

# TURKISH BULLETIN

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## ECONOMY & MARKET

### MARKETS

At Monday's close, market situation was:

O/N for ISE Repo market & TLR Interbank market		TRY/USD
6.75%		1.4903
Most actively traded T-Bills		
Date	Maturity	C/Rate
27/10/09	03/08/11	8.66%
ISE-100 index		ISE- 100 Ref \$
51,230		34,486

**Auctions** between 14<sup>th</sup> Oct. – 27<sup>th</sup> Oct. 09

Issue	Mat.	Bid TRL mn	Sales TRL mn	Net sales mn	Ann. Comp Yield

**Central Bank** cut the O/N borrowing rate by 50 bps from 7.25% to 6.75% and the lending rate from 9.75% to 9.25%. Total rate cut reached 10.0% since Nov. 08. The Bank pointed at the slower than expected economic rebound, the labor market weak conditions and the easing inflation outlook to justify cuts.

**Budget deficit** reached a level of TL40.8bn in Jan.-Sept09, from a deficit of TL4.8bn in Jan.-Sept08. The deficit widened to TL9.5bn in Sept09, remaining flat compared to a deficit of TL9.4bn in Sept08.

- In Sept09, revenues posted a 10%/y increase mainly thanks to the transfer of TL1.1bn from the "Unemployment Insurance Fund". Tax revenue remained flat in Sept09 but keeps a declining trend in Jan-Sept09 with a 7%/y contraction.

- Non-interest expenditures increased by 7%/y in Sept09 and by 15%/y in Jan-Sept09, mainly because of increasing health expenditures and transfers to municipalities.

**Central Gov't Debt** was recorded at a level of TL431bn in Sept09, up by TL6bn compared to Aug09 due to the increase in domestic debt stock. As the Treasury debt roll-over ratio was at 110% on average during the 9M09 period, current debt stock rose by 10% since Jan. 09.

**Private sector long term foreign debt** slightly declined to US\$132bn as of Aug09. Corporates repaid around US\$1.8bn in net debt, implying a roll-over ratio of to 47.5%, lowest level since Mar03. Remember that the stock was at the peak with USD145bn at the end of 3Q08.

**Unemployment** declined to 12.8% in July-Aug09 from 13.0% in June, on the back of favorable seasonal effects in agriculture and thanks to the Gov't stimulus package.

**Consumer Confidence** index rose by a slight 0.77%/m in Sept09 and remained in the 81.0-82.5 range since June (higher to the pre-crisis level).

**Business Confidence** index fell by 3.9%/m to 94.0 in Oct09, from 97.8 in Sept and from year's peak of 100.1 in July.

## POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

**EU Progress Report:** The European Commission published its annual progress reports on candidate countries which stated that Turkey needed to accelerate political and economic reforms, improve the rights of minorities, women and trade unions as well as normalizing relations with the Greek Cypriots. Meanwhile, the report urged the Gov't to treat media group Dogan Yayin fairly in a tax dispute as the issue may affect freedom of the press in the country.

**Budget 2010** was submitted to Parliament with an appropriation of TL287bn and planned Tax revenues of TL193.3bn in parallel with the figures released under the Medium-Term Program. The primary balance is projected to turn into a surplus of TL6.6bn next year, from this year's deficit of TL7.3bn. The overall deficit should go down from TL62.6bn in 09 to TL50.2bn in 2010 thanks to a gradual return to fiscal discipline and a likely economic rebound.

2010 draft budget projects privatization revenues to be around TL10.4bn.

**Credit Guarantee Fund:** the Treasury will provide TL1bn to the credit guarantee fund to support SMEs' borrowing from the banks. The fund is expected to cover 60% of the loans provided by the banks to the SMEs

**Lending Rules:** the "reserve requirement ratio" for TL liabilities was cut by the CBT to

5% from 6% in order to help credit conditions and money market liquidity.

**Withholding Tax on Bonds:** Constitutional Court called for equalizing the withholding tax application for local and foreign investors on bonds and stocks. There is no tax on stocks while bond income is subject to a 10% tax for local investors while non for foreign investors. The Gov't has 9 months to decide for new rates.

## SECTOR NEWS & PRIVATISATION

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**Steel:** total crude steel production fell by 2%/y/y to 2.1mn tons in Sep09 and by 14%/y/y to 19mn tons in 9M09.

