



Please find below our latest newsletter covering recent economic and political developments in Turkey.

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Your FMConsulting Team

Economy

Overview of Monthly Data

YTL-Rates	29.04.2011	31.05.2011	Change in %
TL pro Euro	2,2605	2,2954	1,54
TL pro USD	1,5214	1,5935	4,73

Stock exchange index	68,440	63,046	-7,8
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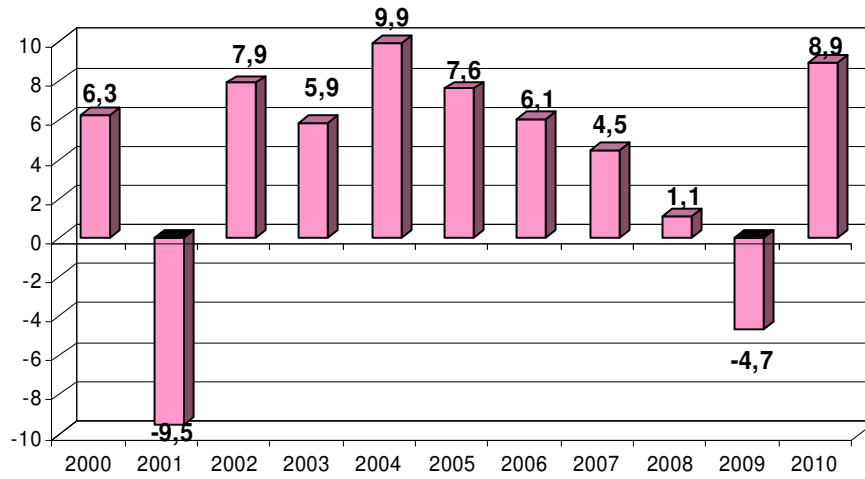
Inflation in %	Monthly inflation	Annual inflation
Producer prices	0,15	9,63
Consumer prices	2,42	7,17

Growth Rates

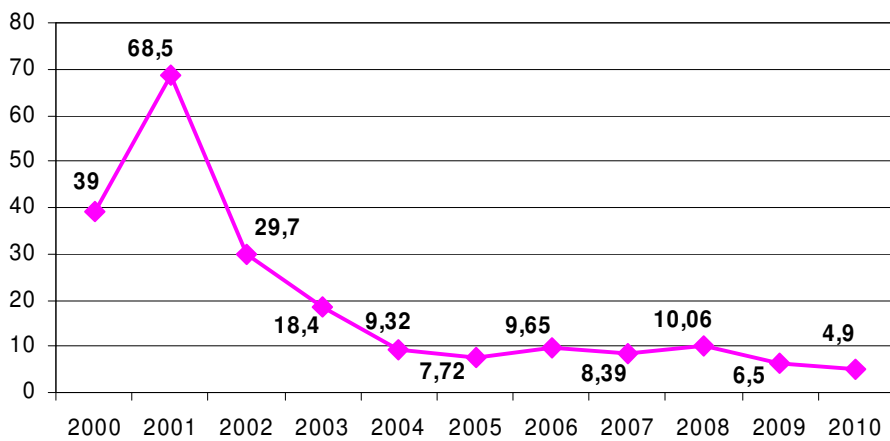
Economic Growth Rates (%)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Yearly
2000	4.2	5.4	7.2	7.8	6.3
2001	-3.3	-12.3	-9.1	-12.3	-9.5
2002	0.6	10.4	8.0	11.8	7.9
2003	7.4	3.6	5.6	7.2	5.9
2004	13.9	15.7	8	6.6	9.9
2005	7.5	4.7	8.0	10.0	7.6

2006	6.3	9.3	4.3	4.6	6.1
2007	8.1	4.1	3.3	3.6	4.5
2008	6.7	1.9	0.5	-6.2	1.1
2009	-14.5	-7.7	-2.9	6	-4.7
2010	11.7	10.3	5.5	9.2	8.9

