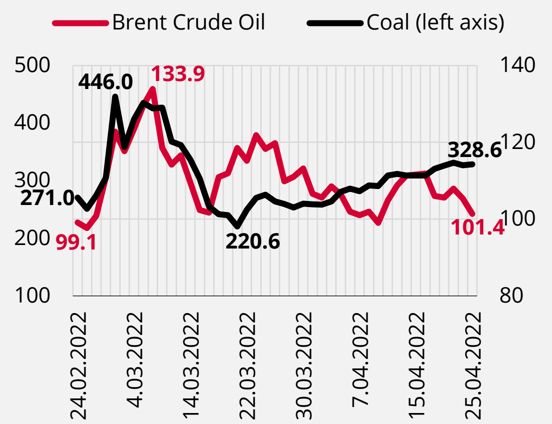
Box 2.3

Possible Effects of Geopolitical Developments on Current Account Balance

Considering that Russia is an important energy supplier at the global level and bearing in mind Türkiye's place in goods and services trade with Ukraine, the conflict between the two countries will have effects on Türkiye's current account balance through foreign trade and tourism channels. This box evaluates the possible reflections of recent geopolitical developments on exports of goods and services and imports, especially energy, and their effects on tourism.

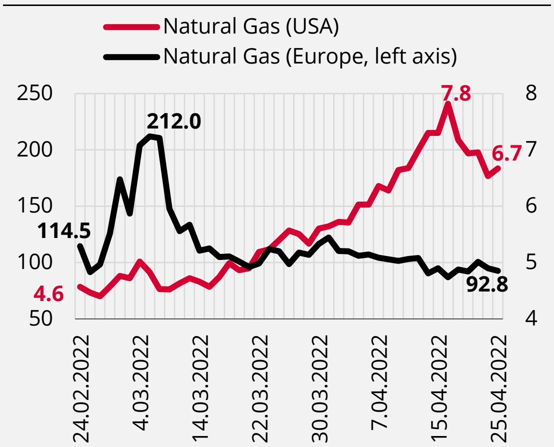
The direct impact of recent geopolitical developments on global energy prices is already being observed. With the start of the conflict, the oil prices hit high levels with the announcement of the sanctions against Russia, which has an important share in global oil production. On the other hand, the start of negotiations between Russia and Ukraine, the decisions of countries to use their strategic reserves, and concerns over global demand triggered by the increasing number of cases in China have caused oil prices to follow a volatile course (Chart 1). Sanctions against Russia, Europe's largest natural gas supplier, have sparked supply concerns in the natural gas market and increased natural gas prices. Netherlands-based 1-month natural gas prices, which are indicative for European natural gas prices, dropped significantly and returned to pre-conflict levels after reaching historical highs. Although there is a similar outlook in coal prices, an increasing trend has been observed recently. On the other hand, natural gas prices in the USA showed an upward trend due to factors such as a demand shift to liquefied natural gas (LNG) and supply-side concerns (Chart 2).

Chart 1: Brent Crude Oil and Coal Prices (US Dollar)



Source: Bloomberg.

Chart 2: Natural Gas Prices (US Dollar/MMBTU and Euro/Mwh)

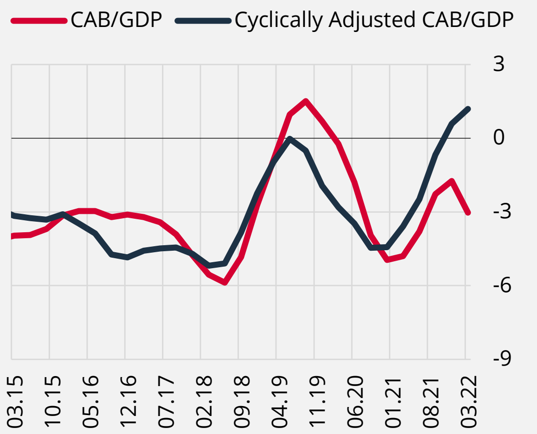


Source: Bloomberg.

Non-energy commodity prices, which were on the rise due to uncertainties in global food security, supply-demand mismatch, disruptions in the supply chain and high levels of transportation costs before the conflict, also displayed a volatile course due to the conflict, and have been moving in a wide range. When analyzed by sub-items, the high levels in wheat and iron prices are noteworthy. Although the course of energy and non-energy prices for the upcoming period will be largely shaped by the results of the negotiations between Russia and Ukraine, it is considered that global liquidity conditions, the increasing number of cases in China and the possible effects of the conflict on global growth will keep downside risks to prices alive.