**White Goods:** local sales rose by 8%/y/y and by 24%/m/m in Sept09 to 540K units, the highest figures since May06. Exports increased by 18%/y/y to 1.2mn units.

**Tourism:** arrivals rose by 5.2%/y/y to 3.14mn in Sep09 and by 1.5%/y/y to 21.8mn in 9M09.

**Electricity:** 5 bids were submitted for the privatization of the Coruh region electricity distribution company and 12 bids were submitted for each of the other two electricity grids (Osmangazi & Yesilirmak). Akenerji, together with CEZ, submitted bids for the 3 electricity grids.

**Power:** Unit Investment (Uni-Mar's sponsor) has secured an 11-year & US\$47mn loan from the Turkish Industrial Development Bank (TSKB) to finance a 50MW hydro-electric power plant project in Erzincan province.

- EIB will provide a loan of €300mn to the Treasury to be used in the renewable energy sector. The credit line is expected to be disbursed by the end of 2009.

- Construction & Energy Company Ağaoğlu Group has bought the Italian-Dutch wind-farm operator Galata Wind for US\$500mn. The Group aims to operate 1,000MW in wind farms by 2015.

**Power Privatization:** Supreme Privatization Board decided to complete the privatization tenders of 56 hydroelectric power plants by 31/12/2010 through transfer of operating rights. Installed capacities range from 0.0624MW to 51.2MW for a total capacity of 148MW.

**Ports Privatization:** as the Council of State approved the sale of Izmir Port to the Global-Hutchison-Aegean Exporters consortium, the group is preparing to ask for a postponement of the 45-day deadline under which it had to provide its final approval for the purchase.

## COMPANY NEWS

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**Dogan Holding:** administrative Tax court disapproved one of the Company's appeals for a stay of execution regarding the TL4.8bn collateral request.

- The tax authority removed the preliminary injunction on bank accounts regarding the TL915mn tax fine. However, preliminary injunction on Dogan TV's, Hürriyet's, Dogan Gazete's and Dobur's shares and on "Kanal D" and "Star" trademarks continues.

- The group announced it might take a new partner into its media business, or sell some of its assets or exchange its subsidiaries' shares. OMV stated in the meantime that they will

observe the situation before increasing their stake in Petrol Ofisi as Dogan has problems with tax authorities.

**Koç Holding** announced that it is studying oil exploration and production opportunities in Russia and Kazakhstan with local partners.

**TAV Holding** will sell for €180mn its Havas shares to a new venture in which it will have a 65% stake with HSBC Investment Bank (28.3%) and IS Private Equity (6.67%). The new partners will commit €120mn to the new

venture and will borrow €60mn to complete the acquisition.

**Turk Telecom's** net income for 3Q09 amounts to TL548mn, which represents a 16%/y/y decline. Total revenues increased by 2%/y/y to TL2.67bn but EBITDA went down by 9.2%/y/y to TL1.15bn. For the 9M09 period, net income declined by 18.5% y/y to TL1.37bn, while EBITDA slightly declined by 5%/y/y to TL3.32bn.

- EBITDA margin was recorded at a level of 43% in 3Q09, down from 48% in 3Q08 but higher than in 2Q09 with 40%.

- Mobile business contribution represented 1% of total EBITDA whereas it accounted for 23% of total revenues in 3Q09. Its 1.6% Ebitda margin is mainly due to the severe competition in the mobile sector which put pressure on operating margins. Avea's subscribers declined by 2.4%/q/q to 12.1mn.

**Turkcell:** Information and Communication Technologies Agency (ICTA) has opened an

investigation to determine whether the Company had charged subscribers more than the regulatory ceiling of 0.64TL/min.

- The tax authority has asked Turkcell to put up TL258mn in collateral for a tax issue. The Company is indeed suspected to have avoided since 05 the payment of VAT and special communication taxes for charges due to international GSM operators for roaming calls initiated by subscribers abroad.

**Turkish Airlines** number of passengers increased by 15.8%/y/y to 2.32mn and RPK (Revenues per passenger and km) increased by 6.6%/y/y in Sept09. Year-to-date total passenger traffic improved by 10.1%/y/y and RPK rose by 14.2% in 9M09.

**Unit Group**, which aim is to own and operate a total capacity of 3,000 MW by 2013 in renewable and thermal power plants, plans to establish a holding company for energy investments, the shares of which will be subject to an initial public offering by 2011 or 2012.