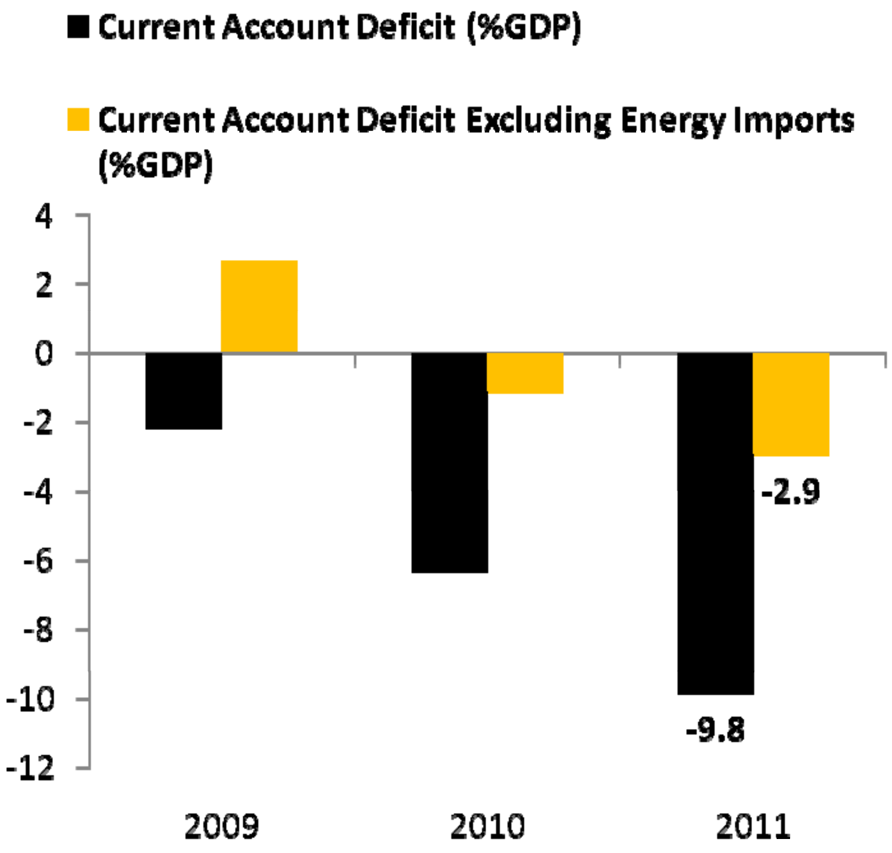
VAKIFBANK WEEKLY ECONOMIC REPORT

The share of foreign direct investment increased in 2011…

T. Vakıflar Bankası T.A.O

Turkey posted $77.1 billion of current account deficit in 2011...



Source: CBRT

- In line with our expectations, current account deficit (CAD) rose to $6.6 billion in December from $5.4 billion in November. Since CAD was $7.5 billion in December 2010, 12-month trailing CAD narrows for second month exceeding the November's decline.
- 12-month trailing CAD, which was $46.6 billion in 2010, increased by 65.3% to $77.1 billion in 2011.
- 12-month trailing CAD excluding energy increased by 182.1% in 2011 compared to 2010 and it rose to $23 billion. On the other hand, Improvement in CAD excluding energy was more apparent in December. Last balance of payment release indicated that there is improvements in external rebalancing process.
- We calculate that the CAD may be 9.8% of GDP and CAD excluding energy imports may be %2.9 of GDP in 2011.
- Due to slow down in domestic demand and risk on export performance, we expect that CAD will narrow to $62.1 billion (7.5% of GDP) in 2012.

