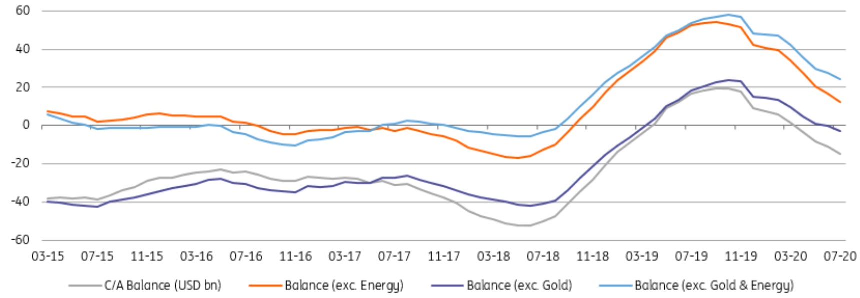
Turkey: Current account deficit dives further

A deteriorating current account balance with a widening trade deficit and plunge in services income, along with weak capital flows, point to a challenging external outlook this year

Source: iStock

Standing at US$1.8bn, the July current account deficit turned out to be slightly narrower than the consensus at US$2.0bn. The data shows a continued deterioration in the services balance, while the deficit in the goods balance is narrower than last year. With the July figure, the 12M rolling c/a deficit reached US$14.9bn compared with a surplus of US$8.8bn at the end of 2019. The worsening this year so far is attributable to the deterioration in core and gold deficits in the goods balance and a plunge in the services balance with the breakout of the pandemic. In fact, the 12M rolling c/a deficit excluding gold is only slightly negative, which is indicative of the impact from shifting portfolio preferences of locals towards gold.

External Balances (USD bn, 12M rolling)



Source: CBT, ING

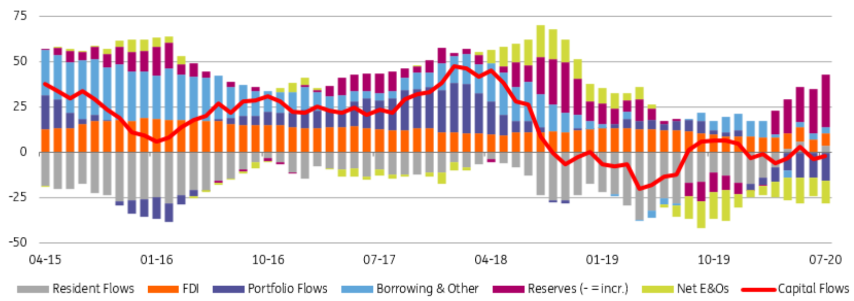
On the capital account, July showed subdued inflows at US$3.7 bn mainly on the back of debt creating flows. Despite the c/a deficit and a negative net errors & omissions reading at US$-3.1 bn, reserve depletion turned out to be relatively modest at US$1.3bn.

In the breakdown of the capital account, residents who reduced external asset holdings in the first seven months of this year (by US$5.8 bn) slightly increased their assets by US$0.3bn in July alone, driven by direct investments and deposits vs a reduction in portfolio investments.

Regarding non-resident flows, the key debt creating items witnessed US$3.4bn of inflows and determined the shape of the capital account. These inflows were attributable to 1) trade credits rising by US$2.1bn 2) deposits at the central bank up by US$0.6bn and 3) deposits of foreign banks at the local banking system increasing by US$1.4bn. On the flip side, corporates were net debt payers, at US$0.5 bn, while banks' short-term borrowing marginally exceeded their long term debt repayments. Accordingly, in July alone, the long-term rollover ratio for banks was at 89% vs 74% for corporates, or 78% and 74%, respectively, on 12M rolling basis. So, the data shows that deleveraging in the corporate sector continues while rollover ratios for banks have improved in comparison to last year.

Regarding non-debt creating flows, gross foreign direct investment flows stood at US$1.1 bn while outflows from the equity market turned out to be US$0.5bn.

Breakdown of C/A Financing (US$bn, 12M Rolling)



Source: CBT, ING

Overall, the deteriorating c/a balance with a widening trade deficit and plunge in services income, along with weak capital flows, point to a challenging external outlook this year. The preliminary August trade data shows another large widening in the deficit due to relatively weak exports and record-high gold imports indicating a continuation of pressure in external balances, though the pace of expansion should lose some momentum in the remainder of the year. For the capital flows, rollover ratios should increase to avoid further FX reserve losses.

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