

VAKIFBANK TURKISH ECONOMY WEEKLY

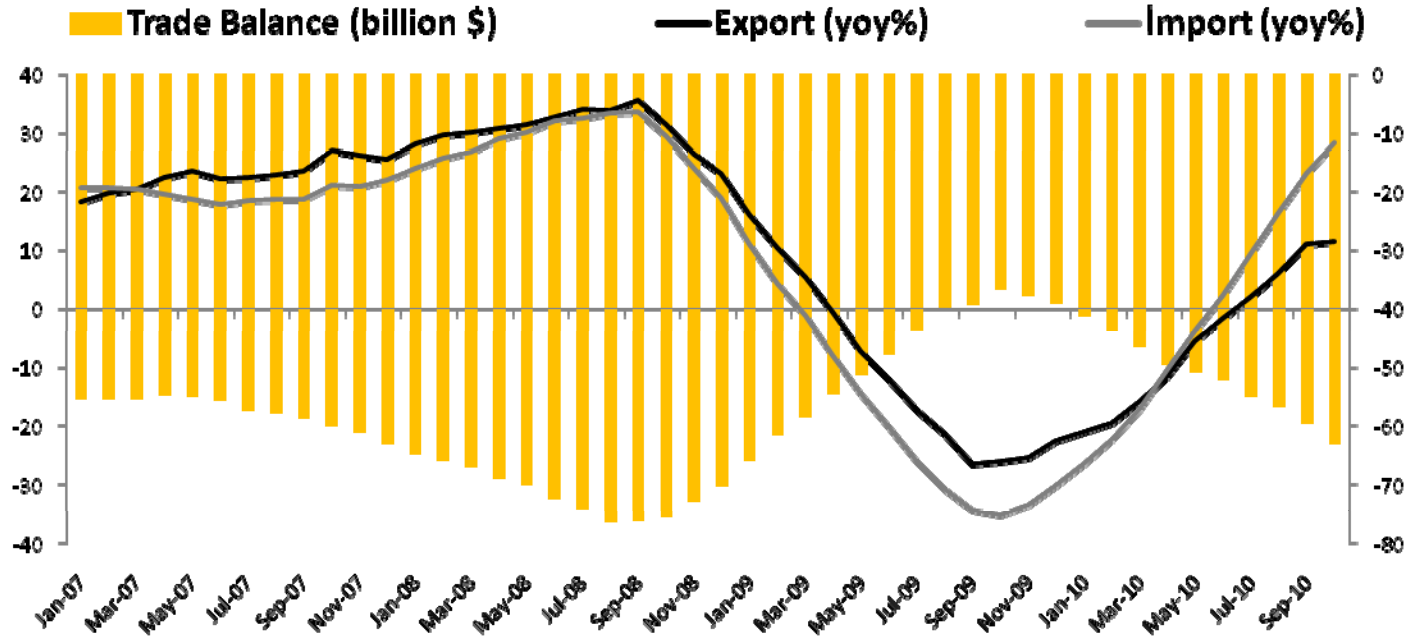
**October Trade Data Implies
Further Widening in Current
Account Deficit**



T. Vakıflar Bankası T.A.O






Trade balance reached 6.33 billion dollar in October 2010.

