

# VAKIFBANK TURKISH ECONOMY WEEKLY

**Turkish Economy 2012**

**Forecasts:**

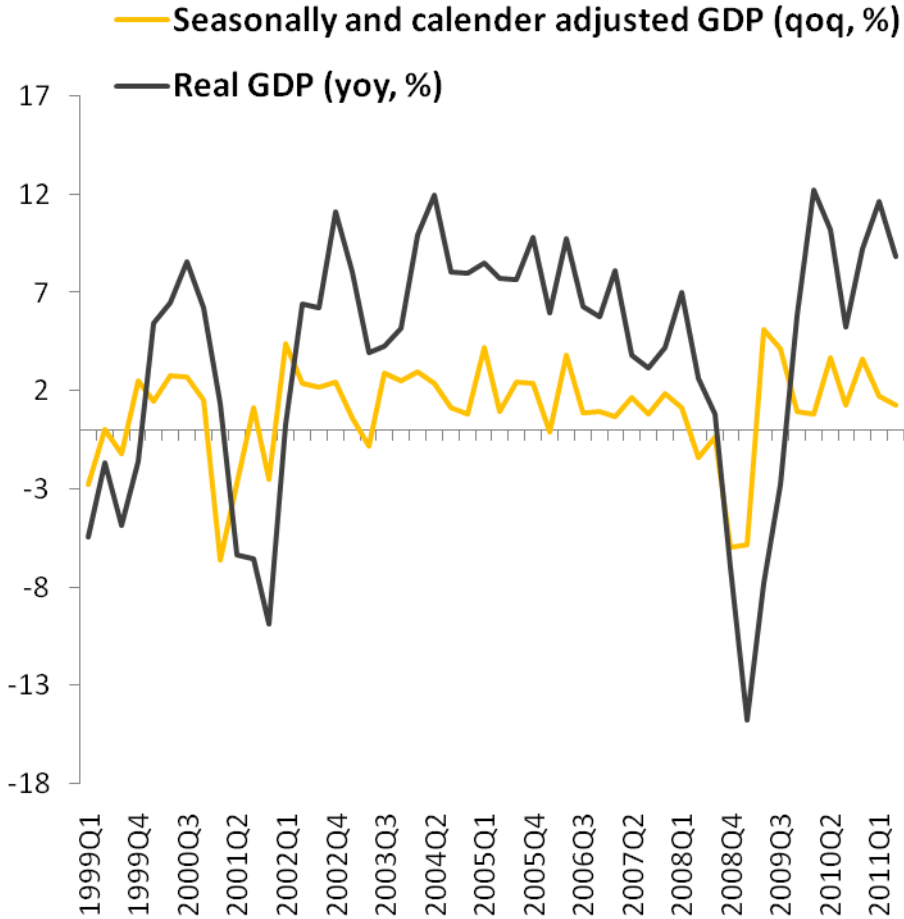
**GROWTH - EMPLOYMENT**

  
**VakifBank**







T. Vakıflar Bankası T.A.O



# Growth rate in 2011 H1 exceeded expectations...



Source: TustStat

-  Turkish economy continued its prominent growth performance in H1 2011 with 10.2% growth rate.
-  Despite the expectations of strong negative basis effect of 12.2% growth in Q1 2010, Q1 growth rate in 2011 reached surprisingly 11.6% and gave the first sign of a much stronger growth for Turkish economy.
-  In Q2 2011 the continuing negative basis effect couldn't pull down the growth rate which came in at 8.8%.
-  The effect of June 2011 general elections on this H1 growth performance was dim as the government preferred to stick to its 2011 fiscal targets and defended public balances which preserved its strength even in 2009 crisis.
-  Hence, we can say that the strong growth pace of H1 2011 had its roots in fundamental dynamics of Turkish economy.
-  The most prevalent effect on the deviation of H1 2011 growth expectations might have come out from credit expansion due to strong capital inflows.

