BNP PARIBAS

TURKİSH BULLETİN

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ECONOMY & MARKET

MARKETS

At Friday's close, market situation was:

O/N for ISE Repo market & TLR Interbank market		TRL/USD
22%		1,531,380
Most actively traded T-Bills		
Date	**Maturity**	**C/Rate**
20/09	**22/02/06**	**27.09%**
ISE-100 index		
TRL 20,373 ($1.33)		

CBT FX reserves: increased US$0.1bn to US$33.6bn over the last 2 weeks.

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 (%)
08/09/04	07/09/05	12	USD 968	USD 938	97	USD 1,801	4.55
08/09/04	07/12/05	15	3,709	1,455	39	1,893	26.21
15/09/04	15/12/04	3	2,676	1,494	56	1,426	20.61

The Treasury mandated ABN Amro and JP Morgan for a 5-year Eurobond issue of EUR600mn. The 5-year bond were issued at a spread of 238 bp's above comparable German bonds and brings YTD Eurobond financing to US$4.2bn.

The central bank cut its O/N borrowing rate on September 08, by 200 basis points to 20% from 22%. Moreover, the central bank also reduced its various lending rates by 200 to 400 basis points. Both the timing and the extent of the cuts were surprising because the latest inflation trends were hardly encouraging and there are significant risks down the road as well. Although the accompanying central bank statement offers lengthy arguments to justify the timing and the nature of this rate action, they are not sufficiently convincing. The fixed income market response was positive but perhaps limited in comparison to the significance of the event.

2Q04 growth: At 13.4% and 14.4% y-o-y respectively, GDP and GNP growth rates in the second quarter of this year were above market expectations of 10.5% and 11.2% respectively. On the production side, With the exception of the import tax revenue item, the leading sectors were industry and domestic trade (up 14.9% and 19.1% y-o-y, respectively).On the spending side private sector demand was extremely strong (private consumption and investment up 16.4% and 68.7% y-o-y, respectively) while export growth was also solid (15.7% y-o-y). When these figures and the very similar strong performance in 1Q04 are combined, the GDP and GNP growth rates in the 1st half of 2004 reach 11.9% and 13.5% YoY. Given the remarkable widening of the current account deficit in the same period, this growth performance in Q2 was an overdose and it is expected a more moderate performance in Q3 and Q4. Finally, the full year growth rate seems to be heading towards 10%.

August budget primary surplus: Central government's primary surplus came in at TL3.5quad (US$2.4bn) in August, considerably lower than the August'03 figure of TL5quad. This is not a weak outcome but considering that the 3rd instalment of advance taxes from corporate Q2 incomes were collected in August, it is not impressive either. The 3rd instalment was significantly lower than the first 2, which were collected in February and May. The weak performance in August might be the reflection of a fall in corporate profits in the 2nd quarter. Indirect tax receipts in August on the other hand do not point to a much awaited economic slowdown. YTD budgetary performance looks impressive. Primary surplus at TL22.6quad (US$16bn) has already exceeded the full year target of TL20.2quad. As a result, Finance Minister Unakitan announced that **they expected the YE budget deficit to reach 8.5% of GNP, below the initial target of 11%**

July Industrial production increased 12.8% compared to the same month last year, which is slightly lower than the market consensus of 13.6%. The index declined from the record high of 126.2 to 125.2 in July. Second quarter industrial production surged 15.3%YoY. Similar to the monthly data, the quarterly strong production growth was driven mainly by motor vehicles, which surged by 83.8% YoY in 2Q04. Machinery-equipment production rose by 46.6% YoY as an indicator of strengthening investment tendency, while chemical products elevated by 26.2% YoY. Despite the monthly decline in the index level, the robust industrial production in July indicates that strong growth performance continues in the third quarter.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

EU Enlargement Commissioner Guenter Verheugen was in Turkey on September 05-10 for a 4-day visit. He visited Southeastern city of Diyarbakir and western city of Izmir, as well as having meetings in Istanbul and Ankara. Although he welcomed the grassroots support for EU membership that went beyond the political elite and recent extensive reforms, M. Verheugen sounded cautious in many areas. **The 4 major issues were claims of systematic torture, proposed jail sentences for adultery, situation in the Southeast and the inclusion of South Cyprus in Turkey's customs union arrangements.**

The IMF visits Turkey from September 16 to 29 for talks on a new standby agreement: The government's medium term debt reduction strategy and the implications for the 2005 budget are among the important issues to be discussed. Moreover, the important structural reforms such as social security reform, reform of the tax regime and public financial management will be also debated. IMF will also address the next phase of reforms in the financial sector, the privatization strategy and the structural reforms aimed to improve the investment environment in Turkey. The discussions are expected to resume in October, following the annual meetings of the IMF and the World Bank. US10 to US15mn new IMF lending will positively affect the financial markets.

