

## Turkey's current account begins widening period

After reaching an all-time high in 3Q, Turkey's 12-month rolling external balance has changed course with a gradual pace though it still remains in the positive territory. Capital flows, on the other hand, have remained subdued



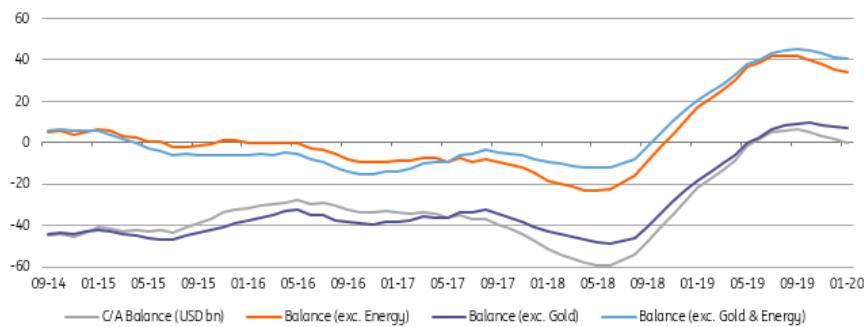
Source: Shutterstock

Turkey's 12-month rolling current account balance that had shown a significant improvement until the last quarter of 2019 has adopted a modest reversal trend in recent months, standing at a surplus of US\$1.7 billion at the end of 2019.

Accordingly, we saw a contraction of 11.5% YoY in core imports (excluding gold and energy) last year, while core exports recorded a mere growth of 0.3% YoY. So, 2019 witnessed a significant correction in core imports, recovering faster than core exports in the last three months.

On a monthly basis, the current account balance was negative at US\$2.8 billion deficit in December, slightly better than expected. In the breakdown, the widening deficit over the same month of 2018 is mainly attributable to widening foreign trade while services income maintained improvement thanks to healthy tourism revenues and contribution from transport income.

## External deficit trend

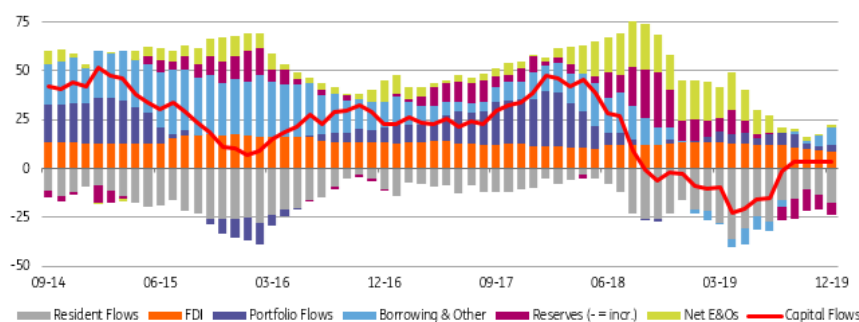


On the capital account side, December shows marginally negative flows as asset acquisitions by locals abroad were mainly offset by debt creating inflows. With the current account deficit and net errors & omissions at US\$+2.5 billion, official reserves dropped by US\$0.5 billion after five months of consecutive increase. In the breakdown, the corporate sector paid US\$3 billion debt (US\$2.3 billion of which long-term) while banks' net borrowing was barely negative.

Accordingly, long-term rollover ratio for banks was healthy at 99% vs 36% of corporates - the lowest monthly reading since the early 90s. The major contribution to debt creating flows came from trade credits at US\$1.8 billion and US\$2.6 billion increase (US\$2.0 billion at the CBT) in deposit holdings of non-residents.

For the whole year, US\$6.3 billion reserve accumulation is realised contributed by US\$1.2 billion net errors & omissions, relatively low capital flows at US\$ 3.4 billion and slight surplus in the current account. These numbers show a challenging picture for external financing last year, banks and corporates have maintained ability to access foreign funding with 74% and 89% long-term rollover rates, while trade credits rollover has markedly improved to 109% from 102% a year ago.

## External financing trend



Overall, with the end of the external rebalancing process, the current account has started a widening period given the supportive policy stance contributing to the recovery in domestic demand, though the pace will likely remain modest given lower oil prices and still below potential growth.

## Author

### Muhammet Mercan

Chief Economist, Turkey

[muhammet.mercan@ingbank.com.tr](mailto: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>.