

VAKIFBANK TURKISH ECONOMY WEEKLY

*Monthly Current Account Deficit
Increased To The Highest Level
Since 1984*

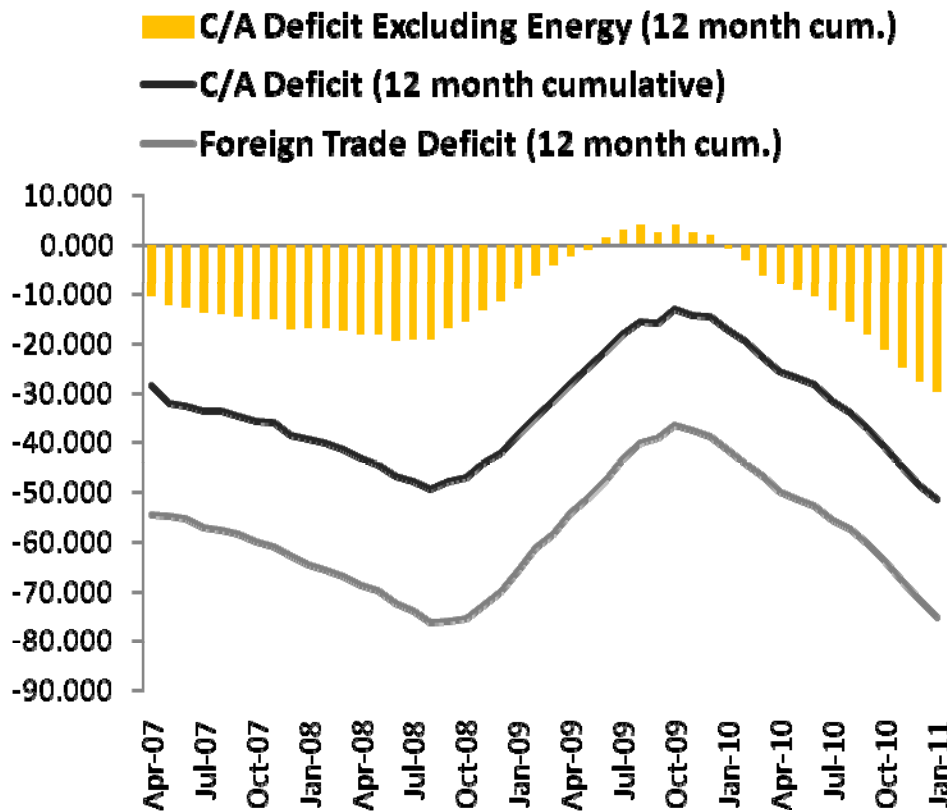


T. Vakıflar Bankası T.A.O



Current Account (C/A) Deficit is wider than expected in January...

✓ The C/A deficit, which is under market consensus of \$6.1 billion, increased by 91.4% to US\$5.86 billion in January 2011 compared to the same month of 2010. With January data the yearly C/A deficit reached \$51.4 billion as compared to \$16.6 billion in the same period of 2010



Source: CBRT

✓ Foreign trade deficit increased by 109.6% to \$5.88 billion in January 2011 compared to the same month of 2010. Sharp increase in imports is the main reason of the rise in trade deficit.

✓ The main reason of expanding C/A deficit in January was increasing oil prices and strong domestic demand conditions.



✓ The gap between C/A deficit and C/A deficit excluding energy continued to expand in January. C/A deficit excluding energy was US\$29.3 billion in January 2011.

Balance of Payments in detail...

