

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% | | 1,352,500 |
| Most actively traded T-Bills | | |
| Date | Maturity | C/Rate |
| 03/01 | 24/05/06 | 20.89% |
| ISE-100 index | | |
| TRL 24,972 (\$1.85) | | |

Central Bank announces 2005 monetary policy, TL liquidity on the horizon and will restart FX purchase auctions. CBT expects the excess liquidity to continue decreasing and turn to negative in the first quarter of 2005.

Treasury will redeem domestic debt of \$11.6bn in Jan and plans to tap the markets for \$8.6bn against its redemption of \$9.8bn to the markets. Highest redemption is due on Jan 26th with \$5.8bn. Treasury will hold a 91-day T-bill auction with net sale target of \$1.6bn in the week of Jan 19th.

Revisions to 2004 budget targets: 2004 primary surplus target has been revised up to \$18.4bn from \$17.2bn. A primary deficit of \$1.1bn is expected in Dec. Interest expenditures target is also revised down. Budget deficit is expected to reach \$21.3bn (down from previous estimate of \$23.9bn), 7.2% of the estimated GNP. The budget deficit to GNP ratio is expected to decelerate further in 2005 and reach 6.1%.

Consolidated debt stock declined \$1.2bn to \$217.9bn as of end-October. External debt stock fell \$1.22bn to \$67.8bn while domestic debt stock almost stayed flat at \$152.8bn.

Foreign Trade deficit reached \$2.96bn in November. The figure is higher than the market consensus of -\$2.7bn. In Nov.03 trade deficit was at \$1.3bn level. With this figure, the trade deficit in Jan-Nov period reached \$30.6bn level. Exports declined to \$5.45bn level in Nov. widening the monthly trade deficit, imports rose 60% compared to Nov03 and reached \$8.4bn level. The 12-month cumulative trade deficit maintained its upward course in November 2004. Moreover, there was an escalation in the rate of the trade deficit increase that may, in turn, bring widening current account deficit concerns back on the agenda (despite positive

expectations about financing of the deficit under the EU prospects). The exports to imports ratio (export coverage ratio), which stood at 64.4% in the last three months, also fell to 63.9%.

Exports rose by 37% YoY in December to \$6.7bn according to Turkish exporters Association. The figure is impressive, although it reflects the recent slide of US\$ against Euro, inflating the US\$ equivalent of Euro based exports. Automotive sector exports led by the way by raising 65% YoY followed by machinery with 41% and iron & non ferrous metals by 74%. In FY04, exports rose 34% to \$64bn.

Turkey's CUR in the manufacturing sector rose to 83.4% in Nov. 2004 from 82.4% in October. The capacity usage was higher than the market consensus of 81.6%. The monthly increase of 1.2% stemmed solely from the strength of the public sector. In contrast, capacity usage in the private sector fell by 1.4%. The YoY performance painted a better picture, as the CUR rose by 4.4% YoY owing primarily to a 5.4% rise in the private sector.

WPI and CPI rose 0.13% and 0.45% respectively in December. Both the WPI and CPI figures are below market consensus. YoY WPI declined to 13.84% and CPI to 9.32% in Dec. The CPI undershot the 12% target and completed the year at one digit after 34 years. It is seen that 0.3% decline in the public sector manufacturing prices drove the WPI lower while the lower than expected 0.8% increase in food prices and decline in the clothing prices pulled the CPI lower. For 2005 the target is 8% on both indices.

IN BRIEF

EU donations to Turkey were set at \$250mn in 2004, \$300mn in 2005 and \$500mn in 2006.

Pensions will be increased by 12.4% in 2005; this increase will bring an additional burden of \$278mn on the budget that foresaw a pension increase of 10.2% for 2005

Annual minimum wage increased by 10% to TL350mn (\$260) for 2005. The cost of an employee to employers will be \$440.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

EU Commission head says EU technically ready to start screening process in January.

Process aims at determining the current level of compliance to EU requirement. Meanwhile, the Government is planning to appoint Foreign Minister Gul as the chief negotiator during the accession process.

