April 2009

DenizBank Political & Economic Update

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The Obama visit and after

U.S. President Barack Obama's visit was irrefutably the most important political event of April in Turkey. From the US perspective, "peace with Islam" was the critical message conveyed by the President while emphasizing that the U.S. is not and never will be at war with Islam. From the Turkish perspective, the messages mainly focused on Turkey's EU membership and normalization of relationships with Armenia and northern Iraq.

President Obama confirmed the U.S. support for Turkish EU membership during his visit. He stressed that Turkey is linked to Europe by more than bridges over the Bosporus. He also mentioned that Turkish membership to the EU would broaden and strengthen Europe's foundation. Obama's support for the Turkish EU membership originates from his administration's desire to boost Ankara's global standing to complement the U.S. agenda in the Islamic world. Although Turkey welcomes the U.S. support of its heightened position, Obama's open support for Turkey, we think, was a tactical mistake. Because it prepared the necessary ground for Sarkozy and Merkel to reiterate their opposition to Turkish membership by stating directly that Turkish membership would lead to further weakening of EU cohesion. As usual, Europeans do not like the US meddling in their business especially in such delicate political matters.

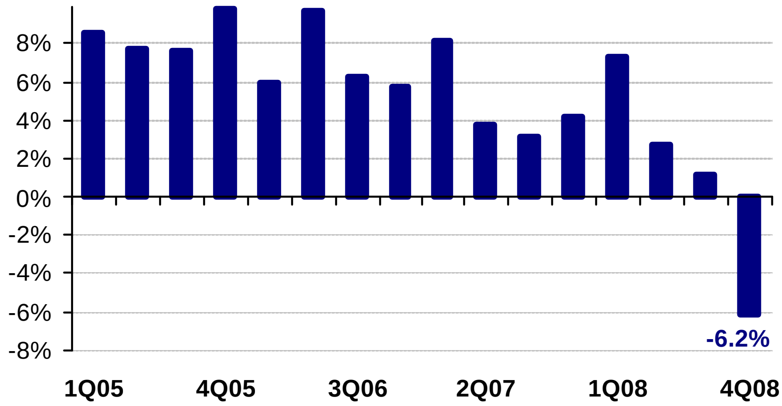
Second important outcome of Obama's visit was related to Turkey's stalemates with Armenia and northern Iraq. Turkey and Armenia have clashing views on Yerevan's dispute with Azerbaijan over Karabakh and the labeling of the Armenian killings by Ottoman Turks during the World War One. Last week, Turkey and Armenia agreed on a road map to normalize ties after a century of hostility that traces its roots to the deportation of Armenians from the Ottoman Empire in 1915. In addition to the conflict with Armenia, northern Iraq created serious tension particularly after the demise of the Saddam Regime. The ties between Turkey and Iraq have deteriorated due to the presence of the pro-Kurdish terrorist organization PKK based in northern Iraq, the origin of attacks to the Turkish territory. Following Obama's visit, we have witnessed an improved relationship between Turkey and Iraqi Kurds on common goals pertaining to the removal of the pro-Kurdish terrorist organization PKK from northern Iraqi territory.

President Obama chose Turkey as the first Muslim country to visit since becoming a president. His decision to go to Turkey at the outset of his administration clearly demonstrates the value he attaches to Ankara's strategic importance for facilitating his approach towards the Muslim world. He praised Turkey for its strong European roots, democracy and its ability to reach out to the Muslim world. The administration further perceives Turkey as a resurgent regional power whose influence spans the Middle East, the south Caucasus, the Balkans and Central Asia. In conclusion, President Obama's two day visit to Turkey made clear that Washington will be the primary supporter of Turkey's rise by facilitating Turkey's EU membership and mediating to solve the political impasses with its neighbors.

GDP contracted by 6.2% in the last quarter of 2008 as private demand collapsed

The Turkish economy enjoyed the longest ever growth period between 2002 and 2007 at about a stable 7% a year but succumbed to the global crisis in 2008. Being no exception to the global trend, the economy contracted substantially in the fourth quarter. Even fiscal and monetary easing since late 2008 has not been able to save the economy. Weakening external as well as domestic demand and tighter credit conditions caused the real GDP to fall 6.2% from a year earlier during the fourth quarter of 2008, marking the first negative figure after 27 consecutive quarters of positive growth (Figure 1). The dismal last quarter outcome reduced the full-year growth for 2008 to 1.1% from 4.7% in 2007, which was already well below its potential. The contraction in the last quarter was no surprise, however, as it was in line with the average expectation at 5.8%.

