

VAKIFBANK TURKISH ECONOMY WEEKLY

Turkish Economy 2012

Forecasts:

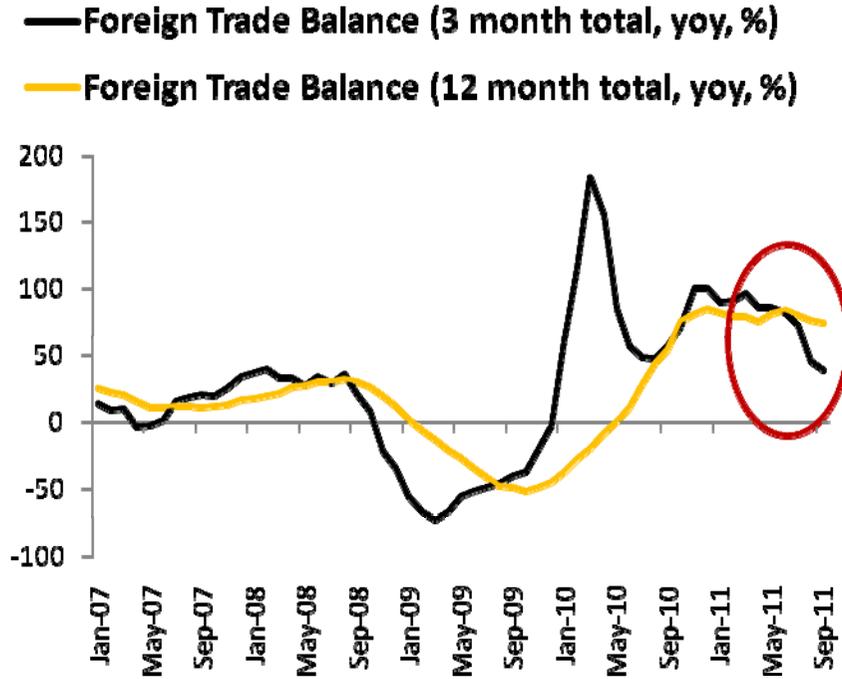
**FOREIGN TRADE & CURRENT
ACCOUNT BALANCE**


VakifBank

T. Vakıflar Bankası T.A.O



Yearly increasing rate of trade deficit is decreasing...



