

Turkey: External deficit sees its first strong fall

March data shows a strong fall in the external deficit and hints at the start of an improvement trend in the period ahead, as confirmed by early indicators for April. This improvement will likely be driven by falls in gold imports and a surge in exports, and despite strength in commodity prices.

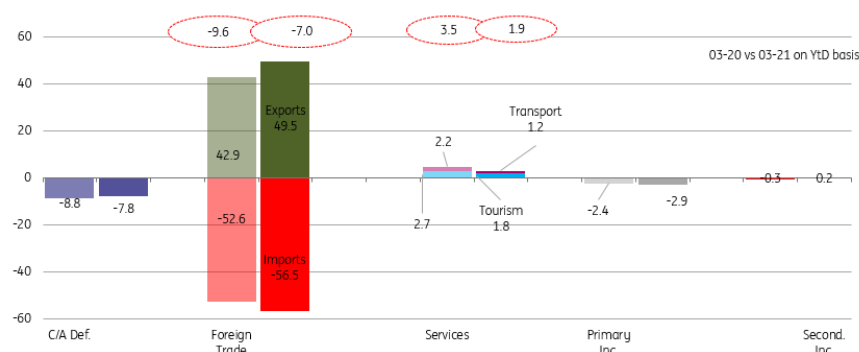


Shoppers in Istanbul

The 12M rolling current account deficit has remained relatively flat in recent months - reflecting an uptrend in commodity prices and continuing recovery in domestic demand - but printed its first pronounced fall in March, to US\$35.7bn (roughly 4.5% of GDP) from US\$37.8bn. This could well be the start of the expected recovery trend from its cyclical peak.

The monthly figure at US\$3.3bn was better than consensus (and our call, both at US\$3.8bn), while the improvement over the same month of 2020 was driven by a narrowing goods deficit and initial signs of recovery in tourism income. The net gold deficit that has signalled direction change in recent months moderated further in March and turned out to be the biggest driver of the reduced trade deficit.

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



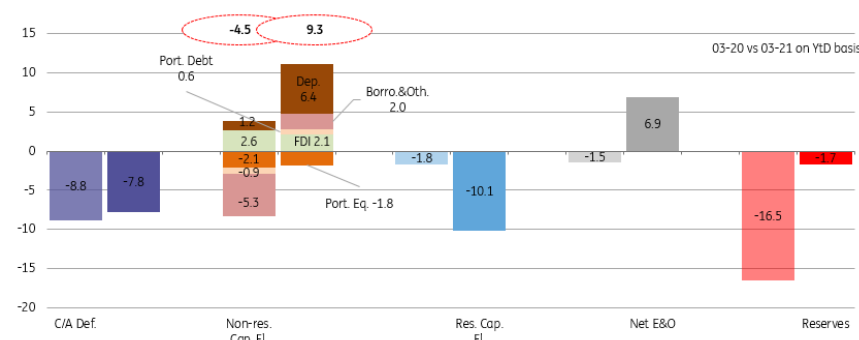
Source: CBT, ING

The capital account turned negative again in March for the first time since September. The change at the helm of the Central Bank leading to a reversal of portfolio inflows in recent months was one of the reasons for this. The monthly c/a balance in deficit at US\$3.3 bn and capital outflows at US\$4.4 bn caused a marked US\$6.2 bn drop in official reserves. Another significant positive net errors & omissions at US\$1.6 bn limited the decline in reserves.

In the breakdown, residents posted US\$5.6bn in outflows. The capital account outlook in March was driven mainly by locals' expanding deposits abroad and the extension of trade credits to foreign companies.

Non-resident flows were slightly positive at US\$1.2bn despite the foreign investor sell-off in both bond and equity markets as well as the Treasury's eurobond repayment, together amounting to US\$5.8bn. However, i) continuing strength in trade credits standing at US\$4.1bn supported by high domestic rates and strong growth abroad, and ii) a US\$1.9bn increase in non-residents' deposits at local banks, meant that debt creating items were positive in March. It is also worth noting that we saw healthy debt rollover rates for both banks and corporates, standing at 145% and 108% on a monthly basis (translating into 86% and 84% on a 12M rolling basis).

Breakdown of the capital account (US\$bn, YTD)



Source: CBT, ING

Overall, the March data suggests the start of an improvement trend in the current account. This is supported by early indicators for April, driven by a fall in gold imports and an uptrend

in exports despite strength in commodity prices. The capital account that saw significant outflows last year will likely face challenges in the period ahead - reflecting reviving weakness in portfolio flows. Real estate related inflows, government borrowing and the level of corporate rollovers should help ease pressures.

Author

Muhammet Mercan

Chief Economist, Turkey

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.