

# VAKIFBANK TURKISH ECONOMY WEEKLY

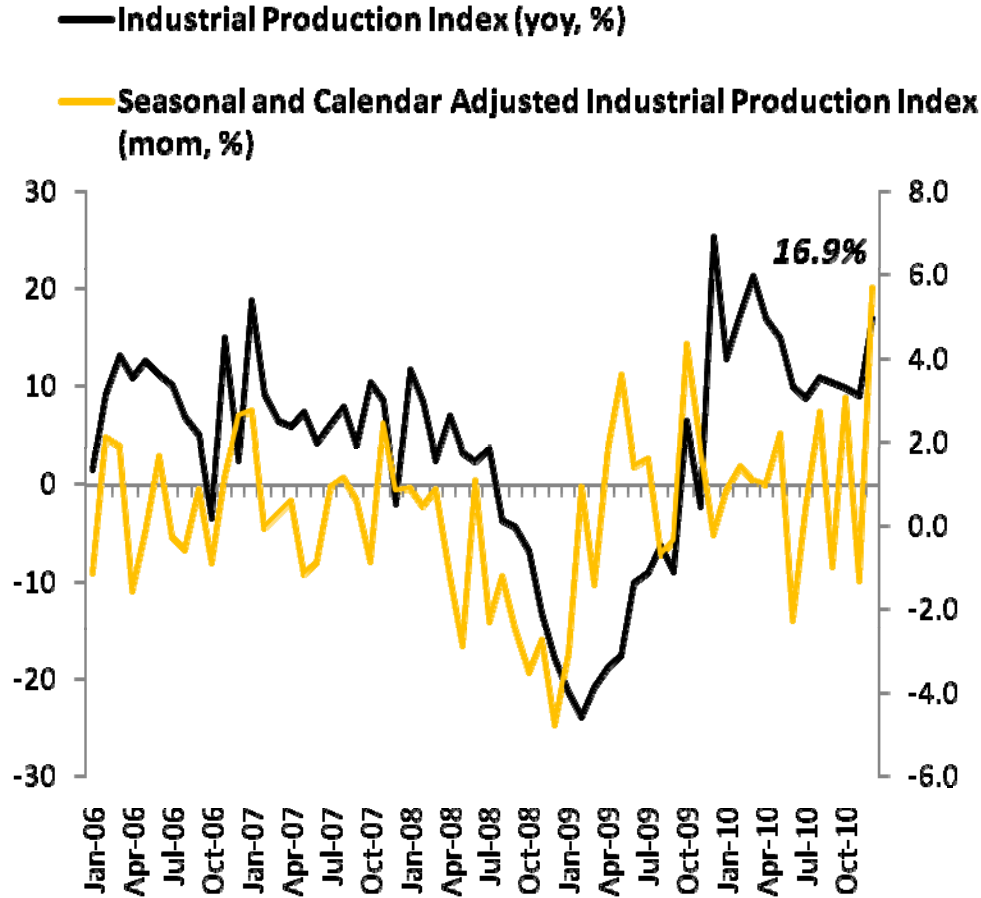
*We are upgrading our 2010  
real GDP forecast to 8.5%*



T. Vakıflar Bankası T.A.O



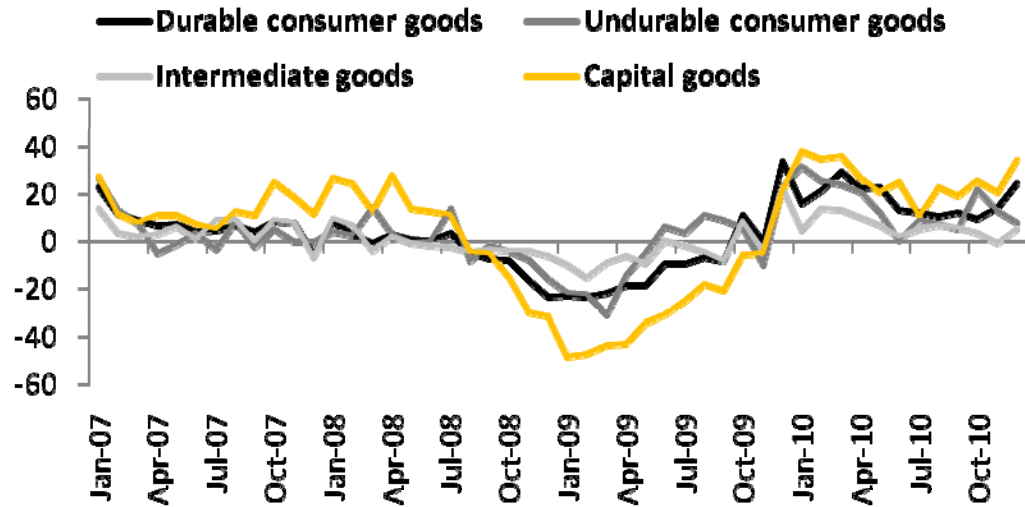
## Industrial production (IP) rose by 16.9% yoy in December 2010...



