Latest Macroeconomic Developments Turkey

October 12, 2010

Economic Research

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Are the New Targets Tight or Pro cyclical?

The government has revealed its medium term program for 2011-2013, which will form the basis of the government budget. The program is developed upon the previous medium term program, aiming at sustainable growth, rise in employment, improvement in the public balances and price stability.

According to the government estimates, after growing by 6.8% in 2010, Turkish economy growth rate will slow down to 4.5% in 2011. The 2010 growth rate of the government is well behind the 7.8% estimate of the IMF. Compared to the government, IMF is more conservative on 2011 growth forecasts leaving it at 3.6%.

The most striking part of the plan is that macroeconomic targets of the government pointed out to a jump in the contribution of public sector to the GDP growth rate in the second half of 2010. According to the government forecasts, public consumption which grew by only 2.5% in the first half of 2010 would expand by almost 12% in the second half of 2010. The growth rate estimate for public investment is even more dramatic. After contracting by 5.5% in the first half of 2010, public investment is expected to swell by 50% in the second half. These figures indicate almost 2 point contribution to the growth rate from the public side, the highest level since the start of the GDP series. Although the forecast of the government is 6.8% for 2010 growth rate, according to our estimates, if the significant rise in public spending materializes as in the program, the growth could reach beyond 8% in 2010.

The estimates for the budget figures are also confusing especially for 2011. According to the program despite the acceleration in public expenditures in the last quarter of 2010, the overall central budget deficit over GDP ratio will fall to 4% from 5.5% the year before. For 2011 the central budget deficit target is more assertive at 2.8% of GDP. The half of the 1.2 point improvement in 2011 in central budget deficit will be attained by the contraction in primary expenditures while the rest will be sustained due to falling interest expenditures.

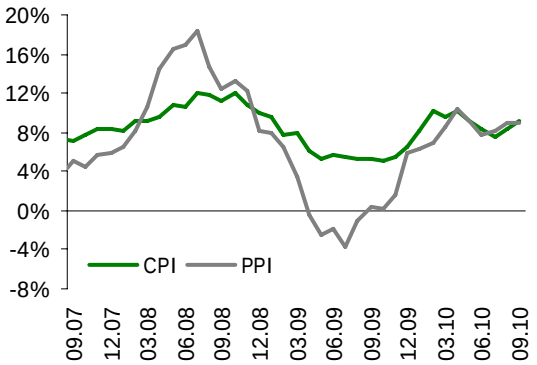
Considering the historical developments in election years, the 0.6 point (as a % of GDP) contraction in primary expenditures is very optimistic. According to the program this contraction will be attained through only 7% rise in primary expenditures, indicating almost no real change. The budget deficit figures give the massage of “there would not be any expansionary policy implementation in 2011”. However, the very optimistic figures for 2011 also raise the questions of its attainability.

Even though 4% budget deficit/GDP ratio for 2010 is better than the previous target of 4.9%, it should be borne in mind that the GDP growth rate is likely to be between 7-8% rather the previous program estimate of 4%. From the details of this year’s program, we feel that the government is again being conservative on both this year’s and next year’s growth estimates, especially if it is planning to make such a public spending. Would attaining next year’s targets be still a success then? Or would it be a result of another year of pro cyclical policy?

Inflation – Unprocessed Food Prices Were in Its Peak Level As Of Sep'10…

Consumer prices increased by 1.23% (MoM) in Sep., more than the 0.87% expectations; thus annual inflation rose from 8.33% to 9.24%. Producer prices rose by 0.51% below the 0.67% expectations. Annual producer price inflation fell from 9.0% to 8.9%.

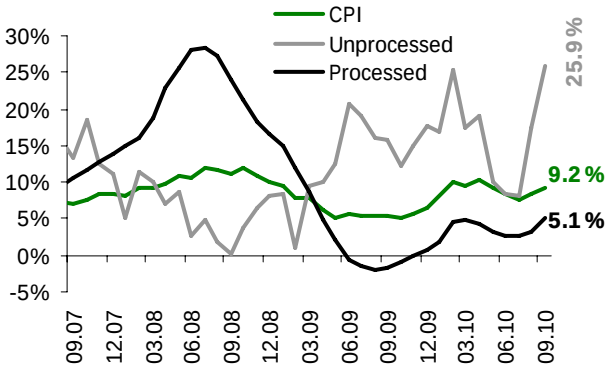
Graph 1: YoY Inflation



Source: TURKSTAT

Unprocessed and processed food price inflation rose to 25.9% and 5.1% in Sep from 17.5% and 3.2% in Aug, respectively on a year on year basis. Thus, total food prices rose from 10.7% to 16.1% during this period (YoY).

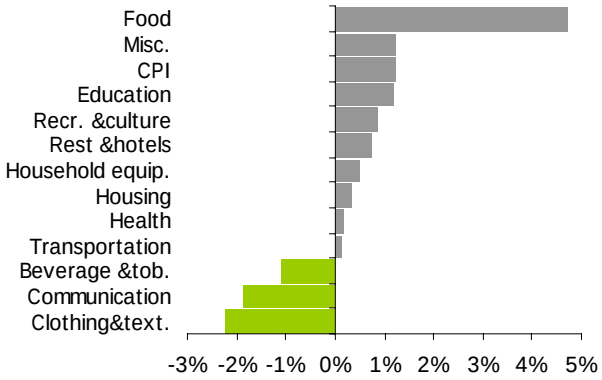
Graph 2: CPI & Food Inflation



Source: TURKSTAT, Garanti Bank calculations

In Sep'10, the rise in CPI mainly stemmed from the sharp rise in food prices while fall in clothing & textile prices lowered the CPI.

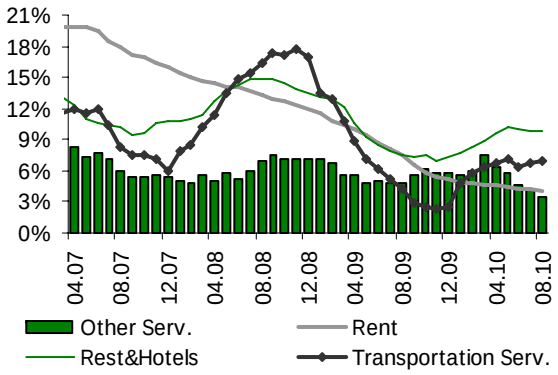
Graph 3: Sep CPI Inflation



Source: TURKSTAT, GarantiBank calculations

In Sep, service sector inflation rose by 0.33% (MoM) while there was a fall to 4.72% from 5.46% (YoY). Rest&hotel prices fell while rent and transportation prices rose slightly (YoY).

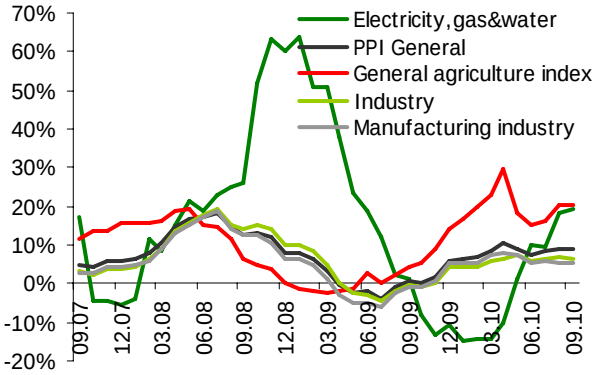
Graph 4: YoY Inflation in Service Sector Subgroups



Source: TURKSTAT

In Sep, the rise in producer prices mainly stemmed from the rise in agricultural prices.

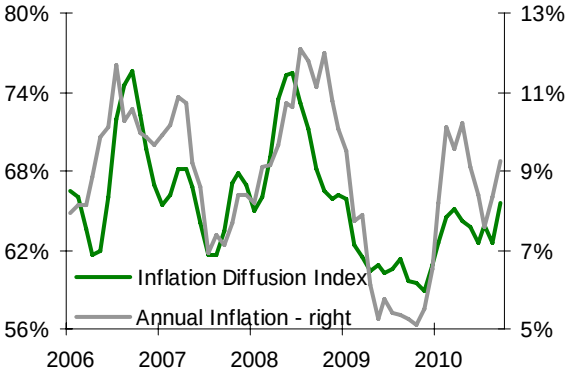
Graph 5: PPI in Main Subgroups (YoY)



Source: TURKSTAT

On a 3 month average and seasonally adjusted basis, as of Sep'10, inflation diffusion index also rose, in line with total inflation.

Graph 6: Inflation Diffusion Index* (S.A. – 3MA)



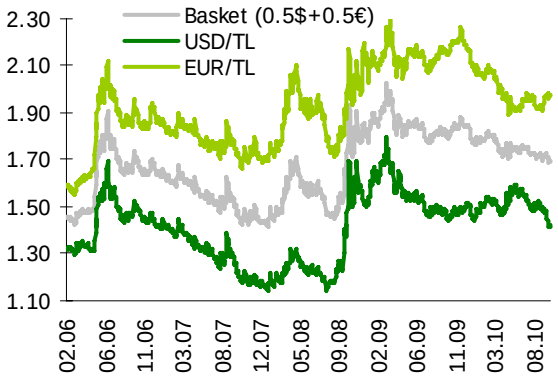
Source: TURKSTAT, CBT

* Difference between the share of items with increasing prices & share of items with failing prices in CPI

FX & Int. Rates – Despite High Inflation, Bond Yields Fell in the First Week of October...

While TL appreciated by 4% against the USD, it depreciated by 2.5% against the Euro during September. Accordingly, it appreciated by 0.9% against the currency basket during that period...

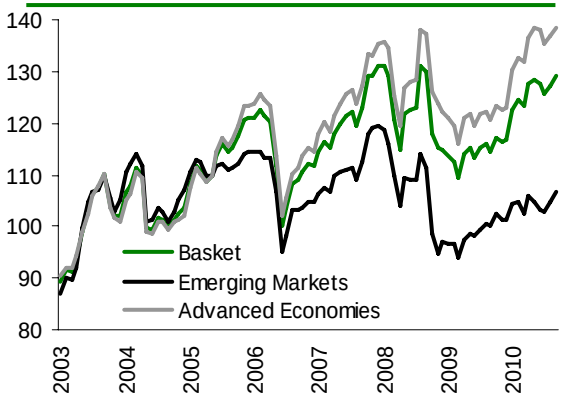
Graph 7: Nominal Exchange Rates



Source: CBT, GarantiBank

Additionally, TL appreciated in real terms during September due to rise in annual inflation. It appreciated by 1.9% against emerging market currencies, it rose just by 1.3% against advanced economies currencies compared to August. Thus, it appreciated by 1.5% against the basket...

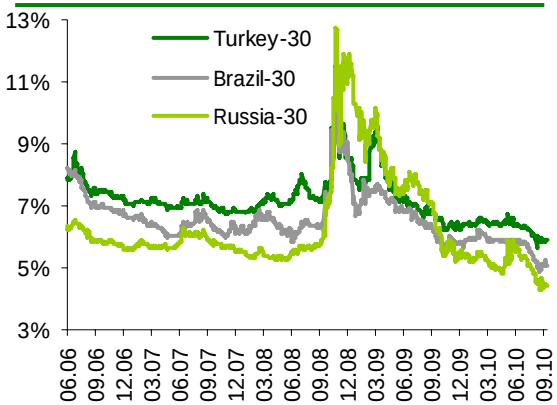
Graph 8: CPI Based Real Exchange Rates (2003=100)



Source: CBT, TURKSTAT, GarantiBank calculations

Eurobond-30 yields of Brazil, Russia and Turkey declined during September, similar to the previous three months. The fall in Eurobond yields of these economies accelerated in the first week of October...

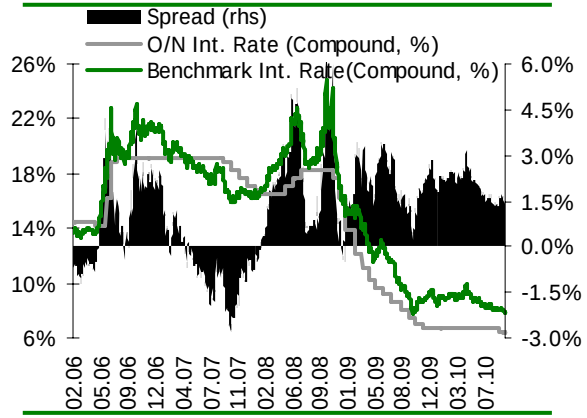
Graph 9: Eurobond-30 Yields



Source: Reuters

While benchmark bond yield remained almost stable in the first half of September, it began to fall at the end of the month due to CB's implications regarding another reduction in the borrowing rates in the forthcoming period..

