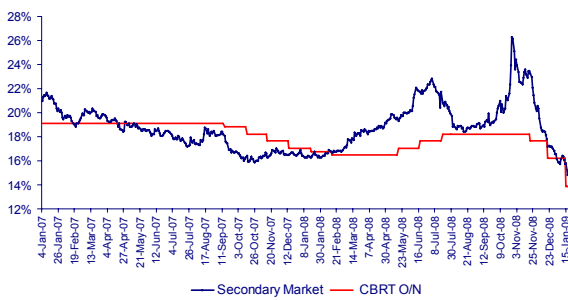


Turkey Weekly Macro Comment

20 January 2009

Bond Rates vs O/N

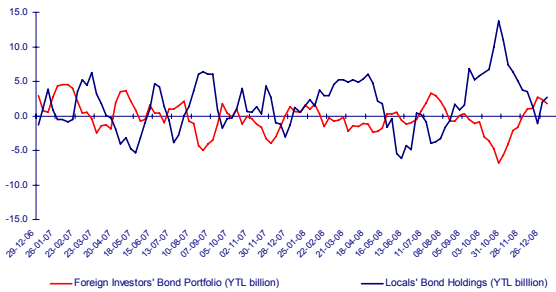


Source: Central Bank of Turkey, Yapı Kredi

Why Not Fix It If It's Broke?

- *Amidst all this chaos, Turkey has started suffering the impact through trade and finance channels.*
- *Given the outlook above and hardly any prospect for a short-term relief provider, it is difficult to understand why the Government is dragging its feet to complete a stand-by program with the IMF.*

Domestic & Foreign Bond Portfolios (4W change)



Source: Central Bank of Turkey, Yapı Kredi

- *There seems to be a deliberate choice of “proximity to the rest of the system” for a while or for good on a number of issues on the part of the AKP, and they seem to be defining their difference over Ergenekon, and as of late over the incidents in Gazze.*
- *Contraction rate seems to be coming down on the consumer credits front, and we may have bottomed with respect to the growth/contraction rate.*
- *Residents seem to have made the right moves at the expense of non-residents for the first time in Turkey's rich history of turbulences.*

Cevdet Akçay

Chief Economist, Yapı Kredi Bank & Yapı Kredi Yatırım

Tel: +90 212 339 6581 cevdet.akcay@yapikredi.com.tr

1.1 General Outlook

One could justify the Government's borderline lackadaisical approach towards the IMF by the well known and much used saying "why fix it if it ain't broke" if indeed it were not broke. Markets do not seem to be improving much anywhere if at all, Obama impetus is not likely to bring instant rejuvenation to the US economy and he plays it very safe by confessing that things will get worse before they get better, and Europe seems to be struggling big time as well both with respect to financial system and real economy. **Amidst all this chaos, Turkey has started suffering the impact through trade and finance channels.** Export volume plunged in September and has retained its course since then and that despite truly commendable efforts of exporters to diversify the market composition. Industrial production is staggering, December yoy growth is likely to come in double digits and in negative territory, needless to say, and capacity utilization has shrunk significantly in December and seemingly due to reasons not contemplated by producers a month ago.

Turkey has a number of advantages, relatively speaking, such as absence of financial deepening and sophistication, low leverage on the part of households, etc. Yet the infamous external debt of the non-bank corporate sector is perceived as a serious threat and will continue to be perceived as such until borrowing conditions turn benign who knows when. Balance of payments figures displayed a sharp reduction in external borrowing by non-banks from an average of roughly USD 2.6 billion in the first nine months to USD 623 million in October and to USD 387 million in November. Banking sector turned into a net re-payer in November with a hefty USD 2.5 billion, lowering the year to date external borrowing figure to a mere USD 5.4 billion. It may not be a coincidence that the net errors and omissions figure concurrently surged to USD 7.6 billion in October and had another strong showing in October with USD 2.2 billion.

Given the outlook above and hardly any prospect for a short-term relief provider, it is difficult to understand why the Government is dragging its feet to complete a stand-by program with the IMF. Hopes were high for a while that the IMF team would have terminated the mission with a draft letter of intent to be taken to the Board, but press releases clearly state that negotiations would continue for a while. That served as an element of disappointment to most market watchers, and PM Erdogan released another perfunctory/dysfunctional/blurred statement and claimed that we were one step closer to finalization or something to that effect.

