Turkish external deficit recovery accelerates

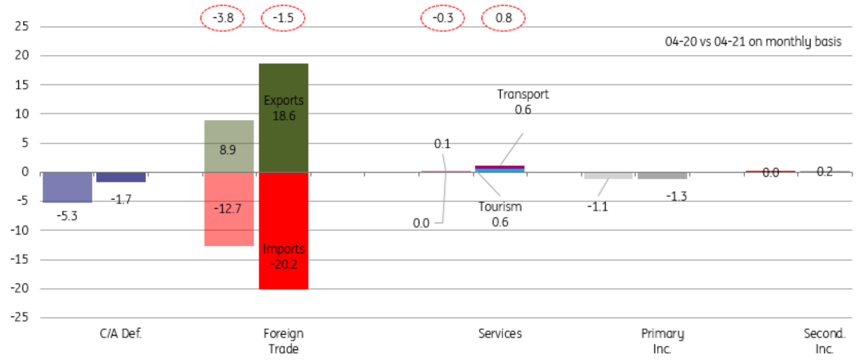
The Turkish current account continued to improve in April driven by a fall in gold imports and an uptrend in exports despite strong commodity prices

Source: Shutterstock

Recovery in 12-month rolling current account deficit continued in April with another pronounced drop to US$32.7 bn from US$36.3 bn a month ago, though it remained elevated at roughly 4.5% of GDP.

Better than the monthly figure at US$1.7 bn is attributable to i) narrower gold trade deficit with ongoing mean reversion trend, in place since the beginning of the year ii) turn of services balance to surplus in comparison to a deficit in the same month of 2020 driven by the impact of reopening in tourism and transportation revenues iii) jump in core exports on the back of strong external demand with global activity picking up. However, widening energy deficit with higher oil prices and still high core imports due to domestic demand limited the extent of improvement in the external deficit.

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



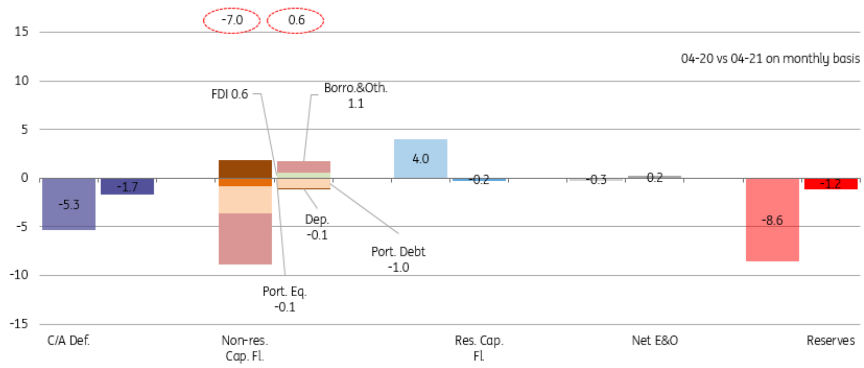
Source: CBT, ING

The negative capital account in March, reflecting the impact of the change at the CBT, was barely positive in April, showing the continuation of a weak outlook. Despite small positive net errors & omissions at US$0.2 bn, monthly c/a balance at a deficit and capital inflows at a mere US$0.3 bn caused another drop in official reserves by US$1.2 bn on a monthly basis.

In the breakdown, residents posted a small US$0.2 bn outflows as locals' expanding deposit holdings abroad almost offset the extension of trade credits to foreign companies as well as the acquisition of other financial assets and portfolio investments. Non-resident flows were slightly positive at US$0.6 bn despite banks' Eurobond repayments and debt payments. This is attributable to i) continuing strength in trade credits supported by high domestic rates and strong growth abroad, and ii) foreign direct investments.

In April, we saw healthy debt rollover rates for both banks and corporates standing at 82% and 92% (translating into 88% and 86% on a 12M rolling basis), while trade credits rollover exceeded 110% on monthly basis.

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



Source: CBT, ING

Overall, the improvement in the current account accelerated in April given the fall in gold imports and an improvement in exports despite strength in commodity prices.

Going forward, not only exports but also subdued prospects for core imports driven by expected moderation in domestic demand should be supportive of the external deficit. Capital account on the other hand will likely remain challenging in the period ahead given the weakness in portfolio flows, though any improvement in geopolitics should be supportive of the flow outlook.

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