

VAKIFBANK TURKISH ECONOMY WEEKLY

**How will Turkish Economy Perform
in 2011?**

**No3:Current Account & Trade
Balance**


VakifBank

T. Vakıflar Bankası T.A.O



After analyzing economic growth and inflation, in this week's report we are examining current account and trade balance trend in 2011.

Last Week

Real GDP Growth Rate

Inflation and Monetary Policy

This Week

 **Current Account Balance**

Next Weeks

Unemployment Rate

Financial Markets: Interest Rate and Currency

Balance of Payments in detail...

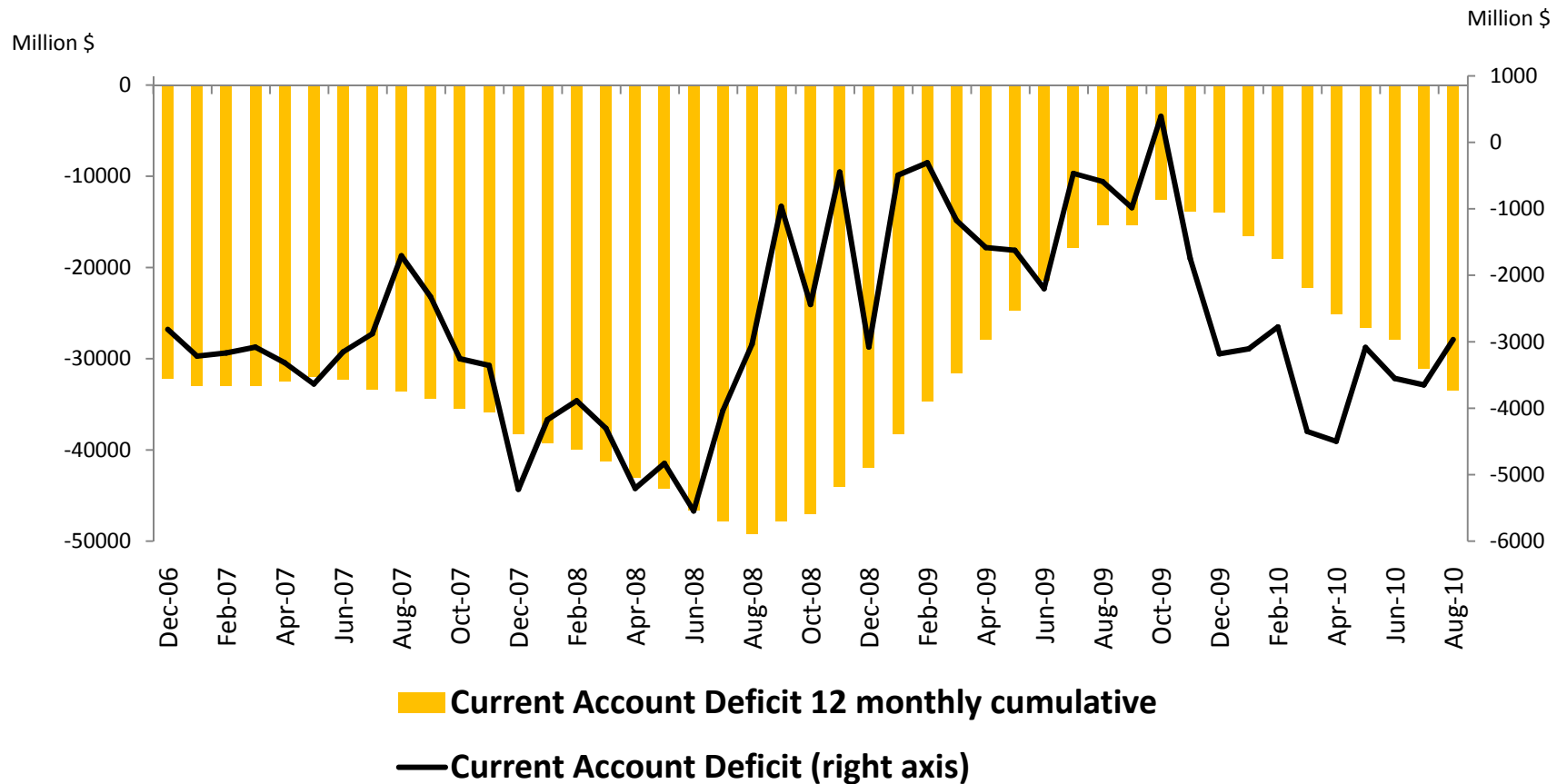
(Billion dollar)	August			January-August		
	2009	2010	yoy(%)	2009	2010	yoy(%)
Current Account	-0.609	-2.966	387.0	8.735	27.978	220.3
Goods	-3.876	-5.735	48.0	-14.737	-32.037	117.4
Export	-11.825	-15.437	30.5	-82.563	-107.317	30.0
Import	8.419	8.833	4.9	65.370	75.362	15.3
Services	3.658	2.965	-18.9	10.365	8.223	-20.7
Income	-0.555	-0.316	-43.1	-5.585	-4.938	-11.6
Current Transfers	0.164	0.120	-26.8	1.222	0.774	-36.7
Financial Account	1.180	1.801	52.6	3.025	26.826	786.8
Direct Investment	0.866	0.771	-11.0	5.336	4.148	-22.3
Portfolio Investment	0.725	3.010	315.2	1.598	13.805	763.9
Other Investment	2.330	1.372	-41.1	-4.547	18.906	-515.8
Net Errors and Omissions	-0.571	1.165	-304.0	5.710	1.152	-79.8
Reserve Assets	-2.741	-3.352	22.3	0.638	-10.033	-1672.6

