Turkish current account continues to widen

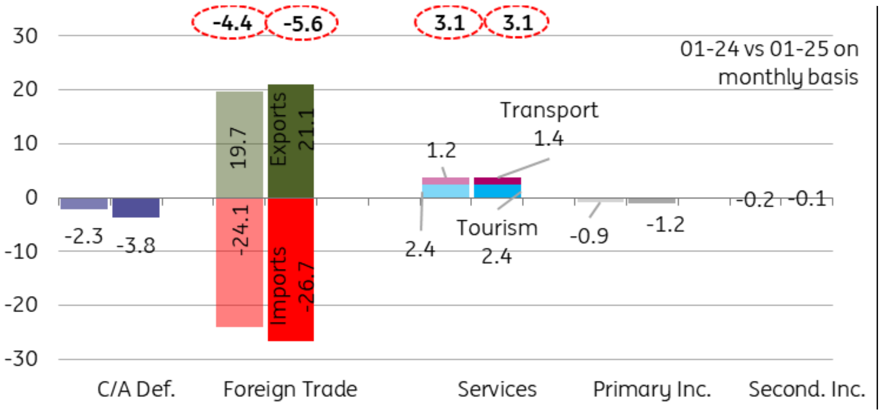
The worsening of the current account deficit in January was primarily due to a foreign trade deficit that exceeded last year's figures

In January, Turkey's current account registered a deficit of $3.8bn, exceeding both the market consensus of $3.2bn and our estimate of $3.5bn. A detailed analysis of the monthly data reveals that the higher deficit, compared to the same month last year, can be attributed to two main factors:

- A smaller surplus in the core trade balance (excluding gold and energy), which stood at $0.6bn, down from $1.8bn.
- A larger deficit in the primary income balance, which increased to $1.2bn from $0.9bn.

As a result, the 12-month rolling current account deficit, which began widening in November last year, grew to $11.5bn (approximately 0.9% of GDP), compared to $10.0bn at the end of 2024.

Breakdown of the current account (monthly, $bn)



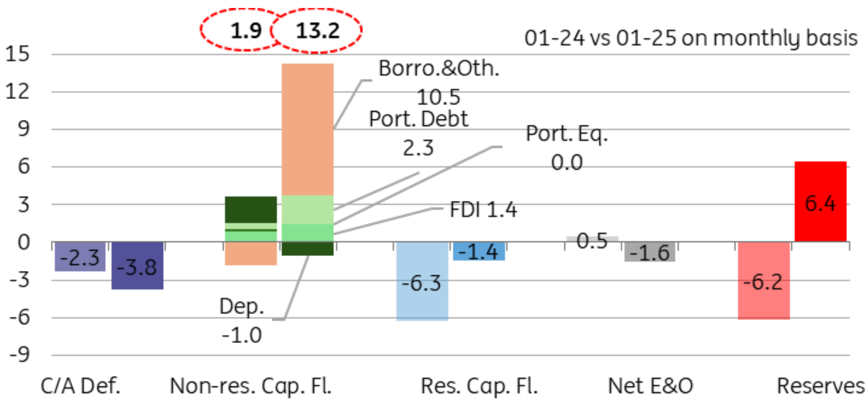
Source: CBT, ING

On the capital account side, there were inflows amounting to $11.8bn, significantly outpacing the monthly current account deficit. Despite net errors and omissions resulting in $1.6bn of outflows, official reserves expanded by $6.4bn in January.

A deeper look into the monthly data shows that residents' activities caused $1.4bn in outflows. These were driven by outward foreign direct investments (FDI), portfolio investments, increased deposits abroad, and extended credits. In contrast, non-resident activities resulted in inflows of $13.2bn, primarily from debt-creating sources. These foreign inflows consisted of:

- Inward FDI amounting to $1.1bn.
- Purchases in the bond market totaling $2.3bn.
- Net borrowing by banks of $11.2bn, of which $7.3bn was short-term borrowing. Consequently, the long-term debt rollover rates were 132% for corporations and 520% for banks, compared to the respective rates of 126% and 148% on a 12-month rolling basis.

Breakdown of financing (monthly, $bn)



Source: CBT, ING

Overall, as expected, the current account continued its gradual widening trend in January, driven by foreign trade developments. Preliminary customs data released by the Ministry of Trade indicate that the foreign trade deficit expanded further in February, rising by approximately 20% year-on-year.

The external deficit, influenced by factors such as energy prices, EU economic growth, the pace of domestic economic activity, tourism revenues, and gold imports, is projected to widen to 1.3% of GDP this year. However, it is still expected to remain below the long-term average of approximately 3% of GDP.

The Central Bank of Turkey's (CBT) policies aimed at balancing demand will play a critical role in shaping the current account dynamics this year.

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