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# Istanbul

## Between Iraq and to us a Smart Place to Overweight

# Turkish Equities

### Highlights:

- At the low end of their decade long trading range, we believe the outlook for Turkish equities looks positive on the back of: sharp falls in February inflation, more signs the economy has bottomed, and political cohesion.
- Iraq is the major unknown, yet we doubt a war in Iraq would change Turkey's debt dynamics or spark a currency crisis – any impact on the market is unlikely to prove long lasting.
- Crucially, if a possible end result is Iraq re-joining the world community, it'd be great news for Turkey. We think Turkish equities offer a warrant on that prospect.
- Our call is more for the intermediate-term investor than a re-rating of the market as the economy, while recovering, remains weak and the sheer size of the debt burden leaves Turkey vulnerable. Yet with a return to crisis unlikely, this market should in the intermediate-term attempt to move higher.
- We recommend a higher beta bias to portfolios. Benefiting from the bailout, banks are likely to be drivers of market momentum. We think *Akbank* and *Garanti* are the best ways to invest in the sector.
- Light commercial vehicle producer *Ford Otosan* is one of Turkey's better long term stories in our view. It offers rising exports, a strong domestic franchise leveraged to recovery, and long term value in our view.
- With its proven ability to cut costs and a more benign competitive environment, leading newspaper *Hurriyet* is highly leveraged to economic recovery. Still at a discount to global peers, we continue to rate it a Buy.
- *Eregli* is our preferred pick in Turkey to capitalize on rising interest on cyclicals, on the back of global recovery expectations.
- Of the holding companies, *Sabancı* looks to us an even better index proxy than usual. Subsidiary Akbank is our preferred vehicle for banking sector exposure while underperformance of listed subsidiaries should reverse.
- We think *Koc's* underperformance of the market is now over. We remain with our Neutral rating but expect more positive news flow going forward.

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**Table 1: Reports Recently Published**

Strategy	Hungarian Elections: Too close to call	08/03/02
Erdemir	Good Turkish Proxy for Cyclical	08/03/02
Strategy	Turkey's Industrial Cycle is Beginning to Turn	08/03/02
Koc Holding	Underperformance Should End	22/02/02
Akcansa	In Line With Our Expectations	18/02/02
Erdemir	Better Than Market Expected	15/02/02
Ford Otosan	Connecting Otosan to Ford Europe	15/02/02
Ford Otosan	That Was Quick	15/02/02
Turkish Banks	New Banking Law Implies Macro Positives & Micro Risks	28.01.02
Akbank	New Law Triggers Mispricing	28.01.02
Anadolu Efes	Too Early to Upgrade	23.01.02
Turkey	Cautious Optimism in the Price	22/01/02
Hurriyet	Double and Something	22.01.02

Source: ML

## 1. Action List

With the market trading at the low end of what we believe should prove a sustainable trading range, we argue it is worth owning a relatively high beta portfolio. Although the selloff has made valuations more reasonable, our recommendation is more focused on the intermediate term investor rather than re-rating as valuations are not overly attractive relative to the state of economic recovery. We are buyers of Akbank, Hurriyet and Garanti. We are also clear buyers of Ford Otosan which we find an excellent long term value & growth story.

*We consider this one Turkish stock worthy of a long term view*

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### Ford Otosan: Market Not Pricing in Transit Project

Evolving into a production platform for Ford Europe and with a strong domestic franchise, Otosan offers one of Turkey's, (and possibly the European auto sector's) best business mixes in our view. While this stock requires a long term view, we're convinced it's undervalued, especially in light of recent news that Otosan should add a further half billion dollars of exports as Ford shuts capacity in Belgium and moves it to Turkey. Just as the initial \$1 billion Transit Connect export program does, this will add value in our view. Yet the market has yet to recognize it. Buy it to own long term. Exports will drive growth even if Turkish recovery doesn't materialize. If it does, Otosan's domestic business could be a major driver for EBITDA growth.

*The pending banking sector recapitalisation is good news despite risks*

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### Akbank and Garanti Top Bank Picks

Fundamentally, we believe the pending recapitalisation of the sector is good news. Yet the issue is hanging over the market due to the uncertainty about the scale the audits and recapitalisation will likely have on many banks. We are confident that Akbank should not require recapitalisation. Yet its shares have performed as if it has the same degree of risk as its banking peers. Naturally, it's not a defensive stock as it is a bank. But it is clearly in our view the most defensive among the large banks, yet its recent share performance has not reflected this. It is our top pick.

We also like Garanti Bank as we are comfortable that risks associated with the recapitalisation are manageable. While risks are higher than those of Akbank, we believe Garanti's situation is more transparent than that of Isbank and Yapi Kredi bank. Adjusting for the risks, Garanti also looks positioned to perform well.

*Hurriyet still at a discount to global peers and well positioned, we think, to benefit from recovery*

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### Hurriyet – Leveraged to Recovery

Hurriyet's 2001 Turkish accounts confirmed the company's ability to aggressively cut costs during last year's crisis environment. Although advertising revenues tumbled by half, reported EBITDA fell just 1/3 to \$38mn, beating our \$34mn estimate. With its improved cost base and the less competitive environment in the newspaper sector, Hurriyet is in our view extremely well positioned to benefit from economic recovery as advertising revenues are among the first segments to recover. Still trading 15% below our price target where it would still be at discounts to global peers, we think Hurriyet continues to justify a position in Turkish portfolios.

*Koc now a reasonable vehicle to  
take market exposure*

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### **Koc Holding – from Reduce to Neutral**

We have upgraded Koc from Reduce to Neutral in the intermediate term. We were convinced that due to valuation, Koc was not the best way to invest at the time of the IMF bailout last Autumn. With the market now having caught up to Koc, we no longer believe it should be avoided. Although we think it is still highly valued in absolute terms, we now consider it to be a Neutral rating. Koc now offers a more reasonable valuation relative to the market, a modest premium to NAV post Koc's underperformance of its listed subsidiaries, the positive news on the Unicredito JV, and the strength of new CEO Ozaydinli's track record.

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### **Erdemir – Maintained Buy**

We maintain our intermediate term Buy recommendation on Erdemir despite the **indirect** negative impact of the US import tariffs. Our sector team believes that the global recovery will likely outpace the possible negative implications of the US tariffs. Erdemir offers an excellent proxy to both cyclical exposure and expected Turkish market recovery. Although, we have pushed forward our price recovery expectation to 2003, its estimated EV/EBITDA appears below the global peers; 3.6x.

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### **Akcansa – A Remaining Value Play**

Akcansa, Turkey's largest cement producer, continues to offer excellent asset based value, in our view. We continue to believe it offers upside in the neighborhood of 50%. Despite its limited liquidity, we believe it is a Strong Buy.

## 2. Turkish Strategy

**With inflation falling, the economy moving off depressed lows and the reduced risks post the IMF bailout – the Turkish market is well positioned to perform in the coming months. Yes there are constraints associated with:**

- **the banking sector audits and recapitalisation;**
- **overhang from the sale of government stakes in Petrol Ofisi (now ending) and the upcoming sale of Tupras;**
- **the ongoing weakness of the economy, although now clearly moving off crisis lows; and**
- **prospective US action against Iraq.**

Currently at the low end of its sustainable \$ index over the past decade, we believe that the above issues are basically in the market price. Foreign investors have been largely on the sidelines while the domestic investors look capable of maintaining the market around these levels which we expect will likely prove a floor in the absence of crisis. Of the above, we believe that none of the issues have the potential to reignite the crisis environment and associated currency meltdown which dominated 2001. For a return to crisis, serious concerns about debt sustainability would have to again rise to the top of the agenda. Yet the IMF bailout has pushed that issue onto the backburner where we think it will stay. As such, we believe the market should not get sustainably cheaper in the foreseeable future.