Recources: CBRT

The Current Account Deficit is wider than expected in August...



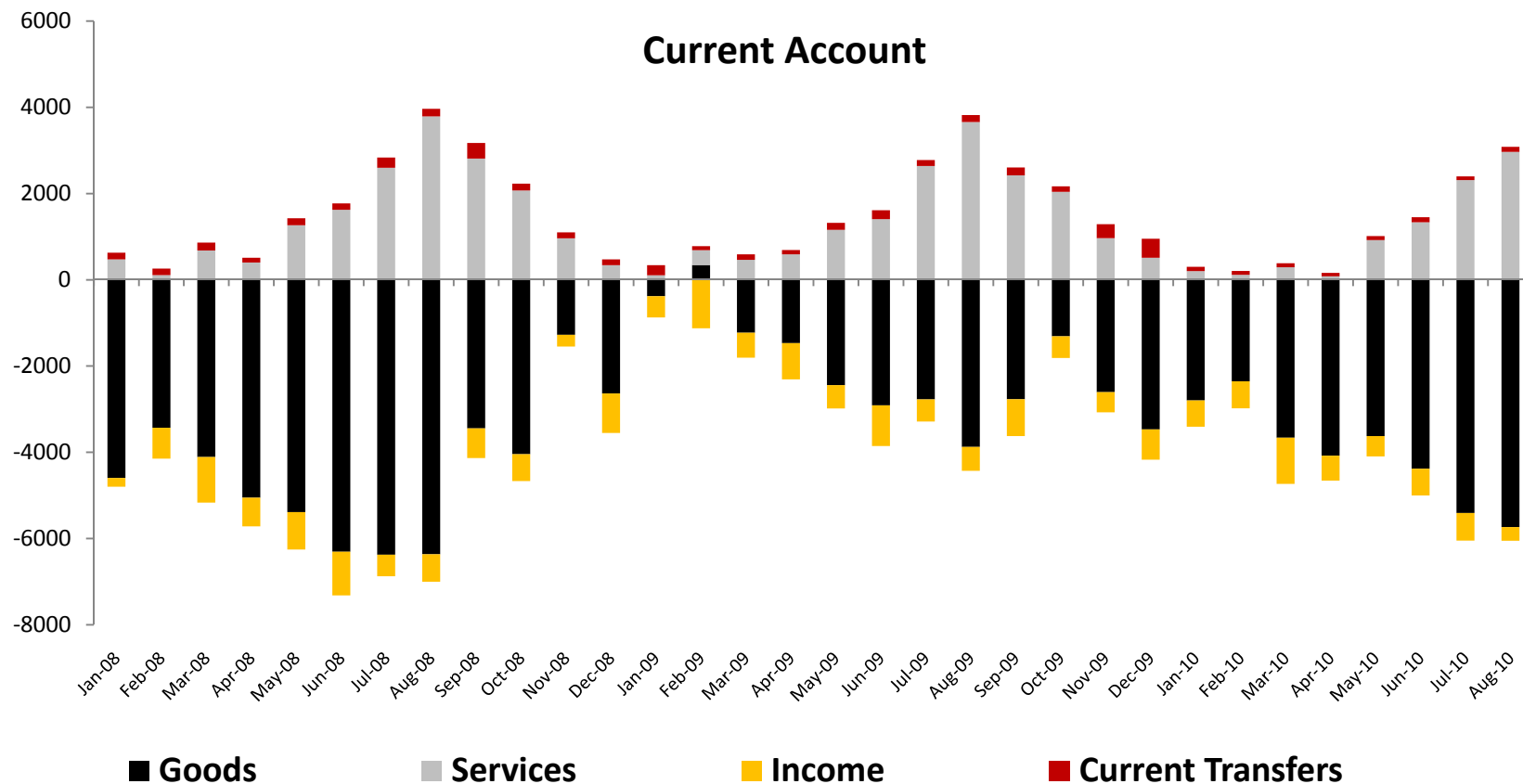
The current account deficit is US\$3.0 billion in August which is wider than both of the market consensus of \$2.4 billion and our forecast of \$2.7 billion. The current account deficit in the first eight months of the year is \$28.0 billion as compared to \$8.7 billion in the same period of 2009.



