

VAKIFBANK WEEKLY ECONOMICS REPORT

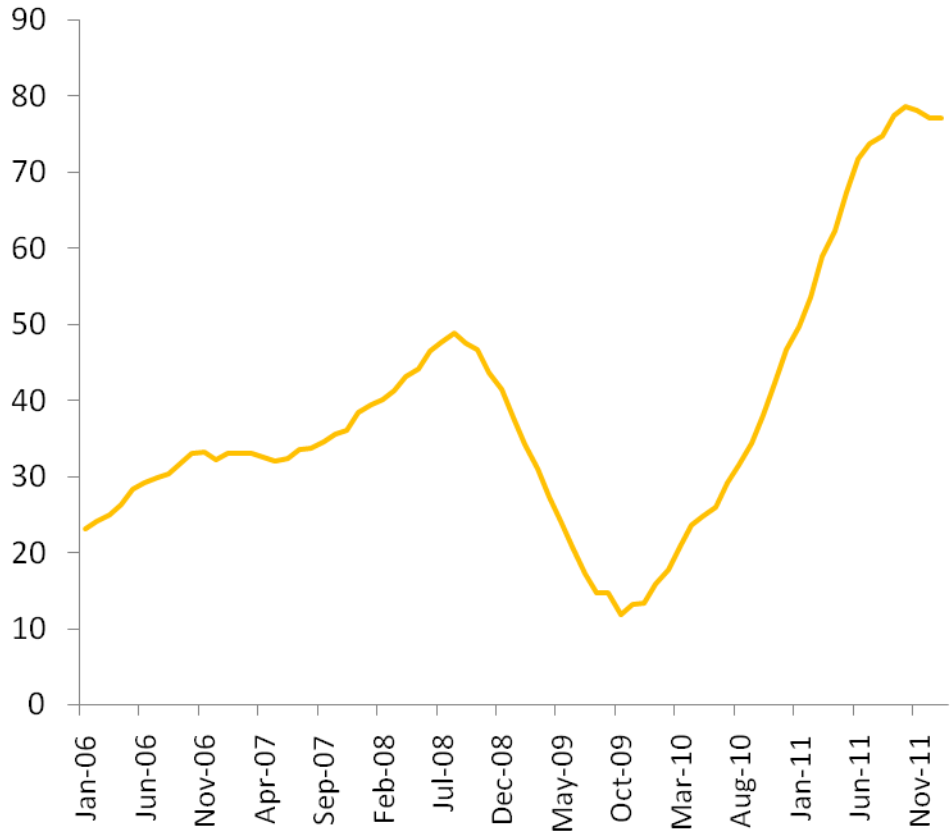
C/A Deficit Financing and Global Liquidity


VakifBank





T. Vakıflar Bankası T.A.O



Current Account Deficit (yearly, bln \$)