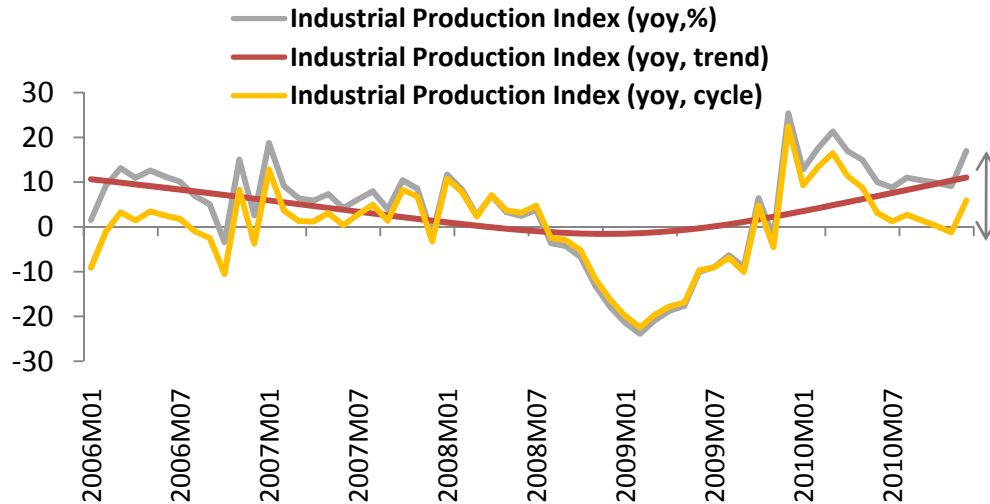
Source: CBRT

- Industrial production index (IP) increased by 16.9% on the yearly basis and 16.8% on the monthly basis in December. Positive annual base effect and normalization of working days after holidays made IP strong in December.
- Seasonal and calendar adjusted IP rose by 5.7% yoy, which is the highest increase in 2010.
- Thereby, in average, IP rose by 13.1% in a stronger basis in 2010.

