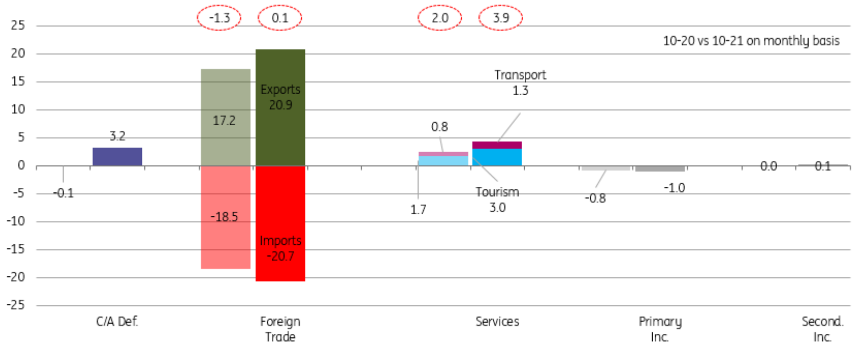
Turkey: October current account surplus beats estimates

The current account deficit on a 12-month rolling basis has continued to narrow in recent months from its cyclical peak in February, driven mainly by robust exports, contracting gold imports and a continued recovery in tourism revenues, notwithstanding the higher energy deficit

Source: iStock

Standing at \$3.2bn, the current account surplus in October turned out to be stronger than the consensus forecast (\$2.4bn), pulling the 12-month rolling external balance to \$-15.4bn (or c. 1.9% of GDP) from \$-18.7bn a month ago. Despite the continuing increase in energy bills, the outcome is attributable to i) a further increase in tourism revenues supporting services income and ii) a narrowing core trade deficit with strength in exports and iii) lower gold imports.

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

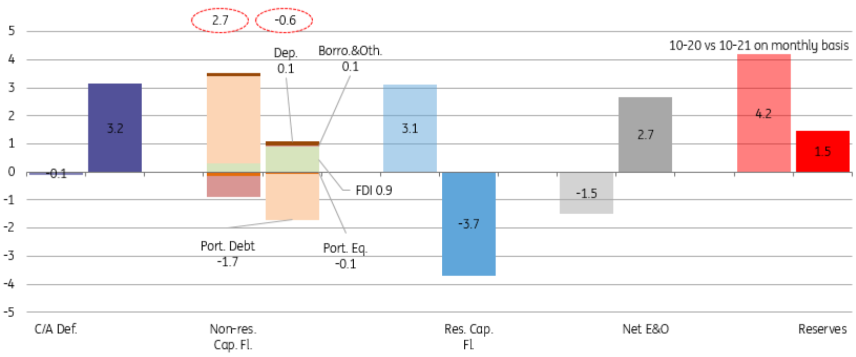


Source: CBT, ING

The capital and financial account, on the other hand, was negative at $-4.3bn driven mainly by resident outflows. Including higher net errors & omissions at $2.7bn, the monthly c/a surplus and capital account, official reserves recorded another increase of $1.5bn. In the breakdown of monthly flows, we saw continued asset acquisitions by residents amounting to $3.7bn, while $0.6bn of outflows by foreign investors contributed to a negative figure in the capital account. Non-resident outflows were driven by maturing eurobonds of banks at $1.2bn, a $0.4bn sell-off in the local bond market and $1.0 of debt repayments by banks and corporates. Gross FDI came in at $0.9bn and trade credits amounted to $1.0bn.

In the first 10 months, we saw: i) some improvement in (gross) FDI flows at $10.8 bn vs $6.2 bn in the same period of 2020 ii) non-resident portfolio inflows standing at $5.2bn including bond issuances vs. outflows of $12.1bn in the equivalent period of last year iii) accelerating unidentified inflows at $14.7bn vs $9.1bn of outflows iv) trade credits up by $8.6bn vs a $1.8bn decline last year v) a net $1.3bn borrowing by banks and companies vs $9.0bn net repayment vi) residents taking $16.8bn of their assets abroad vs $0.7bn of asset acquisitions last year vii) regarding international reserves, an increase of $34.3bn on the back of the Central Bank of Turkey's swap arrangements, the export re-discount scheme, the Treasury's eurobond issuances and the IMF's SDR deployment vs. a drawdown of $38.5bn in the same period of 2020.

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



Source: CBT, ING

The current account deficit has continued to narrow in recent months from its cyclical peak in February at $37.0bn driven mainly by robust exports, contracting gold imports and a continuing recovery in tourism revenues, notwithstanding the higher energy deficit. Given the adjustment in the exchange rate with repercussions on domestic demand and imports, the current account is likely to remain on this narrowing path in the period ahead, with support from higher tourism revenues despite energy imports moving to record highs. On the financing side, the October outcome shows increasing challenges that will likely continue next year with an increasing focus to roll-overs.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer