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TURKISH ECONOMY & CAPITAL MARKETS

TSPAKB The Association of Capital Market Intermediary Institutions of Turkey

TURKISH ECONOMY & CAPITAL MARKETS 2010

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TABLE OF CONTENTS

ABBREVIATIONS

Term	**Definition**
CBRT	Central Bank of the Republic of Turkey
CMB	Capital Markets Board
CRA	Central Registry Agency
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
ISE	Istanbul Stock Exchange
MCap	Market Capitalization
MoF	Republic of Turkey Ministry of Finance
Takasbank	ISE Settlement and Custody Bank
TL	Turkish Lira
Treasury	Republic of Turkey Prime Ministry Undersecretariat of Treasury
TSPAKB	The Association of Capital Market Intermediary Institutions of Turkey
TurkDex	Turkish Derivatives Exchange
Turkstat	Turkish Statistical Institute

TURKISH ECONOMY

This report begins with an analysis of the performance of the Turkish economy in the last decade,continues with recent developments in the capital market, and finally lays out the prospects for the market.

The Turkish economy has undergone significant changes during the past three decades. It has moved from a protected state-directed system to a market-oriented free enterprise system.Reforms initiated since 1980 have largely reduced the role of the public sector in the economy,liberalized foreign trade, removed capital transfer and exchange controls and encouraged foreign investment. A customs union with the European Union came into force in December 1995.

A new set of reforms were undertaken starting from end-1999, as a new economic stabilization program anchored in the stand-by arrangement with the IMF was initiated and the country was granted "candidate country" status by the EU. However, the overvaluation of the Turkish Lira (TL) and weak financial sector led to the abandonment of crawling peg exchange rate regime in February 2001 and the TL was left to float. The Turkish Lira devalued sharply, pushing up inflation to around 80%. Amidst the uncertain economic outlook, GDP contracted by nearly 6%, while unemployment jumped above 8% in 2001.

A new economic program, still backed by an IMF stand-by agreement, was launched under the free-floating exchange rate regime. The program aimed to restore confidence and stability by restructuring the public sector and further liberalising the economy. Comprehensive structural reforms were undertaken, especially in the banking sector. 22 banks, out of 80, were nationalised. The rest were recapitalised and later some merged.

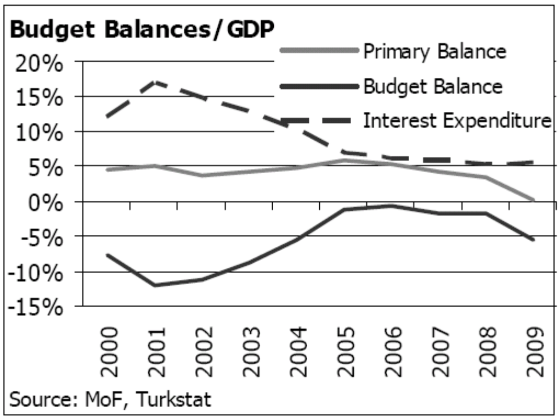
The new government formed by the Justice and Development Party (AKP) in the November 2002 elections pursued the IMF programme aiming at the liberalisation of the economy. Meanwhile, the European Council decided to open membership talks with Turkey in December 2004 and accession negotiations started officially in October 2005. The AKP government was re-elected in November 2007. The IMF program ended in May 2008. The next general elections are scheduled for November 2011.

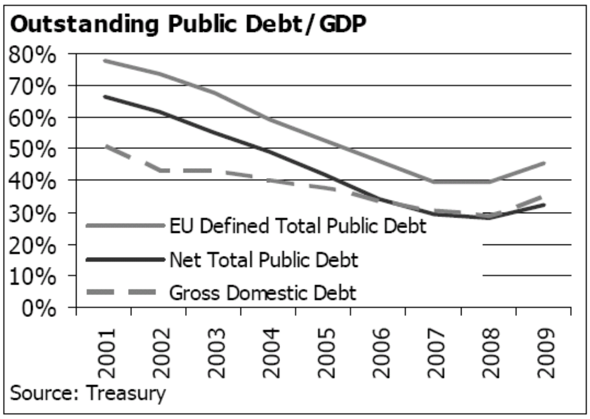
Turkey benefited from the increased foreign investors' interest like many emerging countries over the last few years and attracted significant capital flows, both in the form of direct investment and portfolio flows. While inflation was tamed, the economy grew by an average rate of 7% during 2002-2006. However, the unemployment rate remained high during the same period, and rose further, as the economy contracted significantly amidst the global crisis.

Although it was not exposed directly to the sub-prime market, the global financial crisis affected the Turkish economy through the deterioration in external financing conditions, weakening foreign trade and destabilized confidence. Nevertheless, financial sector reforms completed after the 2001 crisis and improved public debt dynamics helped Turkey's economy; and sovereign credit ratings were upgraded by international rating agencies between December 2009 and February 2010.Turkey's foreign currency sovereign rating is still at speculative grade, BB for S&P, Ba2 for Moody'sand BB+ for Fitch.