*We think Turkey is a Warrant  
on Iraq's return to the  
International Community*

The one unknown is Iraq. Yes, a war in Iraq would pressure sentiment and it is the most talked about issue when we meet with investors. Yet we seriously doubt that it should impact debt sustainability or the currency. Equities could come under short term pressure should an attack begin. However, that is probably already being priced in due to the existing weight of evidence that the US may possibly engage Iraq. Importantly, the overwhelming response we have heard from investors is that any selloff would be considered a buying opportunity. This argues that any selloff is likely to be short lived. Indeed, unquestionably, if the possible end result is a return of Iraq to the international community, the development would be very bullish for Turkey. Iraq was Turkey's 2<sup>nd</sup> largest trading partner prior to 1991 and it is clear that Turkish companies would be well positioned to lead increased trade ties and direct investment (outside the oil sector) in Iraq. So the risk in Iraq is not so much the conflict itself, but the risk that the conflict may, if it occurs, be prolonged and will not end in a result that allows for an Iraqi return to the international community.

*We recommend overweighting  
the market on the view it's at  
the bottom of a sustainable  
trading range*

All told, we believe the market is at the bottom of what should prove a sustainable trading range. With an improving global outlook and the recent performance of many emerging markets, we believe the outlook for the still depressed Turkish market is positive. We recommend increasing positions.

### 3. Turkish Economics

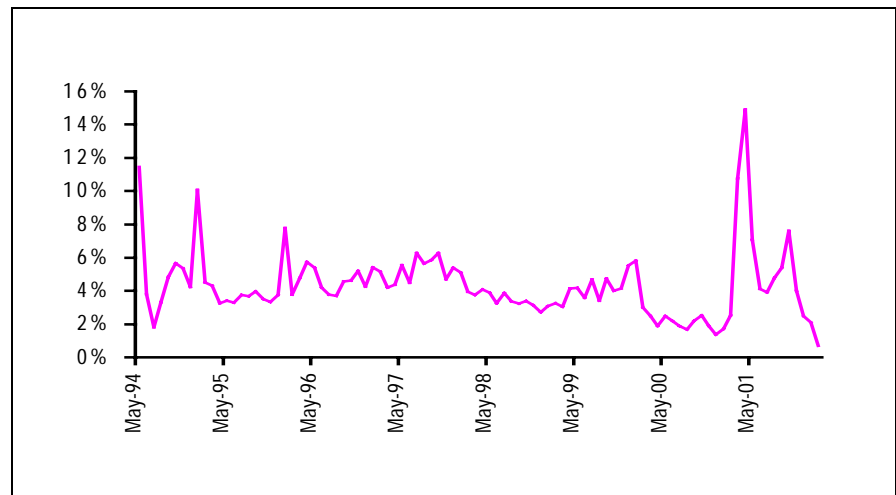
*Taken from Mehmet Simsek's "Beating the Beast?" March 4, 2002*

- Two positive macro trends lead us to maintain our positive outlook for Turkish equities.
- First, all measures of Turkish inflation fell sharply in February. We believe, the downward trend in inflation, which should ultimately lead to lower domestic interest rates, can be sustained owing to a) strong Lira, b) weak domestic demand and c) low international oil prices.
- Second, the sharp recovery in business confidence continued in January. We expect the improvement in business sentiment to start feeding through manufacturing output in 2Q 2002.
- We continue to recommend relatively high beta names such as Garantibank and recovery stories such as Hurriyet and maintain our overweight stance in Turkey. Akbank, Ford Otosan and Eregli are also among our top Buy recommendations.

#### Inflation is Falling

February inflation numbers were significantly better than expected. The so-called core inflation, the private sector manufacturing price index, fell to 0.7% in February - **the lowest month-on-month increase in nearly three decades**, and well below the consensus estimates of 2.3%. The sharp downward trend in the core inflation, which has been falling on a month-on-month basis since October when it peaked at 7.6%, reflects several favorable factors. These include the strengthening strong Lira, weak domestic demand, and low international oil prices.

Chart 1: Private Sector Manufacturing Price Index (MoM)



Source: State Institute of Statistics

Similarly, the headline inflation rates – both consumer price inflation (CPI) and wholesale price inflation (WPI) - also slowed markedly, falling to 1.8% and 2.6% in February, respectively. These numbers were also significantly better than the consensus estimates of 3.4%, and 3.2% for CPI and WPI, respectively. The slowdown in headline inflation numbers were driven by the fall in private sector manufacturing prices, which account for about 53% of WPI, and weakening food prices, which accounts for one-third of CPI. Food and alcoholic beverage prices were up 2.8% MoM in February compared to 8.6% in January. Agriculture prices, which account for over one-fifth of WPI, remained high, rising 8.9% MoM.

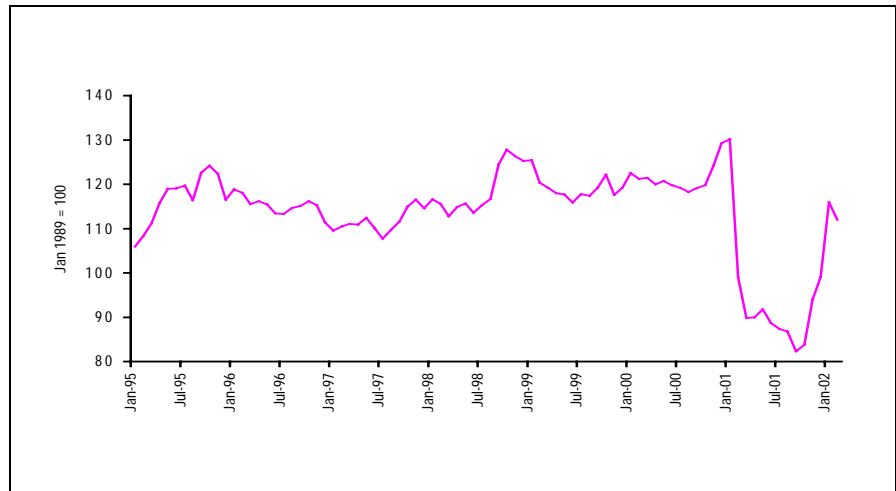
The year-on-year inflation rates eased only slightly to 73.1% for CPI (down from 73.2% in January), to 91.8% for WPI (from 92.0%) because of the low base period. As the devaluation-induced inflation spike of 2001 begins to drop out of the statistics, year-on-year inflation should start falling sharply over the next couple of months. We expect the headline WPI and CPI to fall to about 80% and 68%, respectively in March. **Barring the risk of a war in the region, we see the year-on-year inflation (wholesale price inflation) falling to mid 50s in June and high 30s by end-2002.** The headline consumer price inflation is likely to be a few percentage points higher than WPI as the expected moderate recovery in domestic demand should cause CPI to close the gap with the WPI.

On the back of better-than-expected February inflation data, **we have revised down our end-2002 forecasts to 38% for WPI (from 40%) and 42% for CPI (from 45%).** Our forecasts are lower than the consensus market estimates of around 46% but well above government's ambitious targets of 31% (WPI) and 35% (CPI). We think the country has a good chance to lower chronic high inflation, which averaged to 60% in the last three decades.

#### ■ Can the Downtrend be Sustained?

The appreciation of Turkish Lira, up by some 16% in nominal terms from its lows of October 2001, has been the most important factor in the decline in inflation. This raises concern that a subsequent depreciation could release inflationary pressures and reverse the downtrend in inflation. We think the weakness in domestic demand, reduces the risk of such a reversal.

Chart 2: Real Exchange Rate (1989=100)



Source: State Institute of Statistics, ML

In our view, the downward trend in inflation should be sustained in 2002 not only because the devaluation effects should drop out but also because we expect:

1. the recovery in domestic demand to be non-inflationary - we see only moderate recovery due to tight fiscal stance, weak banking sector, and depressed real wages;
2. Turkish Lira to continue to appreciate in real terms in 2002 owing to lack of fundamental demand for FX and attractive domestic bond yields;
3. oil prices are likely to be lower (on average) than last year; and
4. finally, a likely better harvest should help ease agriculture price inflation.

