

VAKIFBANK WEEKLY ECONOMICS REPORT

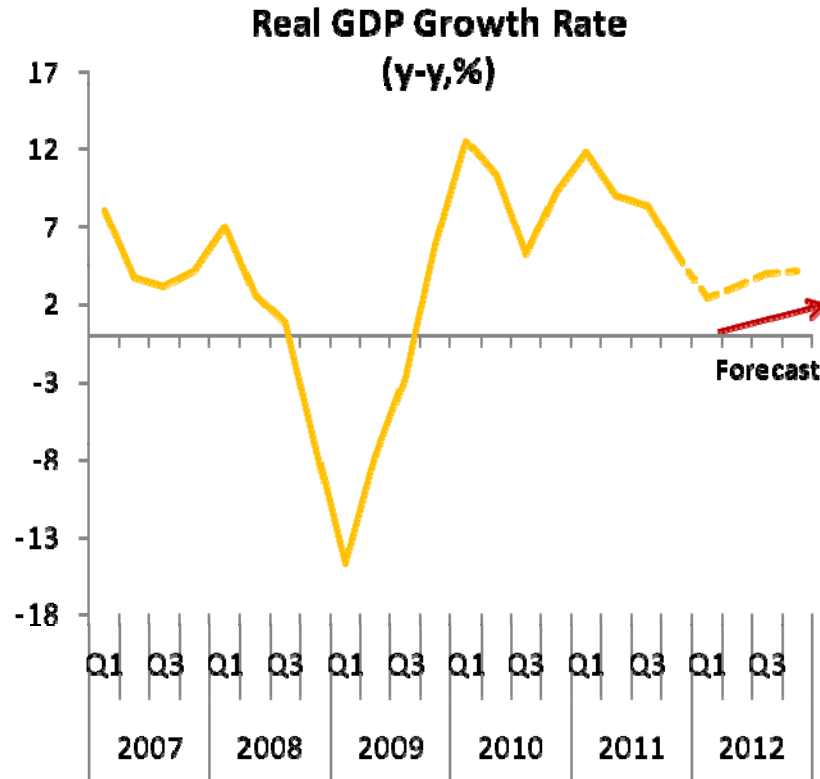
Revision: 2012 Macroeconomic
Forecasts



T. Vakıflar Bankası T.A.O



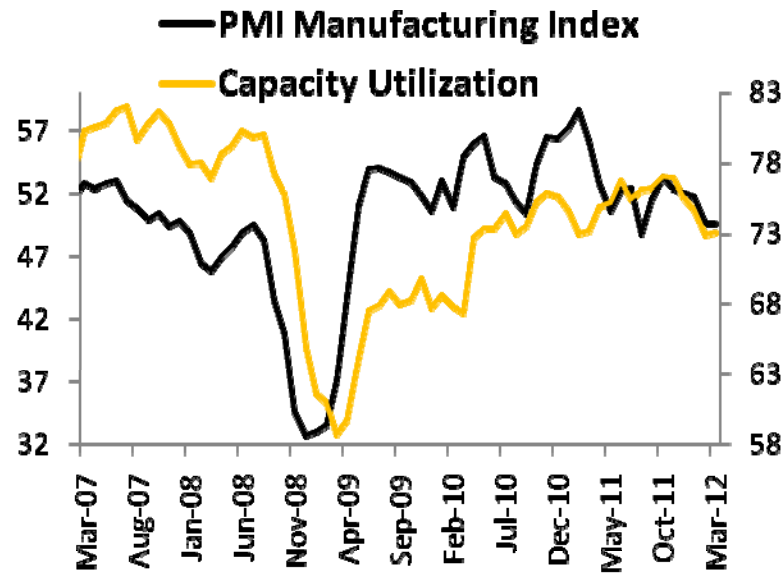
We revised our GDP forecast to 3.5% from 2.5%...