Public Finance

Strict fiscal policy was the main pillar under the macro-economic programs backed by the IMF.Fiscal discipline coupled with important privatisation efforts led to a significant improvement in the budgetary primary balance between 2001 and 2006. Reduced interest payments mirroring a decline in risk premia, also helped the decline in the central government's budget balance. However, the fiscal policies were loosened in 2007, the year of general elections. The deterioration continued in 2008 and the primary surplus to GDP ratio fell to 3.5%, down from 5-6%. The deviation from initial targets was more pronounced in 2009, in the aftermath of the global crisis. While the primary balance fell to as low as 0.1% of GDP, the overall budget deficit reached 5.5% of total output.





In the first half of 2010, the primary surplus tripled in TL terms to reach US$ 8 billion, while the budget deficit contracted by 1/3 (in TL terms) down to US$ 10 billion. These figures still compare unfavourably with previous years.

Public sector's outstanding debt had increased sharply after the 2001 crisis when many banks were nationalised and taken over by the Savings Deposit Insurance Fund. It declined gradually to 28% of GDP by the end of 2008, from 66% in 2001. However, with deteriorating budget balances, public debt rose in 2009. Total public debt, calculated by netting some public sector assets, rose by 4 percentage points to 33% of GDP at end-2009. EU-defined total public debt recorded 45% of GDP, compared to 39% a year ago. The outstanding domestic debt rose slightly by 4%, in TL terms, in the first half of 2010.

Targeting a sustainable public debt stock and budget deficit, the government announced in May 2010 that it plans to adopt a "fiscal rule" to be effective starting from 2011. However the parliamentary procedure regarding this law has been recently postponed.

Monetary and Exchange Rate Policies, Inflation

It used to be a general policy of the Central Bank of the Republic of Turkey (CBRT) to permit the devaluation of the Turkish Lira in line with the inflation rate until the 1999 stand-by program. The initial program consisted of a crawling exchange rate peg, coupled with limits imposed on the growth of monetary aggregates.

After the collapse of the pegged exchange rate regime, Turkey adopted a free-floating exchange rate regime and moved gradually to an explicit inflation-targeting policy. Six zeros were removed from the currency at the beginning of the year 2005, with the help of the decline in inflation rates.

Although declining to single-digit levels, which was an important achievement for the country, inflation remained above the targets between 2006 and 2008, due partly to rising international intermediary goods' prices. In this context, in 2008 the Central Bank revised its medium-term targets to 7.5% and 6.5% for 2009 and 2010, respectively, up from the initial 4% level.

With the growth performance being hit by the global crisis, the Central Bank of Turkey followed a countercyclical monetary policy, leading to sizeable cuts in the short-term policy interest rates (corresponding to O/N borrowing rates) starting from November 2008, as summarised in the table. Interest rates were cut gradually from 16.75% in July 2008, to 6.5% in November 2009. Shortterm interest rates were kept unchanged in 1H2010. In the meantime, as previously announced in its exit strategy, the Monetary Policy Committee established the one week repo lending rate as the new policy rate in May, setting it at 7%.

Monetary Policy Committee Decisions					
2008 Meeting Dates	Decision (% points)	Borrowing Rate (O/N)	2009 Meeting Dates	Decision (% points)	Borrowing Rate (O/N)
Jan-08	-0.25	15.50	Jan-09	-2.00	13.00
Feb-08	-0.25	15.25	Feb-09	-1.50	11.50
May-08	0.50	15.75	Mar-09	-1.00	10.50
Jun-08	0.50	16.25	Apr-09	-0.75	9.75
Jul-08	0.50	16.75	May-09	-0.50	9.25
Nov-08	-0.50	16.25	Jun-09	-0.50	8.75
Dec-08	-1.25	15.00	Jul-09	-0.50	8.25
			Aug-09	-0.50	7.75
			Sep-09	-0.50	7.25
			Oct-09	-0.50	6.75
			Nov-09	-0.25	6.50

Source: CBRT

Inflation was one of the most serious problems faced by the Turkish economy in the 1990s. The anti-inflation programme initiated in early 2000 with the crawling peg as its main pillar, managed to pull inflation steadily down. However, the outbreak of the crisis in 2001, coupled with a sharp devaluation of the currency swept away the gains of this period, and annual inflation rose back to around 80%.

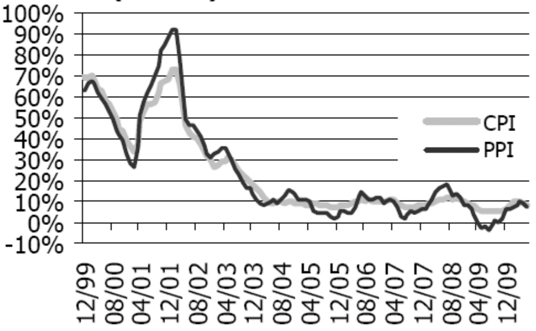
The Central Bank of Turkey started to implement an inflation targeting policy starting from the year 2002. With the help of the revaluation of the Turkish lira amidst favourable global conditions, inflation came down significantly. Although inflation realisations have been above target from 2006 to 2008, those rates are the lowest inflation levels recorded in the last three decades.

