

Turkey's annual current account deficit widened in November

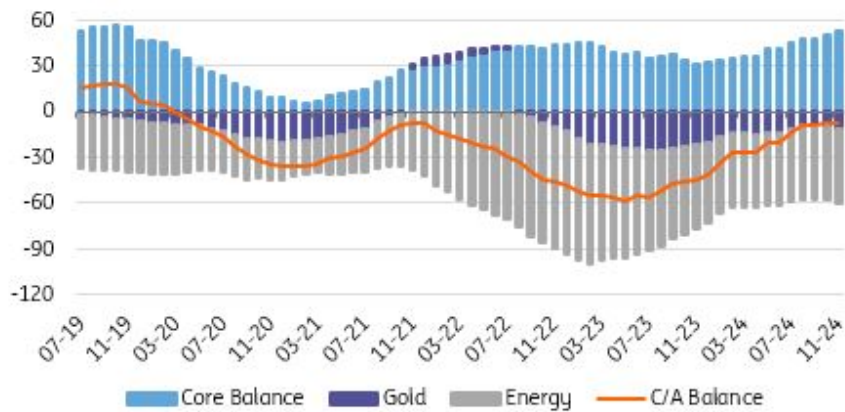
In November, Turkey recorded a US\$2.9bn current account deficit. The primary factor for the slight increase in the 12-month rolling deficit compared to the previous month was a higher foreign trade deficit



The Turkish current account (c/a) balance posted a US\$2.9bn deficit in November, better than market expectations. However, this figure represents a deterioration compared to the same month in 2023, driven by foreign trade.

Consequently, the 12-month rolling deficit widened to \$7.4bn (approximately 0.6% of GDP) from \$7.1bn a month ago, the lowest level since mid-2020. After a prolonged improvement trend since mid-2023, we believe the annual deficit is likely nearing its cyclical trough.

Current account (12M rolling, US\$bn)



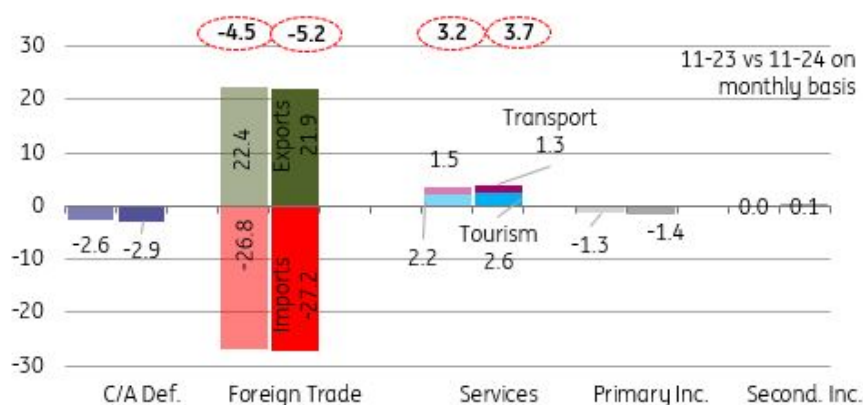
Source: CBT, ING

In the breakdown and compared with the same month of 2023, we see:

- The core trade balance recorded a higher surplus at \$1.1bn vs \$0.4bn.
- An increasing (net) energy bill to \$-4.5bn vs \$-3.7bn.
- The gold deficit widened to \$-2.0bn vs \$-0.9bn last year.
- Higher services income (including tourism revenues) at \$3.7bn vs \$3.2bn.
- No meaningful changes in primary and secondary income offsetting each other.

Despite improving core trade and services income, the cumulative impact of energy and gold trade determined the widening in the November c/a deficit.

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

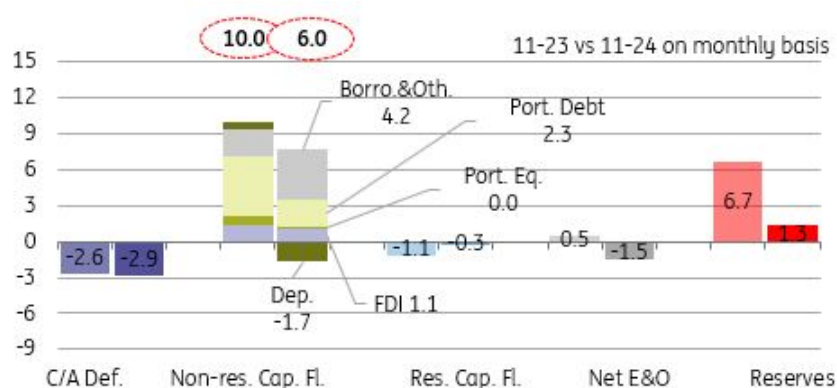


Source: CBT, ING

The capital account, which was positive in September and October after experiencing outflows in August, continued to show inflows of \$5.7bn. These positive inflows more than offset the monthly current account deficit and net errors and omissions outflows of \$-1.5bn, resulting in an expansion of official reserves by \$1.3bn in November.

In the breakdown of monthly data, residents' movements posted \$0.3bn outflows with outward FDI and portfolio investments exceeding the decline in deposits abroad and credits extended. Non-resident flows on the other hand stood at \$6.0bn, driven mainly by debt-creating flows. Foreign flows can be attributed to banks' \$0.6bn Eurobond issuances, ongoing domestic debt purchases of \$1.6bn, and \$3.5bn net borrowing mainly due to banks (more on the short-term). Accordingly, long-term debt rollover rates stood at 81% for corporates and 120% for banking (vs 111% and 134% respectively on a 12M rolling basis). Additionally, trade credits increased by \$0.9bn. On the flip side, the decline in foreign investors' deposits held in the central bank and banking sector by \$1.7bn attracted attention.

Breakdown of financing (monthly, US\$bn)



Source: CBT, ING

Between January and November 2024, non-resident inflows improved in comparison to the same period of 2023 at \$70.5bn (from \$58.4bn), while increasing asset acquisitions of locals abroad led to a decline in net identified flows (to \$23.5bn from \$44.8bn in 2023). Additionally, outflows via net errors and omissions rose to \$15.8bn vs \$10.1bn. Accordingly, despite a strong recovery in the current account balance from -\$38.7bn to a mere -\$5.6bn, official reserves recorded a slight \$2.1bn expansion vs a \$4bn decline in 2023.

Overall, despite the deterioration in the headline deficit in November, the balance of payments dynamics improved significantly last year as the non-energy c/a balance rose to a surplus of \$43.6bn, while the core c/a balance (excluding energy and gold) reflecting the underlying trend, recorded a \$54.4bn surplus.

The provisional customs data released by the Ministry of Trade reveals that the foreign trade deficit widened in December by more than 40% YoY. However, the near-term outlook implies that the 12M rolling c/a deficit will likely remain below \$10bn at the end of 2024, while the impact of the Central Bank of Turkey's actions on the balancing of demand factors will continue to be supportive for the current account this year.

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