

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%		1,438,393
Most actively traded T-Bills		
Date	Maturity	C/Rate
19/10	12/04/06	23.46%
ISE-100 index		
TRL 23,177 (\$1.61)		

Treasury mandated banks to re-open 2015 Eurobond:

Treasury announced on November 18 that it had mandated Citigroup and Morgan Stanley to re-open a dollar-denominated eurobond maturing on March 15, 2015. The latest issue will be the 6th time this year Turkey has tapped international market. Turkey 1st issued the 2015 bonds in October, raising US\$1bn and the current issue will reportedly amount to US\$500mn at a yield of 6.7% (against bids of around US\$2.5-3bn). Turkey has already exceeded its target for the year, raising around US\$5.25bn from international markets through such issues.

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 (%)
10/11/04	09/02/05	03	3,918	2,335	60	2,226	21.07
10/11/04	28/09/05	11	2,438	1,369	56	1,936	23.62
10/11/04	24/05/06	19	3,466	3,146	91	3,394	23.21

The Treasury announced the cash budget results for October:

Turkish Treasury's cash budget posted TL909trn (US\$613mn) of primary deficit and TL4.5qn (US\$3bn) of deficit for the month. The October primary deficit is in line with the Treasury's expectation of TL1qn (US\$0.7bn) revealed in the borrowing program as TL2.5qn (US\$1.7bn) of tax revenues was delayed to November due to the national holiday on October 29. With the October figure, the cash basis primary surplus in the first ten months of 2004 totalled TL19.6qn (US\$13.8bn), which verifies the year-end target of TL20.9qn (US\$14.4bn) is within reach.

The Ministry of Finance announced the results of the October budget:

Accordingly, the budget posted a small primary surplus of TL126trn (US\$85mn) in October due

to delay of some taxes to November because of the Republic Day while the budget deficit reached TL3.7qn (US\$2.5bn) level. October primary surplus is in line with the market consensus of TL200trn (US\$135mn). With the October figure, the primary surplus in the first 10 months of 2004 totalled TL24.8qn (US\$17.4bn), which is positive as the Ministry of Finance already surpassed the year-end target of TL20.2qn (US\$14bn, 5% of GNP) level for the central government that is needed to reach the total public sector primary surplus of 6.5% of the GNP.

October Inflation figures: At 2.2%, the CPI inflation reading for October was much higher than expected (the average market estimate was 1.3%). In parallel, the 3.2% WPI inflation was also well above estimates (market average 1.7%). It is seen that 6.1% surge in agricultural prices and 4.8% rise in public sector manufacturing prices drove the WPI higher while the 3% increase in food products, the 5.7% rise in clothing and 3.7% increase in transportation pulled the CPI higher in October. Albeit to a lesser extent, the core inflation was also high at 1.4% (market average 1%). On top of the underlying trends, this dismal inflation outcome resulted from seasonal factors and recent oil price hikes. With these MoM figures, the YoY CPI and WPI inflation numbers reached 9.9% and 15.5%, respectively, from 9% and 12.5% a month ago. The chance of meeting or even over-achieving the 12% end-year target is still very high for the CPI but a large slippage is likely in the case of the WPI.

Industrial Production rose by 5.4% YoY in September,

lower than the market consensus of 9.1% YoY. The deviation largely stemmed from the 22.2% YoY drop in petroleum production. Other than that, leading sectors of production were motor vehicles with 38.7% YoY, machinery-equipment with 12.1% YoY. One thing that deserves attention is the 163.4% YoY surge in computer and office machines production, which is one of the drivers of investment tendency together with machinery-equipment production. Despite lower than expected index level in September, the 3rdQ IP increase of 8.8% confirms the yearly growth expectation of 10% for GNP and 9% for GDP for the whole year. Furthermore, cool-down in

industrial activities bodes well for the current account and disinflation process.

According to SIS, **the CUR retreated to 83% in October 2004** from 84.8% in the previous month in line with market consensus of 83.2%. The private sector CU declined to 80.9% from 83.1% in September while the public sector CU slightly fell to 85.8% from the 87.4% of the previous month. Private sector CU and overall figure indicate that overheating of the economy in the first half is coming to an end and economic growth is likely to normalize in 2005. Meanwhile, average CU in the last 12 months continued to increase and reached 80.9% level signalling strong production for the 3rd Q.

IN BRIEF

Tourist arrivals strong in October: According to SIS, the number of foreign tourists visiting Turkey rose by 26.1% YoY in the 1st 10 months of 2004 to 15.82mn people.

Minimum Wage Commission: The Commission started deliberations on the minimum wage hike for 2005. Employee representatives demand a pay rise, equalling the minimum wage to civil servant wages while the government plans a rise of 5%+5% for the year. The IMF is watching closely the process as excessive hikes would put additional burden on the 2005 budget. The Commission's 2nd meeting will be on December 6th.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

A technical committee from IMF came in Turkey on November 8 2004 to meet with the SDIF officials to resolve the dispute over the changes made on the Banking regulations: State Minister Babacan announced that the LoI would be signed with the IMF after December 1st, denying any time pressure. He stated that decisions on key issues would be clarified before December 1st and the new economy program would be submitted to the EU adding that the quantitative part was complete while the structural issues were about to be completed. He maintained that the final decision on the Banking Bill would be given by the Parliament. In the same time, IMF Director

of External Relations Dawson stated that the new stand-by agreement depended on the pace reforms, namely the submission of Banking Bill, social security reform and tax office regulations.