In our view, Turkey has a good chance to weaken “the beast” in 2002, given the favorable environment. **The progress in disinflation is likely to lead to lower bond yields, which bodes well for economic recovery and debt sustainability.** In the absence of an external shock, we see bond yields, the key driver of Turkish equities, to ease to the mid 50s by end-2002 from the current 70%. A visible decline in headline inflation in the coming months should likely help reduce inflationary expectations and improve investor sentiment. Disinflation is one of the key aims of the new IMF programme.

### Improving Business Confidence

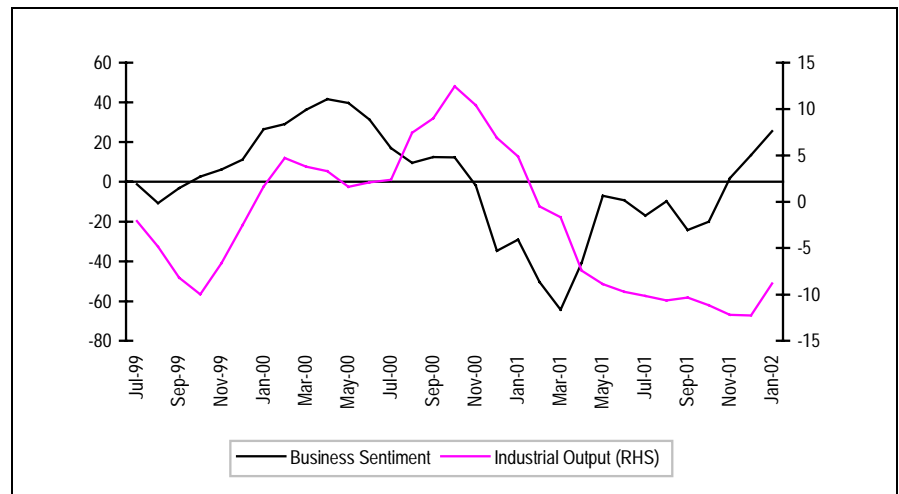
In addition to the positive news on the inflation front, a number of data releases in recent weeks appear to be supportive of our view that the Turkish economy should bottom out in 1Q 2002 and signs of recovery, off very low base, will likely emerge in the second quarter.

**First**, the central bank business survey shows that the **strong recovery in business confidence continued** in January. We think this is a fairly reliable leading indicator. Therefore, we expect the improvement in business sentiment to start feeding through manufacturing output in 2Q 2002.

**Second**, January saw a **slight uptick in both private and public sector manufacturing industry capacity utilization rates**. The overall plant-use rate was up to 74.2% from 73.3% in December and 70.5% in January 2001. While January industrial output (due for release on March 08) should remain in negative territory in January, we expect the pace of contraction to start decelerating.

Finally, industrial output data for January shows that the pace of contraction in Turkish industrial production decelerated in January, falling 3.1% year-on-year compared to a 9.4% fall in December. The output data, which shows that Turkey’s industrial cycle is beginning to turn, was significantly better than expected, partly due to a significant jump in oil sector output.

Chart 3: Business Sentiment (Net Optimists) & Industrial Output (% YoY, 3MMA)



Source: State Institute of Statistics, Central Bank



## Turkey: IMF Upcoming Review

An IMF delegation, led by the country director, Juha Kahkonen, is currently in Turkey for the first review of the Turkish economy under the new standby arrangement. The team is scheduled to stay in the country for two weeks.

The Fund's assessment of the Turkish economy appears to be fairly positive. Speaking to a local TV channel, the IMF European Department Director, Michael Deppler, said that Turkey was no longer faced with a crisis. He said: "At that time there were big weaknesses in the system and people were not even aware how weak the system was. Now the foundations are strong." Deppler noted that the IMF was confident that Turkey could achieve its 3% growth target for 2002, and said the economy would have grown by now if the world economy was in better shape. "We expect economic growth to begin very shortly. It could have started by now but the international environment was not helpful. But now we're turning the corner."

### *Implementation of reforms remains the key challenge*

The IMF's assessment of the Turkish economy is broadly in line with our own expectations. We think the Turkish macroeconomic picture will likely begin to look better in 2Q 2002. We think signs of recovery should start to emerge in April-May and inflation will likely continue to fall. Implementation of reforms remains the key challenge. In particular, the recapitalisation of privately-owned banks is very important. It appears that some large banks are doing everything they can to avoid capital infusion by the authorities. However, we believe Turkey has made significant progress in addressing the weaknesses in the system. As far as the current review is concerned, we believe that the Turkish government will take steps to ensure a positive review and secure the release of USD1.15bn by sometime in April.

The following tables provide a summary of the "to do list" in 1Q 2002 under the new programme. We think Turkey will have no difficulty in attaining the monetary (see Table 1) and fiscal performance criteria (see Table 2).

**Table 2: Monetary Performance Criteria & Indicative Targets for 2002**

	End-Dec'01		End-Feb'02	End-Apr'02E	End-Jun'02E	End-Sep'02E	End-Dec'02E
	Floor/Ceiling	Actual	Floor/Ceiling	Floor/Ceiling	Floor/Ceiling	Floor/Ceiling	Floor/Ceiling
Net Domestic Assets (TRL qrn) – Indicative Target		22.4	26.1	27.7	28.9	31.3	33.3
Net international Reserves (USD bn) - Performance Criterion*	-4.2	-4.2	-6.5	-7.2	-7.8	-8.5	-9.7
- Old Central Bank Definition (USD bn)	-3.0	-3.0	4.2	4.6	5.1	5.5	5.9
Base Money (TRL qrn) – Performance Criterion*	7.8	7.6	8.3	8.9	9.3	10.6	10.9

(\*) indicative target starting from end-September 2002

Source: IMF Letter of Intent

**Table 3: Fiscal Performance Criteria & Indicative Targets for 2002**

	End-Jan	End-Mar	End-May	End-Aug	End-Nov
CGS Primary Balance (TRLtrn) – Performance Criterion (1)	9,600*	2,800	4,700	9,600	14,900
CGS over-all Balance (TRLtrn) – Indicative Target	-32,500*	-12,500	-17,500	-28,250	-39,750
Treasury Net Lending (TRLtrn) – Program Baseline	1,794*	336	653	1,136	1,802
	End-Feb	End-Apr	End-June	End-Sep	End-Dec
Primary Balance of Other Public Entities (TRLtrn) – Indicative Target	-	-	550	-	1,100
Guarantee of New External Public Debt (USDmn) – Performance Criterion (2)	6,500	10,000	11,100	14,300	17,500
Stock of Short-term External Public Debt (USDmn) – Performance Criterion (2)	1,000	1,000	1,000	1,000	1,000

(1) indicative target starting from end-Aug'02, (2) indicative target starting from end-Sep'02, \* cumulative figure from January 2001

Source: IMF Letter of Intent

As far structural benchmarks are concerned, the Turkish government has long to-do-list (see Table 3 below). Closure of 548 revolving funds and elimination of all redundant workers and positions in state economic enterprises may prove challenging. However, we do not expect significant problems in compliance with these structural steps defined in the IMF letter of intent. Markets are likely to remain tense until all the steps are taken.

