



Macro Scope

15 – 21 February 2010

Weekly Economic and Strategic Review

Haluk Burumcekci (Managing Director)
Tel: +212 318 34 49
Email: haluk.burumcekci@fortis.com.tr

H. Erkin Isik, CFA (Manager)
Tel: +212 318 34 05
Email: erkin.isik@fortis.com.tr

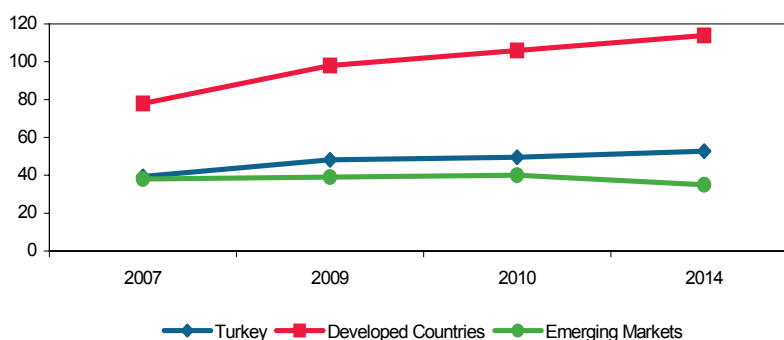
Nilufer Sezgin (Assistant Manager)
Tel: +212 318 37 90
Email: nilufer.s@fortis.com.tr

Email: research@fortis.com.tr
Tel: +212 272 79 98
Fax: +212 275 44 05

Not Rich Enough to Do Without a Neighbor ...

Recently, concerns regarding the fiscal sustainability of some EU member countries have increased but this can be seen as aftershock of the economic earthquake that has been experienced globally. Indeed, drop in private consumption and investments during the economic crisis have been compensated by public sector. This worsened the budgetary balance and public debt ratios respectively. These costs were known even before the application of the policies however the action was taken for the sake of the economic recovery. Preparations as well as the application of exit strategies from the expansionary fiscal policies were emphasized since the fiscal deterioration has begun to rise. However, for the countries that had structural fiscal problems even before the economic crisis, neither the preparation nor the application of such exit plans was feasible. Leaving aside these facts, this time we have not experienced the bail-out of a bank or a company but the bail-out of a country. By tackling this problem successfully EU could not only prevent the possible reputation loss of its own presence but also maintain the trustiness of the Monetary Union. Although, the decisions taken in the EU leaders meeting were not satisfactory enough, the given message was balanced. EU will back up Greece but the possible aid will unlikely be for free. EU pointed out that Greece has not requested any financial aid yet so as to avoid from declaring the amount of the possible financial aid and its details immediately. (EU can help Greece in; earlier disbursement of the regular payments, the issue of Euro zone guaranteed bonds, as well as buying the Greek government issued bonds by European countries or European Investment Bank.) On Tuesday, conditionality (i.e. budget deficit to drop to 4% in 2010) of possible aid is expected to be made. The Commission will closely monitor the implementation of the recommendations in liaison with the ECB and will propose needed additional measures, drawing on the expertise of the IMF. The first assessment will be done in March.

Public Debt to GDP Ratio (%)



Source: IMF forecasts

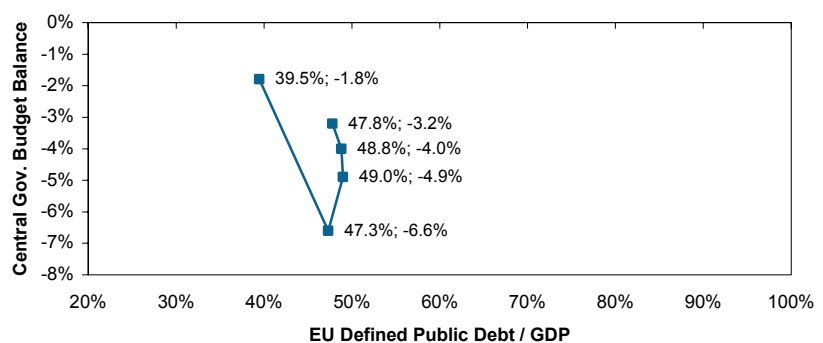
Consequentially, as we were thankful to the banking restructuring reforms that took place after 2001 crisis during the deepest recession of post WWII, today we are again thankful to the fiscal reforms of those times and at least to the tight fiscal discipline that has been applied until 2006. However, we should not rest to relative advantageous position that was gained by previous efforts and experiences. By applying further reforms involving the recent conditions, the remaining structural problems must be solved and the ground for new economic overperformance needs to be prepared. Therefore the necessity of a program, whether it is backed by IMF or not, that would gain credibility as a result of determined implementation with sound policy content, still exists. Current Medium Term Program (MTP) needs to be tested in the sense that whether it provides the necessary will and determination in achieving planned goals. First quarter will guide in watching the developments of medium term fiscal rule that is expected to be approved by the parliament. Opinions of different parties of the society are being considered before determining the parameters of fiscal rules. However, Economy Minister's announcement that discussions in the related fiscal rule will continue during the upcoming few months and will be ready for the 2011 budget preparations in May, has signaled a possible delay. Any further delay could be a serious blow to the already diminishing expectations on IMF agreement and could cause the medium term plan to loose its credibility.

