



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

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Best regards,
Your FMConsulting Team

Economy

Overview of Monthly Data

YTL-Rates	30.11.2010	31.12.2010	Change in %
TL pro Euro	1.9841	2.0590	4.4170
TL pro USD	1.4370	1.5535	4.0174

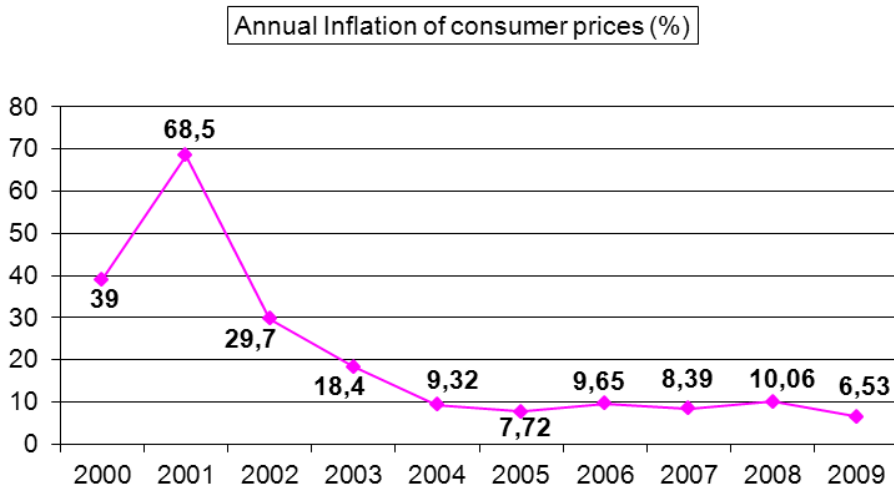
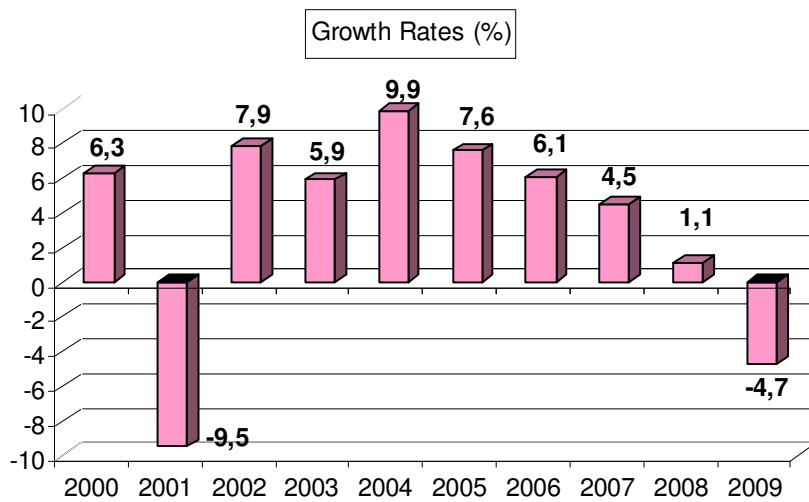
Stock exchange index	64,072.20	66,004.48	3.0158
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Inflation in %	Monthly inflation	Annual inflation
Producer prices	1.31	8.80
Consumer prices	-0.30	6.40

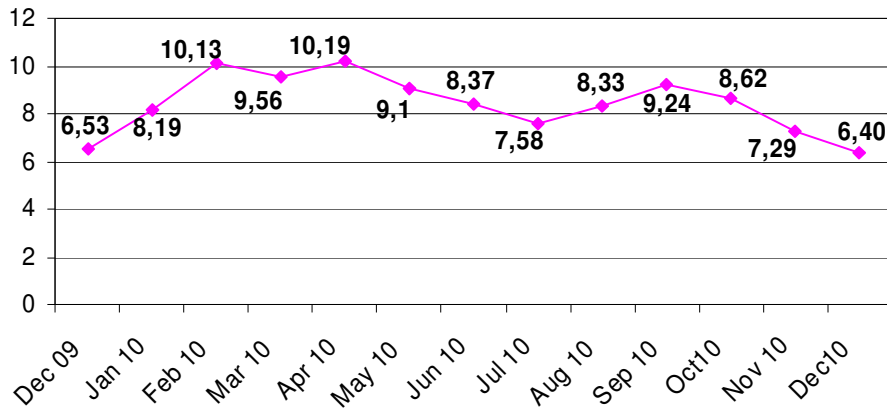
Growth Rates

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		



Annual Inflation's Monthly Development 2009-10 (%)



5.5% growth in Q3/2010

Economic growth in Turkey fell short of expectations in the 3rd quarter of 2010. The growth performance, having peaked at 11.8% in Q1 and receded to 10.2% in Q2, slumped to 5.5%, half a percentage point below the 4th quarter of 2009. The best-performing sector in Q3 – growing by 24.6% – was yet again construction. The seasonally untypical development of the agricultural sector, which decreased by 0.8%, came as a disappointment. Concurrently, private-sector investments increased by 34.4%, while public-sector investments lagged behind at 17.9%. However, even if there were to be zero growth in the final quarter of 2010, the GDP of the entire year would still have grown by 6.5%. Consequently Turkey has already secured top spot as the fastest-growing economy among the OECD countries.

December - 2010

Turkish labour market slightly consolidated

The continued positive economic trend in Turkey has brought about a slight consolidation of the labour market in 2010. Apart from the unemployment rate, which dropped to 11.2% in October – 1.8 percentage points down from the same month of 2009 – this is indicated by three positive developments: 1) In the first 9 months of the year, for the first time in 5 years, there were more recruitments (1,269,000) than new job seekers entering the labour market (903,000), allowing the stock of unemployed persons to decrease by 366,000. 2) The share of employees included in the social insurance system has grown; according to the Social Security Institution, 945,822 persons took up employment subject to national insurance as of the end of October. Within the same period, an estimated 500,000 people started a job that did not involve any social insurance cover. On balance, the proportion of unofficial employment has diminished from 45.5% to 43.5% over the previous year. 3) Labour force participation of the female population, which was 24% in 2008, improved to 27.7% by the end of the third quarter of 2010.

January - 2011

Turkey's current account deficit hits record high

The current account deficit of the Turkish economy reached 5.933bn US\$ in November, marking

a new historical record of an individual month. In the same month of 2009, the deficit had been less than a third of that (US\$1.825bn). The previous high of US\$5.545bn had been set in June 2008. Accordingly, the year 2010 can be expected to close with a new record deficit just under US\$50bn.

Turkey's current account deficit (million US\$)

	2008	2009	2010
January	-4,171	-473	-3,059
February	-3,887	-298	-2,740
March	-4,303	-1,173	-4,314
April	-5,207	-1,585	-4,465
May	-4,830	-1,630	-3,032
June	-5,545	-2,237	-3,558
July	-4,038	-509	-3,733
August	-3,037	-613	-3,176
September	-963	-1,027	-4,000
October	-2,440	332	-3,620
November	-447	-1,825	-5,933
January-November	-38,868	-11,038	-41,630
December	-3,078	-3,259	
Year total	-41,946	-14,297	

January - 2011

Turkish national budget in very good shape

Minister of Finance Mehmet Simsek has delivered an unexpectedly positive summary of the 2010 fiscal year. While according to the data now available government expenditure rose by 9.5% to around TL293.6bn, this was outweighed by an increase in revenue of 17.9%, to roughly TL254bn. Subsequently, the fiscal deficit dropped to TL39.6bn, marking a 25% improvement over the previous year. The initial forecast had been for a deficit of TL50.1bn, which was then revised to TL44.2bn in the medium-term economic programme. There was a 22.1% rise in tax revenue, with the share of taxes in total revenue increasing from 80% to 82.9%. At the same time, the proportion of interest payments to state expenditure receded from 19.8% to 16.4%. On a related note, the primary budget surplus skyrocketed by a massive 1,876% to about TL8.7bn.

January - 2011

Turkish parliament votes to reform Commercial Code

Within the scope of harmonization with EU legislation, the Turkish Commercial Code (TTK) has just undergone total reform. The new law, consisting of 1535 articles, has been passed by the plenary assembly of the Turkish parliament; however, it will not come into effect until July 1, 2012. A great many consumer-friendly provisions have been added to the reformed Commercial Code. There is a long list of changes, including that the law now provides for interest rates in commercial transactions to be set at liberty within the legal limits while eliminating compound interest; foundations, associations and public bodies operating a business enterprise will in future be deemed fully-qualified merchants; and capital companies are now required to have a proper internet presence.

