

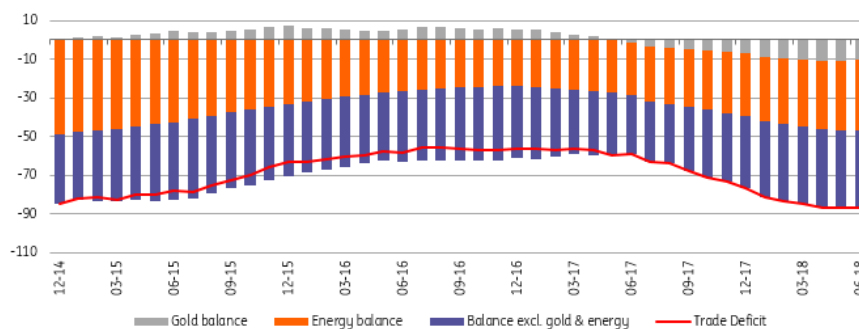
Turkey: Core deficit starts improving

Foreign trade deficit peaked in May and is likely to change direction in the coming months given that core deficit has already started improving with the contribution of ongoing slowdown in the economy



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12M Rolling Trade Balance (USD bn)



Source: TurkStat, ING Bank

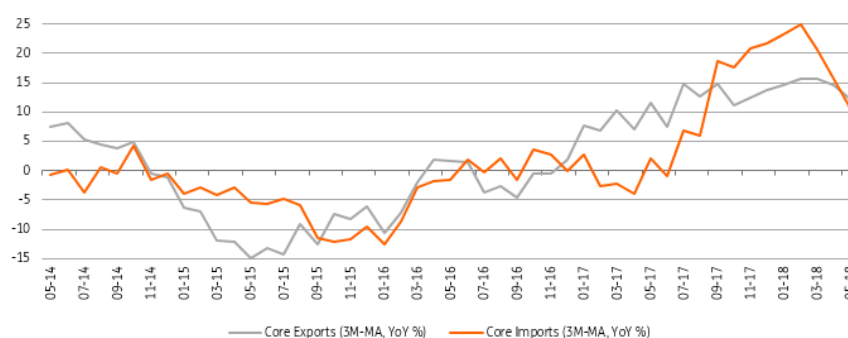
Foreign trade deficit that came in at USD 7.8 billion in May remained on an expansionary track but at a slightly slower pace, while the 12-month rolling figure moved up to USD 87.1 billion - most

likely reaching its peak and due to change direction in the period ahead.

The major determinant of the deterioration in external balances from early 2017 onwards are imports, which recorded the first single-digit growth since mid-2017 at 5.5% despite continuing expansionary impact of higher oil prices.

This can be attributed to the drop in gold imports and most importantly the continued fall in core imports given the softening in domestic demand conditions since the beginning of this year. Core exports, on the other hand, saw a continuation of their healthy increase, by 10.6% year on year on the back of improving competitiveness with a weak currency, though it did show some slowdown most likely reflecting moderating EU demand.

Evolution of core exports and imports (%)



Source: TurkStat, ING Bank

Overall, foreign trade deficit peaked in May and is likely to improve in the coming months given the ongoing slowdown in the economy along with further support from a weak lira.

Normalisation in gold imports will also contribute to the expected recovery in the deficit, albeit higher oil prices continue to pose upside risk.

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