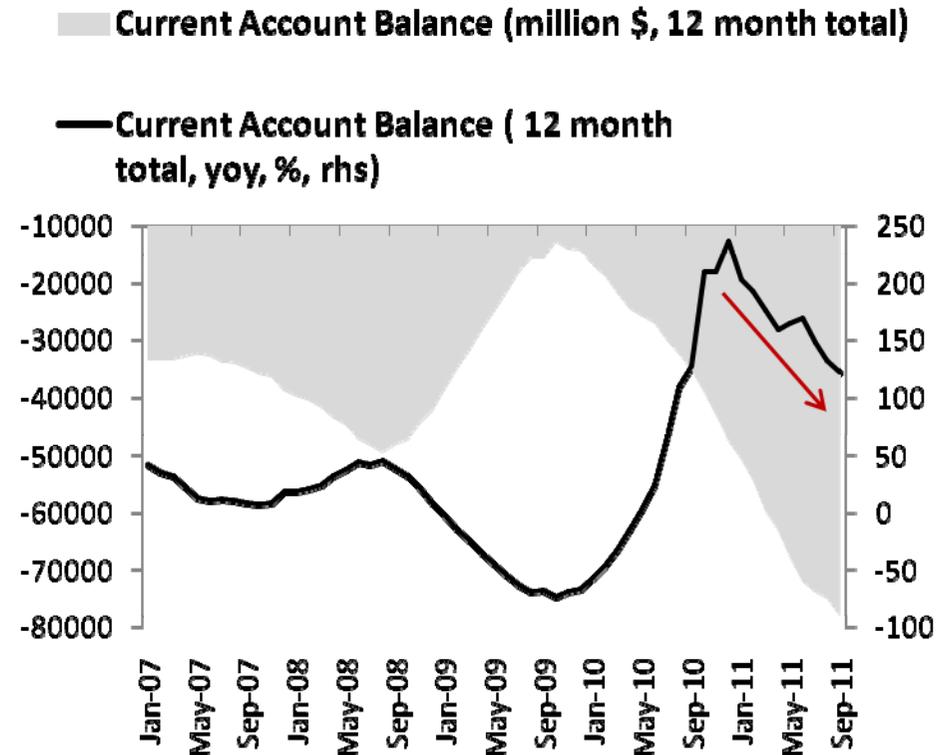
Source: CBRT

- ✔ In the first 9 months of 2011, foreign trade deficit reached to \$82.1 billion.
- ✔ Increase in oil prices because of supply worries based on rebellions in substantial oil producer countries caused to rise in import of Turkey in 2011.
- ✔ Last 12-month trailing foreign trade deficit reached to \$104.9 billion in September and yearly increasing rate decreased to 74.4%. In addition, yearly increasing rate of last 3-month trailing foreign trade deficit declined more sharply.

- ✔ Positive export performance, positive effects of measures taken by Central Bank of Turkey (CBRT) and Banking Regulatory and Banking Regulation and Supervision Agency (BRSA) on loans and undervaluation in TRY since July 2011 are the reasons of decline in yearly increasing rate of trade deficit.
- ✔ Moreover, in 2011 the share of the Euro Zone, which is a significant trade partner of Turkey, in export of Turkey decreased while the share of the Near and Middle East increased.

Last 12-month trailing CAD increased to \$77.4 billion...

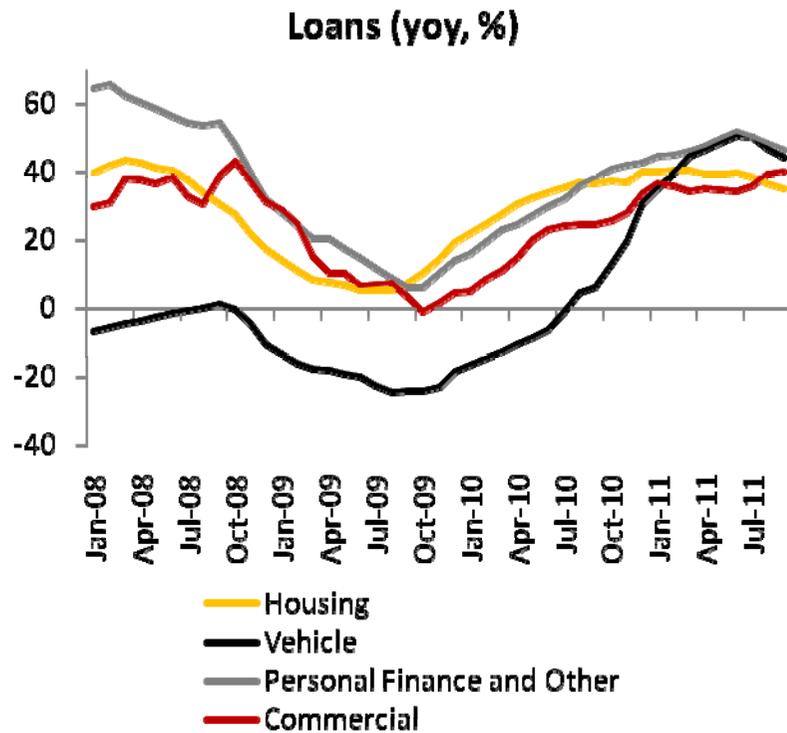
- ▣ An upward trend in current account deficit (CAD) with the parallel to the upward trend in trade deficit has been seen in 2011.
- ▣ In the first nine months of 2011, CAD increased by 100.7% to \$60.6 billion compared to the same period of 2010.
- ▣ Last 12-month trailing CAD was \$77.4 billion in September.
- ▣ Despite of the rise in CAD, last 12-month trailing CAD yearly increasing rate has began to decrease since the beginning of 2011 with the effect of measures taken by CBRT and BRSA.



Source: CBRT

Factors affecting the foreign trade and current account balance in 2011...

1- Strong domestic demand



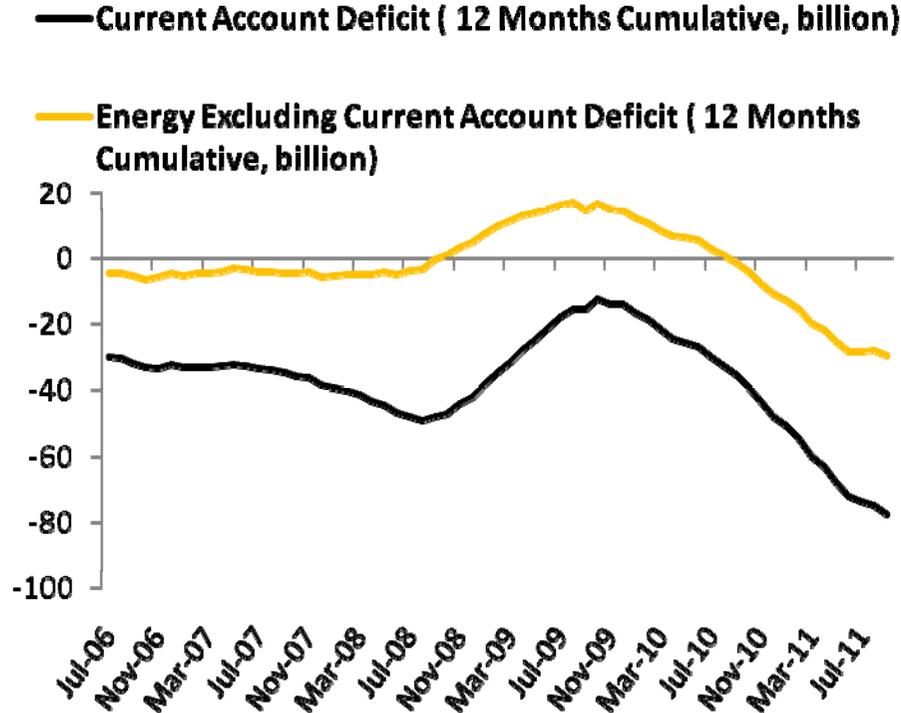
Source: BRSA

- Since the last quarter of 2010 capital flows to emerging markets which decoupled from the developed countries with their growth performance has increased as a result of the easy monetary policies applied by developed countries.
- Turkey is one of the countries attracting capital inflows with the relatively strong macroeconomic structure.
- Increasing capital flows showed the divergence between the domestic and external demand growth rates and caused deterioration in current account balance with the rapid credit expansion and import demand.

However, measures taken by CBRT and BRSA provided slowing in loans and decline in yearly increasing rate of CAD.

Factors affecting the foreign trade and current account balance in 2011...

2- Oil Prices



Source: CBRT, Undersecretariat Of Treasury, Vakifbank

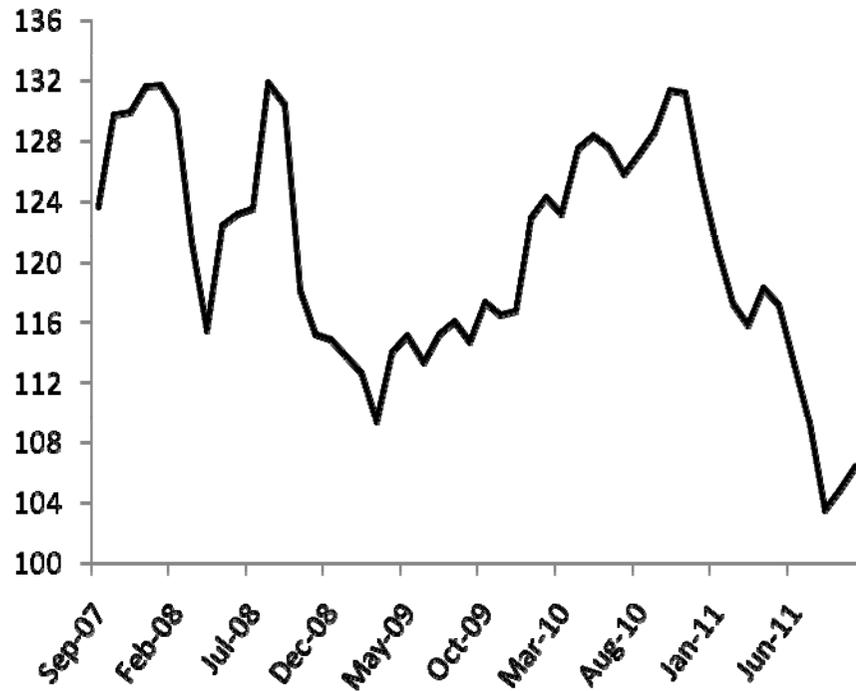
- ▣ Since energy constitutes a large share of intermediate goods import of Turkey , it has an important role on movements of current account deficit.
- ▣ Annual growth rate of current account deficit excluding energy which decreased between March and August, has deteriorated with the September releases.
- ▣ Current account deficit excluding energy has reached to \$22.6 billion in the first nine months of 2011 and \$29.3 billion on yearly basis.
- ▣ The 12-month trailing energy imports to current account deficit ratio which was 97.6% in September 2010, decreased to 63.3% in the same month of 2011.

▣ Although this ratio has decreased compared to September 2010, it is strong as well.

Factors affecting the foreign trade and current account balance in 2011...

3- Depreciation of TRY

— CPI Based Real Effective Exchange Rate (2003=100)