Source:CBRT

The expansion in the current account deficit this year is mainly due to high trade deficit...

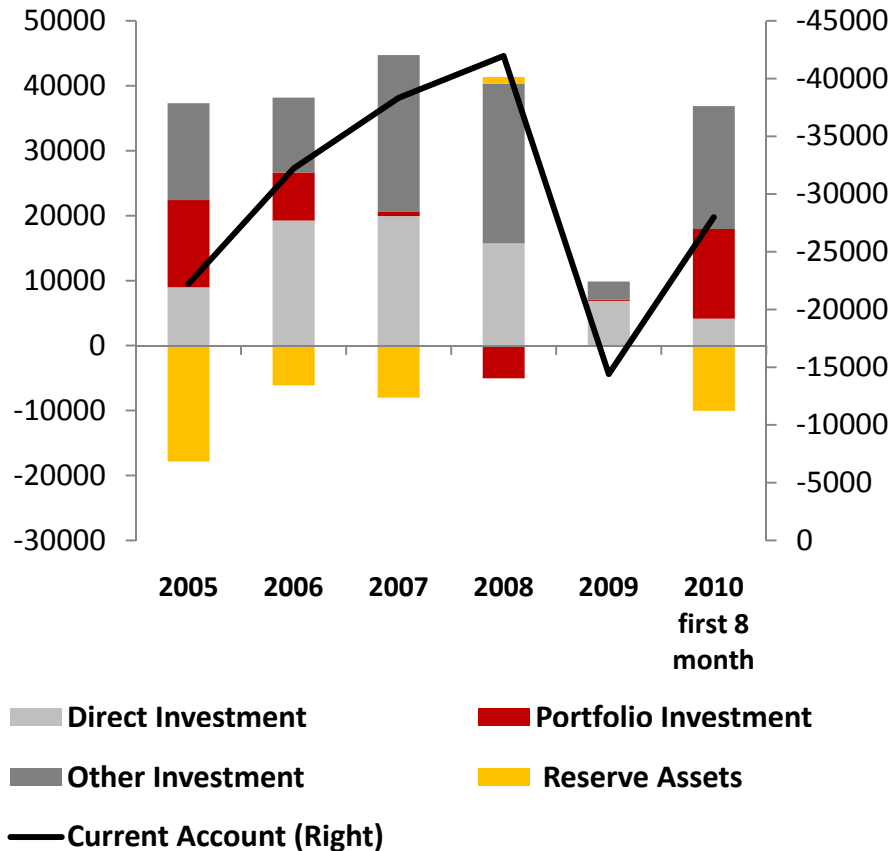
Due to flattened export growth and recovery in domestic demand that increase imports, trade deficit increased by 48% (yoy) in August and reached to \$5.735 billion. Moreover, the services account underperformed in August and decreased by 18.9% yoy.



