

# 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
22%		1,312,206
Most actively traded T-Bills		
Date	Maturity	C/Rate
19/03	27/04/05	24.2%
ISE-100 index		
TRL 20,024 (\$1.53)		

**Stock Market Index reached historical high** on Friday close as the news regarding Prime Ministers participation to the upcoming March 23<sup>rd</sup> Switzerland Cyprus meeting improved market sentiment.

**CBT FX Reserves:** declined US\$582mn to US\$32.8bn in the week of Feb.27-March05 and fell by US\$946mn to US\$31.8bn in the week of March 05-12 due to Treasury's heavy foreign debt redemptions amounting to US\$1.5bn.

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 (%)
17/03/04	16/06/04	03	1,493	1,405	94	1,331	23.95
17/03/04	15/06/06	24	2,549	1,978	78	2,296	29.53

**The current account posted US\$2,459mn deficit in December** slightly above market expectation of US\$2.1bn. As a result, the cumulative deficit totaled US\$6.8bn in 2003 (2.9% of GNP) compared to US\$1.5bn of deficit last year. This is below the government's estimate of US\$7.7bn (3.2% of GNP). Imports soared to US\$7.6bn in December from the US\$4.8bn of the previous month, which was well expected due to seasonality and higher exports that mainly depend on imported material. Exports also rose to US\$4.8bn level, above that of October. It must also be noted that tourism revenues totaled US\$9.7bn in 2003. Furthermore, Government expects the current account deficit at 3% of GNP this year.

**IP increased 6.5% in January** compared to the same month last year, which is lower than the market consensus of 12.9%. Hence the index slid on a monthly basis to 109.4 level in January from 124.9 of the previous month. The January level in IP is the lowest figure since August 2003 due to poor weather conditions (which have an

impact on agriculture) and decrease in refinery item.

**SIS disclosed the Labor Force statistics for 4Q03:** Accordingly, the unemployment rate fell from 11% in 4Q02 to 10.3% in 4Q03 and the sum of the unemployment and the under-employment rates dropped from 16.1% to 15.3%. The number of employed corresponds to a loss of 847,000 jobs, especially in agriculture

**March CBT survey:** expectation for year-end CPI fell to 12% from 12.7%, the 12-month fwd looking expectation declined to 11.1% from 11.7%, annual 2004 growth unchanged at 4.8%, year-end TL/Usd exchange rate down to 1,514,900 from 1,532,900 and the reference T-Bill rate expectation at year-end also fell to 18.6% from 18.8%.

### IN BRIEF

**S&P raises Turkey's TL rating:** S&P ratings agency raised its long-term local currency rating on Turkey to BB- from B+. S&P also affirmed Turkey's B+ long-term and its B short-term foreign currency ratings, revising both local and foreign currency outlooks to positive from stable. In the meantime, S&P's announced that Garanti's long-term FX rating was under review for a potential upgrade on the back of talks with Intesa.

**Additional revenue package:** The Ministry of Finance seeks a 12% increase in cigarette prices. Tekel and Philip Morris have raised that prices, which should allow the Government to attain the targeted revenue from the tax measure. The SCP is lowered by around 2 to 4% in several petroleum products including gasoline and diesel while SCP on beer is raised by 6%, same tax on raki is increased by 25%. Meanwhile, natural gas prices and electricity tariffs will not increase.

**7<sup>th</sup> review completed:** once the above mentioned additional revenue package is agreed upon, State Minister Babacan said the IMF board can convene in April to release the US\$660mn, which was previously set as US\$500mn. The difference stems from the fact that the remaining US\$2bn funding above the stand by will be divided into three rather than four as the number of reviews are reduced.

**CBT Rate Cut:** The Central Bank reduced the O/N borrowing rates by 2 percentage points to 22%, and its lending rate to 27%. The CBT had disclosed 6 rate cuts in 2003, while 2004's first cut of 2 percentage points was announced on February 5.

The degree of dollarization in the Turkish economy, which had followed a downward trend in 2003, maintained its southerly pattern in

January-February 2004. But, this time there was **a decline in the FX deposits indicating that "reverse stock dollarization" started.** Meanwhile, the foreign investors' Turkish investments exceed US\$17bn in Feb.04 (compared to US\$8bn in 2002) and that puts pressure on the FX rates. The bulk of foreign investment representing 55% of the total is on ISE (equities) followed by TL denominated Government securities (24%).

## POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

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**Another constitutional amendments package was in the works** to entrench the equality of women and men, further reduce the military's influence and abolish state security courts, to raise the adherence with the EU constitution. These changes would be made after the local election on March 28. In the meantime, The EU Parliament's foreign affairs commission cleared a report asking Turkey to adopt a new constitution and reduce the military's influence in politics. The report calls on Turkey to take many further steps to be eligible to receive a date to begin accession talks.

**Cyprus talks:** Turkey and Greece will hold reunification talks in Switzerland starting on March 23 without President Denktas. The participation of Erdogan and Karamanlis, who are scheduled to join the proceedings on March 28, is likely to elevate the status of the talks. Meanwhile, Denktas said he would follow the progress in Switzerland and then decide on whether or not to resign from his negotiator post.

**WB Credit:** WB Head Wolfensohn stated that a total US\$1.5bn could be extended to Turkey in 2004. Under the Country Assistance Strategy, WB plans to give a cumulative amount of US\$4.5bn to Turkey during 2003-2006.