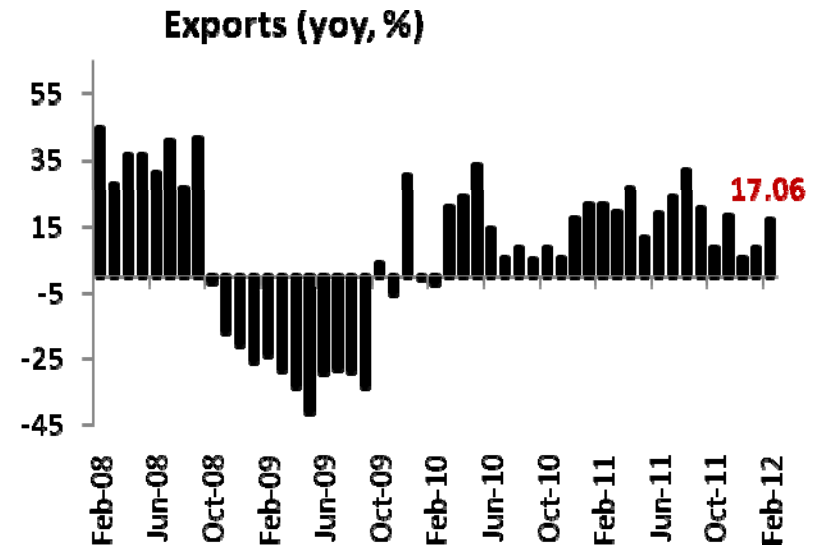
Source: Turkstat, VakifBank

-  Turkish economy showed a strong growth performance in 2011.
-  In the first quarter of 2012, although domestic demand shows negative outlook, positive export figures support the growth. On the other hand, leading indicators show that in the following quarters, economy will perform better than the first quarter.
-  In addition, economic activity in developed countries improved on a limited scale compared to the last quarter of 2011. However, debt problems in Eurozone continue to be a risk for the global growth environment.




Leading indicators...



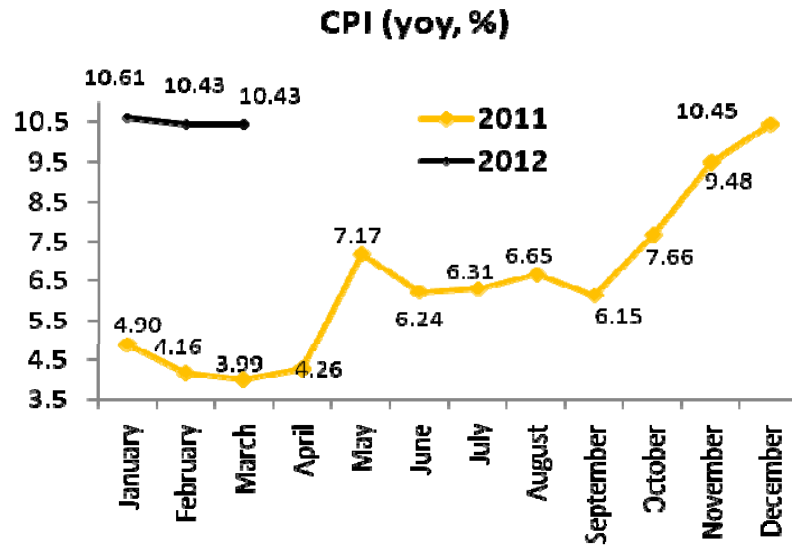
Source: CBRT, Reuters



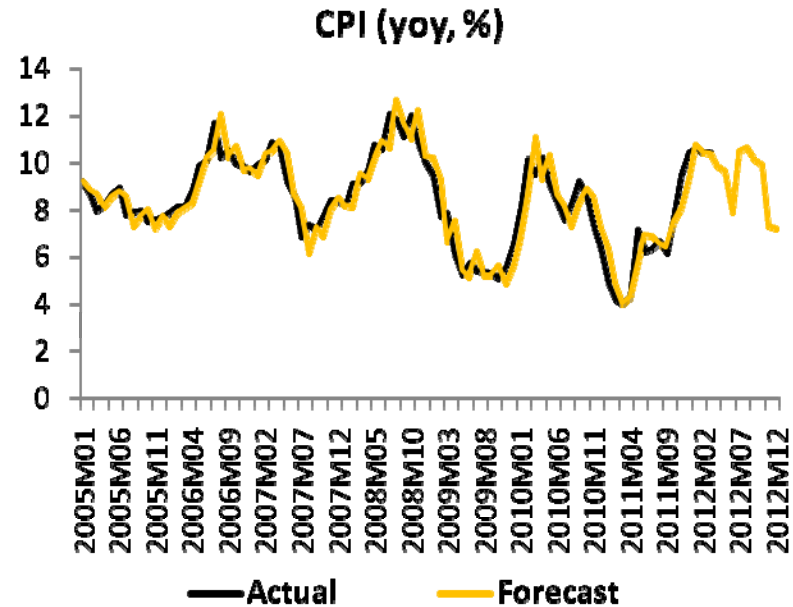
Source: CBRT

-  In spite of limited annual increase in industrial production in January, industrial production outperformed in February. On the other hand, capacity utilization increased again in March. In addition, relatively positive movement of PMI in the first quarter indicates that in 2012, growth of the Turkish economy will be positive but slower than 2011.
-  Annual increasing rate of exports which reached to 17.1% in February has a strong outlook for the growth performance.
-  In this context, we revised our real GDP forecast from 2.5% to 3.5% indicating a soft-landing in the economy.





