

VAKIFBANK TURKISH ECONOMY WEEKLY

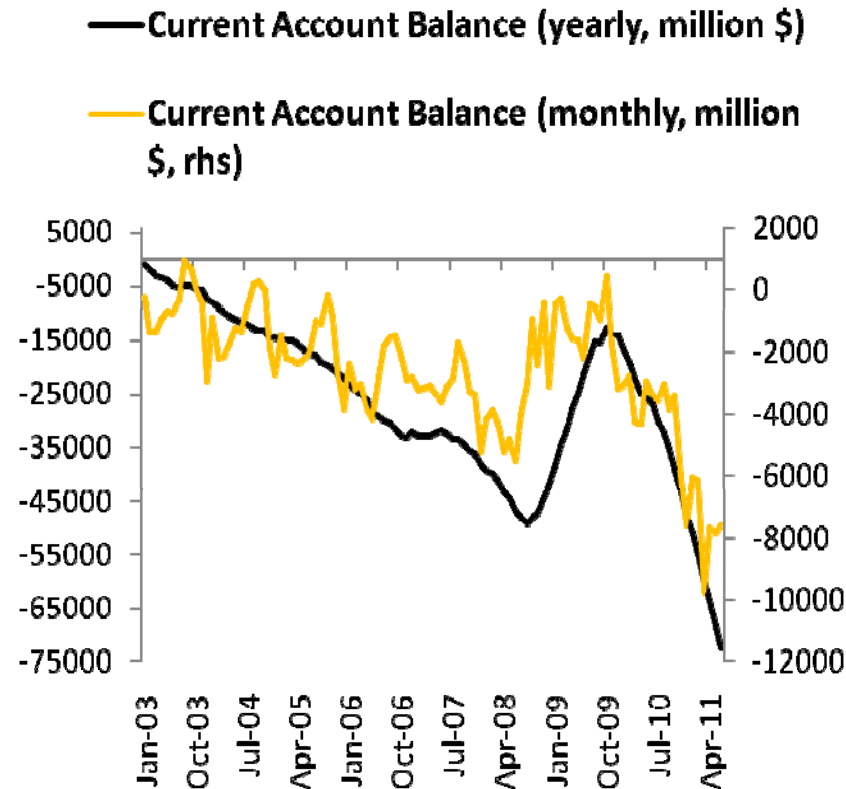
In the second half the growth rate in CAD will decelerate which is supported by the slower economic activity...



T. Vakıflar Bankası T.A.O



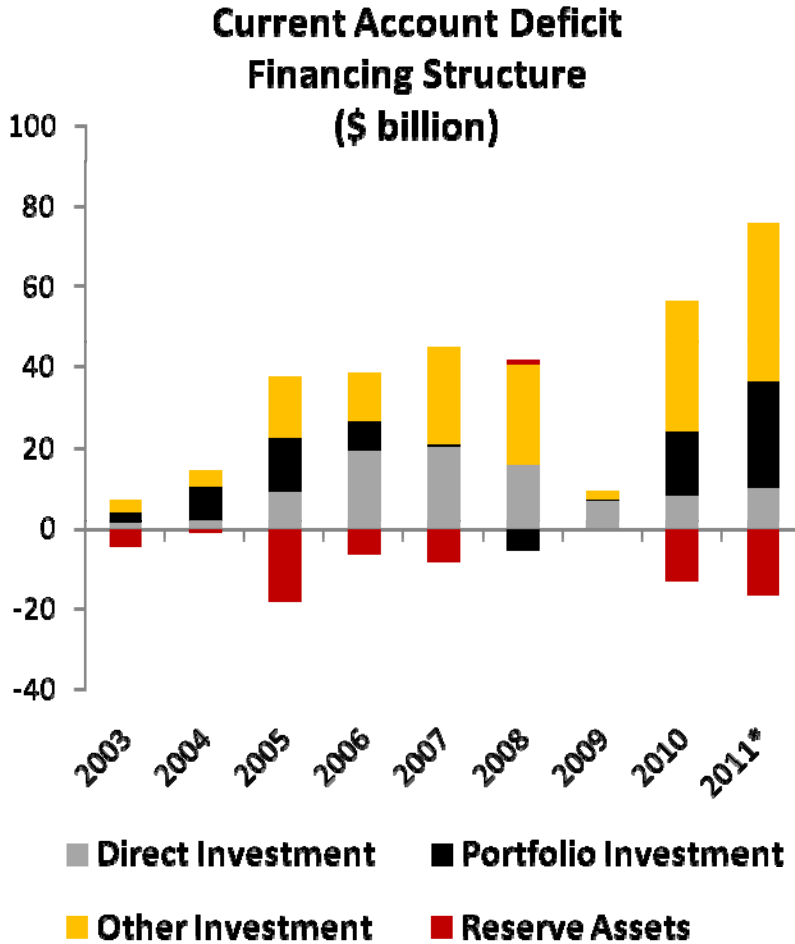
Current Account Deficit was \$7.55 billion in June 2011...



