

VAKIFBANK TURKISH ECONOMY WEEKLY

Foreign trade deficit came in
below expectations in April...

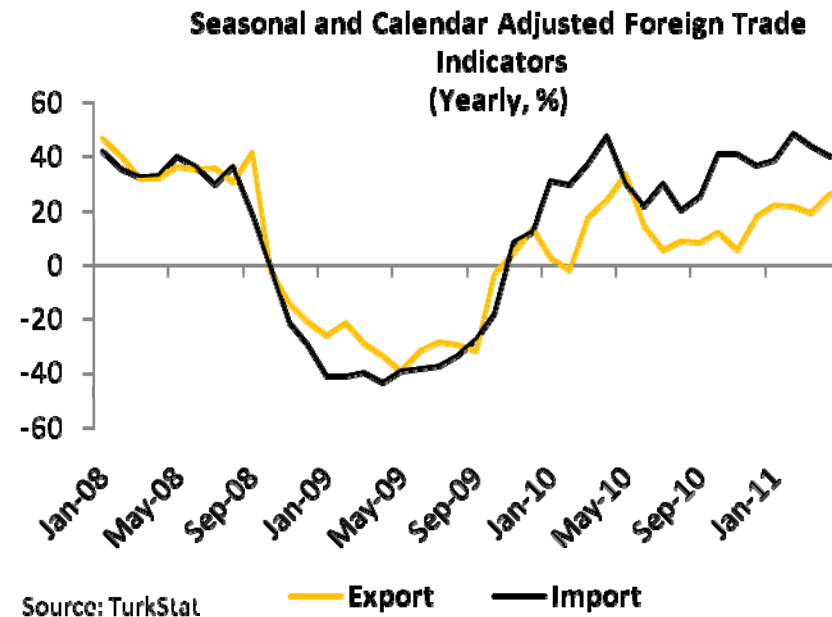
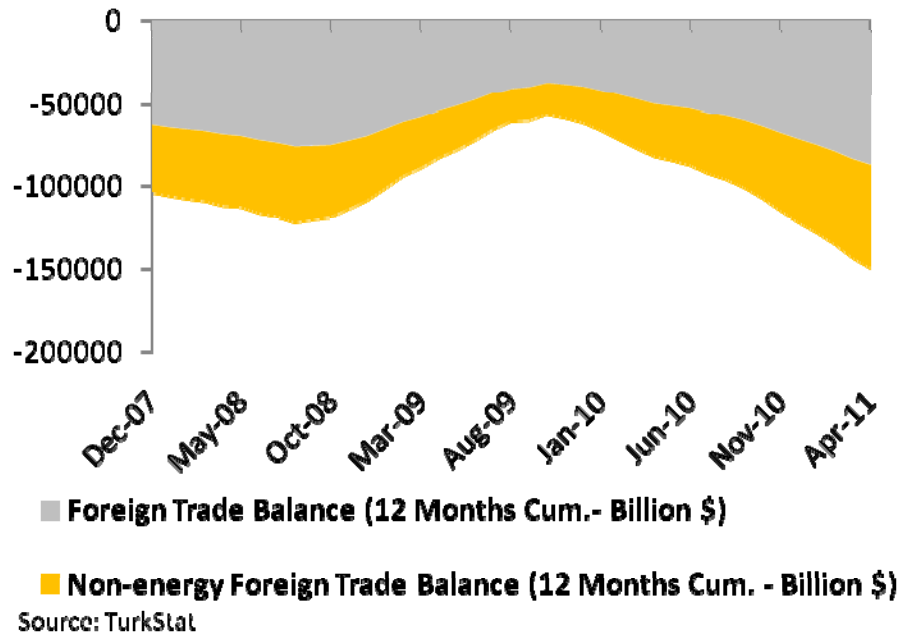


