Turkey's current account deficit rises and future will be shaped by global trade tensions

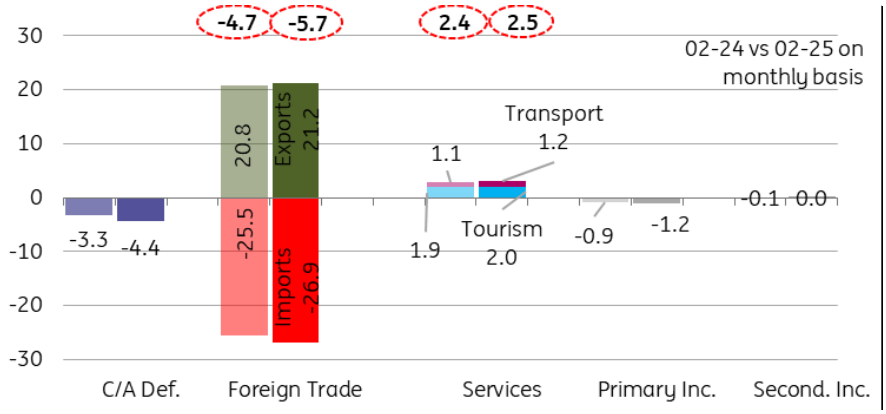
Turkey's current account deficit worsened again in February due to an increase in the foreign trade deficit compared to last year

The current account for February showed a deficit of US$4.4bn, slightly exceeding the market expectation of $4.3bn. A closer look at the monthly data reveals that the larger deficit, compared to the same month last year, was driven by two main factors:

- A widening trade deficit, which grew from $4.7bn to $5.7bn. This increase was mainly due to deteriorating balances in net gold and energy trade.
- A larger deficit in the primary income balance, which rose from $0.9bn to $1.2bn.

As a result, the 12-month rolling current account deficit, which began increasing in November of the previous year, expanded further to $12.8bn (about 1% of GDP), up from $11.8bn recorded in the previous month.

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



Source: CBT, ING

On the capital account side, inflows amounted to $2.6bn, a significant slowdown from the $11.9bn recorded in January. With net errors and omissions outflows at $1.1bn and an increasing current account deficit, official reserves shrank by $2.9bn in February.

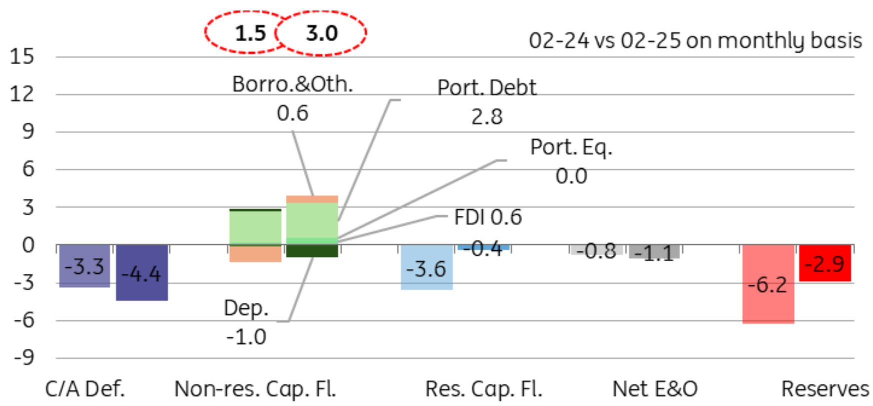
A deeper analysis of the monthly data shows that activities by residents resulted in a moderate outflow of $0.4bn, mainly due to foreign direct investments (FDI) abroad and portfolio investments. On the other hand, activities by non-residents led to $3.0bn in inflows, mainly from debt-creating sources, including:

- $0.5bn in inward FDI.
- $0.7bn trade credits.
- $0.7bn in purchases in the bond market.
- Net foreign borrowing by the Treasury, amounting to $1.5bn.

However, a $1.0bn decline in foreign investors' deposits at local banks limited these inflows.

Net borrowing remained largely unchanged as corporate borrowing offset bank repayments. Consequently, the long-term debt rollover rates stood at 191% for corporations and 220% for banks, compared to 130% and 152%, respectively, on a 12-month rolling basis.

Breakdown of financing (monthly, US$bn)



Source: CBT, ING

In the first two months of 2025, resident outflows fell sharply compared to the same period in 2024, standing at $1.8bn, down from $9.9bn. In contrast, foreign inflows surged, with net borrowing reaching $11.1bn. Meanwhile, increased asset acquisitions by locals abroad contributed to a decline in net identified flows, falling to $18.8bn from a barely positive figure the previous year.

Additionally, outflows via net errors and omissions rose to $2.5bn compared to $0.3bn in 2024. As a result, despite the deterioration in the current account deficit, which widened from $-5.6bn to $-8.4bn, official reserves expanded by $3.5bn, in contrast to the $12.4bn decline recorded last year.

> Overall, as anticipated, the current account deficit continued its gradual widening in February, mainly driven by developments in foreign trade. Preliminary customs data from the Ministry of Trade indicates a slight year-on-year contraction in the foreign trade deficit for March.
>
> Looking ahead, several factors – including increasing uncertainty due to the US-China trade war, declining energy prices, and the impact of recent domestic political developments leading to tighter financial conditions – are expected to shape the future trajectory of the current account balance.

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