Turkey sees another large current account deficit

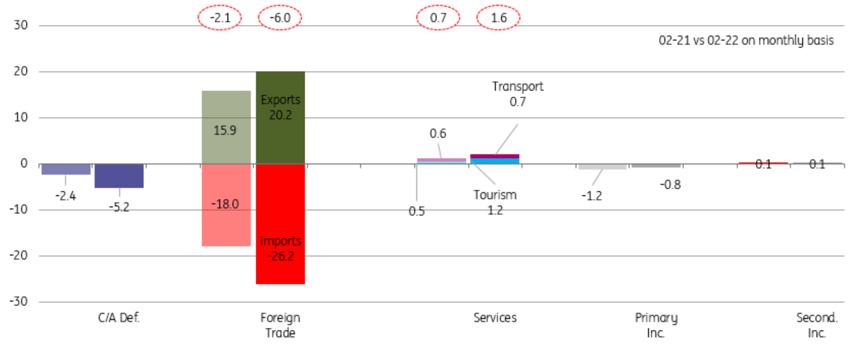
After a direction change in January, Turkey's current account deficit showed another strong expansion in February driven by higher energy and stood at US$21.8bn on a 12M rolling basis

Turkey's current account balance, which recorded a large widening in the deficit in the first month of this year, saw another big deficit in February at US$-5.7bn; it's more than doubled over the same month of 2021. The 12M rolling current account is also on the rise with US$-21.8bn (translating into c. 2.9% of GDP). A quick glance at the February data points to:

1. a continuation of the strong recovery in the services balance
2. a narrower deficit in the goods balance
3. a better primary income, and
4. a slightly higher core (excluding energy and gold) trade balance

It's important to point out that energy bills have seen a three-fold increase in comparison with February 2020 which contributed to the monthly outcome.

Breakdown of the current account (US$ bn, on a monthly basis)



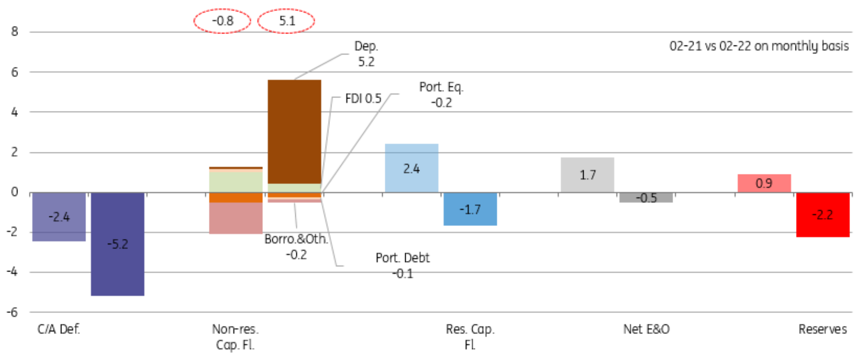
Source: CBT, ING

The capital account was in positive territory but remained weak with a mere US$3.4bn inflows attributable to non-resident flows. With the large current account deficit and slightly negative net errors & omissions at US$0.5bn, reserves recorded a US$2.2bn decline.

In the breakdown of monthly flows, residents increased their external assets by US$1.7bn attributable to rising deposits in local banks abroad, and also probably down to the impact of residents' portfolio investments and outward FDI. For non-residents, US$5.1bn inflows were mainly attributable to debt creating flows, namely i) US$0.5bn trade credits and ii) particularly US$5.2bn deposits placed by foreign investors to Turkish banks, including US$2.7bn at the Central Bank.

On the flip side, net borrowing turned negative with long-term debt repayments of banks despite their net short-term credit drawings and the corporate sector's continuing external financing. Among non-debt creating flows, US$0.6bn gross FDI more than matched US$0.2bn outflows from the equity market.

Breakdown of the capital account (US$ bn, on a monthly basis)



Source: CBT, ING

Overall, after a direction change in January, the current account deficit showed another strong expansion in February driven by higher energy bills reflecting pricing pressures on energy commodities with the Russian invasion of Ukraine. As oil prices are expected to remain elevated, we expect the current account deficit to widen further in the near term. The outlook for the whole year will be determined by tourism revenues and the risk of oil prices remaining higher for longer, given escalating geopolitical risks. However, a slowdown in economic activity leading to weaker core imports can be a limiting factor. On the financing side, registered flows that have been quite weak in recent months hint at challenges in the capital account going forward in a less supportive global backdrop.

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