



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%		1,485,155
Most actively traded T-Bills		
Date	Maturity	C/Rate
11/6	05/10/05	26.6%
ISE-100 index		
TRL 17,664 (\$1.19)		

CBT FX reserves: rose by US\$281mn to US\$33.1bn in the week of May21-28 and fell by US\$371mn to US\$32.7mn in the week of May 28-June 4.

US payroll figures and constructive announcements made by EU commissioner Verheugen contributed to the market sentiment and led the benchmark bond, Oct'05 2005, to decline back to 26% levels from 27.5%-28% range. Furthermore, the TL/US\$ rate declined to below 1.5mn to 1.49mn levels.

In its 154-day and 350-day re-issues on June 8th, Treasury borrowed a cumulative sum of US\$2.45bn, vs. its cumulative domestic redemption of US\$2.66bn. The interest rates were realized at 27.3% ca and 28.05% ca respectively in the short and longer-term varieties, while the Treasury covered only 57% and 41% of the bids.

Redemption/Domestic borrowing program for June: total domestic debt service is US\$6.4bn as compared to US\$8.7bn of previous month. The Treasury will repay US\$5.3bn domestic debt to the market and US\$0.4bn to the public sector. Total debt service in June including foreign debt is projected to be US\$7bn. Treasury plans to borrow a cumulative sum of US\$5.1bn implying a market rollover of around 96%, similar to last month's realized figure.

Consolidated Public Sector Primary Balance, March 2004: Turkey's consolidated public sector primary surplus was recorded at US\$2.5bn in March 2004, carrying the first quarter cumulative primary surplus to US\$5.9bn, exceeding the IMF-defined target of US\$4.1bn. Treasury's tight expenditure management, holding expenditure allowance at the start of the year, produced a strong headline

primary surplus figure well above the underlying fiscal stance. Strong currency combined with buoyant demand has also yielded such a result.

Cash Balance, May 2004: Finance Minister announced that the central government consolidated budget posted a primary surplus of US\$3.1bn less than the Treasury's cash based figures of US\$3.8bn and the market consensus estimate of US\$3.4bn. All in all, the January-May cumulative budget surplus reached US\$10.1bn (TL14,500trl) which was positive when compared with year-end 2004 target of US\$13.9bn (TL20,200trl) primary surplus.

CBT's expectation survey, June 2004: the year-end CPI expectation fell to 11.6% from the previous 12%, while the current month CPI expectation stood at 0.5. The FX rate expectation declined to 1,488mn for the month-end and to 1,604mn from 1,615mn for the year-end. Annualized yields year-end retreated to 20% while the June expectation averaged to 24.6%. CA deficit expectation of US\$9bn and GDP exp. of 4.9% remained unchanged.

Exports, May 2004: rose 26.8% YoY registering US\$4.95bn according to Turkish Exporters Association, slightly slower than the cumulative 36% YoY increase in exports in Jan-April 04 and also below the US\$5.3bn export figure recorded in April. In May'04 iron & nonferrous metal, electrical & electronic machinery and automotive exports rose by 67%, 57% and 46% YoY respectively.

Inflation, May 2004: Thanks to a surprising 3.1% fall in food prices, **the CPI came at 0.4%**, less than expected. With a sharper 5.2% fall in agricultural prices at the wholesale level, the headline **WPI was even lower at slightly below zero.** However, the **1.8% core inflation** was high, reflecting the Lira's depreciation and the 5% increase in local oil prices during May. With these figures, **YoY CPI has fallen to 8.9%**, a single digit number after more than 3 decades, **while WPI was 9.6%**, slightly up but still in single digit territory. Since food prices are likely to fall further during summer months, the headline CPI and WPI will continue to be very low or even negative in the next few months. In the absence of a supply side shock (through higher oil prices) or extreme weakening of the

Lira in the rest of the year, the 12% annual target seems easily achievable for the CPI but there is a risk of having a higher WPI inflation.

