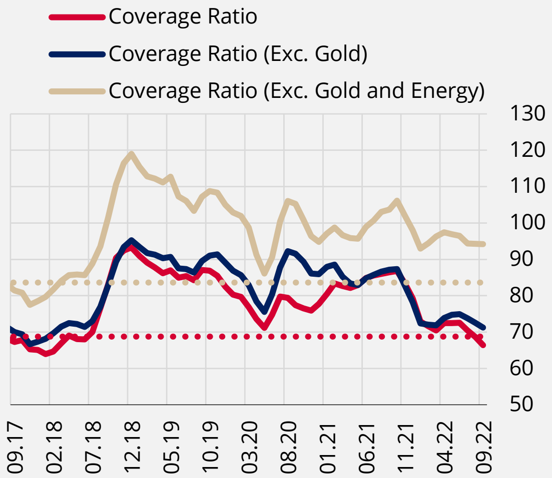
Box 2.4

Real Outlook of External Trade

Despite the strong course of exports in the first half of 2022, the high cost of energy imports caused a decrease in the ratio of exports to imports. In the third quarter of the year, there was a limited decrease in exports due to the loss of momentum in external demand, and an increase in imports due to the recent rise in gold imports as well as energy. Thus, the coverage ratio fell to 67 percent, below the average of the ten years before the pandemic. However, when these effects are excluded, the ratio of exports to imports excluding energy and gold, which can be described as the core coverage ratio, is 95 percent, higher than the headline ratio (Chart 1).

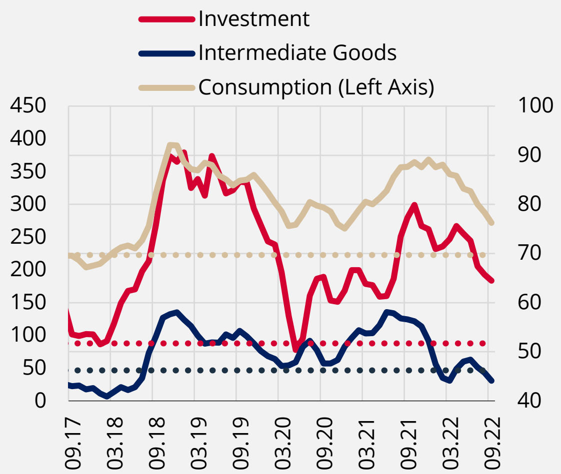
When the export-import coverage ratios are analyzed according to the classification of large economic groups, decreases were observed in investment and intermediate goods that has similar trend to the headline ratio, and the ratio of exports to imports for those two groups decreased to 64 percent and 44 percent, respectively, in September. In consumer goods, although the ratio decreased, it remained above 250 percent. The fact that the consumption goods coverage ratio has historically been over 200 percent is due to the fact that the share of exports of consumption goods in total exports (approximately 40 percent) is higher than the share of imports of consumption goods in total imports (approximately 12 percent) (Chart 2) in Türkiye's external trade structure.

Chart 1: Export Import Coverage Ratio*
(Seasonally Adjusted, 3 Months Moving Average, %)



Source: CBRT, Ministry of Trade, TURKSTAT.
* September data is provisional. Dashed lines represent the historical average.

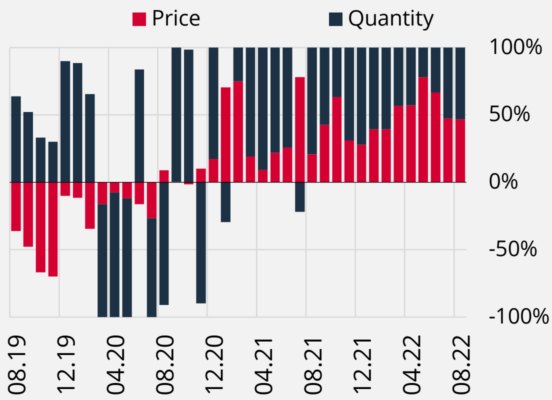
Chart 2: Export Import Coverage Ratio*
(Seasonally Adjusted, 3 Months Moving Average, %)



Source: CBRT, Ministry of Trade, TURKSTAT.
* September data is provisional. Dashed lines represent the historical average.

