
Turkish Trade Deficit Almost Doubles to Record \$9.8 Billion

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Turkey's trade deficit jumped 91 percent from a year earlier in March, as central bank policies failed to slow growing domestic demand that draws in imports of goods and raw materials. The deficit was \$9.8 billion in the month, compared with \$5.1 billion a year earlier, the statistics office in Ankara said on its website today. The figure exceeded a median estimate for a \$7.8 billion deficit in data compiled by Bloomberg.

"The authorities so far have been employing unorthodox policies to contain domestic demand; measures that are aimed at containing the credit supply," analysts Selim Cakir and Emre Tekmen of Turk Ekonomi Bankasi AS in Istanbul, said in an e-mailed report to clients. "Credit growth and foreign trade data so far confirm that these policies have failed to achieve the stated objectives.

Imports gained 44 percent to \$21.6 billion last month. Exports rose 20 percent to \$11.8 billion, the office said.

The central bank cut the benchmark one-week repo rate by a total of 0.75 percentage points in December and January to a record low of 6.25 percent, bidding to deter capital inflows that strengthen the lira and hurt exports. It's trying to offset the possible inflationary effect of the cuts by increasing banks' reserve requirements to limit their ability to lend.

Lira Rises

Still, the lira has strengthened 0.4 percent since Dec. 15, the day before the central bank made the first of the two rate reductions. Consumer loans have grown each week since Nov. 19 and the expansion accelerated in the past two weeks, rising at a rate of 0.7 percent in the week to April 22, central bank data published yesterday showed.

"We believe that the current fiscal-monetary policy mix leaves the domestic economy vulnerable to sudden stops and confidence reversals," Ilker Domac, economist at Citigroup Inc. in Istanbul, said in an e-mailed report.

The main ISE National 100 share index gained 0.5 percent to 68,806.06 at 4:17 p.m., reversing losses made after the trade data was released. Yields on two-year benchmark bonds fell 1 percentage point to 8.33 percent. The lira rose 0.5 percent to 1.5177 per dollar.

Growth in bank lending will start to slow from the second quarter, central bank governor Erdem Basci said this week. The bank stands ready to take more measures to slow the expansions should they be needed, he said.

Elections

"Fiscal policy is the right tool to address the problem, yet we do not expect much tightening given the elections and the likely post-election agenda," said Inan Demir, chief economist at Finansbank AS in Istanbul. "The burden will be borne by monetary policy, and we continue to expect further reserve requirement hikes."

Turkey will hold parliamentary elections on June 12, when Prime Minister Recep Tayyip Erdogan is seeking a third term with an increased legislative majority. He's pledged to pass a new constitution, possibly in a nationwide referendum, and discuss a switch to a presidential system of government.

The central bank yesterday raised its inflation forecast for 2011 to 6.9 percent from 5.9 percent, more than analysts expected, citing rising oil prices and taxes on imported textiles. The decision pushed bond yields up the most in a month.

Inflation slowed to a four-decade low of 3.99 percent last month. The rate is expected to rise in the second quarter, fall in the third, then risen again in the last three months, the bank said yesterday. Source: Bloomberg, By Aydan Eksin