Inflation Targets and Realisations (CPI, % y-o-y change)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Target CPI	35.0	20.0	12.0	8.0	5.0	4.0	4.0	7.5	6.5	5.5	5.0
Realisation	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.5	-	-	-

Source: CBRT

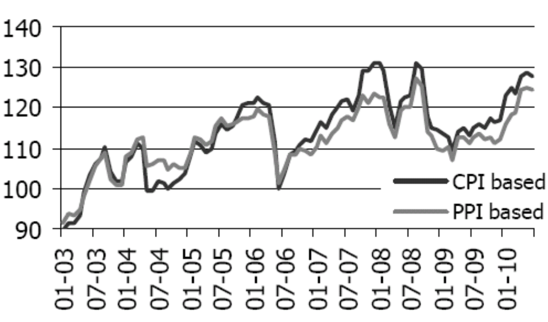
Under weak demand conditions, CPI inflation slowed down to 6.5% in 2009, compared to the targeted rate of 7.5%. Year-on-year inflation rose to 8.4% by end-June 2010, partly due to low base effect and tax increases in various sectors in early 2010. The year-end consensus forecast for 2010 CPI is around 7.5%.

Inflation (Annual)



Source: TurkStat

Real Effective Exchange Rate (2003=100)



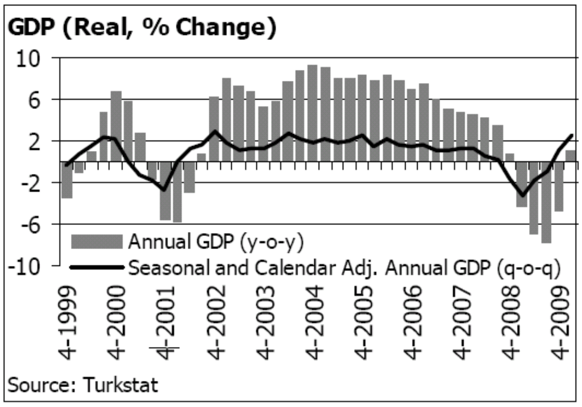
Source: CBRT

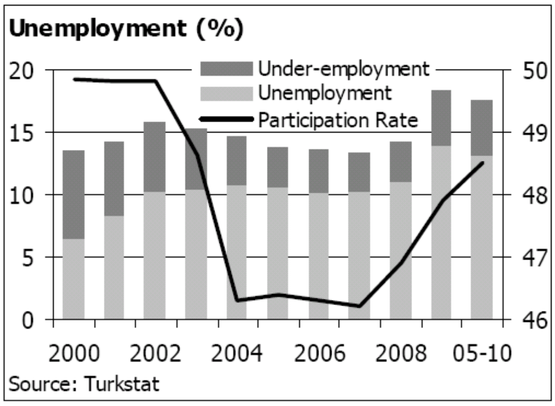
As stated above, Turkey adopted the floating exchange rate regime in 2001. The improvement in macroeconomic balances and increased foreign investors' interest towards emerging markets had led to an appreciation of the Turkish lira until September 2008, when the global crisis peaked. TL started depreciated sharply within a few months, and CBRT had to take several measures aiming to ease liquidity in the FX markets. As the effects of the crisis started to fade down, TL restarted to appreciate starting from 2Q2009. As of June 2010, the real effective exchange rate reached the levels recorded prior to the collapse of Lehman. The Central Bank exchange rates for 30 June 2010
were TL 1.5737=US$ 1, and TL 1.9292=€ 1.

Growth and Employment

After 5 years of robust growth averaging 7.2% during 2002-2006, GDP growth slowed down to 4.5% in 2007 with deteriorating international conditions, and further to 1.1% in 2008 as a reflection of the global financial crisis. Turkey's economy was affected through the deterioration in external financing conditions, weakening foreign trade and destabilized confidence. The economy contracted by an unprecedented 14% y-o-y in the first quarter of 2009. The contraction rates eased in the following quarters, partly thanks to tax incentives granted in various durable goods. The financial intermediation industry was the best performer in 2009 with 8.5% real growth.

Overall, real GDP contracted by 4.7% in 2009. GDP per capita declined by 18% in US$ terms, to record US$ 8,590.





The relative improvement in output continued over 1Q2010, as quarterly GDP rose by 12%
compared to the low base of 1Q2009. Annualised figures point to 1.2% real increase over the last year. Seasonal and calendar adjusted GDP, on the other hand, rose by only 0.1% compared to 4Q2010. Annualised figures point to 2.6% increase compared to 4Q2009. Monthly industrial production figures show that the relative recovery continued throughout 2Q2010. The economy is expected to grow by around 5% in 2010.

Following the 2001 crisis, the unemployment level reached 10% in 2002. Despite high growth rates in GDP, it did not decline until 2007. With deteriorating domestic and external demand conditions in 2008, the unemployment level reached 11% on average in 2008, and 14% in 2009. Although monthly figures in 2010 point to a slight improvement in line with seasonal trends, annualized figures are still above 13%. Meanwhile, it should be added that the participation rate to the workforce is quite limited around 48%.

Foreign Trade and Foreign Debt

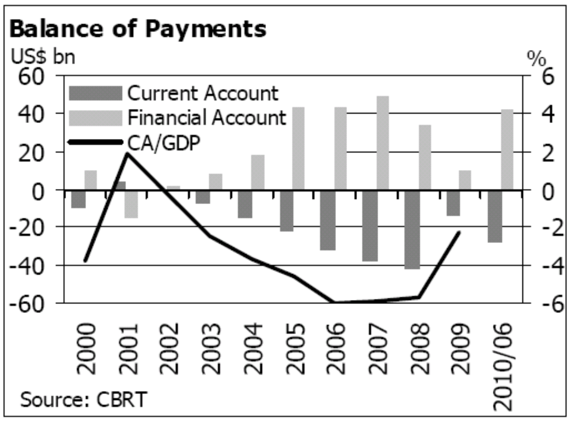
Favourable external and internal demand conditions led to an important rise in Turkey's foreign trade in the period preceding the global crisis. As imports rose faster than exports, the trade deficit expanded rapidly, leading to a remarkable increase in the current account deficit of the country.

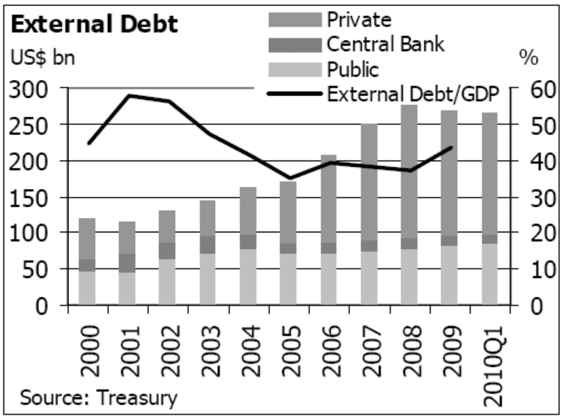
Note that as Turkey became a member of the Customs Union at the beginning of 1996, customs duties for European Union industrial goods were abolished.

Turkish exports reached US$ 132 billion in 2008, up from US$ 31 billion in 2001, thanks to favourable global growth conditions and the diversification of the export markets. Nevertheless imports, 75% of which are intermediate goods, grew even faster to quadruple in 7 years, reflecting partly the rise in international commodity prices. While imports reached US$ 200 billion by the end of 2008, the current account deficit recorded US$ 41 billion.

With the contraction in global demand, exports started to decline in the last quarter of 2008. In 2009, Turkish exports were down by 23% year-on-year. Imports, on the other hand contracted even faster by 45%. The current account deficit went down by 67% to US$ 14 billion.

However, this trend was reversed in 2010: Imports rose by 34%, as opposed to a 15% increase in exports; leading to a sharp expansion of the current account deficit. The deficit reached indeed US$ 21 billion in the first half of 2010, exceeding the annual figure recorded in 2009. The 12- month rolling deficit measures US$ 27 billion.





Turkey was able to attract significant amounts of foreign capital flows during 2004-2008, both in terms of direct investment and in terms of portfolio flows. Net foreign direct investments increased significantly, reaching a record-high US$ 20 billion in 2007, up from an average of US$ 0.6 billion in the 1990's. Net FDI went down to US$ 16 billion in 2008 with the global crisis and recorded only US$ 6 billion in 2009. 12-month rolling net FDI measures US$ 5 billion as of June 2010.

Sizeable portfolio flows during 2003-2006 were replaced by US$ 5 billion outflow in 2008. The portfolio balance pointed to a meagre inflow of US$ 200 million in 2009. However, in the first half months of 2010, portfolio inflows reached US$ 7 billion mainly due to Turkish Treasury's domestic and external borrowings.

In line with massive foreign capital inflows, Central Bank's gross foreign exchange reserves rose from around US$ 25 billion in early 2000, to around US$ 75 billion in 3Q2008. After the collapse of Lehman Brothers in September 2008, CBRT's reserves started to erode. Nevertheless, they recovered and are hovering around US$ 70 billion since October 2009.

Turkey's external debt stock recorded US$ 114 billion by end-2001. External debt expanded rapidly under favourable international liquidity conditions and reached US$ 278 billion by end-2008. With limited access to international funds in the aftermath of the global financial turmoil, it has declined to US$ 268 billion in 2009, and to US$ 267 billion in 1Q2010, mainly due to the decline in the private sector borrowing. Total debt is composed of US$ 54 billion of short-term foreign debt and US$ 212 billion of long-term foreign debt, 121 billion of which belongs to the private sector.

