External Balance and Debt Dynamics

- After giving a surplus of 1.2% of GDP at the end of 2019, current account balance rapidly turned into a deficit as of April, first led by poor exports and second weak tourism revenues on top of extraordinary factors linked to the Covid-19. After that, the rapid reversal of domestic demand supported by the credit expansion and other impulses started to boost imports in certain sectors, especially the investment goods. Also, led by the impulses and the Central Bank’s efforts to reinforce its gold reserves, gold imports started to increase fast, reaching near 20bn$ in the first 9 months of the year. Therefore, based on the preliminary trade figures, annual current account deficit could reach 4.3% in September.

- Looking ahead, current account balance will remain negatively affected by still poor tourism revenues but we already started to observe some pick-up signals both in goods and services exports and the expected recovery in global demand - especially the Europe- will help at this point. On the other hand, the possible slow-down in imports stemming from the expected deceleration in economic activity and the decline in energy bill on relatively low oil prices could be the buffers in order to have moderate deficits in the short term. The expected normalization in gold imports will also help. Hence, we expect the current account deficit to GDP ratio to continue to weaken but to a much lower extent and materialize as 5.1% in 2020 and have a correction to 4.5% in 2021. In nominal terms, it corresponds to 35bn$ and 33bn$, respectively.

- On the refinancing side, credits are normalizing and the demand is decelerating, reducing the need for external financing. Regarding the external debt redemptions, roll-over rates are still very favorable at above 70% for both banks and corporates. Also, the banking sector FX liquidity buffers are well- enough to sustain their short term financing needs. And the corporates have always been in long position in the short term even in the global financial crisis. For the longer term, above 60% of the corporates external debt is due from the local banks and mostly linked to their trade business. Last but not least, the deleveraging process of the economy after the 2018 currency shock is still continuing reducing the need for financing.

- Lastly, on the Turkey’s debt profile, as you see the households don’t have an FX debt exposure and their outstanding total debt level is pretty low compared to the peers. Although increasing in recent years, public debt still remains contained and positively differentiates from the rest. The only clear negative differentiation comes from the corporate debt, especially on the FX front, which the sector gradually continues with the deleveraging process.

- All in all, Turkey’s debt profile has also been affected by the extraordinary measures taken against the Covid-19 as the other countries also had. Though, the rebalancing process of the economy which has been continuing till the Covid shock, still has the automatic stabilizers to have the absorption capacity in order to keep the current account deficit widening at a moderate level. Second, the recent financial tightening and other normalization steps will also help the stabilization process mentioned above. Third, the expected recovery in the world economy and the tourism sector will certainly be important.