

FORTIS BANK

Macro Scope

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Weekly Economic and Strategic Review

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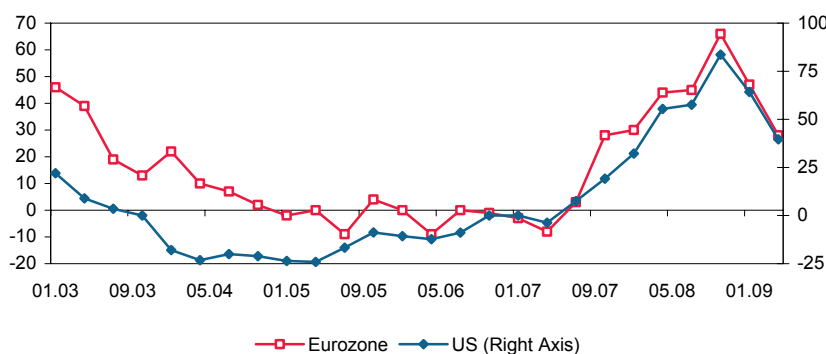
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Tight, But Might Delight...

We were one of the financial houses which first highlighted that the credit channels would be the most critical means, through which the global crisis would hit the Turkish economy. (Please see our weekly *MacroScope* report released on 11th of February 2008). Back then, we had warned that tightening credit standards across the board and rising risks would have exacerbated the depth and the duration of crisis. The repercussion of this global credit crunch on domestic credit market would have been felt through two different means. The dire global credit conditions would have threatened firms' direct external borrowings and banks' external borrowings to lend at home, with a lag though. Both of these channels have important effects on the overall loans offered in Turkey. The second negative impact would have been the deteriorating expectations regarding the economic outlook on the back of growing uncertainties and this would have caused tighter credit conditions, regardless of the size of the credit supply. Throughout the crisis, we witnessed that several surveys (The Loan Officer Surveys by Fed and Turkish Central Bank and ECB Bank Lending Survey) and data indicated at the tightest credit conditions in the history and the credit supply was influenced adversely. In the meantime, we know that the tightening in credit conditions that reached its peak in 3Q08 led to the sharpest economic contractions in the following two quarters both in developed countries and Turkey. **Therefore, the remarkable easing in the global credit conditions seen over the two quarters that follow the peak should be considered as the most important evidence, among many other indicators, for the start of a recovery. Yet, the credit standards are still considerably tight which is in essence consistent with the anticipation of a slower recovery than the preceding recession experiences.** Glancing at the repercussions of these developments on Turkey's credit supply, so far we see a downtrend in amount of the loans from abroad and a nominal decline in the domestic credit supply.

Lending Conditions in U.S. and Eurozone (+ Tightening, - Easing)

