FORTIS BANK

Macro Scope

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Weekly Economic and Strategic Review

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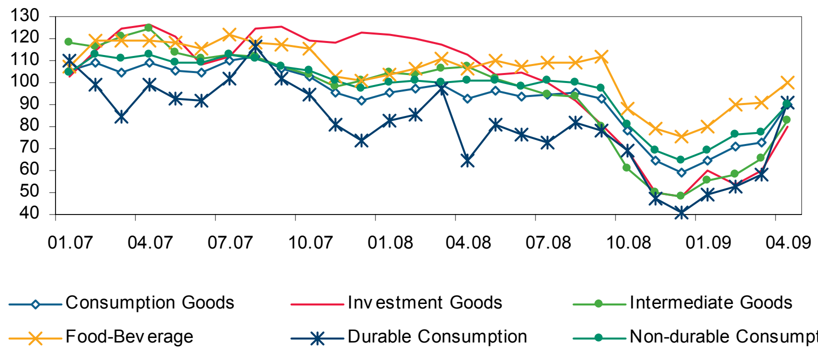
Confide In Confidence…

As is known, the Consumer Confidence Index (CCI) and Real Sector Confidence Index (RSCI) of Turkish economy hit the bottom in November and December 2008, respectively, while they entered into uptrend from then on. Even though the level that RSCI reached by end-April is still below the critical 100-threshold, which separates the expansion and contraction periods, it turned back to the levels seen before October that is marked as a turning point in the current global crisis. On the other hand, the recovery in these two indices was mostly linked to the future expectations rather than the current situation assessments, raising doubts about the quality of improvement. Yet, given the good track record of these confidence indicators in forecasting the inflection points of economic cycles, we think that those recovery signals should not be underestimated. Recall that before the economy had entered into a contraction cycle, these indices had been tilted down due to the deteriorated sentiment regarding the future. Nevertheless, **the pessimism that "the leading indicators are misleading" is understandable, considering the downbeat backward-looking hard data flow and the lack of developments to reassure a persistent recovery in the confidence at home. Yet, these indicators confirm that consumption bottomed out through the last months of 2008, while the worst is probably over for the production as of 1Q09. The sole uncertain factor herein is the power of recovery in the actual consumption and production data.** The data piled up to date showed that the reflection in the consumption front is more pronounced. For example; while CNBC-e Consumption Index contracted by 10.6% in 4Q08; it posted a limited decline of 0.5% in 1Q09. There was even 6% increase in March consumption reading. Yet, there is no sign of recovery in the production front in March, as reflected by our annual contraction expectation (21.6%) for industrial production.

Real Sector Confidence Index - Based on Classification by Broad Economic Categories

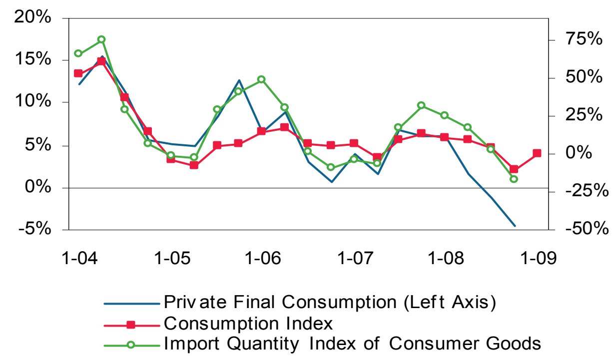


Source: CBRT, Fortis Economic Strategy and Research

These developments should be taken as a natural process of recovery cycle we depicted in our previous reports. A visible improvement in the industrial production would be possible when the inventories completely melt down and the contraction in exports cut some pace. In the first phase, the crisis would result in an abrupt decline in the production as the inventories are adjusted to the new depressed demand level. In this period, the production activity almost freezes in some sectors such as automotive. After the inventories melt down, production should be expected to improve, albeit slightly, bottoming out from the trough of the cycle, even if the weak demand conditions remain. The recent tax cuts stimulus is expected to accelerate this process. Therefore, for a permanent recovery, upward tendency of the consumer confidence should not be seen sufficient. The objective must be to accelerate the improvement of confidence and then to preserve these achievements. In this process, increasing confidence in global arena would help eliminating the bottlenecks in the foreign demand and foreign credit channel, as well as boosting the confidence in the domestic arena.

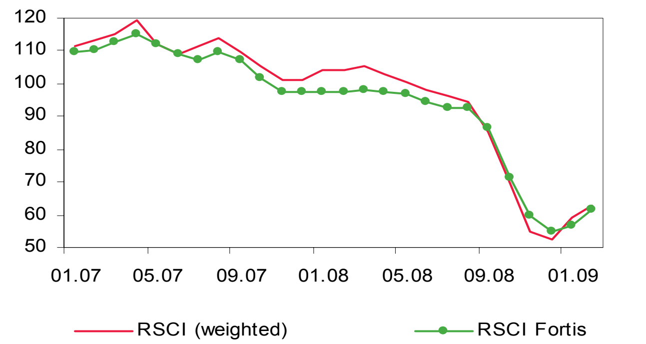
Accordingly, it is promising that the recovery tendencies of consumer and real sector confidence indices started to stabilize both in U.S. and Eurozone recently. The last examples were April readings of U.S. and Eurozone consumer confidence which rose markedly in the preceding week. We anticipate that the Purchasing Managers Index (PMI) which will be released in the first days of March would support this upbeat outlook. **Having said that, the question now is that, would all these developments mean that the framework we depicted in last week's report have changed?...** As shall be remembered, we had mentioned that the recovery would take as long time as the recession itself and the level of activity reached in one year may remain weaker than the initial output level prior to the crisis. Additionally, we had also estimated a slower recovery vs. 2001 crisis for the Turkish economy. Nevertheless, we should indicate that the V-type recovery in especially the RSCI is a confusing development.

Domestic Demand Indicators (annual change)



Source: CNBC-e, TURKSTAT, Fortis Economic Research and Strategy

Central Bank's Real Sector Confidence Index (RSCI)



Source: CBRT, Fortis Economic Research and Strategy

Separately, the recovery of the RSCI released by the CBRT has been quite widespread among the sub-components and is not linked to some specific sectors. Based on Classification by Broad Economic Categories, we developed the confidence indices of sectors producing consumption goods, intermediate goods and investment goods, as well as the sub-indices of food-beverage, durable and non-durable consumption goods. Although the indices in intermediate and investment goods lagged below the overall average, they displayed an apparent recovery in April, too. RSCI of the consumption goods, which is above the average, has been boosted by the food-beverage sector which is not related to the cycle, while the durable goods also made an important contribution. Yet, the performance of non-durable goods sector remained relatively weaker. If this tendency persists in the upcoming months, this would support our 2010 growth estimate that is higher than the consensus. **Nevertheless, we think that it would be more appropriate to stick to our**

scenario mentioned above until we see some concrete data to gauge the power of recovery.

We should say that the outlook regarding the domestic and foreign economic activity depicted in the Central Bank's April Inflation Report was even more pessimistic than our anticipation. The Monetary Policy Committee believes that the contraction in the global economy will be deeper in 2009 than assumed in the preceding report. Additionally, Committee indicates that the partial rebound in consumer demand does not point to a long-lasting recovery, rather sees it to be the result of the price incentives created by the fiscal package that brought consumer demand for selected goods forward. Separately, based on the Bank's assessments, the rate of growth might register a double-digit decline in the first quarter of 2009, while the Bank claims that confidence indices and coincident indicators of demand expectations suggest that the economy may start to recover slightly by the second quarter of the year.

All in all, the fact that the recovery in the confidence indices was mostly linked to the future expectations rather than the current situation assessments, raised doubts about the quality of improvement. However, we think that those recovery signals should not be underestimated, considering the good track record of these confidence indicators in forecasting the inflection points of economic cycles. On the contrary, the simultaneous increase of confidence in global arena would not only help eliminating the bottlenecks in the foreign demand and foreign credit channel, but also would enhance the confidence at home. In the meantime, we should also note that the broad based V type recovery especially in the RSCI is a confusing development in terms of our gradual recovery scenario. Nevertheless, we think that it would be more appropriate to stick to our scenario until we see the hard concrete data to gauge the power of recovery.

