VAKIFBANK GLOBAL ECONOMY WEEKLY

European Debt Crisis Impact on The Selected Emerging European Countries' Foreign Trade...

T. Vakıflar Bankası T.A.O

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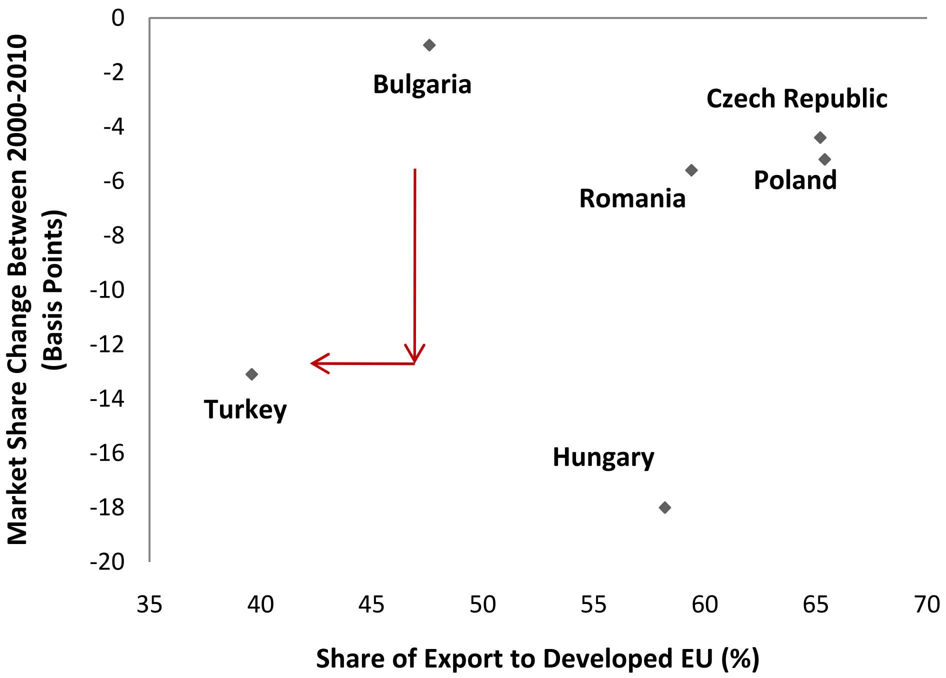
Introduction...

Debt crisis in EU has affected emerging European countries as much as developed EU countries. Emerging European countries' export to developed EU has the highest proportion in their total export, in this study European debt crisis impact on the selected emerging European countries' foreign trade is analyzed.

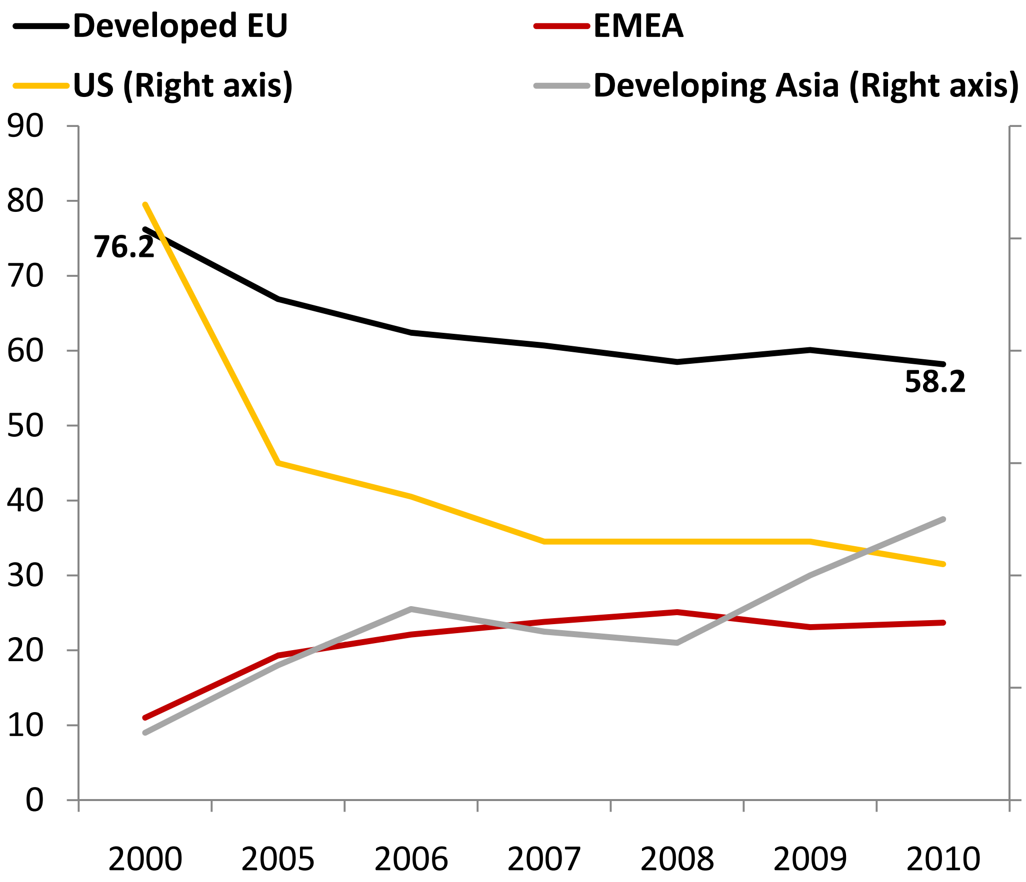
An economic slowdown around developed Europe would obviously have a sharp impact on the emerging European countries...



