

# TURKISH BULLETIN

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## ECONOMY & MARKET

### MARKETS

At Friday's close, market situation was:

| O/N for ISE Repo market<br>& TLR Interbank market |          | NTL/USD |
|---|----------|---------|
| 17.6%   |          | 1.35    |
| Most actively traded T-Bills                      |          |         |
| Date  | Maturity | C/Rate  |
| 14/01   | 05/07/06 | 19.92%  |
| ISE-100 index                                     |          |         |
| TRL 26,493 (\$1.96)                               |          |         |

The Central Bank reduced the O/N borrowing rates to 17% from 18% and offer rates to 21% from 22%. This unexpected move aims to prepare for the possible liquidity shortage in the market in the following months. The Open Market Operations are at US\$2.7bn level as of end 2004.

**Fitch raised sovereign credit ratings on Turkey to 'BB-':** International Ratings Agency Fitch raised sovereign credit ratings on Turkey to 'BB-' from 'B+' on the back of political discipline, new economic program prepared in coordination with the IMF and the positive developments on the EU front. With this move, Fitch rating of BB- for Turkey has come to the same level with the S&P rating of BB- that is three notches away from the investment grade.

**Treasury issued 20-year US\$ denominated Eurobond via City Group and Morgan Stanley:** The Treasury has issued longer term papers before. This is nevertheless the 1<sup>st</sup> 20-year issue in Treasury borrowing history. According to Reuters, the Treasury priced the US\$2bn issue at 98.507 implying a yield of 7.52%. The demand to the issues was very strong reportedly at US\$13bn.

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 (%) |
|----------|-----------|------------|------------|--------------|-------|------------------|---------------------|
| 12/01/05 | 13/09/06  | 32         | 3,594      | 1,760        | 49    | 3,575            | FRN                 |

**Balance of Payments, November 2004:** In November 2004, the C/A deficit reached US\$2bn, which was above the market's estimate of around US\$1.7bn. The larger than expected deficit stemmed from lower-than-anticipated tourism revenues and higher interest spending. The January-November C/A deficit reached

US\$12.7bn, while the trailing 12-month deficit rose to US\$15.7bn. It is expected a lower C/A deficit in December 2004 vs. December 2003, owing to favourable exports of US\$6.7bn in December as disclosed by the Exporters' Assembly. Accordingly, the year-end 2004 12-month deficit estimation is around US\$15bn.

**Cash budget, December:** Turkish Treasury's cash budget posted NTL 1,456mn (US\$1,048mn) of primary deficit and NTL 5.6bn (US\$4bn) of cash based headline deficit for the month. With the December figure, the cash basis primary surplus in 2004 totalled NTL 24.4bn (US\$17.2bn), and the full year target is expected to be reached.

**Industrial Production, November 2004:** According to the State Institute of Statistics' monthly industrial production data, industrial production rose by 9.6% YoY in November 2004, the market forecast was 10.9%. November's rise was attributable primarily to the higher number of working days in November 2004. In fact, the daily production level (calculated by dividing the production index by the number of working days) points at a YoY decline of 6.9%. On the other hand, the "coal and petroleum products" item dragged down production. Excluding this item, the YoY rise in the other items was calculated as 12.3%.

**CUR, December 2004:** According to the figures revealed by the SIS, the CU rose to 84% in December 2004 from 83.4% in the previous month. The public sector CU declined to 87.6% from the 88.4% of the previous month while the private sector CU increased to 81.6% from 79.8% in November pulling the headline figure higher. Meanwhile, average CU in the last 12 months continued to increase and reached 81.5% level signalling strong production for the last month of the year.

### IN BRIEF

**State Minister Babacan revealed the financing program for 2005.** Accordingly:

- The Treasury envisages redemption of around NTL200bn (US\$148bn) of debt in 2005, of which NTL176.5bn (US\$131bn) is domestic and NTL 23.8bn (US\$18bn) is external.

- The Treasury plans to borrow NTL154.4bn (US\$114bn) from the markets, i.e. a domestic debt roll over of 87.5%

- External borrowing target is set at US\$5.5bn for 2005 while the Treasury exceeded 2004 target of US\$5bn with external borrowing of US\$5.75bn. The Treasury has already met one third of this target with the recent Eurobond issue amounting to US\$2bn.

- The Treasury estimates US\$1.5bn proceeds from privatization in net, i.e. after the PA's loss is covered.

- The primary surplus on cash basis is expected to reach NTL25.5bn (US\$19bn).

- The Treasury expects international funds of US\$5.1bn in total from the IMF (US\$4.2bn) and World Bank (US\$900mn).

- Babacan also estimates that Turkey will manage to meet Maastricht criteria for budget deficit (3.9% of GDP) in 2006 and debt to GDP in 2007.

## POLITIC, DOMESTIC & INTERNATIONAL AFFAIRS

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**CHP turbulence:** Internal turmoil is at its peak as the main opposition party CHP is on the eve of its extraordinary assembly where its leader Mr. Baykal and the rising star Mr. Sarigul will race for the leadership of the party on January 29. On January 5, the party's discipline committee has refused to deport Mr. Sarigul. This had triggered Mr. Baykal to call for an extraordinary assembly.

**PM Erdogan in Russia:** Last week, the PM was in Russia with a large group of businessmen and 5 ministers. The top issues on the agenda

were energy related as well as trade. Trunk trade with Russia, a key element propping Turkey's current account, has been stagnant as Russia cracks down on the activity. Furthermore, Erdogan and Putin had discussed possible ways to transport Russian petroleum to the Mediterranean region. One of the projects being considered is building a pipeline between Samsun (Black Sea Coast) and Ceyhan (a hub for distribution of Middle East petroleum) plus an LNG terminal at Mediterranean coast. Turkey is also planning to buy electricity from Russia.

