

## Turkey: Deficit still widening

The current account balance recorded a deficit of USD4.8bn in March, higher than the market consensus, while the 12-month rolling deficit kept widening mainly due to the contribution of gold imports and rising energy bills



Source: Shutterstock

**USD4.8bn** C/A Deficit  
(in March)

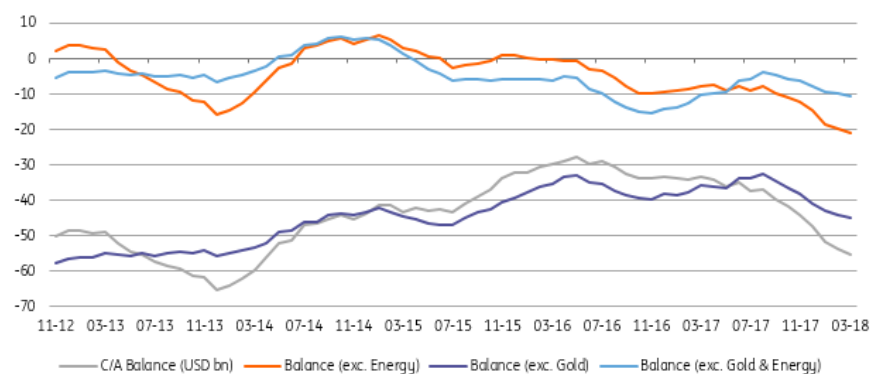
Worse than expected

The current account deficit continued to widen in March at USD4.8bn, higher than the market consensus and our call and pulling the 12-month rolling deficit up to USD55.4bn-the highest since Apr-2014. The deterioration in the monthly deficit versus the same period of 2017 is mainly attributable to the ongoing expansion in the trade deficit with accelerating imports on the back of rising gold and energy prices, the pace of the deterioration in core balance has further slowed down in March. Services income, which has continued to improve on the back of a sharp recovery

in net tourism revenues by 32% year-on-year, offset the cumulative impact of an expansion in the primary income deficit and decline in secondary income surplus.

## Evolution of C/A Deficit

(USD bn, 12M rolling)



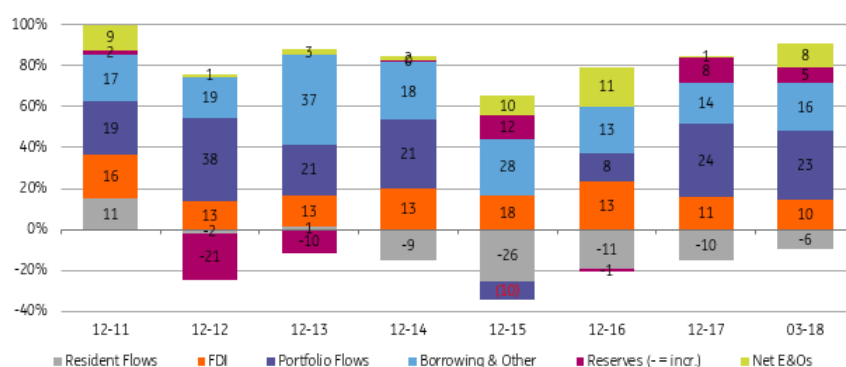
Source: CBT, ING Bank

On the financing front, capital flows- which have weakened since the last quarter of 2017 to some extent with outflows in November and December- recorded another weak month with USD2.9bn, the largest outflow since end-2016. This shows the impact of a more challenging global backdrop on the back of rising geopolitical risks and volatility in the global financial markets, as well as a deteriorating macro risk perception for Turkey. So the monthly current account deficit and outflows were met by a significant USD2.9bn net error & omissions and drawdown from official reserves by USD4.8bn.

In the breakdown of the capital account, portfolio inflows turned out to be weaker with non-residents' sales in bond and equity markets amounting to USD0.5bn and the Treasury's debt repayment of USD1.5bn. Net borrowing of corporates was negligible as long-term borrowing of USD0.5bn almost matched USD0.4bn short-term debt repayments, while banks were net payers at USD2.1bn (of which USD1.2bn was long-term). Accordingly, 12-month rolling long-term debt rollover ratios stood at 102% and 131% for banks and corporates, respectively, recording an increase for the latter over the previous month. Finally, net FDI which has been generally weak in recent years recorded USD1.0bn.

## Breakdown of C/A Financing

(USDbn, 12M rolling)



Source: CBT, ING Bank

Overall, higher energy prices and unexpectedly strong gold imports led to a wider current account deficit in March. In addition to the risk posed by the widening c/a deficit and continuing large financing needs, the quality of financing has deteriorated with reliance on portfolio flows last year, though this has lost momentum lately. As a result, the capital flow outlook will remain in the spotlight this year, leaving little room for policy complacency.

### 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).