A clear framework that defines the boundaries of fiscal and monetary policy for these turbulent times would indeed serve as a serious guide for the Government that has been subject to all kinds of pressures coming from all kinds of groups/lobbies. It is not stretching it too much to assume that erratic behaviour, inconsistent policy mixes, and unpredictability become very possible in the absence of a guide particularly during testing times. There are possibly some discrepancies between the two sides, and presumably regarding the size of the fiscal adjustment and maybe its timing as well. The Government may well be thinking that having its hands free as long as possible until the election at the end of March is an optimal strategy (an agreement after the election could be a dream case scenario for the Government, but the Fund should be vehemently against such contemplations), but I would beg to differ. Indeed, as I had emphasized so many times in previous reports, the only channel the Government has full control over is the expectations channel with trade and finance channels being mostly exogenously determined. An IMF agreement would serve as a serious cushion against highly probable external financing problems, but the Government possibly considered another stand-by as bad PR policy right

before an election. I am of the contention that it would indeed have been good and prudent PR policy as Turkish public is ripe for proper policy implementation that is transparent and tactfully communicated to them. Moreover, all categorical and insistent objections would have mellowed by election time and the AKP could have displayed once again its difference from the rest of the political system, which, I believe, is what makes them appealing to a significant portion of its constituency.

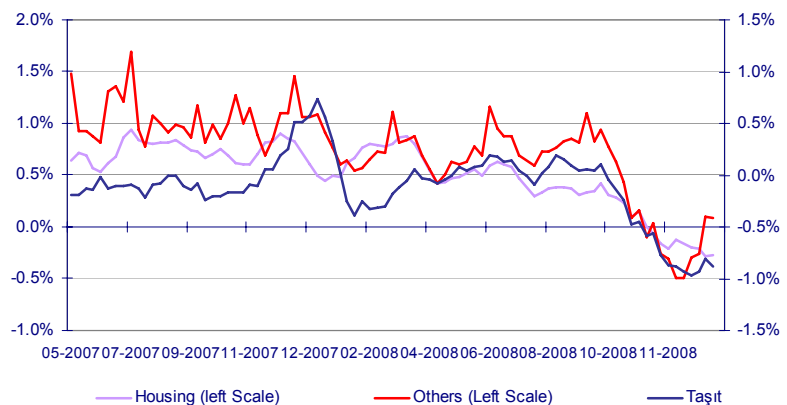
There seems to be a deliberate choice of “proximity to the rest of the system” for a while or for good on a number of issues on the part of the AKP, and they seem to be defining their difference over Ergenekon, and as of late over the incidents in Gazze. The first I totally agree on and the latter may have some external affairs complications but I do not believe they would prove to be unmanageable. I only believe that they ended up with a sub-optimal policy with respect to expectation and sentiment management. They may indeed be trying to maximize their return under very conservative safety constraints. My take is that their safety perception was a bit flawed; when properly communicated to the public, their policies are indeed much safer than they think.

Prof. Nouriel Ruubini was Yapi Kredi’s guest on January 19, Monday, and he presented a global outlook picture that was not very inspiring as expected. No one can remain insulated from what is taking place in markets today was his main message and he expects things to get worse before we see some discernible improvement in major indicators in credit, real estate, and labor markets. His take on Turkey is that it is a country with significant advantages that will play to her strength in the medium term but that certain short term risks are there and are to be reckoned with. An IMF deal is a most natural solution for Turkey according to Prof. Roubini, and his contention is that it should have been put into effect as early as possible.

1.2 Weekly Data

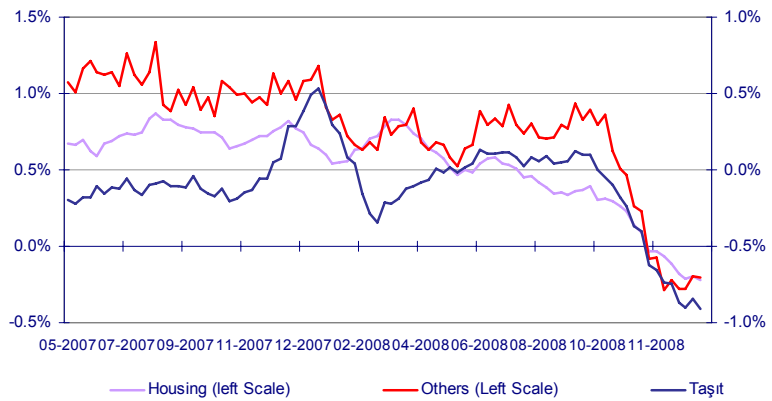
As our Weekly was released with a delay last week, all data worth covering was covered and we only have weekly data pertaining to the week of January 9. **Contraction rate seems to be coming down on the consumer credits front, and we may have bottomed with respect to the growth/contraction rate.** 4-week moving average growth chart below clearly depicts the suggestion, but we have to wait for a number of weeks to have a more definitive diagnosis.

Figure 1. Consumer Credit Volume (*)



Source: Central Bank of Turkey, Yapi Kredi
 (*)Weekly % change of 4W moving average

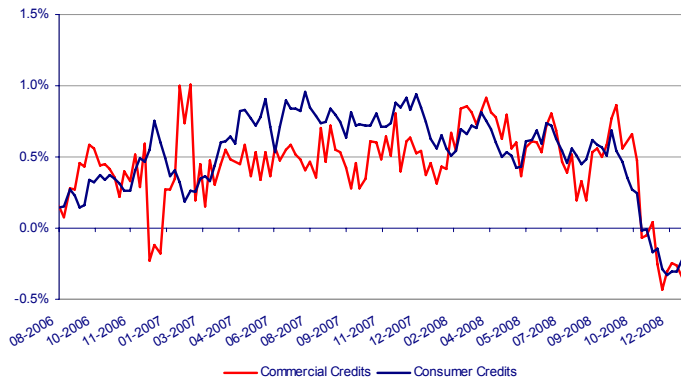
Figure 2. Consumer Credit Volume (*)



Source: Central Bank of Turkey, Yapı Kredi
 (*)Weekly % change of 8W moving average

Commercial credits continue to come down steadily and while week on week moving average chart depicts an attempt to move into positive territory, the fate here is uncertain at best given banks' increasing reluctance to extend credit to the real sector in the face of dismal growth outlook and no credible buffer or insurance system at the moment.

Figure 3. Commercial & Consumer Credit Volume (*)



Source: Central Bank of Turkey, Yapı Kredi
 (*)Weekly % change of 6W moving average

FX deposits registered bulky moves as of late, a reduction of USD 17 billion in the October-November period followed by an increase of USD 7.6 billion as of November 28. The reduction in non-resident bond portfolio seems to be matched almost one to one by the increase in non-banks' and mutual funds' portfolios in the September-January period, and **residents seem to have made the right moves at the expense of non-residents for the first time in Turkey's rich history of turbulences.**

1.3 Markets

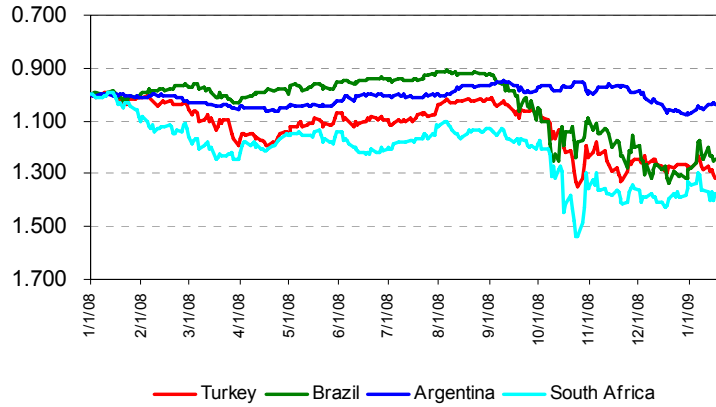
Obama is taking office and there is hope for a better global sentiment albeit with no discernible tangible back-up. The cleansing process in the financial sector in the US is likely to continue and that should have some adverse impact before medium term gains are taken into account and priced accordingly. Growth forecasts are probably going to be revised downwards globally, and that could worsen the trade and finance channel impacts on Turkish growth for the upcoming period. Time to get your act together and use all cushions you can afford to access to make the landing smoother. That is all that the Government has to focus on at the moment, but the pace of efforts to serve that cause has not been very promising so far.

Benchmark rates are around 15% levels at the moment, having come down significantly following the latest policy rate cut and thus rendering it credible at least for the time being. Some profit taken has taken place, but the signaling from the Central Bank that cuts could continue prevents further increases in the benchmark rate. Stock market is under pressure as is any equity market on earth at the moment, and so is the exchange rate due to sell off tendency. Do not expect any change in any of these indicators barring any pleasant domestic or global positive shocks.