T. Vakıflar Bankası T.A.O

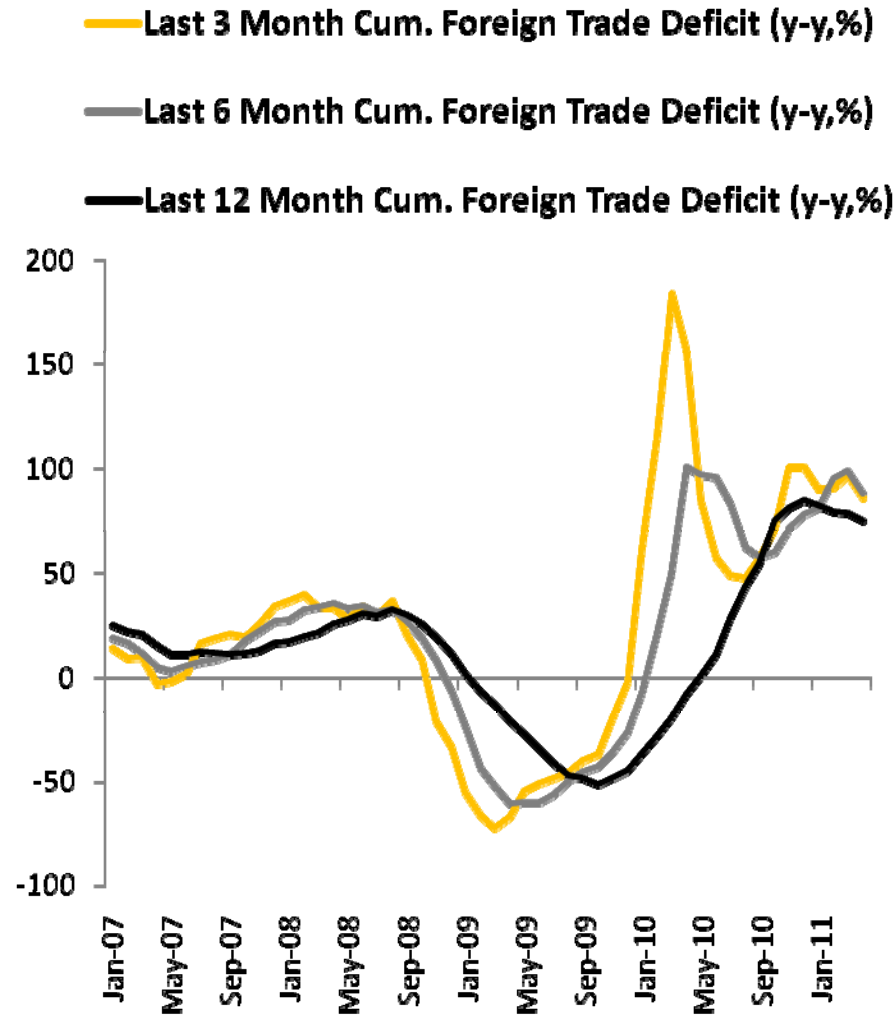


Foreign trade deficit came in below expectations in April...

- Foreign trade deficit came in at \$9.05 billion in April below market consensus expectation of \$10 billion and with these figures the yearly growth of foreign trade deficit decreased to 63.4%. Non-energy foreign trade deficit also decreased to \$11.5 billion.
- With the April trade data, both yearly growth of foreign trade deficit and non-energy trade deficit decelerated. Downside movement of trade deficit mainly was driven by the fall in imports.
- Moreover seasonally adjusted exports increased surprisingly. The increase in seasonally adjusted exports might be a result of the depreciation in TL in October and January.



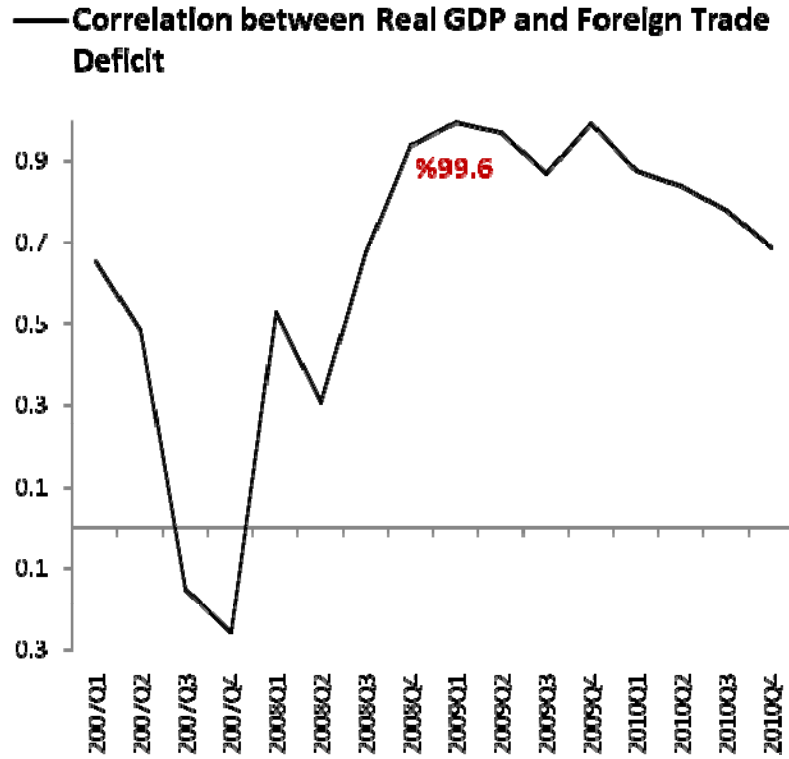
“Wait and see”...