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**Table 4: Structural Benchmarks in 1Q 2002E**

	Deadline	Type
<b>I. Fiscal Measures</b>		
- Identify additional measures needed to attain the primary surplus target of 6.5% of GNP	end-March	Benchmark
- Finance Ministry to close regional administrative offices		
- State Economic Enterprises to approve budgets consistent with fiscal targets		
<b>II. Banking Reform</b>		
- BRSA to appoint 3rd-party auditors to verify that banking guidelines are followed	end-March	Benchmark
<b>III. Public Sector Reform</b>		
- Establish an independent procurement agency	end-March	Benchmark
- Identify all redundant workers and positions in SEEs	end-January	Prior action for first review
- Eliminate all open, unfilled, redundant positions		
- Pass Public Debt Management Bill	end-March	Prior action for first review
- Issue supporting communiqués for debt management		
- Close 548 revolving funds	end-March	Benchmark
- Complete a survey of end-2001 expenditure commitments in excess of appropriations	end-March	Benchmark
<b>IV. Enhancing Role of the Private Sector:</b>		
- Develop a strategy to increase transparency, and	end-January	Benchmark
- Combat rent-seeking activities		

Source: IMF Letter of Intent

## 4. Calendar of Events

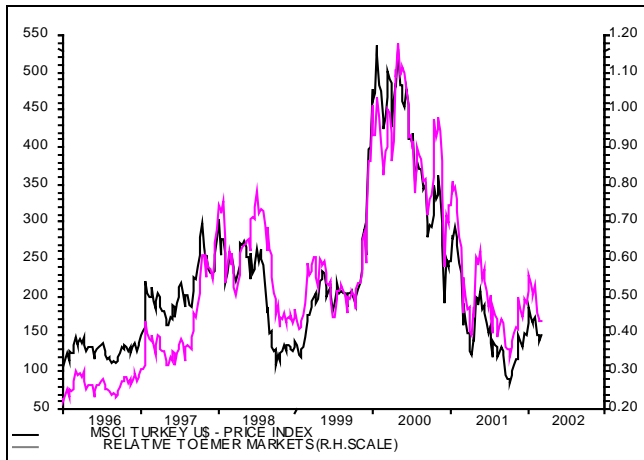
**Table 5: February Calendar of Events**

Mon., 04 Mar	Tue., 05 Mar	Wed., 06 Mar	Thu., 07 Mar	Fri., 08 Mar
	An IMF delegation arrives in Turkey for the first review under the new standby	Treasury to service about \$2.5bn domestic debt	Weekly monetary aggregates and FX reserves data	Industrial output: Jan'02: -3.1 Dec'01: -9.4
	Treasury holds two t-bill auctions (175-day & 336-day)	Bidders for Toprakbank are to be unveiled		
Mon., 11 Mar	Tue., 12 Mar	Wed., 13 Mar	Thu., 14 Mar	Fri., 15 Mar
US VP Cheney starts a 12-country (Europe & Middle-East) trip, including Turkey	Turkey-Greece talks on bilateral disputes start	Treasury to service \$400mn domestic debt	Weekly monetary aggregates and FX reserves data	Deadline for collection of bids for Petrol Ofisi SPO
	Treasury holds a 224-day t-bill auction	Final bidding period for Petrol Ofisi SPO starts		Deadline for 2001 earnings release for non-financial companies
				World Bank board meeting (tentative)
Mon., 18 Feb	Tue., 19 Mar	Wed., 20 Mar	Thu., 21 Mar	Fri., 22 Mar
Feb-02 capacity utilization statistics. Jan'02: 74.2%	Deadline for EU harmonization laws	Feb'02 domestic debt stock figures Jan'02: \$93.6bn	Weekly monetary aggregates and FX reserves data	
	Treasury holds a 91-day reference t-bill auction	Treasury to service \$1.02bn domestic debt		
		Feb'02 consolidated budget details Jan'02: \$1.1bn surplus		
Mon., 25 Mar	Tue., 26 Mar	Wed., 27 Mar	Thu., 28 Mar	Fri., 29 Mar
Foreign trade balance: Jan'02: -\$1bn (ML est.)	Current account balance Dec'01: -\$250mn (ML est.)	Treasury to service about \$350mn domestic debt	Weekly monetary aggregates and FX reserves data	4Q 2001 GDP data ML (est.): -6.8%
				4Q 2001 external debt stock 3Q: \$118.8bn
				Treasury to unveil April redemption schedule
Mon., 01 Apr	Tue., 02 Apr	Wed., 03 Apr	Thu., 04 Apr	Fri., 05 Apr
		March inflation	Weekly monetary aggregates and FX reserves data	Mar'02 budget (cash basis). Feb'02: \$198mn (surplus)
Mon., 08 Apr	Tue., 09 Apr	Wed., 10 Apr	Thu., 11 Apr	Fri., 12 Apr
Feb'02 industrial production figures. Jan'02: -3.1% YoY			Weekly monetary aggregates and FX reserves data	

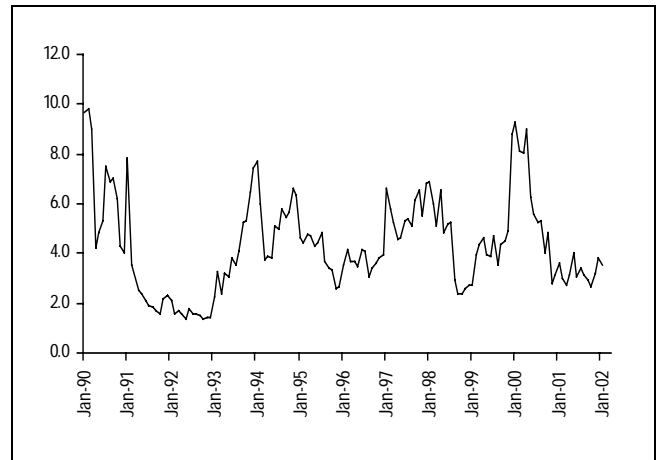
Source: Turkey's Central Bank, State Institute of Statistics, Treasury, Ministry of Finance &amp; Merrill Lynch Estimates

## Turkey – Stockmarket Indicators

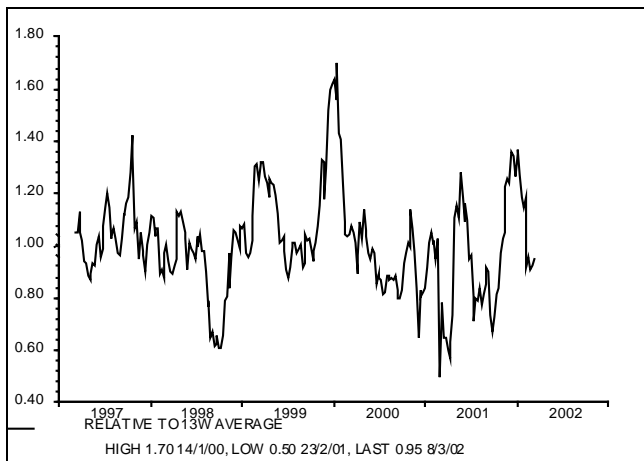
Stockmarket Performance (USD terms)



