# Turkey: Current account gap widens

December data showed a higher-than-expected deficit at USD7.7bn. The 2017 current account deficit-to-GDP stood at c. 5.5%, up from 3.8% a year ago

Source: Shutterstock

-5.5%

Current account deficit-to-GDP

(in 2017)

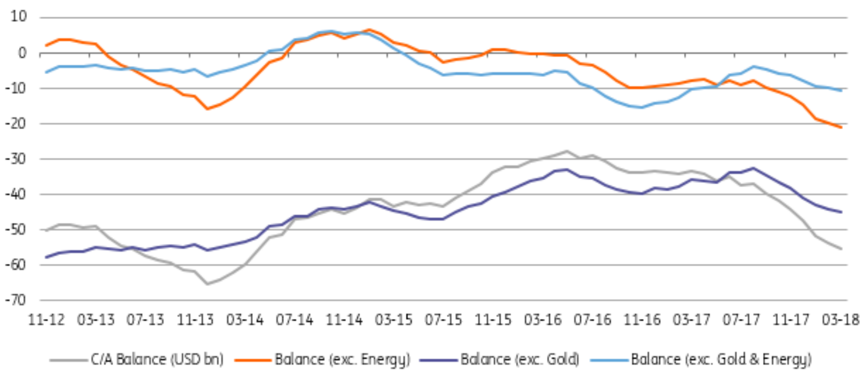
## Current account deficit worse than expected in December

The current account deficit in December turned out to be USD7.7bn, worse than the market consensus of USD7.5bn and our call of USD7.2bn. The breakdown shows that the deterioration compared to the same month of 2016 was mainly attributable to an expansion in the trade deficit, with stronger core and non-core imports outweighing a continued healthy increase in exports. Primary income also witnessed some worsening with rising interest expenditures. Net tourism revenues, on the other hand, continued to trend higher albeit at a relatively slower pace compared to the early months of 2017, with 11.4% growth in December.

## Expansion in c/a balance in 2017

Accordingly, we saw a significant expansion in the annual current account balance to USD-47.1bn in 2017 vs USD-33.1bn at the end of 2016, translating into c.5.5% of GDP, up from 3.8% the year before. In addition, the 12-month core current account balance (excluding energy and gold) that has been improving since the final months of 2016 until Aug-17, changed direction at the end of 2017 due to a strengthening in domestic demand, with accommodative fiscal and quasi-fiscal policies.

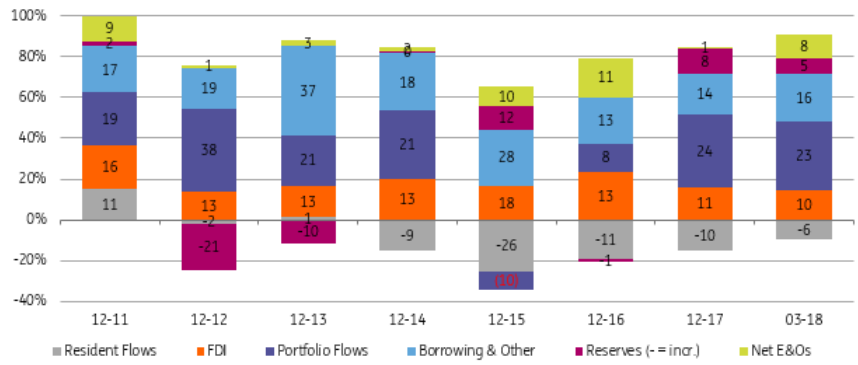
## External Balances (USD bn)




Source: CBT, ING Bank

On the financing front, following a significant weakening in November, December saw further capital outflows of USD-1.2bn due to Turkey's idiosyncratic risks and relative risk-off mode to the emerging markets. Official reserves recorded a USD8.0bn increase. The contribution of net errors & omissions was negligible with a mere USD0.2bn. In the breakdown of the capital account, the increase in residents' assets abroad, decline in foreigners' deposits at the local banks and moderation of portfolio flows were the reasons for weak outlook.

## Breakdown of C/A Financing (USDbn)

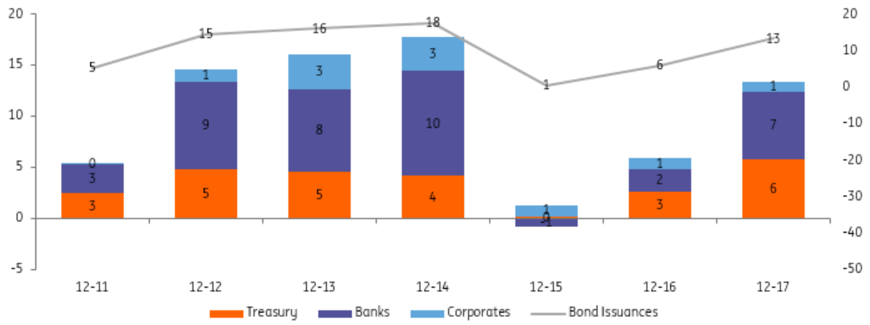



Source: CBT, ING Bank

For the whole year, capital flows financed 83% of the annual current account deficit in 2017 (vs 69% in 2015), while 17% of financing was with the reserve drawdown (USD8.2bn decline in reserves vs a marginal USD0.8bn increase in 2016). Last year, net errors and omissions turned out to be marginally negative (vs financing a third of the deficit in 2016) after generally large and continuously positive readings since 2002.

In 2017, supportive government measures and a consequent recovery in growth have supported portfolio inflows. These turned out to be a major source of financing thanks to purchases by foreign investors in the bond and equity market as well as accelerating Eurobond issuances of the Treasury and banks. Additionally, the banking and corporate sectors have maintained their ability to access foreign funding with long-term debt rollover ratios in 2017 of 102% and 113%, respectively. Ratios on a 12-month rolling basis were on a declining trend for both banks and corporates since early 2016 but seem to have stabilised in the second half of 2017.

## Bond Issuances (USDbn)




Source: CBT, ING Bank

## What to expect in 2018

Overall, the 12-month rolling current account deficit has followed a fluctuating uptrend since the beginning of last year amid strong domestic demand, higher energy prices and gold imports. We expect the c/a deficit to be 5.2% of GDP in 2018 given that domestic demand will likely remain solid this year with a larger fiscal impulse increasing pressure on the deficit and average oil prices likely to be above that of last year. Gold imports that almost quadrupled since mid-2016 on an annual basis until end-2017 will also be key with a likely normalisation in 2018, although January data shows just the opposite, with further acceleration.

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