

# 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%		1,301,340
Most actively traded T-Bills		
Date	Maturity	C/Rate
02/04	24/08/05	21.4%
ISE-100 index		
TRL 20,485 (\$1.57)		

**CBT FX Reserves:** rose US\$154mn to US\$32bn in the week of March 12-19 and climbed by US\$545mn reaching US\$32.55bn in the week of March 19-26, thanks to FX buy auctions.

**Redemption/Domestic borrowing program for April:** total domestic debt service is US\$11.2bn as compared to US\$9.6bn of previous month. The Treasury will repay US\$10.3bn domestic debt to the market and US\$0.8bn to the public sector. Total debt service in April including foreign debt is projected to be US\$11.7bn. Treasury plans to borrow a cumulative sum of US\$8.6bn implying a market rollover of around 83%, lower than last month's realized figure of 100%.

**Primary surplus: the budget posted a US\$2.6bn primary surplus in the first two months,** US\$500mn of which was registered in January alone. These results are much better than the Treasury's cash-based figures (primary cash surplus of US\$825mn) had implied. According to the Treasury, the weak cash figures were due to late arrival of some tax receipts and recent change in tax legislation. However, the Jan-Feb primary surplus indicates a YoY decline of 19.7% in nominal TL terms and 37.9% in real TL terms.

**Domestic Debt stock reached US\$151.7bn at the end of February** (US\$149.1bn in January). The rise in domestic debt in USD terms was US\$2.6bn, mostly due to the appreciation of the TL. **The external debt stock declined to US\$64.2bn at the end of February** from US\$64.7bn as of end January due to the external debt payment of the Treasury. Consequently, **the total debt stock reached US\$216bn** at the end of February, up by US\$2.2bn from end January figures of US\$213.8bn.

Treasury released of interest rate on domestic debt stock, which it suspended the announcements for a while. Real interest on domestic debt stock, which was 13.1% in June, had declined to 12.9% in September. It rose to 13.6% in November, but then retreated to 11.9% in December due to the decline in the interest rate on TL and FX denominated /indexed market bonds.

According to the SIS, **Turkey's trade deficit totaled US\$1.5bn in January.** The January 2003 trade deficit was at US\$855mn level while the previous month figure was much higher at US\$3.5bn level. Imports that increased 34% in January compared to the same month last year reached US\$5.9bn level while exports totaled US\$4.4bn with an increase of 24%. It should be noted that these high growth rates were partly a result of changes in cross rates in favor of the Euro. When adjusted for the cross rate changes, the export and import growth rates fall to 13.1% and 24.6%, respectively. This trade deficit figure implies a current account deficit of at least US\$10bn, which is about 3.3% of expected 2004 GNP (versus US\$6.8bn or 2.8% of GNP in 2003).

**Exports, March 2004:** According to the Exporters' Assembly, Turkey's exports rose by 40% YoY to US\$5.3bn in March registering record level. Cumulative Exports rose by 35.5% to US\$13.84bn in Jan-March and by 32.9% YoY to US\$51.5bn over the last 12 months.

**2003 growth data** announced by SIS indicate a **5.8% growth in GDP and 5.9% in GNP** better than market expectations of 5.3% for both GDP and GNP. The figures indicate that the private final consumption expenditures that surged 10.3% in the last quarter totaled 6.6% for the whole year while investment increased 10% in 2003. Private sector investment soared 30% in the last quarter driving the 2003 growth in this sector to 20% level. Additionally, it is seen that the government investment turned into positive territory in the last quarter. Exports that were expected to be strong in 2003 surged 16%. Moreover, it is seen that the change in stocks continued to post a remarkable positive value albeit a decline compared to the previous quarters. On the production side, 9.2% increase

in industrial production and 9.2% growth in the trade figures in the last quarter drove the last quarter growth to 6.1% for GDP and 7.2% for GNP.

In general, the 2003 results were very positive, especially due to the fact that it was recorded on top of a notable growth rate of 7.9% in 2002.

According to the SIS, **the CUR declined to 73.4% in Feb.2004 from 77.2% in the previous month.** The actual figure is still higher than the February 2003 figure of 71.9%. The private sector capacity utilization slid to 73.1% from 76.1% of the previous month. The decline in the CUR was expected as a result of the holiday, the adverse weather conditions and the consequence of lower CU rates in both private and state-owned manufacturing sectors during the month.

**March CPI and WPI rose by 0.9% and 2.1% respectively, vs. market expectations of 0.9% and 1.2%.** The increase in WPI was mainly due to high Agricultural and public sector manufacturing prices, which rose by 3.6% and 4.1% respectively. The increase on petroleum products consumption tax was the main driver behind the whopping increase in the WPI. Core inflation rose by a mere 0.7%. On a YoY basis, the WPI is still in single digit territory at 7.97%, whereas the CPI is down to 11.83%.

## POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

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**Local elections:** according to the results of the municipality elections, AKP received 41.7% of the votes (compared to 34.4% in the Nov. 2002 general Elections), followed by CHP, DYP and MHP with percentages of 18.2%, 10.6% and 10% respectively. The AKP, won by a landslide in Istanbul (45%) and Ankara (56%), and conceded victory to CHP (48%) in Izmir. The AKP won elections in 57 municipalities vs. 9 for CHP. In conclusion, the AKP is the clear winner of the municipality elections while the main opposition CHP is the most notable loser among the others. However, the AKP's victory is not as huge as dictated on early polls. This outcome is good in the medium term as far as domestic political balances are concerned though it might not strengthen PM Erdogan's hand drastically against the establishment on the Cyprus issue.

**Cyprus talks:** The final stage of the Cyprus talks in Switzerland has been concluded,

**Tourism, February 2004:** number of tourist arrivals recorded a YoY jump of 27%, while the increase in the first 2 months was 36%. Such eye-catching YoY performance stemmed from the fact that last year's figures were depressed by the Iraq war.

