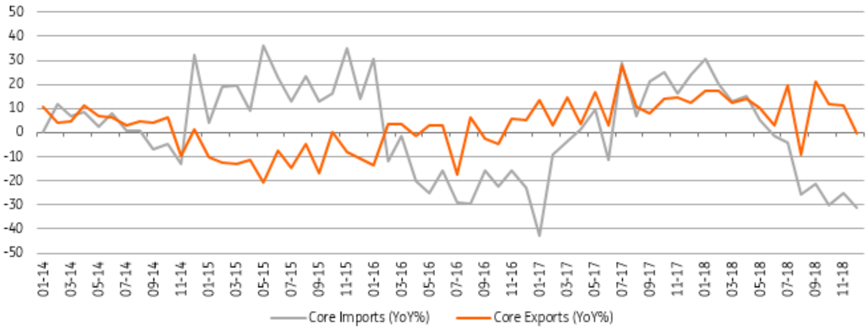
Turkey's trade balance improves significantly

A sharp contraction in imports determined the pace of trade balance recovery in the second half of 2018 and December was no exception either. We expect this trend to remain in place in the first half of 2019, but the pace will likely slow down given the recent lira strength and moderating EU demand

Foreign trade has been significantly improving since the second half of 2018 thanks to an adjustment in imports. In December the deficit came in at USD 2.7 billion which is almost a 71% decline over the same month in 2017.

The 12-month rolling deficit stood at USD 55.0 billion, significantly down from its cyclical peak at USD 87.2 billion in May 2018. Importantly, the 12-month trailing core balance (excluding gold and energy trade) stood at USD-11.0 billion - the best reading since early 2004 showing external rebalancing momentum.

Evolution of core imports and exports



Source: TurkStat, ING Bank

According to monthly data, confirming the normalisation in gold imports with a continuous decline since 2Q18 on an annual basis, total imports plummeted by 28.3% (the fifth double-digit contraction in a row starting and the biggest since the global crisis) to USD 16.6 billion.

This can be blamed on the deterioration in domestic demand and cautiousness of companies who cut production and were relying on inventories in times of volatility.

On the other hand, exports have remained solid until December thanks to recovering price competitiveness. However, the last month of 2018 shows signs of weakening with a flat reading - the slightly negative figure for the core, excluding gold and energy, likely due to softening growth outlook in Europe, which is the destination for roughly half of Turkish exports.

A sharp import contraction determined the pace of recovery in the trade balance, while exports that generally move in tandem with imports have performed relatively well so far and contributed to the external rebalancing.

This trend will remain in place in the first half of this year, though the pace will likely slow down given the recent lira strength and moderating EU demand.

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