Turkey’s external balance turns to surplus

Turkey's external balances turn to surplus in June - the best reading since the 2001 financial crisis, showing the extent of rebalancing. However, capital flows remain weak despite the improvement in the outlook for emerging market

Source: Shutterstock

$+0.5 bn

Current account balance

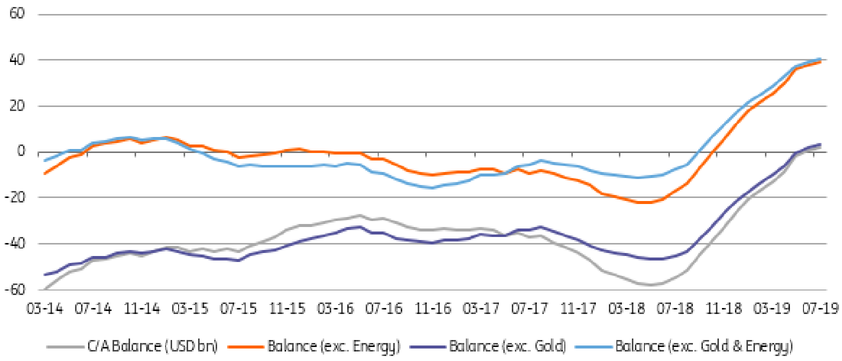
12-month rolling, as of June

The improvement trend in Turkey's external balances continues as the 12-month rolling external balance turns to a surplus of US$+0.5 billion - the best reading since the 2001 financial crisis, showing the extent of rebalancing. This is attributable to weak economic activity weighing on import demand, healthy exports with increased price competitiveness and support from tourism revenues. The deficit was slightly higher than expected in June at US$-0.55 billion (vs US$-0.27

billion consensus) contributing further narrowing to the annual deficit, now at +0.1% of GDP.

In the breakdown, further narrowing in the foreign trade along with supportive reading from services (thanks to tourism) are the main drivers of the monthly improvement.

External Balances (USD bn, 12M rolling)



Source: CBT, ING

Capital account breakdown

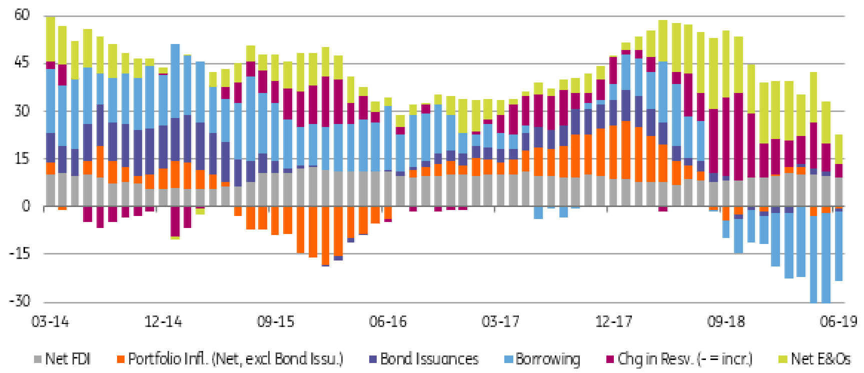
On the capital account front, June records minor inflows at US$0.9 billion, which are still quite weak despite relative improvement in flow outlook for emerging market countries with an increasingly supportive stance of global central banks. Given the mild external deficit and sharp outflows via net errors & omissions (at US$2.8 billion), official reserves dropped by US$2.5 billion.

The monthly breakdown of capital outflows show portfolio outflows with repayments of maturing bonds issued by banks and corporates at the international markets, long term debt repayments of banks, translating into a monthly rollover ratio at 40% vs the 12-month rolling figure at 64%, and corporates (with long term monthly rollover ratio at 32% vs 105% on 12M rolling basis).

On the flip side, there are some inflows that limited reserve depletion, such as declining assets held abroad (with a drop in FX currency and deposit assets of banks and repayments of trade credits extended by local companies), 2) contributions from continuing FDI also facilitated by relatively cheaper Turkish assets and 3) rising deposit holdings of non-residents at the CBT and local banks.

Breakdown of C/A Financing* (12-month rolling, USD billion)

* Positive sign in reserves shows reserve accumulation



Source: CBT, ING Bank

Key trends in the first half of 2019 show locals have been increasing their acquisition of assets abroad, higher trade credits showing continuation of business relationship of Turkish companies with foreign peers, net borrowing turns negative and net errors and omissions recorded a small outflow vs large inflows in the same period of 2018.

Overall, June data shows weak flow outlook though the global backdrop with increasing market expectations of further Fed rate cuts given the weakening prospects for global trade and investment could be supportive for Turkey. But, idiosyncratic risks should remain a drag for the capital flow outlook.

Also, the improvement in the current account deficit is about to end in the second half given the likely recovery in the credit impulse with new credit guarantee fund package and ongoing rate cut cycle.

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