

TURKISH BULLETIN

Rodolphe Vergeaud + 90 212 293 00 32

e-mail: rodolphe.vergeaud@bnpparibas.com

ECONOMY & MARKET

MARKETS

At Friday's close, market situation was:

O/N for ISE Repo market & TLR Interbank market		TRL/USD
22%		1,453,722
Most actively traded T-Bills		
Date	Maturity	C/Rate
23/07	07/12/05	26.2%
ISE-100 index		
TRL 18,904 (\$1.30)		

CBT FX reserves: rose by US\$538mn to US\$33.6bn in the week of June July 2-9 and fell US\$852mn to US\$32.8bn in the week of June July 9-16.

The following table depicts results of auctions held in the last 2 weeks:

Issue	Mat. Date	Mat. month	Bid TL trl	Sales TL trl	Cov %	Net Sales TL trl	Ann. Comp Yield (%)
21/07/04	20/10/04	03	3,688	2,083	56	1,970	25.11
21/07/04	06/07/05	12	2,258	1,391	62	1,769	27.66

The foreign trade deficit for May came in at US\$3.2bn, nearly twice as much as the amount recorded in May of last year (+91.8% YoY). Export revenues were US\$4.8bn in May, up 23.4% y-o-y and in line with expectations. Imports on the other hand were up 44.1% y-o-y, reaching nearly US\$8bn, somewhat higher than expected. In sum, the large deficit in May was largely a result of a huge import bill as in the previous 2 months but the relative sluggishness of exports played a negative role this time. The YTD deficit reached US\$13.8bn by end-May. The breakdown of imports by commodity groups indicates that the sharpest increase was recorded in consumption goods (up 113.6% YoY) while the 2nd was in capital goods (up 69.6% YoY). Projected is an even higher import figure and a larger trade deficit in the next reading for June before some moderation in July and August. Finally, the full year trade deficit is expected to reach US\$30bn.

Current account deficit posted a deficit of US\$1.58bn in May'04 in line with market expectations, bringing the cumulative current account deficit to US\$8.8bn. It was mainly the widening trade deficit, which has produced such a CA deficit figure in May. The trade deficit was compensated by a certain extent with an increase in tourism revenues. Service revenues reached

US\$1bn in May'04 from US\$0.54bn in April solely due to the improvement in tourism revenues. Tourist arrivals rose by 57% YoY in May'04 with tourism revenues rising by 37% YoY to US\$1.1bn. **Non-financial sector played a pivotal role** in financing the current account deficit, with short-term commercial loans of US\$237mn and long-term financing (under other credit) of US\$529mn. **Official reserves were down by US\$1.1bn**, while banks reserves recovered by US\$537mn. US\$433mn of IMF debt was repaid, accounting for nearly 40% of the deterioration in official reserves. Capital flows were very strong at above US\$1.8bn, so **net errors and omissions could be kept at a modest US\$315mn**. The year-end expected CA deficit is in the range of US\$13bn corresponding to 4.5% of GNP.

June budget outcome was not as impressive as it was in the previous months: The primary surplus was merely US\$257mn, the lowest figure so far this year due to change in the tax schedule (the tax intake was low because some revenues which were normally due by end-June were received in the early days of July). With these results, the primary surplus totalled US\$10.8bn in the 1st half of the year while budget deficit amounted to US\$10.5mn. Non-interest expenditures increased US\$4.6bn in June, hitting the highest level in 2004 driven by higher transfers to the social security institutions. In the same time on the revenues side, special consumption tax receipts stood at US\$8.1bn lagging behind the target of US\$19.4bn for the whole year. Recently, prices of petroleum products and natural gas were raised in order to catch up with this target. However, both MoM and YoY comparisons are misleading in some cases because of the changes in the budget presentation format and tax collection regulations. Therefore, judging year-to-date results against the IMF performance criterion for end-June and the full year budget targets is a sensible approach. On both counts, the fiscal performance in the first half of the year looks good.

The Treasury's domestic debt stock declined to TL209.1qrn (US\$140.8bn) in June from TL209.8qrn (US\$141.3bn) a month before due to TL8.9qrn principal payment against TL7.7qrn domestic borrowing and

TL511.6trn FX valuation differences. Consolidated budget foreign debt stock rose by US\$480.8mn to US\$63.5bn. During the month, the government borrowed US\$924.9mn and paid US\$362.6mn foreign debt principal. Thus, **consolidated budget total debt stock increased by TL60.4trn (US\$40.6mn) to TL303.4trn (US\$204.1bn) in June.**

CUR rose to 84.5% in June, from the previous month's 84.3% and 80.1% over a year ago, the highest level in the last seven years and well above the market consensus figure. Private sector capacity usage declined to 83.1%, while public sector usage increased to 86.4%. Public sector capacity usage was mainly driven by the petroleum production, which increased its capacity to 93.2%. Private sector capacity utilisation declined with the 7.3pps monthly fall in metal sector and a less 1.9pps in motor vehicles sector usage. Given that the strong manufacturing sector activity has been coupled with a large import bill and a growing current account deficit, some slowdown is desirable for the sake of external balance.

