



**MACROECONOMIC
OVERVIEW**

MAY 2011

Koç Holding



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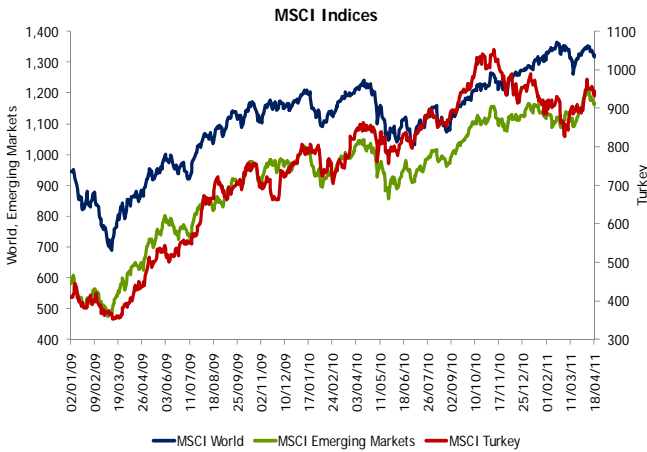
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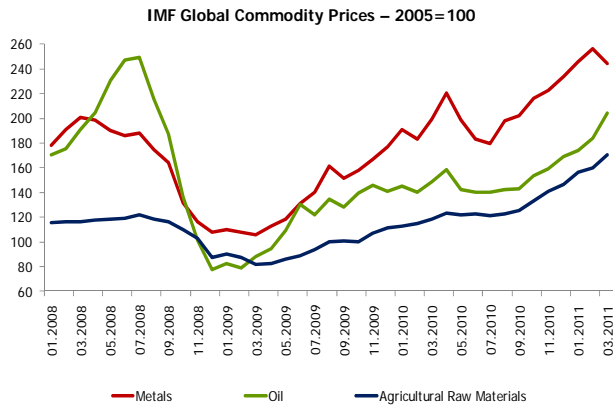
GLOBAL ECONOMY

GLOBAL FINANCIAL MARKETS



Source: Bloomberg

Following a lackluster performance in the first two months of 2011, emerging markets made a strong come back in March and the first half of April. In between February 24th and April 19th, MSCI Emerging Markets Index increased by 7.3%, while MSCI World Index remained almost flat. Financial markets in Turkey did even better, as the MSCI Turkey Index rose by 9.7% within the same time horizon. However, negative news flows from the US and Eurozone starting from the second half of April seem to have taken their toll on financial markets globally. Meanwhile, financial markets seem to have shrugged off concerns of political tensions in MENA region and of Japanese earthquake, although the former has a potential to revive in case the political turmoil spreads to other countries in the region.



Source: IMF

Increase in commodity prices have continued to be one of the most important agenda items in global economy. Rise in the oil prices, in particular, has led to inflation concerns almost everywhere in the world. Bothered with the rise in inflation in the Euro Area to 2.7%, highest level since October 2008, European Central Bank raised its policy rate by 25 bps to 1.25%, earlier than previously anticipated by most of the market players. Many other countries, mostly emerging markets, have also opted for strengthening their monetary policies either by interest rate hikes, reserve requirement increases, or both.

GLOBAL ECONOMIC GROWTH FORECASTS

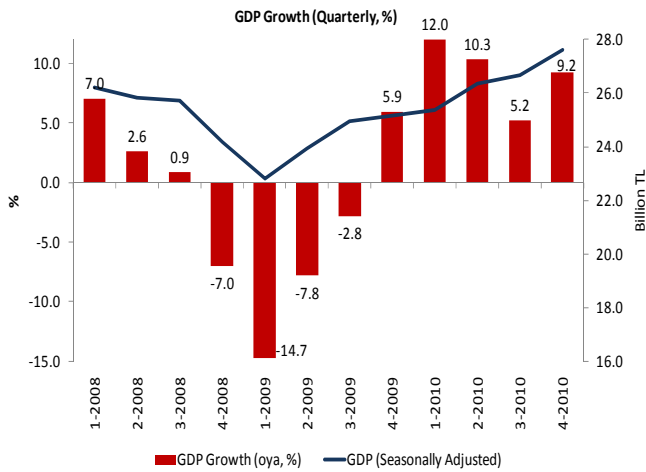
World Economic Outlook Projections (IMF, April 2011)	2011	Difference from Jan, 2011	2012	Difference from Jan, 2011
WORLD OUTPUT (%)	4.4	0.0	4.5	0.0
Advanced Economies	2.4	-0.1	2.6	0.1
- USA	2.8	-0.2	2.9	0.2
- Euro Zone	1.6	0.1	1.8	0.1
- Japan	1.4	-0.2	2.1	0.3
Emerging Economies	6.5	0.0	6.5	0.0
- Central&Eastern Europe	3.7	0.1	4.0	0.0
- Russia	4.8	0.3	4.5	0.1
- Turkey	4.6	1.0	4.5	0.8
- China	9.6	0.0	9.5	0.0
- Brazil	4.5	0.0	4.1	0.0