1.4 Appendix

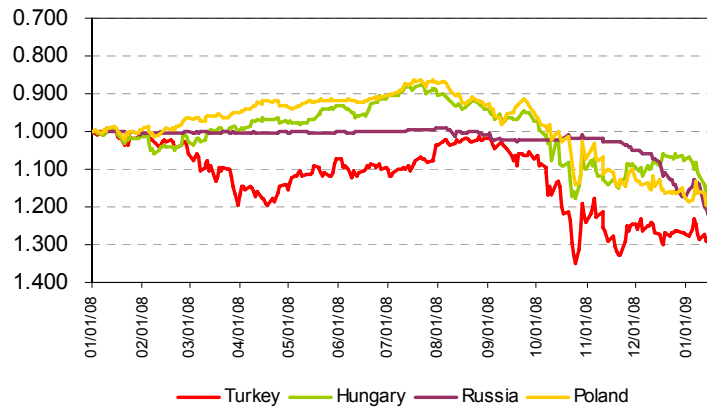
Currency Performances

Figure 4. Turkey, South Africa, Latin America 1/Jan/2008=1.00 (*)



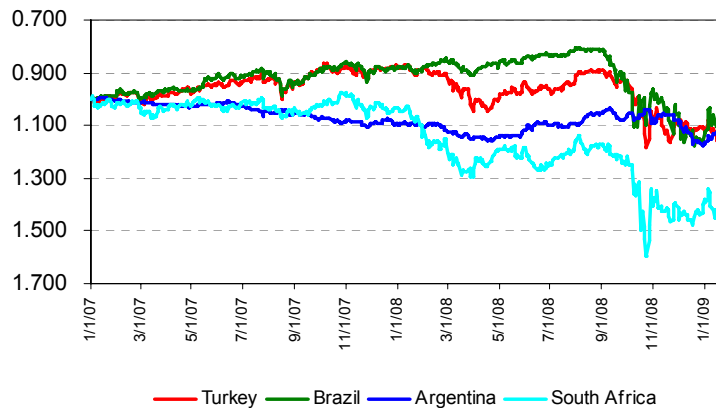
Source: Reuters, Yapı Kredi

Figure 5. Turkey, Eastern Europe 1/Jan/2008=1.00 (*)



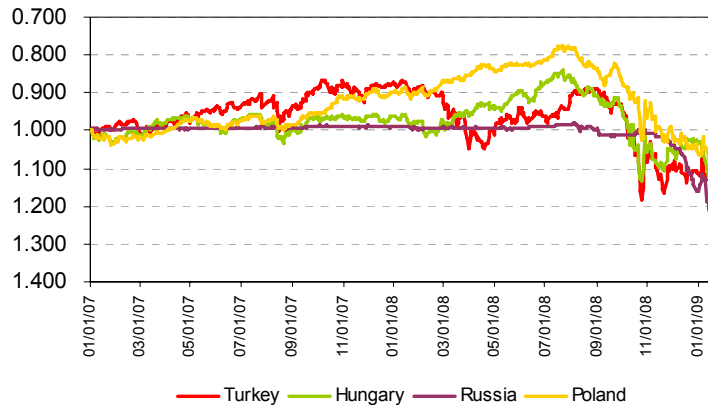
Source: Reuters, Yapı Kredi

Figure 6. Turkey, South Africa, Latin America 1/Jan/2007=1.00 (*)



Source: Reuters, Yapı Kredi

Figure 7. Turkey, Eastern Europe 1/Jan/2007=1.00 (*)

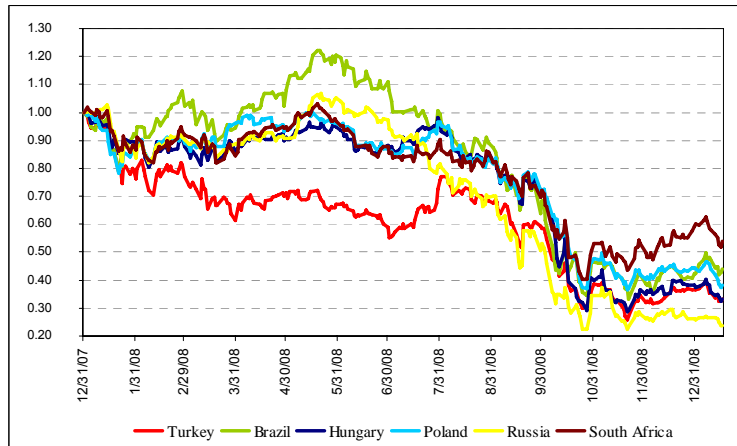


Source: Reuters, Yapı Kredi

(*) Currency performances are calculated against a basket consisting of 0,5 USD+0,5 EUR to neutralize movements of the USD/EUR rate. Y axes in the graphs are inverted. Hence downward move of the curve means depreciation of the currency

