

# FORTIS BANK

## Macro Scope

16 - 22 November 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

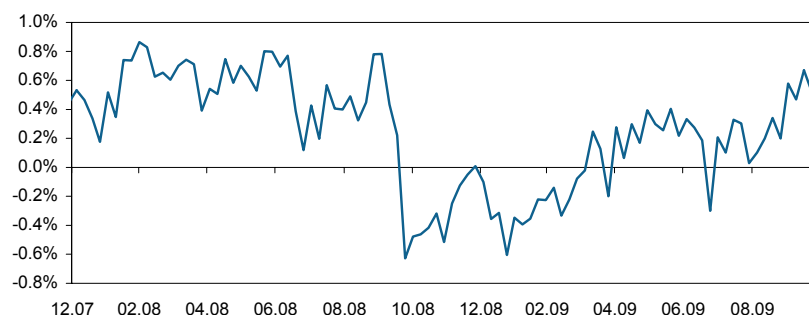
Nilufer Sezgin (Assistant Manager)  
Tel: +212 318 37 90  
Email: nilufer.s@fortis.com.tr

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

### Punching The Credit Crunch...

In our previous weekly *Macro Scope*, we said that there was not a dismal outlook to warrant a double dip scenario for the World economy and the economic recovery started in 1Q09 was still viable, presumably in the shape of a gradual and protracted U-type recovery. Besides the depth of the recession which took its root from the financial crisis, our view also incorporated the **'bottleneck in the credit channels,'** i.e. the significant widespread tightness in the credit conditions and the resulting decline in credit flow to the real sector. In the developed universe, the tightening in the credit standards started in mid-2007, amidst the sub-prime crisis, with the scale of tightness reaching its peak by end-2008. In the pre-crisis period, the credit volume had been expanding by 10% y/y on average both in the U.S. and Eurozone. However, as a result of tightening tendency in lending standards and the growing share of cash and bonds in banks' assets, U.S. credit volume shrank by around 8% by end-September, while it deteriorated in the Eurozone to a flat trend. Yet, despite the annual contraction in credit stock, **the flows, which are more important for the economic activity, started to increase as the credit standards started to be eased gradually from their tightest situation.** For example, the credit volume of Turkish banking system fell by 0.9% as of October 23<sup>rd</sup> vs. the same period of preceding year. On the other hand, from end-February onwards the weekly changes entered into the positive territory, in line with the timing of the economy's turnaround from the rock-bottom. The improvement in credit flows would play an important role for the strengthening of economic recovery. In that respect, the decline in the share of U.S. banks that tighten credit standards and the easing lending standards in the Eurozone are crucial findings from the banks loan surveys of Fed and ECB. **However, as we will analyze in detail in the following lines, Turkey displayed a contradictory picture, with the deceleration in tightening of credit conditions has been interrupted.**

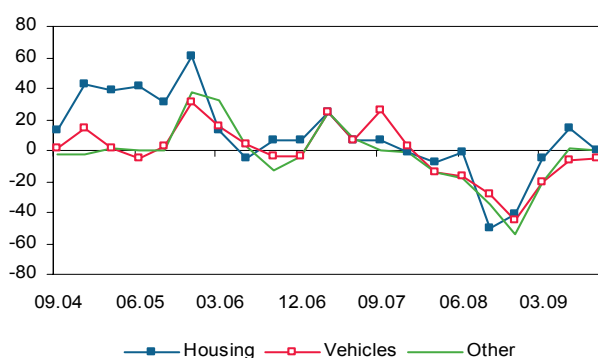
Change in Loan Size (\*) At Home (4 week average of the weekly changes)



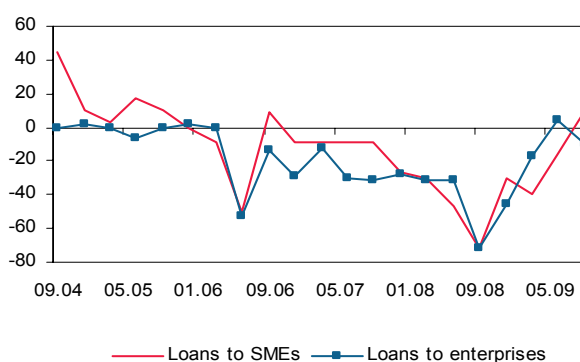
(\*) Sum of Deposit Banks, Development and Investment Banks and Consumer Finance Companies  
Source: CBRT, Fortis Economic Research and Strategy

The 3Q results of the Turkish Central Bank's Banks Loans Tendency Survey showed that the banks are inclined to tighten loan standards for all types of businesses, except for small and medium sized enterprises (SME). **The expectations regarding the general economic activity appeared as a major motivation** behind this tightening bias again, after its affect faded visibly in 2Q. Meanwhile, the industry or firm specific outlook appeared as another crucial factor that affected tightening. **On the other hand, the competition from other banks was the single incentive that pushed banks to ease standards.** Analyzing the conditions and terms for loans and credit lines, the price margin on the average loans appeared as the only factor that was eased, with **banks pinching the margin for the first time over the recent period. On the consumer loans front, there was not a single category that is set to enjoy looser standards.** While banks expect the conditions to remain unchanged for the housing and other consumer loans in the upcoming 3-month, they foresee some tightening in the conditions of the vehicle loans.