IN BRIEF

Unemployment rate rose to 12.4% in 1Q04, up from 10.3% in 4Q03 and 12.3% in 1Q03

according to SIS data. Employment declined in agricultural, construction and services sectors compared to a year ago, but it rose in industrial sector by 6.9% YoY. Employment rate declined from 41.7% in 1Q03 to 40.2% in 1Q04, while labor force participation rate (LFPR) fell from 47.5% to 45.9% in the same period. Unit labor costs per hour worked eased by 6% YoY and 1.6% QoQ in 1Q04. As a result, the declining unit cost (especially in private sector) encourages the international competitiveness of the exporters.

According to SIS, **tourism revenues rose 44.8% YoY to US\$3.27bn in 2Q04.** Cumulative revenues in the Jan-June period reached US\$4.98bn, indicating a 44% increase over the level recorded in the same period of last year.

CBT's 2nd survey, July 2004: year-end CPI expectation retreated to 10.9% (government target 12%) from the previous 11.1% (one-year inflation expectation remain flat at 10.1%), year-end 3-month reference rate rose slightly to 20.2% from 19.9% and year-end TL/USD rate estimate fell to TL 1,564,100 from TL 1,577,200. Finally, 2004 growth expectation was up slightly to 6.0% from 5.8%.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

Turkey's recently launched Rapid Train derailed during the Istanbul-Ankara trip, killing 39 and injuring over 80 passengers. The government claimed it has taken all measures to ensure safety of the train but all experts were unanimous that the rail infrastructure was wholly inadequate for faster travel and they had warned TCDD that launching the service would lead to disaster.

PM Erdogan visited France and met French leaders of all stripes. PM Raffarin and President Chirac opted not to reveal their hands, while main opposition socialists emphasized the Armenian questions. Turkish Airlines signed a US\$1.5bn Airbus deal to sway French sentiment. PM Erdogan also suggested giving priority to French firms in Turkey's future nuclear energy tenders. The French officials, at least in rethoric, placed great weight on the Commission report.

High Administrative Court annuls BRSA decision dated July'01 to takeover Kentbank:

Previously, the High Administrative Court had rejected the annulment claims, yet during the appeal process, its rejection was overruled by the General Assembly of the Court. Now, the BRSA has still the option to appeal the final decision of the High Administrative Court but there is high chance that this decision will be final.

The law, which envisages Pamukbank's takeover by Halkbank and privatisation of Ziraatbank and Halkbank has been approved in the Parliament: Accordingly, Halkbank will takeover Pamukbank and consolidate it under Halkbank accounts. The equity gap in Pamukbank will be financed through the special bonds that will be issued by the Treasury and lend to SDIF. Finally, the law also foresees to restructure Ziraat and Halk banks and privatise the aforementioned banks within 5 years, which was previously set as 3 years.

COMPANY NEWS

TEB: a Memorandum of Understanding was signed between Colakoglu Group and BNP Paribas on 12 July 2004, whereby BNP Paribas intends to acquire a 50% stake in TEB Mali Yatirimlar, Group's holding company for financial services, which has 84.23% stake in TEB. The completion of the transaction and the deal price are subject to due diligence on TEB Mali and its participations, negotiation of legal documentation and regulatory approvals. The final terms of the transaction should be announced towards the end of the third quarter of 2004. Finally, TEB announced that the necessary approvals to purchase US\$9.1mn worth of TEB Leasing and TEB Factoring shares from group companies have been granted by the Treasury.

Isbank: received a 10-year maturity borrowing from Japan's JBIC and UFJ amounting to US\$70mn, which will be used to provide medium to long-term financing to Turkish companies for financing their imports from Japan.

Garanti Bank: Banca Intesa and Dogus Holding ceased negotiations for the acquisition by Intesa of a controlling stake (initially 40% with an option to buy a further 10%) in Garanti Bank due to their disagreement over the share purchase agreement to be executed. Parties will not proceed with the transaction as announced in March 2004. At the same time, Garanti bank reported net earnings of US\$142mn in 1H04 on BRSA basis compared to US\$82mn in 1H03.

Digiturk & TRT consortium won the 4-year broadcasting rights of the Turkish Soccer League (TSL) as Dogan Yayin Holding (DYH) did not submit a bid at all. Digiturk & TRT submitted the minimum threshold level of US\$95mn p.a., which is the payment to be made to the TSL clubs, excluding the payment to the Turkish Soccer Federation (TSF) and an organisation fee, which when included will add up to US\$106mn p.a. When VAT is also included, the total payment p.a. will reach US\$125mn. The prices will be adjusted annually in TRL, taking into account inflation.

POAS issued US\$175mn of bonds through its subsidiary PO Oil Financing Ltd. The bonds are

due on July 22, 2009 and have a coupon rate of 9.75%. Managers for the issue were JP Morgan and BNP Paribas. Fitch rated this bond issue as B+ stable. POAS also secures a US\$92.5mn syndicated Islamic Loan (City Islamic Investment Bank as arranger) to be used in financing imports of petroleum and petroleum products. The company has US\$1bn outstanding loan as of 1Q04, US\$200mn of which is owed to PA.