Figure 1:
Real GDP Growth by Quarters (YoY change)



The most substantial reason behind the contraction in the fourth quarter was the sharp weakening in private spending. The global recession tarnished the appetite for investment spending as both export and domestic demand vanished. Tighter lending conditions despite the excessive rate cuts since the late 2008 from 16.75% to 9.75%, was also a key factor for the falling private spending. Facing an increase in credit risk due to the recession, the banks preferred to remain cautious in lending to the private sector, and chose instead to manage their liquidity in government securities, also a wise move in an environment of easing monetary policy.

The plunge in private investment was an alarming 23.5% in the fourth quarter (surpassed the previous two quarters' declines, 3.4% and 8.9%, respectively) and wiped out a whopping 5.4 percent points from the headline growth. Machinery investment in the private sector looks particularly gloomy, down 25.3% compared to the same period in the year before. This will certainly have future adverse consequences for the Turkish economy, such as lower productivity which might cap the growth rates in the quarters ahead; starting from perhaps 4Q09 to extend into 2010.

The downfall in spending was not limited to private investment. Uncertainties surrounding the global economy and resulting weakening consumer confidence caused private consumption, which constitute nearly 70% of the GDP, to dampen 4.6% in the last quarter of 2008. The excessively tight monetary policy before November 2008 was also influential in curbing consumer spending. Actually, the weakening in private demand had started well before the last quarter. Private consumption that had played a big role in the recent fast-growth era by rising at an eye-catching average rate of 7.2% between 2002 and 2007 had contracted for the first time since 2001 in the third quarter of 2008 by 1.3%.

On the other hand, the rise in public spending and the tumble in imports prevented a more drastic contraction in the economy (although the fall in imports was in fact a result of lower spending). Thanks to the easing of fiscal policy ahead of the local elections in March this year, both public sector investment spending and public sector consumption grew rapidly by 15.9% and 6.1%, respectively. However, making up only a small share in GDP their contribution to the headline growth was insignificant. Considering the anti-crisis measures taken so far, public spending is expected to remain supportive in the first half of 2009 while, however, with a still limited contribution to headline growth. Moreover, following the implementation of a prospective IMF stand-by program, its contribution may probably vanish in the second half of the year. The 23% contraction in imports beat the 8.2% fall in exports in the fourth quarter and enabled the net exports to contribute five percentage point to the headline growth rate. The positive contribution is likely to continue for the most part of this year as the collapse in imports looks nowhere near done yet.

Table 1:

Real GDP Growth by Expenditure Approach: 2008

Annual real change	Quarters I	II	III	IV	2008 Total
GDP	**7.3%**	**2.8%**	**1.2%**	**-6.2%**	**1.1%**
Private Consumption Expenditures	**6.1%**	**1.5%**	**-1.3%**	**-4.6%**	**0.3%**
Public Sector Consumption Expenditures	**5.0%**	**-5.0%**	**1.2%**	**6.1%**	**1.8%**
Total Investment Expenditures	**9.5%**	**-1.2%**	**-6.9%**	**-17.5%**	**-4.6%**
Public Sector Investment Expenditures	18.3%	14.9%	5.4%	**15.9%**	13.1%
Private Investment Expenditures	8.6%	-3.4%	-8.9%	**-23.5%**	-7.3%
Change in Stocks	-80.0%	-120.4%	41.6%	**183.6%**	-278.8%
Exports of Goods and Services	13.3%	3.9%	3.6%	**-8.2%**	2.6%
(Less) Imports of Goods and Services	14.9%	2.2%	-2.8%	**-23.0%**	-3.1%

On the supply side, a detailed sectoral breakdown suggests that the 6.2% headline GDP contraction was across the board. Among the major contributors to the GDP, manufacturing output fell by about 11%, trade by 15% and transportation-communication by 7%, and finally construction by 13%. The performances of these sectors were well expected given the more timely industrial production and capacity utilization indicators. However, the 15.4% contraction in the trade and the 7.1% decline in the transportation-communication sectors were beyond the expectations, suggesting that the effect of the slowdown in production on economic activity was direct and without any delay.

Two sectors appear unaffected from the recession as of the fourth quarter of 2008: agriculture and finance which grew by 4.6% and 9.5%, respectively. The former has been enjoying relatively good times thanks to favorable weather conditions and increasing profitability upon rising food prices. One should note that the strong growth figure for the agricultural sector in the fourth quarter may be partly contributed to the favorable low base effect. The latter, on the other hand, reflects the strength of the banking sector, which is able to generate handsome profits unlike its peers in developed economies. Interest margins rose considerably thanks to the dramatic easing in monetary policy while non-performing loans were under control. This positive contribution of the financial sector is likely to continue in the remainder of the year.