Expectations for Standards of Consumer Loans (\*)



Expectations for Standards of Loans to Enterprises (\*)



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

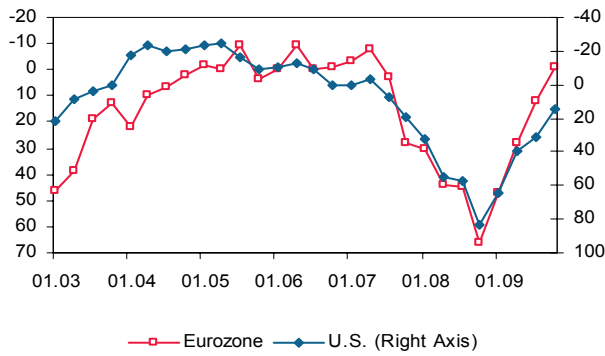
Source: CBT, Fortis Economic Research and Strategy

Not only banks' attitudes and limitations but also the real sector's credit demand is a determinant of the trends in credit volume. **Based on the results of Banks Loans Tendency Survey, the participants said that the enterprises' demand for loans and credit lines continued to expand over the last 3 months. Yet they anticipate demand declining in the upcoming 3-month**, with the loans being heavily diverted to short term structure. In the meantime, banks' financing needs appear to be mostly related to **debt restructuring, as well as inventory and working-capital rather than fixed investment.**

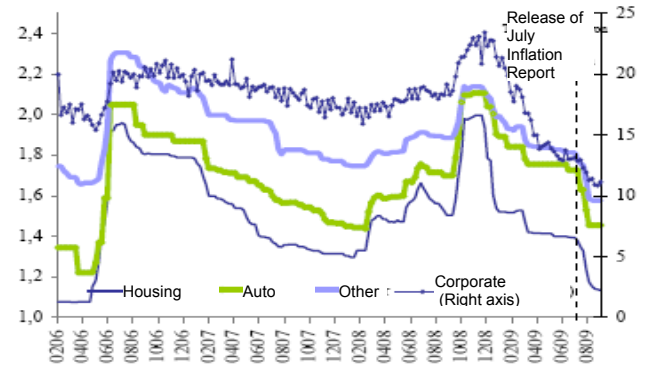
Even though there emerged a steep uptrend in bank loans and accordingly in their assets over the recent years, the depth of the Turkish financial system still falls short of several other countries at similar development level. The loans to the real sector climbed to 30% of GDP from 10% of GDP in 2003, yet this is still relatively low. Nevertheless, based on a Central Bank publication named "Company Accounts 2008," **the ratio of banks' loans to total assets reached 22.3%.** This ratio is higher for the big enterprises which have better access to loans and lower for the SMEs due to the trade receivables. **This picture suggests that the credit transmission mechanism have become more important in terms of the economic cycles, together with the monetary policy, as well as the intermediation role of the banks.** The Central Bank emphasized that there were positive developments in the credit markets in parallel to the interest rate cuts since November 2008 and improving global risk perception. The Bank underlined the recent marked decline in the consumer loan rates, which had been reacting rather sluggishly to the monetary policy decisions for a long time, as well as the stable uptrend in the housing loans since September. The Bank expects the recovery in the consumer loans to continue in 4Q09, yet stresses the ongoing tightness in the lending conditions for SMEs as a factor that partially limits the favorable effect of looser monetary conditions on the economic activity. This also appears as the reason behind the reduction in the TRY required reserve ratios. Accordingly, **if the credit standards for SMEs are**

eased in the upcoming 3-month as expected in the Banks Loans Tendency Survey, this may give some relief to the Central Bank about the economic activity. The credit standards for the SMEs would not be expected to be eased, while all the other loan standards are being tightened. However, in an environment of contracting profit margins, the banks probably think that working with SMEs is more profitable as they can charge higher prices to this segment. This may be a possible explanation.

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



Loan Rates (%) (\*\*)



(\*) The ratio of the participants expecting tighter standards in the following 3-month period

(\*\*) Monthly interest rate on consumer loans, yearly interest rates on business loans.

