Turkey's recovery trend coming to an end

The 12-month rolling external balance continued to imporove in July with the best reading for more than 17 years. Having said that, we think the rebalancing trend is about to end towards the latter half of 3Q19

Source: Shutterstock

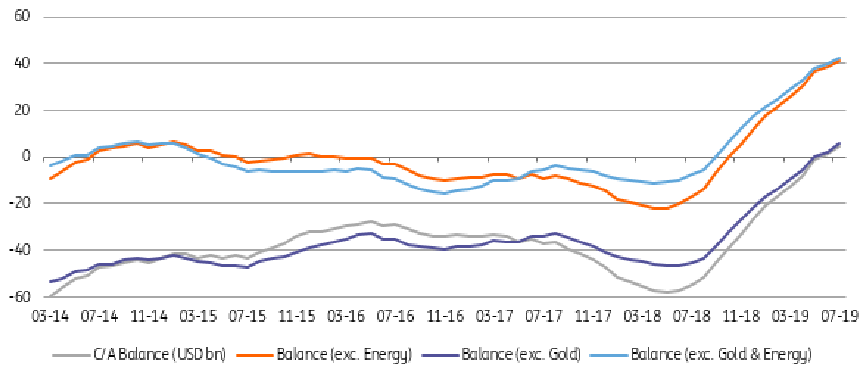
+$4.4bn Current account balance

12-month rolling, as of July

The 12-month rolling external balance that has been contracting since mid-2018 turned to surplus last June and dived further into positive territory in July at US$4.45 billion - the best reading since early 2002, showing the extent of rebalancing. The recovery trend in external imbalances has stemmed from weak economic activity in the aftermath of financial market volatility last year weighing on import demand, while exports have followed a rising track with increased price competitiveness.

Expansion in services income with tourism revenues has also contributed to this trend. In line with consensus, the surplus in July at US$1.2 billion contributed to the further improvement in the annual deficit, now at around +0.6% of GDP.

External Balances (US$bn, 12-month rolling)



Source: TurkStat, CBT, ING

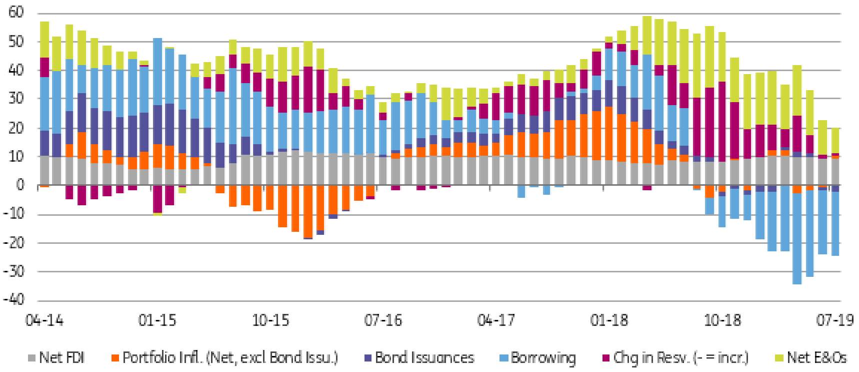
The breakdown shows a further narrowing in foreign trade, which along with a supportive reading from services (thanks to tourism), is the main driver of the monthly improvement, turning to surplus from the -US$2.2 billion deficit over the same period of 2018.

On the capital account, July records minor inflows at US$1.2 billion, as asset acquisitions by locals roughly offset debt creating flows, improving by comparison with recent months with the increasingly supportive stance of global central banks. Given mild external surplus and relatively small inflows via net errors & omissions, official reserves rose by US$3.2 billion.

In the monthly breakdown, residents acquired foreign assets worth US$4.4 billion via portfolio investments and deposit holdings of local banks as well as net trade credit extensions to foreign counterparts. However, inflows stood at US$5.8 billion in July driven by: (1) US$0.9 billion gross FDI, close to the monthly average this year; (2) portfolio flows attributable to the Treasury's US$2.25 billion international bond issuance; (3) US$1.9 billion trade credits; and (4) rising deposit holdings of non-residents at the local banks amounting to US$2.3 billion. It should be noted that net borrowing stood in negative territory mainly due to long-term debt repayments. Accordingly, the rollover ratio for banks was 52% (62% on 12M rolling basis) vs 100% for corporates (aligning to the 12-month rolling average in July).

Breakdown of C/A Financing* (12-month rolling, USD billion)

* Positive sign in reserves shows reserve accumulation



Source: CBT, ING

Overall, the July data shows a continuation of improvement in external imbalances while flow outlook somewhat recovered with a relatively supportive global backdrop on the back of increasing market expectations of supportive global central banks.

Going forward, the improvement trend in the current account deficit is about to end in the second half of the year given the likely recovery in the credit impulse with the central bank's macro-prudential move incentivising lending by linking required reserve ratios and remunerations to credit growth as well as ongoing rate cut cycle.

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