

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%		1,417,299
Most actively traded T-Bills		
Date	Maturity	C/Rate
30/04	24/08/05	25%
ISE-100 index		
TRL 18,023 (\$1.27)		

CBT FX reserves: increased by US\$816mn to US\$33.85bn in the week of April 15-22, the highest level seen since October 10 2003 at US\$34.7bn.

On April 27th, The Central Bank stopped its daily FX purchase auctions. The CBT attributed this to the shrinkage in the FX supply (due to the change in the global sentiment affecting the direction of the capital flows) and the elevated volatility. Thus, The Central Bank will not hold daily FX buy auctions in May.

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 (%)
21/04/04	21/07/04	03	4,951	2,305	47	2,187	23.38
28/04/04	24/11/04	07	1,117	942	84	1,090	24.19
28/04/04	05/10/05	17	3,416	2,764	81	2,672	23.72
28/04/04	15/03/06	23	2,217	1,245	56	1,862	29.58

Redemption/Domestic borrowing program for May: total domestic debt service is US\$9.2bn as compared to US\$10.4bn of previous month. The Treasury will repay US\$7.6bn domestic debt to the market and US\$1.5bn to the public sector. Total debt service in May including foreign debt is projected to be US\$9.8bn. Treasury plans to borrow a cumulative sum of US\$6.2bn implying a market rollover of around 81%, lower than last month's realized figure of 92%.

Net total public sector debt stock fell to 70.5% of GNP at the end of 2003 from 78.5% of GNP at the end of 2002. The decline was mainly due to TL's strong double-digit appreciation last year. Strong GNP growth close to 6% has also contributed to the improvement in the net stock figure to a certain extent.

On the other hand, **consolidated budget total debt stock rose by US\$1.9bn to US\$217.7bn throughout March 2004,** attributable to the

Treasury's borrowing. Domestic debt stock rose by US\$2.4bn to US\$155.1bn and external debt stock fell US\$1.7bn to US\$62.6bn in the same month.

In March 2004, CUR was recorded at 82.3%, comparing favourably with the consensus estimate of 79% and the 4Q03 average of 79%. On an annual basis, March CUR rose by 5%, while the state and private CURs increased by 4.6% and 5.9% respectively. The March CUR was positive indicating a notable recovery in the economic activity. In fact, the March exports and imports rising by approximately 35% were the previous indicators of such an outcome. However, the export sales were not the sole trigger of the elevated production. Other factors contributing were the pick-up in the domestic consumption and investment demand in an environment of lower interest rates and higher confidence.

According to Turkish Exporters Association, **exports rose by 42.8% in April to US\$5.3bn. In January-April 2004, exports rose by 36.9% YoY to US\$19,088bn.** The most noteworthy increase was witnessed in automotive and its parts by 44.2% YoY, in iron steel and steel non-ferrous metals by 64% and in electrical and electronic goods by 56%

The current account posted US\$783mn deficit in January above market expectation of US\$447mn. Foreign trade deficit at US\$906mn, seasonally lower tourism revenues and high foreign debt interest payments at US\$722mn (investment expenditures) were the main items behind the higher-than-expected deficit. Imports increased 34% to US\$5.6bn in January from the US\$4.1bn of the same month previous year. Exports also rose 27% to US\$4.7bn.

IN BRIEF

Second April CBT survey: Year-end CPI is estimated at 11.4%, growth at 4.9% and exchange rate at 1,497,000, up from 1,479,800 in the previous survey. The 12-month trailing CPI estimate has risen to 10.5% from 10.4%.

Moody's expressed concerns on the C/A deficit (which widened sharply in January) which was a "major concern" for the ratings

agency and investors. Another concern was pointed as Turkey's high indebtedness in an environment of elevated expectations of rising

interest rates globally. Finally, Moody's said that an upgrade for Turkey was not in the pipeline for a rate hike.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

Zana case becomes a burning issue of European attention: a state security court turned down an appeal by four former Kurdish deputies (particularly Zana Case, the recipient of the European Parliament's 1995 Sakharov peace prize) and ordered them to continue serving the remaining five of their 15-year jail sentence.