Source: CBRT

Main financing source for current account deficit is portfolio investment ...

Capital and Financial Account (million \$)



In the first eight months of the year, the cumulative capital and financial account is \$26.8 billion compared to \$3.025 billion dollar in the same period in 2009.



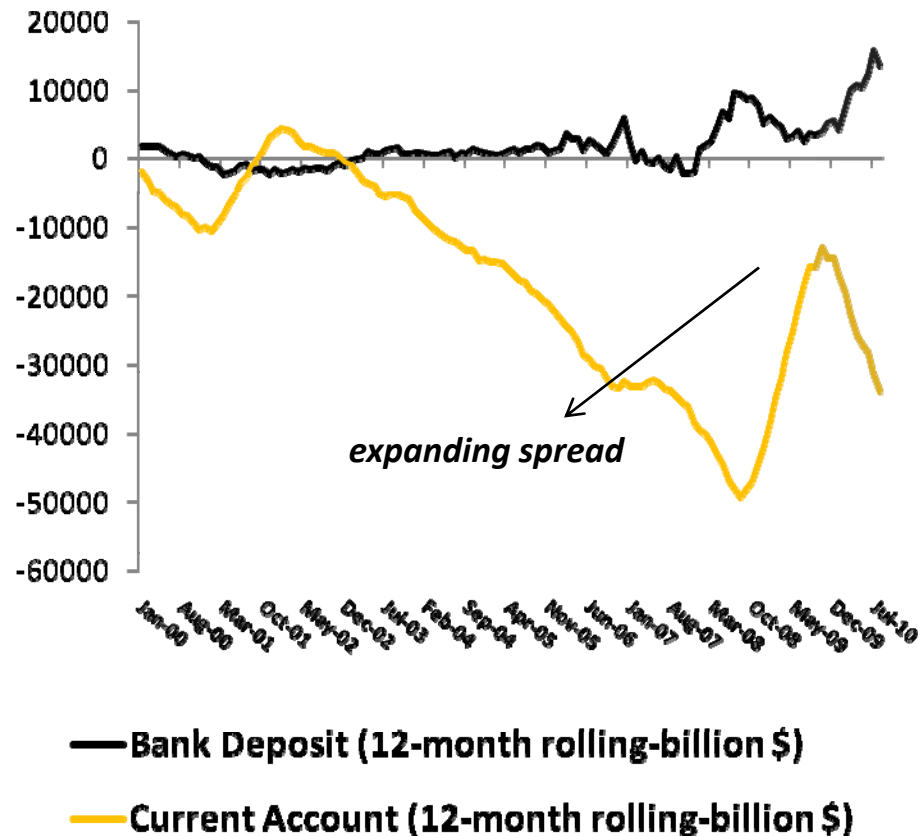
FDI inflows are higher as compared to the same period of 2009.



Portfolio investment is \$13.805 billion in Jan-Aug 2010 compared to \$1.598 billion in the same period of last year. The increase is mainly due to the foreigners demand for local government bonds .

Sources: CBRT, Vakifbank

In the first eight months of the year, foreign deposits in Turkish banks finance 40% of current account deficit...



Deposits of foreign banks in Turkish banks decreased by \$1.8 billion on the monthly basis in August.



