

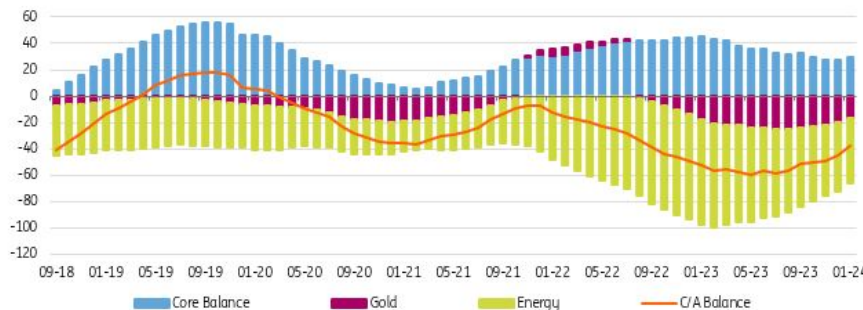
Turkey's current account deficit sees a sharp drop in January

The downward trend in Turkey's current account that began after the peak last July has continued, with a drop seen in the 12-month rolling deficit to US\$37.5bn from US\$45.4bn a month ago



The historic Galata Tower rises over the skyline at dusk, Istanbul

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

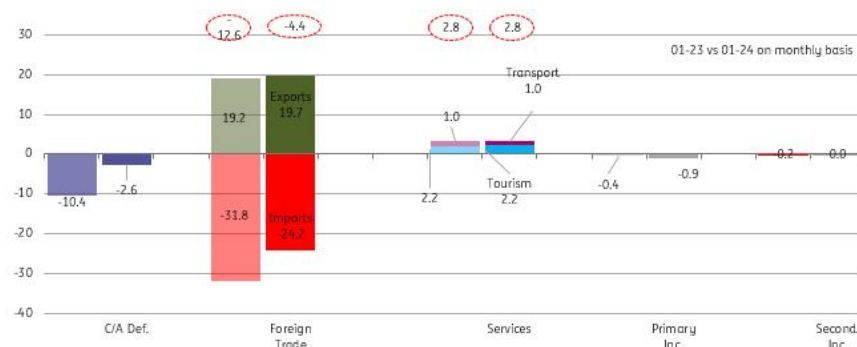


Source: CBT, ING

Turkey's current account posted a deficit at US\$2.6bn in the first month of this year, better than the market consensus of US\$2.8bn. In the breakdown compared with the same month of last year,

we see i) a sharp drop in the gold trade deficit from US\$4.5bn to US\$0.6bn, ii) an improvement in the net energy trade with a fall in deficit to US\$5.1bn from US\$7.7bn and a turn in the core trade balance to a surplus at US\$1.6bn from a slight deficit. While these items turned out to be the major drivers of a recovery in current account balance, flat services income and a drop in primary income limited the extent of the rebound. Accordingly, the 12-month rolling deficit recorded a sharp decline to US\$37.5bn (which translates to around 3.4% of GDP) from US\$45.4bn a month ago given a large base in January 2023.

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



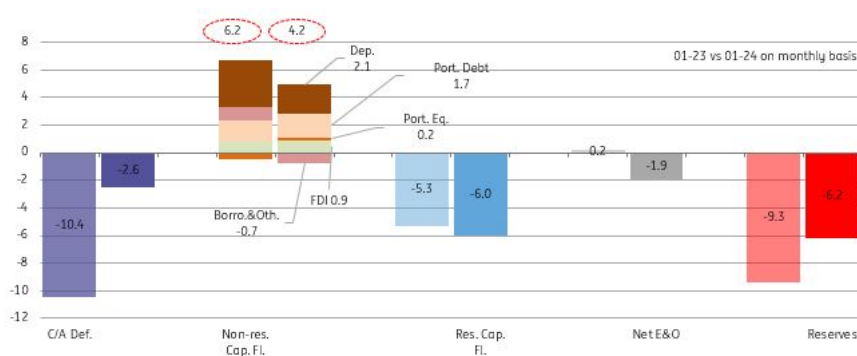
Source: CBT, ING

On the capital account, net identified flows turned mildly negative at US\$1.8bn. Errors and omissions outflows that have made a return since September were at US\$1.8bn in January. With the monthly current account deficit and capital outflows, official reserves recorded the first decline since May 2023 elections at US\$6.2bn.

In the breakdown of the monthly data, residents' movements drove the outflows with i) portfolio investments at US\$0.8bn, ii) acquisition of financial assets abroad at US\$4.0bn, and iii) trade credits advancing by US\$0.8bn.

Non-resident inflows continued, thanks to US\$0.5bn in portfolio investments in the bond and equity markets, US\$1.4bn issuances abroad by banks and US\$2.1bn deposited by foreign entities in the banking system. Net borrowing was slightly positive as corporate debt repayments almost offset borrowing by banks. Accordingly, rollover rates stood at 55% for the former and 255% for the latter in January (vs 93% and 121% respectively on a 12-month rolling basis).

Breakdown of financing (monthly, US\$bn)



Source: CBT, ING

Overall, the improvement in the current account deficit in January was attributable to the significant drop in foreign trade deficit. Accordingly, the downward trend that started after the peak in the last July continued. The foreign trade deficit dropped by more than 40% to US\$7.0bn in February from another large deficit in the same month of the previous year, according to the provisional customs data released by Ministry of Trade. The data implies a continuation of the recovery in February's current account given the large deficit in the same month of last year at US\$9.0bn. Additionally, the Central Bank of Turkey (CBT) introduced additional macroprudential measures targeting growth in TL commercial loans and general-purpose loans. The positive impact of these decisions on the balancing of demand factors is likely to be observed with a lag, and should support the trend in the current account.

When looking at the capital account, foreign portfolio inflows have stagnated since late December. Given the priority among policymakers of replenishing reserves and higher external financing needs, the capital flow outlook will remain key over the coming period.

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>.