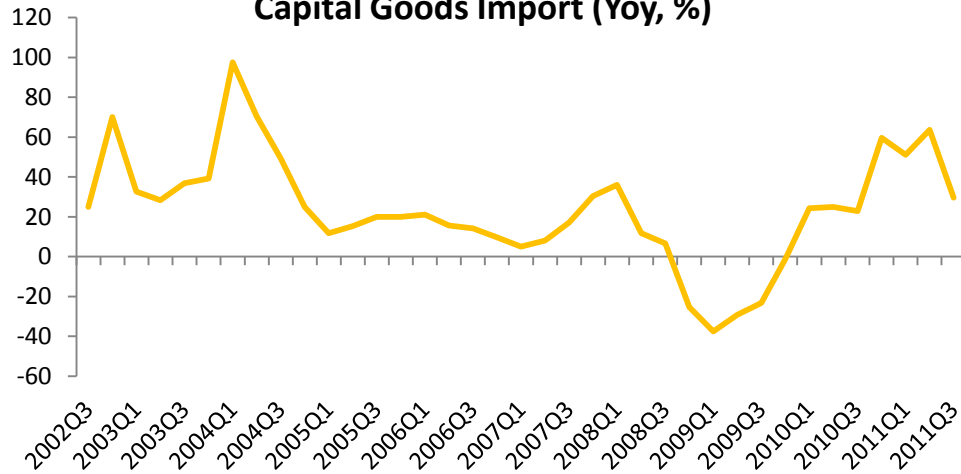
# Exports support economic growth...

Exports (yoy, %)



Source: CBRT

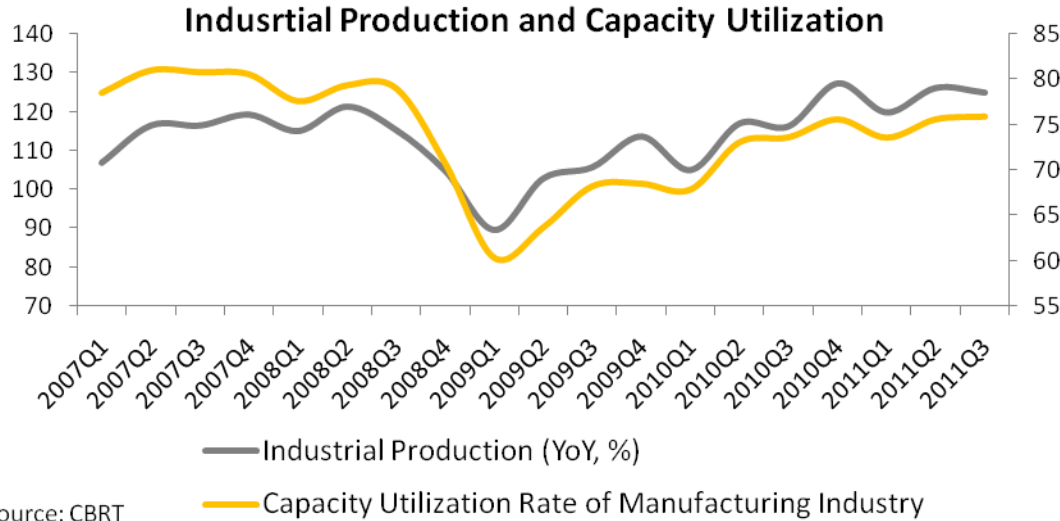
Capital Goods Import (Yoy, %)



