



## Macro Scope

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# Weekly Economic and Strategic Review

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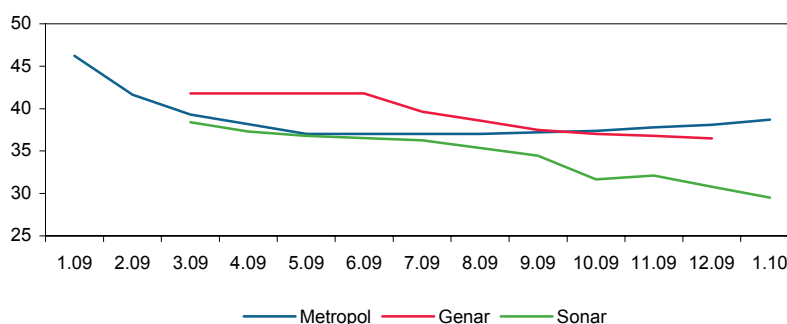
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## Politics in the Eyes of an Economist...

Uncertainty on the political front becomes the first factor that puts the spotlight on politics in an economic outlook report. Though politics is certainly a peripheral factor in any economic analysis, political influence is not because of which party wields the power but because of political instability. In other words, weak coalitions and governments that retain a slim majority are seen as serious threats to both political stability and continuity of economic policies. Turkey's political history tell us that strong periods of growth, when we are closer to eliminating the gap with the developed world, have always coincided with periods of single-party governments. Currently, the rise in tension between the government and the judiciary along with the military have prompted filibusters and pushed referendums to the forefront, encouraging guesswork over which scenario might be played out in the future. This creates even more uncertainty. However, before reaching our own conclusions as to what impact these scenarios might infer, we should look at the current political landscape. First of all, parliamentary elections are likely to occur at the latest in March 2011 for seasonal reasons, as opposed to July 2011 when elections are normally held. Secondly, unabated controversy over the presidential term – whether five or seven years – continues to loom over the president who took office in 2007. Thirdly, similar to parties that win successive elections, the growing popularity of the AKP is waning, especially since the bloodletting at the polls of recent municipal elections. Fourthly, these circumstances obstruct the government's pursuit of any legal or extensive constitutional changes, promoted as a democratic (Kurdish) initiative and as judicial reform. Finally, there is talk of opening a new case to shut down the AKP. While this review is certainly not exhaustive, what is more important is whether these political machinations and filibusters are bringing the government to the brink of a referendum, a risky democratic process. Until recently the general consensus was that this alternative would go unattended, especially if you do the math and put into the equation parliament's fears over losing partisan solidarity in a secret ballot. But has this equation changed?

AKP in the Polls (%)

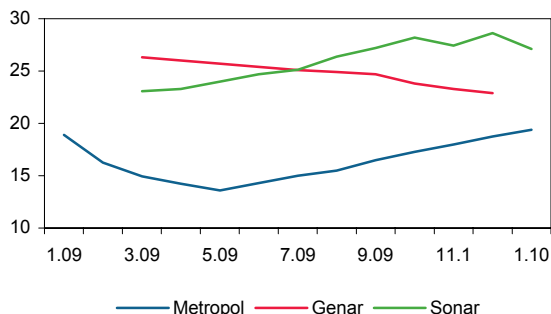


Source: Metropol, Genar ve Sonar

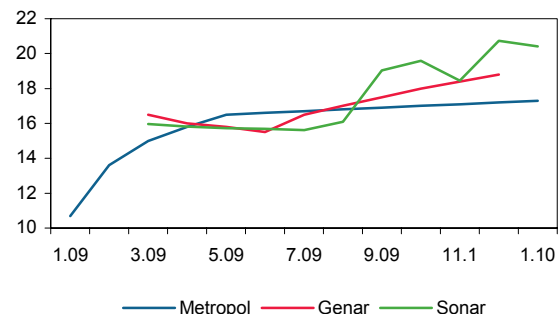
Note: Months without polls are extracted through interpolation.

