

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%		1,462,398
Most actively traded T-Bills		
Date	Maturity	C/Rate
06/08	07/12/05	26.0%
ISE-100 index		
TRL 19,188 (\$1.31)		

CBT FX reserves: over the last 2 weeks of July FX reserves fell by US\$450mn to US\$32.5bn.

Redemption/Domestic borrowing program for August: total domestic debt service is US\$12.2bn as compared to US\$9.3bn of previous month. The Treasury will repay US\$9.8bn domestic debt to the market and US\$2.4bn to the public sector. Total debt service in August including foreign debt is projected to be US\$12.7bn. Treasury plans to borrow a cumulative sum of US\$7.2bn implying a market rollover of around 73%, lower than last month's realised figure of 94%.

Cash Balance, July 2004: Treasury's cash primary surplus for July was announced as TL3.9quad (US\$2.7bn), above the TL3quad declared in the borrowing program. This might be the reflection of the delayed tax payments in June that entered the Treasury's accounts early July causing an under performance in June primary surplus. YTD cumulative primary surplus thus reached TL15.7quad (US\$11.2bn) above the IMF target.

The foreign trade deficit for June came in at US\$3.4bn, 75% higher than the amount recorded in June of last year. Turkey's export revenues were US\$5.05bn, up 33% YoY and somewhat better than the preliminary indicators had suggested. Imports on the other hand were up 47.5% YoY, reaching US\$8.45bn, despite the currency correction that took place in April and May. In sum, the large deficit in June was largely a result of a huge import bill as in the previous 3 months. The YTD trade deficit has reached US\$16.8bn by end-June. The breakdown of imports by commodity groups indicates that the sharpest increase was recorded in consumption goods (up 101.3% YoY) while the 2nd was in capital goods (up 67.8% YoY) indicating that the strong investment appetite continued in the

second quarter. Looking forward, the foreign trade data (especially imports) for the next months should be watched closely and in the absence of a slowdown in imports in the next two months, the trade deficit will ring alarm bells particularly at current global oil prices. Finally, the full year trade deficit is expected to reach US\$32bn, implying a CA deficit of US\$13bn (about 4.4% of GNP) or so depending on the strength of tourism revenues.

Half of Turkish exports go to 6 countries: Turkey, with exports of more than 15000 products to 218 different countries, exported US\$14.6bn worth of goods to Germany, USA, England, France and Spain, which comprised 47.6% of Turkey's total exports of US\$29.367bn in January-June period.

July inflation figures: At 0.22%, CPI inflation in July was a little more than expected but it was still in line with the end-year target. Thanks to a drastic 8.6% fall in agricultural prices at the wholesale level, the headline **WPI inflation at -1.5%** was considerably less than expected. Nevertheless, the best news was the **0.3% core inflation** reading in July (due to the relative slowdown in domestic demand and the stronger Lira) after an average of 1.5% in the previous three months. With these MoM figures, YoY CPI and WPI inflation stood at 9.57% and 9.44%, respectively, by end-July. In the absence of a major surprise, the 12% annual target is comfortably achievable for both CPI and WPI. Though these results are encouraging for a possible rate cut, the central bank might stay on hold until the post-2004 IMF stand-by issue is resolved.

June 04 Industrial Production surged by 15.7% YoY, slightly above expectations at 14.9%. IP index at 127.1 registered yet another record high level up from its 2nd historical high of 125 in May. The seasonally adjusted data points to a 1% MoM increase. Manufacturing output rose by 16.8%, as both strong domestic and external demand drives the increase output. Output of vehicles and parts rose by 82.2% YoY. The acceleration in exports, rather than further increase in domestic demand seems to be underlying factor the industrial output to record high figure. This increase in IP should bode well for a double-digit growth for 2Q04.

IN BRIEF

The IMF Board of directors approved the Letter of Intend (LoI) and released US\$661mn, completing the 8th review: The Board has praised Turkey's economic performance especially in terms of solid growth, declining inflation and reduction in public debt, estimating the growth will exceed 5% target for the year. The Board has pointed out that avoiding the widening of the CA deficit (US\$8.8bn in the 1st 5 months, i.e. 3% of GNP) constitutes the immediate macroeconomic challenge. Indeed, they welcomed the measures to curtail consumer spending along with consumer loans and hope that together with rebounding tourism revenues, the CA deficit will be stabilised. **The new LoI announced the intention to continue close policy dialogue with the Fund in 2005 and beyond.** Pledging

commitment to disinflation process and debt reduction plan, in 2005 as well, the LoI also set the near term economic policy priorities as tax reform, affordable health and social security reform, and completion of the banking sector.

Tourist arrivals in July were 2.6mn, up 23% over July 2003. The number of tourists reached 6.3mn in the 1st 7 months implying a YoY increase of 37%.

The Central Bank revealed the Real Effective Exchange Rate (REER) data for July: Accordingly, the CPI based REER rose to 140.3 from 137.5 in June while the WPI based REER remained at 129, almost unchanged vis-à-vis 128.5 of June (1995 is the reference year i.e.100 for both CPI and WPI).

POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

US eyes Turkish airbase: The U.S. is reportedly close to finalize the restructuring of its forces in Europe and is keeping the Incirlik airbase in south-eastern Turkey under the spotlight. Accordingly, the US is planning to move some 48 fighter planes from Germany to Turkey pending the approval of the Turkish authorities.

carried reports of a warning by a US Embassy official against Turkey becoming a transit hub for Iranian gas, threatening sanctions.