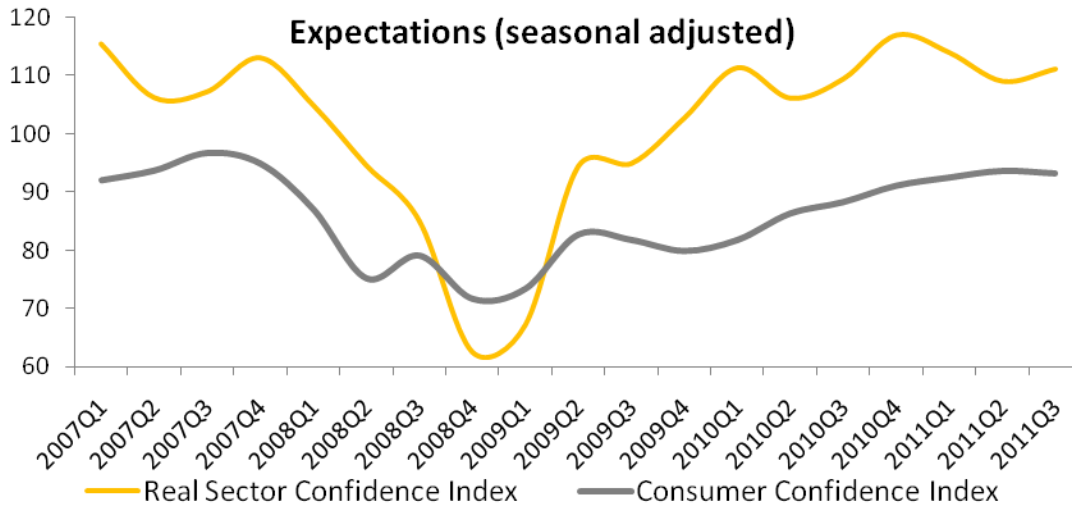
Source: CBRT

- Positive performance of exports limited the size of macroeconomic slowdown.
- Annual growth rate of exports reached to 25.6% in the third quarter of 2011, which was 18.9% in Q2.
- Despite the loose speed, increase in imports of capital goods continued in Q3 2011.
- In H1 2011, imports of capital goods increased by 57% on average and in Q3 increased to only 29%.
- If the slowdown in the demand for capital goods continue in the coming quarters, deceleration in the growth rate may become more pronounced.

# Industrial production increased 7.5% YoY in Q3...



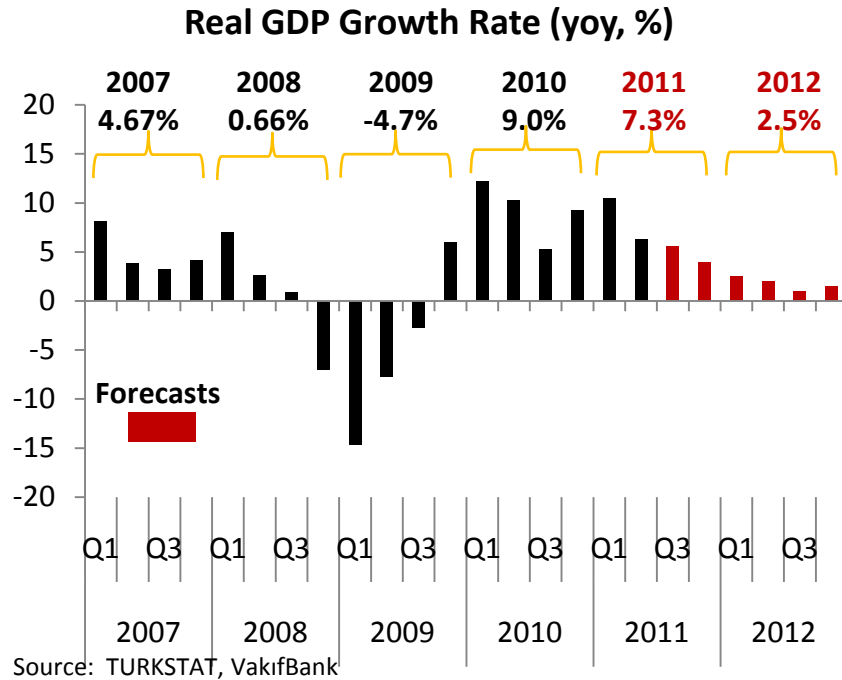
Source: CBRT



Source: CBRT

- Industrial production growth decreased to only 7.5% YoY, from 7.9% in Q3.
- Capacity utilization in the Turkish manufacturing industry increased for the third straight quarter in Q3 2011.
- Industrial production and capacity utilization show that growth rate in Q3 could exceed market expectations.
- In the last quarter of the year, especially because of the risks in Europe, decrease in growth rate would be more clear.

