Current account deficit on the rise in Turkey

The current account deficit on a 12-month rolling basis recorded a sharp expansion in January with the worst monthly figure since end-2017, and returned back to above the US$20bn level mainly on the back of the higher energy deficit

As oil prices continue to rise, we expect the current account deficit to widen further in the near term

US$7.1bn

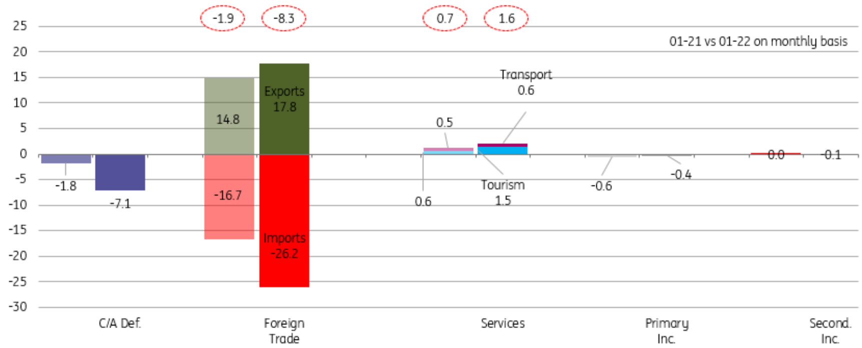
c/a balance

(as of January, on a monthly basis)

Better than expected

Standing at US$7.1bn, the current account (c/a) deficit in January turned out to be narrower than the consensus forecast. With the worst monthly figure since the end of 2017, the 12-month rolling c/a deficit – which had shown a significant improvement last year – jumped in the first month of 2022 to $20.2bn (translating into c.2.6% of GDP) on the back of the more than quadrupled energy deficit to $8.1bn, as well as lower core trade surplus despite the narrower gold balance and further recovery in services revenues.

Breakdown of the current account (US$bn, on a monthly basis)



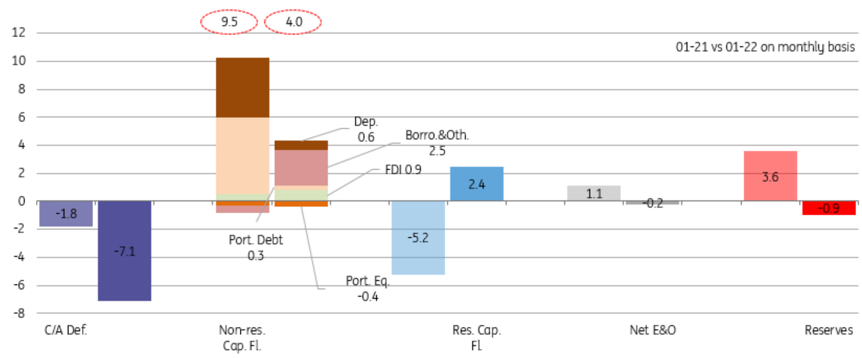
Source: CBT, ING

The capital account turned positive in January with $6.4bn, attributable to increasing resident inflows, and modest non-resident inflows. With the large c/a deficit and slightly negative net errors and omissions, reserves recorded a $0.9bn decline.

In the breakdown of monthly flows, we saw residents reducing their external assets and bringing them back, amounting to $2.4bn driven by trade credit repayments by foreign counterparties and declining financial assets of domestic banks held abroad. For non-residents, $4.0bn inflows were attributable to debt creating flows, namely $3.0bn trade credits, and $0.6bn deposits placed by foreign investors to Turkish banks – despite $0.5bn net debt payment, driven by banks being net payers for their short-term debt. Among non-debt creating flows, $0.8bn gross foreign direct investment (FDI) more than matched $0.4bn outflows from the equity market.

On a 12-month rolling basis, $18.8bn reserve accumulation was realised, made up of $8.9bn net errors and omissions, relatively higher capital flows at $30.2bn on the back of FDI, trade credits, and deposits, including by both the central bank the banking sector. Regarding borrowing, we saw a strong long-term debt rollover rate for corporates at 134% (vs 138% in January alone), while the same ratio for banks stood at 95% (106% in January).

Breakdown of the capital account (US$ bn, on a monthly basis)



Source: CBT, ING

Overall, the current account deficit that remained on a narrowing path last year has changed direction with a strong expansion in January driven by higher energy bills. As oil prices continue to rise, we expect the current account deficit to widen further in the near term. The outlook for the whole year will be determined by tourism revenues and the risk of oil prices remaining higher for longer given the ongoing conflict between Russia and Ukraine, while the slowdown in economic activity leading to weaker core imports can be a limiting factor. On the financing side, significant reliance on net errors and omissions and recent weakness in registered flows hint at challenges in the capital account, while the global backdrop turning less supportive should also add to these challenges in 2022.

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