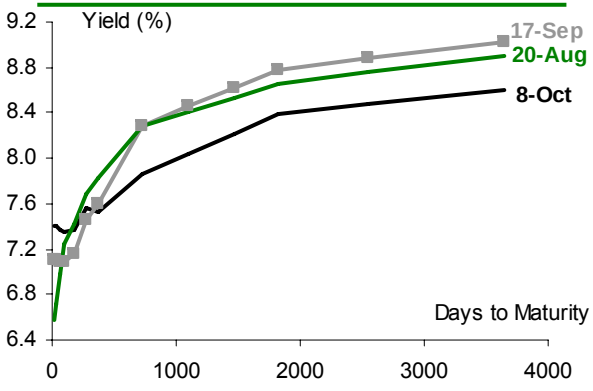
Graph 10: Benchmark&ON Interest Rates



Source: CBT, ISE, GarantiBank

Although September CPI figures were above the expectations, interest rates declined in all maturities in the first week of October...

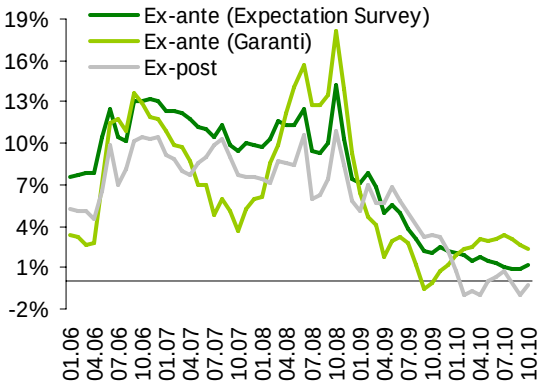
Graph 11: Yield Curve



Source: CBT

Ex-post real interest rate declined to -1% in September from -0.2% in August due to rise in annual inflation and fall in benchmark bond yield...

Graph 12: Real Interest Rates

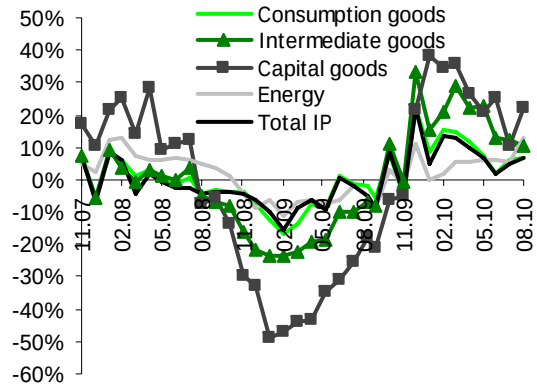


Source: CBT, Reuters, GarantiBank calculations

Growth – According to the IMF, Growth Rate Will Reach 7.8% in 2010...

The growth rate of Industrial Production (IP) accelerated in August, rose to 11% (YoY) from 8.8% in July, through ongoing double digit increase in intermediate goods and the acceleration in capital goods...

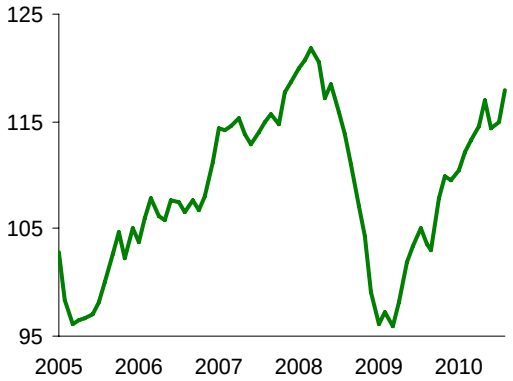
Graph 13: Breakdown of IP (YoY)



Source: TURKSTAT, GarantiBank

Moreover, calendar and seasonal adjusted IP jumped by 2.7% (MoM) in August, a significant rise for the first time after October 2009...

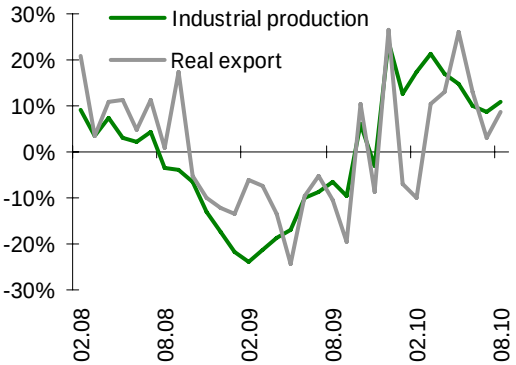
Graph 14: Calendar&Seasonal Adjusted IP Index



Source: TURKSTAT

In August, acceleration in exports led to a rise in the growth rate in IP. The rise in real exports increased to 8.5% (YoY) in August from 3% (YoY) in July...

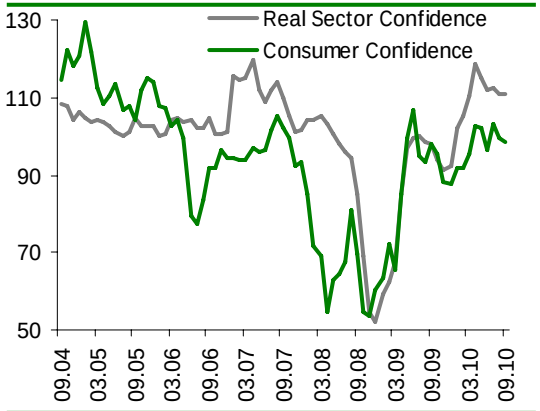
Graph 15: IP and Exports (YoY)



Source: TURKSTAT, GarantiBank

Confidence indices decreased slightly in the third quarter, falling by 0.3% in consumer confidence and 3.3% in real sector...

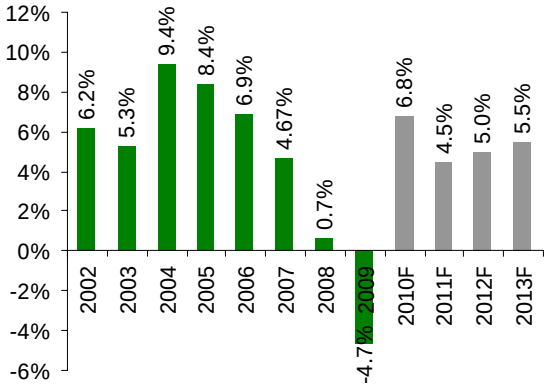
Graph 16: GDP and IP (3MA, YoY)



Source: TURKSTAT, CBT, CNBC-e

The Government expects GDP growth rate to pick up to 6.8% in 2010. Moreover, the Government assumes growth rate of 5.0% during 2011-2013...

Graph 17: The Government Growth Forecasts



Source: TURKSTAT, Medium Term Plan
F: The Government forecasts

On the other hand, according to the IMF, growth rate in Turkey will reach 7.8% in 2010, above European countries'...

Table 1: IMF Growth Forecasts (%)

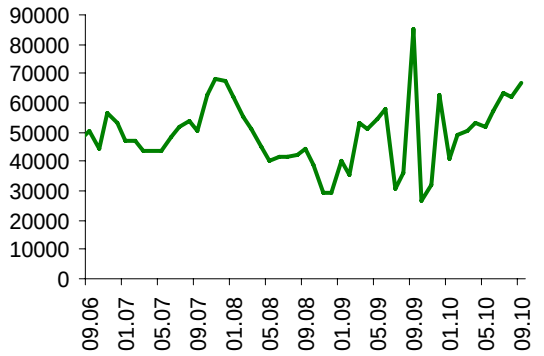
	2009	2010F	2011F
China	9.1	10.5	9.6
India	5.7	9.7	8.4
Turkey	**-4.7**	**7.8**	**3.6**
Brazil	-0.2	7.5	4.1
Argentina	0.9	7.5	4.0
Korea	0.2	6.1	4.5
Indonesia	4.5	6.0	6.2
Mexico	-6.5	5.0	3.9
Sweden	-5.1	4.4	2.6
Russia	-7.9	4.0	4.3
Poland	1.7	3.4	3.7
Germany	-4.7	3.3	2.0
South Africa	-1.8	3.0	3.5
Japan	-5.2	2.8	1.5
United States	-2.6	2.6	2.3

Source: IMF World Economic Outlook Report, October 2010
F: IMF forecasts

Sectoral Details – Upward Trend Continued in Domestic Demand Indicators On Sectoral Side...

In Sep'10, there was a fall in domestic sales of automobiles due to base effect (YoY). However, seasonally adjusted data still pointed out to a rise compared to the previous month.

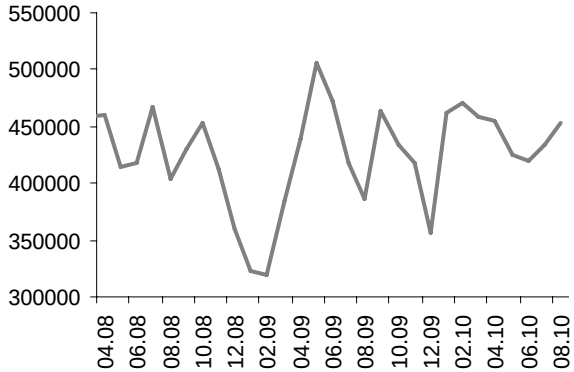
Graph 18: Auto Domestic Sales (S.A.)



Source: OSD

White goods domestic sales continued to rise in Aug'10, on a seasonally adjusted basis.

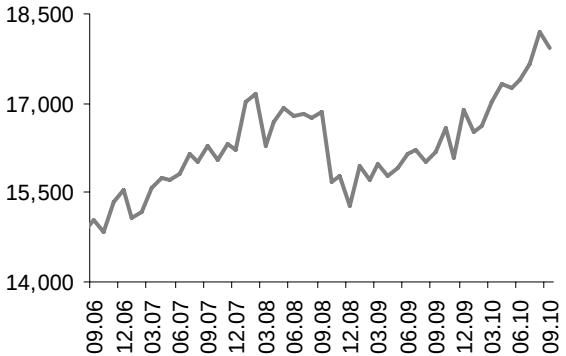
Graph 19: White Goods Domestic Sales (S.A.)



Source: TURKBESD

In Sep'10, the rise in electricity consumption decelerated (by 11%, YoY). Despite the deceleration, consumption was still above the pre crises level on a seasonally adjusted basis.

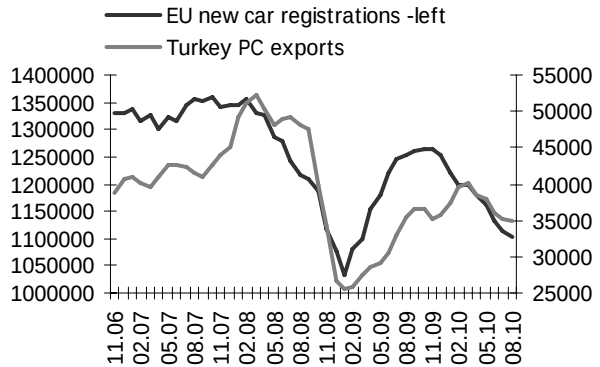
Graph 20: Electricity Consumption (S.A.)



Source: TEIAS, Garanti Bank Calculations

During May-Aug'10, on a seasonally adjusted basis, there was a continued fall in new car registrations of EU Countries which are the main exports market of Turkey.

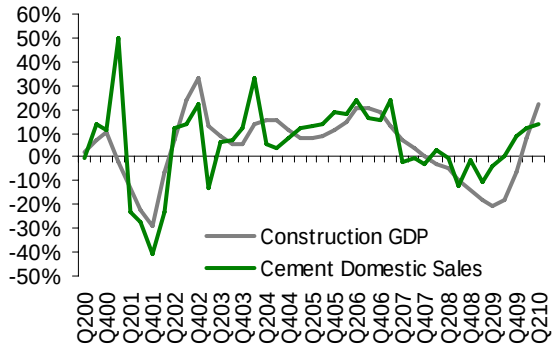
Graph 21: Auto Exports & Production (S.A.)



Source: ACEA, OSD, Garanti Bank Calculations

As of 2Q'10, the rise in cement domestic sales were in line with the recovery in the construction sector.

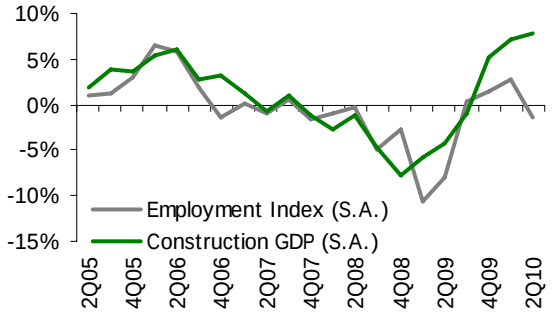
Graph 22: Construction GDP & Cement Sales (S.A.)



