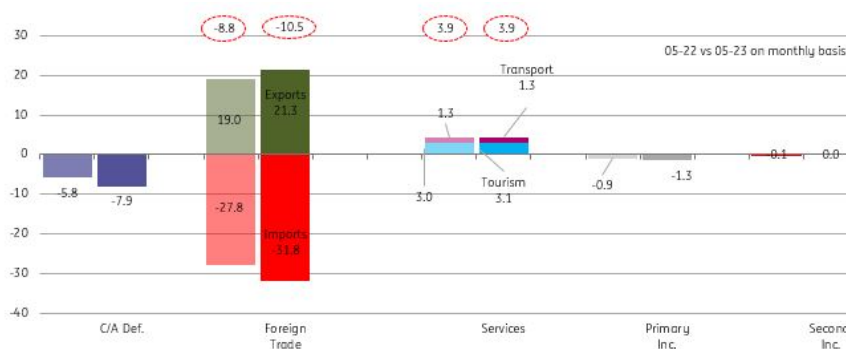


Higher deficit and unidentified outflows weigh on reserves in Turkey

External pressures in Turkey continued with another higher-than-expected current account deficit in May, while reserves have remained under pressure given weak capital flows



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

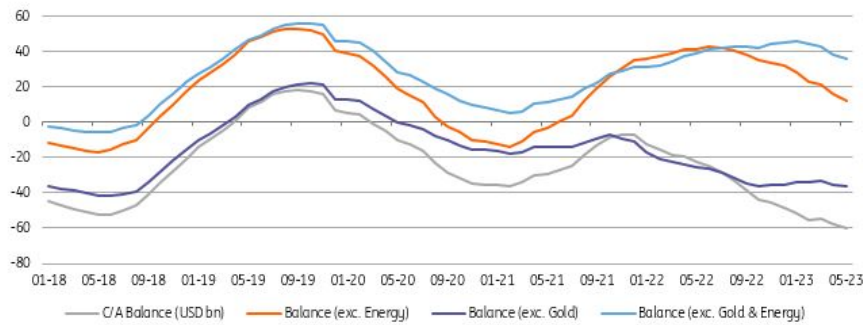


Source: CBT, ING

External developments remained challenging in May with another higher-than-expected current

account deficit of US\$7.9bn, widening the 12M rolling figure further to \$60bn (translating into around 6.1% of GDP), the highest since late 2013. A quick glance at the May data points to a similar performance in the services balance with respect to the same month of 2022, although there was a relatively wide deficit in the goods balance driven by higher core trade and gold deficits despite the improving energy trade balance.

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



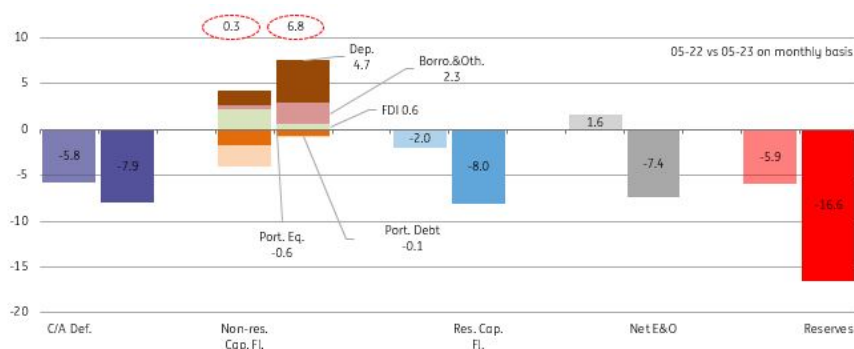
Source: CBT, ING

The capital account, on the other hand, witnessed net outflows of \$-1.2bn. With the monthly current account deficit and outflows via net errors and omissions at \$7.4bn, official reserves recorded another large decline at \$16.6bn (not only the cumulative deficit in the first five months but also part of large unidentified outflows at \$13.7bn in the same period).

In the breakdown, contributing to net monthly outflows, we saw asset acquisitions abroad by residents at a net \$8.0bn, driven by growth in external deposits and trade credits extended by locals. For the non-residents, \$6.8bn inflows were attributable to \$0.7bn gross of foreign direct investment, \$5.1bn of deposits placed by foreign investors to the Central Bank of Turkey, \$1.6bn of trade credits and \$0.7bn net borrowing by banks.

On the flip side, we see outflows via declining equity assets of non-residents at \$0.6bn. Regarding the rollover rates, we saw a strong performance for banks at 142% on a 12M rolling basis (vs 86% in May alone), while the same ratio for banks stood at 85% (a healthy 130% in May).

Breakdown of financing (monthly, US\$bn)



Source: CBT, ING

Overall, the data once again confirm a growing need for a rebalancing in the economy. Going forward, we will likely see an improvement in the current account as evidenced by the normalisation in energy prices and continuing strength in tourism, while a recovery in global demand should also be supportive of the foreign trade balance.

Continued strength in domestic demand points to upside risks to imports, however recent currency weakness in the aftermath of elections and tightening in the policy mix has led to a slowdown, helping to control import growth.

On the capital account, total flows have remained weak in the absence of strong unidentified inflows, leading to pressure on international reserves so far this year. Going forward, a pivot to a more conventional policy stance will likely be critical for recovery in investor confidence and hence capital inflows.

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.