Turkey: Improvement in external balances at full speed

Rapid improvement in Turkey's external balances continued in October thanks to strength in exports and a sharp decline in import demand. The capital flow outlook, on the other hand, has remained challenging

Source: shutterstock

$+2.5 billion

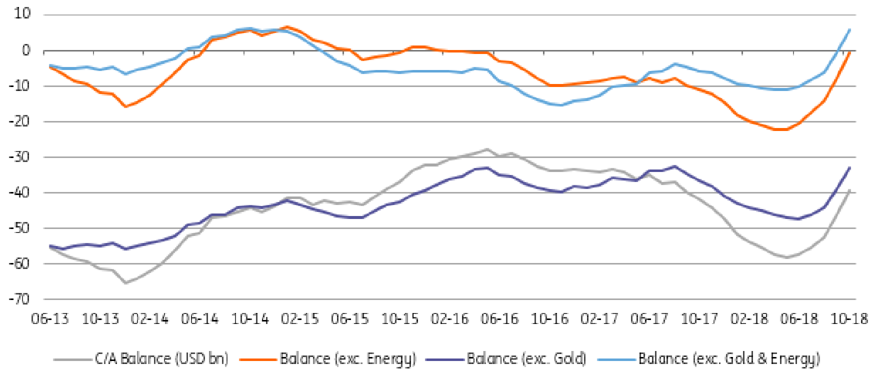
Current account balance in October

Better than expected

External balances have improved significantly in recent months thanks to:

- Increased price competitiveness, which has supported exports
- Weaker domestic demand due to deteriorating confidence
- Significant financial tightening

We saw a continuation of this trend in October with a monthly current account surplus of $2.8 billion, the largest on record and also higher than the market consensus and our call at $2.5 billion. Accordingly, the 12-month rolling deficit recorded the largest decline in a month from $46.0 billion in September to $39.4 billion, while the contraction since May was $18.7 billion.

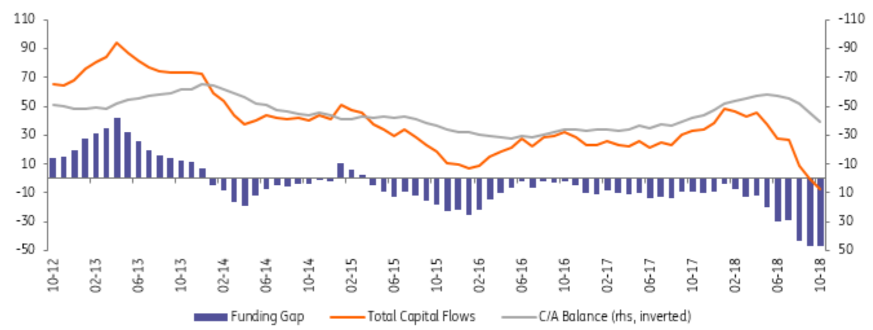


Source: TurkStat, CBT, ING Bank

On a monthly basis, the improvement in October over the same month of 2017 is mainly attributable to a contraction in foreign trade while services income continued to improve with healthy tourism revenues.

On the financing front, the capital flow outlook has remained weak with a continuation of outflows at $1.4 billion in October. Given the large external surplus and $0.4 billion inflows via net errors & omissions, official reserves recorded a $1.7 billion increase.

Funding Gap (USDbn, 12M rolling)



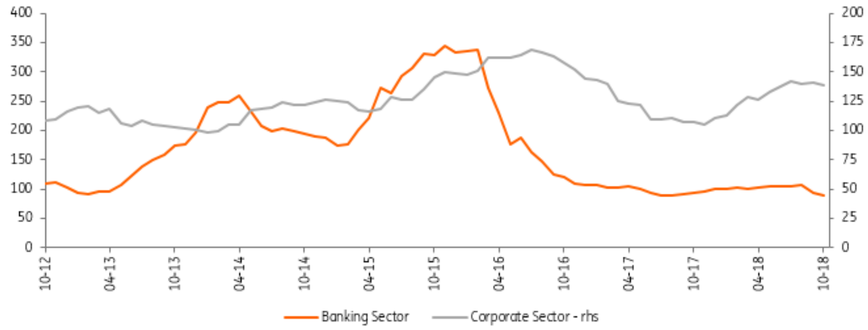
Source: CBT, ING Bank

Capital outflows in October were mainly attributable to a further increase in residents' asset holdings abroad, at $2.3 billion (mainly due to a $1.0 billion rise in trade credits extended and a $0.8 billion increase in deposit holdings), while portfolio flows, which have followed a weak trend since early 2018, turned slightly positive at $0.8 billion thanks to the Treasury's $2.0 billion

Eurobond issuance.

On the borrowing side, banks were payers with $1.4 billion ($1.0 billion of which was for short-term obligations). However, the monthly (long-term) rollover ratio for the sector increased to 91%, the highest since May, showing improving access to foreign funding after recent volatility. On a 12-month rolling basis, long-term rollover ratios for banks and corporates stood at 89% and 138%, respectively.

Rollover Ratios (%, 12M rolling)



Source: CBT, ING Bank

Overall, the October data shows that outflows have further moderated compared to August and September, becoming less of a market concern. However, the outlook will likely remain challenging given the sizeable total external financing needs in the period ahead, mostly due to private debt amortisation. This will likely keep Turkey vulnerable to shifts in global risk appetite. On a positive note, the recovery in the trade balance will remain in place going forward given ongoing domestic demand conditions and the strength in exports, with the inclusion of tourism, though the pace of rebalancing will likely slow.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

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