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

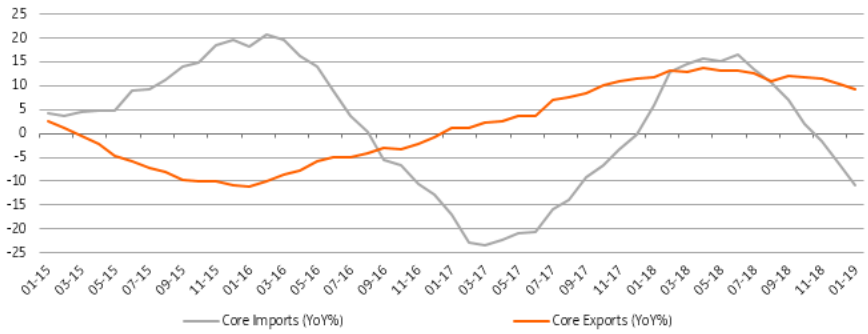
Source: istock

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.
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> 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.

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