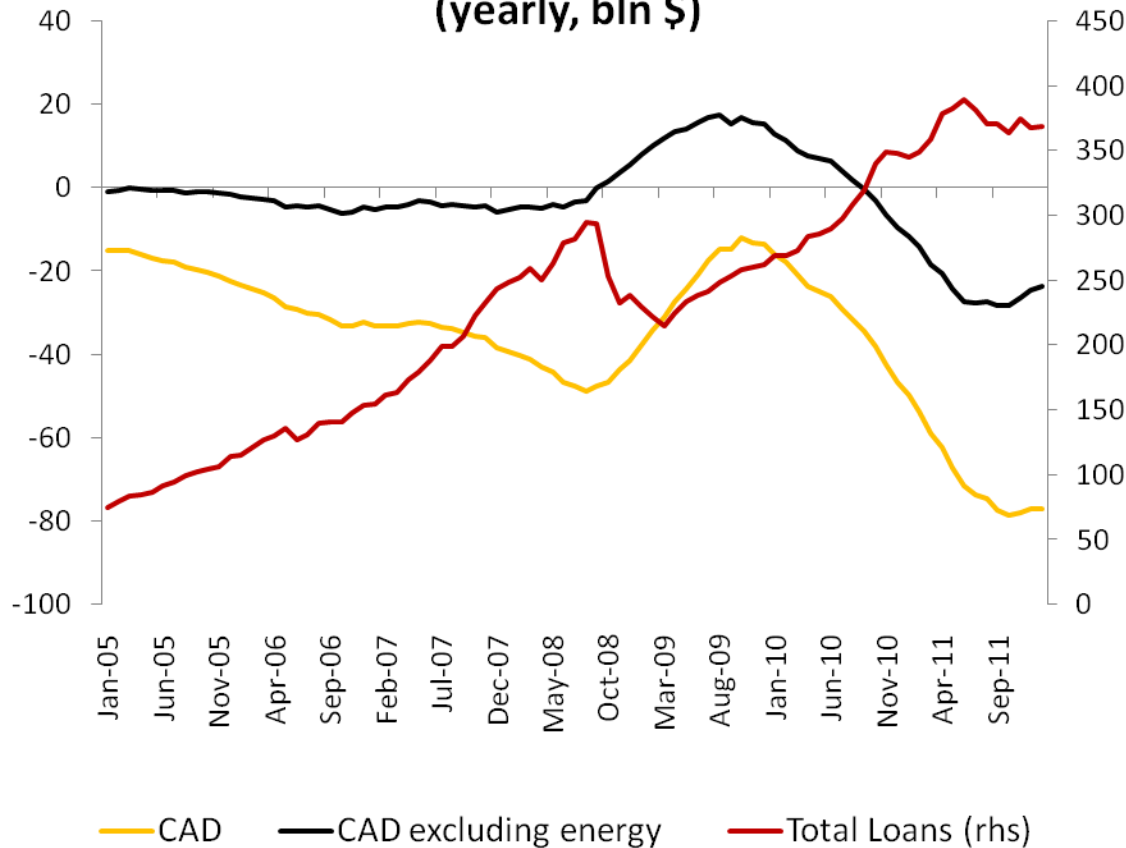


Source: CBRT

-  In line with our expectations, current account (C/A) deficit came in at \$6 billion in January.
-  12-month trailing C/A deficit narrowed for the second month exceeding the November's decline.
-  12-month trailing C/A deficit, which was \$49.7 billion in January 2011, increased by 55.3% to \$77.1 billion
-  While last 12 months cumulative C/A deficit increased, its growth rate (yoy) continued to decrease.

Both total loans and C/A deficit have slowed down...

**Loans and Current Account Deficit
(yearly, bln \$)**

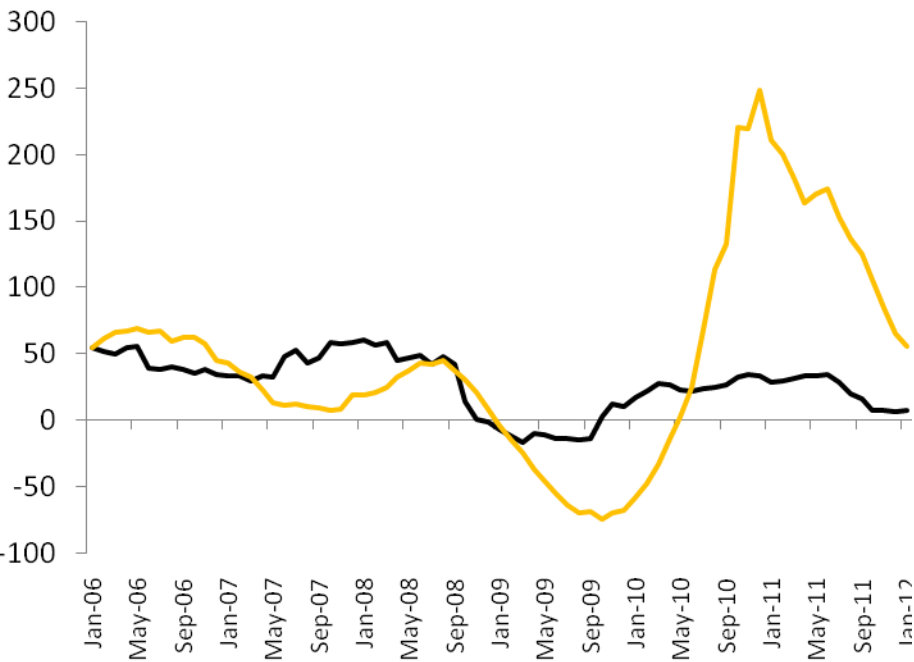


-  Total loans which was \$389.2 billion in May fell to \$368.1 billion in January 2012.
-  The C/A deficit excluding energy has slowed considerably since Q4 2011.
-  Growth rate of 12-month trailing C/A deficit excluding energy decreased to %102 from %160 in January 2012 compared to previous month.

