

FORTIS BANK

Macro Scope

15 - 21 June 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

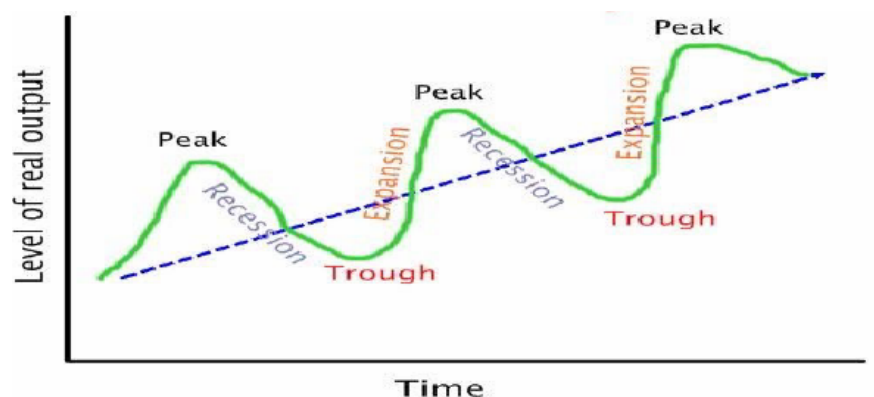
Nilufer Sezgin (Assistant Manager)
Tel: +212 318 37 90
Email: nilufer.s@fortis.com.tr

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

Life Cycle Of A Business Cycle...

An economic cycle, also known as the business cycle, is a term used to describe the economy-wide fluctuations in production or economic activity over several years. While these fluctuations occur around a long-term growth trend, a traditional economic cycle undergoes four stages. The economy reaches the peak after an expansion period, with recession starting at that point and bringing the economy to the trough, which would then give way to recovery. The cycle would be completed once this recovery gets stronger and economy reaches the peak again. The expansion and recession periods, which are the key stages of an economic cycle, have some certain characteristics. However, the other stages, which live relatively shorter in-between the recessions and contractions, are transition periods marked with significant uncertainties. Accordingly, determining the phase of economic cycle correctly and rapidly makes life easier as that would help foreseeing the attitude of market players. **Glancing at the current economic outlook in the context of these descriptions, we believe that the economies left the trough of the recession behind. Now, the recovery is set to start and strengthen towards expansion period of the cycle. Accordingly, in quite a short while, we anticipate seeing more visible changes in financial markets with decoupling becoming more apparent in different asset classes.** The most evident sign of this decoupling would be observed in the long term bond yields and stock market performances. Recall that, in the outbreak of the subprime crisis in the mid-2007, the markets started to price recession, diverting funds away from stock markets towards the safe-haven bonds. This tendency lasted for 20 months. However, the history suggests that throughout the expansion ahead, the dislocation of the funds to equities from bonds would take much (at least 5 times) longer.

Stages of A Traditional Business Cycle



Looking at the economic developments from such perspective helps to understand that the recessions are not the end of the world; on the contrary they are natural stages experienced throughout the long term growth pattern of the economy. Moreover, they help eliminating or at least reducing certain macroeconomic imbalances. The most important thing during these inevitable recession periods is to avoid any disruption in the slope of the long term growth pattern. As should be understood from the rating downgrades of some developed countries in the recent term, the record high budget deficits have nowadays elicited a broad-based fear regarding higher inflation and hence a hindered economic growth in the period ahead. Therefore, the limits of monetary and fiscal policy easing in the short term and their negative impact on the medium-long term growth outlook should be balanced properly. **For that purpose, the most important step would be to pledge through a credible program that the elevated budget deficit will not be permanent and fiscal policy will be tightened when the economy rides out bad times.** Accordingly, Turkish Economy Minister Babacan's statements regarding the preparation of a new program (especially his comments as to the unsustainability of the pressure on borrowing and the need to amend the primary deficit) were encouraging. Yet, his comments were not fully relieving, as he gave a warning to the markets that they should be ready for a scenario without IMF deal and said that the budget deficits may be tolerated for a couple of years, i.e. gave no signal for fiscal tightening in 2010. Therefore, we prefer to remain cautious until seeing the content of the program and its implementation.

Macro Economic Outlook (with and without a comprehensive program)

	2009		2010		2011		2012		2013	
	A	B	A	B	A	B	A	B	A	B
GDP Growth (y/y % chg)	-5.5	-5.0	3.0	4.0	3.0	5.0	3.0	5.0	3.0	5.0
Unemployment Rate (%)	12.9	12.5	15.2	14.4	15.6	14.2	16.0	14.3	16.4	14.4
CPI (y/y % chg)	5.0	5.5	6.0	6.5	5.0	5.5	3.5	4.0	3.5	4.0
Consolidated Public Sector PS / GDP (%)	-1.9	-1.8	0.7	1.2	0.7	0.9	0.7	1.1	0.5	1.3
Nominal Public Debt Stock / GDP (EU Definition, %)	45.7	44.8	47.0	44.2	48.0	43.6	48.9	42.7	49.9	41.6
Treasury's Domestic Debt Roll-Over Ratio (%)	113.4	106.8	98.4	89.5	92.3	88.2	91.1	86.4	93.5	85.5
Current Account Balance / GDP (%)	-2.1	-2.3	-4.9	-5.4	-4.2	-5.5	-3.4	-5.4	-2.6	-5.5
US\$ Exchange Rate (average)	1.59	1.58	1.64	1.61	1.68	1.65	1.70	1.65	1.72	1.65

