

# VAKIFBANK TURKISH ECONOMY WEEKLY

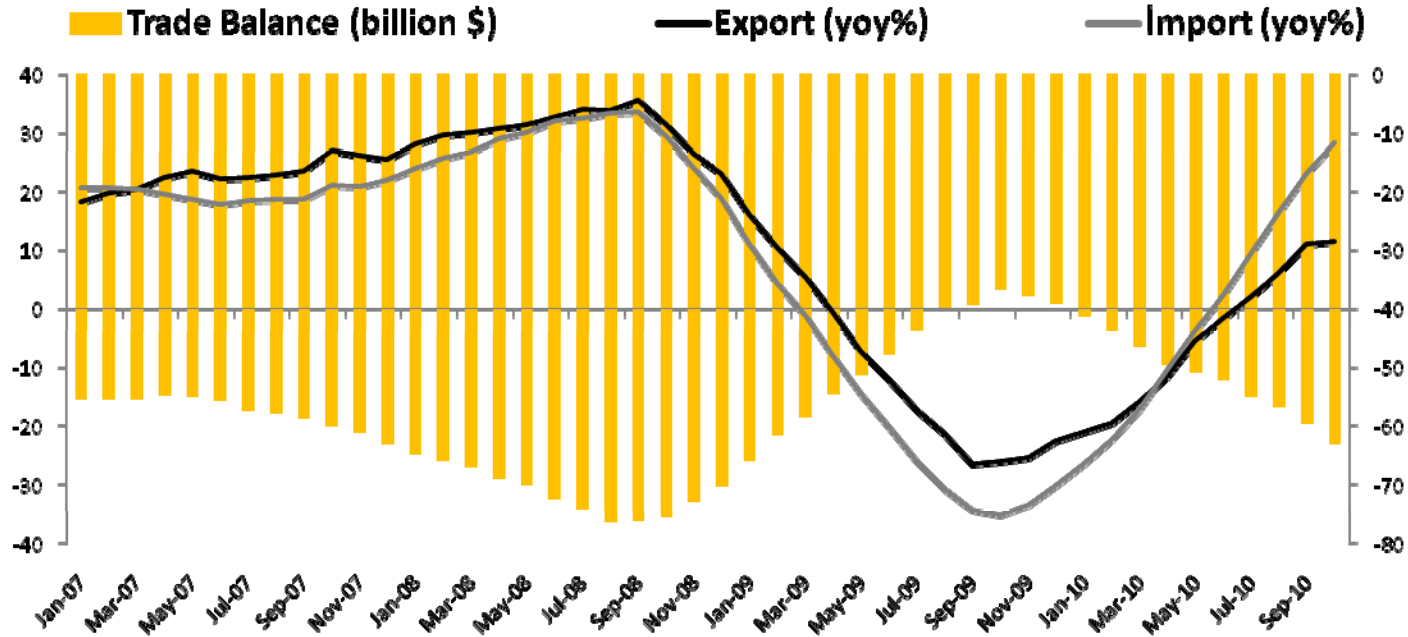
**October Trade Data Implies  
Further Widening in Current  
Account Deficit**