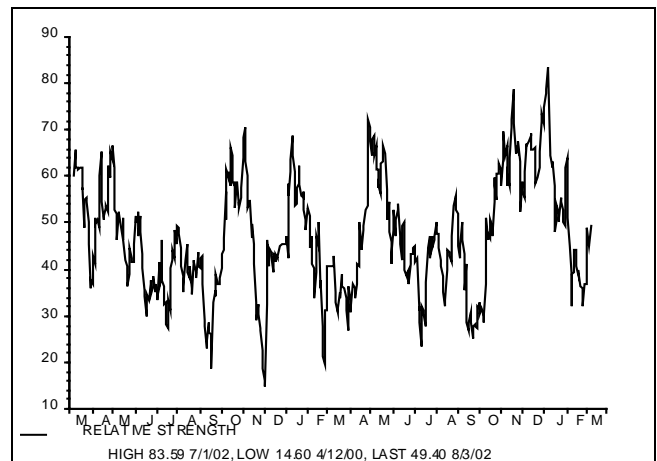
Market Price:Book Ratio



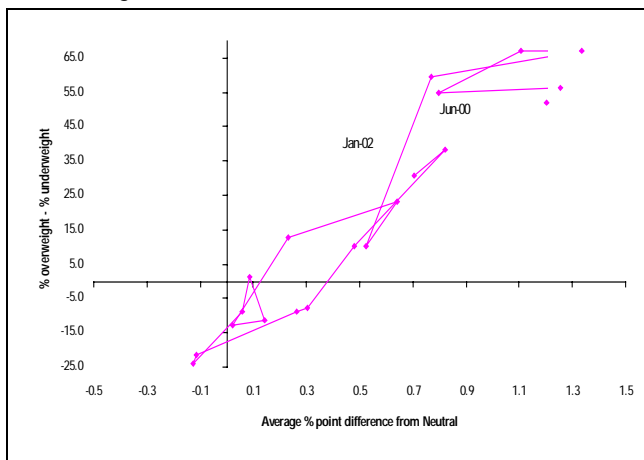
Market Deviation from 13-Week Average



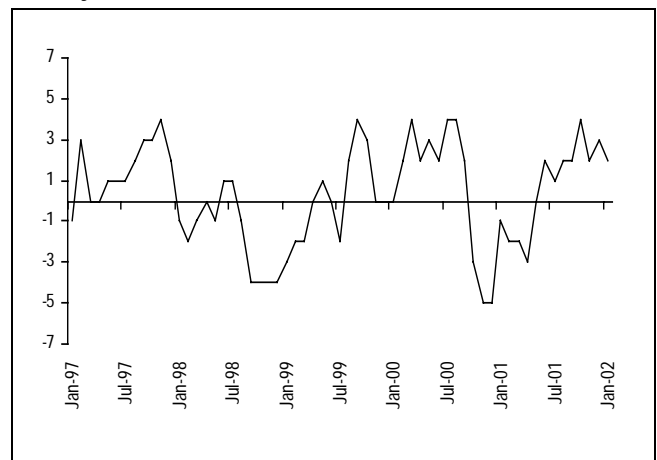
14-Day Relative Strength Indicator



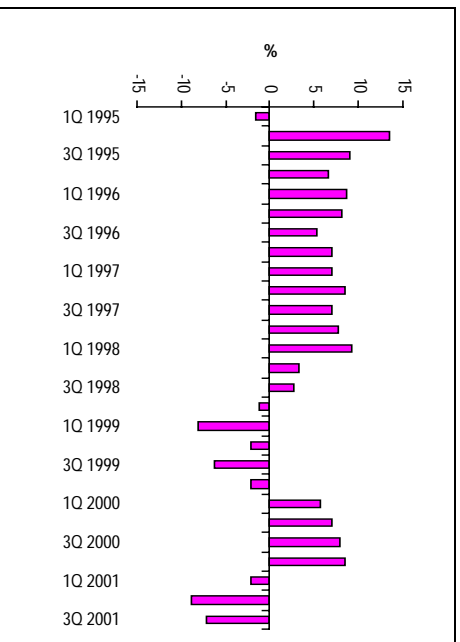
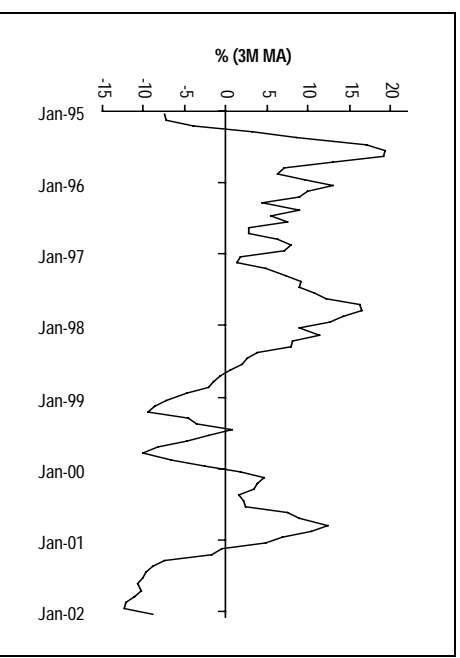
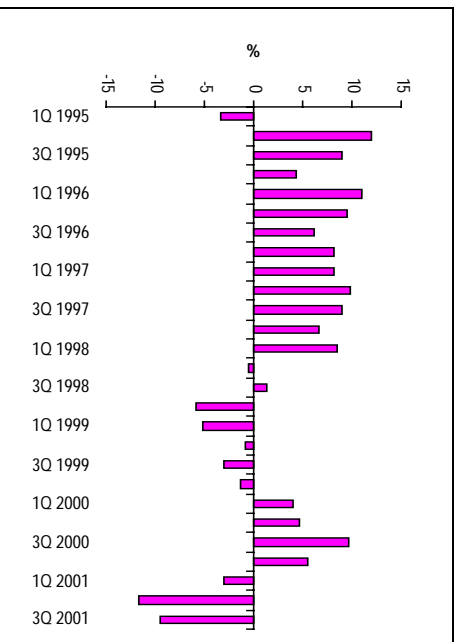
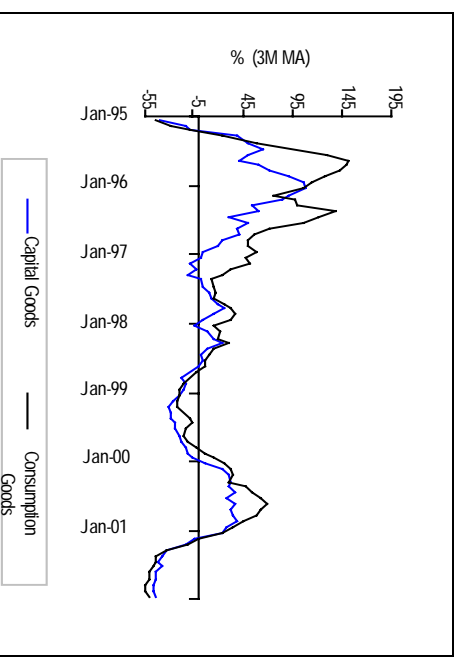
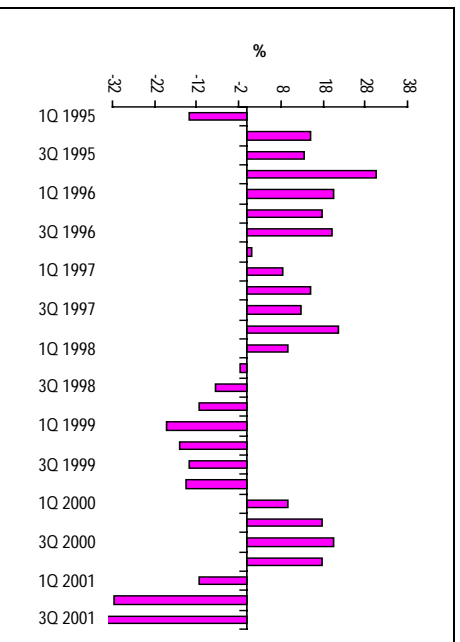
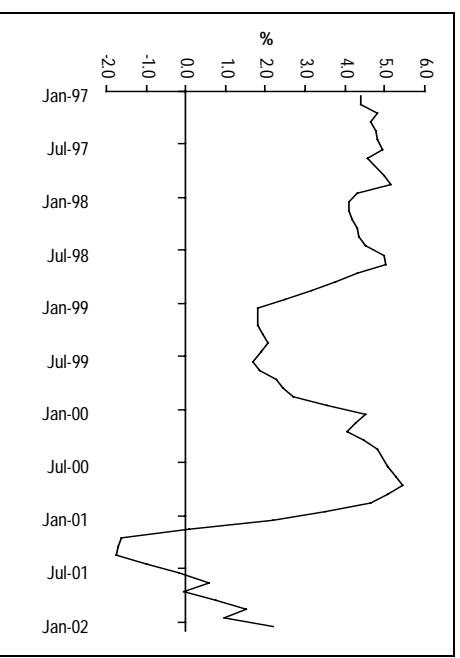
Fund Managers' Stance (%)



