Turkey: Sharp adjustment in trade balance continues

The contraction in core trade balance excluding gold and energy has been the main driver of rapid improvement in foreign trade since mid-2018 continues in January

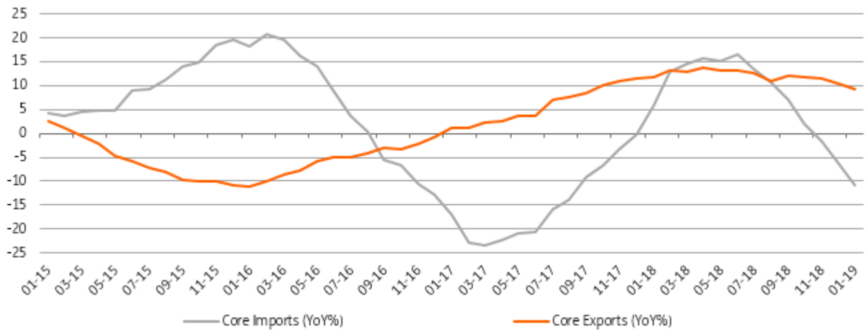
Source: istock

Foreign trade balance at US$2.5 billion in January has contracted by another significant 72.5% year on year and maintained the improvement trend, in place seen since mid-2018.

Accordingly, the 12-month rolling deficit stood at US$48.5 billion vs. US$55.1 billion a month ago and its cyclical peak at US$87.2 billion. The bulk of the improvement came from a correction in core trade balance (excluding gold and oil) as it stood at US$-6.3 billion compared with its recent peak at US$40.1 billion and US$11.1 billion in December while a normalisation in gold imports has also been a driver to some extent.

Evolution of core imports and exports

(on a 12-month rolling basis)



Source: TurkStat, ING Bank

According to the monthly data, confirming the normalisation in gold imports with a continuous decline since 2Q18 on an annual basis, total imports plummeted by 27.2% (recording close to 20% or above contraction rates in the last six months) to US$15.7 billion.

This is driven by weakening domestic demand while recovering price competitiveness has continued to contribute to exports that recorded a healthy 5.9% YoY. Given the softening growth outlook in the EU, that is the destination of roughly half of the Turkish exports; export performance should be closely followed in the coming period.

Correction in external balances has been stronger with ongoing slowdown in economic activity leading to a sharp import contraction, while exports that generally move in tandem with imports have performed relatively well so far.

Further narrowing in the trade balance is expected in 1H19, likely pulling the core balance to surplus, before rising gradually in 2H19 given recent lira strength and moderating EU demand.

Author

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

Disclaimer