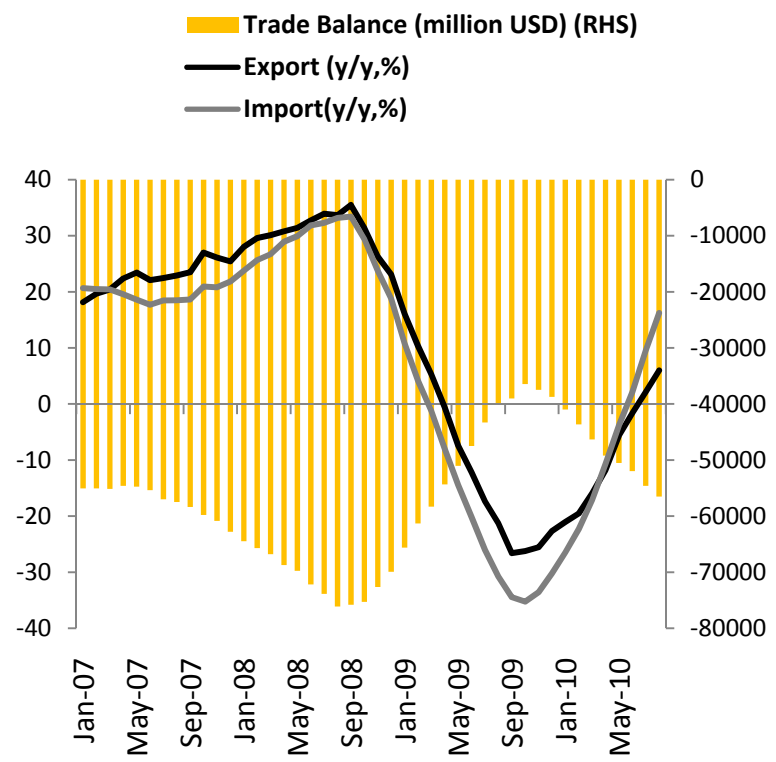
However, in the first eight months of 2010, bank deposits covered 40% of the current account deficit.

Resources: CBRT, Vakifbank

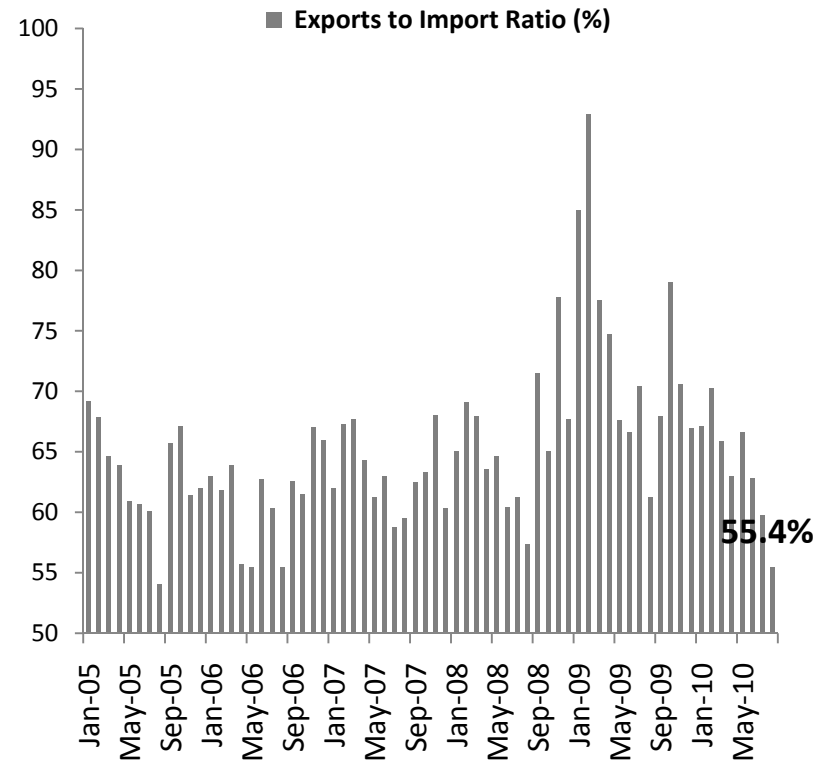
Exports to Import Ratio declined to its lowest level since 2005...



Trade deficit reaches \$41.8 billion in August due to the strong domestic demand . Since increase in import is much faster than export on a yearly basis, export to import ratio decline to 55.4%.