Source: Commerzbank

- Hungary, Romania, Czech Republic and Poland's export to developed EU are at high levels whereas Turkey and Bulgaria's shares are lower than these countries. When emerging countries' market share between 2000-2010 is analyzed, it is seen that Czech Republic, Poland and Romania's export momentum have decreased determinately. Moreover, Turkey and Hungary's export momentum have decreased more significantly than these countries. The countries which are placed on the right and bottom side of the graphic are less vulnarable to a drop within EU demand. As Turkey is less geared to developed-EU than its CE3 peers, it is also less vulnerable to a drop within EU demand.

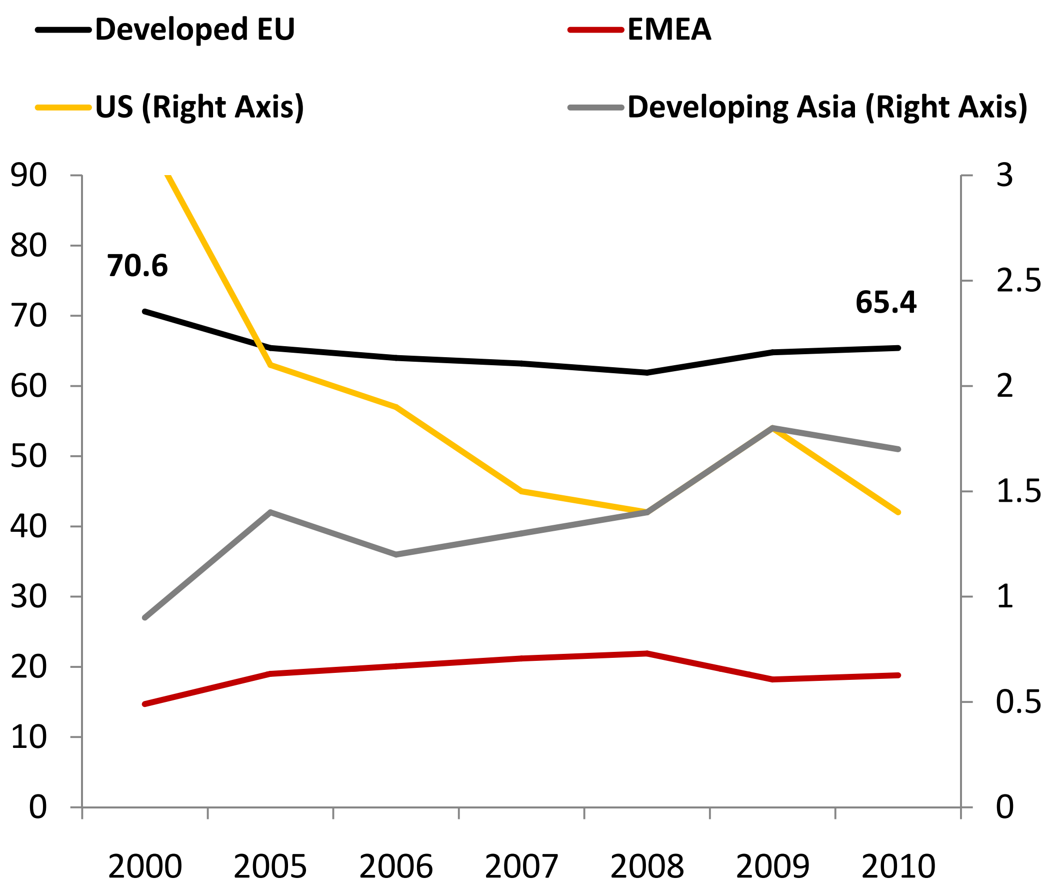
Hungary...



