

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

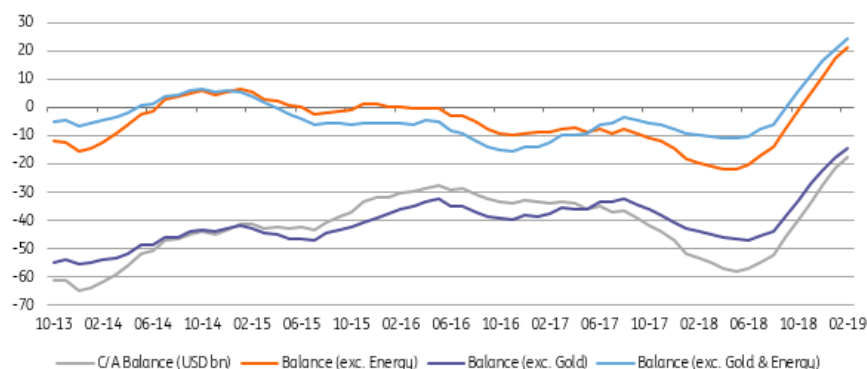


Source: shutterstock

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)

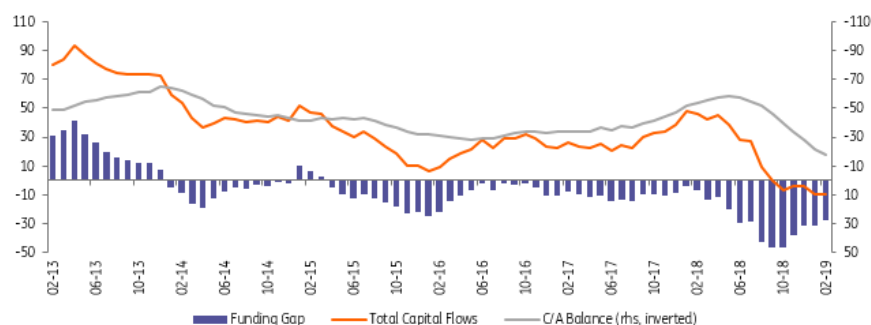


Source: TurkStat, CBT, ING Bank

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 (USD bn, 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

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>.