

## MACRO BRIEF

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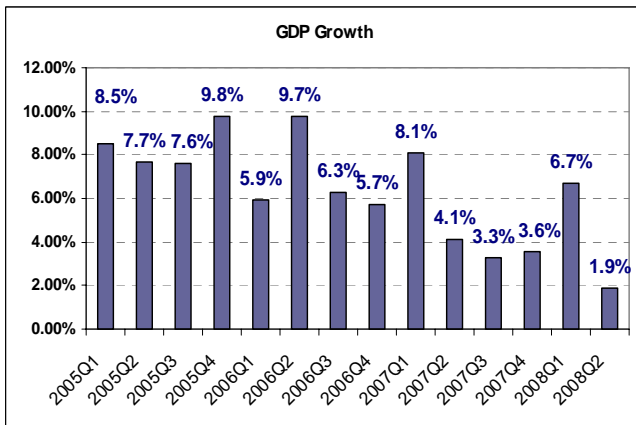
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### Fears Come True: 2008Q2 GDP Growth is the lowest since 2002Q1

2008 2<sup>nd</sup> quarter GDP growth geared down with a 1.9% showing, the lowest since 2002Q1. Markets anticipating 3.6% were thus deeply disappointed and this should lead to growth concerns being emphasized more going forward. It could also have repercussions regarding monetary policy and as our chief economist mentioned in our last weekly, Governor Yilmaz could indeed sound prophetic in retrospect. This is not yet a justification per se of the Governor's recently adopted dovish attitude, but it does definitely make it more interesting and monetary policy a hotter issue as well. Short of the story is that the probability of not reaching even 4% year-end growth has risen significantly and how monetary policy will respond to this will be interesting to watch to say the least.



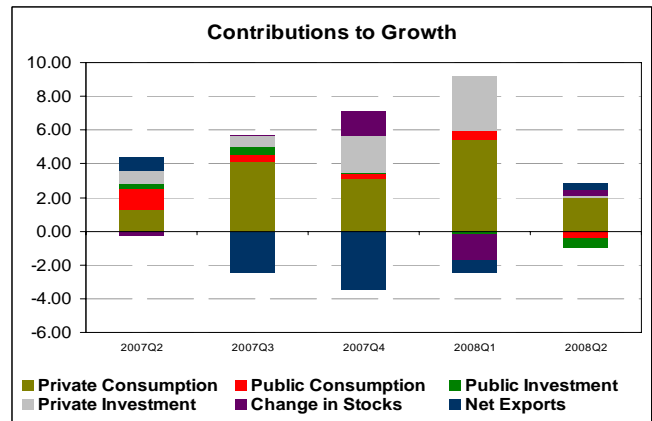
Graph.1

On the expenditure front, public expenditure growth was negative while private expenditure slowed down substantially- private investments increased by a mere 0.61%. While domestic demand was unequivocally hurt by the deteriorating sentiment due to myriad reasons well known, net exports' growth was positive after a year of negative contribution.

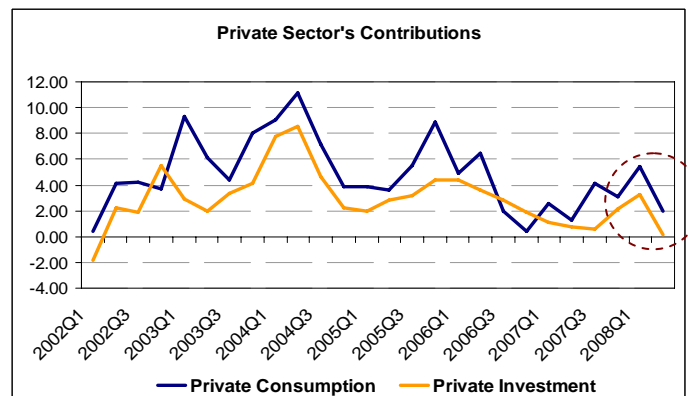
Private consumption lost steam big time and contributed a dismal 1.95 percentage points only.

*Fears Realized: 2008Q2 GDP Growth is the lowest since 2002Q1*

Change in stocks and net exports contributed nearly 0.4 percentage points each, and positive contribution by net exports was welcome but can not be relied on going forward given the adverse news flow regarding the EU and Russia, Turkey's largest export zones by far.