We increased our 2012 year-end CPI forecast to 7.2%...



Source: CBRT

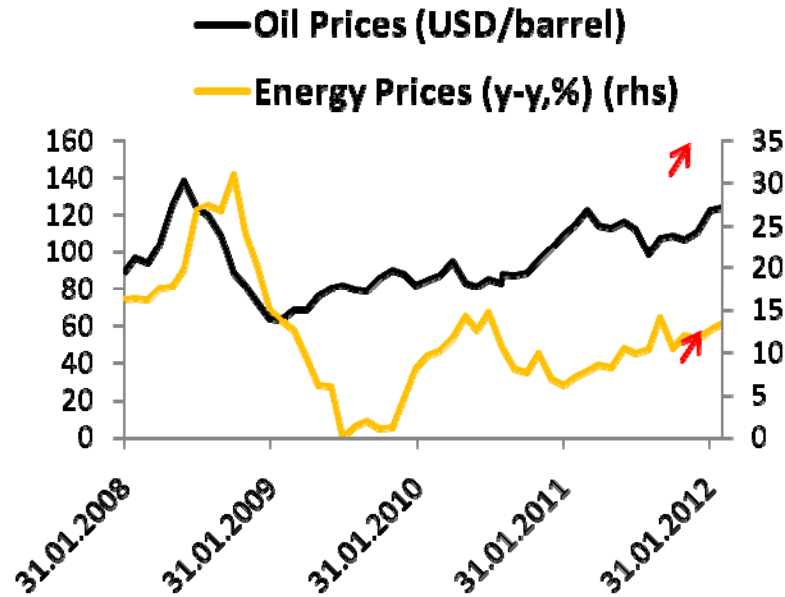


Source: Turkstat, Vakifbank

- 
 CPI increase in 2011 was 10.45% which was well above the CBRT's year-end target due to exchange rate pass-through, new tax adjustments and rise in food prices.
- 
 In the first quarter of 2012, inflationary pressures continued to be strong because of negative base effect and uncontrolled other inflationary developments.
- 
 Inflationary developments in the first quarter of 2012 increase the upside risks on the 2012 year-end CPI forecast which was 6.6%.
- 
 Hence, we revised our CPI forecast to 7.2% considering the risks which will be mentioned in the following slides.

Upside risks on the inflation...

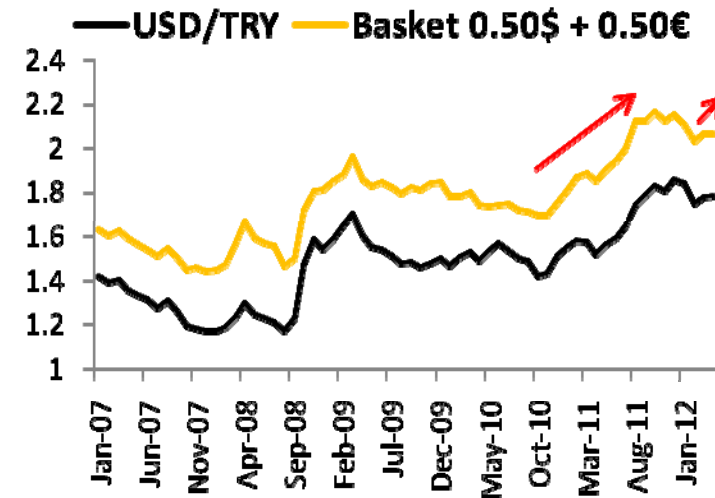
i. Upward movement of oil prices



Source: CBRT, Bloomberg

- ✔ Oil prices increased by 10.2% since the beginning of the year.
- ✔ Movement of oil prices negatively affected the costs and consumer prices.
- ✔ Supply side factors continue to be a risk for the oil prices.

ii. Lagged effects of exchange rate movements



Source: CBRT, Bloomberg

- ✔ Lagged effects of upward movements in exchange rate has caused upside pressure on the inflation.
- ✔ If exchange rate continues to increase in the coming months, the pass-through of exchange rate to CPI may affect the inflation outlook.

