


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%		1,439,948
Most actively traded T-Bills		
Date	Maturity	C/Rate
09/07	05/10/05	27.5%
ISE-100 index		
TRL 18,327 (\$1.27)		

CBT FX reserves: rose by US\$34mn to US\$32.4bn in the week of June 18-25 and another US\$737mn to US\$33.1bn in the week of June 28-July 2.

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 (%)
07/07/04	14/06/06	24	2,020	1,714	85	2,370	35.82
07/07/04	09/02/05	7	2,432	1,755	72	2,534	26.62
07/07/04	07/12/05	17	5,533	2,839	51	2,930	26.02

Redemption/Domestic borrowing program

for July: total domestic debt service is US\$9.1bn as compared to US\$6.5bn of previous month. The Treasury will repay US\$8.3bn domestic debt to the market and US\$0.8bn to the public sector. Total debt service in July including foreign debt is projected to be US\$10.3bn. Treasury plans to borrow a cumulative sum of US\$7bn implying a market rollover of around 85%, lower than last month's realized figure of 95%.

1Q 2004 Growth: at 10.1% and 12.4% YoY respectively for GDP and GNP, growth rates in the 1Q 2004 were well above the market consensus figures of 8% and 8.3% respectively.

On the production side, the highest growing sectors were domestic trade and industry (up 16.3% and 10.3% YoY respectively). Moreover, there was a sharp contraction in the agricultural sector (down 7.5% YoY). Finally, financial institutions, which have been contracting since the last quarter of 2000, recorded a small but positive growth rate in 1Q of this year (up 0.6% YoY).

On the spending side, it was largely domestic demand, led by private investment and consumption (up 60.6% and 10.6% respectively), that supported growth while the

contribution from exports was more limited this time than was the case in 2003 (the 10.3% growth in exports in 1Q was impressive again but the import growth rate was higher at 31.2%). Moreover, the government investment contracted 11.3% as a result of a tight fiscal policy in order to meet the primary surplus target of 6.5% of the GNP.

Given the strength of early indicators for April and May, it is expected to have a similarly high growth reading for Q2. Industrial growth might slow down in Q3 and Q4 but the agriculture sector is expected to be very buoyant in those quarters. In 2004 as a whole, in the absence of a major economic or political shock in the 2nd half of the year, GDP growth rate is very likely to exceed the government's 5% target.

Cash Balance, June 2004: Turkish Treasury's cash budget posted US\$743mn of primary deficit and US\$3bn of deficit for the month (slightly above the Treasury's primary deficit expectation of US\$ 0.5bn revealed in the borrowing program).

Yet, primary deficit was largely expected due to the weakness in revenues and change in tax payment schedule, which deferred entry of tax receipts in Treasury accounts to July 1. Thus, one should expect a massive primary surplus in July due to this shift in revenues. With the June figure, the cash basis primary surplus in the first half of 2004 totalled US\$8.4bn.

June exports figures: the total exports in June equalled to US\$5.4bn by a YoY increase of 39.5%. Exports for the 1st 6 months have increased by 35.5% YoY to US\$29.4bn. 12-month exports reached US\$55.6bn by a YoY increase of 33.2%. Industry goods comprised 86.9% of the exports in June (US\$4.7bn). Iron and non-iron metals amounted to 98.2% of the industry goods. However, the growth in the export of ready-wear and textiles, which is considered the engine of Turkish exports, remained limited at 12.4%, significantly below the general export growth of 39.5%.

June inflation figures: At -0.1%, **CPI inflation** in June was more or less in line with expectations. The 2.7% MoM fall in food prices was the major driver behind this outcome. With a more drastic 8.1% fall in agricultural prices at the wholesale level, the headline **WPI inflation**

at -1.1% was significantly less than expected. However, core inflation was 1.2% (above the 1% mark for the third consecutive month), mainly affected by the depreciation of the TL in April-May period and the hikes in oil prices. With these MoM figures, YoY CPI inflation continued to stay below 10% at 8.9% while the WPI increased to 10.5% from the previous 9.6%. Since food prices are likely to fall further in July and perhaps in August as well, headline CPI and WPI will continue to be negative or very low in the next two readings. In the absence of a supply side shock in the rest of this year, the 12% annual target is comfortably achievable for CPI but WPI inflation might end up 1% or 2% higher than the target.

