

FORTIS BANK

Macro Scope

16 - 22 February 2009

Weekly Economic and Strategic Review

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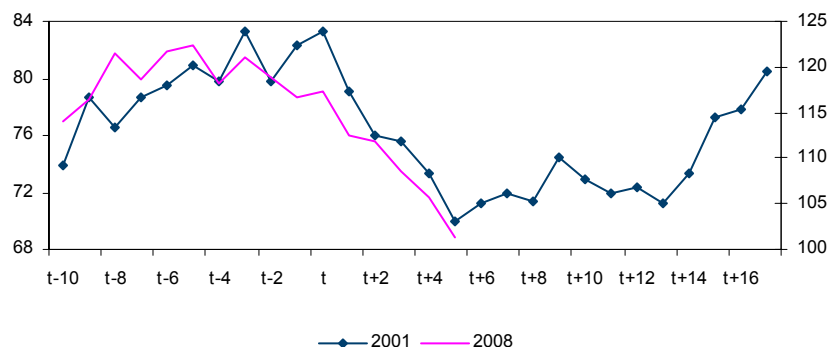
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Addicted to Plans...

In the week behind, the new U.S. stimulus package, which is seen as the major event of the year, passed the Senate and the U.S. Treasury announced the general framework of the financial stability program, first known as the bank rescue plan. The financial stability plan included the establishment of Public-Private Investment Fund to purchase troubled assets, as well as consumer/business lending facility that will leverage up to US\$1trn to revive lending through Fed's Term Asset-Backed Lending Facility (previously designed to be at a size of US\$200bn). However, the markets disappointed as there were not much detail about the plan and they worried that the plan was not big enough. Yet, to us, this seems more likely to be the "Buy on the rumor, sell on the fact" tactic. Otherwise, this negative market tone may keep putting further pressure on the consumer and business confidence, in which case the hopes of stabilization in the pace of economic contraction would fizzle. Recall that especially the leading PMIs had posted modest gains in January, for the first time in several months, signaling that the recession may be bottoming. If the current bearish mood prevails, this tentative signs of recovery may fail to turn into a long lasting improvement. **At a time the hard data continues depicting an abysmal picture, the thesis of a bottoming in the current recessionary cycle may seem quite absurd. However, ironically, this is exactly how the normalization process would start. That is to say, we believe that all the countries that are integrated to the global financial system across the globe are at a crossroad. The recovery in developed countries is one of the prerequisites for the start of a similar trend in Turkey.**

Industrial Production, 2001 Recession vs. 2008 Recession (Seasonally Adjusted)

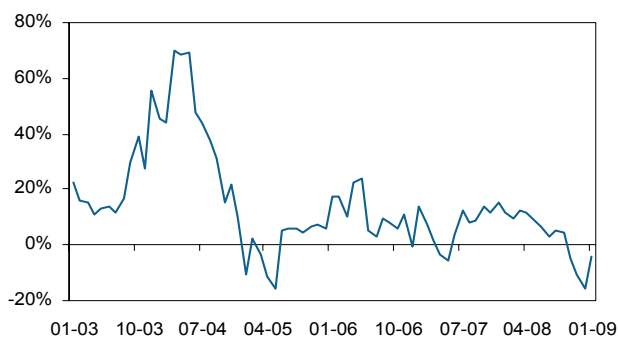


Source: Fortis Economic Research and Strategy

Having mentioned the global developments, we also want to have a look at the involvement of the crisis at home. For a long time ago, we mentioned that the Turkish economy would be in a sharp contraction period in 4Q08 and 1H09.

