

VAKIFBANK TURKISH ECONOMY WEEKLY

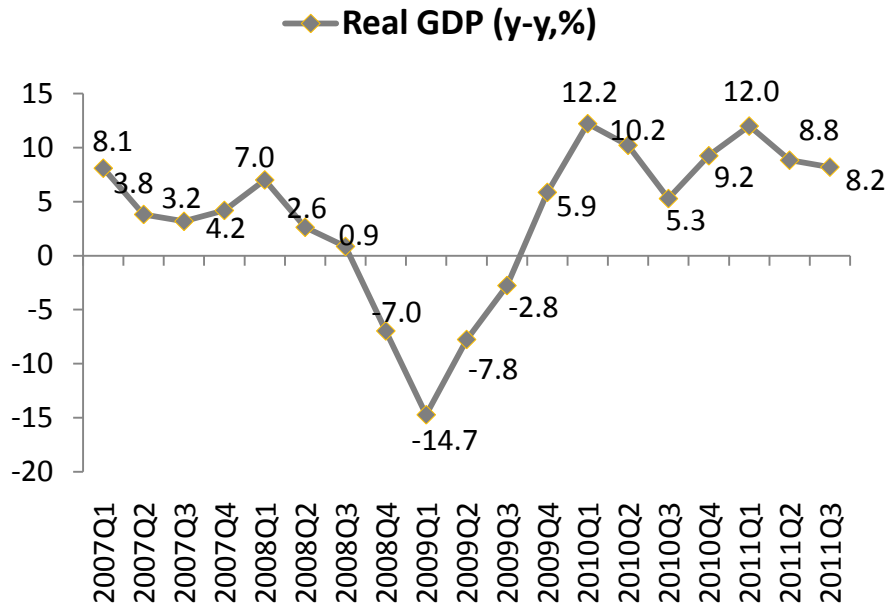
Still Strong But Slowing 2011 Growth



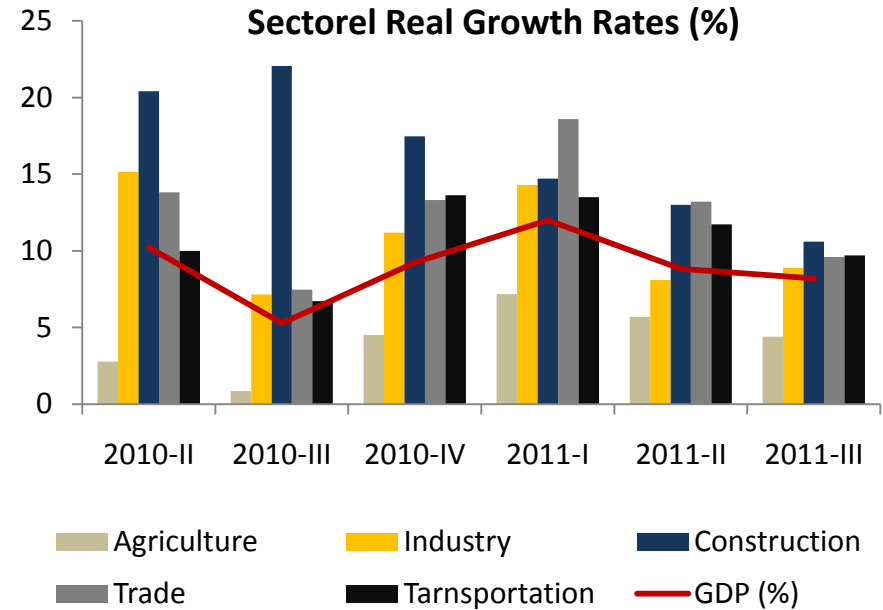
T. Vakıflar Bankası T.A.O



Turkish economy grows 8.2% in Q3 2011...



