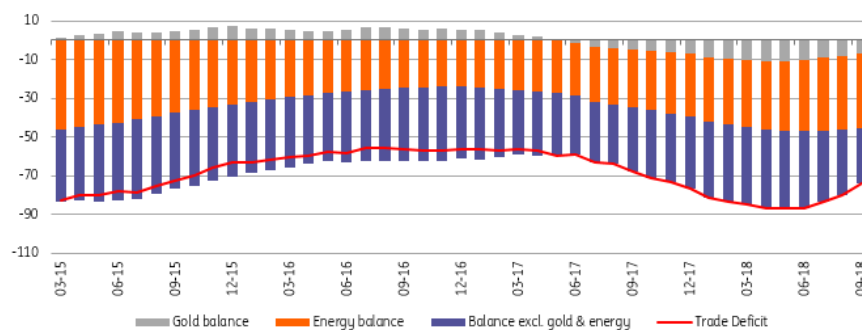


Turkey: Foreign trade balance moves in right direction

The foreign trade deficit narrowed in June as an ongoing slowdown in the economy reduced demand for imports



12M Rolling Trade Balance (USD billion)



Source: TurkStat, ING Bank

Imports coverage by exports currently low

After a long period of expansion from early 2017 onwards, the 12-month rolling foreign trade deficit narrowed for the first time in June to \$86.6 billion thanks to a 9.1% drop in the monthly

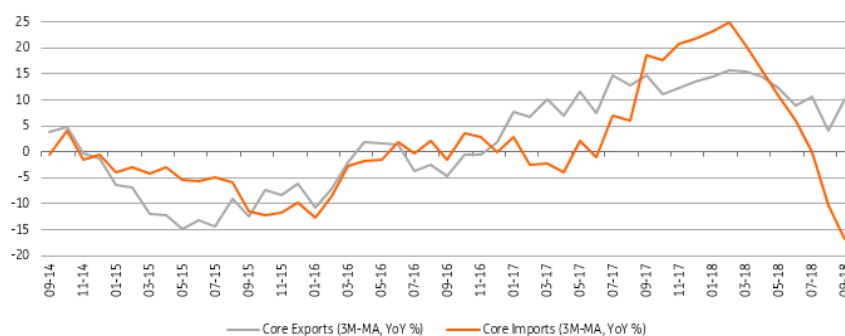
deficit at \$5.5 billion. Accordingly, coverage of imports by exports stood at 65.1% on a 12-month rolling basis that will likely improve gradually in the period ahead.

Imports are the driver of improvement

The major factor behind the improvement in the external balance is the ongoing momentum loss in imports, down 3.8% year-on-year (5.5% on a sequential basis) and the first negative growth since mid-2017. This can be attributed to a drop in gold imports and more importantly a continued fall in core imports amid a softening in domestic demand and consequent rebalancing, more evident from the second quarter onwards.

Core exports, on the other hand, likely saw a temporary setback in June, with a mere 3.1% increase due to the calendar effects from the Bayram Holiday. These are expected to maintain their healthy increase in the period ahead due to improving competitiveness from a weak currency and still strong EU demand.

Evolution of Core Exports & Imports (%)



Source: TurkStat, ING Bank

Slowdown in the economy to support external balance

Overall, the foreign trade deficit, which peaked in May, started improving in June and will likely continue on this path given the ongoing slowdown in the economy along with further support from a weak lira.

Further normalisation in gold imports should also contribute to the expected recovery in the deficit, although oil prices (which are vulnerable to geopolitical risks) continue to pose upside risks for Turkey's external balance.

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