Scenario A: Alternative scenario assumes no comprehensive plan and weak growth performance

Scenario B: Our current baseline scenario which assumes the IMF deal would be launched

All in all, we think that it would be beneficial to reiterate the alternative scenario and other assessments in our monthly *Glocal Economist* Report published within the week behind. "Lately, the risk that the government may completely give up the IMF deal has appeared as a greater possibility. Even if there will indeed be an IMF deal, it would probably be delayed to the final months of the year, since the Parliament will be closed during August-September period. Yet, as we underlined several times beforehand, the core issue is the introduction of a comprehensive economic framework so as to anchor the long term expectations. **For example; if the Medium Term Program, to be unveiled in the following weeks incorporates a guideline towards the launch of a fiscal rule and if this can reassure confidence about the government's intention to secure fiscal discipline, this would be a positive step.** However, such a framework would need to explain in a convincing and clear manner how to amend the deterioration in 2008 budget in the upcoming years. Nevertheless, given the shaky track record of Turkey's fiscal policy implementations, it would be difficult without IMF to reassure the confidence that the government would not deviate from the targets. **Under the lack of such a program, we foresee a looser fiscal policy framework and estimate that the average growth rate would regress to around 3%.** As the details can be seen in the table above, this would have important repercussions on the other macro economic indicators.

Normally, the beneficiaries of slower growth would be foreign trade deficit and current account deficit, which would be narrower. Yet, the increase in oil prices in tandem with the global economic recovery would limit this positive impact. Separately, despite the decline in the current account deficit, the Central Bank's F/X reserves may shrink to around US\$40bn within a few years due to the slower international capital flows. On the other hand, 3% GDP growth would be unable to create enough jobs to offset the increase in young population, resulting in a chronic surge in the unemployment rate. In addition to the tax revenues hit by poor growth, the short-term measures would be in course to tackle the weak growth so that it would not be possible to make expenditure cuts at meaningful sizes. All in all, there would only be a minor primary surplus, accompanied with EU-defined debt stock climbing to 50% of GDP. Another repercussion would be on the domestic debt roll over ratio, which would hardly fall below 100%."

In conclusion, we think that the transition from recession to expansion stage would be finalized soon and there would be more visible changes in financial markets in a short while, with decoupling in different asset classes becoming more evident. It is once more understood that the recessions are not the end of the world; on the contrary they are part of an economic cycle throughout the long term growth pattern. From now on, the most important thing is to avoid any disruption in the slope of the long term growth pattern. For that purpose, the most critical step would be to pledge through a credible program that the elevated budget deficit will not be permanent and fiscal policy will be tightened when the economy rides out bad times. We hope to see this happening...

Economic and Political Agenda

- While MPC meeting on Tuesday will be the most important event of this week, majority of the analysts expect that the Bank will cut the interest rates by 25 bps and keep the rates constant in the rest of the year. In the U.S., apart from the housing and inflation, Philadelphia Fed Index will be important as a leading indicator.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	Unemployment, Mar.	%	June 15 th , 7:00 GMT	-
High	Central Gov. Bud. PS, May	TRY mn	June 15 – 19 th	-
Medium	Consumer Confidence, May	-	June 16 th , 7:00 GMT	-
High	MPC Rate Decision	bps	June 16 th , 16:00 GMT	25 (25)

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	Germany	ZEW Index, June	-	June 16 th , 9:00 GMT	35.0
High	U.S.	Building Permits, May	mn	June 16 th , 12:30 GMT	0.5
High	U.S.	Housing Starts, May	mn	June 16 th , 12:30 GMT	0.49
High	U.S.	Core PPI and PPI, May	%, m/m	June 16 th , 12:30 GMT	0.1 & 0.4
Medium	U.S.	Capacity Use, May	%	June 16 th , 13:15 GMT	68.6
Medium	U.S.	Industrial Production, May	%, m/m	June 16 th , 13:15 GMT	-0.5
Medium	Japan	BoJ Rate Decision	%	June 16 th	no chg.
High	U.S.	Core CPI and CPI, May	%, m/m	June 17 th , 12:30 GMT	0.2 & 0.3
High	U.S.	Philly Fed Manuf. Ind., June	-	June 18 th , 14:00 GMT	-16.4

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - mn)	950.1	936.6	1,028.0	1,136.2
GDP (US\$ - bn)	734.9	592.8	637.1	688.9
GDP Growth (y/y % chg)	1.1	-5.0	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	-40.2	-63.8	-69.7
Exports (FOB, excl. luggage trade)	132.0	98.2	98.7	106.4
Imports (CIF, incl. gold)	201.7	138.4	162.5	176.0
Current Account Balance (US\$ - bn)	-41.6	-13.8	-34.7	-37.6
Current Account Balance / GDP (%)	-5.7	-2.3	-5.4	-5.5

Financial Indicators Forecasts

	June 12 th	1M	3M	6M	12M	2009	2010
US\$/TRY	1.5373	1.5500	1.5500	1.5500	1.6400	1.5500	1.6300
EUR/TRY	2.1528	2.1400	2.0900	2.0200	2.1700	2.0200	2.1200
FX Basket	3.6901	3.6900	3.6400	3.5700	3.8100	3.5700	3.7500
EUR/US\$	1.4004	1.3800	1.3500	1.3000	1.3200	1.3000	1.3000
O/N	9.25%	9.00%	9.00%	9.00%	11.50%	9.00%	12.50%
Benchmark Bond	12.80%	13.50%	13.00%	14.00%	15.00%	14.00%	14.00%

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 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>