Upside risks on the inflation (continued)...

iii. New Price Adjustments in Energy

	Share in the CPI Basket (%)	Price Hike (%)	Contribution to April CPI (point)
Electric	3.1142	9.26	0.29
Natural Gas	1.3213	18.72	0.25
Total	4.4355	-	0.54

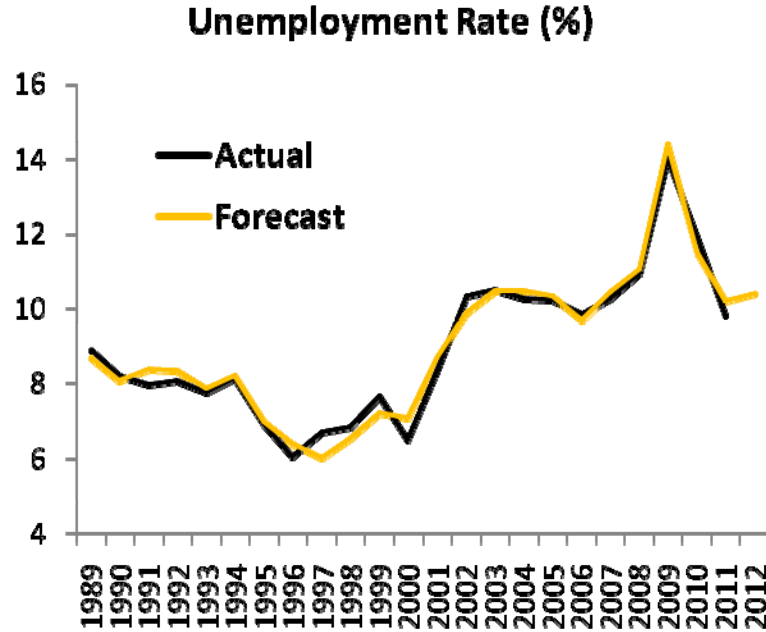
Source: TurkStat, VakifBank

- ✔ Electric and natural gas prices increased by respectively 9.26% and 18.72% in the beginning of April.
- ✔ Total share of these groups in the CPI basket is 4.4%.
- ✔ Price hike in electric and natural gas prices can additionally contribute 0.54 point to April CPI.

iv. Movements of Food Prices

- ✔ Food and non-alcoholic beverages has the highest share in the CPI basket.
- ✔ Annual food inflation has been double digit since December 2011 due to unfavorable seasonal factors.
- ✔ Food prices has risen by 2.9% since the end of 2011.
- ✔ Continuity of upward movement of food prices can be a risk for the headline CPI in the next period.

We expect that unemployment rate will be 10.4% in 2012...

