

VAKIFBANK TURKISH ECONOMY WEEKLY

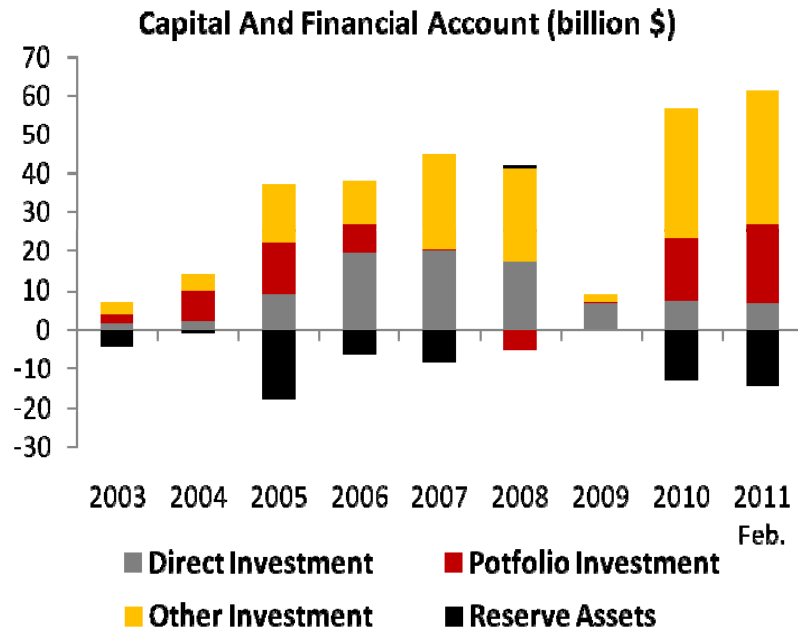
The deterioration in the quality of
external financing



T. Vakıflar Bankası T.A.O



Portfolio investments continue to widen...



Source: CBRT

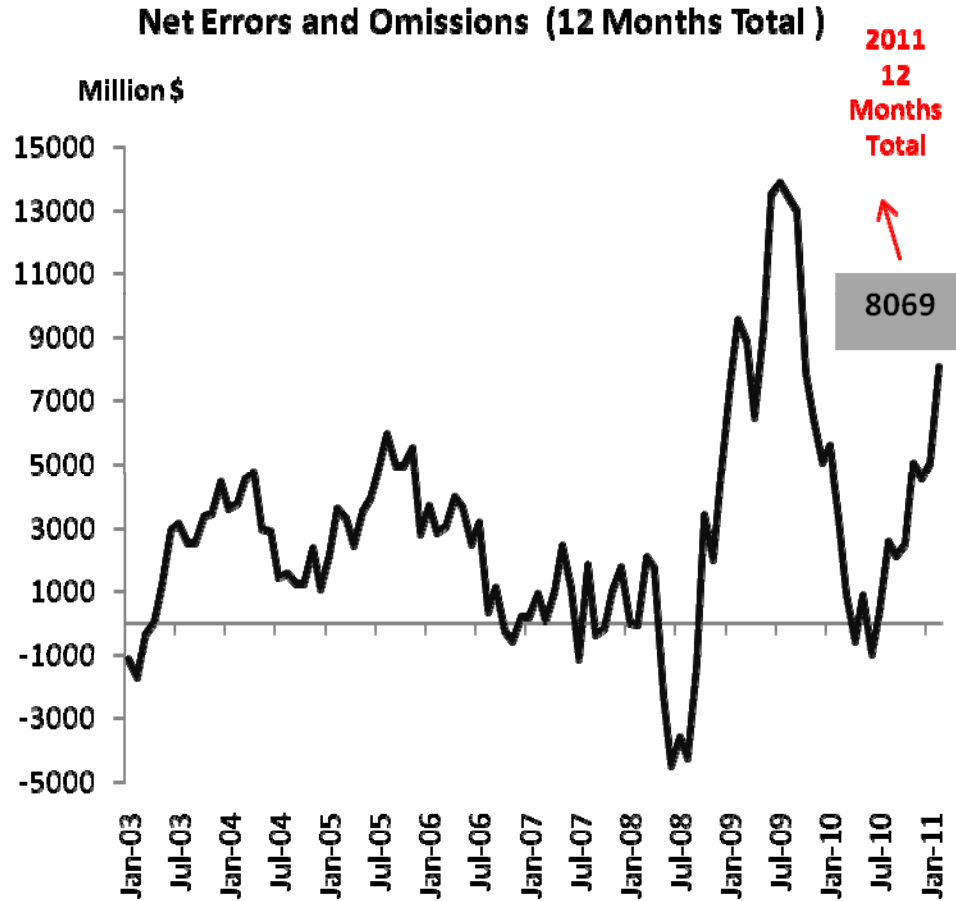
- On a 12-month basis the cumulative current account deficit (CAD) continued to increase in February 2011. The ongoing increase in the CAD has accompanied the deterioration of the quality of financing of the CAD.
- In February 2011, the capital and financial account cumulative total reached to \$46.8 billion compared to \$15.7 billion dollar in the same period of 2010.
- Net foreign direct investments which showed a negative performance in 2010, continued to decrease in February 2011. The average share of cumulative total direct investments in the CAD which was 37.6% in the period 2003-2010 decreased to 12.1% in February 2011.

■ While direct investments decreased, portfolio investment which includes also short term capital movements continued to increase. Foreign investors sold equity securities and bought debt securities in February 2011. The rate of cumulative total equity securities in the liabilities decreased from 13.2% to 9.1% mom and debt securities in the liabilities increased from 86.7% to 90.8%.





■ Other investments decreased in February 2011. However, it had the largest share in financing of the CAD with \$34.5 billion.

■ High share of portfolio investments and low share of direct investments in financial account pose high risk in terms of the quality of the financing of the CAD.

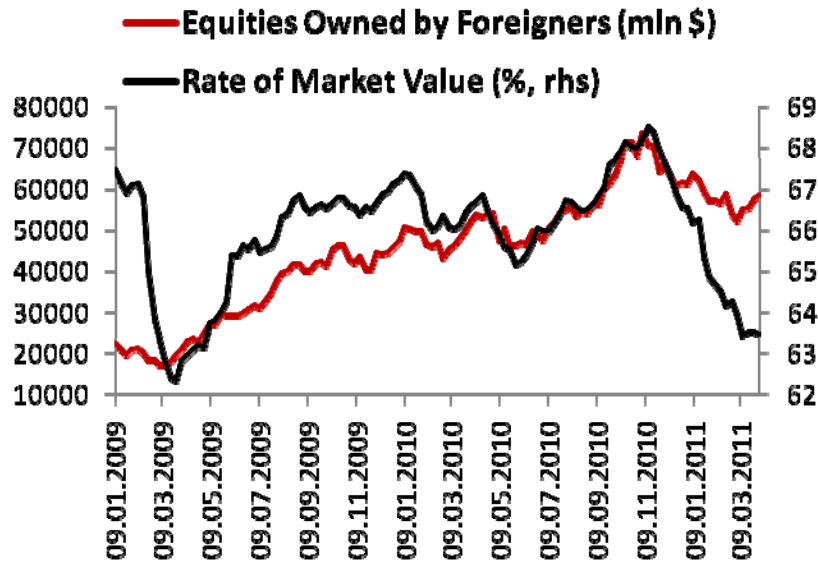
Net Errors and Omissions (NEO) continued to widen in February 2011...



Source: CBRT

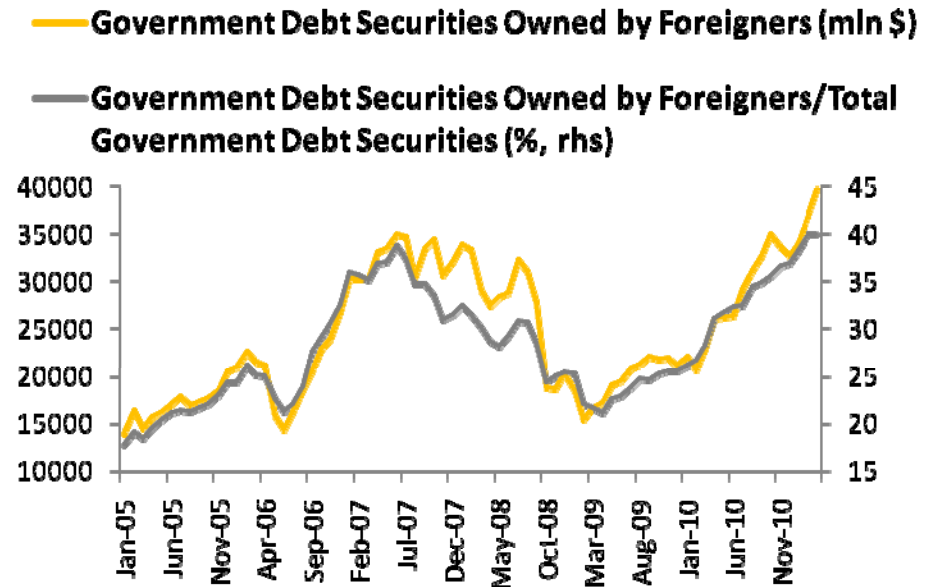
-  The February NEO was \$3.26 billion and the first two months of 2011 NEO was \$5.5 billion while the full-year NEO was \$4.57 billion in 2010. The cumulative NEO also continued to increase in January 2011 and reached \$8 billion.
-  In January, the CAD was mostly financed by an inflow in the net errors and omissions account.
-  As NEO 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 political instability in the Middle East.

Equities were sold by foreigners in February, but government debt securities purchases continued...



Source: CBRT, MKK

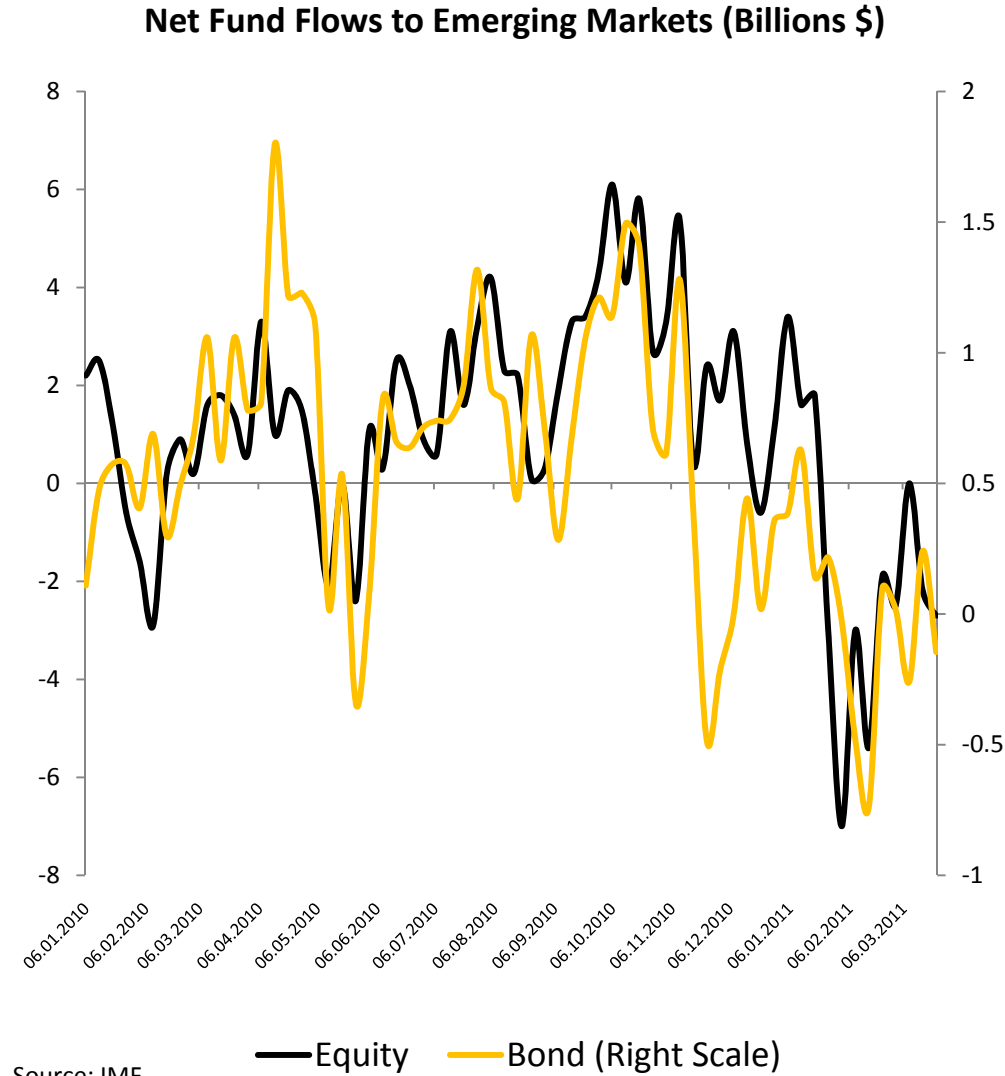
- ✓ Although equities owned by foreigners has been increasing since the second week of March, it generally has been decreasing since the November 2010.
- ✓ Market value of equities owned by foreigners/market value of total equities rate regularly has been decreasing since the same date.



Source: CBRT

- ✓ Government debt securities owned by foreigners has been increasing since the first month of 2010.
- ✓ Share of foreigners in total government debt securities has been increasing since the half of 2009. It increased to the highest level in March 2011 with 40%.
- ✓ It can be said that foreigners prefer debt securities to equities in the recent term.

Net fund flows to emerging markets show that there is similar trend between bonds and equities...

