

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
18%		1,408,500
Most actively traded T-Bills		
Date	Maturity	C/Rate
17/12	24/05/06	22.24%
ISE-100 index		
TRL 24,361 (\$1.73)		

On December 20th, the Central Bank reduced the O/N borrowing rates by 2 percentage points to 18% in line with expectations after the solid developments on IMF and EU fronts. This will support the positive mood in the markets in the short run.

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 (%)
15/12/04	16/03/05	03	2,738	1,435	52	1,367	21.40
15/12/04	27/07/05	07	1,320	995	75	1,591	23.69
15/12/04	05/07/06	19	4,732	3,754	79	5,826	23.36

Growth, 3Q04: The YoY real growth figures in 3Q04 were disclosed at 4.5% for GDP (Consensus: 7.6%) and 4.7% for GNP (Consensus: 8%, all changes indicate YoY comparisons). The data suggest that the private final consumption expenditures and private sector investment continued to be the main drivers of growth in 3Q 2004 as was the case in the first half of 2004, although both lost pace in 3Q. Nevertheless, these results were attributable primarily to the worse-than-anticipated performance of the agriculture and the industry segments, where agricultural production narrowed by 1.6% and the industrial production increased by 6.6% only, whereas the monthly and quarterly industrial production indices implied 8.8% or 7.6% expansion in 3Q04. Lower-than-expected growth rate is a signal of convergence to the 5% YoY target of 2005.

November consolidated budget: the budget posted a surplus of TL418trn (US\$290mn) and a primary surplus of TL3.7qrn (US\$2,553mn) in November as due to the Republic Day some taxes were delayed to November. November primary surplus is in line with the market consensus of TL3.8qrn (US\$2,614mn). With the

November figure, the primary surplus in the 1st 11M04 totalled TL 27.9qrn (US\$19.6bn).

Industrial Production, October 2004:

According to the SIS's monthly figures, IP rose by only 1.5% YoY in October 2004, which was below market forecasts of 3%. The October data confirmed the slowdown in the growth trend. The picture was even worse in the manufacturing segment, registering a production increase of only 0.9% YoY for the month of October. The lower YoY increases in the textiles, brown goods and the automotive divisions, on the other hand, imply slowing domestic demand. In view of this figure and the slowing trend, a downward revision in the 2004 GDP growth forecasts (Official: 9.6% and consensus: 9%) is seen as inevitable.

Unemployment rate rose to 9.5% in the 3Q04

from 9.3 in previous quarter and 9.4% in the same quarter last year. Labor force participation rate rose to 50.6% and the employment rate increased to 45.8%. Number of people in the labor force increased by 2.1% YoY. On sectoral basis, agricultural employment dropped by 2% YoY while employment rose in industry by 4% YoY, in construction by 7% YoY and in services by 4.4% YoY.

The CUR rose to 83.4% in November 2004

from 82.4% in the previous month, higher than the market consensus of 81.6% for the month. The private sector CU declined to 79.6% from 80.9% in October (which is a signal of the slowdown in the economic activity in the last quarter) while the public sector CU surged to 88.4% from the 85.8% of the previous month pulling the headline figure higher.

IN BRIEF

Tourist numbers: the incoming foreign tourists to Turkey have increased by 25.8% to 16.7mn in Jan-Nov period. The foreign tourist number has increased by 22% in November.

After the EU announcement of a conditional date for Turkey, Standard & Poor's affirmed its "BB-" long-term foreign currency and "BB" long-term local currency sovereign credit ratings on Turkey. At the same time, the "B" short-term foreign and local currency ratings were affirmed. The outlook is stable.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

Agreement reached on the new IMF Stand-By Arrangement. The important issues were as follows:

- Turkey will receive US\$10bn from the IMF in 2005-2007 period in 12 equal tranches. This is slightly above the market consensus of US\$9bn.
- Turkey's debt to the IMF, expected to decline to US\$20bn as of end-2004, will fall to US\$9.3bn as of end-2007, indicating that Turkey will be a net debt payer.
- Moreover, repayment of US\$3.7bn due in 2006 will be postponed to 2007.
- On the structural front, the program will focus on financial sector, social security and tax administration reforms.
- Stand-by agreement awaits approval of IMF Directors' Board, which is likely in early 2005 depending on the progress in structural reforms.