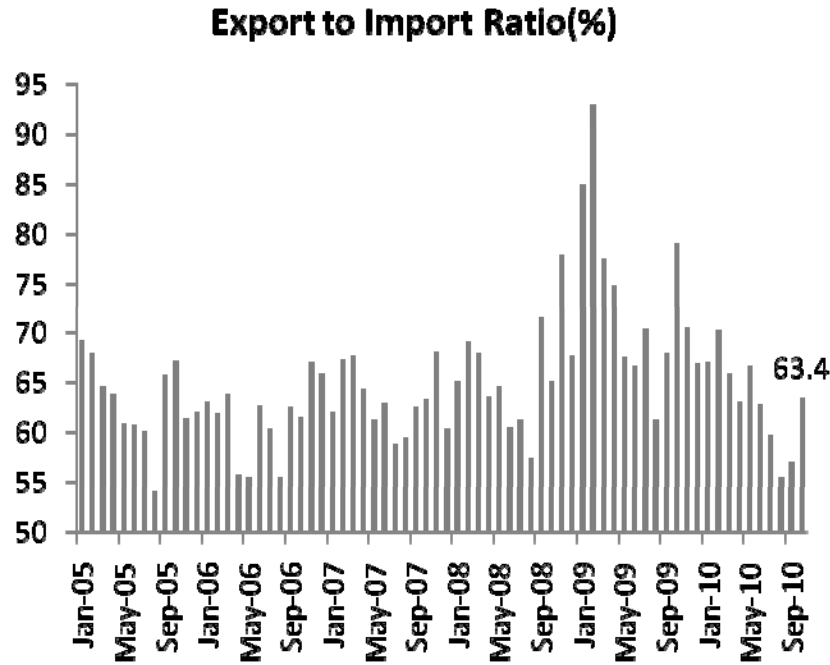


Source: CBRT

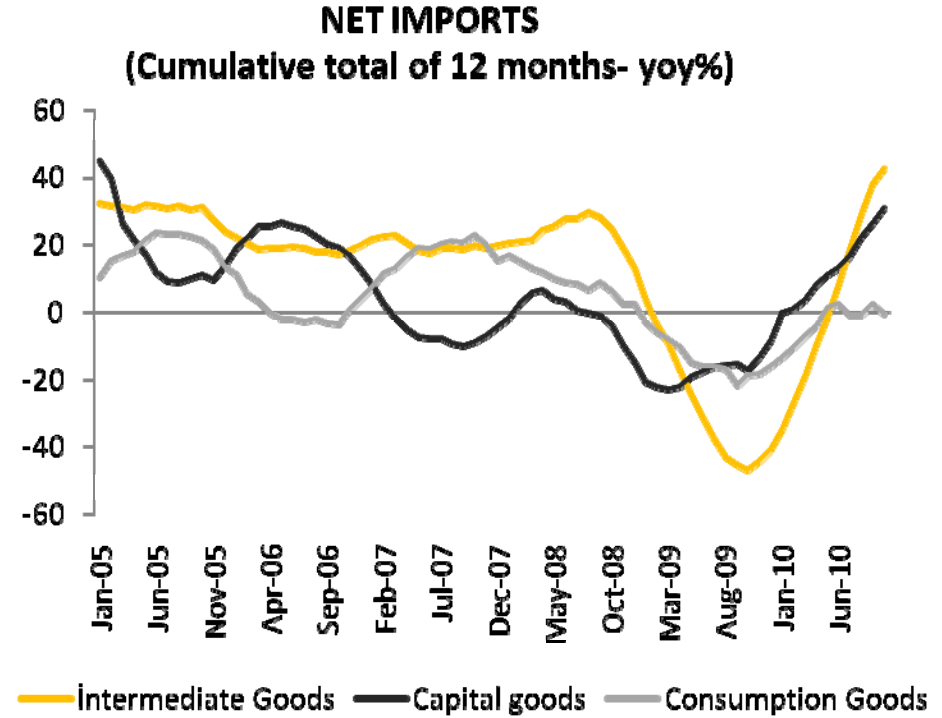
Data is taken as the cumulative total of 12 months.

-  In October 2010 exports increased by 8.8% and reached 10.98 billion dollar while imports increased by 35.5% and reached to 17.31 billion dollar.
-  With these figures the trade balance increased to 6.33 billion dollar from 2.68 billion dollar.
-  The main reason behind the increase in October trade deficit is a result of the stronger domestic demand and weak external demand conditions.

In October 2010 export to import ratio was 63.4% while it was 79% in 2009...



