

FORTIS BANK

Macro Scope

2 - 8 February 2009

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

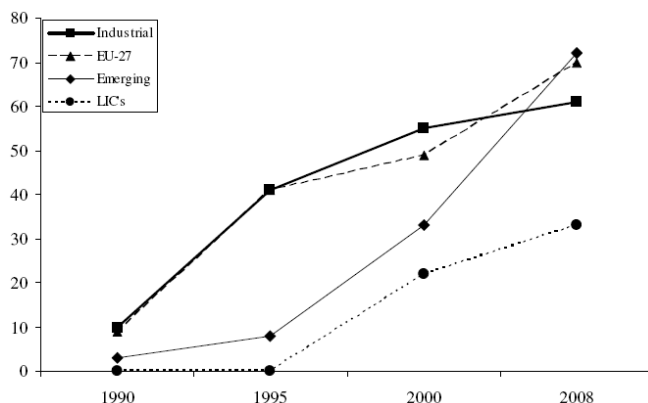
Would You Mind To Stay On Stand By?

Recall that the necessity of an IMF stand-by deal had first started to top the agenda in the beginning of November, when the volatility in the global markets had reached its peak. The government has failed to finalize an agreement since then, while the recent news says that the talks have been frozen temporarily, suggesting that reaching a deal would not be as smooth as thought. **The media sources claim that there is a general consensus established between the two sides. Hence, the disputes do not seem to concentrate on additional fiscal measures (cutting expenditures and boosting revenues) unlike frequently quoted in the media. On the other hand, in a statement regarding the talks with Turkey, IMF said that "IMF team and the authorities will continue their dialogue with a view to finalizing the remaining issues pertaining, in particular, to the medium-term structural fiscal reform agenda," giving the impression that the disagreements are involved more with longer term issues.** Supporting our view was a Reuters news, where "fiscal rule" and structural reforms in the "public sector other than the central government" were claimed to be the two key areas that lie at the heart of the disputes. We had shared our views about the fiscal rule and its design in our weekly *Macro Scope* dated 29 October 2007. After that, in another weekly dated 26 November 2007 we had also mentioned about IMF's suggestions for the fiscal rule in the new term, quoting from a staff report written for Turkey. The Fund's suggestion for the fiscal anchor (*) that would replace the primary surplus target (PS) arose as an expenditure rule combined with a debt target. **Aside from the complications associated with designing a fiscal rule, a more challenging issue would be the establishment of a legal framework that would ensure the government's commitment to the rule.** To put it differently, a framework must be developed in advance that would describe how to amend the possible deviations from the rule and the associated sanctions. In the absence of such a strictly defined legal structure and of a transparent monitoring mechanism, such a rule would be no different than the PS target set over the last two years. The same Reuters news claims that another remaining issue to be solved is about the structural reforms in the public sector other than the central government. Even though there is no detail about what these structural reforms are, among them may be strengthening fiscal position of SEEs and maintaining transparency in fiscal performances of municipal administrations.

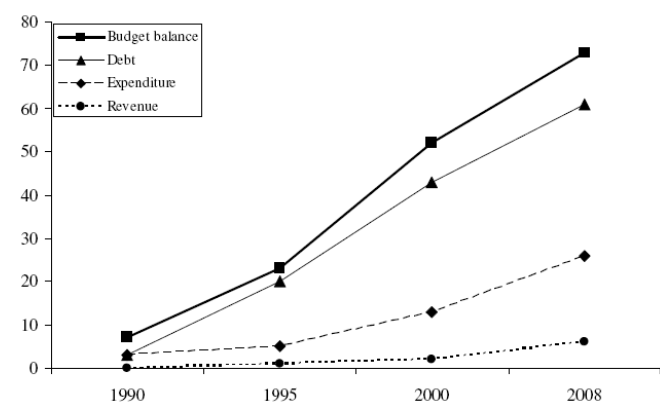
That said, the markets do not seem to care much about the sources of dispute. Instead, they are pretty confident that one way or the other, the sides will agree on a program with the deal size fulfilling Turkey's external financing need. Will the deal be launched before the local elections? We believe the answer to this question would not make a big difference from that point onwards and would not alter the perceptions much, either. Even if the program becomes effective in a short time, there would unlikely be any significant implications for the economic contraction expected in the first half of the year. A

