

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
13%		1.6343
Most actively traded T-Bills		
Date	Maturity	C/Rate
13/01/09	03/11/10	15.08%
IE-100 index		ISE- 100 Ref \$
25.970		16.06

Auctions: Treasury rollover ratio reached 96.6% with the below auctions:

Issue	Mat.	Bid TRL mn	Sales TRL mn	Net sales	Avr Comp Yield
13.01.09	03.11.10	2.777	1.796	1.370	16.22%
13.01.09	20.11.13	771	515	547	4.93%

Budget Results In Dec. 08, the budget posted a deficit of TRL8.8bn (US\$5.8bn), and a primary deficit of TRL6.9bn (US\$4.5bn). 2008 year-end budget posted a primary surplus of TRL33.6bn (US\$26bn, corresponding 3.5% of GDP), while budget deficit came in at TRL17bn (US\$13.1bn, corresponding 2% of GDP). Declining tax receipts with slow down in economic activity and expenditures on regional development and transportation projects were the main reasons behind the deterioration.

Current Account Balance in Nov posted a deficit of US\$559mn bringing year-to-date deficit to US\$38.9bn. 12-month rolling deficit declined to US\$44.1bn. Nov. net outflows in portfolio account reached US\$900mn. Year-to-date portfolio outflows reached US\$4.9bn. Banks repaid (net) US\$2.5bn of external debt while non-banks remained as net long-term borrowers with US\$55mn of net borrowing.

Long term foreign debt stock fell to US\$137bn from Oct level of US\$139bn. US\$96.4bn stems from non-financial private sector while the rest is held by financial sector.

Central Gov't gross outstanding debt stock reached TRL380bn (40% of GDP) as of Dec due to the lira depreciation of around 30%

since August. 72.3% of this is domestic debt and remaining 27.7% external debt. Portion of TRL denominated debt stands at 66.2%, down from previous year's figure at 68.7%.

Monetary Policy Committee (MPC) announced a 200bp rate cut bringing O/N borrowing and lending rates down to 13.00% and 15.50% from 15.00% and 17.50%, stating that proactive measures were needed to diminish the negative effects of the tight liquidity condition and that uncertainty regarding the impact of the problems in financial markets on the real economy remain at high levels.

Central Bank revised down the 2009 year-end inflation forecast range from 6.1% - 9.1% (midpoint 7.6%) to 5.4%-8.2% (6.8%) due to declining energy prices and restrained demand conditions. Based of CB's statements:

- There will be no major change in fiscal policy, other than declining tax revenues due to slow down in economic activity, thus contribution of public spending to GDP will be limited.
- Necessary measures shall be taken if adverse effects of the problems in global financial markets on the domestic markets intensified such as increasing transaction limits of FX depos, reducing FX requirement ratios, resuming FX sell auctions.

Treasury is considering issuing non-interest bonds linked to revenues in four state enterprises; oil company TPAO, the state stationary office DMO, the government-run airports authority DHMI and the coast safety authority KIYEM, as it seeks to diversify its borrowing. New borrowing method would be "based on revenue certificates."

Capacity Usage Rate (CUR) plunged to 64.7% from 81.1% same month last year. Private sector fell to 65.2% from 79.7% and public sector to 61.6% from 90.5%.

Unemployment rate in Sept.-Nov period, climbed to 10.9% from 9.7% last year. Non-

agriculture unemployment rate posted an increase to 14% from 12.3%.

Fitch affirmed Turkey's long-term foreign currency credit rating BB(-), reiterated its credit rating outlook as "stable". Fitch expects Turkey's GDP to contract by 0.5% in 2009 from a growth of 1.8% last year, and C/A deficits to shrink to US\$23bn by end of 2009 from US\$43bn in 2008.

Moody's announced no change for Turkey's sovereign outlook over the next 12 to 18

months and reiterated that external financing remains vulnerable despite the continual improvement in C/A deficits. It expects the Turkish economy to contract by 0.8% this year vs. a 1.8% growth last year, CPI to decline to 7.0% by end of 2009 vs. the CBT target of 7.5%, and C/A deficit to shrink to 2.3% of GDP this year from the estimated 5.5% of GDP.

ISE (Istanbul Stock Exchange) and the Athens Stock Exchange are on the verge of establishing a joint index to attract investors.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

Turkey signalled it might withhold support from the Nabucco gas pipeline, a project viewed as central to Europe's drive for energy security, unless the EU unblocked the energy section of Turkey's EU membership talks.

Gov't will allocate TRL15.9bn this year to support Turkey's supply and demand balances, through a) investments in South-eastern Anatolia (TRL3.8bn), b) 5bp cut for social security premiums (TRL4.7bn), c) transfers to local administrations (TRL3.8bn), d) an additional Treasury guarantee for the external borrowing of public institutions (TRL1.0bn), and e) salary hikes for public sector employees (TRL2.5bn).

Population grew around 1.3% to 71.5mn in 2008 according to the figures released by Turksat.