Fiscal Deficits and Debt



Source: IMF, Review of Recent Crisis Programs

Budget Balance and Public Debt Assumptions in Turkey's Medium Term Program



Source: MTP

Essentially as we have underlined in Glocal Economists' October issue, the medium term goals provided by the government are bit looser but in line with the IMF programs. In other words the medium term program that is planned by the government may prepare ground for the IMF agreement. Referring to the October Glocal Economist issue, the average budget deficit and public debt to GDP ratio of the countries that applied IMF program were 5% and 40% in 2009, respectively. Coming to 2010, while the budget deficits remain elevated, debt ratios also increase, albeit at a slower pace. In the forthcoming years, the budget outlook displays a gradual progress, yet there is no hurry in pulling the debt ratios down. The outlook for Turkey depicted in the MTP is quite similar with the

above-mentioned trends. The Program foresees the central government budget deficit retreating slightly to 4.9% of GDP in 2010, after hitting 6.6% in 2009 that is higher than the average of the countries that have Fund-supported programs. In the following years, this ratio is predicted to post more noteworthy declines to 4.0% and % 3.2, in the same order. Accordingly, the debt stock to GDP ratio rises to 47.3% and 49.0% in 2009 and 2010, respectively, and declines only gradually in the upcoming years. On the other hand, Babacan stated last week the fiscal rule will be in line with the targets of 2011 and 2012 MTP. Therefore as the underlying parameters becoming clearer, it is getting more difficult to understand the delay in putting the fiscal rule in practice.

To conclude, it is the right time to express once again our gratitude to the reforms that made in banking sector and public finance after 2001. But now is the turn of second generation reforms for a better economic environment which enables more sound achievements in the near future. It seems that the first test in that regard will be on fiscal rule. However, recent signal for a possible delay in the process is not a welcomed development.

Economic and Political Agenda

▪ At home, MPC meeting on Thursday will be important, while unemployment rate will be eyed as well as. There will be a loaded data agenda in the external arena. While the building permits, housing starts, capacity use, industrial production and Philadelphia Fed index will be important in the U.S., services and manufacturing flash PMIs will be eyed in Eurozone.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
High	Unemployment, Nov.	%	Feb. 15 th , 8:00 GMT	-
Medium	Cent. Gov. Bud. PS, Dec.	TRY mn	Feb. 15 th , 8:00 GMT	-
Medium	TURKSTAT Consumer Conf., Jan.	-	Feb. 16 th , 8:00 GMT	-
High	MPC Rate Decision	%	Feb. 16 th , 17:00 GMT	6.5

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	Germany	ZEW Index, Feb.	-	Feb. 16 th , 10:00 GMT	43.2
Medium	U.S.	New York Fed Man. Index, Feb.	-	Feb. 16 th , 13:30 GMT	16.00
High	U.S.	Building Permits, Jan.	mn	Feb. 17 th , 13:30 GMT	0.65
Weak	U.S.	Export & Import Prices, Jan.	%	Feb. 17 th , 13:30 GMT	0.4 & 0.8
High	U.S.	Housing Starts, Jan.	mn	Feb. 17 th , 13:30 GMT	0.58
High	U.S.	Capacity Use, Jan.	%	Feb. 17 th , 14:15 GMT	72.5
High	U.S.	Industrial Production, Jan.	% m/m	Feb. 17 th , 14:15 GMT	0.6
High	U.S.	Core PPI and PPI, Jan.	% m/m	Feb. 18 th , 13:30 GMT	0.1 & 0.7
High	U.S.	Philadelphia Fed Mnf. Index, Feb.	-	Feb. 18 th , 15:00 GMT	17.0
High	Eurozone	Manufacturing PMI, Feb.	-	Feb. 19 th , 8:58 GMT	52.7
High	Eurozone	Services PMI, Feb.	-	Feb. 19 th , 8:58 GMT	52.5
High	U.S.	Core CPI and CPI, Jan.	% m/m	Feb. 19 th , 13:30 GMT	0.1 & 0.3