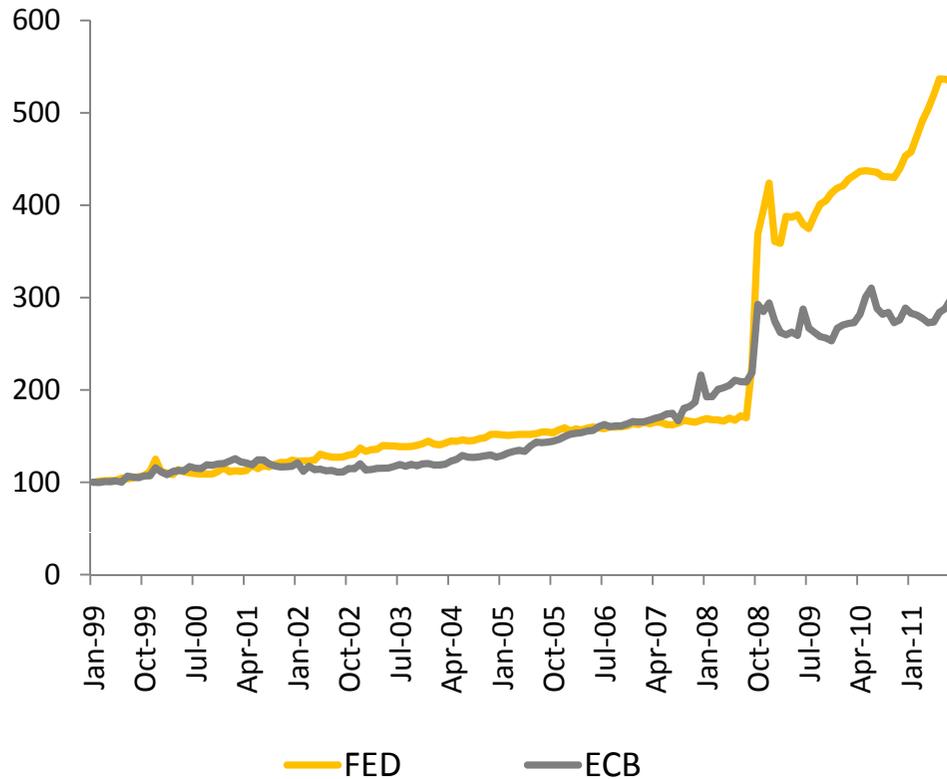


Source: CBRT

- Continuing uncertainties in global markets and deepening problems in Euro Zone support the appreciation in exchange rate.
- Therefore, according to CPI based real effective exchange rate, the depreciation of the TRY reached to %12.2 in the period of January –October 2011.
- The recent excessive depreciation of the Turkish lira bring up discussions about the relationship between current account deficit and exchange rate to the agenda .
- Although depreciation in TRY has led to decrease in both annual and three month changes of CAD, slow down in annual change of CAD will be clear in the last quarter of 2011.

New liquidity measures would be implemented in the near future...

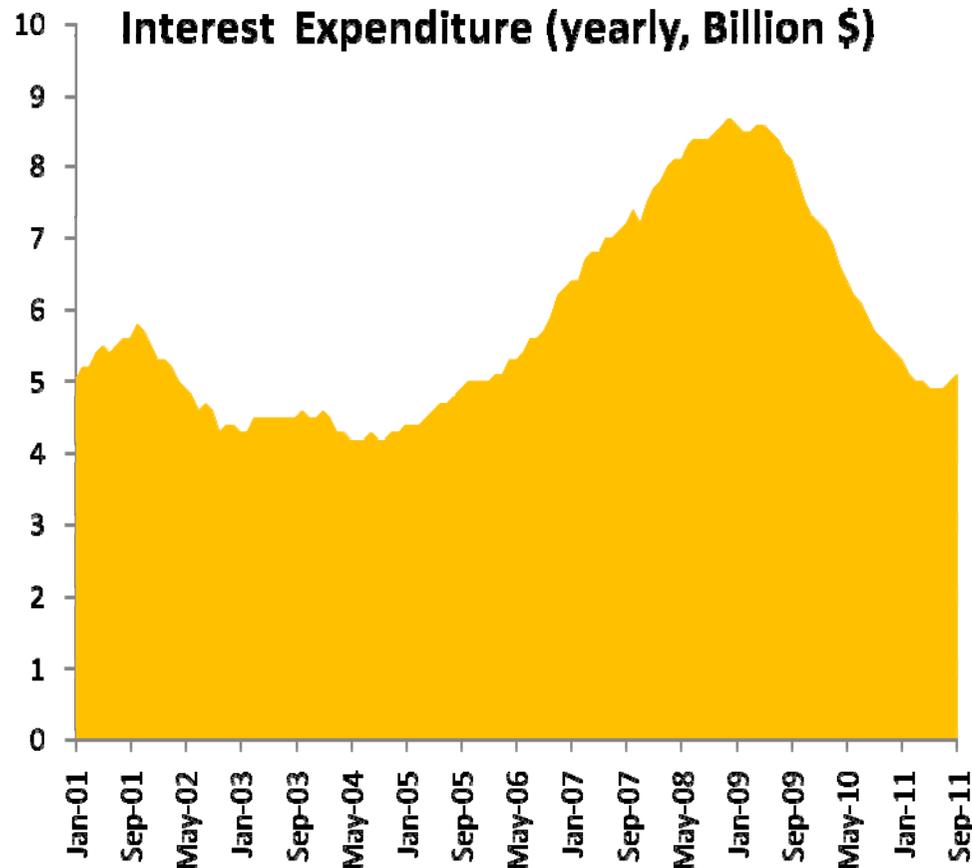
**Central Bank's Balance Sheets
(Jan-1999=100)**



Source: Bloomberg

- Due to growing risks, monetary authorities of the developed economies still resort to aggressive monetary easing policies.
- Measures taken by developed country central banks led to significant expansions in the size of their balance sheets.
- The monetary policies applied in developed economies has generated abundant global liquidity.
- Low interest rates in developed economies push excessive capital flows to emerging markets.

