Turkey: External deficit narrows further

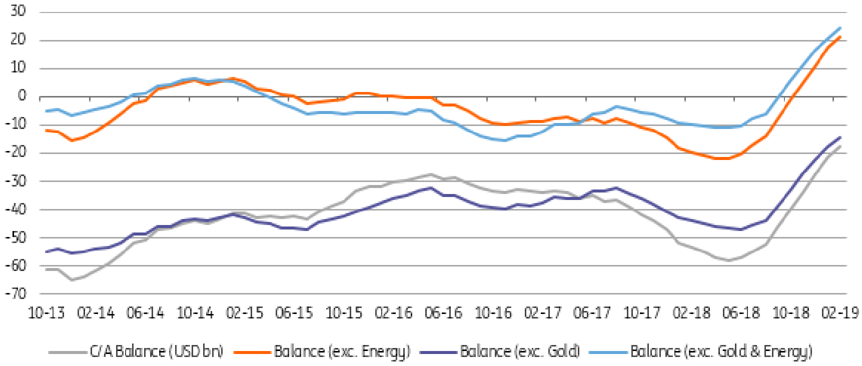
The external deficit narrowed further in February while the government's increasing external bond issuance has remained supportive for the capital flow outlook

Source: shutterstock

External balances have continued to improve rapidly due to weaker domestic demand and increased price competitiveness, along with a contribution from the recovery in tourism. In February, the monthly deficit stood at US$0.7 billion, slightly better than the market consensus at US$0.85 billion, while the 12M rolling current account deficit narrowed further to US$17.6 billion, the lowest in the last 10 years. The downtrend in the deficit has been rapid, dropping from US$58.1 billion over a period of just nine months.

The improvement over the same month of 2018 is again attributable to a contraction in foreign trade while the impact of other items was relatively small.

External Balances (USD bn, 12M rolling)

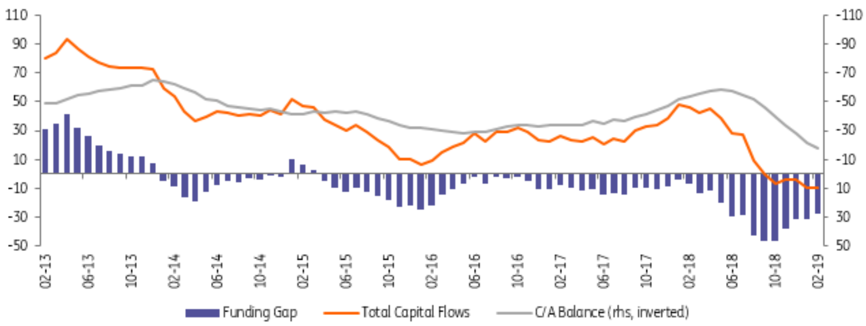


Source: TurkStat, CBT, ING Bank

On the financing front, following a relatively better flows outlook in January, helped by the Treasury's issuances, capital flows remained in positive territory in February at US$2.1 billion. Given the mild external deficit and US$1.4 billion of inflows via net errors & omissions, official reserves recorded a US$2.8 billion increase.

In the breakdown, capital inflows are mainly attributable to: 1) US$0.6 billion gross FDI 2) bond issuance by the Treasury of US$2.0 billion 3) US$1.1 billion trade credits despite drags from increasing assets of residents held abroad by US$0.5 billion, and more importantly, continuing debt repayments at US$0.8 billion (the lowest monthly loan repayments in the last seven months, mainly driven by short-term payments of the corporate sector at US$0.5 billion, while long-term debt payments for both banks and corporates were negative). Accordingly, capital account data shows that the banking sector rollover ratio stands at 86% on a monthly basis, translating into a 12M rolling figure at 73%. For the corporate sector, this ratio stood at 80% in February and 122% on a 12M rolling basis.

Funding Gap (USDbn, 12M rolling)



Source: CBT, ING Bank

Overall, the data shows a significant rebalancing in recent months and we expect this trend to continue, albeit at a slower pace. Capital flows have been mainly driven by increasing government borrowing recently while the challenging picture for external financing continues, with less borrowing by corporates and especially banks. Going forward, we expect external financing requirements to remain elevated given the hefty external debt repayment schedule. This means that Turkey will remain sensitive to shifts in global risk appetite.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer