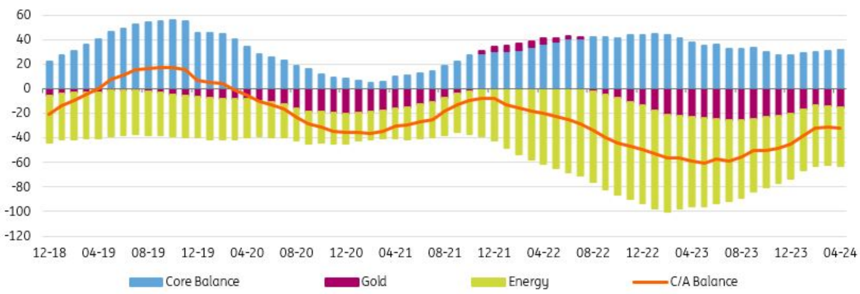
Turkey sees temporary increase in April's current account deficit

Because of a temporary increase in the April trade deficit, the improvement in the current account was interrupted, although provisional data for May hints at a return to the recovery trend

April's current account came in at US$5.3bn, better than our call at US$5.6bn, while the 12-month rolling deficit, which had been improving since the first quarter, temporarily increased to US$31.5bn (translating into c.2.7% of GDP) from US$31.3bn a month ago.

Current account (12M rolling, US$bn)

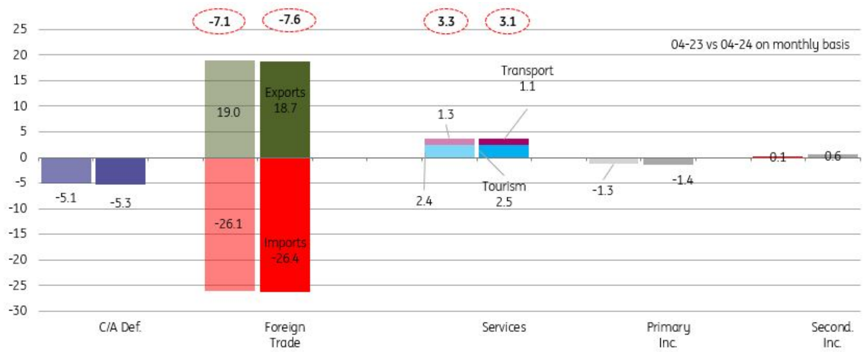


Source: CBT, ING

In the breakdown, compared with the same month of last year, we see:

- A higher gold deficit at US$1.7bn vs US$0.7bn last year.
- A widening core trade deficit to US$2.9bn vs US$2.3bn a year ago.
- A slight deterioration in services income (including tourism revenues) and primary income at US$3.1bn and US$-1.4bn, respectively.
- Continued recovery in the energy balance with a fall in the deficit to US$3.6bn from US$3.8bn.
- And better secondary income at US$0.6bn, limited the widening in the April current account deficit.

Breakdown of current account (monthly, US$bn)



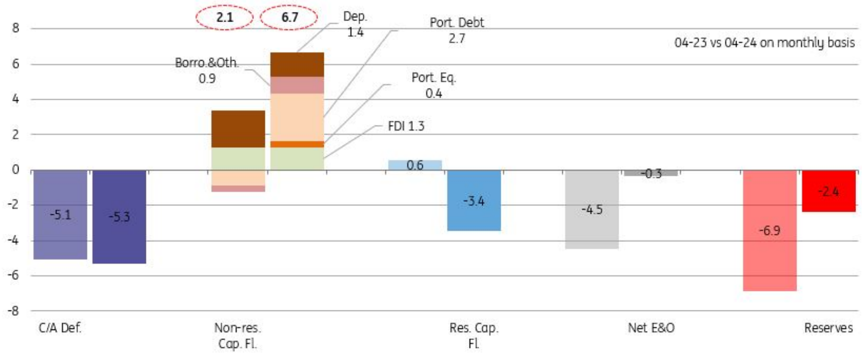
Source: CBT, ING

On the capital account, net identified flows, which were weak in the first quarter (and even negative in January), remained sluggish at US$3.2bn in April. After historic outflows ahead of March local elections, at US$9.2bn, net errors and omissions recorded a mere US$0.3bn of outflows. With the monthly current account deficit and weak flows, official reserves recorded a US$2.4bn fall.

In the breakdown of monthly data:

- Non-residents' movements drove the inflows, with US$1.4bn deposited by foreign entities in the banking system.
- Continuing Eurobond issuances of banks stood at US$0.8bn with corporates at US$0.5bn.
- Portfolio flows to the bond market came in at US$1.4bn.
- Net borrowing was at US$1.4bn. In April, rollover rates stood at 81% for corporates and 101% for the banking system (vs 96% and 125%, respectively on a 12M rolling basis).
- Non-debt-creating foreign inflows stood at US$0.9bn thanks to (gross) FDI at US$0.4bn and purchases in the equity market at US$0.4bn.
- Residents' movements drove the outflows with portfolio investments at US$1.0bn, outward FDI at US$0.4bn and trade credits extended at US$1.2bn.

Breakdown of financing (monthly, US$bn)



Source: CBT, ING

12-month cumulative exports and imports have been almost flat for the last three months. This implies that exports have not been affected by the appreciation of the Turkish lira, while the downward trend in imports has stagnated since February. The provisional customs data released by the Ministry of Trade reveals that the foreign trade deficit plunged by around 48% to US$6.5bn in May. The data implies that the trend in the current account is improving again, as the impact of the recent central bank tightening on the balancing of demand factors is likely to be supportive of the external outlook. Additionally, the ongoing recovery in global economic activity is expected to have a favourable impact on Turkey's exports and thus on the c/a balance. On the flip side, the rise in global commodity prices, particularly energy prices, may limit the slowdown in imports. On the capital account, the turnout was relatively weak in the first four months, though recent data shows a re-acceleration in inflows as foreign investor appetite towards Turkish assets increases.

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