Turkey: Current account gap widens

Turkey's current account deficit widened in January to USD7.1bn, above the market consensus, while the 12-month rolling deficit neared a four-year high

Source: iStock

-7.1

current account deficit in January

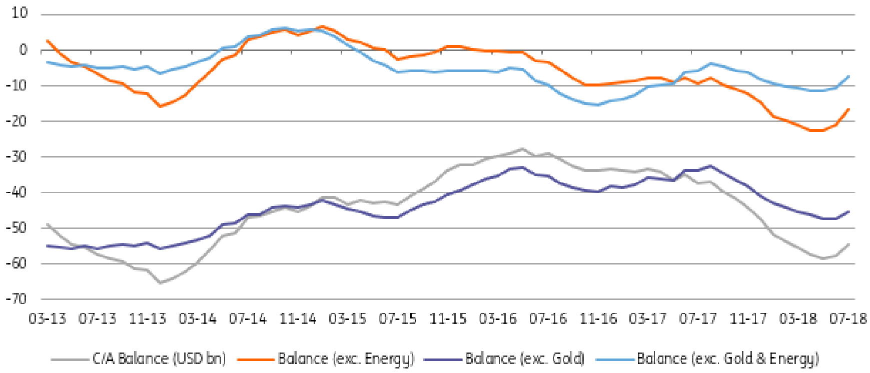
(USD bn)

Worse than expected

Turkey's current account deficit in January widened to USD7.1bn, worse than the market consensus at USD6.9bn and our call of USD6.6bn, pulling the 12-month rolling deficit up to USD51.6bn- the highest since mid-2014 amid continuous widening from early 2017 onwards. The breakdown shows that the deterioration versus the same month of 2017 is mainly attributable to an ongoing expansion in the trade deficit with rising gold imports and energy bills as well as recently accelerating core imports. Growing services income on the back of a jump in tourism by 25% YoY more than offset declines in primary income and secondary income.

External Balances

(USD bn, 12M rolling)



Source: CBT, ING Bank

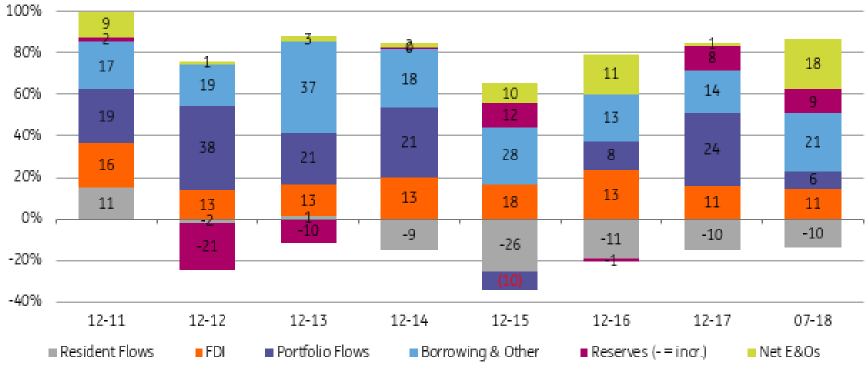
On the financing front, following a significant weakening in November and December, January saw strength in capital inflows standing at USD12.7bn, ahead of the sell-off in global equities in early February. Official reserves recorded a USD4.4bn increase, despite the negative impact of net errors & omissions with USD1.2bn.

In the breakdown of the capital account, items that supported flow outlook were:

1. A decline in banks' assets abroad by USD2.9bn and drop in extended net trade credits by USD0.5bn
2. Banks', corporates' and Treasury's issuances at USD3.7bn
3. Strength in portfolio inflows that turned out to be the major source of financing last year thanks to purchases of foreign investors in the bond and equity markets, with USD1.5bn in total
4. A rise in trade credit liabilities by USD1.5bn
5. Borrowing of corporates by USD1.1bn (USD0.8bn of which in short-term). Accordingly, the long-term (LT) rollover ratio for the corporate sector improved marginally to 116% on an annual basis, gradually recovering in recent months. In contrast, the banking sector's 12-month LT debt rollover ratio stood at 101%, practically unchanged over the previous month. On a positive note, net borrowing on a 12M rolling basis has been improving since Aug-17
6. An increase in foreigners' deposits held in Turkey by USD1.4bn

Breakdown of C/A Financing

(USDbn, 12M rolling)



Source: CBT, ING Bank

Overall, the 12-month rolling current account deficit has maintained a fluctuating uptrend on the back of widening trade deficit, reflecting the impact of strong domestic demand, higher energy prices and gold imports. The capital flow outlook that deteriorated last year with an increasing reliance on portfolio flows and short-term funding will continue to remain in the spotlight this year.

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