The European Parliament in a joint resolution condemned court decision and claimed it was a breach of guidelines set by European Court of Human Rights. Also, the Parliament claimed the sentence contradicted the judicial reform process undertaken by Turkey. As a result, EU Commission delays Turkey's exclusion from the watch list of Copenhagen criteria, which caused a backlash within the EU.

Referenda in Cyprus on the Annan Plan yielded the most expected outcome of YES from the Turkish side (with a percentage of 65%) and NO from the Greek side (with a percentage of 76%). Greek part of the island has joined the EU on May 1st despite their uncooperative decision in the referendum, while the future of the Turkish side remains uncertain. At first sight the result appears to be a success for the Turkish side. Turks have demonstrated

to the international community their willingness to accept a UN backed reunification plan, while the nationalistic instincts in the Greek part surfaced and blocked the reunification. Now the Turkish side expects the international community to relax their stance towards recognising Cyprus. The EU has voted to release a EUR259mn aid to the Turkish Cypriots, but the EU is also preparing to ask Turkey to officially recognise the Greek Cypriot Republic, which will put Turkey in a very difficult position. Furthermore, the European Union agreed on a deal which will ease trade restrictions in North Cyprus but the United Nations could not agree to abandon the embargo on the Turkish side of the island due to Russia's veto.

The Council of State rejected the BRSA's appeal to reverse the court ruling that Demirbank and Kentbank should be returned to previous owners. The banks themselves were either merged or sold off and no longer exist and the former owners do not appear poised to demand their return, but perhaps some form of compensation.

COMPANY NEWS

Akbank: reported net earnings of US\$938mn on BRSA consolidated (only financial companies) basis in FY03 compared to US\$371mn in FY02. The bank reported net earnings of US\$928mn on bank-only BRSA basis in FY03.

Turkcell:

- According to US GAAP financials Turkcell announced US\$215mn net profit in 2003. The company has decided to propose a US\$85mn cash dividend at its GA in June.
- Turkcell's subscriber base increased by 678k to 19.7mn in 1Q04. In 1Q04, 15% of the gross additions were post-paid subscribers (11% in 4Q03), which generally have higher usage patterns.

Disbank:

- Decided to distribute 34% stock dividends. As a result PIC increased from TL271.6trl to TL363.94trl.
- Reported net earnings of US\$120mn in 1Q04 on BRSA basis compared to US\$9mn in 1Q03.

Enka Insaat: announced its 2003 IFRS consolidated revenues as US\$1,041mn and net profit as US\$193mn, registering a 13% growth over 2002.

Erdemir:

- Announced US\$85mn of net profit in 1Q04 results for tax purposes, 50% up from US\$57mn a year ago. The company generated US\$419mn of net sales in 1Q04, up by 46% YoY as a result of the substantial rise in steel prices since December 2003. The

results are not consolidated and not adjusted for inflation.

- Has submitted a bid for acquiring 100% of Eti Krom, which involves in ferro chrome production and is slated for privatization. This is in line with Erdemir's strategies of increasing local procurement of raw materials.

Koc Holding: will distribute a 5.4% cash dividend (TL54 per share) on May 31. Total cash outflow will be US\$30mn.

Petkim announced another dismal loss figure, US\$47mn in its CMB-inflation adjusted 1Q04 bottom-line. Revenues and EBITDA in 1Q04 were reported at US\$211mn and US\$22mn, respectively. Petkim's Mcap is \$794m, 17% more than the highest bid offered in its failed privatisation tender.

Sabancı Holding: posted a net profit (IFRS) of US\$584mn registering a real growth of 92% over 2002. A large portion of this figure (approx. US\$435mn) stems from Akbank's hefty 2003 net

earnings, which represented a 95% real growth YoY.