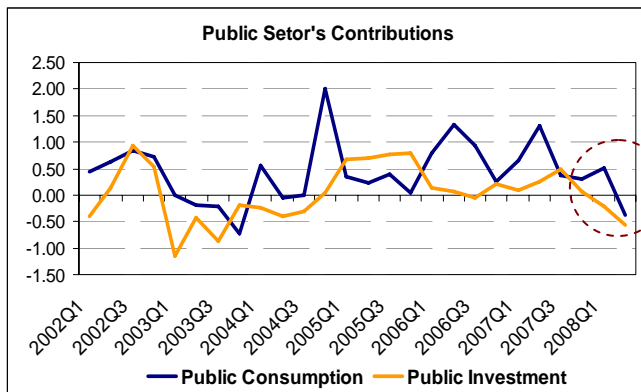
Graph.2



Graph.3

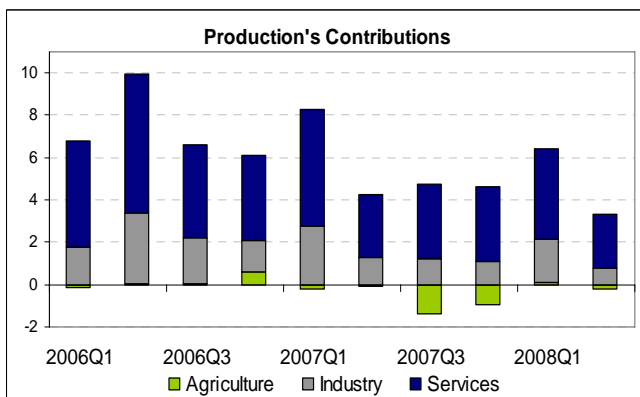
Public investment and public consumption contributed to growth negatively, by 0.56 and 0.39 percentage points, respectively. Although public expenditures' negative contribution could be appreciated at this point considering buoyant effects on budget performance, on the inflation front and on avoiding the crowding out effects, this will be another area which should deserve more scrutiny going forward. As we discussed in "YKB/OMN/05: Any Room for Fiscal Expansion Here?"; "Turkey's debt dynamics have improved so drastically

following a six year period of austerity that public investment expenditures presumably can contribute to GDP growth both directly and indirectly through its favorable impact on private investment expenditures.”. We are aware of the fact that a limited fiscal fragility still exists, but a moderate fiscal expansion targeting infrastructure in the most impoverished regions of the country looks to be an eligible recipe at this phase of the growth cycle.

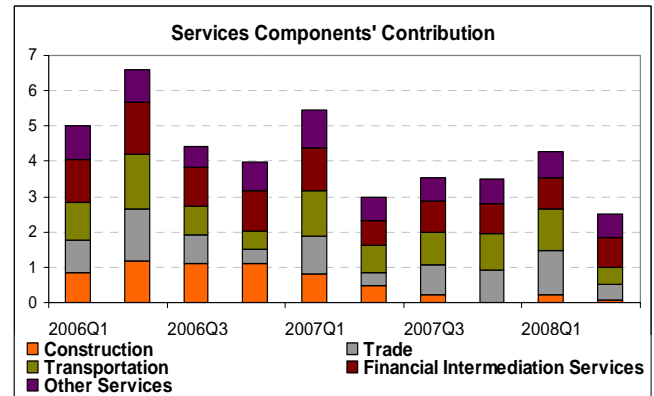


Graph.4

On the production side, Services were the only sector standing mostly still with 2.5 percentage points contribution-although this is the lowest contribution of Services to GDP since 2003. Agriculture in particular and Industry slumped with -0.23 and 0.8 percentage points contributions respectively. Agriculture, after a disastrous 2007, was expected-at least- to make a positive contribution. Recently published “Agricultural Production Forecasts” by Turkstat projected an increase for 2008. Industrial slow down was signaled by Industrial Production Index (IPI) before so it was no bonus. Services sub-sectors with substantial weights, namely Construction, Trade, and Transportation were all below their previous contribution levels.



Graph.5



Graph.6

Although we can expect better performances from Agriculture on production side and a limited recovery in private expenditures due to mitigation of political risks, it will be a great challenge to reach 4% year-end growth. How much room we have on monetary policy front and whether fiscal policy allows for any prudent easing will be the most intriguing policy issues to be explored in the upcoming period. Note that these are questions that had hitherto been irrelevant for policy purposes and times now demand a more inquisitive approach to all issues in hand.

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