# All sectors in IP have a good performance in December compared to the same period of last year...



Source: CBRT



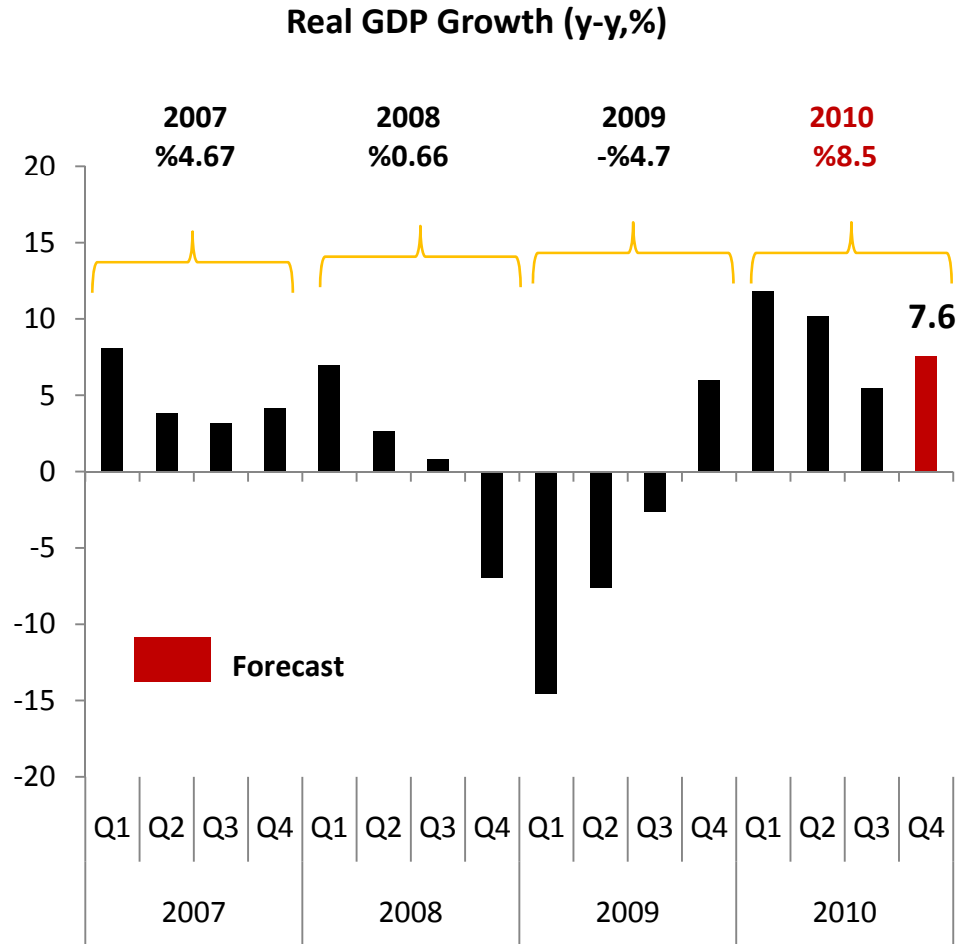
Sources: Turkstat, Vakifbank

In December, the highest increase was in the capital goods as 34.2% that shows the production sector has a positive sustainable growth.

Intermediate goods production increased by 24.4% and durable consumer goods increased by 7.5%. The increase in production of intermediate and capital goods indicates that economic revival continues in the production sector.

After using HP Filtering method, trend series show that there is a continuous upward movement in the industrial production. Moreover, the spread between original industrial production and cycle series has increased since the beginning of 2010 and this indicates there has been recently an unusual, strong upward movement in IP.

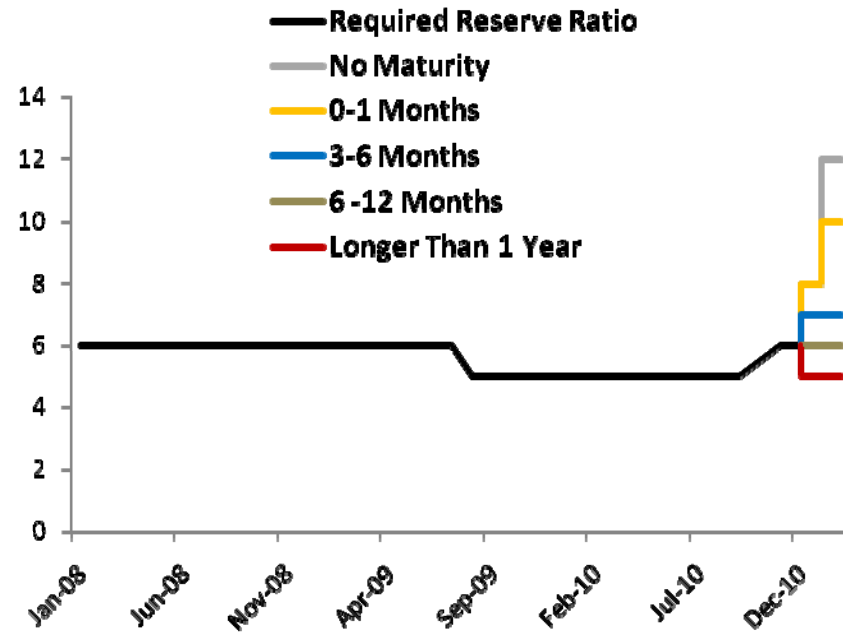
# We are upgrading our 2010 growth forecast to 8.5% from 8.0%...