# Our real GDP forecasts are 7.3% in 2011 and 2.5% in 2012...



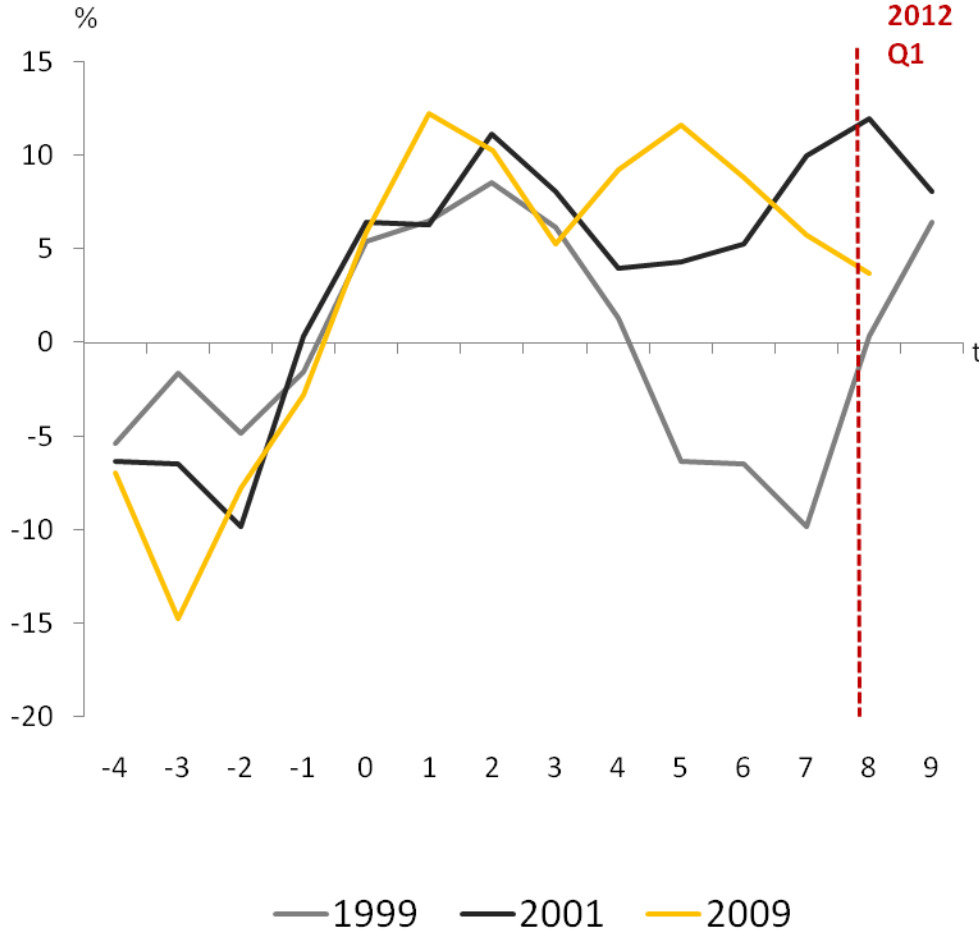
- Growth rate is expected to gradually slow down in H2 2011.
- Especially since Q3 2011 leading indicators have indicated a slow down in consumption and investment.
- Despite the negative signals of domestic demand, we think that positive export figures are supporting the growth rate since July.
- Therefore, we estimate that Turkish economy will grow 7.3% on yearly basis in 2011.

➤ Tight fiscal policies which are applied by developed countries may negatively affect the growth performance of these countries in 2012 and this situation will be risky for other countries which include Turkey and emerging economies via trade channel. In addition, China has some fragilities which are obstacle to compensate the negative growth outlook of other countries.

➤ In these regards, we estimate that Turkish economy will grow 2.5% on yearly basis in 2012.