Source: TUIK, TCMA, Garanti Bank Calculations

Despite a recovery in construction sector there was a fall in construction employment index as of 2Q'10, on a seasonally adjusted basis.

Graph 23: Construction (S.A.)

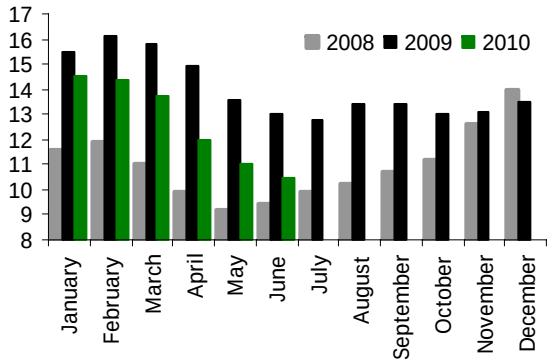


Source: TUIK, Garanti Bank Calculations

Labor – Rise in Employment & Workforce Lowered the Unemployment...

As of June'10, unemployment rate fell from 13.0% in June'09 to 10.5%. There has been a continued fall in unemployment rate since Feb'10.

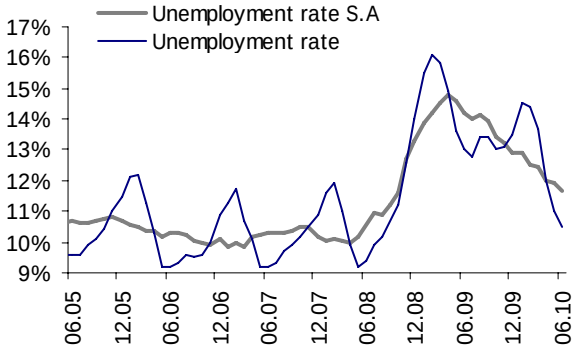
Graph 24: Unemployment Rates in 2008-2010



Source: TURKSTAT

There has been also a fall in seasonally adjusted (SA) unemployment rate which was 11.7% as of June'10. It was 11.9% in May'10.

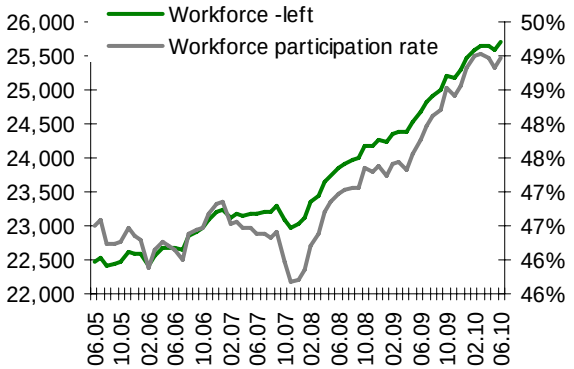
Graph 25: (S.A.) Unemployment Rate (YoY)



Source: TURKSTAT

As of June'10, there was a rise (by 161 thousand people) in the employed people. Also, the rise in the workforce participation rate which was at its highest level, lowered the unemployment rate.

Graph 26: Workforce



Source: TURKSTAT

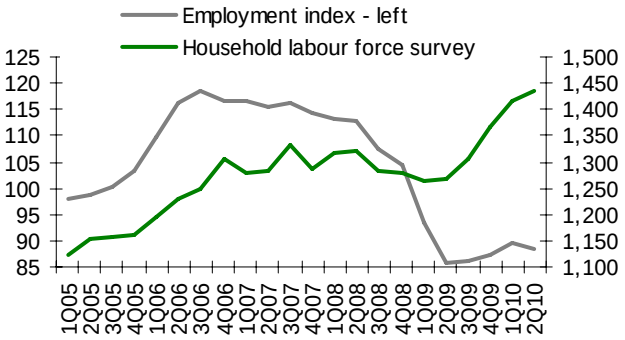
As of 2Q'10, on seasonally adjusted basis, employment index* in industry rose by 2% compared to previous month while there was a 3% rise according to household labor force survey.

Graph 27: Industry Sector (S.A.)

Source: TURKSTAT

As of 2Q'10, on a seasonally adjusted basis, employment index in construction fell by 1% compared to previous month despite a 1% rise in household labor force survey.

Graph 28: Construction Sector (S.A.)



Source: TURKSTAT

Employment index and household labor survey in trade service sector had parallel trends (1% rise) as of 2Q'10 on seasonally adjusted basis.

Graph 29: Trade Service Sector (S.A.)

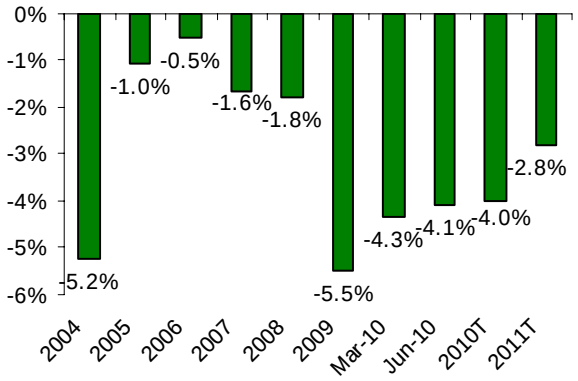
Source: TURKSTAT

* Employment index includes firm's statement while household labour force survey takes household statement into account.

Public Finance – Government Has Announced Its Budget Targets for 2011-2013

According to the recently announced Medium Term Plan, central budget deficit/GDP ratio will fall to 4.0% and 2.8% in 2010 and 2011, respectively. The ratio is expected to decline gradually to 1.6% in 2013.

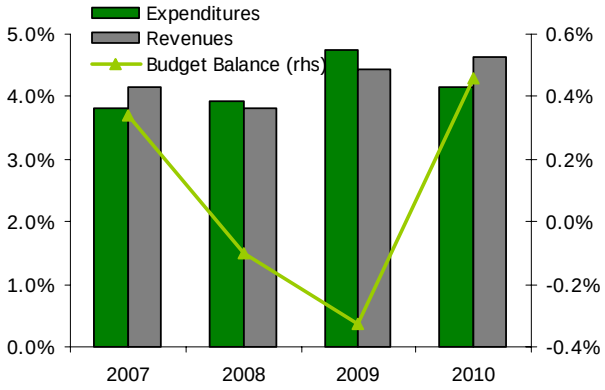
Graph 30: Budget Deficit (% of GDP)



Source: Ministry of Finance, Turkstat T: Government Target

According to the local government budget figures, the performance has improved significantly in 2010 compared to 2009.

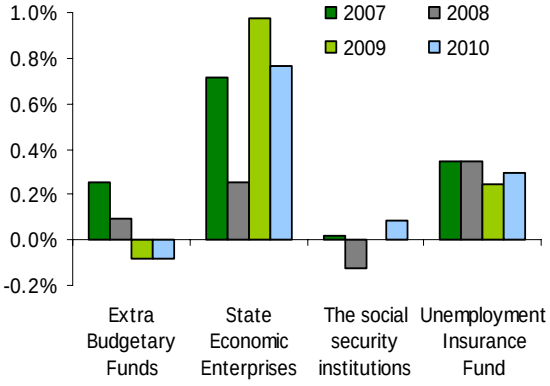
Graph 31: Local Government (Jan-June, % of GDP)



Source: Ministry of Finance, Turkstat

In the first half of the year compared to the year before, the budget performance of the social security institutions and unemployment insurance fund improved, while it worsened at state economic enterprises

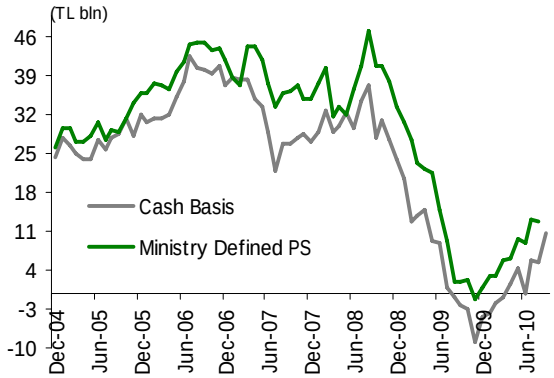
Graph 32: Primary Balance (Jan-Jun, % of GDP)



Source: Treasury, Turkstat

The 12-month cumulative cash basis primary surplus reached TL10.8 bn as of September. The figure was indicating a TL 2.1 bn deficit the year before.

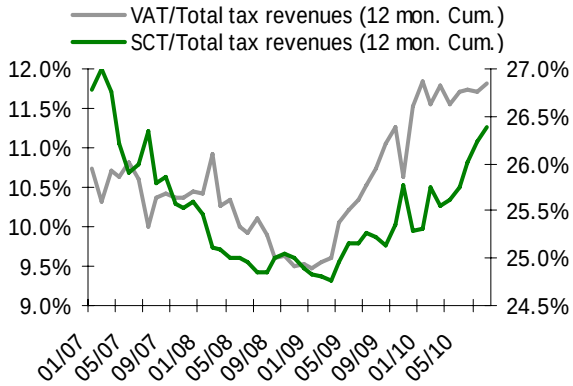
Graph 33: Primary Surplus (12-Mnth Total)



Source: Ministry of Finance, Treasury

The share of VAT and SCT revenues in total tax revenues continued to increase in the third quarter of 2010. Both ratios started to increase in the second half of 2009.

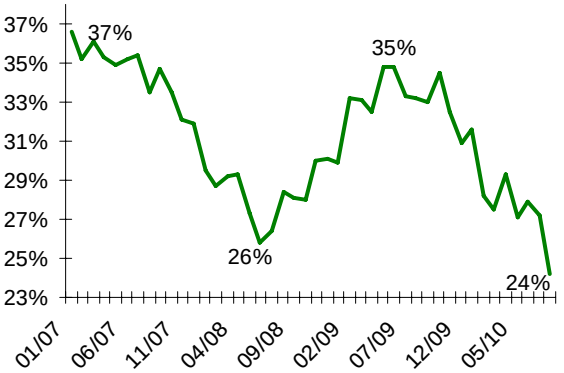
Graph 34: Tax on Consumption



Source: Ministry of Finance

Due to rising tax revenues and falling interest rates the ratio of interest expenditures to tax revenues fell to its lowest level as of August 2010

Graph 35: Int. Exp./Tax Rev. (12-Mnth Total)

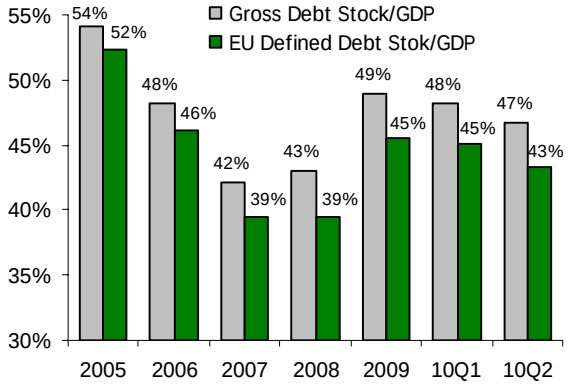


Source: Ministry of Finance

Public Finance – The EU Defined Public Debt Stock to GDP Ratio Fell to 43% as of June 2010

EU defined public debt stock/GDP ratio fell to 43% as of June 2010 from 45% as of March 2010. According to the Medium-Term Plan, the level is expected to decline to 40.6% in 2011

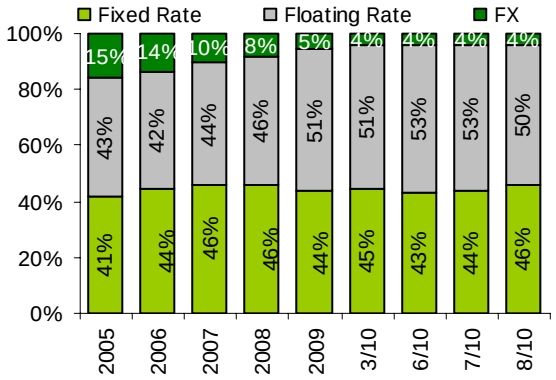
Graph 36: Public Debt



Source: Treasury

The share of floating rate notes in total loans fell by 3 points to 50% as of August 2010, while the share of fixed rate notes rose to 46%.

