Turkey: Deficit still widening

The current account balance recorded a deficit of USD4.8bn in March, higher than the market consensus, while the 12-month rolling deficit kept widening mainly due to the contribution of gold imports and rising energy bills

Source: Shutterstock

USD4.8bn

C/A Deficit

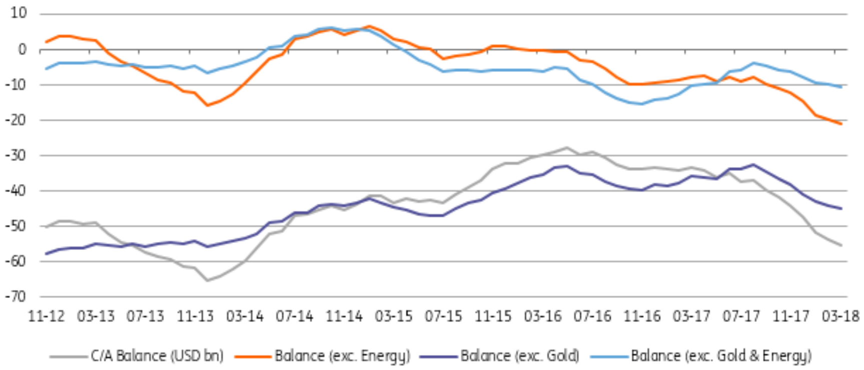
(in March)

Worse than expected

The current account deficit continued to widen in March at USD4.8bn, higher than the market consensus and our call and pulling the 12-month rolling deficit up to USD55.4bn-the highest since Apr-2014. The deterioration in the monthly deficit versus the same period of 2017 is mainly attributable to the ongoing expansion in the trade deficit with accelerating imports on the back of rising gold and energy prices, the pace of the deterioration in core balance has further slowed down in March. Services income, which has continued to improve on the back of a sharp recovery in net tourism revenues by 32% year-on-year, offset the cumulative impact of an expansion in the primary income deficit and decline in secondary income surplus.

Evolution of C/A Deficit

(USD bn, 12M rolling)



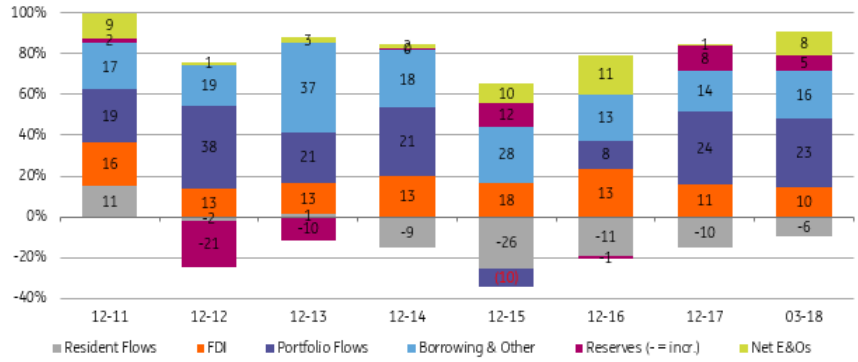
Source: CBT, ING Bank

On the financing front, capital flows- which have weakened since the last quarter of 2017 to some extent with outflows in November and December- recorded another weak month with USD2.9bn, the largest outflow since end-2016. This shows the impact of a more challenging global backdrop on the back of rising geopolitical risks and volatility in the global financial markets, as well as a deteriorating macro risk perception for Turkey. So the monthly current account deficit and outflows were met by a significant USD2.9bn net error & omissions and drawdown from official reserves by USD4.8bn.

In the breakdown of the capital account, portfolio inflows turned out to be weaker with non-residents' sales in bond and equity markets amounting to USD0.5bn and the Treasury's debt repayment of USD1.5bn. Net borrowing of corporates was negligible as long-term borrowing of USD0.5bn almost matched USD0.4bn short-term debt repayments, while banks were net payers at USD2.1bn (of which USD1.2bn was long-term). Accordingly, 12-month rolling long-term debt rollover ratios stood at 102% and 131% for banks and corporates, respectively, recording an increase for the latter over the previous month. Finally, net FDI which has been generally weak in recent years recorded USD1.0bn.

Breakdown of C/A Financing

(USDbn, 12M rolling)



Source: CBT, ING Bank

> Overall, higher energy prices and unexpectedly strong gold imports led to a wider current account deficit in March. In addition to the risk posed by the widening c/a deficit and continuing large financing needs, the quality of financing has deteriorated with reliance on portfolio flows last year, though this has lost momentum lately. As a result, the capital flow outlook will remain in the spotlight this year, leaving little room for policy complacency.

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