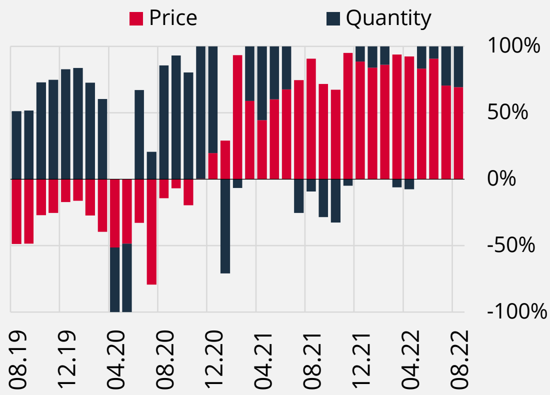
Energy and other commodity prices, which increased in the post-pandemic recovery process and reached high levels on the back of geopolitical developments in the first quarter of 2022, increased import prices more significantly than export prices and caused a decrease in the terms of trade. Although commodity prices have decreased recently, they have maintained their relatively high levels and the increase in the terms of trade remained limited. The low levels of external trade naturally drive the external trade deficit up (coverage ratios down) and may overshadow the developments in the real sector. In this context, it is important to examine the recent trends in exports and imports and to understand the real outlook in external trade.

Chart 3: Contributions to Annual Export Change



Source: TURKSTAT.

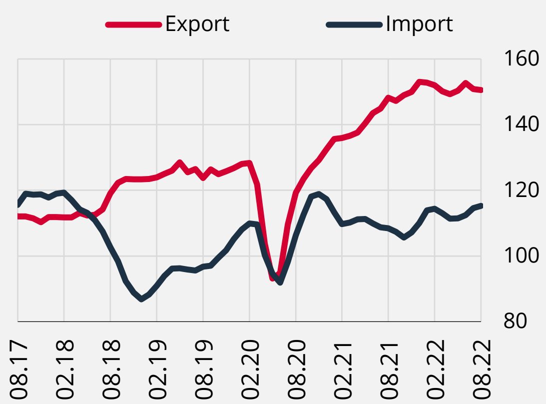
Chart 4: Contributions to Annual Import Change



Source: TURKSTAT.

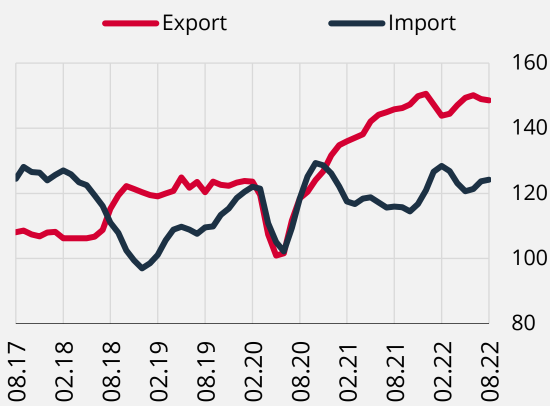
Charts 3 and 4 show the annual changes in Türkiye's exports and imports and the contributions of price and quantity indices to these changes. The contribution of price changes increases relatively, as the amount of exports, which recorded high annual growth rates in the post-pandemic period, converges to long-term growth rates in 2022. Annual increases in exports are driven by larger quantities, while increases in imports are driven mostly by changes in prices. Although the contribution of the amount of imports has been positive in the recent period, the weight of the price contribution in the annual growth of imports continues.

Chart 5: Export Import Indices (Seasonally Calender Adjusted, 3 Months Moving Average, 2015=100)



Source: CBRT, TURKSTAT.

Chart 6: Intermediate Goods Export Import Indices (Seasonally Calender Adjusted, 3 Months Moving Average, 2015=100)

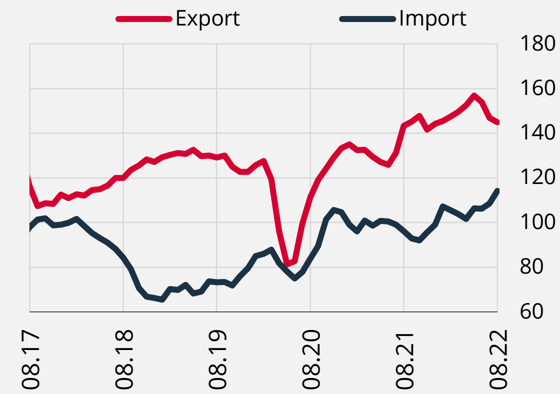


Source: CBRT, TURKSTAT.

Analyzing the real developments in external trade, it is noteworthy that there has been a significant real balancing process that started in the last months of 2020 and continued until the end of 2021 (Chart 5). In this period, the export quantity index displayed an uninterrupted upward trend with the effect of strong external demand, competitive price levels and the changing trade dynamics after the pandemic. The decreasing trend of the import quantity index in the same period indicates that, in addition to the strengthening of the import substitution tendency structurally, the domestic demand may have been met mostly by domestically produced products or partially with stocks. With the end of 2021, when normalization trends continued after the pandemic, the quantitative increase in exports shifted to a horizontal course as was observed in imports. However, the export amount is 16 percent higher as of August compared to February 2021, and 39 percent higher than January 2018.

