

FORTIS BANK

Macro Scope

14 – 20 December 2009

Weekly Economic and Strategic Review

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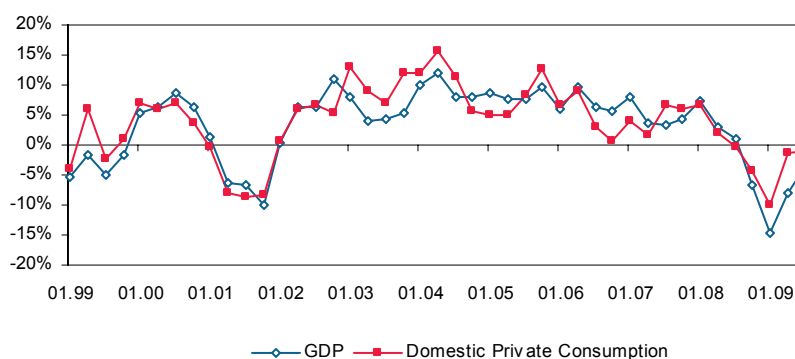
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Wrapping Up ...

The loaded event calendar of the week behind came out broadly in line with our presumptions. Therefore, they did not surprise those who followed our reports published prior to those events. As a reminder, the industrial output, 3Q GDP, 2010 Central Bank Monetary and Exchange Rate Policy Framework and Treasury's 2010 Financing Program were among the major releases of the week. They were all parallel to our predictions. Our detailed comments on these developments were published in special reports within the week. Separately, in our monthly report which was also released within the week, we fine tuned our forecasts for the major 2010 macroeconomic figures at the eve of the new year. All in all, we believe it is worth to sum up this slew of publications in this weekly report. **Let us start with noting that these developments have not changed the main scenario and our view on the general economy that have been valid for a long time. We believe that the economy would continue recovering gradually and slowly.** As a key point, the Treasury and the Central Bank built their programs on the assumption of no IMF deal. That seems to have invalidated some analysts' assumption of IMF program in their base scenario, an issue we had warned previously. The Central Bank announced that the purchases of the government bonds that are needed for the Bank's open market operations would be limited by the amount of redemptions, as we expected. In order not to distort the yield curve, the Bank planned to undertake the purchases in a gradual and transparent way. The Treasury, on the other hand, assumed that the domestic debt roll-over ratio would not be much different from this year, meaning that the loaded borrowing need is set to continue restraining the banks' sources to be allocated to the private sector. **In that context, the primary balance of the budget remains as a critical parameter for TRY liquidity and the Treasury's borrowing.** Returning to the data disclosures, even though there was no major surprise, they provided a good opportunity to revisit our forecasts for 2009 and 2010.

GDP and Domestic Demand In The Turkish Economy (*)



(*) Annual growth of GDP and domestic private consumption
Source: TURKSTAT, Fortis Economic Research and Strategy

Coming to the details, GDP contracted by 3.3% y/y in 3Q09, in line with our and market's forecast for 3.5% contraction. There were downward revisions in the preceding two quarters' data. We estimate that the quarterly expansion in seasonally adjusted terms still continues, yet at a slower pace than the quarter before. **Even though there was not any surprise in the headline GDP, the contraction in the manufacturing sector was more limited than suggested by the monthly index, indicating that the discordance between these two data is still continuing and there may be downward revisions in GDP going forward.** Nevertheless, this positive impact was offset by the construction and transportation sectors which shrank by 18.1% and 6.9%, respectively, sharper than our assumptions.

Real GDP Growth by Kind of Activity

(% change, y/y)	2007	2008	4Q08	1Q09	2Q09	3Q09
Agriculture	-7.0	3.9	3.3	-0.4	6.4	2.7
Industry	5.6	0.8	-10.8	-21.8	-11.2	-3.9
Construction	5.7	-8.2	-14.0	-18.9	-21.4	-18.1
Wholesale and Retail Trade	5.7	-1.1	-15.9	-26.3	-15.4	-7.2
Transport, Storage and Communication	7.1	1.3	-7.4	-17.7	-12.2	-6.9
Financial Institutions	9.8	9.1	9.4	10.8	7.5	7.8
Taxes-Subsidies	5.9	-0.3	-10.1	-22.0	-7.0	-8.4
GDP	4.7	0.9	-6.5	-14.7	-7.9	-3.3