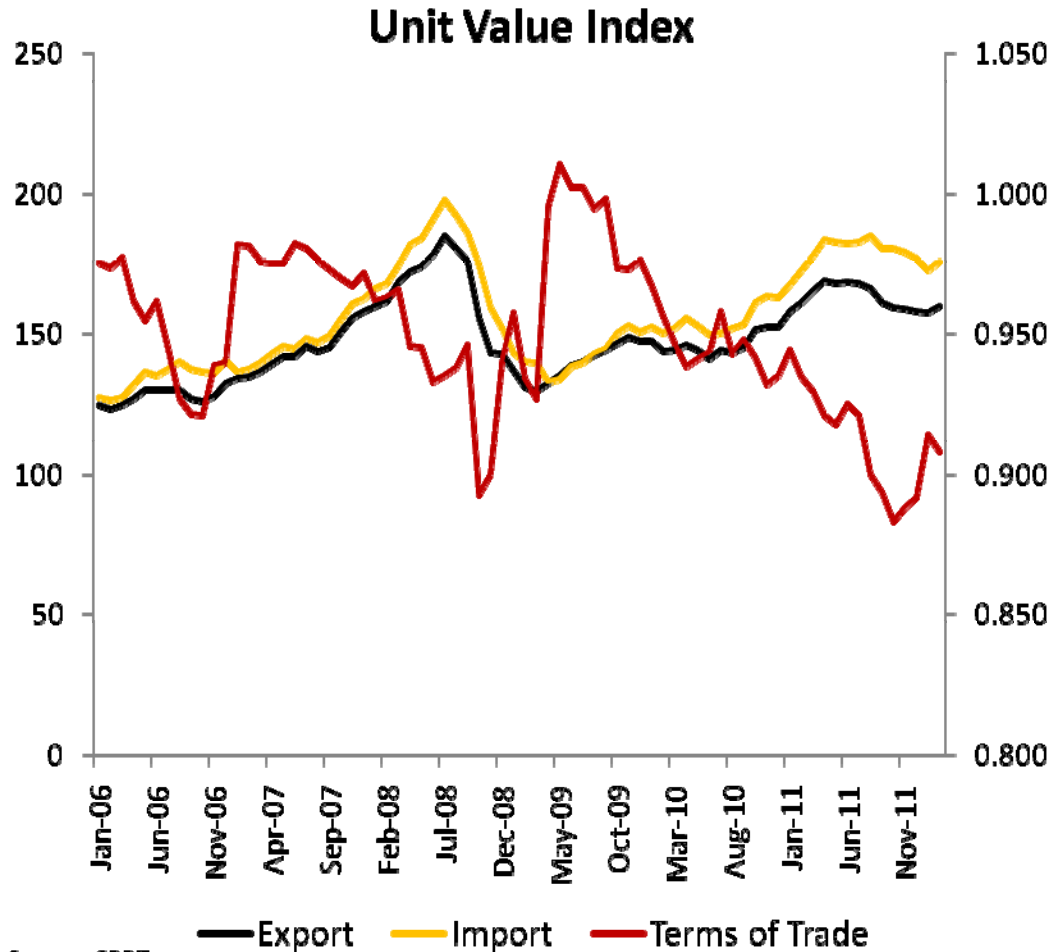


Source: TurkStat, VakıfBank

- Turkish economy showed a strong growth performance in 2011.
- This strong growth performance also positively affected the employment market.
- Hence, in 2011 employment rate increased to 45% and unemployment rate decreased to 9.8% which is lower than the pre-crisis period.

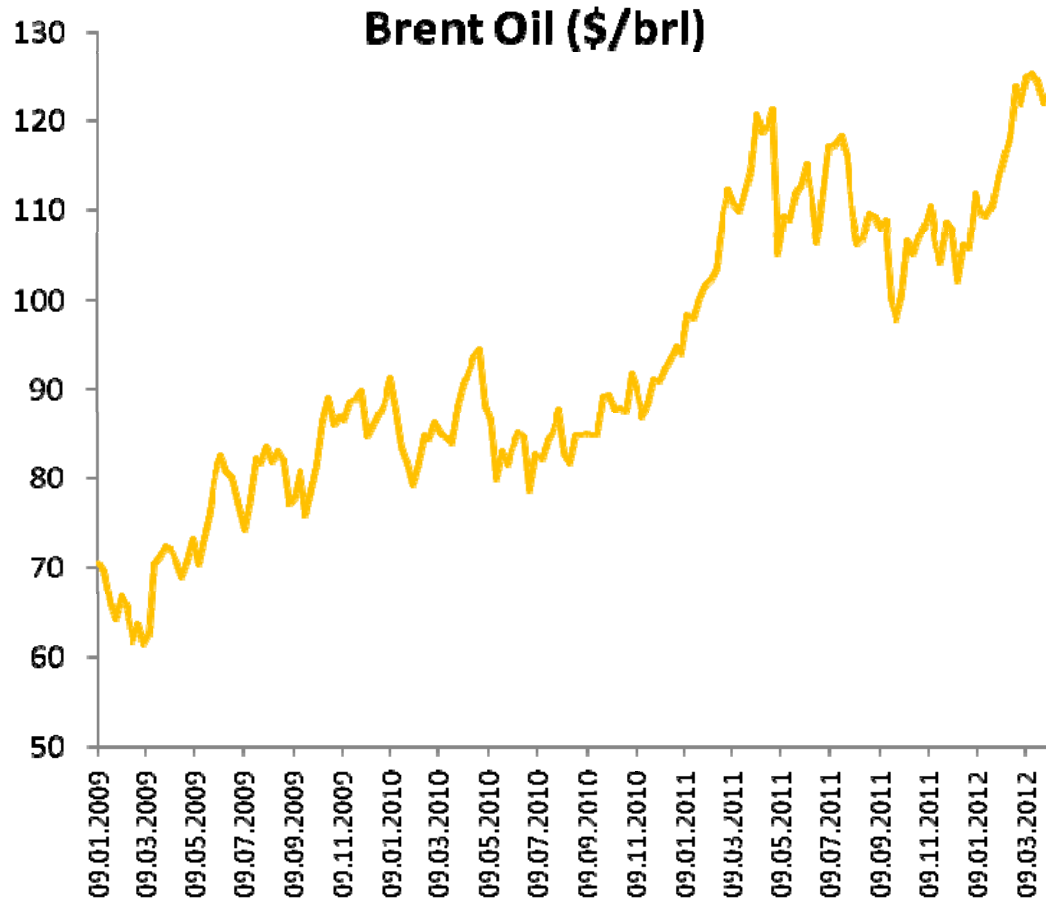
- Our growth forecast was 2.5% and unemployment rate forecast was 10.7% for 2012.
- However, we revised our 2012 forecasts with the effect of the macroeconomic developments in the first three months of 2012.
- We revised our unemployment rate forecast to 10.4% parallel to our growth forecast which is 3.5%.

