

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
20%		1,470,153
Most actively traded T-Bills		
Date	Maturity	C/Rate
28/10	12/04/06	22.52%
ISE-100 index		
TRL 22,900 (\$1.56)		

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 (%)
20/10/04	17/10/07	36	2,843	582	20	2,092	21.10
20/10/04	19/01/05	03	2,867	2,073	72	1,976	21.07
27/10/04	10/08/05	10	2,271	1,385	61	2,617	23.40
27/10/04	12/04/06	18	2,806	1,784	64	3,040	22.59

September foreign trade data: Turkey's export revenues were US\$5.5bn in September, up 34% YoY and in line with market estimates. At US\$8.36bn, and up 34.6% YoY, imports were also as expected. The resulting trade deficit of US\$2.8bn was 35.9% higher than the amount recorded in September of last year. The following table depicts major export/import evolution by category:

Major export categories

	Sep.03	Sep.04	chg (%)
Textiles, readywear, fibers, filaments	1,164,899	1,346,649	15.6
Automotives	480,703	776,974	61.6
Iron and steel	212,864	435,397	104.5
Electrical machinery and equipment	330,601	437,042	32.2
Boilers, machinery, and mech. appliances	257,105	353,692	37.6
Articles of iron and steel	125,360	229,363	83.0
Fruits and nuts	150,259	271,635	80.8
Mineral fuels and oils	82,027	101,619	23.9
Plastics	83,484	116,648	39.7
Salt, sulphur, stones	72,920	77,047	5.7
Furniture	57,213	79,031	38.1
TOTAL	4,114,678	5,513,750	34.0

Major import categories

	Sep.03	Sep.04	chg (%)
Mineral fuels and oils	1,059,599	1,286,944	21.5
Boilers, machinery, and mech. appliances	864,106	1,065,594	23.3
Automotives	507,405	784,148	54.5
Electrical machinery and equipment	524,869	762,095	45.2
Iron and steel	421,122	748,273	77.7
Textiles, readywear, fibers, filaments	383,462	464,244	21.1
Plastics	293,867	464,807	58.2
Gold and other precious stones	261,805	322,695	23.3
Organic chemicals	207,083	246,700	19.1
Pharmaceuticals	179,228	243,283	35.7
Aircrafts	4,940	66,875	1,253.7
TOTAL	6,205,528	8,355,737	34.6

The current account posted US\$60mn surplus in September. With the CBT's downwards revision of the previous month figures, the 9-month current account deficit

widened to US\$10.6bn level from the US\$9.8bn level of Jan-Aug period. Current account deficit was at US\$4.5bn at the same period last year. Following the revisions to the previous months' data and the lower-than-expected figure in September, current account deficit expectation will be revised to US\$11bn (3.7% of GNP) for 2004 upwards.

Consolidated Budget total debt stock rose by US\$3.1bn to 210.1bn as of end September' 04: While domestic debt stock rose US\$2.2bn constituting 69.2% of the total stock, external debt stock rose by US\$1bn as result of Treasury's sovereign issue. Overall, the increase in total consolidated budget debt stock is the result of the budget deficit in September along with the cash based accounting.

Real rate on domestic debt stock fell: The Treasury announced that real rate on domestic debt stock fell to 11.99% in August from 13.87% in July and 16.8% in May close to its minimum level of 11.21% reached in February. On the breakdown, real rate on debt stock to the market debt was 14.22%, while real rate on public sector debt was 8.48%.

State Institutes of Statistics announced 3Q data for Tourism receipts: The 3Q tourism receipts were US\$7.7bn against tourism expenditure of US\$734mn by Turkish residents. 3Q is tourism high season and about half of 2004 annual tourism receipts. The per capita spending figures were disappointing, shrinking in a striking fashion in particular in Euro terms. Year-end estimates stands at net tourism receipts at just above US\$13bn, a US\$2bn improvement over last year.

Redemption/Domestic borrowing program for November: total domestic debt service is US\$10.5bn as compared to US\$9bn of previous month. The Treasury will repay US\$9.7bn domestic debt to the market and US\$0.8bn to the public sector. Total debt service in November including foreign debt is projected to be US\$11.6bn higher than the last month's US\$9.8bn. Treasury plans to borrow a cumulative sum of US\$7.8bn implying a market rollover of around 81%, lower than last month's realised figure of more than 100%.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

PM visit to France: Turkish PM Erdogan and the accompanying delegation departed from Paris on October 21. During his talk at the organization for Economic Cooperation and Development meeting in Paris, PM Erdogan stated that Turkey is expected to earn US\$13bn from foreign tourism in 2004, well above the IMF backed year-end target of US\$9.8bn. PM also gave various interviews to French newspapers and TV channels on different subjects such as Armenian genocide and Cyprus issue and he reiterated that Turkey expected to start EU accession talks officially in early 2005 and in effect in July.

IMF Visit: Turkey's Treasury announced on October 26th that it had agreed with the IMF on the main issue regarding the new standby accord. The Treasury also stated that a draft law covering reforms in banking, social security and income administration would be completed soon. The IMF mission is scheduled to return for the 3rd round negotiations in November. At the same time, Economy Minister Babacan

stated that Turkey had the option to postpone payment of US\$3.6bn debt to the IMF from 2006 to the following years. Recall that Turkey owes US\$21.5bn to the IMF, of which US\$11bn is scheduled to be paid in 2006. Babacan also stated that due to the economic indicators having to show inflationary pressure, next year's primary surplus is set to be 6.5% of the GDP.