IMF has published World Economic Outlook (WEO) report before the Spring Meetings. In the report, the improvement in financial markets, buoyant activity in many emerging economies, and growing confidence in advanced economies are described as the favorable items for the global economy. However, disruptions to oil supply would pose new risks to the recovery. Its main assumption for oil prices is around \$107 per barrel in 2011. IMF also announced that Turkey's economy is expected to grow 4.6% this year and 4.5% in 2012. According to the April edition of IMF report, Turkey's current account deficit will widen to 8.0% of GDP in 2011 and to 8.2% in 2012.



TURKEY – MACROECONOMIC INDICATORS

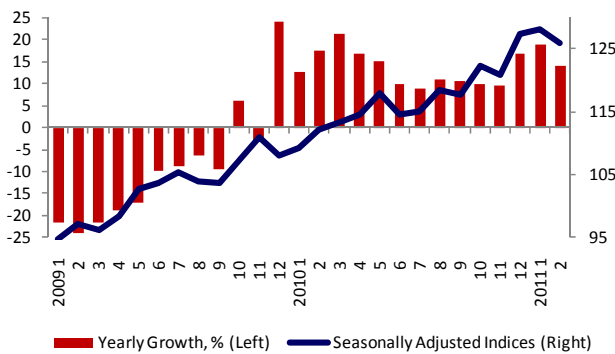
ECONOMIC GROWTH



Real Growth, %	2010 Annual	2010 Q1	2010 Q2	2010 Q3	2010 Q4
GDP	8.9	12.0	10.3	5.2	9.2
Agriculture	1.6	0.8	1.7	0.0	5.1
Manufacturing	13.6	21.4	15.7	7.6	11.3
Construction	17.1	8.3	20.4	22.1	17.5
Trade	13.3	20.5	13.9	7.3	13.1

GDP grew by 9.2% YoY in Q4, beating the market consensus forecast of 7.2%. Eventually, 2010 GDP growth came in at 8.9% which compares favourably with the 4.8% contraction recorded in 2009. Private consumption and private investment were the driving forces behind the robust growth in throughout 2010. Meanwhile, seasonally adjusted national output level has reached highest level on records in the third quarter of 2010, surpassing previous peak that was registered in the first quarter of 2008.

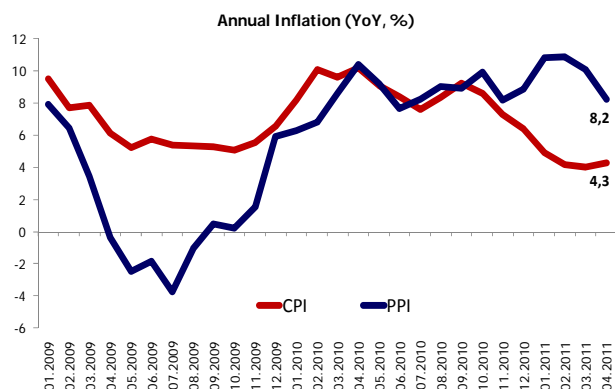
INDUSTRIAL PRODUCTION



YoY, %	Oct	Nov	Dec	2011 Jan	2011 Feb
Industrial Production	9.9	9.4	16.7	19.0	13.9

Industrial production rose by 13.9% YoY in February, on the back of strong domestic demand. When calendar and seasonal effects excluded, we see a rather limited monthly decline of 1.7%. Looking at the details of the figures, there is a strong contribution coming from capital goods production. This recovery in investment appetite is quite positive for the sustainability of the growth momentum.