KEY ECONOMIC INDICATORS	Units	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Population											
Population (mid-year)	mn	64.3	65.1	66.0	66.9	67.7	68.6	69.4	70.3	71.1	71.9
Employment (average)	mn	21.5	21.5	21.5	21.3	21.7	22.1	21.0	20.7	21.2	21.3
Unemployment Rate	%	6.5	8.3	10.3	10.5	10.3	10.2	9.9	10.3	11.0	14.0
Underemployment	%	7.0	6.0	5.5	4.8	4.1	3.3	3.6	3.0	3.3	4.4
Output											
Gross Domestic Product	USD bn	265.4	196.7	230.5	304.9	390.4	481.5	526.4	649.1	742.1	617.6
Agriculture	%	14.1	12.1	11.6	11.7	11.2	10.3	9.2	7.6	7.6	8.2
Industry	%	23.3	25.7	25.2	24.7	24.9	25.4	25.6	20.0	19.8	18.8
Services + Others	%	62.6	62.2	63.2	63.6	63.9	64.4	65.2	72.4	72.6	72.9
Real GDP Growth (y-o-y)	%	6.8	-5.7	6.2	5.3	9.4	8.4	6.9	4.7	0.7	-4.7
Prices											
Producers' Prices (y-o-y)	%	32.7	88.6	30.8	13.9	13.8	2.7	11.6	5.9	8.1	5.9
Consumer Prices (y-o-y)	%	39.0	68.5	29.7	18.4	9.3	7.7	9.7	8.4	10.1	6.5
USD/TL (y-o-y chg.)	%	24.4	115.3	13.3	-15.0	-4.1	0.4	4.8	-17.5	31.3	-2.3
USD/TL (annual avg.)	USD/TL	0.6242	1.2285	1.5071	1.4916	1.4221	1.3408	1.4314	1.3005	1.2944	1.5469
External Balance											
Exports (FOB)	USD bn	27.8	31.3	36.1	47.3	63.2	73.5	85.5	107.3	132.0	102.1
Imports (CIF)	USD bn	54.5	41.4	51.6	69.3	97.5	116.8	139.6	170.1	202.0	140.9
Current Account Balance	USD bn	-9.9	3.8	-0.6	-7.5	-14.4	-22.2	-32.2	-38.3	-41.9	-13.9
CA Balance/GDP	%	-3.7	1.9	-0.3	-2.5	-3.7	-4.6	-6.1	-5.9	-5.7	-2.3
FDI (net)	USD bn	0.1	2.9	0.9	1.2	2.0	9.0	19.3	19.9	15.7	6.4
CBRT Reserves-excl. gold	USD bn	19.6	18.7	26.7	33.6	36.0	50.5	60.8	71.3	70.1	69.6
External Debt	USD bn	116.1	113.6	129.5	144.1	161.0	169.9	207.8	249.6	277.0	268.2
External Debt/GDP	%	43.7	57.7	56.2	47.3	41.2	35.3	39.5	38.4	37.3	43.4
Fiscal Indicators											
Primary Balance	USD bn	11.7	10.2	7.7	12.3	19.2	28.9	28.9	26.9	26.0	0.6
Budget Balance	USD bn	-21.0	-23.2	-26.7	-27.0	-20.5	-5.1	-3.2	-10.5	-13.2	-33.8
Primary Balance/GDP	%	4.4	5.2	3.3	4.0	4.9	6.0	5.4	4.2	3.5	0.1
Budget Deficit/GDP	%	-7.9	-11.9	-11.5	-8.8	-5.2	-1.1	-0.6	-1.6	-1.8	-5.5
Net Public External Debt/GDP	%	14.3	27.6	25.2	17.2	13.4	6.5	4.0	1.3	2.1	2.7
Net Public Domestic Debt/GDP	%	28.7	38.8	36.2	37.9	35.7	35.2	30.0	28.1	26.1	29.8
Net Public Debt/GDP	%	42.9	66.3	61.4	55.1	49.0	41.6	34.0	29.5	28.2	32.5
EU Defined Gov. Debt/GDP	%	--	77.6	73.7	67.4	59.2	52.3	46.1	39.4	39.5	45.4

Source: CBRT, Treasury, TurkStat, TSPAKB calculations

THRKISH CAPITAL MARKETS

The establishment of a modern securities market in Turkey dates back to early 1980's when a macro-economic approach aiming to liberalize the country's economy was adopted. A brief timeline of developments in the last decade is presented in the table below:

Regulatory Developments in the Turkish Capital Markets	
2001	TSPAKB (Association) established.
	Investors' Protection Fund established.
	Futures market established within Istanbul Stock Exchange (ISE).
	Central Registry Agency established.
	Remote trading started at ISE.
2002	Private pension system regulation passed.
2003	Corporate governance principles published.
	First private pension fund established.
	International Financial Reporting Standards adopted.
2004	First Exchange Traded Fund established.
2005	International Financial Reporting Standards adopted for intermediaries and listed companies.
	Turkish Derivatives Exchange (TurkDex) established.
	Dematerialisation of equities completed.
2006	Dematerialisation of corporate bonds and mutual funds completed.
2006/2007	2 year twinning project between Capital Markets Board (CMB) and Germany's BaFin to comply with EU standards.
2007	Opening auction introduced at ISE.
	Mortgage Law passed.
	Eurobond market established within ISE.
	Regulation regarding structured funds passed.
2008	New anti-money laundering regulations in line with FATF recommendations adopted.
	Listing regulations eased.
2009	Automated Disclosure Platform introduced.
	Regulation regarding corporate bonds eased.
	ISE Emerging Companies Market regulation passed.
2010	IPO regulation eased.
	First warrant issued.

Source: CMB, TSPAKB

Recent Developments in Capital Markets

In the wake of the deterioration in expectations of global liquidity and the contraction in domestic demand, the Central Bank cut O/N interest rates to 6.50% in November 2009, compared to 16.75% in July 2008. In line with declining O/N rates, T-bill rates in the secondary markets also went down to below 10% in the last quarter of 2009, from above 20% a year ago.

After a 50% decline in the ISE-100 index in 2008, the Istanbul Stock Exchange recovered in 2009 as the index rose by 102% in US$ terms. The index was rather stagnant in 1H2010; Mcap rose slightly to US$ 247 billion, from US$ 236 billion by end-2009, with the help of new listings. The IPO market revived in 2010, reacting to an amendment easing the IPO regulation and a public campaign encouraging firms to be listed. Secondary market activity recovered mainly starting from the second quarter of 2009.