**The AKP is likely to sweep local elections in Ankara and Istanbul, according to a poll conducted by A&G.** According to the poll, the AKP would secure 68.4% of the votes in Ankara, followed by CHP and SHP at a distant second and third at around 11.7%. The AKP is favoured in Istanbul as well with 58.5% of the vote followed by CHP at 19.1%. In Izmir, CHP is expected to win with 49.5% of the votes.

**Investor Advisory Council:** inaugural meeting was held on March 15. During the meeting, 20 international executives together with the heads of 4 leading Turkish business associations have met Prime Minister, State and Finance Ministers to discuss how to enhance Turkey's competitive position in the world economy and improve FDI. BNPP was represented by M. Jacques de Larosière.

## COMPANY NEWS

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### Garanti Bank:

- Italian Banca Intesa begun negotiations to purchase a majority stake in Garantibank. Meanwhile, Garanti's parent Dogus Holding targets to finalize the deal by end-Sep. Intesa might be interested in buying slightly over 50% of Garanti for up to US\$1.5bn.
- Reported a consolidated BRSA net profit of US\$234mn in 2003, corresponding to 229% real YoY growth.

**Akbank:** reported its 2003 IFRS net profit as US\$1,056mn, registering a 94.5% growth over FY2002 (US\$543mn).

**Ak Enerji:** reported US\$19mn net earnings in 2003 compared to US\$29mn net profits in 2002. The company also announced IAS and IAS consolidated figures as of Dec-03. The company reported US\$5.2mn and US\$4.7mn net earnings in 2003 according to IAS and IAS consolidated respectively.

**TEB:** reported a consolidated BRSA net profit of US\$34mn in 2003, registering a 63% real YoY growth.

**Petkim:** announced a loss of US\$57.2mn in its 2003-end CMB based statements, worse than its

US\$1.8mn profit posted in 2002. The loss was US\$155mn in its inflation-adjusted accounts.

**Erdemir:** posted US\$227mn net profit in 2003 compared to a net loss of US\$101mn in 2002 in its inflation adjusted consolidated financials. Net sales rose from US\$1.2bn to US\$1.9bn due to the increase in global steel prices. The company turned around its operating loss of US\$224mn in 2002 to a profit of US\$78mn in 2003.

**Turkcell:** Pakistan Telecom. Authority has qualified Turkcell to participate in the GSM

tender after the acquisition of Digital Telecommunications in Ukraine and the recently won tender in Iran. Two licences will be awarded in the tender to be held by Pakistan in mid April 2004.

**Cukurova completes its 2003 payments:** the company paid US\$17.6mn interest to SDIF, stemming from the debt restructuring agreement signed last year. The payment was due end-of-March.

## SECTOR NEWS & PRIVATISATION

### PRIVATIZATION

According to PA data, **privatization proceeds totaled US\$386.9mn in the first 2 months.** The annual figure for the last year remained at US\$171.6mn. Meanwhile privatizations, which have been approved or await contracts to be signed, total US\$1,576mn. US\$1,302 of this amount is accounted for by Tupras.

#### Turk telecom:

- The PA has revoked the tender to select the advisor to Turk Telekom. Nevertheless, the PA targets to initiate TT privatization process by end-May. In order to facilitate nomination of advisors and remain outside the scope of State Tender Law which in itself poses major hurdles in inviting a limited number of qualified institutions for advisory work, a new Law is submitted to the Parliament.
- Koc Holding and Sabanci Holding announced that they had appointed Goldman Sachs as their consultant for the upcoming TT privatization tender.
- Italian TIM's CEO said that the company is interested in TT privatization and is waiting for the government to clarify the tender details.
- The government announced that the bill that will enable sale of more 50% of TT to international investors was submitted to the Cabinet. Currently, sale of only 45% of TT to international investors is allowed.

### OIL & GAS SECTOR

The U.S. Defense Department announced new contracts for companies delivering gasoline to Iraq, replacing some contracts that were previously handled by a company formerly run by Vice President Cheney. **The U.S. Defense Department awarded 6 contracts, totalling US\$200mn, to Turkish Companies. Turcas Petrol was awarded a US\$59mn contract for diesel fuel and gasoline for Iraq. Opet Petrolculuk (40% participation of Aygaz) was awarded a US\$55mn contract for gasoline. Petrol Ofisi won a US\$35mn contract for diesel fuel. Delta Petrol Urunleri Ticaret won a US\$18mn contract for liquefied petroleum gas, Ipragaz, a US\$17mn contract for liquefied petroleum gas and Tefirom Construction & Energy, a US\$15mn contract for liquefied petroleum gas.**

### ENERGY SECTOR

Turkey has prepared a strategy for the electricity sector, as required by the World Bank. The plan was adapted in the High Planning Board paving the way for a US\$375mn economic reform loan. According, electricity distribution regions will be included in the privatisation portfolio on April 1 and the related tenders will be initiated in March 2005. The production facilities will be included in the portfolio in June 2005 and tenders will follow in July 2006.

*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.*<sup>1</sup>

<sup>1</sup> This report has been prepared by the Representative Office of BNP Paribas in Istanbul. The information and data contained in this report has been acquired from sources believed to be reliable, however its accuracy and completeness can not be guaranteed. This report is published solely for information purposes, neither the information nor the opinions expressed herein is to be interpreted as an offer to sell or a solicitation of any offer to buy securities. BNP Paribas accepts no liabilities for any direct loss arising from the use of this report. This report may not be reproduced, distributed or published completely or partly by any other party without the prior written consent of BNP Paribas.