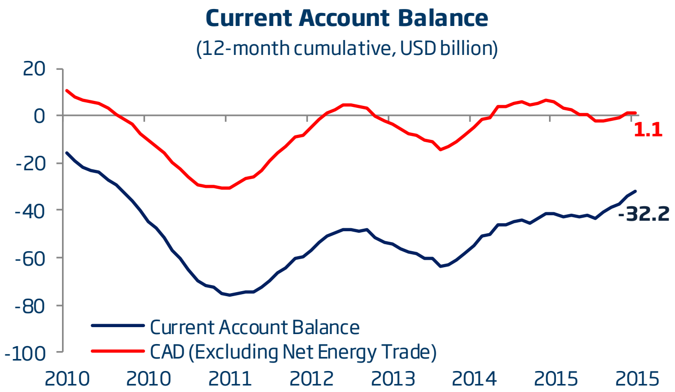
Balance of Payments–December 2015

Economic Research Division

TÜRKİYE İŞ BANKASI

Current account deficit became 5.1 billion USD in December.

Current account deficit came in at 5.1 billion USD, slightly above expectations in December. For the full year, the deficit decreased by 11.4 billion USD compared to 2014 to 32.2 billion USD, the lowest level since 2009. The decline in foreign trade deficit, which amounted to 15.8 billion USD, has played a significant role in this development. Current account deficit excluding energy trade gave a surplus of 1.1 billion USD in 2015.



Narrowing foreign trade deficit...

According to the balance of payments figures, exports recorded a fall of 10% yoy in 2015 due to the geopolitical developments and weak economic outlook in the major export markets. Nonetheless, the improvement in foreign trade deficit thanks to the decline in imports (14% yoy), which mostly stemmed from the falling energy prices, has supported the current account balance.

On the other hand, the decline in tourism and shuttle trade revenues limited the recovery in current account balance. The contraction in the Russian economy played a significant role in the fall of 3.1 billion USD in shuttle trade revenues and 3.2 billion USD in net tourism revenues in 2015. The number of Russian tourists visited Turkey decreased by 19% yoy in this period.

Capital outflows from portfolio investments persisted.

Portfolio investments recorded an outflow of 15.4 billion USD in 2015 due to the domestic political developments and volatile conditions in global markets. Almost half of this amount stemmed from the sales of the government domestic debt securities of non-residents. Equity securities also witnessed outflows during this period. It was noteworthy that portfolio investments recorded a net capital outflow for the first time on annual basis since the 2008 global crises.

Favorable outlook in foreign direct investments...

Foreign direct investments exhibited a strong performance during 2015. Net foreign direct investments rose by 6 billion USD compared to 2014 and came in at 11.5 billion USD. Banking and manufacture of coke, refined petroleum products attracted the highest amount of FDI during the year.

Private sector continued to raise funds from abroad.

Both banks and non-bank sectors continued to obtain funds from abroad in 2015. Further improving financing quality, banking sector was a net credit re-payer in short term loans with 21.4 billion USD while it became a net credit borrower in long-term loans with 26.2 billion USD. Banks' long-term debt roll-over ratio stood at 327% as of the end of 2015.

Non-bank sectors were net borrowers both in short-term

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

			Breakdown of Net Capital Inflows (%)	
	Dec. 2014	**Dec. 2015**	**Dec. 2014**	**Dec. 2015**
Current Account Balance	**-43,552**	**-32,192**	-	-
Total Net Foreign Capital Inflows	**43,084**	**20,361**	**100.0**	**100.0**
-Direct Investments	5,476	11,495	12.7	56.5
-Portfolio Investments	20,104	-15,411	46.7	-75.7
-Other Investments	16,014	14,640	37.2	71.9
-Net Errors and Omissions	1,560	9,658	3.6	47.4
-Other	-70	-21	-0.2	-0.1
Reserves[(1)]	**468**	**11,831**	-	-

