



**MACROECONOMIC
OVERVIEW**

FEBRUARY 2011

Koç Holding



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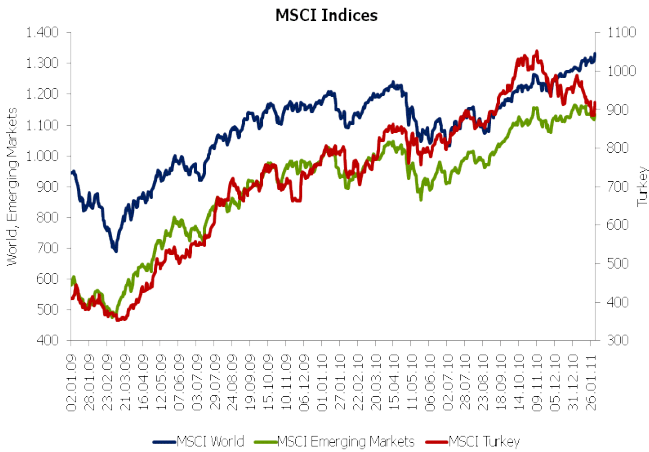
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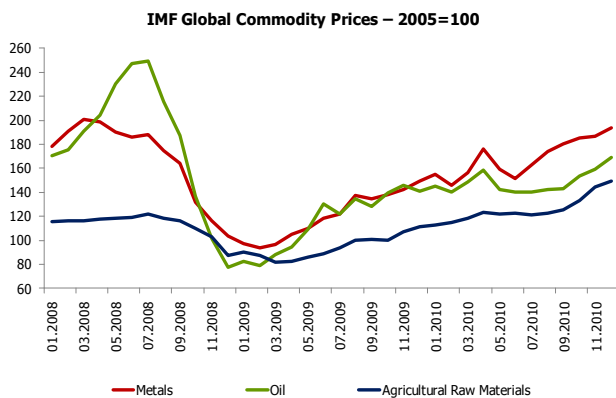
GLOBAL ECONOMY

GLOBAL FINANCIAL MARKETS



Source: Bloomberg

Global financial markets concluded 2010 on a high note thanks to better-than-expected macro data flow from the developed countries and easing of risk perception regarding European debt crisis due to the measures taken by the EU officials. Developed financial markets took off to a good start to 2011 as well, as the corporate financial results are satisfactory and low interest rate environment is likely to remain in place for most of 2011, if not for the entire year. Risk perception towards the emerging markets, on the other hand, has increased in the last couple of weeks due to increase in inflationary pressures in some countries, as well as rising political tensions in Tunisia, Egypt, Yemen and other countries in the region.



Source: IMF

The key reason behind the surge in inflation in developing countries, especially in the ones that have been growing rather fast, is the rise in commodity prices in global markets. Starting from the second half of 2010, commodity prices have been rising, exerting pressure on inflation globally. Increase in the prices of agricultural commodities, and food prices in general is pushing inflation rates in most of the developing countries as the share of food in the consumption basket in developing countries is quite high. Moreover, oil prices have started to increase due to concerns regarding the sustainability of oil transport through Suez Canal, putting further pressure on prices in oil importing countries.

GLOBAL ECONOMIC GROWTH FORECASTS

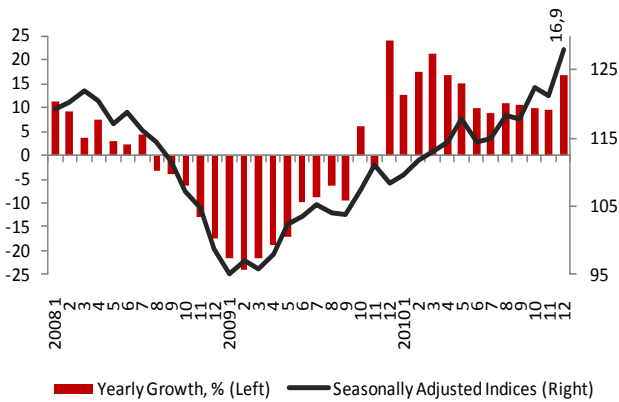
World Economic Outlook Projections (IMF, Jan.2011)	2011	2012
WORLD OUTPUT(%)	4,4	4,5
Advanced Economies	2,5	2,5
- USA	3,0	2,7
- Euro Zone	1,5	1,7
- Japan	1,6	1,8
Emerging Economies	6,5	6,5
- Central & Eastern Europe	3,6	4,0
- China	9,6	9,5
- Turkey	3,6	3,7

