

Turkish current account deficit widens rapidly in August

Current account balance remains on a deteriorating path on the back of widening trade deficit and fall in services income, while subdued capital flows point to a challenging external outlook this year



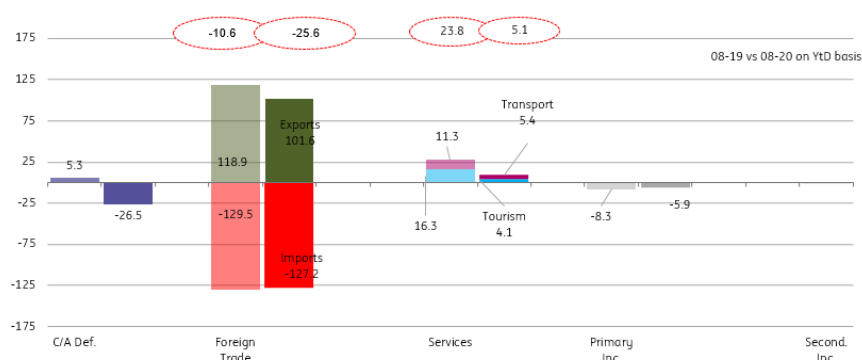
Source: Shutterstock

Turkey's current account deficit in August stood at US\$4.6 bn, aligned with the consensus, while the 12-month rolling figure reached US\$23.2bn, up from US\$15.3 bn a month ago, gaining pace despite recent normalisation measures introduced by policymakers.

The data on a monthly basis shows a continuation of deterioration in the services balance, while the deficit in the goods balance is wider than last year mainly due to record high gold imports.

On the other hand, the worsening in the first eight months is attributable to the deterioration in core and gold deficits in the goods balance and plunge in services balance with the breakout of pandemic. In fact, given shifting portfolio preferences of locals towards gold this year, 12-month rolling current account deficit excluding gold is US\$7.6 bn, substantially below the headline number.

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



Source: CBT, ING

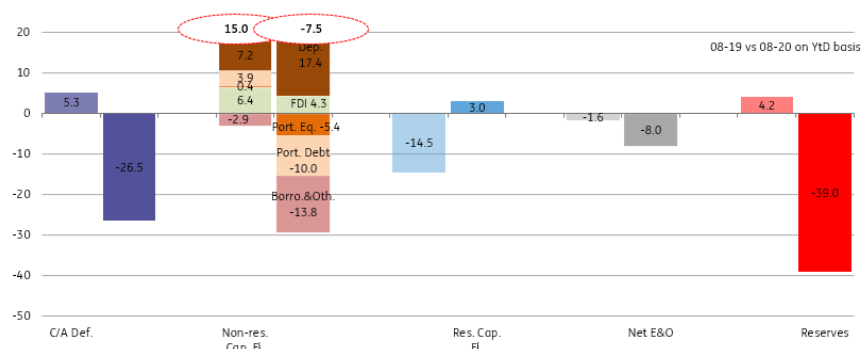
On the capital account, August turned out to be another weak month, almost at balance, as residents' outflows were roughly matched by non-residents' debt creating flows. With the current account deficit and negative net errors & omissions reading at US\$-2.8 bn, reserves recorded another large depletion at US\$7.6 bn (US\$39 bn on ytd basis).

In the breakdown of capital account, residents that have reduced external asset holdings in the first eight months of this year (by US\$3.0 bn), while transferred some of their assets to abroad at US\$3.0 bn in August alone driven by deposits.

Regarding the non-resident flows, the key debt creating items witnessed US\$3.3 bn inflows and determined the shape of the capital account. These inflows were attributable 1) trade credits rising by US\$1.8 bn 2) foreign deposits at the Central Bank up by US\$0.4 bn 3) deposits of foreign banks at the local banking system increasing by US\$2.4 bn. On the flip side, portfolio investment in the local debt recorded another drop at US\$0.2 bn and reached US\$-10 bn this year so far, while corporates and banks were net debt payers with US\$0.8 bn and US\$0.1 bn, respectively. Accordingly, in August alone, the long-term rollover ratio for banks was at 95% vs 45% for corporates, or 79% and 70%, respectively, on 12M rolling basis. So, the pace of deleveraging is relatively higher in the corporate sector while rollovers for banks have been improving in comparison to the last year.

Regarding non-debt creating flows, gross foreign direct investment flows stood at US\$0.6 bn while outflows from the equity market turned out to be US\$1.0 bn.

Breakdown of capital account (US\$ bn, YtD)



Source: CBT, ING

Overall, current account balance remains on a deteriorating path on the back of the widening trade deficit and fall in services income, while subdued capital flows point to a challenging external outlook this year. The preliminary trade data in September showing further deterioration in the deficit due to continuing large gold imports indicate no trend change in external balances yet, though the pace of expansion should lose some momentum in the remainder of the year.

For the capital flows, rollover ratios should increase to avoid further FX reserve losses, while recent Treasury issuance and expected eurobond sale by the Wealth Fund should support reserve 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 www.ing.com.