

## The rapid widening of Turkey's external deficit continues

With another higher than expected monthly turnout, the current account deficit showed a further widening in March, driven by higher energy bills. It stood at US\$24.2bn on a 12-month rolling basis

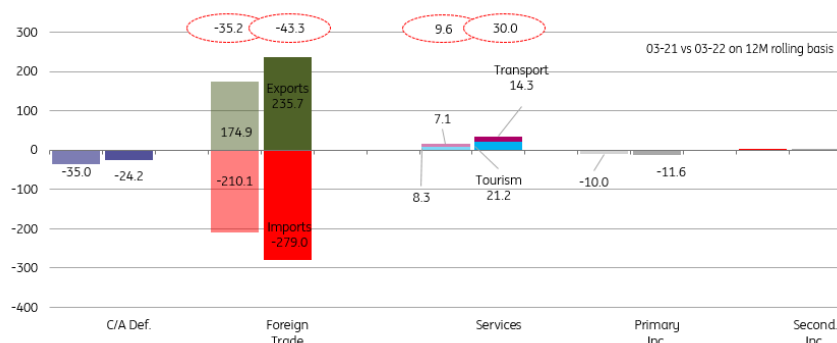


People walking on the famous Istiklal Street, Istanbul

Turkey's current account balance maintained its rapid deterioration in March with another higher than expected monthly deficit at USD-5.6bn. The 12M rolling current account is also rising with USD-24.2bn (translating into c. 3.4% of GDP). A quick glance at the February data shows that rising external imbalances are mainly attributable to the uptrend in energy prices weighing on energy imports, despite continuing rapid growth in tourism revenues as the impact of Russia & Ukraine war seems to be offset by the rise in the share of foreign visitors from the MENA region and Europe.

## Breakdown of Current Account

12M Rolling, US\$bn



Source: CBT, ING

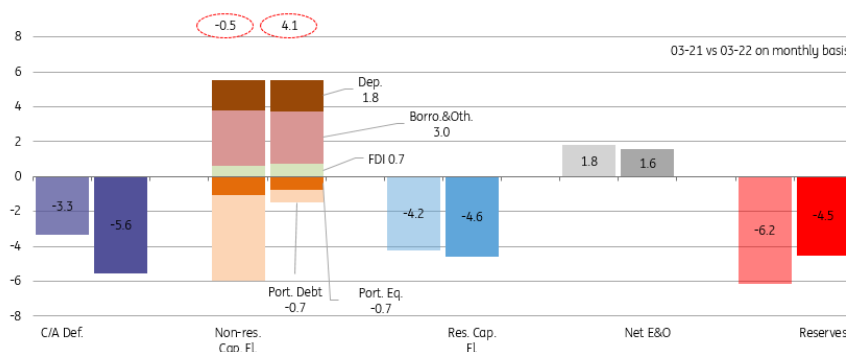
The capital account turned to be slightly negative at US\$-0.5bn, driven by resident outflows. With the C/A deficit and relatively high net errors & omissions at US\$1.6bn, reserves recorded a USD4.5bn decline.

In the breakdown of monthly flows, residents increased their external assets by USD4.6bn, mainly attributable to rising deposits of local banks abroad and the impact of residents' portfolio investments. For non-residents, we saw USD4.1bn inflows, being short of the outflows on the resident side. Non-resident moves were mainly attributable to debt creating flows, namely i) USD1.4bn trade credits ii) USD1.8bn deposits placed by foreign investors to Turkish banks and iii) USD1.7bn net borrowing thanks to USD0.7bn secured by the general government and US\$0.8bn long-term borrowing of the corporate sector.

Accordingly, we saw an improvement in the long-term debt rollover rate for corporates to 177% (a strong 142% on a 12M rolling basis), while the same ratio for banks stood at 77% (89% on a 12M rolling basis) with a net USD0.5bn net repayments slightly above that of net short-term borrowing. On the flip side, among non-debt creating flows, USD0.7bn gross FDI was broadly aligned with outflows from the equity market.

## Breakdown of Financing

12M Rolling, US\$bn



Source: CBT, ING

Overall, the current account deficit has remained on an expansionary path in March, driven by commodity imports and particularly higher energy bills. As oil prices are expected to remain elevated, the current account will likely maintain the widening trend in the near term. The outlook for the whole year will be determined by tourism revenues and energy prices given the uncertainty, while signals of a slowdown in economic activity hint that core imports can weaken in the period ahead.

On the financing side, the global backdrop turning less supportive should also add challenges given high external financing requirements as well as heavy reliance on financial flows rather than long-term finance like FDI, which is low relative to peer countries.

## Author

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto: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>.