VAKIFBANK TURKISH ECONOMY WEEKLY

2012 Outlook

VakıfBank

T. Vakıflar Bankası T.A.O

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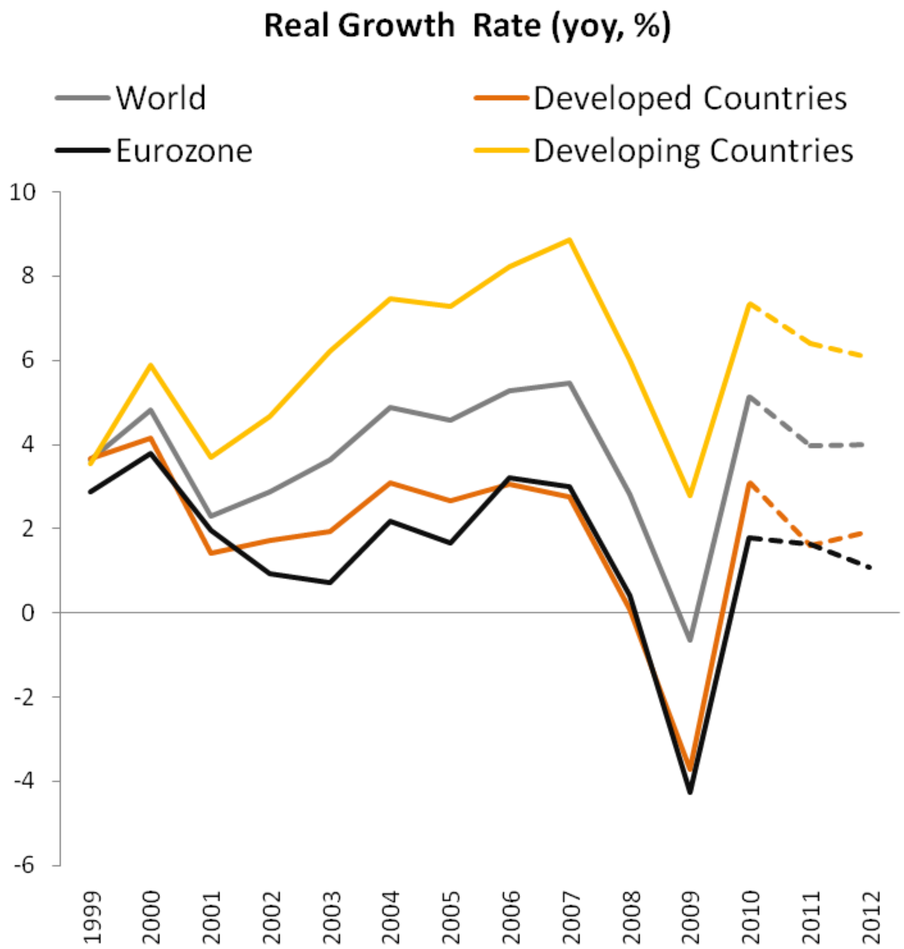
Vakıfbank Economic Research

