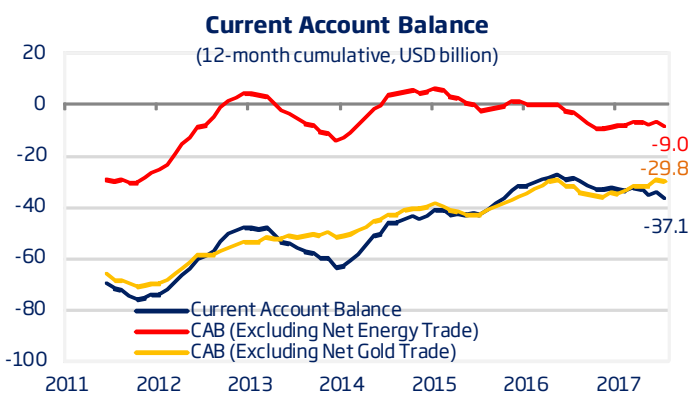


Current account deficit expanded in July.

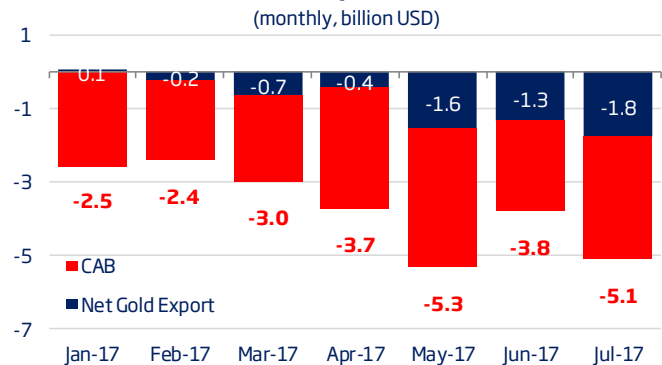
The current account deficit amounted to USD 5.1 billion in July. Although the deficit doubled from the same month of 2016 due to the low-base effect, it came in lower than market expectations. The expansion in current account was led by surge in foreign trade deficit arising from the rise in gold imports in July.

In January-July period, the deficit picked up by 20.8% yoy to USD 26 billion. According to 12-month cumulative figures, the current account deficit reached USD 37.1 billion, the highest level of the last 22 months.

**Gold imports hit record high.**

According to balance of payments figures, gold imports hit the highest level with USD 2.7 billion in July. As the increase in gold exports remained relatively subdued, net gold trade constituted 82.2% of the annual expansion in current account deficit in July.

Gold imports put an upward pressure on the current account deficit not only in July but also throughout the year. Net gold exports were USD 3.2 billion in the first seven months of 2016 whereas net gold imports amounting to USD 5.9 billion in the same period of 2017, playing a big part in the expansion of current account deficit.

Net Gold Export and CAB**Recovery in tourism revenues...**

Tourism revenues increased by 34.3% yoy to USD 2.7 billion in July. Despite the sharp increase, this amount remained below the average July figures of the 2009-2015 period (USD 3.1 billion). Along with a slight increase in tourism expenses in July, net tourism revenues also rose by 40.1% year-on-year to 2.3 billion USD.

Portfolio investments lost momentum.

Portfolio investments, which had a strong performance throughout the year, recorded the lowest monthly net capital inflow of the year with USD 570 million. In this period, the repayment of USD 2.3 billion of the eurobonds issued by General Government played an important part in this development.

Direct investments recorded a net capital inflow of USD 1.1 billion in July. Thus, total net direct investments reached USD 4.3 billion throughout the year. However, this amount remained well below the average of January-July over the 2009-2015 period (USD 6 billion).

Having fluctuated throughout the year, other investments registered a limited inflow of USD 173 million in July. The fact that the banking sector became a net credit payer in July with USD 1.6 billion, was the main driver behind the weak performance of other investments.