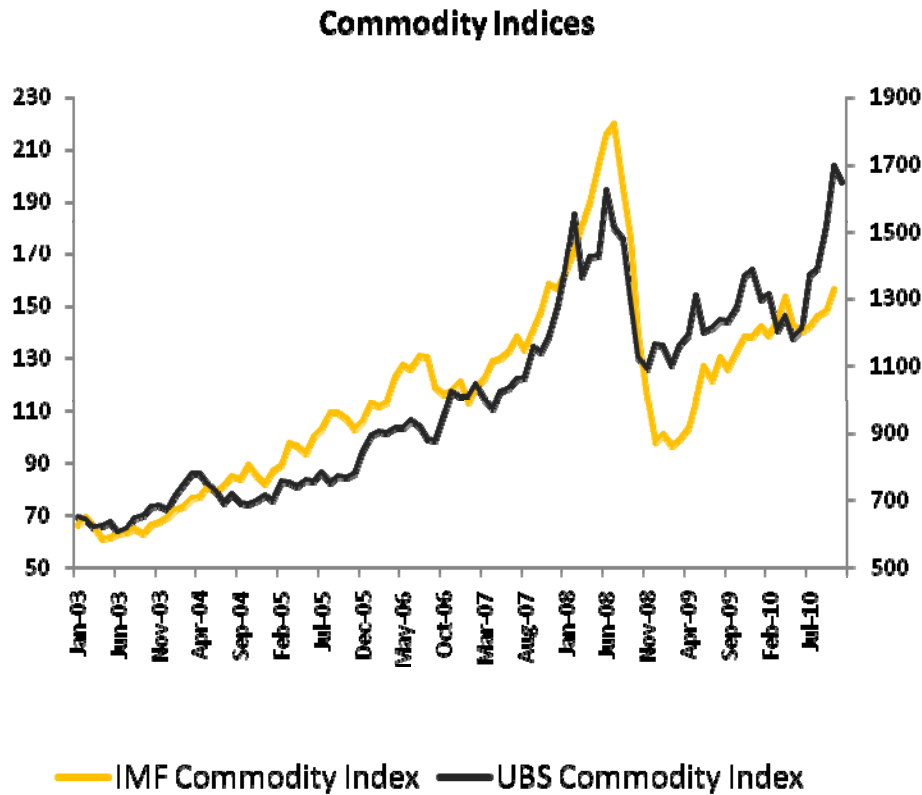
Source: CBRT



Source: CBRT, Turkstat

- ✓ In October 2010, strong increase in imports have caused a higher trade deficit than expectations.
- ✓ Rapid increase in intermediate goods imports has been the determinant of the increase in imports.
- ✓ In October 2010 Turkey's net importer position in intermediate and capital goods have improved, but the net imports of consumer goods doesn't have an upward trend despite the increasing domestic demand.

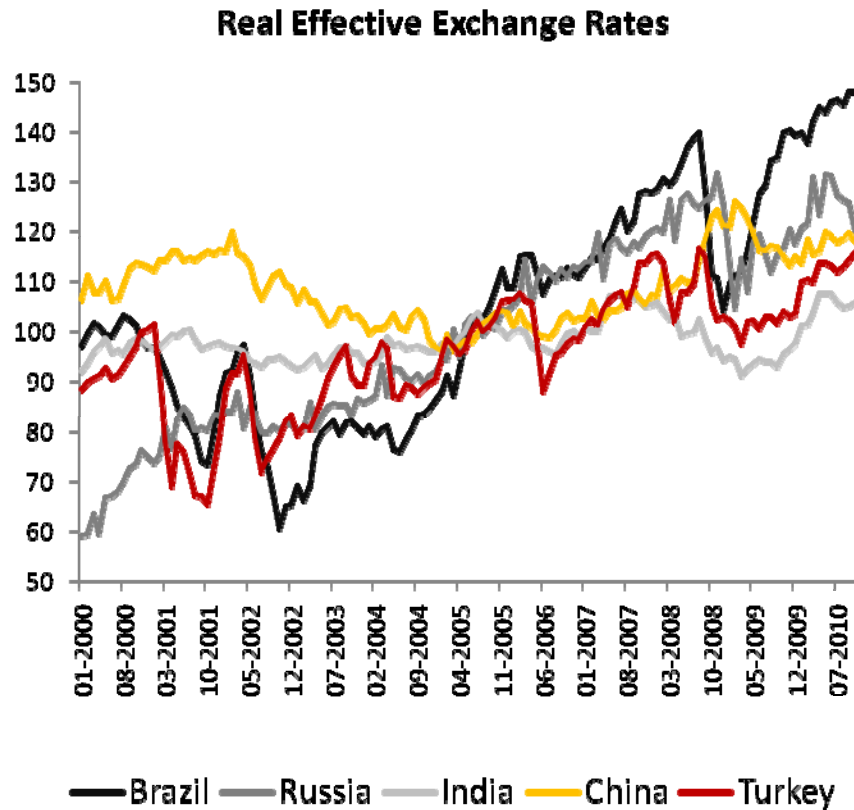
Commodity price increases didn't have a serious effect on trade deficit in October.