# 2012 Growth Scenarios...

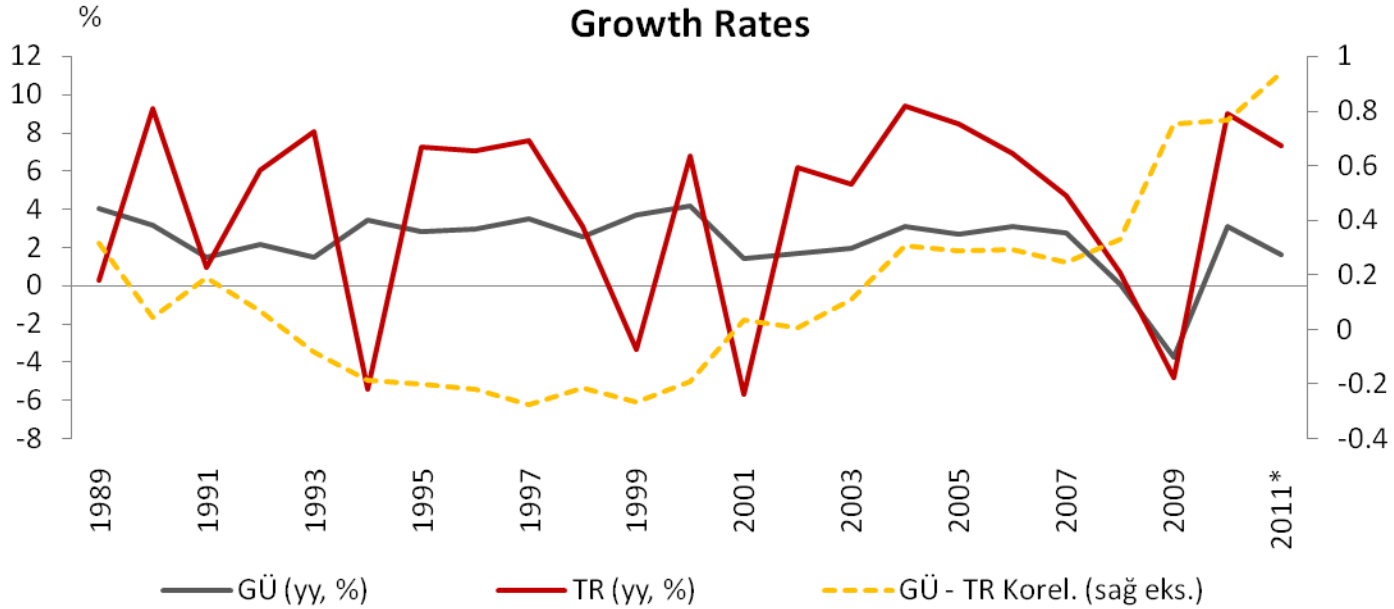
Indexed Growth Rates(%)



Source: TurkStat VakifBank

- When we historically analyze Turkish growth data to find out the downward and upward risks on our 2012 growth forecast, we come across three similar periods.
- We use the TurkStat real GDP series based on 1998 prices and take the recent period starting from 2009 crisis.
- The first period which the 2009 crises period resembles most is 1999 contraction as a result of the impacts of the 1998 Russian crisis.
- The second period is the 2001 Turkish banking crisis, the causes and consequences of which stand as local.
- When we take the end of contraction as time=0 and compose three time series, we see that the three series are similar in the crisis and the early post-crisis periods.
- But as the trends are differentiating starting from t=3 period, we see that we don't have a sample period which might suggest the probabilities regarding the growth outlook of 2012.

# Increasing correlation between Turkish growth and developed countries' growth outlook has strong implications...





Source: IMF, VakifBank






\*For developed countries IMF, for Turkey VakifBank forecasts are taken.

- 📌 The reasons of the last three contractions in Turkish economy are sui generis. Hence, historical comparison is difficult.
- 📌 On the other hand, comparing Turkish growth with the growth performance of developed countries (DC) might be useful in the scenario analysis.
- 📌 According to IMF yearly growth data starting from 1989, we see that the correlation of Turkish growth data with developed countries became positive in 2001 and increased significantly in the 2008-2009 crisis period.

