

TURKISH BULLETIN

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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
20%		1,482,555
Most actively traded T-Bills		
Date	Maturity	C/Rate
15/10	12/04/06	22.67%
ISE-100 index		
TRL 22,477 (\$1.52)		

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 (%)
13/10/04	27/07/05	10	3,452	1,121	32	2,122	23.92
13/10/04	26/04/06	19	USD 955	USD 520	54	USD 1,094	4.76

September budget performance was better than expected: At TL1.5quadr (US\$1bn), the budget primary surplus in September was better than expected (market consensus estimate was about TL1quadr or US\$665mn). Non-interest spending continued to increase in September but the primary surplus was still solid because of the strong tax collection performance. The year-to-date primary surplus has reached TL24.1quadr (US\$17bn), well ahead of the full year budget target of TL20.2quadr (US\$13.9bn). In the absence of a drastic worsening in budget performance in the next three months, the full year fiscal targets seem achievable.

The CA posted US\$118mn surplus in August, less than the market consensus which was registered at US\$192mn. The underlying factor in the worsening of the balance is mainly the trade deficit, rising by 68% to US\$2.3bn. Imports surged 31% to US\$7.4bn in August from US\$5.6bn YoY while exports rose 19% YoY to US\$5.1bn from US\$4.2bn. However, tourism revenues that posted US\$3bn of income in August totalled US\$10.2bn in the 1st 8 months with a YoY increase of 25% pulling the CA into positive territory in August. On the financing front, credits rose to US\$2bn due to US\$1.2bn short-term credits taken by banks, which are mainly the syndication loans. With this figure, the cumulative CA deficit reached US\$9.8bn level in the 1st 8 months of 2004 (against -US\$4.4bn of the same period last year) and is in line with the estimation of US\$10.8bn (around -3.5% of GNP) deficit for the whole

year. Finally, the strong export performance is expected to continue in the following months.

Industrial production increased 8.8% in August compared to the same month last year, lower than the market consensus of 11.3%. The index declined from 125.2 to 117.4 in August. Despite the decline on monthly basis as a result of the seasonal factors, the YoY increase in the motor vehicles and trailers reached 56%, driving the August IP production higher compared YoY. Exports slowed down in August but soared to record high of US\$5.8bn level in September. With the August IP figure, the average increase reached 12.6% in the 1st 8 months of 2004. The robust IP in August indicates that strong growth performance continues in the 3rd Q, though at a lower pace. This performance confirms our yearly growth expectation of 10% for GNP and 9% for GDP for the whole year.

CUR increased to 84.8% in Sept. 2004 from 81.7% in the previous month (slightly above market consensus of 83.7%). The private sector CU increased to 83.1%, highest level since May, while the public sector CU slightly declined to 87.4% from the 91.7% of the previous month. Private sector CU and overall figure hint at an increase compared to 2003 respective figures while average CU in the last 12 months continued to increase and reached 80.7% level indicating that the robust production continued in the 3rd Q.

2005 targeted budget figures and the main macroeconomic indicators were announced: The government will target 5% of primary surplus for the central government and 6.5% of GNP for the total public sector in 2005. The GNP growth is expected to be 5%, and CPI inflation to increase by 8% in 2005. The GNP is expected to be US\$300bn in 2005 and the CA deficit is US\$12bn. The CA deficit / GNP ratio is anticipated as 4%. Turkey targets a TL30quadr (US\$20.18bn, i.e. 6.1% of GNP) budget deficit for 2005 and also the government's target for the annual consolidated budget primary surplus was TL24quadr for next year. Investment appropriations, which have been an issue of debate between the government and the IMF are forecasted at TL10.3quadr (US\$6.9bn) higher than previously proposed TL8.5quadr

(US\$5.7bn), implying a 60% rise over the 2004 target. The government expects total revenues to reach TL126quad (US\$85bn).

According to the Central Bank data for September, **WPI-based Real Effective Exchange Rate (REER) declined to 127.6 from 128.5 in August and CPI-based REER fell to 137.7 from 140.1.** Hence, TL depreciated 1.7% vis-à-vis CPI and 0.7% vis-à-vis WPI in August.

IN BRIEF

Repayment to the IMF will be extended to a longer period with the new stand-by: State Minister Babacan stated that the 9th and 10th reviews would not take place and remaining financial facilities would be included in the new stand-by. He also announced that Turkey's repayment to the IMF would be extended to a longer period with the upcoming program. He added that the US loan of US\$8.5bn, which is suspended, was not incorporated into projections and the interest burden of the IMF loans was lower than that of the US loan. The new economy program envisages grace period

of 2.5 to 3 years in the IMF loan and deferral of some IMF repayments in the next 3 years.

In September 04' tourist arrivals rose by 13.4% YoY to 2.125mn. Tourist arrivals continue to rise in 3Q04, albeit at a lower pace than in 1H04 due to the stronger base effect. In January-September 04' tourist arrivals rose by 27.3% YoY to 13.9mn.

Progress towards Maastricht criteria: Public net debt stock rose to TL265.5quad at end-Q2 from 251.4quad at end-Q01. As a result net debt stock to GNP ratio (trailing 4 quarters) fell to 69.1% from its level of 70.5% at end-03. The ratio was also at 91% and 78.6% at end 2001 and 2002 respectively.