T. Vakıflar Bankası T.A.O






**Trade balance reached 6.33 billion dollar in October 2010.**

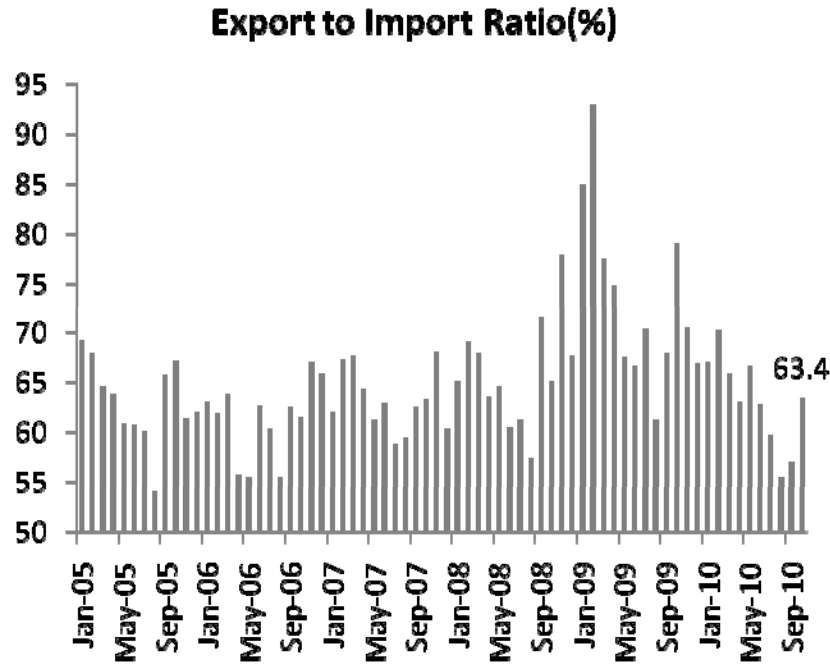


Source: CBRT

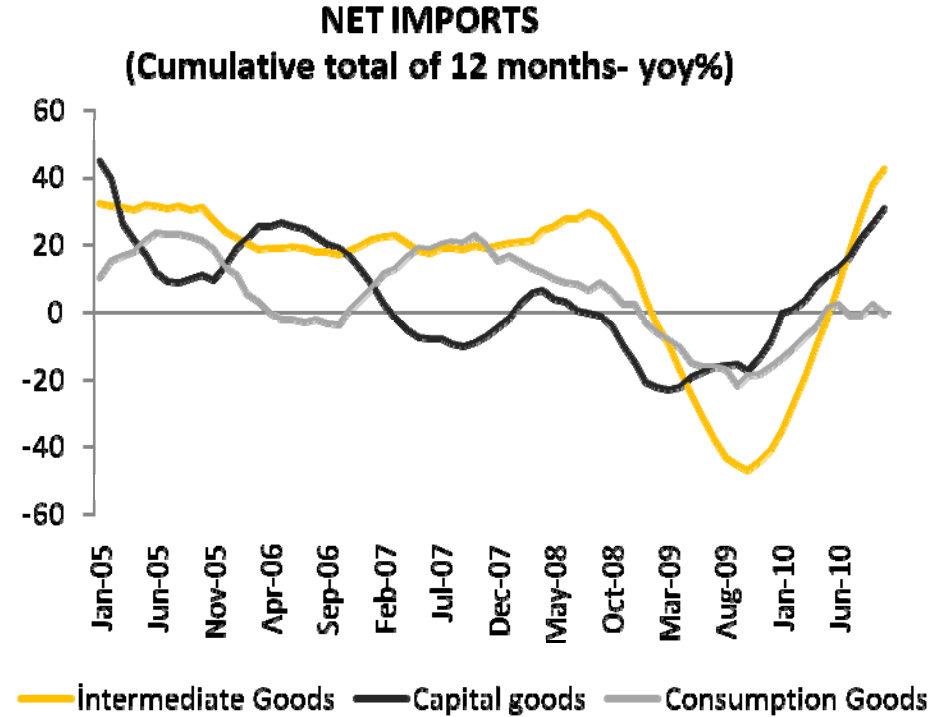
Data is taken as the cumulative total of 12 months.