Country Macro Momentum

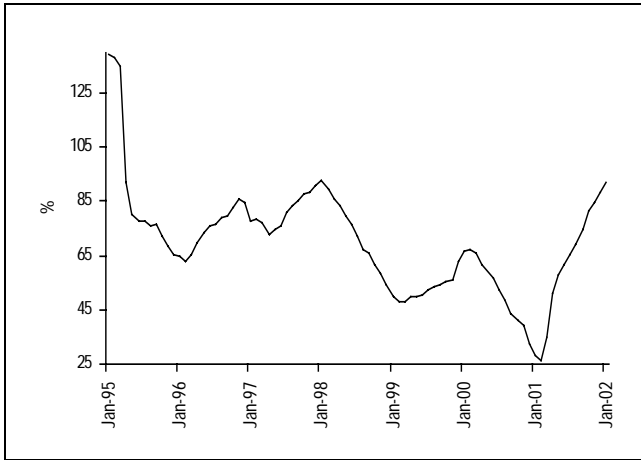


## Turkey – Main Economic Indicators

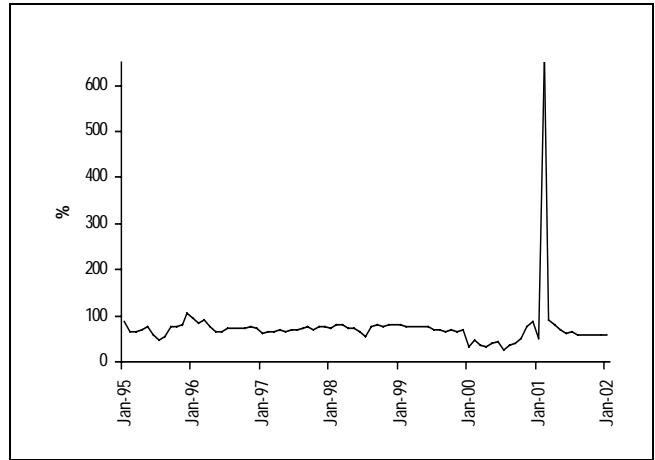
**Real GDP Growth (% YoY)**

**Industrial Output Growth (% 3M MA)**

**Private Consumption Growth (% YoY)**

**Import Growth – By Category (% 3M MA)**

**Investment Growth (% YoY)**

**12M Forward Consensus Real GDP Growth Forecast (%)**


## Turkey – Main Economic Indicators

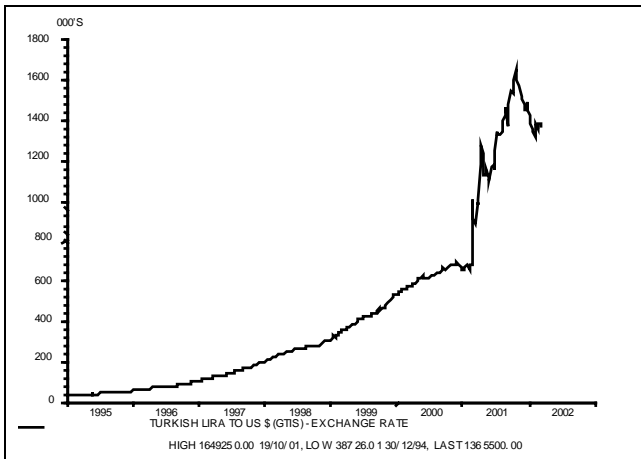
**Inflation Rate (% YoY)**



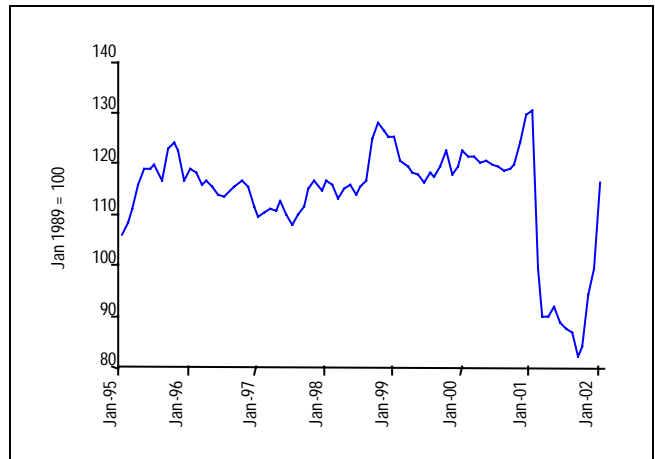
