

## Turkish current account deficit narrows in April

Turkey's external deficit narrowed in April, with the 12-month deficit down to just USD 8.6 billion, from USD 57.1 billion a year ago. However, the outlook for capital flows weakened further with a decline in reserves



Source: iStock

# \$-8.6bn

## Current account deficit

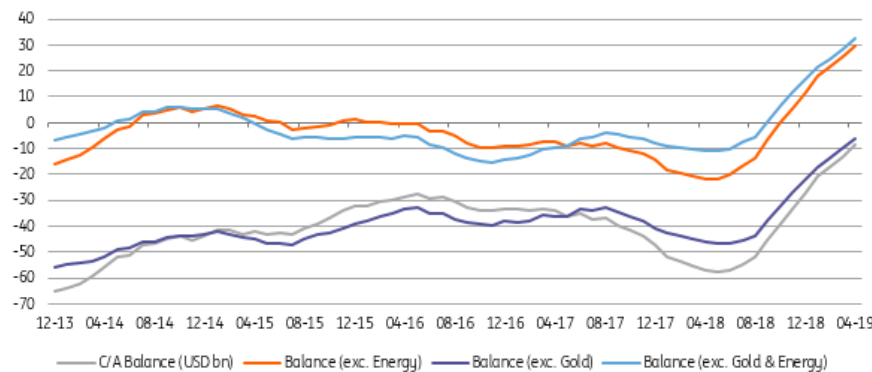
12-month rolling, as of April

External balances have maintained the recovery trend on the back of weaker economic activity and increased price competitiveness, while the contribution from tourism has helped.

With the April deficit standing at USD-1.3 billion, better than the market consensus of USD-1.5 billion, the 12-month rolling current account deficit narrowed further to US\$-8.6 billion - the lowest since early 2004, from US\$-58.1 billion over a year ago.

In the breakdown, the monthly improvement over the same period of 2018 is down to contraction in foreign trade, along with relatively small supportive impacts from services and primary incomes.

### External Balances (USD bn, 12M rolling)



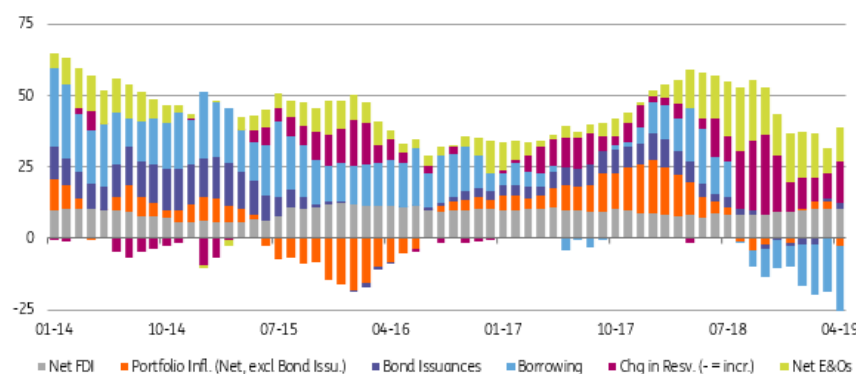
Source: CBT, ING Bank

On the capital account, capital flows that turned negative in March due to increasing concerns about the central bank of Turkey reserves weakened further in April with US\$-5.2 billion. Given mild external deficit and a significant US\$3.8 billion inflows via net errors & omissions fully reversing the same amount of outflows a month ago, official reserves recorded US\$2.8 billion decline.

In the breakdown, capital outflows are mainly attributable to increasing assets of residents abroad with the acquisition of US\$2.4 billion financial assets mainly by corporates and a rise in the FX currency and deposit assets of banks at US\$3.1 billion in April. So, it seems residents have kept acquiring assets abroad, amounting to US\$32 billion on a 12-month rolling basis, driven mainly by transfer of FX by banks to their corresponding banks abroad at US\$23.4 billion.

### Breakdown of C/A Financing\* (12-month rolling, USD billion)

\* Positive sign in reserves shows reserve accumulation



Source: CBT, ING Bank

Portfolio flows painted a mixed picture with non-residents selling a mere US\$78 million in the equity market and US\$0.7 billion in the bond market while net issuance of the Treasury after a

heavy activity in the previous months was US\$-1.4 billion. However, banks managed to issue US\$0.5 billion bonds.

Regarding borrowing, banks have remained net payers with US\$-0.8 billion (driven by US\$1.1 billion long term repayments translating into a monthly rollover ratio at 74% vs 12M rolling figure at 67%), while corporate sector borrowing was slightly positive at US\$0.2 billion (thanks to short term borrowing, while net long term financing was almost flat at 103% monthly rollover ratio vs 130% on 12M rolling basis).

Finally, net foreign direct investment is at US\$0.6 billion and US\$1.2 billion increase in non-residents' deposits held at the local banks were contributed to monthly inflows.

Overall, the correction in external deficit on the back of weak domestic demand and increased competitiveness will likely continue in the period ahead albeit at a slower pace. Outflows accelerated in April, signalling that outlook will remain challenging.

The global backdrop of increasing market expectations of Federal Reserve rate cuts given weakening prospects for global trade and global investment can impact countries like Turkey.

## 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>.