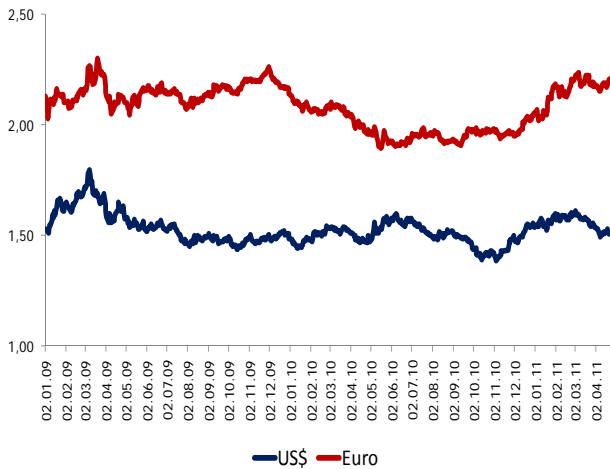
INFLATION



Consumer prices increased 0.87% MoM in April, bringing the yearly CPI inflation to 4.3% YoY from 4.0% in March. This is the lowest level in the recent inflation history and should be a comfort to Central Bank of Turkey. However, in its inflation report in April 2011, the CBT lifted the end-year inflation forecast to 6.9% from 5.9%, citing oil prices and the hike in customs duties in textiles imports. On the PPI front, prices were up 0.61% in the month, marking an annual increase of 8.2%, representing a decline in annual inflation from 10.1% from a month ago.



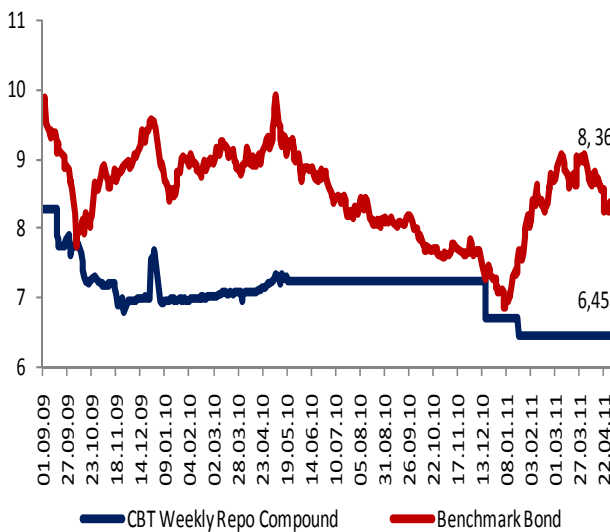
FOREIGN EXCHANGE RATES



	CBT Rates			Change (%)	
	29/04/2011	31/03/2011	31/12/2010	MoM	YtD
US\$	1.5141	1.5549	1.5376	-2.6	-1.5
Euro	2.2496	2.1929	2.0551	2.6	9.5
FX Basket	1.8819	1.8739	1.7964	0.4	4.8

Starting from the second half of March, TL has recovered some of its losses against major currencies. Turkey's strong growth momentum and still high interest rates attract foreign investors, especially into the bond market. Appreciation of the euro against the US dollars in global markets have been reflected on to the domestic FX market as well, with the TL appreciating against the US dollar and depreciating against the euro.

INTEREST RATES



%	Nov	Dec	Jan 2011	Feb 2011	Mar 2011	Apr 2011
Real Int. Rates (Ex-ante)	0.5	0.4	0.8	1.7	2.0	1.7

In April, the Central Bank (CB) kept the policy rate unchanged at 6.25%, holding the O/N borrowing and lending rates also constant at 1.5% and 9.0%, respectively. However, the CB hiked the reserve requirement ratio (RRR) on TL demand deposits and time deposits with a maturity up to one month to 16% from 15% while the RRR on FX deposits with a maturity up to one month was increased by 100 basis points to 12%. By these RRR hikes, a total of \$1.4 billion will be drained from market liquidity. Meanwhile, due to a very strong inflow of foreign investors in the bond market have pushed bond yields by about 60 bps in April, despite bond sales of local banks on the back of their need for liquidity due to CB's RRR increases.