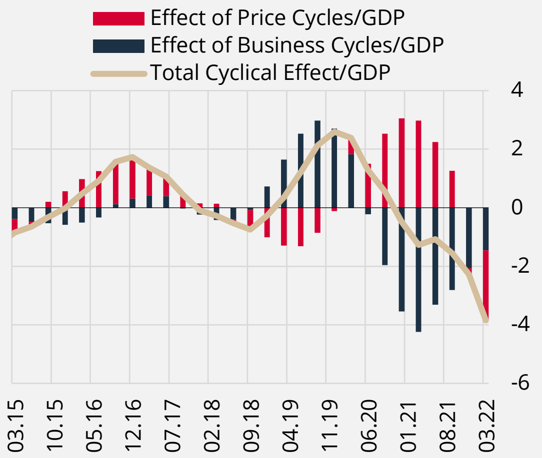
Possible changes in energy import demand in the coming period will be a factor that may limit the sensitivity of the import bill to global energy prices. In recent years, the increase in the share of natural gas imports made through the LNG channel and the diversification of the number of import partners are seen as an important development in terms of supply conditions. In addition, it is predicted that the decrease in energy production from alternative energy sources such as hydroelectricity that was observed in 2021 due to the drought may not be repeated in 2022, and the share of natural gas in electricity production may decrease. This may limit the risks to the current account balance arising from energy imports.

Chart 3: Cyclically Adjusted Current Account Balance (Annualized, % of GDP)



Sources: CBRT, TURKSTAT.

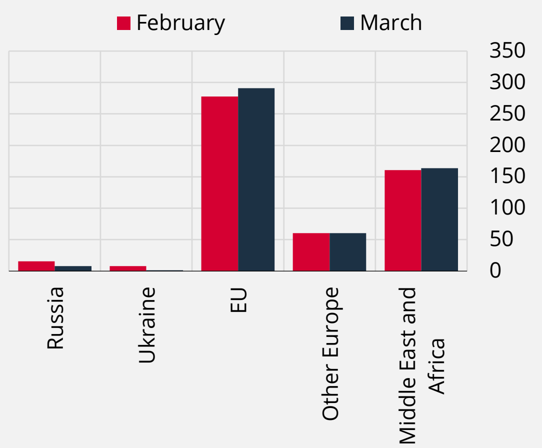
Chart 4: Contributions to the Cyclical Effect (Annualized, % Points)



Sources: CBRT, TURKSTAT.

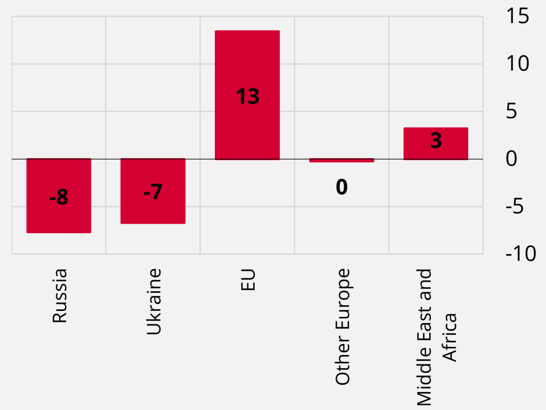
The ongoing increases in the prices of both energy and other commodities such as industrial metals and food products cause import prices to remain above their trends, and thus widen the current account deficit. When adjusted for the effects of business cycles as well as price cycles, which are caused by the deviations of prices from their long-term trends, it is estimated that the annualized current account balance posted a surplus in the first quarter of the year (Chart 3). In the same quarter, the annualized total cyclical impact was negative and more than half of it is predicted to be driven by price cycles (Chart 4). It is also noteworthy that the business cycle effect on the current account balance is negative.

Chart 5: Exports (Special Trade System (STS), Per Work Day, Million USD)



Source: Turkish Exporters Assembly (TEA).

Chart 6: Change in Exports Between February and March (STS, Per Work Day, Million USD)



Source: TEA.

