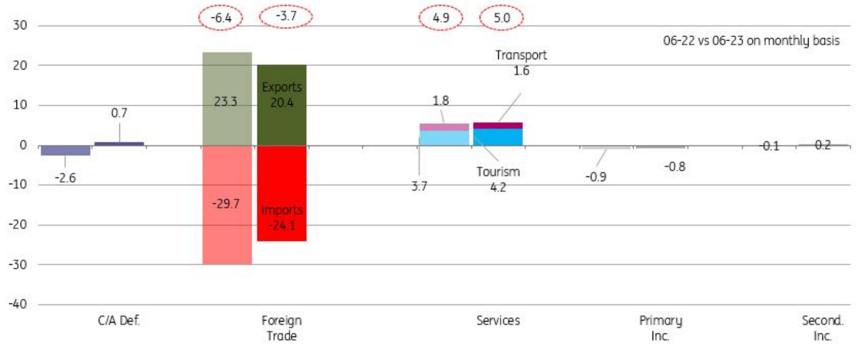
Drop in Turkey's annual current account deficit

The improvement in the current account deficit in June was mainly attributable to the foreign trade deficit, which was significantly below last year's level with the help of a lower energy bill

After a long increasing trend in the 12M rolling deficit, we saw a recovery in June to US$56.5bn (translating into 5.8% of GDP) from $59.7bn a month ago. This is attributable to a turn of the monthly deficit last year to a surplus this year at $0.7bn. This is slightly better than the consensus.

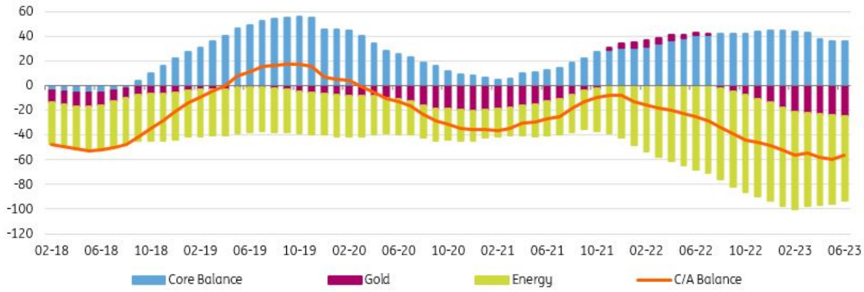
A quick glance at the June data points to a similar performance in the core trade, services and primary income with respect to the same month of 2022. The lower energy bill with a drop in oil prices has driven the improvement in the current account despite a higher gold deficit.

Breakdown of current account (monthly, US$bn)



Source: CBT, ING

Current account (12M rolling, US$bn)



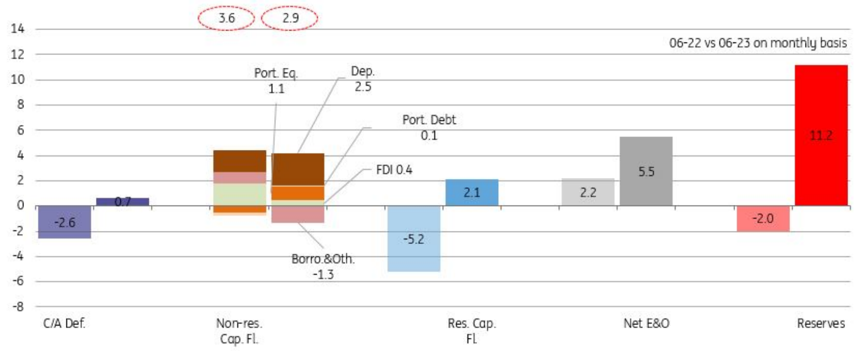
Source: CBT, ING

The capital account, on the other hand, witnessed net inflows at $5.0bn. With the monthly current account deficit and large inflows via net errors and omissions at $5.5bn, official reserves recorded a jump of $11.2bn. However, given the weakness in the flows, reserves financed three-quarters of the current account deficit in the first half of this year.

In the breakdown, contributing to net monthly inflows, we saw asset disposals abroad by residents at net $2.1bn, driven by a reduction in banks' financial assets and trade credits extended by locals. For non-residents, $2.9bn inflows were attributable to $0.4bn gross foreign direct investment, foreign investors' $1.1bn equity purchases and, $2.5bn of deposits placed by non-residents in the local banking system.

On the other side, we saw outflows via a $0.8bn decline in trade credits and $0.5bn net debt repayments attributable to banks' short-term debt. Regarding the rollover rates, we saw a strong performance for corporates at 136% on a 12M rolling basis (vs 83% in June alone), while the same ratio for banks stood at 86% (vs a healthy 104% in June).

Breakdown of financing (monthly, US$bn)



Source: CBT, ING

Overall, in the first half of this year, the continued strength in domestic economic activity driven by domestic demand pushed imports significantly upwards and weighed on the current account balance, despite the supportive impact of the decline in energy and commodity prices. In addition, exports were supported by the sustained recovery in global economic activity which helped to boost the current account balance.

For the rest of 2023, the expectation is that the 12M rolling deficit will likely narrow given TRY weakness after the elections, gradual tightening in monetary and fiscal policies, and measures to limit the growth rate of retail loans may slow down domestic demand and lead to a slowdown in import growth. However, the outlook has remained challenging with the decline in global leading activity indicators in the second half increasing the risk of a slowdown in exports.

On the capital account, total flows have remained weak in the absence of strong unidentified inflows (despite some recovery in June). This, and a large current account deficit, has led to pressure on international reserves so far this year. Going forward, a pivot to a more conventional policy stance will likely be critical for the recovery in investor confidence and hence capital inflows. The authorities' attempts to attract funding from the Gulf States should also be supportive for the capital account dynamics.

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