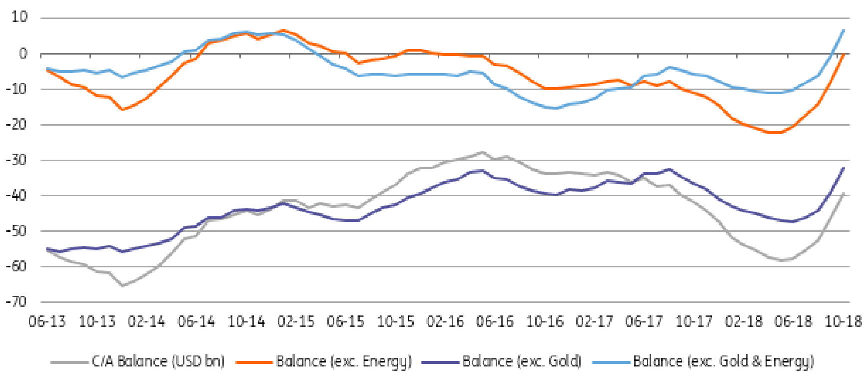
Turkey: Another large current account surplus in September

Turkey's 12-month rolling deficit has been rapidly improving with strength in exports and a sharp decline in import demand. And given the ongoing loss of momentum in the economy and the weaker lira, we're likely to see more improvements ahead

Source: Shutterstock

External Balances

(USD billion, 12-month rolling)



Source: CBT, ING Bank

Turkey's external balance that has changed direction in the second half of 2018 continues to generate large surpluses with $1.83 billion in September, slightly lower than the consensus and our call of $2.0 billion.

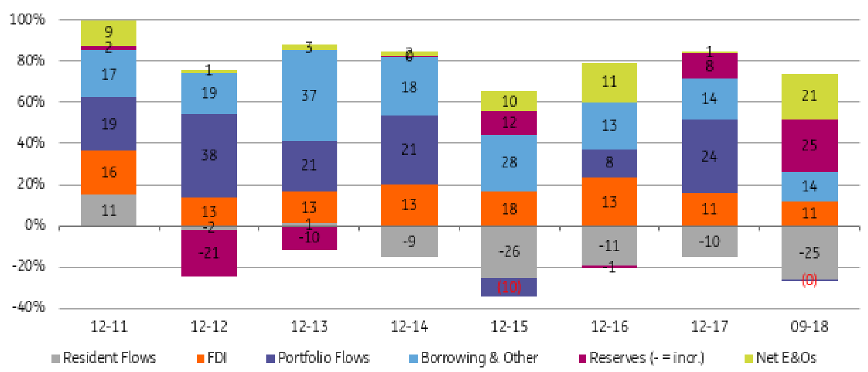
The central bank of Turkey also revised August data to $1.86 billion from $2.6 billion. So, after the first surplus in August 2015, we saw a continuation of this performance in September, while both readings were the largest monthly current account surpluses on record, confirming a rapid improvement on this front.

Accordingly, the 12-month rolling deficit narrowed to $46.1 billion (down by $9 billion since July), translating into roughly 5.6% of GDP. This trend is likely to remain in place going forward given weakening domestic demand and the strength in exports and tourism.

On the financing front, the capital flow outlook remains weak with $4.9 billion outflows in September after a $14.3 billion outflow a month ago. Both moves were driven by a rise in the FX currency and deposit assets of banks with another $2.5 billion in September. So, it seems banks kept transferring FX to their corresponding banks abroad.

Breakdown of current account financing

(USD billion, 12-month rolling)



Source: CBT, ING Bank

The details show that portfolio outflows from the bond and equity markets amounted to $0.3 billion while the net loan repayments from the banking system reached $5.2 billion with $4.4bn repayments in the long-term vs a mere $0.4 billion drawings.

In contrast, the long-term debt rollover ratio for the corporates was as high as 106% in September. $4 billion increase in short-term FX deposits at the central bank and $3.5 billion depletion of official reserves helped finance the outflow, while unexplained flows (recorded as net errors and omissions) were relatively negligible with $-0.4 billion in September, after a large inflow of $4.3 billion in August.

> Overall, September data shows that outflows have lost momentum in comparison to August, becoming less of a market concern. However, the outlook will likely remain challenging given sizeable total external financing needs in the period ahead mostly due to private debt amortization.
>
> However, given the ongoing loss of momentum in the economy and a weaker Turkish lira, trade balance is likely to recover, indicating we'll see further improvement in the external deficit.

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