

VAKIFBANK TURKISH ECONOMY WEEKLY

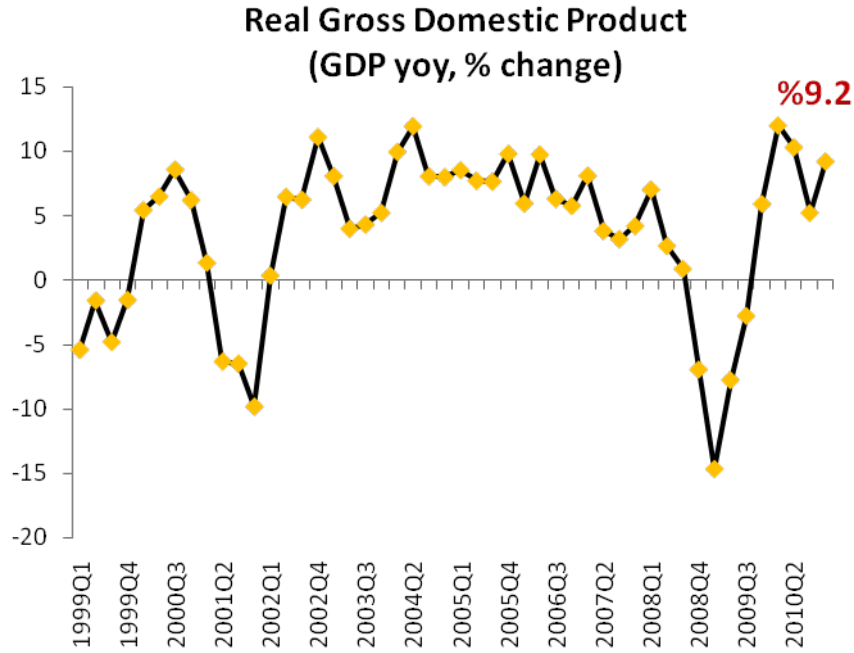
Strong GDP Growth Continues


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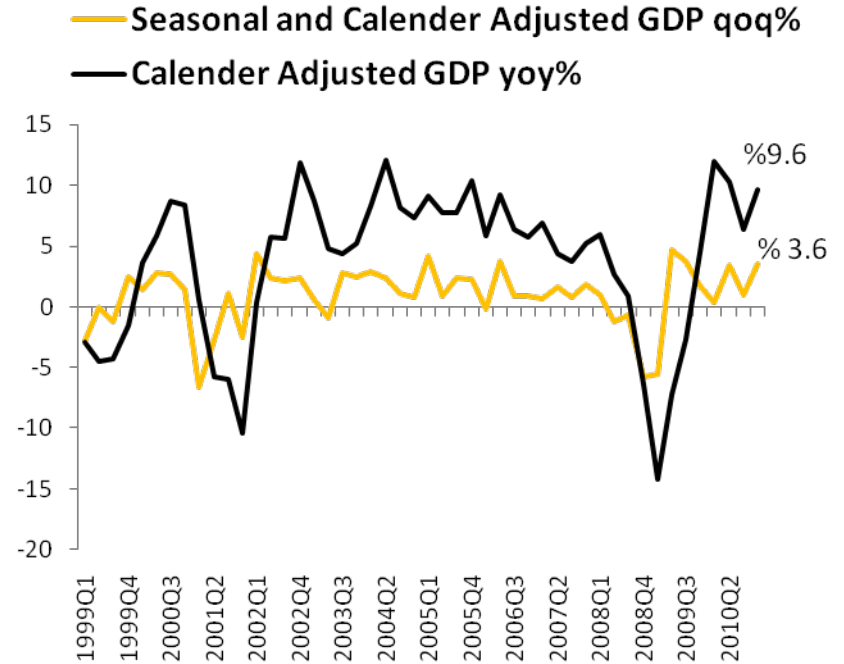
T. Vakıflar Bankası T.A.O



Turkey's GDP growth reached to 9.2% in the last quarter of 2010...



