

FORTIS BANK

Macro Scope

24 - 30 August 2009

Weekly Economic and Strategic Review

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Mission Accomplished...

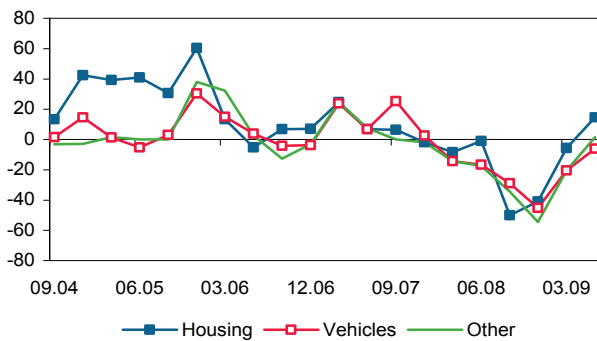
After the latest MPC meeting, the amount of rate cut expectations from the Central Bank has grown and the markets seem to anticipate the Bank keeping rates low for a longer period than previously envisaged. In the statement released along with the decision, the Bank reemphasized that the ongoing recovery in economic activity will be gradual and protracted, while it is also stated that the uncertainties regarding the strength of the consumption recovery increased. On the other hand, the Bank said once more that further measured rate cuts will be necessary in the short term, unless there is a robust recovery in the economic activity. Yet, there was no signal that the rate cut period is about to end, unlike the general market view, which mostly assumed that the final rate cut would come in September. Accordingly, the downtrend in the long term bond yields gathered steam with the benchmark bond yield breaking the critical 10% support level that has not been able to be broken for a long time.

Apart from the downtrend in the long term bond yields, another critical factor that concerns the economy is the repercussions of this development on the credit rates and whether this can rekindle the consumption. Based on the news reported in media within the week behind, the banks seemed to change their strategies here. Since the consolidated data for the bank loan rates are not published, we are unable to verify those media reports through actual data. However, let us remind how the Central Bank had summarized the credit market developments in the last Inflation Report released in end of July: *“As of the second quarter, credit markets have started to respond to the easing of policy rates. Especially, the fall in business loan rates has been quite noticeable. Decreasing loan rates have helped to lower the financing costs of firms restructuring their debt, easing balance sheet constraints, and thereby helping offset a persistent deterioration of production capacity. **While business loan rates declined considerably, longer-term consumer loans with fixed rates still remained at relatively high levels. Along with elevated term premiums, the decline in interest rates was relatively limited for longer-term consumer loans.**”* In brief, the policy rate cuts had repercussions on the short term and floating-rate business loans up to now, while the impact on long term consumer and investment loans, which are more important for the economic recovery, remained limited. As was re-emphasized in the last MPC summary, this was the main reason behind the Central Bank's assessment of ongoing additional tightness in the financial conditions. Yet, the media reports claiming that things are recently changing in the credit market is positive for the medium term economic performance.

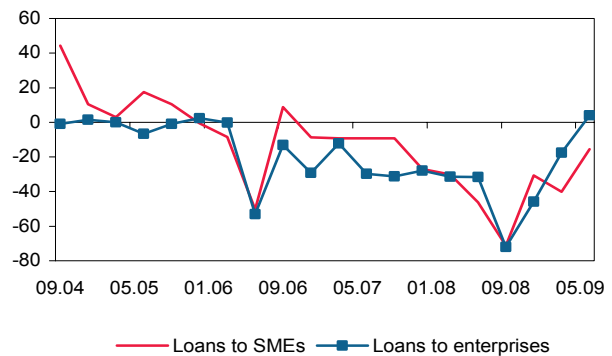
In essence, we got the first signals of such a change when the Central Bank disclosed the Banks Loans Tendency Survey in the beginning of the month. Despite the participant banks stated that they continued tightening the credit standards of the loans to enterprises in 2Q, it was at a slower pace than the

previous period. The difference between the percentages of banks that claim tightening in lending standards vs. easing standards regressed to 40.3% in 2Q from 90.7% in 1Q. More importantly, for 3Q the percentage of banks that anticipated the standards would ease was some 4 pp higher than the banks that expected tighter standards. For the first time since December 2005, the banks predicted that lending would be easier. Glancing at segments, this trend is expected to be more apparent for the larger enterprises that are seen to be subject to less risk than SMEs. It is possible to talk about a similar tendency for the consumer loans, where the standards for especially the housing loans were expected to be eased.

Standards of Loans to Consumers (*)



Standards of Loans to Enterprises (*)

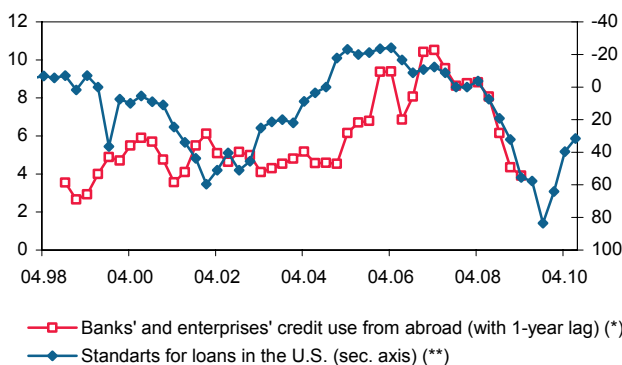


(*) Negative (positive) values imply anticipation of tightening (easing) credit standards in the following 3-month period.

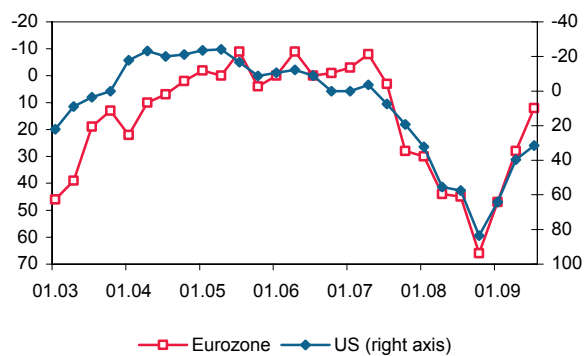
Source: CBRT

We think that, the normalization trend in the global credit conditions has been influential on the easing financial tightness in the domestic arena. In the previous week, two banks in Turkey with the biggest repayments in July and August secured syndicated loan at almost full roll-over. These were positive signals for the hefty repayments due September. After the banks' debt roll-over ratios for their long term loans reached 54% in 1H, the external financing outlook seems more positive.

Long Term Credit Use and U.S. Banking Sector



Expectations For Credit Standards (**) in the U.S. And Eurozone



(*) The annualized 6-month average of long term foreign loans used by banks and corporates as given in the balance of payments data. They are depicted in percentage of GDP.

(**) Positive (negative) values imply anticipation of tightening (easing) credit standards in the following 3-month period

Source: CBRT, Fed, ECB

In addition to the risk appetite indicators, the banking sector surveys, which are similar to the one released in Turkey, showed the signs of the improvement in the external financing conditions. In the week behind, 3Q results of U.S. Senior Loan Officer Opinion Survey showed that the tightening bias in the credit conditions kept weakening, as was the case in the first two quarters of the year. A similar conclusion also holds for the Eurozone. As can be seen in the graph above,

these tendencies are highly correlated with the capital inflows to Turkey. The repercussions of the developments in the U.S. credit conditions are being felt in Turkey with about one-year lag. While the U.S. credit conditions entered into a tightening period in the beginning of 2007, it took the mid-2008 to affect the long term credit use of banks and enterprises in Turkey. Considering that the easing of the credit conditions, which emerged in the beginning of this year, will also be felt with a certain lag, the recent upbeat signals from the banking sector should be eyed closely. If these first positive signals are accompanied with the news of improvement in the external financing conditions for corporates, this may be the indication that trough of the long term capital inflows was achieved as of 3Q.