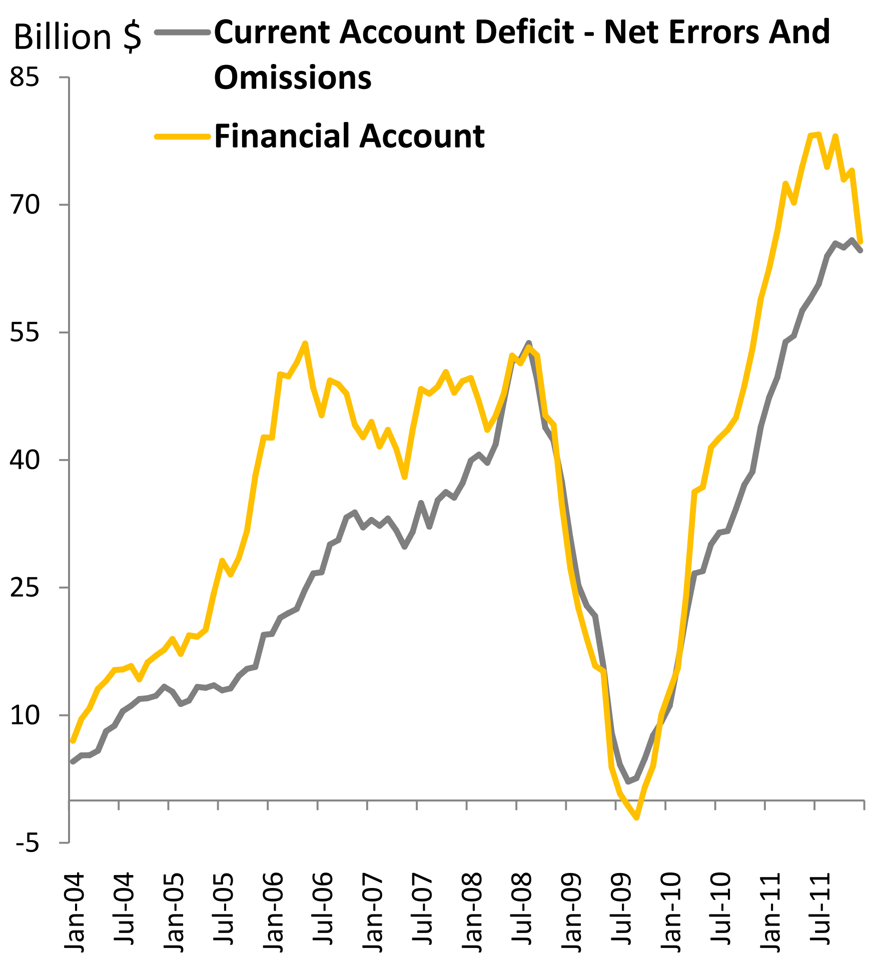
Details of import...

Import	Value (Billion $)	Share (%)
Group-1: little or non-production products	100	42
Group-2: Imported goods produced at insufficiently	100	42
Group-3: Imported goods produced at sufficiently	40	16
Source: Ministry of Economy		

- Imports printed at 29.8%yoy in 2011. Strong domestic demand, appreciation in TL in the first half of 2011, high commodity prices and structural dynamics of production were the main reasons of high import growth.
- The share of Group-1 in total imports was 42% indicating very large proportion. Since non-production goods mostly include raw material and energy, pruduction done by alternative energy sources becomes more important for the improvement in current account deficit.
- On the other hand, production of goods that do not meet the demand have a large share in imports with 42%. This ratio indicates that there is a way to increase production of these goods.
- 16% of imported goods include the goods produced at sufficiently in Turkey.

- Annual growth rate of export which had declined to 13.9% in May 2011, was 18.5% by the end of 2011. Especially after August, due to depreciation in TL, export exhibited more positive outlook. In this context, the main reason for improvement in current account deficit was positive export performance. Despite the recent positive export figures, the negative outlook for the global economic activity increases the risks associated with this performance.

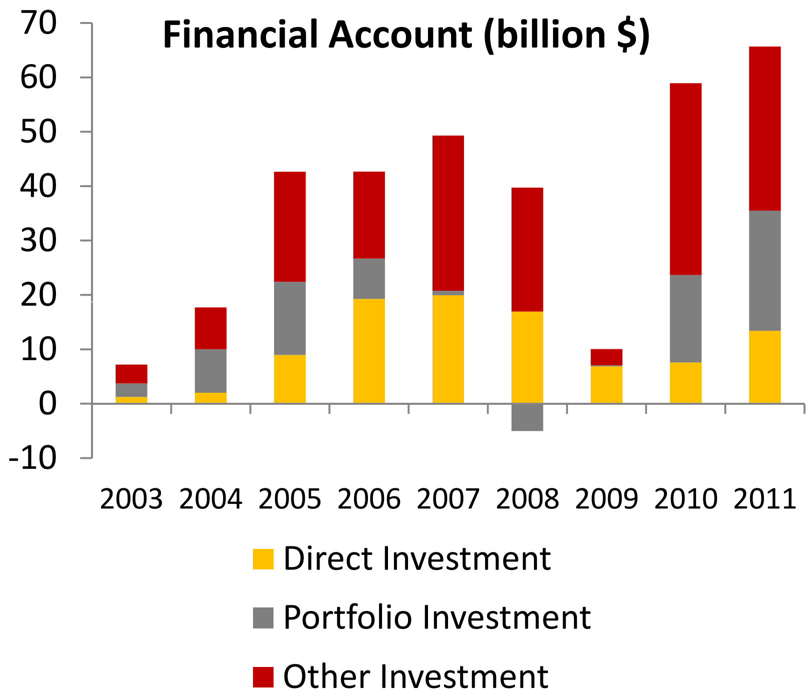
Financing need falls…



Source: CBRT

- The rapid increase in net errors and omissions as well as the slowing down in current account deficit have caused a decreasing in net foreign financing requirement.
- Having net error and omissions reached to $12.5 billion in 2011, net deficit decreased to $65.7 billion.
- The rapid decrease in capital inflows especially in December despite the falling down of net resource requirement led to a closure between capital inflow and resource requirement entrance.
- Capital inflows which was averagely 27% higher than financing requirement since March 2010, was 1.5% higher than financing requirement in December 2011.