Table 2:

Real GDP Growth by Selected Sectors: 2008

Annual real change	Quarters I	II	III	IV	2008 Total
Agriculture	8.1%	-1.6%	5.3%	**4.6%**	1.1%
Manufacturing	8.8%	4.8%	0.5%	**-10.8%**	-8.3%
Construction	-3.1%	-5.0%	-8.5%	**-13.4%**	-8.5%
Wholesale and Retail Trade	10.2%	4.5%	-1.4%	**-15.4%**	-5.2%
Transport, Communication	8.4%	4.4%	1.5%	**-7.1%**	-1.3%
Financial Intermediation	9.3%	9.6%	8.0%	**9.5%**	7.0%
GDP	**7.3%**	**2.8%**	**1.2%**	**-6.2%**	**1.1%**

Economy

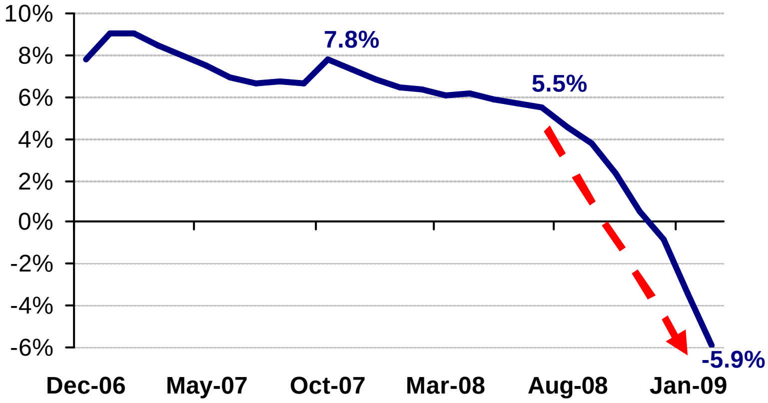
Outlook is not brighter; a double digit contraction is likely in the first quarter

As we stated in the previous update, a recovery in Turkey's export markets and an easing in global liquidity conditions, both in turn depend on a revival in the US economy, are essential for a recovery in Turkey. Until recently, there has been little evidence that a global recovery is on the way. In the latest "World Economic Outlook" report, the IMF revised again its world output growth projection for this year down to -1.3%, implying the deepest global recession since the Great Depression in the 1930s. The Fund expects the world output growth to recover only gradually in 2010, increasing by 1.9%. Indeed, global activity has been exceptionally weak in the first half of the year and almost every one wishfully expects stabilization towards the end of this year.

As for Turkey, the most up-to-date monthly readings on industrial production, capacity utilization, exports and tax revenues imply an intensified contraction in the early 2009, with no sign of recovery in the near future.

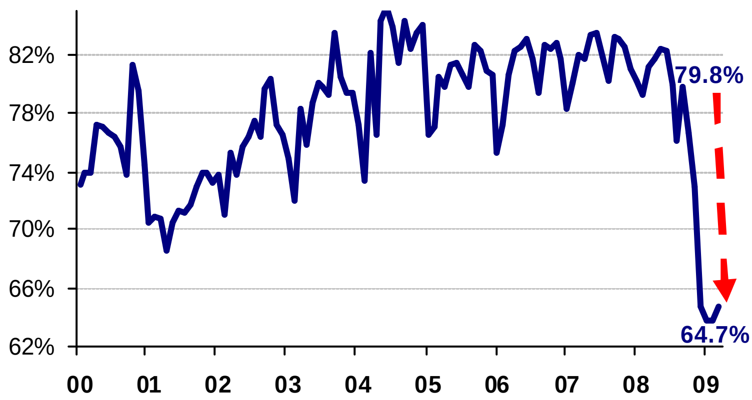
Firstly, the monthly industrial production data suggest that the free fall in the sector has continued. Industrial output declined at annual rate of 23.7% in February, following a 21.3% contraction in January. Manufacturing output contraction was more severe with a 25.9% drop in February. The February reading corresponded to a recession of 5.9% in annual terms exacerbating the downward trend since the late 2007 (Figure 2). The downturn started to intensify so severely lately that the rates of decrease were even higher than those registered during the 2001 crisis.

