

FORTIS BANK

Macro Scope

19 – 25 October 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

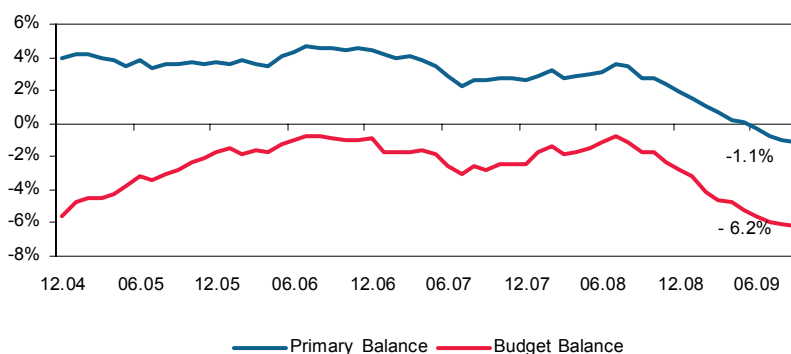
Nilufer Sezgin (Assistant Manager)
Tel: +212 318 37 90
Email: nilufer.s@fortis.com.tr

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

Budget In A Bottle...

As is known, presenting the 2010 budget to the Turkish Assembly until October 17th is a legal obligation. In the recent years, this issue does not come to the forefront as the Medium Term Plan (MTP), which includes 3-year budget projections, is released before that date. Yet, it was claimed in the media that the economy team is expecting to hear IMF comments about the program before the submission of the 2010 budget plan to the Parliament and this might have added some spice to the process this year. On the other hand, it is well known that the deadline for the final changes regarding the budget figures is not October 17th. The desired changes may also be introduced during the negotiations in the Planning and Budget Commission. For instance, last year's negotiations started in October 23rd and continued for approximately one month. **Accordingly, even if there is not any progress about the IMF deal until October 17th, the deal hopes may be kept alive unless the sides claim otherwise.** Having said that, let us assess the current fiscal outlook under the light of September budget realizations released within the week behind. We will also mention about the 2010 targets. In September, the primary balance and budget balance produced TRY4.48bn and TRY9.48bn deficit, respectively, similar figures with the year before. At first glance, it seems that the deterioration has come to a halt. However, the Treasury's cash based balance, released beforehand, showed that the TRY1.0bn was transferred to the budget for the South Anatolian Project and the program defined figures, which excludes such one-off items, indicated that the deterioration continued, at a slower pace though. Based on our estimates, 12-month rolling primary deficit to GDP ratio increased to 1.1% from 1.0%, while the budget deficit to GDP ratio rose to 6.2% from 6.1%. According to the MTP figures, these values will reach 2.2% and 6.6% by the year-end, respectively. **It will appear more clearly in the following months whether the deterioration**

Central Government Budget Balances (Last 12-month cumulative, as a ratio to GDP)



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

in the budget performance will cut pace. Such a tendency will be of critical importance for the 2010 targets (especially since the recovery in revenues is foreseen to be the major source of improvement.)

If there is not any last-minute change, the budget size to be presented to the Parliament would be TRY286.8bn, some 7.5% higher than the preceding year. The most challenging target to accomplish would be reducing the budget deficit to TRY50bn from an estimated TRY62.8bn in 2009. Out of the total 1.7 pp improvement expected for the budget deficit to GDP ratio, some 1.5 pp is assumed to stem from the potential recovery in the tax collections. Meanwhile, the primary expenditures is planned to remain unchanged at this year's record high at 22.3% of GDP. **There are two important sources of uncertainties for budget this year. First of them is associated with the potential trend of the economic recovery, which appears slow and gradual for now. This is important for the indirect taxes. The second one is the future of stand-by deal with IMF. If the government agrees with IMF on a program, no matter how loose it is, this would be a positive development as the program would urge the government to pledge for a long-lasting fiscal discipline. On the other hand, if Turkey stands alone and chooses to continue with the current MTP, the success in the implementation of the program would shape its credibility.** Under this context, once the details of 2010 budget draft are unveiled, we will see whether there will be supportive steps planned to achieve the fiscal framework depicted in MTP.