Source: TurkStat

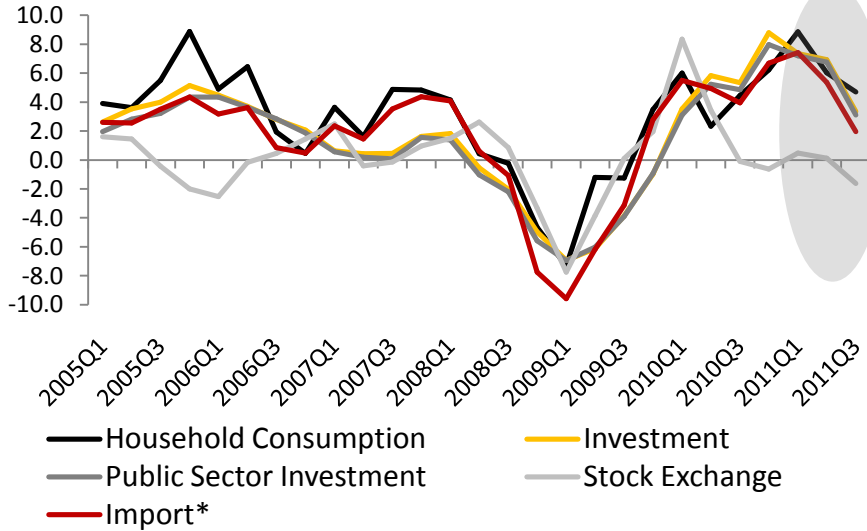


Source: TurkStat

- Turkish economy grew 8.2% yoy in real terms in Q3 2011. The Q3 growth rate was above expectations. The seasonally adjusted yearly growth rate increased to 1.7% from 1.3% in Q2 2011. Also, Q1 growth rate revised to 12% from 11.6%.
- In the first three quarters of 2011 nominal GDP reached 957.3 billion TL.
- Manufacturing sector which has the largest share in GDP with 21.8%, had a stronger outlook in Q3 compared to the same period of 2010 with 8.9% growth rate.
- The largest contribution to GDP came from manufacturing with 1.94 points. Financial sector followed manufacturing with 1.85 pts contribution to GDP.

Contribution of exports to GDP rose in Q3 2011...

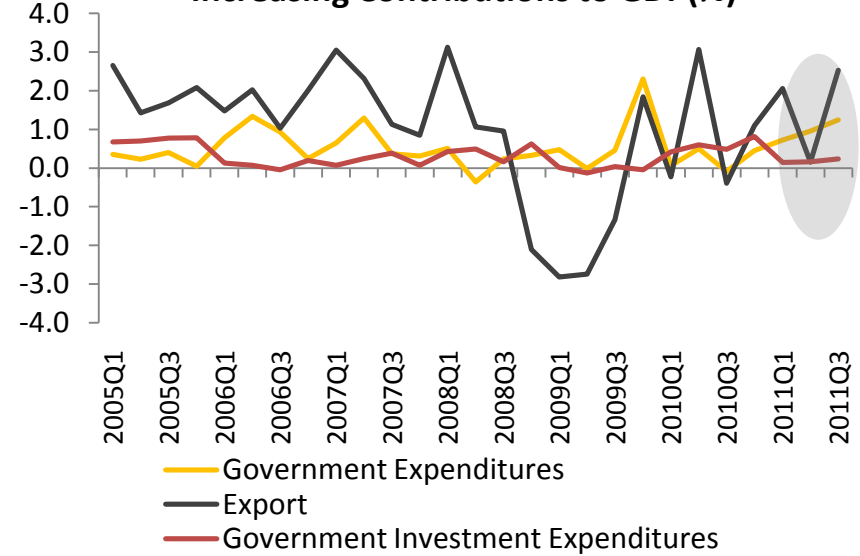
Decreasing Contributions to GDP (%)






Source: Turkstat, Vakifbank





*Import has a negative contribution to GDP

Increasing Contributions to GDP (%)



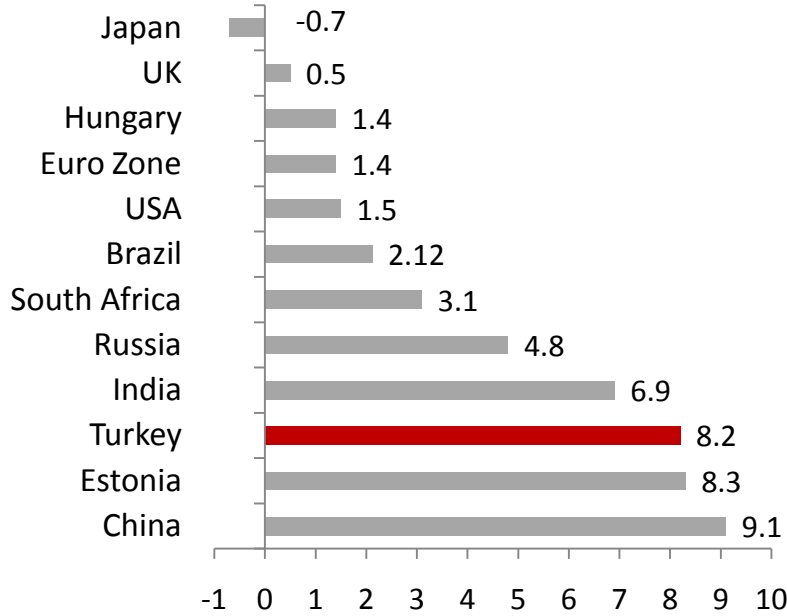
Source: Turkstat, Vakifbank

-  Investment expenditures which increased 15.2% in Q3 2011, contributed 3.3 pts to GDP growth.
-  Looking at the historical development of investments, we see the investment contribution which is negative in crisis period started to move positively. Though, this movement has started a downward movement again since Q4 2010.
-  It draws attention that yearly growth of public sector investments experienced 32.3 pts decrease in Q3 2011 compared to the last quarter of 2010 when its' growth rate was 49.5%. It's contribution to GDP decreased, too.

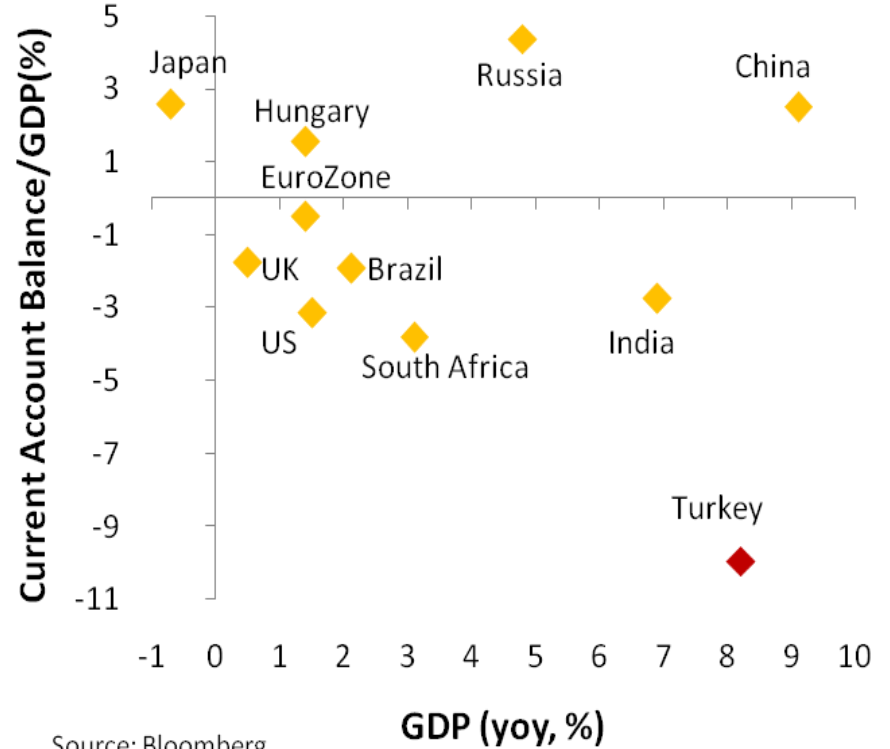
-  Contribution of government expenditures and public investments to GDP increased compared to the previous quarters of 2011.
-  Exports which had the highest growth rate since Q2 2010 with 10.8% contributed 2.5 pts to GDP.
-  Yearly growth rate of exports which was 25.6% in Q3 2011 had a significant contribution to GDP and the slow down in imports provided a decline in its negative contribution to GDP.
-  Import growth rate has declined to 7.3% in Q3 2011 from 19.2% in Q2 2011 and its' negative contribution has decreased to 2% from 5.4%.

Turkey had the highest growth rate in the world in the three quarters of 2011..

GDP (yoy, %, Q3)



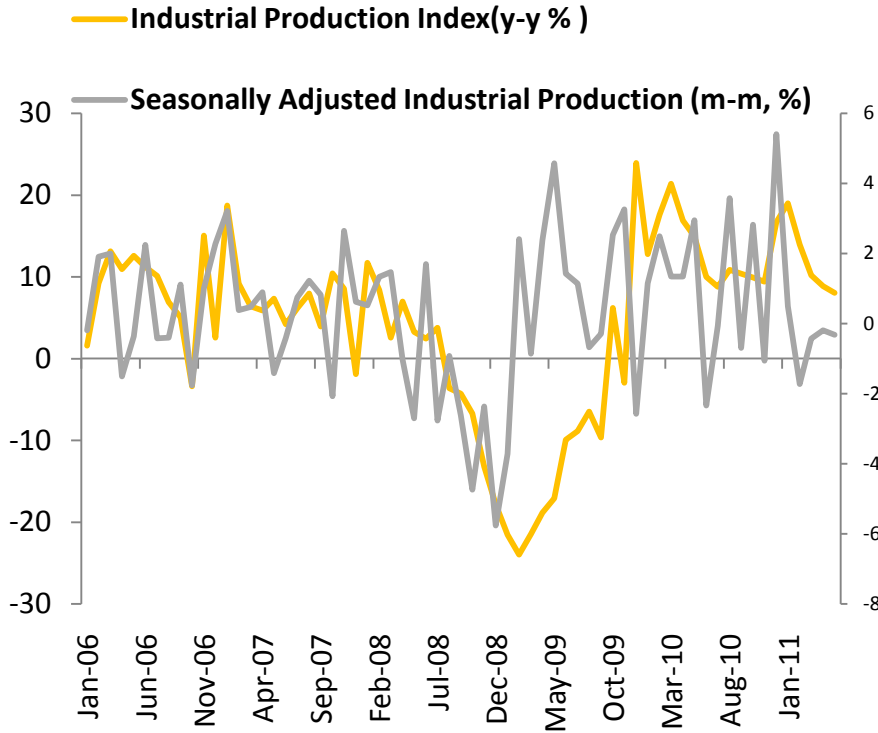
Source: Bloomberg



Source: Bloomberg

- By Q3 2011 growth rates are still lower in advanced economies compared to emerging economies.
- Turkey had the highest growth rate in the first three quarters of 2011 with 9.6%, followed by China with 9.4% growth in the same period.
- Strong growth performance has also been one of the reasons of high C/A deficit in this period.

Industrial production continued its strong performance in October...

