

VAKIFBANK WEEKLY ECONOMIC REPORT

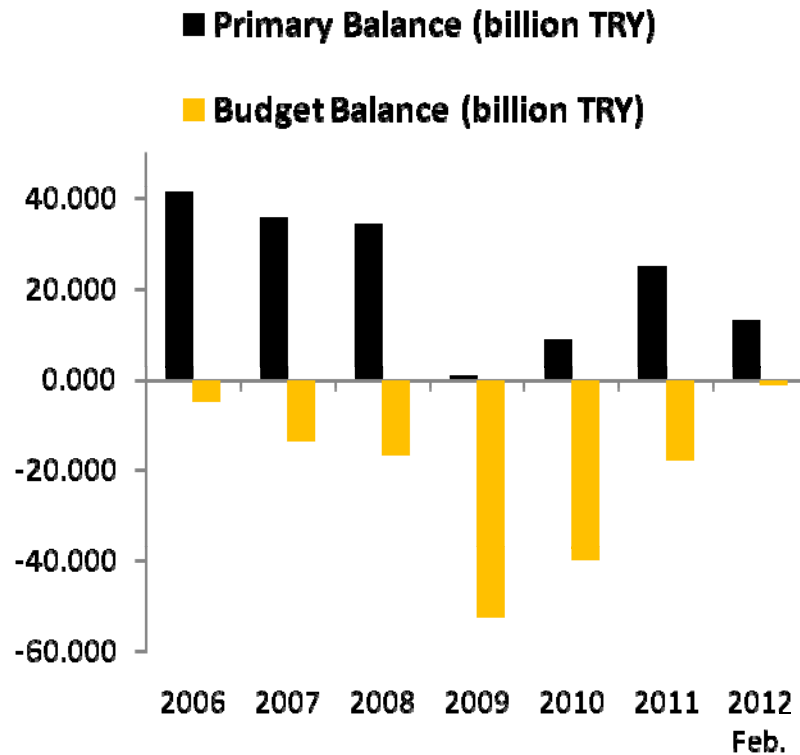
Budget had a deficit while primary surplus continued to expand in February...



T. Vakıflar Bankası T.A.O



Budget performance in 2011 was positive...



Source: CBRT

■ Budget deficit was TRY 52 billion in 2009 and TRY 39.6 billion in 2010.

■ In 2011, budget deficit decreased to TRY 17.4 billion which was under the government target. This is positive for public finance.

■ While primary balance decreased to TRY 986 million in 2009 by the effect of global crisis, it was TRY 24.8 billion in 2011.

In 2012 January-February period budget deficit was TRY 900 million...

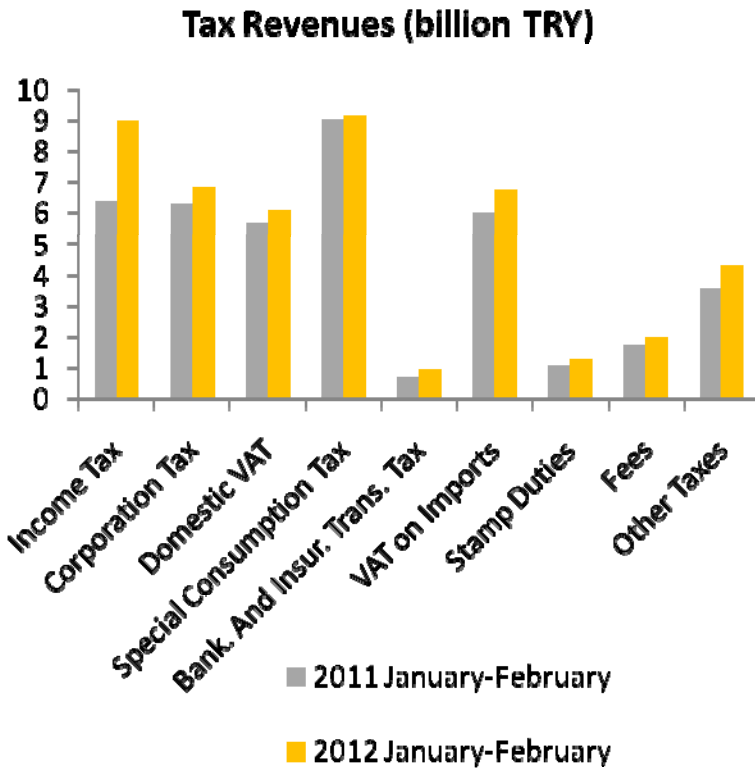


Budget Realizations (January-February)				
Billion TRY	2011	2012	Changing Rate(%)	Real Changing Rate (%)
Budget Expenditures	46.062	56.506	22.7	11.1
Expenditures Exc. Interest	36.087	42.502	17.8	6.7
Interest Expenditures	9.974	14.004	40.4	27.1
Budget Revenues	48.055	55.606	15.7	4.8
Tax Revenues	40.858	46.198	13.1	2.4
Budget Balance	1.993	-0.9	-145.2	-140.9
Primary Balance	11.968	13.104	9.5	-0.8
Source: Turkish Ministry of Finance, VakıfBank				