more critical parameter for that matter would be the external outlook and the timing of attaining the bottom in especially the U.S. economy. Amidst the severest recession in the post-WWII, growth projections have been continually revised downwards. Yet, struggling in this extraordinary environment, the governments and the central banks of the developed universe have responded back with extraordinary measures. **In our earlier reports, we frequently underlined that U.S. President Obama's plans would be very critical for the outlook in the first quarter. In that sense, the approval of the package in the subcommittees of the U.S. Congress is a positive development.** While, this paved the way for the full Senate to begin debating on the package, the size of package was expanded to US\$887bn. Before the bill becomes law, two bodies of the Congress must approve it. Beside, the growing expectations that Obama will launch a rescue package for the finance system, including the establishment of a "bad bank" to purchase toxic assets are supporting especially the banking shares. Meanwhile, Fed left the interest rate between the range of 0% - 0.25%, as expected, while they also underscored deepening slowdown in the economic activity and "some risks that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term." **The silver lining in the statement was the phrase pointing to the improvement in some financial markets and Fed's projection of a gradual recovery in the economic activity later this year.** Fed also said that they are prepared to purchase longer-term Treasury securities if such transactions would be effective in improving conditions in private credit markets.

Number Of Fiscal Rules By Category Of Countries: 1990-2008



Number Of Countries With At Least One Fiscal Policy Rule (By Type Of Rule)



Source: *The Design of Fiscal Policy Rules*, IMF Fiscal Affairs Department, Fiscal Rule Workshop - Treasury

Therefore, the appeal of the attractive valuations spurred by extensive sell-offs in many markets throughout January, as well as the tentative signs that deterioration has stabilized in January data (the Eurozone PMIs and the Consumer Confidence in the external arena, the Real Sector Confidence Index at home) may be encouraging investors to bet on the "worst is over" scenario. As a matter of fact, we do not see any other meaningful explanation for the recent recovery in the risk appetite. However, as we had emphasized before, in order to sustain this as a permanent uptrend, new data flow must ensure that the economic outlook does not worsen further, i.e. the new trajectory is achieving some stability, followed by clues of slight rebound. If this scenario fails to be true, then the major risk for Turkey would be the failure to achieve an IMF deal. In that case, the recession at home would deepen going forward. On the contrary, if an early recovery scenario becomes valid for the external outlook, the adverse repercussions of the lack of an IMF deal would be more limited, since the improved financing flows would have downgraded such a need.

All in all, while the markets have been discounting that an IMF program will eventually be launched with a deal size fulfilling the external financing need, they do not pay much attention to the sources of dispute among the sides. We believe that lack of consensus on areas associated with long term fiscal outlook signify more fundamental problems, which would unlikely be easily solved. Even if the

program becomes effective in a short time, there would hardly be any significant implications for the economic contraction expected in the first half of the year. A more critical parameter for that matter would be the external outlook and the timing of a trough in especially the U.S. economy.

() However, a new anchor for fiscal policy will be needed. We suggest consideration of a fiscal rule (such as a formal limit on spending growth or on the overall deficit). Setting an explicit limit on spending would not only help keep debt low, but also create space for growth-enhancing tax reforms, such as cutting the high tax burden on employment and bank transactions. To be effective, any formal fiscal rule would need to be supported by ongoing improvements in public financial management and fiscal transparency, as well as measures, notably civil service and social security reform, to contain nondiscretionary spending. (Article IV Consultation, IMF)*

PS: Please ask for our earlier weekly MacroScope reports mentioned here, if interested.