Figure 2:
Industrial Production Growth (12-m MA, YoY change)



Secondly, the monthly tendency survey signals further weakening in manufacturing activity in March, rather than a recovery. The capacity utilization rate in manufacturing was 65% in March well below the 81% utilization a year earlier but is slightly above the February level of 64%, the lowest utilization since the introduction of the index in 1991 (Figure 3). Since the slight uptick in March stemmed from a seasonal movement it hardly implies a recovery. Accordingly, industrial production is likely to record another record fall of 20 to 25% in March, following similarly dismal performance in the first two months of the year. Overall, industrial production will have fallen by about a quarter in real terms in the first quarter.

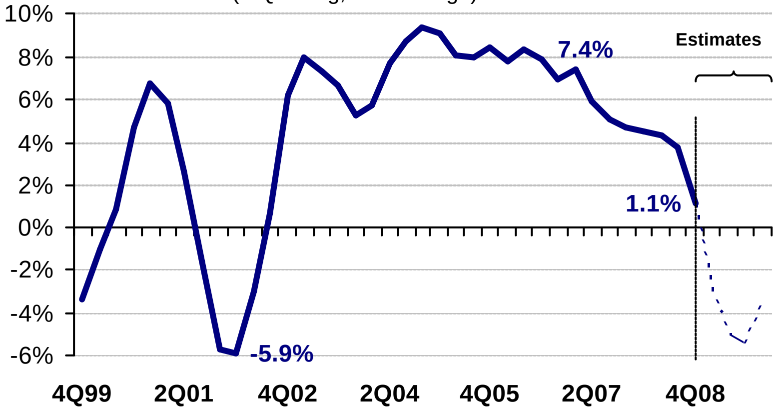
Figure 3:
Capacity Utilization Rate in Manufacturing



Finally, vanishing foreign demand and reduced credit resources slashed Turkish exports by 13% annually in the fourth quarter and by as high as 25% in the first two months of the year. This dismal demand for exports was certainly instrumental in the economy's contraction (Figure 4). Moreover, domestic demand also appears to have deteriorated in early 2009, according to data on government's tax revenues. Growing economic slump cut tax revenues 1% in year-on-year terms during the fourth quarter, the decline exacerbated in the first quarter of 2009 to 5%.

Given all these, the economy may have contracted at double digits in the first quarter, barring a miraculous upturn in service sectors. Yet, the first quarter performance may have been the worst for the year. Looking ahead, real sector confidence indicators give some signs of improvement in April. According to a monthly survey, producers anticipate increases in both orders and production, an optimism which could have arisen due to the recently introduced temporary tax cuts on automobiles and durable goods. But this would only bring a measured improvement on numbers in the second quarter, a contraction around 5 to 6% in annual terms appears likely.

Figure 4:
Real GDP Growth (4-Q rolling, YoY change)



Recent survey data, as mentioned above, suggest that we might see some stabilization in the second half, especially as the fiscal stimulus provided by the government helps supporting domestic demand. We think that the economy may register a near zero growth in the third quarter at best, followed by a measured positive figure in the last quarter.

The government has recently revised its macroeconomic estimates and fiscal targets and provided them to the public in the new EU Pre-Accession Economic Program earlier this month. According to the revisions, the administration estimates that the economy will shrink by 3.6% in 2009 and then return to a growth of 3.3% in 2010. On the other hand, the IMF is much more pessimistic than the Turkish authorities. The Fund's recently released semiannual World Economic Outlook report sees Turkey as one of the countries hardest hit by the crisis, with a forecasted economic contraction of 5.1% this year. The report predicts that the economy will grow by a mere 1.5% in 2010. In our view, sharp drops in exports, consumption and investment are making it likely that the GDP will contract as much as 4-5% this year (Figure 4). Supportive foreign demand and more favorable credit conditions may help economic growth to pick up to 2-3% next year.

Deterioration in budget continues, revised targets need additional measures

The recession took its toll on the fiscal side. Cyclically weak tax revenues and accelerating non-interest spending due to both the March local elections and anti-crisis measures worsened the budget balances in 2008. The fiscal performance of the first couple of months in 2009 already showed that the picture was getting even worse. In fact, it may be deemed to be the worst since 2002.

The central government budget figures for March, announced earlier this month, imply that the deterioration persists. The budget balance registered TL 8.8 bn deficit in March, compared to a TL 4.9 bn deficit a year earlier. The non-interest deficit of TL 4.3 looks just as dismal, versus a nearly zero balance in March 2008.