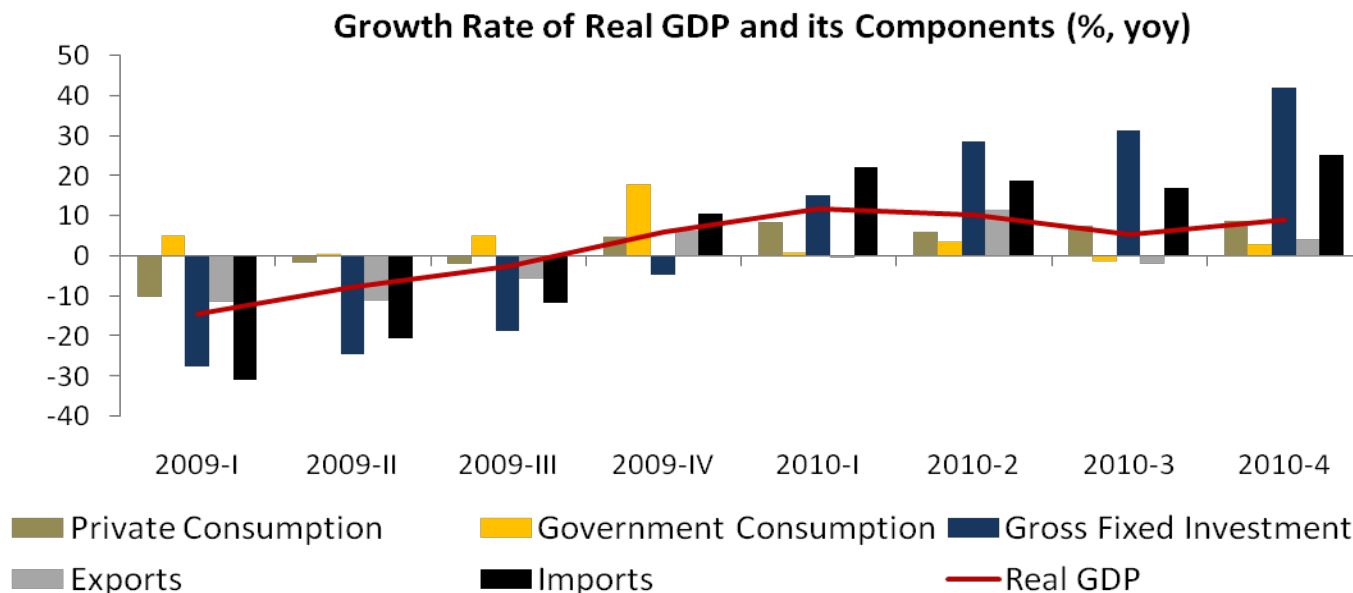
Source: Turkstat



Source: Turkstat

- Real GDP made a surprise by coming in at 9.2% in Q4 2010, above the consensus and our expectations. With the last quarter release the full-year real GDP growth reached to 8.9% in 2010.
- In seasonally and work-day adjusted terms, real GDP rose by 3.6% qoq in Q4 2010. This represented a sharp increase from the 1.2% qoq rise recorded in Q3 2010.