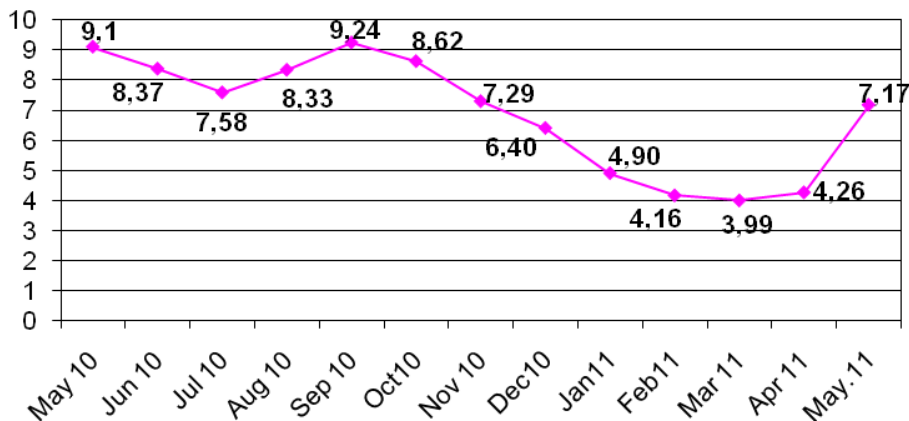
Growth Rates (%)



Annual Inflation of Consumer Prices (%)



Annual Inflation's Monthly Development 2010-11 (%)



Turkey's trade gap widens dramatically

Reaching US\$83bn 662mn in March, the foreign trade deficit of Turkey for the first time exceeded the 80-billion-dollar mark for a single month. The previous record peak (US\$76.1bn) dated from August 2008. Ever since its all-time low of US\$36.5bn in October 2009, the import surplus has increased continuously, more than doubling in the past 15 months. Also in March the ratio of exports to imports dropped to the lowest level since the crisis year of 2001, to only 54.7%. Trade with only three countries – China (US\$4.5bn), Russia (US\$4.3bn), and the U.S. (US\$3bn) – generated 46% of the US\$24bn 595mn deficit recorded in the first quarter, while the top 5 countries including Germany (US\$1.8bn) and Iran (US\$1.5bn) together accounted for 62%.

Development of Turkey's trade deficit since 2007 (billion US\$)

	Exports of the year or the last 12 months	Increase (%)	Exports of the year or the last 12 months	Increase (%)	Deficit
2007	107.3	25.4	170.1	21.8	62.8
2008	132.0	23.0	202.0	18.8	69.9
2009	102.1	-22.7	140.9	-30.2	38.8
1/2010	102.1	0.0	143.3	1.7	41.2
2/2010	101.9	-0.2	146.0	1.9	44.1
3/2010	103.7	1.8	150.5	3.1	46.9
4/2010	105.5	1.7	155.4	3.3	49.9
5/2010	108.0	2.4	159.2	2.4	51.3
6/2010	109.2	1.1	162.0	1.8	52.8
7/2010	109.7	0.5	165.2	2.0	55.5
8/2010	110.4	0.6	167.8	1.6	57.4
9/2010	110.8	0.4	171.0	1.9	60.1
10/2010	111.7	0.8	175.5	2.6	63.8
11/2010	112.2	0.4	180.0	2.6	67.8
12/2010	114.0	1.6	185.5	3.1	71.6
1/2011	115.7	1.5	190.8	2.9	75.1
2/2011	117.5	1.6	196.5	3.0	79.0
3/2011	119.4	1.6	203.1	3.4	83.7

May-2011

Unemployment beginning to resume downward trend

In February of this year the number of jobless in Turkey decreased by 0.4% over the month before, and by 2.9% over the same month of the previous year. While the unemployment rate stood at 14.4% in February 2010, it has now improved to 11.5%. The official number of registered unemployed has again dropped below 3 million, to around 2,964,000, which is almost exactly 600,000 less than a year ago. However, effectively some 5.2 million people are out of work, equivalent to an actual jobless rate of 18.1%.

Development of unemployment in the last 13 months

	Official unemployment		Actual joblessness	
	Number (1,000)	Rate (%)	Number (1,000)	Rate (%)
February '10	3,564	14.4	5,903	21.7
March '10	3,438	13.7	5,663	20.7
April '10	3,071	12.0	5,047	18.3
May '10	2,846	11.0	4,682	16.9
June '10	2,751	10.5	4,608	16.4
July '10	2,782	10.6	4,690	16.7
August '10	2,971	11.4	4,856	17.3
September '10	2,934	11.3	4,818	17.3
October '10	2,901	11.2	4,803	17.3
November '10	2,811	11.0	4,802	17.4
December '10	2,929	11.4	4,999	18.1
January '11	3,044	11.9	5,253	19.0
February '11	2,964	11.5	5,207	18.1

May-2011

Markets relax as base rates remain unchanged

Turkey's Central Bank has refrained from changing the base rates. The bank's Monetary Council also decided not to raise the mandatory provisions for the time being. Announcing the decision, the Central Bank's new governor Erdem Basci said that in the second quarter there had been indications that the measures taken to contain borrowing and domestic demand are starting to make an impact. This is why the bank opted for the moment to continue observing the time-lagged effect of its interventions, and subsequently take additional measures if required. The markets responded with relief to this announcement; for instance, compound interest on benchmark bonds eased off 10 basis points.