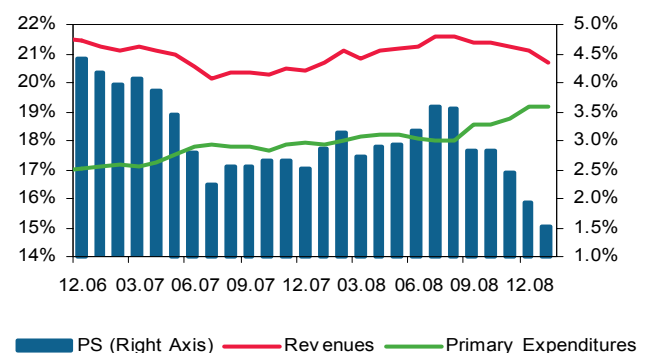
Accordingly, while the first hard data for this period validated our expectations, we are now more concerned with the extent of the contraction and whether it is bottoming yet. **Our first finding is that the current retrenchment in production have not been (and may not be) as sharp as the one suffered in 2001 crisis.** The industrial production collapsed by 17.9% y/y in December, while there was 4.0% monthly contraction in the seasonally adjusted figures. The industrial output shrank by 13.7% since its recent peak in July 2008 in seasonally adjusted terms. The maximum decline suffered between the peak and the trough of the industrial production cycle of 2001 crisis was higher at 16%. **Our second finding is that the annual decline in the industrial production may cut its pace in January.** While the capacity use regressed by 16.5 pps to 63.8% in January, underlining the weakness in the economic activity, the seasonally adjusted data indicated at a slower pace of deterioration. In the survey, the assessments regarding the January production also hinted that the annual decline in the industrial production may decelerate in January. **All in all, this was a positive signal in terms of raising hopes of stabilization in the pace of economic contraction in 1Q09.** In this context, it was promising to see the improvement in the seasonally adjusted CNBC-e Consumption Index in January, for the first time since August, as well as the acceleration of consumer credits in the last week of January. Other supportive news came from the Bank Loans Tendency Survey for 4Q08, which showed some improvement in the expectations for the upcoming period. Yet, we must see the continuation of improvement in the upcoming months and it must be supported by other indicators, as well, in order for us to be convinced for such optimism.

Consumption Index (y/y change)



Source: CNBC-e, Fortis Economic Research and Strategy

Central Government Budget Performance (Program Defined, in % of GDP)



Source: Finance Ministry, Treasury, Fortis Economic Research and Strategy

Meanwhile, the course of other key macroeconomic indicators has been unchanged for some time. While the current account deficit keeps improving, financing outlook of the deficit and fiscal performance continues worsening. Turkish C/A deficit came in at US\$3.0bn in December, declining visibly vs. the US\$5.2bn deficit registered in December 2007. All in all, the 12-month cumulative deficit remained limited at US\$41.4bn, with its ratio to GDP regressing by 0.3 pps to 5.5% y/y. We anticipate this trend being maintained throughout this year, sending the C/A deficit down to US\$12.9bn at the end of 2009, with its ratio to GDP receding to 2.1%. On the financing front, while the inflows from unidentified sources limited the decline in official and banks' F/X reserves over the last 3 months, the developments in the credit channel were consistent with our presumptions. The roll-over ratio of the corporate sector's long term debt declined to 89% and overall they were net payers of US\$0.6bn short and long term debt. Meanwhile, banks' repayments were lofty again in December as was the case in November, with their total repayments reaching US\$4.1bn over November-December term. We continue to believe that the extent of the decline in roll-over ratio in the period ahead will determine the risks on the size of Turkey's external financing need.

The January budget figures were staggering in terms of the targets, yet we were not surprised to see that the fiscal performance is still weakening. As we had underscored in our special report *MacroBrief* released within the week,

consolidated government sector PS to GDP ratio tumbled to 1.7%, markedly lower than the end-2009 target of 3.0%. Moreover, in the absence of fiscal measures, the consolidated government sector PS to GDP ratio may slump to 1.0% or lower, going forward. **From a short term perspective the most significant result of the fiscal loosening would be felt through the Treasury's borrowing program.** The redemption schedule is quiet light until May and that may give a partial relief. Nevertheless, the rise in debt roll-over ratio would put upward pressure on the interest rates in the medium term. Considering that there would hardly be any IMF deal in the absence of fiscal measures, the lack of credit line in such a case would add to the upward pressure on the domestic debt roll-over ratio. Moreover, the increase in Treasury's financing need would at the same time raise the fiscal dominance, putting a drag on the banks' credit facilities.

In conclusion, we think that the dismal welcome to the long-awaited U.S. plans to revive the economy should not be overstated for now. However, through time, we need to start seeing the positive repercussions of Obama administration's plans on the future expectations, once put into force. This is one of the major prerequisites for bringing an end to the global recession. This would also support the current positive yet immature signals at home as to the stabilization in the pace of economic contraction in 1Q09. Certainly, this will not be sufficient by itself. Turkey must benefit from the contracting current account deficit, while at the same time launching a program which will reverse the weakening on the external financing outlook and on the fiscal front.

