

Turkey: A new current account profile

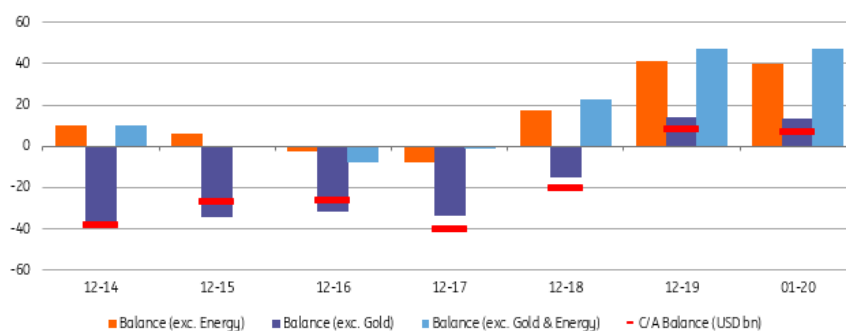
After an improvement in the external deficit, the current account balance has started to deteriorate again. But it's remained in positive territory and is still significantly better than expected due to substantial revisions



Source: shutterstock

The Central Bank of Turkey has substantially revised its balance of payments data given 1) new International Trade in Services Statistics and 2) the switch to the General Trade System in Foreign Trade Statistics by TurkStat. We saw a significant increase in services income in the range of US\$4.7-9.8 billion for each year in the 2013-2019 period, amounting to US\$44 billion in total. This was mainly driven by transportation income. The current account balance was adjusted higher by US\$4.7-8.4 billion and we saw a total US\$48.1 billion decline in net errors & omissions in the same period, ranging between US\$3.4 billion and US\$10.6 billion in the last seven years.

External Balances (USD bn, 12M rolling)



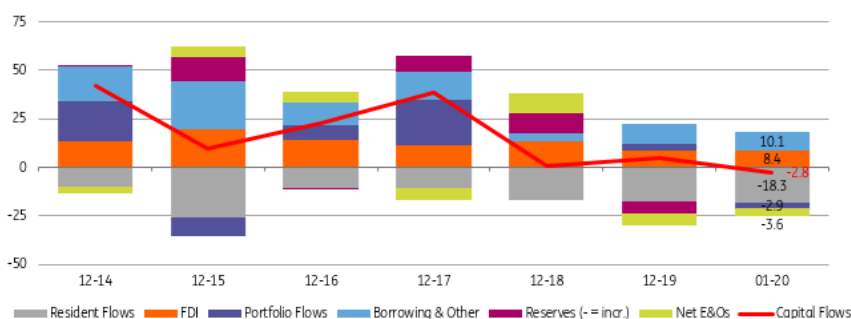
Source: TurkStat, CBT, ING

With the revisions, the 12-month rolling current account balance, which was expected to fall into deficit in January, remained in positive territory, at US\$6.5 billion. However, the surplus declined compared to December, indicating that the external balance is on a modestly deteriorating path after a significant improvement until the last quarter of 2019. This was due to weaker domestic demand, increased price competitiveness and strength in tourism.

On monthly basis, the c/a balance was negative at US\$1.8 billion in January, much better than the consensus (and our call) for a US\$2.5 billion deficit, reflecting the impact of revisions. In the breakdown, the widening deficit over the same month of 2019 is mainly attributable to widening foreign trade while services income remained flat.

On the capital account, December showed continued mild outflows at US\$1.7 billion, mainly on the back of local asset acquisitions abroad, which stood at US\$2.7 billion. With the c/a deficit and net errors & omissions at US\$+0.6 billion, official reserves dropped by US\$2.9 billion. In the breakdown, the banking sector repaid US\$1.5 billion of debt (US\$0.7 billion of which was long-term) while corporates net borrowing was also negative at US\$0.2 billion. Accordingly, the long-term rollover ratio for banks was relatively low at 44% vs a healthy 98% for corporates. The major contribution to debt flows came from an increase in foreign investors' deposits at US\$2.5 billion. We also saw a US\$1.1 billion contribution from FDI in January.

Breakdown of C/A Financing (12M Rolling, US\$bn)



Source: CBT, ING

With the end of the external rebalancing process, the current account has started

deteriorating again. We expect this trend to continue in the period ahead given accelerating imports and relatively muted export growth while the likely downside impact of the coronavirus outbreak on tourism revenues should also be a factor. However, the pace will likely remain modest given significantly lower oil prices and growth which is still below potential.

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>.