Source: CBRT

- ✓ CBRT adopted a “wait and see” policy in its May meeting to see the net cumulative effects of the sharp hikes in reserve requirement ratios (RRR).
- ✓ When we look into the last 3, 6, and 12 months cumulative trade deficit figures to show the change in growth of foreign trade deficit, we see that the annual growth rate of last 12 months cumulative foreign trade deficit reached its highest level in December 2010 and then started to slow down.
- ✓ The annual growth of last 3 and 6 months cumulative foreign trade deficit continued to increase until April. In April, the annual growth rate of 3-6 months cumulative trade deficit started to decrease.

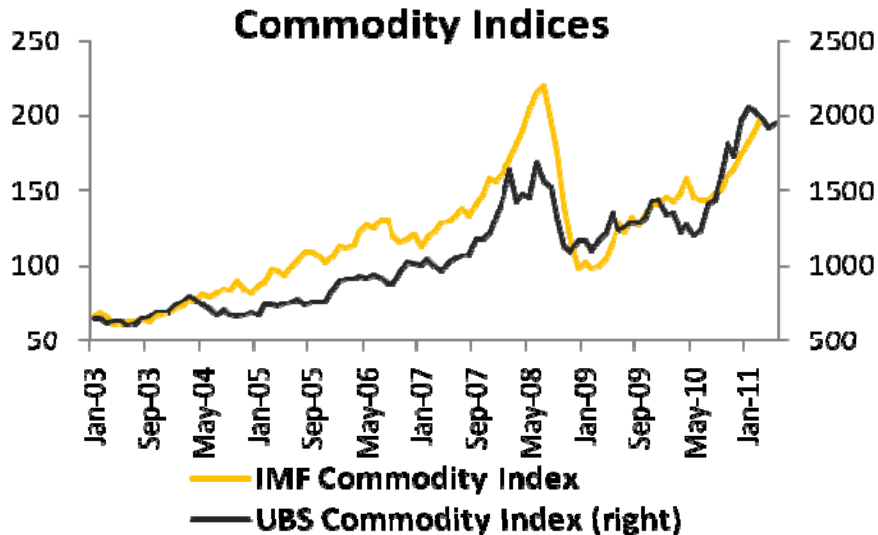
High correlation between real GDP and foreign trade deficit...