January - 2011

New Code of Obligations adopted

In parallel to the Commercial Code, the Turkish Code of Obligations has been completely reorganized as well. The reform law, which now contains 649 articles, has just been ushered through parliament and will also come into effect as of July 1, 2012. The law deals with a wide scope of issues, from contracting, tenant-landlord relations, liability, warranties, consumer rights, hire-purchases and interest to data privacy and sexual harassment at the workplace. The new provisions are expected to provide for enhanced legal certainty, and are designed to harmonize the Code of Obligations, which initially had been modelled on Swiss law, with the legal norms prevailing in the European Union.

January - 2011

Turkey's Central Bank decreases repo rates

In a rather unexpected move, the Central Bank of the Republic of Turkey has lowered the interest rates on one-week term repo tenders by 25 basis points. This brings the overnight lending rate down from 9.25% to 9.0% while the overnight borrowing rate is reduced from 6.50% to 6.25%. Following the announcement of the interest rate cut, the dollar exchange rate and compound interest soared, while stock prices dropped. Consequently, mandatory reserves can be expected to be raised by up to 100 basis points. Meanwhile State Minister Ali Babacan stated that the government fully backs the Central Bank's decision to lower interest rates. The defined aim, he said, is to protect the national industry against the consequences of short-term capital transactions. At the same time, Mr Babacan came out in favour of free capital movement, stressing the importance of long-term investments. The Minister did not rule out additional regulatory measures.

January - 2011

Politics

Erdogan: EU dependent on Turkey

In a contribution to US news magazine "Newsweek", Turkish leader Recep Tayyip Erdogan has formulated a new self-conception of his country, stating that modern-day Turkey was no more "the sick man of Europe" as which it had been regarded for a long time, but rather a healthy and strong country with the fastest-growing economy in Europe. Turkey, he wrote, has been forecast by the Organisation for Economic Co-operation and Development (OECD) to become Europe's second-largest economy by 2050. In the meantime Turkey, having tried to get admitted into the European Union for over 50 years now, is no longer a poor petitioner knocking at the gates of Europe. With seiner impressive economic development and political stability, the country has already turned into a role model for other European nations. In the light of the emerging new world order, Erdogan concluded, the EU will have to look upon Turkey in order to grow into an even stronger, wealthier and safer community.

January - 2011

O'Neill proposes new concept of "growth markets"

Almost a decade ago Jim O'Neill, chief economist at Goldman Sachs, coined the term "BRIC", an acronym for Brazil, Russia, India and China, in reference to the leading "emerging countries" where he saw economic power shifting to increasingly. Meanwhile, the term "emerging markets" has become somewhat outdated, since any country contributing more than 1% to the world's gross domestic product must be viewed as a substantial economic factor. On this basis O'Neill now proposed a new concept of "growth markets". This term would include the BRIC countries plus Mexico, South Korea, Turkey and Indonesia, which so far had been categorized with the group of "Next 11", along with Egypt, Bangladesh, Iran, Nigeria, Pakistan, the Philippines and Vietnam. Other criteria would be population strength and the capacity for sustained growth.

January - 2011

WikiLeaks: Turkey tolerated CIA transports

German newspaper "Welt" has reported that Turkey permitted the CIA use of its airspace in the period between 2002 and 2006. So far this allegation had always been denied by the authorities. The conservative paper quoted classified documents that WikiLeaks had leaked to Norwegian newspaper "Aftenposten", stating that a total of 24 CIA transports of detainees appear to have been allowed to stop over for refuelling at Incirlik Air Base in southern Turkey within the scope of Operation "Fundamental Justice". According to a confidential memorandum of then-US Ambassador to Ankara, Ross L. Wilson, the permission was revoked in February 2006.