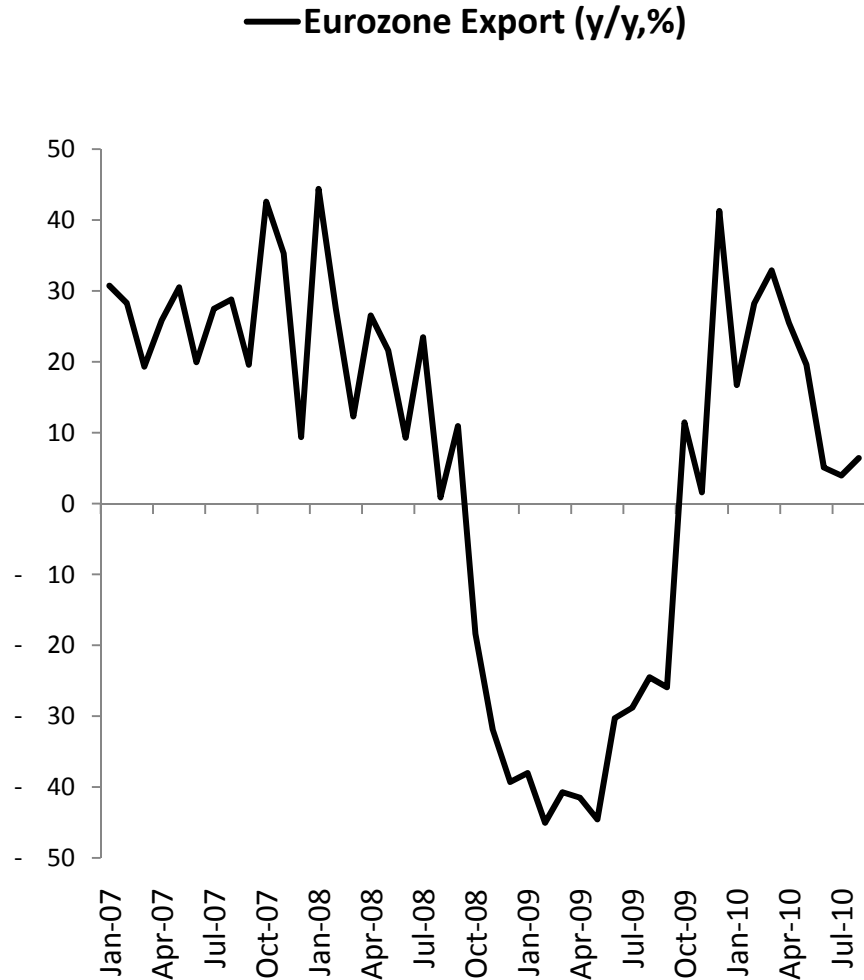


Source:Turkstat



Source:Turkstat

Export to EU Countries declined sharply until August 2010...



Source: Turkstat



Eurozone has a highest share in Turkey's export with an average of 50%.



With the Eurozone debt crisis, export to EU countries declined sharply due to weak demand, during the first 7 months of 2010.

