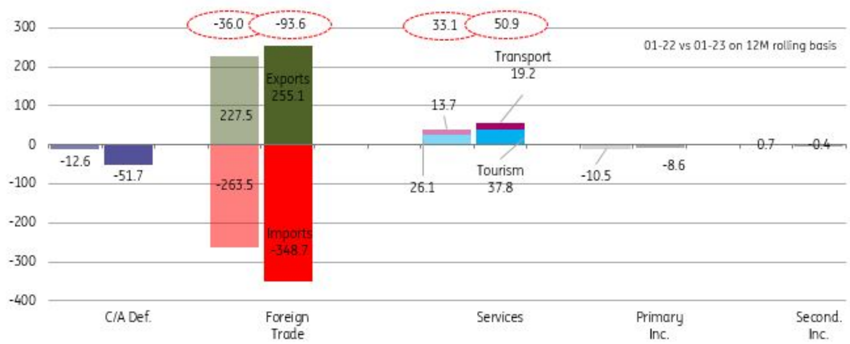
Turkey: External financing remains a concern

While Turkey's current account deficit maintained its expansionary trajectory in January, capital flows were quite weak despite foreigners' deposits placed in the banking system and the Treasury's bond issuance

The Beyoglu district in Istanbul, Turkey

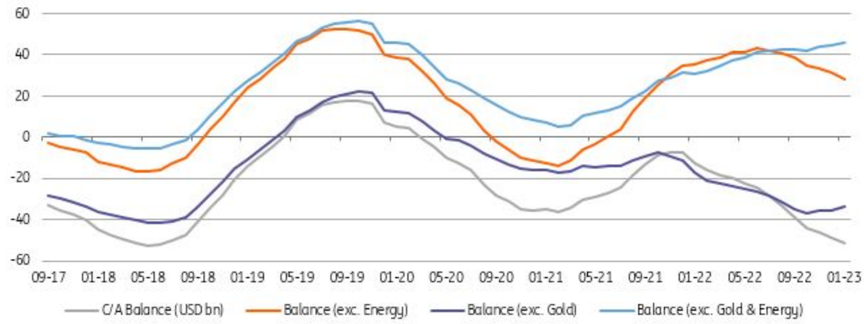
Breakdown of current account (12M rolling, US$bn)



Source: CBT, ING

With a record monthly deficit of US$-9.8bn, the current account (c/a) in the first month of this year came in slightly better than the consensus forecast ($-10bn). Accordingly, the 12M rolling deficit maintained widening and reached $51.7bn (translating to about 5.7% of GDP). The key driver of the monthly reading over the same month of the previous year was a rapid increase in net gold trade ($-4.8bn vs $-0.5bn last year). Among other variables, the net energy deficit and services income showed some improvement to $-7.7bn from $-8.1bn in January 2022 and to $3.2bn from $2.1bn, respectively, while core trade was on balance, remaining unchanged over the same period.

Current account (12M rolling, US$bn)



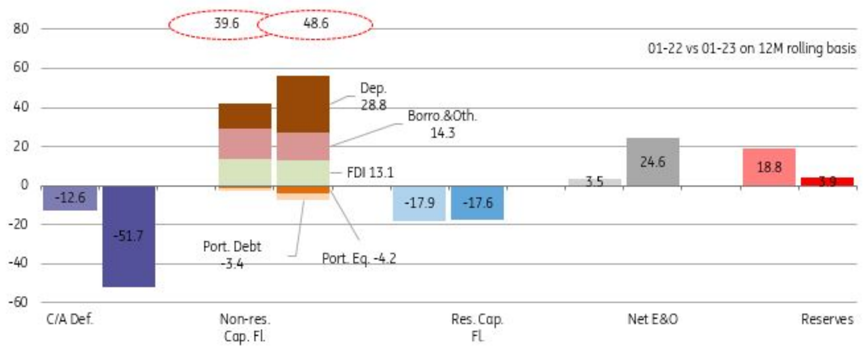
Source: CBT, ING

The capital account, on the other hand, was quite weak with a mere $0.6bn of inflows. With the large c/a deficit and minor net errors and omissions at $-0.1bn, the first outflow since December 2021 recorded a $9.3bn drop.

In the breakdown of monthly flows, we saw asset acquisitions by residents amounting to $5.1bn driven by the rise in locals' external deposits, particularly those of banks. We also saw declines in trade credits and financial credits extended to foreign counterparties.

For non-residents, $5.7bn inflows were attributable to i) $0.8bn gross foreign direct investment, ii) $3.2bn deposits placed by foreign investors to Turkish banks, iii) the Treasury's $2.75bn Eurobond issuance and iv) trade credits at $1.1bn. On the flip side, $0.5bn outflows from the equity market and net debt repayments at $0.4bn limited foreign inflows. Regarding the rollover rates, we saw a strong performance for corporates at 162% on a 12M rolling basis (vs 154% in January alone), while the same ratio for banks stood at 73% (vs 42% in January).

Breakdown of financing (12M rolling, US$bn)



Source: CBT, ING

Overall, while the current account deficit remained on its expansionary path in January, the latest indicators hint at further widening in February with a continuing increase in the foreign trade deficit. Recently, we also saw a tightening in regulations that govern gold imports and the domestic transactions of gold in response to the recent surge in gold imports. Going forward, the impact of these regulations and likely import demand from reconstruction efforts in the earthquake region will be key for the current account outlook.

On the capital account, foreigners' deposits placed in the banking system and the Treasury's borrowing played a key role in the capital account in January, though the total flows were weak because of locals' asset acquisitions. Another boost to reserves in the near term is likely as Turkey and Saudi Arabia have reportedly finalised the $5bn deposit deal.

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