Source: CBRT, BRSA

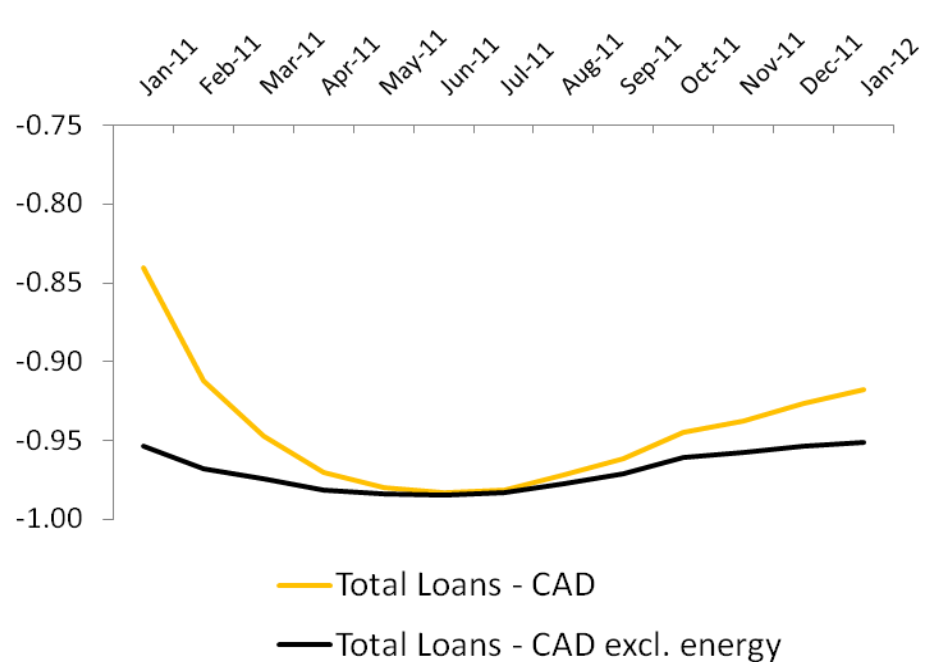
There is high correlation between C/A deficit and total loans...

— Total Loans (yoy, %) — CAD (yoy, %)