PM Erdogan is continuing his visits to EU countries to acquire their support before the December 17th summit: Erdogan visited the PM of Luxembourg (who will take over the EU's rotation presidency in January 2005) on November 17. Luxembourg PM stated that negotiations with Turkey should begin in the 1st half on next year, adding that accessions talks may begin in the 2nd half as well.

COMPANY NEWS

Turkish Airlines (THY):

- Announced that it is revising down its 2005 capex budget to US\$328mn. Earlier in October, THY released its 2005 capex target as US\$844mn in line with its investment plan for 2005-2009. US\$165mn of this investment program is related to the Aviation Maintenance Modification Project, US\$552mn is for Aircraft Procurement Project and US\$127mn is for other projects.
- THY announced US\$61mn net profit in its 9M04 financials for tax purposes (vs. net earnings of US\$11mn in 1H04).

Akbank announced that it has mandated 26 international banks as joint arrangers for a 1-year syndicated loan facility of US\$400mn. The loan

will be the roll-over of last years US\$450mn facility.

Dogus Holding announced the strike prices with regards to the call option issued to HBK Master Fund L.P. for Garanti Bank and Tansas shares at a total value of US\$150mn. Accordingly, the option price (including a 12% premium) for Garanti Bank shares turned out to be TL4,138/ USc0.28 per share, while TL1,844/ USc0.13 per share for Tansas shares (including a 10% premium).

TEB announced its 9M04 BRSA bank-only financials with a net earnings figure of US\$17mn, which was US\$28.1mn in the same period of 2003. TEB's current book value stands at

US\$245mn and the bank's total assets stand at 2.4bn up by 19% in US\$ terms YTD.

Denizbank announced its 9M04 BRSA consolidated and unconsolidated financials. Consolidated net earnings were recorded as US\$78mn at the end of 9M04, which was US\$55mn in the same period of 2003. Meanwhile, unconsolidated earnings of Denizbank were recorded as US\$61mn at the end of 9M04, which was US\$38.3mn in the same period of 2003.

Disbank released its 9M04 BRSA bank-only financials with a net earnings figure of US\$40.2mn, which was US\$66mn in the same period of 2003.

Finansbank:

- Announced its 9M04 BRSA bank-only financials with a net earnings figure of US\$85mn (slightly above market consensus of US\$79mn), which was US\$75mn in 9M03.

- Confirmed the finalisation of a 5-year US\$350mn securitised borrowing that will have a 2-year grace period and quarterly interest payments. The funds will be received on November 23 2004, following the official signing of the deal.

Garanti Bank reported net earnings of TL350.8trl (US\$234mn) in 9M04 on BRSA basis compared to US\$166mn in 9M03.

Tupras announced its unconsolidated 9M04 financials prepared for tax purposes. Accordingly, the company reported US\$275mn net income on the back of US\$5.5bn revenues and its net cash stood at US\$275mn as of 9M04. Moreover, the company's refining margin rose by 44% MoM from \$4.9/bbl in September 2004 to \$7.1/bbl in October 2004 (this is the highest refining margin in the past 4 years). Tupras's refining margin averaged \$4.6/bbl between January and October 2004, implying a 30% YoY increase compared to the same period last year.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

Cukurova Holding announced that with regards to its agreement with BRSA and SDIF dated 31 January 2003, the group gave the mandate for the sale of its Yapi Kredi Bank shares until 31 January 2005 to JP Morgan Plc.

Petkim's CEO gave guidance for 2004 and 2005 earnings at TL75trl and TL243trl respectively. The PA plans to increase the free float from its current 4% to 24% in February 2005. Recall that the PA was unable to sell Petkim's 89% stake in a block sale in 2 previous attempts over the past 18 months and the highest offer in these 2 tenders valued the company at US\$680mn, 33% lower than the current market cap. of US\$1,021mn.

Yapi Kredi Bank has mandated Yapi Kredi Yatirim for the sale of Digiturk, Superonline and Fintur Technologies B.V.

AUTOMOTIVE SECTOR

Automotive Manufacturers Association (AMA) released its October 2004 data: Accordingly, total motor vehicle sales volume rose by 14% YoY to 57,155 units in October 2004. Although the figure is 58% higher than the 10-year average, this implies a 6% MoM decline. The total motor vehicle sales volume reached an all-time high of 616,417 units between January and October 2004, implying a 126% YoY increase.

Sources: Anadolu Agency, Turkish Daily News, Merrill Lynch, Dıřbank, Bender, Garanti Bank, Detay, MEED, DİE, Undersecretary of Treasury, CBRT, Yapi Kredi Yatirim, FinansIn vest, Hurriyet, Sabah, Radikal, Akřam, Financial Times, Ege Yatirim, TEB Yatirim, EBA newsletter, Cumburiyet. ¹

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