Source: IMF, Bloomberg

- Despite the slow growth in the US and other developed countries, the strong growth trends in Emerging Market (EM) economies, have started boosting commodity price increases since August.
- Since Turkey is a commodity exporter, the increase in commodity prices might have a much significant effect on Turkish trade deficit in the coming periods.
- However, the existing global growth trends is not expected to allow for the commodity prices to hit the record levels of 2008.
- As a result, commodity price increases are not expected to push Turkish trade deficit to critical levels in the coming period.

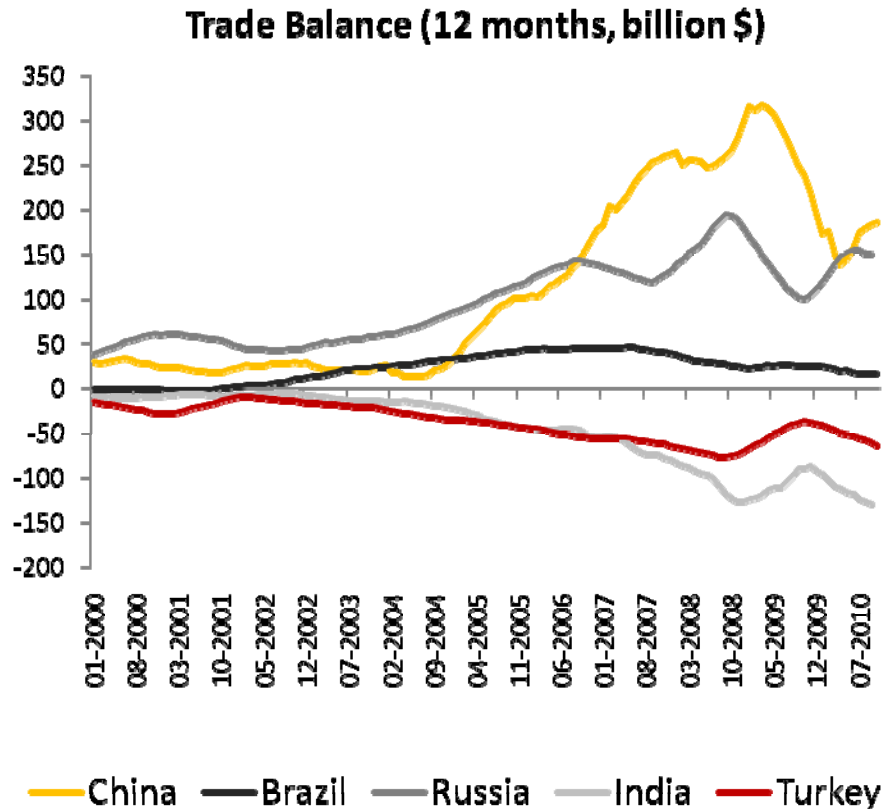
TL appreciation has a limited effect on the deterioration of the trade balance in October.



Source: BIS

- ✓ The real exchange rates of the EM economies have appreciated to a certain extent due to increasing capital inflows. And likewise the Turkish Lira have appreciated 12% in the first 10 months of 2010.
- ✓ The negative effect of the appreciation of exchange rates on trade balances might increase in EM economies if the capital inflows continue.
- ✓ The high correlation between trade deficit and real exchange rate implies that the appreciation of TL might have a much negative impact on the competitiveness of Turkey.

