

VAKIFBANK TURKISH ECONOMY WEEKLY

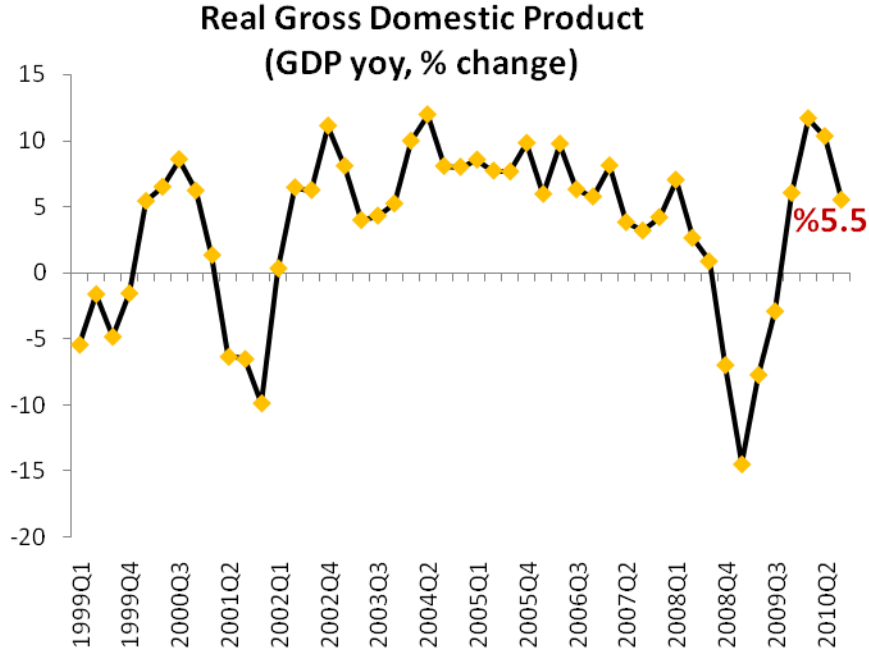
Domestic Demand Stands By 2010 Q3 Growth



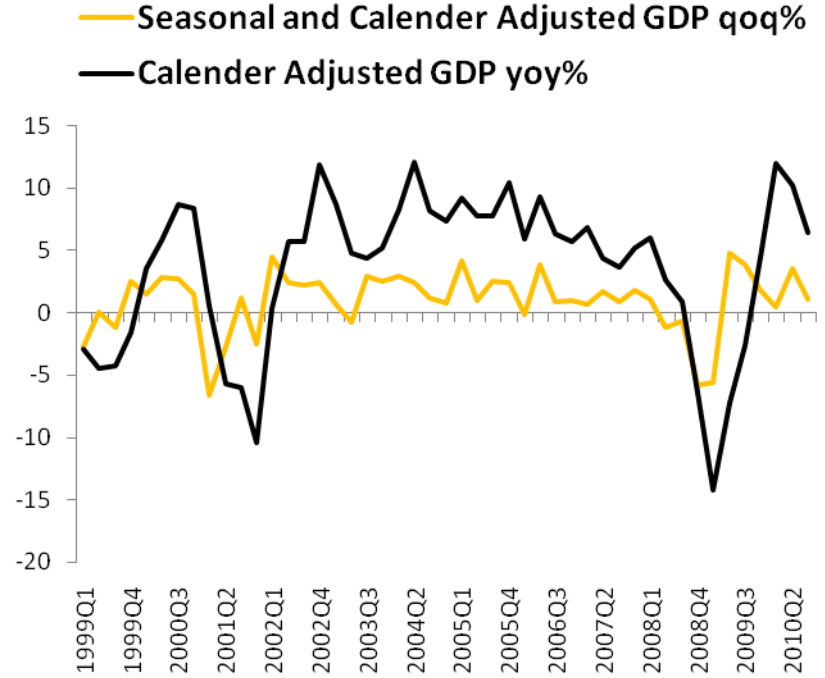
T. Vakıflar Bankası T.A.O



Domestic demand is the determinant of the 5.5% growth in Q3...