Net direct investment reached to $13.4 billion...



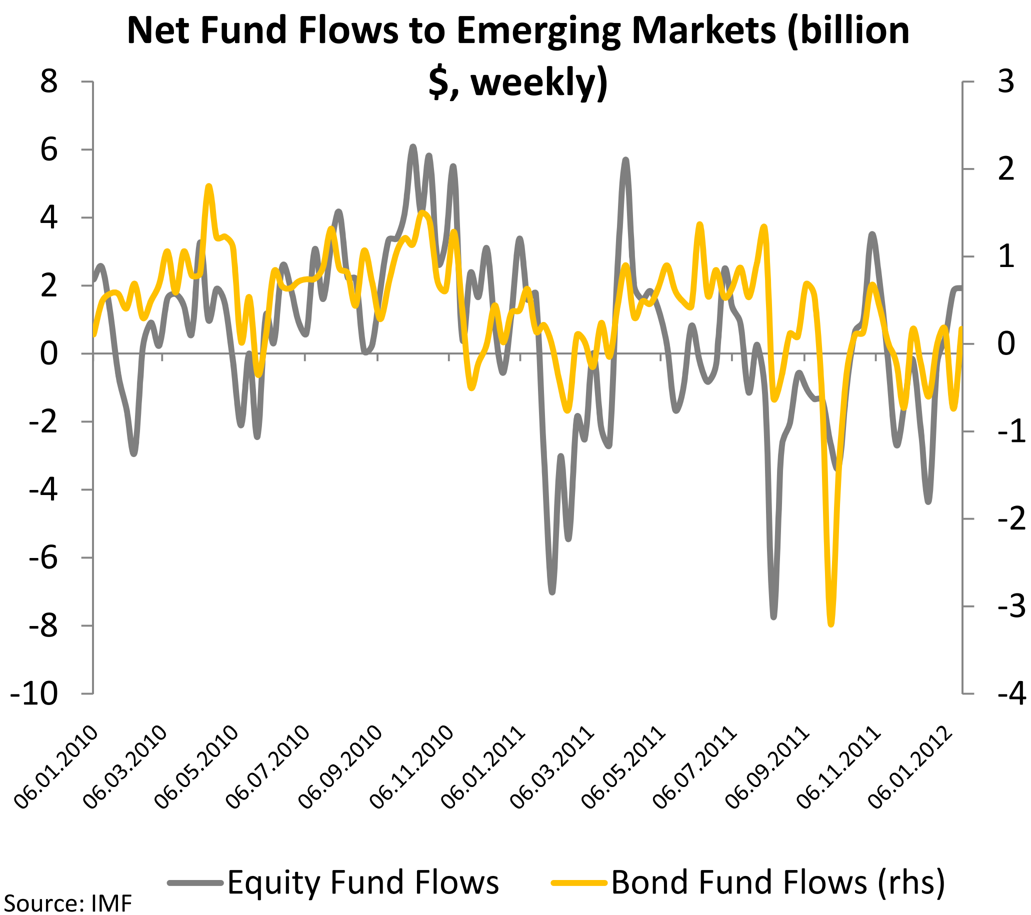
Source: CBRT

Financial Account					
Billion $	2010 (I)		2011 (II)		(II)-(I)
	Amount	Share (%)	Amount	Share (%)	
Financial Account	44.0	100.0	64.6	100.0	20.7
Direct Inv.	7.6	17.2	13.4	20.7	5.8
Portfolio Inv.	16.1	36.6	22.1	34,2	6.0
Other Inv.	33.1	75.2	27.3	42.3	-5.8
Reserve Assets	-12.8	-29.1	1.8	20.7	14.6

Source: CBRT

- Total capital inflows reached $64.6 billion in 2011, and increased by 46.8% compared to 2010.
- Net direct investment reached to $13.4 billion in 2011, and increased by $5.8 billion over 2010. The share of direct investments in total capital inflows increased to 20.7% from 17.2%.
- Portfolio investment increased by $6 billion in 2011.

Vulnerabilities in developed economies create high volatility in capital flow to emerging countries...



Source: IMF

- Emerging economies are dealing with volatile capital flows.
- Macroeconomic problems in developed countries led to increased volatility of capital flows to developing countries.
- Stock markets of developing countries experienced capital outflows in the second half of 2011.
- In 2011, Net capital inflow occurred in emerging economies through the purchase of bonds.

To conclude...

- If real GDP growth in Q4 2011 is in line with our expectations, current account deficit to GDP ratio might reach to 9.8%.
- Signals for slowing down in preliminary growth data indicated that the slowing down in current account deficit might continue.
- Total capital inflows increased by 46.8% compared to 2010. The share of direct investments in total capital inflows increased to 20.7%
- We estimate that current account deficit will continue slowing down and will decrease to $62.1 billion at the end of the 2012.
- The possible upward pressure on oil and other commodity prices is the most important risk factor for the current account deficit for 2012.

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