In 2012 January-February period;

- Budget deficit was TRY 900 million.
- Primary balance increased by 9.5% to TRY 13.1 billion compared to the same period of 2011.
- Budget expenditures increased by 22.7% to TRY 56.5 billion and budget revenues increased by 15.7% to TRY 55.6 billion.
- Interest expenditures increased by 40%. Interest payments which reached to TRY 7.7 billion in February was effective on the increasing interest expenditures.

Tax revenues increased by 13.1% in 2012 January-February period...

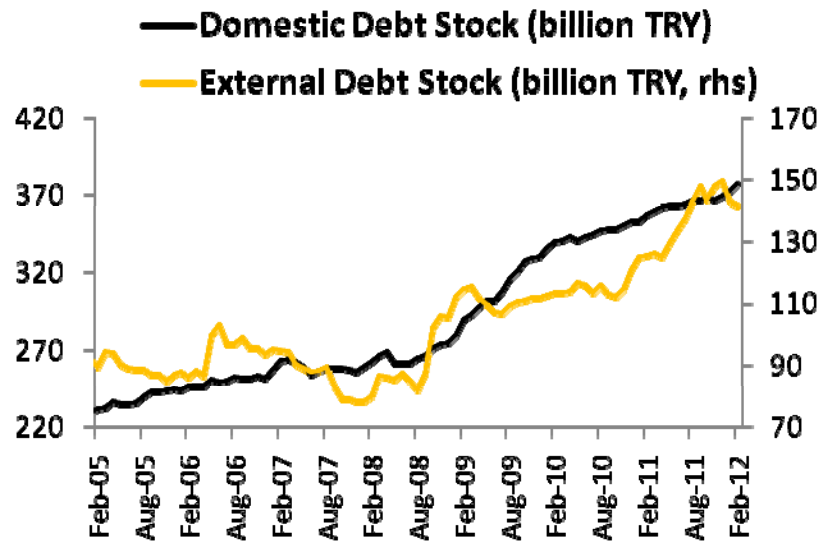


Source: Turkish Ministry of Finance

➤ In 2012 January-February period;

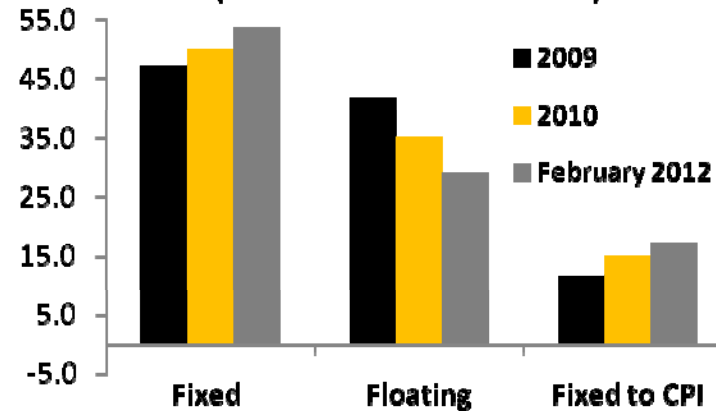
- Tax revenues provided 83.1% of total budget revenues.
- Expenditures excluding interest increased by 17.8% which was higher than increasing rate of tax revenues. Hence, expenditures excluding interest coverage ratio of tax revenues decreased to 108.7% from 113% in 2011.
- Special consumption tax made the highest contribution to tax revenues.
- Banking and insurance transactions tax revenue had the highest annual increasing rate which was 35.7%. While special consumption tax revenue had the lowest annual increasing rate which was 1.1%. This is an important indicator reflecting the slowdown in domestic consumption.

Central government debt stock reached to TRY 518.3 billion in 2011...