May-2011

Turkey's current account deficit reaches alarming level

Despite the measures taken to contain domestic demand, Turkey's current account deficit remains much higher than anticipated. With US\$9bn 766mn in March, it reached a new record level for a single month, 128% over the same month of the previous year. The last 12-month-period even saw a 174% increase, to the all-time high of around US\$60.5bn. After the first quarter, the deficit already stood at US\$22.1bn, which is more than half of the government's annual target. The latest forecasts see the deficit rise to at least US\$80bn by the end of 2011.

May-2011

Turkey's financial markets continue to heat up

Turkey's financial markets continue to be highly volatile also in 2011. Despite all countermeasures taken in an effort to contain borrowing, the loan volume rose by 27% between September 24 and May 6, from TL370bn to TL470bn. At the same time, the Turkish Lira continued to depreciate against both US dollar and Euro, at times surpassing the 1.60 TL/US\$ and 2.30 TL/€ marks. Meanwhile the Turkish government, according to Finance Minister Mehmet Simsek, is considering monetary and if need be also fiscal structural measures to contain Turkey's current account deficit and especially to reduce its energy dependence on foreign countries.

May-2011

Politics

Violent incidents during electoral campaign in Turkey

The campaign leading up to the general elections in Turkey was overshadowed by a series of incidents. Apart from occasional bombings, an armed attack on the escort of Prime Minister Erdogan is particularly noteworthy. On its return from a rally in the city of Kastamonu, a police car driving in front of Erdogan's entourage bus was ambushed in a mountainous area, shot at, and then set ablaze with a grenade. A police officer was killed on the spot, while the assailants initially managed to escape. In another incident, Erdogan's convoy was stoned in the town of Hopa on the Black Sea, prompting police to use excessive force to disperse the protesters. Probably due to the effects of tear gas, an elderly demonstrator suffered a fatal heart attack.

May-2011

Entrepreneurs' president calls for societal consensus

Ahead of the parliamentary elections in Turkey, Ümit Boyner, the president of Turkish Entrepreneurs' Association TÜSIAD, said that society needs to come to a consensus. She deplored that the political parties in their electoral campaigns are wasting their energy on defaming their opponents, rather than trying to arrive at political solutions. Ms Boyner called the scandal around the disclosure of videos depicting opposition politicians in compromising situations a negative example which is bound to shake the citizens' confidence in the state. The country's problems, she said, can only be solved through common efforts. However, economic growth by itself is not a solution as long as there is unequal distribution of income as well as a significant deficit in development. Boyner drew attention to the fact that while Turkey aspires to rank among the world's 10 biggest economies in the near future, it currently ranks only 83rd in the Human Development Index (HDI).

May-2011

Sabancı: Turkey accession to EU inevitable

Güler Sabancı will be receiving this year's Schumpeter Award, which is awarded in memory of Austrian-American economist Joseph Schumpeter. On this occasion, the Chairwoman of the Board of Sabancı Holding – ranked as the world's third-most powerful businesswoman by the

Financial Times – gave the Austrian newspaper *Die Presse* an interview which appeared with the headline “Turkey is Europe’s destiny”. In the interview, Ms Sabanci speaks out optimistically on the chances of her country for full membership in the European Union, which she called “inevitable” in the longer term. While at the moment there are still deficits when it comes to democratisation and human rights in Turkey, the country is headed in the right direction and regards the EU as a model. Aside from its increasing economic potential, another good reason for Turkey’s EU membership is that the EU, in the words of Güler Sabanci, needs “more integration, more diversity, more energy and new blood”, especially considering the fact that there will be a 70 million drop in EU labour force by the year 2050.