Turkey gets a conditional date, talks to start on October 3rd 2005: On December 17th, EU

leaders and Turkey reached consensus on the terms of negotiations after intensive bargaining. Accordingly, the negotiation will be open ended by its nature with a full membership perspective. Although the summit report does not explicitly mention 'privileged partnership', it states that if Turkey fails to meet the entry criteria the EU will seek ways to maintain and strengthen its ties with Turkey. The statements on permanent derogations were toned down on Turkey's request, while the EU demands Turkey modify its Customs Union Protocol to incorporate the 10 new members of the Union before the start of negotiations, which implies a de facto recognition of Cyprus. This issue was the main focus of the negotiations on last Friday. In the end, Turkey promised to incorporate the document but did not sign an official document. Now, Turkey has to deliver its promise on Cyprus before October 2005.

COMPANY NEWS

Garanti Bank secured a US\$600mn syndicated borrowing with one year maturity and over libor +0.5% interest. The bank had a US\$450mn syndicated loan repayment in November, so this deal renews that borrowing and extends it by US\$150mn.

Akbank announced the finalisation of a US\$550mn 1-year maturity syndicated borrowing over libor +50bp interest.

Isbank signed a US\$450mn syndicated borrowing with 1-year maturity. The interest of the borrowing is libor+50bp.

Sekerbank Pension Fund announced that they started negotiations to sell the majority shares of Sekerbank to Holland-based Rabobank. Following this transaction the bank aims to focus on retail banking, mortgages, SME's and the agriculture/food sector.

Aygaz posted IFRS net profit of US\$19.8mn in 9M04, better than market consensus of US\$16.7mn, registering a two-fold QoQ increase in 3Q04. A YoY comparable figure is not disclosed. 9M04 revenues reached US\$1,804mn with US\$681mn added in the 3Q.

Arcelik posted US\$156mn on net earnings in 9M04, better than the market consensus of US\$119mn. Company's 9M04 net sales rose to US\$2.3bn, 41% up from US\$1.6bn in 9M03, driven by strong domestic demand.

Sabancı Holding announced its 9M04 earnings at US\$349mn, up 10% QoQ and slightly worse than the market consensus (US\$391mn). A YoY comparable figure is not disclosed. In 9M04, Sabancı's posted US\$5.5bn revenues (1H04-US\$3.5bn) US\$1.25bn operating income (1H04-US\$0.8bn) and US\$1.5bn EBITDA (1H04-US\$1bn).

Turkcell announced 3Q04 earnings at US\$151mn, up 57% from US\$96mn in 2Q04 and 29% from a year earlier period. The net income is worse than the average market estimate of US\$197mn mainly due to higher than expected tax expenses.

Koc Holding announced its 9M04 net earnings at US\$279mn compared to 1H04 net earnings of US\$176mn, meeting the average market net earnings estimate of US\$279mn. A YoY comparable figure is not disclosed. In 9M04, Koc posted US\$10.5bn revenues (1H04-US\$6.8bn),

US\$74bn operating income (1H04-US\$0.5bn) and US\$1.1bn EBITDA (1H04-US\$0.7bn).

Enka Insaat announced that they completed the acquisition of an additional 16% stake in Enka-InterGen, which has 3 power plants with a total capacity of 3,854 MW, from its U.S. partner InterGen at a price of US\$90.8mn. This deal was

announced back on October 15th. In addition, the company also came to an agreement with its U.S. partner InterGen to purchase the remaining 10% stake in Enka-InterGen in December 2005. Accordingly, Enka Insaat's share in the company rose to 90% from 74% as of now, and it will increase to 100% at the end of 2005.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

THY: The Privatisation Administration sold its 23% stake in Turkish Airlines including the greenshoe option of 3%. 35bn THY shares were put on sale with 5.25bn additional sale option. Shares were over-subscribed 5-fold at the firm bid. Therefore, additional sale option was also exercised and a total of 40.25bn shares (23% of total capital) were sold. 65% of these shares were sold to international institutional investors. Overall, 23.25% of total demand could be met. Free float increased to 24.83%

following the SPO. Revenues from the SPO amounted to US\$199mn, which will be channelled to the Treasury.

The Privatisation tender for Tekel Tobacco's is launched: Interested bidders are required to apply to the PA to enter information room by January 21, while deadline to submit bids for the asset sale expires on February 18. In the previous block sale, Japan Tobacco's bid of US\$1.15bn was rejected as low.

*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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