Our foreign trade deficit forecast is \$93 billion for 2012...



-  With the strong performance of export and weak momentum in import, the foreign trade deficit continues to decline.
-  Terms of trade increased to 0.91 from 0.88 in October 2011 – January 2012 period.
-  Latest foreign trade value index releases show that terms of trade has declined to 0.90.

Increase in oil prices is an important risk on foreign trade...

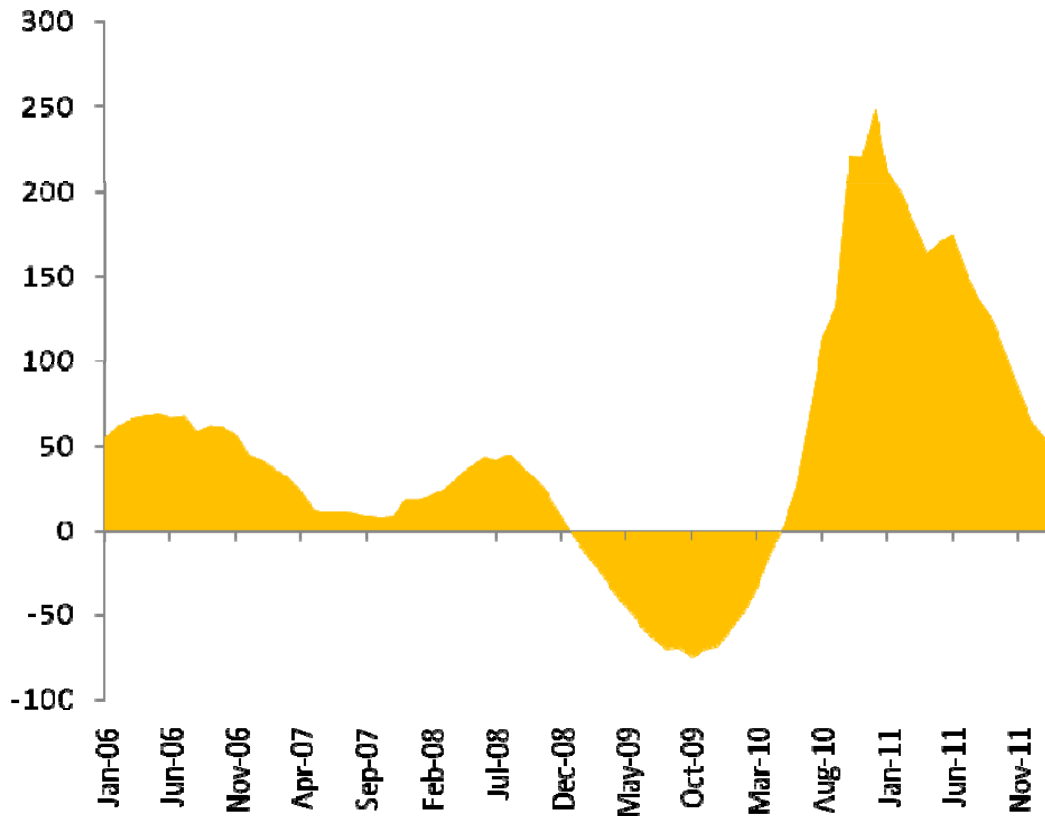


Source: Bloomberg

- Oil prices have risen after political conflict and raised growth forecasts for the global economy.
- Since the beginning of 2012 Brent crude oil price have increased to 18% and have reached \$125 per barrel.
- Rising oil prices is a risk factor on the foreign trade deficit.