May-2011

Other Topics

Vodafone Turkey remains on expansion course

The Turkish subsidiary of Europe’s largest mobile service provider Vodafone is consistently expanding its position. Substantial investments in infrastructure, in particular the 3G technology, combined with continuous improvement and upgrading of its range of service have started to pay off for the company, which in the last two years was able to increase its share of market volume by 8.5 percentage points, to 27.1%. The company posted sales of TL3.7bn in the fiscal year 2010/2011, 30.2% more than in the previous year. Also the number of Vodafone subscribers went up 1 million to reach 16.8 million in 2010, with the number of prepaid customers declining to the benefit of postpaid subscribers.

May-2011

Turkish wine growers launch export offensive

Turkey’s wineries are well on their way to firmly establishing themselves on the world market. While in terms of quantity, Turkish wines play only a very minor part, with a current export volume of merely 22,000 hectolitres, their quality is continually improving and already now being recognized on an international level. Besides Germany and Great Britain, Turkish wine exporters have their eyes set mainly on Russia, the U.S., and the Far East. In addition to increased presence at trade fairs, they are particularly hopeful of promotional events such as wine tastings and seminars in the target markets. As Taner Ögütoglu, director of the Platform of Turkish Wines, pointed out, government funding will be indispensable for export success. The State Secretariat for Foreign Trade has already confirmed its intention to provide additional funding for this purpose.

May-2011

Quarrel about protectionist measures

The Turkish government’s plan to levy an additional duty on imports of textile products and clothing from certain countries as of 21 July, has not found favour with everybody. While many Turkish textile producers hailed the measures, even now reporting of new hiring and increased machine ordering, the importers of apparel are using the remaining time for intensive lobbying. They already succeeded in persuading the government to lower the additional duties by 10 percentage points. But a good number of domestic manufacturers also regard this protectionist

approach as the wrong way of boosting imports, and warn of a boomerang effect.

May-2011

Hydraulics & pneumatics sector lures with promise of high growth rates

Owing to the continuous growth of the Turkish machine building industry, the demand for hydraulic and pneumatic technology is increasing rapidly. This segment of the Turkish market has expanded by around 25% in 2010, reaching a magnitude of TL400mn, which is roughly equivalent to a 1-percent share in the world market. Some 60% thereof, or 240mn TL, were imports; in addition, there were exports of around TL70mn. In the current year domestic sales are expected to rise another 20% to TL500mn, while the export target for 2011 has been set at TL90mn. This development has not failed to attract the attention of international manufacturers, which until recently did their business in Turkey only through distribution partners. With Bosch Rexroth having led the way by establishing a Turkish subsidiary, U.S.-based company Parker followed several years ago, and was joined last year by Japanese SMC Group. More investments by foreign companies in this sector are thought to be in the pipeline.

May-2011

Oyak Renault continues to be Turkey's export champion

With exports of US\$3.2bn, automobile manufacturer Oyak Renault defended the title of Turkish export champion it had won last year. Mineral oil company Tüpras and Ford Otosan ranked 2nd and 3rd, respectively. The top 10 exporters' list is completed by companies Tofas, Vestel, Arcelik, Toyota, Icdas, Habas, and Diler, which puts the automotive sector in the lead. According to the figures announced by Turkish Exporters' Association TIM, however, profitability of the 1,000 largest export companies has decreased in comparison with 2010. For the first 500 companies, accounting for 55.4% of all Turkish exports, profitability dropped from 8.08% to 7.48%, while the second 500 companies, which contribute 9.4% of the export volume, even suffered a setback from 6.93% to 4.9%.

May-2011

Boeing intensifies co-operation with Turkish companies

The world's largest manufacturer of civil and military aircraft, the Boeing Company, has voiced its amazement at the pace in which the Turkish aviation industry is developing. The chief executive of Boeing Turkey, Greg Pepin, said that the growth of the Turkish market has surpassed all expectations. On the one hand, Turkish Airlines (THY) has developed into one of the world's largest airlines. Therefore Boeing is very keen on participating in new projects of THY. On the other hand, Pepin stated, the number of Turkish high-tech companies capable of producing on an international standard level at competitive prices has skyrocketed. Boeing is already purchasing parts from some 20 suppliers in Turkey, and has sent out a scout to fathom the possibilities for enhancing its co-operation with Turkish companies in centres such as Eskisehir, Izmir, and Ankara. The military market is also extremely interesting for Boeing, considering that the Turkish Air Force has just placed an order for 6 latest-generation Chinook Transport helicopters.

May-2011

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