-  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...***



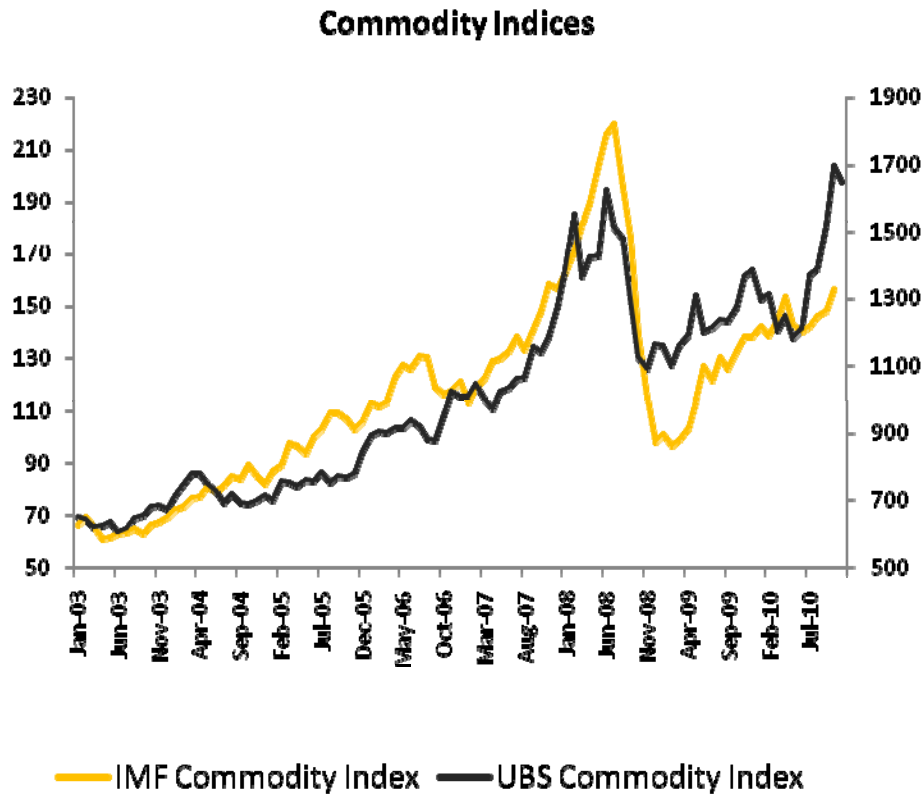
Source: CBRT



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.

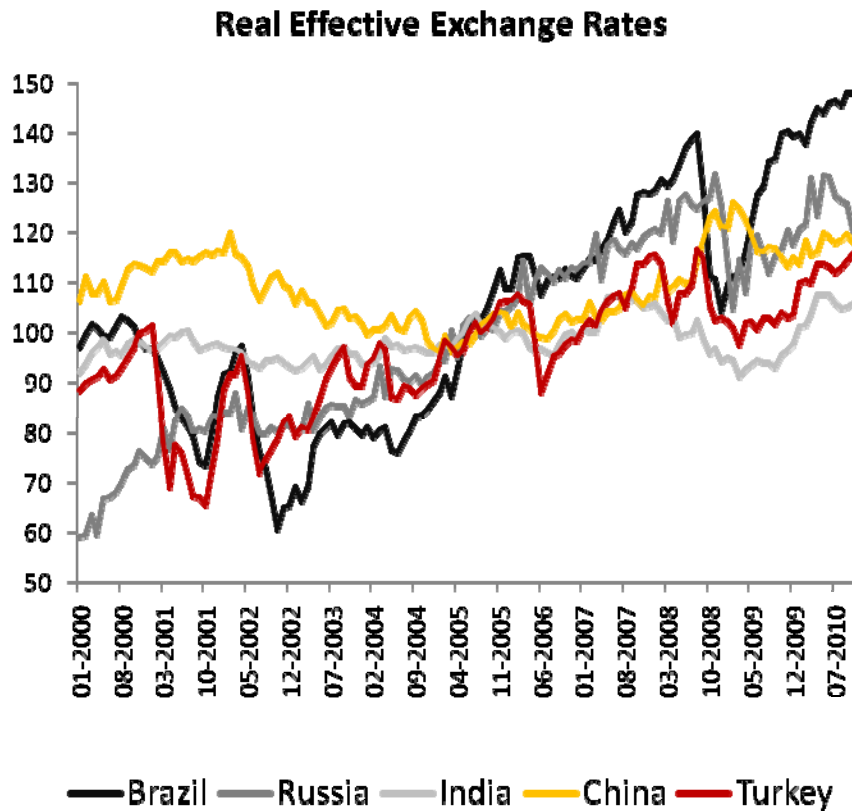
## Commodity price increases didn't have a serious effect on trade deficit in October.



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.

