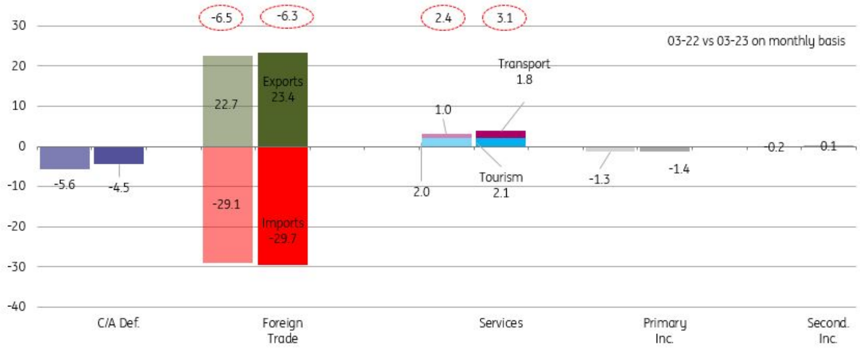
Turkey's annual current account deficit dropped in March

With a better-than-expected monthly reading, Turkey's current account deficit narrowed for the first time in March, on an annual basis, since early 2022

After a long and rapid widening trend since early 2022, the 12-month rolling deficit dropped for the first time in March to US$54.2bn (5.9% of GDP) from $55.3bn a month ago, and the rolling trade deficit (on a balance of payments basis), excluding gold and energy, stood at $14bn, following a better-than-expected monthly turnout at $4.5bn.

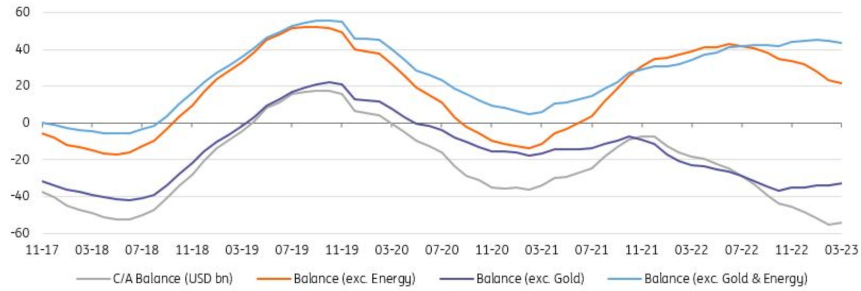
The key drivers of the monthly reading was the continuing increase in net gold trade ($-1.3bn vs $-1.0bn last year), but at a relatively slower pace in comparison to recent months, while core trade that was at $1.6bn surplus last year turned to a $0.4bn deficit this year. Among other variables, the net energy deficit and services income showed improvements to $-4.6bn from $-7.1bn in March 2022 and to $3.1bn from $2.4bn last year, respectively.

Breakdown of current account (monthly, US$bn)



Source: CBT, ING

Current account (12M rolling, US$bn)



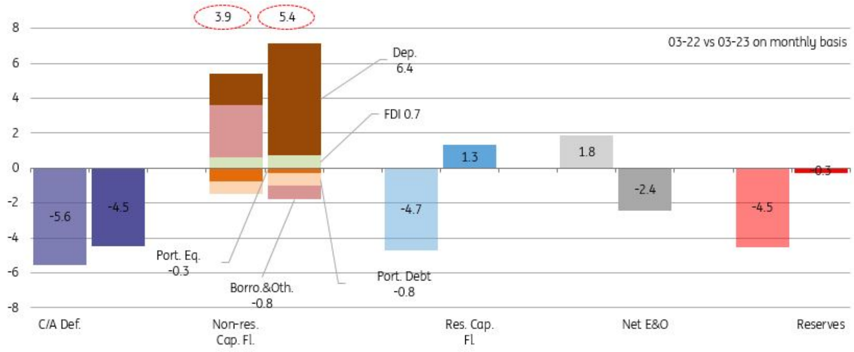
Source: CBT, ING

The capital account, on the other hand, witnessed higher net inflows in comparison to first two months of this year of $6.7bn. With the monthly current account deficit and outflows via net errors and omissions at $2.4bn, official reserves recorded a mere $0.3bn increase (financing roughly 60% of the cumulative deficit in the first quarter).

In the breakdown, contributing to net monthly inflows, we saw asset disposals abroad by residents of $1.3bn driven by a drop in local bank deposits. For non-residents, $5.4bn of inflows were attributable to i) $0.7bn of gross foreign direct investment, and ii) $6.4bn of deposits placed by foreign investors to Turkish banks and the Central Bank of Turkey (showing the impact of $5bn of deposits from Saudi Development Bank).

On the flip side, we see outflows via i) declining equity assets of non-residents at $0.3bn, ii) $1.6bn Eurobond repayments by corporates and banks despite $0.75bn net external issuance by the Treasury, iii) $0.3bn of trade credit repayments, and iv) net $0.4bn debt repayment by banks and corporates. Regarding the rollover rates, we saw a strong performance for corporates at 144% on a 12M rolling basis (vs 73% in March alone), while the same ratio for banks stood at 83% (97% in March).

Breakdown of financing (monthly, US$bn)



Source: CBT, ING

Overall, given the ongoing loose policy mix weighing on reserves, there is a growing need for a rebalancing in the economy. Over the rest of this year, we will likely see an improvement in the current account as evidenced by recent normalisation in energy prices and gold imports, while a recovery in global demand should also be supportive for the foreign trade balance.

On the capital account, the Central Bank of Turkey's deal with Saudi Development Bank, and other deposit inflows, played a key role in the capital account in March. However, the total flows have remained weak in the absence of strong unidentified inflows, leading to pressure on international reserves so far this year.

Author

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

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