



# 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%		1,354,894
Most actively traded T-Bills		
Date	Maturity	C/Rate
16/04	24/08/05	22.7%
ISE-100 index		
TRL 19,269 (\$1.42)		

**CBT FX Reserves:** rose US\$594mn to US\$33.1bn in the week of March 26-April 2 and climbed by US\$322mn reaching US\$33.5bn in the week of April 2-9 thanks to CBT's FX buy auctions.

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 (%)
07/04/04	24/11/04	08	2,406	1,705	71	2,078	23.31
17/04/04	24/08/05	17	4,243	2,653	63	2,723	21.86

**The Cash budget results for March** posted US\$3.2bn of primary surplus and US\$344mn of deficit, above the Treasury's primary surplus expectation of US\$2.1bn revealed in the borrowing program. The higher than expected primary surplus in March mainly resulted from US\$0.8bn of dividends distributed by the state banks. **With this figure, the primary surplus in the first quarter of 2004 reached US\$6bn** (exceeding the consolidated budget target of US\$4.1bn).

The **US\$3.4bn primary surplus in March** was significantly above the market estimate of US\$1.7bn on the back of a delay in the collection of some tax items (due February) as per the new tax legislation.

The Treasury has been a net payer of US\$862mn external debt in the first quarter (excluded interest). External and domestic debt combined, the Treasury made total debt repayments (including interest) of US\$35.4bn and borrowed US\$31.6bn, an overall rollover ratio of 89.3% during the first quarter 2004.

**April-December borrowing program: due to the appreciation of TL, decline in the interest rates and the extension in the maturities,** Treasury revised down its total debt by TL12.4qrn for 2004 as a whole. As a result, for April-Dec. it plans to redeem US\$88bn of

debt, of which US\$82bn is domestic. Targeting a cash-base primary surplus of US\$10.6bn, the Treasury will continue with its policy of maintaining sufficient level of reserves in the remaining months of 2004. The roll-over ratio for the domestic debt is expected to average 84% during April-December while the same ratio for the full year is expected at 87% with a planned borrowing of US\$95bn against debt service of US\$109bn.

According to the SIS, **Turkey's trade deficit reached US\$2.4bn in February.** The February 2003 trade deficit was at US\$1.2bn level while January 2004 was US\$1.5bn. Imports that surged 44% in February compared to Feb.2003 reached US\$5.9bn level while exports totaled US\$3.6bn with a YoY increase of 22%. The percentage of the consumer goods in total imports rose to 13.8% in February 2004 from 11.8% in the previous month. The robust performance in the consumer goods imports is a result of the pick-up in the domestic demand.

**Industrial production increased 15.6% in February** compared to the same month last year, which is higher than the market consensus of 10.5%. The index level declined on monthly basis to 100.7 in February from 110.3 of the previous month. The monthly decline in the index level in IP mainly resulted from the short month of February with holiday and the bad weather conditions. The high level of IP in the first two months of the year indicates a robust growth performance in the first quarter.

### IN BRIEF

**CBT keeps adjusting its FX purchase auctions depending on the market sentiment.** Facing further appreciation it first increased its daily purchase limit to US\$140mn then reduced back to US\$80mn given the surge in FX demand due to Cyprus uncertainties.

**The World Bank raised Public Sector Adjustment Loan to Turkey from US\$900mn to US\$1bn,** while half of this would be used in mid-2004 and the rest at the end of the year.

**Unemployment increased to 10.5% in 2003** as a whole, slightly from 10.3% in 2002.

**The IMF approved the 7<sup>th</sup> review on April 16<sup>th</sup>, releasing US\$495mn credit.** According to the new LOI, there will be 3 reviews under this arrangement (rather than 4) to be completed in

2004 and the disbursements will be above US\$600mn. The 8<sup>th</sup> review will start at the end of April.

## POLITIC, DOMESTIC & INTERNATIONAL AFFAIR

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**Cyprus talks:** AKEL, the biggest ruling party representing 35% of the votes in Southern Cyprus, changed its attitude from “no” to “yes” and stated should there be a guarantee from the UN and the EU that the agreement will be fully implemented, the party could revise its decision regarding the referendum. In the meantime, Greek cypriots’ second largest party, DISI, has signaled its view in favor of a “yes” vote. On the Turkish side, President Denktas initiated a “no campaign,” while Northern Cyprus Prime Minister Talat and the Turkish Government say

“Yes.” Furthermore, EU and US signal Turkish Cypriots would not be kept economically isolated in case of a “yes” vote from Turkish side versus “no” from Greek side.

The polls prior to Akel’s recent declaration indicated that the result in the Southern part of the island is inclined to a “No”. The ratio of Greeks saying “no” declined to 54% in the pool on April 16 from 71% in the pool on April 14. In addition 62.1% of Turkish Cypriots plan to vote in favor of the Annan plan.

## COMPANY NEWS

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### Enka Insaat

- Together with the US Bechtel International signed a contract with the Romanian Transportation Ministry to construct the Brascov Cluj Bors highway in Romania. The contract is worth EUR2,241mn to be equally shared between Enka Insaat and Betchel International. The projects will be completed in 9 years with the construction due to begin in June this year.
- Announced FY03 CMB consolidated financials. The company recorded US\$918mn, US\$156mn and US\$134mn of revenues, EBITDA and net income for the year respectively.