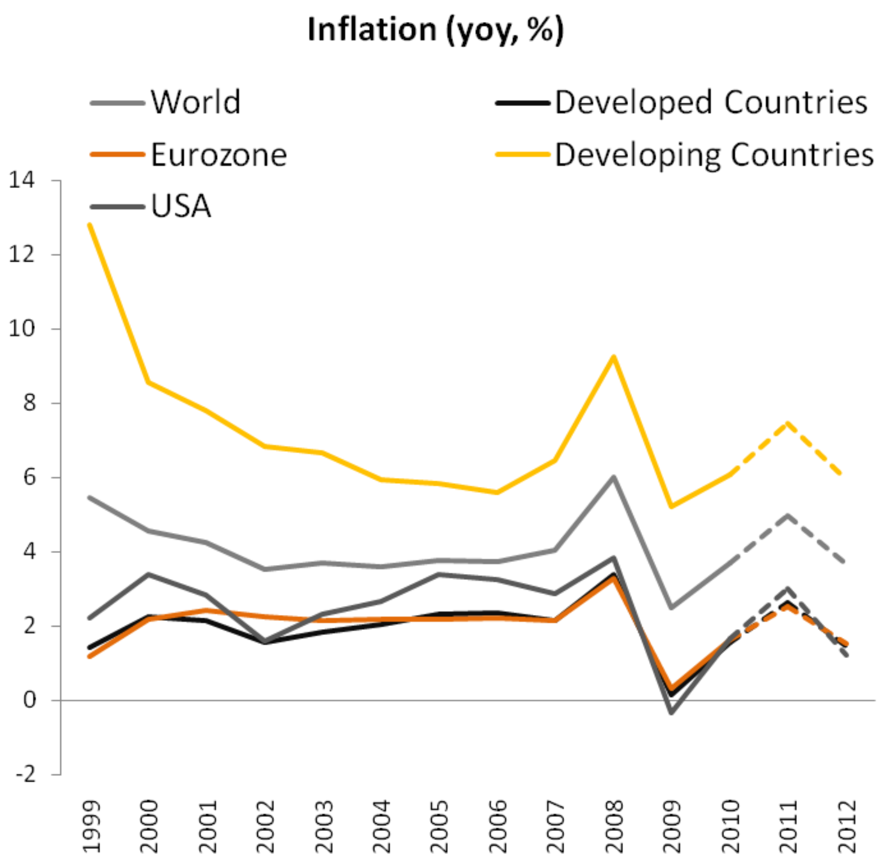
Global Economic Outlook in 2012-I



Source: IMF

- In our base scenario we expect the current uncertainties in Eurozone to continue.
- But, we don't expect a new financial crisis in 2012.
- Also, we expect a weaker global growth outlook.
- Eurozone is expected to have a short-term contraction.
- Despite the loose liquidity conditions, we don't expect a significant recovery in US economy.
- Lower growth performances are expected for developing countries, too.

Global Economic Outlook in 2012-II



Source: IMF

- 2012 global inflation might be lower than 2011 levels.
- Geopolitical factors might be an upside inflationary risk.
- Inflationary pressures might not be as low as expected.
- This probability might limit the expansionary monetary policies in developing countries.
- Current account imbalances are expected to continue.
- Improvement in public deficits doesn't seem to speed up in 2012.

Our 2012 real GDP growth forecast is 2.5% ...

Source: Turkstat, VakıfBank

- Tight fiscal policies in developed countries may negatively affect growth performance in 2012. This slowdown in developed country growth rates will have negative effects on the growth performance of developing countries including Turkey via trade channel.
- In these regards, we estimate that Turkish economy will grow 2.5% yoy in 2012.

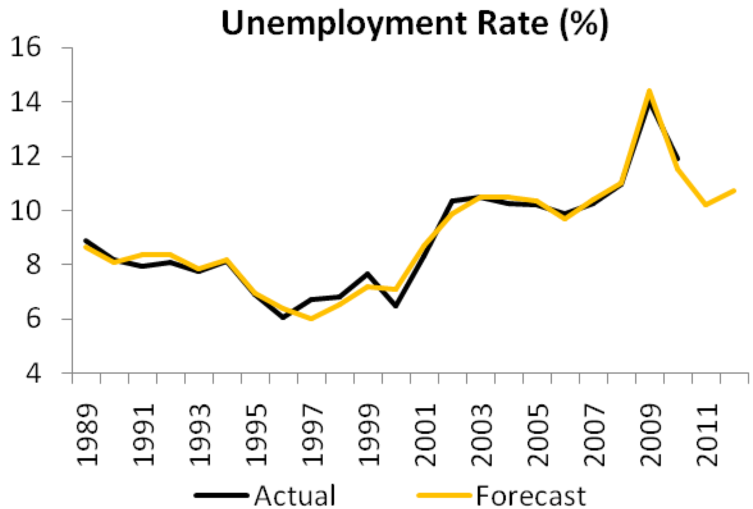
Our growth scenarios...