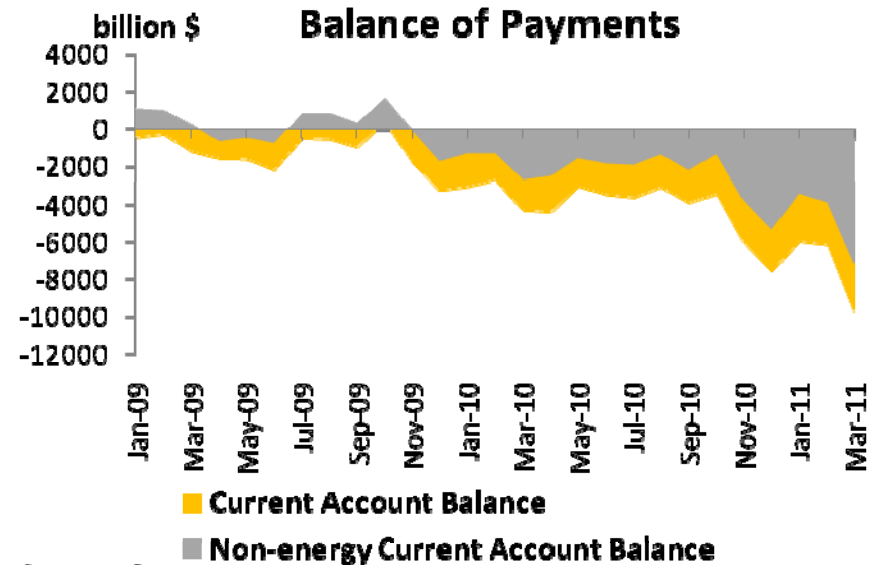
Source: CBRT

- It is important to analyze the relationship between foreign trade deficit and GDP, under the current bleak global growth environment.
- An increase in foreign trade deficit is generally expected to affect GDP negatively. However, there is a positive relationship between them when the economy has import dependant growth dynamics.
- Yearly correlation between real GDP and foreign trade deficit is positive. Strong domestic demand was main driver of the increase in imports in Turkey and the high share of intermediate goods in imports explains the main reason of the high correlation between them.
- If the decrease in foreign deficit growth rate continues, it will pose risks for GDP especially in Q2 2011. Moreover, the decrease in PMI which has approached the critic level of 50 with 50.6 supports the growth concerns.

The effect of high commodity prices on current account deficit...



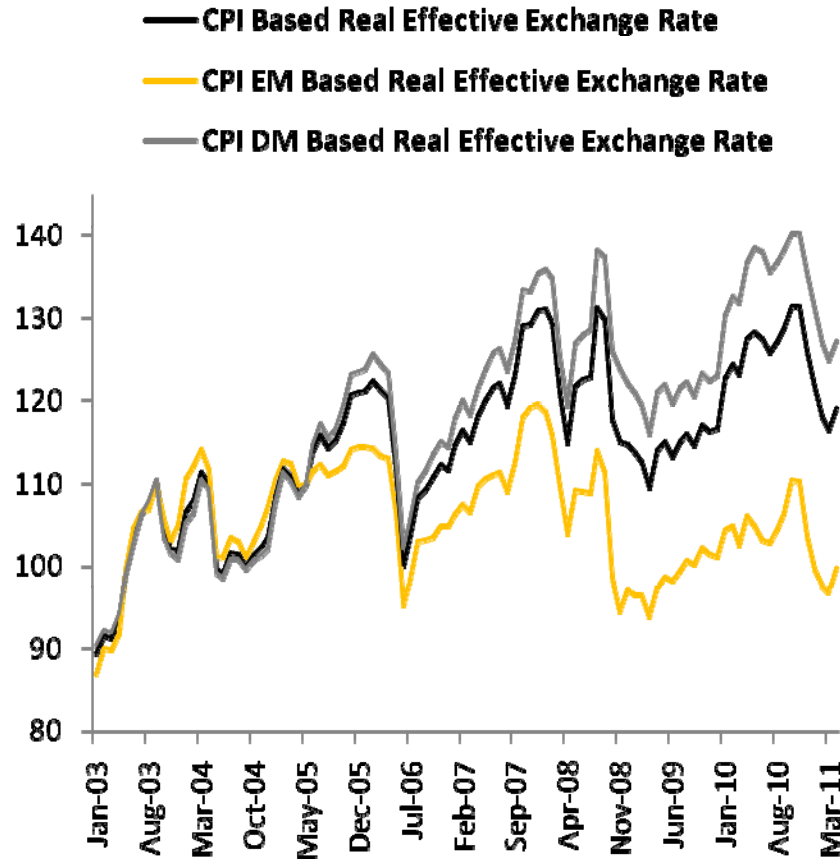
Source: IMF, Bloomberg



Source: CBRT

- ✔ UBS and IMF commodity indices have increased by 38.7% and 57.6% respectively since July 2010. Being an importer of raw materials Turkey is among the countries most affected from the increase in commodity prices.
- ✔ It is important to show that the increase in current account deficit was mainly driven by the energy prices or not.
- ✔ As shown in the graph, the spread between current account and non-energy current account deficit has widened gradually. While the annual growth rate of current account deficit increased in April, the annual rate of non-energy current account deficit decreased to an unremarkable extent.
- ✔ The upward movement of commodity prices has paused in April. The progress of this upward movement will be important in the coming period.