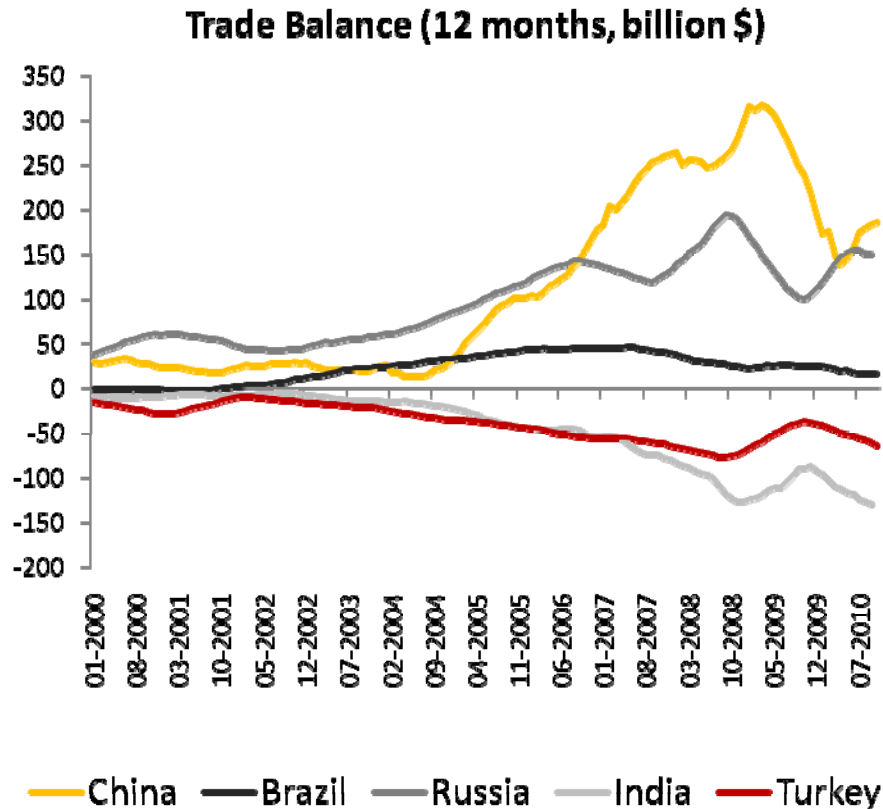
## ***TL appreciation has a limited effect on the deterioration of the trade balance in October.***



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.*

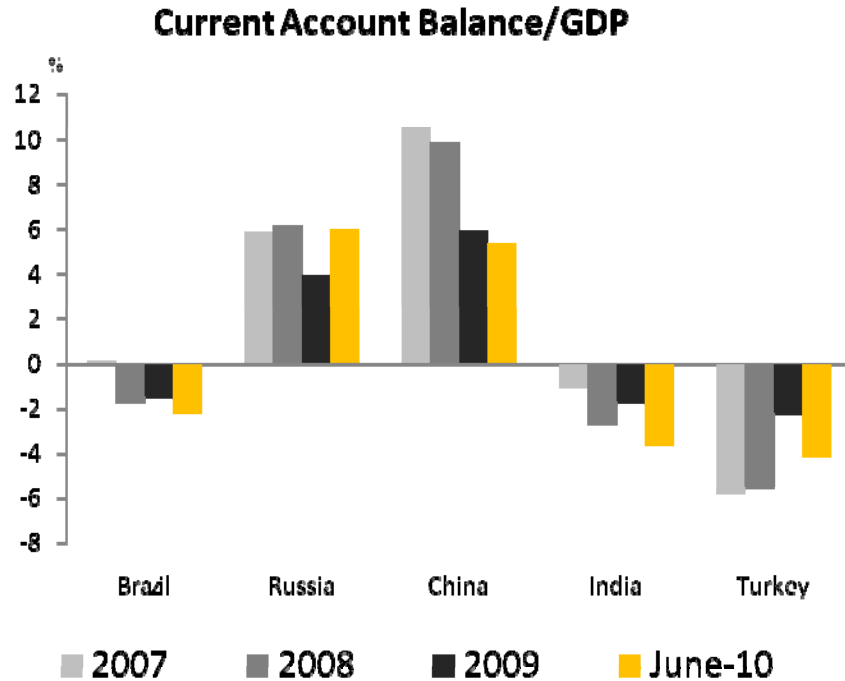
## ***The ongoing capital inflows might become a cause of concern for Turkey.***