Industrial output up 10% in 1st quarter: despite public sector industrial output contracting by 1.8%, private sector industrial production grew 14.6% to bring overall industrial production up 10.6% YoY. The figure is lower than the average 13.6% of the monthly YoY growth rates for the period, a trend that has been effective for the last few quarters.

Furthermore, **IP surged by 16.5% YoY in May** (versus the market's estimate of 16.1%), and the index increased on monthly basis to 125.5 from 118.5 of the previous month. The manufacturing sector grew by 17.7% while the expansions in the mining and the energy segments were recorded as 12.6% and 7%. Analysing the manufacturing sector in detail, production was mainly driven by the strong production performance in motor vehicle (+81% YoY).. The IP index has reached an all-time high level in May 2004, suggesting the strength of the pace of current economic expansion.

IN BRIEF

BRSA released the provisional banking sector data for the week ended on June 25.

Main highlights are:

- Loan portfolio grew by 0.9% with respect to week ago to US\$58.94bn
- Marketable securities portfolio remained flat at US\$76.5bn
- On the deposit front, deposit base increased by 0.8% at US\$117.9bn
- Gross short FX position was recorded as US\$1,108mn, which was US\$1,493mn a week ago.

Number of tourists rose 24% YoY to 1.87mn in June, driving the cumulative figure to the 1st half by 43.4% YoY to 6.7mn.

CBT's expectation survey, June 2004: year-end CPI expectation declined to 11.1% from the previous 11.5% (one-year inflation expectation fell also to 10.1% from 10.4%), year-end 3-month reference rate fell to 19.9% from 20.3% and year-end TL/USD rate estimate fell to TL 1,577,200 from TL 1,598,900. The most striking change was observed in the growth estimate following the higher than expected GDP growth in the 1st quarter. 2004 growth estimate rose to 5.8% from 4.9% versus the government's 5% target.

Macroeconomic targets of 2005 are crystallising: it is foreseen that the targets for CPI will be 8%, deflator will be 10.1% and the growth will be 5% next year. In addition, with the framework agreement on macroeconomic issues, average exchange rate for 2005 is determined as 1.67 New Turkish Lira (with 6 zeroes dropped) / US\$.

POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

Conclusion of the NATO summit:

- NATO is not sending troops to Iraq to cooperate with the US forces in the country, but it is going to take active role in training Iraq's security forces
- NATO will send 3,500 more troops to Afghanistan in an attempt to increase

security before the upcoming elections in September.

The summit discussions were rather constructive for Turkey and the event definitely increased Istanbul's popularity worldwide but no major decisions were taken in the summit.

COMPANY NEWS

TEB Mali Yatirimlar AS, the major shareholder of TEB, announced that they

decided to start talks with BNP Paribas for a possible joint partnership in the financial services

area. Meanwhile, TEB Mali Yatirimlar AS increased its stake in TEB to 84.23% from 70.17% by buying shares from 2 group companies. Recall that TEB and Citibank had previously carried on long negotiations on a possible partnership back in 2000-2001.

Akbank authorised the consortium of 25 international banks (to be Joint-Arrangers) to arrange a one-year syndicated loan of US\$375mn. This loan should roll over the syndicated loan of US\$350mn received in July 03. Akbank also completed a 7-year securitization of US\$270mn with Citibank N.A., backed by its credit card receivables from abroad. The loan was rated by S&P and Moody's with "AAA" and "Aaa" investment grades respectively. Meanwhile, FitchRatings upgraded the long-term currency rating of Akbank to 'BB' from 'BB-' based primarily on its intrinsic financial strength, and raised the Bank's National rating AA-(tur) from A+(tur) corresponding to a two-notch difference over the local currency long-term sovereign rating of Turkey, which is B+.

Yapi Kredi Bankasi released its FY03 IAS consolidated financials with a net earnings figure of US\$68.8mn, which was US\$821mn at the end of FY02.

Garanti Bank secured EUR450mn syndicated borrowing (participation of 55 bank) with one-year maturity, replacing the maturing EUR400mn. The interest cost of the facility was announced as Eurobor+55bp, which is 20bp below the maturing EUR400mn.