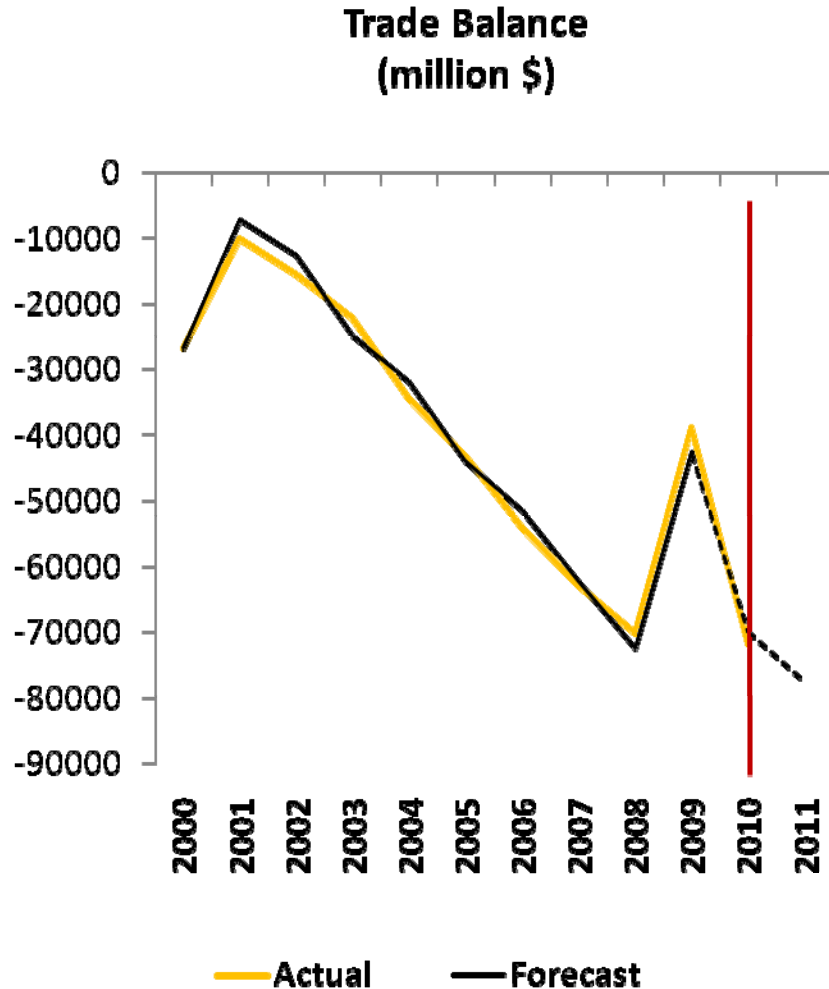
Real effective exchange rate has decreased since the beginning of 2011...



Source: CBRT

- Real effective exchange rate has decreased by 5.5% since the beginning of 2011.
- With the lagged effects of the exchange rate depreciation, the increase in foreign trade deficit may slow down in the coming period.
- However, a slight turn in real effective exchange rate was observed in April.
- Impact of downward movement in real effective exchange rate on foreign trade deficit depends on the persistence of this movement of real effective exchange rate.

