

Snap | 13 May 2020 Turkey

# Turkey: Capital outflows in March

The coronavirus outbreak weighed on the balance of payments in March with a widening trade deficit and deteriorating capital flow outlook

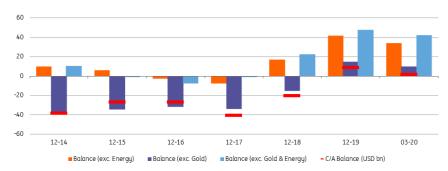


Source: iStock

The current account deficit in March came in at US\$4.9 billion compared with the US\$4.0 billion market consensus (and our call of US\$4.8 billion), mainly on the back of a deficit in the goods balance (-US\$4.3 billion). The widening in the trade deficit is mainly because of a plunge in exports (-17.8% year-on-year) given the severe lockdown measures in major export markets - namely European countries - introduced earlier than Turkey in an attempt to slow the spread of the virus. Imports recorded growth (+3.1% YoY) as Turkey closed its borders at a relatively later date. We also saw an impact from tourism income falling more than 50% YoY on the back of a collapse in tourist arrivals, while another big ticket item, transport revenues, recorded a smaller contraction of 29% YoY.

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### External Balances (USD bn, 12M rolling)



Source: CBT, ING

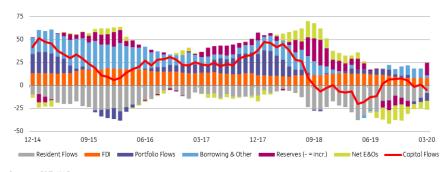
Despite the widening deficit, the 12M rolling current account balance remained in surplus, at US\$1.5 billion, though it declined over the previous month's US\$6.3 billion figure, which indicates that the deterioration has gathered pace due to the Covid-19 impact.

On the capital account, March showed a significant US\$7.7 billion of outflows mainly due to the sharp decline in debt creating flows. With the c/a deficit and large negative net errors & omissions reading at US\$-4.0 billion, official reserves plunged by US\$16.6 billion.

In the breakdown, debt creating outflows were attributable to 1) foreign banks' reducing their deposits in Turkey by US\$2.6 billion 2) non-residents cutting their exposure to domestic debt by US\$2.1 billion 3) US\$0.7 billion drop in trade credits and 4) long-term debt repayments of banks (US\$-0.4 billion) and corporates (US\$-0.1 billion). In March alone, the long-term rollover ratio for banks was at 77% vs 94% of corporates, while the ratios were at 74% and 84%, respectively on a 12M rolling basis. So, the data shows that Turkish banks and companies weathered the market volatility in March reasonably well.

Regarding non-debt creating flows, gross foreign direct investment flows at US\$0.9 billion matched to a great extent the outflows from the equity market at US\$1.1 billion. Finally, residents transferred US\$1.5 million abroad driven by financial investments of local banks.

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



Source: CBT, ING

Overall, as well as weighing on economic activity, the pandemic has weighed on the balance of payments in March with a widening trade deficit and deteriorating capital flow outlook. The extent of the decline in tourism revenues and the pace of recovery in exports

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will determine external balances in the rest of economy while low oil prices and weaker domestic demand should be supportive in the near term.

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