1. Equity Market

As of June 2010, there are 334 listed companies on the Istanbul Stock Exchange. The number of listed companies was stagnating since 2007, furthermore a slight decline was observed as the number of IPOs remained limited amidst global financial turmoil.

Equity Market at a Glance

	No. of Listed Companies[1]	No. of New Listings[1,2]	IPO Size [1] (mn. $)	Market Cap. (mn. $)	Trading Volume (mn. $)	No. of Brokerage Firms
2005	306	11	1,790	162,814	201,763	108
2006	322	19	949	163,775	229,642	105
2007	327	11	3,389	289,986	300,842	104
2008	326	3	1,895	119,698	261,274	104
2009	325	4	76	235,996	316,326	103
2010/06	334	9	779	246,725	217,389	103

Source: ISE
[1]: Including investment trusts and ETFs. Numbers may not add up due to delistings, relistings and mergers.
[2]: Including firms listed without a formal IPO.

Despite the limited number of newly listed companies, the IPO size was significant during 2005-2008. In fact, most of the proceeds reflect the recent privatisation process. The privatisation of two public banks in 2 005 and 2007, and that of Turk Telekom in 2008 totalled US$ 5 billion, which corresponds to 62% of the IPO size during 2005-2008.

In 2009, thanks to an amendment in the capital market regulations; public companies (i.e. having more than 250 shareholders) were allowed to be listed after fulfilling certain conditions, without having to go through a formal IPO procedure. 2 companies were listed through this procedure in 2009.

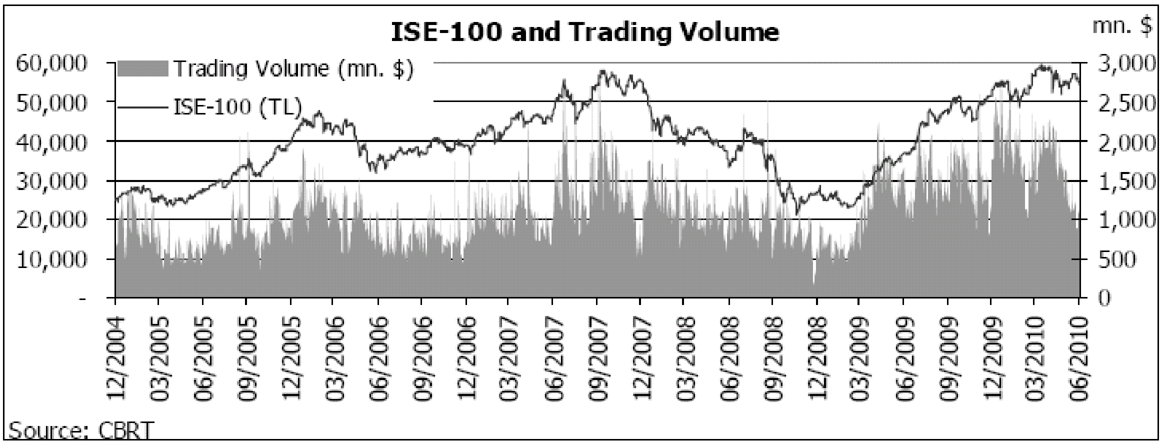
With more favourable market conditions, the public campaign for encouraging IPOs, and the. amendment easing the IPO regulations, there has been 9 IPOs in the first half of 2010, while total proceeds reached US$ 779 million.

ISE's market capitalization reached a record level of US$ 301 billion in 2007. However in 2008, the ISE-100 index posted a 63% decline in US$ terms and accordingly, total MCap dropped to US$ 120 billion at the end of the year. MCap recovered starting from March 2009 and rose to US$ 236 billion in December 2009.

ISE was the 6th best performer, with a 102% rise in the ISE-100 index, among the World Federation of Exchanges members in 2009. Although the index declined by 2% in US$ terms in 1H2010, MCap continued to increase, reaching US$ 247 billion, with the help of new listings. The average free float is 32% as of end June 2010.

Despite the 13% drop in 2008, the equity trading volume rose by 57% in US$ terms between 2005 and

2009, reaching US$ 316 billion. In January-June 2010, trading volume in equities reached US$ 217 billion, up by 69% compared to the same period of last year.



The share of foreign investors in the equity trading volume was around 10% until 2004. With rising global interest for emerging markets, this share reached to a record-high 27% in 2008. However, after the crisis, this ratio went down to 14% in 2009, and remained stable in 1H2010.

2. Bonds & Bills Market

Interest rates in the secondary markets entered a downward path in recent years, in line with declining inflation and increased confidence in the Turkish economy. T-bill rates, which were around 70% by the end of 2001, dropped gradually to around 20% in 2008. They declined further to around 9% in 2009 in line with Central Bank's interest rate cuts.

Banks and brokerage firms compete in the fixed income market. 89% of T-bill trading volume, and 77% of repo trading volume has been generated by banks in the first half of 2010. These figures indicate the total amount of OTC and organised market volumes.

