



Macro Scope

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Weekly Economic and Strategic Review

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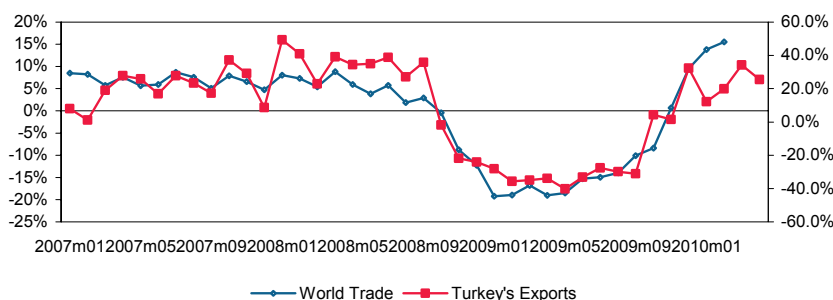
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How An Imported Crisis Affected Exports...

In the wake of the global crisis, many people have asked “**why was the Turkish economy, whose domestic demand outweighs external demand, so negatively affected – particularly in terms of industrial production, capacity utilization, and employment – by what was simply an external demand shock?**”. No satisfactory answer has yet been put forward. While the worst seems to be behind us now, an analysis of the factors that negatively affect economic activity will help reduce vulnerability when the global growth cycle enters similar phases in future. We thus welcomed the Central Bank’s new tack of relying solely on hard facts – even though this may not cover every eventuality. The keen reader may want to read the “Global Crisis, External Demand Shocks, and the Turkish Economy” in the Inflation Report, but we will attempt to summarize the report’s key findings. The analysis starts by stressing the fact that the decline in international trade was a key inhibitor of economic activity during the global financial crisis. In fact, global trade had grown 20 percent annually on average before the crisis and then contracted by over 20 percent in the year 2009 alone. **One would naturally conclude, based on data from numerous countries, that countries with a relatively high share of exports in their GDP saw their growth rates more adversely affected by the crisis than those with a lower share of exports. But in Turkey, exports make up a low share of GDP, so the answer must be sought elsewhere.** In countries considered to have a high share of exports, exports make up 68.7 percent of GDP, while in those with a low share of exports, this rate stands at 17.5 percent; Turkey has a share of approximately 17 percent. The analysis notes that the effects of reduced external demand on the Turkish economy were more pronounced than what would have been expected given Turkey’s place in the country export share rankings. Finally, the analysis suggests that that the export markets themselves and the composition of exports played a key role in how the global crisis affected Turkey.

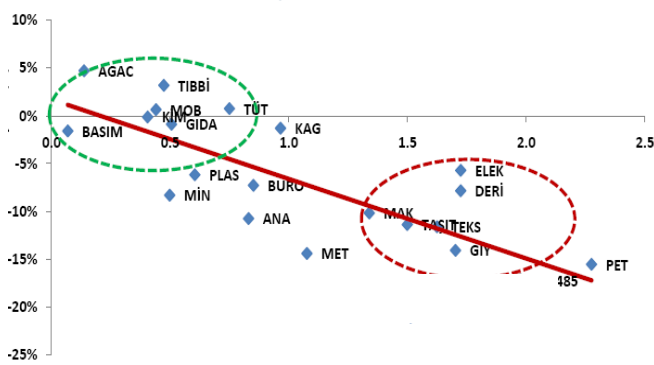
World Trade Volume and Turkey's Exports (Annual Change)



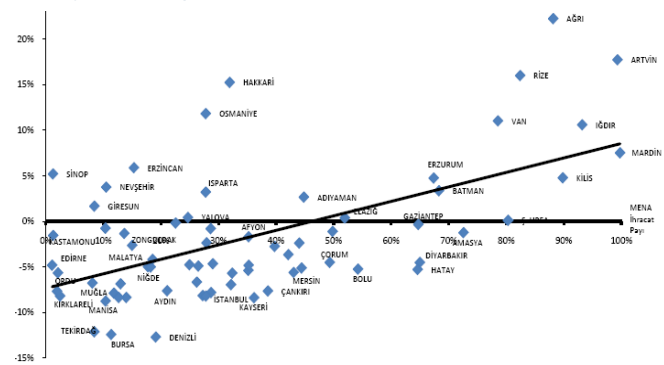
Source: Netherlands Bureau for Economic Policy Analysis, Turkish Exporters Association

To put it simply, the share of exports in the Turkish economy may be relatively low, but the negative effects of external demand shocks were aggravated by two factors: our export markets include countries that have suffered more from the crisis than others and our exports consist predominantly of goods that are sensitive to cyclical changes in the global economy. Developed countries and the EU in particular account for a significant share – nearly two thirds – of Turkey’s total exports, such that Turkey ranks 49th among 105 developed countries based on the share of developed countries in a country’s export markets. Turkey is predominantly an exporter of manufactured goods: automotive, machinery, transportation and iron & steel industrial products make up 14 percent, 13 percent, and 13 percent of our total exports, respectively. Furthermore, Turkey ranks among the top 10 of a total of 139 countries that have high shares of automotive and iron & steel industrial products in their total exports. As a result, the poor external demand associated with the global crisis has had a similar negative impact on Turkey (whose share of exports in total economic output is low) as on countries that mainly export capital goods and consumer durables.