Medium Term Fiscal Plan (2010-2012) and 2009 Budget

	TRYbn					to GDP (%)				
	Realization		Forecast*			Forecast*		MTP		
	Jan. - Sep. 2009	2009	2010	2011	2012	2009	2010	2011	2012	
Central Government Budget Expenditure	197.2	266.8	286.8	298.2	314.4	28.2	27.9	26.7	25.6	
Non-interest expend.	151.7	211.3	230.1	243.0	259.0	22.3	22.4	21.7	21.1	
Personnel	42.6		60.3	64.1	68.4		5.9	5.7	5.6	
Gov. Prem. to Soc. Sec. Ins.	5.1		11.1	11.7	12.5		1.1	1.0	1.0	
Purch. of goods - serv.	17.3		25.9	27.6	28.8		2.5	2.5	2.3	
Current Transfers	70.2		102.2	109.6	117.2		9.9	9.8	9.6	
Capital Expenditures	10.3		19.0	18.3	20.1		1.9	1.6	1.6	
Capital Transfers	2.2		3.2	3.3	3.5		0.3	0.3	0.3	
Lending	3.9		6.9	6.9	6.8		0.7	0.6	0.6	
Reserve Appropriations	0.0		1.4	1.5	1.6		0.1	0.1	0.1	
Interest Expenditures	45.5	55.5	56.8	55.2	55.4	5.9	5.5	4.9	4.5	
Central government Budget Revenues	156.4	203.9	236.8	253.1	275.4	21.5	23.0	22.6	22.4	
Tax Revenues	125.3	163.6	193.3	210.2	229.5	17.3	18.8	18.8	18.7	
Budget Balance	-40.8	-62.8	-50.0	-45.1	-39.1	-6.6	-4.9	-4.0	-3.2	
Primary Balance	4.7	-7.3	6.7	10.1	16.3	-0.8	0.7	0.9	1.3	
Primary Balance (Program-Defined)	-6.2	-20.8	-8.4	-2.1	4.3	-2.2	-0.8	-0.2	0.4	

(*) Government's estimate of realizations

Aside from the central government budget, local administrations' fiscal performance will also be under scrutiny. The lack of data for the local administrations is used to be a major setback to understanding the developments here. Yet, Finance Ministry has been releasing the quarterly budget realizations for some time. Before giving the numbers, we want to mention about another issue first. Recall that, there was a regulation put into force in July 2008 which increased the amount of general budget tax income share to be transferred to the municipalities. This regulation had spurred an important disagreement in IMF talks and had been taken as a sign that the local governments' fiscal performance was deteriorating. The Finance Ministry's data since 2006 showed that the primary balance of local administrations has always produces deficit. **The 4Q-rolling primary deficit to GDP ratio has reached 0.7% by the end of 1H09.** Recall that, at that time, the public sector's primary balance was still on the positive territory. The lingering structural problems about local administrations and social security put additional pressure on already ailing budget balance on the back of the depressed economic outlook, increasing the

public sector borrowing need. Unless launching a comprehensive reform for expenditures and incomes in the short term, the budget will continue to rely on non-tax income, such as privatization proceeds, and will keep being restrained by the performance of economic activity.

Under this context, disclosure of the details of TRY10.4bn privatization income that were projected in the MTP was an important development. In our preceding weekly *MacroScope*, we stated that this amount was fairly assertive and that the debt roll over ratio would remain elevated in the lack of an IMF deal despite this source. Based on this plan, while TRY5.1bn portion of this source is the expected to proceed from the preceding privatization contracts of the electricity distribution companies and the ports in the first months of 2010, the remaining TRY5.3bn is foreseen to be provided from fresh privatization in 2010 (Sugar factories, Turkish National Lottery and Baskent Dogalgaz). In the meantime, the sale of electricity production companies was stated to be kept as a trump card, with expected revenue of TRY2.0bn – TRY2.5bn and will be used in a case of a problem in the above-mentioned privatization plan. **Accordingly, we think that since almost half of the expected privatization incomes are the proceeds expected from previous privatizations, the total target appears more attainable.** However, although there are some signs of life in broad-based M&A activities, the risks for the expected sales in 2010 are continuing as the credit markets would not reach their prior conditions for some more time and we are still far away from the pre-crisis valuations of firms. Separately, even though the privatization target can be reached, the result for the program defined budget balances would not change since these one-off incomes would not be counted.

