

Turkey sees a continued improvement in its external imbalances

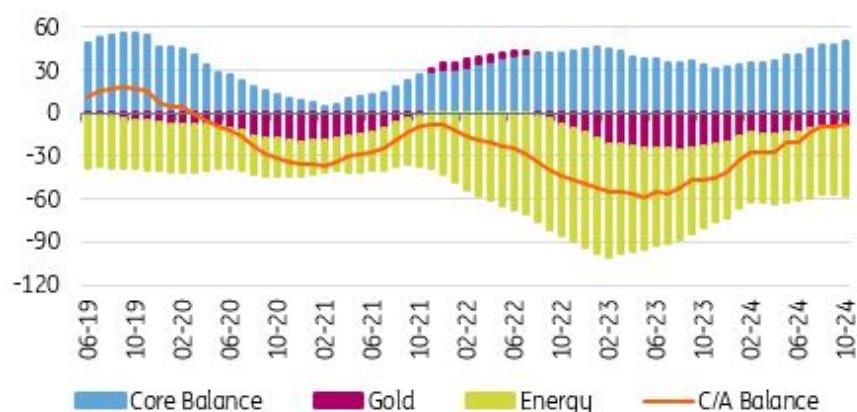
In October, Turkey's current account balance posted a US\$1.9bn surplus. A contraction in the country's foreign trade deficit and the increase in tourism revenues were the main factors driving the improvement from 2023 to 2024



Eminonu Square in Istanbul, Turkey

In October, Turkey's current account balance posted a US\$1.9bn surplus, higher than the market consensus of US\$1.3bn and our call of US\$1bn. Given that it was well above that in the same month of 2023, the 12-month rolling deficit that has maintained a narrowing trend to US\$7.7bn (translating into around 0.6% of GDP). This is from US\$9.5bn a month ago, which was the lowest reading since mid-2020.

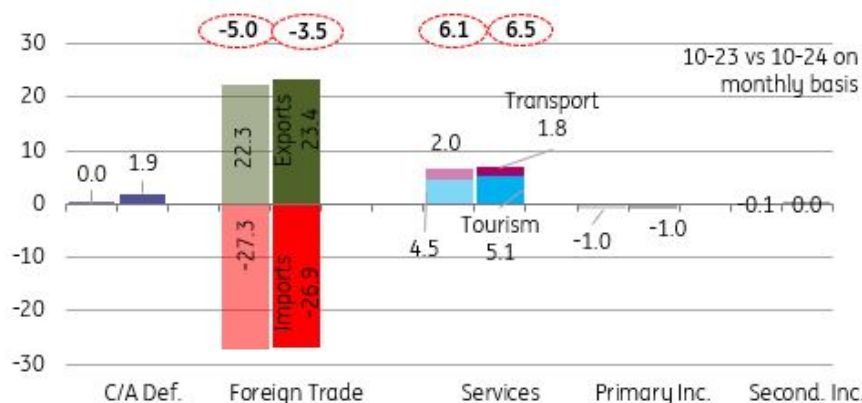
Current account (12M rolling, US\$bn)



Source: CBT, ING

In the breakdown and compared with the same month of last year, we see: a) the core trade balance turning to US\$1.7bn surplus from a slight deficit, b) an almost flat (net) energy bill of around US\$-3.7bn, c) the gold deficit widening to US\$-1.5bn vs US\$-0.9bn last year, d) higher services income (including tourism revenues) at US\$6.5bn, and e) no meaningful changes in primary and secondary income. While core trade was the key driver of, cumulative impact of these developments was US\$1.9bn improvement in the headline current account balance in October alone.

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



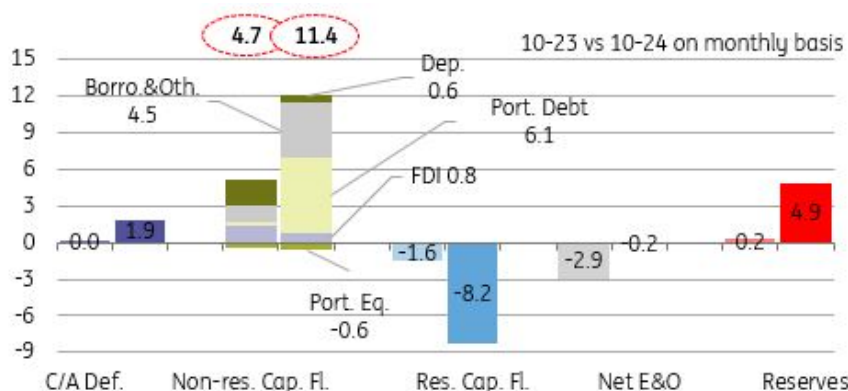
Source: CBT, ING

The capital account, which turned positive in September following outflows in August, remained that way with US\$3.2bn inflows. The strong monthly c/a surplus, combined with a positive capital account and minor outflows in net errors and omissions of US\$-0.2 billion, resulted in an expansion of official reserves by US\$4.9 billion in October.

In the breakdown of monthly data, residents' movements (including outward FDI, financial assets held abroad etc.) posted US\$8.2bn in outflows. Non-resident flows on the other hand strengthened further with US\$11.4bn. A renewed appetite in foreign flows is attributable to: a) banks' US\$1.8bn

Eurobond issuances, b) continuing domestic debt purchases of US\$1.0bn, c) the Treasury's US\$1.7bn in external borrowing, and d) US\$4.4bn net borrowing driven both by banks (more on the short-term). Accordingly, long-term debt rollover rates stood at 108% for corporates and 80% for banking (vs 113% and 139% respectively on a 12-month rolling basis).

Breakdown of financing (monthly, US\$bn)



Source: CBT, ING

In the first 10 months of 2024, non-resident inflows improved compared to the same period of 2023 at US\$64.7bn (from US\$49bn), while increasing asset acquisitions of locals abroad led a decline in net identified flows (to US\$18.8bn from US\$36.6bn last year). Additionally, outflows via net errors and omissions rose to US\$14.7bn vs US\$11.2bn in 2023. Despite a strong recovery in the current account balance from US\$-36.1bn to a mere US\$-3.3bn, official reserves recorded a slight US\$0.7bn expansion vs US\$10.7bn decline last year.

Overall, Balance of Payments (BoP) dynamics have improved significantly this year thanks to resilient exports despite significant real Turkish lira appreciation, as well as contracting imports driven by a lower gold and energy deficit – though the impact of monetary policy tightening on consumption goods imports has remained limited so far. The provisional customs data released by the Ministry of Trade reveal that foreign trade deficit widened in November by more than 20% year-on-year. However, the near-term outlook implies that the 12-month rolling current account deficit will likely remain below US\$10bn at the end of 2024, while the impact of the Central Bank of Turkey's actions on the balancing of demand factors will continue to be supportive for the current account next year.

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