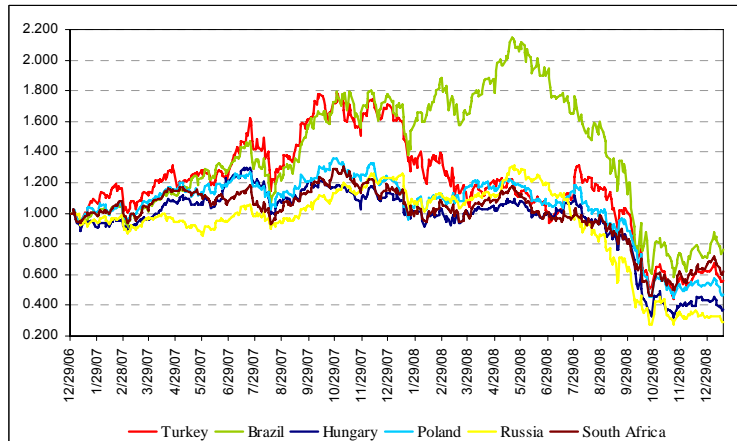
MSCI

Figure 8. MSCI Turkey versus Other Selected Emerging Markets (12/31/2007=1.00)



Source: Reuters, Yapı Kredi

Figure 9. MSCI Turkey versus Other Selected Emerging Markets (12/31/2006=1.00)