Economic and Political Agenda

- At home, the MPC meeting due Thursday seems to be the most important development of the week. The Central Bank is expected to continue easing the monetary policy and cut the rates by 50 bps. Meanwhile, the Treasury will issue the T-bill due 19.08.2009 and CPI-linked bond due 14.08.2013 on Tuesday ahead of its TRY6.3bn domestic redemption on Wednesday.
- Glancing at external arena, while the housing and inflation data will be important in the U.S., Philadelphia Fed index may give the first signals as to whether the recovery continues in February. Similarly, Eurozone flash PMIs will tell whether the pace of recession tames outside of the U.S. In the meantime, BoJ will unveil its interest rate decision on Thursday and the U.S. markets will be closed on Monday.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	Consumer Confidence, Jan.	-	Feb. 16 th , 8:00 GMT	-
Medium	Unemployment, Nov.	%	Feb. 16 th , 8:00 GMT	-
High	MPC Rate Decision	bps	Feb. 19 th , 17:00 GMT	-50 (-50)
High	CB's Expectation Survey, Jan. II	-	Feb 20 th	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	Germany	ZEW Index, Feb.	-	Feb. 17 th , 10:00 GMT	-25
High	U.S.	Building Permits, Jan.	mn	Feb. 18 th , 13:30 GMT	0.54
High	U.S.	Housing Starts, Jan.	mn	Feb. 18 th , 13:30 GMT	0.53
Weak	U.S.	Import Prices, Jan.	%	Feb. 18 th , 13:30 GMT	-1.4
Medium	U.S.	Capacity Use, Jan.	%	Feb. 18 th , 14:15 GMT	72.6
High	U.S.	Industrial Production, Jan.	%, m/m	Feb. 18 th , 14:15 GMT	-1.3
High	U.S.	Core PPI and PPI, Jan.	%, m/m	Feb. 19 th , 13:30 GMT	0.1 & 0.2
Medium	U.S.	Philadelphia Fed Mnf. Index, Feb.	-	Feb. 19 th , 15:00 GMT	-23.0
High	Japan	BoJ Rate Decision	%	Feb. 19 th	-
Medium	Eurozone	Services Flash PMI, Feb.	-	Feb. 20 th , 8:58 GMT	42.5
Medium	Eurozone	Manufacturing Flash PMI, Feb.	-	Feb. 20 th , 8:58 GMT	35
High	U.S.	Core CPI and CPI, Jan.	%, m/m	Feb. 20 th , 13:30 GMT	0.1 & 0.1

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2007	2008	2009f	2010f
GDP (TRY - mn)	853.7	971.7	1,011.2	1,112.5
GDP (US\$ - bn)	658.8	751.6	624.2	678.2
GDP Growth (y/y % chg)	4.6	1.0	-1.0	4.0
PPI (y/y % chg)	5.9	8.1	6.0	5.0
CPI (y/y % chg)	8.4	10.1	6.5	6.0
Trade Balance (US\$ - mn)	-62.8	-69.7	-37.4	-46.7
Exports (FOB, excl. luggage trade)	107.3	131.5	113.5	126.0
Imports (CIF, incl. gold)	170.1	201.2	151.0	172.7
Current Account Balance (US\$ - mn)	-38.2	-41.4	-12.9	-20.4
Current Account Balance / GDP (%)	-5.8	-5.5	-2.1	-3.0

Financial Indicators Forecasts

	Feb. 13 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.6397	1.7000	1.6500	1.6000	1.6400	1.6000	1.6800
EUR/TRY	2.1078	2.1800	2.1000	2.0300	2.1000	2.0500	2.1500
FX Basket	3.7475	3.8800	3.7500	3.6300	3.7400	3.6500	3.8300
EUR/US\$	1.2855	1.2800	1.2750	1.2700	1.2800	1.2800	1.3000
O/N	13.00%	12.00%	12.00%	12.00%	13.00%	12.00%	14.00%
Benchmark Bond	15.20%	14.80%	14.70%	13.70%	14.90%	13.70%	16.00%

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