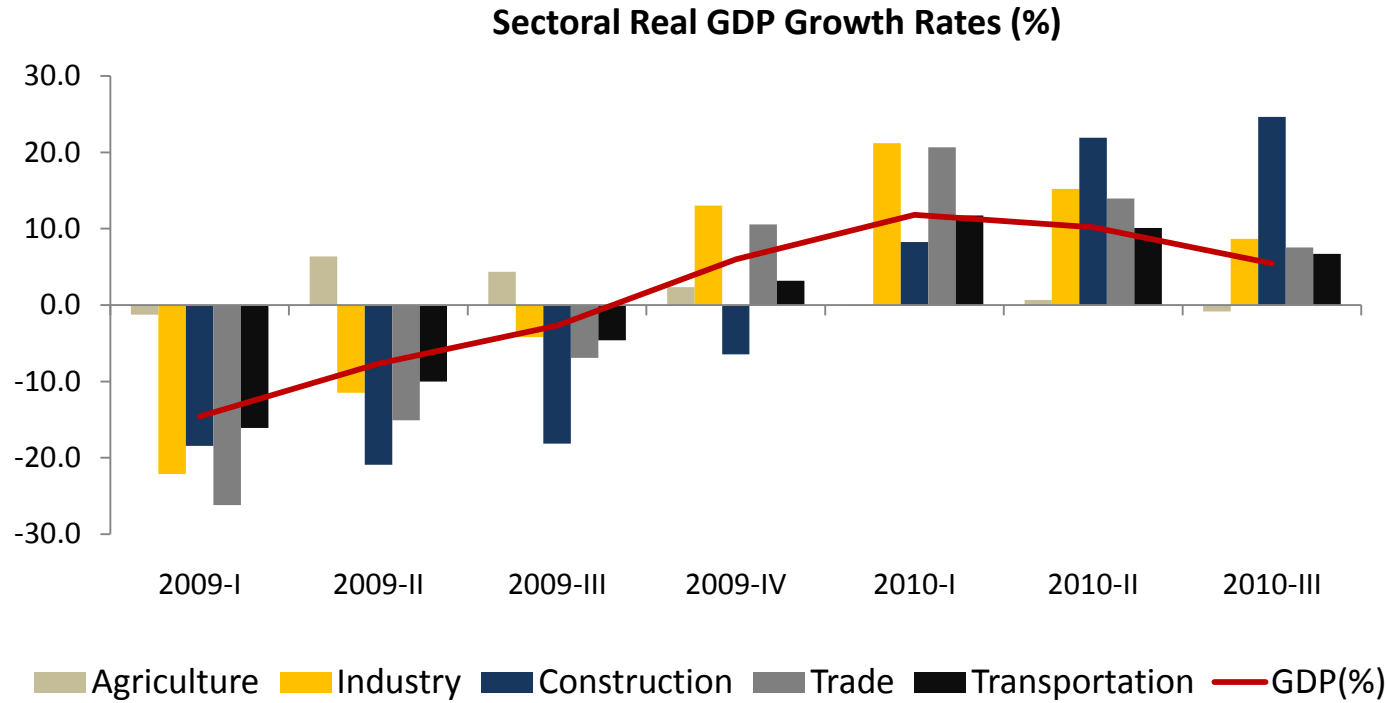
Source: Turkstat





Source: Turkstat

- 2010 Q3 GDP rose by 5.5% which was below our expectations 9.2%.
- Seasonal and calendar adjusted GDP grew by 1.1% qoq.
- Thus, seasonal and calendar adjusted GDP which was 0.4% in Q1 and 3.5% in Q2, exhibited a moderate growth rate in Q3 2010.