On the export side, it seems that the increase in exports to other countries, thanks to the dynamic capacity and market diversification flexibility of exporting companies, has compensated for short-term losses (Charts 5 and 6). Manufacturing industry products have a relatively large share of 78.1% in Türkiye's exports compared to most of its peers and neighboring countries (Chart 7). In addition, Türkiye has achieved a higher market and product diversification compared to similar countries by selling 4,308 products to 226 different countries and regions (Charts 8 and 9). The fact that the share of the three most exported products in total is relatively low, at 29.3%, indicates that exports are not concentrated in particular products (Chart 10). In this context, Türkiye can maintain its export performance despite the recent supply problems, thanks to its low country and product concentration in exports. On the other hand, besides the negative effects of increases in energy prices on the current account balance through a rise in Türkiye's energy import bill, these increases may also have positive contributions indirectly via the external demand channel. The rise in energy prices may lead to sizeable increases in the incomes of energy exporting countries such as Iraq, Iran and Azerbaijan, which have a significant share in Türkiye's exports. With the increase in the import demands of these countries as a result of higher oil revenues, the growth of Türkiye's exports to these countries will be accelerated.

Chart 7: Share of Manufactured Goods in Exports (Average of 2018-2020, %)

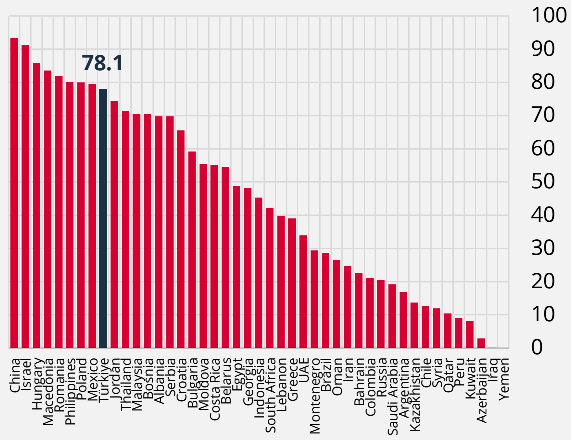


Chart 8: Number of Export Partners* (2019)

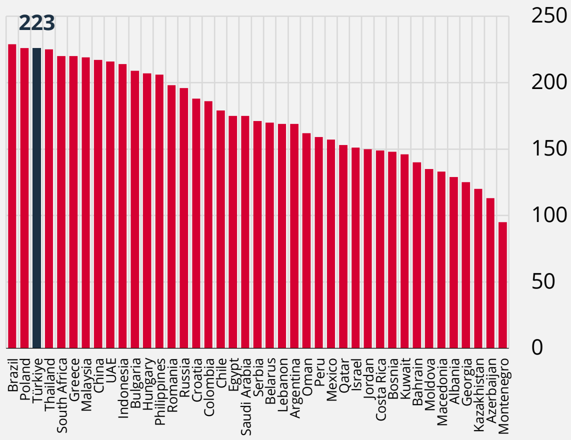


Chart 9: Number of Export Products (2019)

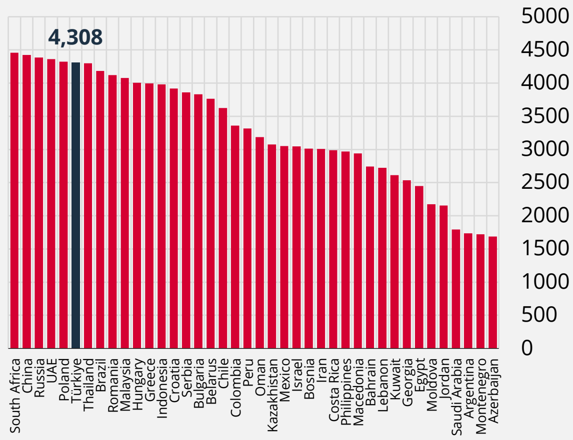
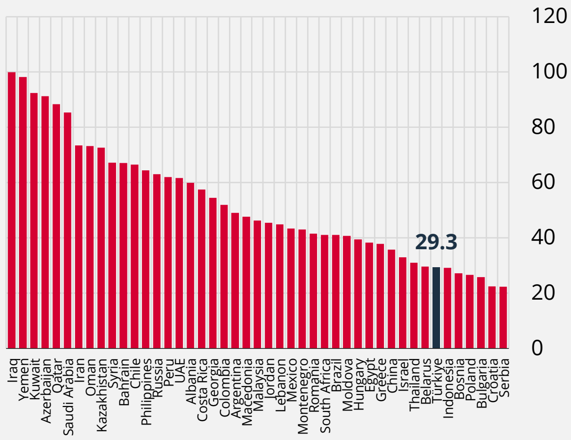


