

Turkey: Further adjustment in the external deficit

The correction in external balances continued in January. The capital flow outlook has remained challenging even though the government's increased external borrowing has been supportive lately.



Source: Flickr

-21.6

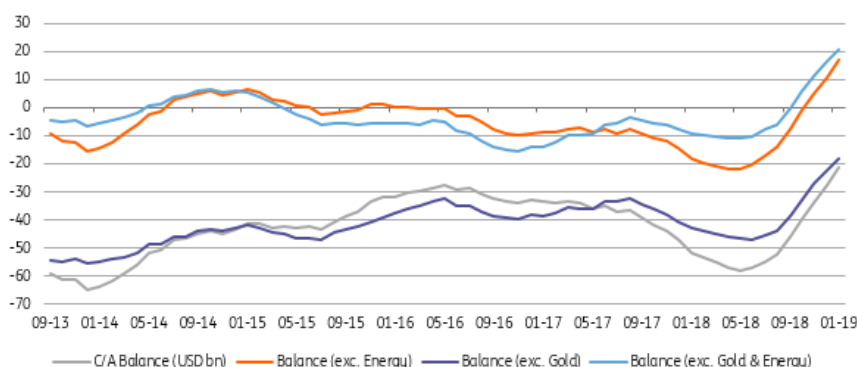
External deficit

(US\$ billion, on 12M rolling basis as of Jan-19)

We have seen a sharp improvement in external imbalances since mid-2018. There has been a correction in foreign trade balance on the back of increased price competitiveness that has supported exports and with weakening domestic demand weighing on imports. This trend has continued in the first month of 2019 with a monthly current account deficit at US\$-0.8 billion, translating into an annual figure of US\$-21.6 billion, the best reading since Mar-10. In the breakdown, the improvement over the same month of 2017 is again attributable to the contraction in foreign trade. The improvement in services income - with healthy tourism revenues

and the contribution from transport revenues - roughly offset the deterioration in primary and secondary income balances.

External Deficit (USDbn, 12M rolling)



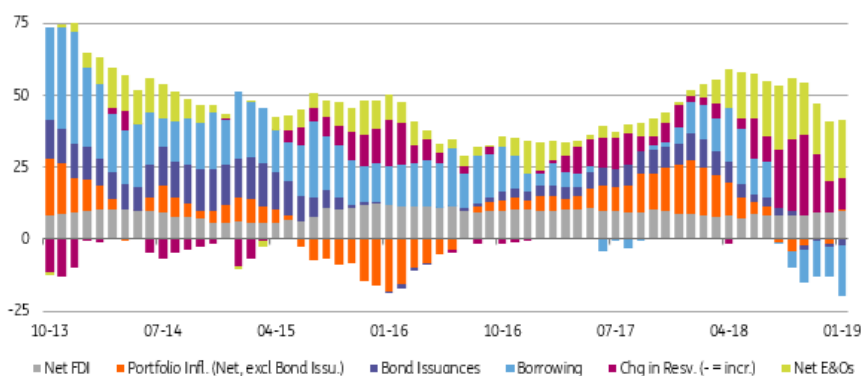
Source: CBT, ING Bank

On the financing front, the capital flow outlook somewhat improved, recording its highest inflows since Apr-18 at US\$6.1 billion in January. Given the mild external deficit and the US\$-1.8 billion outflows via net errors & omissions, official reserves recorded a US\$3.5 billion increase.

The capital inflows are mainly attributable to (1) non-residents' purchases in the equity market at US\$1.3 billion, as well as bond issuances by banks (US\$1.1 billion) and the Treasury (US\$3.4 billion) - showing an acceleration in portfolio flows, (2) an increase in deposits held by foreign investors amounting to US\$2.4 billion, (3) US\$1.1 billion trade credits, and (4) US\$0.9 billion gross FDI, despite drags from a US\$1.2 billion increase in residents' assets held abroad (mainly due to local banks having more deposits) and, more importantly, continuing debt repayments at US\$2.6 billion (mainly through banks' short and long term debt payments).

Breakdown of C/A Financing (12M Rolling, USDbn)

(Positive sign in reserves shows reserve accumulation)



Source: CBT, ING Bank

The January capital account data shows further deleveraging by the banking sector translating

into a monthly rollover ratio at 31%, pulling the 12M rolling figure down to 75%. For the corporate sector, this stood at 84% in January and 134% on a 12M rolling basis.

Overall, the January data indicates that capital flows have improved with increasing government borrowing. The challenging picture for external financing continues to reflect reduced borrowing by corporates and especially by banks. Turkey will likely remain sensitive to shifts in global risk appetite on the back of still sizeable external financing needs, mostly due to private debt amortization, though the government's increasing external leveraging recently should help to ease the pressure. In the period ahead, the pace of external rebalancing will likely slow, before rising gradually in the second half.

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 www.ing.com.