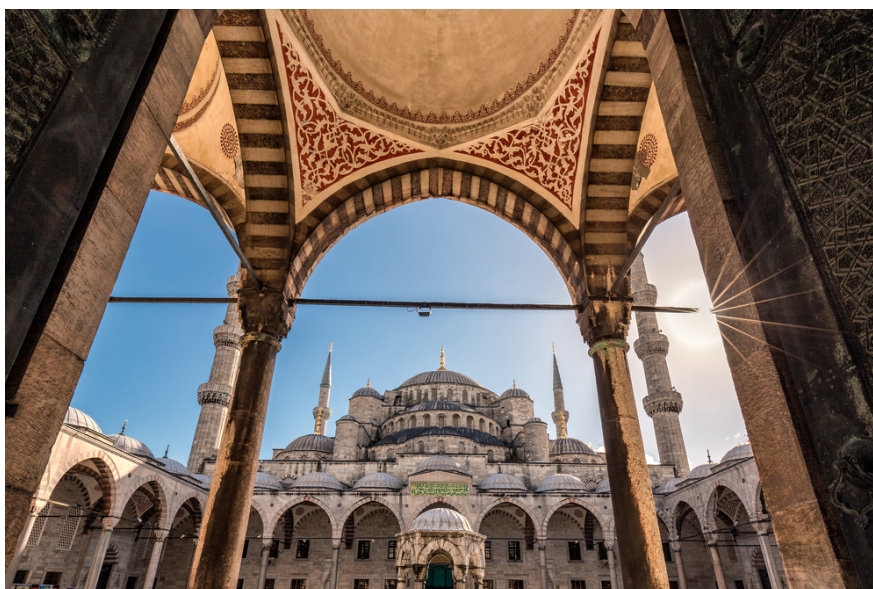


Turkish current account deficit widens further

The current account balance recorded a deficit of USD 4.2bn, while the 12-month rolling deficit kept widening on the back of resilient domestic demand, continuing gold imports and a rising energy bill



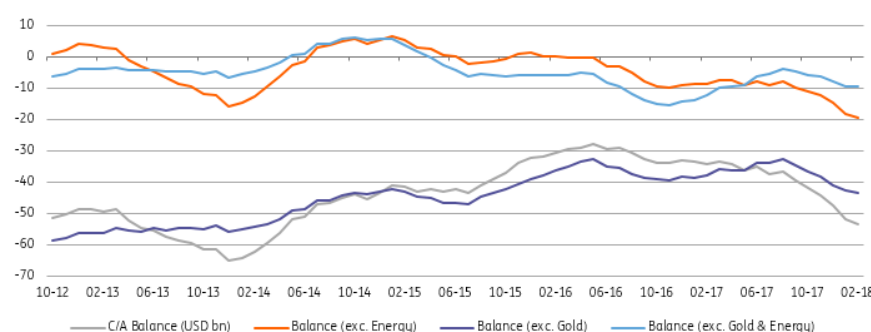
Source: Shutterstock

Current account balance that has been on a widening trend since early 2017 recorded a deficit of USD 4.2bn in February, aligned with market consensus and our call. The latest figure pulled the 12-month rolling deficit up to USD 53.3bn, which is the highest since April 2014.

The deterioration in the monthly deficit versus the same period in 2017 is mainly attributable to the ongoing expansion in the trade deficit with accelerating imports on the back of rising gold and energy as well as the continuous uptrend in core imports.

As a positive note, the pace of the deterioration in core balance slowed down in February. Services income has maintained improvement on the back of a sharp recovery in net tourism revenues by 47% YoY, while the contraction in primary income deficit offset a decline in secondary income surplus.

External balances (USD bn)

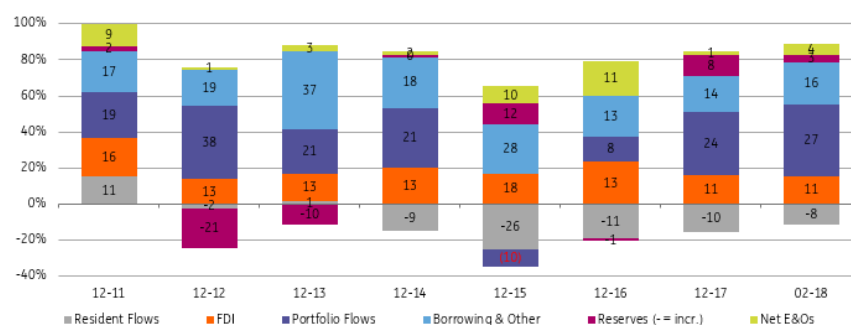


Source: CBT, ING Bank

On the financing front, capital flow outlook has weakened with USD 2.5bn, standing below the monthly current account deficit, after strong portfolio inflows in January driven by debt-creating inflows. Official reserves recorded USD0.3bn decline, despite the positive impact of net errors and omissions with USD1.4bn.

In the breakdown of the capital account, borrowing of corporates by USD1.9bn (USD1.7bn of which in long-term) and banks by USD0.6bn long-term borrowing stood out as the major flow item. The long-term debt rollover ratios were 146% and 320% for banks and corporates, respectively. Portfolio inflows turned out to be weaker as banks' USD0.5bn bond issuance was offset by non-residents' sales in bond and equity markets. Foreign direct investment has remained weak.

Breakdown of current account financing (USD bn)



Source: CBT, ING Bank

Overall, strength in robust domestic demand, higher energy prices and unexpectedly strong gold imports push the current account deficit wider in recent months.

This renders the currency vulnerable to sudden shifts in investor sentiment along with the continuation of inflationary pressures. Capital flow outlook that deteriorated last year with increasing reliance on portfolio flows and short-term funding will remain in the spotlight this year, leaving little room for policy complacency.

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 www.ing.com.