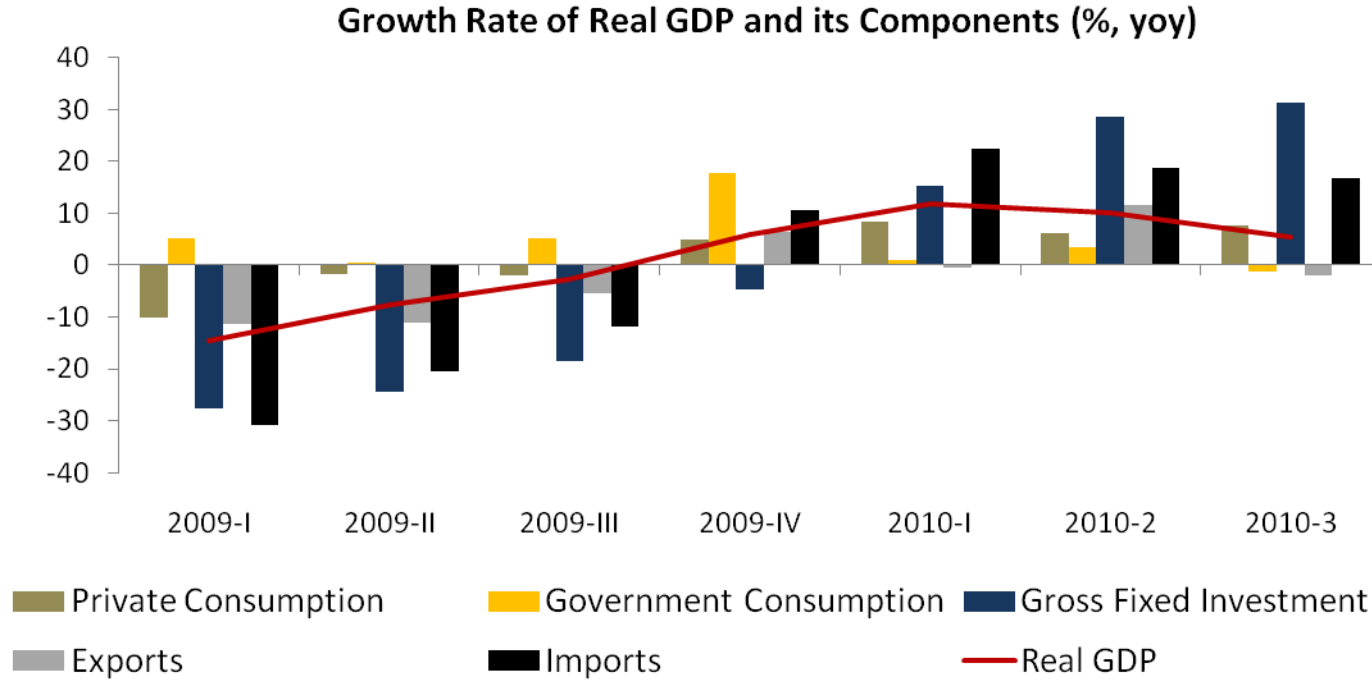
Agriculture sector slowed 0.8% yoy while the other sectors had moderate growth in Q3 2010...



Source: Turkstat

-  The industrial sector growth rate slowed sharply and reached to 8.7% in Q3 2010.
-  The increase in the growth rate of the construction sector was considerable. Construction sector growth reached 24.6% in Q3 with a slight increase after the sharp contraction in 2009.

Weak foreign demand restrained Q3 growth...








Source: TurkStat

- ✓ *On the expenditure side, the most significant part of the Q3 GDP data was the 2% decrease in exports following the 11.6% growth in Q2.*
- ✓ *On the other hand, exports increased 16.9% in Q3 against a 11.7% contraction in the same period of 2009.*
- ✓ *The strong performances of investment expenditures and private consumption denote that strong credit growth and improving business and consumer confidence are supporting the domestic demand.*

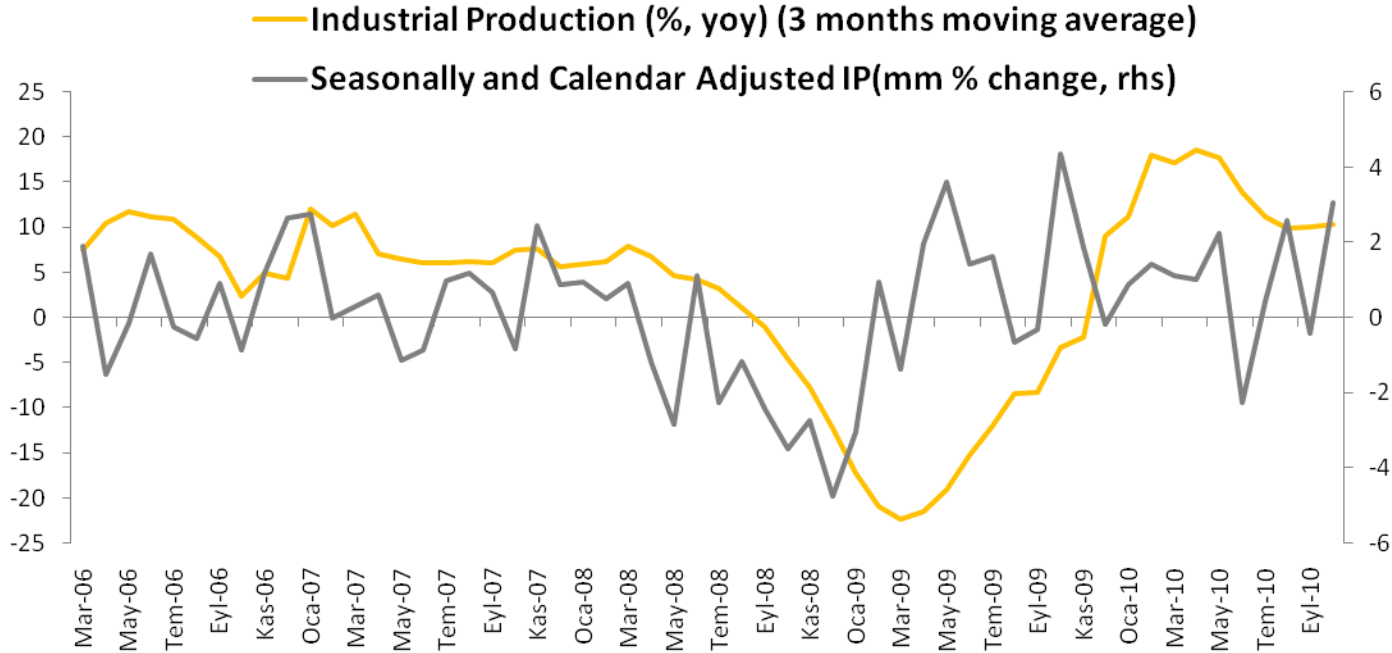
Domestic demand had the highest contribution to Q3 GDP growth...