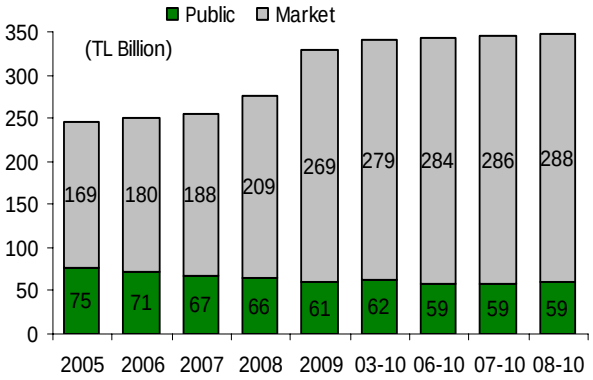
Graph 37: Domestic Debt by Instruments



Source: Treasury

As of August 83% of total domestic debt is to the market.

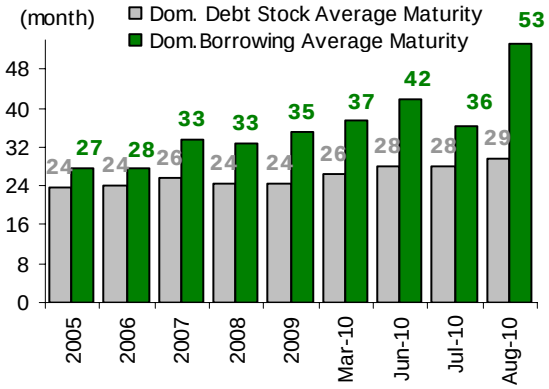
Graph 38: Domestic Debt by Holder



Source: Treasury

Treasury has succeeded to lengthen the average maturity of domestic borrowing to 53 months in August 2010. The average maturity of domestic debt stock has widened to 29 months.

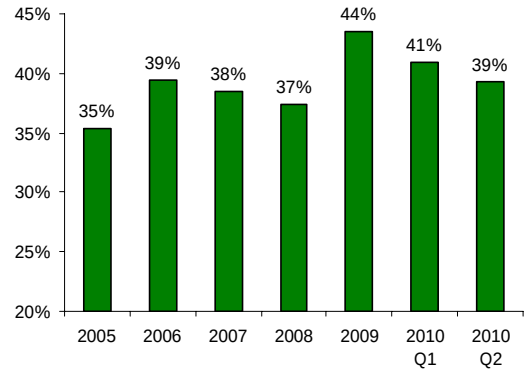
Graph 39: Domestic Debt by Maturity



Source: Treasury

More than half of the private sector external debt was lent by non-resident commercial banks.

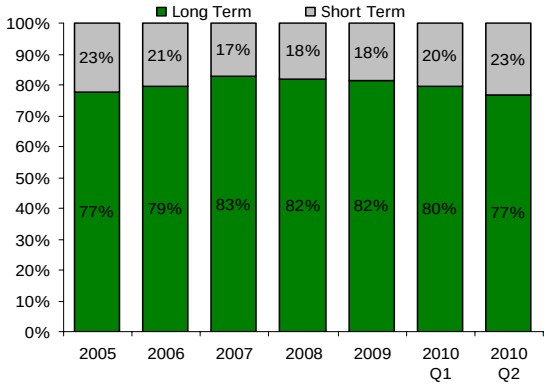
Graph 40: Total External Debt/GDP



Source: Treasury

The share of short term external debt rose by 3 points to 23% in the second quarter of 2010.

Graph 41: Maturity of Total External Debt

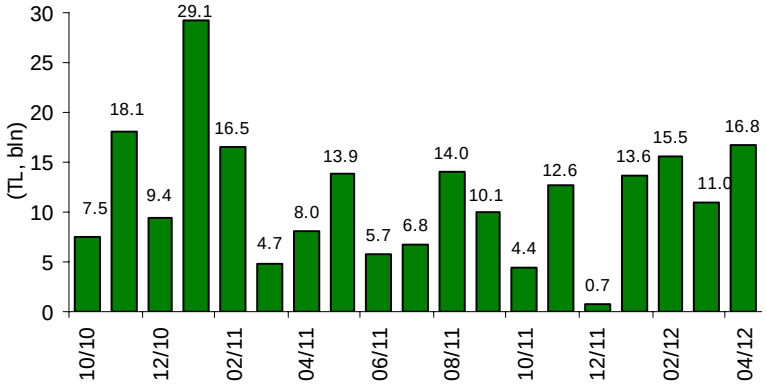


Source: Treasury

Public Finance – September Cash Figures Indicate An Ongoing Strength in Revenues

According to our calculations made on current debt stock, the redemption level in the first month of 2011 is still high over TL 29 bn despite the buy back auctions.

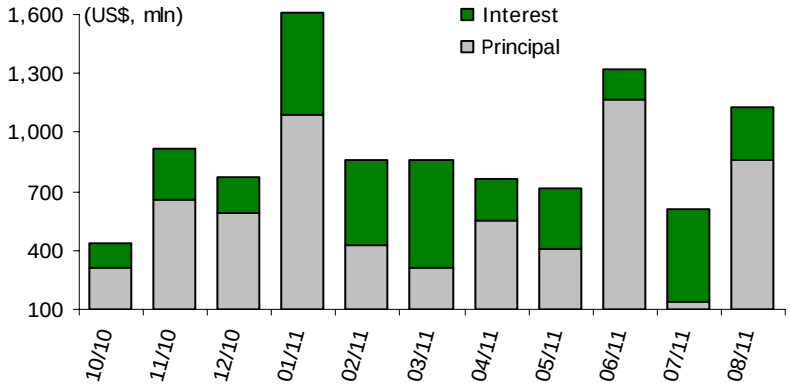
Graph 42: Domestic Debt Redemption Schedule



Source: Treasury, GarantiBank

According to the Treasury's projections, foreign debt payment in 1Q11 will be higher than the payment in 2Q11.

Graph 43: External Debt Repayment Schedule



Source: Treasury

September cash budget figures indicate an ongoing rise in revenues and limited non-interest expenditures growth. Cash figures signal a continued improvement in budget figures.

Table 2: Financing Table

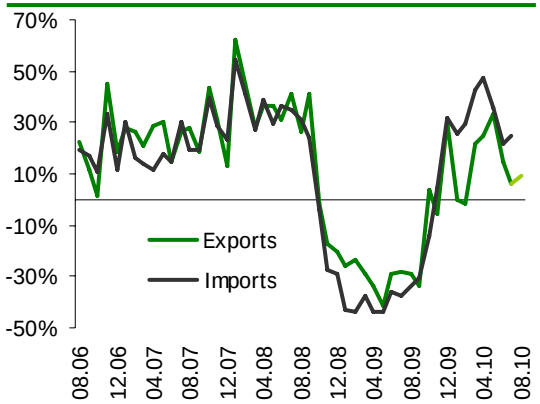
TL Billion	Jan-Sep 10	Oct-Dec 10 Treasury Estimate	2010 Total Estimate
Financing Gap	**155.6**	**38.2**	**193.8**
Domestic Debt Service	141.9	35.0	176.9
Principal	108.4	26.9	135.3
Interest	33.5	8.1	41.6
Foreign Debt Service	13.8	3.2	16.9
Principal	8.4	2.4	10.8
Interest	5.4	0.8	6.2
Financing	**155.5**	**38.2**	**193.7**
Domestic Borrowing	125.8	32.8	158.6
Foreign Borrowing	12.5	0.0	12.5
Primary Balance	12.4		-4.3
Privatization	5.9		8.7
Return on Debt	1.1		0.6
Cash	-2.2		0.0
Dom. Borrowing / Dom. Redemption	**88.7%**	**93.7%**	**89.7%**

Source: Treasury

Foreign Trade- Ratio of Exports to Imports Fell to its Lowest Level of the Past 5 Years

In August, exports rose by 9% (YoY) to US$ 8.6 bn, while imports rose by 21% (YoY) to US$ 15.4 bn. Thus, the ratio of exports to imports fell to its lowest level of the past 5 years. According to the TEA, exports rose by 10.3% (YoY) to US$ 9.2 bn in September...

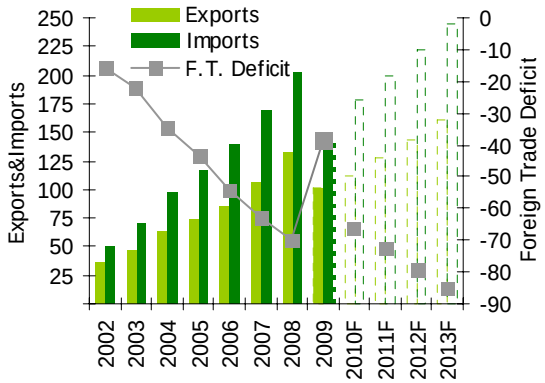
Graph 44: Exports &Imports YoY Change



Source: TURKSTAT, Turkish Exporters Assembly (TEA)

According to the Government forecasts, exports will rise by 9% to US$ 112 billion and imports will increase by 26% to US$ 178 billion by the end of 2010...

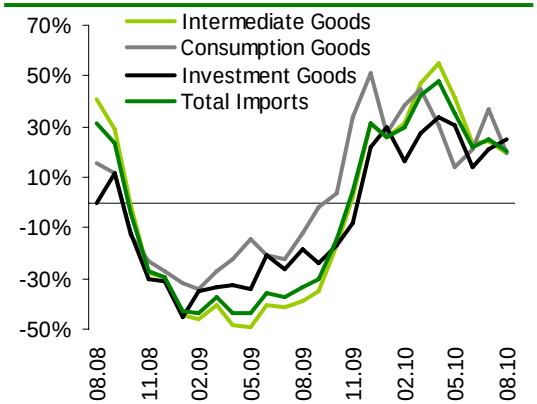
Graph 45: Annual Foreign Trade Balance (US$ Bn)



Source: TURKSTAT, Medium Term Plan F: Government forecasts

Despite the acceleration in investment goods imports, intermediate and consumption goods imports decelerated in August compared to July...

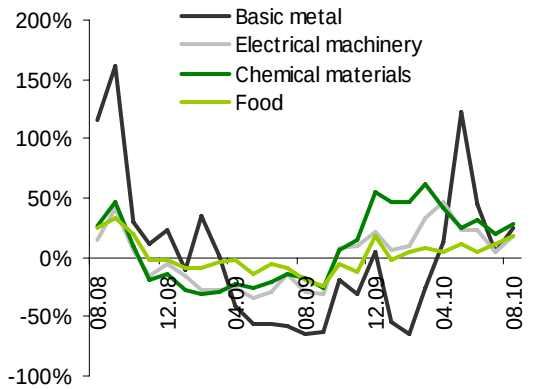
Graph 46: Breakdown of Imports (YoY)



Source: TURKSTAT

Despite the 9% increase in total exports, exports in basic metal and chemical products jumped more than 25% (YoY) in August...

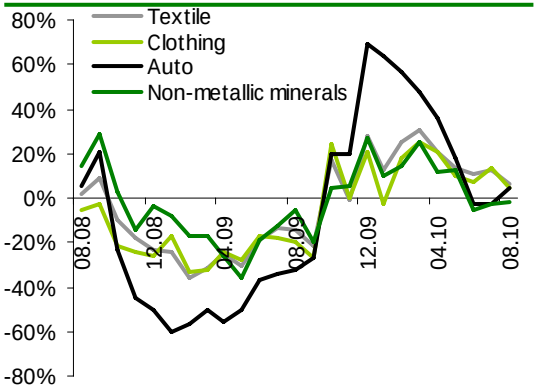
Graph 47: Sectors Above Overall Exports (YoY)



Source: TURKSTAT

Auto exports rose slightly by 4% in August due to slowdown in the EU demand, while the contraction in petroleum products and non-metallic minerals have continued...

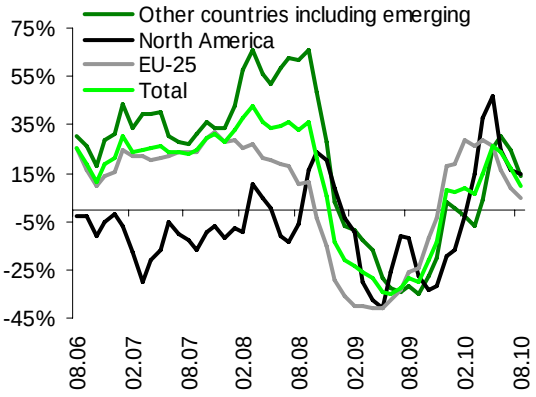
Graph 48: Sectors Below Overall Exports (YoY)



Source: TURKSTAT

According to the 3-month average yearly growth rates, export growth rate to the EU-25 fell to 5% in August from 8% in July, while exports to emerging countries continued to rise by double digits...