Source: CBRT, Fortis Economic Research and Strategy

All in all, the normalization of the global credit conditions towards their pre-crisis levels would be an important support for sustaining an uninterrupted economic recovery. However, Turkey fell short of this global tendency, hit by soured prospects for the economic activity and this may increase the risk to put Turkey in a lower ranking in the economic recovery competition. Even though the share of bank loans in the firms' balance sheets is still low, the advance in this share so far suggests that credit transmission mechanism have become more important in terms of the economic cycles, together with the monetary policy, as well as the intermediation role of the banks.

## Economic and Political Agenda

▪ The most critical event of this week will be the MPC meeting due Thursday. The majority of analysts expect the Bank to cut the rates by 25 bps. Meanwhile, the Treasury will issue discount bond due 08.12.2010 on Monday, benchmark bond and 5-year CPI linked bond on Tuesday ahead of Wednesday's TRY4.1bn redemption (TRY3.8bn portion to the market). Coming to the external arena, the markets will eye a loaded agenda this week. While the retail sales, inflation and housing data will be important in the U.S., BoJ rate decision will be monitored, as well.

### Data issuances at Home

Importance	Indicator	Unit	Date of issuance	Fortis (Consensus)
Medium	Unemployment, Aug.	%	Nov. 16 <sup>th</sup> , 8:00 GMT	-
Medium	TURKSTAT Consumer Conf., Oct.	-	Nov. 16 <sup>th</sup> , 8:00 GMT	-
High	Cent. Gov. Bud. PS, Oct.	TRY mn	Nov. 16 - 20 <sup>th</sup>	-
High	MPC Rate Decision	bps	Nov. 19 <sup>th</sup> , 17:00 GMT	-25 (-25)
Medium	Expectation Survey, Nov. II	-	Nov. 20 <sup>th</sup>	-

Importance	Country	Indicator	Unit	Date of Issuance	Consensus
Medium	U.S.	New York Fed Man. Index, Nov.	-	Nov. 16 <sup>th</sup> , 13:30 GMT	31.0
High	U.S.	Retail Sales Total & ex-auto, Oct.	%, m/m	Nov. 16 <sup>th</sup> , 13:30 GMT	0.8 & 0.4
Medium	U.S.	Core PPI and PPI, Oct.	%, m/m	Nov. 17 <sup>th</sup> , 13:30 GMT	0.1 & 0.4
High	U.S.	Capacity Use, Oct.	%	Nov. 17 <sup>th</sup> , 14:15 GMT	70.8
High	U.S.	Industrial Production, Oct.	%, m/m	Nov. 17 <sup>th</sup> , 14:15 GMT	0.4
High	U.S.	Building Permits, Oct.	mn	Nov. 18 <sup>th</sup> , 13:30 GMT	0.58
High	U.S.	Core CPI and CPI, Oct.	%, m/m	Nov. 18 <sup>th</sup> , 13:30 GMT	0.1 & 0.2
High	U.S.	Housing Starts, Oct.	mn	Nov. 18 <sup>th</sup> , 13:30 GMT	0.6
Medium	U.S.	Philadelphia Fed Mnf. Index, Nov.	-	Nov. 19 <sup>th</sup> , 15:00 GMT	12.5
Medium	Japan	BoJ Rate Decision	%	Nov. 20 <sup>th</sup>	no change

## Macro-Economic and Financial Forecasts

### Macro Economic Outlook of 2007-2010

	2008	2009f	2010f	2011f
GDP (TRY - bn)	950.1	973.5	1,066.7	1,179.7
GDP (US\$ - bn)	734.9	628.0	688.2	718.8
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	-37.6	-58.0	-63.8
Exports (FOB, excl. luggage trade)	132.0	101.3	126.2	122.9
Imports (CIF, incl. gold)	201.7	138.8	184.2	186.7
Current Account Balance (US\$ - bn)	-41.7	-14.4	-30.6	-33.9
Current Account Balance / GDP (%)	-5.7	-2.3	-4.4	-4.7

### Financial Indicators Forecasts

	Nov. 13 <sup>th</sup>	1M	3M	6M	12M	2009	2010
US\$/TRY	1.4705	1.4800	1.5200	1.5800	1.5600	1.4800	1.5600
EUR/TRY	2.1984	2.1850	2.2200	2.2800	2.2500	2.1850	2.2500
FX Basket	3.6689	3.6650	3.7400	3.8600	3.8100	3.6650	3.8100
EUR/US\$	1.4950	1.4750	1.4600	1.4400	1.4400	1.4750	1.4400
O/N	6.75%	6.50%	6.25%	6.25%	6.75%	6.25%	7.75%
Benchmark Bond	8.70%	9.00%	8.50%	8.50%	10.00%	8.70%	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		

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