Isbank announced its FY03 IAS consolidated financials with a net earnings figure of

US\$439mn, which was a loss figure of US\$26mn in 2002.

Cukurova Group has been rumoured to have reached a preliminary agreement with SDIF (not confirmed yet) regarding the rescheduling of its outstanding payables. Main highlights of the new payment plan are:

- Cukurova will have a haircut of US\$2.1bn on its outstanding payables of US\$6.2bn and pay US\$4.1bn within 24 months
- Payments will be conducted from the banks that are located either in US or in Europe
- Cukurova's YKB shares, 39.2% of the share capital, will be exempt from the plan and will be retained by SDIF and Turkcell shares will be collateralised to the financier during the payment of US\$4.1bn.

POAS: was rated B+ stable by Fitch for its senior unsecured local currency and FX note, and B stable by S&Ps for its long term corporate credit note. POAS also established a new company in the Cayman Islands called PO Oil Financing Ltd., which has a paid-in-capital of US\$50,000 and will be utilised for brokering a planned Eurobond issue in international markets. BNPP will act as joint lead arranger in this debut issue.

Tupras: a consortium made up of LG Construction (South Korea), Tecnicas Reunidas (Spain) and Alarko Insaat and Gama from Turkey won the desulphurization tender Tupras' Kirikkale refinery for US\$104mn. The project is scheduled to last 33 months. BNPP and HSBC will be joint arranger of the financing. Tupras plans to invest US\$176mn this year, US\$193mn in 2005 and US\$167mn in 2006.

SECTOR NEWS & PRIVATISATION

PRIVATIZATION

Privatisation Administration reported US\$44mn of privatisation in the 1st half while US\$1.5bn is in the agreement phase. Collection stood at US\$474mn while the government pledged US\$3bn of privatisation revenues in the Letter of Intend.

Plan and Budget Commission approved the draft bill regarding Pamukbank's transfer to Halkbank: according to the draft following the merger Halkbank will be privatised via a public

offering. Pamukbank's equity reportedly stands at negative value. The negative equity of Pamukbank, which is currently under the control of SDIF, and to be merged into Halkbank, stands at US\$1.5bn. The negative equity of Pamukbank will be covered by SDIF through the special bonds to be issued by the Treasury. Halkbank has an equity surplus of US\$700mn, which means the Treasury is likely to issue US\$800mn of government bonds for the merger.

Tupras: Ankara's 10th Administrative Court suspended the Privatisation High Council's decision, which approved Tupras' sale. Currently, the final decision of the Council of State is expected, but it seems that the final procedure will not be finalised before 6 months.

Telekom Bill: President Sezer ratified the Telekom Bill that enables sale of up to 95% of Telekom shares and more 50% stake to international investors. The bill also enables sale of Uzan Group's Telsim and settlement of legal disputes of GSM operators. So far, concerning TT's privatisation, 11 investors have shown interest and applied to join the sessions.

Telsim management appointed by the SDIF is close to an agreement with Motorola and Nokia to reduce Telsim's debt of US\$3.2bn.

OIL SECTOR

Prices of petroleum products are raised within a range of 4.62% and 5.31%. The current increase is mainly due to the increase in the special consumption tax on retail fuel prices, as both the TL's rapid slide throughout May along with the sharp increase in global gasoline and diesel prices rendered the excise tax gasoline and diesel 10% below its nominal level below in the last year.

GAS SECTOR

Natural gas monopoly Botas raised natural gas prices by 6.5% for residential use and by 5.7% for industry. However, since Energy Market Regulatory Agency (EMRA) pulled down the distribution fees charged by municipalities, the actual increase is capped at 5% for the end users effective by July.

AUTOMOTIVE SECTOR

The government has been planning to increase the special consumption tax (SCT) on light commercial vehicles, which are convertible to passenger cars. Current special consumption tax for LCVs is 4%. The latest draft law suggests new special consumption tax rates in a range of 20% and 75% according to cylinder volume.

BANKING SECTOR

The full state guarantee on deposits is limited to TL50bn as of July 5. The number of deposit holders having banks account over TL50bn constituted only 1% of total deposit holders. With a limited guarantee, 64% of total bank saving deposits would be under state guarantee. In term of deposit holders, 99% of the deposit holders will benefit from state guarantee.

*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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