

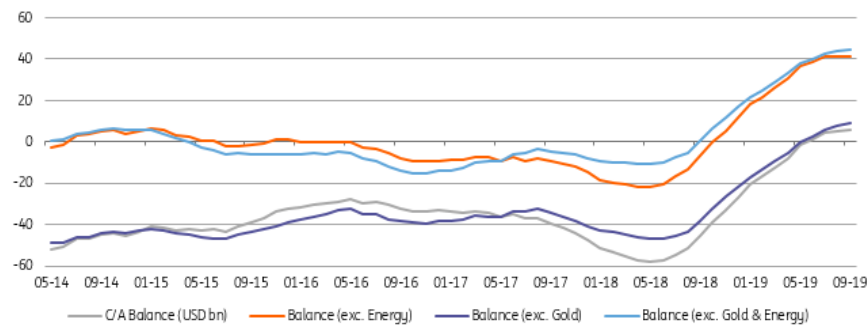
Turkey: Current account surplus at record high

External balances have improved significantly in recent months thanks mainly to a sharp decline in imports. Meanwhile, more competitive prices have boosted exports to a record high on a 12-month rolling basis



External balances have improved significantly in recent months thanks mainly to a sharp reduction in imports and as better prices pushed exports to a record high on a 12-month rolling basis, to US\$5.9 billion. That was impacted by a US\$2.5 billion surplus in September, higher than the consensus at US\$2.0 billion and our call at US\$ 2.3 billion. Tourism revenues also contributed to the rebalancing, with a 14.6% year-on-year increase, reaching US\$28.5 billion on a cumulative basis, close to the all-time high realised in 2014 on the back of a) the recovery from the crisis following the shooting down of a Russian plane by Turkey four years ago b) increasing price attractiveness in the aftermath of sharp depreciation in the Turkish lira last year.

External Balances (USD bn, 12M rolling)



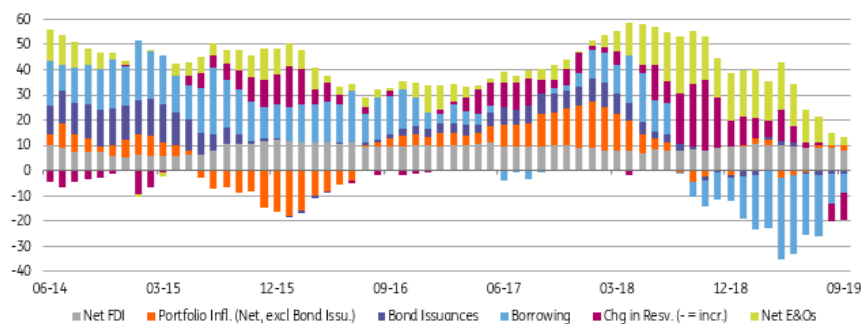
Source: TurkStat, CBT, ING

On the capital account, September showed minor outflows at US\$0.7 billion with asset acquisitions by locals more than debt creating flows. Adding outflows via net errors & omissions at US\$-1.8 billion, official reserves remained practically unchanged.

In the monthly breakdown, residents acquired foreign assets worth US\$2.9 billion mainly via deposit holdings of local banks. Inflows by non-residents, on the other hand, stood at US\$2.2 billion driven by: 1) gross FDI at US\$0.6 billion 2) trade credits at US\$1.2 billion 3) rising deposit holdings of non-residents at local banks amounting to US\$0.8 billion. It should be noted that net borrowing was in negative territory mainly due to long-term debt repayments of banks, though corporates were net borrowers in September. Accordingly, the rollover ratio for banks was at 47% (69% on a 12-month rolling basis) vs 117% for corporates (101% on 12M rolling average).

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

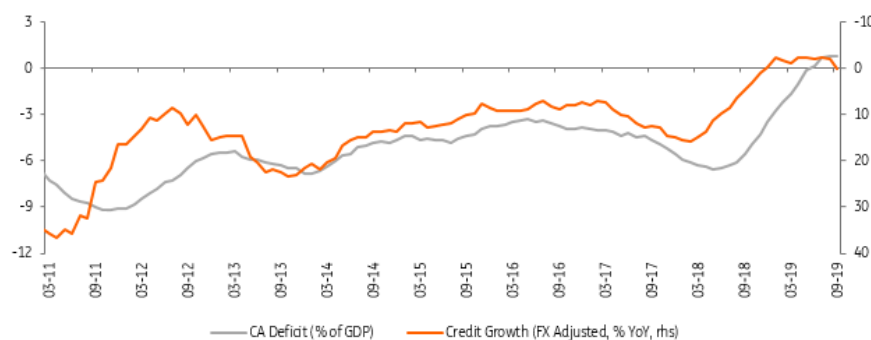
* Positive sign in reserves shows reserve accumulation



Source: CBT, ING

External financing risks have improved in recent months as Turkish businesses, especially banks, have reduced their leverage markedly, while other key trends in 2019 so far reveal 1) residents' continuing acquisitions of assets abroad 2) higher trade credits 3) net errors and omissions recording small inflows vs large inflows in the same period of 2018 4) reserve accumulation this year vs significant reserve depletion in 2018. The data show that the improvement in financing needs is almost entirely attributable to the improvement in the current account balance.

Lending vs External Balances



Source: TurkStat, CBT, BRSA, ING

Overall, September data shows a continued correction in external imbalances though we will likely witness a gradual reversal in the period ahead given an ongoing recovery in the credits with the CBT's macro prudential move incentivising lending by linking required reserve ratios and remunerations to credit growth as well as the ongoing rate cut cycle. Despite the decline, Turkey's total financing needs remain high and sentiment is somewhat fragile as indicated by the weak capital flow outlook in recent months, despite a supportive shift in the global backdrop.

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