Economic and Political Agenda

- The eyes will be on the January inflation at home. Separately, Treasury's auctions may come to the forefront, as well, as the heftiest auction of the year will be held in February. Treasury projected TRY22.9bn domestic debt service in February. We reckon that TRY20.0bn of this amount will be destined to the market, with TRY14.2bn portion paid back on February 4th. The Treasury had also forecasted US\$1.0bn external debt service in February.
- Glancing at external arena, the non-farm payrolls due Friday is the most critical item on this week's agenda. Meanwhile, PMIs and interest rate decisions in Europe will be eyed.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	TEA's Preliminary Exports, Jan.	US\$ mn	Feb. 1 st - 2 nd	6,900
Medium	CBNC-e Cons. Confid. Index, Jan.	-	Feb. 2 nd , 7:00 GMT	-
High	CPI, Jan.	%m/m	Feb. 3 rd , 15:00 GMT	0.2 (0.13)
High	PPI, Jan.	%m/m	Feb. 3 rd , 15:00 GMT	1.3 (0.00)

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	Eurozone	Manufacturing PMI, Jan.	-	Feb. 2 nd , 8:58 GMT	34.5
High	U.S.	Core PCE, Dec.	% m/m	Feb. 2 nd , 13:30 GMT	0.0
High	U.S.	Manufacturing ISM, Jan.	-	Feb. 2 nd , 15:00 GMT	32.0
Medium	U.S.	Pending Home Sales, Dec.	% m/m	Feb. 3 th , 15:00 GMT	0.0
High	Eurozone	Services PMI, Jan.	-	Feb. 4 th , 8:58 GMT	42.5
Medium	U.S.	ADP Employment, Jan.	K	Feb. 4 th , 13:15 GMT	-510
High	U.S.	Non-manufacturing ISM, Jan.	-	Feb. 4 th , 15:00 GMT	39.3
High	U.K.	BoE Rate Decision	bps	Feb. 5 th , 12:00 GMT	-50
High	Eurozone	ECB Rate Decision	bps	Feb. 5 th , 12:45 GMT	no chg.
Weak	U.S.	Unit Labor Cost & Prod., 4Q	% q/q	Feb. 5 th , 13:30 GMT	3.0 & 0.9
High	U.S.	Non-farm Payrolls, Jan.	K	Feb. 6 th , 13:30 GMT	-500
High	U.S.	Unemployment Rate, Jan.	%	Feb. 6 th , 13:30 GMT	7.4

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2007	2008f	2009f	2010f
GDP (TRY - mn)	853.7	971.7	981.6	1,076.9
GDP (US\$ - bn)	658.8	747.5	609.7	694.8
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	-69.6	-36.2	-45.4
Exports (FOB, excl. luggage trade)	107.3	131.5	118.4	130.2
Imports (CIF, incl. gold)	170.1	201.1	154.6	175.6
Current Account Balance (US\$ - mn)	-38.2	-42.1	-10.1	-17.2
Current Account Balance / GDP (%)	-5.8	-5.6	-1.7	-2.5

Financial Indicators Forecasts

	Jan. 30 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.6107	1.7000	1.6500	1.6000	1.6000	1.6000	1.5000
EUR/TRY	2.1084	2.2100	2.1500	2.1000	2.1000	2.1000	1.9500
FX Basket	3.7191	3.9100	3.8000	3.7000	3.7000	3.7000	3.4500
EUR/US\$	1.3090	1.3000	1.3000	1.3100	1.3100	1.3100	1.3000
O/N	13.00%	12.50%	12.00%	12.00%	12.50%	12.00%	14.00%
Benchmark Bond	15.10%	15.20%	14.70%	14.25%	14.31%	13.70%	16.00%

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 Christophstrasse 33-37 50670 Cologne Germany Tel: +49 221 161 13 30	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 Cornaggia 10 I-20123 Milano Italy Tel: +39 02 57 53 24 61	Fortis Banque Luxembourg 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 Jarlsgatan 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: +90 212 318 38 38
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	Fortis Securities LLC 520 Madison Avenue, 3rd Floor New York, NY 10022 United States Tel: +1 212 418 87 14	

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, Financière et des Assurances/Commissie voor het Bank-, Financien- 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>