

Turkey: Current account deficit shows signs of improvement

The current account deficit, which is expected to narrow in 2021 due to normalisation efforts, a mean reversion in the gold deficit and a recovery in tourism, showed initial signs of improvement in January

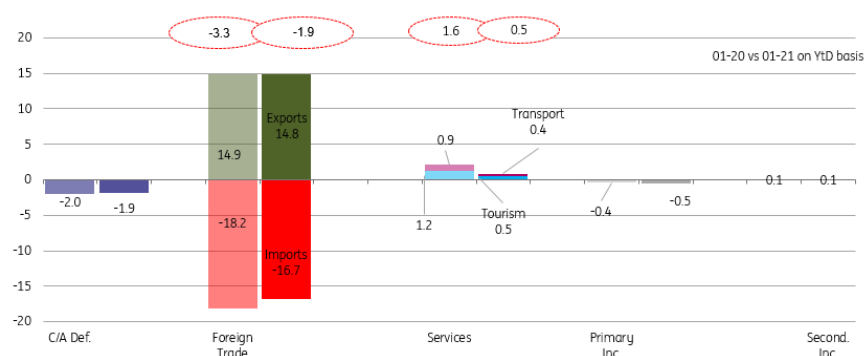


Source: shutterstock

The 12-month rolling current account deficit showed a gradual recovery in January, standing at \$36.6bn from a cyclical low of \$36.8bn. This is attributable to an improvement in the trade deficit, despite continuing weakness in services revenues driven by both transport and tourism income.

In the breakdown of foreign trade, the net gold deficit has shown signs of moderation and halved in January while we also saw a continuation of the supportive impact from energy prices. However, a continuing increase in the core deficit (excluding gold and energy) limited the improvement.

Breakdown of current account (US\$ bn)



Source: CBT, ING

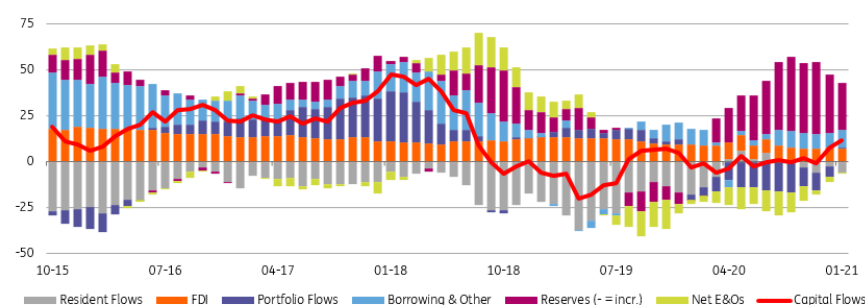
The capital account has remained positive at \$1.6bn in January, though inflows lost some momentum after the largest monthly inflows in December since the first month of 2018. With the current account deficit and net errors & omissions at \$3.8bn, reserves have maintained their uptrend with a \$3.6bn increase.

In the breakdown, resident outflows accelerated to \$6.1bn, driven mainly by local banks' growing deposit holdings abroad.

Non-resident flows of \$7.8bn more than offset resident outflows, the impact of non-debt creating items was minimal at \$0.2 bn, mainly driven by gross FDI, while the key debt creating items saw \$7.5bn of inflows thanks to i) the Treasury's \$3.5bn net borrowing, ii) \$0.9bn purchases in the local government bond market and iii) banks' \$0.9bn bond issuance iv) growing deposits of foreign investors at the central bank by \$1.4bn and in local banking by \$2.9bn.

Net borrowing, on the other hand, was flat as banks' repayments were broadly offset by corporates' borrowings. Accordingly, in January alone, the long-term rollover ratio for the banking sector was at 68% vs 124% for the real sector.

Breakdown of capital account (US\$ bn)



Source: CBT, ING

The current account deficit, which is expected to narrow in 2021 thanks to normalisation efforts, a mean reversion in the gold deficit and a recovery in tourism, showed initial signs of improvement in January. However, the ongoing rise in import prices can significantly limit

the pace of recovery. So, depending on the extent of the commodity price uptrend, a continuation of tight credit policy and demand control becomes even more important for the external outlook.

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 www.ing.com.