Source: Commerbank

- The share of Hungary's exports to developed EU countries in total exports has decreased gradually since 2000. The share of developed EU countries in total exports has declined from 76% to 58%. Despite this decline, the share of Hungary's exports to developed EU still maintains at high level.
- At the same time, Hungary's exports to EMEA and to Asia have increased from 11.6% in 2000 to 26.2% in 2010.
- Although Hungary is still one of the most exposed to developed-EU demand, the increase in the share of EMEA and to Asia export seems to be positive.

Poland...

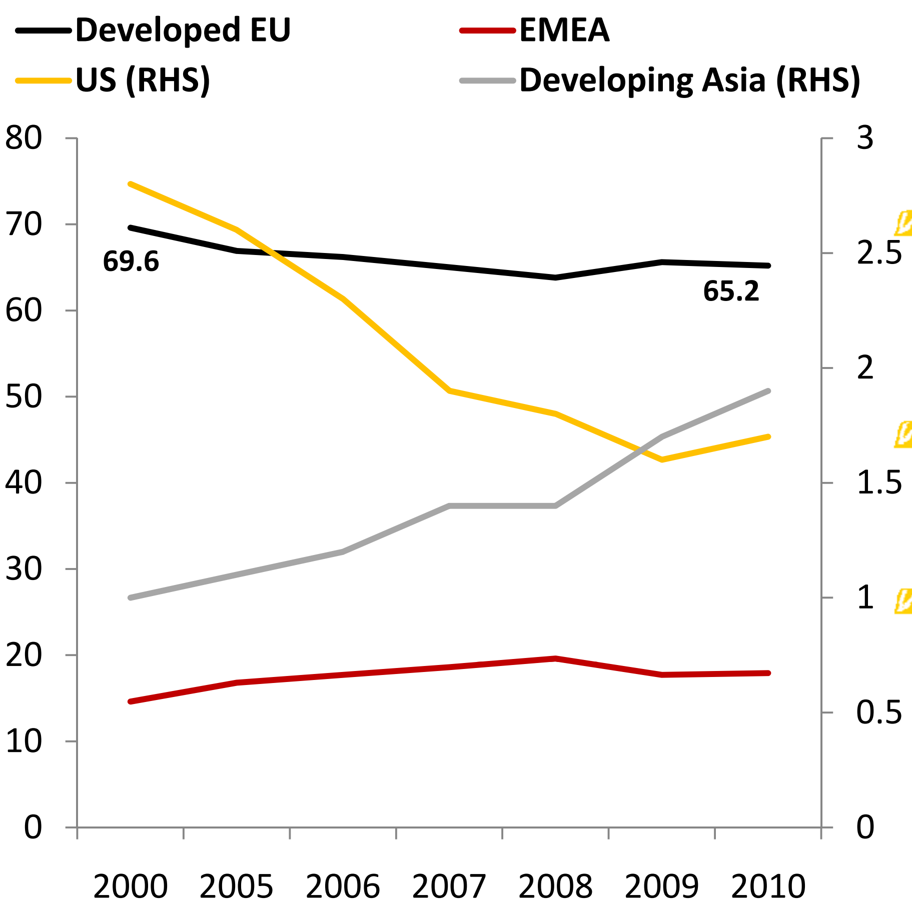


Source: Commerzbank

- Like other emerging European countries, developed EU countries have the highest share in total exports of Poland. Although the share of Poland's exports to developed EU countries in total exports has decreased gradually since 2000, it has begun to increase after 2009 and reached to 65.4%. As Poland has the highest share of export to developed EU, it is more fragile to debt problems in EU.

