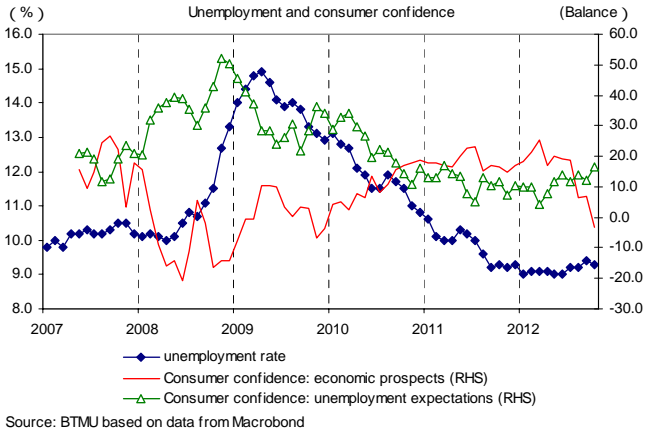
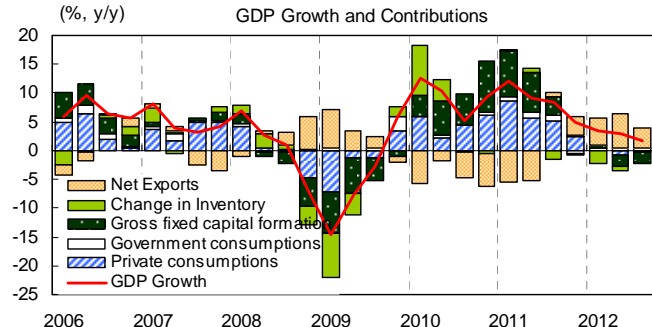


Main Economic & Financial Indicators: Turkey

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Overview	Consumption
<p>The Turkish economy has been decelerating faster than anticipated, arousing concerns of a loss of momentum in economic activity, although the tighter monetary policy stance in the recent past was aimed at stabilising overheated domestic demand and ensuring that a soft-landing was attainable. On the back of recent weakening economic activity, the central bank has shifted its monetary policy stance to more accommodative since September and it is expected that this should support consumption and investment albeit gradually. Meanwhile the adjustment of balance-of-payments imbalances are in progress as weaker domestic demand reduced imports while exports have grown at a steady pace with the help of steady demand from the Middle East as well as a sharp rise in gold exports to Iran as a result of the US and EU sanctions on Iran. However, the current adjustment is attributed to cyclical causes, namely weak domestic demand, rather than structural ones. The fact that energy and intermediate goods still make up a large share of total imports suggests the current account deficit could increase again once domestic demand recovers. In 2012, the current account deficit is estimated to have reached around 6% of GDP and this is a marked reduction from the previous year's figure of 10%, however, the level is said to be still high.</p> <p>Meanwhile, the government announced a new pension system to tackle Turkey's low saving rate by offering that it would contribute 25% of individual's monthly pension contributions. It has set aside TRY1.25bn (\$7bn) in the 2013 budget toward the achievement of this goal.</p>	<p>Retail sales in Q3 grew by 3.3% y/y, down from the previous quarter's 5.9% y/y. Weaker growth in real wages on the back of the sticky inflation and decelerating bank lending growth are the major factors behind subdued private consumption. The latest unemployment rate was 9.3% in October, while it is at a relatively low level in its historical terms, the recent trend points upwards. Besides this, the consumer confidence indicators suggest concerns over job security and economic prospects are growing.</p>  <p>Source: BTMU based on data from Macrobond</p>
GDP	Prices/Monetary policy
<p>In 3Q, the real GDP grew by 1.6% y/y, recording the weakest growth rate since the end of the recession in 2009, as private consumption and fixed capital formation continued to contract. A sharp deceleration in bank lending was the main factor behind this slowdown. The central bank instructed commercial banks to raise lending costs to the private sector between the mid 2011 and late 2012 in order to suppress overheating private consumption. As a result, bank lending growth to the private sector has fallen substantially, from over 30% y/y recorded in 2009 to 16.7% seen in November 2012.</p>  <p>(Source) BTMU based on data from Macrobond</p>	<p>Consumer price inflation in January was 7.3% y/y, registering a sharp rise on the back of the increase in tobacco taxes together with food price rises. Meanwhile, the fact that producer prices maintained a downward trend and wage growth remained stable indicates that inflationary pressures from the supply side have been contained so far. Besides, weakening domestic demand has reduced demand side price pressures somewhat. That said, the underlying inflation trend will stay downwards.</p> <p>At December's monetary policy meeting, the central bank decided to reduce the one-week repo rate by 0.25% points to 5.50% while maintaining other policy rates unchanged. In the latest policy meeting, the bank maintained the one-week repo rate but reduced overnight borrowing and lending rates by 0.25% points to 4.75% and 8.75% respectively. At the same time, the bank raised the reserve requirement ratios. While the bank is trying to restrict inflows of capital by lowering policy rates, it has been careful to absorb excess liquidity in the markets by increasing the reserve requirement, thereby aiming to maintain financial stability.</p>
Output	Balance of Payments
<p>Growth in industrial production in December contracted by 3.8% y/y, a sharp fall from the previous month's increase of 11.3% y/y. While production of consumer goods weakened somewhat, production of durable consumer goods contracted even further. Besides this, sluggish production in the mining and quarrying sector added downward pressure. Meanwhile business confidence for the manufacturing sector came in at 102.1 in January, recovering from the previous month's 97.9, which was below the 100 mark which separates expansion from contraction. Some improvements in export orders and production prospects were also evident.</p>	<p>In 2012, the current account deficit was US\$48.9bn, a marked fall from the previous year's US\$77.1bn on the back of decreasing imports reflecting weaker domestic demand. The current account deficit is estimated to be around 6% of GDP, a substantial decline from the previous year's 10%. However this adjustment was due to the cyclical causes, namely weak demand, rather than due to structural change.</p> <p>Capital inflows are on the rise, given the return of investors' risk appetite reflecting Turkey's better economic prospects in relative terms. In addition, the fact that Fitch, the rating agency, has raised Turkey to investment grade in November seems to have triggered an increase in portfolio investment. While Moody's' is also suggesting a potential upgrade, concerns are growing that the return of the stronger lira as a result of the influx of capital into the country could widen the current account deficit, derailing the balance of payments adjustment path.</p>

