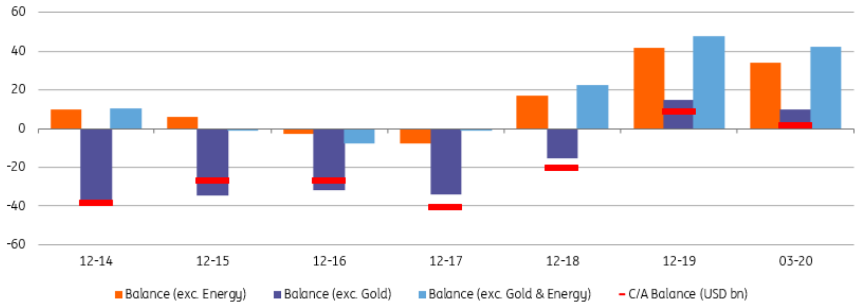
Turkey: Capital outflows in March

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

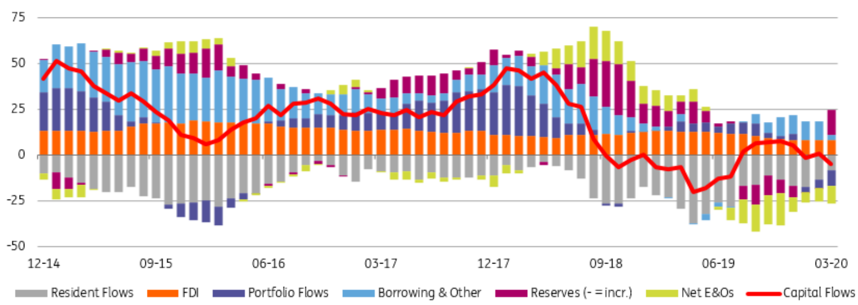
Despite the widening deficit, the 12M rolling current account balance remained in surplus, at US$1.5 billion, though it declined over the previous month's US$6.3 billion figure, which indicates that the deterioration has gathered pace due to the Covid-19 impact.

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.

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