

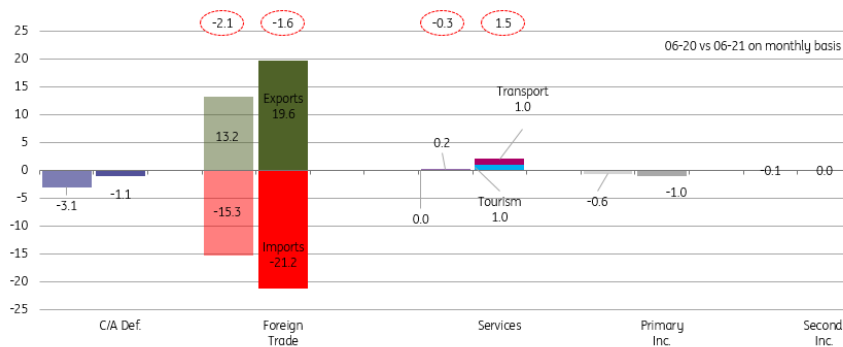
# Turkey's external deficit remains on a narrowing path

The improvement trend in Turkey's current account has continued in June driven mainly by accelerating recovery in services balances and tourism revenues



Source: Shutterstock

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



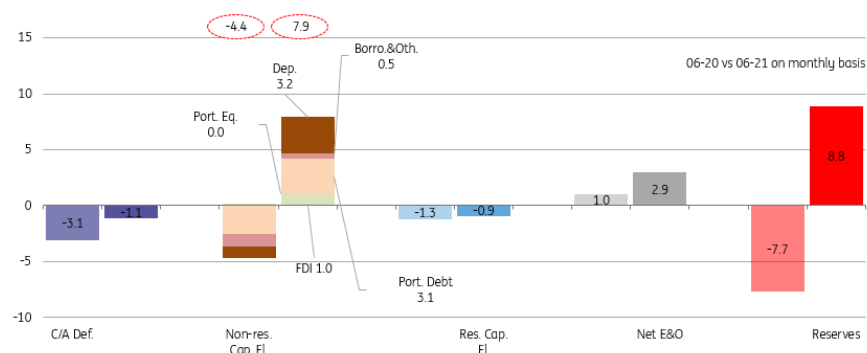
Source: CBT, ING

In line with the consensus monthly figure, the current account balance recorded a US\$1.1 bn deficit in June driven by a deficit in the goods balance (US\$1.6bn) and the primary income balance (US\$1.0bn) along with the services balance that was at a surplus of US\$1.5bn thanks to improving tourism and transportation revenues.

Finally, the secondary income balance was at a negligible deficit. Accordingly, the 12-month rolling current account deficit came in with another pronounced drop to US\$29.7 bn in June from US\$31.6 bn a month ago, though it remained elevated at c.4.0% of GDP.

Capital flows that showed some improvement in May further accelerated in June with US\$7.0 mn inflows. Including strong net errors & omissions at US\$2.9 bn, monthly current account balance and capital account, official reserves jumped by US\$8.8 bn with the biggest monthly increase in more than three decades.

### Breakdown of capital account (US\$ bn, on monthly basis)



Source: CBT, ING

The breakdown shows residents posted a small US\$0.9 bn outflows, while movements of the non-residents, particularly debt creating flows, determined the shape of the capital account.

Accordingly, i) US\$1.2 bn trade credits, ii) the Treasury's net US\$1.5 bn Eurobond issuance iii) a total US\$1.4bn Eurobond sales of banks and corporates iv) US\$3.5 bn short-term debt raised by the central bank, including the extension of swap line with the Chinese central bank v) US\$0.2 bn purchases of foreign investors in the local debt market. Long-term debt repayments of banks and corporates amounting to roughly US\$1 bn limited inflows via debt creating items. Non-debt creating items, on the other hand, were at a positive US\$0.9 bn thanks to gross FDI.

In June, we saw a slight improvement in debt rollover rate for banks to 89% (90% on a 12-month rolling basis), while the same ratio for corporates normalised after a strong 180% in May to 66% (111% on 12M rolling basis with a strong uptrend since the last quarter). On the other hand, trade credits rollover was at a healthy 108% on a monthly basis aligned with the rate on a 12-month rolling basis.

Overall, the improvement trend in the current account has continued in June, driven mainly by accelerating recovery in services balances with supportive impact of tourism revenues. There is a consensus that external balances will remain on a narrowing track with high foreign demand and a much better tourism season, while core trade deficit outlook particularly the pace of core imports will likely determine the extent of the improvement.

On the capital account, we see some improvement with gradual portfolio flows to bond market, increasing rollovers, and recent issuances by the Treasury, corporates and banks. Whether this performance continues will be the focus for the remainder of the year.

## Author

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto:muhammet.mercan@ingbank.com.tr)

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