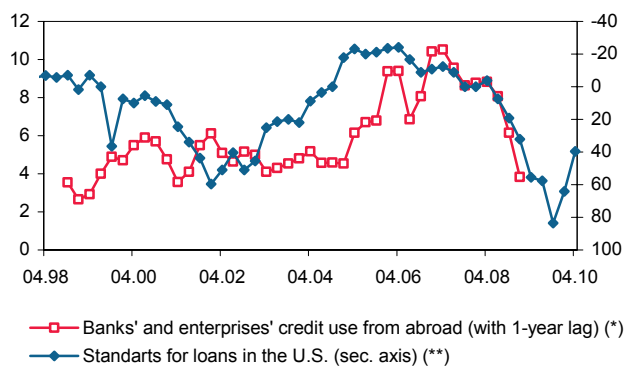


Source: Reuters, Fortis Economic Strategy and Research

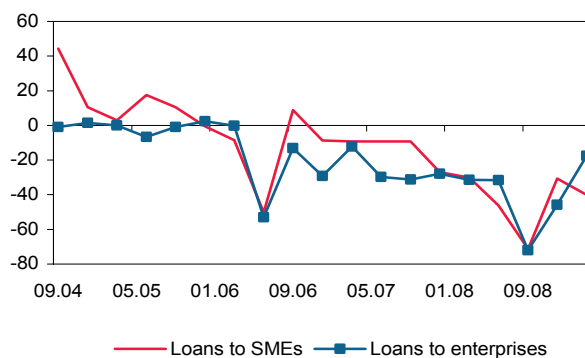
Glancing at the historical data, it is seen that the previous episodes of such credit tightening abroad did not immediately show up as dampened long term external credit use in Turkey, but rather the impact was spread through time and lived for long. We had analyzed the **ratio of the credits used by enterprises and banks from abroad to the GNP**. The decline of this ratio remained subdued during 2001 crisis, while similarly the improvement in credit conditions could only be felt after a considerable period of time. As you can see in the first graph below, the downtrend in these loans gained steam in the current crisis. Moreover, there are some indications for the continuation of this tendency for two more quarters. **Yet, while we expect to see some favorable repercussions on the external borrowing trends in Turkey from 4Q09 onwards, thanks to the improving global credit conditions, this outlook seems consistent with our positive growth anticipation for the last quarter. Such a relief would be welcomed especially by the loans for capital expenditures where the longer term financing is required.**

On the other hand, 1Q print of Central Bank's Loan Officer Surveys, which is the most important leading indicator for the domestic credit supply, was released within the week behind. Similar to other global likes, this survey also indicated that the credit conditions continued to ease at a second quarter in a row. Yet, there is no positive reflection of this anticipation on the fresh data so far. CBRT data showed that the domestic credit volume of deposit banks declined by around 5% as of end-March vs. its peak registered in October-end and the pace of annual increase regressed to 11%. In the same period, the non-performing loans that soared to 4.5% from 3.0% explain clearly the abrupt deterioration in the sector. **We think that the upbeat indicators regarding the global economic outlook and their repercussions on Turkish economy may be felt earlier on loans to the enterprises for working capital need and consumer loans compared to the loans for fixed investment.**

Turkey's Long Term Loan Use and U.S. Loan Standards



Standards of Loans to Enterprises (***) (Upcoming 3 months)



(*) Reckoned as the annualized 6-month average long term loans of banks and enterprise in the balance of payments. It's ratio to GDP is given in the graph. January-February realizations are used for 1Q. (**) The ratio of financial institutions which indicated tighter credit conditions for the big U.S. firms vs. the preceding period. (***) Negative (positive) values refer to tighter (easier) credit conditions expected in the upcoming 3-month period.

Source: Fed's Senior Loan Officer Opinion Survey on Bank Lending Practices, CBRT's Banks Loans Tendency Survey, Fortis Economic Research and Strategy

In addition to these findings, it would be useful to focus on one of the analyses that take place in the Central Bank's Inflation Report. The Bank stated that in the contraction periods, Turkey's financial system displays a similar behavior to the other developed and developing countries in terms of the additional tightening in the credit standards and that the financial system intensified the economic contraction, as was the case in the other global examples. The household's demand for consumer loans and enterprises' demand for investment loan declined regardless of loan supply standards. On the other hand, the enterprises' demand for loans, linked to liquidity problems and debt restructuring, grew. This shows that the additional tightness in the credit standards started to influence the production activity adversely.

In conclusion, while our anticipation that the tighter global credit standards would exacerbate the debt and duration of the crisis becomes true, the remarkable

easing in the global credit conditions seen over the two quarters that follow the peak should be considered as the most important evidence for the start of a recovery. Yet, the credit standards are still considerably tight which is in essence consistent with the anticipation of a slower recovery than the preceding recession experiences. While we expect to see some favorable repercussions on the external borrowing trends in Turkey from 4Q09 onwards, thanks to the improving global credit conditions, this outlook seems consistent with our positive growth forecast for the last quarter. Such a relief would be welcomed by especially the loans for capital expenditures where the longer term financing is required, while upbeat indicators regarding the global economic outlook and their repercussions on Turkish economy may be felt earlier on loans to the enterprises for working capital need and consumer loans compared to the loans for fixed investment.