Cukurova Group reached an agreement with the regulatory bodies for early repayment of its debt to the SDIF and Yapi Kredi Bank. Accordingly, the group will repay US\$2.1bn in 13 months (Libor +0.5%) to the SDIF instead of the US\$3.2bn payable in 15 years under the previous agreement. In addition, Cukurova will repay its US\$2.1bn debt to YKB in 20 months (Libor +3.5%) but this amount will be discounted by the appropriate Eurobond yields (calculated by applying the internal rate of return (IRR) of the Turkish Eurobond maturing on 15/06/2009) which should leave around US\$1.4bn NPV for the banks. Cukurova will also buy the Turkcell and Turkcell Holding stakes at YKB until 30 April 2005. In addition, Cukurova Group will purchase Digiturk, Fintur Technologies and Super On-Line shares held by YKB following the completion of the valuation work done by an independent advisor again until 30 April 2005. Finally, YKB shares, which are currently collateralized to SDIF, will by no means be a part of the new deal between Cukurova and BRSA.

Tupras' gross refining margin was US\$5.4/bbl in June, 4% higher than the Mediterranean complex of US\$5.2/bbl. Consequently, the refining margin in 2Q04 averaged US\$4.8/bbl, or 112% higher than US\$2.3/bbl recorded in 2Q03.

Turkish Airlines will purchase 5 A330/200, 12 A321/200, 19 A320/200 from Airbus and 15B737/800 from Boeing. This would increase the national flag carrier's capacity by 72%. The total amount paid is likely to reach US\$3bn.

Turkcell and Turk Telekom (TT) are about to reach a settlement on the long lasting US\$1.4bn interconnection dispute. Reportedly, Turkcell and TT have agreed on the amount of the payable as US\$900-930mn.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

New privatisation tenders this year: Finance Minister Unakitan announced that Turkish Airlines and Petkim would be offered to public by the end of the year, adding that 15% to 20% of Turkish Airlines would be offered to public and international roadshows would be made. Regarding Tekel's tobacco division, it is expected that the privatisation might be delayed to 2005.

Turkish Airlines: Is Securities was selected as the consultancy firm for the privatisation of Turkish Airlines, which is planned before the end of this year. Around 15-20% of the company is expected to be offered to public.

Turk Telekom: The deadline for finalising information sessions have been extended until end-July from earlier 15-July. The government targets to sell majority stake in the landline giant through a block sale. 11 foreign and local companies have taken the information documents. Foreign operators are said to include Telecom Italia, Telefonica, France Telecom, MTN while Koc, Sabanci, Calik, Oyak and Cukurova groups were among the locals.

Dogan Yayin Holding signed a mandate agreement with Deutsche Bank AG London, Bender Securities and Garanti Securities to co-lead the initial public offering of Kanal D (the national TV channel of Dogan Media Group). The IPO is planned to be completed within a year.

OIL SECTOR

Oil distributor companies and the government have finally agreed on the increase of the fee per volume of gasoline and diesel. They agreed on an increase of Usc1.5 per litre rather than the Usc2 as previously announced. Of the Usc1.5 increase, Usc1 will be implemented in August, whereas Usc0.5 increase will be implemented in October.

WHITE GOOD SECTOR

June 2004 figures mark another momentous month of strong data, with stronger m-o-m results reaffirming that the TRL's fall off in late-April/early-May and the associated turbulence in the financial markets have not spoiled consumer sentiment in durable goods purchases. **June production** hit a record level of **1,052k units, up by 52% YoY and 1% MoM. June domestic unit sales were up by 104% YoY and 23% MoM at 531k units**, which is the **highest-ever monthly sales figure**. It is also **103% higher** than the past decade's average June sales figure. Consequently, **1H04 domestic sales were up by a whopping 74% YoY at 2,292k units**, well above market estimates. **June export unit sales were up by 20% YoY but down by 8% MoM at 616k units. 1H04 cumulative exports were up by 36% YoY at 3,469k units.**

*Sources: Anadolu Agency, Turkish Daily News, Merrill Lynch, Dışbank, Bender, Garanti Bank, Detay, MEED, DİE, Undersecretary of Treasury, CBRT, Yaptı Kredi Yatırım, FinansIn vest, Hurriyet, Sabah, Radikal, Akşam, Financial Times, Ege Yatırım, TEB Yatırım, EBA newsletter, Cumhuriyet.*¹

¹ This report has been prepared by the Representative Office of BNP Paribas in Istanbul. The information and data contained in this report has been acquired from sources believed to be reliable, however its accuracy and completeness can not be guaranteed. This report is published solely for information purposes, neither the information nor the opinions expressed herein is to be interpreted as an offer to sell or a solicitation of any offer to buy securities. BNP Paribas accepts no liabilities for any direct loss arising from the use of this report. This report may not be reproduced, distributed or published completely or partly by any other party without the prior written consent of BNP Paribas.