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2008-2011

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	969.4	1,090.1	1,193.8
GDP (US\$ - bn)	734.9	626.6	721.9	761.9
GDP Growth (y/y % chg)	0.9	-5.7	5.0	4.0
PPI (y/y % chg)	8.1	5.9	5.0	4.0
CPI (y/y % chg)	10.1	6.5	7.3	5.5
Trade Balance (US\$ - bn)	-69.8	-38.6	-67.1	-68.7
Exports (FOB, excl. luggage trade)	132.0	102.2	118.9	122.9
Imports (CIF, incl. gold)	201.7	140.8	186.0	191.6
Current Account Balance (US\$ - bn)	-41.9	-13.9	-38.0	-37.2
Current Account Balance / GDP (%)	-5.7	-2.2	-5.3	-4.9

Financial Indicators Forecasts

	Feb. 12 th	1M	3M	6M	12M	2010	2011
US\$/TRY	1.5053	1.5000	1.5400	1.5200	1.5500	1.5200	1.5800
EUR/TRY	2.0688	2.0700	2.1400	2.1300	2.2000	2.1600	2.1500
FX Basket	3.5741	3.5700	3.6800	3.6500	3.7500	3.6800	3.7300
EUR/US\$	1.3743	1.3800	1.3900	1.4000	1.4200	1.4200	1.3600
O/N	6.50%	6.50%	6.50%	6.50%	9.00%	8.00%	10.00%
Benchmark Bond	8.80%	9.00%	10.00%	10.50%	11.20%	11.00%	12.00%

Fortis Bank SA/NV Montagne du Parc 3 B-1000 Brussels Belgium Tel: +32 2 565 11 11	Fortis Bank Austria Euro Plaza/D Wienerbergstrasse 41 1120 Vienna Austria Tel: +43 1 81 10 43 81 85	Fortis Bank Czech Republic Myslbek Building Ovocny Trh 8 117 19 Prague 1 Czech Republic Tel: +420 225 43 60 10	Fortis Bank Denmark Gothersgade 49 3. 1123 Copenhagen Denmark Tel: +45 32 71 19 09
Fortis Bank, Succursale en France 30, quai de Dion Bouton F-92824 Puteaux Cedex France Tel: +33 1 55 67 72 00	Fortis Bank Germany Cäcilienkloster 8 50676 Cologne Germany Tel: +49 221 1611-0	Fortis Bank Greece Sygrou Ave 166 17671 Athens Greece Tel: +30 21 09 54 43 70	Fortis Bank Hong Kong 27/F, Fortis Bank Tower 77-79 Gloucester Road Hong Kong Tel: +852 28 23 04 56
Fortis Bank Hungary Deak Ferenc 15 1052 Budapest Hungary Tel: +36 14 83 81 09	Fortis Bank Italy Via Comaggia 10 I-20123 Milano Italy Tel: +39 02 57 53 24 61	BGL 50, avenue J.F. Kennedy L-2951 Luxembourg Luxembourg Tel: +352 42 421	Fortis Bank Norway Haakon VII's gate 10 0161 Oslo Norway Tel: +47 23 11 49 50
Fortis Bank Polska S.A. P.O. Box 15 02-676 Warszawa Poland Tel: +48 22 566 90 00	Fortis Bank Portugal Rua Alexandre Herculano 50-6 Andar 1250-011 Lisboa Portugal Tel: +351 213 13 93 16	Fortis Bank SA/NV, Singapore Branch 63 Market Street #21-01 Singapore 048942 Tel: +65 65 38 03 90	Fortis Bank S.A., Sucursal en España Serrano 73 28006 Madrid Spain Tel: +34 91 436 56 00
Fortis Bank Romania Tipografilor 11-15 013714 Bucharest Romania Tel: +40 21 401 17 02	Fortis Bank Sweden Birger Jarlgatan 25 10396 Stockholm Sweden Tel: +46 8 505 375 59	Fortis Bank Switzerland Rennweg 57 8021 Zurich Switzerland Tel: +41 58 322 09 70	Fortis Bank Turkey Yildiz Posta Caddesi No: 54 Gayrettepe 34353 Istanbul Turkey Tel: +90 212 274 42 80
Fortis Bank SA/NV, UK Branch 5 Aldermanbury Square EC2V 7HR London United Kingdom Tel: +44 20 32 96 80 00	Fortis Bank USA 520 Madison Avenue, 3rd Floor New York, NY 10022 United States Tel: +1 212 418 87 00		

