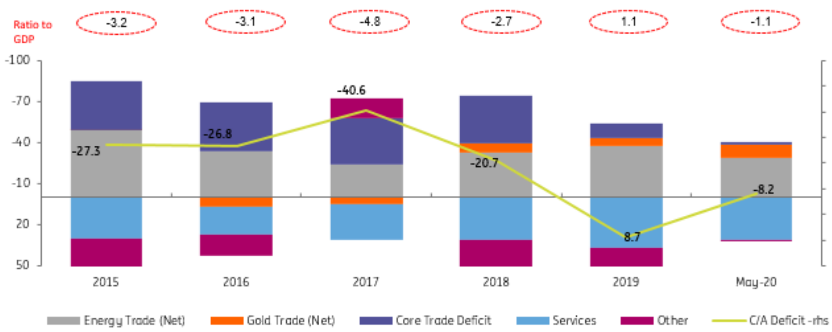
# Turkey’s trade deficit widens further

The impact of the pandemic hasn't only been on economic activity but also on the balance of payments with widening trade deficit and deteriorating capital flow outlook. We expect a moderation in the widening of the deficit on the back of a recovery in exports as key export markets re-open

Turkey's May current account deficit stood at US$3.8 billion in comparison to the US$4.0 billion market consensus and our call of US$3.3 billion, attributable to ongoing deterioration in goods balance, along with the collapse in services income as a result of the pandemic.

The widening trade deficit is taking place on the back of the sharp fall in exports given severe lockdown measures in major export markets. On the services side, we saw a significant impact from tourism income as tourist inflow collapsed, while another big-ticket item - transport revenues recorded a contraction close to 70% YoY.

## Breakdown & Evolution of current account deficit (12-month Rolling, US$ bn)




Source: CBT, ING

Accordingly, the deteriorating trend in the 12-month rolling current account balance that started in the last quarter of 2019 has gained pace in recent months and continued in May with US$-8.2 billion vs US$+8.7 billion at end-2019.

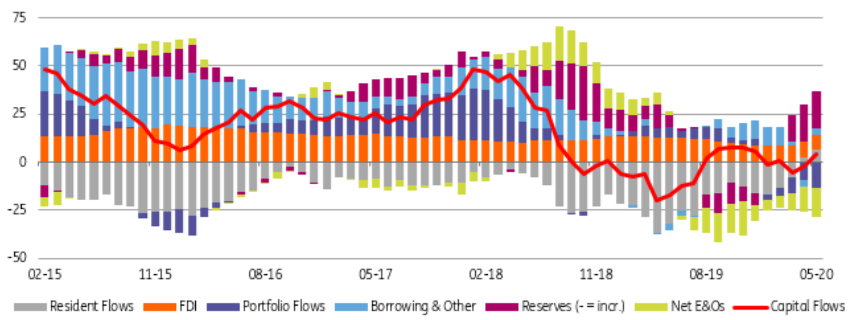
On the capital account, April showed a relatively better outlook with US$7.3 billion inflows mainly on the back of residents taking some of their holdings back to the country and the CBT's swap deal with the Qatar central bank. With the c/a deficit, negative net errors & omissions reading at US$-0.8 billion, official reserves expanded by US$2.7 billion.

In the breakdown of the capital account, residents reduced their external asset holdings by US$5.5 billion and brought to the country driven by 1) US$2.0 billion drop in local banks' financial investments abroad and 2) US$2.7 billion decline in trade credits extended by local entities to foreign counterparties.

Regarding the non-resident flows, the key debt creating items witnessed US$2.4 billion inflows, attributable to a CBT move that has increased the limit of the swap agreement with the Qatar Central Bank by US$10 billion; despite significant drags from 1) the Treasury's US$2.2 billion external debt repayment 2) non-residents cutting their exposure to domestic debt by US$1.0 billion 3) trade credits falling by US$3.0 billion and 4) banks and corporates paying their debts by US$1.5 billion. In May alone, long-term rollover ratio for banks was at 86% vs 67% of corporates, while the ratios were at 73% and 76%, respectively on 12M rolling basis. So, the data show that external financing position of Turkish banks and companies have been quite resilient during the challenging pandemic conditions in recent months.

For non-debt creating flows, gross foreign direct investment flows at US$0.4 billion while outflows from the equity market turned out at US$1.0 billion.

## Breakdown of C/A Financing (12M Rolling, US$bn)




Source: CBT, ING

Overall, the impact of the pandemic hasn't only been on economic activity but also on the balance of payments with widening trade deficit and deteriorating capital flow outlook.

We expect a moderation in the widening of the current account deficit on the back of recovery in exports with reopening of key export markets.

For the capital flows, the outlook should improve thanks to better sentiment towards EM countries and lighter debt amortisation profile of the private sector in the near term.

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