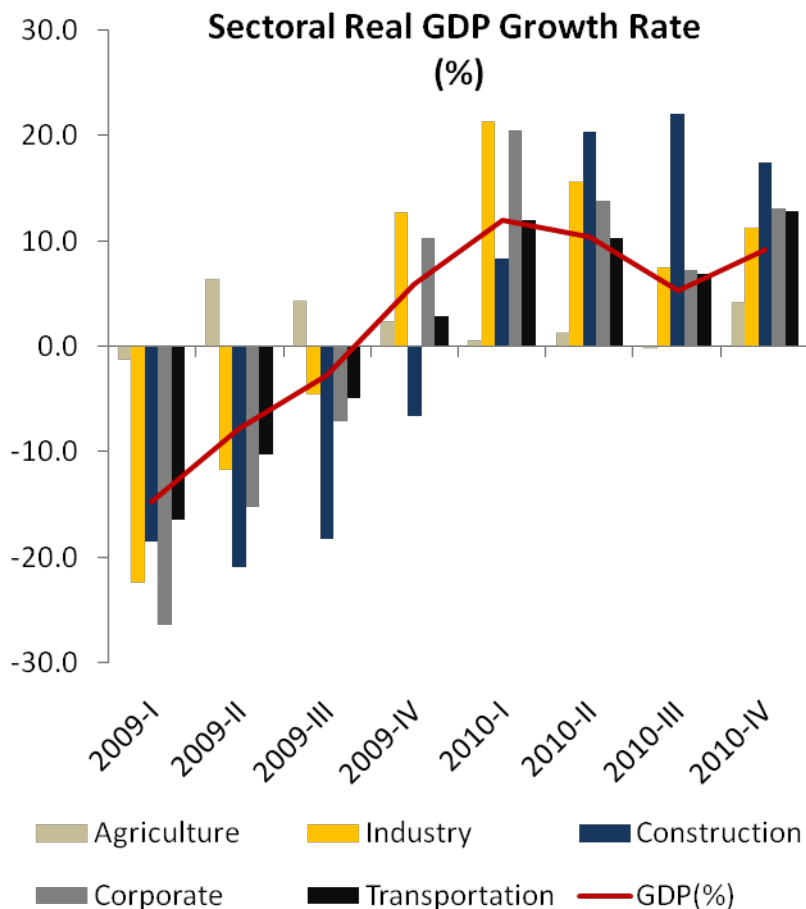
Domestic demand had the highest contribution to Q4 GDP growth...



Source: TurkStat

- ▣ On the expenditure side, the most significant aspect of the Q4 GDP data was the 42.1% yoy increase in investment spending, contributing 8.8 pp to growth. The private sector growth in gross fixed capital formation underpinned this high growth. Private investment grew 33.5% y/y which contributed 5.36% to overall GDP. Public sector investment rose by a comparatively moderate rate of 15.2%.
- ▣ On the other hand, consumption expenditure expanded by 6.6%, while government expenditure growth decelerated to 2% from 7.8% in 2009. Overall, domestic demand was up by 14.7% y/y, after the 9.6% y/y increase in Q3 2010.
- ▣ The growth in imports remained well above the export growth in Q4 2010. Imports rose 20.7% y/y in 2010 compared to a rise of 3.4% y/y in exports. This resulted in a negative net export position which contributed by 5.59 to Q4 GDP.

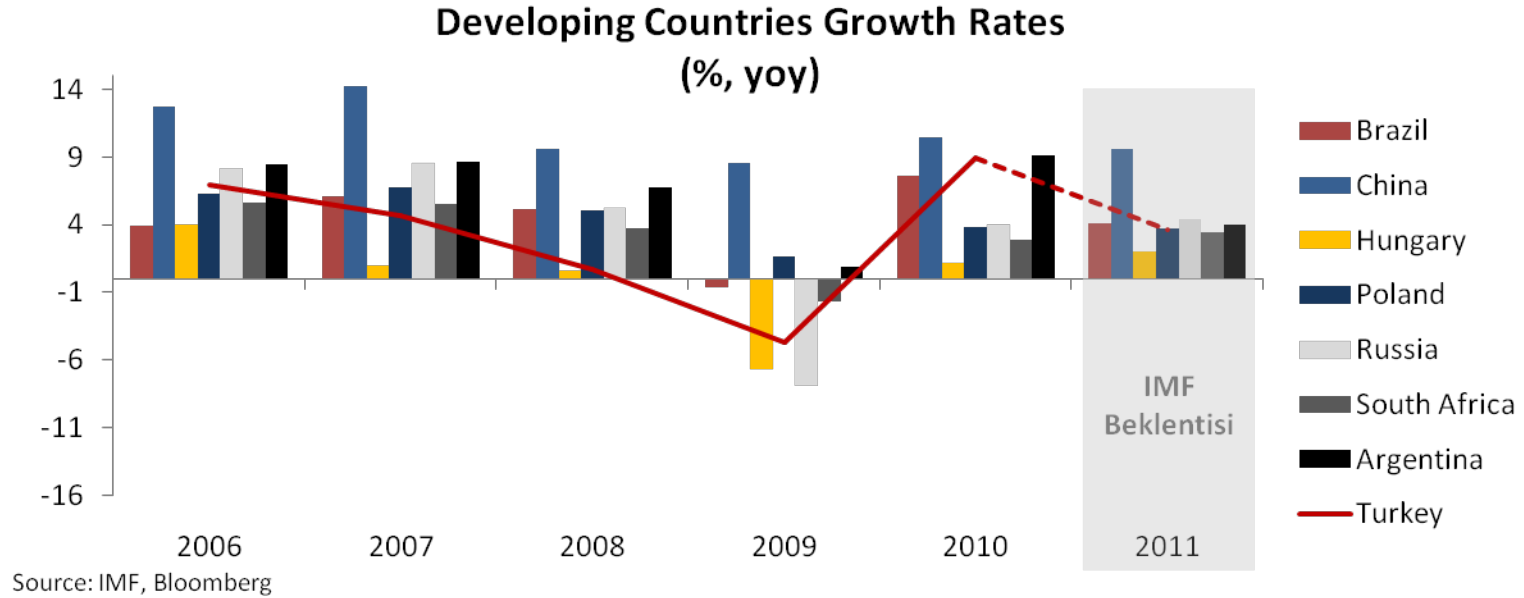
The industrial sector growth rate increased by 11.3% yoy and had the biggest contribution to the GDP growth...