Real GDP Growth Rate (yoy, %) 2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
2.5	5.1	-0.8

- Turkey had a growth performance parallel to the recovery in developed countries in the 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 reflecting the lowest growth rates of the non-crisis years to 2012, we find that Turkish economy might experience a 0.8% slowdown in 2012.

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

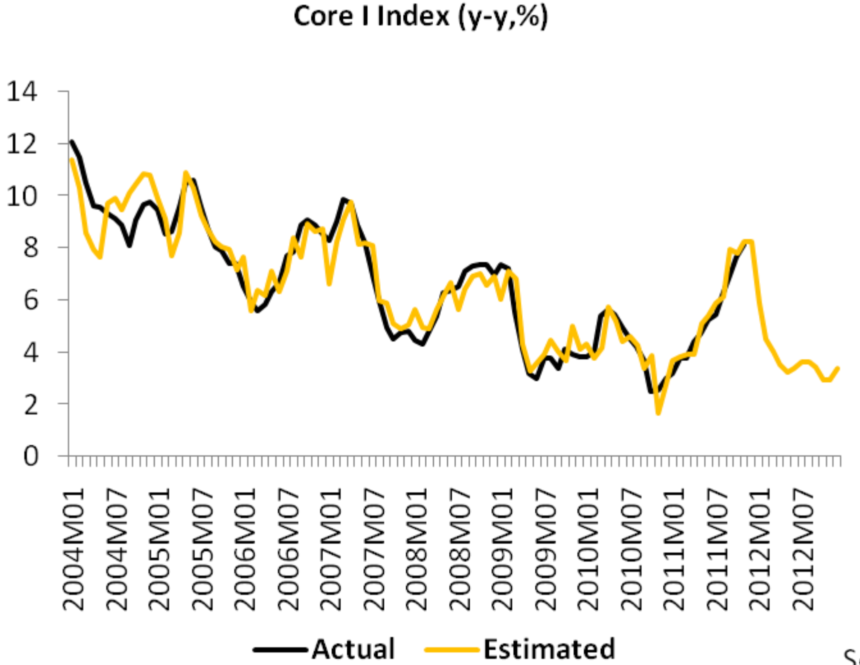


Source: Turkstat, Vakıfbank

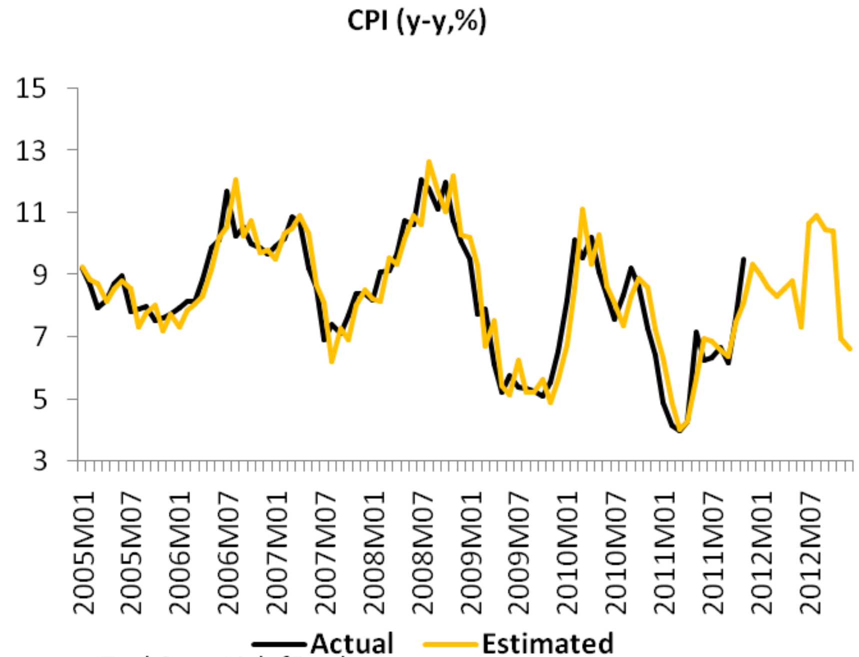
Unemployment Rate(%) 2012 Forecast		
Base Scenario	Scenario 1	Scenario 2
10.7	**9.5**	**12.4**