IMF revised its global growth projections, on the back of recovery in global arena has been continuing in the developed economies and emerging economies. While emerging economies are expected to remain as the main engine of growth for the global economy, inflationist pressure was getting higher in these economies. According to the report, upward pressure in commodity prices would continue in 2011, and the average price of oil would be 89.5 dollars per barrel. As may be remembered, IMF had envisaged in the report it published in October 2010 that Turkish economy would grow at the rate of 7.8% in 2010 and 3.6% in 2011. IMF's growth forecasts for Turkey are lower than the market consensus, that stands at 5.0% and 4.9% for 2011 and 2012, respectively.



TURKEY – MACROECONOMIC INDICATORS

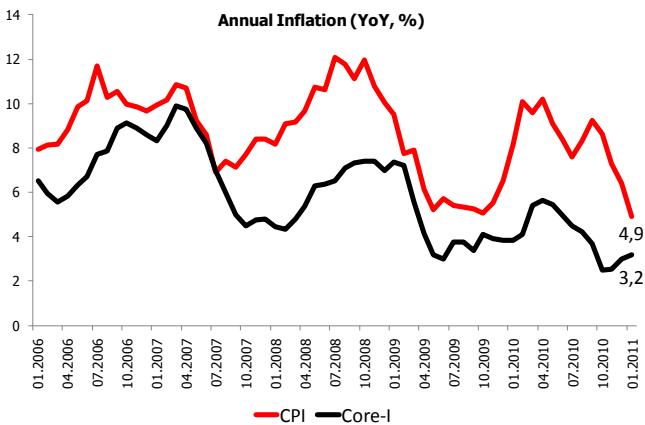
INDUSTRIAL PRODUCTION



YoY, %	2010 July	Aug	Sep	Oct	Nov	Dec
Industrial Production	8,8	10,8	10,4	9,9	9,4	16,9

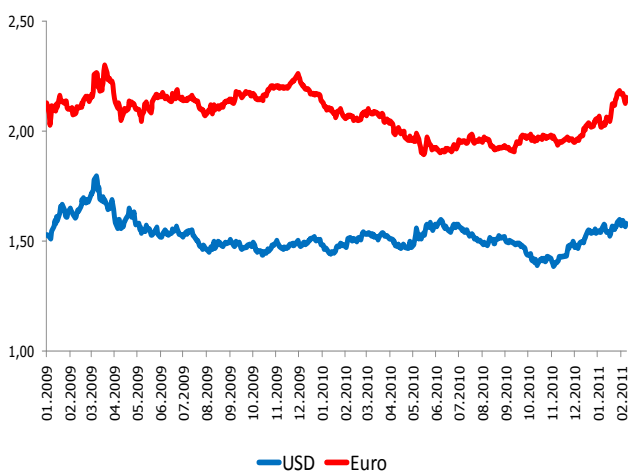
Given a continued economic activity, industrial production (IP) jumped 16.9% in December. With December figure, annual output growth reached 13.1% in 2010 versus a decline of 9.9% in the last year. In terms of the indices, the industrial production exceeded its pre-crisis levels. When seasonally and calendar adjusted, the indices reached a historical level of 128.1. This figure was 121.9 in March of 2008.