Source: Turkstat

- The output in the corporate sector and the transportation made a considerable increase in Q4 with 13.1% and 12.9% respectively.
- Another positive development in 2010 growth data is the recovery in construction sector.
- The construction sector which decreased sharply in the first three quarters of 2009 has increased by 17.5% yoy at the end of the 2010 with strong basis effect.
- On the other hand, we consider that the agriculture sector growth was effective on the surprise of the GDP growth.
- Agriculture sector had the lowest contribution (0.12 basis point) on GDP growth rate in 2010.

Developing countries have higher growth rates than developed countries in 2010...






- As shown in the graph, China has a much more steady performance than other developing countries and has the highest growth rate among developing markets by the end of 2010.
- In 2009, as a result of the evident effects of the global crisis, developing countries had generally a negative growth trend.
- After the sharp decrease in the first three quarters of 2009 Turkish GDP increased by 6% in Q4 2009 due to the positive basis effect, hence had a relatively moderate decline in 2009 compared to Russia.
- While the imbalances in the global markets are still constituting important risks on developed countries, developing countries are preserving themselves from macroeconomic hardships by taking additional measures.

Current Account Deficit /GDP ratio may reach its peak level in 2011 by rising above 7%....






Table-1: Macroeconomic Indicators (% as of GDP)

	Current Account Balance	Foreign Trade	Fiscal Balance	External Debt	Domestic Credit
2006	-6.1	-10.2	-0.9	39.4	22.4
2007	-6.0	-9.7	-0.5	38.7	25.4
2008	-5.7	-9.6	-1.1	38.0	28.0
2009	-2.3	-6.3	-1.0	43.6	30.7
2010	-6.6	-9.7	-2.2	38.4	38.1

Source: CBRT, TURKSTAT

-  Strong growth performance which is preceded by strong domestic demand is the key driver of Turkey's sharply rising current account deficit. Current Account Deficit /GDP ratio which increased to 6.6% in 2010 may reach its peak level in 2011 by rising above 7%.
-  The total external debt to GDP ratio declined from 43.6% to 38.4% in 2010. According to these figures Turkish economy has better debt condition compared to some Eurozone countries which are exposed to serious debt problems.
-  Due to strong credit growth in the post crisis period, domestic credit/GDP ratio reached 38.1% in 2010. As a result of the unconventional monetary policy measures this ratio may converge the pre-crisis levels in 2011.

Domestic demand is expected to lose pace in the second half of 2011...

-  Thanks to strong domestic demand, and investments, Turkish GDP growth reached 9.2% in the fourth quarter of 2010.
-  Leading growth indicators which are released in Q1 2011 including industrial production and other leading data indicate that the strong economic activity continued, and the private sector investment will continue its robust expansion.
-  Domestic demand would lose pace in the second half of 2011 due to the monetary tightening and the political and economic uncertainties in the Middle East and North Africa region, as well as the tragic earthquake and nuclear threat in Japan.
-  Growth is expected to slow this year to below 5 percent.
-  Negative base effect will also lead to a slowdown in y/y growth in 2011.

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