- Turkish economy had a significant improvement in unemployment rates in 2011. However, the downside risks in global economy strengthen our expectations about slowdown in growth rates.
- Hence, the increase in employment may slowdown in 2012 parallel to our growth forecast.
- We expect that unemployment rate will increase to 10.7% based on the limited growth expectation in 2012.
- According to our first alternative scenario, if real GDP growth comes in at 5.1%, improvement in employment market will continue and unemployment rate will fall to 9.5%. According to our second scenario which is based on a 0.8% slowdown in real GDP growth in 2012, unemployment rate will rise to 12.4%.

Our 2012 year-end CPI stands at 6.6%...



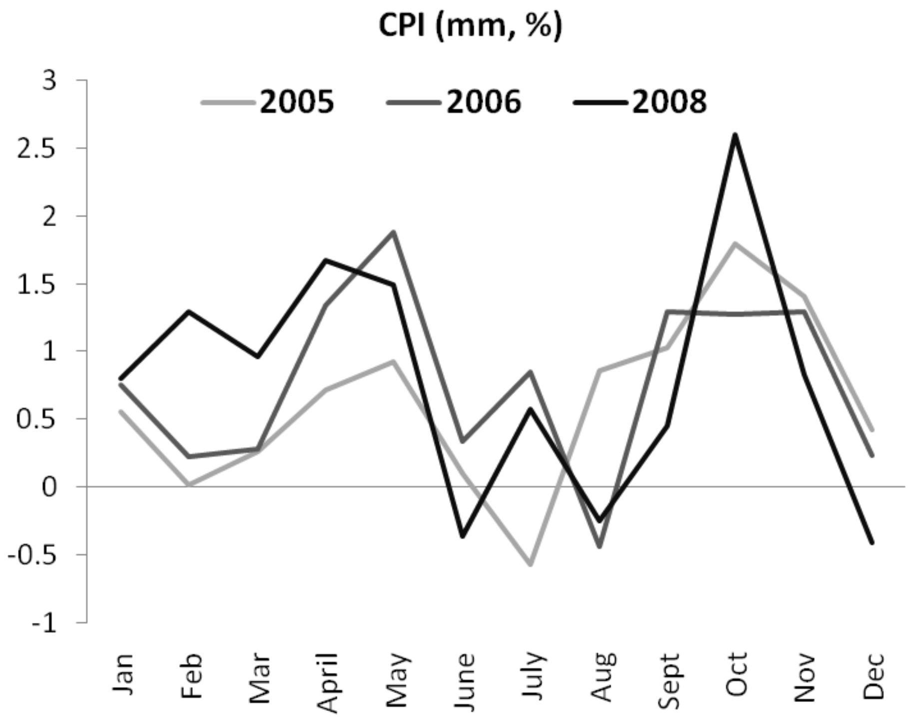
Sources: TurkStat, VakıfBank



Sources: TurkStat, VakıfBank

According to our econometric model estimates, after a sharp increase in 2011, core CPI will move downward until the second half of 2012 and then fluctuate limitedly through the end of 2012. Within these expectations, our 2012 core CPI forecast is 3.4%. Our 2012 estimates indicate that upward movements in headline CPI in the first quarter will reverse in the second quarter with the positive seasonal effects. After a sharp increase in third quarter, CPI will decrease sharply in the last quarter of 2012 with the positive base effect. Under these considerations, our 2012 CPI forecast is 6.6% which is well above the CBRT's year-end target.

We expect 2012 CPI to be between 5.1% and 8.25%...