All in all, we expect the 2010 budget draft, which should be presented to the Parliament on October 17th, to be more or less same with the MTP figures. Meanwhile, we think that the one-month negotiation period in the Planning and Budget Commission would be enough for critical changes, if needed. As the weakest side of the current fiscal framework, the improvement of budget deficit mostly depends on the revival in the tax incomes in a case of robust recovery, while the targeted privatization income, which constitutes a great part of the non-tax incomes (the other major source for the budget) seems fairly assertive in the current outlook.

Economic and Political Agenda

At home there will be a quiet agenda this week. The sole event of the week will be the Central Bank's second expectations survey for October. In the meantime, there will be a tiny TRY0.3bn domestic debt service of the Treasury on Wednesday. In the external arena, the housing data will top the U.S. agenda, while the flash PMIs will come to the forefront in the Eurozone. Meanwhile, there will be a slew of important balance sheet announcements this week, such as Texas Instruments, Apple, Pfizer, Yahoo, eBay, Boeing, U.S. Bancorp, Wells Fargo, American Express, McDonald's, Philip Morris, Xerox, Microsoft. Separately, Fed Chairman Bernanke will deliver a speech on Friday.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	CB's Expectation Survey, Oct. II	-	Oct. 22 nd	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	U.S.	Building Permits, Sep.	mn	Oct. 20 th , 12:30 GMT	0.59
High	U.S.	Housing Starts, Sep.	mn	Oct. 20 th , 12:30 GMT	0.61
High	U.S.	Core PPI and PPI, Sep.	%, m/m	Oct. 20 th , 12:30 GMT	0.1 & 0.1
High	Eurozone	Manufacturing Flash PMI, Oct.	-	Oct. 23 rd , 7:58 GMT	49.8
High	Eurozone	Services Flash PMI, Oct.	-	Oct. 23 rd , 7:58 GMT	51.3
Medium	Germany	Ifo Index, Oct.	-	Oct. 23 rd , 8:00 GMT	92.0
High	U.S.	Existing Home Sales, Sep.	mn	Oct. 23 rd , 14:00 GMT	5.3

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	924.9	1,013.2	1,120.4
GDP (US\$ - bn)	734.9	596.7	645.4	681.6
GDP Growth (y/y % chg)	0.9	-6.0	4.0	5.0
PPI (y/y % chg)	8.1	4.0	5.0	4.0
CPI (y/y % chg)	10.1	5.5	6.5	5.5
Trade Balance (US\$ - bn)	-69.8	-37.7	-56.9	-61.4
Exports (FOB, excl. luggage trade)	132.0	100.8	112.0	112.1
Imports (CIF, incl. gold)	201.7	138.5	168.8	173.5
Current Account Balance (US\$ - bn)	-41.5	-11.3	-25.1	-26.9
Current Account Balance / GDP (%)	-5.6	-1.9	-3.9	-3.9

Financial Indicators Forecasts

	Oct. 16 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.4365	1.4600	1.5000	1.5600	1.5600	1.4800	1.5600
EUR/TRY	2.1428	2.1600	2.2000	2.2600	2.2500	2.1800	2.2500
FX Basket	3.5793	3.6200	3.7000	3.8200	3.8100	3.6600	3.8100
EUR/US\$	1.4917	1.4800	1.4700	1.4500	1.4400	1.4700	1.4400
O/N	6.75%	6.50%	6.25%	6.25%	6.75%	6.25%	7.75%
Benchmark Bond	8.20%	8.00%	8.50%	8.50%	10.00%	8.50%	10.50%

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>