The constitutional changes which could bring about a referendum are found in the Judicial Reform Strategy published on the Web site of the Ministry of Justice. Especially important are amendments to change the structure and appointment of members to the Constitutional Court and to the Supreme Council of Judges along with public prosecutors; to place military personnel under the jurisdiction of civilian courts; and to put restraints on closing down political parties. However, an amendment to the constitution requires a minimum of two-thirds votes of parliament or 367 deputies out of 550, which rules out a referendum. On the other hand, 330 votes would call for a constitutional amendment to be decided by referendum. The AKP has 337 deputies in parliament, but since Mr. Sahin, the speaker of the assembly, is not allowed to vote, this leaves 336. On paper there seems to be no obstacle to amending the constitution through a referendum. But party unrest and political tensions from squabbling about the Kurdish initiative have caused the AKP consternation over losing votes. Though the BDP has 20 seats, their supporting the AKP is inconceivable since they would expect their own party agenda to be included in any legislation or amendments.

CHP in the Polls (%)



MHP in the Polls (%)



Source: Metropol, Genar ve Sonar

Note: Months without polls are extracted through interpolation.

We argue that the best outcome for the AKP would be an amendment by referendum, 60 days after the parliamentary process according to new regulation, beckoning a new democratic wave to overcome polarization. The referendum could result in one of several scenarios, with some ending in early elections. We would like to look at three of these based on varying suppositions and to determine their probabilities. Although some of the alternatives in the scenarios are a stretch, especially in the second one, the actual probabilities would be much higher.

**Scenario 1 – On-time Elections** – We favour this scenario the most. Despite growing tensions and a deadlock on legislative initiatives, on-time elections run the risk of a referendum, with elections in March or April 2011 and not during the summer. **(65 % probability).**

**Scenario 2 – Polls Open** – Parliament votes on the amendments. The “aye’s” lose with 330 votes, outside the two-thirds majority threshold; a referendum is held in two months. If voters ratify the amendments, the decision is made to hold early elections this year in early summer or in September. A less probable alternative is to hold the elections on time despite a referendum victory. Or if the referendum is a bust, the government rejects early elections and pursues a more populist agenda **(10 % probability).**

**Scenario 3 – Straight into Early Elections** – To not lose any time, the government opts to hold early elections right away to restore its vote of confidence, without risking a loss because of the referendum. In this case, the most plausible election date would be September 2010 **(25 % probability).**

Our conjecture clearly places more weight on the first scenario where party positions and political balance are retained until the general elections are held as scheduled. At first glance, this scenario sets up conditions that cause the least amount of harm to the economy. But uncertainties would weigh in heavily during this period – likely to stretch over a year. Consequently, pursuing a political strategy to boost both consumer confidence and the real sector is a must. The second scenario, which we consider the least likely to occur, promises even greater uncertainty and volatile market trends along the way, which would negatively impact an economic recovery, already crawling at a slow pace. The third scenario may be a lesser evil simply because uncertainty is not prolonged, though unclear whether this scenario would resolve the current deadlock. The party preferences of the voters, which the polls have not really indicated, are crucial to this scenario. If the votes lean closer to a coalition, the market's first reaction will be negative since a coalition would cause even more upheaval.

In summary, the government played their referendum card to ease growing tensions and the legislative deadlock. However, this in turn created an image of political uncertainty and has quickly gotten the market's attention. The most likely scenario will be timely general elections, especially in view of parliamentary balance and party strategies. However, this scenario would mean that additional measures would be mandatory to thwart any loss of confidence or potential harm to the economy.

## Economic and Political Agenda

▪ At home, the most important data of the week seem to be February CPI and PPI. Meanwhile, there will be a loaded foreign agenda this week. While the manufacturing and services PMIs will be critical both in U.S. and Eurozone, non-farm payrolls and unemployment rate will also top the U.S. agenda.

### Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	CBNC-e Cons. Confi. Index, Feb.	-	Mar. 1 <sup>st</sup> , 8:00 GMT	-
Medium	ICC Price Index, Jan.	% m/m	Mar. 1 <sup>st</sup> , 10:00 GMT	-
Medium	TEA's Preliminary Exports, Feb.	US\$ mn	Mar. 1 <sup>st</sup>	7.9
High	Unemployment, 2009	%	Mar. 2 <sup>nd</sup> , 8:00 GMT	-
High	CPI, Feb.	%m/m	Mar. 3 <sup>rd</sup> , 8:00 GMT	0.7 (0.6)
High	PPI, Feb.	%m/m	Mar. 3 <sup>rd</sup> , 8:00 GMT	(0.7)

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	Eurozone	Manufacturing PMI, Feb.	-	Mar. 1 <sup>st</sup> , 8:58 GMT	54.1
High	U.S.	Core PCE, Jan.	% m/m	Mar. 1 <sup>st</sup> , 13:30 GMT	0.1
High	U.S.	Manufacturing ISM, Feb.	-	Mar. 1 <sup>st</sup> , 15:00 GMT	58.0
High	Eurozone	Services PMI, Feb.	-	Mar. 3 <sup>rd</sup> , 8:58 GMT	52.0
Medium	U.S.	ADP Employment, Feb.	K	Mar. 3 <sup>rd</sup> , 13:15 GMT	10.0
High	U.S.	Non-manufacturing ISM, Feb.	-	Mar. 3 <sup>rd</sup> , 15:00 GMT	51.0
High	Eurozone	GDP (Revised), Q4	q/q	Mar. 4 <sup>th</sup> , 10:00 GMT	1.9
Medium	U.K.	BoE Rate Decision	bps	Mar. 4 <sup>th</sup> , 12:00 GMT	0.1
Medium	Eurozone	ECB Rate Decision	bps	Mar. 4 <sup>th</sup> , 12:45 GMT	0.5
Medium	U.S.	Pending Home Sales, Jan.	-	Mar. 4 <sup>th</sup> , 15:00 GMT	1.0
High	U.S.	Non-farm Payrolls, Feb.	K	Mar. 5 <sup>th</sup> , 13:30 GMT	-20.0
High	U.S.	Unemployment, Feb.	%	Mar. 5 <sup>th</sup> , 13:30 GMT	9.8

## Macro-Economic and Financial Forecasts

### Macro Economic Outlook of 2008-2011

	2009	2010f	2011f	2012f
GDP (TRY - bn) (*)	969.4	1,091.1	1,193.8	1,297.5
GDP (US\$ - bn) (*)	626.6	717.8	774.4	829.8
GDP Growth (y/y % chg) (*)	-5.7	5.0	4.0	4.0
PPI (y/y % chg)	5.9	5.0	4.0	4.0
CPI (y/y % chg)	6.5	7.3	5.5	5.0
Trade Balance (US\$ - bn)	-38.6	-64.5	-64.8	-68.0
Exports (FOB, excl. luggage trade)	102.2	115.3	132.6	144.4
Imports (CIF, incl. gold)	140.8	179.9	197.4	212.3
Current Account Balance (US\$ - bn)	-14.2	-35.8	-33.3	-33.4
Current Account Balance / GDP (%)	-2.3	-5.0	-4.3	-4.0

(\*) 2009 values are our forecasts

### Financial Indicators Forecasts

	Feb. 26 <sup>th</sup>	1M	3M	6M	12M	2010	2011
US\$/TRY	1.5376	1.5500	1.5400	1.5200	1.5300	1.5200	1.5600
EUR/TRY	2.0827	2.0770	2.0900	2.0800	2.1400	2.1300	2.1800
FX Basket	3.6203	3.6270	3.6300	3.6000	3.6700	3.6500	3.7400
EUR/US\$	1.3545	1.3400	1.3600	1.3700	1.4000	1.4000	1.4000
O/N	6.50%	6.50%	6.50%	6.50%	9.00%	8.00%	10.00%
Benchmark Bond	9.00%	9.00%	10.00%	10.50%	11.20%	11.00%	12.00%

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