Industrial Production, April 2004: According to the SIS figures, the IP rose by 16.5% YoY comparing favourably with the consensus forecast of 12%. The manufacturing sector grew by 17.3% while the expansions in the mining and the energy segments were recorded as 20.6% and 7.8%. Analysing the manufacturing sector in detail, only coal and petroleum sub-sector recorded a production fall. Office machinery and equipment production soared by 152% indicating a high confidence level in the economy. Other huge increases were registered in the brown goods and automotive divisions, climbing by 88% and 84% respectively.

IN BRIEF

An IMF mission arrived in Turkey on June 4, for the 8th review of Turkey' program, sealed under a US\$19bn agreement with the fund. IMF mission looks into developments in implementation of the budget, structural reforms in social security, the banking sector and taxation, and the developments in privatization.

Tourism, May 2004: according to the SIS data, the number of foreign tourists increased by a significant 57% YoY in May 2004 to 1.8mn people. In the 5 month-term, the number of tourists climbed by 52.8% to a record level of 4.8mn people (however, during Jan-May 03 this number declined by an 11.9% YoY due to Iraq war).

POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

University bill: after several rounds of intra-party debates, PM Erdogan implied in his speech to the AKP members in Parliament on June 2 that **they would not pursue the issue of the higher education reform bill until the next legislative year.** Mr Erdogan cited the busy agenda due to EU adaptation laws and indeed the rising tension was viewed as hurting Turkey's EU prospects, raising questions on the role of the military in Turkish of politics as well.

The Court of Appeals released four Kurdish deputies (including European Parliament

Sakharov prize winner Leyla Zana) who were jailed ten years ago. This move is one of the most critical steps in Turkey's compliance as the issue has received severe criticism from the EU and it was held synonymous to the implementation of human rights reforms. This verdict is likely to clear the way for the adoption of the report on Turkey in the Council of Europe Parliamentarians Assembly and lead to removal of Turkey from the political monitoring list.

COMPANY NEWS

Banks in the tables below announced their consolidated net earnings for 1Q04 (bank only 1Q04 net earnings that were previously revealed are also displayed in the table for comparison purposes):

(\$ mn)	Bank Only		Consolidated	
	2003/03	2004/03	2003/03	2004/03
Akbank	40	190	44	168
Disbank	2	11	-10	7
Finansbank	12	21	9	14
Garanti	17	111	36	133
Isbank	10	120	-17	124

POAS:

- Announced a net profit (IFRS) of US\$82.9mn in 1Q04, compared to a net loss of US\$63.7 in 1Q03.
- Has begun to work on a new storage capacity investment of 335,000m3, which will increase its total storage capacity by around 40%.

Sabancı Holding:

- Posted its 1Q2004 consolidated IFRS financial results. The company registered US\$112mn net income, US\$1.9bn revenues and US\$526mn operating profit. Comparable data for 1Q03 is not revealed.
- Will increase its direct stake in I-Bimsa, an IT company established as a 50/50 joint

venture between Sabanci Group and IBM in 1992, from 20% to 70% by purchasing IBM's shares in the company for US\$1.4mn.

Cukurova: Cukurova Group had applied to the BRSA and the SDIF for the early redemption of its debt to the SDIF (with a term of 15 years) and to the YKB (with a term of 9 years) in Dec. 2003. The Group offered to pay its debt to YKB in 2-year and its debt to the SDIF in a 1-year period. However, the BRSA rejected this initial offer due to its concerns with regards to ownership structure of the bank according to the deal. According to local media, Cukurova's new proposal, which has been submitted, to the SDIF, does not include any collateral that would be given to Northway Petroleum Services regarding the financing to be provided. It's also stated that technical evaluation of the proposal has been started, however the details of the new proposal have not been discussed in the Board of the SDIF. The size of the total payment offered by the group in the revised plan is speculated to be US\$4bn.