Glancing at the expenditures, the negative contribution of the private consumption to the GDP kept narrowing, remaining at a limited 0.6 pp. On the other hand, even though the negative impact of private investments decreased, as well, this item which erased 3.5 pp from GDP remained as the major reason behind the economic contraction. The increase in the public expenditures was offset by the declining investments. In that respect, the public sector added a tiny 0.1 pp to GDP. Finally, while the stock changes deleted 1.3 pp off GDP, the net exports added 2.0 pp. All in all, 3Q GDP reading did not bring any major change to our assumptions. Coming to 4Q, while the October reading of industrial production indicated a good start, the leading indicators for November have so far suggested that the recovery tendency will continue. **After the release of 3Q data, we revised our 2009 GDP forecast down to 5.7% contraction from the previous 6.0% decline.**

Expenditures on GDP

(%change, y/y)	2007	2008	4Q08	1Q09	2Q09	3Q09
Final Consumption Expenditure of Resident Households	4.6	0.8	-5.3	-10.0	-1.5	-0.9
Government Final Consumption Expenditure	6.5	1.9	3.4	5.2	0.5	5.2
Gross Fixed Capital Formation	5.4	-7.1	-17.7	-27.5	-24.3	-18.0
-Public Sector	6.3	13.0	15.9	24.5	5.4	-10.6
-Private Sector	5.3	-10.0	-23.9	-33.5	-29.4	-19.4
Exports of Goods and Services	7.3	2.3	-8.5	-11.2	-10.1	-4.6
Imports of Goods and Services	10.7	-3.8	-23.7	-31.0	-20.4	-11.9
GDP	4.7	0.9	-6.5	-14.7	-7.9	-3.3

Meanwhile, before these data disclosures, we had already announced a fine tuning in our 2010 forecasts. The details of these revisions can be found in our December *Glocal Economist*. We now expect the economy to expand by 5% next year, higher than our previous call for 4%, which was an above-consensus forecast. While making this revision, we underlined that this would be linked to the weak base year effect, since the growth performance is set to remain significantly below the potential this year. Therefore, we do not see this as a

strong growth performance. In addition, **we also warned about the obstacles against a pick up in growth rate.**

To briefly review these obstacles: **1) The banking sector is unlikely to be equally helpful to the economic recovery**, considering that the Treasury set the domestic debt roll-over ratio at the vicinity of 100%. **2) We dropped the assumption of IMF deal in our base scenario and hence there is no IMF loan incorporated into our forecasts.** This has the potential to have adverse impact on the 1st item here, along with possible negative influence on the consumer and real sector confidence. **3) We anticipate the unemployment rate rising further to 15.5% in 2010.** Therefore, it would not be realistic to presume a visible revival in credit demand or visible easing in the banks' credit standards. In that respect, depending on the improvement in the conditions of external borrowing, the credit growth would unlikely bring much momentum to the economy. **Accordingly, we downgraded our growth forecast for 2011 and after to 4% from 5%.**

Other important revisions are: **1) We expect the current account deficit to widen to US\$35.7bn (5.1% of GDP)** on the back of US\$75 oil price assumption and our forecast for a mild recovery in industrial production. Our assumption that the debt rollover ratios of the corporates and banks will be at relatively high 110% and 130%, respectively, yields an external financing deficit of US\$14bn. **2) The 2009 year-end central government budget is likely to be slightly better than expected.** We anticipate **the program-defined consolidated government sector primary deficit receding to 0.5% of GDP next year** from an estimated deficit of 1.8% this year. Accordingly, **the EU-defined debt stock is likely to rise by 1 pp to 47.9% of GDP in 2010.**

In conclusion, even though the economic outlook in 2010 seems better than 2009, this would not satisfy the optimists who expect a return to the pre-crisis conditions. The country-specific jitters are set to continue in 2010 due to the delayed economic reforms in the pre-crisis period and the lack of a concrete economic reform program even today. This means that problems would exist in terms of the economic performance, if not in the financial markets. Meanwhile, the optimism linked to the recent rating upgrade for Turkey and the expectation of high growth rate in 2010 which is purely related with technical reasons would unlikely have permanent impact on the fundamental outlook and the prospects for the country.