### Turkcell:

- The Telecom Authority has fined Turkcell US\$24mn, claiming that the GSM operator has violated the license agreement by using infrastructure other than Turk Telekom’s for its services.
- Finalized the purchase of a 51% indirect stake in Ukrainian GSM operator Digital Cellular Communication (DCC) for US\$50mn and thus officially started its Ukrainian venture. Recall that Turkcell-led consortium recently secured the Iranian GSM license tender, taking another major step to become a significant player in the region. In the meantime, Turkcell decided not to bid for the GSM tender in Pakistan.

### Koc Holding:

- **FY03 IFRS Results.** Consolidated revenues rose 64% YoY from US\$6.8bn to US\$11.1bn. The impressive top line growth is partially attributable to the weaker USD, which depreciated by 15% during the year. Koc Holding’s FY03 operating profit was up 144% at US\$597mn, US\$475mn of which was driven by non-financial subsidiaries. Koc posted US\$274mn of net income in FY03 compared to US\$25mn in FY02.
- Koc Holding has established a JV with Statoil for the natural gas distribution business.
- **Aygaz’** 41.42% Opet obtained a US\$45mn loan from IFC, FMO and DEG (with a grace period of 3 years and a payment period of 8 years) and a US\$40mn loan from other banks (with a grace period of 2 years and a payment period of 5 years and 9 months) to finance its Marmara Eregli terminal and its gas station investments.
- Koc Holding’s 50/50 JV Opet announced that the company would increase its current petrol stations in Bulgaria from 9 to 15 by year-end and to 60-100 within five years with planned investments of €70-80mn.

**Sabancı Holding** increased its PIC from TL1,000trl to TL1,200trl on April 19<sup>th</sup> via a 20% bonus issue today.

**Tupras:** will distribute a total of US\$269mn cash dividend from FY03 net earnings (128%net) starting on 20.04.2004. Furthermore Tupras won another tender to purchase 1m tons of crude oil from Iraq, increasing the total to 2m tons.

**Turkish Airlines:** posts US\$153mn of net profit in 2003 under IFRS financial statements, which indicates a 38% decline in TL terms (or 28% in \$ terms).

**Erdemir** raised its base prices by a further US\$40 per ton in line with the strong demand in global steel markets. This price increase was expected as Erdemir's price increases lagged the European producers' for a while. After the recent price adjustment (this is the 5th time since beginning of the year) while cold rolled prices reached US\$650/t, hot rolled prices came to

US\$550/t, representing year-to day increases of 46% and 59%, respectively.

#### **Yapi Kredi Bank:**

- Announced a net profit of US\$104.7mn in its 2003 BRSA consolidated financials, down from US\$872mn a year ago.
- IMF representative met BRSA officials and encouraged them to resolve the ownership issue of YKB in a way that would avoid further burdening the Treasury. The Fund also agrees with the BRSA's request to reveal the identity of the potential buyer before the transaction. In the meantime Cukurova group is discussing BRSA/SDIF over a new protocol agreement to replace the existing one.

## SECTOR NEWS & PRIVATISATION

### PRIVATIZATION

The Privatisation High Council approved the sale of loss-making state mining company Div-Han to Erdemir for US\$28.5mn and the share transfer agreement has been signed on April 15<sup>th</sup>. Erdemir is trying to increase its raw material sources from domestic sources and the 1<sup>st</sup> step is Div-Han acquisition (iron ore).

**National Lottery:** investors interested in the National Lottery privatisation (such as Koç, Sabancı, Dogus, Dogan, Cukurova Holding) will submit a 10-year business plan along with their bids. The investors will state the expected turnover per year as well as expected dividend from the operations.

**Tupras:** The PA announced that negotiations and procedures to transfer its 65.76% Tupras shares to Tatfnet-Zorlu consortium could not be completed due to some technical and legal procedures. Apparently, it is not related to only funding problem. It granted another 40 days to the consortium, extending the deadline to acquire Tupras shares from April 18<sup>th</sup> to May 28<sup>th</sup>. According to the related communiqué, the PA can extend this deadline only once.

### AUTOMOTIVE SECTOR

Total vehicle sales came in at 70,736 in March, bringing the Y-T-D sales to 149,600, 258% higher than a year ago. The growth was much more dramatic in Passenger car sales, which reached 46,075 units in March indicating a 439% YoY boom (+95% compared to February). The passenger car sales surpassed 2000's same month level by 31% breaking a new record. The total exports grew by 41% YoY in the first quarter.

### BANKING SECTOR

The Bank Association of Turkey has been working on the new banking law that is planned to be finalized in June. The report that has been submitted to BRSA by the Banks Association encompasses some changes regarding the ownership issues of the banks. The Association has stated their disapproval for the non-profit organizations owning banks. BRSA stated that in line with the application of the Basel criteria, they were against pensions, political parties and media company owners owning banks. It was added that the transaction period for the banks to comply by the new law will be 5 years, not the previously mentioned 1-1.5 years.

*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.*<sup>1</sup>

<sup>1</sup> This report has been prepared by the Representative Office of BNP Paribas in Istanbul. The information and data contained in this report has been acquired from sources believed to be reliable, however its accuracy and completeness can not be guaranteed. This report is published solely for information purposes, neither the information nor the opinions expressed herein is to be interpreted as an offer to sell or a solicitation of any offer to buy securities. BNP Paribas accepts no liabilities for any direct loss arising from the use of this report. This report may not be reproduced, distributed or published completely or partly by any other party without the prior written consent of BNP Paribas.