Each research analyst primarily responsible for the content of this research report certifies that with respect to each security or issuer that the analyst covered in this report: 1) all of the expressed views accurately reflect his or her personal views about those securities or issuers, and 2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views contained in this report.

Production of the document

Fortis Bank SA/NV, with registered office at Montagne du Parc 3, 1000 Brussels, Belgium ("Fortis"), is responsible for the production and the dissemination of this document, which has been prepared by the individual(s) working for Fortis or any of its affiliates and whose respective identity is disclosed in this document (the "persons involved") (together the "producers of the document"). This document can be distributed (i) by an affiliate of Fortis Bank SA/NV that is not registered as a U.S. broker-dealer to major U.S. institutional investors only and (ii) by Fortis Securities LLC, a U.S. registered broker-dealer, to all U.S. persons.

No public offer or financial promotion

This document does not constitute an offer or solicitation for the sale, purchase or subscription of any financial instrument in any jurisdiction. It is not directed to, or intended for distribution to, any person or entity who is a citizen or resident of or incorporated or located in any jurisdiction where such distribution would be contrary to local law or regulation and/or where Fortis would infringe any registration or licensing requirement within such jurisdiction. This document has been provided to you for your personal use only and should not be communicated to any other person without the prior written consent of Fortis. Should you have received this document by mistake, please delete or destroy it, and notify the sender immediately.

Sources and disclosure

Fortis believes that the information and/or the interpretations, estimates and/or opinions regarding the financial instrument(s) and/or issuer(s) to which this document relates (respectively, the "financial instrument(s) concerned" and/or the "issuer(s) concerned") are based on reliable sources. Fortis makes no representations as to the accuracy or completeness of those sources and, in any case, the recipients of this document should not exclusively rely on it before making an investment decision. The interpretations, estimates and/or opinions reflect the judgement of Fortis on the date of this document and are subject to changes without notice. This document has not been disclosed to the issuer(s) concerned prior to its dissemination by Fortis.

No investment advice

The information contained herein does not constitute investment advice nor any other advice of whatever nature (including advice on the tax consequences that might result from making any particular investment decision). Investments in the financial instrument(s) to which this document relates may involve significant risks, are not necessarily available in all jurisdictions, may be illiquid and may not be suitable for all investors. The value of, or income from, any financial instrument(s) concerned may fluctuate and/or be affected by external factors such as exchange rates fluctuations. Past performance is not indicative of future results. This document is intended for general circulation and does not take into account the recipient's particular financial knowledge and experience, investment objectives and financial situation or needs, and is not intended as a personal recommendation to invest in the financial instrument(s) concerned. Before making an investment decision on the basis of this document, an investor should consider whether such investment is suitable in light of, amongst others, its particular financial knowledge and experience, investment objectives and financial situation and, if necessary, should seek appropriate professional advice. Neither Fortis nor any of its group companies (including any subsidiary, affiliate or holding company), directors, officers and employees shall in any way be liable or responsible (whether directly or indirectly) for any costs, claims, damages, liabilities and other expenses, including any consequential loss, arising from any use of this document, except in the event of wilful misconduct or gross negligence on their part.

Supervision

Fortis Bank SA/NV is authorised by and subject to the supervision of the "Commissie Bancaire, Financiële et des Assurances/Commissie voor het Bank-, Financien- en Assurantiewezen" (the "CBFA") in Belgium and each of its affiliates is regulated by the supervisory authority of the country in which it carries out its activities.

Copyright

This document contains information, text, images, logos, and/or other material that is protected by copyrights, database rights, trademarks, or other proprietary rights. It may not be reproduced, distributed, published or used in any way by any person for any purpose without the prior written consent of Fortis or in the case of third party materials, the owner of that content.

To check the occurrence of possible (conflicts of) interests please visit our website through the link:
<http://www.fortisbusiness.com/fbweb/service/disclosures/companies.jsp>