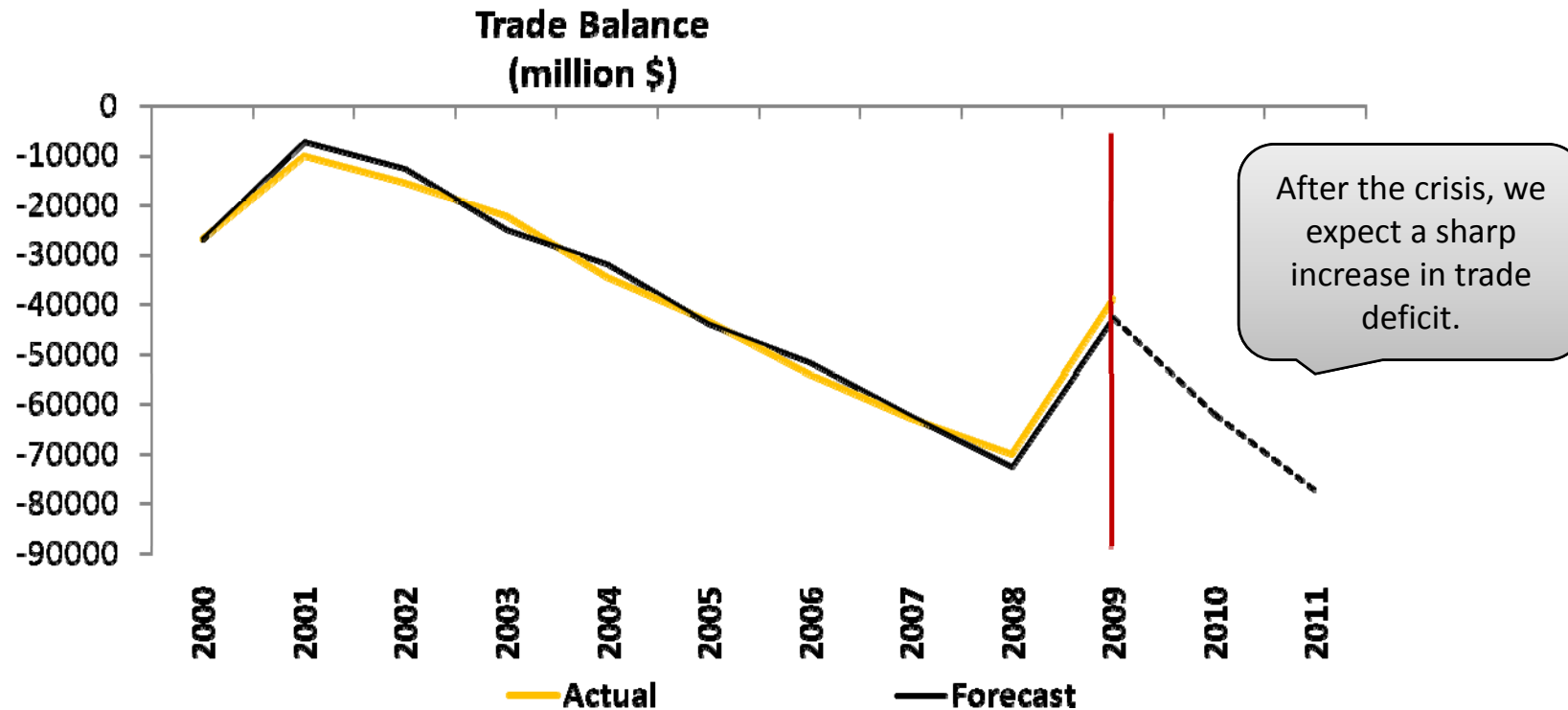


Although there is a slight improvement in the exports to Eurozone in August, uncertainties regarding external demand persist.

Our trade deficit forecast is \$77.5 billion for 2011...



While external demand remains weak, domestic demand has shown a much stronger outlook. Expectations also point out that uncertainties in developed countries may continue and due to the favourable economic conditions and improvement in the creditworthiness of Turkey, divergence between domestic and external demand may be much more clear in 2011. We forecast trade deficit \$77.5 billion for 2011 under our base scenario assumptions. Therefore, share of trade deficit in GDP will be -6.7%.

