

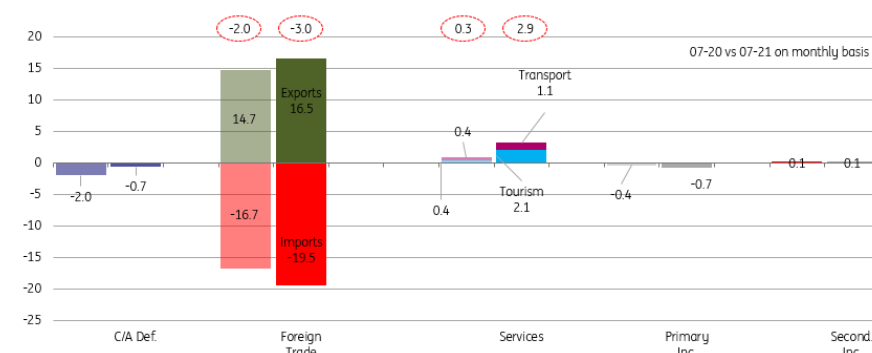
## The recovery trend for Turkish current account deficit remains intact

The Turkish current account continues on its narrowing path in July, driven mainly by the ongoing recovery trend in services balances with the supportive impact of tourism revenues while official reserves have continued to increase



Source: Flickr

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

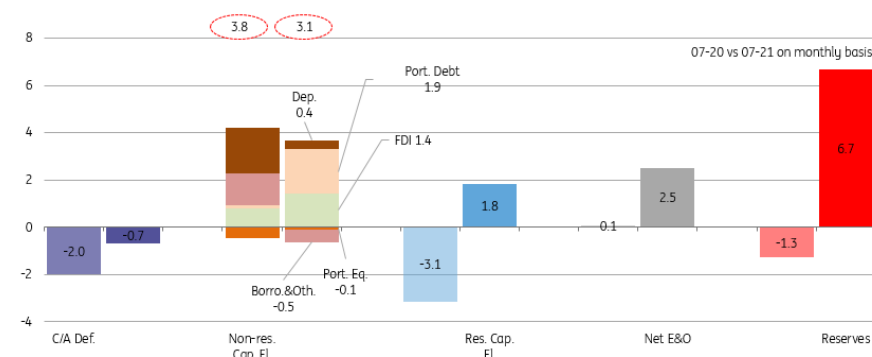


Source: CBT, ING

Turkey's current account balance in July gave out a slightly higher deficit than the consensus at US\$0.7 bn, while the narrowing trend in the 12-month rolling figure has remained intact with a further drop to US\$27.8bn (translating into c. 3.8% of GDP) from US\$29.1 bn a month ago.

The improvement is down to the services balance that was at a surplus of US\$2.9bn thanks to improving tourism and transportation revenues. Goods balance, on the other hand, was a drag with an increase in the deficit to US\$3.0 bn driven by a wider core deficit (excluding gold and energy) and increasing energy bills despite the ongoing recovery in gold. deficit.

## Breakdown of capital account (US\$ bn, on monthly basis)



Source: CBT, ING

The capital account showed a continuation of inflows with US\$4.9 bn, though the pace somewhat moderated in comparison to May and June. Including strong net errors & omissions at US\$2.5 bn (amounting to US\$8.0 bn on a year-to-date basis), monthly c/a balance and capital account, official reserves witnessed further accumulation by US\$6.7 bn (at US\$14 bn in the first seven months).

In the breakdown, residents posted a small US\$1.8 bn inflows driven mainly by payment of export receivables, while movements of the non-residents determined the shape of the capital account. Accordingly, i) US\$1.5 bn gross FDI, ii) the Treasury's US\$1.8 bn eurobond issuance and iii) US\$0.4 bn purchases of foreign investors in the local debt market were the major items that contributed to inflows in July.

We saw an improvement in long-term debt rollover rate for corporates to 76% (a strong 112% on 12M rolling basis), while the same ratio for banks stood at 121% (92% on 12M rolling basis) with a net US\$0.2 bn borrowings slightly above of net short-term repayments.

Overall, the current account has remained on its narrowing path in July, driven mainly by the ongoing recovery trend in services balances with the supportive impact of tourism revenues.

The medium-term plan for 2022-2024 foresees the deficit for this year to be at US\$21 bn, quite close to the market consensus in the latest Market Participants Survey, while the central bank envisages a stronger adjustment given its assessment inserted into the MPC statement in July that “the current account is expected to post a surplus in the rest of the year”. While there is a consensus that external balances will remain on a narrowing track with high foreign demand and a much better tourism season, core trade deficit, particularly the pace of core imports, will likely determine the extent of improvement.

Regarding flow outlook, return of portfolio inflows with bond issuances by the Treasury, banks and corporates, and some gradual purchases of non-residents in the local debt market, increasing rollovers, and unidentified inflows have contributed to external financing. Whether this performance continues will be on focus in the remainder of this year.

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