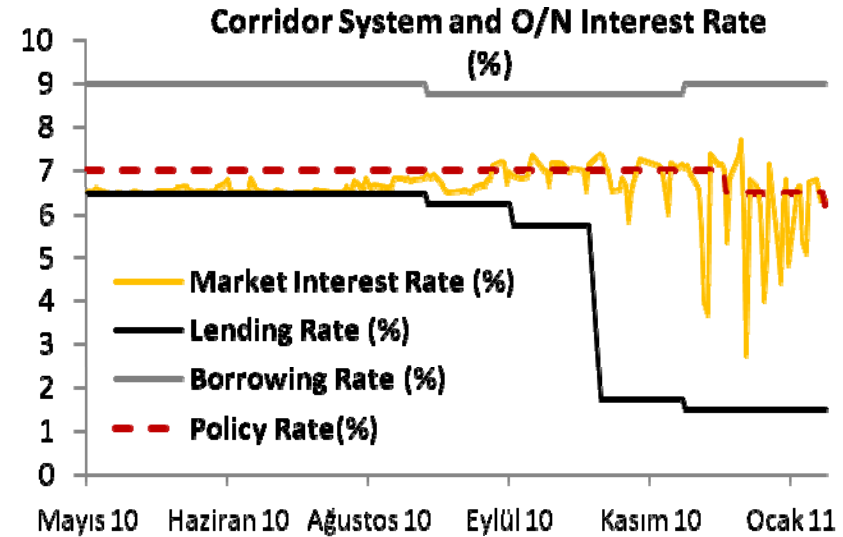
Sources: Turkstat, VakifBank

- With the December IP data, IP average yoy growth for Q4 2010 reached to 12.1% indicating a stronger growth performance for Q4.
- Although negative contribution of trade balance is expected to increase in Q4, domestic demand indicators point a robust growth performance in Q4.
- Our analysis suggests that real GDP growth rate will be 7.6% in the fourth quarter.
- Consequently, we are revising our 2010 growth forecast to 8.5% from 8.0%.