Graph 49: Country Groups in Exports (3MA, YoY)

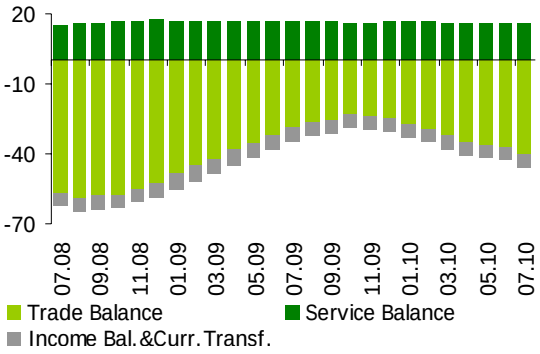


Source: TURKSTAT, GarantiBank calculations

Balance of Payments – Acceleration in Foreign Trade Deficit, Deceleration in Services Surplus

In August, current account balance recorded a deficit of US$ 3.0 billion, due to the acceleration in foreign trade deficit and the deceleration of services surplus. Therefore, current account deficit reached US$ 28.0 billion during January-August...

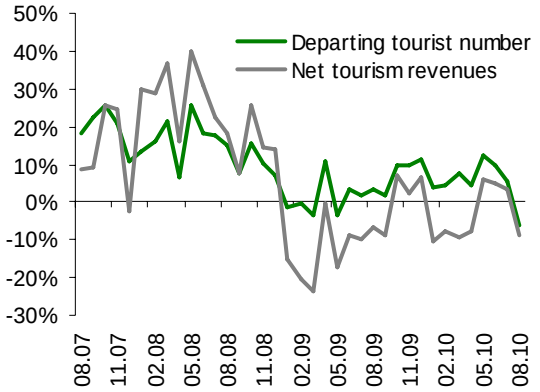
Graph 50: Current Account Balance (Bn US$)



Source: CBT

Net tourism revenues decreased by 9% (YoY) to US$ 3.2 billion in August, due to 6% fall in tourism revenues and 19% rise in tourism expenditures. During January-August, despite 4% rise in departing tourist number, net tourism revenues declined by 3%...

Graph 51: Tourism Statistics (YoY)



Source: TURKSTAT, Ministry Of Culture & Tourism

In Turkey, current account deficit as a ratio of GDP will increase to 5.2% in 2010 from 2.3% in 2009, according to the IMF...

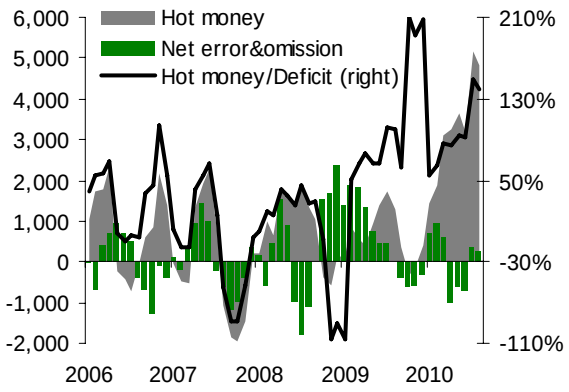
Table 3: Current Account Balance in Selected Countries (% of GDP)

	2009	2010F	2011F
Greece	-11.2	-10.8	-7.7
Portugal	-10.0	-10.0	-9.2
Spain	-5.5	-5.2	-4.8
Turkey	**-2.3**	**-5.2**	**-5.4**
Romania	-4.5	-5.1	-5.4
South Africa	-4.0	-4.3	-5.8
Croatia	-5.3	-3.8	-4.7
United States	-2.7	-3.2	-2.6
India	-2.9	-3.1	-3.1
Bulgaria	-9.5	-3.0	-3.1
Italy	-3.2	-2.9	-2.7
Ireland	-3.0	-2.7	-1.1
Brazil	-1.5	-2.6	-3.0
Poland	-1.7	-2.4	-2.6

Source: IMF World Economic Outlook Report, October 2010
F: IMF forecasts

In August, hot money inflow was US$ 2.7 billion, of which US$ 1.2 billion is net errors&ommissions. On a 3-month-average basis, hot money to current account deficit ratio reached 140% as of August...

Graph 52: Hot Money and Current Account Balance



Source: CBT, Garanti Bank

On a 12-month cumulative basis, deposits and net portfolio investment reached US$ 13.1 billion and US$ 12.4 billion as of August, while net FDI remained at US$ 5.7 billion...

Table 4: External Financing (12-month, Million US$)

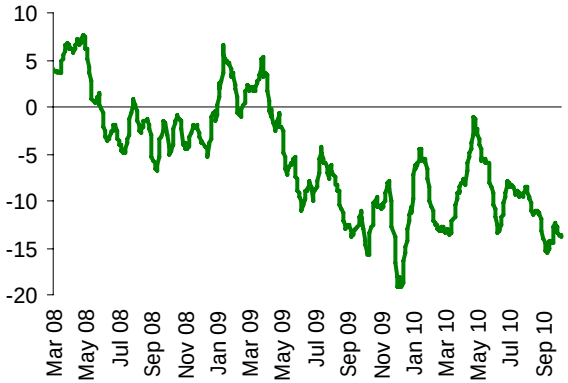
	2009	07 '10	08 '10
Current Account Balance	-14,402	-31,288	-33,645
Net Error and Omissions	4,641	-1,653	83
Gross Financing Requirements	-9,761	-32,941	-33,562
Gross Financing	9,761	32,941	33,562
1. Capital Inflow (Net)	4,498	33,515	35,503
FDI (Net)	6,879	5,786	5,691
FDI Outflow	-1,553	-1,697	-1,895
FDI Inflow	8,432	7,483	7,586
Portfolio Investment (Net)	196	10,118	12,403
General Government	1,820	1,512	2,512
Non-residents	1,118	10,758	12,255
Residents	-2,742	-2,152	-2,364
Loans (Except IMF Loans, net)	-13,246	-2,932	465
General Government	1,603	2,350	2,859
Banks	-4,129	3,885	5,436
Long Term	-1,340	660	1,328
Short Term	-2,789	3,225	4,108
Other Sectors	-10,720	-9,167	-7,830
Long Term	-9,376	-10,546	-9,040
Short Term	-222	689	705
Trade loans	-1,122	690	505
Deposits	4,587	15,261	13,066
Central Bank	-901	-616	-525
Banks	5,488	15,877	13,591
Other	6,082	5,282	3,878
2. IMF Loans	-680	-915	-1,057
Central Bank	0	0	0
General Government	-680	-915	-1,057
3. Reserve	5,943	341	-884
Banks' FX Assets	6,054	10,512	9,898
Official Reserves	-111	-10,171	-10,782

Source: CBT, Garanti Bank

CBT Balance Sheet – CBT Begins to Implement A Flexible FX Purchase Procedure...

CBT's liquidity injections into the money markets increased in September. Monthly liquidity injection by OMO rose from TL 11.5 billion in August to TL 13.7 billion in September...

Graph 53: Open Market Operations (TL billion - 10 - day MA)

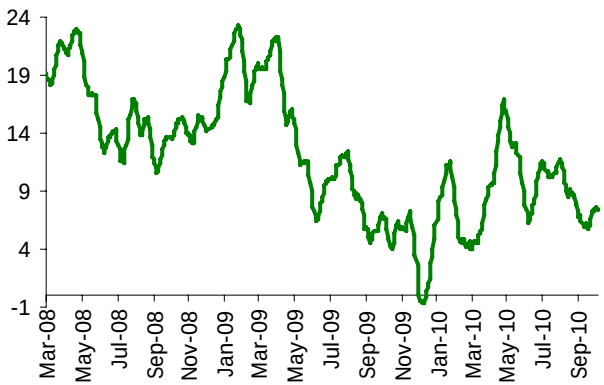


Source: CBT

CBT changed the procedure of daily FX purchase in order to strengthen reserves. In addition to US$40 mln daily, CBT can raise the amount of its purchase to a weekly announced level.

Another indicator, pointing out the deterioration in liquidity conditions, is excess liquidity. Monthly average excess liquidity in the market dropped to TL6.8 billion from TL8.5 billion as CBT raised liquidity injections by OMO during August...

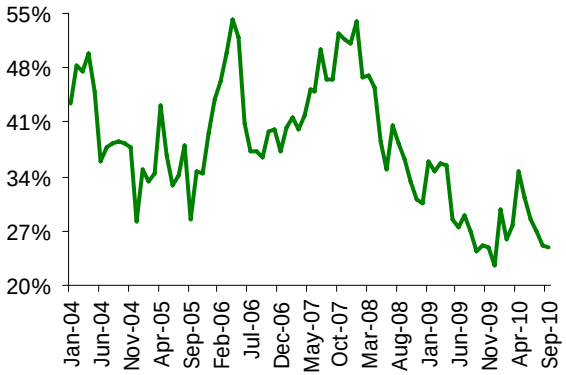
Graph 54: Excess Liquidity (TL billion - 10 - day MA)



Source: CBT, Garanti Bank

In addition to the rise in FX reserves, potential demand for FX over FX reserves ratio decreased from 25.2% at the end of August to 24.9% at the end of September due to contraction in excess liquidity...

Graph 57: Potential Demand for FX* /Reserves

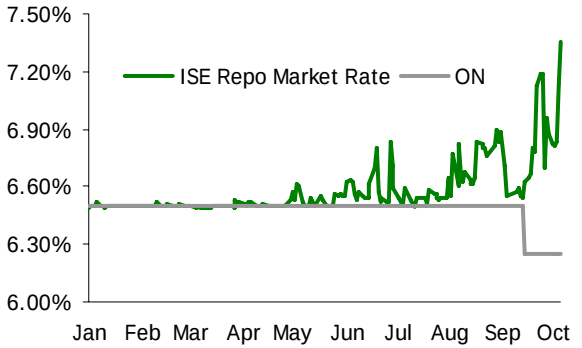


Source: CBT

* Potential Demand for FX: The amount of Reverse Repurchase Agreements + Excess Liquidity (USD basis)

After CBT reduced ON borrowing and lending rates by 25 basis points in the middle of September, interest rate in ISE repo market rose sharply...

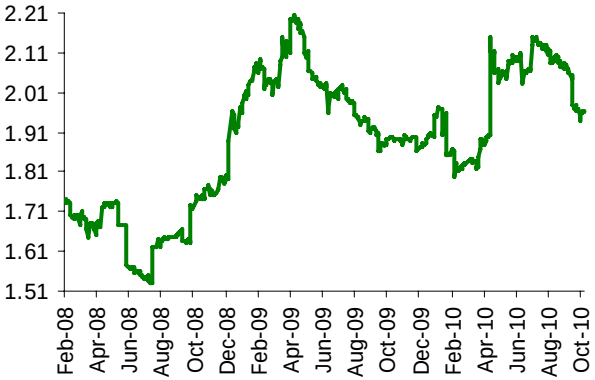
Graph 55: Interest Rate in ISE Repo Market and CBT ON Borrowing Rate



Source: CBT, Garanti Bank Estimations

Decline in currency risk ratio of CBT balance sheet accelerated in September due to the appreciation of TL. The ratio fell to 1.94 point at the end of September from 2.07 points at the end of August...