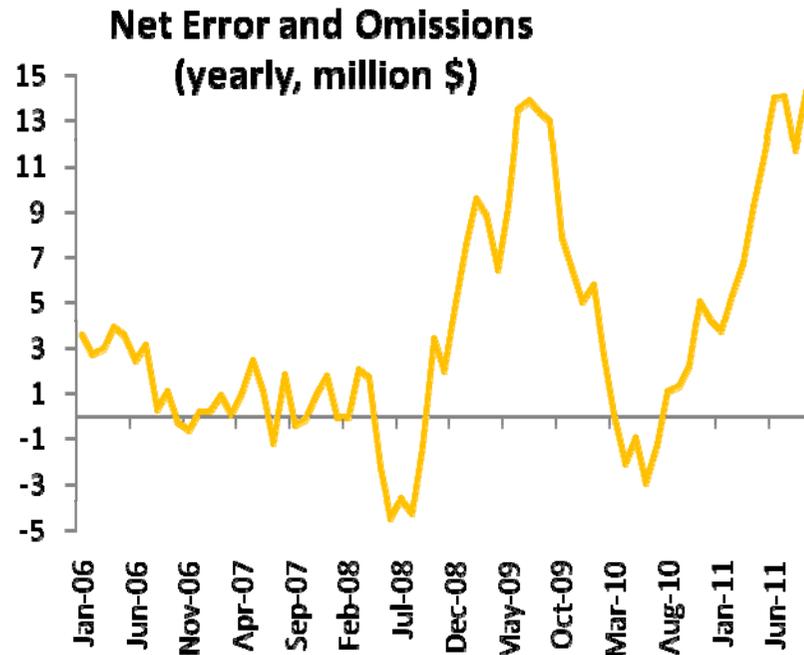
Cost of finance would remain low in 2012...



Source: CBRT

- Expansionary policies in developed economies after the global crisis provide excessive liquidity and it has reduced the cost of financing the CAD.
- Advanced economies have not found a permanent solution to their macroeconomic problems. It would require to create a new liquidity measures in the near future.
- The abundant liquidity in global markets would contribute to keep the cost of financing the current account deficit low.
- Cheap financing environment that arising from global economic outlook offers a significant opportunity for the structural steps to decrease the CAD.

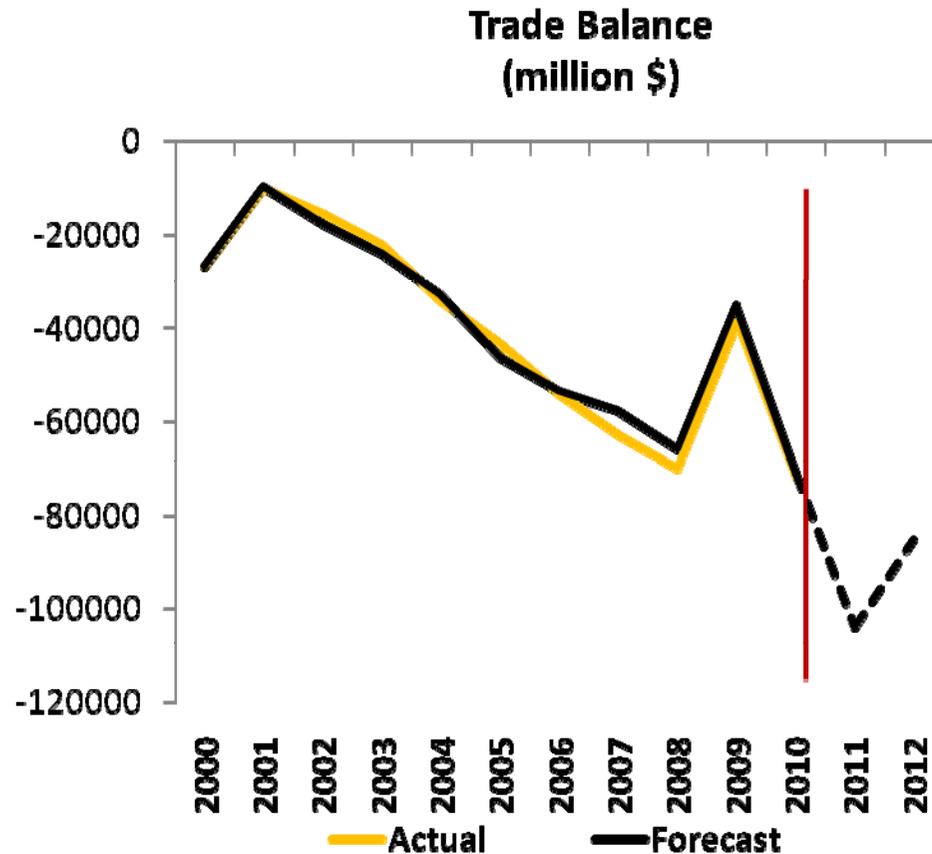
Net error and omissions has increased...



