Turkey's capital account sees significant outflows in March

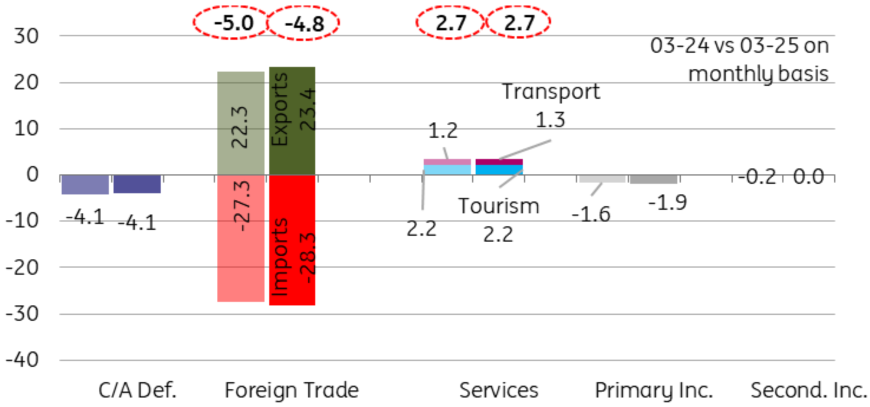
In March, the current account deficit remained flat while capital account developments were key with outflows

Istanbul, Turkey

Turkey's current account for March showed a deficit of US$4.1bn, slightly exceeding the market expectation of $3.95bn but better than our call of $4.2bn. A closer look at the monthly data reveals that the deficit remained unchanged compared to the same month last year, as the wider energy deficit and lower primary income were mainly offset by slightly better core trade balance, narrower gold trade deficit and improving secondary income.

As a result, the 12-month rolling current account deficit, which began increasing in November of the previous year, remained flat at around $12.6bn (about 1% of GDP).

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



Source: CBT, ING

On the capital account side, following continuous inflows since October 2024, we saw outflows as expected with political developments in March at $7.1bn – the highest since the financial volatility we saw in August 2018. With a large net errors and omissions outflow at $3.9bn and the current account deficit, official reserves shrank by $15.1bn, the largest drop since the presidential elections in May 2023.

A deeper analysis of the monthly data shows that activities by residents resulted in an outflow of $10.8bn, mainly due to local banks' increasing deposits abroad. On the other hand, activities by non-residents led to $3.7bn in inflows, mainly from debt-creating sources. Non-resident inflows include:

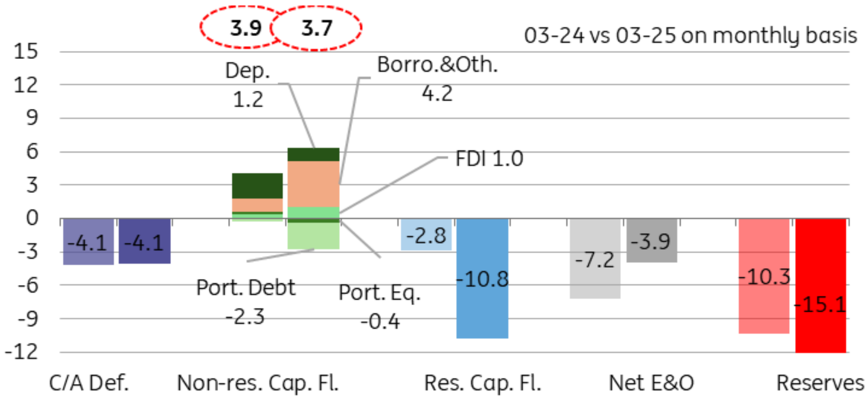
- $2.8bn deposits held at local banks (vs a continuing reduction of foreign deposits at the Central Bank of Turkey by $1.6bn).
- $0.8bn trade credits.
- $3.4bn net borrowing. A large portion was attributable to the banking sector, with $2.8bn mainly in the long-term and the rest attributable to corporates. Consequently, the long-term debt rollover rates stood at 140% for corporations and 307% for banks, compared to 130% and 160%, respectively, on a 12-month rolling basis.

On the flip side, a $2.7bn portfolio outflow (including foreigners' sell-off in bonds and equities as well as the Treasury's debt repayment) limited these inflows.

In the first quarter of 2025:

- Resident outflows have remained flat compared to the same period in 2024 at around $12-13bn.
- In contrast, foreign inflows surged, reaching $19.7bn vs $7.5bn in the same period of 2024.
- Accordingly, the capital account turned positive at $7.4bn vs $5.2bn outflows recorded last year.
- Additionally, outflows via net errors and omissions have remained high at $6.7bn, compared to $7.7bn in 2024.
- As a result, with the deterioration in the current account deficit – which widened from $-9.7bn to $-12.3bn – official reserves depleted by $11.6bn, in contrast to the $22.7bn decline recorded last year.

Breakdown of financing (monthly, US$bn)



Source: CBT, ING

In summary, while the current account deficit ceased widening in March, capital account developments were the key to significant outflows. Preliminary customs data from the Ministry of Trade indicate a year-on-year widening in the foreign trade deficit for April. Looking ahead, several factors – including increasing external uncertainty due to trade developments that will impact global growth, capital flows, and commodity prices, and the impact of recent domestic political developments leading to tighter financial conditions – are expected to shape the future trajectory of Turkey's current account balance.

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