

We are near the peak in 12-month rolling CAD as of September...

The current account deficit came in at USD 6.8 bn, broadly in line with our forecast of USD 6.9 bn and the market consensus of USD 6.6 bn as per the CNBC-e survey. The inclusion of the September figure brought the 12-month cumulative CAD to a new record of USD 77.5 bn from USD 74.6 bn in August. Meanwhile, the 12-month rolling non-energy current account deficit continued to widen to USD 33.2 bn from USD 31.6 bn.

The main financing items in September were the banking sectors' withdrawal of deposits from overseas accounts and net errors and omissions. Local banks and other sectors brought USD 3.8 bn and USD 0.5 bn in deposits to Turkey in September. Meanwhile, net errors and omissions financed a significant USD 2.6 bn of the current account deficit in September. The CBRT's reserves increased by USD 0.7 bn despite its FX sale of USD 1.6 bn in September, thanks to RRR changes contributing to the Bank's reserves. On the other hand, there was an outflow of USD 3.1 bn in portfolios due to the USD 3.9 bn outflow from domestic debt securities. The contribution of the private sector's net MLT borrowing was negligible in September.

We calculate that in 12-month rolling terms, the CAD level in September is near the peak thanks to base effects. We forecast a CAD of USD 78 bn (10.3% of GDP) for this year before the deficit narrowing to USD 59 bn (7.6% of GDP) next year, mainly due to the expected slowdown in the economy and lower oil prices.

Cumulative current account deficit is near the peak...

We forecast USD 78bn current account deficit this year...

Current Account Developments
(in millions of US\$)

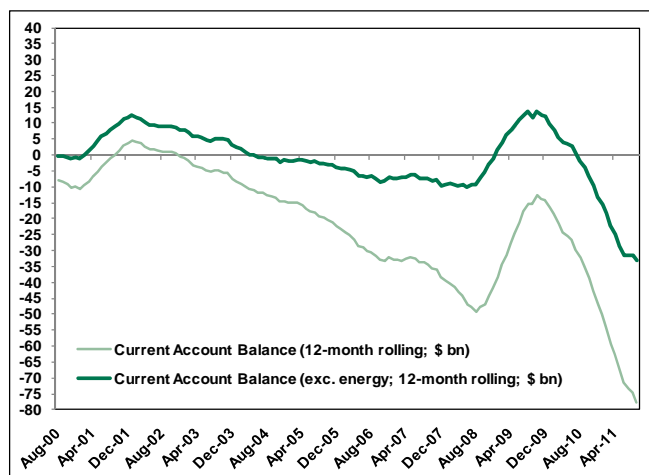
	Sep		12-month rolling	
	2011	2010	Sep	Aug
Current Account	-6,758	-3,774	-77,545	-74,561
o/w: Non-Energy 1/	-2,394	-836	-33,204	-31,646
Trade Balance	-8,887	-5,645	-88,855	-85,613
Exports	11,532	9,443	139,523	137,434
%	22	4	221	203
Imports	-20,419	-15,088	-228,378	-223,047
%	35	27	483	475
Services (net)	2,734	2,400	18,082	17,748
o/w: Tourism (net)	2,730	2,247	18,144	17,661
%	21	-10	208	177
Income (net)	-738	-675	-8,394	-8,331
o/w: Interest Expenditure	-590	-446	-5,099	-4,955
Current Transfers	133	146	1,622	1,635
Memorandum Items: 2/				
Trade Balance	-10,414	-6,735	-104,981	-101,301
Energy 3/	-4,364	-2,938	-44,341	-42,915
Non-Energy	-6,049	-3,796	-60,639	-58,386

1/ Current account less energy deficit by TURKSTAT definition, i.e. energy imports including cost-insurance-freight.

2/ TURKSTAT definitions.

3/ STIC definition; including crude oil, petroleum products and natural gas.

Source: CBRT



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Nothing new in the MPC announcement

The CBRT will adjust the amount of one-week repo funding if necessary in both directions...

The Monetary Policy Committee kept the policy rate (one-week repo rate) unchanged at 5.75%. The committee also did not touch the O/N lending rate, which was previously increased to 12.5% from 9% in the October meeting, or the interest rate on borrowing facilities provided for primary dealers via repo transactions, which was increased from 8% to 12% in October. The MPC also maintained the O/N borrowing rate at 5%. The rate decision was parallel to the market consensus and our forecast and did not contain much of particular note compared to the previous announcement. The MPC stated that the bank would adjust the amount of one-week repo funding if necessary in both directions as the bank will observe the effects of measures taken on credits, domestic demand and inflation. We believe that the CBRT will likely decrease funding costs when depreciation pressures on the lira ease, as the recent uncertainties and capital need for Eurozone banks will automatically slowdown credits to emerging markets, including Turkey. In the upcoming period, the CBRT will try to maintain its policy flexibility, which will create volatility in the bond rates and the lira, combined with Eurozone debt concerns.

Fitch revised outlook on Turkey's credit rating to 'stable'

The possibility of a rating upgrade to investment grade in 2012 significantly decreased...

Fitch revised Turkey's foreign and local currency rating outlook to stable, affirming both ratings at BB+. According to Fitch, risks to external financing in 2012 and the difficulty in achieving high growth rates without having external imbalances are the reasons behind the rating outlook revision. Although the Director of Fitch Ratings for Turkey stated that the stable outlook is not a barrier to an upgrade to investment grade, we see a very low chance of an upgrade to investment grade by ratings firms in 2012. As a result, the financing picture will deteriorate due to the problems in the Eurozone banking system though the current account deficit will narrow.