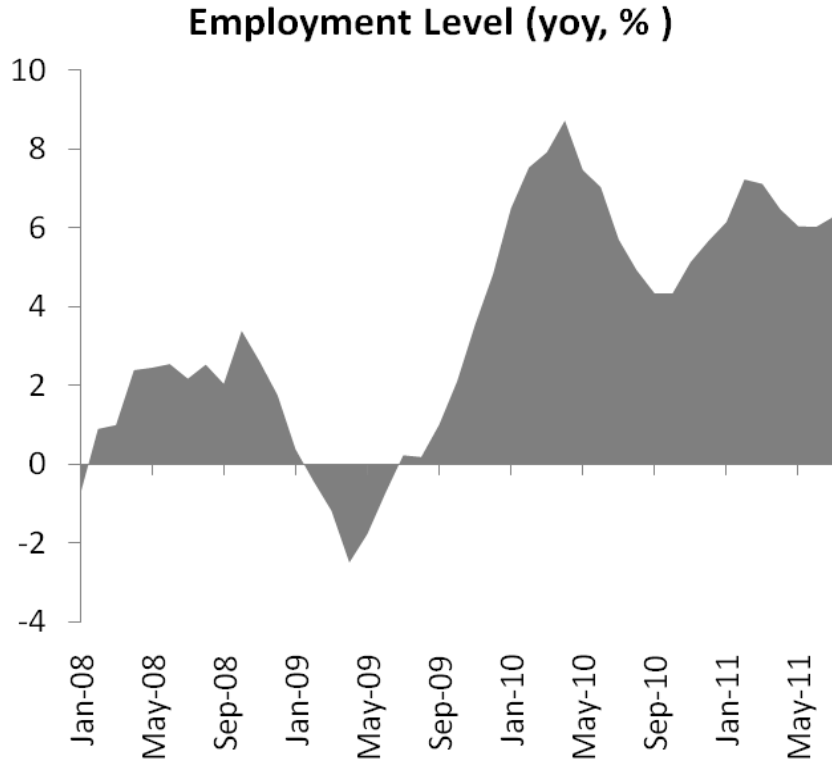
## Our growth scenarios...

2012 Growth Scenarios	Scenario 1	Scenario 2
Overseas	Moderate Growth	Significant Slowdown
Turkey	%5.1	-%0.8
Source: VakifBank		



-  Turkey had a growth performance parallel to the recovery in developed countries in the 2009 post crisis period. And this outlook has recently been negatively affected from the uncertainties in developed economies.
-  Assuming that the downward risks on global economy will not materialize, according to our first scenario we think that if the developed countries have a moderate growth performance and global outlook improves the upward risks on our growth forecast might materialize.

-  According to this scenario, in which we exclude the crisis years and the extreme values from the 1998 based real GDP data, we expect that our 2012 growth forecast might converge to **5.1%**.
-  Turkey's strong financial balances, employment outlook, low interest rates and domestic consumption might invoke divergence of Turkish economy if the global economic outlook deteriorates. This probability might also be effective on upward convergence of our forecast.
-  If the negative outlook of developed countries spread to global economy, downside risk on Turkish economy might increase.
-  We prepared our second scenario considering this probability.
-  In this scenario if we reflect the lowest growth rates of the non-crisis years to 2012, we find out that Turkish economy might experience a **0.8% slowdown** in 2012.

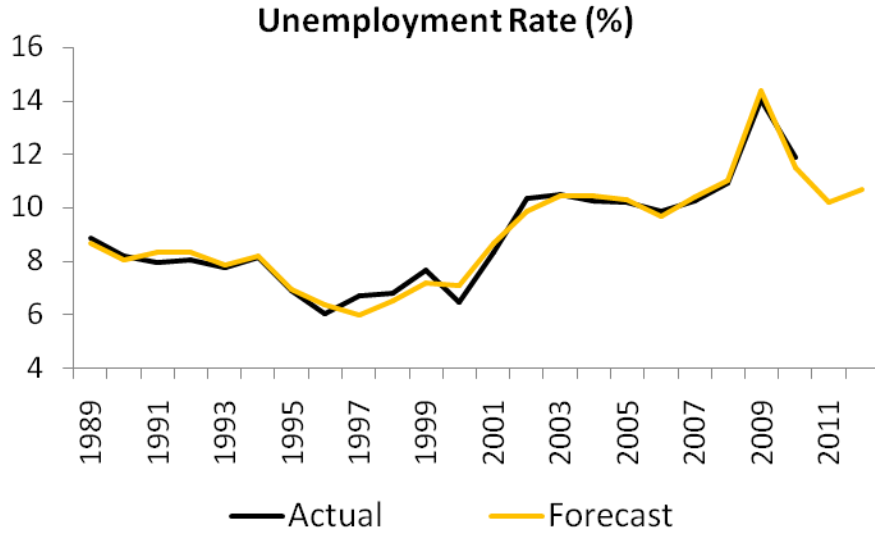
## We estimate that employment will decrease in 2012...