Source: CBRT

- ▣ Last 12-month trailing net error and omissions was \$14.3 billion and ratio of net errors and omissions to CAD reached to 18.4% in September. The reasons of the positive overplus in net errors and omissions are important.
- ▣ Increase in capital flows to the safety countries such as Turkey after turmoils in Middle East can be a reason for the sharp increase in net errors and omissions. Besides, money brought to Turkey with cash repatriation law increases net error and omissions as an important financing item.
- ▣ On the other hand, real sector and households which have difficulty to find loans use their asset being in abroad in domestic economy. Hence, it also affects the increase in net errors and omissions.
- ▣ Time inconsistency between the buying and selling of exporting and importing goods, misstatement about custom transactions and using resources from outside of the financial system can be reasons for the net errors and omissions.

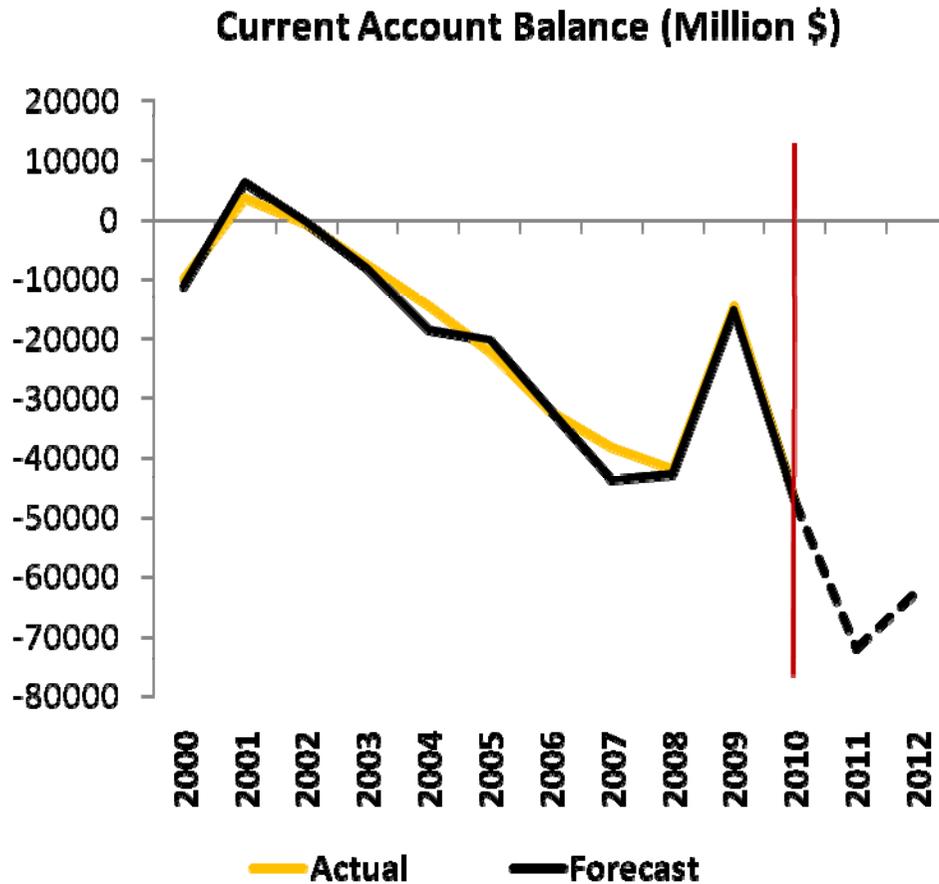
Our trade deficit forecast is \$85.3 billion for 2012...