**Short-Term Interest Rates (%)**



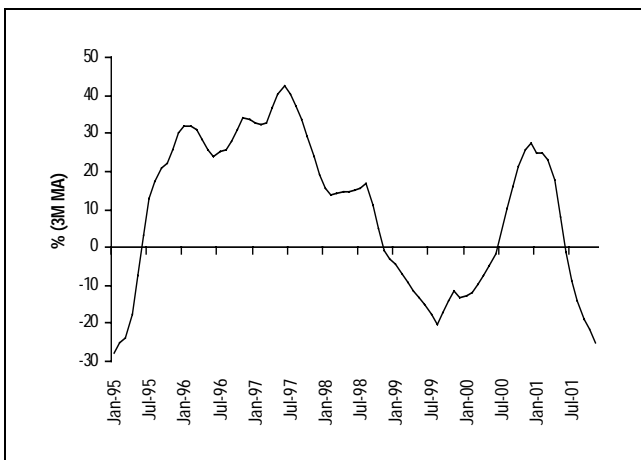
**Exchange Rate (USD)**



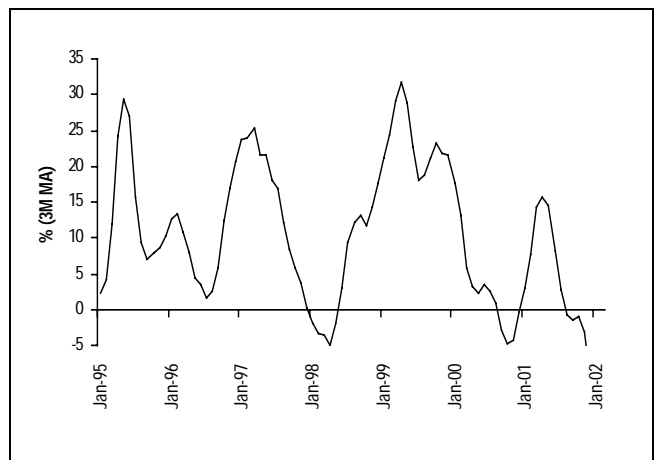
**Real Exchange Rate (USD)**



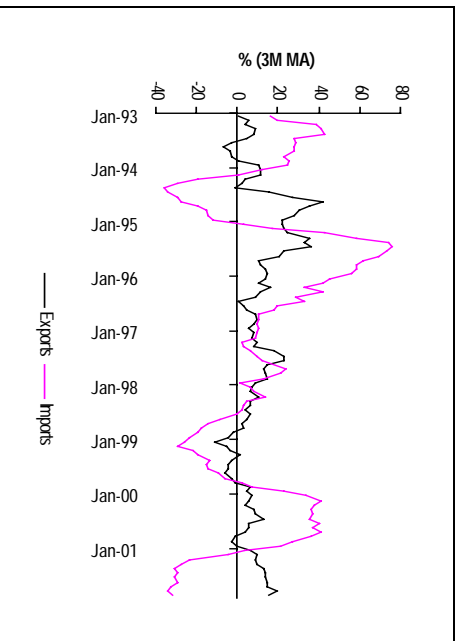
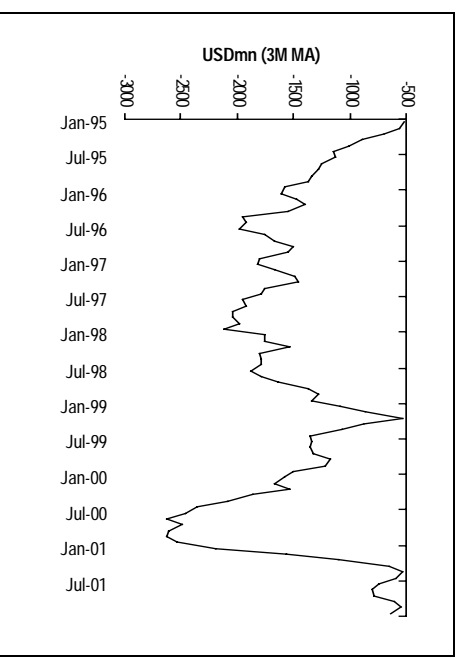
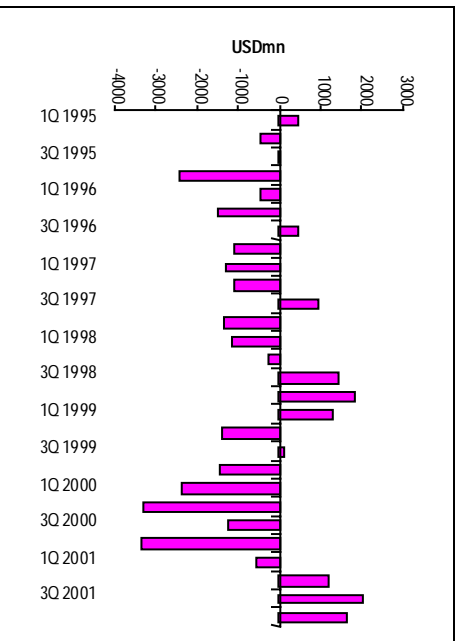
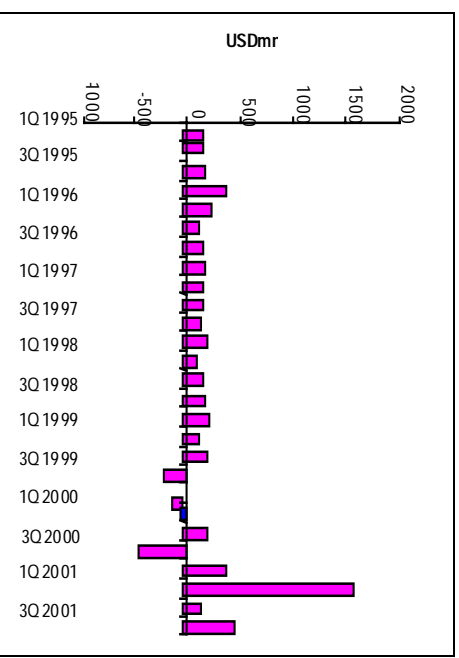
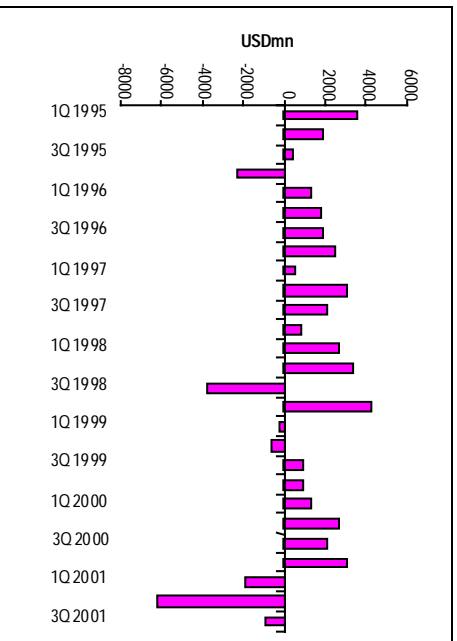
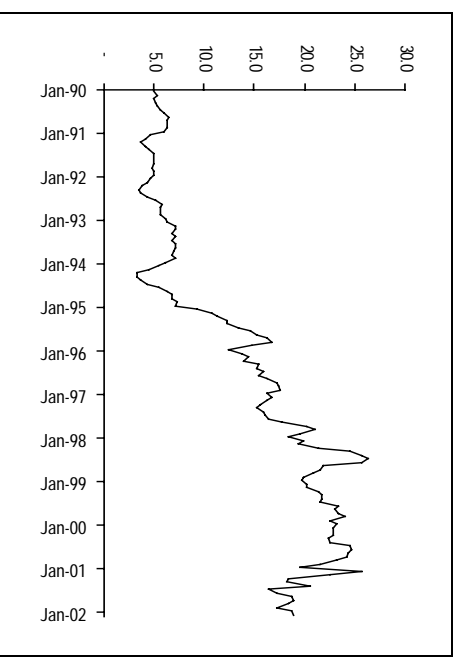
**Real Growth of Credit to Private Sector (% 3M MA)**



