

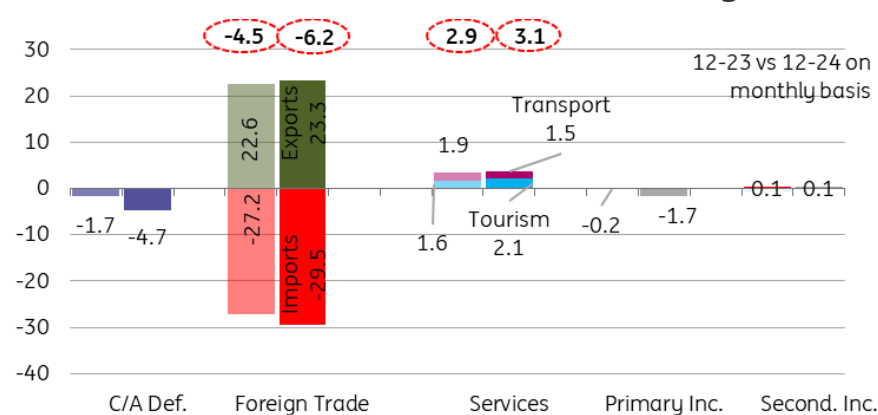
## Significant improvement in Turkey's current account balance

The balance of payments dynamics improved significantly in 2024, although the headline deficit deteriorated in December amid the rising trade deficit



In December, the Turkish current account posted a deficit of \$4.7bn, exceeding the market consensus of \$4.0bn. The monthly data breakdown reveals that the widening trade deficit – driven by energy, gold, and core (excluding gold and energy) – and a sharp deterioration in primary income were the major factors.

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

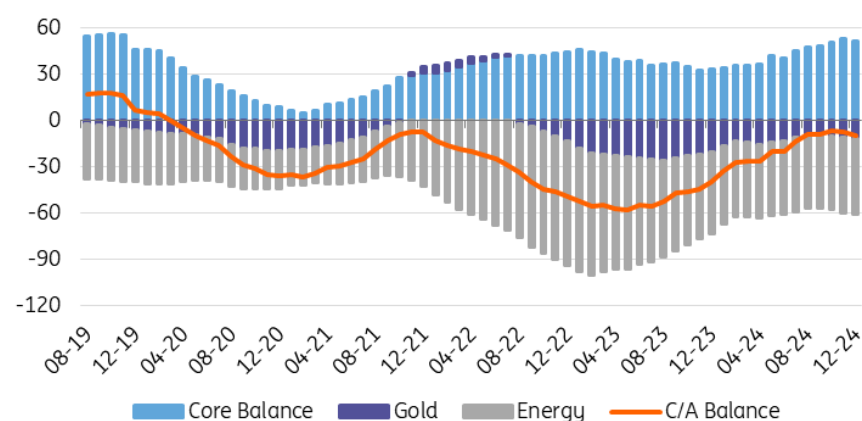


Source: CBT, ING

The 12-month rolling current account balance, however, stood at \$10bn (approximately 0.8% of GDP) at the end of 2024, compared to a deficit of \$39.9bn in 2023. This significant improvement is attributed to:

1. A declining energy bill (from \$52.7bn to \$49.1bn).
2. A large drop in the gold trade deficit to \$11.8bn from \$20.3bn.
3. A shift in the core balance to a surplus of \$6.4bn from a deficit in 2023.
4. Some recovery in services income thanks to robust tourism.

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

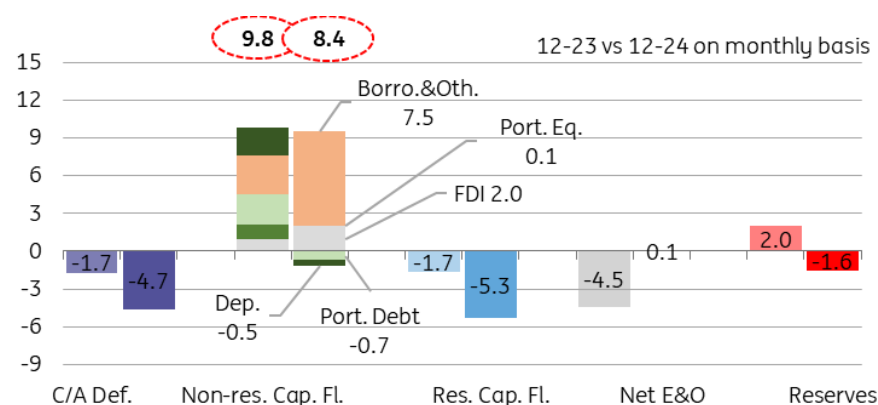


Source: CBT, ING

The capital account saw inflows of \$3.0bn, albeit lower than the current account deficit. With almost flat net errors and omissions, official reserves contracted by \$1.6bn in December. The monthly data breakdown shows residents' movements led to \$5.3bn outflows through outward FDI, portfolio investments, increased deposits abroad, and extended credits. Non-resident flows, on the other hand, amounted to \$8.4bn, mainly driven by debt-creating flows.

Foreign flows included inward FDI of \$1.5bn, trade credits of \$3.2bn, and \$4.8bn net borrowing by banks and corporates. As a result, long-term debt rollover rates stood at 199% for corporates and 184% for banks (compared to 117% and 141%, respectively, on a 12-month rolling basis).

## Breakdown of financing (monthly, US\$bn)



Source: CBT, ING

In 2024, non-resident inflows remained strong, close to the level realised in 2023 at \$63.3bn (up from \$62.7bn), while increasing asset acquisitions of locals abroad led to a decline in net identified flows (to \$23.2bn from \$49.2bn).

Additionally, outflows via net errors and omissions rose to \$12.7bn from \$11.3bn a year ago. Despite a strong recovery in the current account balance, official reserves recorded a slight expansion of \$0.5bn, compared to a decline of \$2bn in 2023.

Overall, despite the headline deficit deterioration in December, the balance of payments dynamics improved significantly last year. Provisional customs data released by the Ministry of Trade show that the foreign trade deficit widened by around 24% YoY in January.

The external deficit, dependent on energy prices, EU growth, economic activity pace, and gold imports, is likely to widen to 1.2% of GDP this year but will likely remain below the long-term average of around 3% of GDP. The impact of the Central Bank of Turkey's actions on balancing demand factors will be crucial for the current account this year.

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