



Macro Scope

29 March - 4 April 2010

Weekly Economic and Strategic Review

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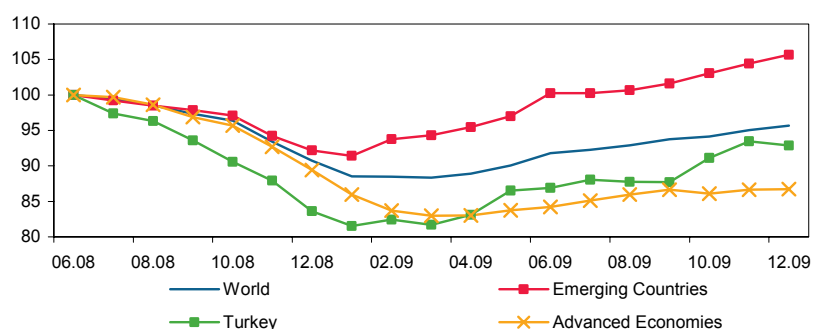
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Will Six Fix?...

Bets are still open as to whether the Turkish economy contracted more in 2009 than during the 2001 crisis. But the issue will be settled with the release of the GDP results of the last quarter of 2009 on Wednesday, March 31st. Pundits will note that last year's 9.6 percent drop in industrial output was larger than in 2001. However, if the GDP growth – which has fallen annually for four consecutive quarters – does not drop below 3 percent and if no backward revisions are made, the year 2009 will have fared better than 2001. Early estimates of the average forecast reveal a 4 percent growth for the last quarter of 2009, while a confirmed figure in this range will bring the year's total contraction to 5.4 percent. Surveys of market expectations carried out in December exhibited the lowest growth figures forecasted in 2009 as analysts hedged their bets, but these contraction estimates were later adjusted when additional data was released. Exactly one year ago, we were the first institution to revise our estimate downward to 5 percent – even as while the average expectations for the 2009 decline hovered around 1 percent. A subsequent fine-tuning brought our figure to 5.1 percent, the level we expect today. Regardless of who wins the bet on how much the economy fell, the final figure will have little bearing on the future. Far more important are growth expectations for 2010 and beyond. Given the rumours that even the government is contemplating an upward revision of growth figures, expectations of a 4 percent growth in 2010, consistent in surveys, could bring upward surprises and eventually upward revisions. Mr. Babacan said, "We previously forecast a 3.5 percent growth for 2010 in our Medium Term Program. But today the estimates range widely from 3.7 percent to 5.5 percent," and added that even the 6 percent estimate for economic contraction in 2009 would remain below this. Prior to this announcement, we upped our expectations for 2009 to 6 percent from 5 percent at the beginning of March. But this revision did not cause any excitement since it merely reflected the base effect. However, no deterioration in the global economic outlook will probably equate to a spell of growth in industry outputs, but reaching pre-crisis levels will take at least until mid 2011.

Aggregated Industrial Output Indices (June 2008 (the beginning of the crisis) = 100)



Source: Netherlands Bureau for Economic Policy Analysis

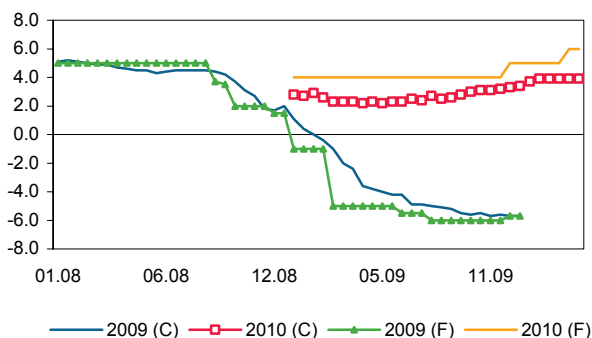
In any event, not all players anted up. Many institutions further reduced their already low growth estimates for 2010 or underscored the downward risks when it became clear that the IMF agreement kept on hold would not go through.

In our opinion, the impact on growth will be seen in the years ahead rather than in the current year, if a stronger program is not implemented. Hence our growth forecast for 2011 and onwards stands at 4 percent, which is below the potential growth rate and the long-term average growth rate of the Turkish economy.

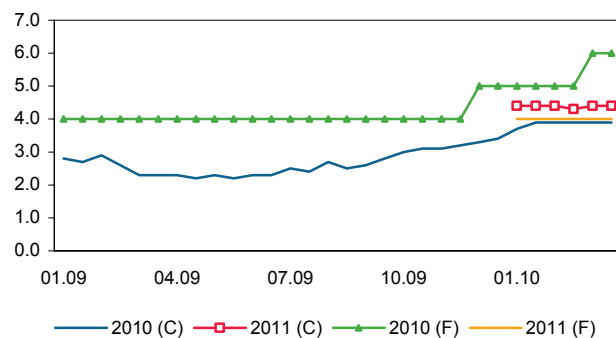
Having said that, what about the growing uncertainty of the current political climate and the potential influence on growth estimates?...