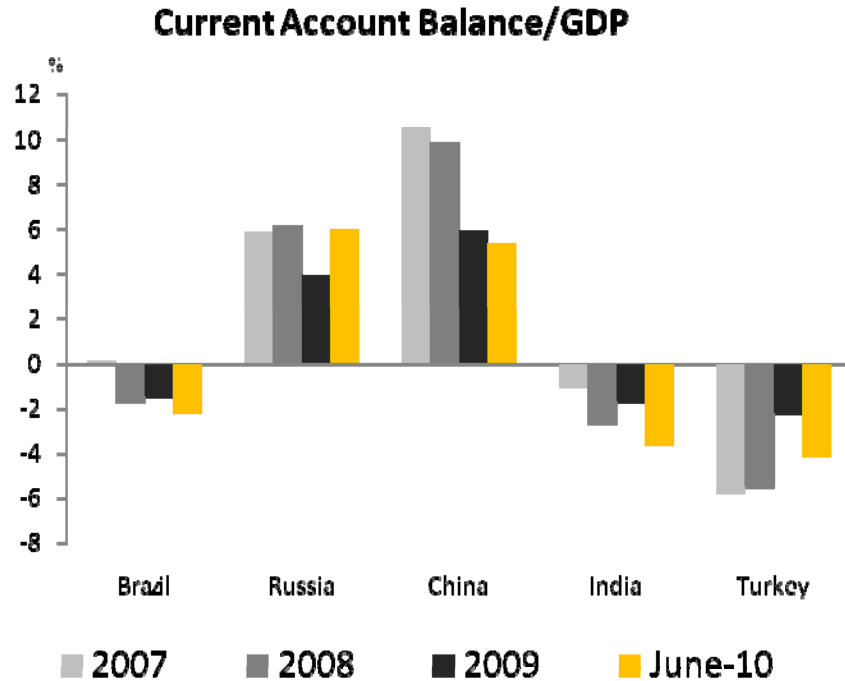
The ongoing capital inflows might become a cause of concern for Turkey.



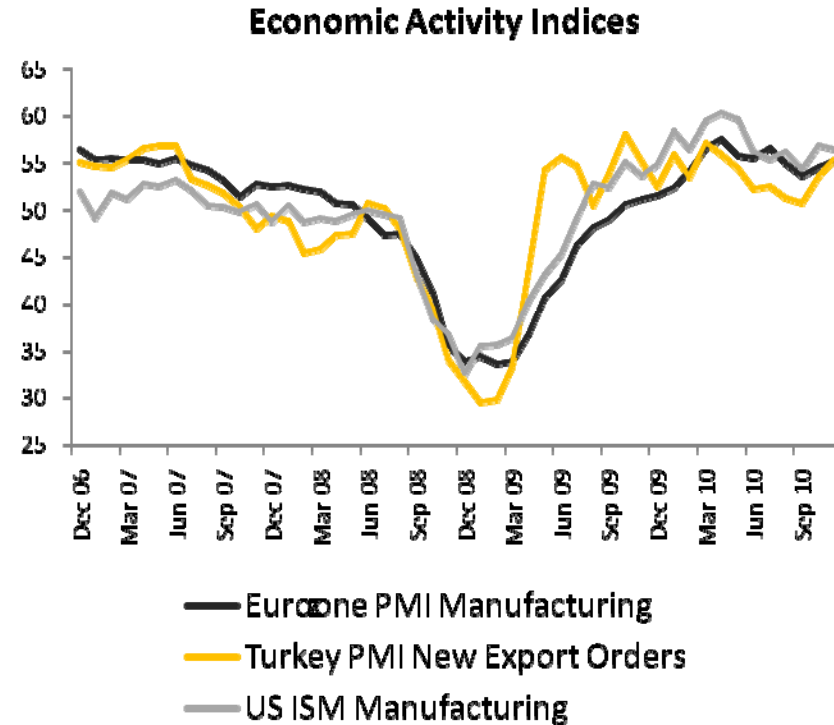
Source: Bloomberg

- ✓ *The importance of foreign capital inflows in the financing of current account deficit in Turkey is increasing.*
- ✓ *Despite the fall in risk appetite as a result of European debt crisis, capital inflows have recently weakened in Turkey. But still there's not much signal for the capital inflows to stop unless a more severe turbulence occurs.*
- ✓ *Fitch's revision in rating outlook in November has increased the expectation that Turkey's credit rating might increase in 2011. This is another factor supporting the capital account of Turkey.*
- ✓ *As a result of the capital inflows in a low interest rate environment imports are expected to rise further in the coming months. Consequently, current account deficit might reach the pre-crisis levels in 2011.*



The sustainability problem of the current account deficit might reappear in 2011.



