Turkish current account balance most likely at cyclical low

The current account balance in Turkey continued to deteriorate in 2020 on the back of the widening trade deficit and fall in services income and closed the year at the lowest level since the financial shock in 2018

Source: Shutterstock

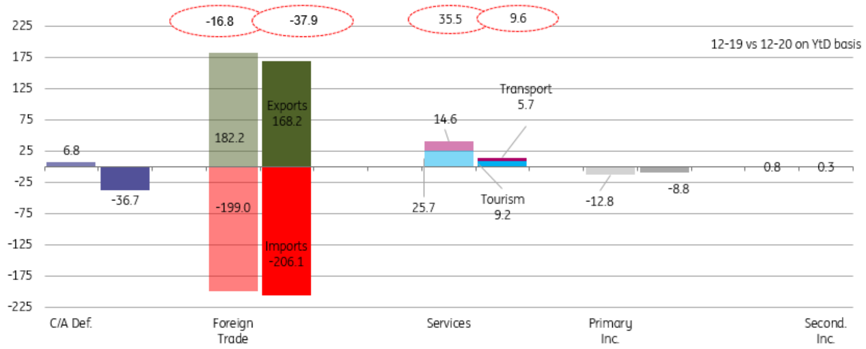
The 12-month rolling current account balance in Turkey showed a significant deterioration last year on the back of the pandemic and is likely to stand at its cyclical low at US$36.7 billion deficit at the end of 2020, translating into around 5.1% of GDP.

The details of foreign trade show that gold imports almost doubled reflecting the large demand by locals, while energy balance recovered by around 27% thanks to lower oil prices vs 2019. Also, we saw a 4.2% year-on-year contraction in core exports (excluding gold and energy), while core imports recorded a 5.6% YoY growth.

So, the last year witnessed a correction in core exports in comparison to strong core imports driven by large credit stimulus.

On a monthly basis, with a better than expected outcome, current account recorded a deficit of US$3.2 bn in December, though comparing unfavourably with the US$2.7 bn surplus secured in the same month of 2019. The major item responsible for the widening in the monthly deficit was a plunge in services income with weak tourism and transportation revenues, while the recovery in goods balance and primary income limited the deterioration.

Breakdown of current account (US$ bn, in 2020)



Source: CBT, ING

Capital account

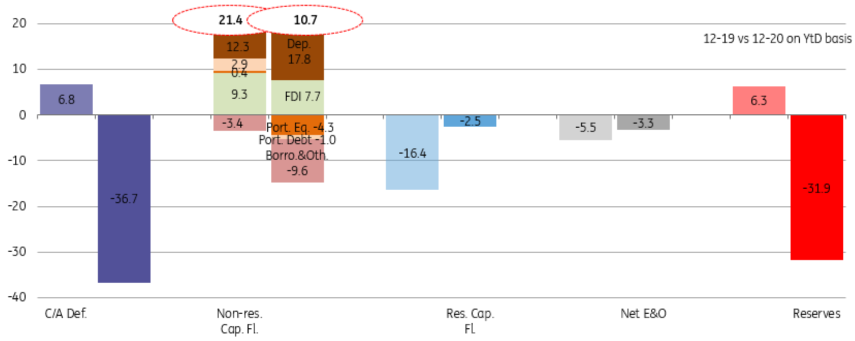
The capital account turned positive in December with US$9.2 bn - the largest monthly inflow since the first month of 2018, thanks to increasing appetite of non-residents following policy shift in early November. With the current account deficit and net errors & omissions at US$0.7 bn, reserves recorded a marked US$6.7 bn increase.

In the breakdown of the non-resident flows, the impact of non-debt creating flows was at US$1.8 bn, mainly driven by gross FDI, while the key debt creating items witnessed US$6.8 bn inflows thanks to i) the Treasury's US$2.3 bn net borrowing, ii) US$2.0 bn purchases in the local government bond market and iii) banks' US$0.7 bn bond issuance. Net borrowing, on the other hand, was also positive at U$1.1 bn, attributable to both banks and corporates. Accordingly, in December alone, the long-term rollover ratio for banks was at 95% vs 120% for corporates.

For 2020, US$31.9 bn reserve depletion was recorded, contributed by US$3.3 bn net errors & omissions, relatively low capital flows at US$9.1 billion recorded towards the end of the year and large deficit in the current account.

These numbers show a challenging picture for external financing last year, banks and corporates have maintained their ability to access foreign funding with 80% and 76% long-term rollover rates, while trade credits rollover has markedly dropped to 100% from 108% a year ago.

Breakdown of capital account (US$ bn, in 2020)



Source: CBT, ING

Despite the implementation of more restrictive policies since August, the Turkish current account balance remains on a deteriorating path on the back of widening trade deficit and fall in services income and closed the year at the lowest level since the financial shock in 2018.

The current account deficit should narrow this year with all the normalisation efforts, meaning a reversion in gold deficit & recovery in tourism, though the extent of improvement will also be determined by the global recovery.

Despite the recovery in the current account, capital flows should further strengthen to boost reserves given relatively demanding external debt payments.

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