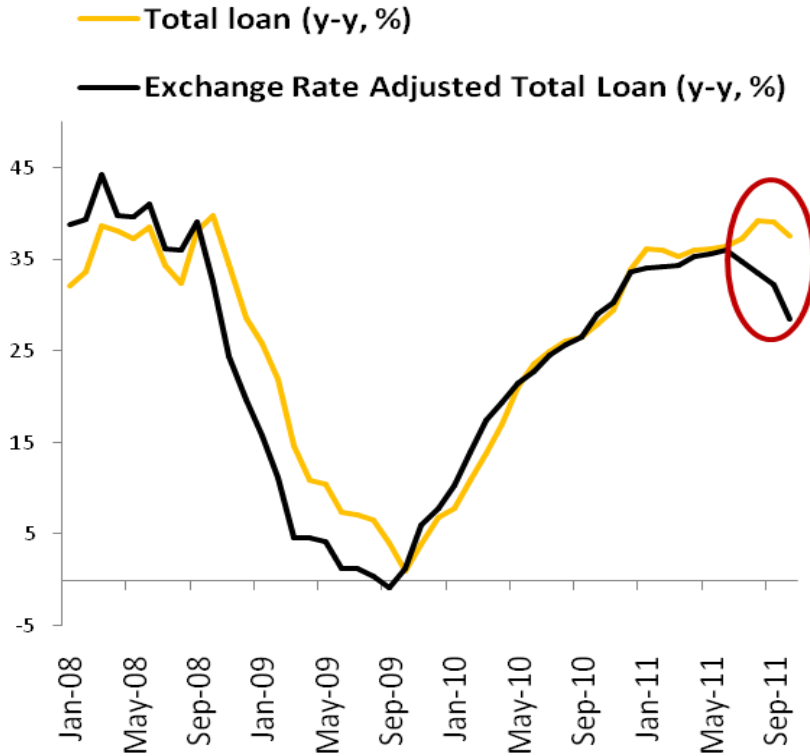


Source: TurkStat

- One of the most important dynamics of growth has been industrial production in Q3 2011.
- Average industrial production growth was 7.6% in Q3 2011 and it was 7.3% in October. Although it continued to have a positive performance in October, negative expectations related to November and December data poses a downside risk for the Q4 2011.

Turkish manufacturing PMI, which is one of the most important leading indicators for the manufacturing industry, dropped to 52.3 from 53.3 in November indicating consistent outlook with our expectation. Although PMI is still above 50 which is the critical level for the manufacturing industry, it decreased compared to the October data.

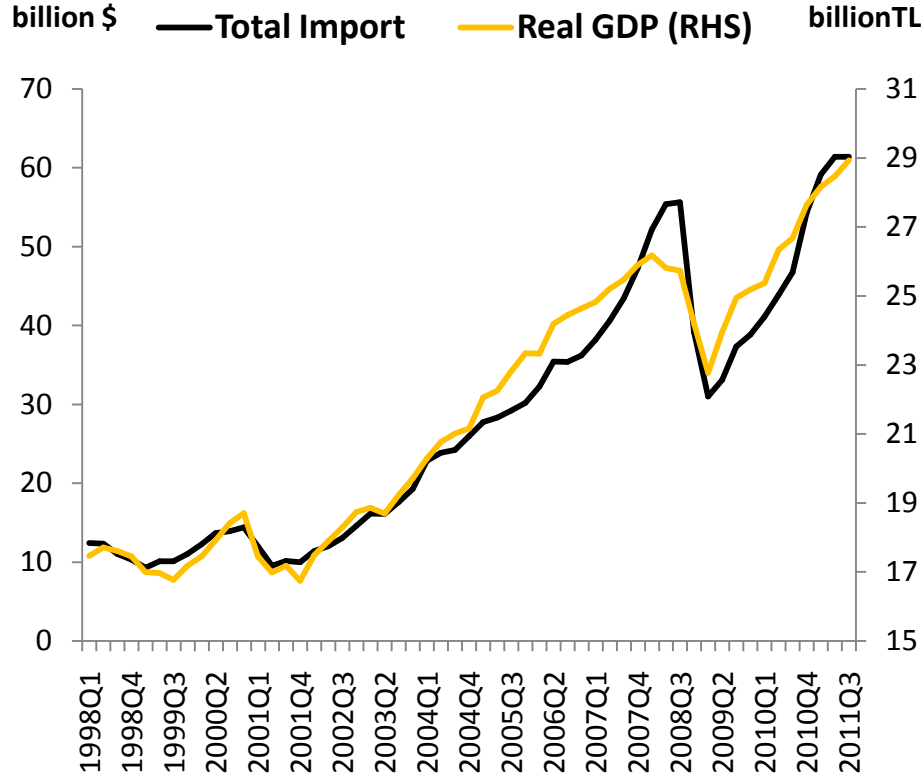
Leading indicators signal gradual slowdown in growth rate in the last quarter of 2011...






Source: BRSA

- As another leading indicator for domestic demand, annual loan growth decreased to 37.5% in October which was 39.1% in September.
- Therefore decline in annual growth rate became more apparent in October. In addition, under the consideration of exchange rate increases in October, it is useful to investigate annual growth rate of exchange rate adjusted loan.
- Exchange rate adjusted loan growth sharply decreased compared to the annual loan growth in October. This downward movement in loan growth signals that domestic demand growth may decelerate in the last quarter of 2011.

There is strong relationship between Real GDP and imports...



