

# 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%		1,467,024
Most actively traded T-Bills		
Date	Maturity	C/Rate
20/08	22/02/06	26%
ISE-100 index		
TRL 19,286 (\$1.31)		

**CBT FX reserves:** increased US\$321mn to US\$32.7bn in the week of August 6-13.

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 (%)
11/08/04	10/11/04	03	5,332	2,724	51	2,579	24.52
11/08/04	06/07/05	11	2,502	766	31	1,719	26.23
11/08/04	22/02/06	19	4,701	1,303	28	2,649	25.05
18/08/04	21/03/07	31	USD 1,347	USD 890	66	USD 1,557	LIBOR +2.5
18/08/04	23/02/05	6	2,649	1,728	65	3,793	24.28
18/08/04	22/02/06	18	4,303	2,185	51	2,778	25.23

**June current account deficit:** Central Bank announced the figure for June as US\$1.563bn. YoY deficit reached US\$9.9bn (up from US\$5.1bn in the same period last year) and 12M cumulative figure is US\$11.7bn. US\$1.47bn of financing was unexplained net errors and omissions, but there was ample financing particularly through portfolio investments so that official reserves rose by US\$767mn and private banks accumulated reserves by US\$780mn. Trade deficit doubled reaching US\$2.6bn in June, which remains as the underlying factor in the CA deficit. Service revenues rose 32% YoY in June mainly as result of the increase in tourism revenues. Government's CA deficit target was revised upward to US\$10.8bn from its initial level of US\$7.6bn. Due to widening of the CA deficit, the government agreed on raising the resource utilisation support fund rates on consumer loans to 20% from current 10% level to curb the rapidly expanding consumption demand.

**July Budget results:** Primary Surplus in July was US\$2.8bn while the headline budget balance posted a deficit of US\$928mn. Year-to-date, Primary Surplus reached US\$13.7bn by end-July,

94.5% of the full-year target (5% of GNP). Thus, the target has become easily achievable.

**The CUR declined slightly to 84.1% in July 2004** from 84.5% in the previous month, in line with the market consensus of 83.9%. The private sector CU declined to 80.8% from 83.1% of the previous month while the public sector CU surged to 89.7% from the 86.4% of the previous month. Thus, with the exception of April, when there was maintenance work at the state-owned refineries, the CU rate has been above the 80% mark since March. Moreover, the manufacturers' responses to the July survey point to an improvement in domestic demand. Inflation expectations among private sector manufacturers remain subdued despite the high CU rate and indications of robust domestic demand. With this figure, the average CUR in the last 12 months continued to increase and reached 80.4% level.

**Consolidated public debt stock up by 3.7bn to US\$207.9bn in July:** Domestic debt stock rose by US\$4.2bn as a result of the increase of borrowing in excess of its domestic redemption and TL's appreciation against US\$. External debt stock fell by US\$0.4bn to US\$63bn. Thus, external debt constitutes 30% of Treasury's total debt stock.

### IN BRIEF

**IMF content with economic indicators:** According to IMF, Turkey's macroeconomic conditions have never been healthier over the last couple of decades. The fund believes 5% growth and 12% inflation targets will easily be achieved. It however cautions about the high CA deficit and the debt stock.

**S&P Rating Upgrade:** Sovereign credit rating of Turkey raised to BB- from B+ on the back of its progress towards macroeconomic stability. As a result Turkey joined the low-investment class (after 10 years) while a three-notch upgrade is required to be classified as investment grade as has been the case back in January 1994. Long-term local currency rating upgraded to BB from BB-.

**Moody's warning:** The fragility caused by the current account deficit might lead to maxi devaluation by prompting the debt to GNP ratio

to shoot over 100% from its current 70% level. Moody's believes Turkey will get a date in 2005 from the EU to start accession talks.

**Expectation Survey:** Year-end CPI expectation declined to 10.7% from 10.9% while year-end

growth expectation rose to 6.2% from 6.0%. August CPI is expected at 0.5%. Annualised interest rate expectation fell to 20% from 20.2% for the year-end while year-end \$/TL expectation increased to 1.569.000 level from the 1.564.100 of the previous survey.

## POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

**Petroleum prices increased by 5%:** Under budgetary concerns, special consumption tax revenues is important for reaching the primary surplus target of 6.5% of GNP.

**National Security Council:** President Sezer appointed a civilian secretary general hence the NSC will be chaired for the first time by a civilian, one of the EU criteria.

## COMPANY NEWS

**Disbank** announced net earnings of US\$11mn in 1H04 on BRSA basis declining by 62% on a YoY basis (US\$29mn in 1H03). Disbank also secured a 1-year US\$400mn syndicated loan at Libor +0.60bps for export-finance. This is the highest-amount syndication signed by the Bank.

**TEB** announced its 1H04 net income as US\$13.6mn (1H03:US\$14.3mn), implying US\$9mn bottom line for 2Q04. These results imply 11.5% annualised ROAE for the bank. TEB's end-June04 book value stands at US\$239mn (YE03: US\$234mn)

**Finansbank** announced its 1H04 net income as US\$40mn on the BRSA basis (1H03:US\$41mn). Finansbank's total assets and shareholders' equity stood at US\$5.050mn and US\$587mn respectively and ROAE is 13% as of end 1H04. The current market value is US\$471mn.