Source: CBRT

- ✔ Current Account Deficit (CAD) increased by 121% yoy in June and last 12 months cumulative CAD reached to \$72.5 billion.
- ✔ Moreover, in the first half CAD increased by 122% compare to the same period of the previous year and reached to \$45 billion.
- ✔ While increasing rate of 12 months cumulative CAD slowed since 2010 December, this deceleration was interrupted in May and June.
- ✔ However, by the impact of measures taken by CBRT and BRSA deceleration in the current account deficit growth rate would be possible in the coming months.

Portfolio inflows and other investment were the key financing tools in June of current account deficit...



Source: CBRT

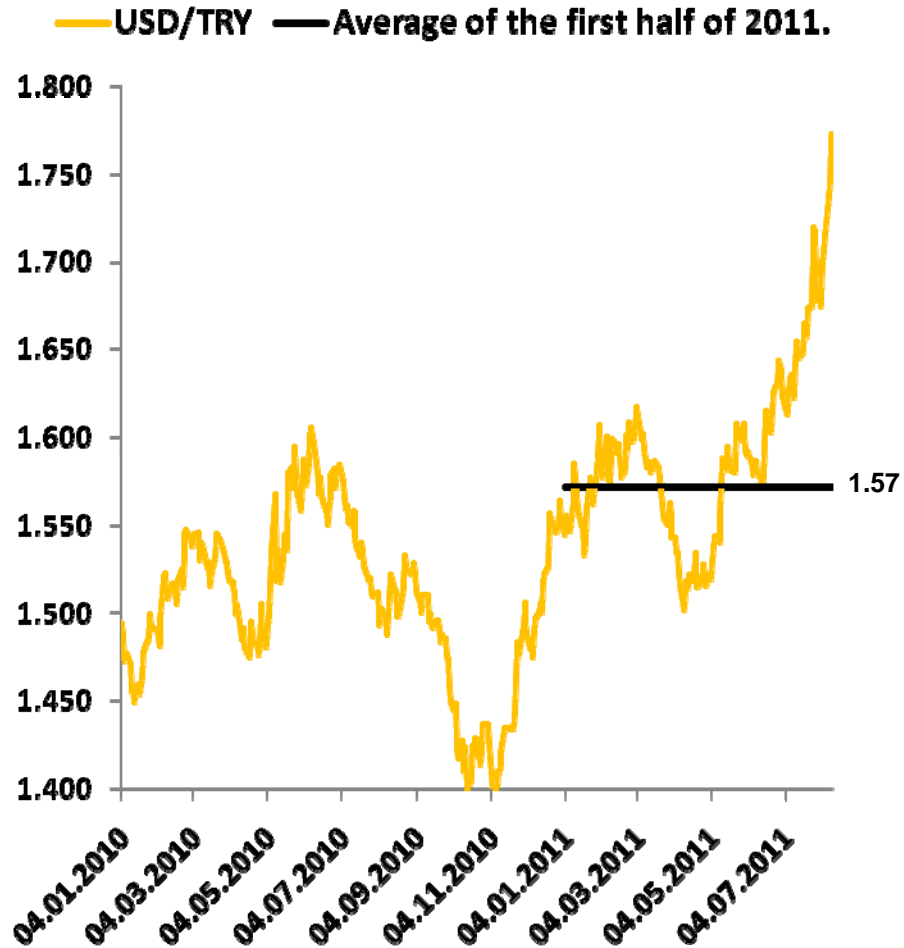
*: 2011 is calculated by total of last 12 months.

- Foreign direct investment was \$0.561 billion in June and it reached to \$4.85 billion in the first six months of the year.
- Portfolio investments reached to \$2.03 billion dollar in June. The increase of foreign investor purchase in domestic bond market is the main cause of the increase in portfolio investments. These investments reached to \$16.87 billion in the first six months of the year.
- The government sector which was net debt payer in May used long term credit in June. However the real sector heavily realized long term loan repayment with \$2.6 billion.
- On the other hand, reserve assets increased by \$1.58 billion dollar in June and reached to \$9.756 billion dollar in the first six months of the year.