January - 2011

Erdogan aspires for US-style presidential system

Turkey's Prime Minister Erdogan continues to entertain the idea of a presidential system of government modelled on the United States of America. It is reported that behind the scenes experts are already working on a constitutional amendment to this effect. On the occasion of the opening ceremony of the World University Winter Games in Erzurum, Erdogan reaffirmed that in a parliamentary democracy, debate on this topic must be allowed. First of all, he asserted, the people are entitled to learn what a presidential system is all about. Erdogan's initiative is highly controversial within the ranks of ruling party AKP. Turkey's current President Abdullah Gül is among those critical of a system in which the head of state would also act as head of government.

January - 2011

Other Topics

Punitive tariffs to aid Turkish textile industry

In order to curb increasing imports of apparel and fabrics, the Turkish State Secretariat for Foreign Trade has launched an inquiry. At the same time, additional customs duties that, depending on the country of origin, range from 27-40% for imports of apparel and 21-30% for imports of fabrics were introduced as an interim measure for a period of 9 months. This is to protect domestic manufacturers of apparel and fabric, and to help them maintain their capacity to compete. However, the administrative decrees to this effect still await approval by the Council of Ministers. This is what the textile importers' lobby is now trying to prevent by all available means.

January - 2011

Preparations for first electric Renault continue at full blast

Following a four-year lead time, pre-production of the Fluence Z.E., the first electrically powered sedan produced by French carmaker Renault, has been ramped up. Together with Flines-sur-Seine and Maubeuge in France and Valladolid in Spain, the Oyak Renault plant in Bursa is one of four sites selected for manufacture of the e-Fluence. In addition to several versions of Clio and Mégane models, the Fluence version with a conventional combustion engine is already being built at this site. This summer is anticipated to see the start of serial production of the electric family car. At first, the lushly equipped vehicle will only be available to buyers in Israel and Denmark. The Fluence Z.E. is one of the cornerstones of Renault's mobility offensive, which is expected to safeguard jobs at the Bursa site for a long time to come.

December - 2010

Universiade to boost winter sports tourism

In late January / early February, the city of Erzurum in northeastern Turkey hosted the 2011 World University Winter Games (Universiade) in which some 3,500 athletes from 50 nations competed. Following the World University Summer Games 2005 in Izmir, the world's second-largest sports event in terms of the number of participants was held in Turkey for the second time. With an investment von 400 million US-Dollar, state-of-the-art facilities were built in the Palandöken skiing resort. It is now hoped that the enhanced infrastructure will draw ski tourists from abroad in large numbers. However, the main target group remains Turkish winter sports fanatics who so far preferred the European Alps to spend their skiing holidays.

December – 2010 / January - 2011

Amendment bill intended to protect small suppliers

Turkish parliament is currently debating a draft bill which will force large, financially strong companies, specifically retail store chains, to pay for goods and services within 60 days of their receipt. The planned amendment to Article 1530 of the new Turkish Commercial Code is modelled on this year's revised version of EU Directive 2000/35/EC regarding default in payment. Up to now there has not been a similar provision in Turkey serving to protect producers or suppliers, in particular small and medium enterprises, from payment difficulties that involve a constant threat of bankruptcy. In Europe, on the other hand, the revised directive is considered a step backwards, since the previous version provided for default interest to be charged automatically after only 30 days. A point of criticism in Turkey is that different from the European directive, the public sector is not subject to this payment term.

January - 2011

Tekfen awarded major contract in Morocco

Turkish conglomerate Tekfen has been awarded the contract for construction of a 240 km-long phosphate sludge pipeline and two fertilizer plants in Morocco. The large-scale project, which will be funded with loans from French banks, is of paramount importance for the Maghreb country which holds a 30% share in the world market for phosphate. Tekfen was also awarded the

contract for the rehabilitation of Morocco's only oil refinery. The size of these two contracts totals some 650 million US dollars, contributing significantly to the increase in turnover of Tekfen's construction division, which is expected to double in 2011, reaching 2 billion US dollars. The company generates 98% of its construction business abroad, in particular the Middle East, North Africa and Central Asia. Currently there are 20 projects under way in 10 countries, including a drinking water pipeline stretching 380 km through the Libyan desert with a contract value of US\$650-700mn, a motorway and a polymer factory in Qatar for US\$794mn, as well as a thermal power plant in Bulgaria.

January - 2011

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