- Poland's exports to the Europe, Middle East and Africa have grown rapidly in recent years and has risen from 14.7% in 2000 to 18.8% in 2010. Moreover, its export to developing Asia has increased from 0.9% to 1.7% in the same period. Thus, Poland may compensate negative effects of EU debt crisis with increasingly exporting to Europe, Middle East, and Africa.

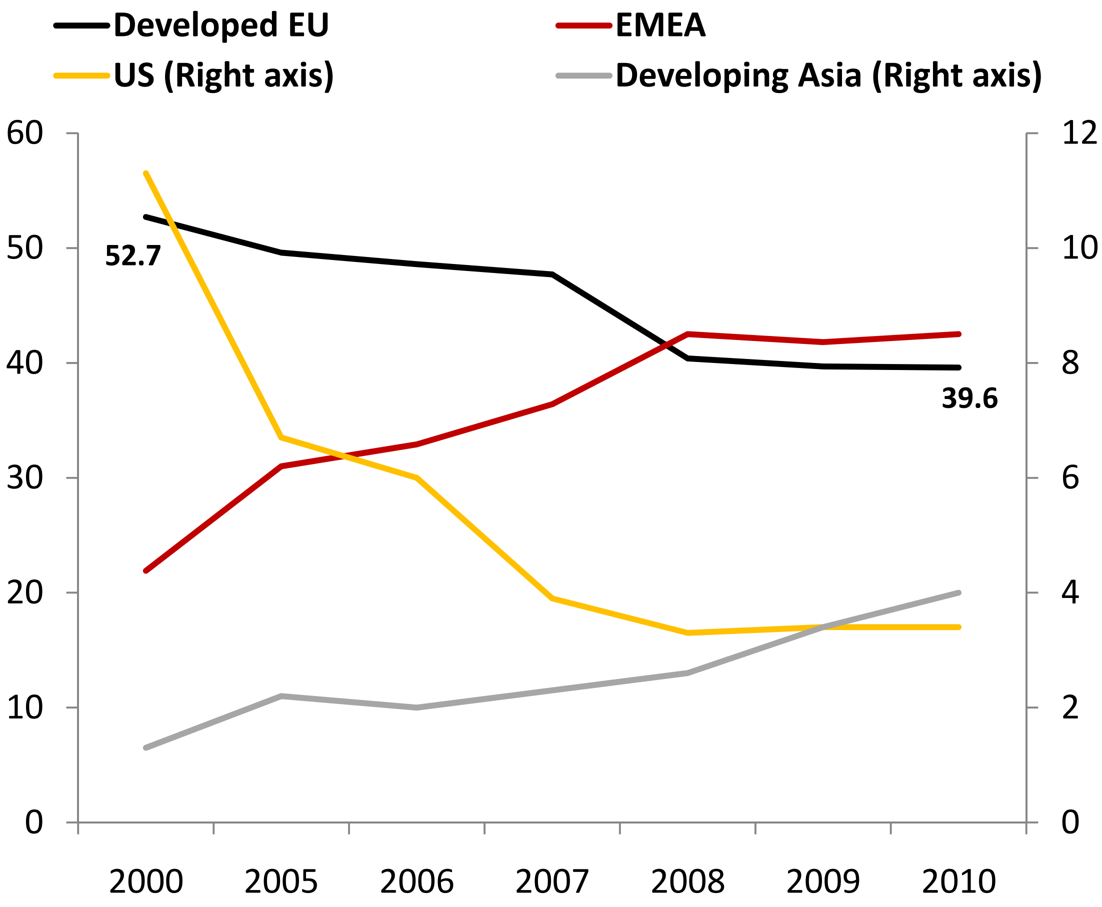
Czech Republic...



Source: Commerbank

- In order to determine the impact of ongoing problems in EuroZone countries on Czech Republic through trade channel, the share of Czech Republic's exports to selected groups of countries are examined since 2000.
- Developed EU countries have the highest share in exports of the Czech Republic. This share has decreased gradually since 2000 and reached to 65.8% in 2010.
- The high share of Czech Republic's exports to this group which includes the problematic countries pose a risk on export performance of Czech Republic.
- On the other hand, the share of Czech Republic's export to EMEA countries has increased since 2000. Since these countries are generally oil-exporting countries, with the upward movement in commodity prices, the wealth of these countries increaes. In this regards strong domestic demand lead to an increase in exports to these countries.
- The high share of Developed EU countries in Czech Republic's export increases the sensitivity of Czech Republic to the problems of EuroZone.

