

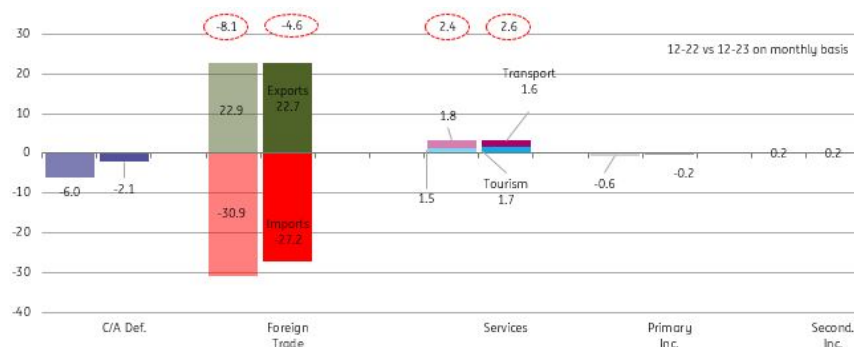
Turkey sees a modest improvement in its current account deficit

Turkey's current account deficit last year improved on 2022 levels. And with a lower-than-expected December number and an improvement in external imbalances, preliminary trade data implies further narrowing in January



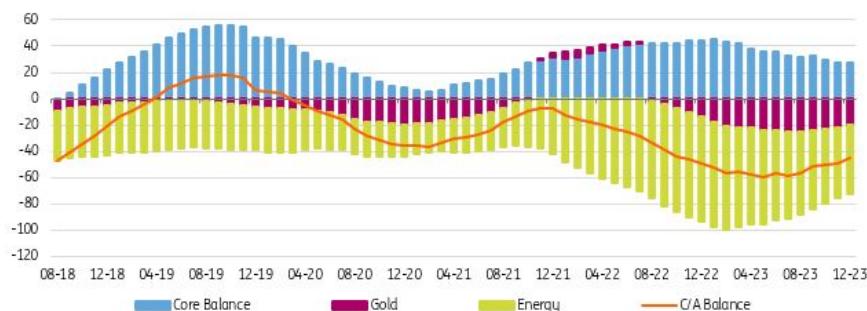
Turkey's December current account posted a deficit of US\$2.1bn, significantly lower in comparison to the market consensus of US\$3.3bn and our call at US\$3.2bn. It comes on the back of higher services and primary income. The breakdown of monthly data shows that improvement in trade balances stemming from energy and gold was the major driver of the decline, along with a small amount of narrowing core trade surplus.

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



The 12M rolling current account (C/A) balance showed a modest improvement last year on the back of a wider goods deficit with i) declining energy bills (from US\$80.1bn to US\$52.7bn) and ii) some recovery in services income thanks to stronger tourism. However, a swing in gold imports to a large deficit and a turn to surplus in core deficit (excluding gold and energy) limited the extent of improvement in the current account. Accordingly, the figure showed a \$45.2bn deficit (translating into c.4.3% of GDP) at the end of 2023 vs US\$49.1bn in 2022.

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



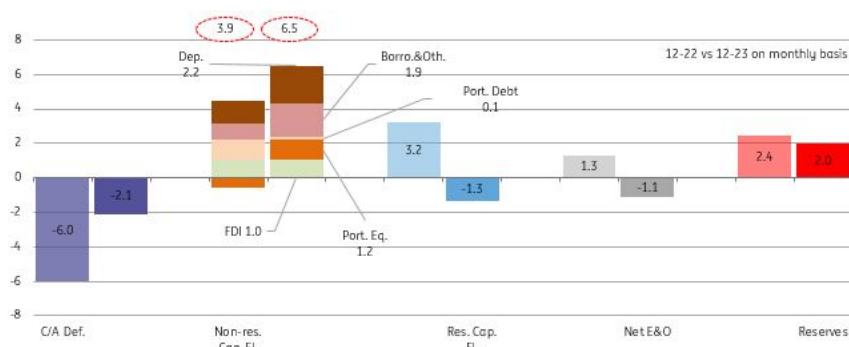
Source: CBT, ING

On the capital account, net identified flows turned modestly with US\$5.2bn inflows. Errors and omissions outflows that returned in September were at US\$1.1bn in December. Despite the monthly C/A deficit and large outflows via net errors & omissions, official reserves recorded a \$2.0bn increase thanks to the relatively better shape of the capital account in recent months.

In the breakdown of monthly data, inflows were driven by non-residents' movements. These items were:

- US\$1.3bn trade credits
- US\$0.7bn net borrowing by corporates. Accordingly, rollover rates for banks and corporates stood at 101% and 134% in December (vs 115% and 100% in 2023), respectively.
- US\$2.2bn deposits placed by non-residents to the local banking system
- US\$1.2bn equity purchases of foreign investors
- US\$1.0bn inward FDI.

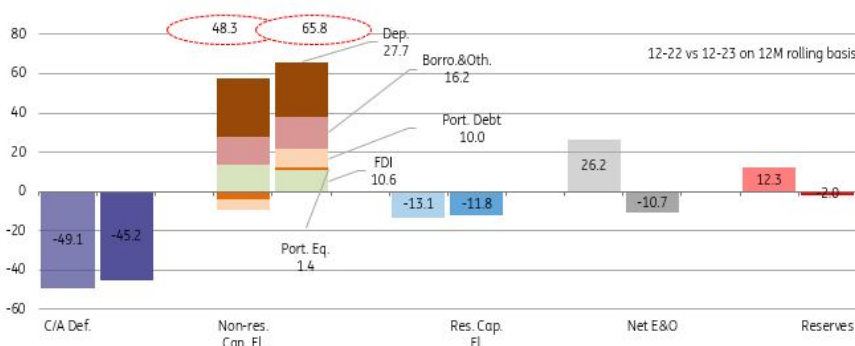
Breakdown of financing (monthly, US\$bn)



Source: CBT, ING

For the whole 2023, despite higher inflows at US\$53.8bn vs US\$35.2bn in 2022) and large reserve accumulation after the elections, official reserves actually declined by US\$2.0bn. This was driven not only by the large C/A deficit but also by US\$10.7bn outflows via net errors & omissions (vs large US\$26.2bn inflows in 2022 at US\$36.9bn). These numbers show a challenging picture for external financing, though the outlook has significantly improved since the elections, with the policy framework turning increasingly supportive of capital inflows.

Breakdown of financing (annual, US\$bn)



Source: CBT, ING

Overall, after the peak in July on the back of domestic demand pushing imports significantly upwards and a deterioration in the gold trade balance, the current account has adopted an improving trend. According to the provisional customs data released by the Ministry of Trade, the foreign trade deficit dropped by 56.8% to US\$6.2bn in January from the record high level in the same month of the previous year. The data implies a sharp recovery in the January current account, given a large deficit in the same month of last year at US\$10.5bn while providing support to the conjecture that the impact of the current policy framework on the external balances is getting stronger. Accordingly, the trend will likely continue in the period ahead with ongoing tightening in financial conditions, and hence a visible deceleration in growth.

Regarding the capital account on the other hand, given the policymakers' priority to replenish reserves and higher external financing needs require continuation of the strength

in capital inflows.

Author

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.