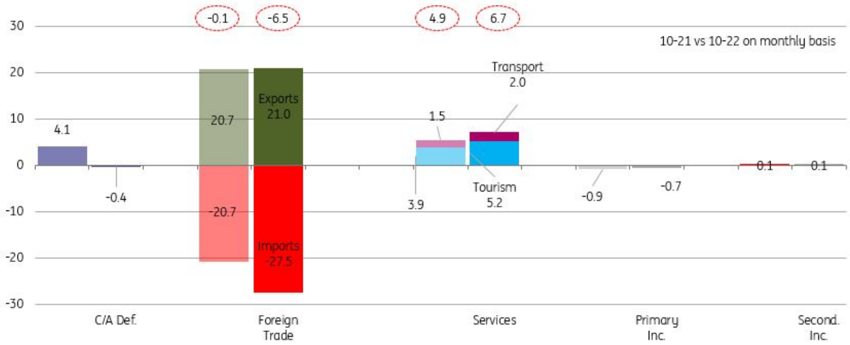
Turkey sees lower than expected external deficit in October

The October current account balance turned out to be better than expected at US$-0.4bn on the back of stronger tourism revenues and higher primary income

Source: iStock

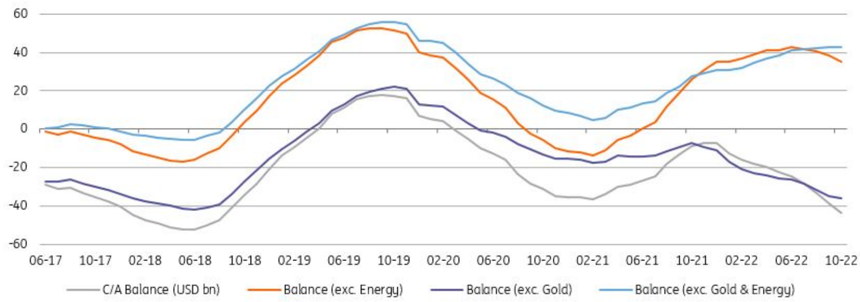
Breakdown of current account (monthly, US$bn)



Source: CBT, ING

The October data showed that the 12M rolling deficit has continued to widen, hitting US$-43.5bn (translating into c. 5.1% of GDP) compared to US$-39.0bn a month ago. The data showed no strong signs of pressure easing in the external accounts, and the key drivers of the monthly reading remained the same as a year ago: i) a lower surplus in core trade (excluding gold and energy) (US$2.5bn vs US$4.5bn last year) ii) a higher energy bill (US$-6.0bn vs US$-4.6bn last year) and iii) a rapid increase in net gold trade (US$-3.0bn vs on balance last year). Services income, on the other hand, has remained strong with a more than 35% year-on-year increase, limiting the deterioration in the current account.

Current account (12M rolling, $bn)

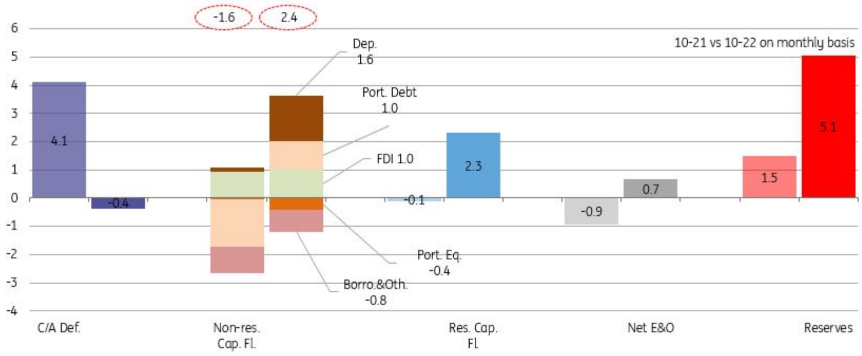


Source: CBT, ING

The capital account in October was positive at US$4.8bn after outflows a month ago, driven by asset disposals of locals abroad. With the current account deficit and continuing strength in net errors & omissions at US$0.7bn (US$21.0bn on a year-to-date basis, still very high despite the latest revisions), official reserves recorded a marked US$5.1bn increase.

In the breakdown of monthly flows, residents' assets abroad recorded a US$2.3bn fall, driven mainly by a decline in their external deposits and trade credits. For non-residents, we saw US$2.4bn of inflows: i) regarding non-debt creating flows of foreign investors, gross FDI (US$0.8bn) more than matched the sell-off in the equity market (US$0.4bn) ii) for debt creating items, we observed US$2.0bn of inflows driven by the Treasury's Eurobond issuance (despite maturing Eurobonds of banks) and non-residents' higher deposits at local banks. Net borrowing was barely negative amid the banking sector's long-term debt repayments. Accordingly, we saw a strong long-term debt rollover rate for corporates at 96% (195% on a 12M rolling basis), while the same ratio for banks stood at 52% (89% on a 12M rolling basis).

Breakdown of financing (monthly, $bn)



Source: CBT, ING

The current account deficit has been on a rapid expansionary path since early this year driven by commodity imports, a particularly high energy bill and growing gold imports. We expect the current account to remain under pressure in the near term given the marked deterioration in the terms of trade, an accommodative policy stance, and that Turkey's major trading partner, the eurozone, faces significant growth pressure. On the capital account, net errors and omissions, which are not a stable source of funding, have been the major financing item, leading to an increase in official reserves on a year-to-date basis. Another boost to reserves in the near term is likely if Turkey and Saudi Arabia finalise the US$5bn deposit deal.

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