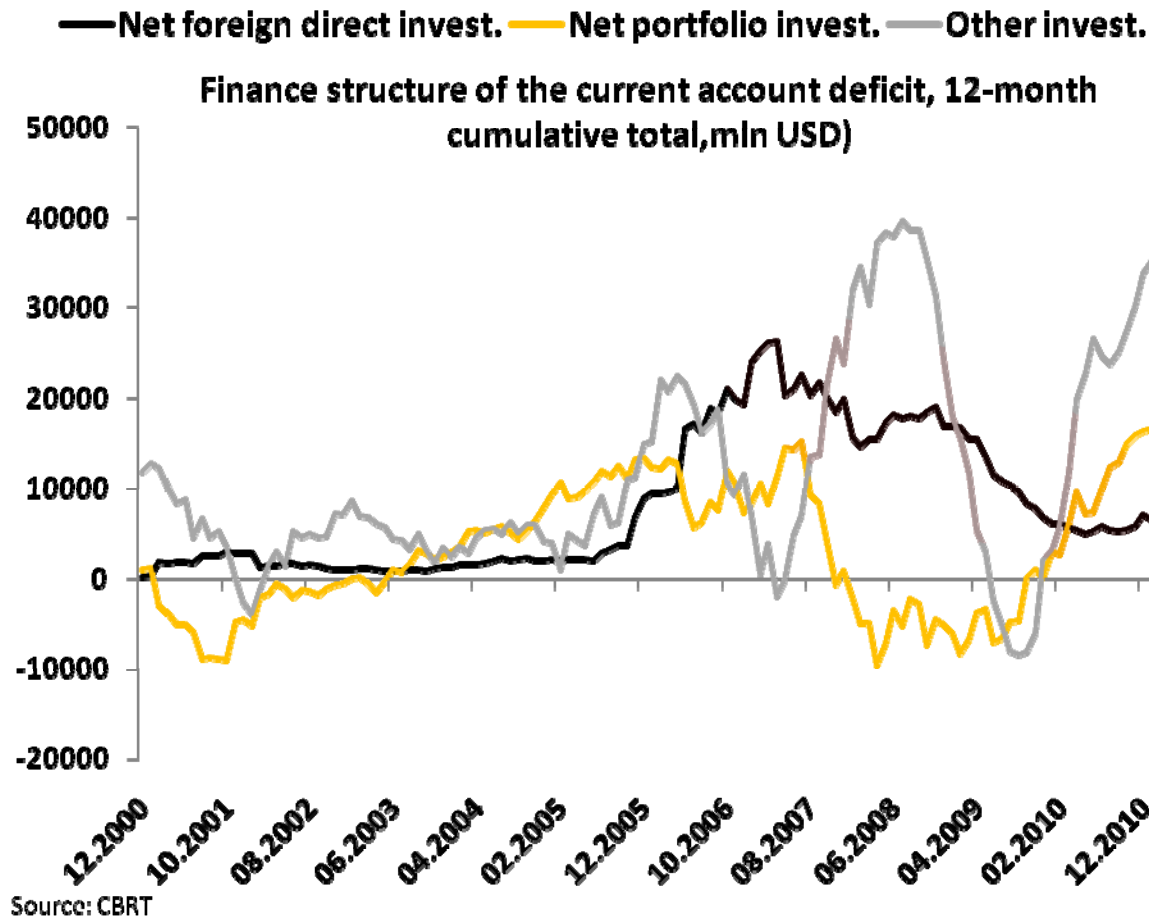
Balance of Payments (Million \$)

	2010 Jan	2011 Jan	% Ch.	2010 (12 Months)	2010 (12 Months)	% Ch.
Current Account	3.062	-5.680	91.4	-16.586	-51.359	210
Foreign Trade	-2809	-5888	109.6	-27282	-5.9433	117.8
Imports	-11183	-15986	43	-136934	-182.080	33
Exports	8374	10098	20.5	109652	122.647	11.8
Services	272	338	24.2	16847	14.311	-15
Income	-617	-575	-6.8	-8307	-7.774	-6.4
Current Transfers	92	265	188	2156	1.537	-28.7
Financial Account	1283	2209	72	11045	45.407	312
Direct Investment	394	-270	-168	6149	6.490	5.5
Portfolio Investment	1915	2255	17.7	2983	16.631	457.5
Other Investment	-287	1087	-485.4	3140	35.304	1024.3
Net Errors and Omissions	1783	3651	104.7	5585	5.884	5.3
Reserve Assets	-744	-863	16	-1227	-12.918	952

Source: CBRT

-  Although the C/A deficit continued to rise in January 2011, the pace of rise slowed compared to December.
-  Hence, the impacts of measures which were taken by CBRT to decrease the C/A deficit began to be seen in January. However, these impacts were not as effective as expected.

Portfolio investments continue to widen...