PM Erdogan was meeting with French President Chirac and German PM Schroder in Germany on October 26th: The summit extended strong support to start of membership negotiations with Turkey in 2005. Mr. Chirac said that they maintained their view on the process, but ruled out rumors that Turkey would be offered a period of intermediary negotiations. He added that France would consider a referendum on the issue in 10-15 years time and believed that the sensitivity of this issue would hopefully be greatly reduced by then. Following the meeting, the Airbus contract for Turkish Airlines was signed.

COMPANY NEWS

Yapi Kredi Bank: According to the press, JP Morgan was selected by Cukurova as advisor bank in the sale process of YKB, which was also approved by BRSA. JP Morgan is expected to prepare the technical base and also counsel regarding how the bank can be sold. JP Morgan is expected to lead the sales procedure of YKB until October 31, 2005. If the sale still cannot be finalized until then, SDIF will solely be responsible for the sale of YKB. In the same time, according to the media, Koc Group via Kocbank, Citibank and Sabanci group are also interested in the sale process of YKB.

Cukurova: SDIF announced that Cukurova Group realised two consecutive interest payments of US\$30mn in total (US\$15mn each) which was due by the end of October according to the terms of the re-structuring agreement signed (between the SDIF and the Group) in August 2004. As readers will recall, Cukurova Group could not realise the initial interest payment of US\$15mn due on 30 September. Accordingly, the Group realised the two consecutive payments (including the interest charges for the late payment of the first one)

together. However, with regards to the Cukurova Group loans of US\$2bn at YKB, we are back to the initial agreement signed at year-end 2002 under which loans were restructured with a term of nine years. According to this agreement, the Group has an option to purchase Turkcell shares at YKB (13.1%) by the end of January 2005.

Turkcell: Fitch upgraded Turkcell's senior unsecured local currency rating to BB- from B+ and stated its outlook as stable. Furthermore, while Fitch restated Turkcell's senior unsecured foreign currency rating as B+, it upped the company's outlook to positive from stable. Fitch based its up revision to Turkcell's strong performance per its sustained market leadership and stable macro economic trends.

Tupras: Fitch Ratings, the international rating agency, has upgraded Tupras' Senior Unsecured foreign currency rating to 'B+' from 'B'. The rating continues to be constrained by the country ceiling 'B+'. Following the upgrade, the outlook is now positive, in line with that on the foreign currency sovereign rating of Turkey. On the

other hand, Fitch is keeping Tupras' Senior Unsecured local currency 'BB+' rating on Rating Watch Negative amid continued uncertainty over Tupras' privatisation tender.

POAS: Dogan Holding and Isbank announced that they decided to cancel Petrol Ofisi's (POAS) planned "Warrant" issue, which would be at an amount of up to \$150 mn. On the other hand, rights issue of POAS to offer its 40 bn shares to foreign institutional investors and the sale of additional 15 bn POAS shares by Dogan Holding and Isbank at a share price of TL4,000-6,000 in the ISE Wholesale Market is on delay. The transaction that would amount to \$150-224 mn was expected to take place on October 26, yet it is announced that there is a delay since the process is still in progress.

Akbank reported net earnings of US\$590mn in 9-mth 2004 on BRSA basis compared to US\$732mn in 9-mth 2003.

Isbank reported net earnings of US\$359mn in 9-mth 2004 on BRSA basis compared to US\$217mn in 9-mth 2003.

Finansbank obtained a one-year US\$415mn syndicated loan with a cost of Libor +60bp. This loan replaces a US\$265mn loan received in October 2003.

Dogus Holding decided to issue a call option to a foreign investor for Garanti Bank and Tansas shares with respective amounts of US\$150mn and US\$25mn (at current market values). The strike prices are to be higher than the current market prices. Dogus Group has a 63.62% stake in Garanti Bank and a 56.97% in Tansas.

Petkim announced in its IFRS results a net income of US\$14mn in 9M04, turning around its US\$46mn loss in 1Q04 and US\$23mn loss in 1H04. The state owned petrochemical company posted a positive operating profit (US\$23mn) on the back of US\$731mn revenues. YoY comparison of the financials is not possible, however the company increased its total sales volume by 8% YoY.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

Erdemir: Turkey's government aims to sell its stake in Erdemir in an auction by the 1st quarter of next year, according to state Minister Ali Babacan, as reported by Bloomberg. Several potential buyers including Arcelor SA, the world's biggest steelmaker, have expressed interest in Erdemir.

Tupras: The Council of State declined the appeal to lift the injunction issued by one of its courts against the Competition Board's

approval decision for the privatisation tender of Tupras. The Council of State's 10th court will make its final decision later on. The same court will also finalise the appeal against a local administrative court's decision to cancel the block sale of Tupras by the Privatisation Administration. The court had already rejected the request of the PA for an injunction against the local administrative court's cancellation decision.

*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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