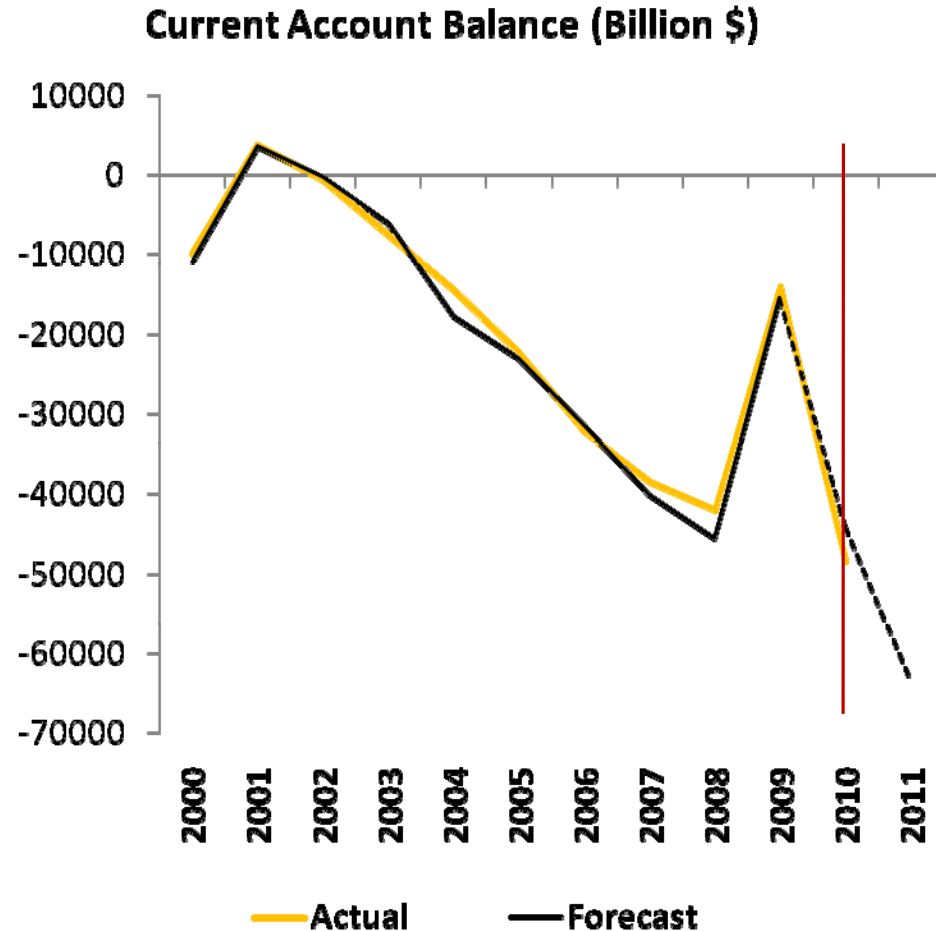
Our trade deficit forecast is \$89 billion for 2011...



Sources: CBRT, VakifBank

- Although CBRT has started to implement an unconventional monetary policy, both trade and current account deficit continue to increase. This widening of the foreign deficit was driven by the increase in commodity prices and stronger domestic demand.
- Moreover, external demand remains weak while domestic demand has shown a much stronger outlook. Expectations also point out that uncertainties in developed countries may continue. Due to the favorable economic conditions and improvement in the creditworthiness of Turkey, divergence between domestic and external demand has started to become much more clear in 2011.
- The lagged effect of high commodity prices may affect the trade and current account deficit in the coming months. In this regard, risks on our 2011-year-end forecast increased and we revised our trade deficit forecast to \$89 billion for 2011. Therefore, trade deficit to GDP ratio is expected to reach 11%.

Our current account deficit forecast is \$64 billion for 2011...



Sources: CBRT, VakifBank

- ✓ Although widening in current account deficit is expected to continue in 2011, the pace of widening trend may decelerate.
- ✓ Under our \$89 billion trade deficit forecast for 2011, we revised our current account deficit forecast to \$64 billion. Therefore, current account deficit to GDP is expected to be 8%.

Concluding...

- ✔ The effects of 400 bp RRR hike in March were not observed much in April foreign trade figures. Therefore, we expect to see the net effects of RRR hikes in the coming months. CBRT determined that the net effect of measures will be seen in the last quarter of 2011.
- ✔ If these measurements are insufficient to reduce the trade and current account deficits, CBRT may increase the policy rate earlier than expectations.
- ✔ Although the pace of yearly growth of imports has started to decrease in April, imports continue to increase and uncertainties in developed countries are still a constraint on Turkey's export performance.
- ✔ In addition, it is expected that tight fiscal policy may support the policy of CBRT to reduce the foreign trade and current account deficit.
- ✔ In the light of these developments, foreign trade and current account deficits continue to exhibit a negative outlook.

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

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

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

Naime Dođan
Researcher
+ 90 312 455 8486
naime.dogan@vakifbank.com.tr

İbrahim Taha Durmaz
Researcher
+ 90 312 455 8493
ibrahimtaha.durmaz@vakifbank.com.tr

T. Vakıflar Bankası T.A.O
Atatürk Bulvarı No: 207
Kavaklıdere 06683 Ankara, Turkey
www.vakifbank.com.tr

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

The information in this report has been obtained by Türkiye Vakıflar Bankası T.A.O. from sources believed to be reliable. However, Türkiye Vakıflar Bankası T.A.O. cannot guarantee the accuracy, adequacy, or completeness of such information, and cannot be responsible for the results of investment decisions made on account of this report. This document is not a solicitation to buy or sell any of the securities mentioned. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This report is to be distributed to professional emerging markets investors only.