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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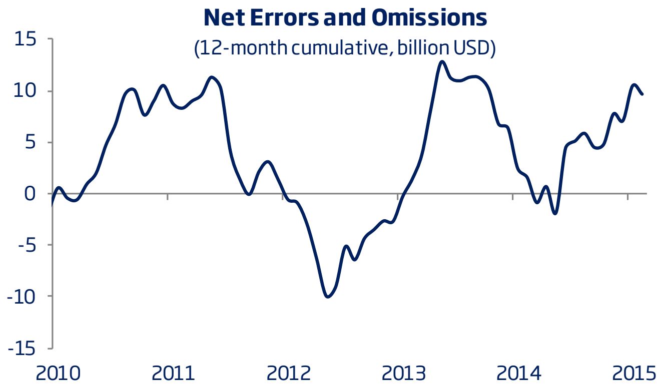
and long-term loans. They raised credits amounting to a net figure of 10.7 billion USD in long-term while they used a lot lesser amount of short-term loans during this period.

Having fallen since August, reserve assets posted a record monthly fall of 6.6 billion USD in December. Consequently, reserve assets became a focus of attention registering a decline of 11.8 billion USD in 2015 as a whole. Net errors and omissions account also recorded an outflow of 1.1 billion USD in December while it contributed significantly to the financing of the current account deficit by 9.7 billion USD during 2015.



Expectations

The current trajectory of energy prices presents a favorable outlook for Turkey's current account balance. However, the latest data on leading indicators in Euro Area have signaled that the economy has recently lost some steam. Furthermore, the rising geopolitical risks are expected to weigh on tourism and shuttle trade revenues as well as exports in the upcoming period. The signs of recovery in domestic demand may also limit the improvement in current account balance via import channel. Against this backdrop, the upward pressures on current account deficit are expected to intensify in 2016 compared to 2015.

Balance of Payments (USD million)

	December	Jan. - Dec.		%
	2015	2014	2015	Change
Current Account Balance	**-5,073**	**-43,552**	**-32,192**	**-26.1**
Foreign Trade Balance	-4,972	-63,597	-47,820	-24.8
Services Balance	611	26,768	23,959	-10.5
Travel (net)	690	24,480	21,248	-13.2
Primary Income	-839	-8,130	-9,523	17.1
Secondary Income	127	1,407	1,192	-15.3
Capital Account	**-15**	**-70**	**-21**	-70.0
Financial Account	**-6,207**	**-42,062**	**-22,555**	**-46.4**
Direct Investments (net)	-1,245	-5,476	-11,495	109.9
Portfolio Investments (net)	957	-20,104	15,411	-
Net Acquisition of Financial Assets	-895	746	6,041	709.8
Net Incurrence of Liabilities	-1,852	20,850	-9,370	-
Equity Securities	-417	2,559	-2,395	-
Debt Securities	-1,435	18,291	-6,975	-
Other Investments (net)	728	-16,014	-14,640	-8.6
Currency and Deposits	1,868	437	2,122	385.6
Net Acquisition of Financial Assets	1,961	283	15,009	5,203.5
Net Incurrence of Liabilities	93	-154	12,887	-
Central Bank	-39	-2,333	-916	-60.7
Banks	132	2,179	13,803	533.5
Foreign Banks	157	-954	9,942	-
Foreign Exchange	-419	-3,904	4,708	-
Turkish Lira	576	2,950	5,234	77.4
Non-residents	-25	3,133	3,861	23.2
Loans	539	-15,173	-13,592	-10.4
Net Acquisition of Financial Assets	267	1,863	792	-57.5
Net Incurrence of Liabilities	-272	17,036	14,384	-15.6
Banking Sector	-164	11,837	4,866	-58.9
Non-bank Sectors	353	6,086	10,756	76.7
Trade Credit and Advances	-1,676	-807	-2,908	260.3
Other Assets and Liabilities	-3	-471	-262	-44.4
Reserve Assets (net)	-6,647	-468	-11,831	2,428.0
Net Errors and Omissions	**-1,119**	**1,560**	**9,658**	**519.1**

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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