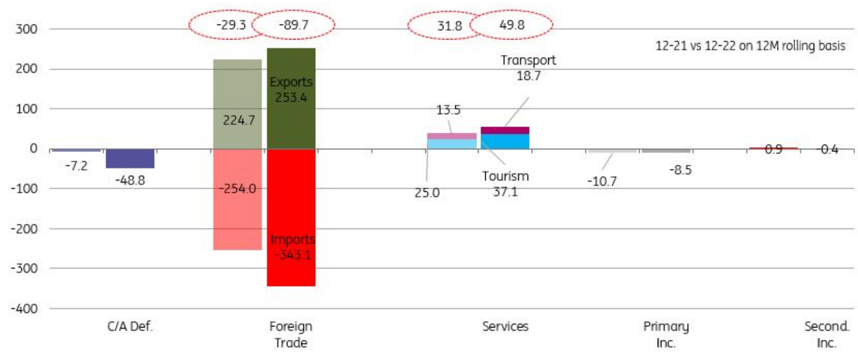
Turkey: 12M rolling current account deficit highest since 2018

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

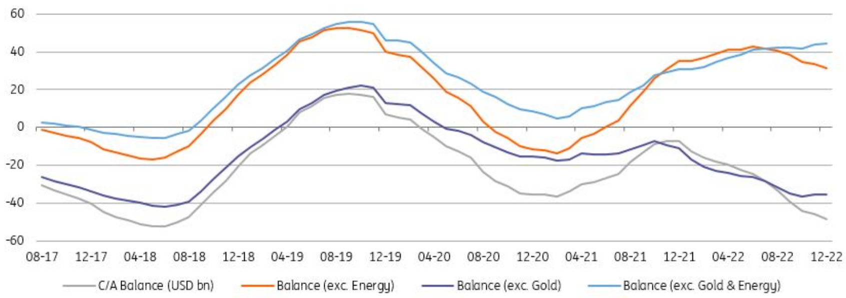
Breakdown of current account (12M rolling, US$bn)



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

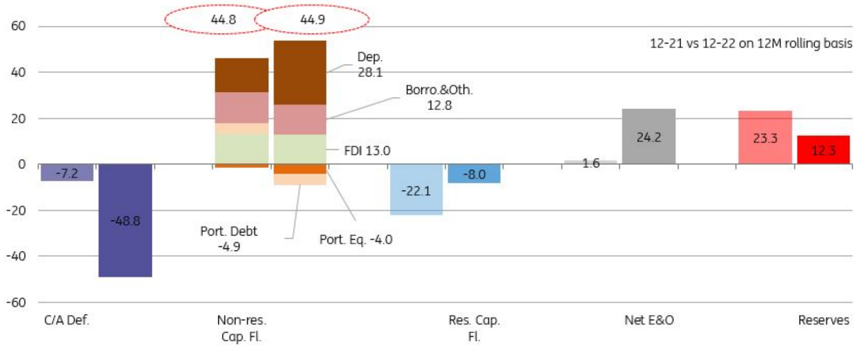
On a monthly basis, the current account recorded a deficit of US$5.9bn in December, which was better than expected but compared unfavourably with the US$3.2bn deficit secured in the same month of 2021. The major item responsible for the widening in the monthly deficit was the spike in gold imports.

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.

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