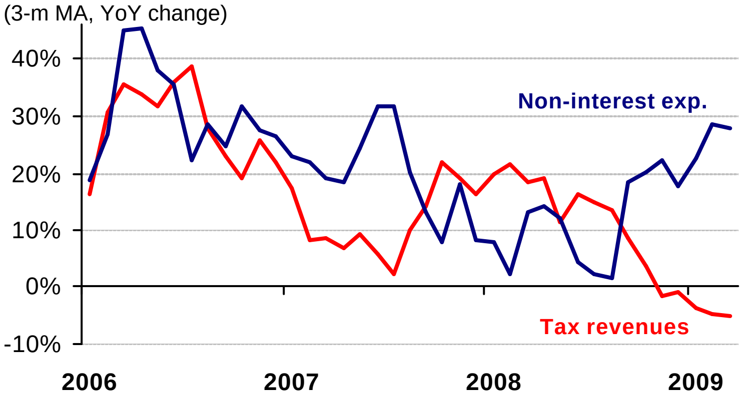
The cumulative figures suggest that revenue weakness and spending overruns shifted the non-interest balance to a TL 1.0 bn deficit in the first quarter from a TL 9.4 bn surplus the year before (Table 3). This reveals a deeper worsening compared to the fourth quarter of 2008, where the similar dynamics created a deficit of TL 2.9 bn versus a TL 4.4 bn surplus a year earlier.

Table 3:
Central Government Budget: January-March '09

TL bn	Jan-Mar 2008	Jan-Mar 2009	*Nominal chg (%)*	*Real chg (%)*	Revised target '09	*Jan-Mar % of target*
Budget expenditures	**51.6**	**66.4**	***28.8***	***18.9***	**259.9**	***25.6***
Non-interest expenditures	37.8	48.3	*27.8*	*18.0*	202.4	*23.9*
Interest expenditures	13.8	18.1	*31.6*	*21.4*	58.0	*31.2*
Budget revenues	**47.2**	**47.3**	***0.2***	***-7.5***	**211.6**	***22.4***
Tax revenues	40.3	38.1	*-5.2*	*-12.6*	170.1	*22.4*
Income tax	8.5	9.4	*10.4*	*1.9*		
Corporate tax	4.3	4.0	*-6.0*	*-13.3*		
VAT	4.2	4.2	*-1.5*	*-9.1*		
Special Consumption Tax	9.5	8.7	*-7.6*	*-14.7*		
VAT on imports	7.0	4.9	*-30.7*	*-36.0*		
Budget Balance	**-4.4**	**-19.1**	**-**	**-**	**-48.3**	***39.6***
Primary Balance (exl. interest)	**9.4**	**-1.0**	**-**	**-**	**9.2**	***-11.3***

Tax revenues fell by 12.6% annually in real terms in the first quarter. Consumption-based taxes, i.e. those derived from economic activity, deteriorated the most as domestic demand weakened. For example, VAT revenues from domestic sales contracted by 9%, special consumption tax by 15% and VAT on imports plunged 36% annually in real terms during the first quarter. On the other hand, non-interest spending exhibited an 18% real growth in the same period. The divergence between the tax revenues and the non-interest spending of late is clear in Figure 5.

Figure 5:
Tax revenues and non-interest expenditures
(3-m MA, YoY change)



The question then is whether the fiscal picture may improve towards the end of the year. The government thinks, at least hopes, it can. The recently released EU Pre-Accession Economic Program indicates that the administration revised the budget targets on the basis of a 3.6% contraction in the economy instead of the 4% growth estimated initially for this year. The central government budget total spending target is 27% of GDP for this year, up from 24% a year before. The revised target corresponds to a TL 260 bn total spending for 2009. It seems achievable, in our view, with some spending cuts, which may be waiting to be introduced once the long-awaited IMF deal is sealed. The revenue target, on the other hand, seems more challenging. The government aims to generate 22% of GDP total revenues in 2009, almost unchanged from a year before, despite a dramatic revision in the GDP growth estimate. The 2009 target implies the collection of nearly TL 212 bn revenues. In the first quarter, the realization matched only 22% of the revised target and the outlook is not encouraging, either. With no recovery in domestic demand on the horizon, the recent tax cuts are likely to decelerate budget revenues further. According to our estimates, the administration should introduce revenue-increasing measures (to a tune of TL10-20 bn) in order to achieve the target. Even though the prospective agreement with the IMF is likely to require an adjusted revenue generation scheme, a failure in meeting the targets is of possibility.

