

Turkey: External deficit at its lowest since 2003

External balances remained on a recovery track in May, while a monthly surplus and capital flows contributed to an increase in reserves.



Source: Flickr

\$-2.3 bn

Current account deficit

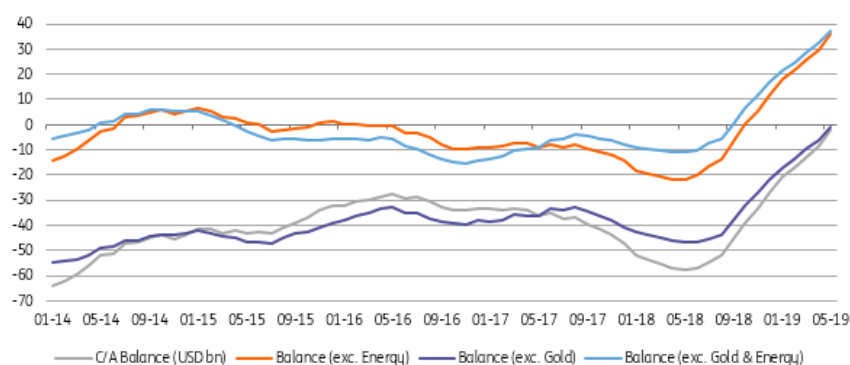
12-month rolling, as of May

With weak economic activity weighing on import demand, and healthy exports on increased price competitiveness and support from tourism revenues, external balances have seen a quick improvement since mid-2018, standing at a mere a US\$-2.3 billion on a 12M rolling basis, their lowest since 2003. The slightly lower than expected surplus in May at US\$0.15 billion contributed to

the further narrowing in the annual deficit, at -0.3% of GDP.

In the breakdown, the monthly improvement over the same period of 2018 is attributable to a contraction in foreign trade, along with relatively small supportive readings from services and secondary incomes.

External Balances (USD bn, 12M rolling)



Source: TurkStat, CBT, ING

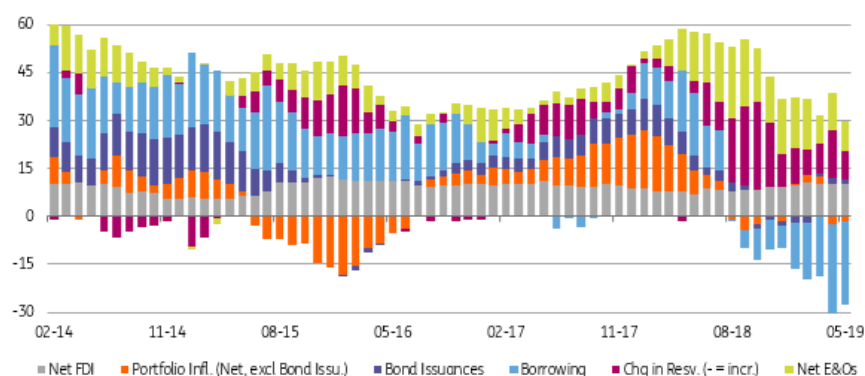
On the capital account, May saw some inflows at US\$1.3bn following outflows in the previous two months - on the back of increasing concerns about CBT reserves and ensuing market volatility. Given a mild external surplus and inflows via net errors & omissions, official reserves recovered by US\$3.0 billion.

In the monthly breakdown, capital inflows are mainly attributable to declining FX currency and deposit assets of banks held abroad. We see contributions from continuing FDI, also facilitated by cheaper Turkish assets in the aftermath of August 2018 volatility and trade credits. This is despite drags from further portfolio outflows, a drop in non-resident banks' deposits held in Turkey and debt repayments of banks and corporates.

On borrowing, banks have remained net payers at US\$-0.6 billion (driven by long term repayments translating into a monthly rollover ratio at 83% vs the 12M rolling figure at 65%), while corporate sector borrowing was also negative (with the long term monthly rollover ratio at 78% vs 115% on a 12M rolling basis).

Breakdown of C/A Financing* (12-month rolling, USD billion)

* Positive sign in reserves shows reserve accumulation



Source: CBT, ING

Overall, on year-to date basis, key capital account trends over the same period of 2018 are: (1) residents' increasing acquisitions of assets abroad, (2) higher FDIs, (3) higher portfolio flows facilitated by the Treasury's Eurobond issuances, (4) negative net borrowing, and (5) sharp decline in net errors and omissions. Going forward, a global backdrop with increasing market expectations of Fed rate cuts given weakening prospects for global trade and global investment can impact countries like Turkey. But, idiosyncratic risks should remain a drag for the capital flow outlook.

Author

Muhammet Mercan

Chief Economist, Turkey

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 <http://www.ing.com>.