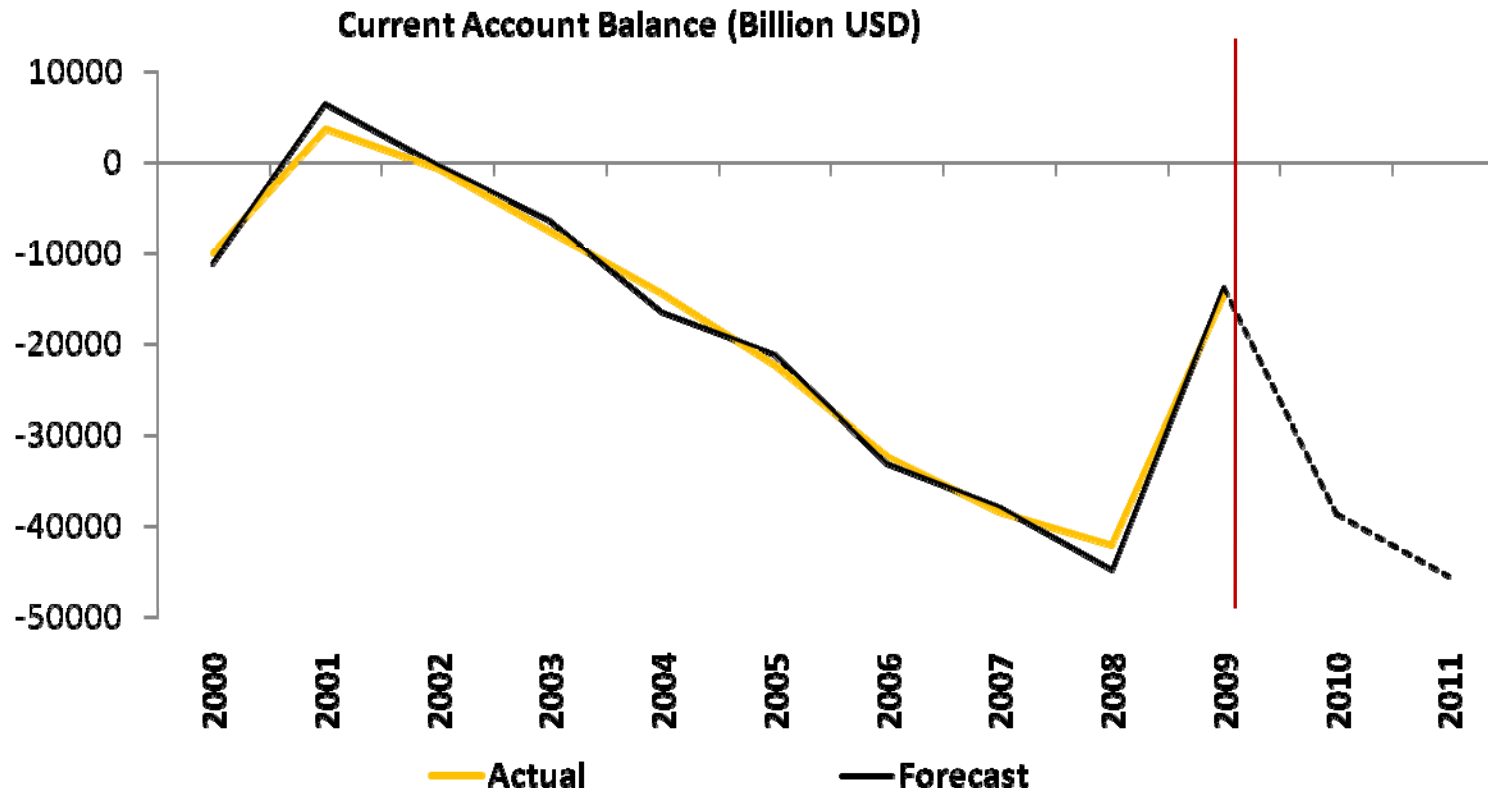


Sources: CBRT, VakifBank

Our current account deficit forecast is \$45.5 billion for 2011...



Although widening in current account deficit is expected to continue in 2011, pace of widening trend may decelerate. Under the \$77.5 billion trade deficit forecast for 2011, our current account deficit forecast is \$45.5 billion.



Sources: CBRT, VakifBank

Risks and other scenarios for our 2011 current account and trade forecasts...

Forecast 2011	USD Exchange	Oil	Real GDP of TURKEY (yoy%)	Real GDP of Eurozone (yoy%)	Trade Balance	Cuurent Account Balance
Base scenario	1.50	85	3.5	1.4	-77.5 bil. \$	-45.5 bil. \$
Scenario-1	1.40	90	4.7	2.2	-81.9 bil. \$	-48.9 bil.\$
Scenario-2	1.55	80	2.1	1.0	-73.3 bil. \$	-42.3 bil. \$
Resource: Vakifbank						

Serkan Özcan	Seda Meyveci	Emine Özgü Özen	Naime Doğan
Chief Economist	Economist	Researcher	Researcher
+ 90 312 455 7087	+ 90 312 455 8485	+ 90 312 455 8487	+ 90 312 455 8486
Serkan.ozcan@vakifbank.com.tr	Seda.meyveci@vakifbank.com.tr	Emineozgu.ozen@vakifbank.com.tr	Naime.dogan@vakifbank.com.tr

T. Vakıflar Bankası T.A.O

Ataturk Bulvarı No: 207

Kavaklıdere 06683 Ankara, Turkey

www.vakifbank.com.tr

Vakıfbank Economic Research

ekonomik.arastirmalar@vakifbank.com.tr

The information in this report has been obtained by Türkiye Vakıflar Bankası T.A.O. from sources believed to be reliable. However, Türkiye Vakıflar Bankası T.A.O. cannot guarantee the accuracy, adequacy, or completeness of such information, and cannot be responsible for the results of investment decisions made on account of this report. This document is not a solicitation to buy or sell any of the securities mentioned. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This report is to be distributed to professional emerging markets investors only.