An IMF deal may reduce the Treasury's debt roll-over ratios substantially

The revised fiscal targets envisage a TL 10 bn non-interest surplus for 2009. If things go as planned and the target is met, the Treasury might need to borrow an additional TL 19-20 bn compared to its initial projection, which was originally set under the assumption of a handsome surplus of TL 28.5 bn in the primary budget balance.

The bulk of this additional borrowing requirement has already been fulfilled in the first four months of the year. Recall that the Treasury's domestic market roll-over ratio turned out to be 109% during January-April, much above the initial target at 79% (Table 4). Had the revised budget targets been achieved, the Treasury would have borrowed from the domestic market at an 80 to 85% roll-over ratio throughout the remainder of the year. Such roll-over ratios would be far from creating upward pressure on local bond yields.

Table 4:

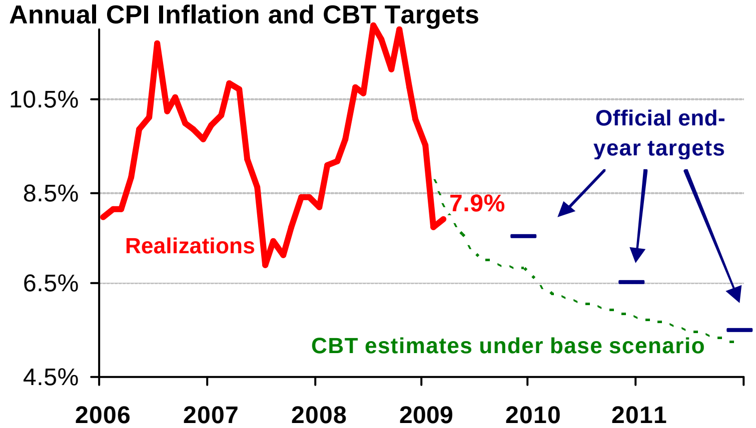
Domestic Borrowing, Realizations: 2009

	Domestic Redemptions			Domestic Borrowing			Domestic Market Roll-Over Ratio (%)	Total Domestic Roll-Over Ratio (%)
TL mn	**Market**	**Public Ins.**	**Total**	**Market**	**Public Ins.**	**Total**		
January	6,303	310	6,613	6,268	180	6,448	99.5%	97.5%
February	20,893	2,063	22,956	21,279	2,399	23,678	101.8%	103.1%
March	3,737	371	4,108	3,298	450	3,748	88.3%	91.2%
April	7,851	602	8,453	10,570	1,540	12,110	134.6%	143.3%
Total Jan-Apr	38,784	3,346	42,130	41,416	4,569	45,985	**106.8%**	109.1%
2009, Treasury's Initial Projection	112,600	22,500	135,100	88,800	16,300	105,100	**78.9%**	77.8%

The prospective IMF program may involve a front-loaded payment in 2009. This loan tranche would be instrumental in case of a measured divergence from the budget target. A more serious fiscal deterioration may raise concerns on public debt sustainability. By the same token, a further delay in the IMF program, and the absence of financing support for Treasury, will hurt market confidence in that regard.

Disinflation will resume but the CBT is likely to pause after another measured cut

Figure 6:
Annual CPI Inflation and CBT Targets



Inflation in March was slightly above the 0.8% consensus at 1.1%. It was, however, very much in conformity with the Central Bank of Turkey's (CBT) warning about a temporary surge in food prices. In its recent statements, the CBT had stated that inflation might display a temporary rise in March due to a sharp increase in unprocessed food prices, adding that its downward trend would resume afterwards. Indeed, food prices rose significantly by 3.9% in March making a 1.1 percentage point contribution to the headline figure in March and thus confirming the CBT's forecast. Also lending support to the CBT's view, the rest of the sub-items under the consumer price index have continued to display a downward trend.

After this monthly figure, the recent falling trend in annual inflation halted as it rose to 7.9% in March from 7.7% a month before. Inflation was falling consistently since October 2008, where a near two-year record high inflation at 12.0% was recorded (Figure 6). By April, however, the disinflationary trend should return.

The short-run exchange rate pass-through to consumer prices remained quite weak, while inflation in service sectors softened across the board on the back of weak demand conditions. Ongoing problems in international credit markets and the global economy have still been restraining both the domestic and external demand; therefore a demand side pressure on inflation is not in the cards for the near future. This certainly eases the central bank's hand in loosening the policy further or at least keeping it loose.

In March, the annual rate of increase in core inflation indicators slowed substantially as well. The CBT's favorite core inflation indicator, dubbed L index, which excludes food, energy, tobacco-alcohol and gold prices from the headline index, eased down to 5.6% in annual terms by March from 7.2% in February and from a peak of 7.4% in November. While it is also true that a part of this fall was due to the cuts in the Special Consumption Tax introduced during the month, it can still be argued that the secular disinflation trend remains intact even after deducting the impact of the tax cuts.