Sources: CBRT, VakifBank

- While external demand remains weak, domestic demand has shown a much stronger outlook in the first nine months of the 2011.
- After trade deficit increased sharply in the first half of 2011, annual growth rate of trade deficit has lost its momentum since July 2011 thanks to the measures taken by both the CBRT and BRSA.
- In addition, leading indicators related to the economic activity signal that slow down in trade deficit will likely be much more clear in the last quarter of 2011.
- Under these consideration, we forecast trade deficit \$103.9 billion for 2011. Under our base scenario which indicates a soft landing in Turkish economy, our trade deficit forecast is \$85.3 billion for 2012. Therefore trade deficit to GDP ratio will be 10.4%.

Our current account deficit forecast is \$62.1 billion for 2012...



Sources: CBRT, VakifBank

- It is possible that the widening in current account deficit after crisis is expected to reverse in 2012 due to the slow down in growth performance.
- Under our trade deficit forecast for 2012, our current account deficit forecast indicates \$62.1 billion. Therefore current account deficit to GDP ratio will likely be 7.3% in 2012.
- Since both US and Euro Zone have the significant share in our total export, recent developments related to the debt problems of these countries and political debates will continue to pose a risk for the Turkish economy in 2012.

Forecasts for 2012						
	USD/TRY	Oil Price (\$/barrel)	Real GDP Growth (yoy,%)	EZ Real GDP Growth (yoy,%)	Foreign Trade Balance (bln \$)	Current Account Balance (bln \$)
Base Scenario	1.70	98	2.5	0.5	-85.3	-62.1
Scenario-1	1.60	114	5.1	1.05	-97.3	-72.4
Scenario-2	1.92	80	-0.8	-0.5	-74.9	-53.1

Source: Vakıfbank

-  We expect that foreign trade deficit which was \$71.7 billion in 2010 will decrease to 103.9 in 2011. In addition we expect that in 2012 foreign trade deficit will be \$85.3 billion based on our base scenario for Turkish economy. According to our foreign trade forecast, current account deficit will contract to \$62.1 billion in 2012.
-  Our first scenario includes better growth performance, lower USD/TRY and higher oil price. According to this scenario, we expect that our current account deficit might reach to \$72.4 billion next year.
-  If the negative outlook of developed countries spread to global economy, downside risk on Turkish economy might increase. We prepared our second scenario considering this probability. In this scenario, we find out that Turkish economy might face \$74.9 billion foreign trade deficit and \$53.1 billion current account deficit in 2012 with a 0.8% slowdown in 2012.

Serkan Özcan

Chief Economist

+ 90 312 455 7087

serkan.ozcan@vakifbank.com.tr

Ümit Ünsal

Economist

+ 90 212 398 1899

Umit.unsal@vakifbank.com.tr

Emine Özgü Özen

Researcher

+ 90 212 398 1890

emineozgu.ozen@vakifbank.com.tr

Fatma Özlem Kanbur

Researcher

+ 90 212 398 1891

fatmaozlem.kanbur@vakifbank.com.tr

İbrahim Taha Durmaz

Researcher

+ 90 212 398 1905

ibrahimtaha.durmaz@vakifbank.com.tr

T. Vakıflar Bankası T.A.O

www.vakifbank.com.tr

Vakıfbank Economic Research

ekonomik.arastirmalar@vakifbank.com.tr

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