Turkcell recorded US\$126.2mn of net earnings (US GAAP) in 1Q04 compared to US\$39.5mn in 1Q03 (+219% YoY).

Koc Holding posted US\$74.1mn net profit (IFRS) and US\$3,476mn of consolidated revenues in 1Q04. Comparable 1Q03 figures are not revealed

Enka Construction posted US\$177mn, US\$23mn, and US\$40mn of revenues, operating profit and net income in its consolidated 1Q04 TR GAAP accounts. 1Q04 IFRS results were announced as US\$239mn.

Aygaz posted US\$7.9mn consolidated 1Q04 net profit as compared to a net profit of US\$86mn in FY03. Consolidation includes its participations Mogaz, Opet Petroleum and Opet Aygaz. Consolidated sales for the same period are US\$703mn and its EBITDA amounted to US\$28mn.

Dogan Holding/Disbank A consultancy firm will be appointed to look for partnership, joint venture or share transfer opportunities for Dogan Holding's participation, Disbank, in line with the ongoing developments in the domestic and international banking environment.

SECTOR NEWS & PRIVATISATION

PRIVATIZATION

Local Administrative Court cancelled Tupras' privatisation tender: Administrative Court issued its final verdict on Tupras' 65.76% block sale much sooner than expected, overruling the High Privatization Council's decision on the company's privatization. Recall that last week Administrative Court issued motion of stay regarding the issue. At this point, the Privatization Administration is expected to appeal against the Administrative Court's decision in Council of State. However, until the Council of State issues its verdict on the issue, the block-sale process cannot continue since the Administrative Court's decision is binding. If the Council of State issues go ahead with the privatization, the winning consortium's (Efremov-Tatneft and Zorlu Holding) willingness at that point will be important since when the Council of State will reach to its verdict is hard to gauge. In case that Council of State approves the Administrative Court's decision, the Privatization Administration will likely to open up a new tender for the company's privatization.

Turkish Finance Minister Unakitan said that privatization tenders so far in 2004 (including Tupras) amounted to a total of US\$2.3bn, bringing a cash inflow of US\$468mn. In the LOI, 2004's cash privatization revenue target was set at US\$3bn. The Minister told that Turkey would shortly launch a fresh tender for state-run petrochemicals firm Petkim. The PA cancelled a tender for Petkim in January after having attracted only one bid. Other planned Turkish selloffs this year include tobacco, sugar, telecoms and power companies. Turkey is also looking to make public offerings of shares in Turkish Airlines and the leading steel producer Erdemir. Advisory tender announcement for Turk Telekom privatization work is imminent. Privatization strategy calls for block sale of 51% of the company share followed by an IPO.

AUTOMOTIVE SECTOR

Passenger car sales reached 54,610 units in May, indicating a 242% YoY boom (+14% MoM). The passenger car sales surpassed 2000's same month level by 11%. The import ratio in

passenger car segment accelerated in May, reaching 74% vs. 69% in April. First 5-month sales in passenger car reached 198,000 units with a 318% annual jump. The 5-month LCV sales reached 91,512 units indicating 188% annual increase.

OIL SECTOR

ATAS refinery, which is the only private refinery in Turkey with an 11% share in Turkey's total production as of 2003, will halt its refining operations and start operating as a terminal distributing oil products to Southern regions of Turkey as of September 2004. The

company is owned by BP (68%), Shell (27%) and Turcas' subsidiary Marmara Petrol (5%). The refinery had an annual refining capacity of 4.4mn tonnes (compared to Tupras' capacity of 27.6mn tonnes); however, its CUR was as low as 61% in 2003. It is announced that partners decided to close down Atas' refining operations, since the company needed huge investments in order to be profitable, which was found infeasible. Atas refinery is far from satisfying EU specifications in the medium term. This development is positive for Tupras, as some of Atas' sales may shift to Tupras.

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

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