

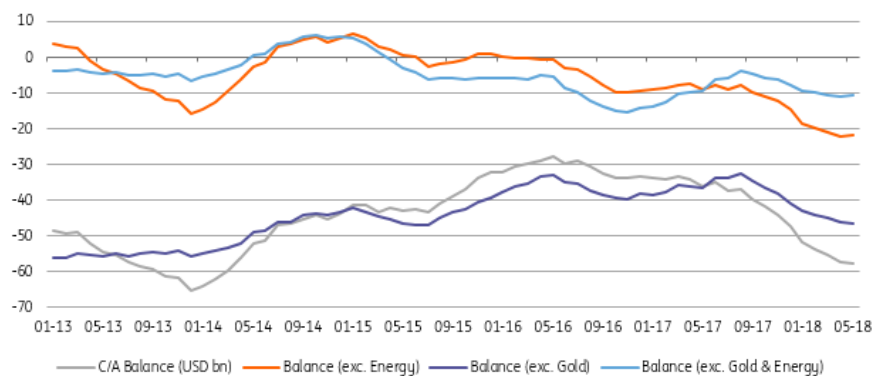
## Turkey: C/A deficit likely at its peak

The 12M rolling deficit kept widening in May, with a higher than expected monthly reading at USD5.9 billion. The good news is that early June indicators suggest that the uptrend, in place since early 2016, is likely to end in coming months



Source: Flickr

### External Balances (USDbn, 12M rolling)



Source: CBT, ING Bank

## Tourism limits the widening in the deficit

One of the major concerns for Turkey is external imbalances, on a rising path since early 2016. The latest May C/A balance data - higher than expected at a USD5.9 billion deficit - shows further widening in the 12M rolling deficit to USD57.6 billion, its highest since the first quarter of 2014. The good news is that this is likely the peak and that it should gradually improve in the period ahead. Easing economic activity should help to curb import demand, as evidenced by early indicators in June.

The breakdown reveals that the further expansion is attributable to the continuing impact of the trade deficit, deterioration in primary income balance and the primary income balance moving to deficit despite strong services income supported by the ongoing boom in tourism

## Flow outlook weakened, though corporates have raised long-term credit

On the financing front, given the increasing risk anticipation for Turkish assets, the capital flow outlook was weak. There was USD0.3 billion outflow on the back of local banks increasing their deposits abroad, broadly offset by trade credits, FDI, an increase in foreign banks' deposit holdings in Turkey and net borrowing. Accordingly, Turkey relied on net errors & omissions at USD3.4 billion (USD14.8 billion on a 12M rolling basis) and USD2.8 billion in reserve depletion to finance the monthly current account deficit.

Despite volatility in local financial markets being exacerbated by political uncertainty with the call for snap elections, the corporate sector managed USD1.6 bn net long-term borrowing -translating into more than 300% rollover ratio. Banks, on the other hand, recorded close to 100% rollover ratio, both reinforcing the view that the Turkish banking and real sectors maintain their access to foreign funding.

Overall, the ongoing momentum loss in the economy and weaker TRY will likely help the trade balance recover, indicating that we may have reached the peak for the external deficit. On the other hand, the capital flow outlook has weakened, with increasing reliance on reserves and net errors & omissions that is likely not sustainable for long.

### Author

#### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial

instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).