Turkey: Current account deficit shows signs of improvement

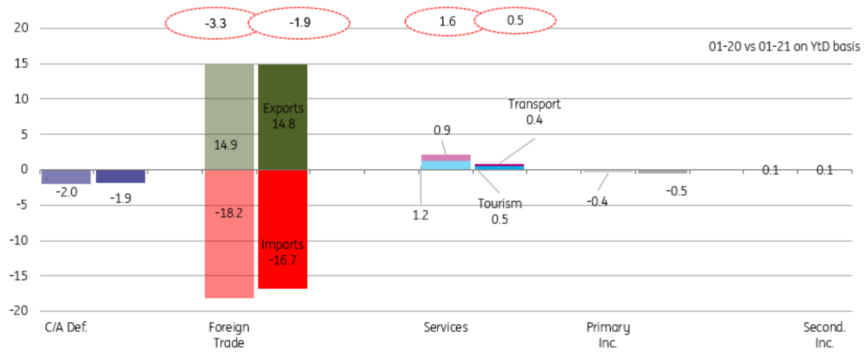
The current account deficit, which is expected to narrow in 2021 due to normalisation efforts, a mean reversion in the gold deficit and a recovery in tourism, showed initial signs of improvement in January

Source: shutterstock

The 12-month rolling current account deficit showed a gradual recovery in January, standing at $36.6bn from a cyclical low of $36.8bn. This is attributable to an improvement in the trade deficit, despite continuing weakness in services revenues driven by both transport and tourism income.

In the breakdown of foreign trade, the net gold deficit has shown signs of moderation and halved in January while we also saw a continuation of the supportive impact from energy prices. However, a continuing increase in the core deficit (excluding gold and energy) limited the improvement.

Breakdown of current account (US$ bn)



Source: CBT, ING

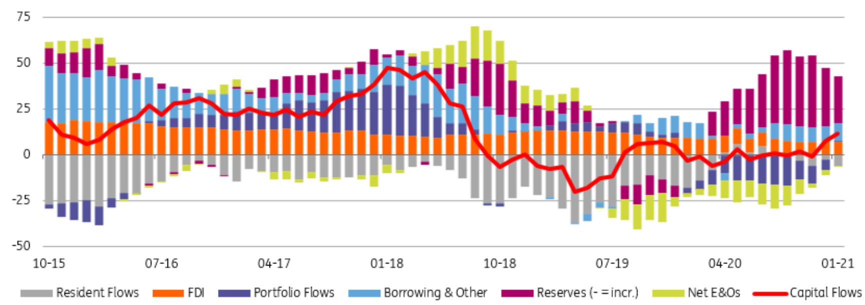
The capital account has remained positive at $1.6bn in January, though inflows lost some momentum after the largest monthly inflows in December since the first month of 2018. With the current account deficit and net errors & omissions at $3.8bn, reserves have maintained their uptrend with a $3.6bn increase.

In the breakdown, resident outflows accelerated to $6.1bn, driven mainly by local banks' growing deposit holdings abroad.

Non-resident flows of $7.8bn more than offset resident outflows, the impact of non-debt creating items was minimal at $0.2 bn, mainly driven by gross FDI, while the key debt creating items saw $7.5bn of inflows thanks to i) the Treasury's $3.5bn net borrowing, ii) $0.9bn purchases in the local government bond market and iii) banks' $0.9bn bond issuance iv) growing deposits of foreign investors at the central bank by $1.4bn and in local banking by $2.9bn.

Net borrowing, on the other hand, was flat as banks' repayments were broadly offset by corporates' borrowings. Accordingly, in January alone, the long-term rollover ratio for the banking sector was at 68% vs 124% for the real sector.

Breakdown of capital account (US$ bn)



Source: CBT, ING

The current account deficit, which is expected to narrow in 2021 thanks to normalisation efforts, a mean reversion in the gold deficit and a recovery in tourism, showed initial signs of improvement in January. However, the ongoing rise in import prices can significantly limit the pace of recovery. So, depending on the extent of the commodity price uptrend, a continuation of tight credit policy and demand control becomes even more important for the external outlook.

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