Fixed Income Trading Volume

	ISE Markets		OTC Market		Total	
(bn.$)	T-Bill Trading	Repo	T-Bill Trading	Repo	T-Bill Trading	Repo
2005	359	1,387	172	251	531	1,638
2006	270	1,770	140	351	410	2,122
2007	279	1,993	184	375	463	2,369
2008	239	2,274	164	366	404	2,640
2009	270	1,929	135	330	405	2,259
2010/06	158	1,058	76	149	234	1,206

Source: ISE

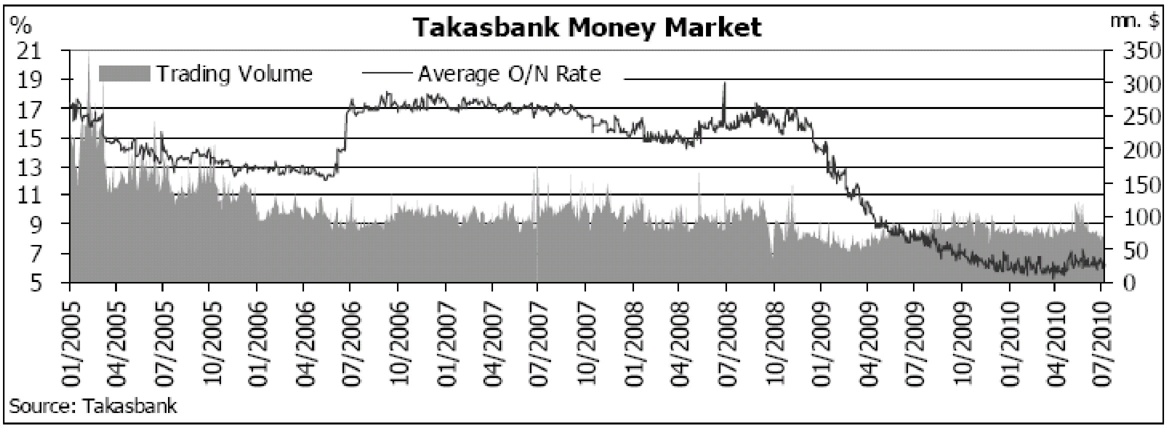
Repo volume increased significantly since 2004 to reach US$ 2.6 trillion in 2008. Total repo trading volume declined to US$ 2.3 trillion in 2009, as interest rates declined. In the first half of 2010 it has reached US$ 1.2 trillion, which implies a 9% increase compared to last year.

Trading volume in T-bills is quite stable in recent years, recording an average of around US$ 450 billion. In January-June 2010, T-bill trading volume rose by 18% y-o-y in US$ basis. Note that Turkish bonds and bills market is dominated by Treasury bills. Outstanding corporate bonds represent less than 1% of the government debt.

3. Money Market

As stated above, Turkish Central Bank pursues an inflation-targeting policy. Following the global financial crisis, starting from the last quarter of 2008, the Central Bank has taken measures to support the liquidity of the financial system, and reduced O/N rates. Amidst contracting domestic demand, the O/N rates were reduced by 10.25 percentage points to 6.5% in November 2009. Rates were kept unchanged in 2010.

The trading volume in the money market declined by 20% to US$ 18 billion in 2009, with an average daily transaction volume of US$ 73 million.



4. Futures Market

The futures market TurkDex has been growing steadily since its launch in 2005, although there has been a moderation in the growth rate since 2008. In 2009, total trading volume rose by 34% to US$ 216 billion as 1Q09 was sharply affected by the crisis. The first half of 2010 points to a 59% increase y-o-y.

Contrary to the fixed income market, brokerage firms get the lion's share in futures trading.
Brokerage firms' share of trading volume was 86% in January-June 2010.

There are 4 groups of contracts, as shown in the table. Trading is concentrated mainly in equity index contracts. Currency contracts based on US$/TL and €/TL exchange rates come in second place.

Futures Market Main Indicators						
No. of Contracts Traded						
	2005	**2006**	**2007**	**2008**	**2009**	**2010/06**
Index	164,931	2,194,245	17,016,913	40,334,968	65,399,748	30,608,856
Currency	1,603,797	4,429,502	7,849,609	14,110,292	13,912,680	3,252,082
Commodity	2,184	3,318	401	420	564	64
Interest Rate	396	1,438	110	27,155	118,351	81,490
Total	**1,771,308**	**6,628,503**	**24,867,033**	**54,472,835**	**79,431,343**	**33,942,492**
Trading Volume (mn. $)						
	2005	**2006**	**2007**	**2008**	**2009**	**2010/06**
Index	491	7,411	82,740	145,425	201,005	138,204
Currency	1,671	4,714	8,017	15,165	14,631	3,355
Commodity	1	3	0	77	384	310
Interest Rate	15	18	3	3	3	0
Total	**2,177**	**12,147**	**90,759**	**160,669**	**216,024**	**141,869**
Source: TurkDex						

5. Asset Management

Institutional investors' total portfolio rose by 35% to US$ 28 billion in 2009, in line with the decline in interest rates and rising equity index. Total assets under management contracted slightly in 1H10, mainly reflecting the depreciation of the Turkish lira.

Indeed, there are two major classes of mutual funds in Turkey; fixed income and equity. Fixed income funds are the leading group, constituting 2/3 of total assets. Equity mutual funds represent only 2.5% of total assets, despite the recovery since 2009.

On the other hand, the private pension system that was introduced towards the end of 2003 has been growing exponentially. Pension funds' assets continued to increase even in 2008, and reached US$ 6.5 billion as of June 2010. Their share in total managed assets reached 24%, up from 10% at end-2006.

