

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

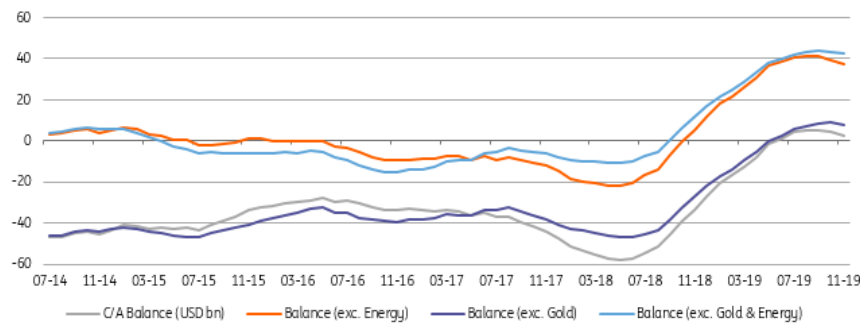


Source: Shutterstock

-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)



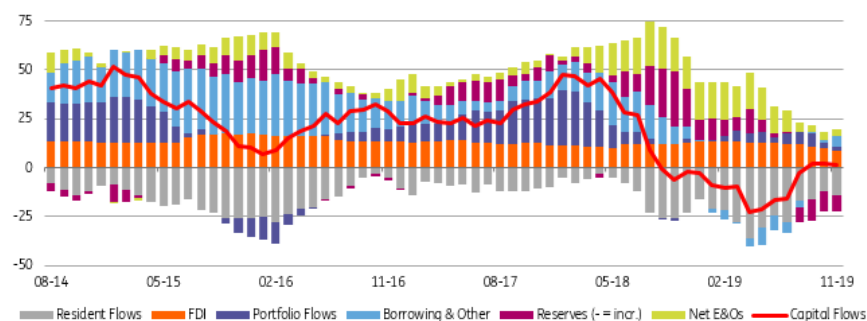
Source: TurkStat, CBT, ING

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.

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 <http://www.ing.com>.