This week Parliament is likely to receive the proposed constitutional amendments recently presented to both the opposition and the NGO's following the unveiling of the initial draft. The constitutional amendment package includes sweeteners appealing to different social segments along with highly disputed amendments to the structure and resolution process of the Supreme Court and the Supreme Council of Judges and Public Prosecutors (HSYK). When you do the math on the "ayes" and "nays," there is little likelihood of the law being passed in Parliament without a referendum, given the opposition's failure to support the package as was expected. If a draft constitutional amendment is adopted by a three-fifths (330) but less than two-thirds (367) majority vote of Parliament and the president does not return the proposed amendment to Parliament, a referendum must be held. If a constitutional amendment garners 367 or more votes, the president has three choices: put the amendment or selected articles to a referendum; return it to Parliament for further consideration; or sign it into law.

Growth Expectations (2009 and 2010)



Growth Expectations (2010 and 2011)



C: Consensus, F: Fortis

Source: CBT, Fortis Economic Research and Strategy

As noted in our "MacroScope" published on February 26th, while constitutional amendments will still dominate the agenda, we favour the "On-time Elections" scenario with the polls opening in March or April 2011 to avoid an election during the stifling summer months. At first glance, this scenario would appear to cause the least amount of harm to the economy. But given that uncertainties would weigh heavily during this period, likely to stretch over a year, pursuing an economic policy to boost both consumer and real sector confidence would seem essential. The other scenarios point to at least one casting of ballots in the near term. The second "Polls Open" scenario, considered the least likely, threatens even greater uncertainty as people are not able to see what's coming, while market trends remain volatile with the economy meandering along. It goes without saying that such a scenario would hinder economic recovery, already crawling at a snail's pace. The third scenario, "Straight into Early Elections," may be a lesser evil simply because uncertainty is not prolonged, although it is unclear whether this scenario would resolve the current deadlock. The number of parties voted into Parliament and the strength of the leading party's majority are crucial to this scenario. Should a change of government or a coalition government be on the horizon, decision makers will need to factor in significant uncertainties in setting economic policies and implementing political strategies. The alternative scenarios are outlined in detail in the table below.

We conclude that if politics do not come into play, the Turkish economy could record a much higher growth rate in 2010 than the average estimate. As for higher growth rates in 2011 and beyond, it all depends on resolving today's political uncertainties and on the return of more resilient policies.

Political Scenarios

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).**

Economic and Political Agenda

- This week on Wednesday, February foreign trade data and 4th quarter GDP figure will be important at home. Glancing at external arena, in the US on Monday core PCE and on Tuesday Case Shiller house prices index will be released. In Euro-zone on Thursday manufacturing PMI and ISM will be eyed.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
High	Imports & Exports, Feb.	US\$ mn	Mar. 31 st , 08:00 GMT	11.5& 8.5(11.7&8.3)
High	GDP, Q4		Mar. 31 st , 08:00 GMT	5.2 (4.0)
Medium	CBNC-e Cons. Confi. Index, Mar.	-	Apr. 1 st , 06:00 GMT	-
High	ICC Price Index, Mar.	% m/m	Apr. 1 st , 10:00 GMT	-
Medium	TEA's Preliminary Exports, Mar.	mn US\$	Apr. 1 st	-

Data issuances Abroad

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	U.S.	Core PCE, Feb.	% m/m	Mar. 29 th , 12:30 GMT	0.1
Medium	U.S.	C. Shiller Hous. Price Ind., Jan.	% m/m	Mar. 30 th , 13:00 GMT	0.0
Medium	U.S.	Cons. Conf. Index, Mar.	-	Mar. 30 th , 14:00 GMT	49.5
Medium	U.S.	ADP Emp. Rep., Mar.	K	Mar. 31 st , 12:15 GMT	20.0
High	Eurozone	Manufacturing PMI, Mar.	-	Apr. 1 st , 07:58 GMT	-
High	U.S.	Manufacturing ISM, Mar.	-	Apr. 1 st , 14:00 GMT	56.5
Medium	U.S.	Unemployment Rate, Mar.	%	Apr. 2 nd , 12:30 GMT	9.7

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2009-2012

	2009	2010f	2011f	2012f
GDP (TRY - bn) (*)	975.6	1,114.3	1,220.9	1,326.9
GDP (US\$ - bn) (*)	630.6	733.1	791.9	848.6
GDP Growth (y/y % chg) (*)	-5.1	6.0	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	-62.8	-70.7	-70.6
Exports (FOB, excl. luggage trade)	102.2	116.0	132.6	144.4
Imports (CIF, incl. gold)	140.8	178.7	203.2	215.0
Current Account Balance (US\$ - bn)	-13.9	-35.3	-39.9	-37.1
Current Account Balance / GDP (%)	-2.2	-4.8	-5.0	-4.4

(*) 2009 values are our forecasts

Financial Indicators Forecasts

	Mar. 26 th	1M	3M	6M	12M	2010	2011
US\$/TRY	1.5344	1.5400	1.5300	1.5200	1.5300	1.5200	1.5600
EUR/TRY	2.0478	2.1100	2.1000	2.0800	2.1400	2.1300	2.1800
FX Basket	3.5822	3.6500	3.6300	3.6000	3.6700	3.6500	3.7400
EUR/US\$	1.3346	1.3700	1.3700	1.3700	1.4000	1.4000	1.4000
O/N	6.50%	6.50%	6.50%	6.50%	9.25%	8.00%	10.00%
Benchmark Bond	9.00%	9.50%	10.10%	10.60%	11.50%	11.00%	12.00%

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