

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%		1,527,554
Most actively traded T-Bills		
Date	Maturity	C/Rate
14/05	05/05/05	29.6%
ISE-100 index		
TRL 16,531 (\$1.08)		

CBT FX reserves: fell by US\$128mn to US\$33.7bn in the week of April 23-30, and fell by US\$166mn to US\$33.5bn in the week of April30-May7.

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 (%)
05/05/04	24/11/04	7	935	769	82	828	26.45
05/05/04	15/03/06	23	839	496	59	576	32.06
12/05/04	11/08/04	3	3,073	1,778	58	1,675	26.84
12/05/04	24/11/04	7	884	373	42	436	29.44
12/05/04	05/10/05	17	4,624	1,457	32	1,212	30.94

The Treasury will hold a swap auction this week: FX-linked paper coming due on 16 June to be swapped with FX-denominated 1-year G-bonds, estimated around 2.2qrl. These papers were issued in June 2001, partly to cover the open FX positions of banks. The current volatility in the FX market and increasing FX demand has led banks to be cautious and accumulate FX in order to cover their positions, which might have remained unhedged, if the Treasury had not announced such a swap.

The budget posted **US\$1.438bn of primary surplus in April** while the budget deficit reached US\$2.4bn. The higher than expected primary surplus resulted from the measures taken in March in order to reach the primary surplus target of 6.5% of GNP in 2004. The Ministry of Finance revised the primary surplus of March upward to US\$3.39bn from US\$3.2bn due to the higher tax revenues. **With this figure, the primary surplus in the first four months of 2004 reached US\$7.38bn** while budget deficit amounted to US\$7.68bn.

The current account posted US\$2.07bn deficit in February, above market consensus of

US\$1.50bn. Imports surged 44% to US\$5.6bn in February from US\$3.9bn compared to the same month of the previous year. The YoY increase in exports stayed at 19% with US\$3.8bn level. With these figures, the current account deficit in the first two months of the year widened to US\$2,849mn (around 1% of GNP) against US\$1,383mn in the same period last year. The CA is expected to post similar deficits for March & April raising concerns in the market but is expected to decrease in summer months when tourism revenues increase.

The industrial production rose by 14.9% YoY in March 2004, comparing favourably with the consensus forecast of 12%. The average YoY increase recorded in January-March 2004 was at a notable 12.6% and the index rose to the record level previously seen in December 2003. Coupled with the CA deficit some economic agents are now calling for measures to cool down strong growth.

The Central Bank has intervened in the FX market as \$/TL rate surged to 1,570 thousand, which might imply that the government and the Central Bank agreed on measures to ease the volatility in the markets in May 10th meeting. As a result, \$/TL rate declined to 1,540 thousand. This is the first time intervention of the Central Bank in 2004 on the sell side. Meanwhile, the borrowing rate for banks in FX markets was also lowered to 6% from 10%, which will ease the liquidity pressure on banks, hence we find it positive.

In the meantime, CBT chief Serdengeçti said that relationship with IMF and high primary surplus was vital for Turkey and warned that a serious inflation risk was coming from the services segment. He added that Turkey needed monetary and fiscal policies to boost supply and production capacity and in order to curb demand and consumers loans.

April CPI at 0.6% was much below expectation of 1.4%, while WPI was 2.7%, significantly above the 1.3% consensus. The high WPI inflation reading is not that worrisome at this point because it was largely a result of the 6.7% monthly hike in agricultural prices and the robust private manufacturing prices (affected by the world commodity prices). On the CPI front, the lower-than-anticipated rise can primarily be

attributed to the sluggish increase in the food prices and the housing prices. The 1.5% MoM core inflation figure is annoying because it does not yet include the recent weakening of the Lira. YoY CPI inflation has fallen to 10.2%, while WPI and core inflation have increased to 8.9% and 7.5%, respectively. The year end targets (12% on each front) still seem achievable.

IN BRIEF

Number of tourists soared 58.3% YoY to 783,761 in March. The significant surge

partially resulted from the base effect as the tourism was negatively affected in March 2003 due to Iraq war. The number of tourists in 1Q04 rose 44.2%YoY to 1,925,434. Thus, **Turkey's tourism revenues soared 42.6% YoY to US\$1.7bn in 1Q04.**

Turkey has secured a US\$202mn loan from the World Bank to be used for renewable energy projects. The loan is part of Country Assistance Strategy package.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

AKP submits controversial "religious school grad" bill: Despite the CHP's opposition and widespread reaction from NGO's, university teaching staff, a controversial university bill was adopted in the Parliament. That would make college entrance for religious school grads on equal footing with other high school graduates. In the meantime, The Turkish Armed Forces slammed the AKP's decision to pass this bill but the Government did not back off this time and pushed the bill amid the outburst of the so called establishment. The Military believes these schools were originally meant to educate men

seeking to become religious preachers. For the time being, the Bill was submitted to the President, who has 15 days to veto or accept the bill. President Sezer is expected to veto the bill. Afterwards, the Government can either keep the bill at the Parliament, send it without any change or send it with a change in the controversial 5th item which is about the Imam Hatip Highschools. If the Government resends the bill without a change, Sezer cannot veto for the second time, but can submit it to the Constitutional Court.

