

Turkey: Services continue to drive current account improvement

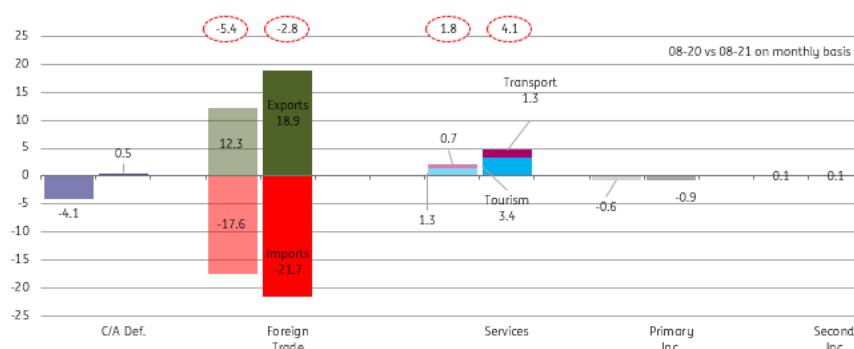
The current account balance continued to improve in August, driven mainly by an improving services balances. Tourism and transportation revenues helped, as did a lower foreign trade deficit.



Source: Shutterstock

With a better than expected August figure at US\$0.5 bn (vs US\$-0.1 bn market consensus), the current account balance has continued to improve. This has been driven by (i) a recovery in tourism revenues, though remaining below pre-covid levels, and (ii) softer core and gold imports supporting an improvement in the goods balance despite the ongoing uptrend in energy bills. Accordingly, the narrowing trend in the 12M rolling figure has remained intact with a further drop to US\$23.0bn (c. 3.0% of GDP) from US\$27.6 bn a month ago. The Central Bank of Turkey revised the 2020 figure down to US\$35 bn, from US\$37.3 bn previously.

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

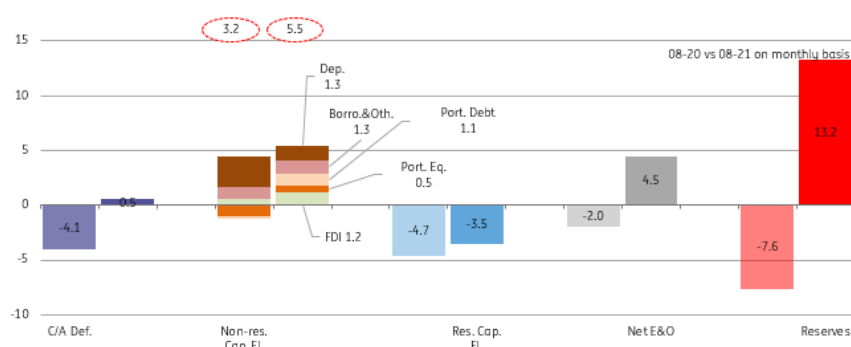


Source: CBT, ING

The capital account was stronger by US\$8.3 bn in comparison to the inflows in recent months, driven by the IMF's SDR allocation at US\$6.3 bn. Including higher net errors & omissions at US\$4.5 bn, the monthly c/a balance and capital account, official reserves saw further accumulation, by US\$13.2 bn.

On year-to-date basis, we saw: i) some improvement in (gross) FDI flows at US\$7.0 bn vs US\$5.3 bn in the same period of 2020, ii) non-resident portfolio inflows standing at US\$5.1 bn vs. outflows of US\$15.4 bn in the equivalent period of last year, iii) accelerating unidentified inflows at US\$13.5 bn vs US\$8.8 bn outflows, iv) trade credits up by US\$5.7 bn vs a US\$4.4 bn decline in the first eight months of last year, v) a net US\$2.8bn borrowing by banks and companies vs US\$7.5 bn net repayment, vi) residents taking US\$11.9 bn of their assets abroad vs US\$0.4 bn brought to Turkey last year between January and August, and vii) regarding international reserves, an increase of US\$27.2 bn on the back of the CBT's swap arrangements, the export re-discount scheme, Euro bond issuance and IMF's SDR deployment vs a drawdown of US\$39.0 bn in the same period of 2020.

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



Source: CBT, ING

Overall, the current account remained on its narrowing path in August, driven mainly by improving services balances. This was thanks to the supportive impact of tourism and transportation revenues and a lower foreign trade deficit. While there is a consensus that external balances will remain on a narrowing track, with high foreign demand and a much

better tourism season, the core trade deficit and particularly the pace of core imports will likely determine the extent of improvement in the period ahead. Regarding flow outlook, excluding the IMF boost, capital inflows were relatively sluggish in August. September will likely see further weakness, with accelerating portfolio outflows following the CBT's surprise move and dovish guidance as well as risk-off sentiment towards emerging markets in general.

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>.