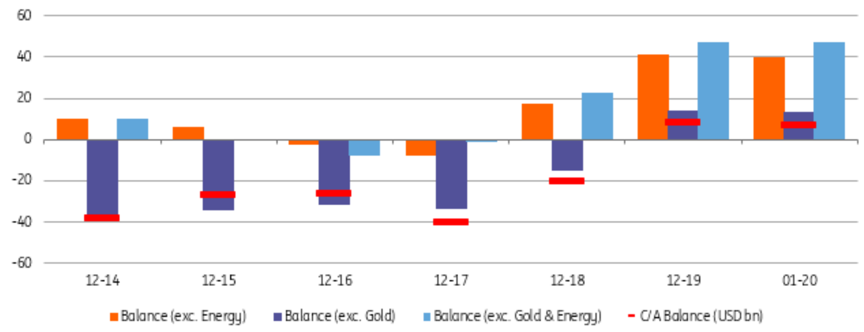
Turkey: A new current account profile

After an improvement in the external deficit, the current account balance has started to deteriorate again. But it's remained in positive territory and is still significantly better than expected due to substantial revisions

Source: shutterstock

The Central Bank of Turkey has substantially revised its balance of payments data given 1) new International Trade in Services Statistics and 2) the switch to the General Trade System in Foreign Trade Statistics by TurkStat. We saw a significant increase in services income in the range of US$4.7-9.8 billion for each year in the 2013-2019 period, amounting to US$44 billion in total. This was mainly driven by transportation income. The current account balance was adjusted higher by US$4.7-8.4 billion and we saw a total US$48.1 billion decline in net errors & omissions in the same period, ranging between US$3.4 billion and US$10.6 billion in the last seven years.

External Balances (USD bn, 12M rolling)



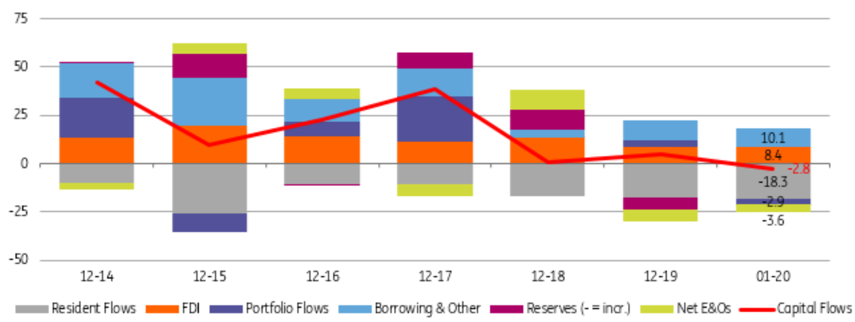
Source: TurkStat, CBT, ING

With the revisions, the 12-month rolling current account balance, which was expected to fall into deficit in January, remained in positive territory, at US$6.5 billion. However, the surplus declined compared to December, indicating that the external balance is on a modestly deteriorating path after a significant improvement until the last quarter of 2019. This was due to weaker domestic demand, increased price competitiveness and strength in tourism.

On monthly basis, the c/a balance was negative at US$1.8 billion in January, much better than the consensus (and our call) for a US$2.5 billion deficit, reflecting the impact of revisions. In the breakdown, the widening deficit over the same month of 2019 is mainly attributable to widening foreign trade while services income remained flat.

On the capital account, December showed continued mild outflows at US$1.7 billion, mainly on the back of local asset acquisitions abroad, which stood at US$2.7 billion. With the c/a deficit and net errors & omissions at US$+0.6 billion, official reserves dropped by US$2.9 billion. In the breakdown, the banking sector repaid US$1.5 billion of debt (US$0.7 billion of which was long-term) while corporates net borrowing was also negative at US$0.2 billion. Accordingly, the long-term rollover ratio for banks was relatively low at 44% vs a healthy 98% for corporates. The major contribution to debt flows came from an increase in foreign investors' deposits at US$2.5 billion. We also saw a US$1.1 billion contribution from FDI in January.

Breakdown of C/A Financing (12M Rolling, US$bn)



Source: CBT, ING

With the end of the external rebalancing process, the current account has started deteriorating again. We expect this trend to continue in the period ahead given accelerating imports and relatively muted export growth while the likely downside impact of the coronavirus outbreak on tourism revenues should also be a factor. However, the pace will likely remain modest given significantly lower oil prices and growth which is still below potential.

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