Turkish current account deficit widens rapidly in August

Current account balance remains on a deteriorating path on the back of widening trade deficit and fall in services income, while subdued capital flows point to a challenging external outlook this year

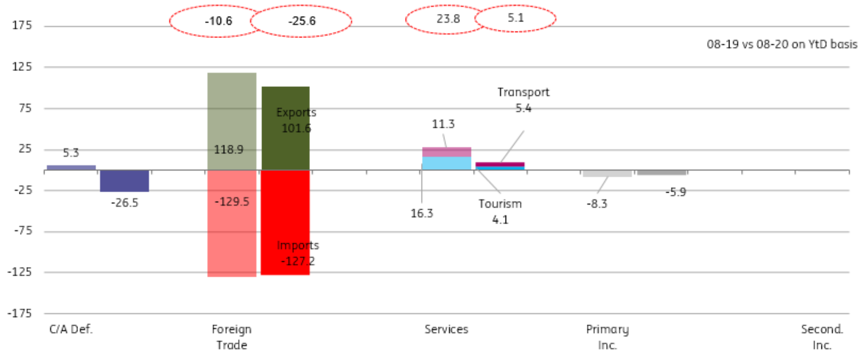
Source: Shutterstock

Turkey's current account deficit in August stood at US$4.6 bn, aligned with the consensus, while the 12-month rolling figure reached US$23.2bn, up from US$15.3 bn a month ago, gaining pace despite recent normalisation measures introduced by policymakers.

The data on a monthly basis shows a continuation of deterioration in the services balance, while the deficit in the goods balance is wider than last year mainly due to record high gold imports.

On the other hand, the worsening in the first eight months is attributable to the deterioration in core and gold deficits in the goods balance and plunge in services balance with the breakout of pandemic. In fact, given shifting portfolio preferences of locals towards gold this year, 12-month rolling current account deficit excluding gold is US$7.6 bn, substantially below the headline number.

Breakdown of current account (US$ bn, YtD)



Source: CBT, ING

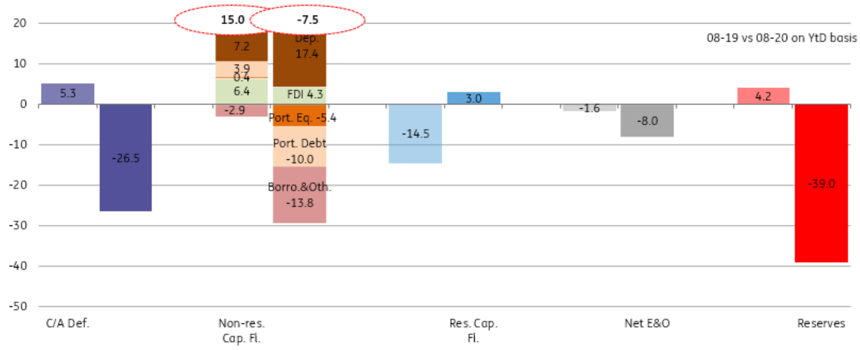
On the capital account, August turned out to be another weak month, almost at balance, as residents' outflows were roughly matched by non-residents' debt creating flows. With the current account deficit and negative net errors & omissions reading at US$-2.8 bn, reserves recorded another large depletion at US$7.6 bn (US$39 bn on ytd basis).

In the breakdown of capital account, residents that have reduced external asset holdings in the first eight months of this year (by US$3.0 bn), while transferred some of their assets to abroad at US$3.0 bn in August alone driven by deposits.

Regarding the non-resident flows, the key debt creating items witnessed US$3.3 bn inflows and determined the shape of the capital account. These inflows were attributable 1) trade credits rising by US$1.8 bn 2) foreign deposits at the Central Bank up by US$0.4 bn 3) deposits of foreign banks at the local banking system increasing by US$2.4 bn. On the flip side, portfolio investment in the local debt recorded another drop at US$0.2 bn and reached US$-10 bn this year so far, while corporates and banks were net debt payers with US$0.8 bn and US$0.1 bn, respectively. Accordingly, in August alone, the long-term rollover ratio for banks was at 95% vs 45% for corporates, or 79% and 70%, respectively, on 12M rolling basis. So, the pace of deleveraging is relatively higher in the corporate sector while rollovers for banks have been improving in comparison to the last year.

Regarding non-debt creating flows, gross foreign direct investment flows stood at US$0.6 bn while outflows from the equity market turned out to be US$1.0 bn.

Breakdown of capital account (US$ bn, YtD)



Source: CBT, ING

Overall, current account balance remains on a deteriorating path on the back of the widening trade deficit and fall in services income, while subdued capital flows point to a challenging external outlook this year. The preliminary trade data in September showing further deterioration in the deficit due to continuing large gold imports indicate no trend change in external balances yet, though the pace of expansion should lose some momentum in the remainder of the year.

For the capital flows, rollover ratios should increase to avoid further FX reserve losses, while recent Treasury issuance and expected eurobond sale by the Wealth Fund should support reserve outlook.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer