

# VAKIFBANK TURKISH ECONOMY WEEKLY

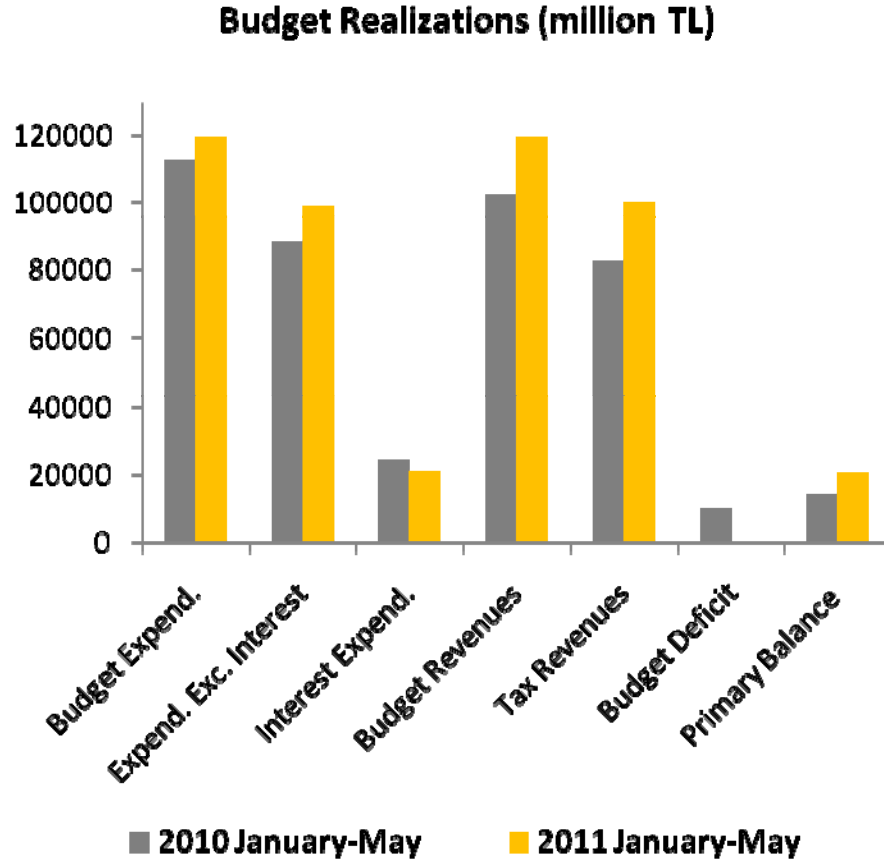
*Strong budget performance continues...*



T. Vakıflar Bankası T.A.O



## 2.8 billion TL budget surplus in May is favourable for the 2011 outlook of public sector balances...



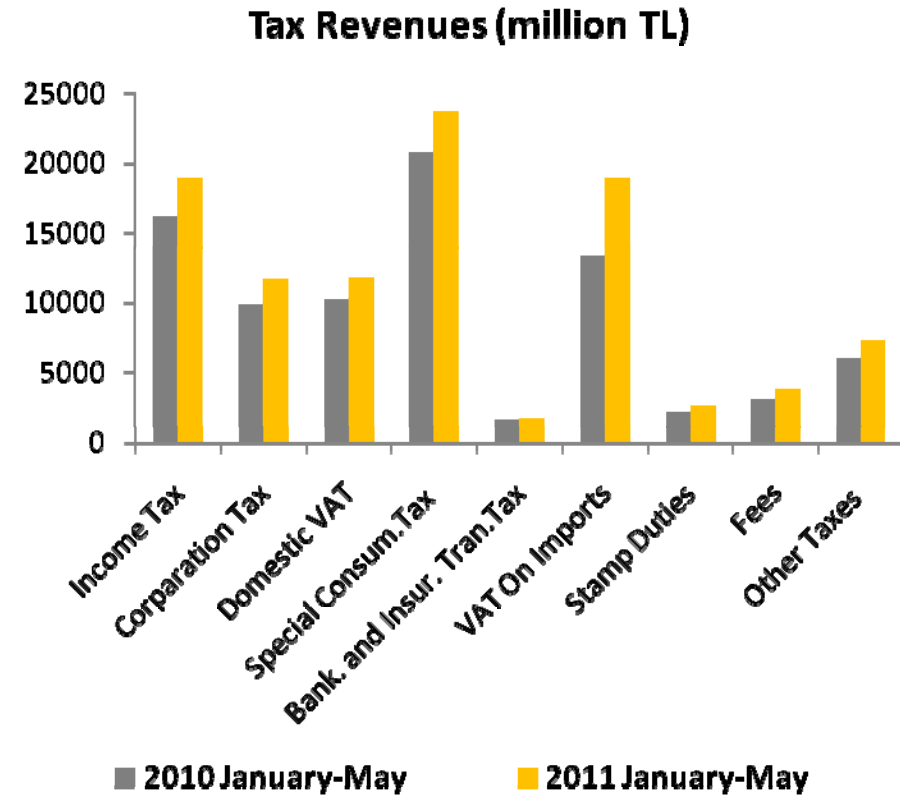
Source: Turkish Ministry of Finance

➤ In 2011 January-May period;

- Budget deficit decreased by 97.7% to 233 million TL compared to the same period of 2010.
- Primary balance increased by 45% to 20.6 billion TL.
- Budget expenditures increased by 6.2% to 119.6 billion TL.
- Interest expenditures decreased by 13.8%.

## Budget revenues increased by 16.3% in January-May period depending on the rise in tax revenues...

- ✔ While the revenues excluding tax decreased by 5.9%, tax revenues increased by 20.8%.
- ✔ Moreover, expenditures excluding interest coverage ratio of tax revenues increased to 101.3%.
- ✔ Treasury cash balance which shows the difference between the real expenditures and revenues had 2.5 billion TL deficit in January-May period. However, cash deficit decreased 74% compared to same period of 2010.
- ✔ This fall in the cash deficit indicates a positive view with the decrease in the budget deficit.



Source: Turkish Ministry of Finance

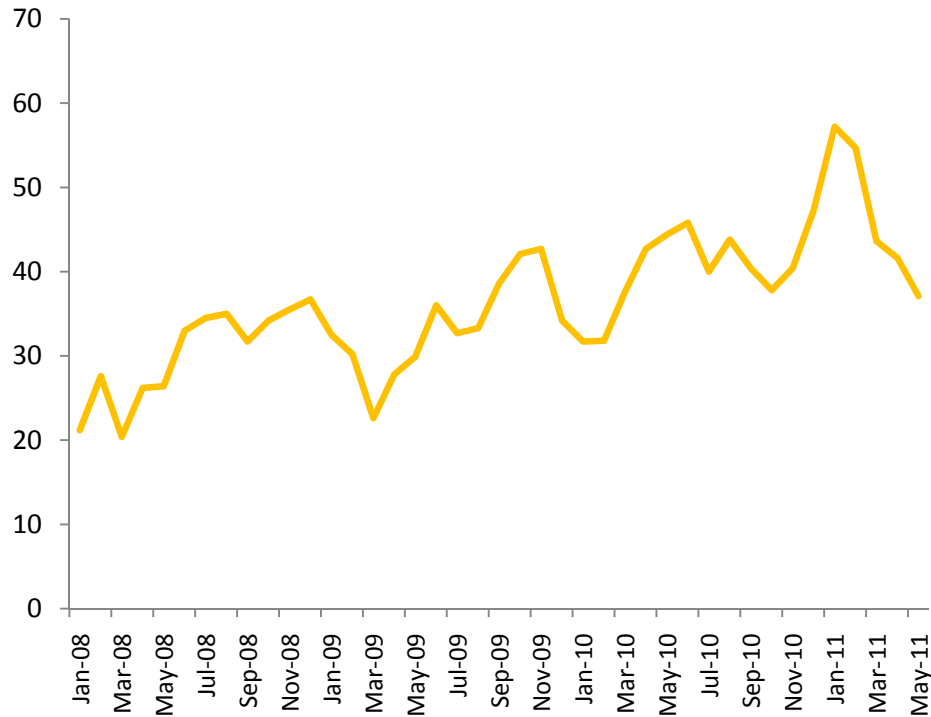
## *The decline in interest rates are reflected in borrowing costs...*



- ✔ Because of the measurements taken by governments after global financial crisis, many developed countries have faced concerns about fiscal balances and debt sustainability.
- ✔ The decline in interest rates reduced borrowing costs in 2010, parallel to the positive risk perceptions for Turkish economy.
- ✔ The annual weighted average cost of TL denominated zero coupon bonds decreased from 11.6% to 8.1%.
- ✔ Strong budget performance provided 21 billion TL of the total debt service which was financed by non-debt creating sources which is estimated as 5 billion TL at the beginning of the 2010.

## The average maturity of domestic borrowing increased in 2010...

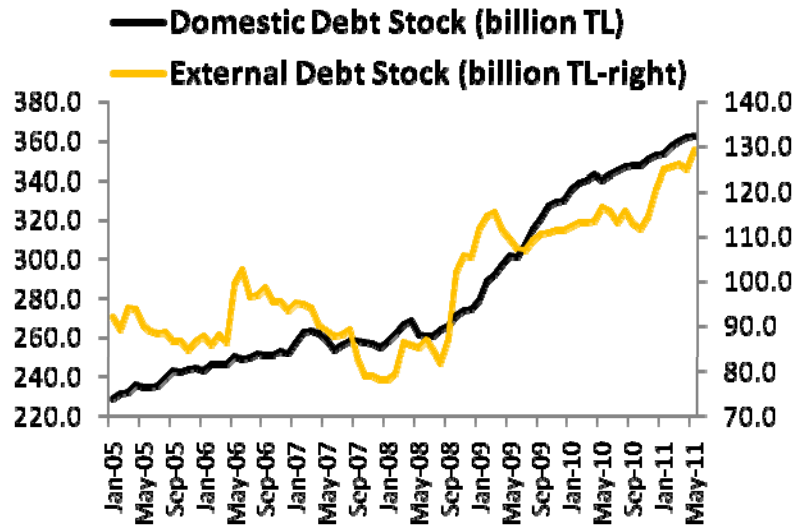
Weighted Average Maturity of Domestic Borrowing



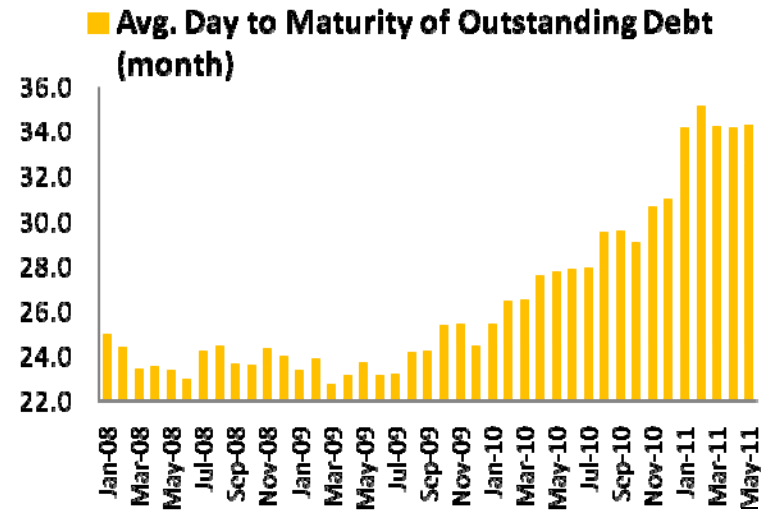
Source: Turkish Treasury

- ✓ The average maturity of cash-based domestic borrowing increased from 35.3 months to 44.1 months in 2010
- ✓ The economic recovery provided primary surplus and the decrease in interest rates, thus domestic roll over ratio was 89.3% in 2010, which was projected as 99.5%.
- ✓ At the beginning of the year domestic roll over ratio is projected to be 88% in 2011.
- ✓ But thanks to the strong budget performance, domestic roll over ratio would be lower.

## Domestic debt stock and the average day to maturity of outstanding debt ...



Source: Turkish Treasury



Source: Turkish Treasury

- Central government total debt stock reached to 492.1 billion TRY in May 2011 which was composed of 129.4 billion TRY (26%) external and 362.7 billion TRY (73%) domestic debt stock.
- Domestic debt stock increased by 6.5% on a yearly basis and overwhelmingly arised from private sector (84.5%) .
- On the other hand, in addition to the domestic debt stock, average day to maturity of outstanding debt is also important for the sustainability of debt stock.
- Average day to maturity of outstanding debt has been steadily increasing from the beginning of 2010 which was on lower levels in crisis period.
- If we consider that the debt conversion rate decreases when the maturity of debt stock lengthens, the horizontal trend of it in 2011 is quite positive.

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