Turkey…



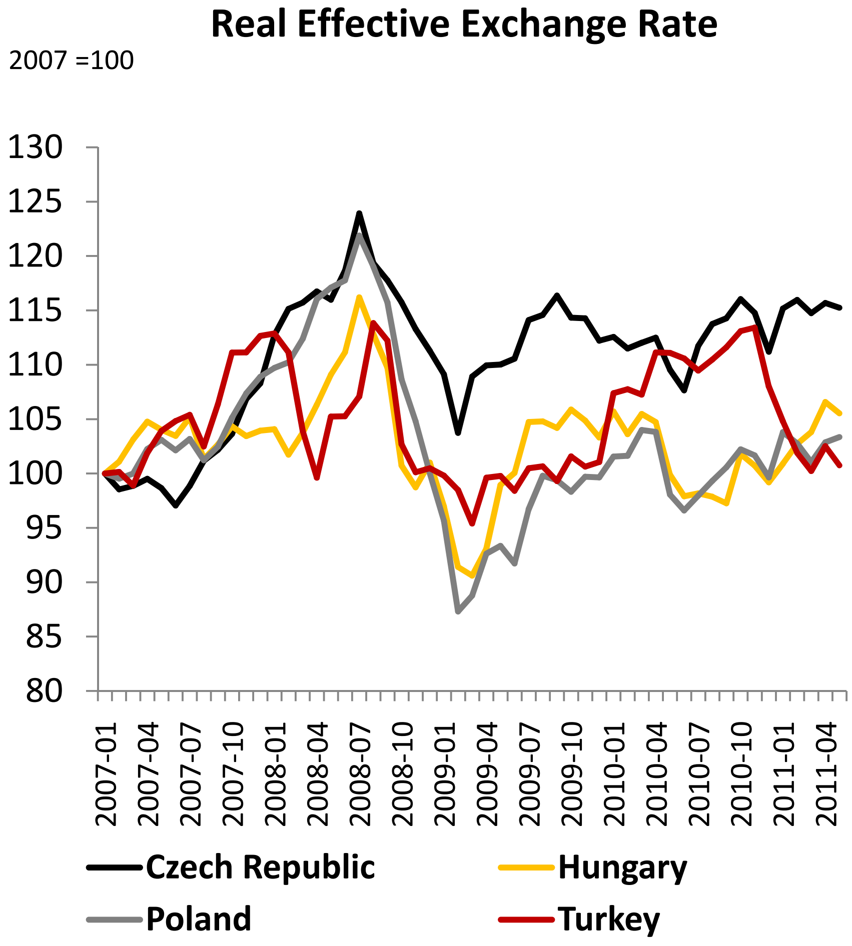
Source: Commerbank

- The share of Turkey's exports to developed EU countries in total exports have decreased since 2000. Developed EU countries share in total exports has declined from 52.7% to 39.6% and this share is lower than other countries.

- At the same time, Turkey's exports to EMEA and Asia have increased from 23.2% in 2000 to 46.5% in 2010.

- Therefore, Turkey's dependence on the EU has been declining and in this respect Turkey would be less affected than its peers in case of a decline in EU demand.

The effects of real effective exchange rates movements on export...