Source: Undersecretariat of Treasury

Interest Type of Domestic Debt Stock
(% total domestic debt stock)



Source: Undersecretariat of Treasury

- ✓ Central government debt stock reached to TRY 518.3 billion by increasing 9.4% yoy in 2011.
- ✓ Domestic debt stock reached to TRY 368.8 billion in 2011.
- ✓ On the other hand, external debt stock reached to TRY 149.6 billion by increasing 23.9% yoy in 2011.

- ✓ Domestic borrowing with CPI indexed interest rate reached to TRY 64 billion and its share in the domestic borrowing increased in 2011.
- ✓ Increasing in external debt stock was due to high increase rate of borrowing by international bond.

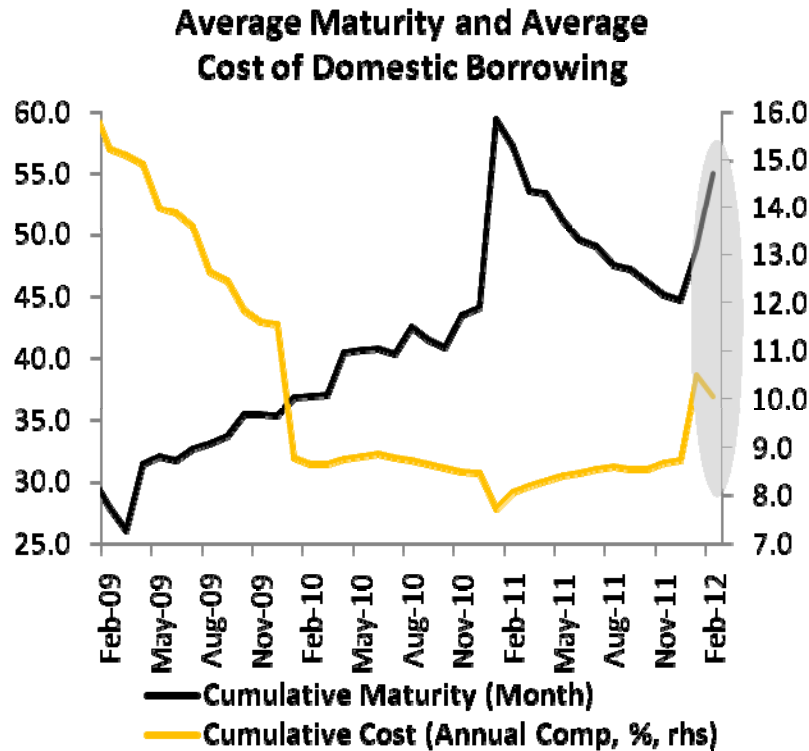
Total roll-over ratio was 84.5% in 2011...



(billion TRY)	2010		2011	
	Programme	Realization	Programme	Realization
Domestic Debt Service	182.6	178.1	135.0	132.1
Domestic Borrowing	181.6	159.0	119.1	111.6
Total roll-over ratio (%)	99.5	89.3	88	84.5

- ✔ Debt stock of central government reached to TRY 514.8 billion in February 2012.
- ✔ Total debt stock of central government was composed of TRY 141.5 billion (27.3%) external and TRY 377 billion (72.7%) domestic debt stock.
- ✔ Increasing rate of external debt stock has lost momentum since November 2011.
- ✔ In 2011, total roll-over ratio was 84.5%. That was under the Medium Term Programme target (88%).

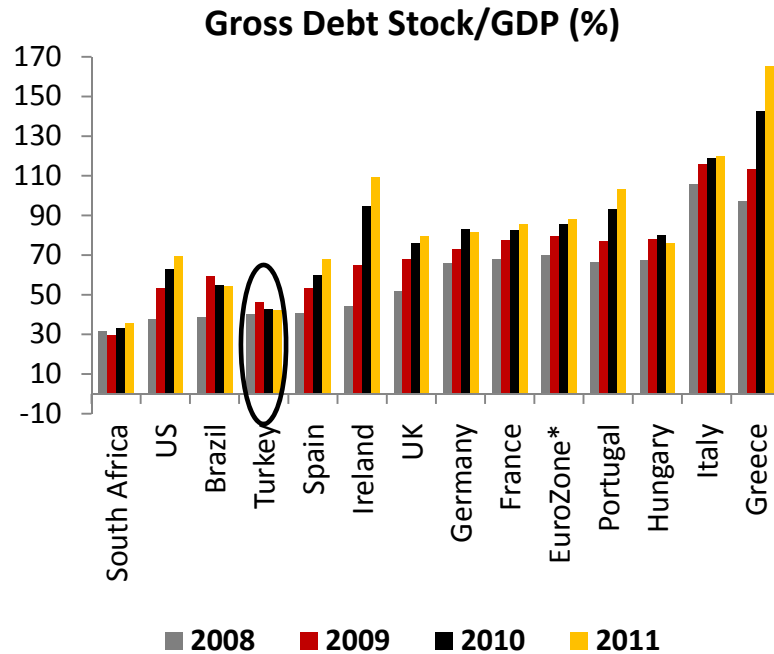
Average maturity of domestic borrowing is increasing ...



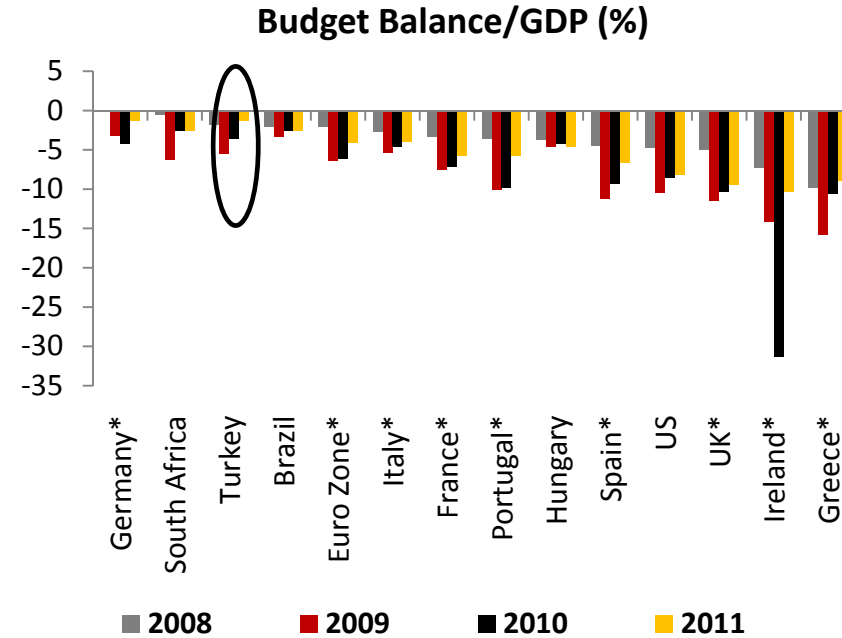
Source: Undersecretariat of Treasury

- Average maturity of domestic borrowing is significant in terms of the sustainability of debt stock.
- Average maturity of domestic borrowing decreased in 2011 due to economic fragilities both in US and Euro Zone.
- Average maturity of domestic borrowing started to increase in 2012 and may continue to increase.

Comparison of selected developed and developing countries...



Source: Bloomberg, European Commission
* European Commission 2011 Forecasts



Source: Bloomberg, European Commission
*European Commission 2011 Forecasts

- Since 2003, due to tight fiscal policy, Turkey has succeeded in declining budget deficit and increasing primary surplus.
- After 2008 global crisis, most developing and developed countries struggled with the severe impacts of global crisis on their budget and debt balance while Turkey had an advantage of tight fiscal policy adopted before the crisis. Therefore impact of crisis on Turkey's budget and debt balance was relatively limited.
- Improvement in Turkey's budget balance has continued since post-crisis period. However, especially in developed countries, budget balance has still displayed negative outlook.

Conclusion...

- ✔ Turkey displayed relatively strong fiscal performance in 2011.
- ✔ In first two months of 2012, due to increase in interest expenditure and deceleration in annual tax revenue growth, positive performance of budget reversed. On the other hand, primary surplus has continued to show positive outlook.
- ✔ Due to strong fiscal stance, if economic growth slows more than expected, this deceleration may be compensated by use of fiscal policy tools.
- ✔ Debt problems may continue to be a major risk for some peripheral countries for some time.

Serkan ÖZCAN

Chief Economist

+ 90 312 455 7087

serkan.ozcan@vakifbank.com.tr

Emine Özgü ÖZEN

Researcher

+ 90 212 398 1890

emineozgu.ozen@vakifbank.com.tr

Naime DOĞAN ERİŞ

Researcher

+ 90 212 398 1892

naimedogan.eris@vakifbank.com.tr

Fatma Özlem KANBUR

Researcher

+ 90 212 398 1891

fatmaozlem.kanbur@vakifbank.com.tr

T. Vakıflar Bankası T.A.O

www.vakifbank.com.tr

Vakifbank Economic Research

ekonomik.arastirmalar@vakifbank.com.tr

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