Our current account deficit forecast is \$65 billion for 2012...

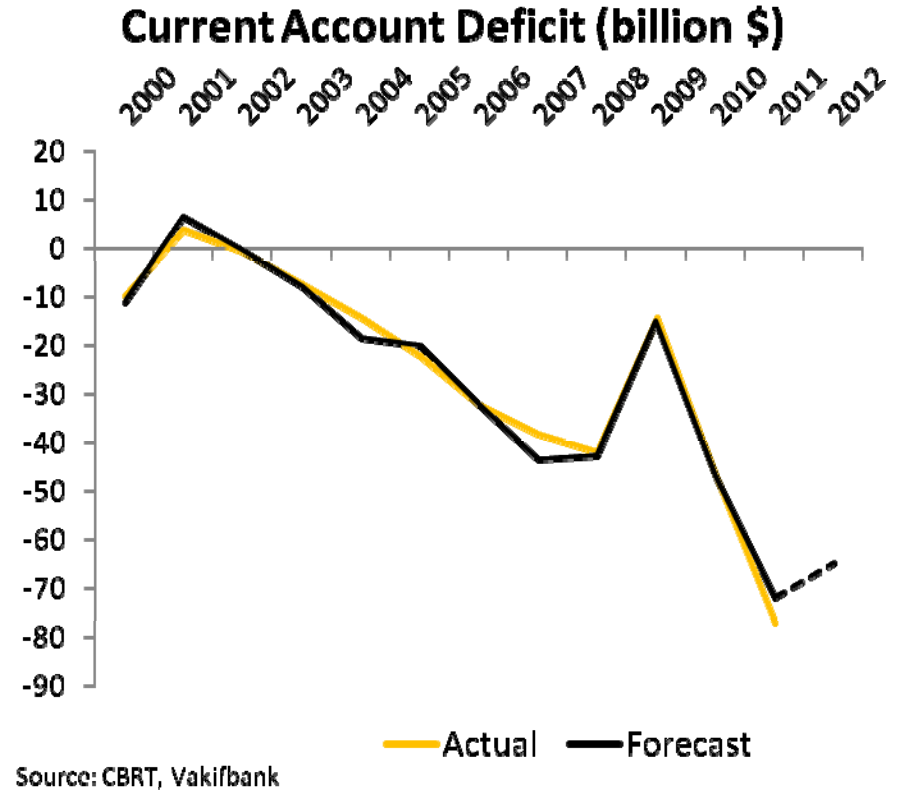
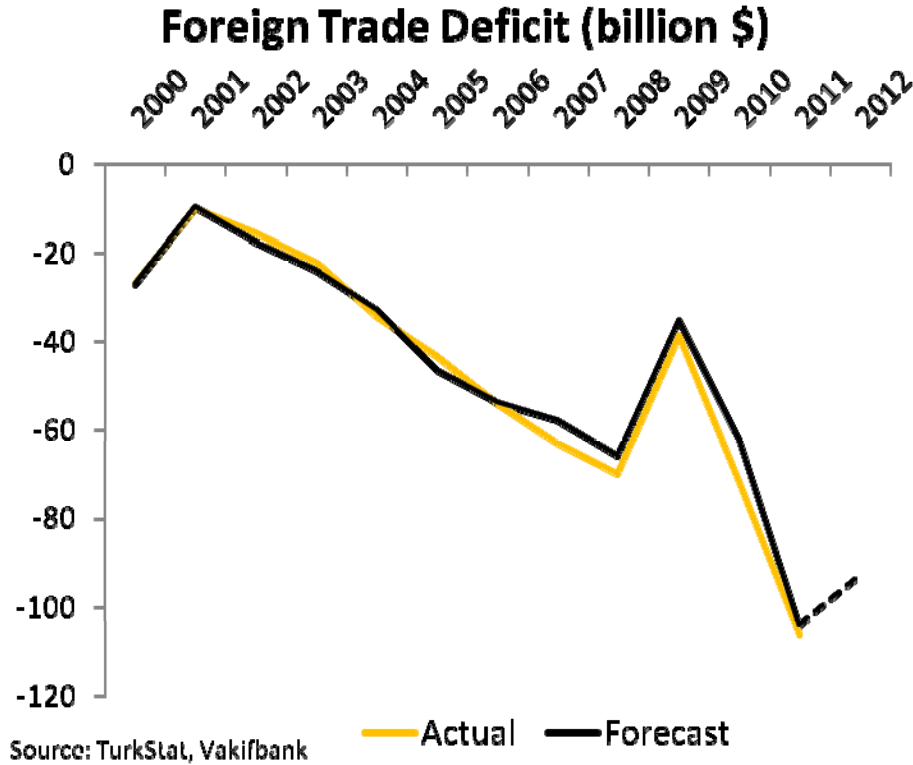
Current Account Deficit (y-y, %)