COMPANY NEWS

BANK

Akbank reported net earnings of US\$190mn in 1Q04 on BRSA basis implying a 413% increase YoY in USD terms from US\$37mn in 1Q03. Earnings fell by 15% QoQ in \$ terms from US\$223mn in 4Q03.

Garanti Bank reported net earnings of US\$111mn in 1Q04 on BRSA basis compared to US\$16mn in 1Q03.

TEB reported net earnings of US\$5.1mn in 1Q04 compared to US\$2.6mn in 1Q03.

Yapi Kredi Bank

- Announced a net profit of US\$66.9mn in 1Q04 in its BRSA bank only financials compared to a net profit of US\$18.9mn in 1Q03.
- On May 6th BRSA said that following 37 meetings, the most recent one was the most important. The BRSA reckons that both parties have managed to find common ground on the YKB deal and that there is no

problem on the issue of the foreign backers of Cukurova.

Is Bank disclosed US\$120.5mn of net income in its 1Q04 BRSA Financial Statements (US\$87mn in 4Q03).

Disbank reported US\$11mn net income in its BRSA financial statements, down from US\$57mn in 4Q03.

Finansbank:

- Announced a net profit of US\$173mn in its 2003 BRSA consolidated financials compared to a net profit of US\$185mn in 2002.
- Moody's upped Finansbank's outlook on its Financial Strength Rating (FSR), which is at D+, from negative to stable. The bank's long-term and short-term local currency ratings were maintained at Baa3/P-3.

Tupras had foreseen US\$4.3bn worth oil imports in 2004, but with the increase in prices,

the refinery has revised the estimate to over US\$5bn.

Turk Telekom recorded a US\$501mn gross profit in 1Q04 (US\$329mn in 1Q03). According to the operator's CEO, TT targets capex of US\$500mn in 2004.

POAS: Gasoline and diesel sales volume rose by 2.8% and 9.7% respectively, whereas fuel oil sales volume fell by 11.2% in 1Q04. Petrol

Ofisi's market share was 25.4% (down 0.1%), 35.4% (up 0.7%) and 35.0% (up 3.8%) in gasoline, diesel and fuel oil products in 1Q04 (compared to 1Q03).

Turkish Airlines posted US\$49mn of loss in 1Q04 financials reported for tax purposes. In 1Q03 the company recorded US\$15.2mn of net loss under CMB financials.

SECTOR NEWS & PRIVATISATION

PRIVATIZATION

The Privatization Administration now plans to launch privatization process for 5 to 6 electricity distribution regions in October. According to the energy strategy plan devised in collaboration with the World Bank, tenders for 21 electricity distribution regions will be launched by March 2005.

The government submitted a bill in Parliament that would pave the way to sell more than 51% of Turk Telekom to international investors. The bill also envisions the sale of a majority stake to foreign investors in SDIF-owned companies such as GSM operator Telsim.

Mc Kinsey was selected as consultant in the privatization of state banks and is also in negotiations with the PA for an extended advisory role in the privatization of electricity, distribution, region.

SDIF sales: the SDIF announced that it aimed to conclude partial or complete sale of the portfolio by the end of July. The SDIF also noted that a consultancy firm would be selected to carry out the rehabilitation, valuation and sale

of Uzan Group companies by the end of this month.

11 bids for sugar factories: The PA disclosed that eleven bids have been received for three state run sugar factories.

AUTOMOTIVE SECTOR

Total vehicles sales came in at 91.8k units in April, implying a 26% MoM, 352% YoY growth. This figure is the best ever and 243% above the 10-year average for March:

- LCV + car sales rose by 31% MoM and 367% YoY to 87.2k units in April.
- Seasonally adjusted figures suggest some 7% MoM decline in car sales, 80% MoM growth in LCV sales and 23% MoM growth in LCV + car sales.
- Unit exports rose by 1.6% to 41.3k units.

TELECOM SECTOR

The distribution of Long-Distance (LD) telephony licences will begin on May 17. Groups, including Sabanci Holding and Koc Holding, are reportedly interested in providing LD telecom services following the end of TT's fixed-line monopoly at YE2003.

*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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