



## Macro Scope

18 – 24 January 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

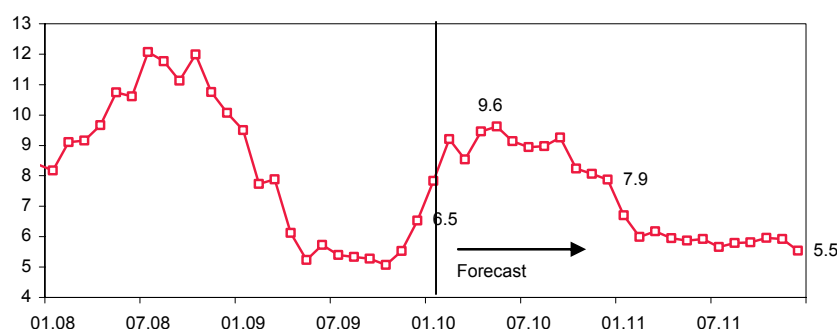
Nilufer Sezgin (Assistant Manager)  
Tel: +212 318 37 90  
Email: nilufer.s@fortis.com.tr

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

## End of Uncertainty; By Hook Or By Crook...

While the markets keep pricing the IMF deal, there are still some uncertainties about a stand-by agreement on the other hand. Prime Minister's ambiguous statement about this issue confused the minds lately. These statements prevented us from adding the IMF deal to our assumptions in the baseline scenario, as is seen in the monthly Glocal Economist report which we published within the week. Instead of this, we analyzed the potential impacts of such a deal on the macro indicators. Recently, some ministers made some statements such as ***“There may be more flexible agreements between Turkey and IMF, a possible agreement should not be expected to provide a strong financial support.”*** Under the light of these statements, we think that the most likely outcome would be a loan of net US\$15bn that would be utilized in 2 years. Note that, the official announcement would most likely include the gross amount of the IMF loan. Therefore, we are purposely underlining the net amount since Turkey has already US\$8.0bn credit debt to IMF. For example; if Turkey makes an agreement with a loan 10 times of its quota, the dollar correspondence of this amount will be US\$19bn. However, after deducting the current debt, the net amount will regress to US\$11.0bn. **Under this scene, the amount of loan should surpass the assumed US\$15bn in order to get a positive reaction from the markets.** In any cases, the most imminent implication of that would be on the financing plot of the Treasury. The 103% **domestic debt roll-over ratio for 2010 in no-IMF case would decline to 96% in case of a stand-by and further to a very comfortable 84% in 2011.** Other than that, the most important aspect of a deal is its impact on consumer and real sector confidence. **A concrete economic program would increase the upward risk to even our above consensus 2010 and 2011 GDP growth forecasts of 5.0% and 4.0%.** However, this would unlikely be free of charge and a more vigorous economy may mean elevated inflation risks and higher long-term yields, unless the IMF deal leads to a very significant fall in currency rates.

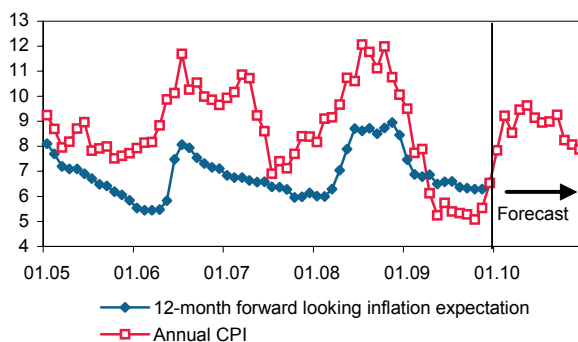
Consumer Prices in Turkey (% y/y chg.)



