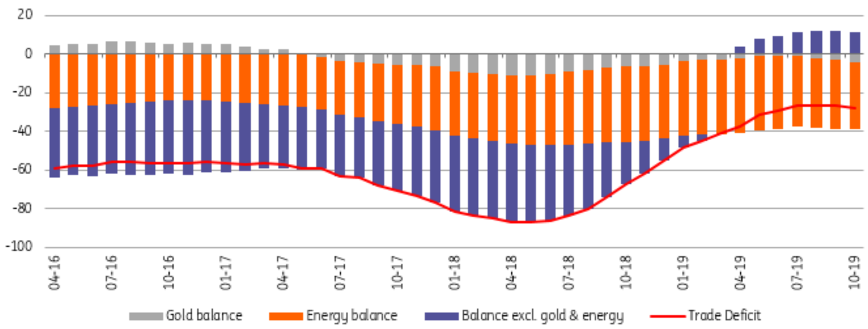
Turkey’s trade balance deteriorates

Turkey's trade balance, the main driver of the rapid recovery in the current account balance since the middle of 2018, has changed direction and is now deteriorating

Source: shutterstock

Turkey's rapid external rebalancing, which has been in place since the currency shock in August 2018, has lately been gradually reversing, with the 12M rolling deficit expanding slightly in recent months at US$-28.0 as of October. Accordingly, we saw a decline in the core trade surplus, though it remains close to the all-time high at US$+11.2 billion.

12M Rolling Trade Balance (USD bn)



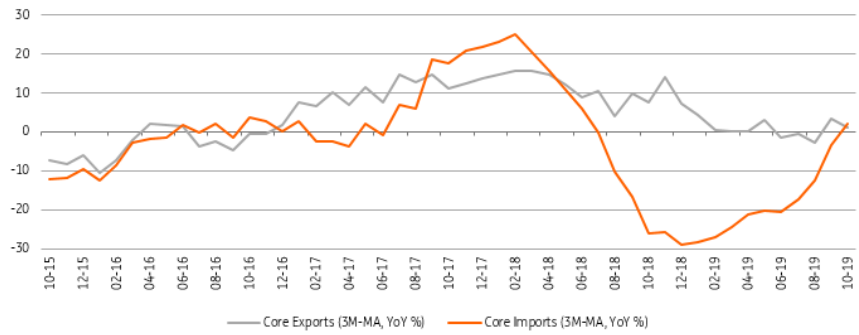
Source: TurkStat, ING

On a monthly basis, the deficit came in at US$-1.8 billion in October, more than three times the size of the near-balanced reading of US$-0.5 billion in the same month last year, just after August's volatility. We can put this down to two main things:

- Reviving gold imports, which pushed the gold deficit higher in the second half of this year
- A deterioration in the core trade balance given an improving domestic demand outlook, although net energy trade has continued to recover with lower oil prices limiting the widening in the overall trade balance.

Thus, we saw broadly flat export growth (-0.5% month-on-month on a seasonally adjusted basis), while imports went up by 8.0% year-on-year, translating into strong +3.6% month-on-month growth on a seasonally adjusted basis.

Evolution of core exports & imports



Source: TurkStat, ING

By geographic destination, the exports share to the MENA region rose to 24.1% from 23.2% a year ago, while the share of exports to the EU recorded a marked drop to 48.2% from 49.8%. Spain, UK, and Germany were the EU countries with the largest contribution to that share decline.

> Turkey's core trade balance saw a significant turnaround, driven mainly by import compression, following the financial volatility last year. But we expect a gradual widening in the period ahead given weak growth in the EU, which will likely weigh on export performance while a recovery in domestic demand supports imports. The policy stimulus to

boost consumption risks accelerating this widening trend.

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