Source: CBRT, BRSA

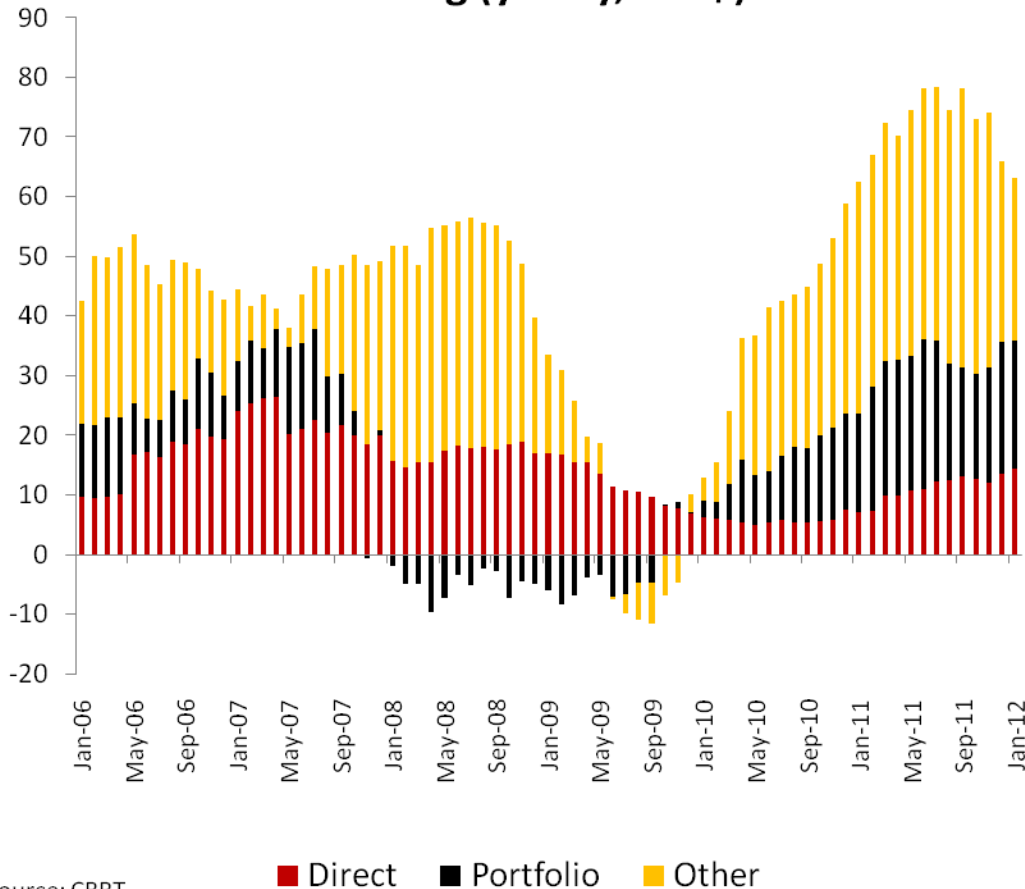
Correlation Coefficients



Source: CBRT, Vakifbank

- Correlation between C/A deficit and credit growth shows that there is a high linear relationship.
- Correlation coefficient between total loans and C/A deficit excluding energy is higher than the correlation between total loans and C/A deficit.
- The lagged impacts of the measures taken by CBRT and BRSA to reduce the credit growth to reasonable levels provided slowdown in C/A deficit growth.

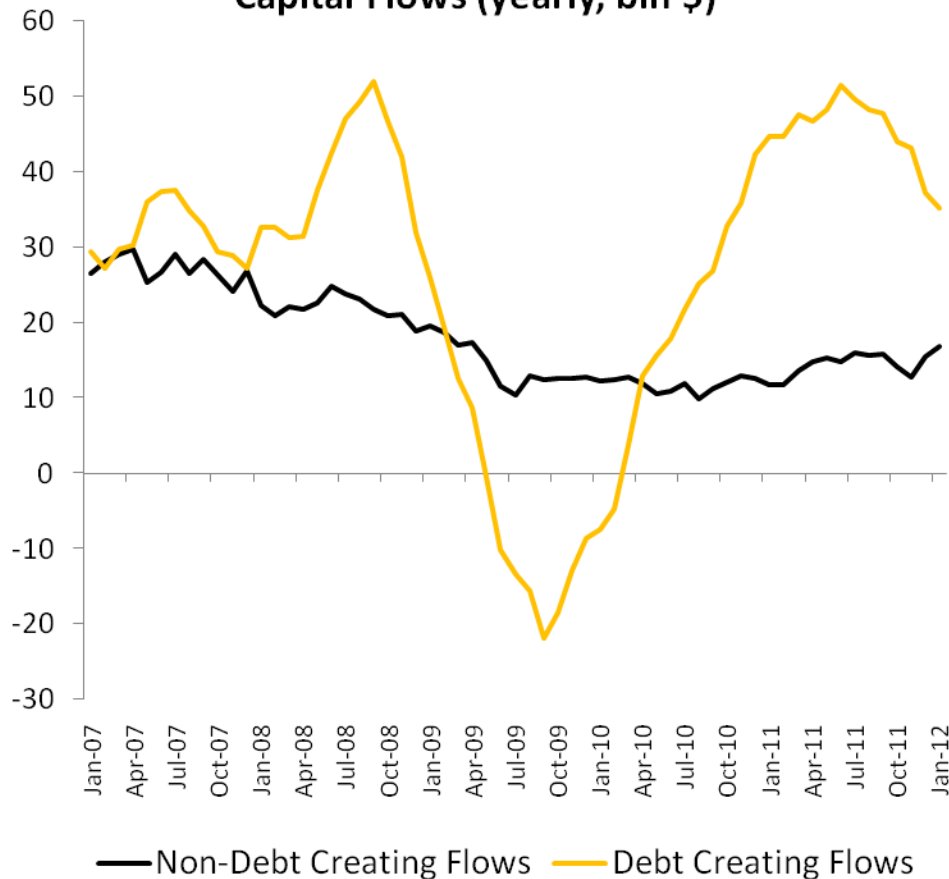
Financing (yearly, bln \$)



