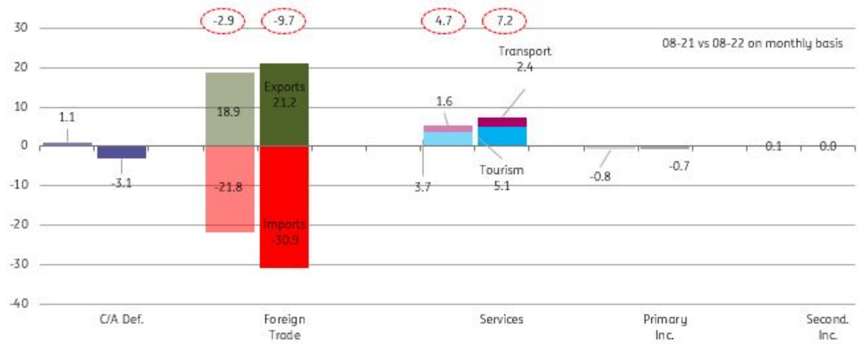
Turkey: Current account pressures continue

The current account deficit continued to widen in August due to the higher energy bill, reviving gold imports, and domestic demand-driven factors. The latest indicators suggest that it will likely continue in September

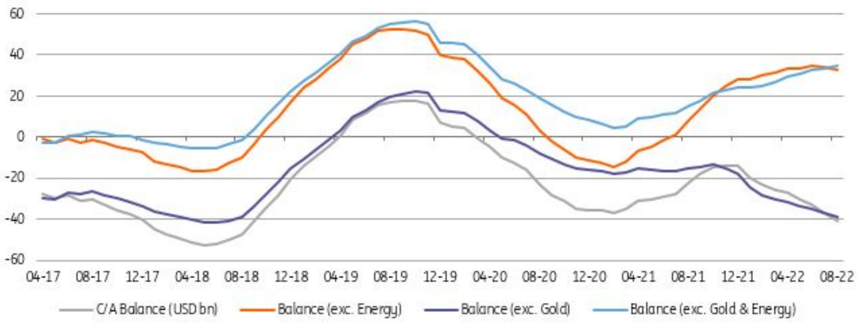
Breakdown of current account (monthly, US$bn)



Source: CBT, ING

The current account deficit in August turned out to be US$-3.1bn, broadly in line with the market consensus, and led to further widening in the 12M rolling figure to $-40.9bn, the highest since the 2018 financial volatility (translating into 5.1% of GDP), from $-36.7bn in July. While the data show no sign of the pressure easing in external accounts, the key drivers on the monthly reading were the continuation of higher net energy imports, which almost doubled in comparison to the same month of last year, the significant acceleration in net gold imports to $2.2bn from a mere $0.2bn a year ago, and the turning of the core trade balance (excluding gold and energy) to deficit this year from a surplus. Services income has remained strong and limited the current account decline.

Current account (12M rolling, US$bn)

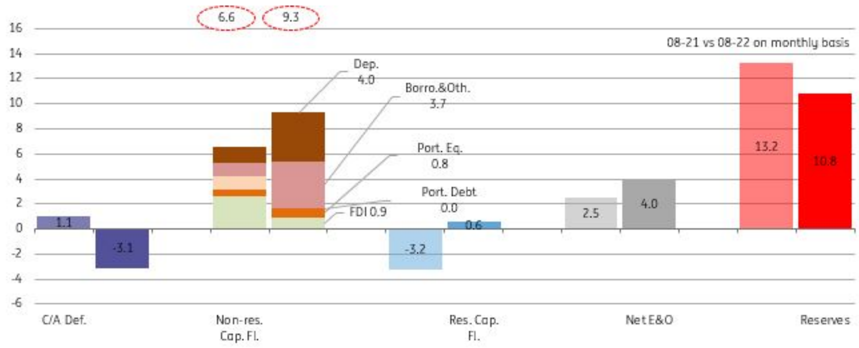


Source: CBT, ING

The capital account strengthened in August with $9.9bn inflows, driven by debt creating non-resident flows. With the c/a deficit and continuing strength in net errors and omissions at $4.0bn ($28.3bn on year-to-date basis), official reserves recorded a marked $10.8bn increase.

In the breakdown of monthly flows, after a long series of outflows since early 2021, residents' assets abroad recorded a decline at $0.6bn mainly driven by fall in their external financial assets. For non-residents, we saw $9.3bn inflows, mainly attributable to debt creating flows, namely $1.5bn trade credits, $4.0bn deposits placed by foreign investors to Turkish banks and the Central Bank and a cumulative $2.3bn net borrowing by corporates while banks remained on the paying side by reducing their external by $0.3bn. On the borrowing side, we see increasing borrowing activity on the corporate side, amounting to $6.0bn in the last two months. Accordingly, we saw a jump in the long-term debt rollover rate for corporates to 460% (198% on a 12M rolling basis), while the same ratio for banks stood at 68% (91% on a 12M rolling basis). On the flip side, among non-debt creating flows, $0.8bn gross foreign direct investment (FDI) and equity purchases of foreign investors at $0.8bn turned out to be the major drivers.

Breakdown of financing (monthly, US$bn)



Source: CBT, ING

Overall, current account pressures did not abate in August given the higher energy bill, reviving gold imports, and domestic demand-driven factors, while the latest indicators suggest that it will likely continue in September given the monthly trade deficit is one of the highest on record. We expect the current account to remain under pressure in the near term given the marked deterioration in the terms of trade, accommodative policy stance, and less supportive global outlook with increasing growth concerns. On the capital account, net errors and omissions which is not a stable source of funding has been the major financing item, raising concerns for sustainability. Official reserves on the other handed recorded an increase on a year-to-date basis. However, the Central Bank of Turkey's recent rate cuts in a backdrop of high external finance requirements and a global risk-off mode can weigh on reserves as we already saw a decline in the second half of September.

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