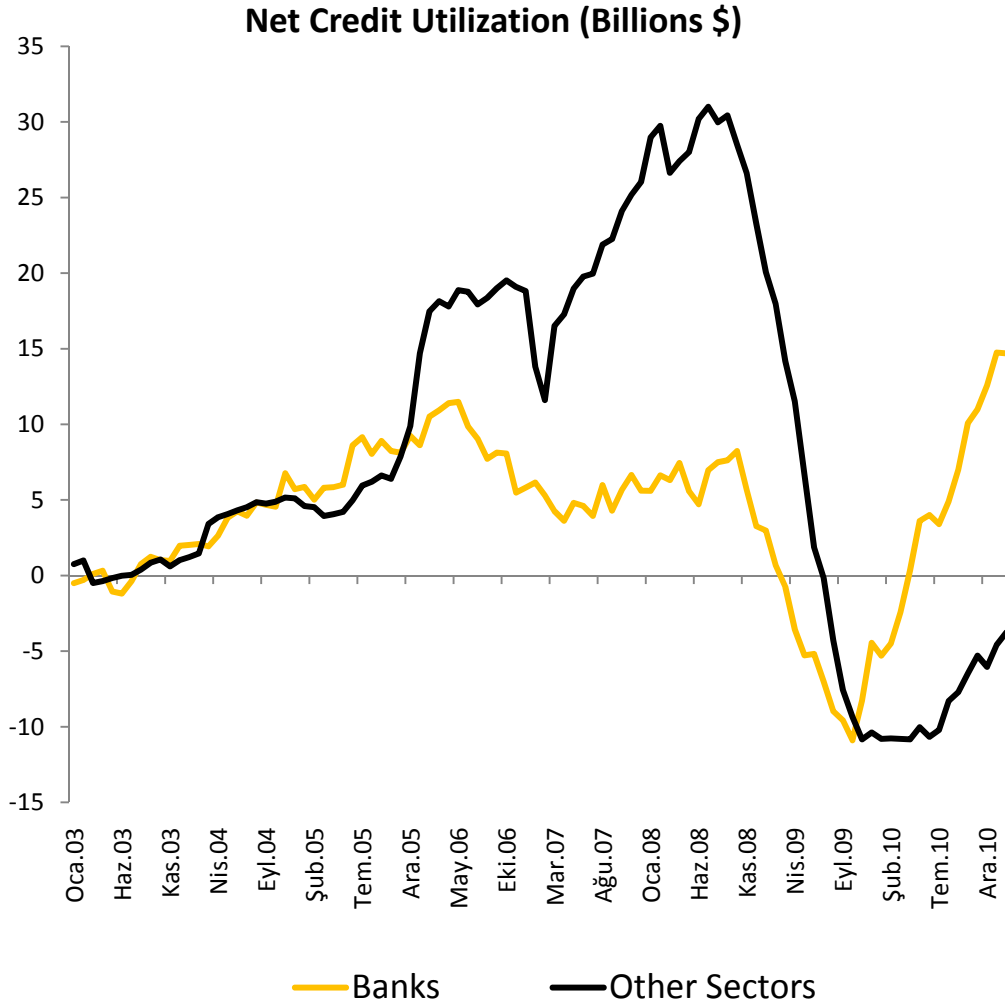


Particularly, capital inflows in the form of bond and equity investments to emerging markets gained pace in 2011.

It is useful to consider that there is divergence in investors choice for debt securities and equities between Turkey and other emerging economies.

However foreign investors prefer debt securities rather than equities in the recent term in Turkey. And, net fund flows to emerging markets show that there is a similar trend between these two assets

Foreign lending has an important role on financial account... **VakıfBank**



Source: CBRT

- While current account deficit rising, banks and other sector's foreign lending has an important role on financial account.
- Due to the contraction in international credit markets, banks and other sectors were net borrowers of long-term loans in the fourth quarter of 2010.
- The other investments item, which is mostly composed of foreign loans reached high levels in the pre-crisis period.
- Increase in reserve requirements lead banking sector to find external funds to keep their credit growth.

Serkan Özcan

Chief Economist

+ 90 312 455 7087

serkan.ozcan@vakifbank.com.tr

Cem Erođlu

Senior Economist

+ 90 312 455 8480

cem.eroglu@vakifbank.com.tr

Ümit Ünsal

Economist

+ 90 312 455 8418

umit.unsal@vakifbank.com.tr

Fatma Özlem Kanbur

Researcher

+ 90 312 455 8482

fatmaozlem.kanbur@vakifbank.com.tr

Elif Artman

Researcher

+ 90 312 455 8490

elif.artman@vakifbank.com.tr

T. Vakıflar Bankası T.A.O

Ataturk Bulvari No: 207

Kavaklıdere 06683 Ankara, Turkey

www.vakifbank.com.tr

Vakıfbank Economic Research

ekonomik.arastirmalar@vakifbank.com.tr

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