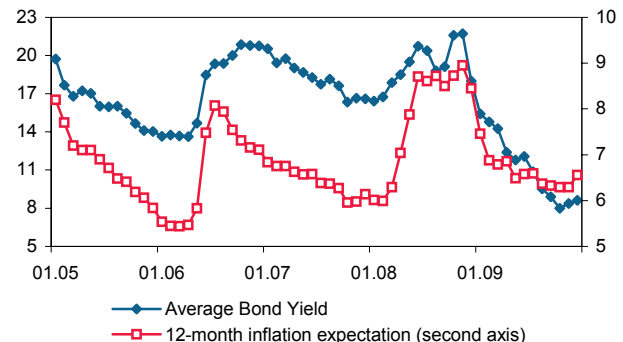
Source: Fortis Economic Research and Strategy

Certainly, an IMF deal will reassure the market confidence and will help the improvement of expectations. This will be influential on the current scenarios. Therefore, the cautious mood still remains. Even the news that there is progress in the deal helped TRY to appreciate around 3% ytd. in terms of basket rates and sent the long term bond yields and swap rates visibly down. The upcoming course of such kind of impacts will depend on whether there appear more concrete developments regarding deal (invitation of IMF Mission), the agreed loan will meet the market expectations and the implementations of the deal will depict a benign picture afterwards. However, the repercussion of a deal on the economy should be expected to be more indirect and to emerge in a longer term. In tandem with the recovering global economy, strengthening risk appetite and easing credit conditions, there appeared some improvements in some areas (portfolio investments, foreign trade activity, external borrowing possibilities). **While a program which includes strong policies would strengthen these already started tendencies, the most important contribution of it would be a revival in the fixed capital investments and increase in the real sector's external borrowing possibilities.** These are the cornerstones of a high growth rate, reflecting the importance of a program, which has a high credibility and which can reassure the confidence, in terms of economy. **Once such a program is implemented, the market will expect the output gap (the gap between current and potential production) to narrow more rapidly thanks to the stronger economic activity, higher inflation (recall that, the inflation could not regress below 5% even under the extraordinary circumstances), tighter budget and monetary policy.**

Inflation and Inflation Expectations



Inflation Expectations and Bond Yields



Source: TURKSTAT, CBT, Fortis Economic Research and Strategy

While the only assumption that supports the low interest rates in the medium term is the tighter budget policy, the measure to be taken for this tightening may lift the inflation higher in the short term, being influential just in the opposite direction. On the other side, the real appreciation of TRY may come to the forefront in a short term. Accordingly, it will be important for the direction of interest rates which side will be dominant in the forthcoming period. As we mentioned before, due to the higher-than-expected food and energy prices and administrative price increases, we calculate that the annual inflation will rise from 5.1% in October 2009 and 6.5% in end-2009 to a high 9.6% in May 2010.

**Despite this surge in inflation will most likely be temporary, there are risks that the inflation expectations may deteriorate and create inflationary spiral. It is clear that the inflation expectations are very much related with the current annual inflation rate and inflation expectations explain a big portion of the long-term interest rate changes.**

Thus, in the short note released after the January 14<sup>th</sup> MPC meeting, the Bank underlined one more time that it would be necessary to keep policy rates at low levels for a long period of time. Under this scene, we continue to foresee that the interest rates would remain constant until 4Q10 and there would be a total 150 bps rate hike starting from the month of October. While the Bank stated that the moderate recovery in the economic activity is ongoing, they also emphasized the improvement in the credit market. However, the Bank preserved the view that the

recovery would be protracted. On the other hand, while the Bank has indicated that inflation would rise significantly in the next two months due to tax adjustments and base effects, this is not expected to influence the underlying trend. Under the light of these statements, we can say that the Inflation Report to be released at the end of this month and monetary policy stance would not adopt a much different tone vs. the preceding report, but the inflation forecasts for 2010 may be revised higher. **The only minor change seems to be in the Central Bank's assessment of the underlying inflation trend. In the previous meeting, the Bank said that the core inflation would remain at low levels, while in this meeting it was indicated that core inflation indicators were expected to remain at levels consistent with medium term targets. This may indicate at a slightly more hawkish stance than before.** As we mentioned above, we expect the annual inflation to increase sharply towards 9.6% in a few months. If this situation deteriorates the inflation expectations and pricing behaviors, the interest rate hikes may be introduced earlier than we assumed. On the other hand, if there appears a downward movement in the F/X rates on the back of some possible developments such as IMF deal, this will help the interest rates to remain on their current low levels for a considerable period of time.