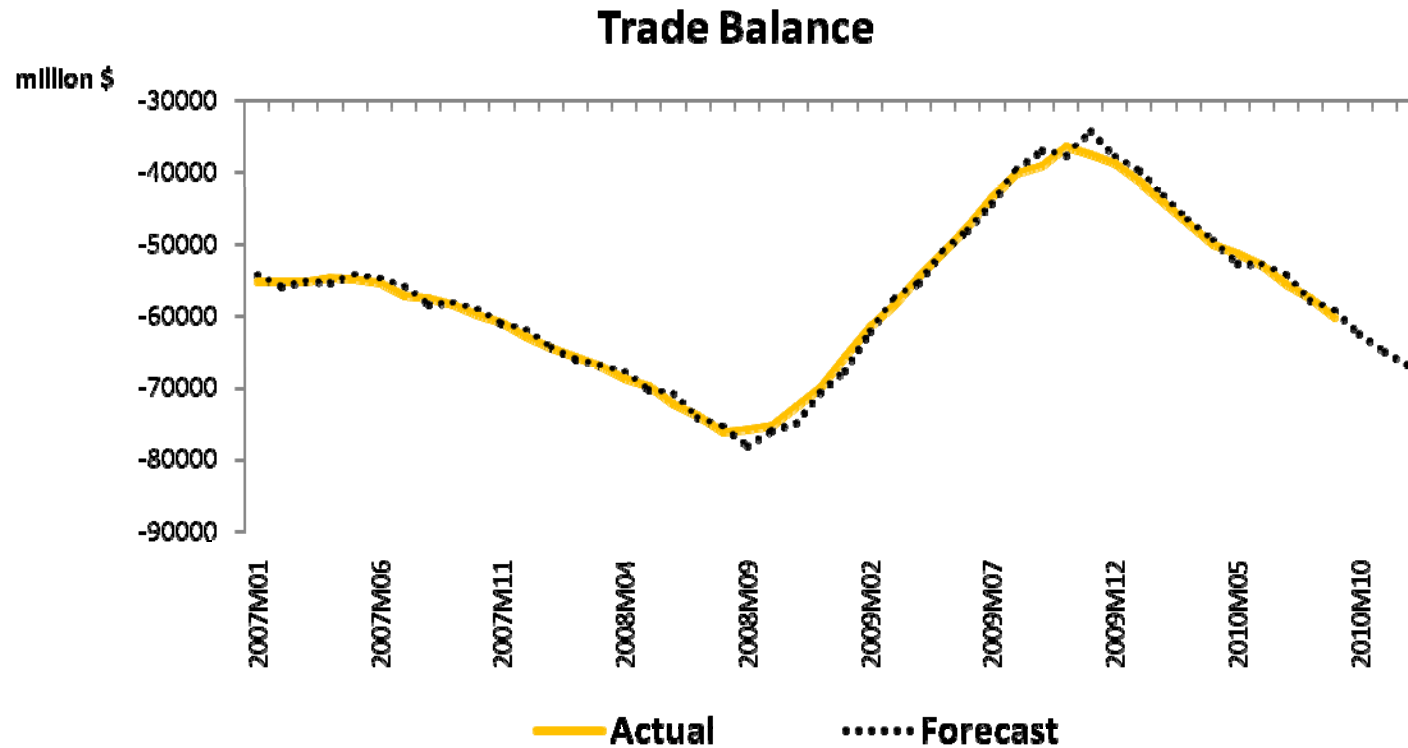
Source: Bloomberg



Source: Reuters

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The economic activity in the Eurozone is shaded because of the debt crisis. And the unsatisfactory growth performance of the US is tried to be improved via monetary policy tools.
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Since the Eurozone is the biggest export market for Turkey and the US has the biggest share in world trade, their above stated growth performance implies a weak external demand outlook for Turkey signalling downward risks for exports.