Real GDP Components Contribution to Growth (% points)					
	2009 QIII	2009 QIV	2010 QI	2010 QII	2010 QIII
Domestic Private Consumption	-1.3	3.5	6.4	4.5	5.1
Government Consumption	0.5	2.3	0.1	0.4	-0.1
Gross Fixed Investment	-3.9	-1.1	3.2	5.9	5.5
Change in Stocks	0.3	2.2	7.8	1.4	-0.4
Net Exports	1.7	-0.9	-5.7	-2	-4.6

Source: TurksStat

-  Investment expenditures made the highest contribution to Q3 GDP growth, despite the 0.4 points fall from the Q2 contribution.
-  The contribution of consumption expenditures, which have a 67% share in GDP, increased to 5.1 points.
-  Government consumption subtracted 0.1 points from GDP.
-  Foreign demand had the most pronounced negative contribution to GDP with 4.6 percentage points.
-  It is noteworthy that the contribution of change in stocks turned into negative in Q3.

Strong Q3 IP data and the basis effect were the main factors behind our Q3 GDP forecast...



Source: CBRT, TurkStat

- ✔ The strong performance of industrial production (IP) in Q3 and the continuing strong basis effect of 2.65% was effective on the divergence of our Q3 GDP forecast from the actual data.
- ✔ The 3 month moving average of IP indicates that the double digit performance of IP continued in Q3.
- ✔ The positive performance of the seasonal and calendar adjusted IP also supported our growth forecast with a 0.9% average growth in Q3 after a 0.3% growth in Q2.

The growth performance in Q3 supports our 2010 growth forecast of 8% and indicates tight monetary policy at least for the next two quarters...

- ✔ Among the initial data of Q4 2010, IP has increased 9.8% yoy in October supporting our 2010 growth forecast of 8%. The other leading indicators such as capacity utilization, consumer and business confidence also support this view.*
- ✔ On the other hand, the credit growth is expanding with a 27.9% increase in October. Also the TL credits increased by a stronger 30% rate implying that the strong growth performance prevails in Q4 despite the reversing of the positive basis effect.*
- ✔ The negative contribution of public consumption might turn into positive in Q4 with the ease of the 2010 budgetary means.*
- ✔ The growth performance in Q3 is the premise of a yearly strong growth. And, this signals that the CBRT might stick to its efforts to restrain credit growth in the economy using the policy tools such as reserve requirements and liquidity management.*
- ✔ Meanwhile, CBRT signaled a rate cut in the first quarter of 2011 due to the increasing capital inflows resulting a rapid increase in current account deficit. And this implication was supported by the recent remarks of Erdem Basci, the Vice President of CBRT.*
- ✔ Despite the market expectation of a probable rate cut in the first quarter of 2011, we stick to our expectation that the CBRT will not change its tight monetary policy stance until the second half of 2011. The strong growth figures in Q3 are supporting our view.*

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