### IN BRIEF

**The World Bank will release a US\$375mn tranche** in April linked to an economic aid package now that the High Planning Board has approved a plan to deregulate the energy sector. Furthermore, **the WB approved a US\$202mn Renewable Energy Loan (REL) for Turkey**, aiming to increase privately owned and operated power generation from renewable sources such as hydro and wind within the market-based framework. The WB loan will supplement sponsor equity, commercial loans and export credits to lead to a total investment in excess of US\$500mn.

The BRSA revealed that private and foreign banks added nearly US\$1bn to their short on-balance sheet FX positions from Feb. 20<sup>th</sup> to 27<sup>th</sup>. From Feb. 27<sup>th</sup> to March 5<sup>th</sup> banks' short FX positions contracted rapidly, revealing that the rapid rise on Feb. 27<sup>th</sup> was temporary.

although no deal has been struck. In any case, the plan will be subject to the referendum in both sides of the island on April 24. The more central issue seems to be the commitment of the Turkish government to submit the results to a referendum. This point is subject to further debate in the National Security Council and the Parliament this week, but PM Erdogan appeared very upbeat about the final shape of the plan and signalled support of the Turkish government for a yes vote.

The Greek reaction was more subdued. Although Greek officials have not yet launched an explicit "no" campaign they have voiced their displeasure at the plan. According to a survey in Greek Cyprus, 84.7% are against the Annan plan. Another survey in northern Cyprus puts 51.1% in support and 48.7% against the plan

**European Parliament adopts report on Turkey:** the report does not include any proposals regarding a special status for Turkey,

but it does call for further constitutional amendments, such as abolishing National Security Courts, removing military officials from certain regulatory boards and extending religious

rights. EU governments are to decide in December whether to open formal accession talks with Ankara on the basis of a recommendation by the European Commission.

## COMPANY NEWS

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**Is Bank:** reported US\$304mn net income in its YE03 BRSA Financial Statements, up from US\$190mn at YE02.

**Tupras:** reported net earnings of US\$291mn in FY03 on CMB basis compared to US\$115mn in FY02. Based on IAS consolidated accounting standards, Tupras announced US\$296mn net profits in 2003. Furthermore, the company raised their FY04 revenue target to TL 20,000trl from the previous TL 18,000trl and plans to process 24.5mn t crude oil and produce 24.2mn t petroleum products this year.

**Volkswagen** Dogus consumer financing company received a syndication loan of TRL72trl (US\$55mn). Abn Amro and Société Générale provided more than half of the loan. The loan will bear interest of TRLIBOR +2% and will have 1-year maturity.

**Turkcell:** Turkcell plans to form 2 new companies to manage its international GSM operations. Turkcell Uluslararası Yatırım Holding, with a capital of US\$50mn, will act as a holding company for Turkcell's GSM business outside Turkey. Also, Turkcell will take 85% stake in a company, with a capital of EUR13.5mn, to be formed in the Netherlands. This company functions as a special purpose vehicle company for the investments in Iran. In

the meantime, Turkcell decided not to bid for the GSM tender in Oman.

**Garanti Bank:** Intesa and Dogus Group reached an agreement for the sale of Garanti Bank's majority stake to Intesa. Accordingly, Intesa will pay at most US\$800mn to Dogus for 40.05% of the voting shares of Garanti. In addition, net income will be added to the transaction price with a multiple of 1.55 on pro rata basis. Intesa will also have a call option to purchase 9.96% of Garanti's voting shares.

**Eregli** will distribute 100% cash dividends for 2003. Total cash outflow will be US\$33.4mn.

**Aygaz** reported US\$87mn net earnings under IFRS in 2003, up sharply from US\$44mn a year ago.

**Cukurova:** The SDIF and BRSA officials gathered to review Cukurova Group's second repayment plan for loans from Pamukbank and Yapı Kredi worth US\$5bn.

**POAS:** decided to increase its paid-in capital from TL300trl to TL315trl through 5% bonus issue and distribute TL30trl stock dividend.

**Zorlu Group:** planned to offer 20% of Denizbank to public in the second half of the year.

## SECTOR NEWS & PRIVATISATION

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### PRIVATIZATION

**Tatneft:** stated that they are interested in privatization of Petkim and other privatizations in the energy sector. Besides, they are planning investments amounting to US\$700mn in Tupras until the end of 2005.

**Halkbank and the SDIF reached an agreement on transfer of Pamukbank to Halkbank,** which will become the 4<sup>th</sup> largest bank of Turkey following the merger.

**Tekel:** the details of the privatization might get clear in mid April. Signalling no block sale this

time, the authorities stated that the tender would be in the second quarter, which means tender could be launched in June and bids could be submitted by September.

**Turkish Telecom:** Telecom Italia has EUR15bn to spend on investment and is looking for attractive opportunities. The Telecom Company is closely following TT's privatization.

### OIL & GAS SECTOR

The government plans to increase the profit margin of petroleum dealers and change the scheme from a fixed margin (11cents for

gasoline and 9cents for diesel) to a proportional scheme until April 10<sup>th</sup> in order to avoid frequent adjustments in the mark-up due to the appreciation of TL.

### **WHITE GOODS SECTOR**

Feb. 2004 data points to the continuance of strong momentum, beating market's expectations. This is the best February since

1998, the year of the highest level of historical shipments. Despite the short working month (due to a religious holiday) Feb.'04 total unit sales were up by 4% MoM, pointing to accelerating deliveries. Feb.'04 production was up by 47% YoY, signaling vigorous impetus also for the coming months. Domestic sales were up by 95% YoY and exports were up by 53% YoY.

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*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>

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