PM Erdogan was in Iran, negotiating in a wide range of areas, such as natural gas contracts, pending airport / GSM contracts, and cooperation against PKK. Reportedly, there was progress in cooperation against the PKK and resolution of company-specific problems, including Turkcell's. However, reduction in natural gas price was not secured. Also, media

The IMF team came to Turkey last week for a short consultation visit upon Minister Babacan's invitation. Reportedly the necessity of a US\$10bn or more new facility was discussed with IMF representatives but no official decision has been reached on the issue. The PM Erdogan announced that that the government started talks with the IMF for a new stand-by program to cover 2005 and beyond. The duration of the stand-by that they will start to negotiate will be 3 years and will include funding. Details of the program will be discussed during IMF's visit in September.

COMPANY NEWS

Akbank reported net earnings of US\$356mn in 1H04 on BRSA basis declining by 2.5% on a YoY basis (US\$365mn in 1H03). Akbank also secured a 1-year US\$500mn syndicated borrowing facility at Libor +0.55bps for export-finance. 63 international banks joined the syndication. This is the 2nd foreign borrowing of the Bank this year, following the US\$270mn securization in July.

syndicated borrowing deal that will be used for export financing

Isbank reported net earnings of US\$240mn in 1H04 on BRSA basis compared to US\$171mn in 1H03. Isbank also signed a US\$400mn

Kocbank has secured a 1-year US\$325mn syndication borrowing over Libor +55bps interest.

Dogan Yayin Holding announced that they still continue talks with Italian Mediaset S.P.A. in order to explore possible opportunities for a co-operation/partnership in the Turkish media sector; however, they have not come to a conclusion yet.

Turkcell has been rumoured to have reached an agreement (not confirmed yet) for Turkcell led consortium to operate as the 2nd GSM company in the Iranian market. Irancell consortium is composed of Turkcell, Ericsson and 2 Iranian companies Paman and Iran EDC. Turkcell announced that its number of subscribers reached 20.9mn by the end of the 2nd Q04, implying a 6% rise compared to the 1st Q04 figure of 19.7mn. Turkcell's postpaid subscribers totaled 5.0mn and prepaid subscribers amounted to 15.9mn, a 2% and 7% increase respectively compared to the 1st Q04.

Cukurova Group and the SDIF signed the agreement on early repayment of the Group's debt to the SDIF following the previously announced re-structuring plan. The agreement included payment of US\$2.1bn by Cukurova Group to the SDIF in an average maturity of 13 months for its debt of US\$3.2bn restructured

under the protocol signed between the Group and the SDIF on 31 Jan 2003 for a period of 15 years with an interest rate of Libor +0.5. With regards to Cukurova Group's US\$2.0bn of debt to YKB restructured under the Istanbul Approach in Jan 2003 with a term of 9 years and an annual interest of Libor +3.5, approximately US\$2.0bn of cash will be redeemed from Cukurova Group for the restructured debt until 31 March 2006. The bank will also receive approximately US\$1bn of cash from Cukurova Group through the sale of the bank's stakes in Turkcell, Turkcell Holding, Fintur, Digiturk and Superonline to the Group until 30 April 2005. With regards to the sale of Cukurova Group's 39.015% and SDIF's 12.89% stake at YKB, Cukurova Group will start the sale process by authorising an investment bank or a consultancy firm by 31 October 2004. If the sale process is not finalised by 31 October 2005, SDIF will take-over the sale process.

SECTOR NEWS & PRIVATISATION

PRIVATISATION

SDIF will open an auction to sell a NPL portfolio of US\$223mn in August: This was the same portfolio that SDIF failed to sell in 2003, however, it's size was reduced from US\$350mn due to collections made since then. Offers will be taken by August 16th. The auction is expected to be finalized at the end of August. Last year, SDIF annulled the auction to sell a total sum of US\$350mn NPLs as bids were found weak.

PA appoints BNPP as consultant on Turk Telekom sale: The PA has decided to appoint BNP Paribas-Deniz Yatirim and PDF consortium (competing with JPM, Lehman, SSSB, UBS and Merrill) as the financial consultant for the privatisation of TT. Recently enacted legislation allows the sale of majority state-owned fixed-line company to foreign investors (min. 51%). The tender is likely to be completed by December and the contract with the winning bidder is likely to be signed by March 2005.

Airlines privatisation: The PA plans to sell its 50% stake in Cyprus Turkish Airlines. The block sale is expected to be preferred while international investors are likely to be targeted. Meanwhile, should there be a considerable demand, the PA might consider raising the size of public offering of Turkish Airlines from 20%.

The Treasury has announced that the forthcoming period looks suitable to offer state-owned Halkbank and Ziraat bank to the public. The Treasury also targets to complete the merger of Halkbank and Pamukbank by October.

SDIF is keen to sell Telsim to Vodafone: according to Mr. Erturk, the Head of SDIF, among all potential bidders, Vodafone submitted the most serious offer for Telsim. Erturk also added that SDIF would be pleased to see Vodafone acquiring Telsim as this would be a very positive sign for further FDI in Turkey.

*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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