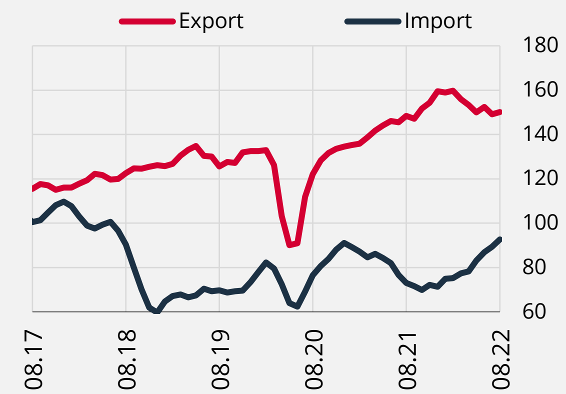
In the post-pandemic period, a structure similar to the total export and import balance is observed in the external trade of intermediate goods (Chart 6). In this item, the real stabilization that started after the pandemic continued until the last months of 2021, and ends with the loss of momentum in exports and the increase in imports. In the following months, real exports of intermediate goods increase again, while real imports decline and the balancing process starts again.

Chart 7: Investment Goods Export Import Indices (Seasonally Calendar Adjusted, 3 Months Moving Average, 2015=100)



Source: CBRT, TURKSTAT.

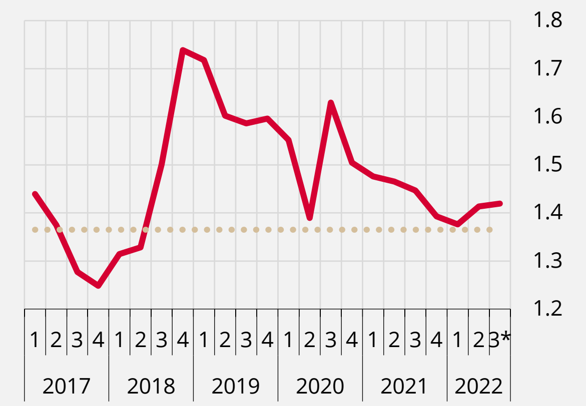
Chart 8: Consumption Goods Export Import Indices (Seasonally Calendar Adjusted, 3 Months Moving Average, 2015=100)



Source: CBRT, TURKSTAT.

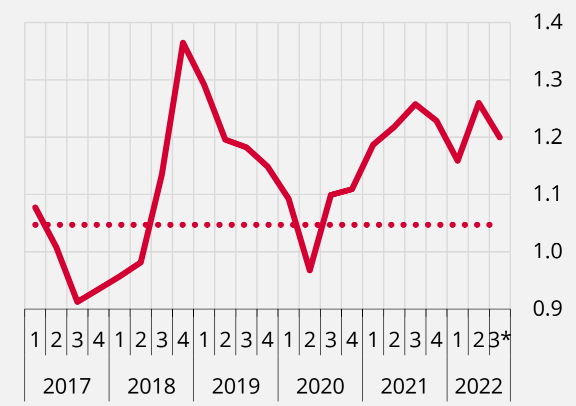
Despite the ups and downs observed in the amount of imports of investment goods in the post-pandemic period in line with the increasing trend in machinery and equipment investments, it is observed that imports of investment goods generally increase, while the amount of exports also increases but has recently decreased in line with global investment expectations (Chart 7). Real stabilization is observed in investment goods in the period after June 2021 and continues until June 2022. On the consumer goods side, there is an uninterrupted real rebalancing until the end of 2021 (Chart 8). In the following periods, when normalization became widespread, the process was reversed and real deterioration was observed as the amount of exports decreased and the amount of imports increased. However, the import amount of consumption goods is 21 percent higher and the export amount is 25 percent higher compared to 2018.

Chart 9: Exports Excluding Gold/Intermediate Goods Imports Excluding Gold and Energy (Seasonally Adjusted)



Source: CBRT, Ministry of Trade, TURKSTAT.
* September data is provisional. Dashed lines represent the historical average.

Chart 10: Exports Excluding Gold/Intermediate Goods Imports Excluding Gold and Energy (Seasonally Adjusted Quantity Index, 2015=1)



Source: CBRT, Ministry of Trade, TURKSTAT.
* Average of July and August. September data is provisional. Dashed lines represent the historical average.

The ratio of exports to imports for intermediate inputs of companies has decreased since the third quarter of 2020, approaching the average of the last ten years before the pandemic. The high course of import prices of intermediate goods contributed to this decrease (Chart 9). As a matter of fact, when price effects are excluded, the aforementioned ratio increased significantly in the post-pandemic period and remained above 1 in the third quarter of 2022 (Chart 10). It is considered that the increase in the share of domestic product use in the use of intermediate inputs by companies may also have an impact on this increase.