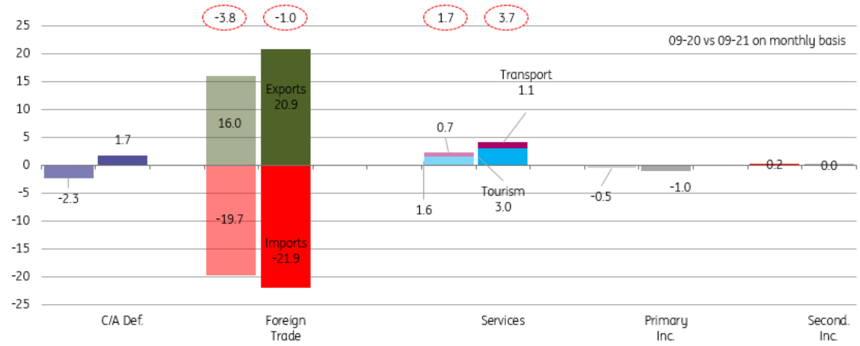
Turkey: September current account again in surplus

While the current account deficit continued to narrow in September, higher energy costs will likely offset any improvement in the gold balance, leaving little scope for continuation of this trend in the last quarter of 2021.

Shoppers in Istanbul

The current account balance recorded a surplus in September, for the second month in a row. With the latest figure at US$1.7 bn being close to the market consensus, the 12M rolling external balance maintained its improvement, to US$18.4 bn (c.2.4% of GDP), from US$22.4 bn a month ago. As has been the case in recent months, (1) a recovery in tourism revenues supporting services income and (2) a narrowing goods trade deficit on the back of lower gold imports and a better core trade balance (notwithstanding a deteriorating energy bill due to the uptrend in oil & natural gas prices) were the reasons for the continuing narrowing in the current account deficit.

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



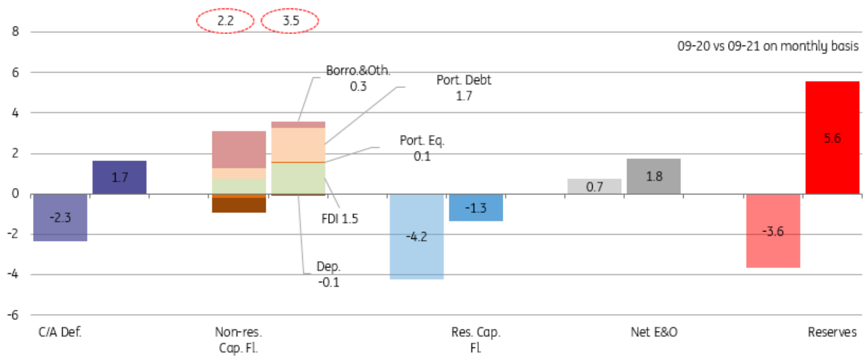
Source: CBT, ING

The capital account remained positive at US$2.2 bn, driven by non-resident inflows. Including higher net errors & omissions at US$1.8 bn, the monthly c/a surplus and the capital account, official reserves saw further accumulation (by US$5.6 bn).

In the breakdown of monthly flows, we saw continuing asset acquisitions by residents amounting to US$1.3 bn, while US$3.5 bn in inflows by foreign investors contributed to a positive figure in the capital account. US$1.8 bn gross FDI and the Treasury's US$2.25 bn issuance in international markets were the drivers behind non-resident inflows.

On a year-to-date basis, we saw: (i) some improvement in (gross) FDI flows at US$9.9 bn vs US$5.8 bn in the same period of 2020, (ii) non-resident portfolio inflows standing at US$6.9 bn including bond issuances, vs. outflows of US$15.1 bn in the equivalent period of last year, (iii) accelerating unidentified inflows at US$13.5 bn vs US$7.8 bn in outflows, (iv) trade credits up by US$6.4 bn, vs a US$2.5 bn decline in the first nine months of last year, (v) net US$2.2bn borrowing by banks and companies vs US$7.6 bn net repayment, (vi) residents' taking US$13.3 bn of their assets abroad vs US$3.8 bn in asset acquisitions between January and September last year, and (vii) regarding international reserves, an increase of US$32.8 bn on the back of the CBT's swap arrangements, the export re-discount scheme, Euro bond issuance and the IMF's SDR deployment vs. a drawdown of US$42.6 bn in the same period of 2020.

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



Source: CBT, ING

Overall, in line with market expectations and the CBT call, the current account has remained on its narrowing path in recent months from its cyclical peak in Feb at US$36.4 bn. This has been driven mainly by an improving services balances on the back of tourism and transportation revenues and a lower foreign trade deficit. In the last quarter, higher energy costs will will likely offset the improvement in the gold balance, leaving little scope for continuation of the recovery in the current account deficit. Accordingly, for the core trade deficit particularly the pace of core imports will likely determine the extent of improvement in the period ahead.

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