Tax rate cuts: PM Erdogan announced the details of the new taxation bill submitted to Parliament which aims to cut tax evasion, reduce the unregistered economy, increase Foreign Direct Investment and comply with EU regulations. 1) corporate tax will be cut to 30%

from 33%, 2) from Jan.1st 2005 on, the VAT on food, health and education will decline to 8% from 18%, 3) all financial instruments will be taxed at the same rate starting in 2006; Tax Bill that levies withholding tax of 15% on income from equity, bond and T-bill trading as of 2006 is adopted in the Parliament 4) the ceiling on the salary income tax will be cut to 35% from 40%, while the top rate of other personal earnings will fall to 40% from 45%.

In the meantime, a draft bill made by the BRSA on the distribution and use of credit card is expected to be submitted to the Cabinet this month.

COMPANY NEWS

TEB Financial Investments, the major shareholder of Turk Ekonomi Bank (TEB) announced that together with BNP Paribas, they had applied to the Capital Markets Board for an exemption to hold a tender call to the minority shareholders of TEB following the purchase of 50% of TEB Financial Investments by BNPP.

Akbank:

- Secured a 7yr asset backed securitisation of \$100m provided by WestLB AG, London. This borrowing is backed by the bank's export and check receivables and workers' remittances.

As a result, Akbank's foreign loan sum has reached \$1.7bn in 2004.

- Released its 3Q04 consolidated IFRS financial results. Net Profit declined by 32% YoY to \$565mn. Bank's book value stands at \$3.889mn implying an annualised ROAE of 20.2% (2003:39.6%). Total assets stand at \$22bn (2003:\$21bn) with 36% allocated to loans and 50% to securities portfolio. NPL ratio stands at 1.2%.

Garanti Bank Moody's upgraded the outlook on the D+ financial strength rating (FSR) from negative to stable.

Cukurova Group made its \$15mn monthly instalment payment to the SDIF. The deadline of Cukurova's option to buy Yapi Kredi's 13.1% stake in Turkcell expires on 31 Jan 05.

Turkcell:

- Settled disputes with the Treasury and Turk Telekom implying \$200mn additional reserves and payments amounting to \$1.036.8mn in 17 months.

- GM stated that they are interested in the privatisation of Turk Telekom, if the Competition Board will decide that they can qualify to participate.

Koc Holding started negotiations with Wal-Mart Stores Inc. regarding the acquisition of Migros.

Turkish Airlines to purchase Airbus ACJ 320 VIP aircraft for the service of the Prime Ministry, the price of this aircraft is within the range of \$37-50.

Petrol Ofisi (POAS) established PO Gas Transmission Co. and PO Alternative Liquid Fuel Wholesale Co, aiming to take place in the natural gas market in the future.

Enka Construction applied for pre-qualification for Eskisehir-Istanbul railway rehabilitation project in partnership with Gama and German Hochtief. It is reported that 9 more consortia applied for pre-qualification.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

The **Privatisation Administration** named the consortium including Akfen Holding-Dogus Otomotiv-TUV/SUD Company as the best bidder in the tenders for the vehicle inspection stations. The consortium offered \$613.5mn for the two different zones for the inspection services for the next 20 years (\$300mn for northern Turkey and \$313mn for southern Turkey). Dogus Otomotiv has a 33% share in the consortium which has to invest \$100 and hire at least 1400 employees. Total number of motor vehicles in the country is said to be around 9.625.000 and each zone contains almost the half of the total figure.

Tatneft may be interested in **Tupras** which will be put on tender again in the first months of 2005. Tatneft's German subsidiary Efremov GmbH and Zorlu Holding bid \$1.3bn for 66% stake on Jan. 13 in the tender that was cancelled

by the High Administrative Court on June 3. PA is planning to hold a roadshow in the US in Jan 2005, US oil companies are expected to participate in the tender.

SDIF (Savings Deposit and Insurance Fund):

- announced its intention to sell its 644.1mn non-floating **Turkcell** shares (a minor 0.04% stake in the company), which has a value of \$4.1 at the current share price of the company, within 2 years.

- Reportedly, according to local newspaper **SDIF and Motorola** reached an agreement on repayment of Telsim's outstanding debt according to which highest of 20% of proceeds are to be gained from Telsim sale or \$400mn will be paid

JTI, BAT, Limak are interested in **Tekel**, the deadline to submit bids is Feb. 18th.

*Sources: Anadolu Agency, Turkish Daily News, Merrill Lynch, Dıřbank, 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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