Source: CBRT

-  Strong growth performance of Turkish economy after global crisis provided positive developments in employment market.
-  Employment level increased by 6.3% on average on a yearly basis since the beginning of 2010 due to strong macroeconomic structure which provided new job opportunities.
-  Increasing rate of employment may slow down in 2012 parallel to our slowing growth forecast.

**We expect that unemployment rate will be 10.2% in 2011 and 10.7% in 2012...**



Forecasts for 2012	Real GDP Growth (yoy,%)	CPI (yoy,%)	Unemployment Rate(%)
Base Scenario	2.5	6.6	10.7
Scenario-1	5.1	8.25	9.5
Scenario-2	-0.8	5.1	12.4

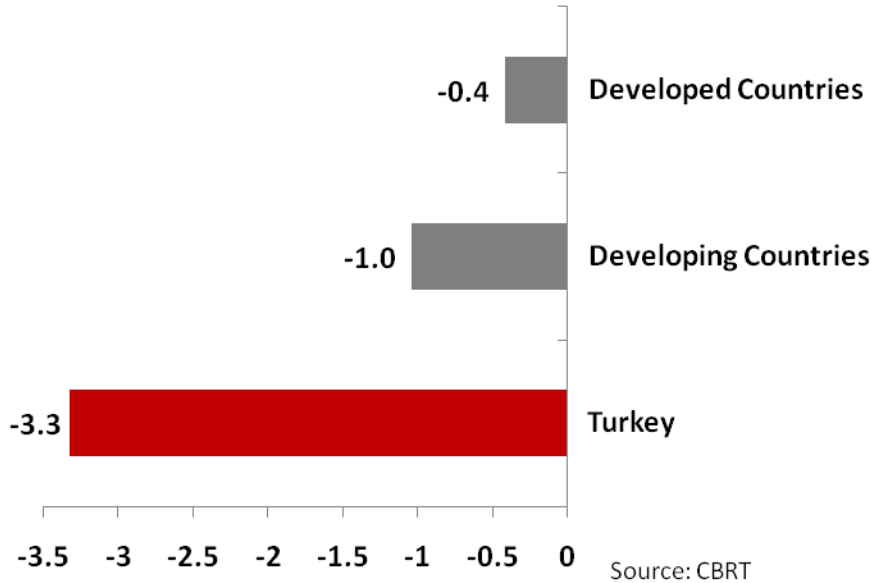
Source: VakıfBank

Source: Turkstat, Vakıfbank

- 📌** We expect that unemployment rate which was 11.9% in 2010 will decrease to 10.2% in 2011 with the effect of strong growth performance. In addition we expect that in 2012 unemployment rate will increase to 10.7% based on our 2012 growth forecast for Turkish economy.
- 📌** We analyze downward and upward risks on our unemployment forecast for 2012 under two scenarios. According to first scenario, if the real GDP growth reaches 5.1%, unemployment rate may fall to 9.5%. According to the second scenario which is based on a 0.8% slowdown in real GDP in 2012, unemployment rate may rise to 12.4%.

# Improvement in global employment outlook is expected to continue in 2012 ...

Change in unemployment rate of post-crisis peak level and 2012 forecasts



- Due to the global crisis, increasing unemployment rates all over the world has become one of the major macroeconomic problems.
- Developed countries are unable to achieve a desirable growth performance especially in the post-crisis recovery period and this has reduced the capacity of economies to create new job opportunities.
- Thus, the recovery in the labor markets of these countries has been limited.

- Recovery in the labor markets of developing countries has been faster than developed countries.
- It is possible that in 2012 unemployment rate will likely decrease by 0.8 point in emerging markets and 1 point in developed markets from the peak levels of crisis periods.
- Turkish economy, thanks to its strong growth performance in the post-crisis period, experienced a significant improvement in unemployment rate. According to our forecasts for 2012, unemployment rate might fall 3.3 point from its post-crisis peak level.

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