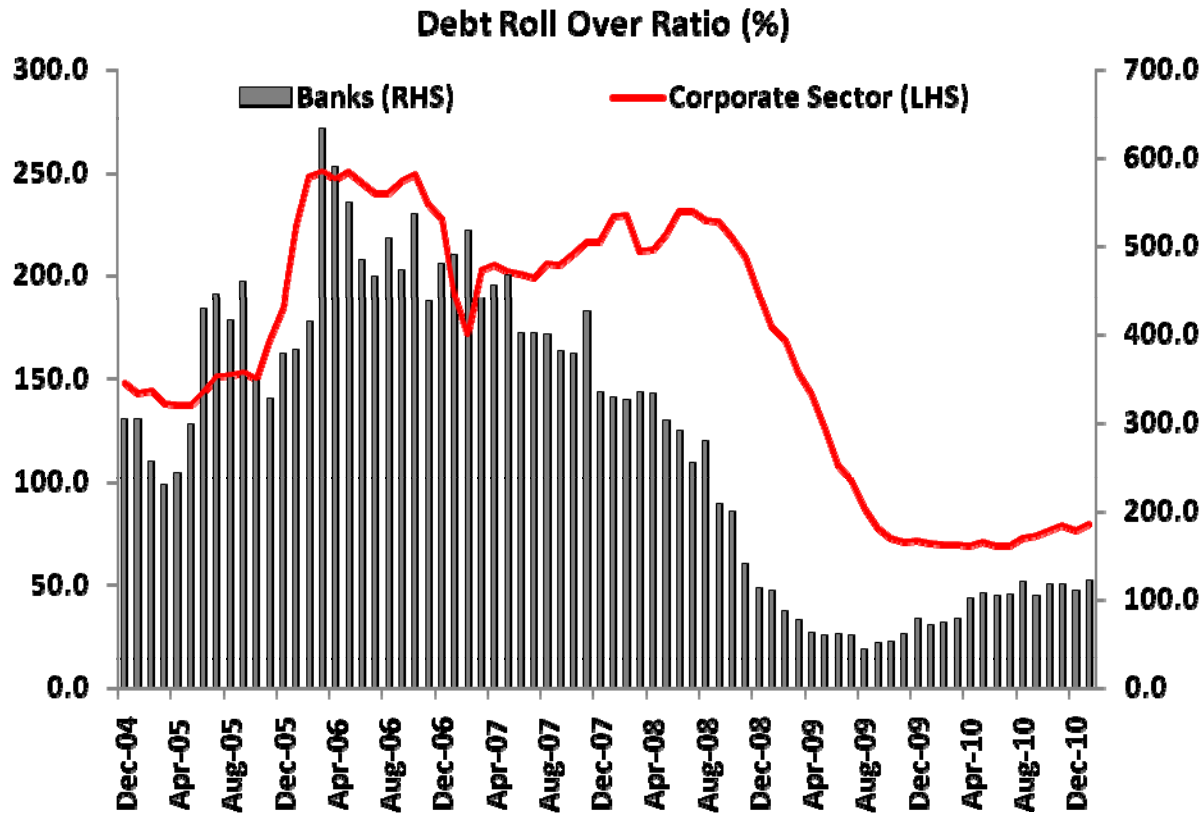
High share of portfolio investments and low share of direct investments in financial accounts pose high risk in terms of the quality of the financing of current account deficit.

On a 12-month basis the cumulative current account deficit continued to increase in January 2011. The ongoing increase in current account deficit has deteriorated the quality of financing of the current account deficit.

Net foreign direct investments that showed a negative performance in 2010, continued to decrease in January 2011.

While foreign direct investments decreased, short term capital movements known as portfolio investment continued to increase.

Banks' and corporate sector's roll over ratio continued to rise in January as net external borrowing increased...