All in all, both global and domestic developments sound like the financial conditions are not as tight as beforehand. It may be too early to say that, but if the fresh developments affirm this outlook, this could bring the Central Bank to an important turning point in terms of the monetary policy. Going forward, the extent of the expansion in consumer and investor demand to be secured by the monetary expansion would set the pace of credit growth and that should be monitored closely.

Note that, here we are talking about a third phase in the Turkish economy. We only get the first tentative signals of this phase for now and therefore it is subject to a high error margin for now. The revival stimulated by the tax cuts in the first phase is likely to be replaced with a new slowdown cycle (second phase) in 3Q, as suggested by the recent weakness in the domestic demand indicators. Such a slowdown is in line with our scenarios. Yet, the latest signals suggest that the slowdown in the second phase may be followed by a recovery in the third phase, thanks to the monetary easing process both in global and local arena. These developments should be monitored carefully by the bond market, where the benchmark bond yield is inclined to fall towards the lower bound of 9.2%, which we estimated in our monthly *Global Strategy* report released in the week behind. In the upcoming period, if this is accompanied by the developments that show progress in the credit market, the monetary easing period would complete its mission. Accordingly, the interest rate cuts may come to a halt earlier than the current forecasts which have recently been shaped towards a looser monetary policy. As we stated above, it is hard to make a certain assessment about this issue now and the upcoming developments should be eyed carefully.

Economic and Political Agenda

- This week there will be a quiet agenda at home. The sole data of the week will be the Real Sector Confidence Index due Tuesday. Glancing at external arena, the markets will focus on a slew of critical data releases, especially in the U.S, such as GDP, new home sales, durable orders and core PCE. Meanwhile, the Ifo Index is scheduled for release in Germany.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
High	Real Sector Confidence Ind., Aug.		Aug. 25 th , 14:00 GMT	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	U.S.	Case Shiller House Price Ind., June	% m/m	Aug. 25 th , 13:00 GMT	-16.8
Medium	U.S.	Consumer Confidence Ind., Aug.	-	Aug. 25 th , 14:00 GMT	48.0
Medium	Germany	Ifo Index, Aug.	-	Aug. 26 th , 8:00 GMT	88.6
Medium	U.S.	Durable Orders, July	% m/m	Aug. 26 th , 12:30 GMT	1.7
High	U.S.	New Home Sales, July	Mn	Aug. 26 th , 14:00 GMT	0.39
High	U.S.	GDP (1 st revision), 2Q	% q/q	Aug. 27 th , 12:30 GMT	-1.4
High	U.S.	Core PCE, July	% m/m	Aug. 28 th , 12:30 GMT	0.1
Medium	U.S.	Michigan Sentiment Ind., Aug.	-	Aug. 28 th , 13:55 GMT	64.5

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - mn)	950.1	928.7	1,018.5	1,126.2
GDP (US\$ - bn)	734.9	599.2	648.7	691.8
GDP Growth (y/y % chg)	1.1	-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	-37.8	-61.2	-66.1
Exports (FOB, excl. luggage trade)	132.0	102.4	102.7	106.1
Imports (CIF, incl. gold)	201.7	140.2	163.9	172.2
Current Account Balance (US\$ - bn)	-41.3	-11.5	-32.1	-34.3
Current Account Balance / GDP (%)	-5.6	-1.9	-5.0	-5.0

Financial Indicators Forecasts

	August 21 st	1M	3M	6M	12M	2009	2010
US\$/TRY	1.4845	1.4800	1.5000	1.5400	1.5800	1.5000	1.5800
EUR/TRY	2.1126	2.0700	2.1000	2.1300	2.0900	2.1000	2.0500
FX Basket	3.5971	3.5500	3.6000	3.6700	3.6700	3.6000	3.6300
EUR/US\$	1.4231	1.4000	1.4000	1.3800	1.3200	1.4000	1.3000
O/N	7.75%	7.25%	7.00%	7.00%	8.00%	7.00%	10.00%
Benchmark Bond	9.50%	9.20%	10.00%	11.00%	12.00%	10.50%	12.50%

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