

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%		1.6129
Most actively traded T-Bills		
Date	Maturity	C/Rate
03/02/09	03/11/10	15.11%
IE-100 index		ISE- 100 Ref \$
27.040		16.8

Auctions of the last 2 weeks:

Issue	Mat.	Bid TRL mn	Sales TRL mn	Net sales	Avr Comp Yield
02.02.09	03.03.10	3.754	2.622	2.260	14.78%
03.02.09	03.11.10	4.078	2.623	2.045	15.38%
03.02.09	20.11.13	3.853	3.460	3.716	4.92%

Additionally, Treasury sold TL420.7mn (US\$257mn) in lira-denominated bonds and a US\$49.1mn in dollar bonds on 28.01.2009. Turkey's first sale of debt that avoids interest payments as the bonds, with maturity of 3 yrs, are indexed to the revenue of several state-owned companies (i.e. Turkish Petroleum Corporation, State Airport Authority), designed to attract Gulf-area investment. Capital Markets Board is also working on new regulations to allow a public offering of bonds linked to revenue from the metro in Istanbul.

- Treasury plans to redeem TL23bn (US\$14.4bn) in February, TL21bn (US\$13bn) of which will be to the market. Domestic borrowing shall be approx. TL19.5bn (US\$12.2bn) vs. TL23bn debt payment, implying a roll-over ratio of 85%. Based on the Treasury's financing program, the Gov't budget is planned to post a primary deficit of TL3.0bn as the Treasury assumes some of tax receipts (totaling TL3.3bn) to delay to early March.

Trade Balance contracted 44% y/y in Dec. to US\$3.6bn. Jan-Dec08 trade deficit reached US\$69.8bn, with 11% y/y increase. December export/import coverage ratio declined to 68% after November's record level of 78%.

Exports declined by 27.9% in Jan to US\$7bn. Despite TL weakness, exports expected to suffer from weakness in economic activity in Turkey's trade partners. Turkey's current exports add up to US\$130bn and current imports US\$210bn.

Industrial Production declined 17.6% y/y in Dec08, headed by -34% refined petroleum, --52% automotive, -23% textile sector figures.

Capacity Utilization (CU) in Jan at all time low at 64%. CU was 80% in the same month of 2008. Private sector CU came in at 63%, retreating to 94 and 01 crises levels.

Cash Budget posted TL1.8bn primary surplus in Jan, cash balance was down with TL1.9bn vs. last year's TL1.2bn. Revenues posted 9% y/y decline at TRL16.3bn and expenditures grew to TRL18.2bn (10% Y/Y real increase) mainly due to real increase of 17% in non-interest expenditures. Treasury's 2009 year-end primary surplus target is around TL28.5bn.

Inflation Consumer prices surged by 0.29% in Jan, bringing annual CPI to 9.5% from 10.06%. PPI posted 0.23% monthly increase, bringing annual PPI to 7.90% from 8.11%. Food prices (1.46%) and transport prices (0.87%) contributed 0.52% to headline inflation.

CPI Index Turkish Institute of Statistics changed sector weights in CPI and introduced new contents for consumer prices; housing and rent, home maintenance, transportation and communication components were raised and health, entertainment, culture, restaurant, hotels, food and beverages, clothing were reduced. The impact of service prices on the headline CPI will increase, whilst seasonality will affect less.

Tourism revenues rose by 15.2% to US\$4.45bn in Q408, thus reaching US\$21.9bn in 2008 vs. US\$18.49bn in 2007.

Corporate sector net FX deficit reached US\$86.1bn by end of Q308 vs. US\$82.7bn in Q208, increasing by an additional US\$3.4bn despite the global credit crisis.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

IMF Deal- PM stated Turkey would pay back the US\$8bn existing debt to the IMF, in case of no fresh stand-by agreement.

Fitch's Head of Emerging European Sovereigns stated IMF deal would be supportive of the credit rating but not necessarily essential, adding that if the deal fails, Turkey might be able to find other means of financing and such a failure will not be enough for a downgrade in country's credit rating.

IMF downgraded Turkey's growth forecasts expecting Turkey to contract by 1.5% in 2009. Gov't is still insistent on its official 2009 growth forecasts at 4%. For 2008 and 2010,

IMF's growth forecasts are at 1% and 3.5%, respectively.

EU Chief Negotiator post formerly held by Foreign Minister Ali Babacan was transferred to Egemen Bagis, PM's adviser on foreign affairs. The EU opened two new chapters in Dec.2008, bringing the total number of chapters opened to 10, of which 1 has been completed.

Davos Forum PM Erdogan stormed out of a heated debate on the Gaza war with Israel's President Shimon Peres. He later stated that his reaction targeted the moderator who, he said, did not give him floor to speak. Relations between the two countries have been strained.

SECTOR NEWS & PRIVATISATION

Banking - Central Bank granted banks the option to use short term loans to enhance liquidity. Banks will have the opportunity to borrow from the CB up to twice their shareholders' equity, against collateral meeting CB's current requirements, at a maturity ranging from 1 month to a maximum of 1 year and at the cost specified by the CB for interbank intraday lending.