**Real M2 Growth (% 3M MA)**



## Appendix I Turkey – Main Economic Indicators

**Export and Import Growth (% 3M MA)**

**Trade Balance (USDm, 3M MA)**

**Current Account (USDm)**

**Net Direct Investment (USDm)**

**Other Capital Flows (USDm)**

**Foreign Exchange Reserves (USDbn)**


## Appendix II

**Table 6: Macroeconomic Forecasts**

	Czech R.	Egypt	Greece	Hungary	Israel	Poland	Russia	South Africa	Turkey
<b>2000</b>									
GDP (USD bn)	50.7	98.2	112.0	46.6	110.3	157.0	250.8	126.0	199.0
Real GDP Growth (%)	2.9	5.1	4.3	5.2	6.2	4.0	8.3	3.4	7.4
Average Inflation (%)	3.9	2.8	3.2	9.8	1.1	10.1	20.8	5.3	54.9
End-Year Inflation (%)	3.9	2.8	3.9	10.1	0.0	8.5	20.1	7.0	39.0
Trade Balance (USD bn)	-3.1	-11.5	-20.9	-2.2	-6.9	-13.2	60.7	3.2	-26.7
Trade Balance (% GDP)	-6.1	-11.7	-18.7	-4.6	-6.2	-8.4	24.2	2.5	-13.4
Current Account (USD bn)	-2.2	-1.2	-5.3	-1.5	-1.4	-9.9	46.3	-0.4	-9.8
Current Account (% GDP)	-4.4	-1.2	-4.7	-3.3	-1.3	-6.3	18.5	-0.3	-4.9
Budget Deficit (USD bn)	-2.4	-4.6	-1.5	-1.6	-0.7	-3.5	5.8	2.4	-20.5
Budget Deficit (% GDP)	-4.8	-4.7	-1.3	-3.4	-0.6	-2.2	2.3	2.0	-10.3
Average Exchange Rate (USD)	38.6	3.4	365.8	282.5	4.1	4.4	28.1	6.9	626.1
End-Year Exchange Rate (USD)	37.6	3.5	362.9	282.3	4.0	4.1	28.2	9.0	671.8
<b>2001</b>									
GDP (USD bn)	55.7	97.1	115.7	52.0	107.5	178.5	308.4	104.6	152.8
Real GDP Growth (%)	3.4	4.9	4.1	3.8	-0.5	1.1	5.0	1.7	-6.4
Average Inflation (%)	4.7	2.4	3.4	9.2	1.1	5.5	21.5	5.7	54.4
End-Year Inflation (%)	4.1	2.2	3.0	6.8	1.4	3.6	18.6	4.3	68.5
Trade Balance (USD bn)	-3.2	-9.4	-19.2	-2.0	-7.7	-11.8	50.3	2.8	-9.4
Trade Balance (% GDP)	-5.7	-9.6	-16.6	-3.9	-7.1	-6.6	16.3	2.7	-6.2
Current Account (USD bn)	-2.5	0.0	-4.8	-1.1	-3.2	-7.0	34.2	-0.2	3.3
Current Account (% GDP)	-4.4	0.0	-4.2	-2.1	-3.0	-3.9	11.1	-0.2	2.2
Budget Deficit (USD bn)	-4.2	-4.7	0.0	-1.7	-5.0	-8.0	7.8	2.1	-24.1
Budget Deficit (% GDP)	-7.5	-4.8	0.0	-3.4	-4.6	-4.5	2.5	2.0	-15.8
Average Exchange Rate (USD)	38.0	3.8	380.9	286.7	4.2	4.1	29.2	9.0	1,233.7
End-Year Exchange Rate (USD)	35.6	3.9	382.7	274.8	4.4	4.0	30.1	12.4	1,455.0
<b>2002</b>									
GDP (USD bn)	61.6	86.3	126.8	57.9	100.0	183.6	335.9	95.5	181.1
Real GDP Growth (%)	3.3	2.0	3.8	4.0	1.5	2.2	3.0	2.0	3.0
Average Inflation (%)	3.5	2.6	3.4	5.6	3.3	3.8	16.9	5.6	52.2
End-Year Inflation (%)	3.5	3.5	2.8	5.5	3.3	4.8	16.0	6.9	42.0
Trade Balance (USD bn)	-3.4	-9.6	-20.6	-2.3	-7.4	-11.9	34.4	2.8	-13.3
Trade Balance (% GDP)	-5.5	-11.2	-16.2	-4.0	-7.4	-6.5	10.2	2.9	-7.4
Current Account (USD bn)	-2.6	-2.1	-5.6	-1.4	-2.7	-6.8	34.4	-0.5	-1.8
Current Account (% GDP)	-4.2	-2.5	-4.4	-2.5	-2.7	-3.7	5.5	-0.5	-1.0
Budget Deficit (USD bn)	-5.6	-4.9	-0.1	-2.0	-3.9	-9.8	-2.1	2.1	-20.6
Budget Deficit (% GDP)	-9.1	-5.6	-0.1	-3.5	-3.9	-5.2	-0.6	2.2	-10.0
Average Exchange Rate (USD)	36.8	4.4	372.8	283.0	4.8	4.2	32.2	10.7	1,655.5
End-Year Exchange Rate (USD)	36.3	4.8	374.5	280.7	4.8	4.2	33.5	10.2	2,010.0
<b>2003</b>									
GDP (USD bn)	64.8	80.9	126.8	64.7	106.7	192.6	364.9	105.9	182.2
Real GDP Growth (%)	3.9	3.9	4.0	4.2	4.0	3.5	3.5	2.8	4.6
Average Inflation (%)	3.1	4.8	2.5	4.3	2.3	4.1	14.3	6.2	36.7
End-Year Inflation (%)	3.4	5.7	2.3	4.0	2.8	3.6	13.5	6.0	30.0
Trade Balance (USD bn)	-3.7	-1.0	-20.2	-2.7	-7.7	-13.0	39.0	3.4	-16.5
Trade Balance (% GDP)	-5.7	-1.2	-15.8	-4.2	-7.2	-6.8	10.7	3.2	-9.1
Current Account (USD bn)	-2.9	-2.3	-6.0	-1.7	-2.7	-9.5	25.4	-0.2	-3.2
Current Account (% GDP)	-4.5	-2.9	-4.7	-2.6	-2.6	-4.9	7.0	-0.2	-1.8
Budget Deficit (USD bn)	-2.8	-2.3	0.3	-1.9	-2.7	-7.6	0.9	2.3	-17.6
Budget Deficit (% GDP)	-4.3	-2.9	0.2	-2.9	-2.6	-3.9	0.2	2.2	-7.0
Average Exchange Rate (USD)	36.1	5.1	380.0	274.8	4.7	4.3	35.1	10.5	2,290.0
End-Year Exchange Rate (USD)	35.6	5.4	380.0	267.7	4.7	4.4	36.4	10.8	2,610.0

Source: Merrill Lynch Emerging Europe Equity Research Estimates. Russian budget data uses international definition: privatisation receipts and net sales of state gold reserves are treated as deficit financing. Turkish and Polish balance of payments figures include luggage trade. Polish budget excludes privatisation revenues. Turkish trade deficit is based on trade returns, not balance of payments returns. Czech budget refers to the public sector. Egyptian forecasts refer to fiscal years.



**Table 7: Stocks Mentioned in this Report**

Stock Name	Symbol	Price	Opinion	QRQ	Ft
Akcansa Cimento Sanayi Ve Ticaret AS	AKCMF	7700.00	Strong Buy	D-1-1-9	q
Hurriyet Gazetecilik	HURRF	4800.00	Buy	D-2-1-9	q
Akbank	AKBNF	3900.00	Buy	D-2-2-7	q
Garanti Bank	TKGBF	2700.00	Buy	D-2-2-9	q
Ford Otosan	FOVSF	15750.00	Buy	D-2-1-9	q
Eregli Demir Celik	EREGF	17750.00	Buy	D-2-1-9	q
Sabancı Holding	HOSZF	6200.00	Buy	D-2-2-7	q
Yapi Kredi Bank	YVKBF	3700.00	Neutral	D-3-3-9	q
Anadolu Efes	AEBMF	32000.00	Neutral	D-3-2-9	q
Koc Holding A.S.	KHOLF	32500.00	Neutral	D-3-2-7	q
Turkiye IS Bankasi	TYIBF	7300.00	Reduce/Sell	D-4-3-8	q
Arcelik	ACKAF	12000.00	Reduce/Sell	D-4-2-7	q

Source: ML as at 08.03.02

## Appendix III – Turkey Sources and Notes

### ■ Market Indicators

**Stockmarket Performance:** Datastream.

**Market Price:Book Ratio:** IFC, Investable Index. Based on the latest available 12 month results of the companies included in the index.

**14 Day Relative Strength Indicator:** Datastream. Compares daily share price increases to share price decreases to ascertain the direction of momentum. Can be used as an overbought (>70)/oversold (<30) indicator.

**Market Deviation from 13-Week Average:** Datastream. We use this as a simple overbought/oversold indicator.

**Global Emerging Markets Funds' Stance:** eMergingPortfolio.com. We take raw data on GEM funds country allocations (net of cash) and compare them to the neutral stance implied by MSCI market capitalisations.

**Macro Momentum:** Merrill Lynch. Our composite measure of economic performance. Please see the introduction to this publication for an explanation of the methodology.

### ■ Main Economic Indicators

**Real GDP Growth:** Central Bank of Turkey. Constant prices, YoY change.

**Industrial Output Growth:** Datastream, Reuters. Year-on-year growth rate, smoothed with a three-month moving average.

**Private Consumption Growth:** Central Bank of Turkey. Constant prices, YoY change.

**Import Growth – By Category:** Central Bank of Turkey. Year-on-year growth rate, smoothed with a three-month moving average.

**Investment Growth:** Central Bank of Turkey. Constant prices.

**12M Forward Consensus Growth Forecast:** Consensus Economics. 12 month forward forecast computed as moving average of current year and next year.

**Inflation Rate:** State Institute of Statistics, Reuters. Year-on-year change in CPI.

**Short-Term Interest Rates:** Central Bank of Turkey. Weighted average overnight interbank rate. Average for the month.

**Exchange Rate:** Datastream. Exchange rate versus USD.

**Real Exchange Rate:** Datastream, Merrill Lynch. Real exchange rate versus USD, using CPI indices.

**Real Growth of Credit to Private Sector:** Central Bank of Turkey. Monetary sector's claims on private sector. YoY change, smoothed with a 3M MA. Adjusted to consumer price inflation by Merrill Lynch.

**Real M2 Growth:** Central Bank of Turkey. YoY change, smoothed with a 3M MA. Adjusted to consumer price inflation by Merrill Lynch.

**Export and Import Growth:** Central Bank of Turkey. Year-on-year growth rate, smoothed with a three-month moving average.

**Trade Balance:** Central Bank of Turkey. Three-month moving average.

**Current Account:** Central Bank of Turkey.

**Net Direct Investment:** Central Bank of Turkey.

**Other Capital Flows:** Central Bank of Turkey.

**Foreign Exchange Reserves:** Central Bank of Turkey.

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