Source: Reuters, Yapı Kredi

Banking Sector - Highlights of the BRSA's Weekly Data					Change (%)			
Funding - TRY mn	4Q07	Dec-08	2-Jan-09	9-Jan-09	Chg.WoW	Chg.MoM	Chg.QoQ	Chg.YtD
					09-Jan / 2-Jan	Dec-08 / Nov-08	Dec'08 / Sep'08	9-Jan-09 / Dec-08
1) Deposits	350,608	445,439	444,614	442,283	-0.5%	2.6%	7.9%	-0.7%
<i>- Deposit Breakdown</i>								
i) TL Deposits	227,473	288,433	286,644	285,168	-0.5%	3.5%	5.9%	-1.1%
- TL Demand Deposits	33,223	37,501	32,801	29,924	-8.8%	12.4%	-7.6%	-20.2%
- TL Time Deposits	194,250	250,932	253,843	255,244	0.6%	2.3%	8.2%	1.7%
ii) FX Deposits (US\$ mn)	105,723	104,873	103,296	101,594	-1.6%	5.3%	-8.1%	-3.1%
- FX Demand Deposits (US\$ mn)	20,264	15,835	15,795	14,784	-6.4%	5.2%	-15.9%	-6.6%
- FX Time Deposits (US\$ mn)	85,459	89,038	87,501	86,810	-0.8%	5.3%	-6.5%	-2.5%
2) Funds from Domestic Banks	3,735	3,986	4,083	3,898	-4.5%	-18.3%	-12.5%	-2.2%
3) Funds from Foreign Banks	57,250	78,152	78,504	79,231	0.9%	-4.2%	10.0%	1.4%
4) Shareholders Equity	73,040	85,818	87,312	87,356	0.1%	-0.9%	2.5%	1.8%
Total Liab. and Shrs. Equity*	561,947	705,404	706,690	704,683	-0.3%	1.0%	7.5%	-0.1%
Placements - TRY mn	4Q07	Dec-08	2-Jan-09	9-Jan-09	Chg.WoW	Chg.MoM	Chg.QoQ	Chg.YtD
					9-Jan / 2-Jan	Dec-08 / Nov-08	Dec'08 / Sep'08	9-Jan-09 / Dec-08
1) Liquid Assets	30,051	43,892	42,040	43,662	3.9%	-2.3%	9.6%	-0.5%
2) Due from Banks	21,001	30,458	29,654	31,782	7.2%	23.3%	28.4%	4.3%
3) Loans	271,865	353,118	352,278	350,418	-0.5%	-1.0%	1.8%	-0.8%
TL Loans	190,116	230,346	229,543	227,803	-0.8%	0.1%	-3.1%	-1.1%
FX Loans (US\$ mn)	59,388	70,436	69,087	68,328	-1.1%	1.6%	-4.3%	-3.0%
4) Non-Performing Loans (Net)	1,107	2,365	2,603	2,687	3.2%	6.1%	21.9%	13.6%
5) Securities Portfolio	164,104	192,811	192,542	191,762	-0.4%	-1.3%	7.2%	-0.5%
TL Securities	121,054	144,876	144,356	143,150	-0.8%	-0.4%	4.6%	-1.2%
FX Securities (US\$ mn)	36,962	32,019	31,509	31,434	-0.2%	0.4%	-4.6%	-1.8%
6) Other Assets	73,819	82,760	87,573	84,372	-3.7%	11.0%	29.8%	1.9%
Total Assets*	561,947	705,404	706,690	704,683	-0.3%	1.0%	7.5%	-0.1%
<i>*Weekly Total Assets figures are Strategic Planning and Research estimates</i>								
Other Indicators - TRY mn	4Q07	Dec-08	2-Jan-09	9-Jan-09	Chg.WoW	Chg.MoM	Chg.QoQ	Chg.YtD
					9-Jan / 2-Jan	Dec-08 / Nov-08	Dec'08 / Sep'08	9-Jan-09 / Dec-08
FX Pos. - Balance Sht.-(US\$ mn)	-10,558	-4,153	-4,161	-3,494	-16.0%	-5.4%	-58.0%	-15.9%
Foreign Exchange Net General Position-(US\$ mn)	-300	-81	83	-114	-237.8%	-47.8%	-87.1%	40.4%
Securities Held Under Custody (Nominal)	103,738	101,400	101,477	102,049	0.6%	0.0%	-3.3%	0.6%
- Residents (Nominal)	66,560	72,849	72,730	73,017	0.4%	-2.2%	2.5%	0.2%
- Non-Residents (Nominal)	37,177	28,552	28,746	29,033	1.0%	6.2%	-15.5%	1.7%
TRY/US\$ rate - (period-end)	1.1647	1.4971	1.5293	1.5465	1.1%	-4.2%	21.6%	3.3%
Ratios	4Q07	Dec-08	2-Jan-09	9-Jan-09				
Loan Structure								
TL Loans/Total Loans	69.9%	65.2%	65.2%	65.0%				
Consumer Loans/Total Loans	24.2%	23.1%	23.1%	23.2%				
Home Loans/Consumer Loans	46.9%	46.3%	46.2%	46.2%				
Auto Loans/Consumer Loans	9.0%	6.6%	6.6%	6.6%				
Other Consumer Loans/Consumer Loans	44.0%	47.1%	47.2%	47.3%				
Credit Card Loans/Total Loans	9.6%	9.3%	9.5%	9.4%				
Asset Quality								
NPL Ratio	3.5%	3.4%	3.5%	3.6%				
NPL Provision Rate	88.7%	80.8%	79.6%	79.2%				
Consumer Loan NPL Rate	1.3%	2.2%	2.3%	2.3%				
Credit Card NPL Rate	6.2%	6.7%	6.6%	6.8%				
Other Key Ratios								
Off-balance Sheet Liab./Total Assets	69.7%	64.0%	63.3%	64.6%				
FX Balan. Sheet Pos./Shrs. Equity	-16.8%	-7.2%	-7.3%	-6.2%				
Sec. Under Custody (Residents)/Total Assets	11.8%	10.3%	10.3%	10.4%				

DISCLAIMER

This document is prepared by the Strategic Planning and Research Section of Yapi ve Kredi Bankası A.Ş solely for information purposes by using official data and is not in any way intended as a professional advice related to subject thereof. Although utmost care has been taken in their compilation and processing, no responsibility is assumed or no warranties, explicit or implicit, are made for the accuracy or completeness of the information provided in the document, no liability and/or indemnification obligation shall be borne by Yapi ve Kredi Bankası A.Ş. vis-à-vis any recipient of the present document or any third party as to the accuracy, completeness and/or correctness of any information covered in the document or as to the usage of the information for commercial purposes. Yapi ve Kredi Bankası A.Ş accept no responsibility also for the damages or loss to be incurred as a consequence of an investment made relying on the information in the present document. There may also appear opinions, which are of non-factual nature and subject to change without notice for which Yapi ve Kredi Bankası A.Ş. can in no circumstances be held responsible.