**Garanti Bank:** announced its 1H04 net income as US\$165mn on BRSA consolidated (financial companies only) basis (1H03:US\$96mn). The bank had reported net earnings of US\$142mn on bank-only BRSA basis in 1H04. On consolidated basis total assets and shareholders equity stood at US\$19.413mn and US\$1.820mn respectively at the end of 1H04 while ROAE stands at 18.1%.

**Akbank (Malta) Garanti (Luxemburg) Isbank (Bahreyn)** to provide US\$831mn financing (US\$277 each) for the East Black Sea Highway Project. Loan fully guaranteed by Treasury, 5 years maturity with a grace period of 42 months.

### Yapi Kredi Bank:

- Announced its 1H04 net income as US\$23.02mn on BRSA basis (1H03:US\$23mn) and reported net loss of US\$37mn in 2Q04 compared to net income of US\$60mn in 1Q04. The bank's negative cash equity of US\$492mn plus unresolved non-interest earning Fiskobirlik loans of US\$453mn at the end of 1H04 continue to have a negative impact on the profitability. YKB's total assets and shareholders' equity stood at US\$15.651mn and US\$2.590mn at the end of 1H04.

- Supplementary agreement reached with Cukurova Group with regards to Turkcell shares (13.1% direct & indirect) to be purchased by the bank. Shares to be sold on the basis of 30 days average list value, payments to be made end of each month starting from Aug 2004 amounting to US\$115mn. Purchase of equity participations to be completed by end Apr 2005, instalments of loan repayment will be finalised as of 31 Mar 2006 and will sum up to US\$1.06bn. Remaining portion of the debt amounting around US\$700mn will be paid from the proceeds of possible sale of YKB shares owned by CG.

### BRSA announced the new agreement with Cukurova Group (CG):

- CG will try to sell Yapi Kredi Bank (YKB) shares, which are currently collateralised to the Savings Insurance Fund (SDIF) and owned by CG until Jan31, 2005
- If CG fails to sell the shares by that date, an investment bank to be appointed by CG and SDIF before Oct.31 2004 will conduct the sale until Oct.31, 2005.

- If the investment bank does not complete the sale by Oct 31 2005, then SDIF will be in charge of the sale process.

12.89% of YKB shares are owned by SDIF (previously owned by Pamukbank) while 41.6% free float and remaining with CG.

**Petkim** announced CMB based inflation adjusted financial statements for 1H04, with a net loss of US\$23mn with an EBITDA figure of US\$72mn, due to substantial increase in sales volume (12%YoY).

**POAS** paid US\$93mn (US\$80mn in capital and rest in interest) to Privatisation Administration as part of the liability to purchase of 25.8% of

POAS stake by the company's ex-owner Is-Dogan Petrol from PA in Aug. 2002.

**Dogus Construction:** one of the shareholders of Garanti Bank mandated CA IB Investmentbank Aktiengesellschaft for the sale of and 8.51% stake in Garanti Bank to potential investors within a period of one-month.

**Turkcell** S&P revised Turkcell's outlook from stable to positive following the rating upgrade of Turkey's long-term foreign currency while Turkcell's long-term foreign currency rating was restated as B.

## SECTOR NEWS & PRIVATISATION

### BANKING

#### **BRSA provisional banking sector data:**

Loan portfolio: US\$61.353mn

Marketable securities: US\$77.548mn (TL: US\$51.682mn, FX: US\$25.865mn)

Deposits: US\$121.321mn (TL: US\$66.011mn, FX US\$55.309mn)

Gross short FX position: US\$439mn

Long position: US\$116mn.

**S&P revised bank ratings:** Long-term counterparty credit ratings on *Ziraat Bank*, *Isbank* and *Kocbank* raised to BB- from B+. Their outlook remains stable. Outlook on *Garanti Bank* raised to positive from stable, maintaining the B long-term counterparty credit-two notches below the sovereign. Public Information (pi) rating on *Akbank* raised to BB-pi from Bpi.

### PRIVATISATION

**Erdemir:** Privatisation Administration seeks consulting service, will accept bids from consulting firms until Sept.01,2004. Listing Erdemir shares at the NYSE or a strategic block sale are the main options. Arcelor (France), British Steel (UK) and Ispat (India)

are mentioned among interested parties. 46.12% of Erdemir shares are held by the PA, while nearly 49.0% of the Company shares are freely floated at the ISE.

**Tekel:** Government considers relaunching the tender process for Tekel's tobacco division in October following completion of the studies by the independent audit firm next month. Block sale method is preferred over brand sale. The first tender won by JTI with the highest bid of US\$1.15bn was cancelled due to lower than expected proceeds.

**Energy Sector:** PA has selected McKinsey & Company as its consultant for the privatisation of the distribution sector, which will begin in 2005. McKinsey is the existing consulting firm for TEDAS for "Distribution Sector Restructuring Project"

**Petkim:** Consultancy firm which will carry out Petkim Privatisation will be Finans Invest (Finansbank)

**Turkish Airlines:** Size of SPO might be raised to 50% from 20%

*Sources: Anadolu Agency, Turkish Daily News, Merrill Lynch, Dışbank, Bender, Garanti Bank, Detay, MEED, DİE, Undersecretary of Treasury, CBRT, Yapı Kredi Yatırım, Finansın vest, Hürriyet, Sabah, Radikal, Akşam, Financial Times, Ege Yatırım, TEB Yatırım, EBA newsletter, Cumhuriyet.*<sup>1</sup>

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