Export Orientation* and Average Growth for Sectors After Crisis



Employment Changes and MENA** Share in Exports



(*) Export share in total manufacturing exports divided by share in total output. (**) MENA: Middle East and North Africa

Source: EPRI

Beyond this macro view, **EPRI (Economic Policy Research Institute)** published two policy papers (“The Effects of the Structure of Exports on Unemployment during the Crisis Period”, September 2009, and “The 2008 Crisis: Asymmetrical Recovery in the Sectors”, April 2010) that studied **the micro effects of exports on, for example, sector growth and employment in the provinces. The first observation from these papers is that production in sectors that are more export-oriented and more closely integrated with the global economy was harder hit by the crisis.** For instance, production in the export-oriented refined petroleum products (PET) industry shrunk by 15.5 percent but production in the less export-oriented tobacco products (TUT) industry rose by nearly 5 percent. Similarly, production in the automotive manufacturing (TASIT) industry and in the clothing (GIY) industry contracted by 14 and 11 percent, respectively, while production was up in other less export-oriented sectors such as medical and optical instruments (TIBBI), printing and publishing (BASIM), forestry goods (AGAC), and food and beverage (GIDA).

The second observation is that the unemployment problem is growing in provinces that are more directly linked to the global economy and heavily reliant on export-oriented industries. In export-driven Hatay, for example, the registered employment rate fell by 5.3 percent, while in the less export-focused Giresun, the registered employment rate grew by nearly 2 percent. Similarly, this rate contracted by 7.8, 8.2, and 8.8 percent respectively in Istanbul, Kocaeli, and Manisa, but rose in the less export-driven provinces like Erzincan, Kilis, Isparta, and Giresun. **The final observation from these policy papers concerns the variation in employment statistics between provinces: the region to which a province’s exports are sent is as important as the province’s level of export orientation.** As an example, the MENA (Middle East and North Africa) region accounts for 80 percent of total exports generated from Şanlıurfa, while for Bursa

this share is just 11 percent. In general, the greater the share of exports a province makes to the MENA region, the better its employment situation.

To sum up, the slump in international trade has inhibited economic activity on the macro level throughout the global crisis. Growth rates in highly export-oriented countries have suffered more than those in countries with a lower share of exports in national output. And while the share of exports in the Turkish economy is relatively low, the impact of external demand shocks was stronger in Turkey because our export markets are for the most part the developed countries that bore the brunt of the global crisis, and our exports consist primarily of goods vulnerable to cyclic developments in the global economy. On the micro level, the crisis had a greater negative impact on production and employment in sectors and provinces that are more export-oriented and more tightly interconnected with the global economy. What is more, the destination of those exports made a difference to the ultimate impact of the crisis.

Economic and Political Agenda

- This week at home on Monday, April cash based primary surplus and March industrial output and on Tuesday March C/A deficit will be closely eyed. At abroad, in the Eurozone, Q1 flash GDP and industrial production data are going to be the most important data. Furthermore, in the US, March foreign trade balance, April retail sales, industrial production and May Michigan sentiment index will be tracked by investors.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	Cash Based PS, Apr.	TRY bn	May, 10 th	-
High	Industrial Output, Mar.	% y/y	May 10 th , 7:00 GMT	21 (19.8)
High	C/A deficit, Mar.	US\$ mn	May 11 th , 7:00 GMT	-3,900 (-3882)

Data issuances Abroad

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	Eurozone	GDP Flash, Q1	% q/q	May, 12 th , 9:00 GMT	0.2
High	Eurozone	Industrial Production, Mar.	% m/m	May, 12 th , 9:00 GMT	0.9
Medium	U.S.	Foreign Trade Balance, Mar.	US\$bn	May, 12 th , 12:30 GMT	-40.0
High	U.S.	Ret. Sales, Tot. & ex-auto, Apr.	% m/m	May, 14 th , 12:30 GMT	0.3 & 0.5
Medium	U.S.	Capacity Use, Apr.	%	May, 14 th , 13:15 GMT	73.6
High	U.S.	Industrial Production, Apr.	% m/m	May, 14 th , 13:15 GMT	0.5
High	U.S.	Michigan Sent. Ind., May	-	May, 14 th , 13:55 GMT	73.2

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2009-2012

	2009	2010f	2011f	2012f
GDP (TRY - bn) (*)	954.0	1,090.1	1,197.4	1,310.7
GDP (US\$ - bn) (*)	616.6	721.9	776.7	834.3
GDP Growth (y/y % chg) (*)	-4.7	6.0	4.0	4.0
PPI (y/y % chg)	5.9	5.0	5.0	5.0
CPI (y/y % chg)	6.5	8.0	6.0	5.5
Trade Balance (US\$ - bn)	-38.6	-62.4	-70.6	-70.5
Exports (FOB, excl. luggage trade)	102.2	113.1	132.6	144.4
Imports (CIF, incl. gold)	140.8	175.5	203.2	214.8
Current Account Balance (US\$ - bn)	-13.7	-35.0	-39.8	-36.9
Current Account Balance / GDP (%)	-2.2	-4.9	-5.1	-4.4

(*) 2010 values are our forecasts

Financial Indicators Forecasts

	May 7 th	1M	3M	6M	12M	2010	2011
US\$/TRY	1.5291	1.5500	1.5200	1.5200	1.5300	1.5200	1.5600
EUR/TRY	1.9536	1.9400	1.9800	2.0100	2.0500	2.0100	2.1500
FX Basket	3.4827	3.4900	3.5000	3.5300	3.5800	3.5300	3.7100
EUR/US\$	1.2776	1.2500	1.3000	1.3200	1.3400	1.3200	1.3800
Policy Rate	6.50%	6.50%	7.00%	7.50%	10.00%	8.50%	10.00%
Benchmark Bond	9.56%	10.00%	10.20%	10.80%	11.50%	11.00%	11.50%

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