Economic and Political Agenda

- This week, inflation and the industrial output will be eyed closely at home. Meanwhile, the Treasury's redemption which we reckon as TRY10.3bn on May 6th will be important.
- Glancing at external arena, U.S. non-farm payrolls will be under the spotlight, while the PMIs will be announced both in U.S. and Eurozone. Separately, the markets will be closed on May 4th in Japan and U.K. The markets in Japan will remain closed on May 5th and 6th. Meanwhile, the results of banks' stress tests to be unveiled officially on May 4th would be influential in setting the market tone, as well. Fed Chairman Bernanke will deliver a speech on May 7th.

Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis *(Consensus)*
High	CPI, Apr.	%m/m	May. 4th ,14:00 GMT	0.5 *(0.72)*
High	PPI, Apr.	%m/m	May. 4th ,14:00 GMT	0.6 *(0.56)*
High	CB's Expectation Survey, May I	-	May 8th	-
High	Industrial Output, Mar.	% y/y	May 8th, 7:00 GMT	-21.5
Medium	Cash Based PS, Apr.	TRY bn	May 8th	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
High	Eurozone	Manufacturing PMI, Apr.	-	May. 4th, 7:58 GMT	36.7
Medium	U.S.	Pending Home Sales, Mar.	% m/m	May. 4th, 14:00 GMT	-0.4
High	U.S.	Non-manufacturing ISM, Apr.	-	May. 5th, 14:00 GMT	42.0
High	Eurozone	Services PMI, Apr.	-	May. 6th, 7:58 GMT	43.2
Medium	U.S.	ADP Employment, Apr.	K	May. 6th, 12:15 GMT	-700
High	U.K.	BoE Rate Decision	bps	May. 7th , 11:00 GMT	no change
High	Eurozone	ECB Rate Decision	bps	May. 7th , 11:45 GMT	-25 bps
Weak	U.S.	Unit Labor Cost , 1Q	% q/q	May. 7th , 12:30 GMT	3.1
Weak	U.S.	Productivity, 1Q	% q/q	May. 7th , 12:30 GMT	0.4
High	U.S.	Non-farm Payrolls, Apr.	K	May. 8th, 12:30 GMT	-631
High	U.S.	Unemployment Rate, Apr.	%	May. 8th, 12:30 GMT	8.8

Macro-Economic and Financial Forecasts

Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - mn)	950.1	948.8	1043.5	1152.3
GDP (US$ - bn)	734.9	596.7	635.0	687.0
GDP Growth (y/y % chg)	1.1	-5.0	4.0	5.0
PPI (y/y % chg)	8.1	6.0	5.0	4.0
CPI (y/y % chg)	10.1	6.0	6.0	5.5
Trade Balance (US$ - mn)	-69.7	-34.8	-60.4	-66.2
Exports (FOB, excl. luggage trade)	132.0	94.7	100.3	108.0
Imports (CIF, incl. gold)	201.7	129.5	160.7	174.2
Current Account Balance (US$ - mn)	-41.6	-8.9	-31.5	-34.3
Current Account Balance / GDP (%)	-5.7	-1.5	-5.0	-5.0

Financial Indicators Forecasts

	April 30th	1M	3M	6M	12M	2009	2010
US$/TRY	1.5968	1.6000	1.6000	1.6000	1.6800	1.6000	1.6800
EUR/TRY	2.1113	2.0960	2.0800	2.0800	2.2176	2.0800	2.1840
FX Basket	3.7081	3.6960	3.6800	3.6800	3.8976	3.6800	3.8640
EUR/US$	1.3222	1.3100	1.3000	1.3000	1.3200	1.3000	1.3000
O/N	9.75%	9.25%	9.00%	9.00%	11.00%	9.00%	13.50%
Benchmark Bond	12.20%	12.00%	12.00%	12.00%	15.00%	12.00%	14.50%

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