Looking ahead, inflation is likely to edge further down in the next couple of months due to several reasons. First, prices for services have softened across the board and this trend is unlikely to be interrupted in the short term. Second, skyrocketed food prices will probably display a correction downwards. Third, additional tax cuts introduced in April, under the last stimulus package, will also enter the index. Fourth, the statistical base effect will be certainly instrumental, as the monthly inflation outcomes for April and May last year were as high as 1.7% and 1.5%, respectively. In sum, we expect the annual rate of inflation to ease below 6% by May, to hit a historical low level, and then display a horizontal trend afterwards.

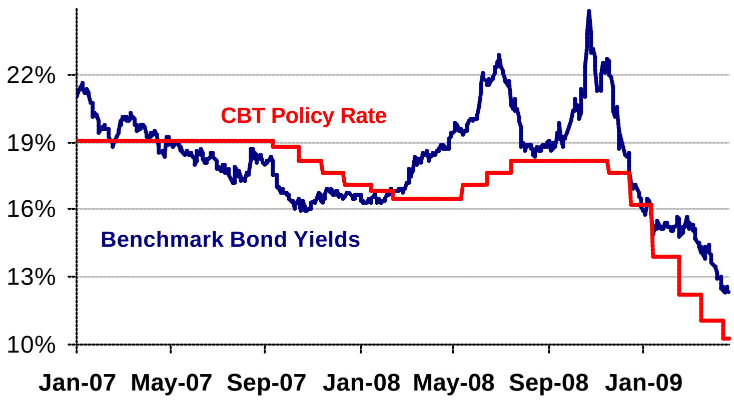
In the light of such factors and the unfavorable growth outlook, the CBT decided to cut policy rates by 75 bps in April. As such, it happened to have cut the overnight borrowing rate six times by a total 700 bps to 9.75%. The Bank has indicated that the cuts have lowered the probability of undershooting the end-year inflation target of 7.5% significantly but also stated that uncertainties in financial markets remain high, suggesting that downside risks still remain. The statement accompanying the rate decision implied another "measured" cut in May.

The signaling impact has been diminishing constantly as the magnitude of cuts has been reduced gradually since January, when a strong 200 bps cut was delivered. What is more, the welcomed help of downward trend in inflation expectations seems to be reversing after March. 12-month forward looking expectation rose to 6.9% in late-April from 6.7% in the March survey earlier (Figure 7). We expect the CBT to render a 50 bps cut in the next meeting on May 14th. However, a pause afterwards seems likely to us, and to a number of observers in the market as well. In other words, the Bank might pause somewhere at 9.00-9.25% and then switch to a wait-and-see stance. In case of an absence of signs for a recovery in the late-2009, another series of rate cuts, however measured, may be considered; otherwise we expect the rates to move sideways in the remainder of the year.

Figure 7:
Inflation expectations and realizations

Longer term rates are also responding to the CBT's easing. T-bond yields have been falling along with the policy rates in the longer end of the curve. The yield of the benchmark 21-month discount bond dropped to as much as to 12.2% c.a. (annually compounded), a historical low, by late-April. The difference between the overnight funding rate and the benchmark bond yield, a.k.a. carry trade and/or risk premium eased below 200 bps in April, compared to around 300 bps in March. However, considering an end of the ongoing easing cycle seems approaching, the local bond yields have little downside potential. Given the deterioration in the fiscal outlook, there is a greater risk premium in bond yields than before preventing them to converge to the policy rates through irrational exuberance. Indeed, the fiscal deterioration raised the Treasury's debt roll-over ratio to near 100% from a targeted 80% in the first quarter feeding higher risk premium. Failing to secure an IMF program soon may put additional pressure on local bond yields. We think that the yields might go below 12% c.a. following the May rate decision. But that will likely be it for quite sometime..

