

Turkey: Capital outflows in March

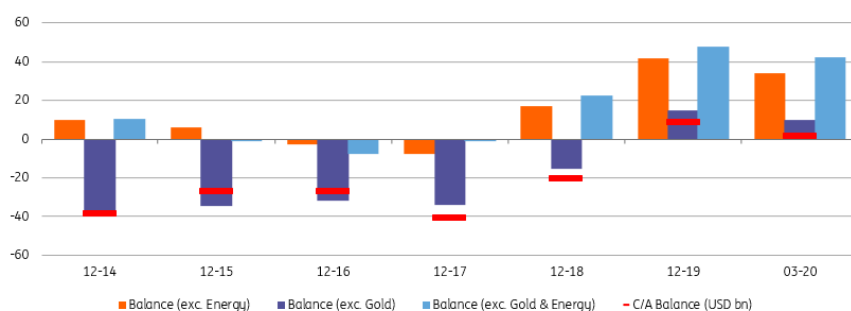
The coronavirus outbreak weighed on the balance of payments in March with a widening trade deficit and deteriorating capital flow outlook



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.

External Balances (USD bn, 12M rolling)



Source: CBT, ING

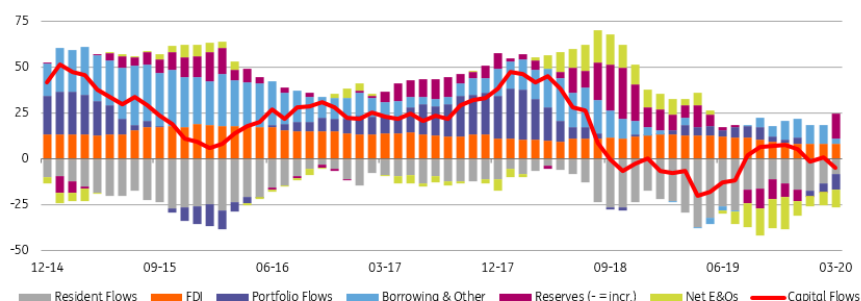
Despite the widening deficit, the 12M rolling current account balance remained in surplus, at US\$1.5 billion, though it declined over the previous month's US\$6.3 billion figure, which indicates that the deterioration has gathered pace due to the Covid-19 impact.

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

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

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>.