CAD sharply increased by 122.3% in the first 6 months of 2011 compare to the same period of the previous year and it reached to \$45 billion with parallel to the expectations of CBRT. However, in the second half the growth rate in CAD will decelerate due to;

- The depreciation in TL*
- Downward trend in Oil Prices*
- Slowdown in economic growth and domestic demand*

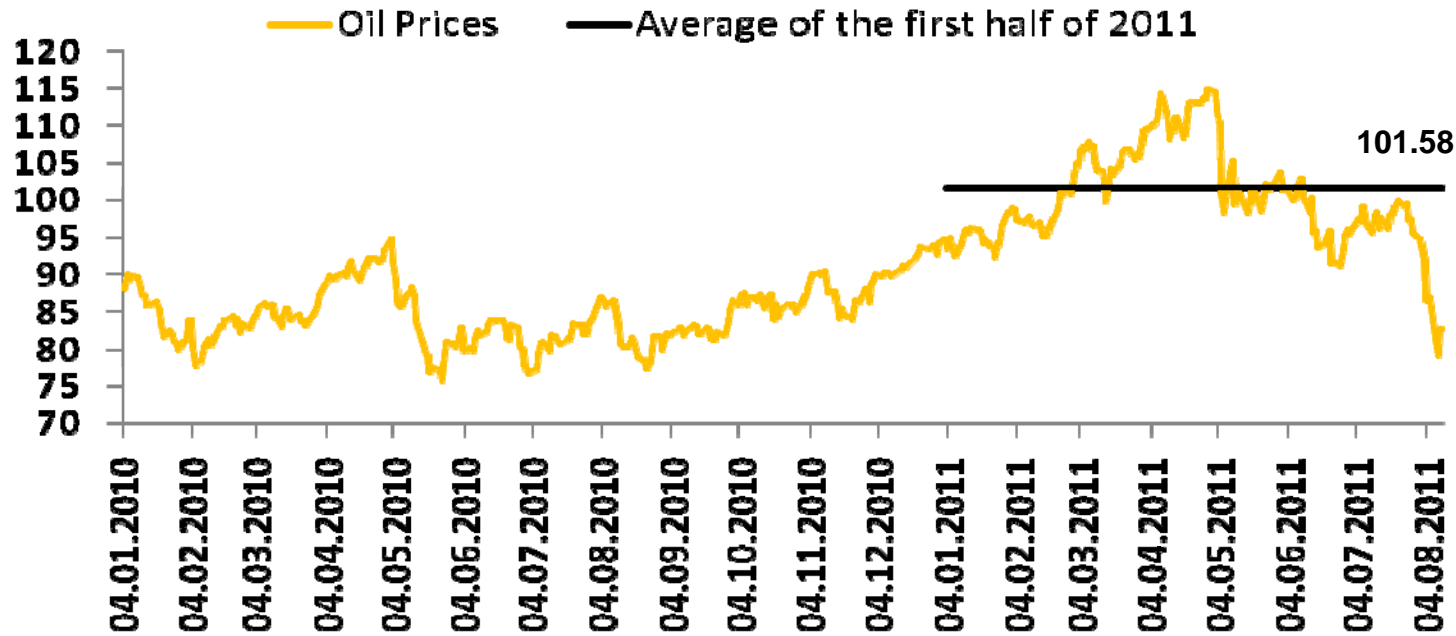
1- Depreciation in Turkish Lira supports CAD slowdown in the coming period...



Source: Bloomberg

- Increasing concerns about global markets has caused TRY to lose its value. USD/TRY, which was at a 1.57 level in the first half of the year, has risen to a 1.78 level in the most recent period. This depreciation may positively affect the CAD deficit in the coming period.
- We expect that TRY may appreciate 5% by the end of the year, but the average for this period reflects that the value of TRY will be lower in the second half than in the first half of the year. This situation signals that the CAD deficit will slow down in the coming period through improvement in the foreign trade balance.

