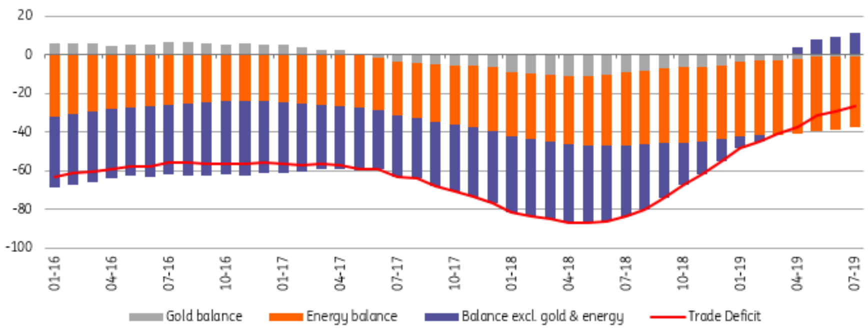
Turkey’s core trade surplus at the highest level since ‘90s

The turnaround in Turkey’s core trade balance continues and has been the main driver of the rapid recovery in foreign trade last year

Source: shutterstock

12-month rolling trade balance (USD billion)



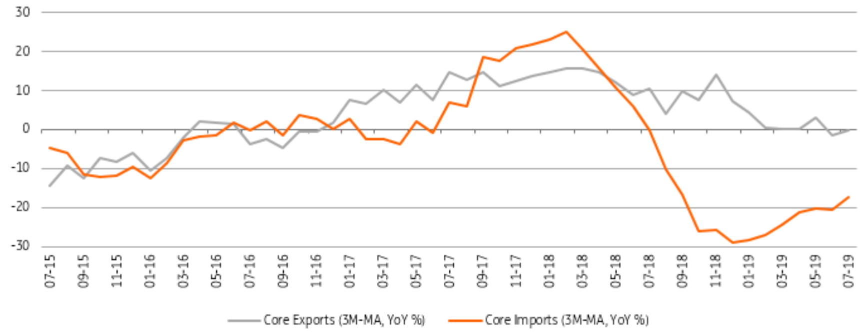
Source: TurkStat, ING

Given the rapid correction in the last year on the back of relatively healthy export expansion, strengthening price competitiveness and the plunge in imports with weaker domestic demand, core trade (excluding gold and energy) surplus now stands at the highest ever since the 90s. The 12-month rolling deficit narrowed further to US$-26.4 billion - the best since early 2004, showing the extent of rebalancing after the August 2018 volatility.

On a monthly basis, the deficit came in at US$-3.2 billion in July, translating into more than 45% contraction over the same month of 2018, thanks to lower energy bills, a drop in energy prices as well as a further drop in core imports.

Exports recorded a solid 7.9% YoY growth (15.2% MoM in seasonally adjusted basis), while imports declined by -8.5% YoY - the first single-digit contraction in the last 12 months, also supported by a small base. As an additional note, imports started the third quarter with a strong +4.6% MoM growth in seasonally adjusted basis after a poor performance in 2Q.

Evolution of core exports and imports



Source: TurkStat, ING

Geographic destribution

By geographic destination, exports to the MENA region showed a marginal increase to 23.8% in July 2019 from 23.6% a year ago. The share of exports to the EU, on the other hand, recorded a smaller gain, standing at 48.9% vs 48.7%.

Netherlands and France were the countries in EU with the largest contribution to export growth, while Israel and Egypt were the drivers in the MENA region.

In recent months, we have seen a turnaround in Turkey's core balance, mainly driven by import compression as an unsurprising correction following the financial volatility last year.

Going forward, we expect a gradual widening, given the probable recovery in the credit impulse given the central bank intends to incentivise lending by linking required reserve ratios and remunerations to credit growth, a new credit guarantee fund package and low rate environment as well as some moderation in exports with weakening EU demand.

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