Production figures do not point to a significant slowdown

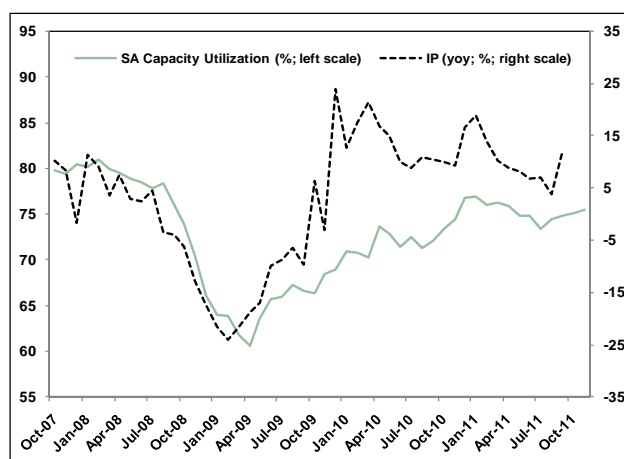
IP increased in September in MoM terms...

Industrial production surged 12.0% YoY in September, significantly higher than the market consensus of 6.6% but closer to our 9.6% forecast. However, adjusted for working day effects, industrial production rose only by 6.0% over a year ago due to the post-Ramadan holiday in September 2010. Meanwhile, IP adjusted for seasonal and calendar effects recovered 1.5% over August, following 2.6% decline in August. IP growth of 7.5% YoY in the third quarter is matching with our preliminary GDP growth forecast of near 8% for the third quarter.

Growth rate for 2011 will likely be in 7.5-8.0% range...

Meanwhile, in November, the manufacturing sector utilized 76.9% of its capacity, broadly in line with our forecast (76.7%), improving 1.0 pp over November 2010. On the other hand, the seasonally adjusted capacity utilization rate increased 0.4 pp over October, the fourth consecutive rise, signaling that the expectations for a notable slowdown in QoQ terms may fade for the final quarter of the year.

Available indicators like strong October PMI and October–November capacity utilization rates also back up the premise that a notable slowdown in the final quarter of the year will not be seen, despite the recent slowdown in credit expansion. Therefore, there are upside risks to our previous 7.0% growth forecast, though not significant. We envisage the economy to grow 7.5-8.0% this year before growing a mere 1% next year. However, the downside risks to our 2012 forecast increased as there is no visible slowdown in the current account deficit and the problems in Eurozone economies continue to deepen, which may cause a hard landing in the economy next year due to the external financing picture.



Source: Turkstat, TCMB

Government on track to reach its revised 2011 budget targets

The central government budget registered a deficit of TRY 1.9 bn last month compared to TRY 1.8 bn recorded in October in 2010. TRY 0.8 bn primary surplus figure for the last month compares favorably with the October 2010 realization of TRY 0.4 bn.

There are risks for 2012 budget targets due to the possibility of a sharper-than expected slowdown...

Year-to-date, the budget balance moved to negative territory with a TRY 1.7 bn deficit comparing favorably with TRY 23.1 bn last year. On the other hand, the primary surplus was realized at TRY 35.8 bn, comparing favorably with the TRY 18.3 bn primary surplus of January-October 2010.

According to our forecasts, the revised targets for 2011 seem feasible, but there are risks to the 2012 forecasts due to our forecast that growth will slow down to 1% after 8% this year. Recall that after the revision of the government forecasts, the budget deficit is now expected to decline to 1.7% of GDP from 3.6% recorded in 2010. On the other hand, the primary surplus is expected to rise from 0.8% of GDP in 2010 to 1.6% of GDP this year.

Central Government Budget: 2010-2011
(in billion TL)

	Jan-Oct		Real growth (%)
	2011	2010	
Central Government Revenues	243.7	206.9	9.4
o/w: General Budget Revenues	235.9	200.2	9.4
Tax Revenues	208.1	170.4	13.4
o/w: Corporation Tax	60.3	48.6	15.1
Tax on Income	20.0	15.1	22.8
Tax on Goods and Services	86.0	75.2	6.1
o/w: VAT	25.6	22.0	8.3
SCT	52.6	46.4	5.2
Tax on Foreign Trade	43.8	31.2	30.4
Non-Tax Revenues	35.6	36.5	-9.4
Central Government Expenditures	245.4	230.0	-0.9
Non-Interest Expenditures	208.0	188.6	2.4
o/w: Personnel	72.3	61.7	8.8
Government Prem. to Social Security Agen.	10.5	9.0	8.9
Good and Services Procurements	23.5	19.3	13.2
Capital Expenditures	17.5	14.9	9.5
Current and Capital Transfers	90.7	88.0	-4.3
o/w: Social Security	45.3	48.2	-12.7
Transfers to Households	1.7	1.2	29.1
Agricultural Subsidy	5.7	5.0	5.8
Treasury Aid to Provincial Offices	2.3	1.5	47.0
Interest Expenditures	37.5	41.5	-16.1
Overall Balance	-1.7	-23.1	...
Primary Balance	35.8	18.3	...

Source: Ministry of Finance

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