

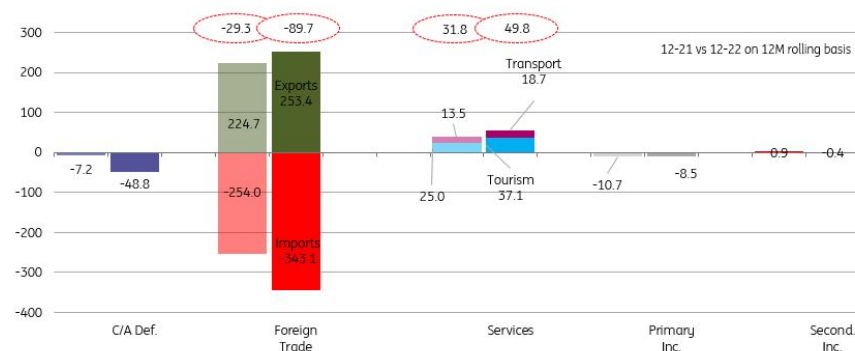
Turkey: 12M rolling current account deficit highest since 2018

The current account deficit remained on an expansionary path in December, reaching the highest since mid-2018, and the latest indicators hint at a further widening in January amid a continuing increase in the foreign trade deficit



Source: shutterstock

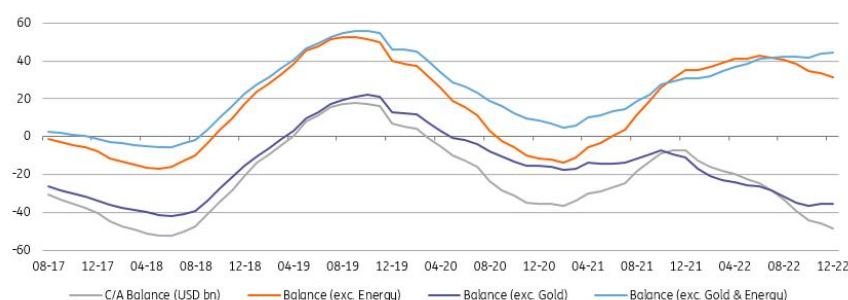
Breakdown of current account (12M rolling, US\$bn)



Source: CBT, ING

The 12M rolling current account balance showed a significant deterioration last year on the back of a wider goods deficit. This was due to surging energy bills, gold imports swinging to a large deficit and strength in core imports (excluding gold and energy) amid demand management policies. It came despite healthy export growth and a sharp recovery in the services balance with tourism and transportation revenues. Accordingly, the figure showed a US\$48.8bn deficit (translating into c. 5.7% of GDP) at the end of 2022, the largest since mid-2018.

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



Source: CBT, ING

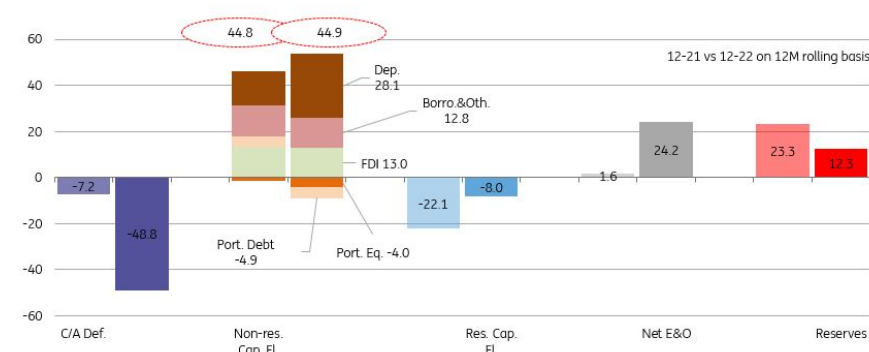
On a monthly basis, the current account recorded a deficit of US\$5.9bn in December, which was better than expected but compared unfavourably with the US\$3.2bn deficit secured in the same month of 2021. The major item responsible for the widening in the monthly deficit was the spike in gold imports.

The capital account turned positive in December with US\$7.9bn of inflows, attributable to both resident and non-resident inflows. With the c/a deficit and net errors & omissions at US\$0.4 bn, the lowest reading in 2022, reserves recorded a US\$2.4bn increase.

In the breakdown of monthly flows, we saw continuing asset disposals by residents amounting to US\$4.9bn driven by a drop in locals' external deposits, particularly those of banks. We also see declines in trade credits and financial credits extended to foreign counterparties. For the non-residents, US\$3.0bn of inflows were attributable to i) US\$0.9bn gross FDI, ii) US\$1.2bn deposits placed by foreign investors to Turkish banks iii) the Treasury's US\$2.0bn Eurobond issuance iv) US\$0.7bn in net borrowing by the general government despite banks and corporates being net payers of the debt. On the flip side, US\$0.6bn of outflows from the equity market limited foreign inflows. All in all, locals' deposits brought back from abroad and foreigners' deposits placed with the banking system played a key role in financing the current account in December.

For the whole of 2022, despite a large current account deficit, US\$12.3bn in reserve accumulation was realised, thanks to US\$24.2bn in net errors & omissions, and relatively higher capital flows in comparison to 2021 at US\$36.9bn year. These numbers show a challenging picture for external financing last year given the reliance on unidentified flows and the Central Bank of Turkey borrowing roughly US\$7.3bn (including swap deals). However, we saw a strong long-term debt rollover rate for corporates at 163% (vs 82% in December alone), while the same ratio for banks stood at 75% (72% in December). Trade credits have remained unchanged at around US\$5.3bn last year.

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



Source: CBT, ING

The current account deficit will likely remain elevated in the near term given the marked deterioration in the terms of trade, an accommodative policy stance and a weakening global growth outlook. On the capital account, we saw the impact of locals' deposits flowing back to the country in the last quarter of 2022 and the continuation of strength in net errors and omissions, which is not a stable source of funding, both leading to an increase in official reserves on a year-to-date basis. Another boost to reserves in the near term is likely if Turkey and Saudi Arabia finalise the US\$5bn deposit deal.

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>.