

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%		1,484,168
Most actively traded T-Bills		
Date	Maturity	C/Rate
25/6	05/10/05	27.2%
ISE-100 index		
TRL 17,355 (\$1.17)		

CBT FX reserves: fell by US\$144mn to US\$32.5bn in the week of June 4-11 and another by US\$203mn to US\$32.3bn in the week of June 11-18.

The Treasury issued US\$750mn in a US\$ denominated 7-year Eurobond placement at a yield of 9.25%. The bids reportedly reached US\$3bn and Lehman Brothers and JPMorgan-Chase have arranged the issue. YTD, the Treasury has issued US\$3.5bn Eurobond out of US\$5bn target. The amount will enter the Treasury's coffers on the 30th.

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 (%)
16/06/04	15/09/04	03	1,500	964	64	912	24.94
16/06/04	06/07/05	13	1,554	677	44	773	29.48
16/06/04	14/06/06	24	951	817	86	1,061	7.88

The foreign trade deficit for April came in at US\$3bn beating market expectations, and nearly twice as much as the amount recorded in April 2003 (+94.4% YoY). Exports were US\$4.9bn, up 34.6% YoY but slightly less than market estimate. Imports, however, reached US\$7.9bn, up 52.5% YoY, considerably higher than market projection. Thus, the large deficit in April was a result of a huge import bill and only marginally because of a weakness in exports. The YTD trade deficit reached US\$10.4bn in the 1st 4 months. The breakdown of imports by major commodity indicates that the sharpest increase was recorded in consumption goods (up 102.6% YoY which is probably a sign of currency overvaluation) while the second was in capital goods (up 86.8% YoY, reflecting the investment and long-term growth desire in the economy). The impacts of recent turbulence in financial markets, the resulting increase in

interest rates and the weakening of the Lira will be first seen in the June trade data.

As a result, **the Current Account posted US\$1.7bn deficit in April**, slightly below the market consensus of US\$1.8bn. The cumulative CA deficit reached US\$6.9bn level in the 1st 4 months of 2004 against -US\$3.7bn of the same period last year. The fact that the rise in the CA deficit was lower than the hike in trade deficit can be explained by the higher tourism revenues, which totalled US\$2.6bn in the first four months, around 59% higher than the previous year. **On the capital front**, the unregistered inflows (net errors & omission) that posted around US\$1.9bn of outflows from the system in the first two months turned into black and posted around US\$3.1bn of inflows in March-April period, driving the cumulative figure to US\$1.2bn, while **the capital and finance accounts posted US\$773mn of inflows in April leading to a cumulative inflow of US\$5.7bn from this account.** The year-end expected CA deficit is in the range of US\$11bn to US\$13bn corresponding to 3.8 to 4.4% of GNP.

May budget results were impressive: the government budget produced a surplus of nearly **TL4.8quad (US\$3.2bn) in May**, the highest figure so far this year. Revenues increased (with particularly a strong inflow of tax revenues) and expenditures fell YoY by respectively +25% and -15% in real terms, resulting in a significant contraction in headline budget deficit. The YTD budget primary surplus of TL14.7quad (US\$11bn) constitutes 73% of the full year target. After adjusting for the IMF definition, the YTD adjusted budget primary surplus for the 1st 5 months was TL12.9quad, comfortably above the IMF program target.

The central government consolidated debt stock fell by US\$1.3bn to US\$204.2bn at end-May from US\$205.5bn at end-April. Foreign debt stock rose by US\$653mn to US\$63bn, while domestic debt stock (in TL terms) increased by TL 3.6quad (US\$2.42bn) to TL 209.8quad (US\$141.2bn). The impressively strong primary surplus in the 1st 5 months above 70% of the official target and TL's slide during May has kept the consolidated government debt stock almost unchanged this year.

Residents' Eurobond portfolio: Turkey's total Eurobond debt stock is US\$26.1bn by end-April, and US\$13bn is held by the residents. CBRT's data suggest that US\$1bn of US\$13bn is composed of residents' portfolio with the banks' branches abroad. Moreover, loans extended to real and legal persons by the branches abroad and claims from banks hovers at US\$13bn by the end of May.