Energy - Botas, the state's oil pipeline corporation, decreased natural gas tariffs for industrial consumers by 18% effective as of February.

Fines imposed by EMRA in 06 for fuel distribution companies due to sales made by their unlicensed gas stations could decline to 1/10th of the original figure following a verdict of Council of State issued for one company. Only a general fine for each fuel distribution company shall be imposed without considering the number of unlicensed gas stations. Fines were TL600mn for POAS, TL113mn for Turcas and TL200mn for Opet, which is a 40% subsidiary of Tupras.

Electricity demand contracted by 6.5% y/y in Jan'09 and is forecasted as 207bn kWh for the year. 2008 demand was 198bn kWh. Demand contracted by 8.8% y/y in Feb'09 first 9 days.

Nuclear Turkish-Russian joint venture Atomstroyexport-Inter Rao UES JSC-Park Teknik submitted a new offer, much lower than its bid of 21.16 cents per kWh to TETAS, envisaging 15 cents per kWh, gradually decreasing to 13 cents. Since this offer was submitted in the form of an independent application separate to the tender process, TETAS is now contemplating the possibility of accepting it.

Automotive exports declined m/m by 56% to hit a 3-year low of US\$882mn in January. Sales of Light Vehicle fell by 37.8% y/y to 19,606 units after recording a 53% y/y plunge in the last quarter of 2008. Main producers have suspended production temporarily. A package to be introduced to help car companies such as tax breaks for buyers who exchange old cars that would otherwise be scrapped.

Telecom The bill to reduce the rate of Special Consumption Tax (SCT) on broadband internet from 15% to 5% and on mobile

internet from 25% to 5% has been referred to parliament.

COMPANY NEWS

TEB reported a net profit of TL10mn in its 4Q08 BRSA bank-only financials statements, recording RoAE of 2.7%. Net profit for 2008 stood at TL164mn, marking a 12-m RoAE of 14.4%.

Enerjisa Electricity Distribution Company, a 49/49 JV between Sabanci Holding and Verbund finalized the acquisition process of Baskent Electricity. Enerjisa paid half of the total US\$1,225mn upfront and will pay the 25% of the total US\$1,225mn (US\$306.2mn) within one year and the remaining US\$306.2mn within 2-years.

Turk Telekom to acquire up to US\$1.0bn in new assets in 2009. The only visible acquisition target is Cosmofon of Macedonia at this stage, with speculated value between €250-300mn. TT seeks acquisition opportunities in the region. TT's Mobile company Avea's market share has reached 19% vs. 17.9% in Sept08.

Vodafone Turkey lost 643K subscribers in Q408, subscribers were caught by Turkcell and Avea.

Turkcell added 650K subscribers in Q408, reaching 37.0mn. 43% of net additions are postpaid subscribers.

POAS to purchase a 26.75% stake of the 36.75% shares of the US-based Toreador (in the natural gas production in Akcakoca) for US\$55mn, lower than the initially conveyed price of \$80.25mn. US\$50mn shall be paid following the approval of the transaction by the remaining shareholders of the project and US\$5mn on Sept 1st, 2009.

Lukoil plans to make a US\$400mn investment in to develop their oil network in Turkey and raise their market share to 10%. Lukoil had purchased Turkey's Akpet oil company in July 2008. Gazprom has promised to supply Lukoil with natural gas for transportation and distribution to Turkey.

Ipragaz, a Turkish LPG distributor and M Oil, the eighth largest chain of petroleum stations in Turkey, have signed a cooperation agreement. M Oil will distribute Ipragaz's LPG autogas in its 400 stations in Turkey, currently the largest LPG market in Europe.

Turcas EMRA approved the 49 year electricity production license application submitted by E.ON and Turcas South to build an 800MW capacity natural gas fired electricity power station in Denizli. Turcas' subsidiary, Turcas Elektrik Uretim, holds a 30% stake in Turcas South Construction. Work is expected to start in 1H09.

India's GMR Infrastructure Ltd is in talks with Turkish companies to build a natural gas-fired power station with a capacity of 1000 MW plant. GMR may join a current project or start from scratch.

Akkok Group's Ak Enerji, to invest US\$500mn-1bn in energy projects, incl. a large natural-gas fired power plant and carbon fibre in addition to their eight hydroelectric power plants and one wind-fired plant. Seeks partner with crude oil resources with which to develop fibre-production.

- Secured a US\$68.4mn loan with a one-year maturity at an interest rate of 6.125% from Akkok Sanayi Yatirim, a participation of Akkok Group, related with its participation in the capital increase of Akcez (the consortium between Akenerji and the Czech Republic based CEZ A.S.) in line with its stake (TL112.4mn).

- Sakarya electricity grid (SEDAS) will be transferred to a/m JV for US\$600mn. Half of the amount will be paid in advance, the rest two installments with an interest rate of Libor+2.5%.

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