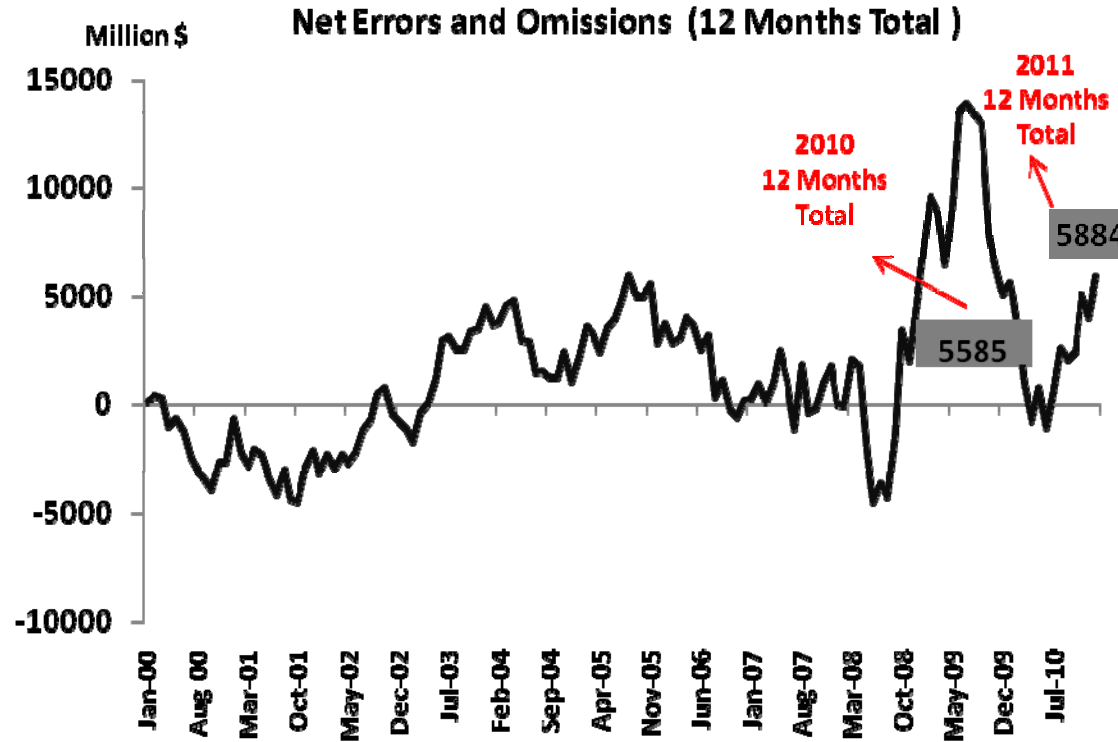
Source: CBRT

Despite the CBRT's recent efforts to reduce credit extension, recent data shows private debt growth continues as net external borrowing rises.

Banking and non banking sector long term net external borrowing reached to \$740 million and \$249 million respectively in January 2011. Also the banks roll over ratio reached 323%, whereas corporate sector's ratio reached 112% in the same period.

On a 12-month basis, corporate sector's roll over ratio was up to 79% in January 2011 compared to 76% in January 2010. The banks' roll over ratio increased from 71% to 121% in the same period.

Net Errors and Omissions (NEO) continued to widen in January 2011...



Source: CBRT

In January, the current account deficit was mostly financed by an inflow in the errors and omissions account.

The January NEO was \$3.7bn compared to the full-year NEO of \$4bn in 2010. The rolling 12-month NEO also continued to increase in January 2011 and reached \$5.8bn.

As net errors and omissions is a balancing item, and includes capital flows not directly measured, it is difficult to define the reasons behind its increase or decrease.

However the increase in NEO can be attributed to fund movements after the politic instability in the Middle East.

Moreover the increase in NEO interpreted as a preparation to benefit from tax amnesty of pocket law. Then the increase in NEO would be continued in the forthcoming months.

Evaluated in general...



- ✓ Considering the recent rising in oil prices and high share of energy imports in Turkey, the net effect of oil price rises on current account deficit is expected to continue in the coming periods.***
- ✓ Besides as Eurozone is Turkey's most significant regional export market, Eurozone countries debt concerns pose a high risk to the export facilities.***
- ✓ Although the current account deficit continued to rise on 12 month basis, the growth rate of the current account deficit slowed down on annual basis .***
- ✓ However, High share of portfolio investments and low share of direct investments in financial accounts pose high risk in terms of the quality of the financing of current account deficit.***

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