CUR reached 84.3% in May from 77.9% in the previous month, the highest level in the last seven years and well above market expectations. The higher than expected CUR resulted from the robust private sector capacity utilisation that reached the highest level since Nov. 1993 (83.6% from 81.8% of the previous month). Expectations of manufacturers regarding production and domestic sales in the following month suggest another strong CU reading for June. In spite of the strong manufacturing sector activity and the weaker Lira in May, inflation expectations among private sector manufacturers remained subdued.

IN BRIEF

According to **the second CBT survey for June**, the year-end CPI expectation rose to 11.5% from 11.6%, while 12-month forward looking CPI fell to 10.4% from 10.6%. The

year-end TL/US\$ rate estimate also fell to TL1,598,000 from TL1,604,600. Finally, the year-end estimate for the reference rate rose slightly to 20.3% from 20% while 2004-growth expectation and C/A deficit expectation remained unchanged at 4.9% and US\$9bn respectively.

BRSA released the provisional banking sector data for the week ended on June 11.

Main highlights are:

- Loan portfolio grew by 2.5% with respect to week ago to US\$58.3bn
- Marketable securities portfolio increased minuscule by 0.4% to US\$77.5bn
- On the deposit front, deposit base increased by 2% at US\$112.4bn
- Gross FX position improved by US\$734mn and become a long position by US\$184mn at the end of June 11, from a short position by US\$550mn a week ago.

The Minimum Wage Commission announced **the minimum wage for the second half of this year as TL444.2mn (US\$298) in gross terms, which corresponds to a 5% increase** for the second half in line with the inflation target of 12% for the whole year and hence is not contradictory to the disinflation process.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

EU council removes Turkey from Copenhagen criteria watch list: EU Council Parliamentary Assembly voted to exclude Turkey from the human rights watch list on June 22. This decision eliminates another significant hurdle on Turkey's EU accession path and is expected to feed into Turkey's progress report due October, based on which the EU leaders will decide whether or not to start accession talks with Turkey.

Some Progress on SDIF Debt Restructuring:

SDIF concluded 2 new debt repayment deals with ex-owners of Interbank and Sumerbank, the conditions of which were not made public. Mr. Ahmet Erturk said that he accepts three more ex-bank bosses to sign up before the year. But no news on the most important one, the Cukurova group.

Conclusion of the IMF 8th review:

- The government will finalise the restructuring of the Revenue Collection department before the Parliamentary summer recess
- Halkbank and Pamukbank will be merged after injecting a certain amount of capital to the latter
- Turkey has the option to reschedule its repayments to the IMF (worth US\$4bn which will be made in 2006, may be extended to 2007) but there is no such demand at the moment

Finally, Minister of State Ali Babacan announced that they have started to work on a project with IMF, which will be implemented after the year of 2005. The program, which will be designed on a 3-year period, will apply not only to fundamentals but also to Turkey's socio-political and economical traits. However he didn't entail any clues about the extent of the role that IMF will have and the financial support it will give. It seems that Turkish government

wants to see the EU's stance on starting the accession talks with Turkey before cutting a new deal with the IMF. The 9th review talks might begin in September.

Municipal debt to state institution will be restructured: a draft to restructure the debt of the municipalities owed to other state institutions cleared Parliament's Planning & Budget Commission. The amount of such debt is reported to be around US\$12.8bn. A recent regulation allowed municipalities to borrow funds without asking the permission of the Treasury. The Parliament also cleared another draft authorizing provincial administrative offices to separately borrow funds. These moves

contradict with one of the cornerstones of the IMF program, i.e. Public Debt Management Law, which stipulates that all public borrowing should be co-ordinated by the Treasury.

The two-day NATO starts in Istanbul today and it appears almost certain that the alliance will agree to support training of Iraq security forces. Afghanistan will be another major agenda item. On June 26 in Ankara, President Bush and PM Erdogan confirmed that the use of US\$8.5bn US loan was suspended due to political condition on N. Iraq. Before this event, 2 'sound bombs' went off on June 24. The 1st blast was heard near the Ankara Hilton and the 2nd blast was deadly in a bus Istanbul district.