Petrol Ofisi: agreed to pay US\$61mn upon demand by the Privatization Administration after a local court gave an injunction decision on the restructuring plan.

Isbank: recorded net earnings of US\$120mn for 1Q04 on its BRSA unconsolidated financials as compared to US\$13mn in 1Q03.

Cukurova Group: Reportedly, the agreement between the Cukurova Group and the Banking Regulator, on the ownership issue of YKB, could be reached in 45 days time. BRSA's demands included disclosure of the creditor before accepting any offer from the Group in order to assure its eligibility for bank ownership in Turkey. The potential owner of YKB is from the Gulf and the Far East. The BRSA is seeking Turkcell shares as collateral if payment is made via installments.

SECTOR NEWS & PRIVATISATION

PRIVATIZATION

Tupras: Facing a deadline of May 28, the payment for Tupras' acquisition is targeted to be made by May 15.

Turk Telecom: the interested parties for the 51% block sale of TT will apply by May 20th to have access to information on the company. The auction will be held some time after July 15th. Potential bidders will have access to various commercial information as well as the financials for the period 1999-2003.

Public Banks: Turkey will choose a consultancy firm to advise on a timetable for the privatization of state-owned Ziraat and Halk banks. The three candidates are Deloitte Touche, McKinsey and Boston consulting. In its latest letter of intent to the IMF, Turkey said it would make public by the middle of June its timetable for privatizing the Ziraat and Halk banks, and sell Halkbank to small businesses by the end of 2004. It also plans on merging failed private bank Pamukbank with Halkbank before the sale.

Public Procurement Law amended: With the amendment, the tenders for consultancy services regarding the privatization of public companies are removed from the scope of the law. It was argued that the public procurement law brought important obstacles before the privatization process, thus the amendment of it is expected to facilitate the process. For example, the tender held for the consultancy services regarding the privatization of Turk Telekom was annulled as the applicant companies could not meet the requirements in public procurement law.

WHITE GOOD SECTOR

March 2004 data points to the continuance of strong momentum, beating market's expectations. This is the strongest March ever. Production has for the first time surpassed the 1.0 million-unit mark, reaching 1,022k units, up by 51% YoY and 43% MoM. 1Q04 production was also up by 46%, signaling vigorous impetus also for the coming months. March domestic unit sales were up by 69% YoY and 37% MoM at 392K units. 1Q04 domestic unit sales reached 950k units, up by 60% YoY. Export unit sales were up by 47% YoY and 20% MoM at 598k

units. 1Q04 export unit sales reached 1,578k units, up by 47% YoY.

PETROLEUM SECTOR

The negotiations regarding the petroleum distribution mark-ups are finalised. Accordingly, distribution mark-up for gasoline is increased from Uscent 11/lit to Uscent 13/lit (by 18%) while mark-up for diesel is raised to Uscent 11/lit from Uscent 9/lit (by 22%). Note that previous media coverage hinted that distributors demanded Uscent 15/lit for gasoline and Uscent 12/lit for diesel while their desire of converting the current scheme to a proportionate system tied to TL-based ex-refinery prices has not been realized either.

TELECOMMUNICATION SECTOR

The Telecommunications Authority (TA) decided to award 32 companies with licenses

for long distance telephone services. A type licensees are required for companies to undertake their own infrastructure investments, whereas B and C type licensees will use infrastructure of Turk Telekom while providing long distance telephone services. Among companies that obtained A type licenses are Koc.Net (86.1% subsidiary of Koc Holding), Sabanci Telekom (100% subsidiary of Sabanci Holding), Dogan Online (60% subsidiary of Dogan Yayin Holding), Borusan Telekom (46% participation of Borusan Yatirim), Superonline (Yapi Kredi Bank's 72.4% indirect participation). The TA will officially distribute licenses on May 9th, however, companies will not be operational before meetings that will be held between the Telecommunications Board and each licensee. Telecommunication companies of major Groups in Turkey expect to start their operations by the end of May.

*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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