Source: BIS

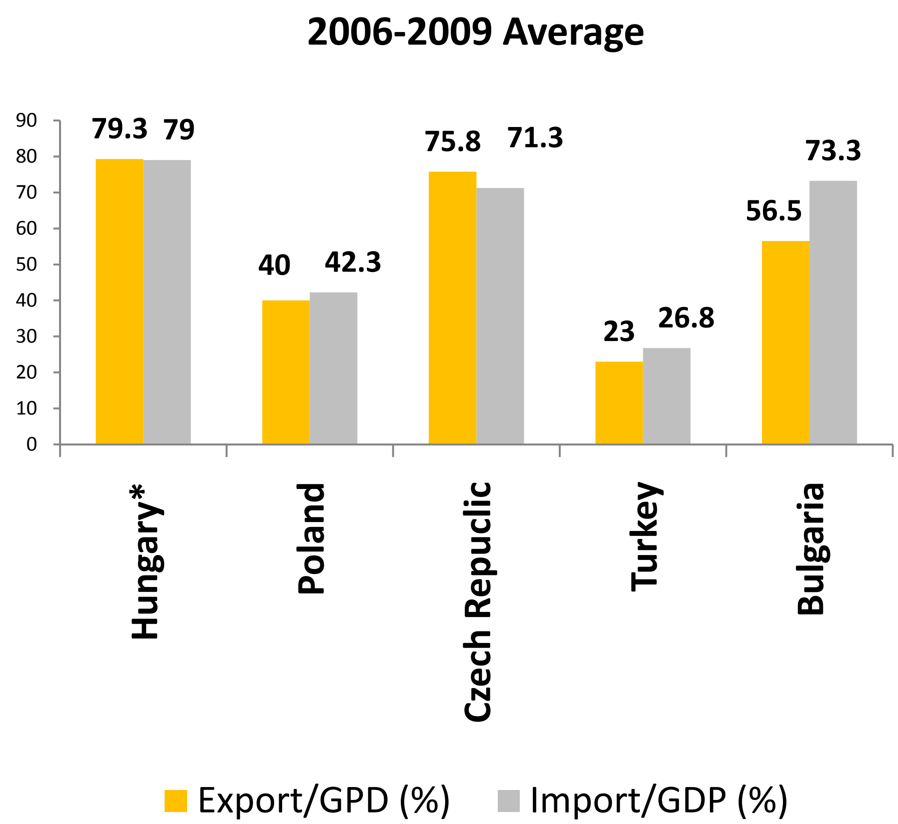
- Since there is a strong relationship between real effective exchange rates and export performance of these countries, real exchange rate movements are examined in the left hand side graph. Real effective exchange rates of the Czech Republic, Hungary, Poland and Turkey are indexed (2007 = 100).

- As shown in the Graph, Turkey's real effective exchange rate has decreased since the end of 2010. Lagged effects of these downward movements may lead to an increase in exports in the coming months. The real effective exchange rates of the Czech Republic, Hungary and Poland have fluctuated in the same period.

- Real exchange rates of selected countries have moved downward recently, while Poland's real effective exchange rate has a continuous upward movement.

- As a result, within the framework of the real effective exchange rates performance, Turkey seems to be the most advantageous country among the selected countries.

Despite the ongoing problems in EuroZone countries Turkey is relatively strong, but Hungary and the Czech Republic are more fragile...



Source: World Bank

* 2006-2008 average is shown for Hungary.

- The share of exports and imports in GDP can be seen on the left hand side graph.
- The countries with the highest share of exports in GDP are Hungary and Czech Republic. These countries are followed by Bulgaria and Poland. On the other hand, Turkey has a lower share than these countries.
- This reflects that under the possibility of a slow down in Eurozone demand, Hungary and the Czech Republic's growth performance would be affected negatively. On the other hand, the risks under Turkey's growth performance are relatively weak.
- Moreover, the imports share in GDP is also important for growth performance of these countries. Although, the decline in imports is important to determine the effect of import on growth, Hungary and the Czech Republic whose exports to GDP are higher than the imports to GDP, are said to have a stronger risk than other countries.

Serkan Özcan
Chief Economist
+ 90 312 455 7087
serkan.ozcan@vakifbank.com.tr

Cem Eroğlu
Senior Economist
+ 90 312 455 8480
cem.eroglu@vakifbank.com.tr

Bilge Özlap Türkarslan
Economist
+ 90 312 455 8488
bilgeozalp.turkarslan@vakifbank.com.tr

Seda Meyveci Doğanay
Economist
+ 90 312 455 8485
Sedameyveci.doganay@vakifbank.com.tr

Halide Pelin Kaptan
Researcher
+ 90 312 455 8483
halidepelin.kaptan@vakifbank.com.tr

Emine Özgü Özen
Researcher
+ 90 312 455 8487
Emineozgu.ozen@vakifbank.com.tr

T. Vakiflar Bankasi T.A.O
Ataturk Bulvari No: 207
Kavaklidere 06683 Ankara, Turkey
www.vakifbank.com.tr

Vakifbank Economic Research
ekonomik.arastirmalar@vakifbank.com.tr