Institutional Investors (mn. $)	2005	2006	2007	2008	2009	2010/06
Mutual Funds-Fixed Income	20,977	15,701	21,670	15,253	19,047	18,047
Mutual Funds-Equity	786	599	762	365	674	736
Private Pension Funds	913	2,048	3,813	4,193	6,084	6,554
Real Estate Inv. Trusts	1,864	1,487	2,723	776	1,904	1,951
Investment Trusts	360	280	317	152	339	330
Exchange Traded Funds	40	88	226	128	170	124
Venture Capital Inv. Trusts	69	68	63	27	55	93
Total	**25,010**	**20,271**	**29,574**	**20,895**	**28,273**	**27,834**

Source: CMB

Investment trusts have to be listed on the ISE and there is no significant growth in this segment. Although real estate investment trusts (REITs) were becoming more popular in recent years, they were hit by the global financial crisis.

Exchange traded funds (ETFs) were introduced to the market in 2005 and their assets grew quickly to reach US$ 226 in 2007. Despite a recovery in 2009, ETF's total assets declined by 27% in the first half of 2010.

AGENDA OF THE TURKISH CAPITAL MARKETS

Turkish capital markets currently depend on a few products; namely equities, government bonds and bills, mutual funds and futures. However, the market is expanding and new products are being introduced and developed. The latest amendments and potential development areas for the near future are briefly summarized below

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Harmonisation with the EU Regulations

The Capital Markets Board conducted a twinning project with the German BaFIN in 2006-2007. In that study, Turkish regulations were reviewed and their conformity to European Union regulations was analyzed. It has been concluded that Turkish regulatory structure is in line with the EU standards to a large extent. Yet, amendments to most regulations are being implemented gradually.

In July 2010, a series of new regulations, aiming largely at hindering market manipulation were announced by CMB. They will be put in place as of October 2010. Principles regarding the procedures for voluntarily delisting were also recently released.

On the other hand, the Turkish Commercial Law draft, being discussed in the parliament, is expected to introduce buy-backs, which are not currently allowed.

Istanbul as a Financial Centre

The government has undertaken a project in order to make Istanbul a regional financial center. Studies have started under the coordination of the government and working groups have been formed in early 2009, with the contribution of 81 public and private institutions, non-governmental organisations (including TSPAKB) and universities.

These studies propose revisions and reforms in a wide range of areas including the justice system, regulatory and supervisory framework, diversification of financial services, taxation policies, human resources and infrastructure. The resulting Strategy Document was made public in October 2009.

Introduction of New Investment Instruments

Although the size of the corporate bond market is limited in the Turkish capital markets, the issuance of corporate bonds is reviving, as interest rates went down to historically low levels, and thanks to a recent amendment in the related regulations.

On the other hand, new regulation regarding the issuance of company and covered warrants has been passed in 2009. The first covered warrant was listed in July 2010.

The amazing growth of TurkDex indicates the appetite of Turkish investors for derivatives.Currently, the market is expecting the introduction of single-stock futures and options.

In 2009, the ISE established the Emerging Companies Market in order to create a transparent and organized trading platform for companies with high growth potential. A sponsor-based system was put in place for SMEs. Nevertheless, there are no companies listed on this market as of July 2010.

Although the mortgage regulation was passed in 2007, there are still no mortgage related securities, which is not a surprise given the global crisis.

Market Infrastructure Reforms

Regulations regarding trading procedures in the equity market were amended in last few years. Trading hours were extended gradually (by 30 minutes in 2008, and by an additional 30 minutes in 2009), in order to converge to developed markets' time zones. In addition, opening sessions were introduced for the first (2007), and the second (2009) trading sessions.

In September 2008, ISE introduced new regulations to allow the listing of public companies on the stock market, without going through a formal IPO procedure. According to Turkey's regulations, companies with more than 250 shareholders are considered public, and have to be registered with the CMB.

In June 2009, ISE introduced the "Automated Disclosure Platform", which is a website enabling listed companies to release any information, required to be publicly disclosed in compliance with the respective legislation. The website serves in Turkish and English.

In November 2009, ISE launched the Collective Products Market. This market is dedicated to shares of investment trusts, real estate investment trusts, venture capital investment trusts,Exchange Traded Funds, warrants and other structured products.

In May 2010, ISE introduced a new borrowing market for companies whose stocks are traded on ISE. Those companies (excluding watch list companies) will be able to issue debt instruments on the Offerings Market for Qualified Investors without issuing a prospectus and a circular.

IPO Encouragement Campaign

The Istanbul Stock Exchange, the Capital Markets Board, the Union of Chambers and Commodity Exchanges of Turkey, and the Association of Capital Market Intermediary Institutions of Turkey signed a protocol to encourage public offerings in 2008. Within the context of the protocol, a series of seminars, conferences and private meetings are organised across the country in order to increase the awareness among the companies about public offerings; inform them about the benefits and procedures of an IPO.

TSPAKB Projects

Until 2010, the exams for the licensing of capital market professionals were held by the Capital Markets Board, whereas the licenses are issued by the Association. In March 2010, licensing exams were held jointly by TSPAKB and CMB for the first time.

TSPAKB works on a broad based financial literacy survey. The results of the survey will help the Association to develop an effective investor education program to assist investors in making financial decisions. The Association plans to organize a comprehensive investor education program, in cooperation with relevant financial sector institutions.

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