All in all, it seems that the uncertainties regarding IMF deal will be dispelled in a short time and we think that this is a favorable development in terms of decision makers in the economy. While even the news of deal was welcomed by the financial indicators, the possible impacts on the economy would be more protracted, depending on the content, qualification and implementation of the program. The end of these uncertainties will help improving the prediction ability in terms of fundamentals like inflation and it will also play a role in decreasing the other uncertainties.

## Economic and Political Agenda

▪ This week, there will be a quiet data agenda at home. Glancing at external arena, while the housing and inflation figures will be important in the U.S., services and manufacturing flash PMIs will be eyed in Eurozone. Separately, in the U.S., Citi Group, Bank of America, eBay, Morgan Stanley, Wells Fargo, American Express, Goldman Sachs, Google, General Electric and McDonald's will disclose their 4Q balance sheets within the week.

### Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	TURKSTAT Consumer Conf., Dec.	-	Jan. 18 <sup>th</sup> , 8:00 GMT	-
Medium	CB's Expectation Survey, Jan. II	-	Jan. 22 <sup>nd</sup>	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	Germany	ZEW Index, Jan.	-	Jan. 19 <sup>th</sup> , 10:00 GMT	50.0
High	U.S.	Building Permits, Dec.	mn	Jan. 20 <sup>th</sup> , 13:30 GMT	0.59
High	U.S.	Housing Starts, Dec.	mn	Jan. 20 <sup>th</sup> , 13:30 GMT	0.58
Medium	U.S.	Core PPI and PPI, Dec.	% , m/m	Jan. 20 <sup>th</sup> , 13:30 GMT	0.2 & 0.1
High	Eurozone	Manufacturing PMI, Jan.	-	Jan. 21 <sup>st</sup> , 8:58 GMT	51.8
High	Eurozone	Services PMI, Jan.	-	Jan. 21 <sup>st</sup> , 8:58 GMT	53.8
Medium	U.S.	Philadelphia Fed Mnf. Index, Jan.	-	Jan. 21 <sup>st</sup> , 15:00 GMT	-

## Macro-Economic and Financial Forecasts

### Macro Economic Outlook of 2008-2011

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	976.6	1,103.2	1,212.5
GDP (US\$ - bn)	734.9	631.2	725.8	759.3
GDP Growth (y/y % chg)	0.9	-5.7	5.0	4.0
PPI (y/y % chg)	8.1	6.0	5.0	4.0
CPI (y/y % chg)	10.1	6.5	7.9	5.5
Trade Balance (US\$ - bn)	-69.8	-38.0	-67.7	-68.7
Exports (FOB, excl. luggage trade)	132.0	101.8	125.5	122.9
Imports (CIF, incl. gold)	201.7	139.8	193.2	191.6
Current Account Balance (US\$ - bn)	-41.9	-13.6	-38.1	-36.9
Current Account Balance / GDP (%)	-5.7	-2.2	-5.2	-4.9

### Financial Indicators Forecasts

	Jan. 15 <sup>th</sup>	1M	3M	6M	12M	2010	2011
US\$/TRY	1.4494	1.4800	1.5200	1.5200	1.5300	1.5200	1.6100
EUR/TRY	2.1030	2.1200	2.2000	2.1900	2.1900	2.1900	2.1900
FX Basket	3.5524	3.6000	3.7200	3.7100	3.7200	3.7100	3.8000
EUR/US\$	1.4509	1.4400	1.4500	1.4400	1.4400	1.4400	1.3600
O/N	6.50%	6.50%	6.50%	6.50%	8.50%	8.00%	10.00%
Benchmark Bond	8.50%	8.70%	9.50%	10.30%	11.10%	11.00%	11.50%

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>