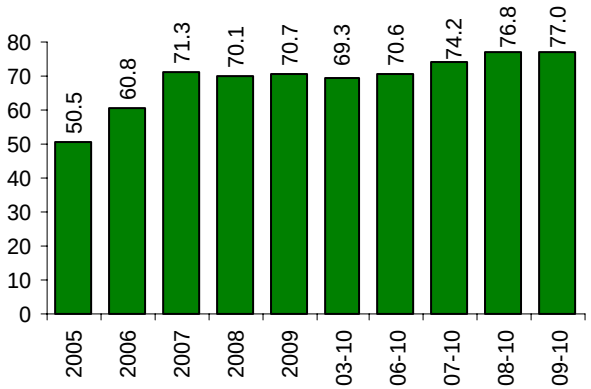
Graph 58: Currency Risk Ratio*



Source: CBT, Garanti Bank

* Currency Risk Ratio: Foreign assets over foreign liabilities

Graph 56: CBT Reserves

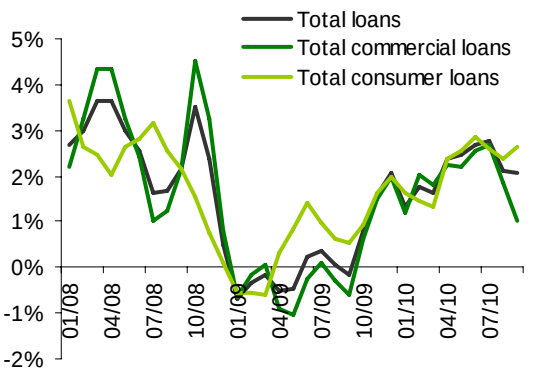


Source: CBT, Treasury, Garanti Bank

Banking – FX Deposits Reached Its Highest Level in September

The growth rate of commercial loans decelerated significantly in September on a three month average basis. On the other hand, the growth rate of consumer loans accelerated

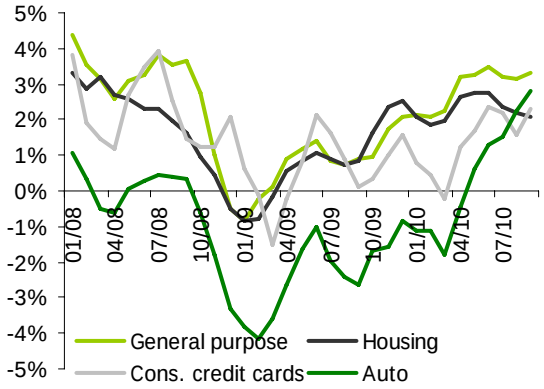
Graph 59: Growth Rate (3 Month MA-mom)



Source: BRSA

Among consumer loans, the growth rate of general purpose, auto and consumer credit cards accelerated, while housing loans decelerated on a three month average basis.

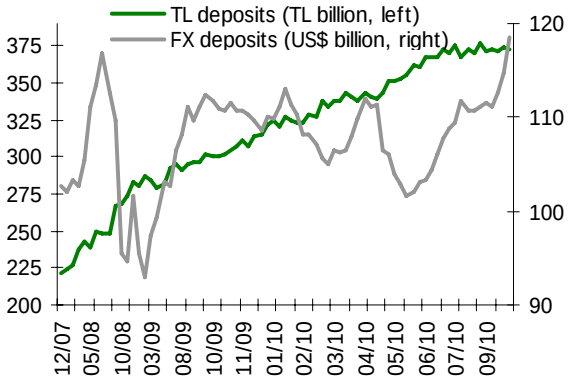
Graph 60: : Growth Rate (3 Month MA-mom)



Source: BRSA

FX deposits increased significantly by USD 6.9 bn in September, while the rise was only TL 0.7 bn in TL deposits.

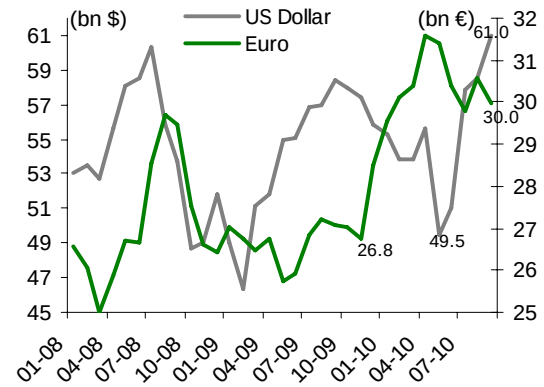
Graph 61: Deposits



Source: BRSA

The rise in US denominated deposits was significant in September, reaching its highest level in nominal terms. However, the share of FX deposits in total deposits is still at its historical low levels.

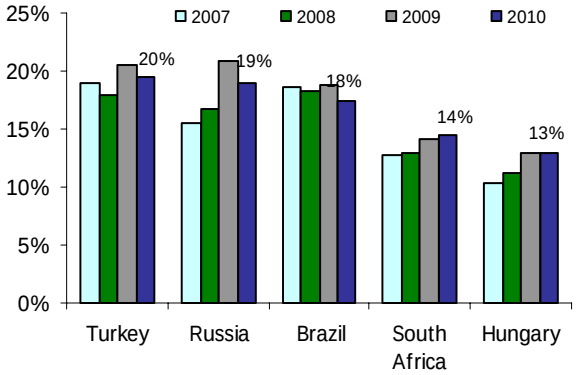
Graph 62: FX Deposits



Source:CBT

The capital adequacy ratio in Turkey is the highest among selected countries.

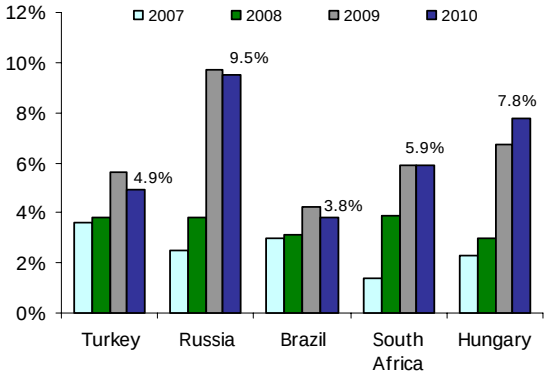
Graph 63: Capital Adequacy Ratio



Source: IMF WEO

Non-performing loans to total loans ratio is the second lowest among selected countries after Brazil.

Graph 64: Non-Performing Loans/Total Loans

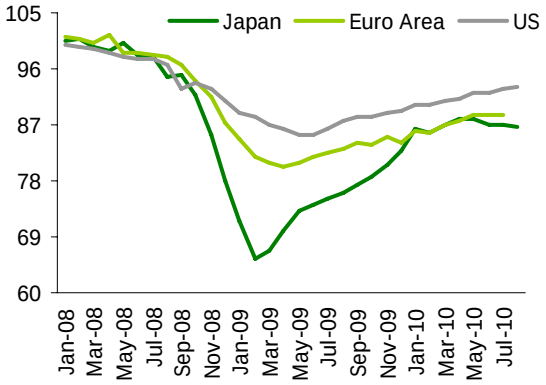


Source: IMF WEO

Advanced Countries – Decline in PMIs Became Broad Based in September...

While industrial output in Japan declined by 0.3% in August compared to July, IP in the US increased just by 0.2% in the same period...

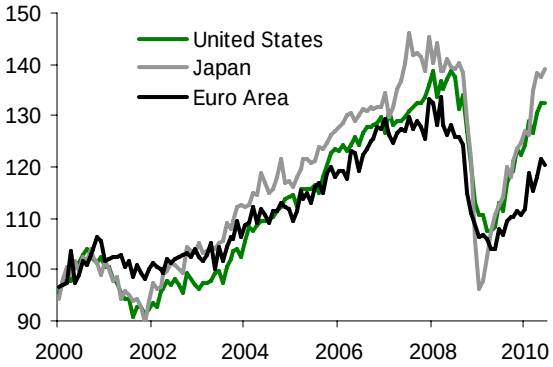
Graph 65: Industrial Production (4q07=100)



Source: US ISM, European Commission Economic and Financial Affairs, Reuters

Foreign trade volumes of Eurozone economies contracted by 1% on a month-on-month basis in July, whereas trade volume of Japan expanded by 1% in the same period. On the other hand, trade volume of the US did not change significantly in the same period...

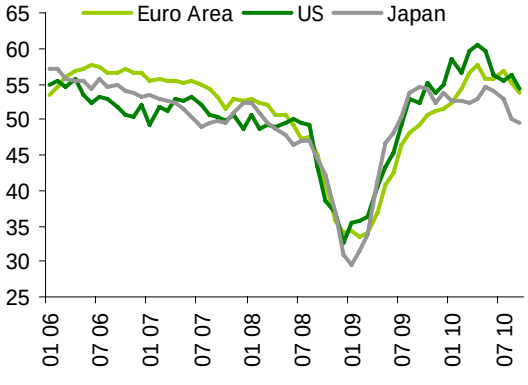
Graph 68: Real Trade Volumes (2000=100)



Source: Netherlands, Central Planning Bureau

Decline in purchasing managers indices (PMI) of advanced economies became broad based in September. Japan manufacturers were the worst performers...

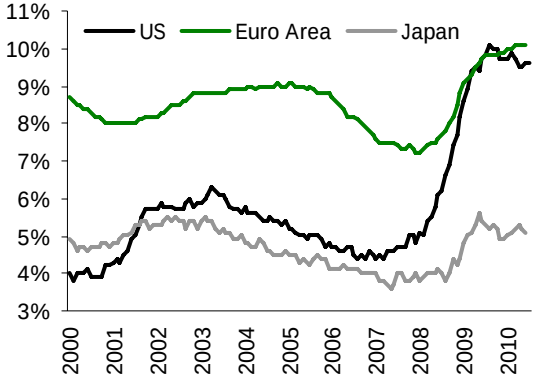
Graph 66: Purchasing Managers Indices in G3



Source: US Conference Board, European Commission Economic and Financial Affairs, Japan Cabinet Office Statistics Bureau

While unemployment rate in Euro zone remained stable at 10.1% in August, unemployment rate in Japan fell from 5.2% in July to 5.1% in August. Unemployment rate in the US remained unchanged at 9.6% in September...

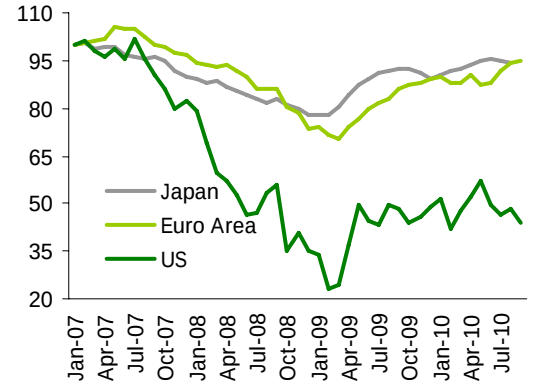
Graph 69: Unemployment Rates in G3



Source: US St. Louis FED, Eurostat, Japan Cabinet Office Statistics Bureau

American household became more pessimistic in September compared to August, whereas European household confidence index rose just by 0.6% in the same period...

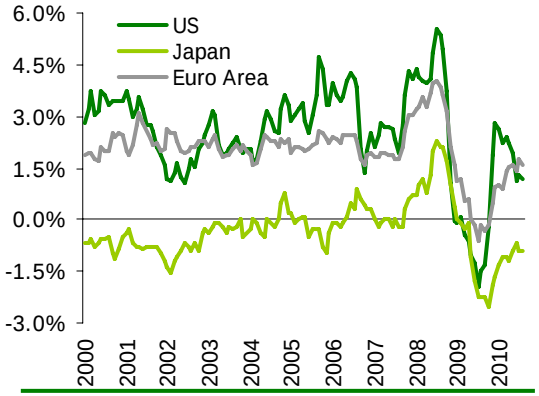
Graph 67: Consumer Confidence Indices in G3 (January 2007=100)



Source: Japan Ministry of Economy, Trade and Industry, US St. Louis FED, Eurostat

Annual inflation in the US and Eurozone economies declined in August while deflation in Japan continued in the same period...

Graph 70: Annual Inflation in G3

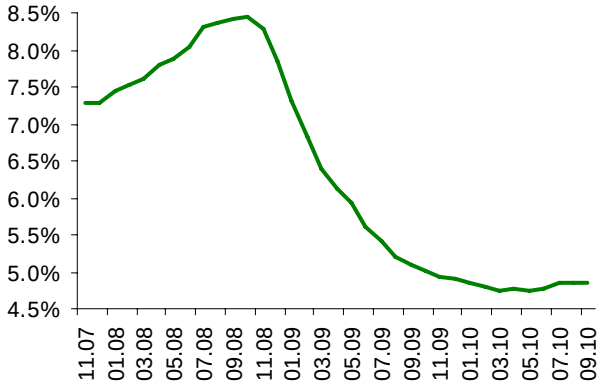


Source: US St. Louis FED, Eurostat, Japan Cabinet Office Statistics Bureau

Emerging Markets – Strong Domestic Demand Carried IP up in Some EM...

Average policy rate in emerging markets economies rose just by 1 basis point during September. While Chile (50 basis points), India (25 basis points) and Taiwan (12,75 basis points) raised policy rates, South Africa cut policy rates by 50 basis points during the month...

