

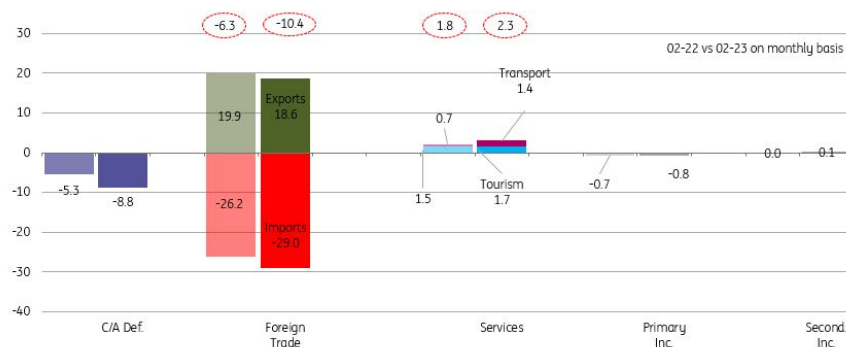
## Weak Turkish capital flows add pressure to international reserves

While the current account deficit continued its widening path, capital flows have remained quite weak in the absence of unidentified solid inflows, and that's leading to pressure on international reserves this year



The Ankara skyline

### Breakdown of current account (monthly, US\$bn)

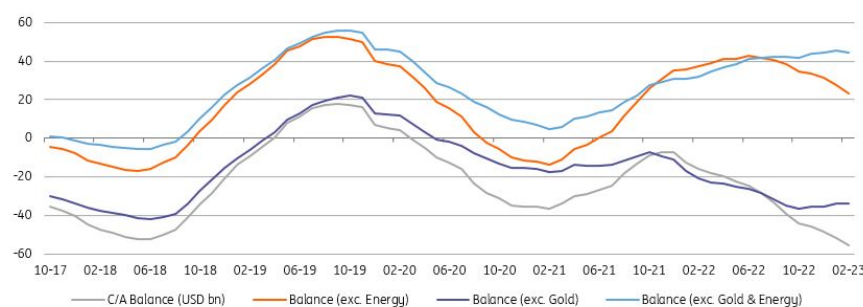


Source: CBT, ING

After the record monthly deficit in January, we saw continuation of widening in external imbalances with US\$-8.8bn in February, broadly aligned with the market consensus. Accordingly, the 12-month rolling deficit maintained widening and reached US\$55.4bn (translating into around 6% of GDP). The key driver on monthly reading over the same period last year was a rapid increase in net gold trade (US\$-3.8bn vs US\$-0.3bn last year), while core trade that was at US\$1bn surplus last year turned to US\$0.8bn deficit this year.

Among other variables, net energy deficit and services income showed some improvement to US\$-7.0bn from US\$-5.8bn in Feb-22 and to US\$2.3bn from US\$1.3bn, respectively.

## Current account (12M rolling, US\$bn)



Source: CBT, ING

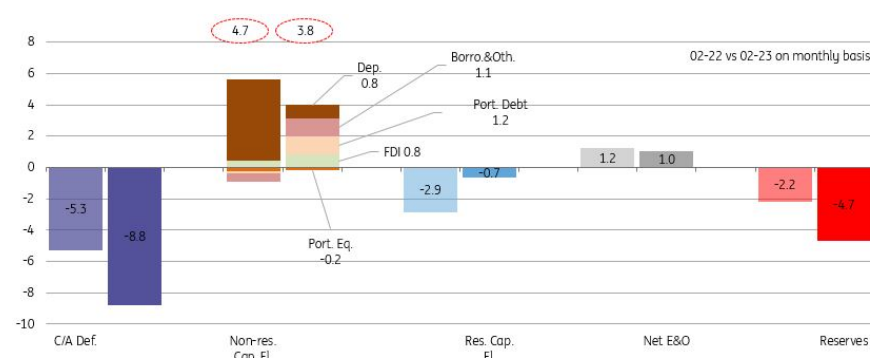
The capital account, on the other hand, has remained weak, with a mere US\$3.1bn of net inflows. With the monthly current account deficit and small net errors and omissions at US\$1bn, reserves recorded a US\$4.7bn drop (financing roughly three fourth of the cumulative deficit this year).

In the breakdown, weighing on net monthly inflows, we saw asset purchases by residents at net US\$0.7bn driven by rise in companies' financial asset acquisitions. For non-residents, US\$3.8bn inflows were attributable to:

- US\$0.7bn gross FDI,
- US\$0.8bn deposits placed by foreign investors to Turkish banks,
- US\$1.2bn Eurobond issuance by banks,
- US\$1.4bn net borrowing by banks and corporates.

Regarding the rollover rates, we saw a strong performance for corporates at 162% on a 12M rolling basis (vs 131% in February alone), while the same ratio for banks stood at 82% (260% in February).

## Breakdown of financing (monthly, US\$bn)



Source: CBT, ING

Overall, while the current account deficit remained on its expansionary path in February, the latest indicators hint at further widening in March with a continuing increase in the foreign trade deficit driven by gold trade and core imports. However, gold imports almost halved last month, the lowest since July 2022, likely due to a tightening in regulations that govern gold trade and the domestic transactions of gold.

Going forward, the impact of these regulations and domestic demand will be key for the current account outlook, while we expect the current account deficit to narrow to about 3.5% of GDP this year from 5.2% in 2022 due mainly to moderate energy prices and softer domestic demand. On the capital account, banks' borrowing and eurobond issuance played a key role in the capital account in February. However, total flows have remained weak in the absence of strong unidentified inflows, leading to pressure on international reserves this year so far.

### 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).