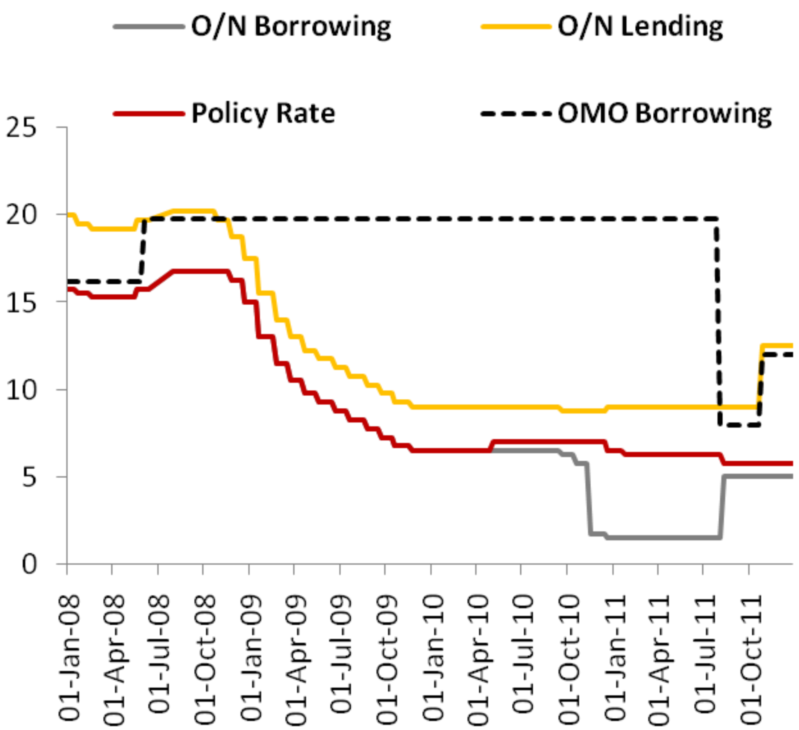


Source: TurkStat, VakifBank

Our CPI Forecasts(y-y,%)		
Base Scenario	**Scenario-I**	**Scenario-II**
6.6	8.25	5.1

- To determine the 2012 path of headline inflation, we studied the periods following the years in which monthly food price increases are similar in the sense that they're too high and volatile .
- 2005, 2006 and 2008 monthly CPI data are taken as a sample.
- The values below and above the average of these three years are reflected to 2012 inflation.
- Lower values gave a 5.1% increase and higher values resulted in an 8.25% increase in 2012 year end inflation.
- Downside risks on Turkish growth in line with lower global growth dynamics might also result in a decline in inflationary pressures, while strong global growth and an unexpected increase in Turkish growth performance might also create an upside risk on our 2012 inflation forecast.

We expect CBRT to cut policy rate 75 bps in 2012...



Source: CBRT

- CBRT performed quiet unusual policies in 2011 considering global uncertainties and domestic vulnerabilities. Under current global problems and expectations of domestic macroeconomic challenges, 2012 might be a hard year for CBRT, too.
- Output gap expectations of CBRT indicate that recovery has become inverse since Q2 2011 and we expect that Turkish economic growth will lose momentum in 2012.
- Despite the weak economic activity expectations, inflation may remain high in the first half of 2012. In this regard, we expect that the CBRT will keep policy rate unchanged until the end of second quarter.
- With the reduction in inflation pressures, CBRT may start rate hike at the end of the second quarter of 2012 and we expect that CBRT will cut policy rate by 75 bps in 2012.