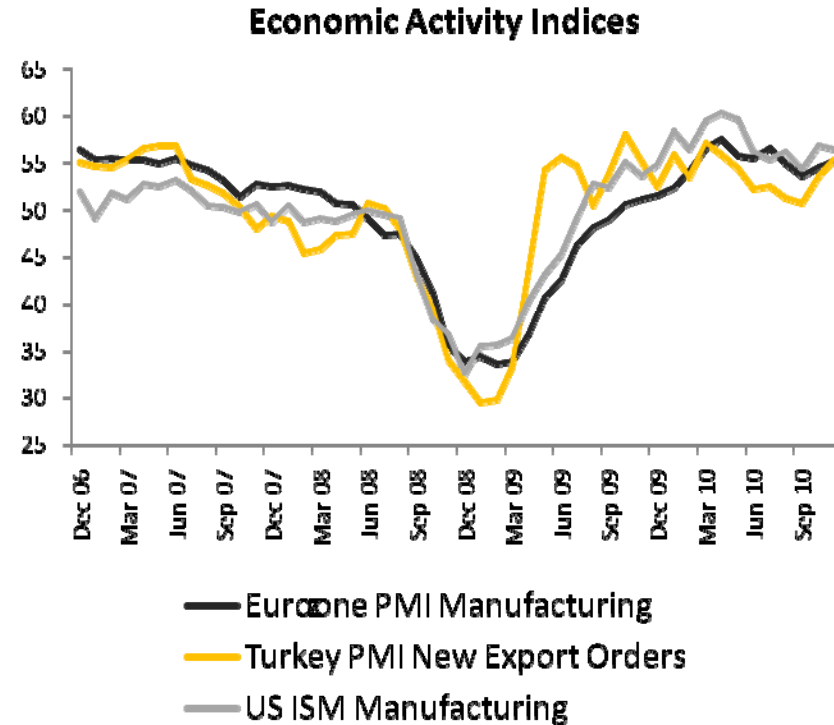
Source: Bloomberg

- ✓ 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.



