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

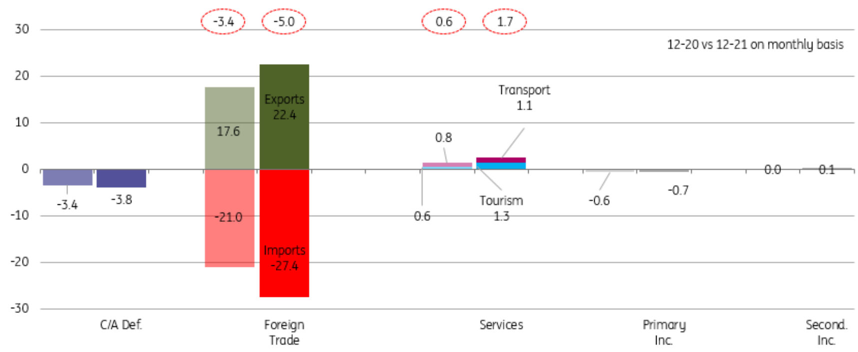
Source: Flickr

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)

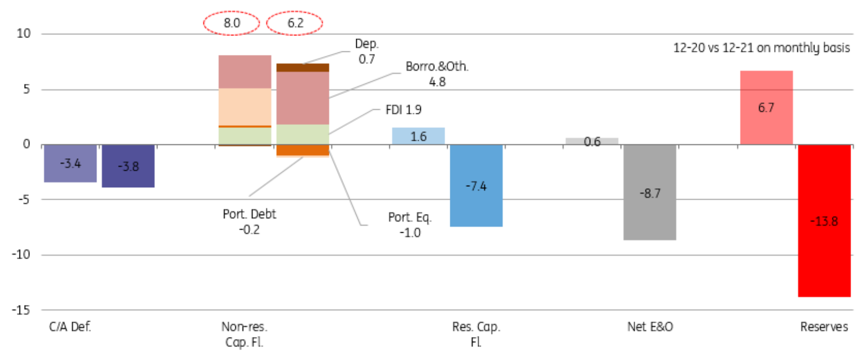


Source: CBT, ING

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.

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