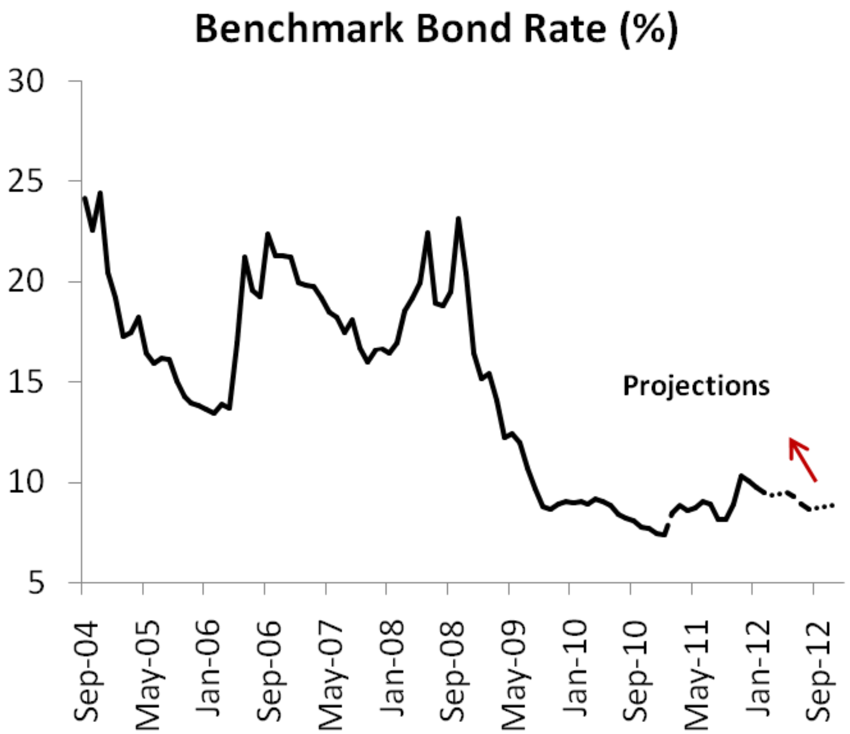
CBRT policy might differentiate depending on alternative scenarios...

- Global uncertainties and growth risks in both advanced and developing countries increase global slowdown risk.
- This indicates similar risk for Turkish economy and it may also affect the monetary policy choice of CBRT.
- In the meantime, developments in financial markets will also affect the monetary policy as much as macro economic conditions.
- However, according to our first scenario which includes strong growth and relatively higher inflation rate as a result of an expansion in demand, we expect that CBRT will leave the policy rate unchanged at 5.75%.
- Under our second scenario we expect that CBRT will support the economy using other complementary monetary policy tools besides the policy interest rate cut, especially if the economy slows down more than expected and the liquidity opportunities shrink considerably.

CBRT has announced its 2012 monetary and exchange rate policy...

- CBRT will continue to implement its policy mix regarding both price and financial stability in 2012. CBRT seems to maintain its current monetary policy which uses O/N interest rate corridor as an active monetary policy tool at least in the first half of 2012. However, its policy stance mainly depends on the global conditions.
- In the 2012 monetary and exchange rate policy report, CBRT mostly concentrated on the precautions related to liquidity to increase liquidity perspectives of banks in the long-run.
- In addition to the weekly TL repo auctions, CBRT will begin monthly TL repo auctions. CBRT also stated if it is needed, it may open additional TRY weekly repo auctions. The weekly maximum limit for repo auctions is 3 billion TL while monthly maximum limit is 12 billion TL.
- In order to keep its securities portfolio unchanged, it will renew 4.3 billion TL of TL bonds in 2012. Except for unusual conditions, CBRT signals that daily FX selling auctions will be limited.
- CBRT calculated that impact of TL depreciation on annual inflation is expected to be 5 bps, on the other hand tax regulations are expected to add 1.6 bps to annual inflation at the end of 2011. In addition, inflation is expected to stand at its double digit levels until May and begin to fall after May. In the last quarter of 2012, it will have an apparent downward movement. CBRT repeated that year-end inflation will converge to 5% target for 2012.

Our benchmark bond rate forecast is 8.85% for the end of 2012...



