

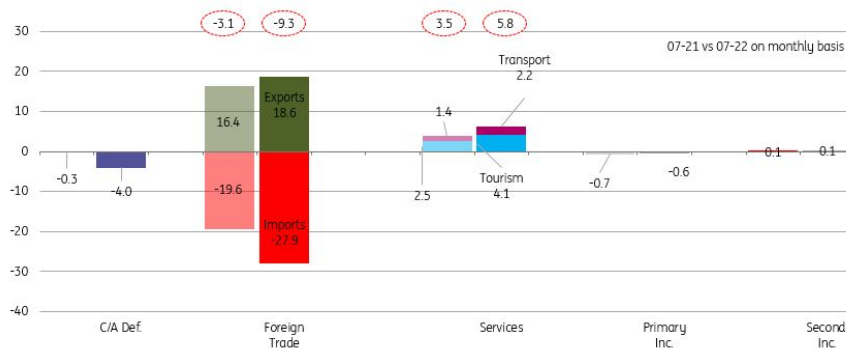
# Turkey: Current account widened rapidly in July

The capital account was weak, driven by debt-creating non-resident flows while net errors and omissions remained robust, reaching an all-time high on a monthly and 12-month rolling basis.



The Beyoglu district in Istanbul, Turkey

## Breakdown of current account (monthly, US\$bn)



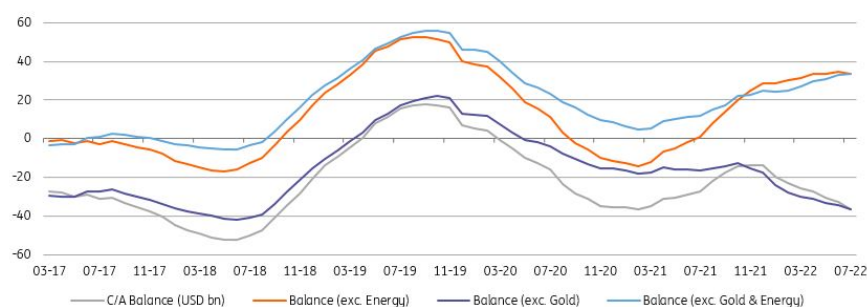
Source: CBT, ING

With a higher than expected deficit in July at US\$-4.0bn, the 12-month rolling current account has

rapidly widened to US\$-36.6bn, the highest since early 2021, (translating to c. 4.5% of GDP), from US\$-32.9bn in June.

On a monthly basis, we saw i) the impact of the usual drivers, the energy deficit, almost doubling in comparison to the same month last year, ii) accelerating net gold imports at US\$1.3bn, the highest monthly reading since end-2020 and iii) a larger core trade (excluding gold and energy) deficit. Strength in services income amid continuing rapid growth in tourism and transportation revenues limited the plunge in the current account.

## Current account (12M rolling, US\$bn)

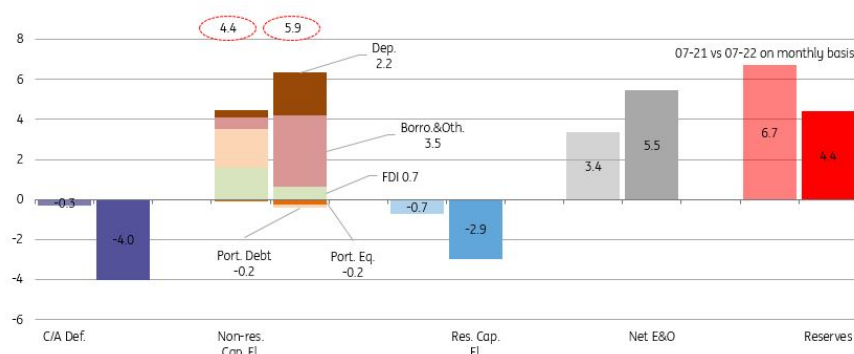


Source: CBT, ING

The capital account has remained weak at US\$3.0bn, driven by debt-creating non-resident flows despite continuing resident outflows. With the c/a deficit and high net errors & omissions at US\$5.5bn (US\$21.3bn on a 12M rolling basis), official reserves recorded a US\$4.4bn increase in July alone.

In the breakdown of monthly flows, residents increased their external assets by US\$2.9bn mainly due to trade credits extended by local firms and financial asset acquisitions. For the non-residents, we saw US\$5.9bn of inflows, exceeding the outflows on the resident side. Non-resident moves were mainly attributable to debt-creating flows, namely i) US\$0.8bn of trade credits ii) US\$2.2bn of deposits placed by foreign investors to Turkish banks and the Central Bank and iii) a cumulative US\$3.5bn of net borrowing by corporates, while banks remained on the paying side by reducing their external debt by US\$0.8bn. Accordingly, we saw a jump in the long-term debt rollover rate for corporates to 515% (a healthy 178% on a 12M rolling basis), while the same ratio for banks stood at 46% (89% on a 12M rolling basis). On the flip side, among non-debt-creating flows, US\$0.7bn of gross FDI turned out to be the major driver, with real estate contributing to related inflows.

## Breakdown of financing (monthly, US\$bn)



Source: CBT, ING

The current account deficit has been on a rapid expansionary path since early this year, driven by commodity imports and a particularly high energy bill, and the latest indicators suggest that this trend will likely continue in August with an across-the-board deterioration in foreign trade. Despite i) the supportive impact of ongoing strength in tourism revenues and ii) expected momentum loss in core imports with slower lending and domestic demand, the current account will likely remain under pressure in the near term as oil prices are elevated and the eurozone - as Turkey's major trade partner - faces significant pressure in its growth outlook. On the financing side, we see an increasing reliance on unidentified flows and reserves while the global backdrop turning less supportive in recent months also adds challenges given high external financing requirements.

### 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).