

Turkey: Current account deficit slightly widened in December

Turkey's current account deficit on a 12-month rolling basis widened for the first time since last February. This is attributable to expanding imports on the back of higher energy bills, though exports and tourism revenues on the services side also remained strong



Source: Flickr

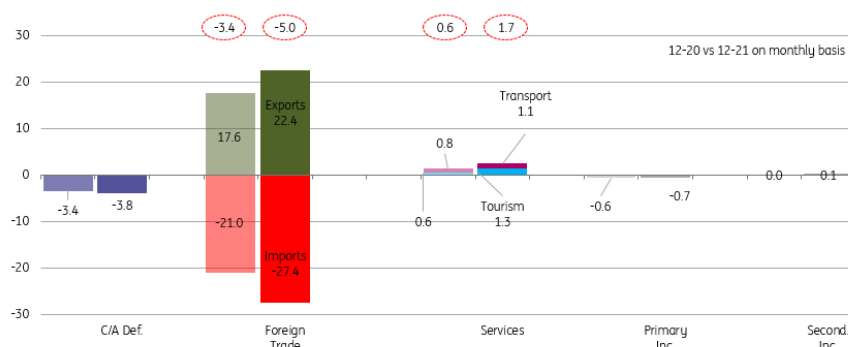
The 12-month rolling current account (c/a) balance showed a significant improvement last year due to:

- A narrower goods deficit despite surging energy imports. This was due to the almost balanced gold trade which swung from a large deficit, and rapid export growth amid a supportive global backdrop and price effects.
- A sharp recovery in the services balance thanks to tourism and transportation revenues. Accordingly, this figure showed a low US\$14.9bn deficit at the end of 2021, translating into c. 1.9% of GDP.

On a monthly basis, the current account recorded a deficit of US\$3.8bn in December, which is up from the US\$3.4bn deficit recorded in the same month of 2020. The major item responsible for the

widening in the monthly deficit was the spike in energy imports amid higher oil and natural gas prices, while the recovery in the gold balance and services income limited the deterioration.

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

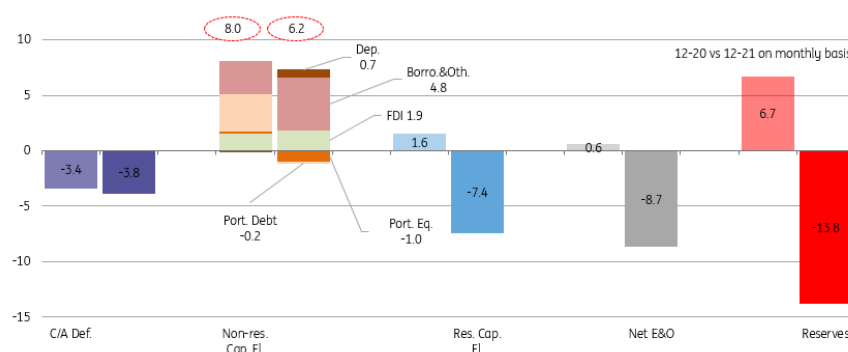


Source: CBT, ING

The capital account turned negative in December with US\$1.2 bn of outflows, attributable to increasing resident outflows, despite relatively healthy non-resident inflows. With the c/a deficit and net errors & omissions at US\$8.7 bn, reserves recorded a marked US\$13.8bn decline.

In the breakdown of monthly flows, we saw continuing asset acquisitions by residents amounting to US\$7.4bn driven by trade credits extended to foreign counterparties and increasing financial assets of domestic banks held abroad. For the non-residents, US\$6.2bn inflows were attributable to i) US\$3.3bn of trade credits, ii) US\$0.7bn of deposits placed by foreign investors to Turkish banks iii) US\$2.4bn in gross FDI iv) US\$1.7bn net borrowing in the corporate sector despite banks being net payers for their debt. On the flip side, US\$1.0bn of outflows from the equity market limited foreign inflows.

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



Source: CBT, ING

For the whole of 2021, a reserve accumulation of US\$23.3bn was recorded amid US\$10.5 bn in net errors & omissions, relatively higher capital flows in comparison to 2020 at US\$27.7bn, and a narrowing deficit in the current account. These numbers still show a challenging picture for external financing last year given the reliance on contributions from the central bank's swap deals at roughly US5.0bn. However, we saw a strong long-term debt rollover rate for corporates at 133%

(vs 214% in December alone), while the same ratio for banks stood at 95% (141% in December). Trade credits also markedly expanded at US\$14.9bn last year vs a slight contraction in 2020.

The current account, which narrowed throughout 2021, showed signs of changing direction in December, with a slight increase in the deficit. Early indicators reveal that imports continue to be strong amid a surge in energy imports, hinting at a further expansion in the near term with a higher foreign trade deficit. However, export volume growth will likely remain resilient due to price effects from exchange rate movements and a recovery in global demand, while the expected moderation in domestic demand should keep imports in check. Most importantly, tourism revenues should continue to increase rapidly with easing pandemic pressures and the lira's depreciation supporting tourism demand. Given this backdrop, the current account should remain under control this year, in our view. On the financing side, the significant reliance on net errors & omissions and recent weakness in registered flows hint at challenges in the capital account, while a less supportive global backdrop should add to these challenges in 2022.

Author

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.