-  Foreign direct investment was \$827 million in January and it reached to \$14.4 billion in the last 12 months.
-  While equities recorded net purchases of \$556 million, foreign investors sold \$1 billion government debt securities in January.
-  General government borrowed \$1.5 billion through the bond issues in the international capital markets in January 2012.
-  Other sectors realized a net repayment in January 2012.

The fall in the debt creating capital flows confirm the quality of C/A financing...

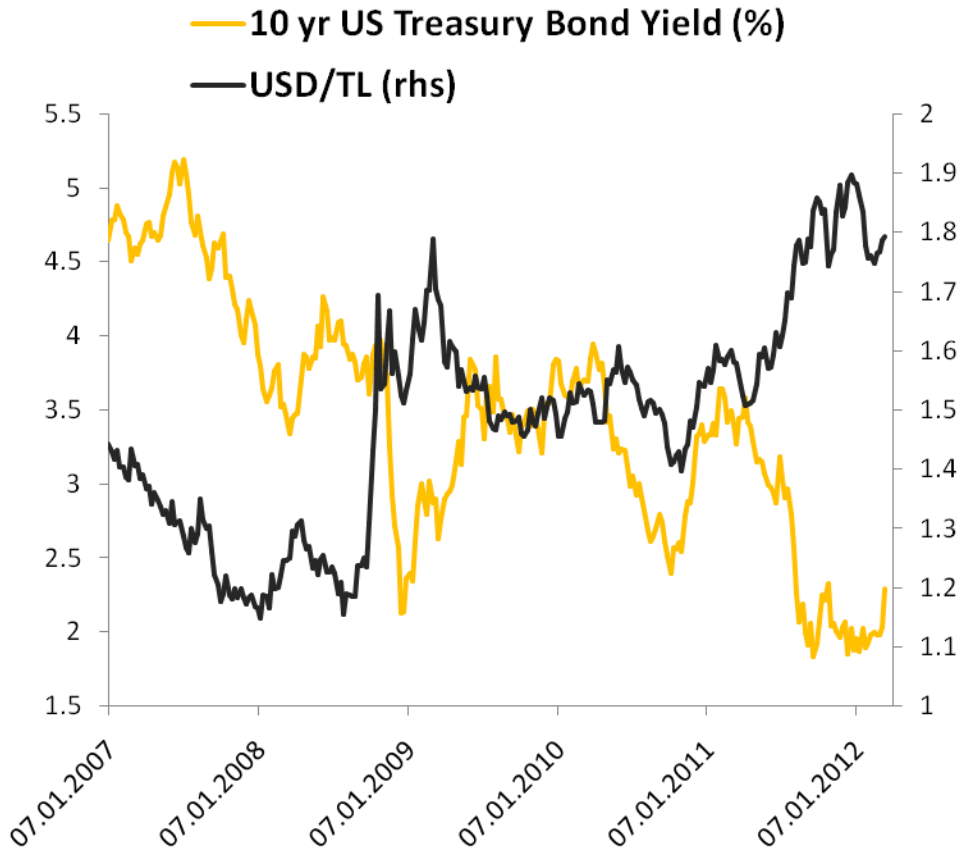
Capital Flows (yearly, bln \$)







Source: CBRT, Vakifbank

- ▣ The course of the debt creating and non-debt creating flows clearly confirm the increase in the financing quality of C/A deficit.
- ▣ The recent increase in foreign direct investments caused the non debt creating financing items to reach \$16.8 billion by January 2012.
- ▣ Also, there's a downward trend in debt creating flows since June 2011.
- ▣ The yearly debt creating financing which reached \$51.5 billion by June 2011, has fallen to \$35.8 billion by January 2012.