Economic and Political Agenda

▪ At home, the most important development will be the MPC meeting to be held on Thursday. The market's forecasts change between no change and 25 bps rate cut. There will be a loaded agenda in the external arena. While FOMC meeting, inflation, housing data and the leading economic activity indicators will be important in the U.S., the flash PMIs will be on the forefront in Eurozone.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
High	Central Government Budget PS, Nov.	TRYmn	Dec. 14 - 18 th	-
Medium	Unemployment, Sep.	%	Dec. 15 th , 8:00 GMT	-
Medium	TURKSTAT Consumer Conf., Nov.	-	Dec. 16 th , 8:00 GMT	-
High	MPC Rate Decision	bps	Dec. 17 th , 17:00 GMT	no change (0-25)

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	Germany	ZEW Index, Dec.	-	Dec. 15 th , 10:00 GMT	50.0
Medium	U.S.	New York Fed Man. Index, Dec.	-	Dec. 15 th , 13:30 GMT	24.0
Medium	U.S.	Core PPI and PPI, Nov.	%, m/m	Dec. 15 th , 13:30 GMT	0.2 & 0.8
High	U.S.	Capacity Use, Nov.	%	Dec. 15 th , 14:15 GMT	71.1
High	U.S.	Industrial Production, Nov.	%, m/m	Dec. 15 th , 14:15 GMT	0.4
High	Eurozone	Manufacturing PMI, Dec.	-	Dec. 16 th , 9:00 GMT	52.5
High	Eurozone	Services PMI, Dec.	-	Dec. 16 th , 9:00 GMT	51.4
High	U.S.	Building Permits, Nov.	mn	Dec. 16 th , 13:30 GMT	0.57
High	U.S.	Core CPI and CPI, Nov.	%, m/m	Dec. 16 th , 13:30 GMT	0.2 & 0.4
High	U.S.	Housing Starts, Nov.	mn	Dec. 16 th , 13:30 GMT	0.56
High	U.S.	Fed's Rate Decision	bps	Dec. 16 th , 19:15 GMT	no change
Medium	U.S.	Philadelphia Fed Mnf. Index, Dec.	-	Dec. 17 th , 15:00 GMT	16.5
Medium	Germany	Ifo Index, Dec.	-	Dec. 18 th , 9:00 GMT	94.1
Medium	Japan	BoJ Rate Decision	%	Dec. 18 th	no change

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2008-2011

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	973.5	1,088.1	1,196.7
GDP (US\$ - bn)	734.9	628.0	702.0	727.9
GDP Growth (y/y % chg)	0.9	-6.0	5.0	4.0
PPI (y/y % chg)	8.1	6.0	5.0	4.0
CPI (y/y % chg)	10.1	5.9	6.5	5.5
Trade Balance (US\$ - bn)	-69.8	-38.2	-64.8	-65.6
Exports (FOB, excl. luggage trade)	132.0	100.4	127.0	122.9
Imports (CIF, incl. gold)	201.7	138.6	191.8	188.5
Current Account Balance (US\$ - bn)	-41.8	-14.4	-35.7	-34.5
Current Account Balance / GDP (%)	-5.7	-2.3	-5.1	-4.7

Financial Indicators Forecasts

	Dec. 11 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.4932	1.5000	1.5400	1.5700	1.5600	1.5000	1.5600
EUR/TRY	2.1989	2.2050	2.2484	2.2687	2.2464	2.2100	2.2500
FX Basket	3.6921	3.7050	3.7884	3.8387	3.8064	3.7125	3.8100
EUR/US\$	1.4726	1.4700	1.4600	1.4450	1.4400	1.4750	1.4400
O/N	6.50%	6.50%	6.50%	6.50%	8.00%	6.50%	8.00%
Benchmark Bond	9.10%	9.00%	9.00%	9.00%	10.50%	9.10%	10.50%

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