INFLATION



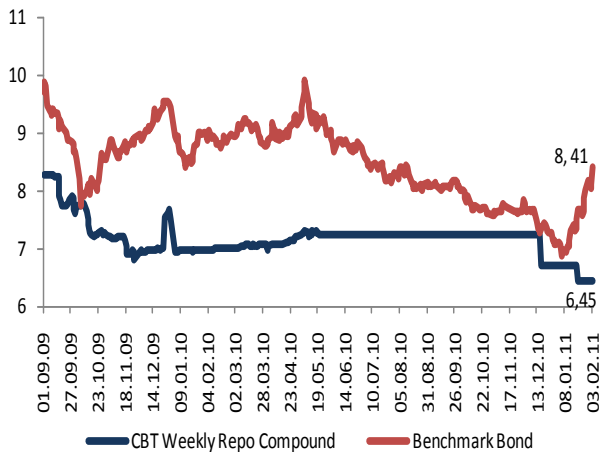
Consumer prices increased 0.4% in January, bringing the annual CPI inflation to 4.9% from 6.4% in December. The decline was largely due to high base year effect. The annual inflation is at the lowest level in the past four decades. Although annual core inflation increased moderately from 3.0% in December to 3.2% in January; it is still at very low territory, suggesting that inflation dynamics is under control. Meanwhile, producer prices rose by 2.4% within the month which is under the pressure of rising commodity prices and depreciation of the TL, reaching the highest level (annually 10.8%) since November 2008.

FOREIGN EXCHANGE RATES



	CBT Rates			Change (%)	
	31/01/2011	31/12/2010	31/12/2009	MoM	YoY
USD	1,5991	1,5376	1,4873	4,0	7,8
Euro	2,1842	2,0551	2,1427	6,3	5,4
FX Basket	1,8917	1,7964	1,8150	5,3	6,4

Central Bank's decision to introduce a new monetary policy mix at the end of 2010, namely lowering interest rates and raising required reserve ratios, has created a significant amount of uncertainty and confusion in the market, leading to an outflow of short term foreign funds and depreciation of the TL against the currency market. The decline in risk appetite towards emerging markets in general added further pressure on the exchange rates in Turkey.

**INTEREST RATES**

%	Aug	Sep	Oct	Nov	Dec	Jan 2011
Real Int. Rates (Ex-ante)	1,0	0,9	0,6	0,5	0,4	0,8

Following the 50 bps rate cut of the Central Bank at the end of December 2010, interest rate on the benchmark bond fell down as low as 6.8% at the start of January 2011, lowest level on record. Despite another rate cut of 25 bps that brought the policy rate to 6.25% in January, increasing uncertainty regarding the Central Bank's new policy, rising risk perception towards emerging markets, and slightly increasing medium-term inflation expectations have all led to a sell-off in the bond market, pushing the interest rate on benchmark bond as high as 8.41% at the start of February.

CENTRAL GOVERNMENT BUDGET

Jan - December (Billion TL)	2009	2010	% Change
Revenues	215,5	254,0	17,9
Tax Revenues	172,4	210,5	22,1
Indirect Taxes	111,3	144,0	29,3
Non-tax Revenues	36,2	35,6	-1,5
Expenditures	268,2	293,6	9,5
Primary Expenditures	215,0	245,3	14,1
Social Security	52,7	55,0	4,5
Interest Expenditures	53,2	48,3	-9,2
Budget Balance	-52,8	-39,6	-24,9
Primary Balance	0.4	8,7	--

The performance in the public finances has been quite successful so far in 2010, on the back of strong tax revenues due to faster-than-expected recovery in economic activity. Looking at the whole year, the budget produced TL 39.6 billion of deficit, which is below the government's revised forecast of TL 44.2 billion deficit target while the primary surplus came in at TL 8.7 billion which is above the revised target of TL 5.3 billion. Budget deficit is well under control in 2010 with the expected deficit to be at around 3.6% of GDP. Despite upcoming elections, budget deficit is expected to decline even further in 2011 thanks to falling interest expenditures and a successful management in spending.