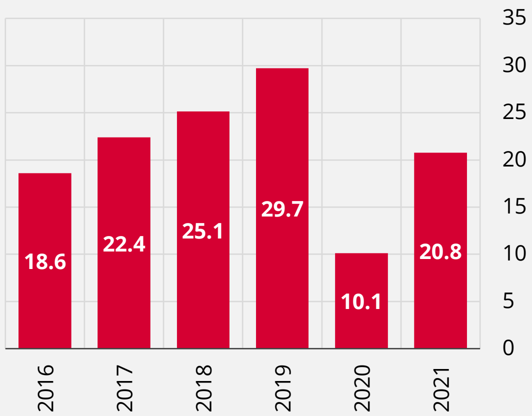
Chart 10: Share of the Top Three Export Products (2020, %)



Sources: World Trade Organization, World Bank, United Nations Comtrade. * UN member states and self-governing/special status countries are included.

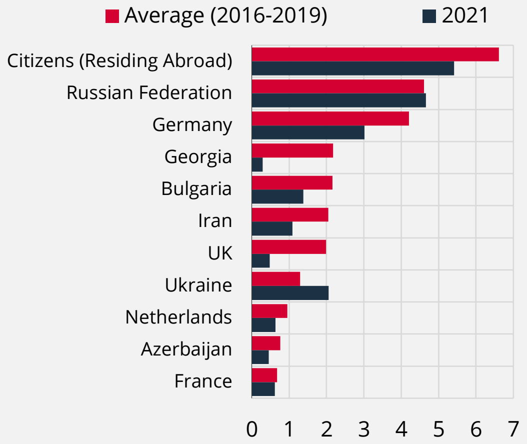
Travel revenues, which have contributed positively to the current account balance over the years, dropped significantly in 2020 to USD 10.1 billion due to the pandemic and the restrictions applied to reduce its impact. With the gradual lifting of restrictions, tourism activities revived in 2021, and travel revenues recovered and reached USD 20.8 billion (Chart 11). Data on the number of visitors in January and February of 2022 show that the recovery in tourism continues. Leading indicators regarding the number of visitors in March also indicate in the same direction. On the other hand, it is expected that the possible effects of the Russia-Ukraine conflict, which broke out at the end of February, on the tourism sector will be observed starting from May in particular, given that the visitors from these countries are mostly concentrated in the summer months.

Chart 11: Travel Revenues (Billion USD)



Sources: CBRT, TURKSTAT.

Chart 12: Number of Visitors (Million People)



Sources: TURKSTAT.

While it is inevitable that the number of visitors from Russia and Ukraine will be affected by the conflict, the average spending of visitors from these two countries is typically below the average spending level of visitors from other countries, limiting the potential negative impact of the conflict on travel revenues (Chart 12). Despite the conflict-related risks to tourism revenues in the near term, there are factors that can alleviate these risks. The increase in oil prices due to the Russia-Ukraine conflict brings along sizeable increases in the incomes of oil-exporting countries. This may lead to an increase in the number of tourists coming from oil-exporting countries, especially from countries that are geographically close to Türkiye. In addition, with the continuation of the post-pandemic normalization, the recovery in the number of visitors from regions with relatively higher average spending levels, such as Europe, is expected to accelerate in 2022. It is projected that the effects of the losses that may occur in the incomes of European countries due to the conflict on the tourism sector will be limited. It is predicted that the increase in the number of visitors due to the recovery will more than compensate for the decrease in the number of visitors from Russia and Ukraine, and travel revenues will continue to increase in 2022.

In summary, risks to the current account balance arising from rising energy prices due to recent geopolitical developments continue. However, since energy prices are very sensitive to geopolitical developments, it is considered that there are also downside risks to prices. On the export side, the dynamic capacity and market diversification flexibility of exporting companies are effective in compensating for losses due to the conflict. Finally, although conflict-related risks to tourism revenues have emerged, tourism revenues can reach pre-pandemic levels in 2022 with the support of factors that can partially compensate for these risks.