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1. Annual and quarterly data

	2010	2011	2012	11/Q4	12/Q1	12/Q2	12/Q3	12/Q4
GDP (at current prices) (US\$ bn)	728.8	772.2	-	185.6	182.6	194.5	209.4	-
Real GDP growth (% , y/y)	9.2	8.5	-	5.0	3.4	3.0	1.6	-
(Private consumption) (% , y/y)	6.7	7.8	-	3.4	-0.1	-1.0	-0.5	-
(Gross fixed capital formation) (% , y/y)	30.5	18.5	-	1.3	1.4	-7.2	-7.6	-
Industrial production (% , y/y)	13.1	8.9	-	6.5	2.8	3.5	2.6	0.6
Retail Sales (% , y/y)	15.6	12.8	-	12.6	9.0	5.9	3.3	-
Bank credits to the private sector (% , y/y)	44.7	34.7	-	34.7	27.4	20.7	16.2	-
Consumer price index (% , y/y)	8.6	6.5	8.9	9.2	10.5	9.4	9.0	6.8
Gross Wages growth (% , y/y)	15.8	14.9	-	14.8	17.4	16.3	14.5	-
Unemployment rate (%)	12.0	9.8	-	9.3	10.2	8.4	8.8	-
Trade balance (US\$ mn)	-71,661	-105,935	-83,976	-23,699	-20,622	-22,463	-20,960	-19931.2
Exports (US\$ mn)	113,883	134,907	152,561	35,463	35,307	38,998	38,627	39627.6
Export growth (% , y/y)	11.5	18.5	13.1	10.2	12.4	14.1	14.1	11.7
Imports (US\$ mn)	185,544	240,842	236,537	59,162	55,929	61,461	59,588	59558.8
Import growth (% , y/y)	31.7	29.8	-1.8	7.6	-0.2	-3.5	-3.8	0.7
Current account (US\$ mn)	-46,643	-77,141	-48,867	-16,562	-16,248	-14,556	-8,011	-9832.0
Capital and financial balances (US\$ mn)	58,878	66,739	67,666	8,857	11,438	23,521	15,379	17329.0
Foreign direct investment (US\$ mn)	9,038	16,035	12,387	4,492	4,526	3,631	1,949	2,281
Foreign reserves (US\$ mn)	80,713	78,322	99,943	78,322	80,317	83,542	95,016	99943
Extenal debt (US\$ mn)	292,009	305,153	-	305,153	317,179	322,058	326,251	-
Stock price index	59,452	61,403	63,742	54,949	58,187	58,872	65,192	72,602
Interbank overnight borrowing rate	6.92	11.42	5.78	11.42	10.69	8.69	6.47	5.78
TRY/USD	1.5073	1.6631	1.8001	1.8384	1.7967	1.8067	1.8026	1.7944
TRY/Euro	1.9985	2.3259	2.3151	2.4778	2.3565	2.3193	2.2566	2.3285
TRY/GBP	2.3282	2.6739	2.8535	2.8913	2.8238	2.8592	2.8494	2.8813

2. Monthly data

	12/06	7	8	9	10	11	12	13/01
Industrial production (% , y/y)	3.0	3.3	-1.8	6.2	-5.7	11.3	-3.8	-
Consumer confidence index	91.8	92.8	91.1	88.8	85.7	89.2	89.0	-
Bank credits to the private sector (% , y/y)	20.7	20.9	17.6	16.2	16.9	16.7	-	-
Consumer price index (% , y/y)	8.9	9.1	8.9	9.2	7.8	6.4	6.2	7.3
Unemployment rate (%)	9.0	9.0	9.2	9.4	9.3	-	-	-
Trade balance (US\$ mn)	-7,204	-8,002	-5,994	-6,964	-5,581	-7,172	-7,178	-
Exports (US\$ mn)	13,234	12,833	12,834	12,960	13,205	13,776	12,646	-
Export growth (% , y/y)	16.6	8.2	14.1	20.6	10.9	24.4	1.4	-
Imports (US\$ mn)	20,438	20,835	18,828	19,924	18,786	20,949	19,825	-
Import growth (% , y/y)	-5.4	-1.1	-4.3	-6.0	-5.7	12.3	-3.7	-
Stock price index	58,545	62,746	65,400	66,477	69,560	71,532	76,678	82,241
Interbank overnight borrowing rate	8.69	7.10	5.74	6.47	5.46	5.49	5.78	5.29
TRY/USD	1.8223	1.8111	1.7958	1.7982	1.8024	1.7935	1.7872	1.7705
TRY/Euro	2.2873	2.2246	2.2265	2.2728	2.3387	2.3016	2.3444	2.3549
TRY/GBP	2.8350	2.8254	2.8228	2.8622	2.8971	2.8628	2.8834	2.8279

TRY: Turkish New Lira

Source: Central Bank of the Republic of Turkey, Turkish Statistic Office etc.

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