The AKP government withdrew from Parliament floor the Penal Code law draft last Friday, so it could be discussed at the Justice Commission. The approval of the Turkish Penal Code is one of the criteria Turkey needs to fulfil ahead of the release of the Turkey Progress Report on 6 October. AKP's move was perceived as just another attempt to include a revised version of the controversial adultery bill in the Code. The EU had made it clear that the bill would be a serious setback for Turkey's efforts to start membership negotiations next year. State Planning Organization deputy secretary Lutfi Elvan mentioned that the preparation of the economic program is continuing and will be represented to EU at the end of November, ahead of the accession process to the European Union.

COMPANY NEWS

Erdemir released its 1H04 TR GAAP inflation adjusted consolidated financials with a net earnings figure of US$226mn, higher than the market expectation of US$170mn. YoY comparison is not possible as last year's figures were not disclosed in the new format. The net sales of the company rose to US$1,253mn, while EBIT and EBITDA figures came at US200mn and US384mn respectively in 1H04. High steel prices globally, which is driven by Chinese demand, and demand recovery in high margin domestic market appear to be the main reasons for the improvement in sales and operating profits.

Turkcell reported US$223mn of net profit in 1H04 US GAAP financials (after US$312mn of additional provisions). Leaving these additional provisions aside, Turkcell would have booked US$408mn of net profit only in 2Q04. 1H04 revenues rose by 26% YoY to US$1,352mn thanks to 21% rise in average subscribers and 10% increase in MoU despite the relative depreciation in TL against US$ compared to 1H03 and additional provisions. Although the operating performance is astonishing, Turkcell turned into a net debt position of US$3.7mn as of 2Q04 (US$87mn of net cash in 1Q04) mainly due to the US$80mn of dividend payment and US$210mn of penalty payment to Telecommunications Authority during 2Q04.

Koc Holding announced US$176mn net profit in 1H04 IFRS financials, registering a YoY real growth of 71% over 1H03 ($103mn-restated), in line with market consensus of US$162mn. The Holding posted net earnings of US$66.6mn in 1Q04 (restated). Hence, 1H04 figure also represents a 64% QoQ improvement. Consolidated revenues of Koc Holding surged by 49% YoY in real terms to US$6,762mn, thanks mainly to the automotive and consumer durables segments. Indeed, net sales from non-finance segments soared by 55% YoY. EBITDA, on the other hand, reached $728 mn in 1H04 with an impressive 131% QoQ and 57% YoY real growth. A significant portion of consolidated

EBITDA consists of automotive segment (37% share) and consumer durables segment (33%).

Garanti Bank announced 1H04 consolidated IFRS net earnings of US$44.9mn (against US$165mn according to BRSA inflation adjusted figures), up by 43% YoY (which was US$109mn at the end of 1Q04). In 2Q04, Garanti Bank recorded a loss figure of US$53mn, which is attributable to the significant decline in the interest income and net trading income. The bank's IFRS consolidated shareholder's equity increased by 3% YTD reaching US$1,854mn meanwhile total assets rose by 4.5% YTD and reached US$19,582mn.

POAS released its IFRS consolidated 1H04 financials, with a net earnings figure of US$7.6mn (vs. US$141.5mn in 1H03). The figure is significantly lower than the 1Q04 net income figure of US$82.8mn. The decline in net earnings is due mainly to FX losses. Revenues increased 6% YoY, while EBIDTA remained at US$127mn, same as the 1H03 results. The company's net debt position (US$838mn) as of 1H04) is the reason for net financial expense of US$82.9mn in 1H04.

Enka Insaat reported in its İAS consolidated financial statements US$130mn net profit in 1H04. Company's consolidated sales were US$606mn in that period. The sale figures do not include the energy business that Enka holds 74% stake in. Enka Insaat generated 65% of its total revenues from construction business. Retail segment carried out by Ramenka and real estate management businesses contributed another 15% and 7% respectively.

SECTOR NEWS & PRIVATISATION

PRIVATISATON

Erdemir: 10 consortia have submitted bids to Turkey's Privatisation Administration for consulting service on the sale of its Erdemir shares. The PA currently holds 46.12% stake in Erdemir. The consortia include various groups of local and international investment banks.

Uzan assets to be sold soon: Deputy PM Sener stated that the process for sale of Uzan's media assets (mainly Star TV, Star daily and Kral TV music and a few radio stations) will start by the end of September to be followed by the sale of cement factories and GSM operator Telsim before the end of 2004. Dogan Yayin Holding is interested in media assets and is planning to get a stake of 45% in the consortium (the foreign partner which will have a 25% share is highly to be the Italian media giant Mediaset) through which they would participate in the tender for the sale of Star TV, while according to media reports several foreign telcos including Vodafone, MTS, Hutchison are considering to place a bid for Telsim.

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