Turkey's current account begins widening period

After reaching an all-time high in 3Q, Turkey's 12-month rolling external balance has changed course with a gradual pace though it still remains in the positive territory. Capital flows, on the other hand, have remained subdued

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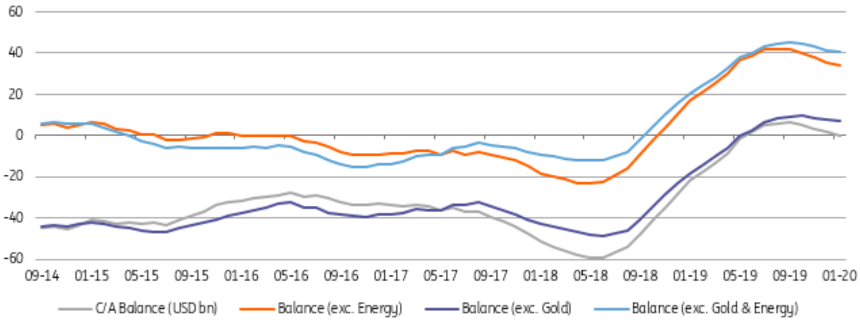
Turkey's 12-month rolling current account balance that had shown a significant improvement until the last quarter of 2019 has adopted a modest reversal trend in recent months, standing at a surplus of US$1.7 billion at the end of 2019.

Accordingly, we saw a contraction of 11.5% YoY in core imports (excluding gold and energy) last year, while core exports recorded a mere growth of 0.3% YoY. So, 2019 witnessed a significant correction in core imports, recovering faster than core exports in the last three months.

On a monthly basis, the current account balance was negative at US$2.8 billion deficit in December, slightly better than expected. In the breakdown, the widening deficit over the same month of 2018 is mainly attributable to widening foreign trade while services income maintained improvement thanks to healthy tourism revenues and contribution from transport income.

External deficit trend

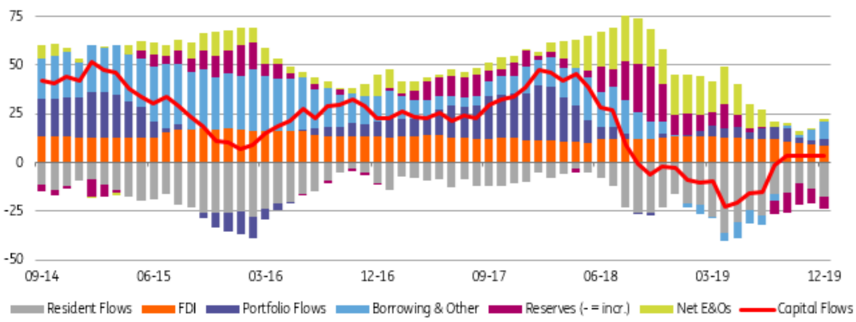


On the capital account side, December shows marginally negative flows as asset acquisitions by locals abroad were mainly offset by debt creating inflows. With the current account deficit and net errors & omissions at US$+2.5 billion, official reserves dropped by US$0.5 billion after five months of consecutive increase. In the breakdown, the corporate sector paid US$3 billion debt (US$2.3 billion of which long-term) while banks' net borrowing was barely negative.

Accordingly, long-term rollover ratio for banks was healthy at 99% vs 36% of corporates - the lowest monthly reading since the early 90s. The major contribution to debt creating flows came from trade credits at US$1.8 billion and US$2.6 billion increase (US$2.0 billion at the CBT) in deposit holdings of non-residents.

For the whole year, US$6.3 billion reserve accumulation is realised contributed by US$1.2 billion net errors & omissions, relatively low capital flows at US$ 3.4 billion and slight surplus in the current account. These numbers show a challenging picture for external financing last year, banks and corporates have maintained ability to access foreign funding with 74% and 89% long-term rollover rates, while trade credits rollover has markedly improved to 109% from 102% a year ago.

External financing trend



Overall, with the end of the external rebalancing process, the current account has started a widening period given the supportive policy stance contributing to the recovery in domestic demand, though the pace will likely remain modest given lower oil prices and still below potential growth.

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