COMPANY NEWS

Erdemir announced that they plan to invest US\$280mn this year for capital expenditures, of which US\$98mn would be used for Isdemir. The company targets to increase its production capacity from 5mn in 2003 to 7.5mn by 2007 and 17mn by 2013.

Turkish Airlines decided to expand its fleet by purchasing 16 new Boeing 767s. The aircraft of around US\$1bn according to the list price will be received as of mid 2005. Furthermore, the company announced a loss of US\$66mn in its 1Q04 IFRS financials.

Turk Telekom will pay US\$800mn dividend to the Treasury from its US\$1.1bn 2003-income. Meanwhile TT and TIM launched its new GSM brand "AVEA", which will replace existing Aria and Aycell brands. The merged GSM operator is planning to invest US\$500mn over the next 3-year period and targets a 30% share in the Turkish market.

Enka Insaat announced that they completed the acquisition of an additional 25% stake in Enka-InterGen, which has 3 power plants with a total capacity of 3,854 MW, from its U.S. partner InterGen at a price of US\$167mn. Accordingly, Enka Insaat's share in the JV rose from 49% to 74%.

Turkcell applied to the Capital Markets Board to increase its paid-in-capital from TL500trl to TL1,474.6trl via 194.9% bonus issue including the 23.6% stock dividend from FY03 profit. Formerly, the date of the stock dividend was set as 30 July 2004. If the procedures are completed on time, the bonus issue might take place on the same date.

Garanti Bank received a US\$325mn securitised loan with 2 portions. 1st portio, which amounted to US\$175mn, has a duration of 5 years with a cost of Libor +0.35%, while the remaining portion, US\$150mn, has a duration of 8 years with a cost of Libor +0.38%.

Dogan Holding posted US\$1,188mn of revenues in its 1Q04 IFRS accounts, with an operating profit and a net income of US\$84mn and US\$115mn respectively.

SECTOR NEWS & PRIVATISATION

PRIVATIZATION

Telecom law ratified in the Parliament: it would facilitate the sale of a majority stake of Turk Telekom and Telsim for foreign investors. The draft also authorizes the State Minister in charge of the Treasury and the Finance Minister to negotiate with the GSM operators on pending disputes regarding Treasury

receivables. Any dispute resolved by the court will be out of its scope. Another similar amendment authorizes the Telecom Ministry to negotiate with GSM operators on Turk Telekom's controversial receivables from the operators.

State Banks: the bill on merger of Pamukbank and Halkbank, pledged to the IMF, is underway. With the bill, the deadline for privatization of state banks, Ziraat and Halk banks, is extended to 5 years, up from the previously envisaged 3 years.

Tupras: the Council of State rejected the Privatisation Administration's appeal regarding the Local Administrative Court's decision to cancel Tupras' privatisation tender at the beginning of June. Furthermore, the Council of State issued an injunction against the Competition Board's decision to approve the block sale of Tupras regarding another lawsuit filed at the Council of State by the Petroleum Labours' Union. This development is in line with expectations and the next stage might be the appeal of the PA to the "General Board of Council of State Administrative Courts", which is the highest board to take the final decision on the issue.

WHITE GOOD SECTOR

May 2004 data point to strong sector momentum. May production hit a record level of 1,046mn units, up by 44% YoY and 8% MoM. May domestic unit sales were up by 54% YoY and 14% MoM at 431k units. (2nd highest-ever-monthly sales figure). Cumulative 5-month domestic sales were up by 67% YoY. Lower interest rates and better financing terms continue to favour durable sales. Strong TRL has also led to real price declines, implying that such volume growth has not been reflected in the same extent to revenues in real terms. May export unit sales were up by 39% YoY and 11% MoM at 672k units (5-month cumulative exports were up by 40% YoY). Increasing exports has not turned into a parallel profitability increase, due to markedly lower unit prices in overseas markets as Turkish exporters mainly focus on the lower end of the European white good market.

*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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