Open FX position of the banking sector: BRSA announced that balance sheet open FX position of the banking sector declined by US\$452mn to US\$52mn in the week to October 1st. Private banks' open FX position dropped by US\$223mn while foreign banks' open position fell by US\$151mn during the week. Meanwhile, no major change is observed in FX deposits in the same week.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

Progress report recommends conditional opening of accession talks: According to the recommendation by European Commission, Turkey sufficiently fulfilled the political criteria and the accession negotiations should be opened. The report noted progress in various areas, but also underlined that there are still steps that should be taken. Beside the progress that should be made on legislation side, the implementation measures need to be further consolidated according to the commission. The implementation issue applies specifically to the zero-tolerance policy in the fight against torture and ill-treatment, freedom of expression, freedom of religion, women's rights, ILO standards and minority rights. As previously speculated, the report reads that in case of serious and persistent breach of principles of liberty democracy the commission will recommend the suspension of negotiations. The

negotiation was an open-ended process whose outcome cannot be guaranteed beforehand. The report also includes a note that regarding the free movement of person's permanent safeguards can be considered. Note that this report aims at providing guidance to the EU leaders before their critical decision on December 17.

IMF talks started again: The negotiations that were broken off by reason of IMF-World Bank meetings in September, started again on October 11. An IMF mission was in Ankara to discuss the details of the new stand-by program to cover 2005-2007 period. 2005 draft budget was also on the agenda. The negotiations are expected to carry on until October 26. The main issue of the IMF talks is likely to be 6.5% primary budget balance to GDP ratio.

COMPANY NEWS

Finansbank obtained US\$200mn subordinated debt with 10-year maturity (and pay back option

after 5 years), which was arranged by Merrill Lynch International.

Sabancı Holding announced that it has reached an agreement with E.I. du Pont de Nemours & Company (DuPont) to acquire DuPont's 50% shares of DuPont Sabancı Polyester Europe B.V. (DuPontSA), raising its total stake (direct + indirect) in the company to 100%. The shares will be purchased by DupontSa, which is based in the Netherlands, at a price of US\$108mn and the amount will be financed by the company itself.

Turkish Airlines, in line with its investment plan in 2005-2009, released its 2005 capex target as US\$844mn. US\$165mn of which is for Aviation Maintenance Modification Project, US\$552mn of which is for Aircraft Purchasing Project and US\$127mn of which is for other projects.

TEB Mali Yatirimlar AS, the major shareholder of TEB, announces that the negotiation period with regards to a possible partnership with BNP Paribas has been extended to November 30, 2004.

Denizbank secured a US\$325mn syndication loan with one year maturity at 0.6%+Libor.

Cukurova Group did not realise the initial payment of US\$115mn to YKB according to terms of the re-restructuring agreement signed in July 2004, which was due on 11 October. This implies that the re-restructuring agreement signed in July 2004 is invalid. This should bring back to the initial agreement signed in January 2003 under which Cukurova Group loans of

US\$1.9bn were restructured with a term of 9 years. According to the initial agreement, the Group also has an option to purchase Turkcell shares (13.1%) by January 2005 (i.e. to have the option to sell its participation in Turkcell to third parties). Meanwhile, the agreement signed between the BRSA and Cukurova Group on 5 August with regards to the sale process of the bank will continue to be valid.

Enka Insaat announced that they came to an agreement with its U.S. partner InterGen to purchase additional 16% stake in Enka-InterGen, which is the Holding's partnership with InterGen in the field of electricity generation under Build-Own-Operate scheme, at a price of US\$90.8mn. Accordingly, after necessary procedures are completed, Enka Insaat's share in Enka-InterGen will rise from 74% to 90%.

Turkcell: After netting the receivables to each other, Turkcell and Turk Telecom agreed that Turkcell owed Turk Telecom TL62.6trl (US\$42mn), including principal, interest, VAT and Special Communication Tax regarding the infrastructure usage dispute. This amount will be paid to Turk Telecom in 10 instalments with legal interest (which is defined as the interest on most recent issued TL denominated discount bond by the Treasury). Turkcell has the option to pay all or a portion of this debt, prior to the date determined by the instalment plan. As the amount is negligible compared to the company's current cash position, Turkcell will finance this payment from internal sources.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

The Turkish Government announced that there will be a tender for the block sale of Turk Telekom on December 31. 55% of TT is planned to be privatized as block sale. Recall that the government has previously announced that it would invite tenders in the first week of October.

PA announced that they officially kicked off for the secondary public offering of Turkish Airlines. The PA plans to finalise the sale of the airline company in 2004. Turkish Airlines announced the size of the upcoming secondary offering as 20% plus an additional 3% and promised to investors that it will not increase its

capital via either rights or bonus issue within the 6 months after the planned secondary offering.

AUTOMOTIVE SECTOR

Automotive Manufacturers' Association announced that after the recess in certain automotive factories in August, **automotive production surged by 53% YoY to 82,000 units in September.** Besides, passenger car production increased by 50% YoY to 41,721 units, close to its level in May. This indicates that after a seasonal breakdown, industrial production will continue to rise at high rates in the rest of the year, similar to the previous months. **Domestic automotive sales reached 33,383 in September. Total sales in**

September stood 1.1% lower than the outcome in August, though September is usually a stronger month in terms of

automotive sales. Seasonally adjusted data point to a MoM fall of close to 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.*¹

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