Source: CBRT

- ✚ In February 2012 the annual current account deficit narrowed to \$75.3 billion from \$77.1 billion.
- ✚ The recent current account data show that the pace of rebalancing in external balances has gained momentum.
- ✚ The annual growth rate of current account deficit dropped to 40.5% in February 2012.
- ✚ Rebalancing in current account deficit might slow down in Q2 2012 due to recent readjustment in oil prices and depreciation in TRY.

We made an upward revision in our foreign trade and current account deficit forecasts...



 Our foreign trade deficit forecast for 2012 is **\$93 billion**.

 In line with the upward revision in our foreign trade deficit forecast, our current account deficit forecast for 2012 indicates **\$65 billion**.

2012 budget deficit realization might slightly rise above its projected level..

Central Government Budget Balance			
Period	Q1 (billion TL)	Yearly Total (billion TL)	Q1/Yearly Total(%)
2006	-1,050	-4,643	22.6
2007	-3,332	-13,708	24.3
2008	-4,374	-17,432	25.1
2009	-19,127	-52,761	36.6
2010	-11,341	-40,081	28.3
2011	-4,124	-17,439	23.7
2012	-6,431	-21,104*	30.5

Source: Turkish Ministry of Finance
*2012 budget projection

- ✔ Central Government Budget Deficit reached a cumulative total of 6.4 billion dollars in Q1 2012, which is the 30.5% of 2012 projected budget deficit.
- ✔ This proportion is below the 2009 figure of 36.25% but higher than the average of 2006-2011 period except for 2009 which is 24.8%.
- ✔ Comparatively higher borrowing costs in Q1 2012 are the main reason of the proportional rise in Q1 2012 budget deficit.

- ✔ Tighter liquidity conditions due to inflationary pressures and thereby higher market interest rates might be an upside risk on budget deficit.
- ✔ The government recently announced an investment incentive package against the growth performance and the structural C/A deficit and introduced additional measures to increase domestic savings together with the projected tax exemptions to enhance investments and exports.
- ✔ Although these measures are not expected to have a negative effect on budget deficit in the short term, they might start to be effective on the budget deficit towards the year-end. But some other income generating factors such as 2B land sales might be an offsetting factor.

Serkan ÖZCAN

Chief Economist

+ 90 312 455 7087

serkan.ozcan@vakifbank.com.tr

Nazan KILIÇ

Economist

+ 90 212 398 1902

nazan.kilic@vakifbank.com.tr

Ümit ÜNSAL

Economist

+ 90 212 398 1899

umit.unsal@vakifbank.com.tr

Emine Özgü ÖZEN

Economist

+ 90 212 398 1890

emineozgu.ozen@vakifbank.com.tr

Naime DOĞAN ERİŞ

Researcher

+ 90 212 398 1892

naimedogan.eris@vakifbank.com.tr

Fatma Özlem KANBUR

Researcher

+ 90 212 398 1891

fatmaozlem.kanbur@vakifbank.com.tr

T. Vakıflar Bankası T.A.O

www.vakifbank.com.tr

Vakıfbank Economic Research

ekonomik.arastirmalar@vakifbank.com.tr

The information in this report has been obtained by Türkiye Vakıflar Bankası T.A.O. from sources believed to be reliable. However, Türkiye Vakıflar Bankası T.A.O. cannot guarantee the accuracy, adequacy, or completeness of such information, and cannot be responsible for the results of investment decisions made on account of this report. This document is not a solicitation to buy or sell any of the securities mentioned. All opinions and estimates included in this report constitute our judgment as of this date and are subject to change without notice. This report is to be distributed to professional emerging markets investors only.
