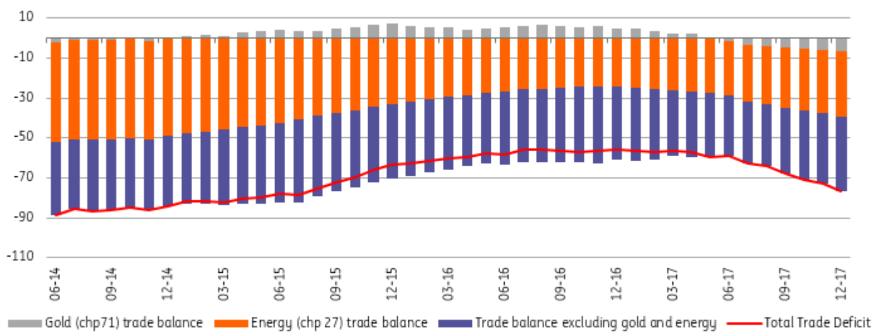
Turkey: Trade deficit highest since mid-2015

The trade balance came at USD9.2bn in December, while the deficit in 2017 stood at USD76.7bn amid rising gold imports and higher energy bills

Source: Shutterstock

12M Trade Balance (USD bn)

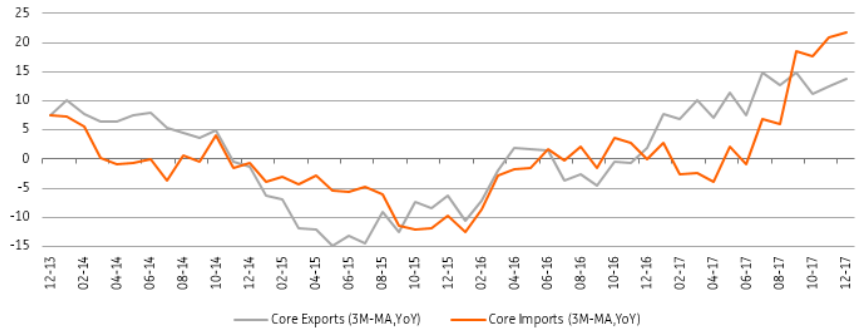


Source: TurkStat, ING Bank

Turkey's foreign trade deficit, at USD9.2bn in December, pulled the annual deficit to the highest level since mid-2015, at USD76.7bn. On monthly basis, imports grew 25.4% YoY on the back of rising energy bills and accelerating gold imports. Core imports excluding gold and energy also recorded solid growth at 24% YoY, showing the impact of ongoing strength in domestic demand. On the flip side, exports continued their healthy rise, climbing 8.6% YoY, with a 12.5% rise in core exports, on the back of strong EU demand, the success of Turkish companies in diversifying export markets, recovering trade with Russia and the improving competitiveness of the Turkish lira. We saw a sharp 64% widening in the merchandise trade deficit compared to the same month of the previous year, translating into 60.1% coverage of imports by exports.

Accordingly, the foreign deficit-to-GDP ratio increased for the first time in 2017 to c.6.8% from 4.7% a year ago. As a result, coverage of imports by exports on a 12M rolling basis dropped to 67.2% vs 71.8%, with a marked deterioration in net gold trade as gold imports jumped to an all-time high in 2017 and a continuous expansion in 12M rolling net energy trade since the end of 2016. The annual core trade deficit followed a V-shape path, narrowing in 1H and changing direction in the 2H, to end 2017 close to the level realised at end-2016.

Evolution of Core Exports & Imports (%)



Source: TurkStat, ING Bank

Overall, cyclical developments have determined external balances last year. In 2018, we expect some improvement with a likely continuation of export strength on the back of resilient demand in major markets and improving TRY competitiveness. Gold imports that almost quadrupled since mid-2016 on annual basis will be key for the external deficit (with a likely normalisation in 2018) along with energy imports, which have been under pressure recently amid a spike in oil prices. Also, domestic demand will likely remain solid this year with policy makers' inclination to keep growth competitive, though some softening over the last year should be positive for the outlook.

Author

Muhammet Mercan
Chief Economist, Turkey
muhammet.mercan@ingbank.com.tr

Disclaimer