Turkey’s current account balance is in deficit again

External balance that is in positive territory on a 12-month rolling basis has started changing direction with the first monthly deficit at US$ 0.5 billion in November after five monthly surpluses in a row

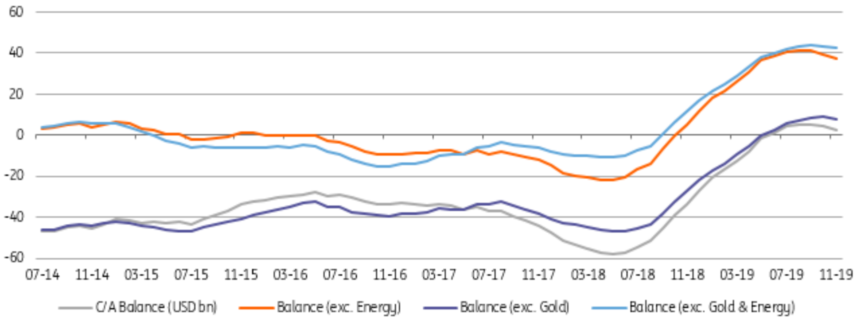
Source: Shutterstock

-0.5 C/A deficit

(US$ billion, monthly, November)

Turkey's external balance that reached a record high surplus on the back of significant import compression along with price competitiveness supporting exports has started changing direction with the first monthly deficit at US$ 0.5 billion in November after five monthly surpluses in a row. The turning of US$1.0 billion surplus in November 2018 to a deficit this year is mainly foreign trade-related while services income that had consistently increased since early 2017 and contributed to improvement in external imbalances remained broadly unchanged around close to all-time high realised in 2014.

External Balances (USD bn, 12M rolling)



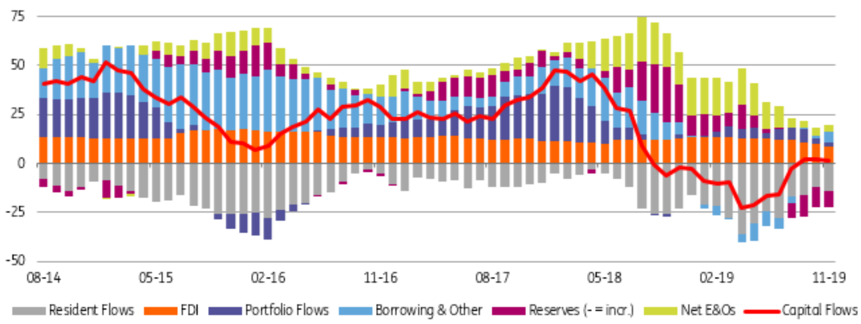
Source: TurkStat, CBT, ING

On the capital account, November shows US$3.1 billion inflows thanks to relatively lower asset acquisitions of locals abroad along with a contribution from debt creating flows. With slight current account deficit and net errors & omissions at US$-1.9 billion, official reserves recorded the fifth consecutive increase at US$0.7 billion.

In the monthly breakdown, residents acquired foreign assets worth of US$0.9 billion, lower than recent months' average, mainly via trade credits granted. Inflows stood at US$4.0 billion driven by: 1) gross FDI at US$0.6 billion 2) trade credits at US$1.1 billion 3) rising deposit holdings of non-residents at the local banks amounting to US$0.8 billion 4) portfolio flows at US$1.7 billion driven by the Treasury's and corporate sector's bond issuances. It should be noted that net borrowing was mildly negative with banks' short term repayments match long term borrowing. Accordingly, rollover ratio for banks was at 133% (71% on 12M rolling basis), the highest monthly reading since early 2018 vs 106% for corporates (98% on 12M rolling average). Since the currency in 2018, external financing risks have improved with deleveraging by Turkish businesses, especially banks, though recent data show a gradual recovery.

Breakdown of current account financing* (12-month Rolling, US$bn)

* Positive sign in reserves shows reserve accumulation



Source: CBT, ING

Overall, November data confirms the start of a gradual trend change in external balances given the ongoing recovery in the credits with the central bank's macro-prudential move incentivising lending by linking required reserve ratios and remunerations to credit growth as well as a deep easing cycle in the second half of 2019.

On the financing side, capital flows have remain subdued despite a supportive shift in global backdrop.

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