

## Turkey: Current account deficit narrows further

The external deficit continued to recover in March, while the outlook for capital flows has remained weak, leading to a decline in reserves

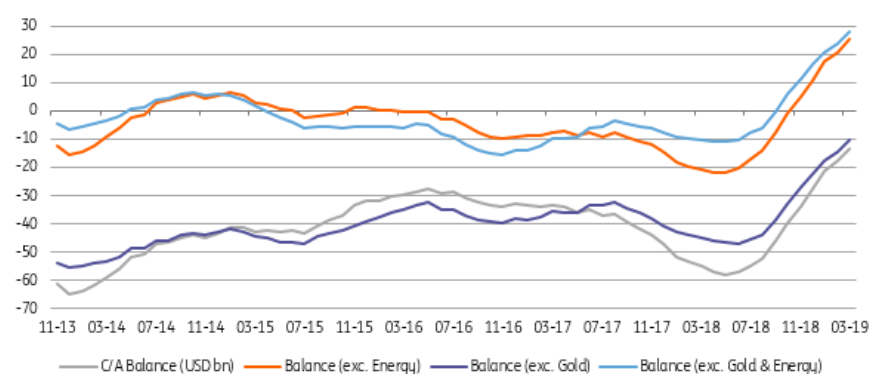


Source: iStock

**\$13.4bn** C/A deficit  
(12M rolling, as of March)

Weaker domestic demand and increased price competitiveness, along with strength in tourism, have led to an improvement in Turkey's external balance, which has been adjusting from a period of volatility last summer. In March, the monthly deficit stood at \$-0.6 billion, better than the market consensus at \$-1 billion (and our call at \$-1.1 billion), while the 12-month rolling current account deficit recovered further to \$-13.4 billion, the lowest in 10 years. The fall in the deficit has been rapid, dropping from \$-58.1 billion over a period of just 10 months.

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



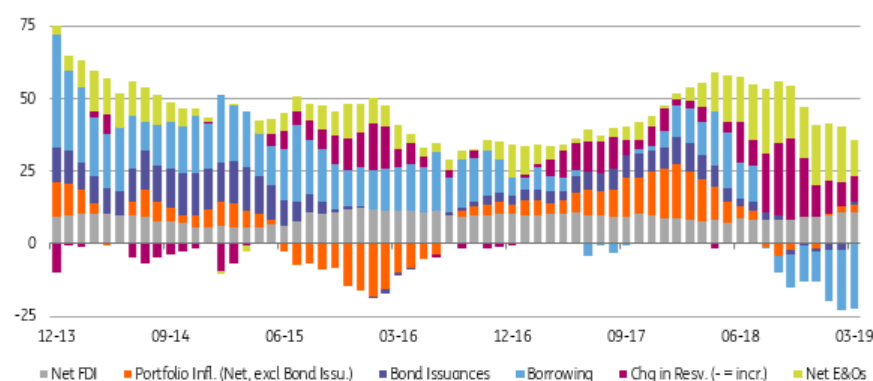
Source: CBT, ING Bank

The monthly improvement over the same period of 2018 is again attributable to a contraction in foreign trade, along with relatively small supportive impacts from services, primary and secondary incomes.

On the financing front, following a relatively better flows outlook in the first two months of the year due to Treasury issuances, capital flows weakened again in March to \$-0.8 billion. Given the mild external deficit and significant outflows of \$4.3 billion via net errors & omissions, official reserves recorded a \$5.7 billion decline, the first since September.

## Breakdown of C/A Financing\* (12M Rolling, USDbn)

\* Positive sign in reserves shows reserve accumulation



Source: CBT, ING Bank

Capital outflows are mainly attributable to a rise in the currency and deposit assets of banks, at \$4.7 billion in March, while on a 12-month rolling basis, the figure is \$18.5 billion. It seems that banks continued to transfer FX to their corresponding banks abroad.

Regarding borrowing, banks have remained net payers (US\$-0.7 billion, driven mainly by long term repayments. This translates into a monthly rollover ratio of 62% vs a 12M rolling figure at 73%).

However, this was more than offset by corporate sector borrowing at \$0.8 billion (thanks to long term borrowing at \$1.0 billion with monthly 12M rolling rollover ratios at 159% and 127%, respectively).

Portfolio flows painted a mixed picture, with non-residents selling \$0.6 billion in the equity market and \$0.9 billion in the bond market while net issuance of the Treasury, after heavy activity in the previous months, was \$-0.5 billion. However, banks which managed to issue \$1.7 billion of bonds on the international markets almost balanced the outflows through the other items.

Net FDI at \$1.0 billion and a \$0.9 billion increase in non-residents' deposits held at local banks, contributed to monthly inflows.

The ongoing rapid correction in external imbalances, with a sharp reduction in the current account deficit (thanks to plunging domestic demand and increased competitiveness) will likely continue in the first half of this year before rising gradually in the second half. Outflows accelerated in March, signalling that the outlook will remain challenging, driven by market conditions as well. Sizeable financing needs will likely keep Turkey sensitive to shifts in global risk appetite.

## 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 [www.ing.com](http://www.ing.com).