Source: Vakıfbank

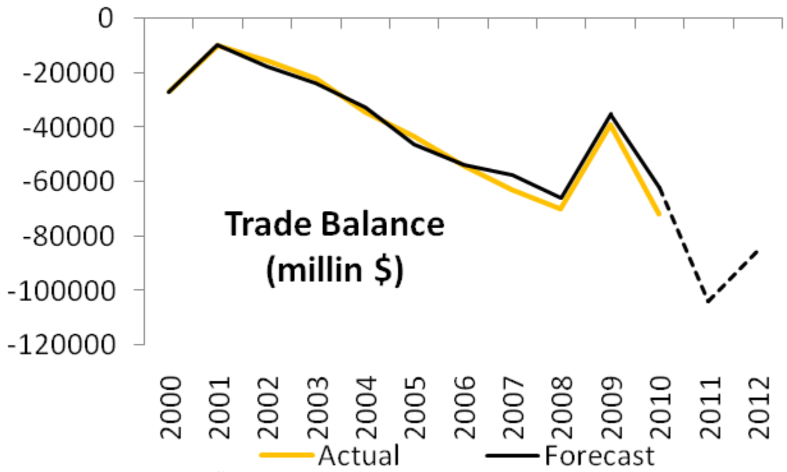
- In the econometric model we set up to forecast the benchmark bond rate, we assume that USD/TRY will be 1.70 by the end of 2012.
- Also our policy rate assumption in this model is 5.0%.
- Our model indicates that the benchmark bond rate will be below 10% in Q1 2012.
- We expect that benchmark bond rate will follow a downward trend since the end of Q2 which is the date when the CBRT is expected to begin rate cuts.
- US 10 yr bond yield is expected to move upwardly since the second half of 2012.
- Hence, we expect that benchmark bond rate to be 8.85% by the end of 2012.

Our Benchmark Bond Rate Forecasts(%)

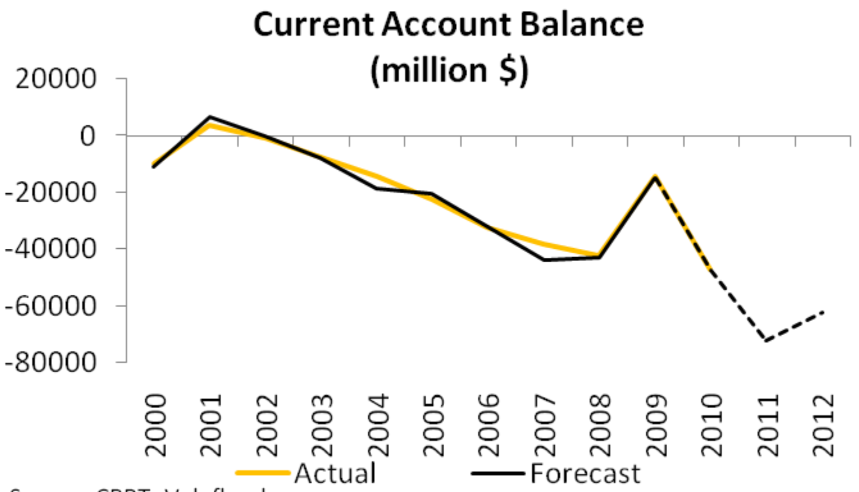
Base Scenario	Scenario-I	Scenario-II
8.85	11.50	7.45

Scenario-I
•Real GDP : 5.1%
•Upward movement in CPI depending on strong domestic demand
Scenario-II
•Lower growth rate
•CPI : close to 5.0%
•CBRT Policy Rate: 5.0%
• US 10 yr Bond Rate : 2%

The increase in the C/A deficit continue to slowdown...



Source: CBRT, Vakıfbank



Source: CBRT, Vakıfbank

Current Account Balance (yoy, %)

2012 Forecast

Base Scenario	Scenario 1	Scenario 2
62.1	72.4	53.1

- In our base scenario, we expect 2012 trade deficit to be $85 billion and trade deficit to GDP ratio to be 10.4%. In the same scenario we expect that the C/A deficit to be $62.1 billion and C/A deficit to GDP ratio to be 7.3%
- In our first scenario, we assumes a high growth rate, higher crude oil prices ($111) and lower USD/TRY (1.60). Moreover, assuming that the Eurozone have a more positive economic outlook, we expect that the trade deficit would be $97.3 billion and the C/A deficit would be $72.4 billion.
- Our second scenario is based on lower growth rate, lower oil prices ($80) and the ongoing depreciation of TRY (expectation of 1.90) estimations. And also, assuming shrinking in Eurozone economy, we expect that the trade deficit would be $74.9 billion and the C/A deficit would be $53.1 billion.

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