Economic and Political Agenda

- This week, while the eyes will be on MPC's rate decision on Thursday at home, the unemployment rate due Friday will also be important after its sharp uptrend in January. Separately, we will monitor the size of expected recovery in the consumption expenditures through the April reading of CNBC-e Consumption Index to be released on Monday.
- Glancing at external arena, inflation figures (Thursday and Friday) and retail sales (Wednesday) may come to the forefront in the U.S., where New York Fed Index (Friday) will give the first signals regarding the May production performance. Separately, Eurozone 1Q GDP (Friday) which is anticipated to narrow by 1.9% will be critical, as well.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	Cent. Gov. Bud. PS, Apr.	TRY mn	May 11 - 15 th	-
Medium	CNBC-e Consump. Index, Apr.	-	May 11 th , 7:00GMT	-
Medium	Capacity Use, Apr.	%	May 11 th , 7:00GMT	(65.9)
High	C/A balance, Mar.	US\$ mn	May 11 th , 14:00 GMT	-1,350 (-1,357)
High	MPC Rate Decision	bps	May 14 th , 16:00 GMT	-50 (-50)
Medium	Unemployment, Feb.	%	May 15 th , 7:00 GMT	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Weak	U.S.	Foreign Trade Balance, Mar.	US\$bn	May 12 th , 12:30 GMT	-28.25
Weak	U.S.	Export & Import Prices, Apr.	%	May 13 th , 12:30 GMT	-0.2 & 0.4
High	U.S.	Retail Sales, Tot. & ex-auto, Apr.	%, m/m	May 13 th , 12:30 GMT	0.2 & 0.1
High	U.S.	Core PPI and PPI, Apr.	%, m/m	May 14 th , 12:30 GMT	0.1 & 0.2
High	Eurozone	GDP (flash), 1Q	% q/q	May 15 th , 9:00 GMT	-1.9
High	U.S.	Core CPI and CPI, Apr.	%, m/m	May 15 th , 12:30 GMT	0.2 & 0.0
Medium	U.S.	New York Fed Man. Ind., May	-	May 15 th , 12:30 GMT	-12.5
Medium	U.S.	Capacity Use, Apr.	%	May 15 th , 13:15 GMT	68.9
Medium	U.S.	Industrial Production, Apr.	%, m/m	May 15 th , 13:15 GMT	-0.7
Medium	U.S.	Michigan Sentiment Ind., May	-	May 15 th , 13:55 GMT	-

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - mn)	950.1	941.1	1,036.4	1,145.6
GDP (US\$ - bn)	734.9	595.7	638.5	690.0
GDP Growth (y/y % chg)	1.1	-5.0	4.0	5.0
PPI (y/y % chg)	8.1	6.0	5.0	4.0
CPI (y/y % chg)	10.1	5.5	6.0	6.0
Trade Balance (US\$ - mn)	-69.8	-37.9	-62.0	-67.8
Exports (FOB, excl. luggage trade)	132.0	93.4	98.7	106.4
Imports (CIF, incl. gold)	201.7	131.3	160.7	174.2
Current Account Balance (US\$ - mn)	-41.7	-11.9	-33.1	-35.9
Current Account Balance / GDP (%)	-5.7	-2.0	-5.2	-5.2

Financial Indicators Forecasts

	May 8 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.5396	1.6000	1.5500	1.5500	1.6300	1.5500	1.6300
EUR/TRY	2.0481	2.1000	2.0200	2.0200	2.1500	2.0200	2.1200
FX Basket	3.5877	3.7000	3.5700	3.5700	3.7800	3.5700	3.7500
EUR/US\$	1.3303	1.3100	1.3000	1.3000	1.3200	1.3000	1.3000
O/N	9.75%	9.25%	9.00%	9.00%	10.00%	9.00%	12.50%
Benchmark Bond	11.90%	12.50%	12.00%	12.00%	15.00%	12.00%	14.00%

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