BRSA: Amendments for banks to allocate provisioning for their different type of loan risk groups. 1% for standard cash loans, 0.2% for non-cash loans, 2% for cash loans under close monitoring, 0.4% for non-cash loans under close monitoring

IMF new Letter-of-Intent likely to be signed before the local elections and the loan facility is expected to be in the region of US\$15-25bn. 2009 external financing need is US\$30bn under the assumption of a 75% roll-over rate. Negotiations are continuing on macroeconomic targets (possible revisions) and fiscal policies.

SECTOR NEWS & PRIVATISATION

Eximbank will provide US\$ 12.9 billion to exporters comprising US\$ 6.9 billion cash credit and US\$ 6 billion of insurance in 2009.

Energy The tender to build a nuclear power plant in Mersin-Akkuyu is expected to be cancelled due to the high price offered by the AtomstroyExport – Inter Rao – Park Teknik consortium.

Energy market deal value in 2008 was US\$6.6bn (19 deals) with electricity and gas distribution companies in Ankara and the electricity distribution company in Sakarya as the top. Privatization of the gas distribution company in Istanbul, IGDAS scheduled for after elections. Shares of IZGAS (Izmit Gas Company) were transferred to Gaz de France

for US\$232mn. GDF will pay the US\$317mn debts of the company.

White Goods - Domestic sales of white goods sales decreased by 30.8% y/y and 32.1% m/m in Dec. 3.5% decline y/y in 2008 in cumulative terms.

Exports decreased by 14% y/y in Dec, brought lower by weakening. In cumulative terms, exports increased by 0.7% during the full year.

Production: Production declined by 19% y/y to 790,000 units, the lowest figure since January2005.

Telecom Special Communication Tax (SCT) on fixed and mobile internet will be cut to 5%

from 15% and 25% respectively.

COMPANY NEWS

Israeli Bank Hapoalim which owns an investment bank in Turkey without any deposit collection licence is to acquire Bank Pozitif from Millenium Bank..

Alarko Holding signed an agreement with Dogus Holding, Fina Holding and OPAP S.A. to enter the National Lottery Privatization Tender.

Turkish Airlines passenger traffic increased by 14.4% y/y in Dec and business passenger traffic grew by 23.2% y/y in 2008. Revenue pax (passenger-kms) increased by 12.1% y/y in Dec. after a 13.0% y/y growth in Jan-Nov period.

Turkcell submitted a non-binding offer for Cosmofon, the Macedonian mobile operator, estimated to be worth between €250mn and €300mn and owned 100% by OTE Group of Greece with 663K subscribers. Turk Telekom had also submitted an unbinding offer in Dec.

POAS applied for tax arbitration to the Min. of Finance for TRL42.9mn (US\$26mn) tax penalty after tax authority had notified TRL12.8mn (US\$7.8mn) extra tax liability and TRL30.1mn (US\$18.2mn) tax penalty to for its practices in 2003.

Aygaz refinanced its debt with a due date of Jan 26, 2009 via a portion of the loan (US\$80mn at an interest rate of Libor +2.5% and €53mn at an interest rate of Euribor +4.5%), provided by Koc Holding.

Tekfen Holding announced that closing of the deal for its construction arm, signed with Azerbaijan's state oil company Socar, has been delayed to September due to the global financial crisis. In Sept. 08, Tekfen Holding agreed with Socar to sell 50% of its construction company for US\$ 520 million.

Socar & Turcas Energy a 25% participation of Turcas, decided to suspend the Ceyhan Refinery and prioritize the Petkim Raw Material Refinery Project in Aliaga due to the

importance of meeting Petkim's raw material demand.

Sabancı Holding energy group Enerjisa Electricity Distribution Company capital increased by US\$700mn to TRL1,015mn with US\$343mn cash injection by Sabancı Holding for the financing of the takeover of Baskent Electricity Distribution Company (BEDAS). The consortium formed by Sabancı Holding (49%), Verbund (49%) and Enerjisa (2%) had won the tender for BEDAS for US\$1,225mn.

Arkas Holding, a leading shipping and transport company, has signed partnership agreement to become the agency of one of the top Taiwanese shipping firms, Yang Ming Marine

Turk Telekom - 17.5mn PSTN (Public Switched Telephone Network) subscribers at the end of 2008, marking a ~3.8% y/y decline, is planning to spend US\$768mn in the fixed-line unit this year and will need to make a payment of €252mn (US\$334mn), including taxes, to the Gov't after its unit, Avea, won a license to operate a 3G network in Nov. Avea gained 106K subscribers in Nov and Dec vs. its subscriber base of 11.7mn with number portability.

Japan International Tobacco Turkish subsidiary plans to invest US\$200 million between 2009 and 2011.

TAV and Skonto Buve consortium submitted a bid for the infrastructure development and the operation of Riga Airport (Lithuania) tender.

- IDB Infrastructure fund (Bahrain based private investment vehicle affiliated to the Islamic Development Bank), holding a 4.92% stake in TAV, registered TAV shares to the Central Registry Agency with a nominal value of TL 11.9mn and a sale term of 99 years.

Sources: Anadolu Agency, Turkish Daily News, Merrill Lynch, Bender, Garanti Bank, Detay, MEED, DİE, Undersecretary of Treasury, CBRT, Yapı Kredi Yatırım, Finansın vest, Hürriyet, Sabah, Radikal, Akşam, Financial Times, TEB Yatırım, Cumhuriyet.