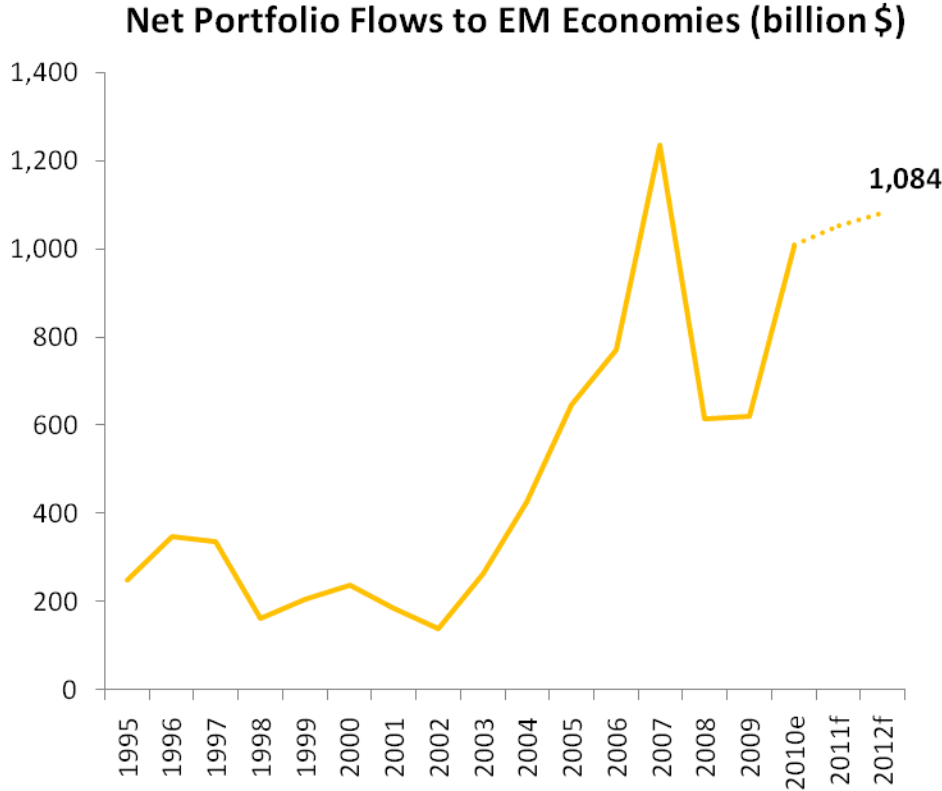
Recent optimism in the US data caused a search for rebalancing in global markets...



Source: Reuters

-  US economic indicators has been signaling an optimistic outlook since Q4 2011.
-  FED's mild but also prudent assessments on the US economy in its latest meeting lowered the expectations of QE3.
-  This, forced investors to set a course for lower global liquidity and triggered a sell of in risk free instruments such as US treasuries and gold.
-  Also, this search for a new balance in the markets caused a shift to the dollar buying in EMs and triggered a rise in exchange rate in Turkey.

IIF estimates that net portfolio flows to EMs will continue in 2012...



Source: IIF

- Despite this sell off in emerging markets, there's no increase in risk perceptions regarding EM economies.
- According to IIF (Institute of International Finance) forecasts, net portfolio flows to EM economies increased 62% yoy in 2010 and reached over \$1 trillion. IFF estimates that this figure will rise by 4.4% in 2011 and 2.9% in 2012.
- Taking IFF forecasts into account, we can expect that there will be no sudden stops and portfolio outflows in Turkey in 2012.
- In other words, the probability of a difficulty in C/A financing and a sharp slow down in domestic credits are low.

Despite a probable decrease in global liquidity, we expect that Turkey won't face any difficulty in C/A financing in 2012...

- ✎ It's a fact that the global liquidity will relatively diminish in 2012 if the FED gives up QE3.
- ✎ ECB's emphasis on inflation indicates that it wouldn't be prudent to expect the liquidity conditions to be too elastic.
- ✎ Hence, if the expansion in the US economy continues, it would be somewhat difficult to expect additional liquidity inflows in Turkey.
- ✎ Also, the recovery in US employment and balancing in household debts is a medium term development and cannot be succeeded in 2012.
- ✎ Also EM specific risks are comparatively too low for the moment.
- ✎ Consequently, the likelihood of the C/A deficit to converge to our year end forecast of \$62.1 billion, unless there's an unexpected rise in growth performance or inflation or an unexpected slowdown in the economic activity.

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