## Can 2010 growth performance survive in 2011?



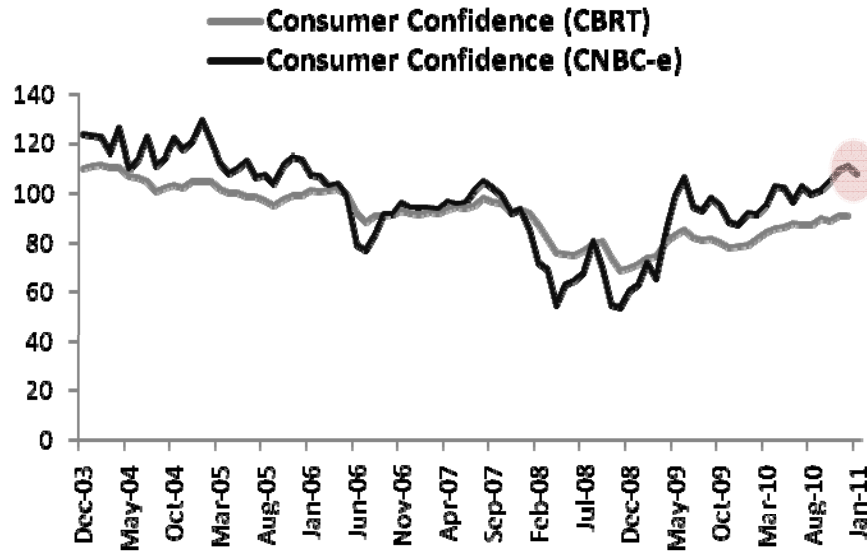
Source: CBRT



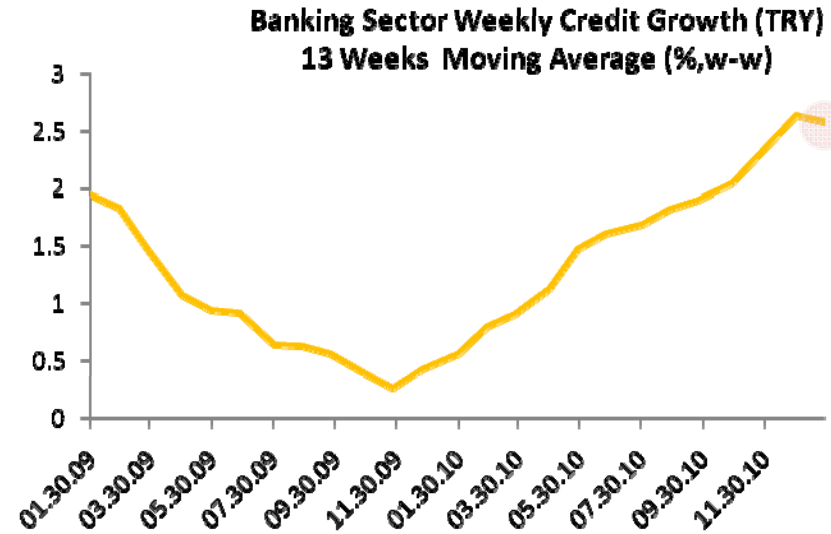
Source: CBRT, Reuters

- ✔ Using a policy mix of a lower policy rate coupled with higher reserve requirements and liquidity corridor system, CRBT has recently preserved both financial stability and price stability.
- ✔ What CBRT's recent policy mix would result in is an important question. In the last Inflation Report CBRT published, it is stated that the monetary tightening owing to the increase in the weighted average of reserve requirement ratios would offset more than the expansionary effects of the interest rate reductions.
- ✔ In other words, the net impact of CBRT's recent policy mix of a lower policy rate coupled with higher reserve requirement will be restrictive.