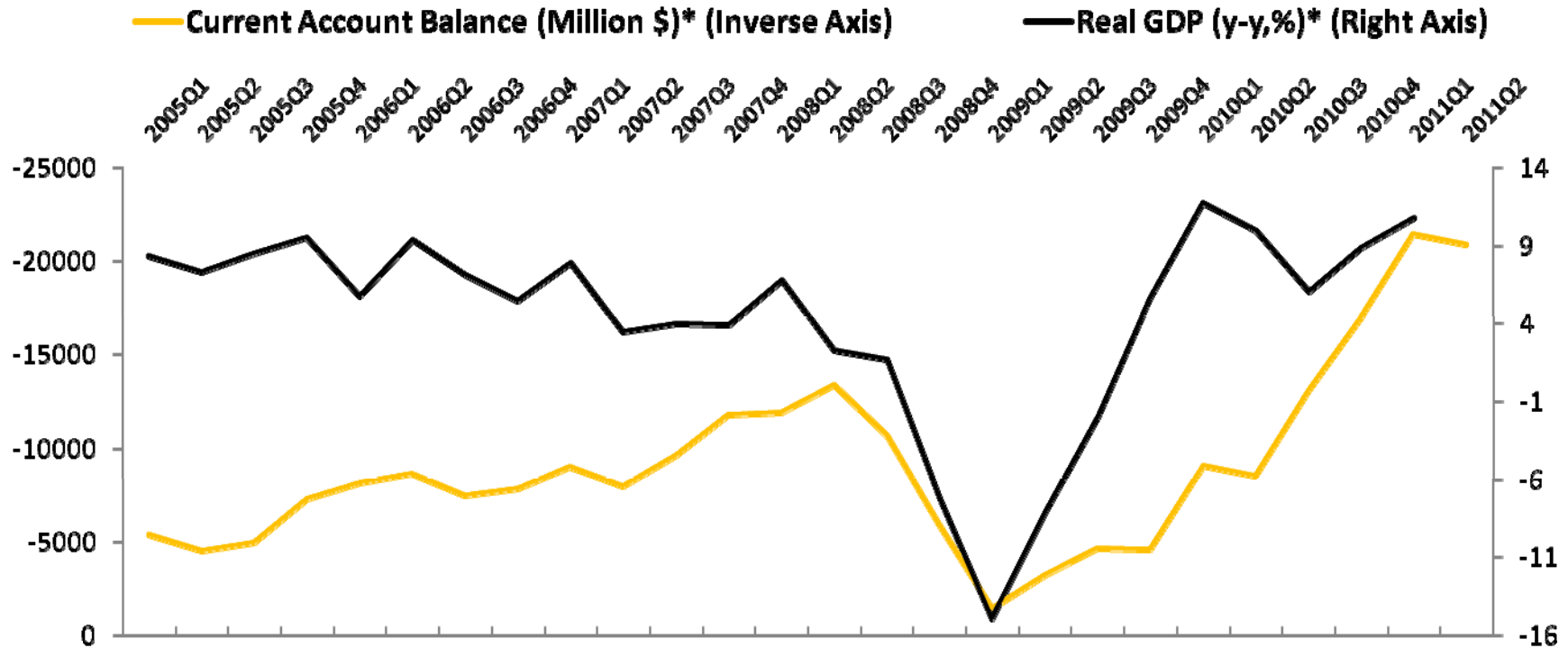
2-Downward trend in Oil Prices will limit CAD wideness...



Source: Bloomberg

- ❏ The weak growth performance in US and continuing risks about Euro Zone countries have increased the concerns about global growth rate recently.
- ❏ Especially, the uncertainties in growth performance of developed countries have caused a downward trend in oil prices. This downward trend in oil prices may support our expectations that CAD may decrease in the next period since oil is the most significant import item of Turkey.

3-Slowdown in economic growth and domestic demand may affect CAD deficit positively ...



Source: CBRT

*: Seasonally adjusted.

- Since the relationship between the CAD and economic growth is strong, CAD in the first half widened sharply with the strong growth performance. However, in the second half the growth rate in CAD will decelerate which is supported by the slower economic activity and domestic demand.

To sum up;

- ✔ CAD sharply increased by 122.3% in the first 6 months of 2011 and it reached to \$45 billion with parallel to the expectations of CBRT.
- ✔ We expect that sharp movement of CAD in the first half of 2011 will slow down in the second half because of the recent decreasing in the oil prices and depreciation in TRY.
- ✔ Moreover, recent credit growth data reflects that the measures taken by CBRT and BRRRA start to be effective on the domestic demand.
- ✔ As a result, our 2011 yearly CAD expectation is \$72 billion that is paralel to the CBRT.

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