## COMPANY NEWS

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**Digiturk,** a Cukurova Group company, proposed a restructuring for its US\$78mn debt to Turkcell and its subsidiary Global Bilgi Pazarlama. In an announcement to the ISE, Turkcell stated that it would submit Digiturk's proposal to restructure its debt to its board. At the same token the majority owner, YKB, has kicked off Digiturk's sale process.

**Turkcell:** in the last quarter of 2004, Turkcell added 1.1mn net new subscribers, raising the total number of its mobile subscribers to 23.4mn as of YE04, up from 22.3mn subscribers at 3Q04. The overall subscriber base rose by 23% YoY and consisted of 5.1mn

postpaid and 18.3mn prepaid subscribers as of year-end 2004, where prepaid subscribers captured 89% share in new gross subscriber acquisitions.

**Erdemir** raised its base prices 2.4% on average for hot and cold rolled products in line with the strong demand in global steel markets mainly coming from China. With this latest price adjustment (this is the 8th time since December 2003), while cold rolled prices reached US\$705/t, hot rolled prices came to US\$615/t, representing increases of 58% and 78%, respectively, since December 2003.

## SECTOR NEWS & PRIVATISATION

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### PRIVATISATION

**Halkbank:** Mr. Sayin, the head of the public sector banks, stated that **a domestic and a foreign financial institution are interested in**

**Halkbank, which had previously merged with Pamukbank.** He further stated that the board would meet these institutions in January. According to the announcement, Halkbank's

privatization will either be via a block sale or a partial block sale combined with a public offering. The soonest possible date for the privatization is the end of 2006.

**Ziraat Bank to be sold after 2007:** State owned Ziraat Bank's GM Caglar announced that the government was planning to sell the bank in tranches as the bank's size does not allow a one-off block sale. In line with IMF's and World Bank's advice Turkey wants to reduce state involvement in the banking sector.

**Koc Holding** officially announced that the JV Company between Koc Group and Unicredito of Italy (also the parent company of Kocbank), **Koc Financial Services**, in which the Holding has a 24.5% direct and 30.78% total stake, **signed an agreement with Cukurova Group to start the due diligence process at Yapi Kredi Bank** in line with the sale process of the bank. The official sales price should be determined after the due diligence process if Koc Financial Services (KFS) decides to make an offer after then. Local media added that Koc Financial reached an agreement on the sale of Cukurova's 45% stake in YKB for US\$900mn. While Cukurova Group owns 45.5% of YKB, SDIF has a 12.9% stake, with the remaining 41.6% free float. Separately, the media news claimed that the Soc. Générale submitted a serious but unknown bid for YKB.

**Turk Telekom:** Sabanci Holding and Koc Holding established a 50-50% JV to participate in the PA's block sale tender of 55% of Turk Telekom's shares. Being Turkey's largest industrial groups, Sabanci and Koc had fallen back in terms of competition and market share, in the fast growing telecom and IT sectors. Furthermore, according to local media, 7 other investors have applied for the pre-qualification for the privatization tender. The tender is planned to take place on May 31<sup>st</sup>. Interested companies are as follow: Telefonica (Spain), Telecom Italia, Belgacom (Belgium), Deutsche Telekom, Oyak Group, Dogan Holding and

Turkcell group via Turkcell. BNPP advises Turkish State on this privatization project.

**The state railways (TCDD)** will announce the qualifiers from the 11 consortiums that applied to participate in the **tender of 2<sup>nd</sup> phase of Istanbul-Ankara high speed train projects**. Enka Insaat together with Gama and the German HOCHTIEF is among the bidding consortiums. Estimated project size is EUR700mn. Alarko Holding has also expressed its interest in this project and the company is planning to participate in the tender with a foreign partner.

#### ADVERTISING/ MEDIA SECTOR

The CEO of Dogan Yayin Holding and the President of International Advertising Association (IAA) stated that the advertising sector grew by 36% in US\$ terms up to US\$1.2bn in 2004, surpassing the level reached in 2000 in US\$ terms. They expected that the sector will grow at least 30% in 2005. As a reminder, the share of advertising expenditure in GDP was 0.55% in 2000, compared to an estimated 0.41% this year. This ratio is expected to reach around 1% within 5-7 years after Turkey started negotiations with EU, similar to the case observed in other countries that passed through this negotiation process.

#### AUTOMOTIVE SECTOR

The Automotive Manufacturers Association (AMA) released December 2004 production data: despite the 14% decline in passenger segment, the aggregate vehicle production slightly increased by 9% compared to previous month, thanks to the hefty 16% growth in LCV segment. As far as full-year concerned, the total passenger car and LCV production posted YoY growth figures of 52% and 58%, respectively, pulling up the aggregate vehicle production by 54% to 823,408 units. In the meantime, passenger car sales amounted to 50,197 in December, which represents a 64% increase compared to November sales. Total amount of sales in passenger car reached 451,209, which indicates a 99% increase YoY basis.

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*Sources: Anadolu Agency, Turkish Daily News, Merrill Lynch, Dışbank, Bender, Garanti Bank, Detay, MEED, DİE, Undersecretary of Treasury, CBRT, Yapi Kredi Yatırım, FinansIn vest, Hürriyet, Sabah, Radikal, Akşam, Financial Times, Ege Yatırım, TEB Yatırım, EBA newsletter, Cumhuriyet.*<sup>1</sup>

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