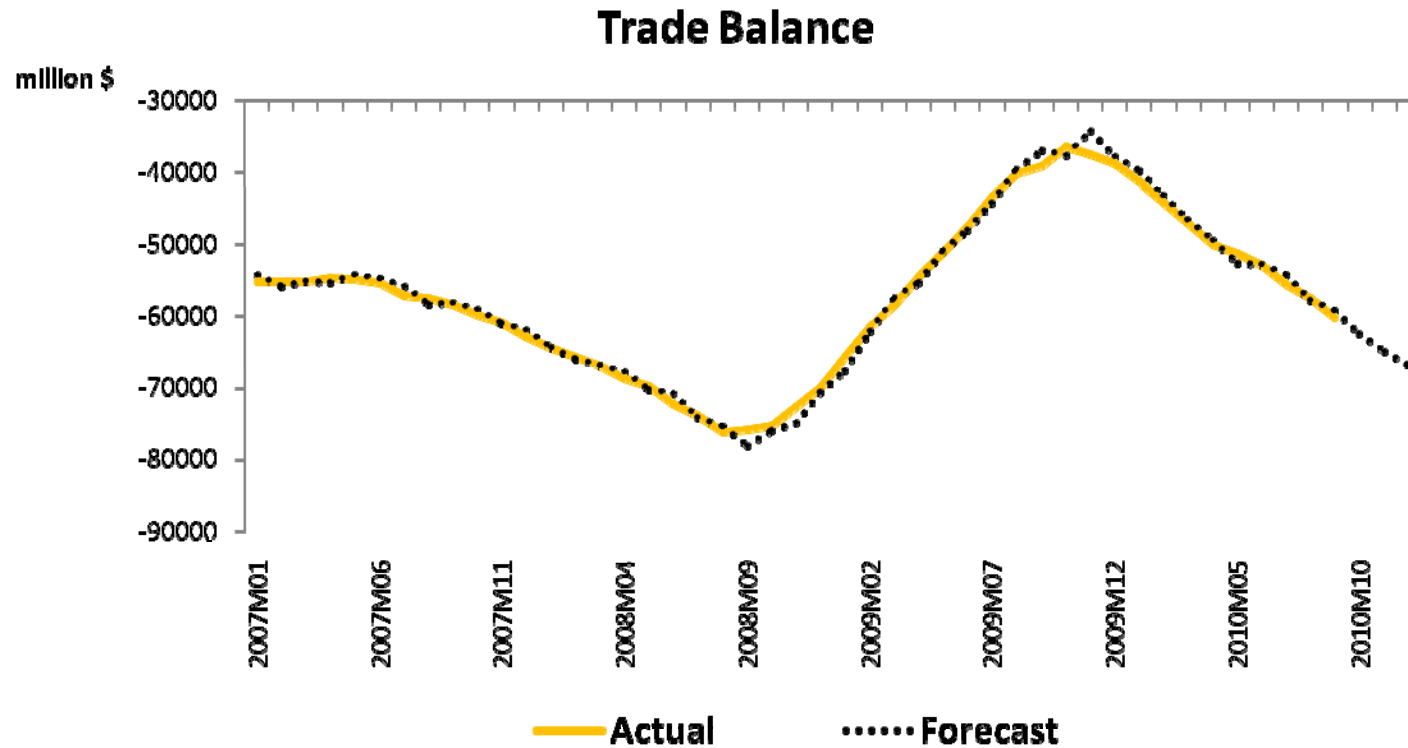
Source: Bloomberg



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.**

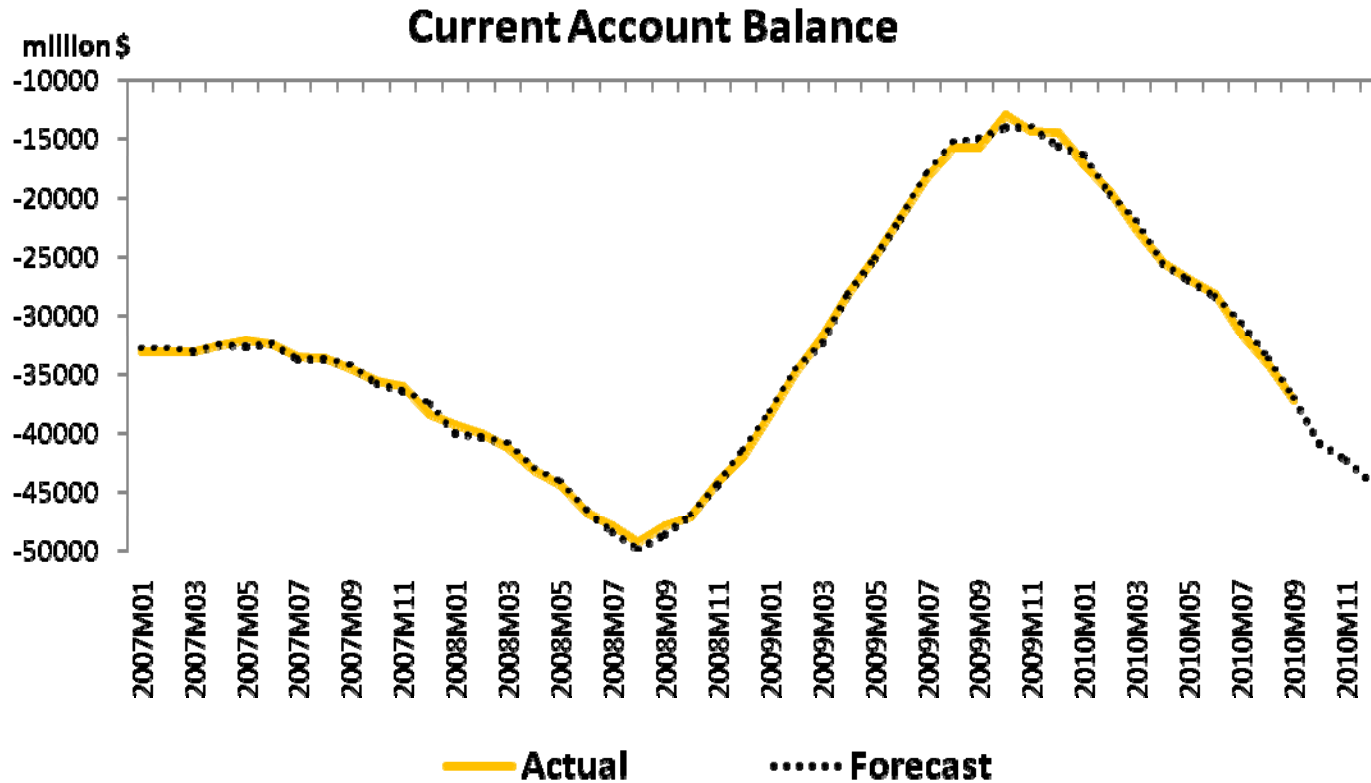


Source: CBRT, VakifBank



- ✔ *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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