## Macprudential measures will restrict credit growth and domestic demand in 2011...



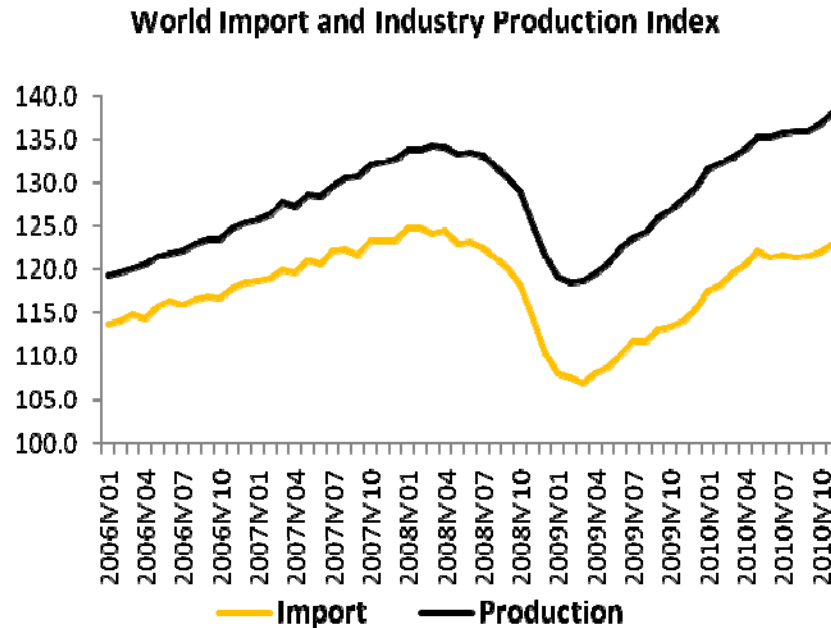
Source: CBRT



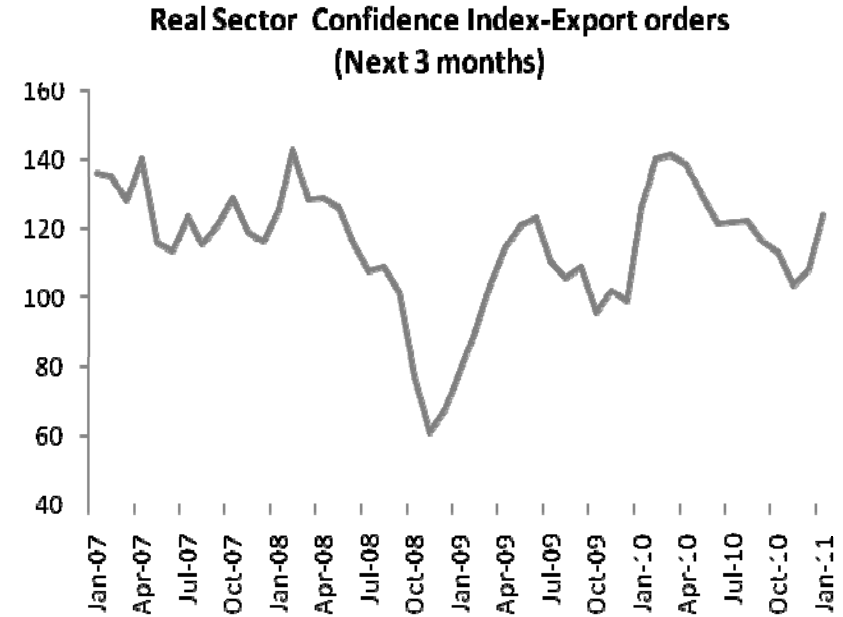
Source: BRSA

- ✔ Despite the recent improvement in the production, CBRT's macroprudential measures will restrict credit growth and domestic demand in 2011.
- ✔ CNBC-e consumer confidence as a leading indicator of domestic demand decreased by 5.3% mom in January which signals the deterioration in domestic demand.
- ✔ Moreover, recent weekly data in banking sector reveals that the credit growth starts to decrease in January on a monthly basis. This confirms the tightening policy will limit the credit growth. Moreover, the impact of the measures taken in December and January on credit growth is expected to be more apparent in the near future.
- ✔ However, the impact of the policy measures will vary depending on the other developments in the economy. Therefore, the credit data should be monitored in the future to understand the policy effect on domestic demand.

## Foreign demand improvement may continue to be weak in 2011...

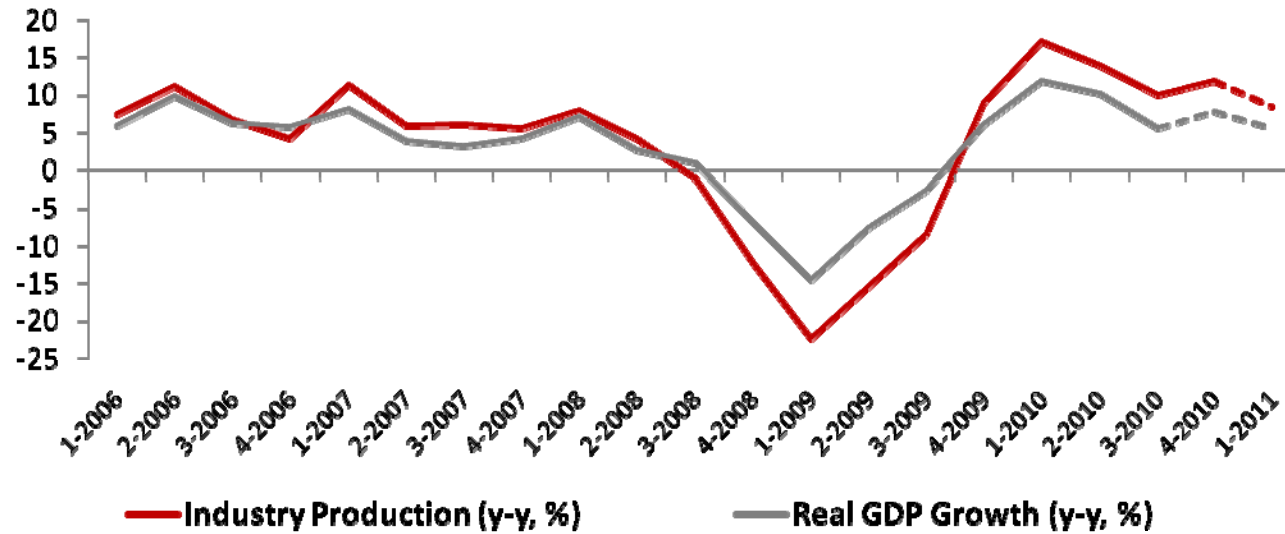


Source: CBP Netherlands Bureau for Economic Policy Analysis



- Despite the recent improvement in total export, external demand uncertainties still exist.
- Fiscal problems in Eurozone and banking sector implications in US has still been the main risks for the external demand.
- Indicators for export orders expectations show no significant sign of a strong recovery in the short term. Although export orders has rebounded recently, it is still under the pre-crisis levels.

***We expect that the increase in growth rate will continue but the momentum might decrease in 2011...***



Sources: CBRT, Vakifbank

- ✓ We expect that there will be a positive trend in industrial production index with the base effect in the first quarter of 2011. However, the momentum of this increase might ease off.
- ✓ Moreover, the net effect of tightening policy of CBRT may limit credit growth and domestic demand in 2011.
- ✓ Hence, we forecast industrial production index will increase by 8.5% in the first quarter of 2011 and as a parallel to this forecast, our real GDP growth rate forecast for the first quarter of 2011 is 5.5% .



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