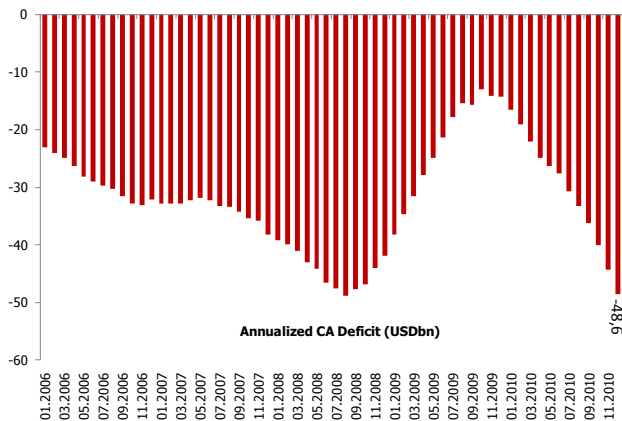
FOREIGN TRADE

	January – December 2010	
	USD Billion	Annual Change
Exports	113.9	11,5%
Imports	185.5	31,6%
Foreign Trade Balance	-71.6	84,5%

In 2010 as a whole, total exports increased by 11.5% to USD 113.9 billion and imports jumped 31.6% to USD 185.5 billion, resulting in a foreign trade deficit of USD 71.6 billion, a 84.5% increase compared to last year. As expected, imports increased faster in 2010, both due to recovering domestic demand and higher commodity prices. Therefore, exports/imports coverage ratio, which is a real indicator for the deterioration in trade dynamics, was materialized at 61.4% in 2010. Stagnation in Turkey's exports to the EU in the second half of 2010 was one of the main reasons Turkey's export growth remained constrained, although Turkish exporters managed to increase their penetration into some previously untapped markets.



BALANCE OF PAYMENTS



In 2010 current account (C/A) deficit jumped to USD 48.6 billion from USD 14.0 billion a year ago. Increasing foreign trade deficit is leading to a rapid widening in the C/A deficit that reached to 6.5% of estimated GDP in 2010. Current account deficit is expected to increase further in 2011 on the back of continuing strength in economic activity, and increasing commodity prices. Meanwhile deterioration in the quality of financing of the C/A deficit continued in December as the share of FDI to the C/A deficit is remained as low as 15%.

Financing of Current Account Balance (USDmillion)	2009	2010	2010 December
C/A Balance	-13,991	-48,557	-7,529
Capital Flows(net)	9,076	57,062	9,051
FDI (net)	6,856	7,122	1,515
Portfolio Inv. (net)	227	16,259	-276
Other Investment (net)	1,993	33,681	7,812
Net Errors & Omission	5,068	4,328	-74
Reserve Changes *	-111	-12,779	-1,448

* (-) sign indicates reserve accumulation

MACROECONOMIC ESTIMATION & PROJECTIONS

%	2010	2011 Government Program	2011 IMF	2011 Market Consensus*	2011 Koç Holding Budget
GDP (USD billion)	745	781	---	829	868
Growth (GDP, %)	8.0	4.5	3.6	4.8	5.0
Inflation (CPI, year-end, %)	6.4	5.3	6.2	6.5	6.0
USD/TL (year-end)	1.5376	---	---	1.48	1.45
USD/TL (average)	1.5005	1.56	---	---	1.44
EUR/TL (year-end)	2.0551	---	---	1.97	2.00
Exports (USD billion)	113.9	127.0	130.8	---	130.0
Imports (USD billion)	185.5	199.5	191.3	---	208.0
C/A Balance (Ratio to GDP, %)	-6.0	-5.4	-5.4	-6.5	-6.5
Budget Balance (Ratio to GDP, %)	-3.6	-2.8	-3.4	-3.0	-2.8

* JP Morgan, BofA ML, Morgan Stanley