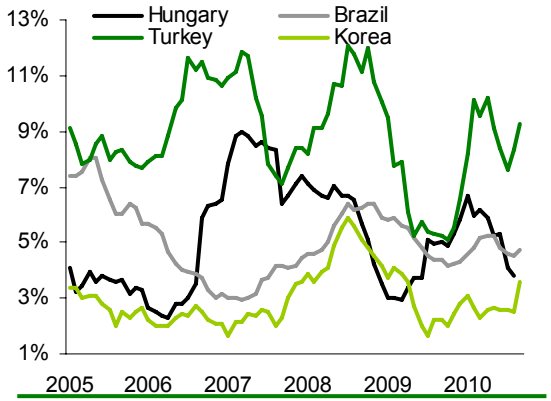
Graph 71: Average Policy Interest Rates in Some EM



Source: Bloomberg, GarantiBank

While annual inflation in Turkey, Brazil and Korea increased in September, decline in annual inflation in Hungary continued due to weak economic activity...

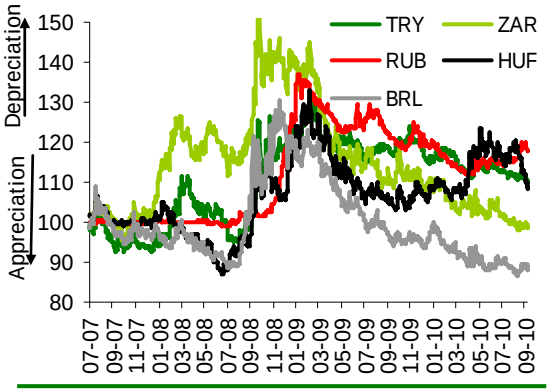
Graph 72: Annual Inflation



Source: Bloomberg, IIF

While Hungarian Forint (HUF), South African Round (ZAR) and TL appreciated by 6.8%, 1.6% and 1.3%, respectively, between end of September and end of August, Russian Ruble (RUB) depreciated by 3.3% during the same period....

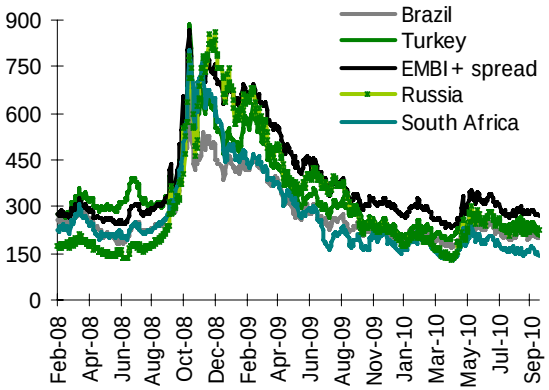
Graph 73: EM Currencies Against Basket (0.5*EUR+0.5*USD) (01.01.07=100)



Source: Reuters

EMBI+spreads narrowed during September, while the US long – term bond yields rose slightly. Yet, they began to narrow in the first ten days of October due to fall in the US long-term yields...

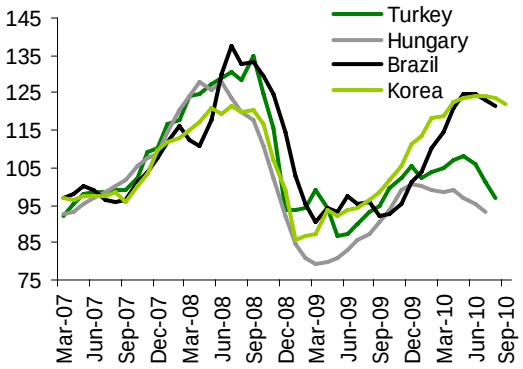
Graph 74: EMBI+ Spread



Source: Bloomberg

Exports of all emerging markets continued to fall in August, whereas Turkey was the worst performer among these economies, in terms of the monthly growth rates, similar to recent few months...

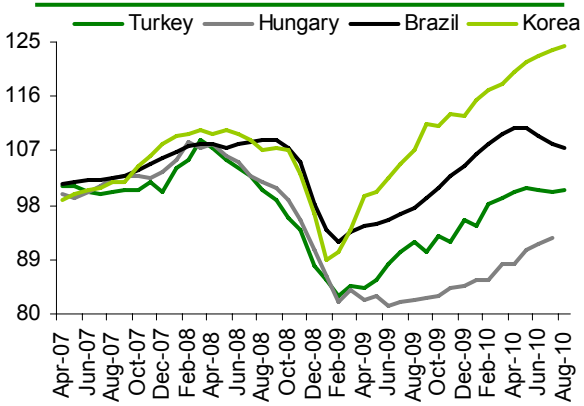
Graph 75: Exports (SA) (2007=100)



Source: IIF

On the contrary, industrial output rose in those economies due to strong domestic demand. According to seasonally adjusted figures, IP in Turkey and Korea accelerated in August compared to July, IP in Brazil decreased slightly in the same period...

Graph 76: Industrial Production (SA) (1q07=100)

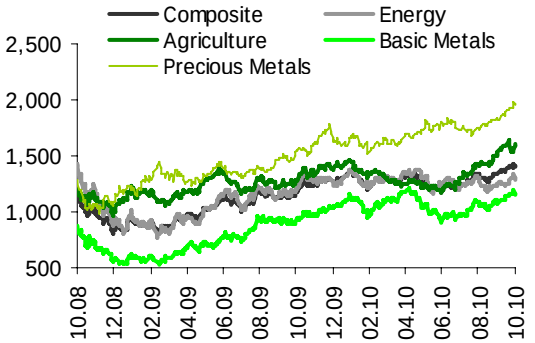


Source: Eurostat, Bloomberg

Commodities – Continuing Rise in Gold Prices...

As of the beginning of the Oct'10, Bloomberg & UBS commodity composite price index rose nearly by 5%. There was a 6% and 7% rise in agriculture and precious metal price index, respectively.

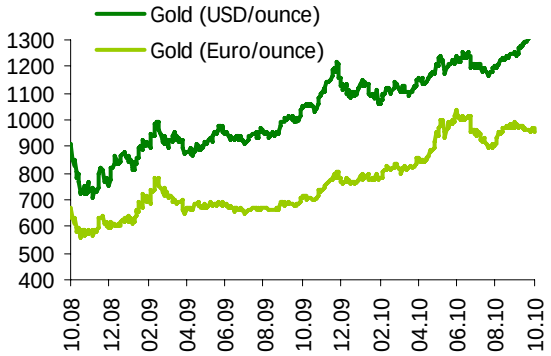
Graph 77: Bloomberg & UBS Commodity Price Index



Source: Bloomberg

From the beginning of Aug'10, the rise in gold price continued. There was a new record high level as of the beginning of Oct (1.365 USD/ounce)

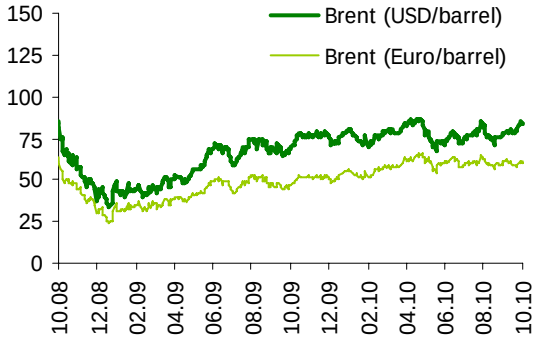
Graph 78: Gold Prices in USD & Euro



Source: Reuters

As of beginning of Oct'10, oil prices were above the 80 USD/barrel level.

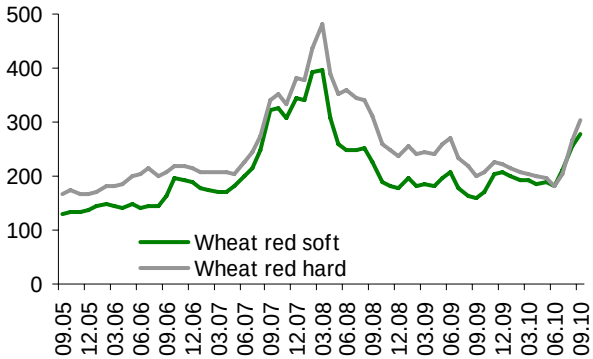
Graph 79: Brent Oil Prices in USD & Euro



Source: Reuters

After the drought in Russia, there was a continued rise in international wheat prices in the last three months.

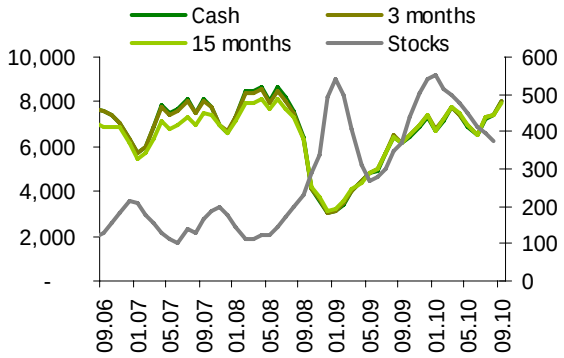
Graph 80: Wheat Prices (TL/kg)



Source: USDA

Copper prices had been rising (by 8% average) in the last three months while there was a nearly 6% rise in stocks (MoM)

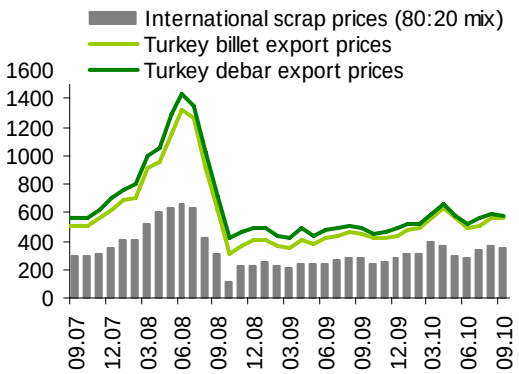
Graph 81: Copper Prices (USD/ton)



Source: Bloomberg

Turkish iron and steel prices fell slightly in Sep'10 due to fall in the international scrap prices.

Graph 82: Iron Steel Prices (USD/ton)



Source: Bloomberg

Macroeconomic Indicators – I

	Realizations				2010 Forecast		Latest Four Realizations			
Growth	2006	2007	2008	2009	Garanti	Government	Q3 '09	Q4 '09	Q1 '10	Q2 '10
GDP (TL billion, nominal prices)	758	843	951	953	1,111	1,099	262	252	242	268
GDP (US$ billion)	526	649	742	617	740	730	174	170	161	174
GDP (12-month, TL billion, nominal prices)	-	-	-	-	-	-	934	953	986	1026
GDP (12-month, US$ billion)	-	-	-	-	-	-	603	617	651	679
GDP Per Capita (US$)	7,583	9,234	10,440	8,590	10,176	10,043	-	-	-	-
GDP Yearly Growth Rate	6.9%	4.7%	0.7%	-4.7%	7.5%	6.8%	-2.7%	6.0%	11.7%	10.3%
Industrial Production	2006	2007	2008	2009	Garanti	Government	05.2010	06.2010	07.2010	08.2010
Industrial Production (YoY)	7.8%	6.9%	-0.9%	-9.6%	10.4%	-	15.0%	10.0%	8.8%	11.0%
Capacity Utilization Rate	81.0%	78.3%	75.2%	65.0%	-	-	73.4%	73.6%	74.7%	73.4%
Labor	2006	2007	2008	2009	Garanti	Government	Q3 '09	Q4 '09	Q1 '10	Q2 '10
Real Wage Index in Industry (Per hour, 2005=100)	87.9	92.7	92.9	85.7	-	-	87.3	87.9	85.3	89.2
YoY Change	3.3%	5.5%	0.2%	-7.7%	-	-	-7.6%	-3.3%	2.1%	5.9%
Productivity Index in Industry (Per hour, 2005=100)	105.0	107.5	107.8	109.0	-	-	111.6	118.6	110.2	118.7
YoY Change	5.1%	2.4%	0.3%	1.1%	-	-	2.2%	14.2%	14.6%	8.1%
	2006	2007	2008	2009	Garanti	Government	03.2010	04.2010	05.2010	06.2010
Unemployment Rate	9.9%	9.9%	11.0%	14.0%	12.0%	12.2%	13.7%	12.0%	11.0%	10.5%
Inflation	2006	2007	2008	2009	Garanti	Government	06.2010	07.2010	08.2010	09.2010
CPI (MoM)	-	-	-	-	-	-	-0.6%	-0.5%	0.4%	1.2%
CPI (YoY)	9.7%	8.4%	10.1%	6.5%	7.5%	7.5%	8.4%	7.6%	8.3%	9.2%
CPI (Annual average)	9.6%	8.8%	10.4%	6.3%	8.7%	-	-	-	-	-
PPI (MoM)	-	-	-	-	-	-	-0.5%	-0.2%	1.2%	0.5%
PPI (YoY)	11.6%	5.9%	8.1%	5.9%	-	-	7.6%	8.2%	9.0%	8.9%
PPI (Annual average)	9.3%	6.3%	12.7%	1.2%	-	-	-	-	-	-
Deflator	9.3%	6.2%	12.0%	5.4%	8.7%	8.0%	-	-	-	-

