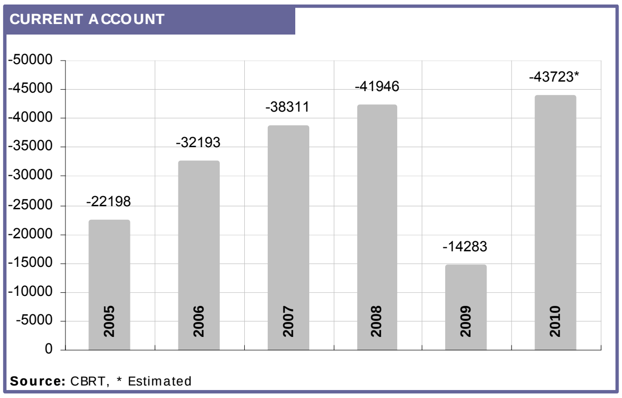
ECONOMIC BULLETIN 53

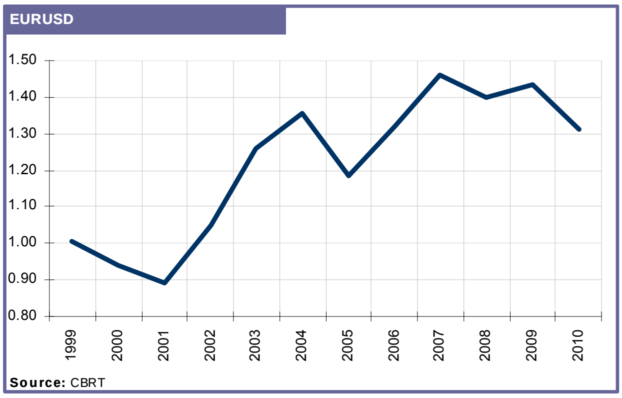
22 December 2010

RISKS FOR TURKISH ECONOMY IN 2011

Global economy will have two critical subjects in 2011. One of them is the retreating strategy of Fed and the other one is European economies' budget deficit problem. Fed's 2011 strategy is important for liquidity position of hedge funds that provide short-term funds for Turkish economy. Because of the structural problem in the current account, Turkey should finance its current deficit with these short-term funds that is called hot money. Fed may cause a shock at the financial markets, if it retreats liquidity too fast. Especially, hot money that balance our current deficit will be affected this shock.



The other subject, the euro-areas economic problem may beat Turkish economy in several ways. One of the major issues that Turkey may face is the declining exports to European countries. The 56.2% of export was done to European countries in the first 10 months of 2010. That is, most of Turkey's export revenues depend on the condition of European countries. Because of this reality, fluctuations on these economies affect Turkish economy influentially. In addition to this, depreciation in the euro is also problem for Turkish economy. Costs of Turkish companies' inputs are base on US dollars; despite outputs' revenues are base on the euro. Downward movement of EUR/USD parity also affects Turkish trade balance negatively because of this situation.



There is also a internal risk in 2011. General elections that are watch by financial markets will be done in this year. Surveys for the elections show that policy stability will not be broken down. For financial markets, especially hot money, elections' results are considered in this aspect. If results do not support surveys, there will be cash outflow which can lead to a current deficit crisis. However, this scenario's realization probability is too low.

On the other hand, the outlook for Turkey's credit rating may enhance the external financing structure in 2011. A constructive step in that respect came from Fitch, when they upgraded the outlook of Turkey's current rating at BB+ to positive. We believe that unless Turkey's growth prospects are impaired and the government deviates from the fiscal framework depicted in the Medium Term Program, there is a great deal of chance that Turkey would be upgraded to the investment grade category next year. Such a rating move would improve Turkey's risk profile, bolstering long term loans and foreign direct investment to the country. In that sense, we may be less worried about the hovering current account deficit.