

Best sovereign deal in a G7 currency, emerging Europe

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Turkey capitalized on a wave of investor euphoria following the decision by EU governments to open accession talks in December 2004 to extend its euro yield curve.

Twenty-five European governments gave the green light for negotiations to begin at a meeting in Brussels, which opened up new avenues for Turkey in terms of funding options. With hindsight, the timing was critical. On the rocky road towards EU entry, swings in sentiment have been dramatic, illustrating the importance of striking quickly when conditions are favourable.

Coming just two months after the momentous announcement, the 12-year bond was Turkey's first ever beyond the 10-year mark, and went against the country's usual tradition of opening the year with dollar issues. The k1 billion size of the deal gave sufficient liquidity to convince investors to take to the new maturity, leaving the issue five times oversubscribed.

"At the time, there was a lot of positive sentiment about, and there was a lot of liquidity at the start of the year chasing the convergence theme," says Richard Luddington, head of central and eastern European capital markets at UBS. In addition, like with "all Turkey deals, there was a lot of interest from local banks", he notes.

Turkish buyers accounted for about 30% of the issue, about a quarter were from the UK, 10% from Switzerland and 7% from Germany.

Appetite for high-yielding bonds – with the Fed funds rate at 2.5% and the ECB benchmark lending rate at 2% – allowed the country to issue the notes at just 13 basis points above its 10-year 2014 issue.

The country has been ramping up its euro issuance to cement its ties with the 25-country EU and capitalize on appetite for potential accession countries' debt. As the last remaining high-yield economy in Europe, it has become a mainstay of emerging market fixed-income investors.

Now, with global liquidity beginning to tighten, funding conditions will become much more difficult. Turkey will have to rely on the reputation and investor base it has built up to see it through a testing period.

Issuer: Republic of Turkey

Amount: c1 billion

Date of launch: 8 February 2005

Maturity: 12 years

Coupon: 5.5%

Credit ratings: B1 (Moody's), BB- (S&P)

Lead managers: Deutsche Bank, UBS

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