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.

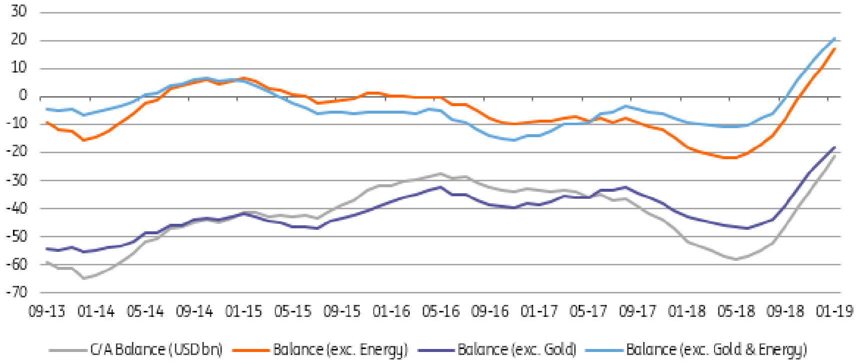
Source: Flickr

-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)



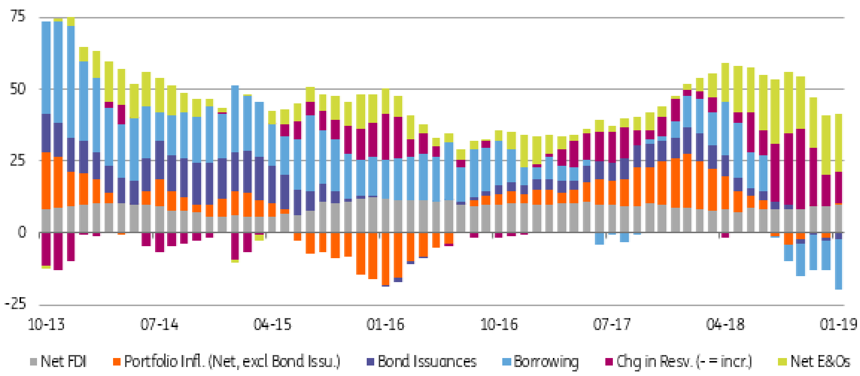
Source: CBT, ING Bank

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.

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