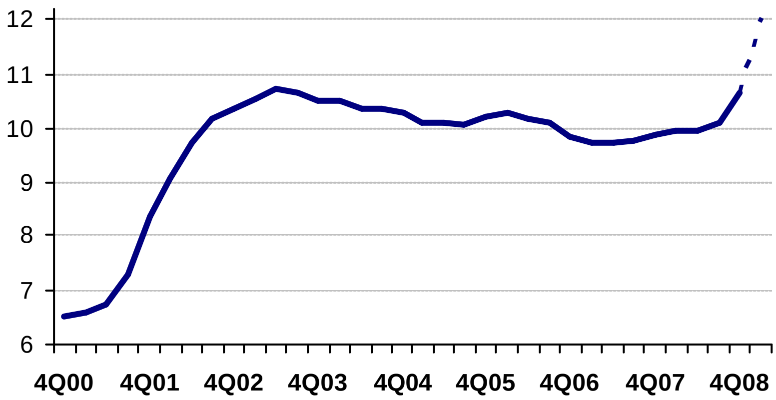
Figure 8:
Bond Yields vs Policy Rate (Compound annual rate)



Unemployment rate jumped to all time high 15.5%, further increases are inevitable

After the 2001 crisis, the Turkish economy performed amazingly well in its dynamics since last year, thanks to a favorable global environment and a very supportive domestic backdrop. In this context, the economy enjoyed unprecedented improvement in almost all key macroeconomic parameters. Besides lower inflation, high growth rates, fall in interest rates and improved debt sustainability, there was one specific macro indicator, namely the employment, in which the progress turned out to be less favorable. Recall the unemployment rate fluctuating below 7% prior to the 2001 crisis, jumped into double digit levels afterward (Figure 9). The developments concerning labor market conditions did not completely go in the desired direction between 2002 and 2008, and the unemployment rate hardly dropped below the 10% level before 2008. As would be expected in an environment of falling inflation and strengthening currency, both exporters and those catering to domestic consumption had to increase productivity and decrease unit labor costs to keep the margings from eroding. The result was a substantial increase in machinery along with dismal job creation. The situation deteriorated after the blowout of the financial crisis in September 2008 and the employment figures have been souring further since then.

Figure 9:
Unemployment Rate (4-Q moving average, %)



The Turkstat's recent employment report (Table 5), released in mid-April, was probably the worst one on record. Unemployment figures for the month of January (average of December, January, and February) came out even poorer than the most pessimistic expectations in the market. Accordingly, the unemployment rate jumped from 9.0% in June 2008 to 15.5% in January, within only seven months. Even though a part of this surge emanated from seasonal factors, the discrepancy is so high that the deterioration looks hard to digest. Compared to 11.6% in January 2008, the outcome corresponds to a nearly 4 percentage point surge.

Table 5:
Employment Figures: January 2008

000 unless otherwise indicated	**Jan-08**	**Jan-09**
Labor force	22,388	23,523
Employed	19,798	19,873
Unemployed	2,591	3,650
Labor force participation rate (%)	44.4	45.8
Unemployment rate (%)	**11.6**	**15.5**

The reason behind the recent surge in unemployment rates is also straightforward: labor force growth could not be offset by new job creations. Even though it has been in a declining trend, the population growth is still strong at around 1.2% a year. The labor participation rate has been increasing since the summer of 2008, due to economic slack. Job creation trend, on the other hand, came to a halt as the crisis hit the new employment generating sectors. Compared to the same period of last year, labor force grew by 1,135K with only 75K of these getting employed. The remaining 1,060K joined the ranks of the unemployed labor force.

Economy

Once employment figures deteriorate, it takes years to recover, say the data record. And what is the worst, is that the labor market has yet to hit the bottom as the economy is headed south with a vengeance. A number of indicators (such as the increase in jobless claims, the decline in industrial production etc.) can be taken as signs of more job losses to come. Together with increasing labor participation rates, the mentioned indicators suggest that the unemployment rate to pick up further in February, towards 17.0%. The economic slack makes a seasonal easing unlikely in the summer months. Stabilization between 16-17% levels looks likely until the late 2009. At the end of the year, we expect the unemployment rate to exceed 17% again, barring a strong recovery in the economy.

Compared to the headline unemployment rate of the major developed and emerging economies, Turkey's situation is not encouraging. Unfortunately, the most up-to-date data suggest that Turkey is the second runner up in the unemployment league consisting from the economies listed below (Table 6). The only two poorer reading came from South Africa and Spain, with 21.9% and 17.4%, respectively. It would not be hard to forsee its political consequences.

Table 6:

Unemployment Rates*: Selected Economies

S.Africa	21.9%
Spain	17.4%
Turkey	**15.5%**
Colombia	12.5%
Lavtia	12.5%
Belgium	11.2%
Ireland	11.0%
Poland	10.9%
Slovakia	9.7%
China	9.0%
Brazil	8.5%
Euro Zone	8.5%
Russia	8.5%
USA	8.5%
France	8.5%

(*) Recent figures as of March