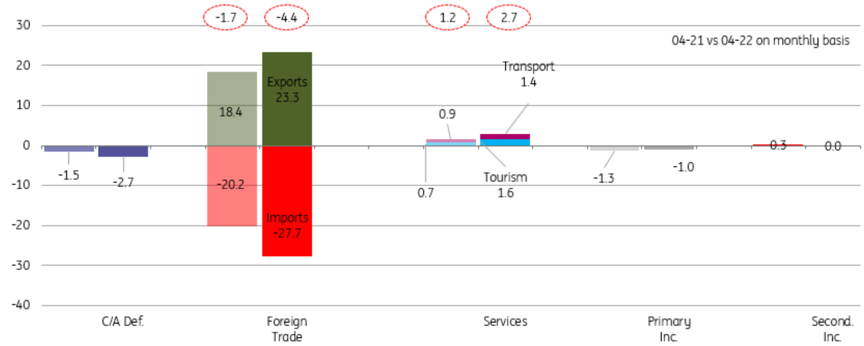
Turkey's trade deficit remains key driver of current account

The current account deficit was on an expansionary path in April, driven by commodity imports and a particularly high energy bill. Leading indicators suggest that it will likely register another large deficit in May

The Beyoglu district in Istanbul, Turkey

The current account deficit continued to widen in April with a US$-2.7bn monthly outturn that was slightly better than the market consensus of US$-2.85bn. The 12-month rolling current account deficit is also on the rise, at US$-25.7bn (translating into c. 3.3% of GDP), from US$-24.5bn in March. According to the breakdown of April data, rising external imbalances are mainly attributable to the higher trade deficit, driven by the uptrend in energy prices which has weighed on energy imports. Strength in services income, thanks to continuing rapid growth in tourism and transportation revenues, has limited the plunge in the current account.

Breakdown of Current Account (12M Rolling, US$bn)

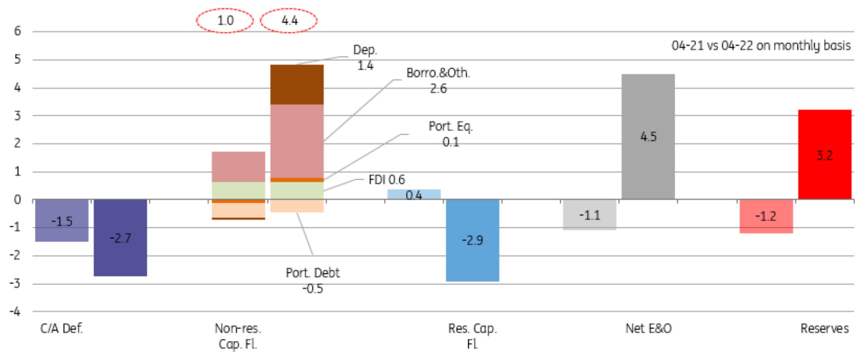


Source: CBT, ING

The capital account was weak at a mere US$1.4bn, driven by debt creating non-resident flows despite continuing resident outflows. With the c/a deficit and relatively high net errors & omissions at US$4.5bn, official reserves recorded a US$3.2bn increase.

In the breakdown of monthly flows, residents increased their external assets by US$2.9bn mainly due to trade credits extended by local banks despite declining deposits of local banks abroad. For the non-residents, we saw US$4.4bn of inflows, exceeding the outflows on the resident side. Non-resident moves were mainly attributable to debt creating flows, namely i) US$2.1bn of trade credits ii) US$1.4bn of deposits placed by foreign investors to Turkish banks and iii) a cumulative US$0.7bn net borrowing by banks and corporates. Accordingly, we saw an improvement in the long-term debt rollover rate for banks to 106% (a healthy 92% on a 12M rolling basis), while the same ratio for corporates stood at 142% (147% on a 12M rolling basis). On the flip side, among non-debt creating flows, US$0.5bn gross FDI turned out to be the major driver.

Breakdown of financing (12M rolling, US$bn)



Source: CBT, ING

Despite i) the supportive impact of ongoing strength in tourism revenues and ii) signs of a slowdown in economic activity which will weaken core imports, the current account will likely remain under pressure as oil prices are expected to remain elevated and the eurozone, as Turkey's major trading partner, faces a grim growth outlook. On the financing side, a less supportive global backdrop should also add to the challenges, given high external financing requirements as well as a heavy reliance on financial flows rather than long-term finance like FDI, which is low relative to peer countries.

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