Source: TURKSTAT, State Planning Organization, CBT and GarantiBank

Macroeconomic Indicators – II

	Realizations				2010 Forecast		Latest Four Realizations			
Interest Rates	2006	2007	2008	2009	Garanti	Government	05.2010	06.2010	07.2010	08.2010
Benchmark bond (Average)	15.6%	17.2%	16.0%	11.7%	8.6%	-	8.8%	8.4%	8.2%	8.1%
Primary (Discounted Auctions-Average)	18.0%	18.3%	19.1%	11.4%	-	-	8.7%	8.3%	8.0%	7.8%
Dom. Borrowing Cash Maturity (Month)	27.5	33.4	31.2	35.7	-	-	41.8	36.4	53.1	31.8
O/N (average)	17.8%	18.3%	19.3%	9.2%	6.4%	-	6.5%	6.5%	6.5%	6.4%
Eurobond (2030, Yield)	7.1%	6.8%	7.7%	6.4%	-	-	6.3%	6.1%	5.9%	5.4%
Foreign Currency	2006	2007	2008	2009	Garanti	Government	06.2010	07.2010	08.2010	09.2010
Basket (0.5*USD+0.5*EURO, end of period)	1.6359	1.4375	1.8266	1.8150	1.73	-	1.7482	1.7338	1.7211	1.7133
EURO/US$ (end of period)	1.32	1.47	1.42	1.44	1.30	-	1.22	1.31	1.27	1.36
TL/USD (average)	1.4311	1.3015	1.2929	1.5448	1.50	1.51	1.5703	1.5363	1.5016	1.4889
TL/USD (end of period)	1.4131	1.1647	1.5123	1.4873	1.50	-	1.5747	1.5032	1.5153	1.4512
TL/EURO (end of period)	1.8586	1.7102	2.1408	2.1427	1.96	-	1.9217	1.9644	1.9268	1.9754
Balance of Payments (US$ million)	2006	2007	2008	2009	Garanti	Government	05.2010	06.2010	07.2010	08.2010
Exports (f.o.b)	85,535	107,272	132,028	102,130	116,000	111,700	9,813	9,561	9,598	8,557
Imports (c.i.f)	139,576	170,063	201,964	140,900	178,700	177,500	14,724	15,229	16,062	15,437
Current Account Balance	-32,193	-38,311	-41,946	-14,402	-39,500	-39,300	-3,084	-3,550	-3,649	-2,966
Current Account Balance (12-month)	-32,193	-38,311	-41,946	-14,402	-	-	-26,844	-28,150	-31,288	-33,645
Current Account Balance/GDP	-6.1%	-5.9%	-5.7%	-2.3%	-5.3%	-5.4%	-	-	-	-
Non-energy C.A. Balance (12-month)	-6,848	-8,528	1,230	11,081	-	-	1,470	591	-2,116	-4,347
Tourism Revenue	16,853	18,487	21,951	21,250	-	22,500	1,601	1,914	3,071	3,572
Foreign Direct Investment (Net)	19,261	19,941	15,720	6,879	-	-	135	507	1,082	771
Capital Account Balance	32,064	36,692	36,305	9,761	-	-	1,607	4,206	3,346	1,801
Eurobond Issues	5,848	4,627	4,000	3,750	-	5,600	0	0	0	1,000

Source: Treasury, CBT, TURKSTAT, State Planning Organization, Reuters and GarantiBank

Macroeconomic Indicators – III

	Realizations				2010 Forecast		Latest Four Realizations			
Total External Debt Stock	2006	2007	2008	2009	Garanti	Government	Q3 '09	Q4 '09	Q1 '10	Q2 '10
Total External Debt Stock (US$ Billion)	207.8	249.6	277.1	268.3	-	-	270.2	268.3	266.8	266.3
Public	87.3	89.3	92.4	96.8	-	-	97.2	96.8	97.5	96.2
Private	120.6	160.2	184.8	171.6	-	-	173.0	171.6	169.3	170.2
Short-term	42.6	43.1	50.4	49.4	-	-	47.5	49.4	54.4	62.0
Long-term	165.2	206.4	226.7	218.9	-	-	222.7	218.9	212.4	204.4
Total External Debt Stock/GDP	39.5%	38.5%	37.3%	43.5%	-	-	44.8%	43.5%	41.0%	39.2%
Public/GDP	16.6%	13.8%	12.4%	15.7%	-	-	16.1%	15.7%	15.0%	14.2%
Private/GDP	22.9%	24.7%	24.9%	27.8%	-	-	28.7%	27.8%	26.0%	25.1%
Short-term/GDP	8.1%	6.6%	6.8%	8.0%	-	-	7.9%	8.0%	8.3%	9.1%
Long-term/GDP	31.4%	31.8%	30.5%	35.5%	-	-	36.9%	35.5%	32.6%	30.1%
EU Defined Debt Stock/GDP	46.1%	39.4%	39.5%	45.5%	43.9%	42.3%	45.3%	45.5%	45.1%	43.4%
Reserves (US$ million)	2006	2007	2008	2009	Garanti	Government	06.2010	07.2010	08.2010	09.2010
Total Foreign Reserves	63,218	74,027	73,346	74,810	-	-	74,769	78,852	80,638	81,921
Central Bank Reserves	60,845	71,263	70,075	70,689	-	-	70,616	74,215	76,001	77,035
CB Net FX Position	20,493	32,827	36,213	37,182	-	-	39,666	42,164	42,543	40,266
Monetary Aggregates (US$ billion)	2006	2007	2008	2009	Garanti	Government	05.2010	06.2010	07.2010	08.2010
M1	39.5	45.0	38.2	47.1	-	-	49.0	51.3	52.5	54.3
M2	154.2	190.8	186.5	211.2	-	-	221.6	229.3	238.2	238.6
M2Y	238.6	279.6	271.1	303.5	-	-	306.5	314.3	329.0	330.6
M3Y	248.5	294.7	283.5	318.3	-	-	327.1	328.7	347.1	351.5
Base Money	29.2	44.7	36.8	42.7	-	-	39.9	42.6	41.7	43.4
Open Market Operation (End of period)	-0.8	3.7	-1.9	-12.5	-	-	-9.9	-7.0	-3.8	-9.1

Source: Treasury, CBT and GarantiBank

Macroeconomic Indicators – IV

	Realizations				2010 Forecast		Latest Four Realizations			
Banking Sector (TL Billion)	2006	2007	2008	2009	Garanti	Government	Q3 '09	Q4 '09	Q1 '10	Q2 '10
Assets	499.7	581.6	732.5	834.0	-	-	798.0	834.0	860.4	908.6
Assets/GDP	65.9%	69.0%	77.1%	87.4%	-	-	85.5%	87.5%	87.2%	88.6%
Loans	219.0	285.6	367.4	392.6	-	-	375.7	392.6	416.8	454.8
Loans/GDP	28.9%	33.9%	38.7%	41.2%	-	-	40.2%	41.2%	42.3%	44.4%
Commercial Loans/GDP	19.8%	22.6%	26.3%	27.5%	-	-	27.0%	27.6%	28.4%	29.9%
Consumer Loans/GDP	9.1%	11.3%	12.3%	13.6%	-	-	13.2%	13.6%	13.8%	14.4%
Housing	23.4	32.5	38.9	44.9	-	-	41.8	44.9	47.9	52.0
Auto	6.7	6.2	5.5	4.4	-	-	4.6	4.4	4.2	4.4
Other	17.5	29.3	38.7	44.0	-	-	41.6	44.0	47.4	52.1
Credit Cards	22.0	27.8	34.9	37.6	-	-	36.4	37.6	38.2	40.8
Deposits	307.6	356.9	454.6	514.6	-	-	488.9	514.6	534.3	564.5
FX Deposits (Billion US$)	86.6	108.9	105.8	116.4	-	-	116.7	116.4	114.5	109.6
Deposits/GDP	40.6%	42.3%	47.8%	53.9%	-	-	52.4%	54.0%	54.2%	55.0%
Shareholders' Equity	59.5	75.8	86.4	110.9	-	-	105.4	110.9	116.8	119.3
Shareholders' Equity/GDP	7.9%	9.0%	9.1%	11.6%	-	-	11.3%	11.6%	11.8%	11.6%
Central Government Budget (TL Billion)	2006	2007	2008	2009	Garanti	Government	05.2010	06.2010	07.2010	08.2010
Revenues	173.5	190.4	208.9	215.1	247.0	252.8	24.9	18.4	21.7	26.3
Expenditures	178.1	204.1	226.0	267.3	293.1	297.0	19.1	23.9	23.8	23.2
Interest Payments	46.0	48.8	50.7	53.2	50.0	51.7	2.2	3.3	4.6	3.1
Budget Balance	-4.6	-13.7	-17.1	-52.2	-46.1	-44.2	5.8	-5.4	-2.0	3.1
Primary Balance	41.3	35.0	33.6	1.0	3.9	7.5	8.0	-2.1	2.6	6.2
Central Government Domestic Debt Stock	251.5	255.3	274.8	330.0	-	-	340.5	343.1	345.2	347.3
Interest Expenditures/GDP	6.1%	5.8%	5.3%	5.6%	4.5%	4.7%	-	-	-	-
Budget Balance/GDP	-0.6%	-1.6%	-1.8%	-5.5%	-4.2%	-4.0%	-	-	-	-
Primary Balance/GDP	5.4%	4.2%	3.5%	0.1%	0.4%	0.7%	-	-	-	-
Central Government Debt Stock	2006	2007	2008	2009	Garanti	Government	Q3 '09	Q4 '09	Q1 '10	Q2 '10
C.G. Domestic Debt Stock/GDP	33.2%	30.3%	28.9%	34.6%	-	-	34.3%	34.6%	34.5%	33.5%
C.G. External Debt Stock/GDP	12.6%	10.3%	9.4%	12.0%	-	-	12.4%	12.0%	11.4%	10.8%
Total Public Debt Stock/GDP	48.2%	42.2%	43.0%	48.9%	-	-	48.8%	48.9%	48.2%	46.8%
Total Public Net Debt Stock/GDP	34.0%	29.5%	28.2%	32.5%	-	-	32.5%	32.5%	32.0%	30.5%

Source: BRSA, CBT, TURKSTAT, Ministry of Finance, Treasury and GarantiBank

Rating

Turkey	S&P	Foreign Currency Long-Term	Outlook/Watch	Local Currency Long-Term	Latest Change Direction
	16.10.2003	B+	Stable	B+	
	08.03.2004	B+	Positive	BB-	
	17.08.2004	BB-	Positive	BB	
	29.06.2006	BB-	Stable	BB	
	03.04.2008	BB-	Negative	BB	
	01.08.2008	BB-	Stable	BB	
	14.11.2008	BB-	Negative	BB	
	18.09.2009	BB-	Stable	BB	
	19.02.2010	BB	Positive	BB+	↑
Turkey	**Moody's**	**F.C. L-T**	**Outlook/Watch**	**L.C. L-T**	**Latest Change Direction**
	21.10.2003	B3	Positive from Stable	B3	
	30.09.2004	B2	Stable	B2	
	11.02.2005	B1	Positive	B1	
	15.12.2005	Ba3	Stable	Ba3	
	18.09.2009	Ba3	Positive	Ba3	
	08.01.2010	Ba2	Stable	Ba2	
	05.10.2010	Ba2	Positive	Ba2	↑
Turkey	**Fitch**	**F.C. L-T**	**Outlook/Watch**	**L.C. L-T**	**Latest Change Direction**
	25.03.2003	B-	Negative	B-	
	06.08.2003	B-	Positive	B-	
	25.09.2003	B	Positive	B	
	09.02.2004	B+	Stable	B+	
	25.08.2004	B+	Positive	B+	
	13.01.2005	BB-	Stable	BB-	
	14.12.2005	BB-	Positive	BB-	
	10.05.2007	BB-	Stable	BB-	
	12.12.2007	BB-	Stable	BB	
	03.12.2009	BB+	Stable	BB+	↑
Other Emerging Markets	**S&P**	**F.C. L-T**	**Outlook/Watch**	**L.C. L-T**	**Latest Change Direction**
Russia	21.12.2009	BBB	Stable	BBB+	↑
Hungary	02.10.2009	BBB-	Stable	BBB-	↓
Brazil	09.12.2009	BBB-	Stable	BBB+	↑
Poland	04.08.2009	A-	Stable	A	↑