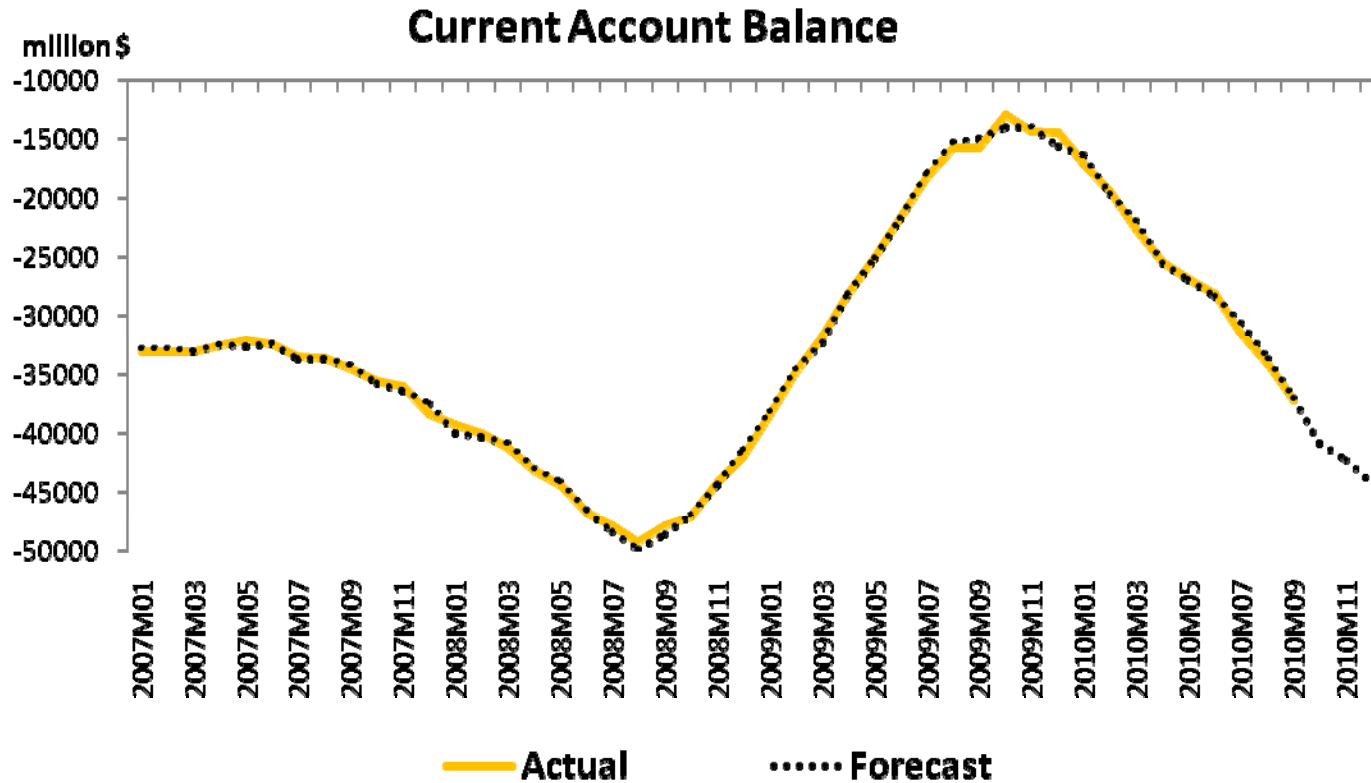
We revise our 2010 trade deficit forecast to \$66.8 billion from \$62 billion.





Source: CBRT, VakifBank

- ✔ The trade deficit in the first 10 months of 2010 expanded by 83%.
- ✔ This expansion in trade deficit shows that domestic demand presents a stronger outlook than external demand. Therefore risks on our 2010 trade deficit forecast has increased with recent data.
- ✔ Due to oil-import dependency of Turkey upward movements in oil prices support our expectation of continuing expansion in trade deficit .
- ✔ We revise our 2010 trade deficit forecast to \$66.8 billion and trade deficit/GDP ratio forecast to -9.1%.

We revise our 2010 current account deficit forecast to \$44.2 billion from \$38.5 billion.



Source: CBRT, VakifBank

-  *The surge in capital inflows support domestic demand. And also the divergence between domestic and external demand exacerbates. This divergence widen the current account deficit through increasing import demand.*
-  *Therefore we revise our 2010 current account deficit forecast to \$44.2 billion and current account deficit/GDP ratio forecast to -6.0%.*

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