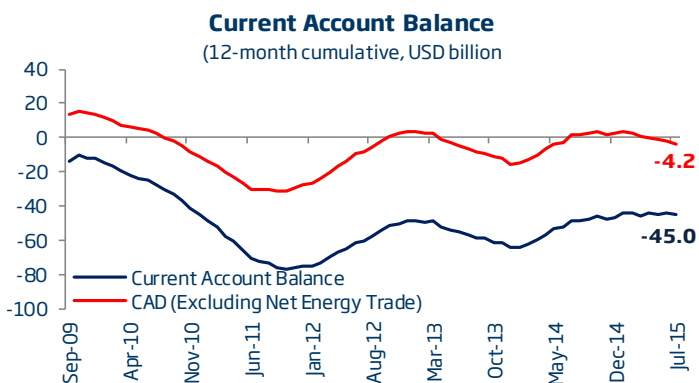
Economic Research Division

TÜRKİYE İŞ BANKASI

Lower than expected current account deficit

In July current account deficit widened by 32.2% yoy and was realized as 3.2 billion USD. The market expectation for the deficit was 3.5 billion USD in this period. In the first seven months of the year, on the other hand, current account deficit fell by 5.6% yoy to 25.4 billion USD.

12-month cumulative current account deficit was realized as 45 billion USD in July, slightly increasing on a monthly basis. According to the figures excluding net energy trade, the rise in 12-month cumulative current account deficit accelerated in July.



July figures suggested that foreign trade deficit, widening by 20.1% yoy, had a negative impact on current account balance. Non-monetary gold imports rose slightly and in turn put an upward pressure on current account deficit in this period.

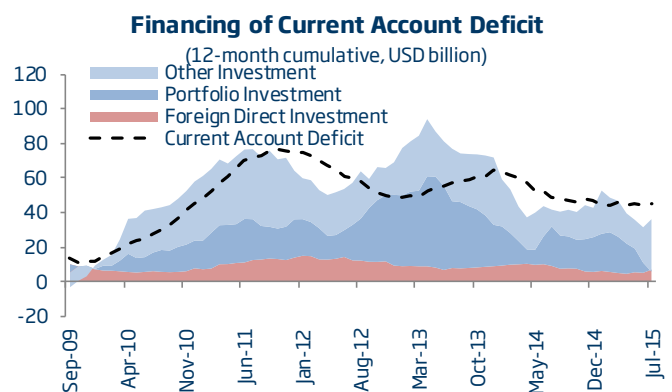
Owing to the economic crisis in Russia and heightened geopolitical risks, tourism revenues recorded an annual decline of 7.5% in the first 7 month of the year. Although the number of tourists rose by 0.4% yoy during the said period, this development was not reflected in tourism revenues. The number of tourists from Russia declined by 22.7% yoy in the same period.

The fast rise in direct investments

Foreign direct investments, which were 554 million USD in June, exceeded 2.5 billion USD in July with the help of the capital inflows linked to banking sector. Accordingly, in the first seven months of the year, foreign direct investments posted an annual rise of 23.8% and became 6.7 billion USD.

Weak performance in portfolio investments

In addition to the meager performance of the capital inflows towards emerging economies, domestic political uncertainties resulted in a weak performance in portfolio investments. Indeed, net capital outflows registered under this item amounted to 3.3 billion USD in July. Non-residents sold net 0.5 billion USD worth of equity securities while they sold net 1.1 billion USD worth of government debt securities. Banking sector, on the other hand, realized a net payment of 0.8 billion USD regarding the bond issues abroad.



Banks continued to obtain long-term loans.

Having realized as 5.8 billion USD in July, capital inflows registered under other investments continued its contribution to the financing of the current account deficit. Indeed, banking and non-banking sectors continued to receive funds from abroad. In this period, banks were net

Breakdown of Net Capital Inflows

(12-month cumulative, USD million)

	Dec. 2014		Jul. 2015	
	USD million	(%)	USD million	(%)
Current Account Balance	-46,527	-	-45,027	-
Total Net Foreign Capital Inflows	46,059	100.0	40,561	100.0
-Direct Investments	5,542	12.0	6,828	16.8
-Portfolio Investments	20,109	43.7	-1,133	-2.8
-Other Investments	17,046	37.0	30,396	74.9
-Net Errors and Omissions	3,432	7.5	4,533	11.2
-Other	-70	-0.2	-63	-0.2
Reserves⁽¹⁾	468	-	4,466	-

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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re-payers in short-term loans while becoming net users in long-term loans. Thus, the banking sector raised net 2.3 billion USD credit. Non-banking sectors, on the other hand, were net users in both short-term and long-term loans.