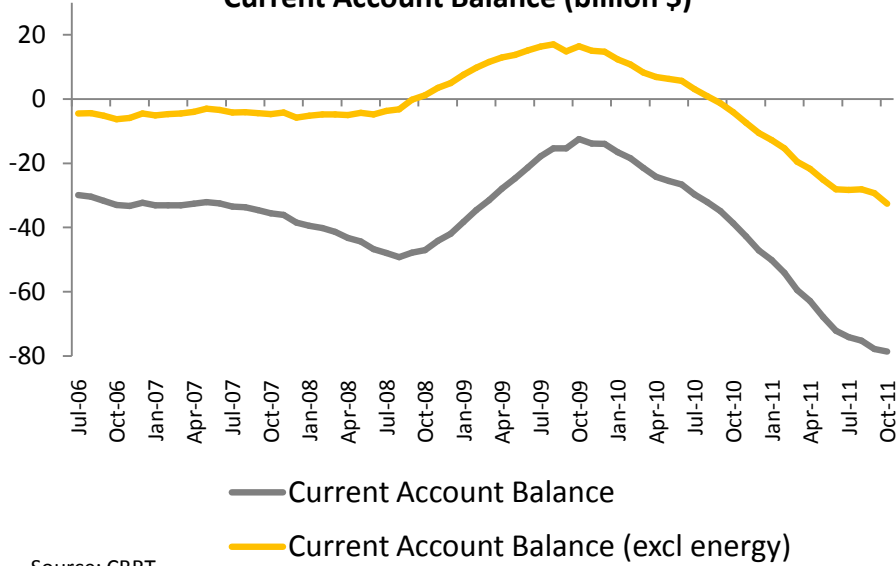
-  Turkey's imports increased sharply in the first three quarters of 2011.
-  The correlation between growth rate and imports is found 92% indicating a very strong relationship. The main reason behind this high correlation is the dependency of production on the import of intermediate goods.
-  We expect a slowdown in domestic demand in Q4 2011. Hence this slowdown in the economy might further decrease imports which have a strong correlation with growth.

Seasonally Adjusted data is used for total import and Real GDP.

Sources: TurkStat

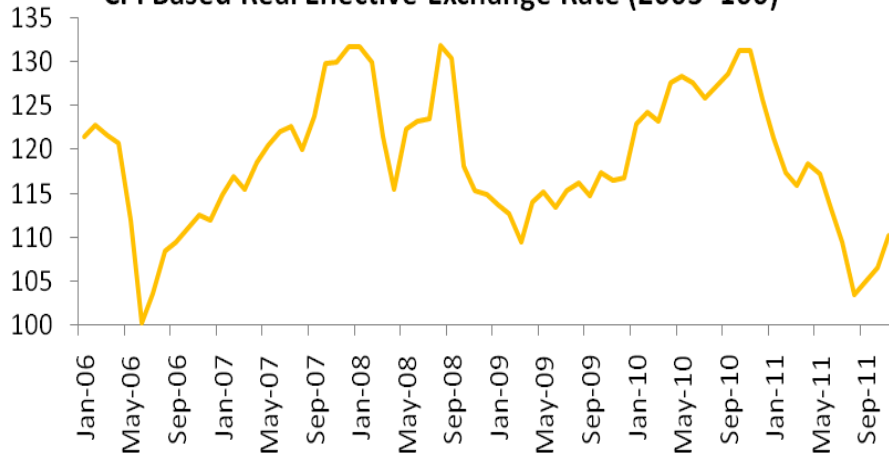
C/A deficit in October is narrower than expectations...

Current Account Balance (billion \$)









Source: CBRT

CPI Based Real Effective Exchange Rate (2003=100)



Source: CBRT

-  The annualized current account deficit reached \$78.6 billion.
-  Yearly growth rate of annualized current account deficit which was %123 in September declined to %102.
-  Also, the annual change of the 3-month moving average shows the slowdown tendency of current account deficit.
-  According to CPI based Real Effective Exchange Rate Index, in October 2010 - August 2011 period, TRY depreciated by 20.4%.
-  Because of the strong growth performance, depreciation of TRY has relatively limited affect on current account deficit.
-  Starting from the last quarter of 2011, in line with our expectation of a more significant slowdown in domestic demand, we think that the effect of the depreciation in TL will also increase.

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