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

Breakdown of Net Capital Inflows

(%)

	December 2016	July 2017	December 2016	July 2017
Current Account Balance	-32,639	-37,112	-	-
Total Net Foreign Capital Inflows	33,452	26,353	100.0	100.0
-Direct Investments	9,160	8,959	27.4	34.0
-Portfolio Investments	6,292	14,467	18.8	54.9
-Other Investments	6,350	-1,355	19.0	-5.1
-Net Errors and Omissions	11,627	4,276	34.8	16.2
-Other	23	6	0.1	0.0
Reserves(1)	-813	10,759	-	-

Note: The numbers may not add up to total due to rounding.

(1) (-) sign indicates an increase in reserves while (+)

Source: CBRT, Datastream

Banking sector's debt rollover ratio was below 100%.

According to the 12-month cumulative figures, long-term debt rollover ratio of the banking sector maintained its downward trend and thus decreased to 91%. The long-term debt rollover ratio of the other sectors, on the other hand, was 109%, having been flat in July.

Net errors and omissions recorded an inflows of USD 911 million in July. CBRT reserves contributed USD 2.4 billion to the financing of the current account deficit.

Expectations...

As the foreign trade deficit was realized as almost USD 6 billion in August according to the provisional data, rising trend in current account deficit is likely to continue in the coming period. On the other hand, increase in gold exports and the recovery in tourism revenues in August could somewhat limit the widening of the current account deficit.

Balance of Payments	(USD million)				
	July 2017	January - July 2016	January - July 2017	% Change	12-month Cumulative
Current Account Balance	-5,121	-21,485	-25,958	20.8	-37,112
Foreign Trade Balance	-7,267	-24,095	-29,725	23.4	-46,489
Services Balance	2,541	6,792	8,561	26.0	17,208
Travel (net)	2,278	6,332	7,586	19.8	15,214
Primary Income	-621	-5,150	-6,088	18.2	-9,936
Secondary Income	226	968	1,294	33.7	2,105
Capital Account	11	26	9	-65.4	6
Financial Account	-4,199	-17,641	-29,482	67.1	-32,830
Direct Investments (net)	-1,057	-4,461	-4,260	-4.5	-8,959
Portfolio Investments (net)	-570	-9,840	-18,015	83.1	-14,467
Net Acquisition of Financial Assets	-1,005	-606	-867	43.1	1,250
Net Incurrence of Liabilities	-435	9,234	17,148	85.7	15,717
Equity Securities	488	399	2,691	574.4	3,115
Debt Securities	-923	8,835	14,457	63.6	12,602
Other Investments (net)	-173	-10,113	-2,408	-76.2	1,355
Currency and Deposits	244	-1,023	90	-	2,901
Net Acquisition of Financial Assets	-1,415	3,250	1,117	-65.6	3,247
Net Incurrence of Liabilities	-1,659	4,273	1,027	-76.0	346
Central Bank	-35	-232	-116	-50.0	-360
Banks	-1,624	4,505	1,143	-74.6	706
Foreign Banks	-1,807	3,627	512	-85.9	1,367
Foreign Exchange	-1,154	-349	-513	47.0	18
Turkish Lira	-653	3,976	1,025	-74.2	1,349
Non-residents	183	878	631	-28.1	-661
Loans	913	-6,919	1,502	-	3,491
Net Acquisition of Financial Assets	44	207	-190	-	-168
Net Incurrence of Liabilities	-869	7,126	-1,692	-	-3,659
Banking Sector	-1,628	-124	-2,940	2,271.0	-6,353
Non-bank Sectors	867	8,040	1,612	-80.0	3,190
Trade Credit and Advances	-1,315	-2,218	-3,977	79.3	-5,075
Other Assets and Liabilities	-15	47	-23	-	38
Reserve Assets (net)	-2,399	6,773	-4,799	-	-10,759
Net Errors and Omissions	911	3,818	-3,533	-	4,276

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