According to 12-month cumulative figures, banks' and non-banking sector' long term debt rollover ratios were 289% and 134% respectively.

Increase in reserve assets...

Reserve assets rose by 2 billion USD in July following the decline registered in May and June. On the other hand, the net errors and omissions, which recorded a capital outflow in June, posted an inflow of 105 million USD in July. In the first seven months of the year, net errors and omissions has contributed significantly to the financing of the current account deficit with the 9.1 billion USD of inflow.

Expectations

Provisional foreign trade data indicated that the fall in exports lost some momentum in August, while imports kept its declining trend in line with low energy prices. However, capital flows towards developing countries were volatile recently due to the approaching Fed's first rate hike and growing concerns over a slowdown in Chinese economy. Taken into consideration the deepened security concerns and political uncertainty in Turkey, capital inflows are expected to keep its weakness in the coming period. In addition, internal security concerns are expected to weigh on tourism revenues.

Balance of Payments	(USD million)				
	July 2015	Jan. - Jul.		% Change	12-Month Cumulative
	2015	2014	2015		
Current Account Balance	-3,154	-26,931	-25,431	-5.6	-45,027
Foreign Trade Balance	-5,755	-34,183	-30,754	-10.0	-60,155
Services Balance	3,014	12,166	11,358	-6.6	24,361
Travel (net)	2,813	12,088	10,760	-11.0	23,152
Primary Income	-528	-5,459	-6,553	20.0	-10,313
Secondary Income	115	545	518	-5.0	1,080
Capital Account	-32	-40	-33	-17.5	-63
Financial Account	-3,081	-18,973	-16,365	-13.7	-40,557
Direct Investments (net)	-2,515	-5,395	-6,681	23.8	-6,828
Portfolio Investments (net)	3,260	-13,972	7,270	-	1,133
Net Acquisition of Financial Assets	786	842	3,401	303.9	3,300
Net Incurrence of Liabilities	-2,474	14,814	-3,869	-	2,167
Equity Securities	-474	2,138	-368	-	53
Debt Securities	-2,000	12,676	-3,501	-	2,114
Other Investments (net)	-5,845	-1,075	-14,425	1,241.9	-30,396
Currency and Deposits	-909	3,592	-2,088	-	-6,280
Net Acquisition of Financial Assets	811	2,662	9,098	241.8	6,732
Net Incurrence of Liabilities	1,720	-930	11,186	-	13,012
Central Bank	-119	-1,111	-410	-63.1	-1,632
Banks	1,456	181	11,596	6,306.6	9,405
Foreign Banks	1,549	-1,227	8,702	-	6,499
Foreign Exchange	-252	-2,151	5,611	-	4,908
Turkish Lira	991	924	3,091	234.5	5,117
Non-residents	1,100	1,408	2,894	105.5	4,619
Loans	-3,578	-5,464	-10,166	86.1	-19,869
Net Acquisition of Financial Assets	-167	1,952	537	-72.5	448
Net Incurrence of Liabilities	3,411	7,416	10,703	44.3	20,317
Banking Sector	2,250	3,933	5,581	41.9	13,484
Non-bank Sectors	1,283	4,169	5,774	38.5	7,690
Trade Credit and Advances	-1,332	1,175	-1,989	-	-3,972
Other Assets and Liabilities	-26	-378	-182	-51.9	-275
Reserve Assets (net)	2,019	1,469	-2,529	-	-4,466
Net Errors and Omissions	105	7,998	9,099	13.8	4,533

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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Economic Research Division

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

izlem.erdem@isbank.com.tr

Hatice Erkiletlioğlu - Asst. Manager

hatice.erkiletlioglu@isbank.com.tr

Eren Demir - Asst.Economist

eren.demir@isbank.com.tr

Gamze Can - Asst.Economist

gamze.can@isbank.com.tr

Alper Gürler - Unit Manager

alper.gurler@isbank.com.tr

İlker Şahin - Economist

ilker.sahin@isbank.com.tr

M. Kemal Gündoğdu - Asst.Economist

kemal.gundogdu@isbank.com.tr

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