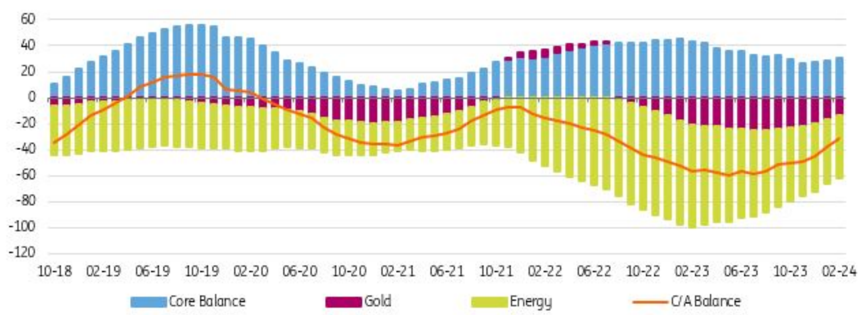
Turkey's current account deficit considerably narrower in February

The downward trend in the Turkish current account remained intact in February, with a further drop in the 12-month rolling deficit to US$31.8bn from US$37.5bn a month ago

Shoppers in Istanbul

Current account (12M rolling, US$bn)

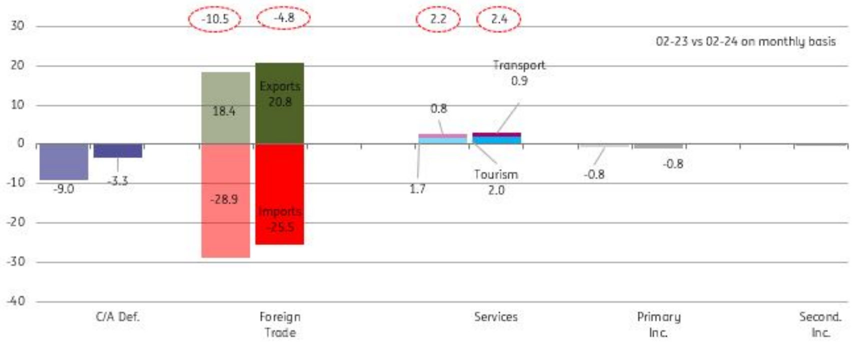


Source: CBT, ING

The February current account posted a deficit of US$3.3bn, better than the market consensus of US$3.7bn. In the breakdown when comparing with the same month of last year, we see (i) a continuing decline in the gold trade deficit to US$0.7bn in Feb-24 vs US$3.4bn a year ago, (ii) a recovery in net energy traded, with a fall in the deficit to US$4.4bn from US$5.8bn, and (iii) the core trade balance turning to surplus at US$0.6bn, from a slight deficit of US$0.9bn.

While the trade balance turned out to be a major driver of the recovery in the current account balance, a marginal increase in the services surplus was offset by a decline in primary income. The 12-month rolling deficit recorded a sharp decline to US$31.8bn (c.2.9% of GDP) from US$37.6bn a month ago, also reflecting the large base in February 2023.

Current account breakdown (monthly, US$bn)

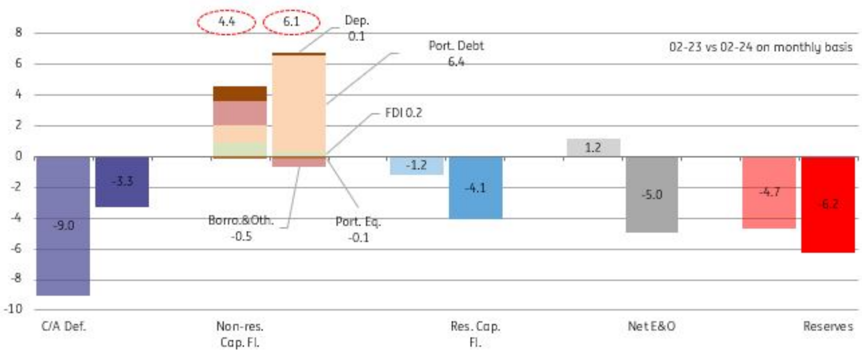


Source: CBT, ING

On the capital account, net identified flows remained weak at just US$2.0bn following mild outflows a month ago. Errors and omissions outflows, which have been present since September, came in at US$5.0bn in February (or US$17.4bn over the last 12 months). With the monthly c/a deficit and weak flow outlook, official reserves came to US$6.2bn (after another US$6.2bn drop in January).

In the breakdown of monthly data, inflows were driven by Eurobond issuance by the Treasury (US$3bn) and banks (US$2.7bn) while we saw mild inflows via gross FDI (US$0.4bn), net borrowing (US$0.1bn), and non-resident deposits in the banking system (US$0.1bn). Residents' fund movements drove the outflows with (i) portfolio investments of US$1.8bn, and (ii) acquisition of financial assets abroad at US$1.9bn. In February, rollover rates stood at 133% for corporates and 111% for financials (vs 93% and 118% respectively on a 12-month rolling basis).

Breakdown of financing (monthly, US$bn)



Source: CBT, ING

In sum, the improvement in the current account deficit in February was attributable to a continuing recovery in the foreign trade deficit. The downward trend that started after the peak in July has remained intact. The provisional customs data released by the Ministry of Trade reveals that the foreign trade deficit dropped by around 10%, to US$7.5bn, in March. The data implies a continuation of the improvement in external balances, though at a much lower pace after the sharp narrowing in the first two months of this year. Going forward, the impact on demand from the recent central bank tightening is likely to support the trend in the current account, while the ongoing recovery in global economic activity is expected to have a favourable impact on Turkey's exports and thus on the c/a balance. On the flipside, the rise in global commodity prices, particularly energy prices, may limit the slowdown in imports.

Author

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

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