Foreign trade deficit contracted in August.

In August, export volume declined by 2.8% yoy and was realized as 11.1 billion USD, while imports fell to 16 billion USD in this period, recording its fastest decline in the last 6 years by 18.2%. Thus, foreign trade deficit dropped by 39.8% compared to the same month of 2014. Having realized as 58.4% in August 2014, import coverage ratio reached 69.4% in the same period of 2015.

Compared to the same period of the previous year, foreign trade deficit contracted in the first eight months of the year as imports fell faster than exports.

Exports to main EU countries in euro terms kept increasing.

Despite exports to the EU countries continuing to decline in dollar terms due to the slide in EUR/USD parity, exports to these countries in euro terms kept rising. This development mainly stemmed from the acceleration in exports to key countries such as France, Italy and Spain. On the other hand, exports to Germany, Turkey’s biggest export destination, lost momentum and limited this recovery.

The decrease in exports to Russia continued in August. In the first eight months of the year, exports to Russia declined by 39.1% yoy. It was noteworthy that exports to Iraq rose by 11.6% in August, recording the first annual increase since June 2013.

Analysis of the exports by chapters revealed that exports of knitted goods, iron and steel, machineries and fruits, which have been among the top export items, declined in August when compared to the same month of the previous year. Having risen by 10.6% during this period, motor vehicles exports limited the fall in total exports. After displaying a weak performance since May, gold exports, despite rising slightly, also supported the export performance.

Sharp fall in imports...

The steep decline in import volume in August was mainly driven by the plunge in energy and commodity prices. In this period, oil prices posted an annual decline of 51.8%. In this
context, while the quantity of oil imports rose by 41.4% yoy, the value of energy imports (classified as Chapter 27—mineral fuels and mineral oil) decreased by 40.7% yoy in August. Likewise, the decline in metal prices was reflected in iron and steel imports. Parallel to the 69% yoy decline recorded in steel prices, the value of these imports fall by 20.3% in August. Besides, it is seen that the quantity of iron and steel imports kept its rising trend.

**Expectations**

The recent downward trend in export volume lost some momentum in August. However, inflation in the Euro Area has turned negative once again in September and raised questions about the strength of economic activity. Should the economic activity in the region remain under pressure in the coming period, this may affect Turkey’s export performance adversely. On the other hand, the drop in energy and commodity prices caused Turkey’s import volume to fall significantly and this trend is expected to be kept in the next months. This development points out that the contraction in trade deficit is likely to continue in the rest of the year.
Foreign Trade Balance - August 2015
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