CENTRAL GOVERNMENT BUDGET

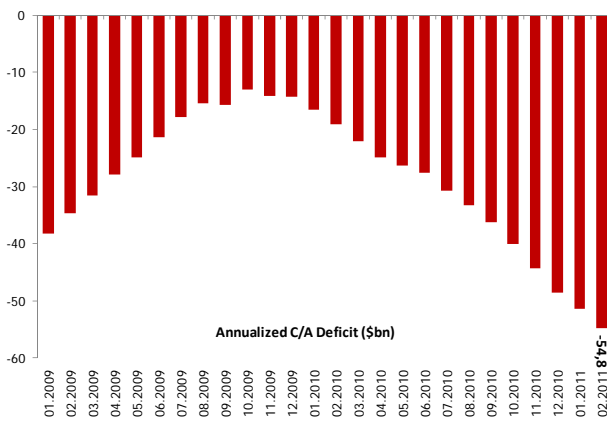
Jan - March (TLBillion)	2010	2011	% Change
Revenues	57.0	68.7	20.5
Tax Revenues	47.9	57.5	19.9
Indirect Taxes	31.6	38.2	20.7
Non-tax Revenues	11.3	9.1	23.5
Expenditures	68.4	72.8	6.6
Primary Expenditures	53.7	58.9	10.3
Social Security	14.8	15.7	6.4
Interest Expenditures	15.0	14.0	-6.9
Budget Balance	-11.3	-4.1	63.6
Primary Balance	3.7	9.8	169.1

Fiscal performance was successful in the first quarter of 2011, mainly thanks to strong tax revenues due to faster-than-expected economic recovery. Regarding the 1Q performance, budget deficit declined 63.6% YoY to TL4.1 billion while tripling last year's primary surplus realization of TL3.6 billion with TL9.8 billion. The government targets TL33.6 billion of budget deficit and TL13.9 billion of primary surplus this year. The strong performance was rather a result of 15% real growth in tax revenues, driven by robust economic activity, more than a reduction in non-interest expenditures.

**FOREIGN TRADE**

	Jan - March 2011		Last 12 Months	
	\$ Billion	Annual Change	\$ Billion	Annual Change
Exports	31.5	21.0%	119.4	15.2%
Imports	56.1	45.6%	203.1	34.9%
Trade Balance	-24.6	96.8%	-83.7	78.5%

Exports stood at \$11.8 billion in March, parallel to market expectations. However, on the back of strong domestic demand and high commodity prices, imports grew even faster in March, reaching \$21.6 billion. Details of March figures show that investment goods imports soared 63.4% yoy to \$3.5 billion, while intermediate goods imports were up by 40.1% yoy to \$15 billion. Since November, export/import coverage ratio hovers around 55%. On the back of the monthly figure, annualized exports amounted to \$119.4 billion, while that of imports reached \$203.1 billion. Twelve months rolling trade deficit stands at \$83.7 billion in March, already surpassing Government's year-end target of \$72.5 bn.

BALANCE OF PAYMENTS

In February 2011, 12 months rolling current account (C/A) deficit climbed to \$54.8 billion from \$19.0 billion a year ago. Increasing foreign trade deficit is leading to a rapid widening in the C/A deficit that reached to 6.6% of 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, Turkey more than easily financed the C/A deficit thanks to the surge in foreign capital inflows induced by abundant global liquidity and Turkey's own economic success story. However, financing of the C/A deficit has been increasingly relying on short-term portfolio inflows, instead of more preferred FDI inflows. We do not foresee any substantial improvement in the financing of the C/A deficit in 2011.

Financing of CA Deficit (\$mn)	2010	2010 Jan-Feb	2011 Jan-Feb
C/A Balance	-48.528	-12.073	-6.127
Capital Flows(net)	56.798	7.393	2.820
FDI (net)	7.294	215	372
Portfolio Inv. (net)	16.126	3.786	1.547
Other Investment (net)	33.378	3.392	901
Net Errors & Omission	4.575	5.502	3.266
Reserve Changes *	-12.809	-822	41

* (-) sign indicates reserve accumulation

**MACROECONOMIC ESTIMATION & PROJECTIONS**

	2010	2011 Government Program	2011 Koç Holding Long Term Plan
GDP (\$billion)	736	781	773
Growth (GDP, %)	8.9	4.5	5.0
Inflation (CPI, year-end, %)	6.4	5.3	6.5
USD/TL (year-end)	1.5376	---	1.58
USD/TL (average)	1.5005	1.56	1.58
EUR/TL (year-end)	2.0551	---	2.21
Exports (USD billion)	113.9	127.0	130.0
Imports (USD billion)	185.5	199.5	208.0
C/A Balance (Ratio to GDP, %)	-6.0	-5.4	-7.5
Budget Balance (Ratio to GDP, %)	-3.6	-2.8	-2.8